Bank of Baroda (BANBAR)

ICICI Direct

CMP: ₹244	Target ₹ 300 (23%)	Target Period: 12 months	BUY

July 27, 2026

NMC one-off weighs on Q1; RoA to keep steady from Q2…

About the stock: Bank of Baroda is the third largest public sector bank with a global loan book of ~₹ 14.3 lakh crore, and strong operating metrics among PSBs.

- The bank has a meaningful presence in international operations with its JVs and subsidiaries. ~18.8% of total business comes from overseas

Q1FY27 performance: Bank of Baroda reported a mixed Q1FY27 performance, with healthy YoY business growth and benign credit cost offset by moderate sequential balance-sheet growth, margin pressure and one-off NMC settlement. Global advances grew 17.4% YoY (-0.9% QoQ), led by broad-based traction across Retail (18.4% YoY), Agri (18.7%), MSME (20.3%) and Corporate (15.3%), though sequential growth remained muted amid seasonal moderation. Deposits increased 13.8% YoY (-0.9% QoQ), with domestic deposits up 14.7% YoY and CASA deposits up 10%, while CASA ratio moderated to 37.7%. NII grew 9.5% YoY (0.3% QoQ), while NIM declined 12 bps QoQ to 2.77%, amid higher mix of lower-margin international business, despite 12 bps QoQ decline in cost of deposit; interest on IT refunds stood at ~₹370 crore. Other income remained subdued amid weaker fee income and lower treasury gains on a YoY basis. Asset quality remained steady, with GNPA/NNPA at 1.99%/0.5%, slippage ratio at 0.91%, credit cost at 0.29% and collection efficiency improving to 99.2%. Reported PAT declined sharply to ₹1,278 crore, impacted by the US$600 million NMC settlement fully absorbed during the quarter; excluding this exceptional item, PAT would have been ₹5,528 crore with RoA at 1.1%.

Investment Rationale:

- **Growth visibility healthy; focus shifts towards profitable growth and liabilities:** Management retained FY27 loan growth guidance at 12–14%, with RAM expected to remain the key growth engine while corporate traction should be calibrated towards better pricing. The bank has been letting go of finely priced corporate exposures and attempting to migrate non-MCLR loans towards MCLR/near-MCLR rates, which should aid asset yields. On liabilities, easing incremental bulk/CD rates and mobilisation through FCNR(B) route should provide some funding-cost support; however, sustaining 10–12% deposit growth, improving CASA traction and keeping pace with faster credit growth remain key monitorable. Fee income remains relatively weak (-20.4% YoY) and improving monetisation of the growing balance sheet would be important for strengthening core operating profitability.
- **Legacy NMC overhang resolved; intact provision buffer provides comfort ahead of ECL:** The US$600 million NMC settlement, fully absorbed in Q1FY27 earnings, materially depresses reported profitability but provides finality to a longstanding cross-border litigation overhang, with no further liability expected from the settled proceedings. Importantly, the bank did not utilise its ₹2,500 crore floating provision for the settlement, leaving the entire buffer intact ahead of ECL transition. Management estimates ECL transition to entail ~₹12,000 crore impact (~110 bps on CRAR), with an incremental steady-state credit cost impact of ~15–20 bps; the existing buffer and healthy capitalisation should partly cushion this transition. Meanwhile, benign underlying stress indicators and scope for better asset pricing should support profitability, though limited margin expansion and ECL-related costs remain key constraints to RoA; management expects RoA to remain >1% during Q2-Q4FY27.

Rating and Target Price: While underlying business momentum and asset quality remain healthy, the NMC settlement will weigh on reported FY27 profitability, while margin expansion remains constrained. However, closure of the legacy overhang and the intact ₹2,500 crore floating provision buffer ahead of ECL transition provide comfort. We have revised our estimates downwards to reflect one-time impact of settlement and ECL transition, however, recent correction in the stock price appears to have largely priced these factors. Thus, we revise our target price from ₹325 to ₹300, valuing the stock at ~0.9x FY28E, and maintain our BUY rating.

