

Bank of Baroda (BOB IN)

Strong core performance but credit cost remains a drag

INDIA | BANKING | Quarterly Update

12 August 2016

Top takeaways from Q1FY17

- ✗ PAT of Rs4.2bn (below expectation) due to higher loan loss provision (Rs20bn).
- ✓ Strong pre-provision profit of Rs27bn (+21.2% yoy) driven by NII and treasury gain.
- ✗ Slippage was higher at Rs 60bn and recoveries were strong, as a result GNPA increased to 11.15% (+116bps qoq) and NNPA 5.73% (+67bps qoq). PCR remained flat at 60.2%. Slippage included Rs 12bn from small ticket loan which has emerged due to correction in system. Slippage from corporate segment was Rs13.8bn and balance contributed equally by agri, retail and SME. Slippage from restructured asset was Rs4.8bn.
- ✓ The total stress asset pool (GNPA + Standard restructured + SMA2) increased by Rs7.3bn qoq to Rs681bn (18.8% of loan book).

Key highlights

- NII was driven by decline in cost of deposit and improvement in yield on advances. Domestic NIM at 2.8% Vs 2.21% in Q4 (adjusted for Rs6bn interest on IT refund).
- Strong growth of 49% yoy in non-interest income to Rs48bn is driven by trading gain of Rs5.6bn (includes Rs1bn from stake sale in CIBIL).

Management comments / concall takeaways

- ✓ Exit GNPA is expected at Rs450-500bn. Slippage would be front ended whereas recovery back ended in FY17. PCR to improve
- ✓ SMA 2 book declined qoq to Rs110bn (16.5% qoq). No fresh 5:25 during the quarter, outstanding pool at Rs64bn (NPA Rs44bn & balance standard). SDR invoked in 2 a/cs amounting to Rs7.9bn taking the outstanding pool to Rs32bn (NPA Rs19bn, Restructured Rs13bn).
- ✓ See the possibility of overshooting FY17 pre-provision profit guidance of Rs95bn driven by strong NII and trading gains.
- ✓ In next three years the bank expects to reach NIM of 3-3.5% and ROE of 15%. Strategy of trimming down low yielding loan portfolio continues.

Outlook and valuation: The loan book may remain subdued as the bank trims down non profitability business like buyer's credit and focus on profitability. The bank is well capitalized to grow for next 18-24 months and reach ~13% RoE by FY18. Having recognised stress, focus is on resolution of bad loan and recovery. We value the bank at book value rather than adjusted book value due to reduced stress loan pool, adequate provision coverage, success in recovery and strong visibility of double digit RoE by FY18. At CMP of Rs145, the stock trades at 0.8x FY17E BVPS of Rs185 and 0.75x FY18 BVPS of Rs200. We maintain Buy rating on the stock with PT of Rs200 (unchanged).

