

**ADD**

TP: Rs 165 | ▲ 13%

**CANARA BANK**

| Banking

| 19 May 2021

## Operating performance stable

Canara Bank (CBK) reported Q4FY21 PAT of Rs 10bn aided by 6% QoQ growth in operating profit. NII grew a tepid 10% YoY due to interest-on-interest reversals worth Rs 7.3bn and proforma slippages. GNPA ratio was stable at 8.9% and FY21 slippages were flat at Rs 180bn, largely arising from the MSME and retail segments. CBK may look to raise growth capital via a QIP in the near term. We raise FY22/ FY23 EPS by 22%/13% to factor in higher loan growth from the RAM book and lower credit costs. Maintain ADD with a new Mar'22 TP of Rs 165 (vs. Rs 150).

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**GNPA ratio stable at 8.9%:** Slippages stood at Rs 40bn in Q4 and Rs 180bn in FY21. Management expects lower slippages in FY22 at Rs 140bn-150bn and believes recoveries could total ~Rs 150bn on potential resolution of an NBFC account in Q1FY22 and NCLT recoveries worth Rs 20bn-25bn during the year. The SMA 1&2 books were stable at 2.2%. Collection efficiency was at 92% for the quarter but dropped to ~89% in April owing to lower collections in MSME and retail. Credit cost is guided at ~2.2% in FY22 and PCR at a steady ~80%.

Ticker/Price	CBK IN/Rs 146
Market cap	US\$ 2.9bn
Shares o/s	1,454mn
3M ADV	US\$ 41.8mn
52wk high/low	Rs 175/Rs 76
Promoter/FPI/DII	79%/3%/18%

Source: NSE

**Better outlook for FY22:** Growth in CBK's focus areas – retail, agri and MSME or RAM – remained strong at 11% YoY in Q4. However, a conscious reduction of ~5% YoY in corporate loans led to modest 6% growth in domestic advances. Management expects to retain its focus on the RAM portfolio and has a stronger growth outlook for FY22. The bank could look to raise growth capital via a QIP in the near term, which may further dilute book value.

## STOCK PERFORMANCE



Source: NSE

**Maintain ADD:** We believe the bank's corporate portfolio has largely bottomed out and the RAM focus would aid growth ahead. Based on higher loan growth and lower credit cost expectations, we raise our FY22/FY23 EPS estimates by 22%/13%, leading to a revised Mar'22 TP of Rs 165 (vs. Rs 150). At the same time, we retain ADD as profitability is expected to remain weak.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	144,781	131,239	240,622	275,553	317,421
NII growth (%)	19.0	(9.4)	83.3	14.5	15.2
Adj. net profit (Rs mn)	3,470	(22,357)	25,576	25,879	31,823
EPS (Rs)	4.7	(25.1)	19.1	14.3	16.1
P/E (x)	31.4	(5.8)	7.7	10.3	9.1
P/BV (x)	0.3	0.4	0.4	0.4	0.4
ROA (%)	0.1	(0.3)	0.3	0.2	0.2
ROE (%)	1.0	(5.9)	5.2	4.1	4.7