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Bank of Baroda

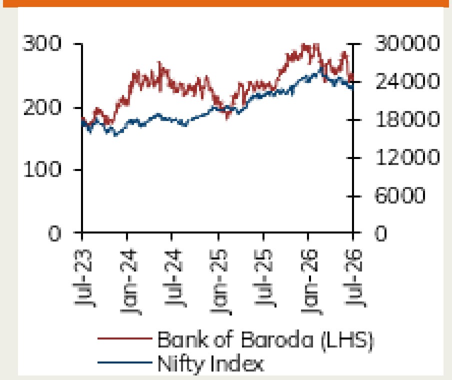
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,36,472 crore
Networth	₹ 1,65,868 crore
52 week H/L	326 / 224
Face value	2.0
DII Holding (%)	18.9
FII Holding (%)	9.7

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	64.0	64.0	64.0	64.0
FII	8.7	9.8	9.7	10.1
DII	18.9	18.7	18.9	18.3
Others	8.4	7.5	7.4	7.6

Price Chart



Key risks

(i) Adverse change in mix diluting margins

(ii) Slower than anticipated business growth

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ Crore)	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
NII	44,722	46,518	47,682	4.0%	52,874	60,234	12.4%
PPP	30,965	32,434	32,259	6.5%	35,564	40,751	12.4%
PAT	17,789	19,581	20,021	11.5%	18,136	23,820	9.1%
ABV (₹)	192	234	262		287	321	
P/ABV	1.3	1.0	0.9		0.8	0.8	
RoA	1.2	1.2	1.1		0.9	1.0	
RoE	16.9	15.7	13.8		11.3	13.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Global advances increased 17.4% YoY, driven by domestic advances (+16.1%) and international advances (+23.3%).
- Growth remained broad-based across the RAM portfolio, with:
    - Organic Retail: +18.4% YoY
    - Agriculture: +18.7% YoY
    - Organic MSME: +20.3% YoY
    - Corporate advances: +15.3% YoY
- Retail segments continued to witness healthy traction:
    - Home loans: +14.7% YoY
    - Auto loans: +25.3% YoY
    - Mortgage loans: +27.4% YoY
    - Education loans: +10.8% YoY
- Sequential decline in advances was largely driven by the corporate book, where the bank consciously allowed certain finely priced exposures to run down while repricing/selecting assets more prudently.
- Total deposits grew 13.8% YoY, led by:
    - Domestic deposits: +14.7% YoY
    - International deposits: +8.9% YoY
- Domestic CASA deposits increased 10% YoY, while term deposits grew 17.8% YoY.
- Management reiterated FY27 guidance of 12–14% loan growth and 10–12% deposit growth, while remaining cautious given geopolitical uncertainties.
- Bank has mobilised over US$600 million under the FCNR(B) scheme so far.
- Target is to mobilise US$4–5 billion through FCNR(B), FCCB and ECB routes.
- Loans against FCNR deposits are being extended through overseas branches, generating margins at both the domestic funding and overseas lending levels.
- Management expects the scheme to support liquidity and absolute NII, though lower-spread funding could modestly dilute reported NIM.

NMC Settlement

- Bank entered into an out-of-court settlement relating to the legacy NMC Group litigation, paying US$600 million on 1 July 2026.
- Entire financial impact has been fully absorbed in Q1FY27.
- Management reiterated:
    - Settlement was made without admission of liability or wrongdoing.
    - It provides complete closure to a long-standing cross-border litigation.
    - Decision was based on legal advice and commercial considerations, including litigation uncertainty, cost and time.
    - Claims against the bank have been withdrawn in both Abu Dhabi Global Market Court and UK Court.
- Floating provisions of ₹2,500 crore remain intact and were not utilised for the settlement.
- Recovery proceedings against the principal individual will continue in India and overseas.
- Reported profitability was impacted by the one-time NMC settlement, with:
    - Reported PAT: ₹1,278 crore
    - Adjusted PAT (excluding exceptional item): ₹5,528 crore

