

CMP: ₹ 243

Target: ₹ 280 (15%)

Target Period: 12 months

BUY

July 28, 2025

Steady growth; recovery in margins to aid valuation..

About the stock: Bank of Baroda is the third largest public sector bank with a global loan book of ~₹ 12.3 lakh crore, and strong operating metrics among PSBs.

- The bank has a meaningful presence in international operations with its JVs and subsidiaries. ~17% of total business comes from overseas.

Q1FY26 performance: Bank of Baroda posted steady Q1FY26, though margins continued to remain under pressure. Gross advances rose 12.6% YoY (-1.9% QoQ) to ₹12,07,056 crore, led by 17.5% / 16.2% / 13.1% YoY growth in retail/ agri/ MSME book. Deposits increased 9.1% YoY (-2.5% QoQ) to ₹14,35,634 crore, with sequential moderation seen in CA and bulk deposits. NIM contracted 7 bps QoQ to 2.91% (2.81% excl interest refund), impacted by EBLR repricing. Other income softened due to lower recoveries and commission income, though partially offset by treasury gains. Provisions remained steady, excluding prudent provisioning toward certain standard accounts (~₹500–600 crore). Slippage ratio rose 16 bps QoQ to 1.16%, driven by one large international account, while GNPA/NNPA ratios remained steady at 2.28%/0.60%. PAT grew 1.9% YoY to ₹4,541 crore.

Investment Rationale

- RAM-led growth to drive credit momentum:** Credit growth is expected to be driven by sustained traction in RAM segment, with corporate loan growth guided at 9–10% for FY26. Bank remains focused on expanding RAM mix to 64–65% over next 2–3 years, supported by faster turnaround times, and increased digital origination. MSME growth will be aided by cash-flow based OD products and supply-chain financing, while agri lending continues to perform well. On the liability side, strategy remains anchored on improving the liability mix through CASA-focused mobilisation, calibrated reduction in bulk deposits, and branch network expansion. We expect credit growth at ~12% CAGR for FY26–27E.
- Margin erosion continued, revival expected in H2FY26:** While repo pass-through is largely completed for EBLR loans (~35%), lag in repricing in MCLR loans is seen to keep margins under pressure in Q2FY26. However, gradual recovery is anticipated from Q3 as ~70–80% of term deposits will be repriced by September'25. Margin guidance stands at 2.85–3.0% in FY26E, with support from calibrated bulk deposit sourcing, stable CASA ratio and efforts to improve funding mix. On asset quality front, no systemic stress is visible across portfolios. Slippages rose to ₹3,500 crore (up 16 bps), mainly due to one large overseas restructured account, which is secured and under resolution. Recovery performance is maintained with full-year target of >₹10,000 crore, keeping credit cost contained.

Rating and Target Price

- Margin pressure is seen easing from Q3FY26, with NIMs guided at 2.85–3%. Strong RAM-led growth and stable asset quality are likely to support valuations despite near-term headwinds. We continue to value the bank at ~0.9x FY27E BV and maintain our target price of ₹280 per share. Given relatively inexpensive valuation, we maintain our Buy rating.

Key Financial Summary

Key Financials (₹ Crore)	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
NII	41,356	44,722	45,659	11.9%	47,392	53,018	7.8%
PPP	26,864	30,965	32,435	13.2%	32,347	35,643	4.8%
PAT	14,110	17,789	19,581	39.1%	19,005	19,770	0.5%
ABV (₹)	173	202	252		286	323	
P/E	8.9	7.1	6.4		6.6	6.4	
P/ABV	1.4	1.2	1.0		0.8	0.8	
RoA	1.0	1.2	1.2		1.0	1.0	
RoE (%)	15.3	16.9	15.7		13.0	11.9	

Source: Company, ICICI Direct Research



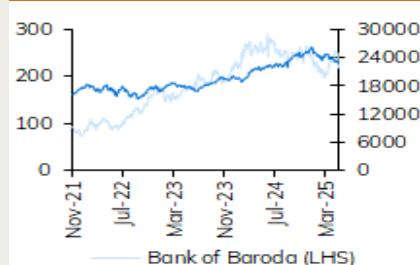
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Bank of Baroda

