



Quick Insight

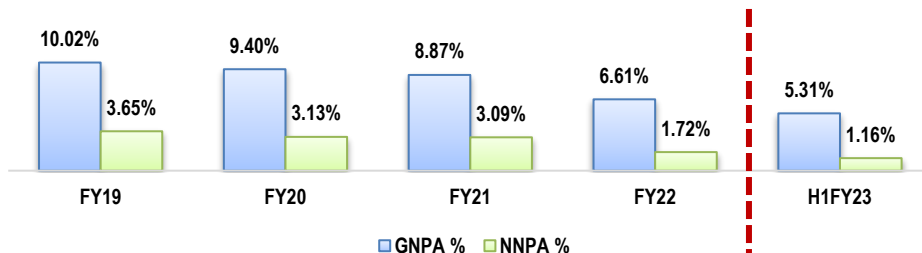
Bank of Baroda Ltd.



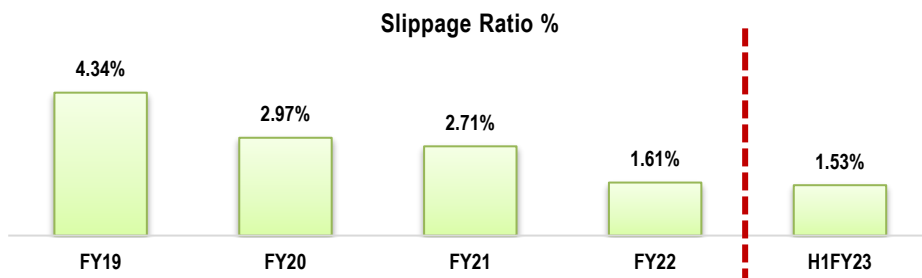
Industry	Finance - Banking
CMP	₹171.75
M Cap	~₹889bn
Buy Range	₹163 – 168
Target	₹208 – 215
Recommendation	Buy
Highlights	<ul style="list-style-type: none"> ➤ Second largest PSU Bank in terms of deposits, advances, customers and banking outlets ➤ Asset quality improves further, slippages at lower levels ➤ Well positioned in terms of margin expansion, benign credit cost ➤ Loan growth muted, Retail advances growth robust ➤ Strong liability franchise with stable CASA ratio; improving to ~43% over last three fiscals ➤ Trading at trailing ~1.4x P/B

Bank of Baroda**Company Background**

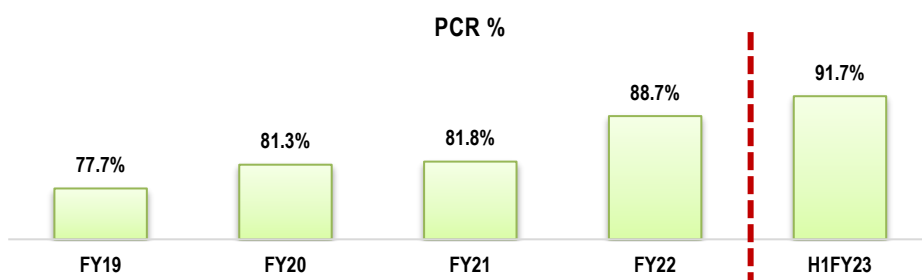
Bank of Baroda is the second largest PSU in India in terms of market cap and business after SBI. The bank has 8,168 branches and domestic loan book of ~₹6.84 trillion as on 31st March, 2022.

Asset Quality**Are Concerns over Asset Quality over?****Figure 1: Declining trend in NPA in the past three years...**

Source - Company, Way2Wealth

Figure 2: Led by reduction in fresh slippages...

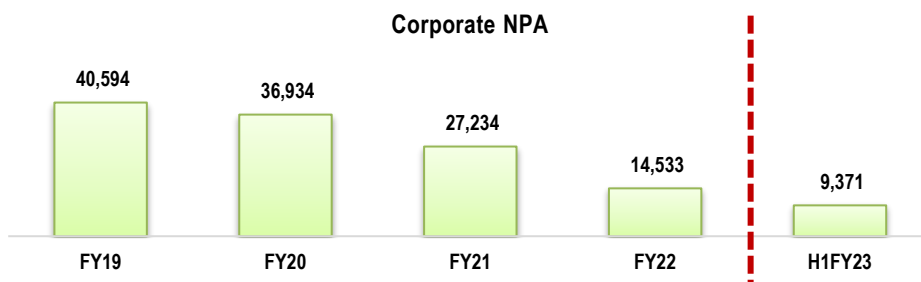
Source - Company, Way2Wealth

Figure 3: Higher PCR led to reduction in NNPA...