Source: Company, BOBCAPS Research | P – Provisional

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
<b>Income Statement</b>								
Interest income	163,155	176,070	172,063	(7.3)	(5.2)	692,398	708,500	(2.3)
Interest expense	107,263	125,210	111,255	(14.3)	(3.6)	451,776	505,550	(10.6)
<b>Net interest income</b>	<b>55,892</b>	<b>50,860</b>	<b>60,809</b>	<b>9.9</b>	<b>(8.1)</b>	<b>240,622</b>	<b>202,950</b>	<b>18.6</b>
Non-interest income	52,071	30,270	42,735	72.0	21.8	152,853	108,600	40.7
<b>Net total income</b>	<b>107,963</b>	<b>81,130</b>	<b>103,544</b>	<b>33.1</b>	<b>4.3</b>	<b>393,475</b>	<b>311,550</b>	<b>26.3</b>
Staff expense	32,663	38,290	31,841	(14.7)	2.6	126,900	114,490	10.8
Other operating expenses	18,274	18,730	17,888	(2.4)	2.2	66,482	68,730	(3.3)
Operating expenses	50,937	57,020	49,729	(10.7)	2.4	193,382	183,220	5.5
<b>Pre-provisioning profit</b>	<b>57,026</b>	<b>24,110</b>	<b>53,815</b>	<b>136.5</b>	<b>6.0</b>	<b>200,093</b>	<b>128,330</b>	<b>55.9</b>
Total provisions	41,342	88,960	43,248	(53.5)	(4.4)	163,021	184,970	(11.9)
Profit before tax	15,684	(64,850)	10,568	(124.2)	48.4	37,072	(56,640)	(165.5)
Tax	5,575	830	3,607	571.7	54.6	11,496	3,820	201.0
<b>Profit after tax</b>	<b>10,109</b>	<b>(65,680)</b>	<b>6,961</b>	<b>(115.4)</b>	<b>45.2</b>	<b>25,576</b>	<b>(60,460)</b>	<b>(142.3)</b>
<b>Balance Sheet</b>								
Advances	6,390,490	4,321,752	6,342,461	47.9	0.8	6,390,490	4,321,752	47.9
Deposits	10,108,746	6,253,512	9,730,210	61.6	3.9	10,108,746	6,253,512	61.6
CASA ratio (%)	34.3	33.4	33.4	97bps	92bps	34.3	33.4	97bps
<b>Yields and margins (%)</b>								
Net interest margin	2.8	2.5	2.8	24bps	(5bps)	-	-	-
Yield on advances	7.7	8.2	8.0	(49bps)	(25bps)	-	-	-
Cost of Deposits	4.5	5.4	4.6	(90bps)	(9bps)	-	-	-
<b>Key ratios (%)</b>								
Cost/Income	47.2	70.3	48.0	(2310bps)	(85bps)	49.1	58.8	(966bps)
Tax rate	35.5	(1.3)	34.1	3683bps	142bps	31.0	(6.7)	3776bps
Loan to Deposit ratio	63.2	69.1	65.2	(589bps)	(197bps)	63.2	69.1	(589bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	10.1	9.6	10.5	45bps	(37bps)	10.1	9.6	45bps
Total CAR	13.2	13.0	13.7	15bps	(51bps)	13.2	13.0	15bps
<b>Asset quality (Rs mn)</b>								
Gross NPAs	602,878	611,270	497,886	(1.4)	21.1	602,878	611,270	(1.4)
Net NPAs	244,421	267,550	167,735	(8.6)	45.7	244,421	267,550	(8.6)
Gross NPA ratio (%)	8.9	9.4	7.5	(46bps)	147bps	8.9	9.4	(46bps)
Net NPA ratio (%)	3.8	4.3	2.6	(52bps)	118bps	3.8	4.3	(52bps)
Slippage ratio (%)	2.4	4.3	0.1	(193bps)	228bps	4.1	3.5	62bps
Credit costs (%)	2.1	2.8	2.1	(74bps)	(5bps)	2.6	2.5	17bps
NPA coverage (%)	59.5	56.2	66.3	323bps	(685bps)	59.5	56.2	323bps

Source: Company, BOBCAPS Research | FY20 figures are not comparable as they are not merged numbers | Note: Proforma GNPA and NNPA ratio as on Q3FY21 stood at 8.95% and 3.93% respectively

## Valuation methodology

CBK has raised PCR (including technical write-offs) to 80% in Q4FY21 and management expects coverage to remain around current levels in FY22 as well – accordingly, we moderate our FY22/FY23 credit cost forecast to 220bps/210bps (vs. 230bps/220bps assumed earlier). We also raise loan growth estimates for these years to 11%/15% vs. 8%/12% earlier as CBK continues to focus on its growing RAM portfolio and the corporate book appears to have largely bottomed out. Based on these revisions, our FY22/FY23 EPS rises 22%/13%.

