

BANK OF BARODA

Result Update

CMP	162
Target Price	188
Previous Target Price	
Upside	16%
Change from Previous	

Market Data

BSE Code	532134
NSE Symbol	BANKBARODA
52wk Range H/L	179/104.
Mkt Capital (Rs Cr)	37235
Av. Volume (,000)	1461
Nifty	8192

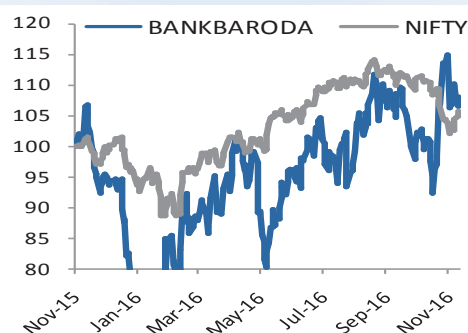
Stock Performance

	1Month	3 Month	1Year
Absolute	9.6	(3.4)	4.8
Rel.to Nifty	13.0	(7.8)	1.3

Share Holding Pattern-%

	2QFY17	1QFY17	4QFY16
Promoters	59.2	59.2	59.2
Public	40.8	40.8	40.8
Others			
Total	100.0	100.0	100.0

Company Vs NIFTY



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Steady Quarter, Focus on Profitability

Operating Profit grew by 15% YoY on the back of Net Interest Income turning positive and registering the growth of 6% YoY. Operating expenses grew by 12% YoY which led the C/I ratio to stable at 46% YoY. Other income grew by 36% YoY backed by treasury income. Core fee income picked up by 13% YoY.

NIM improved by 21 bps YoY to 2.29% largely led by improvement in both domestic as well as overseas NIM of 16 bps and 13 bps YoY respectively. This improvement in NIM was backed by decline in cost of fund which was supported by healthy CASA and shedding of high cost of deposits. Overseas NIM improved on the back of focus on high yielding assets. Management has targeted the domestic NIM of 3% and overseas NIM more than 1%.

Stress Assets Decline

Slippages were restricted to Rs 2861 Cr against Rs 6096 Cr on 1Q FY17 giving a sign of improvement from this quarter. Healthy recovery & up-gradation has also helped to decline the net NPA at Rs 42949 Cr against Rs 42992 Cr QoQ. Recovery & Up-gradation increased by 8% QoQ. The GNPA and NNPA of the bank stand at 11.35% and 5.46% against 11.15% and 5.73% in previous quarter. PCR improved to 63% against 60% QoQ. Standard restructured assets now stands at Rs 13860 Cr which declined by 25 QoQ. This quarter management invoked an SDR of Rs 2370 Cr and there was no 5/25 refinance. These all give us comfort on stress assets which seems to improve further going forward. However management has maintained their stance on the earlier guidance of GNPA at RS 45000 Cr to Rs 50000 Cr in FY17.

Advances Consolidate

As the focus of the management is on profitability, balance sheet continues to be on consolidation phase. Thus, resulting decline in advances by 15% YoY. Domestic advances declined by 11% and overseas advances declined by 22% YoY. As a strategy on overseas portfolio, management has shifted focused towards higher yielding assets i.e. local credit and syndicated loans. Buyers' credit which comprise low yield will decline further. Corporate portfolio declined by 10% YoY. Home loan portfolio increased by 12% YoY. However the loan growth must pick up for the further improvement in operating profitability.

Concall Highlights:

- >> Deacceleration of international portfolio was due to shed in low yield assets.
- >> Out of Rs 45000 Cr high cost of deposits, 90% is already shed and rest will be done in 3Q FY17.
- >> International cost of deposits has gone up due to LIBOR effect.
- >> Efforts are to remix the portfolio towards higher yielded assets in overseas market. Focus on local credit and syndicated loans which gives yield of 3.6% as compared to 1.2% on buyers credit. Buyers credit are consistently decreasing.
- >> In 2 days following the demonitization BoB has collected Rs 11500 Cr of which Rs 9500 Cr has gone into CASA.
- >> Management holds the earlier guidance of slippages. Target the NNPA of less than 2% in FY19-20.
- >> Due RBI guidelines on ratings of corporate exposure of above Rs 100 Cr, management expects deceleration in capital.
- >> Targeting domestic NIM of 3% and overseas NIM of 1%- 1.2%.
- >> CASA target of 35%.
- >> Target to grow at a CAGR of 12%-15% from FY14 numbers over the 3 years period.

