

Bank Of Baroda

Performance Highlights

Particulars (₹ cr)	Q3FY17	Q2FY17	% chg (qoq)	Q3FY16	% chg (yoy)
NII	3,134	3,426	(8.5)	2,705	15.9
Pre-prov. profit	2,595	2,690	(3.5)	1,704	52.3
PAT	253	552	(54)	(3342)	(107.6)

Source: Company, Angel Research

BoB's 3QFY17 results remained disappointing. The bank continues to face headwinds on asset quality on one hand, while on the other hand the balance sheet continued to de-grow as the management intentionally downsized some low margin business. Coming few quarters might be challenging for the bank.

Loan book continued to decline as overseas portfolio downsized: Overall loan growth declined by 8.9% YoY, as the overseas loan portfolio decline by 20.1% YoY. The management has taken a cautious call of downsizing the low margin portfolio like buyers credit and hence there was de growth in loan book. While the bank intends to focus on profitable segment and lend selectively, this might take a toll on the overall growth in the near term. While CASA growth remained strong up 25% YoY, the bank's overseas deposit portfolio declined by 14.1%YoY and hence overall deposit base remained flat YoY, but saw a 3.9% growth QoQ.

NIM was under pressure, likely to remain subdued in the near term: NIM was under pressure and declined to 2.06% vs 2.29% QoQ due to interest reversals to the tune of ₹260 cr. The bank as a strategy has been downsizing the overseas loan book, which attracts very low margin and higher contribution from the domestic business can lead to better margins in the long run, however in the near term we expect NIM to remain under pressure.

No Respite from asset quality issues: While the bank has been maintaining that large part of the asset quality might get over, the slippages remained elevated. Gross slippages of ₹4135cr (slippages ratio of 4.16%) was much higher than ₹2,861cr (slippage ratio of 2.84%) in 2QFY17. Though slippages remained high, aggressive write off resulted in sequential decline in GNPA's. GNPA's % for the quarter stood at 11.4% vs 11.35% qoq, while NNPA% was at 5.43% vs 5.46%.The bank intends to improve its provisioning coverage ratio and hence in absolute terms the provisions might remain high in the quarters to come.

Outlook and valuation: With continued pressure on asset quality and resultant credit cost the earnings of the bank might remain under pressure in the near term Further as the bank is looking to downsize the low margin business the overall loan growth might disappoint and the stock might remain range bound. At the current market price, the stock is trading at 1.7x FY2018E ABV. **We have a NEUTRAL rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	13,187	12,740	13,532	15,445
% chg	10.2	(3.4)	6.2	14.1
Net profit	3,398	(5,393)	1,670	3,417
% chg	(25.7)	(258.7)	(131.0)	104.6
NIM (%)	2.0	1.9	2.1	2.2
EPS (₹)	15.3	(23.3)	7.2	14.8
P/E (x)	11.1	(7.3)	23.5	11.5
P/ABV (x)	1.2	1.9	1.8	1.7
RoA (%)	0.5	(0.8)	0.2	0.5
RoE (%)	9.0	(13.5)	4.1	8.0

Source: Company, Angel Research; Note: CMP as of February 14, 2017

NEUTRAL

CMP	₹168
Target Price	-

Investment Period

Stock Info

Sector	Banks
Market Cap (₹ cr)	37,546
Beta	1.5
52 Week High / Low	192/126
Avg. Daily Volume	1,148,032
Face Value (₹)	2
BSE Sensex	28,156
Nifty	8,725
Reuters Code	BOB.BO
Bloomberg Code	BOB@IN

Shareholding Pattern (%)

Promoters	59.2
MF / Banks / Indian Fls	22.6
FII / NRIs / OCBs	12.1
Indian Public / Others	6.1

Abs.(%)	3m	1yr	3yr
Sensex	7.0	19.5	38.2
Bank of Baroda	(6.4)	16.9	52.2

3-year price chart



Source: Company, Angel Research

Siddharth Purohit

022 – 3935 7800 Ext: 6872

siddharth.purohit@angelbroking.com

Exhibit 1: 3QFY17 Income Statement (Standalone)

