

CANARA BANK | Banking

Earnings gaining momentum with lower stress formation.

LKP

Price Analysis: Canara Bank has been reporting consistent growth in net profit since last seven quarters. A bulky provision (₹54bn) made in 4QFY20, continued to safeguard the balance sheet with PCR (calculated) of 65% and PCR (including TWO) of 83%. The bank's margin (2.8% in the 3QFY22) is in upward trajectory with continuous improvement in CD ratio. On the business front, the bank has been reporting stable credit growth (7% sequential jump seen in previous quarter) across segments. The bank's recoveries are in line with the guidance and we expect the credit cost to be below 2% for FY22 and FY23. Moreover, the bank has raised capital in FY21 which resulted in the CET -1 of 10.1% (at par); thus we believe the bank may raise capital from stake sales of AMC, HFC and Insurance. We believe the hurdles from merger (with Syndicate Bank) are behind and the bank shall witness gradual improvement in profitability. Given the FY23E ROA/ROE of 1%/17% inexpensive valuation (0.6x PBVPS) we recommend BUY.

Asset Quality improvement continues: The absolute GNPA is decreasing gradually with lower slippages and higher recoveries. In previous quarter, slippages dropped sharply to ₹32.9b (v/s ₹69b in 2QFY22 due to SREI) while higher recoveries and upgrades along with robust loan growth aided 62bp/35bp decline in the GNPA/NNPA ratios, respectively. PCR improved 122bps sequentially to 65.2%. The bank carried a provision of 75% on the SREI Infra exposure and guided for NPL reductions to remain higher than slippages in the coming quarters. Total SMA overdue (1/2) are improving and dipped to 1.76% from 1.97% in 2QFY22. Further, the bank's restructured book (2.78%) is at par with peers. Factoring higher recoveries, we estimate the GNPA/NNPA ratio at 7.3%/2.6% at the end of FY23 with a stable PCR of 67%.

Business growth on track; Margins improving: On the business front, the bank has been reporting consistent credit growth with improving CD ratio. Recent quarter reported a sharp 7% sequential growth in loan book driven by the corporate portfolio (mainly NBFC segment) and has guided for double-digit advances growth. We have incorporated loan CAGR of 9.2% for FY22-24E. Improving CD ratio will keep the NIMs in a range of 2.8% - 2.9%. The operating expenses are not likely to witness a sharp jump as the bank has up-fronted the entire pension-related provision of ₹13.5bn in 3QFY22 instead of amortizing over the five years as permitted by the RBI. Thus we estimate a healthy PAT growth with lower provision expenses and ROA/ROE of 1%/17% for FY23E.

Outlook and Valuation:

Factoring near term capital infusion, we expect the bank's loan book to fatten cautiously at CAGR of 9.2% over FY21-23E, led by corporate book growth. In our opinion, the bank's credit cost will normalise by FY23E and estimate return ratio ROA/ROE of 1% and 17% in FY23E. We value the standalone entity at 0.6x FY23E BVPS (₹460) and arrive at a target price of ₹276.

Financial Summary (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
NII	1,31,239	2,40,622	2,81,533	3,17,587	3,58,717
PPOP	93,598	2,00,093	2,27,116	2,52,166	2,80,335
Networth	3,92,930	5,88,849	6,88,806	8,33,856	10,23,982
Loans	72,38,747	1,15,36,750	1,23,96,274	1,34,10,477	1,45,71,105
Deposits	62,53,512	1,01,08,746	1,08,16,358	1,16,27,585	1,25,34,537

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
BVPS (₹)	381	358	380	460	564
GNPA Ratio	8.2	8.9	7.6	7.3	6.9
NNPA Ratio	4.2	3.8	2.8	2.6	2.4
ROA	-0.3	0.2	0.8	1.1	1.3
ROE	-5.7	4.3	14.3	17.4	18.6

Rating	Buy
Current Market Price (₹)	201
12 M Price Target (₹)	276
Potential upside (%)	37

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	365
Market Cap Free Float (₹ bn) :	135
52-Week High / Low (₹) :	273 / 124
2-Year High / Low (₹) :	273 / 74
1 Year Avg. Dly Traded Volume (in lakh)	180
BSE Code / NSE Symbol :	532483 / CANBK
Bloomberg :	CBK:IN

Shareholding Pattern (%)