Margins

- Global NIM moderated to 2.77%, while domestic NIM remained relatively healthy at 2.93%.
- Cost of deposits declined 12 bps QoQ to 4.66%, reflecting gradual easing in incremental funding costs.
- Management retained NIM guidance of 2.75–2.95%, supported by:
    - Better pricing of corporate loans.
    - Migration towards MCLR-linked lending.
    - Moderating incremental bulk deposit costs.

- Faster growth in the lower-margin international portfolio may continue to keep global margins under pressure.
- Interest on income-tax refunds during the quarter was around ₹370 crore; management indicated core margins remain broadly stable after adjusting for this income.

Credit cost and Opex

- Credit quality indicators remained robust:
  - Slippage ratio improved to 0.91%, below the guided range of 1.0–1.25%.
  - Credit cost declined to 29 bps, well below the FY27 guidance of below 60 bps
  - SMA-1 & SMA-2 reduced sharply to 7 bps
  - Collection efficiency (excluding agriculture) improved to 99.2%
  - Incremental impact from the ECL framework is expected to add approximately 15–20 bps to steady-state credit cost.
- Management attributed the marginal sequential rise in GNPA to:
  - Lower loan denominator during June.
  - Significantly lower technical write-offs (₹625 crore vs ₹2,200 crore last year).
- The sequential increase in staff cost was primarily due to AS-15 actuarial provisions, which move in line with bond yields.
- The bank's annual IT budget, including both capex and opex, is above ₹4,000 crore.

Other updates

- Management expects ROA to remain above 1% during Q2–Q4FY27, while full-year ROA guidance will be revisited after Q2 considering the one-time settlement impact.
- Management estimated the gross transitional impact of ECL at approximately 110 bps of CRAR, equivalent to around ₹12,000 crore.
- Average LCR remained at around 127%, above the bank's internal comfort level of ~120%.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	12525	11435	9.5%	12494	0.3%	Steady advance growth aid NII
NIM (%)	2.77	2.91	-14 bps	2.89	-12 bps	QoQ decline, due to repo rate transmission and lower interest on IT refunds, partly offset by 12 bps QoQ decline in CoD
Other Income	3470	4675	-25.8%	3967	-12.5%	Impacted by weaker fee income and treasury gains, partly offset by higher recoveries from TWO accounts
Net Total Inc	15995	16109	-0.7%	16461	-2.8%	
Staff cost	4247	4308	-1.4%	3262	30.2%	Increased sequentially due to higher AS-15 actuarial provisions linked to bond yield movements
Other Opex	3621	3565	1.6%	4129	-12.3%	
PPP	8127	8236	-1.3%	9069	-10.4%	
Provision	643	1967	-67.3%	3150	-79.6%	Aided by benign asset quality, lower slippages (0.91%) and credit cost (29 bps)
PBT	7484	6270	19.4%	5919	26.4%	
Tax Outgo	526	1728	-69.6%	303	73.3%	
PAT	1278	4541	-71.9%	5616	-77.2%	PAT drag was largely due to US$600 million NMC settlement, while adjusted RoA stood at 1.1%
Key Metrics						
GNPA	28150	27572	2.1%	27059	4.0%	GNPA inched up 10 bps QoQ to 1.99%
NNPA	7017	7158	-2.0%	6316	11.1%	
Advances	1416898	1207056	17.4%	1429879	-0.9%	Healthy retail and MSME growth QoQ offset the planned moderation in corporate lending
Deposits	1633559	1435634	13.8%	1648487	-0.9%	CASA ratio down 118 bps to 37.7%