Quarterly Performance

(Rs in Crore)

Financials	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY %	QoQ%
Interest Inc.	10826	10718	10762	11276	11156	10614	11014	10434	10485	-6%	0%
Interest Exp.	7425	7432	7590	7817	7912	7909	7684	7062	7059	-11%	0%
NII	3401	3286	3172	3460	3244	2705	3330	3371	3426	6%	2%
Other Income	992	1090	1295	967	1144	1113	1775	1444	1561	36%	8%
Total Income	4393	4376	4467	4427	4389	3818	5105	4815	4988	14%	4%
Ope Exp.	1990	2037	1774	2225	2051	2114	2533	2146	2297	12%	7%
PPP	2403	2339	2694	2202	2337	1704	2572	2669	2690	15%	1%
Provisions	888	1262	1818	600	1892	6165	6858	2004	1796	-5%	-10%
PBT	1515	1077	876	1602	445	-4460	-4285	665	894	101%	34%
Tax	411	743	278	550	321	-1118	-1055	242	342	7%	42%
Net Profit	1104	334	598	1052	124	-3342	-3230	424	552	344%	30%

Profitability Metrix

Ratios	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY(bps)	QoQ(bps)
Yield On Advances	8.4	8.1	7.7	7.9	7.6	7.0	6.9	7.2	7.3	(0.35)	0.03
Cost of Deposits	5.2	5.2	5.2	5.1	5.1	5.0	5.0	4.7	4.8	(0.26)	0.11
NIM% (Overall)	2.4	2.2	2.2	2.3	2.1	1.7	2.2	2.2	2.3	0.21	0.06
NIM% (Domestic)	3.0	2.9	2.8	2.9	2.7	2.1	2.7	2.8	2.9	0.16	0.05
NIM% (Overseas)	1.2	0.9	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.13	-
NII Growth %	17.5	7.5	1.5	3.9	(4.6)	(17.7)	5.0	(2.6)	5.6	10.20	8.16
C/I Ratio	45.3	46.6	39.7	50.3	46.7	55.4	49.6	44.6	46.1	(0.69)	1.50
Other Inc./Net Inc. %	22.6	24.9	29.0	21.8	26.1	29.1	34.8	30.0	31.3	5.24	1.31
Tax %	27.1	69.0	31.7	34.3	72.0	25.1	24.6	36.3	38.3	(33.78)	1.93
PAT to Total Income%	25.1	7.6	13.4	23.8	2.8	(87.5)	(63.3)	8.8	11.1	8.23	2.27

Outlook & Valuation:

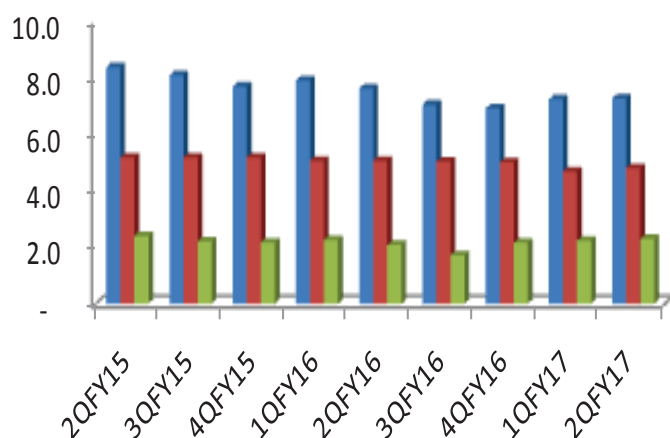
Focus of the management on profitability has resulted in steady quarter this time. BoB has shown a sign of improvement in its profitability. In the clean up exercise, BoB has recognised huge stress assets in its balance sheet. Going forward we expect the stress assets to decline significantly thus resulting in credit cost to decline. However BoB needs to come out of the consolidation of advances and should grow its loan portfolio to further support the operating profitability. Strong capitalization of 12.9% CRAR (Tier 1 at 10.6%) will help the bank to grow further without any near term dilution. **We recommend BUY with the target price of Rs 188.**

Other income Break Up

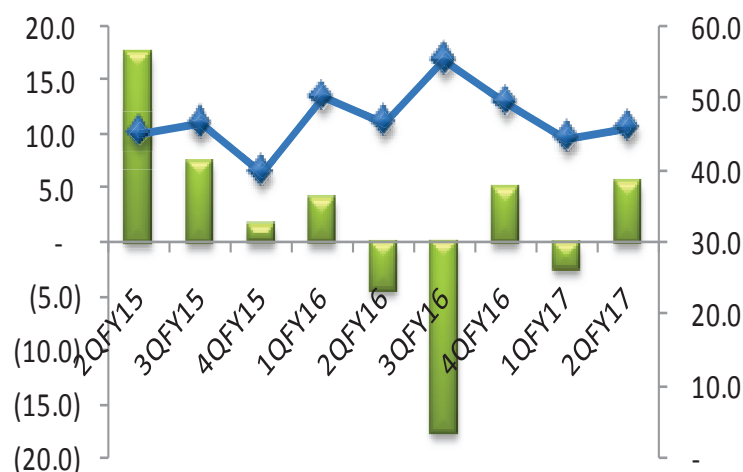
(Rs in Crore)