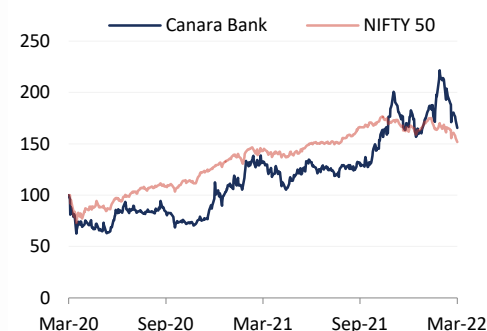
	Dec-21	Sep-21	Jun-21	Mar-21
GOI	62.93	62.93	62.93	69.33
FPIs	7.62	5.57	3.92	4.59
MFs	3.44	3.70	3.10	3.36
Insurance	9.04	9.04	8.34	8.34
Others	16.97	18.76	21.71	14.38

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Canara Bank	-22.0%	-3.8%	29.0%	26.2%
Nifty 50	-7.8%	-7.6%	-8.6%	6.2%

* To date / current date : March 7, 2022

Canara Bank vs Nifty 50

Quarterly story

Exhibit 1 : Profit & Loss Account

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Interest Earned	1,20,474	1,80,358	1,76,905	1,72,119	1,63,155	1,67,717	1,70,637	1,77,006
Interest Expended	87,289	1,19,403	1,13,856	1,11,255	1,07,263	1,06,250	1,07,899	1,07,556
Net Interest Income	33,185	60,956	63,049	60,865	55,892	61,466	62,738	69,450
Other Income	21,750	26,501	31,035	41,535	52,071	44,384	42,678	36,117
Net Operating Revenue	54,935	87,457	94,083	1,02,399	1,07,963	1,05,850	1,05,416	1,05,567
Operating Expenses	34,526	44,602	48,114	49,729	50,937	48,344	49,380	47,541
Employee Cost	21,752	30,374	32,079	31,841	32,663	33,424	31,382	29,724
Other Operating Expenses	12,774	14,228	16,034	17,888	18,274	14,920	17,997	17,817
Pre - Provision Profit	20,409	42,855	45,970	52,670	57,026	57,507	56,036	58,025
Provisions and Contingencies	53,754	38,263	39,740	42,103	41,342	37,285	33,602	22,448
PBT	-33,345	4,591	6,230	10,568	15,684	20,221	22,434	22,028
Tax	-752	529	1,785	3,607	5,575	8,447	9,108	7,007
Profit After Tax	-32,593	4,062	4,444	6,961	10,109	11,775	13,326	15,021

Source: Company, LKP Research

Exhibit 2 : Profit & Loss Account

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Share Capital	10,302	14,535	14,535	16,467	16,467	16,467	18,141	18,141
Reserves and Surplus	3,82,627	5,12,721	5,29,944	5,50,946	5,72,382	5,83,702	6,20,826	6,35,464
Networth	3,92,930	5,27,256	5,44,479	5,67,413	5,88,849	6,00,169	6,38,967	6,53,606
Deposits	62,53,512	90,95,696	94,87,671	97,30,210	1,01,08,746	1,02,18,369	1,03,25,366	1,04,33,507
Borrowings	4,27,618	5,62,448	5,08,004	5,68,702	4,99,836	5,17,038	7,51,133	5,40,154
Other Liabilities & Provisions	1,64,688	2,76,326	3,49,868	3,10,595	3,39,320	2,46,665	2,75,861	3,20,001
Total Liabilities	72,38,748	1,04,61,725	1,08,90,022	1,11,76,920	1,15,36,750	1,15,82,241	1,19,91,327	1,19,47,267
Cash and balance with Reserve Bank of India	2,25,701	3,67,316	3,63,577	3,45,241	4,31,116	4,27,195	4,69,271	5,30,763
Balances with banks and money at call and short notice	4,57,013	7,53,706	9,84,234	10,61,098	13,52,964	13,10,183	15,56,759	11,53,381
Investments	17,62,449	25,09,079	26,52,461	27,15,974	26,16,904	27,30,668	28,35,063	27,48,033
Advances	43,21,752	61,71,682	61,63,017	63,42,461	63,90,490	64,85,162	64,95,842	69,21,677
Fixed Assets	82,763	1,07,765	1,07,917	1,07,063	1,12,065	1,11,426	1,10,817	1,10,542
Other Assets	3,89,069	5,52,176	6,18,817	6,05,083	6,33,211	5,17,606	5,23,576	4,82,871
Total Assets	72,38,748	1,04,61,725	1,08,90,022	1,11,76,920	1,15,36,750	1,15,82,241	1,19,91,327	1,19,47,267

