

July 26, 2019

## Q1FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	146		161	
NII (Rs. m)	262,500	289,924	210,893	248,190
% Chng.	24.5	16.8		
Op. Profit (Rs. m)	180,303	198,498	232,532	272,819
% Chng.	(22.5)	(27.2)		
EPS (Rs.)	13.8	22.4	41.9	54.4
% Chng.	(67.1)	(58.7)		

### Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
NII (Rs m)	155,218	186,838	262,500	289,924
Op. Profit (Rs m)	120,056	134,868	180,303	198,498
PAT (Rs m)	(24,146)	12,988	36,530	59,505
EPS (Rs.)	(9.8)	1.6	13.8	22.4
Gr. (%)	(263.8)	(116.7)	742.6	62.9
DPS (Rs.)	-	1.0	2.4	4.0
Yield (%)	-	0.9	2.2	3.6
NIM (%)	2.3	2.6	2.9	2.5
RoAE (%)	(5.8)	2.8	7.0	10.6
RoAA (%)	(0.3)	0.2	0.4	0.5
P/BV (x)	0.7	0.6	0.6	0.5
P/ABV (x)	1.2	0.9	0.9	0.7
PE (x)	(11.2)	67.3	8.0	4.9
CAR (%)	12.2	13.4	10.3	10.5

Historical Nos. Non-Merged

### Key Data

### BOB.BO | BOB IN

52-W High / Low	Rs.158 / Rs.91
Sensex / Nifty	37,831 / 11,252
Market Cap	Rs.423bn/ \$ 6,131m
Shares Outstanding	3,847m
3M Avg. Daily Value	Rs.6089.62m

### Shareholding Pattern (%)

Promoter's	63.74
Foreign	10.35
Domestic Institution	16.75
Public & Others	9.16
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(8.3)	(0.2)	(16.5)
Relative	(4.4)	(4.9)	(18.7)

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## Asset quality pain not over yet

### Quick Pointers

- Fresh slippages were at Rs55.8bn which is lower sequentially by 15%; corporate slippages were from watch list
- On merged basis BoB has Rs1.06tn of exposure to NBFCs which is at 15% of loans and is extremely high and accounts for some stress as well

**BOB's earnings saw marginal miss with our estimates at Rs7.1bn (PL: Rs8.7bn) mainly from lower other income & higher opex from the merger. Provisions though remains elevated on continued slippages was largely in line with expectations. Slippages came in higher with corporate slippages at Rs15.0bn from Rs55.8bn was from the watchlist. But the watch-list has increased from Rs100.0bn (2.1% of loans for BOB solo) to Rs160.0bn (2.5% of loans) due to merger and similar lending in erstwhile banks. Bank also has very high exposure to NBFC segment at 15% of loans which could add to risks to asset quality (some exposure already in watchlist). We remain cautious on asset quality but PCR remains at decent levels, while other operating metrics like CASA, opex, NIMs and growth should take some more quarters to move up. Retain BUY with revised PT of Rs143 (from 161) based on 1.0x Mar-21 ABV.**

- Risks to asset quality still large:** Banks has a declared watch list of Rs160.0bn (2.5% of loans) on a merged basis which has moved up from Rs100.0bn (2.1% of loans of BOB solo) and watch list contains bulky exposures to DHFL (Rs19.0bn), ADAG (17.3bn), Sintex (Rs8.5bn) and IL&FS (Rs28.0bn) which are yet standard and could significantly add to slippages going ahead and keep provisioning high. Bank also has Rs1.06trn of exposure to NBFCs which is highest among peers and will have to significantly cut down exposures. Post merged basis, GNPA/NNPAs have remained steady with help of higher write-offs offsetting the higher than estimated slippages while maintain PCR at 64-65%.
- Decent business growth despite merger:** Overall loan growth on merged comparable basis improved by 6.0% YoY mainly led by BOB solo which grew by 12.0% in domestic loans. Retail continued to grow by 20% YoY with marginal growth in corporate while MSME de-grew and Agri was flat. Liabilities grew slightly better than loans but CASA mix came off to 33.6% due to weak liabilities base of erstwhile banks vis-à-vis of BOB which was 40.0% in FY19 for non-merged BOB.
- Will need to raise capital; We retain BUY on cheap valuations:** BOB's Tier-I ratio is currently at 9.6% and CET-I at 8.5% and hence will require growth capital. As internal accruals improve capital can help for some quarters and while if asset quality risks emanate then capital ratios are likely to deteriorate faster. Valuations at 0.75x FY21, stock is quite cheap. Given the operating strength to absorb large issues in asset quality any recovery should mitigate some of the risks. Retain BUY with TP of Rs146 (from Rs161).