	2QFY15	3QFY15	4QFY15	1QFY1	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY%	QoQ%
>>Commission, Exchange,	333	373	429	346	361	339	454	339	372	3%	10%
>>Incidental Charges	104	79	100	79	95	91	116	106	148	55%	40%
>>Other Miscellaneous Income	93	106	101	94	131	128	111	139	155	18%	12%
>>FX Profits (Treasury)	252	253	244	278	253	241	481	264	273	8%	3%
Total Fee-Based Income	782	811	874	797	841	799	1162	848	948	13%	12%
Trading Gains	179	244	360	157	224	289	509	557	546	144%	-2%
Recovery from PWO	31	36	61	13	79	24	104	39	68	-14%	74%
Total Other Income	992	1090	1295	967	1144	1112	1775	1444	1562	37%	8%

■ Yield On Advances ■ Cost of Deposits ■ NIM

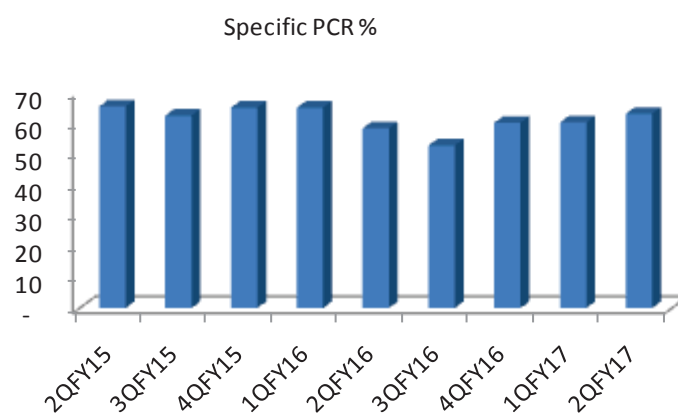
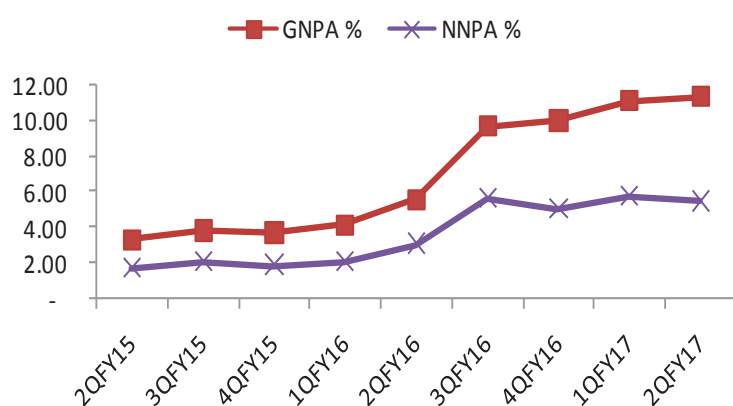


■ NII Growth % ■ C/I Ratio



Assets Quality Performance

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY%	QoQ
GNPA (Rs)	13058	15492	16261	17274	23710	38934	40521	42992	42949	81%	0%
GNPA %	3.32	3.85	3.72	4.13	5.56	9.68	9.99	11.15	11.35	1.04	0.02
NNPA (Rs)	6705	8291	8069	8470	12798	21806	19406	20783	19342	51%	-7%
NNPA %	1.74	2.11	1.89	2.07	3.08	5.67	5.06	5.73	5.46	0.77	###
Slippages (Rs)	1853	2852	1789	1908	6962	15785	5932	6096	2861	-59%	###
Recovery & Upgradation	513	380	354	827	414	325	3200	2482	2687	550%	8%
Gross Restr. Assets (Rs)	23371	23100	31572	31257	30170	30716	29004	29809	28464	-6%	-5%
PCR %	65	62	65	65	58	53	60	60	63	0.08	0.05



Advances	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Net Advances (Rs in Cr)	385766	393630	428065	408388	414900	384272	383770	362766	354150
Advances Growth YoY %	13.51	11.69	7.82	6.97	7.55	-2.38	-10.35	-11.17	-14.64
>> Growth QoQ %	1.05	2.04	8.75	-4.60	1.59	-7.38	-0.13	-5.47	-2.38

Advances Break Up %	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
>>Domestic	67.08	66.28	68.18	67.54	66.92	67.45	68.60	69.09	69.60
>>International	32.92	33.72	31.82	32.46	33.08	32.55	31.40	30.91	30.40

