

ADD

TP: Rs 150 | ▲ 14%

CANARA BANK

| Banking

| 28 January 2021

Earnings beat but asset quality risks persist

Canara Bank's (CBK) Q3 PAT of Rs 7bn beat our estimate on strong 47% YoY growth in operating profit. Reported GNPA ratio declined to 7.5% but the proforma number stood at ~9%. The SMA-1 & 2 pool increased to 2.2% of loans (vs. 0.7% in Q2) and the overall implemented restructured book stood at 2.5%. Loan growth stayed subdued at 6% YoY. CBK's CASA ratio improved 60bps QoQ to 33.4%. We upgrade EPS estimates post Q3 and assign the stock a higher 0.5x P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 150 (vs. Rs 115).

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Proforma GNPA's rise sharply: CBK's proforma GNPA ratio stood at ~9%, marking a high divergence of ~150bps from the reported figure owing to proforma slippages worth ~Rs 100bn. The bank has conservatively reversed interest worth Rs 4bn and provided ~Rs 19bn on proforma slippages. Collection efficiency stood at 95% in Q3. The SMA-1 & 2 pool swelled to 2.2% of loans, and CBK's restructured book stood at ~Rs 160bn (2.5% of loans) with a large portion driven by corporates, especially a big steel account.

Growth remains subdued: Loan growth stood at ~6% YoY given lacklustre 2% growth in the corporate portfolio. However, the RAM (retail + agri + MSME) portfolio grew 9%. Management expects credit growth to hover between 6% and 8% in FY21. Of the overall sanctioned pool of Rs 100bn, CBK has disbursed ~Rs 95bn under ECLGS. Deposits grew 8% YoY with ~15% growth in CASA deposits but an ~11% decline in bulk funds.

Maintain ADD: We raise our FY21-FY23 EPS sharply to factor in the Q3 beat but continue to believe that elevated provisions will keep ROA/ROE subdued at ~0.3%/~5% by FY23. Valuing the stock at 0.5x P/BV (vs. 0.4x earlier), we roll over to a new Mar'22 TP of Rs 150. Maintain ADD.

Ticker/Price	CBK IN/Rs 131
Market cap	US\$ 2.6bn
Shares o/s	1,454mn
3M ADV	US\$ 44.5mn
52wk high/low	Rs 212/Rs 74
Promoter/FPI/DII	79%/3%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,781	131,239	246,481	272,365	303,356
NII growth (%)	19.0	(9.4)	87.8	10.5	11.4
Adj. net profit (Rs mn)	3,470	(22,357)	21,238	22,715	27,556
EPS (Rs)	4.7	(25.1)	14.3	11.7	14.2
P/E (x)	28.1	(5.2)	9.2	11.2	9.3
P/BV (x)	0.3	0.3	0.4	0.4	0.4
ROA (%)	0.1	(0.3)	0.2	0.2	0.2
ROE (%)	1.0	(5.9)	4.3	3.7	4.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	172,063	176,980	176,821	(2.8)	(2.7)	529,243	532,430	(0.6)
Interest expense	111,255	123,910	113,856	(10.2)	(2.3)	344,513	380,340	(9.4)
Net interest income	60,809	53,070	62,965	14.6	(3.4)	184,730	152,090	21.5
Non-interest income	42,735	26,200	31,546	63.1	35.5	100,782	78,330	28.7
Net total income	103,544	79,270	94,511	30.6	9.6	285,512	230,420	23.9
Staff expense	31,841	23,310	32,021	36.6	(0.6)	94,237	76,200	23.7
Other operating expenses	17,888	19,260	16,092	(7.1)	11.2	48,208	50,000	(3.6)
Operating expenses	49,729	42,570	48,114	16.8	3.4	142,445	126,200	12.9
Pre-provisioning profit	53,815	36,700	46,398	46.6	16.0	143,067	104,220	37.3
Total provisions	43,248	28,480	40,168	51.9	7.7	121,679	96,010	26.7
Profit before tax	10,568	8,220	6,229	28.6	69.6	21,388	8,210	160.5
Tax	3,607	580	1,785	521.9	102.0	5,921	2,990	98.0
Profit after tax	6,961	7,640	4,444	(8.9)	56.6	15,467	5,220	196.3
Balance Sheet								
Advances	6,342,461	4,226,080	6,163,017	50.1	2.9	6,342,461	4,226,080	50.1
Deposits	9,730,210	6,252,404	9,487,671	55.6	2.6	9,730,210	6,252,404	55.6
CASA ratio (%)	33.4	31.8	32.8	161bps	64bps	33.4	31.8	161bps
Yields and margins (%)								
Net interest margin	2.8	2.5	2.8	30bps	(2bps)	-	-	-
Yield on advances	8.0	8.3	8.1	(28bps)	(8bps)	-	-	-
Cost of Deposits	4.6	5.5	4.8	(85bps)	(14bps)	-	-	-
Key ratios (%)								
Cost/Income	48.0	53.7	50.9	(568bps)	(288bps)	49.9	54.8	(488bps)
Tax rate	34.1	7.1	28.7	2,708bps	547bps	27.7	36.4	(874bps)
Loan to Deposit ratio	65.2	67.6	65.0	(241bps)	23bps	65.2	67.6	(241bps)
Capital adequacy ratios (%)								
Tier 1	10.5	11.1	9.5	(60bps)	91bps	10.5	11.1	(60bps)
Total CAR	13.7	13.9	12.8	(17bps)	92bps	13.7	13.9	(17bps)
Asset quality (Rs mn)								
Gross NPAs	497,886	619,750	534,379	(19.7)	(6.8)	497,886	619,750	(19.7)
Net NPAs	167,735	338,520	210,633	(50.5)	(20.4)	167,735	338,520	(50.5)
Gross NPA ratio (%)	7.5	9.8	8.2	(236bps)	(77bps)	7.5	9.8	(236bps)
Net NPA ratio (%)	2.6	5.6	3.4	(298bps)	(78bps)	2.6	5.6	(298bps)
NPA coverage (%)	66.3	45.4	60.6	2,093bps	573bps	66.3	45.4	2,093bps