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: **Profit and loss statement** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	122,300.6	126,993.7	140,841.6	156,801.4
Interest Expended	75,783.0	79,311.2	87,967.1	96,566.9
Net Interest Income	46,517.6	47,682.5	52,874.5	60,234.5
growth (%)	4.0	2.5	10.9	13.9
Non Interest Income	15,788.0	15,756.8	16,154.8	17,270.7
Net Income	62,305.6	63,439.3	69,029.3	77,505.1
Employee cost	16,607.6	15,741.5	16,852.3	18,333.5
Other operating Exp.	13,263.7	15,438.8	16,612.5	18,420.6
Operating Income	32,434.3	32,259.0	35,564.4	40,751.1
Provisions	5,980.3	7,148.8	6,632.8	9,408.6
Exceptional items	-	-	5,680.2	-
PBT	26,454.0	25,110.2	23,251.4	31,342.6
Taxes	6,873.2	5,089.1	5,115.3	7,522.2
Net Profit	19,580.8	20,021.1	18,136.1	23,820.3
growth (%)	10.1	2.2	(9.4)	31.3
EPS	37.8	38.7	35.0	46.0

Source: Company, ICICI Direct Research

Exhibit 3: **Key ratios** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
No. of Equity Shares	517.8	517.8	517.8	517.8
EPS (₹)	37.8	38.7	35.0	46.0
BV (₹)	246.2	277.6	305.5	342.2
ABV (₹)	233.7	262.2	287.3	320.9
P/E	6.5	6.3	7.0	5.3
P/BV	1.0	0.9	0.8	0.7
P/ABV	1.0	0.9	0.8	0.8
Yields & Margins (%)				
NIMs	3.0	2.7	2.6	2.7
Yield on avg earning assets	7.8	7.2	7.0	7.0
Avg. CoF	5.0	4.7	4.6	4.5
Avg. CoD	4.8	4.5	4.4	4.4
Yield on average advances	8.2	7.3	7.2	7.2
Quality and Efficiency (%)				
Cost / Total net income	47.9	49.1	48.5	47.4
Credit/Deposit ratio	82.2	85.5	87.0	87.8
GNPA	2.3	1.9	1.8	1.7
NNPA	0.5	0.6	0.6	0.6
RoE	15.7	13.8	11.3	13.4
RoA	1.2	1.1	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 4: **Balance sheet** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	1,035.5	1,035.5	1,035.5	1,035.5
Res and Surp	135,890.2	152,173.3	166,622.2	185,624.5
Networth	136,925.8	153,208.9	167,657.8	186,660.1
Deposits	1,472,034.8	1,648,487.2	1,845,541.1	2,067,647.7
Borrowings	123,716.2	156,357.5	170,322.1	178,147.9
Other Liab & Prov	48,570.6	51,110.3	53,665.8	56,349.1
Total	1,781,247.4	2,009,163.9	2,237,186.8	2,488,804.8
<u>Application of Funds</u>				
Fixed Assets	12,376.3	11,879.3	11,285.3	12,188.1
Investments	385,398.4	386,415.4	417,328.6	450,714.9
Advances	1,209,557.9	1,409,094.1	1,606,367.3	1,815,195.0
Other Assets	48,065.3	47,694.3	49,737.3	51,122.8
Cash with RBI & call money	125,849.5	154,080.8	152,468.2	159,584.0
Total	1,781,247.4	2,009,163.9	2,237,186.8	2,488,804.8

Source: Company, ICICI Direct Research

Exhibit 5: **Growth ratios**

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	12.3	12.8	11.3	11.2
Advances	13.5	16.5	14.0	13.0
Deposits	10.3	12.0	12.0	12.0
Total Income	5.2	1.8	8.8	12.3
Net interest income	4.0	2.5	10.9	13.9
Operating expenses	5.7	4.4	7.3	9.8
Operating profit	4.7	-0.5	10.2	14.6
Net profit	10.1	2.2	-9.4	31.3
Book value	18.9	12.8	10.1	12.0
EPS	10.1	2.2	-9.4	31.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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