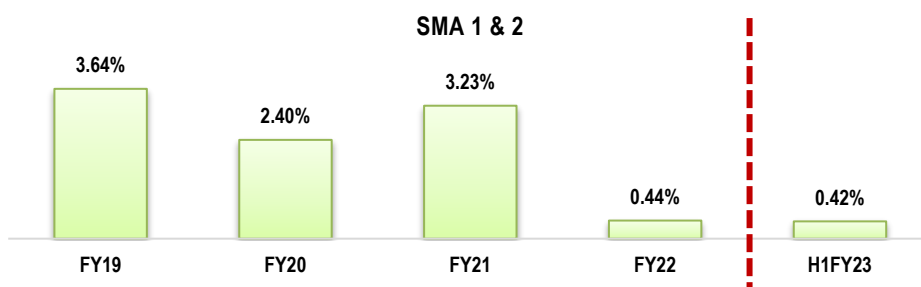
Source - Company, Way2Wealth

- BOB has been at the receiving end due to its troubled corporate exposure slipping into NPAs in the previous bad asset quality cycle. However, the company has been experiencing declining trend in slippage ratio pointing towards improvement in quality of the book.
- The stressed accounts has been adequately provided reflecting in increase in PCR from ~77% in FY19 to ~92% in H1FY23. The recent quarter saw GNPA declining to ~5.3% on account of reduction in slippages in the corporate segment and a resilient performance demonstrated by the retail segment in a pandemic year.
- The encouraging part is on the collection efficiency front in domestic loan book.

Nifty	18,813
Sensex	63,284
Key Stock Data	
CMP	₹171.75
Market Cap	~₹889bn
52W High/Low	₹172.70/77.05
Shareholding Pattern Sep'22	
Promoters	63.97%
FII	8.93%
DII	18.90%
Public	8.21%

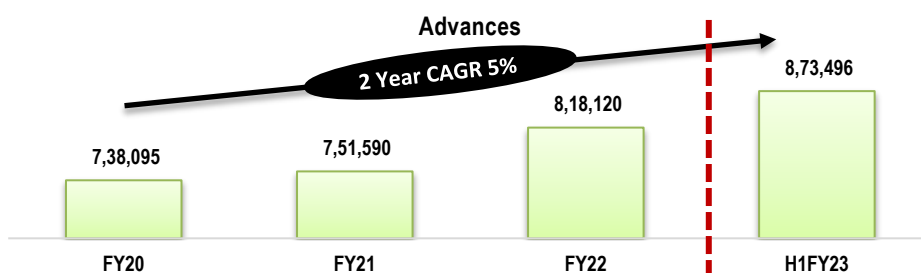
Figure 4: Reduction in Corporate NPA led by IBC...(₹Cr)


Source - Company, Way2Wealth

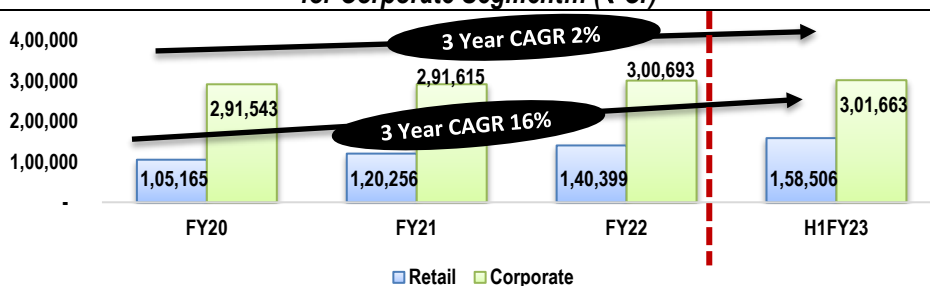
Figure 5: Smaller SMA book...(₹Cr)


Source - Company, Way2Wealth

- The management estimates that the strong asset quality show to continue in FY23 as well and indicated that there is an improvement in the corporate credit cycle which is being sustained and that improvement will outweigh any negatives on account of any issues with the MSMEs book.
- Going forward, slippages especially from Agri and SME book would be key monitorable.