**Exhibit 1: Better than expected NII; earnings broadly in-line**

P&L (Rs m)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
Interest Income	189,453	174,000	8.9	190,550	(0.6)
Interest Expense	124,472	110,690	12.5	122,640	1.5
<b>Net Interest Income (NII)</b>	<b>64,981</b>	<b>63,310</b>	<b>2.6</b>	<b>67,910</b>	<b>(4.3)</b>
- Treasury income	3,380	1,510	123.8	5,020	(32.7)
Other income	19,156	17,350	10.4	25,460	(24.8)
<b>Total income</b>	<b>84,137</b>	<b>80,660</b>	<b>4.3</b>	<b>93,370</b>	<b>(9.9)</b>
Operating expenses	41,370	39,480	4.8	61,550	(32.8)
-Staff expenses	19,390	20,000	(3.1)	36,170	(46.4)
-Other expenses	21,980	19,480	12.8	25,380	(13.4)
<b>Operating profit</b>	<b>42,767</b>	<b>41,180</b>	<b>3.9</b>	<b>31,820</b>	<b>34.4</b>
<b>Core operating profit</b>	<b>38,827</b>	<b>38,590</b>	<b>0.6</b>	<b>25,970</b>	<b>49.5</b>
Total provisions	32,849	39,430	(16.7)	103,410	(68.2)
<b>Profit before tax</b>	<b>9,918</b>	<b>1,750</b>	<b>466.7</b>	<b>(71,590)</b>	<b>NA</b>
Tax	2,815	2,230	26.2	17,160	(83.6)
<b>Profit after tax</b>	<b>7,103</b>	<b>(480)</b>	<b>NA</b>	<b>(88,750)</b>	<b>NA</b>
<b>Balance sheet (Rs m)</b>					
Deposits	8,955,420	8,418,300	6.4	9,151,590	(2.1)
Advances	6,331,809	5,948,960	6.4	6,513,840	(2.8)
<b>Profitability ratios</b>					
RoaA	-	0.3	NA	(0.4)	36
<b>NIM</b>	<b>2.6</b>	<b>2.7</b>	<b>(7)</b>	<b>2.8</b>	<b>(13)</b>
Yield on Advances	8.0	7.9	14	8.0	2
Cost of Deposits	5.1	4.8	26	5.1	1
<b>Asset Quality</b>					
Gross NPA (Rs m)	697,140	793,190	(12.1)	699,240	(0.3)
Net NPA (Rs m)	250,303	33,910	638.1	237,940	5.2
<b>Gross NPL ratio</b>	<b>10.3</b>	<b>12.4</b>	<b>(210)</b>	<b>10.3</b>	<b>-</b>
<b>Net NPL ratio</b>	<b>4.0</b>	<b>5.7</b>	<b>(176)</b>	<b>3.7</b>	<b>30</b>
Coverage ratio	64.1	95.7	(3,163)	66.0	(188)
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	33.7	34.1	(39)	34.0	(35)
Cost-income ratio	49.2	48.9	22	65.9	(1,675)
Non int. inc / total income	22.8	21.5	126	27.3	(450)
Credit deposit ratio	70.7	70.7	4	71.2	(47)
CAR	11.5	12.1	(63)	13.4	(192)
Tier-I	9.6	10.5	(94)	11.6	(199)

