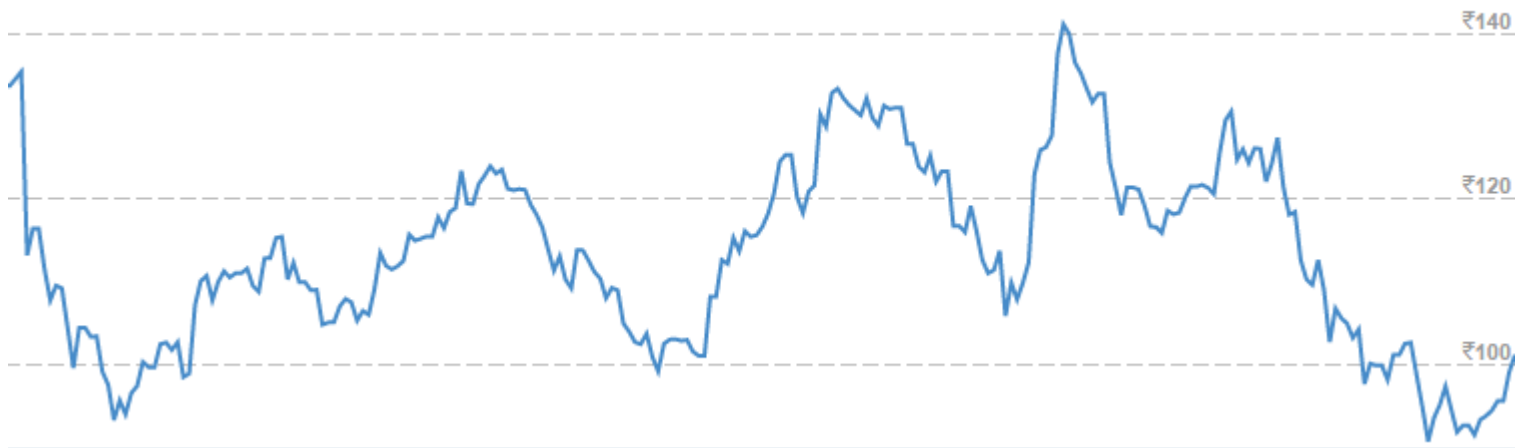


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Investors' delight: Bank of Baroda Ltd. – "Accumulate"

Sep. 13, 2019

Bank of Baroda Ltd. price chart



Source: Moneycontrol website

Bank of Baroda

CMP: Rs. 99.95, FV: Rs. 2, Book Value (adjusted for Net NPAs): Rs. 120, P/ABV: 0.85x, Market Cap: Rs. 38,159 crores

We believe the Bank is an inflection point and is set to report good earnings once macroeconomic environment improves. The worst has been already discounted at CMP.

In Q1FY20, the Bank's total Business declined marginally by 2.47 percent on sequential basis to Rs. 15,28,723 crores in Q1FY20. Domestic advances declined by 3.69 percent on qoq basis to Rs. 5,33,054 crores. Domestic deposits reduced by 1.09 percent on qoq basis to Rs. 7,85,861 crores.

The bank has put in place common organization structure for amalgamated bank with products and processes harmonized. As a result, synergy benefits have realized from reduction in common administrative offices. Bank is working on realizing cost and revenue synergies. The yoy credit growth of amalgamated entity moderated to 6.4 percent, Bank of Baroda (solo) continued to grow in-line with its trend rate of growth, Lending to erstwhile customers of Dena bank has resumed. With adoption of common business strategy, processes and unified organization structure, eDB and eVB are also likely to show traction in the coming quarters.

The Bank reported decent performance at the operating level. Standalone operating profit witnessed a rise of 3.8 percent to Rs. 4,276 crores led by increase in treasury income and fee based income. Treasury income rose by 124 percent to Rs. 338 crores on yoy basis. Customer fee income also saw a rise of 7.9 percent to Rs. 1,276 crores.

NII witnessed a marginal increase of 2.6 percent on yoy basis to Rs. 6,331 crores. However, NIM registered a decline and touched 2.73 percent from 2.78 percent (adjusted for IT return) in the previous quarter. The fall in



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NIM can be attributed to high cost of deposits. However, the Bank has been steadily reducing the reliance on high cost bulk deposits which should aid in higher margins.