(Rs bn)	Q1FY17	Q1FY16	yoy %	Q4FY16	qoq %	vs. expect. %	Comments
Net interest income	33.7	34.6	-2.6	33.3	1.2	10.7	NIM improvement driving NII. Decline in cost of deposit due to re-pricing
NIM (%)	2.3	2.3	0	2.2	11bps	16bps	Domestic NIM 2.8% Vs 2.2% in Q4 (adjusted). Deposit cost 6.21% (-40bps qoq)
Advances	3627.7	4083.9	-11.2	3837.7	-5.5	-6.5	Baring home loan all segment witnessed de-growth yoy
Corporate advances	1077.7	1230.4	-12.4	1290.0	-16.5		Shift from buyer credit to local currency credit in international book
Retail advances	476.2	517.4	-8.0	473.9	0.5		Home loans (+14% yoy). Decline due to rundown of loan against deposits.
Deposit	5621.7	5930.9	-5.2	5740.4	-2.1		Term deposit -6.6% yoy as bank retired high cost deposit
CASA	1517.7	1535.4	-1.2	1513.3	0.3		Current account declined 28%, while savings account grew 11% yoy
CASA %	33.0	31.9	111bps	33.6	(57bps)		
Core fee	8.5	8.0	6.4	11.6	-27.0	4.6	CEB 12.4% yoy but forex -5% yoy. Recovery from PWO of Rs0.4bn
Trading gain	5.6	1.6	254.7	5.1	9.4	147.6	Includes the gain from stake sale in CIBIL Rs1bn.
Operating expenses	21.5	22.2	-3.5	25.3	-15.3	-1.3	Staff expenses declined 17.6% yoy due to base effect. Q1 last year had Rs2.6bn of wage revision amount. Other opex +18% yoy.
Cost to income ratio (%)	50.4	52.1	(171bps)	55.1	(471bps)		
Provision	20.0	6.0	234.2	68.6	-70.8	67.0	NPA (Rs 20bn)/ Inv. depreciation (Rs 0.19bn)/standard Rs-0.31bn
PAT	4.2	10.5	NA	-32.3	-113.1	-34.0	Higher provision on NPA led to PAT below expectation
Slippage	61.0	19.1	219.5	18.5	229.1		corporate Rs13.8bn, restructured book Rs4.8bn
GNPA	11.2	4.1	702bps	10.0	116bps		
NNPA	5.7	2.1	366bps	5.1	67bps		Provision Coverage ratio flat qoq at 60%
Tier 1 Capital %	10.2	9.4	78bps	10.8	(60bps)		

Buy (Maintain)

CMP RS 145 / TARGET RS 200 (+38%)

COMPANY DATA

O/S SHARES (MN) :	2304
MARKET CAP (RSBN) :	364
MARKET CAP (USDBN) :	5.5
52 - WK HI/LO (RS) :	216 / 109
LIQUIDITY 3M (USDMN) :	22.4
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
FII / NRI :	59.2	59.2	59.2
FI / MF :	11.4	11.5	11.9
NON PRO :	22.3	22.3	21.8
PUBLIC :	1.1	1.2	1.0
GOVT :	6.0	5.8	6.0

Key Financials

Rs mn	FY16	FY17E	FY18E
Pre-prov ROE (%)	23.5	30.3	33.4
Pre-prov ROA (%)	1.3	1.7	1.8
Net Profit	-54	21	49
% growth	-258.8	-139.1	134.1
Adj BVPS (Rs)	96.6	102.2	129.7
ROE (%)	(14.4)	5.7	12.4
P/E (x)	-6.6	17.0	7.3
Adj P/BV (x)	1.60	1.52	1.20
EPS (Rs)	-23.4	9.1	21.4

CHANGE IN ESTIMATES

Rs bn	Revised Est. FY17E	Revised Est. FY18E	% Revision FY17E	% Revision FY18E
NII	148	177	9	8
PPP	112	133	27	21
Core PAT	21	49	-30	-9
EPS (Rs)	9	21	-30	-8

Manish Agarwalla, Pradeep Agrawal,
Paresh Jain

Result update

(Rs mn)	Q1FY17	Q1FY16	yoy growth	Q4FY16	qoq growth
Interest earned	104,335	112,765	-7.5	110,144	-5.3
Interest expended	70,624	78,169	-9.7	76,840	-8.1
Net interest income	33,711	34,596	-2.6	33,304	1.2
Net interest margin	2.26	2.26	0.00	2.15	5.12
Non-interest income	14,444	9,672	49.3	17,747	-18.6
Total Income	48,155	44,269	8.8	51,051	-5.7
Total operating expenses	21,460	22,249	-3.5	25,326	-15.3
Payroll costs	11,081	13,451	-17.6	14,342	-22.7
Others	10,379	8,798	18.0	10,985	-5.5
Pre-provision Profit	26,695	22,020	21.2	25,725	3.8
Provisions & Contingencies	20,041	5,997	234.2	68,577	-70.8
% Operating income	75.1	27.2	47.8	266.6	-191.5
PBT	6,654	16,022	-58.5	-42,852	-115.5
Provision for Taxes	2,420	5,501	-56.0	-10,551	-122.9
% of PBT	36.4	34.3	2.0	24.6	11.7
Net Profit	4,234	10,522	-59.8	-32,301	-113.1
Equity	4,621	4,436	4.2	4,621	0.0
EPS, Rs	9.2	23.7	-61.4	-69.9	-113.1
Advances	3,627,664	4,083,881	-11.2	3,837,700	-5.5
Deposits	5,621,737	5,930,872	-5.2	5,740,379	-2.1
Advances / Deposits (%)	64.5	68.9	-4.3	66.9	-3.5
Gross NPAs	429,917	172,740	148.9	405,210	6.1
Gross NPAs (%)	11.2	4.1	7.0	10.0	1.2
Net NPAs	207,838	84,700	145.4	194,065	7.1
Net NPAs (%)	5.7	2.1	3.7	5.1	0.7
CAR – Total	13.1	12.0	1.1	13.2	-0.1