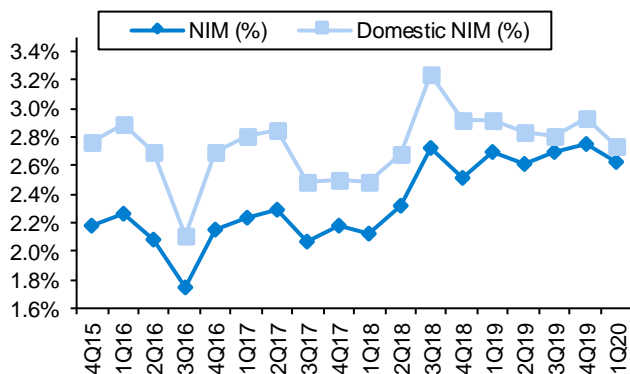
Source: Company, PL

**Exhibit 2: BOB solo continued to grow with trend lines; merged has been slower**

Loan break up (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
<b>Domestic Advances</b>	<b>5,716,640</b>	<b>5,455,930</b>	<b>4.8</b>	<b>5,792,520</b>	<b>(1.3)</b>
Corporate	2,635,900	2,572,730	2.5	2,659,250	(0.9)
SME	905,890	950,050	(4.6)	925,700	(2.1)
Agri	1,122,330	931,070	20.5	1,085,250	3.4
Retail	821,600	812,260	1.1	834,410	(1.5)
Other/Misc	230,920	189,820	21.7	287,910	(19.8)
<b>Advances Mix</b>					
<b>Domestic Advances</b>	<b>90</b>	<b>92</b>	<b>(143)</b>	<b>89</b>	<b>2</b>
Corporate	42	43	(162)	41	2
SME	14	16	(166)	14	1
Agri	18	16	207	17	6
Retail	13	14	(68)	13	1
Other/Misc	4	3	46	4	(17)

