

ADD

TP: Rs 115 | ▲ 12%

CANARA BANK

| Banking

| 07 August 2020

Strong operating performance

Canara Bank (CBK) reported PAT of Rs 4bn backed by 21% YoY growth in NII and a 32% increase in operating profit. GNPA ratio reduced by 55bps QoQ, and management expects GNPA/NNPA ratios at 8%/4% by FY21. Fresh slippages at Rs 14bn included Rs 9bn from three large accounts. Loans under moratorium stood at ~23% with retail/corporate loan share at ~30%/17%. The bank has board approval to raise Rs 50bn of CET-1 capital and has no plans divest stakes in subsidiaries during Q2. Maintain ADD; Sep'21 TP Rs 115.

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Moratorium share higher than peers: CBK provides an opt-out moratorium facility to customers and has 22.7% of loans under this facility, with retail/MSME share at ~30% each and corporate loan share at ~17%. About 6% of NBFC loans are also under moratorium. Management highlighted that a large part of the bank's retail loans is to the salaried class where ~70% of customers have paid their dues. CBK has extended the asset classification standstill benefit to loans worth ~Rs 104bn and has outstanding provisions worth 10%.

Ticker/Price CBK IN/Rs 102

Market cap US\$ 2.0bn

Shares o/s 1,454mn

3M ADV US\$ 21.5mn

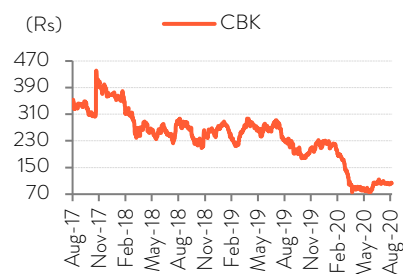
52wk high/low Rs 239/Rs 74

Promoter/FPI/DII 79%/3%/18%

Source: NSE

Headline NPAs decline for merged entity: GNPA/NNPA ratio for the merged entity declined 55bps/39bps QoQ. Fresh slippages reduced to Rs 14bn (Rs 43bn in Q4FY20) largely due to the moratorium. Three large accounts worth Rs 9bn, including two overseas accounts, slipped in Q1. Management expects recoveries worth Rs 100bn from small- and medium-sized accounts in FY21 while ageing-related provisions are likely to be lower than FY20.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: In our view, disruptions caused by the pandemic will continue to weigh heavy on the bank's profitability as credit costs remain sticky. We have built in a capital raise of Rs 50bn in FY21 which is book value dilutive. Maintain ADD as we roll over to a Sep'21 TP of Rs 115 (from Rs 120 earlier).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,781	131,239	210,596	226,590	246,314
NII growth (%)	19.0	(9.4)	60.5	7.6	8.7
Adj. net profit (Rs mn)	3,470	(22,357)	1,210	8,225	10,427
EPS (Rs)	4.7	(25.1)	0.8	4.2	5.4
P/E (x)	21.9	(4.1)	125.9	24.2	19.1
P/BV (x)	0.2	0.3	0.3	0.3	0.3
ROA (%)	0.1	(0.3)	0.0	0.1	0.1
ROE (%)	1.0	(5.9)	0.2	1.4	1.7