Particulars

Particulars	Amount
Market Capitalisation	₹ 1,25,587 crore
Networth	₹ 1,53,679 crore
52 week H/L	267 / 191
Face value	2.0
DII Holding (%)	18.8
FII Holding (%)	8.0

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25
Promoter	64	64	64
FII	9	9	8
DII	18	18	19
Others	9	9	9

Price Chart**Key risks**

- Anticipated additional rate cut
- Adverse change in asset mix

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Concall highlights and outlook

Performance and growth outlook

- Gross advances rose 12.6% YoY (-1.9% QoQ) to ₹12,07,056 crore, led by 17.5% YoY growth in retail book, driven by home loans (+16.5% YoY), auto loans (+17.9%), and personal loans (+19.5%), while Agri and MSME segments grew 16.2% and 13.1%, respectively
- Deposits increased 9.1% YoY (-2.5% QoQ) to ₹14,35,634 crore, with sequential moderation seen in CA and bulk deposits
- RAM mix at 62.7%; target of 64–65% over 2–3 years maintained. Corporate loan growth guidance: 9–10% for FY26, despite a muted Q1, as deleveraging trends ease and MCLR-linked loan demand picks up.
- MSME book to expand, aided by supply-chain finance, cash-flow based OD products, and trade-linked offerings.

Margins

- NIM of 2.91% includes one-time reclassification of income tax refund; adjusted NIM would be ~2.81%.
- FY26 NIM guidance maintained at 2.85–3.00%.
- Loan book mix:
 - EBLR-linked: 35%, MCLR: 45%, Fixed rate: 6%, T-bill-linked: 7%, Govt. comp: 6%.
- Full repo pass-through completed for EBLR loans; MCLR repricing lag to play out over Q2.
- Q3/Q4 expected to see improvement as ~70–80% of term deposits will be repriced by September'25.

Credit cost and opex

- Q1 recoveries were seasonally lower but expected to pick up in H2FY26. Full-year recovery target: >₹10,000 crore (including NCLT, T.W.O, and one-offs).
- Slippages at ₹3,500 crore vs. normalized trend of ₹2,800–2,900 crore.
 - Driven by a large international restructured account and ₹100 crore from legacy personal loans.
- International account was COVID-restructured, now under resolution with 210-day window; fully secured, 40% provisioned, and full recovery expected.
- SMA 1 & 2 at 0.4% of standard book; adjusted for a few government-linked accounts,
- MSME slippages stable; portfolio mostly secured, negligible unsecured exposure apart from cash-flow based OD products.

Other updates

- Plan to hire ~15,000 employees in FY26, mainly for operations and relationship roles.
- Target to open ~300 new branches in FY26. Capex/opex spend guided at 10–15% of annual operating profit, with continued investments in digital infra and shared services.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	11435	11600	-1.4%	11494	-0.5%	Margin headwind impacted NII growth
NIM (%)	2.91	3.18	-27 bps	2.98	-7 bps	Compression owing to repricing effect
Other Income	4675	2487	87.9%	4735	-1.3%	Treasury gain aided other income; fee income up 9.7%
Net Total Inc	16109	14087	14.4%	16229	-0.7%	
Staff cost	4308	4014	7.3%	4347	-0.9%	
Other OpEx	3565	2912	22.4%	3750	-4.9%	Steady opex
PPP	8236	7161	15.0%	8132	1.3%	
Provision	1967	1011	94.6%	1552	26.8%	Slippages higher at 1.16% vs 1.05% YoY
PBT	6270	6151	1.9%	6581	-4.7%	
Tax Outgo	1728	1692	2.1%	1533	12.7%	
PAT	4541	4458	1.9%	5048	-10.0%	PAT impacted on account of higher provisioning
Key Metrics						
GNPA	27572	30873	-10.7%	27835	-0.9%	Better recoveries and higher write-offs
NNPA	7158	7232	-1.0%	6994	2.3%	
Advances	1207056	1071681	12.6%	1230461	-1.9%	Momentum in RAM segment continues
Deposits	1435634	1315573	9.1%	1472035	-2.5%	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	112,605.9	121,441.6	129,931.8	142,427.0
Interest Expended	67,884.4	75,783.0	82,539.5	89,409.4
Net Interest Income	44,721.5	45,658.7	47,392.3	53,017.6
growth (%)	8.1	2.1	3.8	11.9
Non Interest Income	14,495.4	16,647.3	17,135.3	17,902.0
Fees and advisory	3,562.0	3,365.8	3,702.3	0.0
Treasury Income /sale of Invt.	1,491.9	2,266.2	2,492.9	0.0
Other income	9,441.4	11,015.3	10,940.1	17,902.0
Net Income	59,216.9	62,306.0	64,527.5	70,919.7
Employee cost	15,816.0	16,228.6	17,862.9	19,862.7
Other operating Exp.	12,435.7	13,642.8	14,318.0	15,414.2
Operating Income	30,965.2	32,434.6	32,346.7	35,642.8
Provisions	6,075.6	5,980.3	7,006.7	9,282.5
PBT	24,889.6	26,454.4	25,340.0	26,360.3
Taxes	7,100.8	6,873.2	6,335.0	6,590.1
Net Profit	17,788.8	19,581.1	19,005.0	19,770.2
growth (%)	26.1	10.1	-2.9	4.0
EPS	34.4	37.8	36.7	38.2