Deposits	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Deposits (Rs in Cr)	566926	564600	617560	593087	612458	589687	574038	562174	567531
>> Growth YoY %	16.91	12.07	8.55	7.51	8.03	4.44	-7.05	-5.21	-7.34
>> Growth QoQ %	2.77	-0.41	9.38	-3.96	3.27	-3.72	-2.65	-2.07	0.95
CASA % (Domestic)	31.89	32.42	33.01	31.89	31.95	29.97	33.57	33.83	34.23
CASA Growth YoY %	15.91	12.93	11.25	10.76	4.11	-5.11	-7.14	-1.16	1.72
>> Growth QoQ %	6.78	0.75	9.27	-5.78	0.37	-8.17	6.93	0.29	3.29
Credit Deposit Ratio	68.05	69.72	69.32	68.86	67.74	65.17	66.85	64.53	62.40

Financials Snap Shot

INCOME STATEMENT (Consolidated)

(Rs in Crore)

	FY13	FY14	FY15	FY16
Interest / discount on advances / bills	26,611	28,657	31,669	30,700
Income on Investments	7,888	9,294	10,604	11,334
Intt. on bal.with RBI & other inter-bank Funds	1,538	1,671	1,718	1,470
Others	404	841	924	2,295
Total Interest Income	36,442	40,463	44,915	45,799
Total Interest expended	24,486	27,604	30,547	32,107
Net Interest Income	11,956	12,858	14,368	13,692
Other Income	4,511	5,555	5,449	5,992
Total Income	16,466	18,414	19,818	19,684
Total Operating Expenses	6,306	7,592	8,604	9,962
Pre Provisioning Profit	10,160	10,821	11,213	9,721
Provisions (other than tax) and Contingencies	4,965	4,825	5,230	15,954
Profit Before Tax	5,195	5,996	5,983	(6,233)
Tax	444	1,065	2,151	(1,180)
Net Profit attributable to the group	4,804	5,001	3,912	(5,068)

Source: Eastwind/Company

BALANCE SHEET (Consolidated)

(Rs in Crore)

	FY13	FY14	FY15	FY16
Capital	423	431	444	462
Reserves & Surplus	32859	37416	41574	42041
Deposits	482639	579997	629981	586690
Borrowings	26553	36976	35502	33845
Other Liabilities & Provisions	16805	21136	26290	27947
Total Capital & Liabilities	559388	676114	733977	691179
Cash & Balances with Reserve Bank of India	14151	19445	23557	22811
Balances with Banks and Money at Call & Short No	73551	114911	128074	114188
Investments	125617	122113	130246	128894
Advances	333625	403715	435415	391486
Fixed Assets	2550	2849	2978	6359
Other Assets	9894	13081	13706	27441
Total Assets	559388	676114	733977	691179

Source: Eastwind/Company

RATIOS

Business Ratios	FY13	FY14	FY15	FY16
Credit-Deposit(%)	69.3	69.8	69.3	66.9
CASA % (Domestic)	30.4	31.8	33.0	33.6
Efficiency Ratios				
Employ. Cost as a % of Total Inco. (%)	22.0	23.5	22.6	26.4
Other Exp./Total Inco. (%)	16.3	17.7	20.8	24.2
Cost Income Ratio (%)	38.3	41.2	43.4	50.6
Spread Analysis As Calculated				
Yield on Advances (%)	8.4	7.7	7.5	7.3
Yield on Investments (%)	7.3	7.3	8.1	9.0
Yield on Earning Assets (%)	7.5	6.8	6.6	6.8
Cost of Deposits (%)	5.2	4.8	4.7	4.9
Cost of Fund (%)	5.3	4.9	4.7	5.0
Interest Spread (%)	2.3	1.9	1.9	1.9
NIM (%)	2.4	2.1	2.0	2.0
Profitability Ratio				
RoE %	16.1	14.4	9.7	-15.3
RoA %	0.9	0.8	0.5	-0.8
Interest Expended / Interest Earned (%)	67.2	68.2	68.0	70.1
Provisions/PPP (%)	95.6	80.5	87.4	-256.0
Other Income/Net Income (%)	27.4	30.2	27.5	30.4
Tax Rate (%)	8.6	17.8	35.9	18.9
Asset Quality Ratio				
GNPA (%)	2.40	2.94	3.72	9.99
GNPA(Rs)	7,983	11,876	16,261	40,521
NNPA (%)	1.28	1.52	1.89	5.06
NNPA (Rs)	4,192	6,035	8,069	19,406
PCR (%)	68.24	65.45	64.99	60.06
Gross Restr. Assets (Rs)		22,553	31,572	29,004
Capital Adequacy Ratio				
Capital Adequacy Ratio (%)	13.3	12.3	12.6	13.2
Tier I Capital (%)	10.1	9.3	9.9	10.8
Tier II Capital (%)	3.2	3.0	2.7	2.4

Source: Eastwind/Company