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

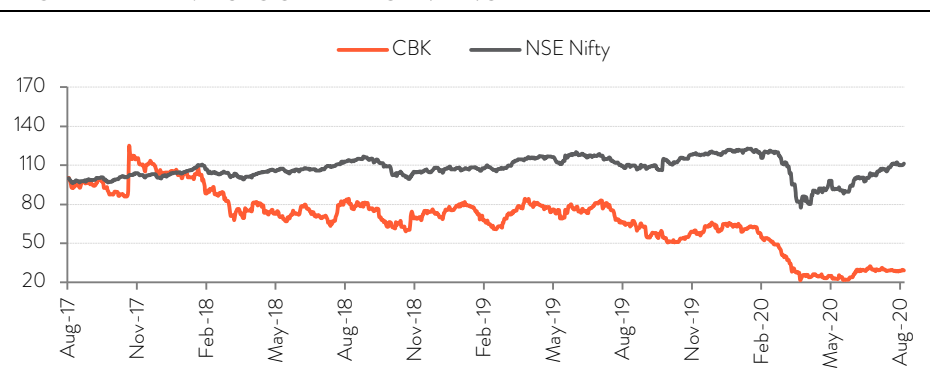
(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Income Statement					
Interest income	180,358	177,460	176,070	1.6	2.4
Interest expense	119,403	127,130	125,210	(6.1)	(4.6)
Net interest income	60,956	50,330	50,860	21.1	19.8
Non-interest income	26,501	23,980	30,270	10.5	(12.5)
Net total income	87,457	74,310	81,130	17.7	7.8
Staff expense	30,374	27,000	38,290	12.5	(20.7)
Other operating expenses	14,228	14,800	18,730	(3.9)	(24.0)
Operating expenses	44,602	41,800	57,020	6.7	(21.8)
Pre-provisioning profit	42,855	32,510	24,110	31.8	77.7
Total provisions	38,263	38,680	88,960	(1.1)	(57.0)
Profit before tax	4,591	(6,170)	(64,850)	(174.4)	(107.1)
Tax	529	330	830	60.2	(36.3)
Profit after tax	4,062	(6,500)	(65,680)	(162.5)	(106.2)
Balance Sheet					
Gross advances	6,505,740	6,301,090	6,512,180	3.2	(0.1)
Deposits	9,095,696	8,698,970	9,056,080	4.6	0.4
CASA ratio (%)	33.8	31.4	33.4	244bps	46bps
Yields and margins (%)					
Net interest margin	2.8	2.5	2.5	31bps	33bps
Yield on advances	8.1	8.2	8.2	(13bps)	(13bps)
Cost of Deposits	5.0	5.6	5.4	(61bps)	(47bps)
Key ratios (%)					
Cost/Income	51.0	56.3	70.3	(525bps)	(1,928bps)
Tax rate	11.5	(5.3)	(1.3)	1,686bps	1,280bps
Loan to Deposit ratio	67.9	70.9	69.1	(301bps)	(126bps)
Capital adequacy ratios (%)					
Tier 1	9.3	9.5	9.6	(22bps)	(34bps)
Total CAR	12.8	12.3	13.0	46bps	(26bps)
Asset quality (Rs mn)					
Gross NPAs	575,255	648,020	611,270	(11.2)	(5.9)
Net NPAs	243,552	352,360	267,550	(30.9)	(9.0)
Gross NPA ratio (%)	8.8	10.3	9.4	(144bps)	(55bps)
Net NPA ratio (%)	4.0	5.9	4.3	(192bps)	(39bps)
NPA coverage (%)	57.7	45.6	56.2	1,204bps	143bps

Source: Company, BOBCAPS Research

Valuation methodology

We continue to value CBK at an unchanged multiple of 0.4x one-year forward P/BV using the two-stage Gordon Growth Model. However, we believe that disruptions caused by the pandemic will continue to weigh heavy on the bank's profitability as credit costs remain sticky. We have built in a capital raise of Rs 50bn in FY21 which is book value dilutive. Maintain ADD as we roll over to revised Sep'21 target price of Rs 115 (from Rs 120 earlier).

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Stronger-than-expected improvement in economic activity can drive higher loan growth.
- Below-expected slippage risk plus sharp improvement in corporate asset quality can impact our credit cost assumptions.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,781	131,239	210,596	226,590	246,314
NII growth (%)	19.0	(9.4)	60.5	7.6	8.7
Non-interest income	65,750	78,132	116,837	125,119	134,066
Total income	210,531	209,371	327,432	351,709	380,380
Operating expenses	(104,622)	(115,772)	(179,014)	(192,823)	(208,652)
Operating profit	105,909	93,598	148,418	158,886	171,728
Operating profit growth (%)	10.9	(11.6)	58.6	7.1	8.1
Provisions	(129,183)	(111,154)	(146,791)	(147,831)	(157,713)
PBT	(23,274)	(17,556)	1,627	11,055	14,015
Tax	26,744	(4,802)	(416)	(2,830)	(3,588)
Reported net profit	3,470	(22,357)	1,210	8,225	10,427
Adjustments	0	0	0	0	0
Adjusted net profit	3,470	(22,357)	1,210	8,225	10,427

