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Top research picks: Bank of Baroda and Canara Bank

June 07, 2019

1) Bank of Baroda

CMP: Rs. 122, FV: Rs. 2, Market Capitalisation: Rs. 41,650 crores

One year price movement chart



Source: Moneycontrol

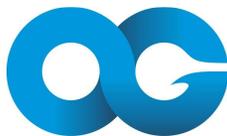
We believe the Bank has transformed itself into a new age bank under the guidance and leadership of its MD & CEO PS Jayakumar and whole rejuvenated team of BOB.

The Bank has accomplished several standards which were set earlier when current MD and CEO had taken over the charge of its banking operations. The Bank's transformation journey involving initiatives across Business Units and Support Functions like IT, HR, Operations & Services continue to reap dividends.

Domestic yoy credit growth remained in double digits for eight quarters led by 24.18 percent increase in home and auto loans at 22.15 percent and 49.43 percent.

Net Interest Income (Nil) increased to Rs. 4,863 crore. Adjusting for IT refund of Rs. 204 crore in March 2019, Nil increased by 25.73% on a Y-o-Y basis. Domestic core fee income increased by 10.41% on yoy basis to Rs. 995 crore.

Consolidated and Standalone Operating Profit stood at Rs. 15,519 crore and Rs. 13,487 crore respectively for FY 2019 an increase of 12.34% and 14.43% respectively. Treasury trading gains were lower at Rs. 989 crore from Rs. 1,878 crore in FY 2018. Standalone Operating Profit for Q4 FY 19 stood at Rs. 3,861 crore registering an increase of 44.88%.



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Net Interest Margin (NIM) improved to 2.90% in Q4 FY 19 from 2.69% last quarter. For the year, NIM increased to 2.72% from 2.43% in the previous year. Domestic NIM increased to 2.98% in Q4 FY 19 (adj. for IT refund) from 2.80% last quarter.

The Government of India on March 28, 2019 infused an amount of Rs 5042 crores towards preferential allotment of equity shares. Pending allotment of the shares, the amount has been disclosed under share application money pending allotment as on March 31, 2019. The Bank has considered such amount received from Government of India as a part of Common Equity Tier-I (CET 1) capital as on March 31, 2019. Capital Adequacy Ratio of the Bank stood at 13.42% and CET -1 at 10.38% versus 11.67% and 8.65% in December 31, 2018. Consolidated CET-1 and Capital Adequacy Ratios improved in March 2019 at 11.60% (9.74% in December 2018) and 14.~2% (12.62% in December 2018) respectively.

Domestic CASA deposits registered a growth of 8.36 % on yoy basis. CASA deposits to Total Domestic Deposits at 40.23% versus 41.18% as on March 31, 2018.

Domestic Deposits stood at Rs. 5,17,966 crore as on March 31, 2019 up by 11.91 % from Rs. 4,66,974 crore as on March 31, 2018.

Domestic advances grew by 14.17% to Rs. 3,70,185 crore as on March 31, 2019 from Rs. 3,24,239 crore as on March 31, 2018. The increase was led by retail loans which grew by 24.18%.

Contribution of Bank's International Business at the end of March 31, 2019 was 19.81% compared with 19.87% as of December 31, 2018 due to effect of rationalisation of overseas operations setting in.

Cost to Income (C/I) ratio was very impressive at 45.14 percent in Q4FY19. For FY19, C/I stood at 45.56 percent, which is one of the best amongst the PSU banks.

Gross NPA ratio improvement is best in 12 quarters. Gross NPA reduced to 9.61% as on March 31, 2019 against 11.01% last quarter. Net NPA fell to 3.33% from 4.26% last quarter. Absolute amount of Net NPA also declined by Rs. 3,521 crore to Rs. 15,609 crore, lowest in eight quarters. Fresh slippage during Q4FY19 stood at Rs. 2,662 crores out of which Rs. 530 crores was from IL&FS.

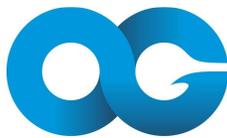
With regards to much talked accounts, the Bank has zero exposure to Jet Airways. DHFL account till date is doing well and the bank does not expect any surprises. According to Mr. Jaykumar, even the exposure to Religare is also taken care of.

The liquidity crisis in NBFC sector may affect BOB and it may be reflected in coming quarters but believe the Bank is strongly placed to tackle such risks.

Exposure in accounts under NCL T 1 list was INR 3,908 crore and NCL T 2 list was INR 3,831 crore as on March 31, 2019. Provision coverage under NCL T 1 and NCL T 2 list was 95.63% and 84.11 % respectively, again one of the highest.

AUCA stood at Rs. 18,000 crores of which the bank expects a recovery of Rs. 600-800 crores per annum.

The Bank front-ended NPL provisions of Rs. 5,550 crore which includes provisions of ~Rs. 1,000 crores owing to accounting standards/entries due to delay in resolution of certain key accounts in IBC, provisions of Rs. 1,875 crores or thereabouts for Reliance Communications, Essel group and Videocon, fraud related one time provision of about Rs. 250 crores. The Bank has considered exposure to 6 borrowers in Infrastructure Financial Services group as "Non performing" and made provision of Rs 400. 70 crores for the year ended March 31, 2019, which is 23.70% of the



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outstanding amounts. PCR including Total Written Off accounts (TWO) increased to 78.68% and PCR excluding TWO increased to 67.64% as on March 31, 2019 from 73.47% and 64.03% respectively as on December 31, 2018.

Bank recorded loss on a standalone basis of Rs. 991 crore for Q4 FY 19 due to acceleration in provisions. For the whole year, standalone and consolidated profit stood at Rs. 433 crore and Rs. 1,100 crore respectively. We are not worried about Bank reporting loss since as a precautionary measure the Bank has done front end provisioning to avoid any future stress.