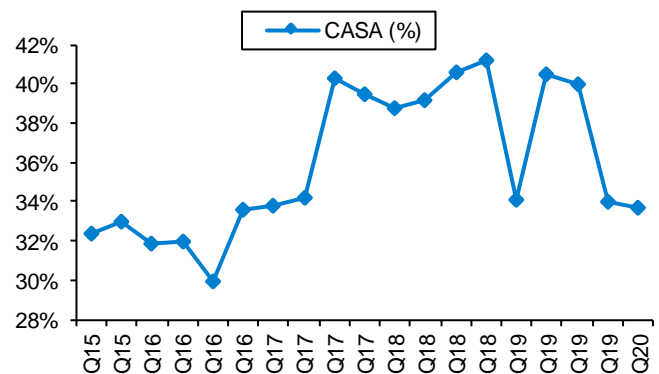
Source: Company, PL

**Exhibit 3: Margins some miss on higher cost of funding**



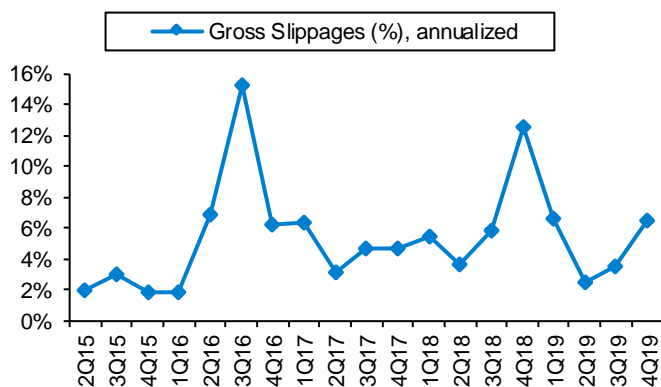
Source: Company, PL

**Exhibit 4: CASA ratios came off on merger**



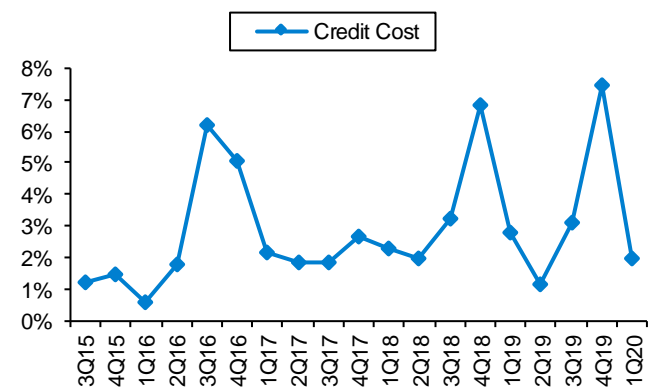
Source: Company, PL

**Exhibit 5: Slippage rate was up sequentially**



Source: Company, PL

**Exhibit 6: Credit cost lower post clean up last quarter**



Source: Company, PL

**Exhibit 7: Return ratios table**

ROAE decomposition	2015	2016	2017	2018	2019	2020E	2021E
<b>NII/Assets</b>	<b>1.97%</b>	<b>1.91%</b>	<b>2.08%</b>	<b>2.30%</b>	<b>2.62%</b>	<b>2.86%</b>	<b>2.54%</b>
Fees/Assets	0.51%	0.57%	0.64%	0.70%	0.75%	0.77%	0.67%
Investment profits/Assets	0.15%	0.18%	0.40%	0.29%	0.11%	0.09%	0.08%
<b>Net revenues/Assets</b>	<b>2.63%</b>	<b>2.66%</b>	<b>3.12%</b>	<b>3.29%</b>	<b>3.48%</b>	<b>3.73%</b>	<b>3.29%</b>
OpEx/Assets	-1.15%	-1.34%	-1.43%	-1.51%	-1.59%	-1.76%	-1.55%
Provisions/Assets	-0.67%	-2.33%	-1.31%	-2.20%	-1.80%	-1.40%	-0.99%
Taxes/Assets	-0.30%	0.20%	-0.17%	0.05%	-0.04%	-0.17%	-0.22%
<b>Total Costs/Assets</b>	<b>-0.64%</b>	<b>-2.15%</b>	<b>-1.22%</b>	<b>-1.87%</b>	<b>-1.52%</b>	<b>-1.36%</b>	<b>-1.03%</b>
<b>ROAA</b>	<b>0.51%</b>	<b>-0.81%</b>	<b>0.21%</b>	<b>-0.36%</b>	<b>0.06%</b>	<b>0.40%</b>	<b>0.52%</b>
Equity/Assets	5.67%	6.01%	6.19%	6.21%	6.63%	5.72%	4.93%
<b>ROAE</b>	<b>9.2%</b>	<b>-14.4%</b>	<b>3.8%</b>	<b>-6.3%</b>	<b>1.0%</b>	<b>7.4%</b>	<b>11.2%</b>

Source: Company, PL

**Exhibit 8: Change in estimates table**

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income	208,753	241,861	262,500	289,924	25.7	19.9
Operating profit	145,838	169,192	180,303	198,498	23.6	17.3
Net profit	49,304	70,669	36,530	59,505	(25.9)	(15.8)
EPS (Rs)	18.6	26.6	13.8	22.4	(25.9)	(15.8)
ABVPS (Rs)	133.2	159.7	125.7	148.7	(5.6)	(6.9)
<b>Price target (Rs)</b>	<b>161</b>		<b>146</b>		<b>(9.3)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

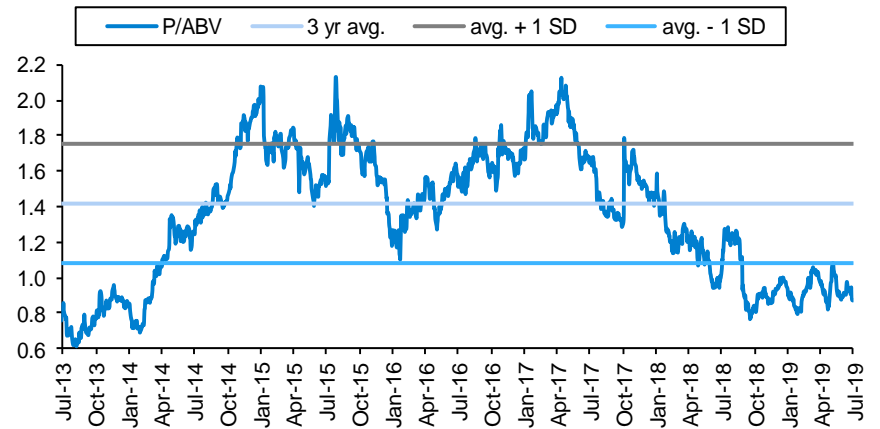
Source: Company, PL

**Exhibit 9: We cut our TP to Rs146 (from Rs161) based on 1.0x Mar-21 ABV**
**PT calculation and upside**

Terminal growth	5.0%
Market risk premium	6.5%
<b>Risk-free rate</b>	<b>7.5%</b>
Adjusted beta	1.09
<b>Cost of equity</b>	<b>14.6%</b>
<b>Fair price - P/ABV</b>	<b>146</b>
<b>Target P/ABV</b>	<b>1.0</b>
<b>Target P/E</b>	<b>6.5</b>
Current price, Rs	110
<b>Upside (%)</b>	<b>32%</b>
Dividend yield (%)	4%
<b>Total return (%)</b>	<b>36%</b>