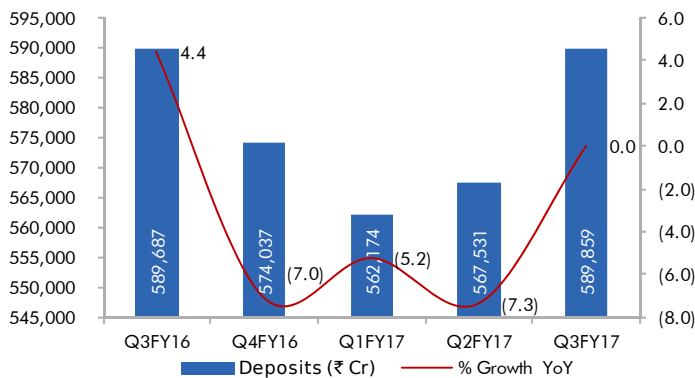
Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	% YoY	% QoQ
Interest earned	11,276	11,156	10,614	11,014	10,434	10,485	10,406	(2.0)	(0.8)
- on Advances / Bills	8,033	7,712	7,169	6,882	7,162	6,840	6,736	(6.0)	(1.5)
- on investments	2,651	2,739	2,686	2,689	2,495	2,533	2,719	1.2	7.3
- on balance with RBI & others	296	291	353	365	325	392	521	47.3	32.9
- on others	297	414	406	1,077	452	721	430	6.1	(40.3)
Interest Expended	7,817	7,912	7,909	7,684	7,062	7,059	7,272	(8.1)	3.0
Net Interest Income	3,460	3,244	2,705	3,330	3,371	3,426	3,134	15.9	(8.5)
Other income	967	1,144	1,113	1,775	1,444	1,561	1,775	59.5	13.7
- Fee income	519	841	799	1162	848	948	887	11.0	(6.4)
- Treasury income	435	224	289	509	557	546	839	190.3	53.7
- Others	13	79	24	104	39	68	49	104.2	(27.9)
Operating income	4,427	4,389	3,818	5,105	4,815	4,988	4,909	28.6	(1.6)
Operating expenses	2,223	2,051	2,114	2,533	2,146	2,297	2,314	9.5	0.7
- Employee expenses	1,343	1,044	1,155	1,434	1,108	1,169	1,139	(1.4)	(2.5)
- Other Opex	880	1,008	959	1,098	1,038	1,129	1,175	22.5	4.1
Pre-provision Profit	2,204	2,337	1,704	2,572	2,669	2,690	2,595	52.3	(3.5)
Provisions & Contingencies	600	1,892	6,165	6,858	2,004	1,796	2,080	(66.3)	15.8
PBT	1,604	445	(4,460)	(4,285)	665	894	516	(111.6)	(42.3)
Provision for Tax	550	321	(1,118)	(1,055)	242	342	263	(123.5)	(23.1)
PAT	1,054	124	(3,342)	(3,230)	424	552	253	(107.6)	(54.2)
Effective Tax Rate (%)	34	72	25	25	36	38	51		

Source: Company, Angel Research

Loan book continued to decline as overseas portfolio downsized: Overall loan growth declined by 8.9% YoY, as the overseas loan portfolio decline by 20.1% YoY. The management has taken a cautious call of downsizing the low margin portfolio like buyers credit and hence there was de growth in loan book. While the bank intends to focus on profitable segment and lend selectively, this might take a toll on the overall growth in the near term