Credit
Figure 6: Overall loan book growth has been tepid post Covid...(₹Cr)


Source - Company, Way2Wealth

Figure 7: Retail Segment has been the bright spot growing at 16% vs subdued growth for Corporate Segment... (₹Cr)


Source - Company, Way2Wealth

Figure 8: Overall loan book growth has seen sharp jump in FY23...


Source - Company, Way2Wealth

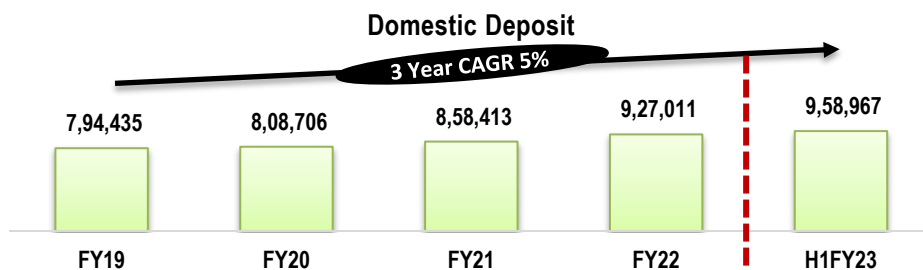
Figure 9: Loan book growth has been across segments...

Particulars	Q1FY23	Q2FY23
Retail	23%	28%
Corporate	17%	11%
International	31%	42%

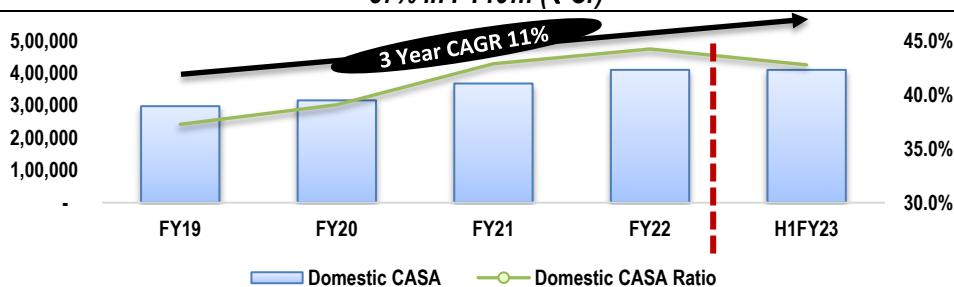
Source - Company, Way2Wealth

- Retail Segment has been the bright spot growing at ~16% (~28% in Q2FY23) vs subdued growth for Corporate Segment in FY22. The bank is seeing strong traction in International book growing at 42% YoY as on Q2FY23. Currently, bank is seeing strong growth in Retail segment led by home loans, auto loans, personal loans, etc.
- The bank had chosen to protect margin in corporate business till FY22 and given the fact that corporate is the largest part of balance sheet, tepid growth in corporate meant that the overall growth for the bank was moderate.
- The growth has been well spread out which has been the bank emphasis for the last few quarters. The bank expects corporate growth to pick up private capex takes strong traction and also it is slowest among the segments.

Liability Franchise

Figure 10: BOB has strong liability franchise reflected in total deposit base of ₹~11 lac crores... (₹Cr)


Source - Company, Way2Wealth

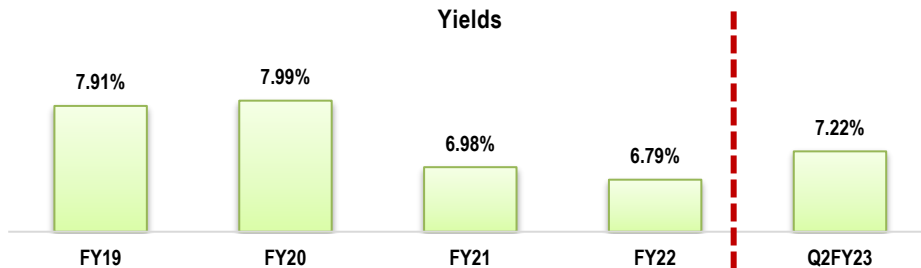
Figure 11: It has been able to increase CASA ratio at ~43% over last three fiscals vs ~37% in FY19... (₹Cr)


Source - Company, Way2Wealth

- The bank had consistent CASA growth which has been in double digits over last three fiscals. As a result, we have seen improvement in CASA ratio from ~37% levels in FY19 to ~43% in Q2FY23.
- Overall deposit growth at 13.6% for Q2FY23 has been better than the banking system which is hovering around 9-10%.