The bank reported Net profit of Rs. 709 crore as against loss of Rs. 991 crores in Q4FY19.

On the asset quality front, Gross NPA increased to Rs. 69,713 crores against Rs. 48,237 crores on qoq basis. Gross NPA stood at 10.28 percent in Q1FY20 as against 9.61% in Q4FY19.

Fresh slippage fell on qoq basis and stood at Rs. 5,583 crores. The largest account that slipped in the quarter was an IL&FS road asset of over Rs. 400 crore. Q4FY19 Fresh slippages stood at Rs. 6,554 crores. Provisions for NPAs stood at Rs. 3,168 crores. Non-Performing Assets Provisioning Coverage Ratio {including floating provision} stood at 77.34% as on June 30, 2019 {Previous corresponding quarter 69.11%}.

In absolute terms, Net NPA too increased to Rs. 25,030 crores (as against the targeted numbers of about Rs. 23,000 Crores) from Rs. 15,609 crores in Q4FY19. Net NPA stood at 3.95 percent in Q1FY20 as against 3.33 percent in Q1FY20.

In Q1FY20, the bank's exposure in accounts under NCLT1 list was Rs. 5,820 crores and NCLT2 list was Rs. 6,957 crores.

With regards to consolidated entity (BOB+Vijaya+Dena), the Bank has PCR of 88.67 percent in NCLT accounts and likely recovery going forward will help in writebacks of provision.

The Bank is keeping an eye on accounts like Suzlon Energy, Sintex Industries, DHFL, Religare, Reliance ADAG etc. Presently, there is no major concern on Essel group.

The Bank's total NBFC exposure stood at Rs. 1,06,424 crores (Asset Finance Companies ac- Rs. 15,699 crores, Housing Finance Companies - Rs. 32,515 crores, Infrastructure Finance Company - Rs. 2,588 crores, NBFC - PSU - Rs. 15,345 crores, Micro Finance Institutions - Rs. 1,166 crores, Others (Corporate loan, Gold loan, Education, Real Estate, Auto, SME etc.)

Capital Adequacy Ratio of the Bank was lower at 11.5% but CET-1 at 8.5% continues to be above regulatory norms. Consolidated Capital Adequacy Ratio stood higher at 12.12%.

Bank of Baroda had merged with two other state-owned banks i.e. Dena Bank and Vijaya Bank on April 01, 2019. This is the first quarterly earnings report of the merged bank.

N.S. Jayakumar, managing director and chief executive, Bank of Baroda, said the slippages were reasonably consistent with industry levels. **"Recovery has been a tad lower**, even as some of it came through in July. It will be a much better Q2 from a recovery standpoint". He added that the **bank has a watchlist of Rs. 16,440 crores as of June 30, 2019**, of which Rs. 10,700 crores were from Bank of Baroda standalone entity, Rs. 2,884 crores from erstwhile Dena Bank and Rs. 2,856 crores from Vijaya Bank.

The Bank's transformation journey continues with standardization of processes/functions of erstwhile Dena and Vijaya Bank to the Bank of Baroda platform. Treasury has already been merged. Corporate Banking is being centralized for eDB and eVB so that customers can be offered broader range of products and services.

In a key recent development, "The capital raising committee (CRC) of whole-time directors of the bank is scheduled to be held on September 18 to consider raising of debt capital for the bank through issuance of Basel III compliant tier II bonds /additional tier 1 bonds," the bank said in a regulatory filing.



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The bank also plans to sell Dena Bank headquarters at Mumbai's Bandra-Kurla complex at a reserve price of Rs. 530 crore. The auction will be held on October 18.

According to us, a major push is required on recovery front and at the same time a lot of efforts are required on credit front especially on cutting down the processing time and removing various formality hurdles. The bank has recently raised the discretionary powers of Regions, Zones and BCC, EDCC etc. which we believe will go a long way in speeding the credit growth to meet the targeted credit numbers.

The MD & CEO of the Bank is very optimistic on a long term basis albeit momentary concerns of economy. The Bank has guided for 15 percent credit growth and 10 percent deposit which it believes to be achievable.

We recommend "Accumulate" at current level from medium to long term perspective for strong returns.



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Accumulate – Absolute return between 15% and above

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