

CANARA BANK | Banking

Moderate Stress, Future outlook strong

LKP

Price Analysis:

In 3QFY21, the bank has reported a strong result with a PAT of ₹7bn owing to treasury gains (other income grew 35% sequentially). Contrasting other PSBs, Canara Bank's pro-forma GNPA declined sequentially to 9% v/s 9.8% in 2QFY21 driven by recoveries and write-offs. The restructuring book is estimated to be 3.5% of loan book. The bank remains upbeat of recovery from lumpy corporates in next few quarters. Moreover, the bank has raised capital which resulted in the CET -1 of 8.9% (at par); thus we believe the Govt. may infuse capital via recapitalization. The bank may raise capital from stake sale in AMC, HFC and Insurance. We believe the hurdles from merger (with Syndicate Bank) are behind and the bank shall witness gradual improvement in profitability with FY23E ROA/ROE of 0.3%/7%. Given inexpensive valuation (0.6x PBVPS) we recommend BUY.

Gazing the core:

Moderate stress level; Covid buffer should improve: Reported GNPA decreased by 77bps to 7.5% and pro-forma GNPA ratio reduced to 9% from 9.8% in the previous quarter driven by recoveries and write-offs. The reported NNPA ratio stood at moderate level of 2.6%. The restructuring pool stood at ₹213bn (3.5% of book) which includes ₹156bn under the RBI RE scheme and ₹58bn under MSME scheme. Furthermore, the SMA 1 and 2 pool inched down to 2% from 3.5% in the previous quarter. All the above parameters indicates potentially lower stress. However, the covid provision of 0.28% of loan book seems inadequate and we expect, the bank to build higher provision buffer in coming quarters. The PCR (66% calculated and 86% reported) seems adequate for existing GNPA's.

Capital Infusion is inevitable: The bank has recently raised capital via QIP which resulted in the CET -1 of 8.9%. The CET-1 seems inadequate for further growth. Therefore, we believe the Govt. may infuse capital via recapitalization or the bank has option to off-load stakes in its subsidiaries including AMC, HFC and Insurance.

Strong retail growth may support NIMs in future: The gross loan book growth was moderate at 6% YoY and 3% QoQ. The growth was dragged by corporate book, while the growth in RAM (Retail, Agriculture & MSME) remains healthy at 9% YoY and 5% sequentially. The bank's deposit growth remain strong at 8% YoY with CASA improving 60bps to 33.4%. The bank's NIMs were stable at 2.8% mainly due to lower cost of funds. The retail credit growth and low cost CASA deposits may translate in NIMs improving the long run.

Outlook and Valuation:

Factoring near term capital infusion, we expect the bank's loan book to fatten cautiously at CAGR of 8% over FY21-23E, led by retail book growth. In our opinion, the bank's credit cost will normalise by FY22E and estimate return ratio ROA/ROE of 0.3% and 7% in FY23E. We value the standalone entity at 0.6x FY22E BVPS (₹349) and arrive at a target price of ₹210. We recommend BUY with a potential upside of 31%.

Rating	Buy
Current Market Price (₹)	160
12 M Price Target (₹)	210
Potential upside (%)	31

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	264
Market Cap Free Float (₹ bn) :	81
52-Week High / Low (₹) :	175 / 74
2-Year High / Low (₹) :	302 / 74
1 Year Avg. Dly Traded Volume (in lakh)	193
BSE Code / NSE Symbol :	532483 / CANBK
Bloomberg :	CBK:IN

Shareholding Pattern (%)

	Dec-20	Sep-20	Jun-20	Mar-20
Promoter	69.33	78.55	78.55	78.52
FPIs	4.48	2.29	2.63	3.31
MFs	2.39	1.85	2.37	3.97
Insurance	8.58	6.53	6.53	6.81
Others	15.22	10.78	9.92	7.39