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs bn	FY15	FY16	FY17e	FY18e
Interest on Loans	308	298	292	333
Interest on Investments	97	107	112	126
Others	25	36	37	40
Total Interest Earned	430	441	441	499
Total Interest Expended	298	313	293	321
Net Interest Income	132	127	148	177
Total non-interest income	44	50	56	58
Total Income	176	177	204	236
Personnel Expenses	43	50	48	54
Other Expenses	34	39	44	49
Total Op expenses	77	89	92	103
Net Inc (Loss) before prov	99	88	112	133
Provision and contingencies	45	155	83	67
Net Inc (Loss) before tax	54	-67	28	66
Provision for Income Tax	20	-13	7	16
Net Profit	34	-54	21	49

Balance Sheet

Y/E Mar, Rsbn	FY15	FY16	FY17e	FY18e
Assets				
Cash & Bal with RBI	1,484	1,339	1,473	1,620
Loans, Adv & Int accrued	4,281	3,838	4,145	4,766
Investments	1,266	1,258	1,413	1,599
Fixed Assets (Net)	29	63	68	73
Other assets	91	217	227	239
Total Assets	7,150	6,714	7,326	8,297
Liabilities				
Share capital	4	5	5	5
Reserves and Surplus	384	356	372	414
Hybrid Capital	19	19	21	23
Debt	102	102	107	112
Borrowing	232	214	235	259
Total Deposits	6,222	5,780	6,307	7,177
Other liab incld prov	177	197	238	266
Total Liabilities	7,150	6,714	7,326	8,297

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	26.9	23.5	30.3	33.4
RoAE (%)	9.2	(14.4)	5.7	12.4
Pre-provision Operating ROA (%)	1.4	1.3	1.6	1.7
RoAB (%)	0.5	(0.80)	0.31	0.66
EPS (Rs.)	15.3	(23.4)	9.1	21.4
Dividend per share (Rs.)	3.2	0.0	2.0	2.5
Book Value (Rs.)	179.6	174.0	180.8	199.2
Adj BV (Rs.)	148.9	96.6	102.2	129.7

Revenue Analysis

Interest income on IBA (%)	6.4	6.5	6.5	6.6
Interest cost on IBL (%)	4.7	4.9	4.6	4.5
NIM on IBA / AWF (%)	2.0	1.9	2.2	2.4
Core fee Inc / AWF (%)	0.4	0.4	0.4	0.4
Portfolio gains / Total Inc (%)	6.1	7.1	7.4	4.4
Op.Exp / TI (%)	46.3	53.9	48.7	45.6
Op.Exp / AWF (%)	1.1	1.3	1.4	1.4
Employee exps / Op exps (%)	55.5	55.8	52.2	52.6
Tax / Pre-tax earnings (%)	37.3	19.4	25.0	25.0

