

Merger will create third largest bank in India

(Rs in Bn)

Advances	FY16	FY17	FY18
BOB	3,838	3,833	4,274
VJYBK	890	945	1,162
DBNK	823	726	656
Total	5,551	5,504	6,092

Deposits	FY16	FY17	FY18
BOB	5,740	6,017	5,913
VJYBK	1,254	1,330	1,573
DBNK	1,174	1,139	1,061
Total	8,169	8,486	8,547

(Rs in Bn)

	BOB	VJYBK	DBNK
GNPA	559	76	159
GNPA%	12.5	6.2	22.7
NNPA	224	49	67
NNPA%	5.4	4.1	11.0
PCR%	59.9	35.3	57.7
Networth	442	108	85
Tier 1 %	10.5	11.7	8.1
CRAR %	12.1	13.9	10.6
CASA %	35.5	24.9	39.8
Shares #	2.6	1.3	2.3
M. CAP	357	78	36

Key Highlights -

- ❑ The government announced the merger of three PSU bank- Bank of Baroda, Vijaya Bank, and Dena Bank. We expect the merger to complete in next 4-6 quarters. This is a major step in banking consolidation after SBI merging its associates. This strongly signals that consolidation of PSU banks remains on the government's agenda.
- ❑ The amalgamated entity would be India's 3rd largest bank after SBI and HDFC Bank. As on 1Q FY19 it has Rs 5.9 trillion of advances and Rs 6.4 Trillion of deposits with 34% CASA ratio. The combined entity has net-worth of Rs 63400 Cr. GNPA/NNPA stands at 12.4%/5.7%. PCR ratio is at 57% and Tier-1 ratio is at 10.4%. The combined entity has a branch network of 9489.
- ❑ With Bank of Baroda and Vijaya Bank being two relatively strong, better asset quality bank and Dena Bank being under RBI's PCA framework, this three-way merger is positive.
- ❑ Dena Bank has GNPA/NNPA ratio of 22%/11% and the bank has posted loss for 3 consecutive years. It has tier 1 ratio of 8.1%. Dena Bank has strong CASA ratio of 40%. It is Maharashtra based bank with 1858 branches. Vijaya Bank has one of the best assets quality and capital ratio in the industry. GNPA/NNPA of the bank is 6.2%/4.1%. Bank has not posted any loss during the NPA cleanup exercise. Vijaya Bank is Karnataka based bank with branch network of 2129. It has CASA ratio of 25%. BoB has healthy and the highest Provision coverage ratio of 60% among the PSU banks. BOB's loan book has grown at an average rate of 9% in last 5 quarters. It is Gujarat Based Bank with 5502 branches.
- ❑ We expect the merged bank to report Rs 27,410/62,347 Cr of PAT in FY19/FY20. Merged bank will report 8.9% ROE in FY20.

View and Valuation-

We maintain our positive view on Bank of Baroda post the news. We expect slippages to recede going forward and hence credit cost requirement should normalize, however, any changes in provisioning requirement from regulatory perspective remains a key risk. NCLT recovery has started to provide relief in terms of NPA reduction as well as earning improvement. We maintain BUY on BOB and value the stock at 0.9 standalone P/BV FY20e and arrive at the target price of Rs 163.

KEY FINANCIAL/BANKBARODA	FY16	FY17	FY18	FY19E	FY20E
NII	12740	13513	15522	18945	21483
PPP	8816	10975	12006	13778	15910
PAT	-5396	1383	-2432	3150	5190
NIM %	1.9	2.1	2.3	2.6	2.6
EPS (Rs)	-23	6	-9	12	20
EPS growth (%)	-252	126	253	-230	65
ROE (%)	-13.5	3.4	-5.8	7.0	10.6
ROA (%)	-0.8	0.2	-0.3	0.4	0.6
BV	174	174	164	176	194
P/B (X)	0.8	1.0	0.9	0.8	0.7
P/E (x)	-6.3	28.9	-15.5	11.6	7.1

* On standalone basis

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