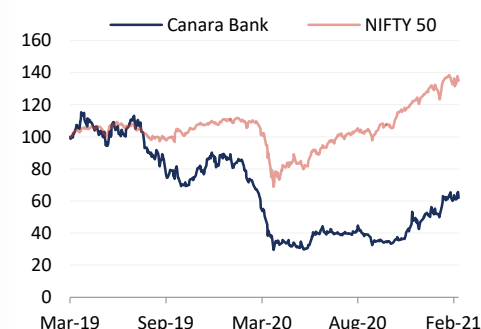
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Canara Bank	-0.8%	43.5%	54.5%	14.7%
Nifty 50	0.1%	12.7%	31.8%	32.6%

* To date / current date : March 5, 2021

Canara Bank vs Nifty 50

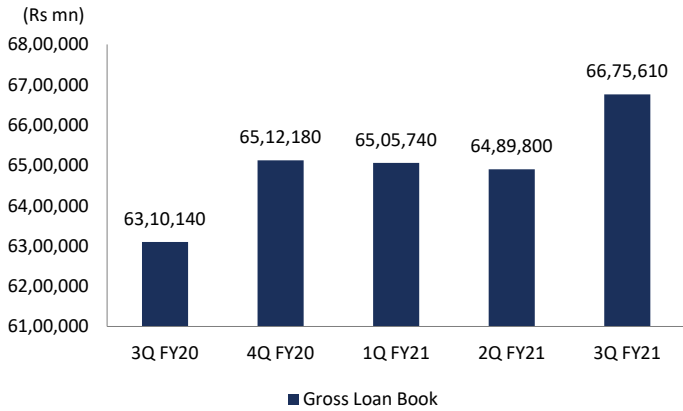


Financial Summary (₹ mn)	FY20	FY21E	FY22E	FY23E
Net worth	3,92,929	5,57,323	5,75,594	6,10,702
Deposits	62,53,512	98,20,612	1,03,29,458	1,12,53,309
Advances	43,21,752	65,37,456	70,16,851	76,73,459
CDR (%)	69	67	68	68

Key Ratios (%)	FY20	FY21E	FY22E	FY23E
RoA (calculated, annualized, %)	-0.3	0.2	0.2	0.3
RoE (calculated, annualized, %)	-5.7	3.3	3.3	6.8
BVPS	381.4	338.4	349.5	370.9
EPS (₹)	-21.7	11.0	11.5	25.1