Source: Company, BOBCAPS Research | Note: Q3FY20 balance sheet figures are not comparable since they are not merged numbers

Valuation methodology

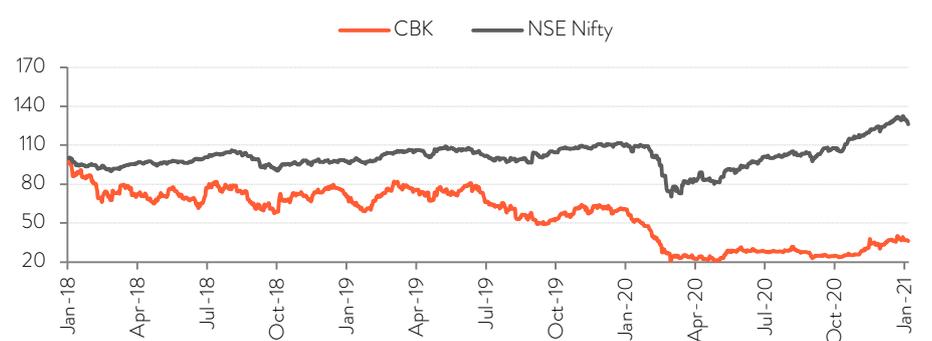
We raise our FY21-FY23 EPS estimates sharply to factor in the Q3 beat but continue to believe that elevated provisions will keep ROA/ROE subdued at ~0.3%/~5% by FY23. Valuing the stock at 0.5x P/BV (0.4x earlier), we roll over to a new Mar'22 target price of Rs 150 (Rs 115 earlier). Maintain ADD.

FIG 2 – REVISED ESTIMATES

Particulars (Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	246,481	272,365	303,356	210,596	226,590	246,314	17.0	20.2	23.2
Pre-provisioning profit	195,567	206,786	227,627	148,418	158,886	171,728	31.8	30.1	32.6
Net Profit	21,238	25,645	31,110	1,210	8,225	10,427	1,654.9	211.8	198.4
EPS (Rs)	14	13	16	1	4	5	1,654.9	211.8	198.4

Source: BOBCAPS Research

FIG 3 – 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	246,481	272,365	303,356
NII growth (%)	19.0	(9.4)	87.8	10.5	11.4
Non-interest income	65,750	78,132	144,211	144,441	149,820
Total income	210,531	209,371	390,692	416,806	453,177
Operating expenses	(104,622)	(115,772)	(195,125)	(210,020)	(225,550)
Operating profit	105,909	93,598	195,567	206,786	227,627
Operating profit growth (%)	10.9	(11.6)	108.9	5.7	10.1
Provisions	(129,183)	(111,154)	(167,021)	(172,317)	(185,813)
PBT	(23,274)	(17,556)	28,545	34,469	41,814
Tax	26,744	(4,802)	(7,308)	(11,754)	(14,259)
Reported net profit	3,470	(22,357)	21,238	22,715	27,556
Adjustments	0	0	0	0	0
Adjusted net profit	3,470	(22,357)	21,238	22,715	27,556