Source: Company, PL

Exhibit 10: BOB - One year forward P/ABV trends



Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Earned from Adv.	290,698	343,890	457,098	574,115
Int. Earned from invt.	104,202	127,867	168,772	212,262
Others	17,438	10,632	12,982	17,075
<b>Total Interest Income</b>	<b>436,485</b>	<b>499,741</b>	<b>661,783</b>	<b>832,275</b>
Interest Expenses	281,268	312,903	399,283	542,351
<b>Net Interest Income</b>	<b>155,218</b>	<b>186,838</b>	<b>262,500</b>	<b>289,924</b>
Growth(%)	9.4	11.7	37.9	9.9
Non Interest Income	66,572	60,910	79,183	85,517
<b>Net Total Income</b>	<b>221,789</b>	<b>247,748</b>	<b>341,683</b>	<b>375,442</b>
Growth(%)	2.8	11.4	32.2	23.9
Employee Expenses	46,069	50,391	78,107	87,479
Other Expenses	47,034	50,420	68,067	78,277
Operating Expenses	101,734	112,880	161,380	176,944
<b>Operating Profit</b>	<b>120,056</b>	<b>134,868</b>	<b>180,303</b>	<b>198,498</b>
Growth(%)	9.4	12.3	33.7	10.1
NPA Provision	143,799	121,923	117,205	109,704
Total Provisions	147,791	119,234	128,117	113,490
<b>PBT</b>	<b>(27,736)</b>	<b>15,634</b>	<b>52,186</b>	<b>85,007</b>
Tax Provision	(3,589)	2,646	15,656	25,502
Effective tax rate (%)	12.9	16.9	30.0	30.0
<b>PAT</b>	<b>(24,146)</b>	<b>12,988</b>	<b>36,530</b>	<b>59,505</b>
Growth(%)	(271.4)	(153.8)	181.3	62.9

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Face value	2	2	2	2
No. of equity shares	2,652	2,652	2,652	2,652
Equity	5,304	5,304	5,304	5,304
Networth	433,948	509,831	538,978	586,179
Growth(%)	7.7	17.5	5.7	8.8
Adj. Networth to NNPA's	234,826	237,940	248,663	229,172
Deposits	5,913,148	6,386,897	9,867,756	10,706,515
Growth(%)	(1.7)	8.0	54.5	8.5
CASA Deposits	2,117,786	3,509,690	3,355,037	3,672,335
% of total deposits	35.8	55.0	34.0	34.3
<b>Total Liabilities</b>	<b>7,199,998</b>	<b>7,809,874</b>	<b>11,348,765</b>	<b>12,336,623</b>
Net Advances	4,274,318	4,688,187	7,032,281	7,594,864
Growth(%)	11.5	9.7	50.0	8.0
Investments	1,631,845	1,822,981	2,609,789	2,873,829
<b>Total Assets</b>	<b>7,199,998</b>	<b>7,809,874</b>	<b>11,348,765</b>	<b>12,336,623</b>
Growth (%)	3.6	8.5	45.3	8.7

**Asset Quality**

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs (Rs m)	564,804	699,240	707,229	682,801
Net NPAs (Rs m)	234,826	237,940	248,663	229,172
Gr. NPAs to Gross Adv.(%)	12.3	13.6	9.4	8.5
Net NPAs to Net Adv. (%)	5.5	5.1	3.5	3.0
NPA Coverage %	58.4	66.0	64.8	66.4

**Profitability (%)**

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	2.3	2.6	2.9	2.5
RoAA	(0.3)	0.2	0.4	0.5
RoAE	(5.8)	2.8	7.0	10.6
Tier I	9.9	11.6	8.9	9.2
CRAR	12.2	13.4	10.3	10.5

Source: Company Data, PL Research

Historical Nos. Non-Merged

**Quarterly Financials (Rs. m)**

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Interest Income	120,783	129,417	190,550	189,453
Interest Expenses	75,858	81,985	122,640	124,472
<b>Net Interest Income</b>	<b>44,925</b>	<b>47,432</b>	<b>67,910</b>	<b>64,981</b>
YoY growth (%)	7.9	18.7	74.3	12.5
CEB	9,610	9,420	14,730	12,760
Treasury	-	-	-	-
Non Interest Income	13,516	16,211	25,460	19,156
<b>Total Income</b>	<b>134,300</b>	<b>145,629</b>	<b>216,010</b>	<b>208,609</b>
Employee Expenses	12,217	13,035	36,170	19,390
Other expenses	15,405	15,223	25,380	21,980
Operating Expenses	27,622	28,258	61,550	41,370
<b>Operating Profit</b>	<b>30,819</b>	<b>35,385</b>	<b>31,820</b>	<b>42,767</b>
YoY growth (%)	1.3	(3.1)	19.4	3.9
Core Operating Profits	-	-	-	-
NPA Provision	14,666	34,160	102,570	31,684
Others Provisions	24,295	27,942	103,410	32,849
Total Provisions	24,295	27,942	103,410	32,849
<b>Profit Before Tax</b>	<b>6,524</b>	<b>7,443</b>	<b>(71,590)</b>	<b>9,918</b>
Tax	2,270	2,731	17,160	2,815
<b>PAT</b>	<b>4,254</b>	<b>4,712</b>	<b>(88,750)</b>	<b>7,103</b>
YoY growth (%)	19.7	321.6	186.1	(1,579.8)
<b>Deposits</b>	<b>6,069,732</b>	<b>6,105,692</b>	<b>9,151,590</b>	<b>8,955,420</b>
YoY growth (%)	4.1	6.5	54.8	6.4
<b>Advances</b>	<b>4,335,491</b>	<b>4,486,794</b>	<b>6,513,840</b>	<b>6,331,809</b>
YoY growth (%)	11.9	12.3	52.4	6.4

