

## CANARA BANK | Banking

Stable stress level, Future outlook strong

LKP

**Price Analysis:** In 4QFY21, the bank has reported a strong result with a PAT of ₹10bn owing to treasury gains (other income grew 22% sequentially). Contrasting other PSBs, Canara Bank's pro-forma GNPA declined sequentially to 8.93% v/s 9.05% in 3QFY21 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 sales of AMC, HFC and Insurance. We believe the hurdles from merger with Syndicate Bank are behind us and the bank shall witness gradual improvement in profitability with FY24E ROA/ROE of 0.3%/6.2%. Given the inexpensive valuation (0.6x PBVPS) we recommend BUY.

**Moderate stress level; covid buffer should improve:** Reported GNPA decreased by 7bps to 8.93% from the pro-forma GNPA ratio of 9% in the previous quarter driven by recoveries and write-offs. The reported NNPA ratio is at moderate level of 3.82%. 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 2.17% from 2.2% in the previous quarter. All the above parameters indicates potentially moderate 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 (60% calculated and 80% 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 8.61%. 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 3.7% YoY and 1.1% 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 remains strong at 4% sequentially with CASA at 32.7%. The bank's NIMs were stable at 2.75% mainly due to lower cost of funds. Retail credit growth and low cost CASA deposits may translate in NIMs improvement going forward.

**Outlook and Valuation:** Factoring near term capital infusion, we expect the bank's loan book to fatten cautiously at CAGR of 10% over FY21-23E, led by retail book growth. In our opinion, the bank's credit cost shall normalise by FY23E and estimate return ratio ROA/ROE of 0.3% and 6.2% in FY24E. We value the standalone entity at 0.5x FY23E BVPS (₹380) to arrive at a target price of ₹190. We recommend BUY.

Key Financials (₹ mn)	FY20	FY21	FY22E	FY23E
Net worth	5,88,849	6,06,973	6,25,918	6,67,297
Deposits	1,01,08,746	1,12,20,708	1,24,54,986	1,38,25,034
Advances	63,90,490	70,29,539	77,32,493	85,05,742
CDR (%)	63	63	62	62

Key Ratios (%)	FY20	FY21	FY22E	FY23E
RoA (calculated, annualized, %)	0.2	0.1	0.1	0.3
RoE (calculated, annualized, %)	4.3	3.0	3.0	6.2
BVPS	357.6	368.6	380.1	405.2
EPS (₹)	15.5	11.0	11.5	25.1

Rating	Buy
Current Market Price (₹)	146
12 M Price Target (₹)	190
Potential upside (%)	30

## Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	241
Market Cap Free Float (₹ bn) :	73
52-Week High / Low (₹) :	76 / 175
2-Year High / Low (₹) :	74 / 297
1 Year Avg. Dly Traded Volume (in lakh)	210
BSE Code / NSE Symbol	532483 / CANBK
Bloomberg :	CBK IN

## Shareholding Pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
GOI	69.33	69.33	78.55	78.55
FPIs	4.59	4.48	2.29	2.63
MFs	3.36	2.39	1.85	2.37
Insurance	8.34	8.58	6.53	6.53
Others	14.38	15.22	10.78	9.92

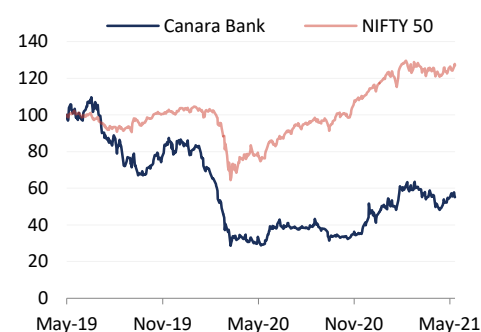
Source: BSE

## Price Performance (%)

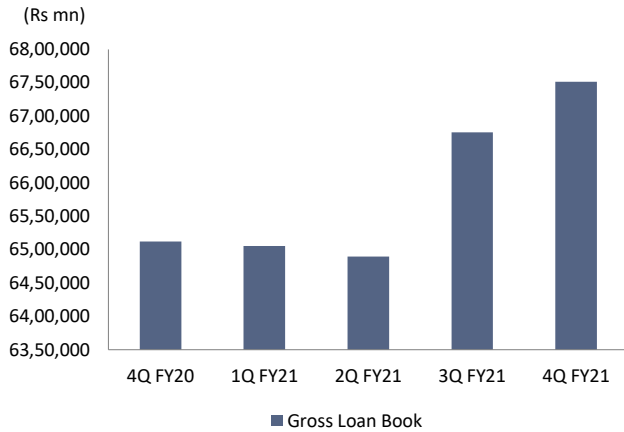
(%)	1M	3M	6M	1YR
Canara Bank	13.1%	-13.1%	55.0%	91.5%
Nifty 50	4.7%	-0.6%	16.2%	69.3%