Source: Company, LKP Research

Exhibit 3 : Asset Quality

Qtr/End	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Amount of GNPA	3,70,412	5,75,255	5,34,379	4,97,886	6,02,878	5,82,155	5,78,531	5,68,933
Amount of NNPA	1,82,510	2,43,552	2,10,633	1,67,735	2,44,421	2,24,341	2,08,620	1,98,193
NNPA (%)	4.2	4.0	3.4	2.6	3.8	3.5	3.2	2.9
GNPA (%)	8.2	8.8	8.2	7.5	8.9	8.5	8.4	7.8
PCR (% ,calculated)	50.7	57.7	60.6	66.3	59.5	61.5	63.9	65.2
PCR (% ,Inc. TWO)	75.9	79.0	81.5	84.9	79.7	81.2	82.4	83.3

Source: Company, LKP Research

Exhibit 4 : Important Ratios

Qtr/End	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
CASA (%)	33	32	33	33	34	37	34	34
NIM %	2.5	2.8	2.8	2.8	2.8	2.7	2.7	2.8
ROA (% ,annualized)	-1.8	0.2	0.2	0.2	0.4	0.4	0.4	0.5
ROE (% ,annualized)	-33.2	3.1	3.3	4.9	6.9	7.8	8.3	9.2
BVPS (₹)	381	363	375	345	358	364	352	360
EPS (₹ ,annualized)	-32	3	3	4	6	7	7	8

Source: Company, LKP Research

Annual Projections

Exhibit 5 : Income Statement

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	4,40,221	4,13,876	4,12,521	4,68,103	4,89,350	6,92,398	7,46,932	8,17,890	8,98,044
Interest Expended	3,42,588	3,15,159	2,90,888	3,23,322	3,58,111	4,51,776	4,65,398	5,00,303	5,39,327
Net Interest Income	97,634	98,718	1,21,633	1,44,781	1,31,239	2,40,622	2,81,533	3,17,587	3,58,717
YoY (%)		1.1	23	19	-9	83	17	13	13
Other Income	48,752	75,544	69,429	65,750	78,132	1,52,853	1,65,081	1,78,288	1,92,551
Net Operating Income	1,46,386	1,74,262	1,91,062	2,10,531	2,09,371	3,93,475	4,46,615	4,95,875	5,51,267
Operating Expenses	74,919	85,123	95,579	1,04,622	1,15,772	1,93,382	2,19,499	2,43,709	2,70,933
Employee Cost	44,459	49,151	54,441	60,398	71,342	1,26,900	1,44,038	1,59,925	1,77,789
Other Operating expenses	30,461	35,972	41,138	44,224	44,431	66,482	75,461	83,784	93,143
Pre - Provision Profit	71,467	89,139	95,482	1,05,909	93,598	2,00,093	2,27,116	2,52,166	2,80,335
Provisions and Contingencies	1,03,324	72,720	1,61,091	1,29,183	1,11,154	1,63,020	1,15,784	92,627	74,102
Profit Before Tax	-31,858	16,419	-65,609	-23,274	-17,556	37,072	1,11,332	1,59,539	2,06,233
Taxes	-3,730	5,200	-23,386	-26,744	4,802	11,497	13,049	14,488	16,107
Profit After Tax	-28,128	11,219	-42,222	3,470	-22,357	25,576	98,283	1,45,050	1,90,126
EPS (₹)	-52	19	-58	5	-22	16	54	80	105

