

3R MATRIX

| | + | = | - |
|----------------------|-----------|------------|---|
| Right Sector (RS) | ✓ | ✗ | ✗ |
| Right Quality (RQ) | ✓ | ✓ | ✗ |
| Right Valuation (RV) | ✓ | ✗ | ✗ |
| + Positive | = Neutral | - Negative | |

What has changed in 3R MATRIX

| | Old | | New |
|----|-----|---|-----|
| RS | ✓ | ↔ | ✓ |
| RQ | ✗ | ↔ | ✗ |
| RV | ✓ | ↔ | ✓ |

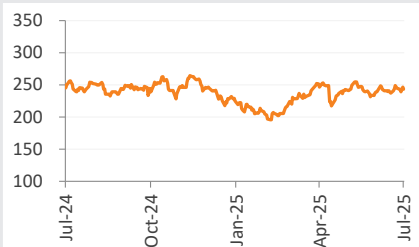
Company details

| | |
|-------------------------------|-----------------|
| Market cap: | Rs. 1,25,897 cr |
| 52-week high/low: | Rs. 267/191 |
| NSE volume: (No of shares) | 110.3 lakh |
| BSE code: | 532134 |
| NSE code: | BANKBARODA |
| Free float: (No of shares) | 184.6 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 64.0 |
| FII | 8.1 |
| DII | 19.1 |
| Others | 8.9 |

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|------|-----|------|
| Absolute | 1.7 | -1.6 | 8.0 | -0.8 |
| Relative to Sensex | 3.2 | -4.5 | 1.1 | -1.0 |

Source: Mirae Asset Sharekhan Research, Bloomberg

Bank of Baroda

Good quarter on lows expectations

| Banks | Sharekhan code: BANKBARODA | | |
|----------------|----------------------------|--------------|-------------------------|
| Reco/View: Buy | ↔ | CMP: Rs. 243 | Price Target: Rs. 275 ↑ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- Earnings beat expectations driven by NIMs and treasury gains. Bank eyes NIMs at 2.85-3% in FY26E.
- Asset quality was stable, but it saw one international account slip, leading to slightly higher NPAs q-o-q. Thus, core credit cost was slightly higher but remained below the long-term average.
- Bank is reasonably confident of maintaining a ~1% RoA for the next couple of quarters.
- Stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV estimates. We maintain Buy rating with a revised PT of Rs. 275.

Q1FY26 numbers were decent on low expectations. Net interest income (NII) at Rs. 11,435 crore (above estimates) down by 1% y-o-y/q-o-q each. In the previous quarter, NII has been reclassified considering the interest on IT refund resulting in upward revision in NIMs by 12 bps from 2.86% to 2.98%. In Q1, NIMs declined by 7bps q-o-q (compared to restated figure) to 2.91% versus expectations of a decline in NIMs by ~12 bps q-o-q. Core fee income grew by 10% y-o-y/ down 26% q-o-q. Treasury gains stood at Rs. 2,226 crore versus a gain of Rs. 1,559 crore q-o-q and Rs. 295 crore gain in Q1FY25. Other income excluding treasury gains at Rs. 827 crore vs Rs 999 crore q-o-q and Rs. 713 crore y-o-y. Total operating expenses rose by 14% y-o-y / down 3% q-o-q. Operating profit at Rs. 8,236 crore (above estimates, mainly aided by better NII and treasury profits) grew 15% y-o-y/ 1% q-o-q. Core credit cost stood at 66 bps annualised versus 44 bps q-o-q and 38 bps y-o-y. PBT grew by 2% y-o-y. PAT at Rs. 4,541 crore (above estimates) rose by 2% y-o-y despite slightly higher provisions. Net advances grew 13% y-o-y/ down 2% q-o-q. Retail loans/agri loans grew by 18% y-o-y/16% y-o-y. The MSME and wholesale domestic corporate books grew by 13% y-o-y/ 4% y-o-y respectively. Overseas book grew by 14% y-o-y. Deposits grew by 10% y-o-y/down 2% q-o-q, with CASA balances growing at 6% y-o-y/ down 5% q-o-q and CASA ratio at ~33.0% versus 34.4% y-o-y. CA declined by 18% q-o-q while SA balances declined by 2% q-o-q. Domestic bulk deposits grew 13% y-o-y/ down 9% q-o-q and domestic retail term deposits grew 8% y-o-y/ 2% q-o-q. Overseas deposits grew by 15% y-o-y/ flat q-o-q. Headline asset quality ratios were broadly stable q-o-q with GNPA/ NNPA ratio at 2.28%/ 0.60%; PCR at 74% vs 75% q-o-q. However, it saw one account slip in international book leading to slightly higher slippages q-o-q. Thus, core credit cost was also slightly higher. Slippages were slightly higher at 1.4% vs 1.2% q-o-q. Net slippages were also higher at Rs. 2,126 crore vs Rs. 1,216 crore q-o-q. SMA 1 & 2 (o/s above Rs. 5 crore) book stood at 0.40% vs 0.33% q-o-q.