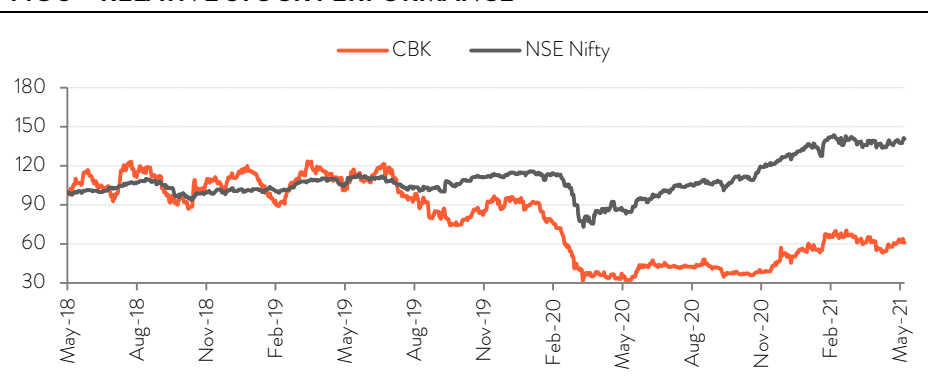
We continue to value the stock at an unchanged FY23E P/BV of 0.5x but raise our Mar'22 target price to Rs 165 (vs. 150) following the earnings upgrade. Maintain ADD given the muted sub-5% ROE that we expect the bank to deliver through to FY23.

**FIG 2 – REVISION IN ESTIMATES**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income	275,553	317,421	272,365	303,356	1.2	4.6
Pre-provisioning profit	207,799	240,209	206,786	227,627	0.5	5.5
Net Profit	25,879	31,823	22,715	27,556	13.9	15.5
EPS (Rs)	14	16	12	14	22.2	13.4

Source: BOBCAPS Research

**FIG 3 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

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

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Net interest income</b>	<b>144,781</b>	<b>131,239</b>	<b>240,622</b>	<b>275,553</b>	<b>317,421</b>
NII growth (%)	19.0	(9.4)	83.3	14.5	15.2
Non-interest income	65,750	78,132	152,853	139,128	141,744
Total income	210,531	209,371	393,475	414,680	459,165
Operating expenses	(104,622)	(115,772)	(193,382)	(206,882)	(218,956)
Operating profit	105,909	93,598	200,093	207,799	240,209
Operating profit growth (%)	10.9	(11.6)	113.8	3.9	15.6
Provisions	(129,183)	(111,154)	(163,021)	(168,528)	(191,919)
PBT	(23,274)	(17,556)	37,072	39,271	48,290
Tax	26,744	(4,802)	(11,496)	(13,391)	(16,467)
<b>Reported net profit</b>	<b>3,470</b>	<b>(22,357)</b>	<b>25,576</b>	<b>25,879</b>	<b>31,823</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,470</b>	<b>(22,357)</b>	<b>25,576</b>	<b>25,879</b>	<b>31,823</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	7,532	10,302	16,467	19,801	19,801
Reserves & surplus	354,240	382,627	573,951	646,496	678,320
Net worth	361,772	392,930	590,418	666,297	698,120
Deposits	5,990,333	6,253,512	10,108,746	10,816,358	11,897,994
Borrowings	537,416	579,111	704,351	748,056	798,376
Other liabilities & provisions	58,146	13,195	134,804	148,179	163,256
<b>Total liabilities and equities</b>	<b>6,947,667</b>	<b>7,238,747</b>	<b>11,538,319</b>	<b>12,378,89</b>	<b>13,557,746</b>
Cash & bank balance	661,527	682,715	1,784,080	1,853,229	1,925,545
Investments	1,529,853	1,762,449	2,616,904	2,698,250	2,831,923
Advances	4,277,273	4,321,752	6,390,490	7,086,318	8,128,163
Fixed & Other assets	479,014	471,831	746,845	741,093	672,114
<b>Total assets</b>	<b>6,947,667</b>	<b>7,238,747</b>	<b>11,538,319</b>	<b>12,378,89</b>	<b>13,557,746</b>
Deposit growth (%)	14.2	4.4	61.6	7.0	10.0
Advances growth (%)	12.1	1.0	47.9	10.9	14.7