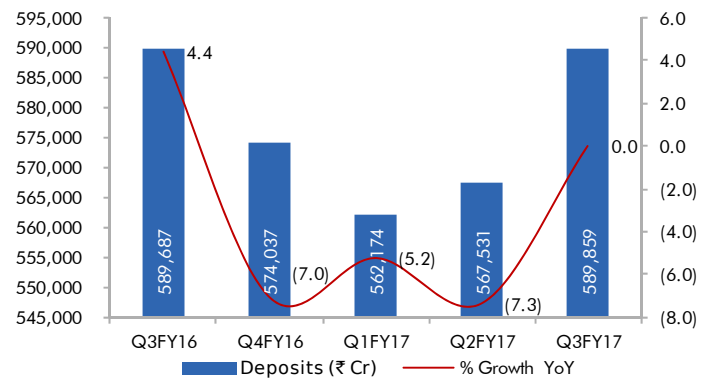
Despite high growth in CASA, decline in overseas deposits resulted in overall decline in deposit base: While CASA growth remained strong up 25% YoY, the bank's overseas deposit portfolio declined by 14.1%YoY and hence overall deposit base remained flat YoY, but saw a 3.9% growth QoQ.

Exhibit 2: Loan book continued to decline



Source: Company, Angel Research

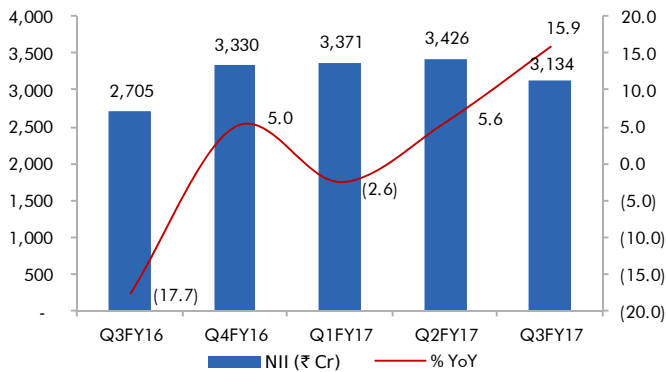
Exhibit 3: Deposit base remained flat



Source: Company, Angel Research

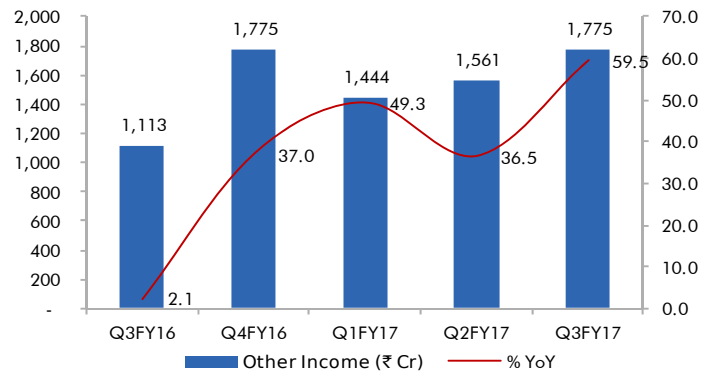
NIM was under pressure, likely to remain subdued in the near term: NIM was under pressure and declined to 2.06% vs 2.29% QoQ due to interest reversals to the tune of ₹260 cr. The bank as a strategy has been downsizing the overseas loan book, which attracts very low margin and higher contribution from the domestic business can lead to better margins in the long run, however in the near term we expect NIM to remain under pressure.