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
No. of Equity Shares	517.8	517.8	517.8	517.8
EPS (₹)	34.4	37.8	36.7	38.2
BV (₹)	216.7	264.5	301.4	338.6
ABV (₹)	202.1	252.0	286.4	322.5
P/E	7.1	6.4	6.6	6.4
P/BV	1.1	0.9	0.8	0.7
P/ABV	1.2	1.0	0.8	0.8
Yields & Margins (%)				
Net Interest Margins	3.2	2.9	2.7	2.7
Yield on avg earning assets	8.0	7.7	0.0	0.0
Avg. cost on funds	5.0	5.0	0.0	0.0
Avg. Cost of Deposits	4.7	4.8	4.7	4.7
Yield on average advances	8.5	8.2	7.8	7.7
Quality and Efficiency (%)				
Cost / Total net income	47.7	47.9	49.9	49.7
Credit/Deposit ratio	79.8	82.2	83.2	84.3
GNPA	2.9	2.3	2.1	2.0
NNPA	0.7	0.5	0.6	0.6
RoE	16.9	15.7	13.0	11.9
RoA	1.2	1.2	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	1,035.5	1,035.5	1,035.5	1,035.5
Reserves and Surplus	111,188.1	135,890.2	155,036.7	174,277.0
Networth	112,223.7	136,925.8	156,072.2	175,312.5
Deposits	1,335,136.4	1,472,034.8	1,624,975.5	1,794,530.7
Borrowings	94,402.3	123,716.2	129,528.2	135,783.7
Other Liab & Prov	44,034.8	48,570.6	50,999.1	53,549.1
Total	1,585,797.2	1,781,247.4	1,961,575.0	2,159,176.0
<u>Application of Funds</u>				
Fixed Assets	7,912.6	12,376.3	13,366.4	14,435.7
Investments	369,816.8	385,398.4	413,977.0	444,903.2
Advances	1,065,781.7	1,209,557.9	1,351,958.4	1,512,798.0
Other Assets	47,161.9	48,065.3	54,064.6	52,898.7
Cash with RBI & call money	95,124.1	125,849.5	128,208.6	134,140.5
Total	1,585,797.2	1,781,247.4	1,961,575.0	2,159,176.0

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	8.7	12.3	10.1	10.1
Advances	13.3	13.5	11.8	11.9
Deposits	10.9	10.3	10.4	10.4
Total Income	15.2	5.2	3.6	9.9
Net interest income	8.1	2.1	3.8	11.9
Operating expenses	15.2	5.7	7.7	9.6
Operating profit	15.3	4.7	-0.3	10.2
Net profit	26.1	10.1	-2.9	4.0
Book value	14.3	22.0	14.0	12.3
EPS	26.1	10.1	-2.9	4.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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