Key positives

- NIMs declined by 7 bps q-o-q versus expectation of a ~12 bps q-o-q decline.

Key negatives

- Slippages were slightly higher at 1.4% vs 1.2% q-o-q. It increased due to one large international account that turned an NPA with stress visible on the legacy personal loan book.

Management Commentary

- Bank eyes NIMs of 2.85-3% for FY26E.
- Asset quality in MSME segment is steady. In personal loans segment, the legacy book contributed to a Rs.100-150 crore slippage.
- The international account that slipped in, was restructured during COVID-19 and later upgraded. However, it has now moved into the resolution category with a resolution period of 210 days. This is a secured account, and the bank expects to recover the dues. Bank has taken a 40% provision against this.
- The SMA book has three accounts that are government-guaranteed. If these accounts are excluded, the total SMA book will be 0.10%.
- The bank is reasonably confident to maintain ~1% RoA trajectory over the next couple of quarters.

Our Call

Valuation – At CMP, the stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV. The bank highlighted that it is taking continuous efforts to improve overall performance that is broadly holding up well, but with some volatility in some of the key operating metrics. Stable asset quality outlook is likely to support return ratios and reversal in return ratio is unlikely in near term. We believe that the bank is likely to sustain RoA at ~1.0% over the next couple of quarters despite pressure on core operating profitability. We acknowledge that the bank needs to ramp up other avenues of productivity (mainly fee income) to drive RoA/RoE expansion. Given reasonable valuations, we maintain a Buy rating, with a revised PT of Rs. 275.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost

Valuation (Standalone)

| Particulars | FY23 | FY24 | FY25 | FY26E | FY27E |
|---------------------|--------|--------|--------|--------|--------|
| Net Interest Income | 41,356 | 44,722 | 45,659 | 46,414 | 54,187 |
| Net profit | 14,110 | 17,789 | 19,581 | 19,154 | 21,576 |
| EPS (Rs.) | 27.3 | 34.4 | 37.9 | 37.0 | 41.7 |
| P/E (x) | 8.9 | 7.1 | 6.4 | 6.6 | 5.8 |
| P/BV (x) | 1.4 | 1.2 | 1.0 | 0.8 | 0.7 |
| RoE | 15.3 | 16.9 | 15.7 | 13.1 | 12.9 |
| RoA | 1.0 | 1.2 | 1.2 | 1.0 | 1.0 |

Source: Company; Mirae Asset Sharekhan estimates

Results

| Particulars | | | | | Rs cr | |
|------------------------------------|---------------|---------------|---------------|------------|-------------|--|
| | Q1FY26 | Q1FY25 | Q4FY25 | Y-o-Y % | Q-o-Q % | |
| Interest Income | 31,091 | 29,629 | 31,117 | 5% | 0% | |
| Interest Expenses | 19,657 | 18,029 | 19,622 | 9% | 0% | |
| Net Interest Income | 11,435 | 11,600 | 11,494 | -1% | -1% | |
| NIM (%) | 2.91 | 3.18 | 2.98 | | | |
| Core fee income | 1,622 | 1,479 | 2,178 | 10% | -26% | |
| Other Income | 3,053 | 1,008 | 2,558 | 203% | 19% | |
| Net Operating Revenue | 16,109 | 14,087 | 16,229 | 14% | -1% | |
| Employee Expenses | 4,308 | 4,014 | 4,347 | 7% | -1% | |
| Other Opex | 3,565 | 2,912 | 3,750 | 22% | -5% | |
| Total Opex | 7,873 | 6,926 | 8,097 | 14% | -3% | |
| Cost to Income Ratio (%) | 48.9% | 49.2% | 49.9% | | | |
| Pre Provision Profits | 8,236 | 7,161 | 8,132 | 15% | 1% | |
| Provisions & Contingencies - Total | 1,967 | 1,011 | 1,552 | 95% | 27% | |
| Profit Before Tax | 6,270 | 6,151 | 6,581 | 2% | -5% | |
| Tax | 1,728 | 1,692 | 1,533 | 2% | 13% | |
| Effective Tax Rate (%) | 27.6 | 27.5 | 23.3 | | | |
| Reported Profits | 4,541 | 4,458 | 5,048 | 2% | -10% | |
| Basic EPS | 8.8 | 8.6 | 9.8 | 2% | -10% | |
| Diluted EPS | 8.8 | 8.6 | 9.8 | | | |
| RoA (%) | 1.0 | 1.1 | 1.2 | | | |
| Advances | 11,86,585 | 10,47,949 | 12,09,558 | 13% | -2% | |
| Deposits | 14,35,634 | 13,06,994 | 14,72,035 | 10% | -2% | |
| Gross NPA | 27,572 | 30,873 | 27,835 | -11% | -1% | |
| Gross NPA Ratio (%) | 2.3 | 2.9 | 2.3 | | | |
| PCR - (%) | 74.0 | 76.6 | 74.9 | | | |
| Net NPA | 7,158 | 7,232 | 6,994 | -1% | 2% | |
| Net NPAs Ratio (%) | 0.6 | 0.7 | 0.6 | | | |