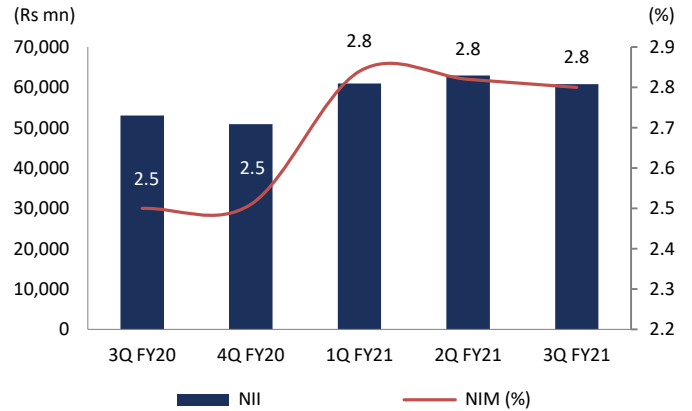
Story in charts

Loan Book Trend

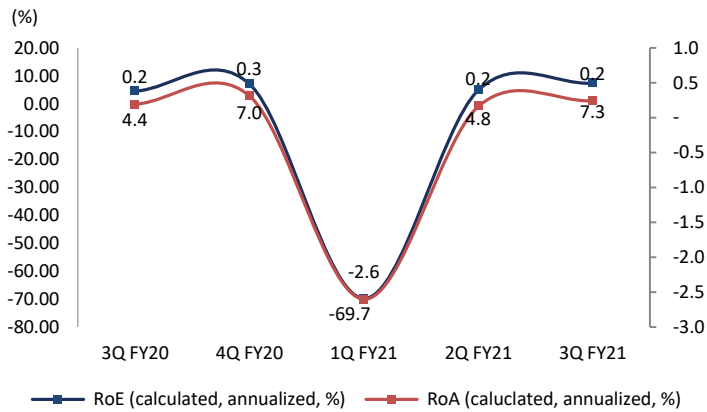


Source: Company, LKP Research

NII and NIM Trend

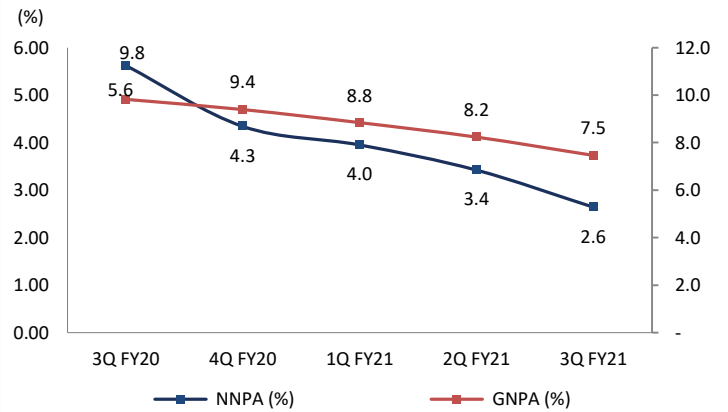


Return Ratio Trend

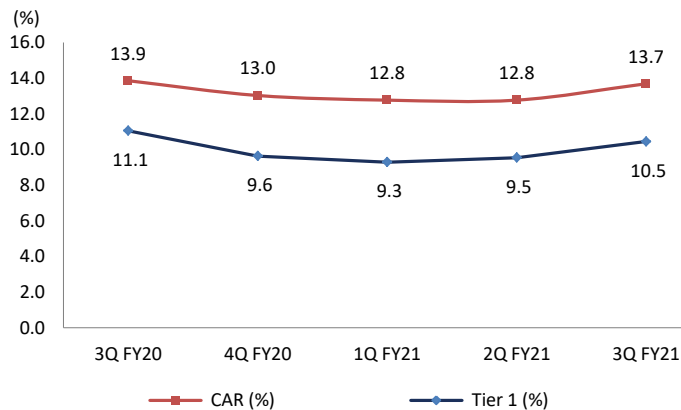


Source: Company, LKP Research

Asset Quality Trend



Capital Adequacy Trend



Source: Company, LKP Research

Yield & Cost

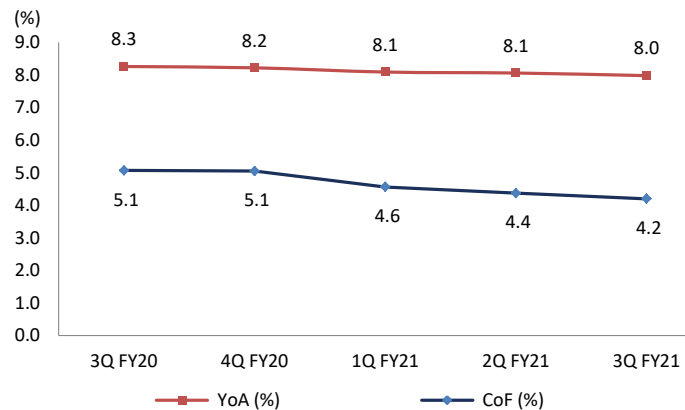


Exhibit 1 : Quarterly Performance Trend

(₹ mn)	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Interest Income	1,76,980	1,76,080	1,80,360	1,76,820	1,72,060	(2.8)	(2.7)
Interest Expenses	1,23,910	1,25,210	1,19,400	1,13,860	1,11,250	(10.2)	(2.3)
NII	53,070	50,870	60,960	62,960	60,810	14.6	(3.4)
NIM (%)	2.5	2.5	2.8	2.8	2.8	12.0	(0.7)
Other Income	26,200	30,270	26,500	31,550	42,730	63.1	35.4
PPP	36,700	21,420	42,860	46,390	53,820	46.6	16.0
Provisions	28,480	88,960	38,260	40,170	43,250	51.9	7.7
PAT	7,640	-65,670	4,070	4,440	6,960	(8.9)	56.8
RoA (calculated, annualized, %)	0.2	0.3	-2.6	0.2	0.2	26.3	50.0
RoE (calculated, annualized, %)	4.4	7.0	-69.7	4.8	7.3	64.4	51.5
Deposits	90,26,012	62,53,512.0	90,95,700.0	94,87,670.0	97,30,210.0	7.8	2.6
Gross Loan Book	63,10,140	65,12,180.0	65,05,740.0	64,89,800.0	66,75,610.0	5.8	2.9