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	583,470	606,185	633,741
Net worth	361,772	392,930	602,915	625,630	653,186
Deposits	5,990,333	6,253,512	9,755,478	10,438,36	11,482,198
Borrowings	537,416	579,111	790,120	844,130	902,136
Other liabilities & provisions	58,146	13,195	105,993	117,063	129,650
Total liabilities and equities	6,947,667	7,238,747	11,254,506	12,025,185	13,167,170
Cash & bank balance	661,527	682,715	1,302,768	1,348,641	1,396,549
Investments	1,529,853	1,762,449	2,857,974	2,999,642	3,232,002
Advances	4,277,273	4,321,752	6,560,177	7,071,965	7,920,601
Fixed & Other assets	479,014	471,831	533,587	604,936	618,018
Total assets	6,947,667	7,238,747	11,254,506	12,025,185	13,167,170
Deposit growth (%)	14.2	4.4	56.0	7.0	10.0
Advances growth (%)	12.1	1.0	51.8	7.8	12.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	4.7	(25.1)	14.3	11.7	14.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	480.3	381.4	310.1	321.8	335.9

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	28.1	(5.2)	9.2	11.2	9.3
P/BV	0.3	0.3	0.4	0.4	0.4
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	2.7	2.3	2.4
Non-interest income	1.0	1.1	1.6	1.2	1.2
Operating expenses	1.6	1.6	2.1	1.8	1.8
Pre-provisioning profit	1.6	1.3	2.1	1.8	1.8
Provisions	2.0	1.6	1.8	1.5	1.5
PBT	(0.4)	(0.2)	0.3	0.3	0.3
Tax	(0.4)	0.1	0.1	0.1	0.1
ROA	0.1	(0.3)	0.2	0.2	0.2
Leverage (x)	18.3	18.8	18.6	18.9	19.7
ROE	1.0	(5.9)	4.3	3.7	4.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	19.0	(9.4)	87.8	10.5	11.4
Pre-provisioning profit	10.9	(11.6)	108.9	5.7	10.1
EPS	(107.4)	(637.0)	(157.0)	(18.2)	21.3
Profitability & Return ratios (%)					
Net interest margin	2.4	2.0	2.8	2.5	2.5
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	49.7	55.3	49.9	50.4	49.8
ROE	1.0	(5.9)	4.3	3.7	4.3
ROA	0.1	(0.3)	0.2	0.2	0.2
Asset quality (%)					
GNPA	8.8	8.2	7.6	6.8	6.1
NNPA	5.4	4.2	3.5	2.7	2.1
Provision coverage	41.5	50.7	55.7	61.6	66.3
Ratios (%)					
Credit-Deposit	71.4	69.1	67.2	67.7	69.0
Investment-Deposit	25.5	28.2	29.3	28.7	28.1
CAR	11.9	13.6	13.0	12.7	12.2
Tier-1	9.0	10.1	9.9	9.5	9.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

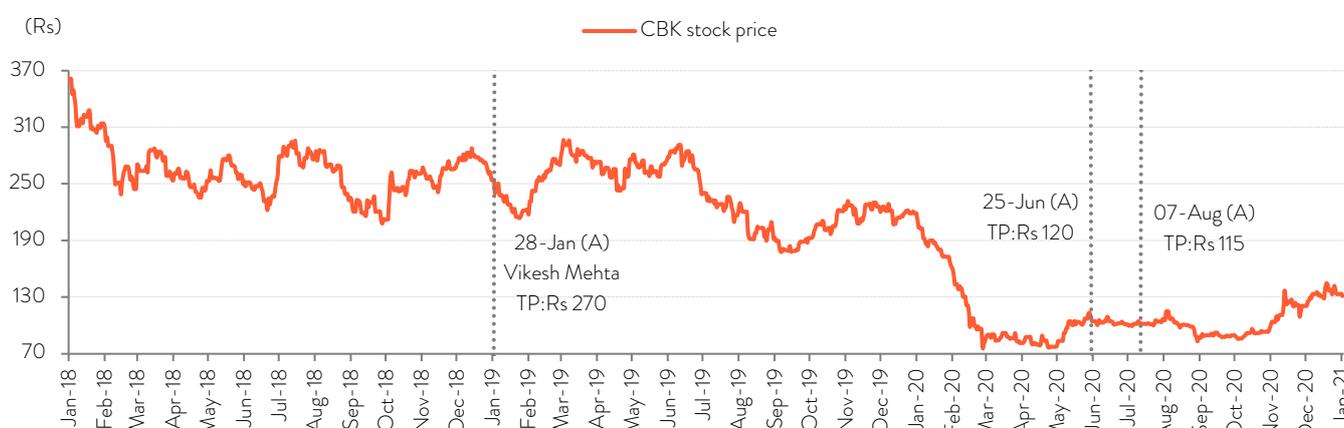
ADD – Expected return from >+5% to +15%

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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