\* To date / current date : May 19, 2021

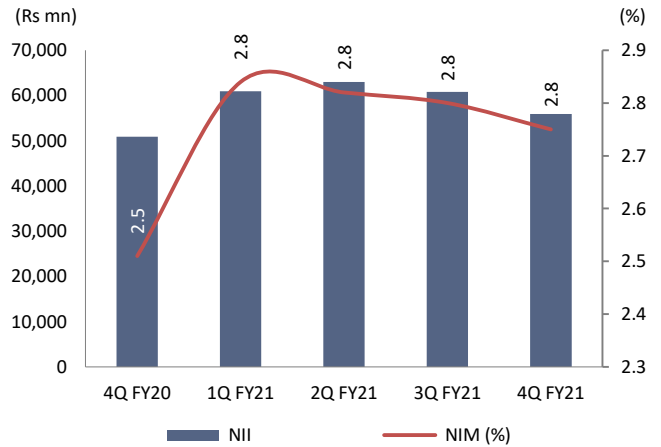
## Canara Bank vs Nifty 50



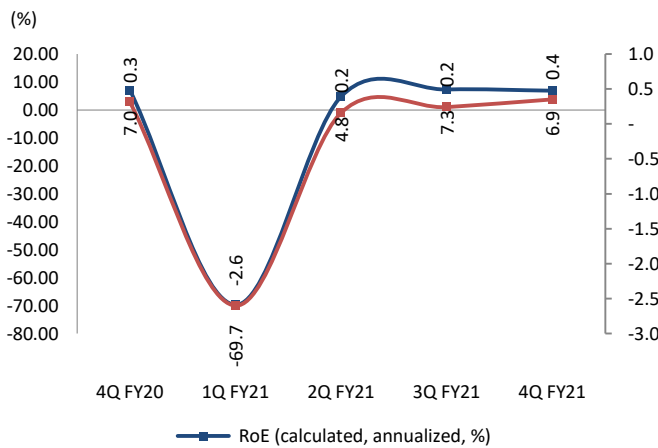
**Loan Book Trend**



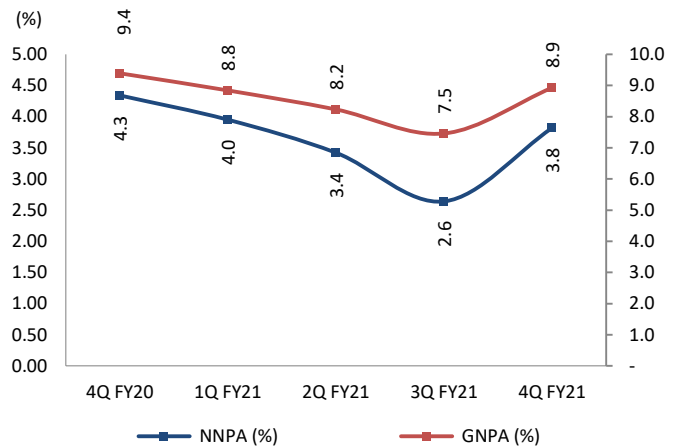
**NII and NIM Trend**



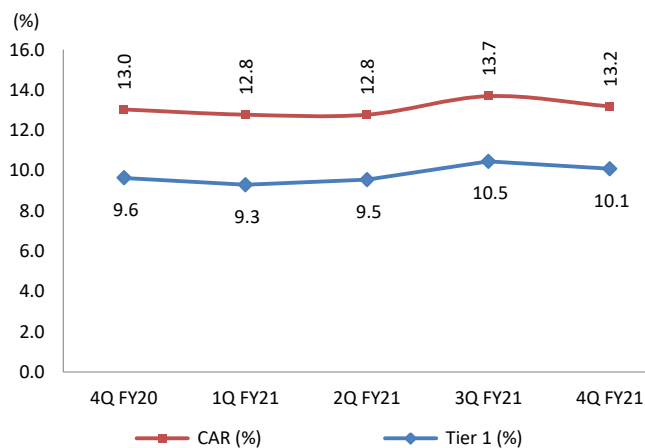
**Return Ratio Trend**



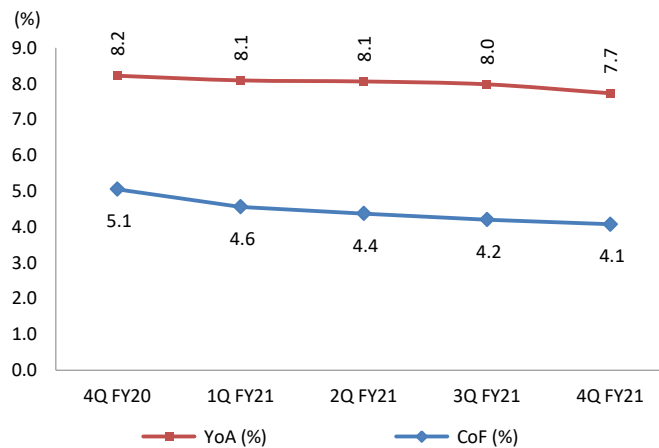
**Asset Quality Trend**



**Capital Adequacy Trend**



**Yield & Cost**



**Exhibit 1 : Quarterly Performance Trend**

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Interest Income	1,76,080	1,80,360	1,76,820	1,72,060	1,63,155	(7.3)	(5.2)
Interest Expenses	1,25,210	1,19,400	1,13,860	1,11,250	1,07,263	(14.3)	(3.6)
NII	50,870	60,960	62,960	60,810	55,892	9.9	(8.1)
NIM (%)	2.5	2.8	2.8	2.8	2.8	9.6	(1.8)
Other Income	30,270	26,500	31,550	42,730	52,071	72.0	21.9
PPP	21,420	42,860	46,390	53,820	57,026	166.2	6.0
Provisions	88,960	38,260	40,170	43,250	41,342	(53.5)	(4.4)
PAT	-65,670	4,070	4,440	6,960	10,109	(115.4)	45.2
RoA (calculated, annualized, %)	0.3	-2.6	0.2	0.2	0.4	13.1	46.0
RoE (calculated, annualized, %)	7.0	-69.7	4.8	7.3	6.9	(1.9)	(5.9)
Deposits	62,53,512	90,95,700	94,87,670	97,30,210	1,01,08,746	61.6	3.9
Gross Loan Book	65,12,180	65,05,740	64,89,800	66,75,610	67,51,550	3.7	1.1

Source: Company, LKP Research

**Exhibit 2 : Quarterly Asset Quality Trend**

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