Source: Company, LKP Research

Exhibit 2 : Quarterly Asset Quality Trend

(₹ mn)	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
GNPA (%)	9.8	9.4	8.8	8.2	7.5	(24.0)	(9.4)
NNPA (%)	5.6	4.3	4.0	3.4	2.6	(53.0)	(22.8)
PCR (calculated, %)	45.4	56.2	57.7	60.6	66.3	46.1	9.5
PCR (Reported, including tec write off %)	69.6	77.0	79.0	81.5	84.9	22.0	4.2
GNPA - Opening Balance	6,40,930	6,19,750	6,11,270	5,75,260	5,34,380	(16.6)	(7.1)
Slippages	80,550	52,670	16,750	4,150	5,080	(93.7)	22.4
Reduction	1,01,730	61,150	52,760	45,030	41,570	(59.1)	(7.7)
GNPA - Closing Balance	6,19,750	6,11,270	5,75,260	5,34,380	4,97,890	(19.7)	(6.8)
Accumulated Provision	2,81,230	3,43,720	3,31,710	3,23,750	3,30,150	17.4	2.0
NNPA	3,38,520	2,67,550	2,43,550	2,10,630	1,67,740	(50.4)	(20.4)

Source: Company, LKP Research

Exhibit 3 : Quarterly Loan Book Trend

(₹ mn)	3Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Retail Loans	10,41,210	10,75,730	11,01,960	11,38,350	9.33	3.30
Agri & Allied Loans	13,57,880	13,39,860	14,18,800	15,06,520	10.95	6.18
MSME	10,70,210	10,49,300	10,97,190	11,37,180	6.26	3.64
Corporate	28,40,840	30,40,850	28,71,850	28,93,560	1.9	0.8
Gross loan book	63,10,140	65,05,740	64,89,800	66,75,610	5.8	2.9
Loan book share (%)						
Retail Loans %	16.5	16.5	17.0	17.1	3.3	0.4
Agri & Allied Loans %	21.5	20.6	21.9	22.6	4.9	3.2
MSME %	17.0	16.1	16.9	17.0	0.4	0.8
Corporate %	45.0	46.7	44.3	43.3	(3.7)	(2.0)
Gross loan book %	100.0	100.0	100.0	100.0	-	-

Source: Company, LKP Research

Exhibit 4 : Capital Adequacy

Qtr/Yr	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
CET1 (%)	10.3	8.5	8.2	8.2	8.8
AT1 (%)	0.8	1.2	1.1	1.3	1.7
Tier 1 (%)	11.1	9.6	9.3	9.5	10.5
Tier 2 (%)	2.8	3.4	3.5	3.2	3.2
CAR (%)	13.9	13.0	12.8	12.8	13.7
RWA (₹ mn)	35,87,490	50,99,729	51,78,254	51,95,852	50,75,344
RWA to total assets (%)	81.9	78.3	79.6	80.1	76.0

Source: Company, LKP Research

Exhibit 5 : Ratio Analysis

Qtr/Yr	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
Operating ratios					
YoA (%)	8.3	8.2	8.1	8.1	8.0
CoF (%)	5.1	5.1	4.6	4.4	4.2
Spread (%)	3.2	3.2	3.5	3.7	3.8
NIM (%)	2.5	2.5	2.8	2.8	2.8
Cost to Income ratio (%)	55.0	53.7	70.0	50.9	48.0
RoA (calculated, annualized, %)	0.2	0.3	-2.6	0.2	0.2
RoE (calculated, annualized, %)	4.4	7.0	-69.7	4.8	7.3