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation, NIMs and asset quality to be in focus

System credit growth has further declined to ~9% y-o-y from 16% year ago as per the latest fortnight data, mainly driven by slower deposit growth, slower growth in secured retail segment and stress in the unsecured retail segment. Deposit growth for the system has been broadly at ~10% y-o-y. However, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to lower repo rates. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and the MFI segment but it appears that stress in unsecured segment has also broadly peaked out. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Sustained improved performance is key

We believe that intermittent headwinds in terms of NIMs and volatility in asset quality are likely to be managed. The balance sheet mix has been gradually improving for the bank, which we believe is positive. The bank is likely to sustain RoA at ~1% over the next couple of quarters despite pressure on core operating profitability. Sustained earnings progression holds the key.

■ Valuation – Maintain Buy with a revised PT of Rs. 275

At CMP, the stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV. The bank highlighted that it is taking continuous efforts to improve overall performance that is broadly holding up well, but with some volatility in some of the key operating metrics. Stable asset quality outlook is likely to support return ratios and reversal in return ratio is unlikely in near term. We believe that the bank is likely to sustain RoA at ~1.0% over the next couple of quarters despite pressure on core operating profitability. We acknowledge that the bank needs to ramp up other avenues of productivity (mainly fee income) to drive RoA/RoE expansion. Given reasonable valuations, we maintain a Buy rating, with a revised PT of Rs. 275.

Peer valuation

| Banks | CMP (Rs./Share) | MCAP (Rs. Cr) | P/E (x) | | P/B (x) | | RoE (%) | | RoA (%) | |
|-------|--------------------|------------------|---------|-------|---------|-------|---------|-------|---------|-------|
| | | | FY26E | FY27E | FY26E | FY27E | FY26E | FY27E | FY26E | FY27E |
| BoB | 243 | 1,25,897 | 6.6 | 5.8 | 0.8 | 0.7 | 13.1 | 12.9 | 1.0 | 1.0 |
| SBI | 807 | 7,44,451 | 7.0 | 6.5 | 1.0 | 0.9 | 15.3 | 13.9 | 1.0 | 1.0 |

Source: Company; Mirae Asset Sharekhan Research

About company

BoB, established in 1908, is one of the oldest commercial banks in India with a substantial footprint in domestic and international markets. It is the second largest public-sector bank in terms of assets, deposits, branches, number of customers, and employees having a pan-India presence. The bank is well-placed to gain market share driven by strong balance sheet strength and healthy liability franchise.

Investment theme

We believe BoB's higher retail orientation, reasonable capital position, and healthy asset-quality outlook augur well for the future earnings progression.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Additional Data

Key management personnel

| Name | Designation |
|------------------------|---------------------------|
| Mr. Debadatta Chand | Managing Director and CEO |
| Mr. Lalit Tyagi | Executive Director |
| Mr. Sanjay Mudaliar | Executive Director |
| Mr. Lal Singh | Executive Director |
| Ms. Beena Vaheed | Executive Director |
| Mr. V Inumella Sridhar | CFO |

Source: Company Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|--------------------------------------|-------------|
| 1 | Republic of India | 63.97 |
| 2 | LICI Health Plus Non Unit Fund | 7.51 |
| 3 | HDFC Asset Management Co Ltd | 2.76 |
| 4 | SBI Funds Management Ltd | 1.48 |
| 5 | Kotak Mahindra Asset Management Co | 1.33 |
| 6 | Nippon Life India Asset Management | 1.01 |
| 7 | ICICI Prudential Asset Management Co | 0.93 |
| 8 | Vanguard Group Inc | 0.86 |
| 9 | The Blackrock Inc | 0.73 |
| 10 | Norges Bank | 0.51 |

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

| Right Sector | |
|-----------------|--|
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet |
| Right Valuation | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Mirae Asset Sharekhan Research

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