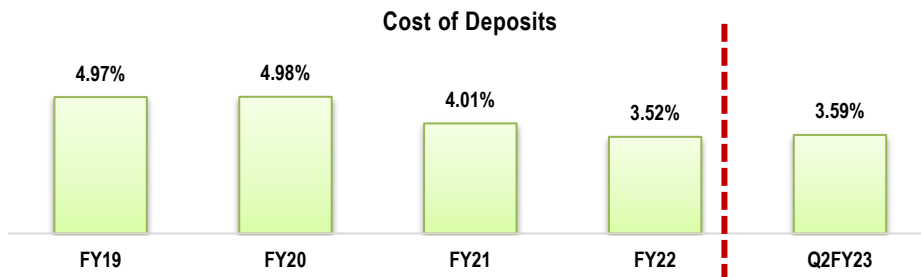
Robust Operating Performance

Figure 12: Yields moving to pre-covid levels...



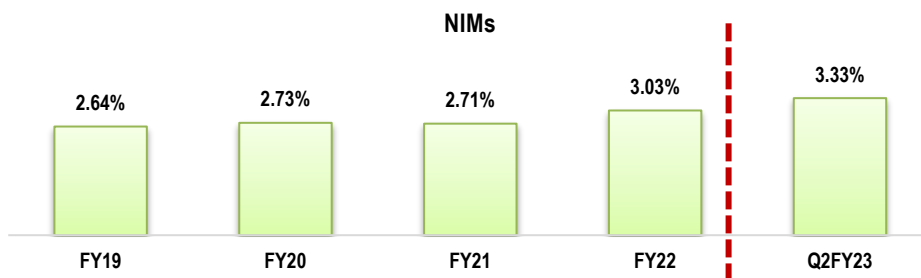
Source - Company, Way2Wealth

Figure 13: Cost of deposit in declining trend ...



Source - Company, Way2Wealth

Figure 14: NIMs have improved 70 bps over FY19-Q2FY23...

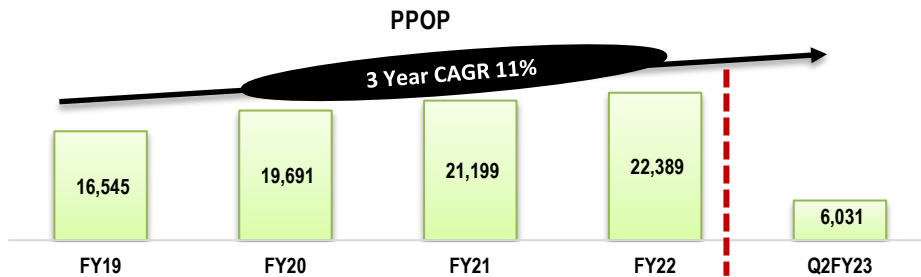


Source - Company, Way2Wealth

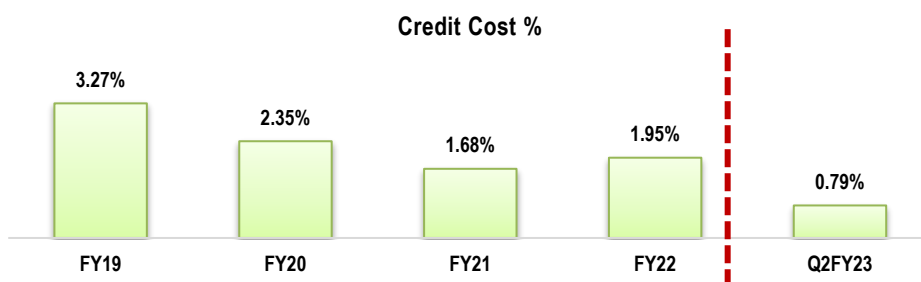
Figure 15: Controlled C/I ratio over the years...

