

CMP: Rs 136

Rating: Under Review

Target Price: NA

Stock Info

INDEX	
BSE	532134
NSE	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.NS
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	530
Mkt Cap (Rs cr.)	52,431
52w H/L (Rs)	157/91
Weekly Avg Vol (BSE+NSE)	53,927,950

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	65.3
DII	18.2
FII	9.8
Public & Others	6.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Bank of Baroda	38.4	33.6	-3.8
SENSEX	10.8	11.3	13.0

Source: ACE Equity, Arihant Research

Bank of Baroda (BoB) reported Rs 991 cr loss in Q4FY19, primarily due to accelerated provisioning. However, operating performance of the bank remained strong and it has posted 45% growth in PPOP. Sharp reduction was seen in GNPA to 9.6% (vs 11% in Q3FY19) driven by higher write-offs. Slippages for the quarter were Rs 3745 cr, including Rs 530 cr from IL&FS. Credit growth of the bank remained healthy. Domestic loan book grew by 14% YoY led by 24% YoY increase in retail loans (home, auto and education loan). Global NIM improved by 20bps QoQ to 2.9% while domestic NIM improved by 32bps QoQ to 3.1%. Going forward, we expect some moderation in growth coupled with accelerated provisioning for Dena/Vijaya's book which could impact BoB's performance in the near term. We believe BoB's strong capital adequacy ratio coupled with healthy growth prospect is likely to support valuations. We keep our rating under review and will update our earnings estimates post the reporting of Dena & Vijaya's financial performance.

Key Highlights

- Of the Rs 4677 cr exposure to IL&FS, Rs 2300 cr has slipped to NPA and the bank carries a provision of 25% on it. Bank's corporate slippages continuous moderating from the past few quarters. SMA1&2 ratios continued to improve sequentially and YoY.
- Domestic credit growth (net) remains healthy at 14% yoy, led by strong traction in retail book. However, overall loan growth was moderate at ~10% yoy due to the pull down in the overseas book. Total Deposits for the quarter grew by 8% YoY led by healthy traction on CASA front. Global/domestic CASA ratio remained strong at 35%/40%, resulting into lower cost & improvement in margins.
- On the other stressed assets, the bank has reasonably higher exposure to DHFL and ADAG (a) ADAG exposure: Rs2000 cr (b) Combined exposure (BoB, Vijaya, Dena) of Rs 4000 cr to DHFL.
- The Management expects domestic loan growth to remain strong at ~15%, while the NNPA of the combined entity are pegged below 3%.

Outlook and Valuation

BoB's Q4FY19 performance was impacted due to accelerated provisioning. Any surprise on asset quality (for merged entity), concern on dena's book and some stressed exposure may impact bank's performance in the near term. Nevertheless, adequate provisioning, strong CAR ratio and low NNPA ratio at 3.6% for the combined entity is reasonably good. However, merger with Dena/Vijaya bank and current CEO's retirement in October 2019 will be key monitorables. **Thus, we keep our rating under review.**

Key Risks:

1. Any surprise from merger (asset quality, provisioning, Fresh slippages)
2. Current CEO's retirement and his succession plan

Q4FY19 & FY19 Earnings Snapshot:

(Rs Cr)	Q4FY19	Q4FY18	YoY	Q3FY19	QoQ	FY19	FY18	YoY
Interest Income	13,314	11,039	20.6%	12,942	2.9%	49,974	43,649	14.5%
- Interest from advances / bills	9,184	7,457		9,000		34389	29070	
- Interest on investments	3,253	2,781		3,316		12787	10420	
- Interest on balances	435	383		399		1735	2415	
- Other interest	442	419		227		1063	1744	
Interest Expenses	8,247	7,037	17.2%	8,198	0.6%	31290	28127	11.2%
Net Interest Income	5,067	4,002	26.6%	4,743	6.8%	18,684	15,522	20.4%
growth %								
Total Non-Interest Income	1,970	1,696	16.2%	1,621	21.5%	6,091	6,657	-8.5%
- Fee-based Income	1,076	1,088		942	14.2%	3837	3617	
- Trading gains	416	170		382	8.9%	989	1878	
- Other Non-interest Income	478	438		297	61.0%	1265	1162	
Operating Income	7,037	5,698	23.5%	6,364	10.6%	24775	22179	
Operating Expenses	3,177	3,033	4.7%	2,826	12.4%	11288	10173	
- Staff Cost	1,413	1,268	11.4%	1,304	8.4%	5039	4607	
- Other Operating Exp.	1,764	1,764	0.0%	1,522	15.8%	6249	5567	
- Cost-Income ratio	45.1%	53.2%		44.4%				
Gross Profits	3,861	2,665	44.8%	3,539	9.1%	13,487	12,005	12.3%
Provisions	5,399	6,672	-19.1%	2,794	93.2%	12789	14796	-13.6%
Profit Before Taxes	-1,538	-4,007	NA	744	NA	698	-2791	
Taxes	-547	-905	NA	273	NA	265	-359	
Profit After Taxes	-991	-3,102	NA	471	NA	434	-2,432	
EPS	-3.1	-13.4		1.8				
GNPA	48,233	56,480	-14.6%	53,184	-9.3%			
NNPA	15,609	23,483	-33.5%	19,131	-18.4%			
GNPA (%)	9.6	12.3		11.0				
NNPA (%)	3.3	5.5		4.3				
NIM (%)	2.9	2.5		2.7				
Advances	468,819	427,432	9.7%	448,679	4.5%			
Deposits	638,690	591,315	8.0%	610,569	4.6%			

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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