Exhibit 4: NII Growth was on a low base



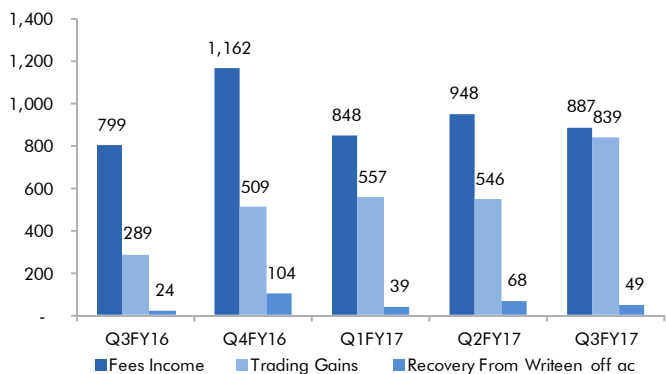
Source: Company, Angel Research

Exhibit 5: Other income got boost from treasury gain



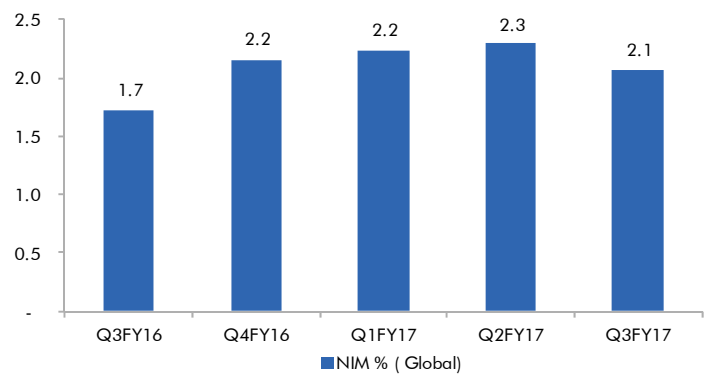
Source: Company, Angel Research

Exhibit 6: Break Up Of Other Income



Source: Company, Angel Research

Exhibit 7: NIM Trend

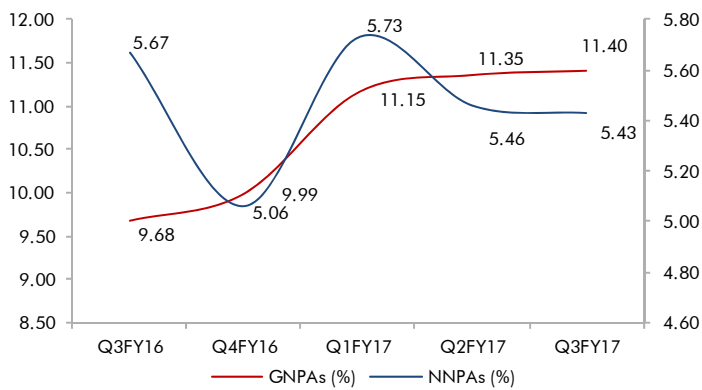


Source: Company, Angel Research

No Respite from asset quality issues: While the bank has been maintaining that large part of the asset quality might get over, the slippages remained elevated. Gross slippages of ₹4135 cr (slippages ratio of 4.16%) was much higher than ₹ 2861 cr (slippage ratio of 2.84%). While recovery and up gradation combined at ₹2667 cr remained flat qoq, there was sharp spike in write off – ₹1775 cr vs ₹ 216 cr in 2QFY17. Though slippages remained high, aggressive write off resulted in sequential decline in GNPA's. GNPA's % for the quarter stood at 11.4% vs 11.35% qoq, while NNPA% was at 5.43% vs 5.46%. Total stressed assets stood at 18.6% of the book (GNPA's 11.4%+Restructured 7.2%).

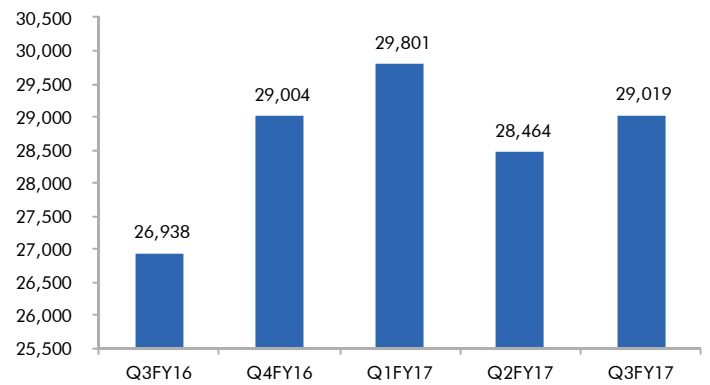
Outstanding restructured book was at ₹29,019 cr vs ₹28,464 cr, of which standard restructured was ₹14,059 cr vs ₹13,860 cr qoq. Outstanding S4A accounts were at ₹1,948 cr, accounts under DSR were at ₹6,944 cr, while accounts where 5:25 has been implemented were to the tune of ₹7,408cr. Asset quality issues continue to impact the performance of BoB and the trend doesn't seem to be reversing any time soon.

