

### Finally out of the woods !!!

**BOB's Q4FY23 PAT came in at INR 47.8 bn, up by 169% yoy and 24% qoq led by strong loan growth, improved margins and lower provisioning. Key highlights for the quarter are -**

- In FY23 period, global advances were up by 18.5%; domestic advances (84% share) 16% yoy and international advances (16% share) 30% yoy. Going forward in FY24, the bank is expecting growth of 13-14% (vs. system credit growth of 12-13%). Within this, retail segment will grow at higher rates than the blended loan growth; and its share is likely to increase from current 25% to 33-35% in FY24, as per management. International loans may see slower growth as that will get compensated by higher domestic corporate loan growth.
- On the deposits side, blended growth in deposits was at 13% yoy which was largely driven by bulk deposits (70% yoy growth). Excluding high cost bulk deposits, total deposits growth was at just 5.2% levels.
- On the margin side, margins were up by 51 bps yoy and 11 bps qoq to 3.65% levels. For the full year FY23, margins were up by 33 bps to 3.42% levels. Going forward, the management expects margins will be maintained at current FY24 levels of 3.4%. In our view, the bank can outbeat its margin estimate led by re-pricing of high-cost bulk deposits at lower rates (which showed 69.8% yoy growth in FY23 to INR 1.9 trillion).
- On the capital position side, CAR at 16% levels will be sufficient to fund the credit growth over the next 1 year time.
- Opex cost was higher at 25.8% yoy due to elevated employee cost (39.8% yoy). On the expected wage hike revisions, the bank made employee wage revisions provisions amounting to INR 8 bn (these provisions were for 5 months; next fiscal FY24 will be to the tune of ~INR 19 bn).
- On the asset quality side, GNPA/NNPA were down to 3.8%/0.9% vs. 4.5%/1% qoq. The bank highlighted that it has made INR 5 bn provisions on the airline company on the total exposure of INR 13 bn (and it has tangible collateral of INR 10 bn). In our view, 40% more provisions will be required in coming quarters to take it to ~80% given lower recoveries from this account. Secondly, the bank is expecting ECL provisions to have an impact of 1-1.5%. For full year FY24, recoveries will be higher than the slippages. It has also created additional provisions of INR 9.1 bn over & above the IRAC norms in certain stressed standard advances on prudent basis.

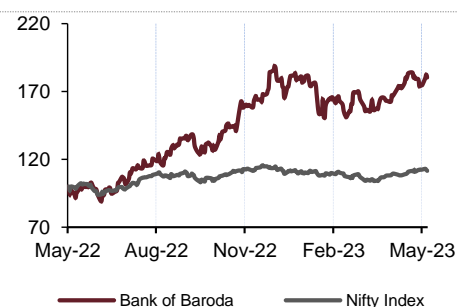
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>230</b>	<b>25</b>

#### Market data

Current price	Rs	185
Market Cap (Rs.Bn)	(Rs Bn)	954
Market Cap (US\$ Mn)	(US\$ Mn)	11,605
Face Value	Rs	2
52 Weeks High/Low	Rs	197 / 90
Average Daily Volume	('000)	49,338
BSE Code		532134
Bloomberg		BOB.IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	63.97	63.97
Public	36.03	36.03
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

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- On the full year FY24 period, ROA is likely to be 1% and ROE 16-18% It is likely to monetize on its life insurance subsidiary which is likely to file for RHP to list on bourses in FY24. They also intend to list credit cards business as well.

## Outlook and Valuations

We believe PSU banks are finally out of the NPA mess, which they were facing over the last 7-8 years, Bank of Baroda like other PSU banks has also cleared its balance sheet and asset quality is now at decadal best. We believe going forward credit cost will be benign and advances growth will be healthy. It is trading at 0.8x FY25e ABV on ROE/ROA of ~>1%/15-16%. **We are positively biased on the stock. We assign TP of INR 230, upside of 24% from the current levels**