After the merger with Vijaya Bank and Dena Bank, BOB is the second largest public sector lender after State Bank of India and has now over 9,500 branches, 13,400 ATMs and 85,000 employees to serve 12 crore customers. The consolidated entity has now business mix of over Rs. 16 lakh crores on the Balance. The consolidated entity would report their first financial result in Q1FY20. According to us, the Net NPA numbers of the merged bank should be about Rs. 23,000 crores which is equal to just one & half years operating profit of the merged bank, a very positive number.

Although the integration process may take 2 years, but we believe there would be synergies and it would be a force to reckon with in near future.

In Ajcon's view, BOB is one of the best PSU bank to invest and hold at the current price.

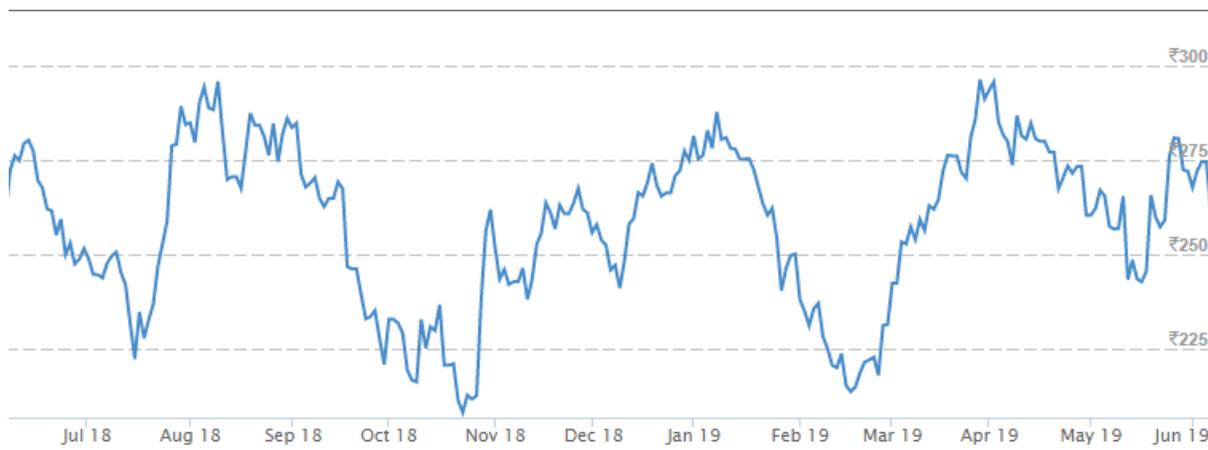
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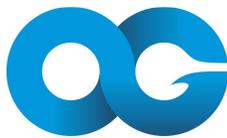
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- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

2) Canara Bank

CMP: Rs. 264, FV: Rs. 10, Market Capitalisation: Rs. 19,840 crores

One year price movement chart





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The Bank is expected to do well and we expect it to return in black soon. In Q4FY19, the Bank narrowed its loss. For the full 2018-19 fiscal, the bank has posted a net profit of Rs. 347.02 crore. There was a net loss of Rs 4,222.24 crore in 2017-18.

The Bank witnessed improvement in the asset quality too with the gross non-performing assets (NPAs) falling to 8.83 per cent of gross advances at March-end 2019 compared to 11.84 per cent a year earlier. Net NPAs stood at 5.37 per cent, compared with 7.48 per cent year ago. In absolute-value, the gross NPAs were Rs. 39,224.12 crore at March-end 2019, as against Rs. 47,468.47 crore a year earlier. Likewise, the net NPAs stood at Rs. 22,955.11 crore in the quarter under review, compared to Rs. 28,542.40 crore.

Provision coverage ratio as on March 31, 2019 stood at 68.13 per cent, as against 58.06 per cent a year ago.

The Bank's newly appointed Managing Director and CEO R A Sankara Narayanan has laid emphasis in its analyst meet to turnaround the Bank. The Bank's main focus shall continue to be on improving the quality of business, raising resources through low cost deposits, achieving a sustainable growth of business in the retail segment, improving quality of assets ft credit monitoring, raising and maintaining the required capital for the Bank.

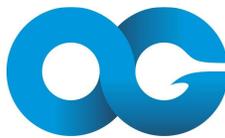
The Bank is also laying more emphasis on analytics, focusing on leveraging of Customer Base and data mining, which would help garner more business. Also, the early warning signal module of the bank is in advanced stage which would be providing robust risk management and credit monitoring solutions. It would add value to Customer Service, helping in monitoring the accounts more efficiently and getting more business from its customers through Cross-selling.

With regard to the structural business reforms, the management commented that there is enough scope for improving CASA (historically, the Bank has been dependent on bulk deposits), improving retail deposit base and achieving consistent growth in housing ft mortgage based loans. In respect of loans to automobile segment, the exposure is taken only on trusted clients having proven track record.

On the fund raising plans, the management commented that currently the Bank is adequately capitalized not only for regulatory Capital but for Growth Capital as well. Further, it was conveyed that an amount of Rs. 557 crores has already been mobilized through ESPS (Employees Share Purchase Scheme). The management informed that the Bank has all the regulatory approvals in place and will tap the market at the appropriate time.

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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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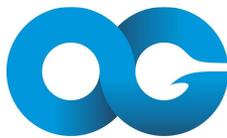
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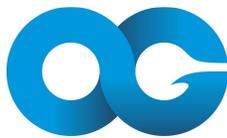
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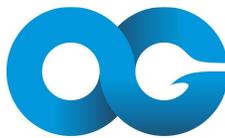
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