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	4.7	(25.1)	19.1	14.3	16.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	480.3	381.4	358.5	336.5	352.6

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	31.4	(5.8)	7.7	10.3	9.1
P/BV	0.3	0.4	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	FY21P	FY22E	FY23E
Net interest income	2.2	1.9	2.6	2.3	2.4
Non-interest income	1.0	1.1	1.6	1.2	1.1
Operating expenses	1.6	1.6	2.1	1.7	1.7
Pre-provisioning profit	1.6	1.3	2.1	1.7	1.9
Provisions	2.0	1.6	1.7	1.4	1.5
PBT	(0.4)	(0.2)	0.4	0.3	0.4
Tax	(0.4)	0.1	0.1	0.1	0.1
ROA	0.1	(0.3)	0.3	0.2	0.2
Leverage (x)	18.3	18.8	19.1	19.0	19.0
ROE	1.0	(5.9)	5.2	4.1	4.7

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	19.0	(9.4)	83.3	14.5	15.2
Pre-provisioning profit	10.9	(11.6)	113.8	3.9	15.6
EPS	(107.4)	(637.0)	(176.2)	(25.3)	12.6
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	2.4	2.0	2.7	2.5	2.6
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	49.7	55.3	49.1	49.9	47.7
ROE	1.0	(5.9)	5.2	4.1	4.7
ROA	0.1	(0.3)	0.3	0.2	0.2
<b>Asset quality (%)</b>					
GNPA	8.8	8.2	8.9	7.8	6.4
NNPA	5.4	4.2	3.8	3.1	2.4
Credit cost	3.1	2.5	2.6	2.2	2.1
Provision coverage	41.5	50.7	59.5	62.6	64.5
<b>Ratios (%)</b>					
Credit-Deposit	71.4	69.1	63.2	65.5	68.3
Investment-Deposit	25.5	28.2	25.9	24.9	23.8
CAR	11.9	13.6	13.2	13.9	13.5
Tier-1	9.0	10.1	10.1	10.7	10.3

Source: Company, BOBCAPS Research

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

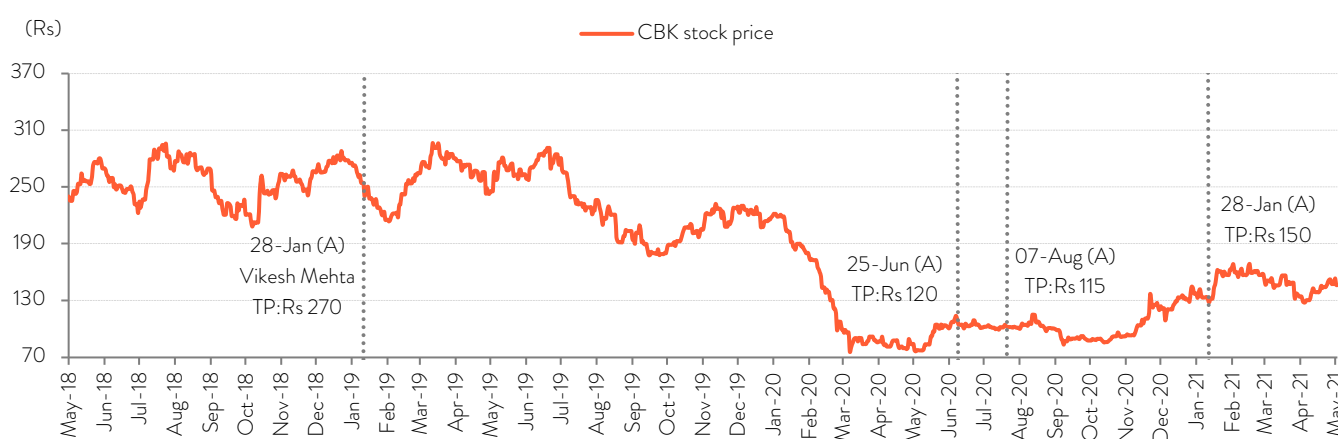
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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