## Quarterly Financial

(In Cr.)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Interest earned</b>	<b>25,856.7</b>	<b>18,173.6</b>	<b>42.3</b>	<b>23,540.1</b>	9.8	<b>89,588.5</b>	<b>69,880.8</b>	<b>28.2</b>
-Interest/discount on advances/bills	19,094.9	12,835.2	<b>48.8</b>	17,106.1	11.6	64,073.5	49,278.5	<b>30.0</b>
-Income on investments	6,057.0	4,766.6	<b>27.1</b>	5,717.1	5.9	22,156.0	17,617.2	<b>25.8</b>
-Interest on bal. with RBI	433.0	252.4	<b>71.6</b>	395.7	9.4	1,437.4	1,015.2	<b>41.6</b>
-Others	271.8	319.5	<b>-14.9</b>	321.2	-15.4	1,921.6	1,969.9	<b>-2.4</b>
Interest expenses	14,331.8	9,561.9	<b>49.9</b>	12,721.8	12.7	48,232.5	37,259.4	<b>29.5</b>
<b>Net Interest Income (NII)</b>	<b>11,524.9</b>	<b>8,611.7</b>	<b>33.8</b>	<b>10,818.3</b>	6.5	<b>41,356.0</b>	<b>32,621.3</b>	<b>26.8</b>
Other Income	3,466.1	2,522.3	<b>37.4</b>	3,552.0	-2.4	10,025.8	11,484.0	<b>-12.7</b>
Total income	<b>14,990.9</b>	<b>11,134.0</b>	<b>34.6</b>	<b>14,370.3</b>	4.3	<b>51,381.9</b>	<b>44,105.3</b>	<b>16.5</b>
Operating expenses	<b>6,918.0</b>	<b>5,498.8</b>	<b>25.8</b>	<b>6,138.1</b>	12.7	<b>24,518.3</b>	<b>21,716.4</b>	<b>12.9</b>
-Employee cost	3,779.0	2,702.4	<b>39.8</b>	3,347.0	12.9	13,352.7	11,978.8	<b>11.5</b>
-Other operating expenses	3,139.0	2,796.5	<b>12.3</b>	2,791.1	12.5	11,165.7	9,737.6	<b>14.7</b>
<b>Operating profit</b>	<b>8,072.9</b>	<b>5,635.1</b>	<b>43.3</b>	<b>8,232.2</b>	-1.9	<b>26,863.5</b>	<b>22,388.9</b>	<b>20.0</b>
Provision for contingencies	1,420.7	3,736.4	<b>-62.0</b>	2,403.9	-40.9	7,136.9	13,002.4	<b>-45.1</b>
<b>PBT</b>	<b>6,652.2</b>	<b>1,898.8</b>	<b>250.3</b>	<b>5,828.3</b>	14.1	<b>19,726.6</b>	<b>9,386.4</b>	<b>110.2</b>
Provision for taxes	1,876.8	120.0	<b>1,464.2</b>	1,975.5	-5.0	5,617.0	2,114.2	<b>165.7</b>
<b>Net profit</b>	<b>4,775.3</b>	<b>1,778.8</b>	<b>168.5</b>	<b>3,852.7</b>	23.9	<b>14,109.6</b>	<b>7,272.3</b>	<b>94.0</b>
Equity	1,035.5	1,035.5	-	1,035.5	-	1,035.5	1,035.5	-
EPS	9.2	3.4		7.4		27.3	14.0	<b>94.0</b>
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	55.4	52.6	-	54.0	-	53.8	53.3	-
Cost/Income ratio (%)	46.1	49.4	-	42.7	-	47.7	49.2	-
Gross NPAs (Rs)	36763.7	54059.4	<b>-32.0</b>	41857.5	-12.2	36763.7	54059.4	<b>-32.0</b>
Net NPAs (Rs)	8384.3	13364.7	<b>-37.3</b>	8853.8	-5.3	8384.3	13364.7	<b>-37.3</b>
Gross NPAs (%)	3.79	6.61	-	4.53	-	3.8	6.6	-
Net NPAs (%)	0.89	1.7	-	1.0	-	0.9	1.7	-
ROA (%)	1.3	0.6	-	1.1	-	1.5	1.5	-
CAR (%)	16.2	15.7	-	14.9	-	16.2	15.7	-
<b>Balance Sheet (Rs.mn)</b>								
<b>Sources of Funds</b>								
Capital	1,036	1,036	<b>0.0</b>	1,036	0.0	1,036	1,036	<b>0.0</b>
Reserves and Surplus	97,187	84,874	<b>14.5</b>	95,246	2.0	97,187	84,874	<b>14.5</b>
Shareholders Funds	1,45,369	1,22,397	<b>18.8</b>	137866	5.4			
Deposits	12,03,688	10,45,939	<b>15.1</b>	11,49,507	4.7	12,03,688	10,45,939	<b>15.1</b>
Borrowing	1,01,910	1,03,899	<b>-1.9</b>			1,01,910	1,03,899	<b>-1.9</b>
Other Liabilities and Provision	54,740	42,252	<b>29.6</b>			54,740	42,252	<b>29.6</b>
<b>TOTAL</b>	<b>17,72,289</b>	<b>13,90,371</b>	<b>27.5</b>	1652634		14,58,562	12,78,000	<b>14.1</b>
<b>Applications of funds</b>								
Cash and Balances with Reserve Bank	54,883	71,184	<b>-22.9</b>			54,883	71,184	<b>-22.9</b>
Balances with Banks and Money at Cal	40,821	51,471	<b>-20.7</b>			40,821	51,471	<b>-20.7</b>
Investments	3,62,485	3,15,795	<b>14.8</b>			3,62,485	3,15,795	<b>14.8</b>
Advances	9,40,998	7,77,155	<b>21.1</b>	8,90,682	5.6	9,40,998	7,77,155	<b>21.1</b>

Source: Dalal &amp; Broacha Research

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