Source: Company, LKP Research

Annual Projections

Exhibit 6 : Balance Sheet Projections

(₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	7,532	10,302	16,467	16,467	16,467
Reserves & Surplus	3,54,240	3,82,627	5,40,856	5,59,127	5,94,235
Net worth	3,61,772	3,92,929	5,57,323	5,75,594	6,10,702
Deposits	59,90,333	62,53,512	98,20,612	1,03,29,458	1,12,53,309
Borrowings	2,82,430	2,76,125	2,79,932	2,42,456	2,34,142
Other liabilities & Provisions	3,13,132	3,16,183	3,17,154	3,20,129	3,25,274
Preference Capital	-	-	-	-	-
Total Liabilities	69,47,667	72,38,749	1,09,75,021	1,14,67,637	1,24,23,427
Cash & Balances with RBI	2,99,190	2,25,701	2,56,954	2,58,865	2,61,278
Balance with Banks & Money at call	-	-	-	-	-
Investments	15,29,853	17,62,449	26,54,178	27,84,021	29,21,678
Advances	42,77,273	43,21,752	65,37,456	70,16,851	76,73,459
Fixed Assets	4,46,439	5,39,777	5,43,272	5,46,925	5,78,223
Other Assets	3,94,912	3,89,070	9,83,161	8,60,975	9,88,789
Total Assets	69,47,667	72,38,749	1,09,75,021	1,14,67,637	1,24,23,427

Source: Company, LKP Research

Exhibit 7 : Income Statement Projections

(₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
NII	1,44,781	1,31,239	2,41,956	2,75,014	2,89,412
Other Income	65,750	78,132	1,32,057	1,26,140	1,34,548
PPP	1,05,909	93,598	1,86,072	1,87,256	1,96,165
Provisions	1,29,024	1,11,154	1,60,916	1,51,012	1,36,458
<i>Credit cost (calculated, annualized %)</i>	<i>12.1</i>	<i>10.3</i>	<i>2.5</i>	<i>2.2</i>	<i>1.8</i>
PAT	3,470	-22,357	18,124	18,945	41,379
<i>RoA (calculated, annualized, %)</i>	<i>0.1</i>	<i>-0.3</i>	<i>0.2</i>	<i>0.2</i>	<i>0.3</i>
<i>RoE (calculated, annualized, %)</i>	<i>1.2</i>	<i>-5.7</i>	<i>3.3</i>	<i>3.3</i>	<i>6.8</i>

Source: Company, LKP Research

Exhibit 8 : Ratios

Qtr/Yr	FY19	FY20	FY21E	FY22E	FY23E
<i>Credit cost (calculated, annualized %)</i>	<i>12.1</i>	<i>10.3</i>	<i>2.5</i>	<i>2.2</i>	<i>1.8</i>
<i>Debt to Equity Ratio</i>	<i>0.8</i>	<i>0.7</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>
<i>Equity to loan Ratio</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
<i>CDR (%)</i>	<i>71.4</i>	<i>69.1</i>	<i>66.6</i>	<i>67.9</i>	<i>68.2</i>
<i>RoA (calculated, annualized, %)</i>	<i>0.1</i>	<i>-0.3</i>	<i>0.2</i>	<i>0.2</i>	<i>0.3</i>
<i>RoE (calculated, annualized, %)</i>	<i>1.2</i>	<i>-5.7</i>	<i>3.3</i>	<i>3.3</i>	<i>6.8</i>
<i>BVPS</i>	<i>480.3</i>	<i>381.4</i>	<i>338.4</i>	<i>349.5</i>	<i>370.9</i>
<i>EPS (₹)</i>	<i>4.6</i>	<i>-21.7</i>	<i>11.0</i>	<i>11.5</i>	<i>25.1</i>
<i>GNPA (%)</i>	<i>1.0</i>	<i>1.0</i>	<i>6.0</i>	<i>2.2</i>	<i>1.4</i>
<i>NNPA (%)</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.3</i>	<i>0.3</i>

Source: Company, LKP Research

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