**Key Ratios**

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	110	110	110	110
EPS (Rs)	(9.8)	1.6	13.8	22.4
Book Value (Rs)	152	180	191	209
Adj. BV (70%)(Rs)	90	118	126	149
P/E (x)	(11.2)	67.3	8.0	4.9
P/BV (x)	0.7	0.6	0.6	0.5
P/ABV (x)	1.2	0.9	0.9	0.7
DPS (Rs)	-	1.0	2.4	4.0
Dividend Payout Ratio (%)	-	61.2	17.4	17.8
Dividend Yield (%)	-	0.9	2.2	3.6

**Efficiency**

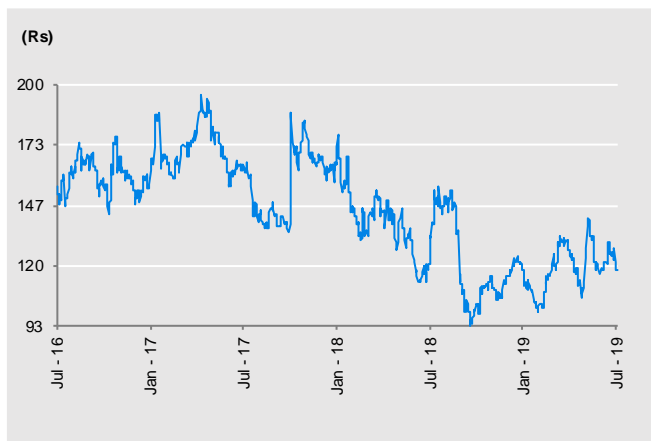
Y/e Mar	FY18	FY19	FY20E	FY21E
Cost-Income Ratio (%)	45.9	45.6	47.2	47.1
C-D Ratio (%)	72.3	73.4	71.3	70.9
Business per Emp. (Rs m)	191	205	311	332
Profit per Emp. (Rs lacs)	(5)	2	7	11
Business per Branch (Rs m)	1,834	1,994	3,006	3,215
Profit per Branch (Rs m)	(4)	2	6	10

**Du-Pont**

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	2.07	2.34	2.60	2.34
Total Income	2.96	3.11	3.38	3.03
Operating Expenses	1.36	1.42	1.60	1.43
PPoP	1.60	1.69	1.78	1.60
Total provisions	1.97	1.60	1.27	0.91
RoAA	(0.32)	0.05	0.36	0.48
RoAE	(6.32)	0.98	7.41	11.21

Source: Company Data, PL Research

Historical Nos. Non-Merged

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	161	129
2	30-Jan-19	BUY	161	114
3	7-Jan-19	BUY	161	123
4	30-Oct-18	BUY	161	110
5	5-Oct-18	Accumulate	165	103
6	31-Jul-18	Accumulate	165	152

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	837	809
2	Bank of Baroda	BUY	161	129
3	Bank of India	Reduce	90	95
4	Federal Bank	BUY	121	105
5	HDFC	BUY	2,700	2,376
6	HDFC Bank	BUY	2,700	2,484
7	HDFC Standard Life Insurance Company	BUY	585	509
8	ICICI Bank	BUY	475	436
9	ICICI Prudential Life Insurance Company	BUY	511	383
10	IDFC First Bank	BUY	55	45
11	IndusInd Bank	BUY	1,800	1,510
12	Jammu & Kashmir Bank	BUY	80	41
13	Kotak Mahindra Bank	Hold	1,385	1,454
14	Max Financial Services	BUY	629	414
15	Punjab National Bank	Reduce	75	82
16	SBI Life Insurance Company	BUY	906	776
17	South Indian Bank	BUY	18	13
18	State Bank of India	BUY	427	367
19	Union Bank of India	Reduce	71	85
20	YES Bank	Hold	101	98

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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