Particulars	FY19	FY20	FY21	FY22	Q2FY23
Cost to Income Ratio	52.0%	47.9%	49.2%	49.2%	49.7%

Source - Company, Way2Wealth

Figure 16: ..that has led to reasonable growth in PPOP... (₹ Cr)


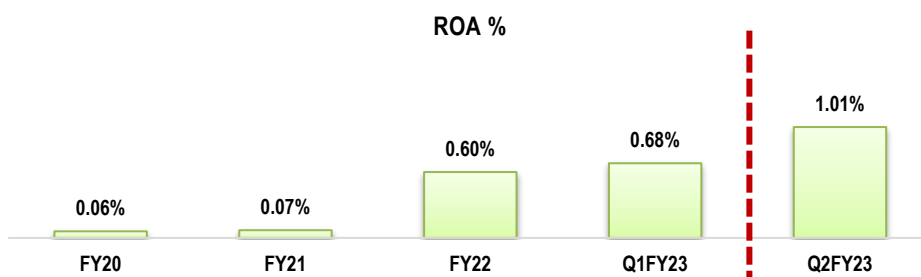
Source - Company, Way2Wealth

Figure 17: Declining Credit Cost will aid earnings...


Source - Company, Way2Wealth

- BOB has guided for 10 bps improvement in margin to 3.13% by FY23 as significant proportion of loan growth will be funded by low cost deposit. As interest rates harden, the fact that the bank now has good CASA ratio should mean that BOB should actually be seeing improvement in margins.
- Cost to Income ratio has been maintained at ~49% which has led to increase in core PPOP to rise (~11%- 3 year CAGR).

Return on Assets

Figure 18: Consistent improvement on return on asset


Source - Company, Way2Wealth

Peer Comparison – H1FY23

	BOB	Canara
CASA	42.77%	31.70%
Dep Growth	13.62%	9.82%
Adv Growth	19%	20%
NIM	3.17%	2.83%
GNPA	5.31%	6.37%
NNPA	1.16%	2.19%
ROA	0.84%	0.71%

Source - Company, Way2Wealth

View

The bank has a huge scope for improvement in earnings when it will start outperforming on key parameters like loan growth, margin expansion, lower operating expense and stable asset quality. BOB is currently valued at ~1.4x trailing core book value which is attractive considering the improving return ratios and is pricing in most concerns.

With the banking space looking relatively upbeat now, we expect the stock to perform well. We recommend investors to Buy and Add more on dips.

Financials

(₹ cr)

Particulars	Q2FY23	Q2FY22	YoY	Q1FY23	QoQ	FY22	FY21	YoY
NII	10,174	7,566	34%	8,838	15%	32,622	28,809	13%
Other Income	1,826	3,579	-49%	1,182	54%	11,484	12,934	-11%
Total Net Income	12,000	11,145	8%	10,020	20%	44,106	41,743	6%
Total Op. Exp.	5,969	5,476	9%	5,492	9%	21,716	20,544	6%
Operating Profit	6,031	5,669	6%	4,528	33%	22,390	21,199	6%
Provisions and Contingencies	1,628	2,754	-41%	1,685	-3%	13,002	15,643	-17%
PAT	3,313	2,088	59%	2,168	53%	7,272	829	777%
Advances (₹ Cr)	8,73,496	7,34,033	19%	8,39,785	4%	8,18,120	7,51,590	8.85
Deposits (₹ Cr)	10,90,172	9,59,483	14%	10,32,714	6%	10,45,939	9,66,996	8.16
Total Business	19,63,668	16,93,516	16%	18,72,499	5%	18,64,059	17,18,586	8.46

Source : Company, Way2Wealth

BANK OF BARODA has been making a very good rounding bottom pattern on the weekly charts since October 2017 which is long term reversal pattern. The rounding bottom pattern appears as a clear 'U' formation on the price chart and can be expected to test at 200. It has also managed to trade above the short term as well the medium and long term moving averages thus indicating strength in the stock. The technical oscillator, Stochastic also continues to remain in the positive zone. Also RSI & MACD signals buying pressure on the weekly chart and the bullish support line continues to remain strong which suggests buying pressure in BANK OF BARODA during dips. According to price retracement strategy, if the price level of 78.60% (180) breaks then the stock could emerge strong buying pressure in short to medium term scenario. The weekly chart structure looks positive and break out of 178-180 levels would invite strong buying and then the stock may face the upside targets of 208 and 215 levels in medium to long term scenario. Overall, we advocate to Buy BANK OF BARODAD around 163-168 range and add on dips till 158-153 for above mentioned targets 208 then 215 levels. On the downside 148-142 would the act as strong support and slip below that would negate above positive view.



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Name of the Security	Bank of Baroda Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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