Exhibit 8: GNNPAs & NNPA's remained stable



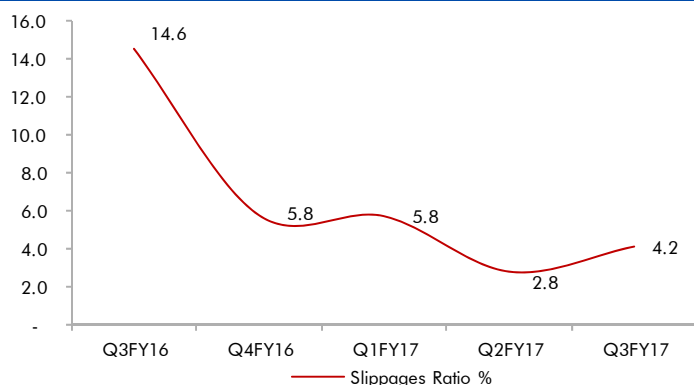
Source: Company, Angel Research

Exhibit 9: Restructured loan book saw marginal rise



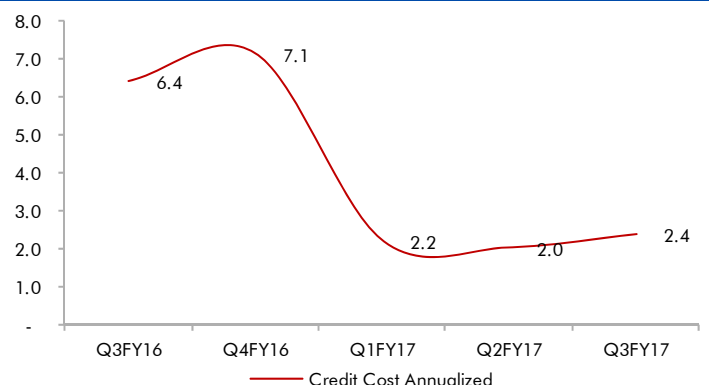
Source: Company, Angel Research

Exhibit 10: Slippages ratio remained elevated



Source: Company, Angel Research

Exhibit 11: Credit cost went up further



Source: Company, Angel Research

Outlook and Valuation

With continued pressure on asset quality and resultant credit cost the earnings of the bank might remain under pressure in the near term. Further as the bank is looking to downsize the low margin business the overall loan growth might disappoint. At the current market price, the stock is trading at 1.7x FY2018E ABV. **We have a NEUTRAL rating on the stock.**

Company Background

Bank Of Baroda is one of the leading PSU banks and has large overseas presence. Looking at the lower margin in the overseas business the management is trimming down its international business. International business contributed ~27% of the total business for the bank at the end of the quarter. In the domestic market the bank has got 5,382 branches and 10,404 ATMs.

Income statement (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Net Interest Income	11,965	13,187	12,740	13,532	15,445
- YoY Growth (%)	5.7	10.2	(3.4)	6.2	14.1
Other Income	4,463	4,402	4,999	5,969	5,328
- YoY Growth (%)	22.9	(1.4)	13.6	19.4	(10.7)
Operating Income	16,428	17,589	17,739	19,501	20,772
- YoY Growth (%)	9.9	7.1	0.9	9.9	6.5
Operating Expenses	7,106	7,674	8,921	9,104	9,600
- YoY Growth (%)	19.5	8.0	16.2	2.1	5.4
Pre - Provision Profit	9,322	9,915	8,818	10,396	11,172
- YoY Growth (%)	3.6	6.4	(11.1)	17.9	7.5
Prov. & Cont.	3,794	4,495	15,514	7,690	5,782
- YoY Growth (%)	(9.0)	18.5	245.2	(50.4)	(24.8)
Profit Before Tax	5,529	5,421	(6,696)	2,706	5,390
- YoY Growth (%)	14.4	(2.0)	(223.5)	(140.4)	99.2
Prov. for Taxation	956	2,022	(1,303)	1,036	1,973
- as a % of PBT	172.8	111.5	(164.4)	(179.5)	90.4
PAT	4,572	3,398	(5,393)	1,670	3,417
- YoY Growth (%)	2.0	(25.7)	(258.7)	(131.0)	104.6