Source: Company, LKP Research

Exhibit 6 : Balance Sheet

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	5,430	5,973	7,332	7,532	10,302	16,467	18,141	18,141	18,141
Face Value	10	10	10	10	10	10	10	10	10
Total Reserves	3,10,602	3,30,882	3,48,716	3,54,240	3,82,627	5,72,382	6,70,665	8,15,715	10,05,841
Networth	3,16,032	3,36,855	3,56,048	3,61,772	3,92,930	5,88,849	6,88,806	8,33,856	10,23,982
Deposits	47,97,916	49,52,752	52,47,719	59,90,333	62,53,512	1,01,08,746	1,08,16,358	1,16,27,585	1,25,34,537
YoY (%)		3.2	6	14	4	62	7	8	8
Borrowings	2,68,733	3,95,036	3,88,085	4,09,923	4,27,618	4,99,836	5,34,824	5,74,936	6,19,781
Other Liabilities & Provisions	1,46,927	1,50,551	1,77,009	1,85,639	1,64,688	3,39,320	3,56,286	3,74,100	3,92,805
Total Liabilities	55,29,608	58,35,194	61,68,861	69,47,667	72,38,747	1,15,36,750	1,23,96,274	1,34,10,477	1,45,71,105
Cash and balance with Reserve Bank of India	2,06,641	1,99,225	2,21,000	2,99,190	2,25,701	4,31,116	4,69,917	5,14,559	5,64,986
Balances with banks and money at call	3,60,696	3,89,030	2,78,123	3,62,337	4,57,013	13,52,964	14,74,731	16,14,830	17,73,084
Investments	14,23,093	15,02,659	14,40,537	15,29,853	17,62,449	26,16,904	28,52,425	31,23,406	34,29,499
Advances	32,47,148	34,20,088	38,17,030	42,77,273	43,21,752	63,90,490	69,65,634	76,27,369	83,74,851
YoY (%)		5.3	12	12	1	48	9	10	10
Fixed Assets	71,981	71,683	83,186	84,102	82,763	1,12,065	1,14,307	1,16,593	1,18,925
Other Assets	2,20,049	2,52,510	3,28,985	3,94,912	3,89,068	6,33,211	5,19,260	4,13,720	3,09,760
Total Assets	55,29,608	58,35,194	61,68,861	69,47,667	72,38,747	1,15,36,750	1,23,96,274	1,34,10,477	1,45,71,105
BVPS (₹)	582	564	486	480	381	358	380	460	564

Source: Company, LKP Research

Exhibit 7 : Asset Quality

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
GNPA (%)	9.4	9.6	11.8	8.8	8.2	8.9	7.6	7.3	6.9
NNPA (%)	6.4	6.3	7.5	5.4	4.2	3.8	2.8	2.6	2.4
GNPA Amount	3,16,378	3,42,020	4,74,685	3,92,241	3,70,418	6,02,880	5,59,034	5,87,979	6,10,225
NNPA Amount	2,08,329	2,16,490	2,85,424	2,29,551	1,82,510	2,44,420	1,95,038	1,98,312	2,00,996
PCR (% ,calculated)	34.2	36.7	39.9	41.5	50.7	59.5	65.1	66.3	67.1
Movement of GNPA									
Opening Balance	1,30,400	3,16,378	3,42,020	4,74,685	3,92,241	3,70,412	6,02,880	5,59,034	5,87,979
Additions during the year	2,47,241	1,16,521	2,47,608	1,54,802	1,50,448	4,19,709	3,14,781	2,36,086	1,77,065
Reductions during the year	61,262	90,879	1,14,943	2,37,245	1,72,271	1,87,240	3,58,627	2,07,141	1,54,818
Closing balance	3,16,378	3,42,020	4,74,685	3,92,241	3,70,418	6,02,880	5,59,034	5,87,979	6,10,225
Movement of NNPA									
Opening Balance	87,401	2,08,329	2,16,490	2,85,424	2,29,551	1,82,510	2,44,420	1,95,038	1,98,312
Additions during the year	1,82,190	99,040	1,83,878	18,535	17,882	1,55,211	1,16,408	87,306	65,479
Reductions during the year	61,262	90,879	1,14,943	74,408	64,923	93,300	1,65,790	84,032	62,795
Closing balance	2,08,329	2,16,490	2,85,424	2,29,551	1,82,510	2,44,420	1,95,038	1,98,312	2,00,996

Source: Company, LKP Research

Exhibit 8 : Ratios

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Financial Ratios									
EPS (₹)	-52	19	-58	5	-22	16	54	80	105
BVPS (₹, Calculated)	582	564	486	480	381	358	380	460	564
Performance Ratios									
ROA(% ,Calculated)	-0.5	0.2	-0.7	0.0	-0.3	0.2	0.8	1.1	1.3
ROE(% ,Calculated)	-8.9	3.3	-11.9	1.0	-5.7	4.3	14.3	17.4	18.6
Efficiency Ratios									
Cost Income Ratio	51	49	50	50	55	49	49	49	49
CASA (%)	26	30	32	29	31	33	34	34	34

Source: Company, LKP Research

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.