GNPA (%)	9.4	8.8	8.2	7.5	8.9	(4.9)	19.7
NNPA (%)	4.3	4.0	3.4	2.6	3.8	(12.0)	44.7
PCR (calculated, %)	56.2	57.7	60.6	66.3	59.5	5.7	(10.3)
PCR (Reported, including tec write off %)	77.0	79.0	81.5	84.9	79.7	3.5	(6.1)
GNPA - Opening Balance	6,19,750	6,11,270	5,75,260	5,34,380	4,97,890	(19.7)	(6.8)
Slippages	52,670	16,750	4,150	5,080	1,52,870	190.2	2,909.3
Reduction	61,150	52,760	45,030	41,570	47,880	(21.7)	15.2
GNPA - Closing Balance	6,11,270	5,75,260	5,34,380	4,97,890	6,02,880	(1.4)	21.1
Accumulated Provision	3,43,720	3,31,710	3,23,750	3,30,150	3,58,460	4.3	8.6
NNPA	2,67,550	2,43,550	2,10,630	1,67,740	2,44,420	(8.6)	45.7

Source: Company, LKP Research

**Exhibit 3 : Quarterly Loan Book Trend**

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Retail Loans	10,28,300	10,75,730	11,01,960	11,38,350	11,53,120	12.14	1.30
Agri & Allied Loans	13,28,840	13,39,860	14,18,800	15,06,520	15,60,580	17.44	3.59
MSME	10,56,920	10,49,300	10,97,190	11,37,180	10,83,340	2.50	-4.73
Corporate	30,98,120	30,40,850	28,71,850	28,93,560	29,54,510	-4.6	2.1
Gross loan book	65,12,180	65,05,740	64,89,800	66,75,610	67,51,550	3.7	1.1
<b>Loan book share (%)</b>							
Retail Loans %	15.8	16.5	17.0	17.1	17.1	8.2	0.2
Agri & Allied Loans %	20.4	20.6	21.9	22.6	23.1	13.3	2.4
MSME %	16.2	16.1	16.9	17.0	16.0	(1.1)	(5.8)
Corporate %	47.6	46.7	44.3	43.3	43.8	(8.0)	1.0
Gross loan book %	100.0	100.0	100.0	100.0	100.0	-	-