Balance sheet (Standalone)

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E
Share Capital	431	444	462	462	462
Reserve & Surplus	35,555	39,392	39,737	41,240	43,672
Net Worth	35,986	39,835	40,199	41,702	44,134
Deposits	568,894	617,560	574,037	595,757	683,401
- Growth (%)	20.0	8.6	-7.0	3.8	14.7
Borrowings	36,813	35,264	33,472	35,745	41,004
- Growth (%)	38.5	-4.2	-5.1	6.8	14.7
Other Liab. & Prov.	17,811	22,329	23,668	23,830	27,336
Total Liabilities	659,505	714,989	671,376	697,035	795,874
Cash in Hand and with RBI	18,629	22,489	21,672	23,830	27,336
Bal. with banks & money at call	112,249	125,865	112,228	107,236	123,012
Investments	116,113	116,812	120,451	166,812	191,352
Advances	397,006	428,065	383,770	362,209	409,609
- Growth (%)	21.0	7.8	-10.3	-5.6	13.1
Fixed Assets	2,734	2,875	6,254	6,553	6,834
Other Assets	12,774	18,883	27,001	30,394	37,731
Total Assets	659,505	714,989	671,376	697,035	795,874

Ratio analysis (Standalone)

Y/E March	FY14	FY15	FY16	FY17E	FY18E
Profitability Ratios (%)					
NIMs	2.0	2.0	1.9	2.1	2.2
Cost to Income Ratio	43.3	43.6	50.3	46.7	46.2
RoA	0.8	0.5	-0.8	0.2	0.5
RoE	13.5	9.0	-13.5	4.1	8.0
B/S ratios (%)					
CASA Ratio	25.7	26.4	24.1	0.0	0.0
Credit/Deposit Ratio	69.8	69.3	66.9	60.8	59.9
CAR	13.9	12.6	13.2	12.4	12.0
- Tier I	10.8	9.9	10.8	9.2	9.0
Asset Quality (%)					
Gross NPAs	2.9	3.7	10.0	10.6	8.5
Net NPAs	1.5	1.9	5.1	5.3	5.1
Slippages	2.0	2.0	6.5	3.9	1.7
Loan Loss Prov./Avg. Assets	1.0	1.0	4.0	2.1	1.4
Provision Coverage	49.2	50.4	52.1	45.0	45.0
Per Share Data (₹)					
EPS	21.2	15.3	-23.3	7.2	14.8
ABVPS	137	143	90	97	101
DPS	4.4	4.7	4.9	2.5	4.0
Valuation Ratios					
PER (x)	8.0	11.1	-7.3	23.5	11.5
P/ABVPS (x)	1.2	1.2	1.9	1.8	1.7
Dividend Yield	2.6	2.8	2.9	1.5	2.4
DuPont Analysis (%)					
Interest Income	6.5	6.3	6.4	6.2	6.2
Interest Expenses	4.5	4.3	4.5	4.2	4.1
NII	2.0	1.9	1.8	2.0	2.1
Non Interest Income	0.7	0.6	0.7	0.9	0.7
Total Revenues	2.7	2.6	2.6	2.9	2.8
Operating Cost	1.2	1.1	1.3	1.3	1.3
PPP	1.5	1.4	1.3	1.5	1.5
Total Provisions	0.6	0.7	2.2	1.1	0.8
PreTax Profit	0.9	0.8	-1.0	0.4	0.7
Tax	0.2	0.3	-0.2	0.2	0.3
ROA	0.8	0.5	-0.8	0.2	0.5
Leverage	17.8	18.1	17.3	16.7	17.4
RoE (%)	13.5	9.0	-13.5	4.1	8.0

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Bank Of Baroda

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)