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	7,532	10,302	19,445	19,445	19,445
Reserves & surplus	354,240	382,627	563,443	571,668	582,095
Net worth	361,772	392,930	582,887	591,112	601,539
Deposits	5,990,333	6,253,512	8,760,342	9,134,226	9,848,248
Borrowings	537,416	579,111	790,120	844,130	902,136
Other liabilities & provisions	58,146	13,195	52,975	59,803	67,810
Total liabilities and equities	6,947,667	7,238,747	10,186,324	10,629,272	11,419,732
Cash & bank balance	661,527	682,715	849,134	883,242	918,906
Investments	1,529,853	1,762,449	2,423,601	2,521,348	2,623,087
Advances	4,277,273	4,321,752	6,534,327	6,834,992	7,381,791
Fixed & Other assets	479,014	471,831	379,262	389,689	495,947
Total assets	6,947,667	7,238,747	10,186,324	10,629,272	11,419,732
Deposit growth (%)	14.2	4.4	40.1	4.3	7.8
Advances growth (%)	12.1	1.0	51.2	4.6	8.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	4.7	(25.1)	0.8	4.2	5.4
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	480.3	381.4	299.8	304.0	309.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	21.9	(4.1)	125.9	24.2	19.1
P/BV	0.2	0.3	0.3	0.3	0.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.2	1.9	2.4	2.2	2.2
Non-interest income	1.0	1.1	1.3	1.2	1.2
Operating expenses	1.6	1.6	2.1	1.9	1.9
Pre-provisioning profit	1.6	1.3	1.7	1.5	1.6
Provisions	2.0	1.6	1.7	1.4	1.4
PBT	(0.4)	(0.2)	0.0	0.1	0.1
Tax	(0.4)	0.1	0.0	0.0	0.0
ROA	0.1	(0.3)	0.0	0.1	0.1
Leverage (x)	18.3	18.8	17.9	17.7	18.5
ROE	1.0	(5.9)	0.2	1.4	1.7

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	19.0	(9.4)	60.5	7.6	8.7
Pre-provisioning profit	10.9	(11.6)	58.6	7.1	8.1
EPS	(107.4)	(637.0)	(103.2)	419.9	26.8
Profitability & Return ratios (%)					
Net interest margin	2.4	2.0	2.5	2.3	2.3
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	49.7	55.3	54.7	54.8	54.9
ROE	1.0	(5.9)	0.2	1.4	1.7
ROA	0.1	(0.3)	0.0	0.1	0.1
Asset quality (%)					
GNPA	8.8	8.2	7.7	7.0	6.4
NNPA	5.4	4.2	3.8	3.3	2.9
Provision coverage	41.5	50.7	52.0	54.2	56.3
Ratios (%)					
Credit-Deposit	71.4	69.1	74.6	74.8	75.0
Investment-Deposit	25.5	28.2	27.7	27.6	26.6
CAR	11.9	13.6	14.0	13.7	13.2
Tier-1	9.0	10.1	10.5	10.1	9.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

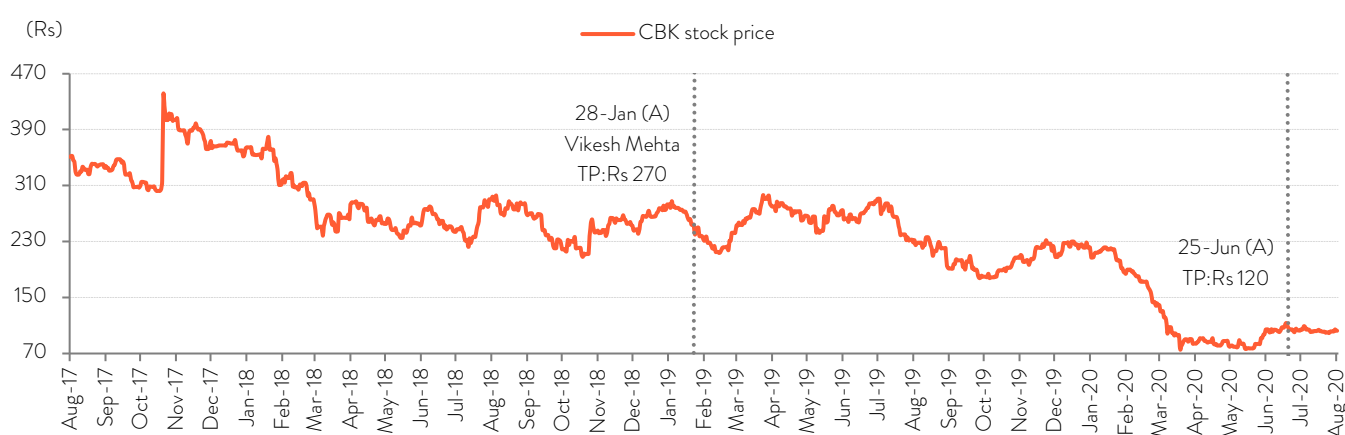
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CANARA BANK (CBK IN)



B – Buy, A – Add, R – Reduce, S – Sell

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