Asset Quality

GNPAs / Gr Adv (%)	3.8	10.6	11.4	10.1
NNPAs / Net Adv (%)	1.9	5.4	5.1	3.8

Growth Ratio

Loans (%)	7.8	(10.3)	8.0	15.0
Investments (%)	4.9	(0.6)	12.3	13.2
Deposits (%)	8.7	(7.1)	9.1	13.8
Networth (%)	10.7	0.9	3.9	10.2
Net Int Income (%)	10.2	(3.4)	16.0	20.1
Non-fund based income (%)	(8.7)	12.5	10.8	14.4
Non-Int Exp (%)	7.5	16.3	3.6	11.3
Profit Before Tax (%)	(1.4)	(223.6)	(142.0)	134.1
Net profit (%)	(24.1)	(258.8)	(139.1)	134.1

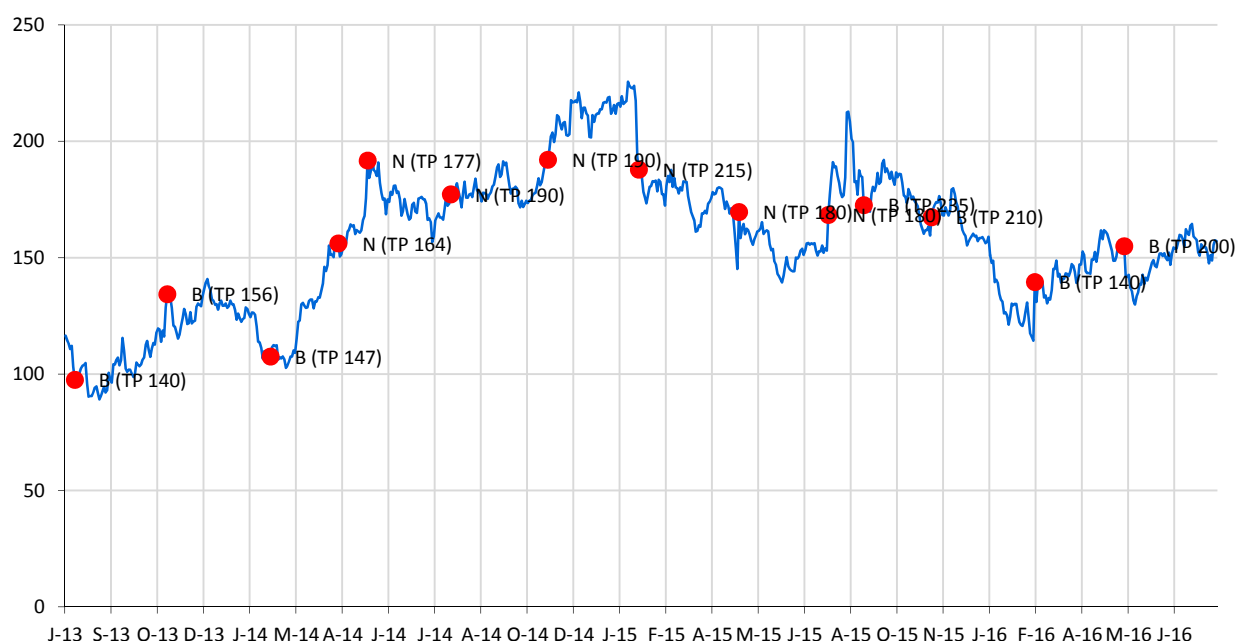
Asset / Liability Profile

Avg CASA/ Deposits (%)	25.9	26.2	26.4	26.7
AvgAdv / AvgDep (%)	66.7	62.9	58.8	59.0
AvgInvst / AvgDep (%)	20.7	21.0	22.1	22.3
IncrAdv / Deposits (%)	62.6	100.1	58.2	71.5
Avg Cash / AvgDep (%)	23.4	23.5	23.3	22.9

Capital Adequacy Ratio:

Tier I (%)	12.6	13.2	13.0	12.6
Internal Capital Generation rate (%)	9.9	10.8	10.3	10.2
NNPAs to Equity (%)	7.7	(13.9)	4.6	11.6
	20.3	48.3	47.4	36.6

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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