Source: Company, LKP Research

**Exhibit 4 : Capital Adequacy**

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
CET1 (%)	8.5	8.2	8.2	8.8	8.6
AT1 (%)	1.2	1.1	1.3	1.7	1.5
Tier 1 (%)	9.6	9.3	9.5	10.5	10.1
Tier 2 (%)	3.4	3.5	3.2	3.2	3.1
CAR (%)	13.0	12.8	12.8	13.7	13.2
RWA	50,99,729	51,78,254	51,95,852	50,75,344	53,00,120
RWA to total assets	78.3	79.6	80.1	76.0	45.9

Source: Company, LKP Research

**Exhibit 5 : Ratio Analysis**

Qtr/Yr	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
<b>Operating Ratios</b>					
YoA (%)	8.2	8.1	8.1	8.0	7.7
CoF (%)	5.1	4.6	4.4	4.2	4.1
Spread (%)	3.2	3.5	3.7	3.8	3.7
NIM (%)	2.5	2.8	2.8	2.8	2.8
Cost to Income Ratio (%)	53.7	70.0	50.9	48.0	47.2
RoA (calculated, annualized, %)	0.3	-2.6	0.2	0.2	0.4
RoE (calculated, annualized, %)	7.0	-69.7	4.8	7.3	6.9

Source: Company, LKP Research

## Exhibit 6 : Balance Sheet Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	10,302	16,467	16,467	16,467	16,467
Reserves & Surplus	3,82,627	5,72,382	5,90,506	6,09,451	6,50,830
<b>Net worth</b>	<b>3,92,929</b>	<b>5,88,849</b>	<b>6,06,973</b>	<b>6,25,918</b>	<b>6,67,297</b>
Deposits	62,53,512	1,01,08,746	1,12,20,708	1,24,54,986	1,38,25,034
Borrowings	2,76,125	4,99,836	5,19,829	5,40,622	5,62,247
Other liabilities & Provisions	3,16,183	3,39,320	3,73,252	4,10,577	4,51,634
Preference Capital	-	-	-	-	-
<b>Total Liabilities</b>	<b>72,38,749</b>	<b>1,15,36,750</b>	<b>1,27,20,761</b>	<b>1,40,32,103</b>	<b>1,55,06,212</b>
Cash & Balances with RBI	2,25,701	4,31,116	4,74,228	5,21,651	5,73,816
Balance with Banks & Money at call	-	13,52,964	14,88,261	16,37,087	18,00,795
Investments	17,62,449	26,16,904	26,54,178	27,84,021	29,21,678
Advances	43,21,752	63,90,490	70,29,539	77,32,493	85,05,742
Fixed Assets	5,39,777	1,12,065	1,13,186	1,14,318	1,15,461
Other Assets	3,89,070	6,33,211	9,61,370	12,42,534	15,88,721
<b>Total Assets</b>	<b>72,38,749</b>	<b>1,15,36,750</b>	<b>1,27,20,761</b>	<b>1,40,32,103</b>	<b>1,55,06,213</b>

Source: Company, LKP Research

## Exhibit 7 : Income Statement Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
NII	1,31,239	2,40,622	2,61,956	2,85,014	2,99,412
Other Income	78,132	1,52,851	1,68,136	1,84,949	2,03,444
PPP	93,598	2,00,096	2,24,107	2,51,000	2,73,590
Provisions	1,11,154	1,63,022	1,82,584	2,04,494	1,94,269
<i>Credit cost (calculated, annualized %)</i>	<i>10.3</i>	<i>10.2</i>	<i>2.6</i>	<i>2.6</i>	<i>2.3</i>
PAT	-22,357	25,579	18,124	18,945	41,379
<i>RoA (calculated, annualized, %)</i>	<i>-0.3</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.3</i>
<i>RoE (calculated, annualized, %)</i>	<i>-5.7</i>	<i>4.3</i>	<i>3.0</i>	<i>3.0</i>	<i>6.2</i>

Source: Company, LKP Research

## Exhibit 8 : Ratios

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
<i>Credit cost (calculated, annualized %)</i>	<i>10.3</i>	<i>10.2</i>	<i>2.6</i>	<i>2.6</i>	<i>2.3</i>
<i>Debt to Equity Ratio</i>	<i>0.7</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</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>69.1</i>	<i>63.2</i>	<i>62.6</i>	<i>62.1</i>	<i>61.5</i>
<i>RoA (calculated, annualized, %)</i>	<i>-0.3</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.3</i>
<i>RoE (calculated, annualized, %)</i>	<i>-5.7</i>	<i>4.3</i>	<i>3.0</i>	<i>3.0</i>	<i>6.2</i>
<i>BVPS</i>	<i>381.4</i>	<i>357.6</i>	<i>368.6</i>	<i>380.1</i>	<i>405.2</i>
<i>EPS (₹)</i>	<i>-21.7</i>	<i>15.5</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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