

Price Analysis

Canara Bank has been reporting consistent growth in net profit since last eight quarters. A bulky provision (₹54bn) made in 4QFY20 (two years ago), continued to safeguard the balance sheet with PCR (calculated) of 67% and PCR (including TWO) of 84%. The bank's margin (2.9% in the 4QFY22) is in upward trajectory with continuous improvement in CD ratio. On the business front, the bank has been reporting stable credit growth (2% sequential jump seen in 4QFY22) across segments. The bank's recoveries are in line with the guidance and we expect the credit cost to be below 2% for FY23. Moreover, the bank has raised capital in FY21 which resulted in the CET -1 of 10.3% (at par); thus we believe the bank may raise capital from stake sales of AMC, HFC and insurance company. 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 1%/16%. Given inexpensive valuation (0.55x PBVPS), we recommend BUY.

Gazing the core

Asset quality improvement continues: The absolute GNPA is decreasing gradually with moderate slippages and higher recoveries. In 4QFY22, slippages were expected at ₹36b (v/s ₹27b in 3QFY22) while higher recoveries and upgrades along with robust loan growth aided 29bp/19bp decline in the GNPA/NNPA ratios, respectively. PCR improved 130bps sequentially to 66.5%. 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 0.7% from 1.76% in 3QFY22. Further, the bank's restructured book (2.3%) is at par with peers. Exposure towards Air India stands at ₹2bn that has been fully recovered and the bank has an exposure to Future Group but the management is confident that the exposure would remain standard and is unlikely to slip. 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%.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
NII	1,31,239	2,40,622	2,63,840	3,12,674	3,53,301
PPOP	93,598	2,00,093	2,30,890	2,64,291	2,93,841
PAT	-22,357	25,576	56,784	1,24,530	1,70,314
Networth	3,92,930	5,88,849	6,61,113	7,85,643	9,55,956
Loans	72,38,747	1,15,36,750	1,22,69,797	1,32,57,934	1,43,92,803
Deposits	62,53,512	1,01,08,746	1,08,64,093	1,16,78,899	1,25,89,854

Key Ratios (%)	FY20	FY21	FY22	FY23E	FY24E
EPS	-22	16	31	69	94
BVPS	381	358	364	433	527
GNPA	8.2	8.9	7.5	7.3	6.9
NNPA	4.2	3.8	2.7	2.6	2.4
ROA	-0.3	0.2	0.5	0.9	1.2
ROE	-5.7	4.3	8.6	15.9	17.8

Rating	BUY
Current Market Price (₹)	200
12 M Price Target (₹)	260
Potential upside (%)	30

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	362
Market Cap Free Float (₹ bn) :	134
52-Week High / Low (₹) :	273 / 141
2-Year High / Low (₹) :	273 / 76
1 Yr Avg. Dly Traded Volume (in lakh)	165
BSE Code / NSE Symbol	532483 / CANBK
Bloomberg :	CBK IN

Shareholding Pattern

(%)	Mar-22	Dec-21	Sep-21	Jun-21
GOI	62.93	62.93	62.93	62.93
FPIs	8.48	7.62	5.57	3.92
MFs	3.22	3.44	3.70	3.10
Insurance	9.04	9.04	9.04	8.34
Others	16.33	16.97	18.76	21.71

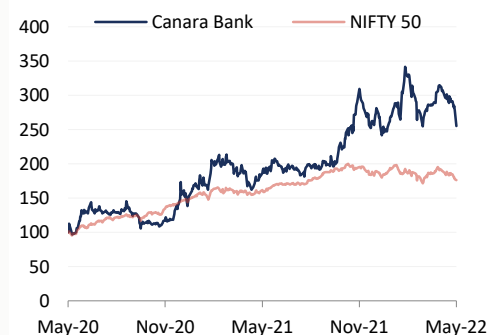
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Canara Bank	-19.5%	-22.7%	-15.3%	35.9%
Nifty 50	-8.3%	-7.4%	-9.5%	9.1%

* To date / current date : May 10, 2022

Canara Bank vs Nifty 50



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 healthy 7% yoy and 2% sequential growth in loan book driven by the corporate portfolio (mainly NBFC segment) and guided for double-digit advances growth. We have incorporated a 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%/16% for FY23E.

Capital Infusion is inevitable: The bank had raised capital via QIP which resulted in the CET-1 of ~10%. The CET-1 seems below par. 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 company.

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 further by FY23E and estimate return ratio ROA/ROE of 1% and 16% in FY23E. We value the standalone entity at 0.6x FY23E BVPS (₹433) and arrive at a target price of ₹260. We recommend BUY with a potential upside of 30%.

Exhibit 1 : Income Statement (Qtr)

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
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	1,78,616
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	1,08,557
Net Interest Income	33,185	60,956	63,049	60,865	55,892	61,466	62,738	69,450	70,059
Other Income	21,750	26,501	31,035	41,535	52,071	44,384	42,678	36,117	44,615
Net Operating Revenue	54,935	87,457	94,083	1,02,399	1,07,963	1,05,850	1,05,416	1,05,567	1,14,674
Operating Expenses	34,526	44,602	48,114	49,729	50,937	48,344	49,380	47,541	52,655
Employee Cost	21,752	30,374	32,079	31,841	32,663	33,424	31,382	29,724	32,276
Other Operating Expenses	12,774	14,228	16,034	17,888	18,274	14,920	17,997	17,817	20,379
Pre - Provision Profit	20,409	42,855	45,970	52,670	57,026	57,507	56,036	58,025	62,019
Provisions and Contingencies	53,754	38,263	39,740	42,103	41,342	37,285	33,602	22,448	37,087
PBT	-33,345	4,591	6,230	10,568	15,684	20,221	22,434	22,028	24,933
Tax	-752	529	1,785	3,607	5,575	8,447	9,108	7,007	8,270
Profit After Tax	-32,593	4,062	4,444	6,961	10,109	11,775	13,326	15,021	16,662

Source: Company, LKP Research

Exhibit 2 : Balance Sheet (Qtr)

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Share Capital	10,302	14,535	14,535	16,467	16,467	16,467	18,141	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	6,42,972
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	6,61,113
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	1,08,64,093
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	4,62,850
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	2,81,742
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	1,22,69,797
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	5,16,029
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	13,04,514
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	28,20,129
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	70,36,018
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	1,13,563
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	4,79,544
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	1,22,69,797

Source: Company, LKP Research

Exhibit 3 : Asset Quality (Qtr)

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
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	5,56,516
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	1,86,680
NNPA (%)	4.2	4.0	3.4	2.6	3.8	3.5	3.2	2.9	2.7
GNPA (%)	8.2	8.8	8.2	7.5	8.9	8.5	8.4	7.8	7.5
PCR (% , calculated)	50.7	57.7	60.6	66.3	59.5	61.5	63.9	65.2	66.5
PCR (% , Inc. TWO)	75.9	79.0	81.5	84.9	79.7	81.2	82.4	83.3	84.3

Source: Company, LKP Research

Exhibit 4 : Important Ratios (Qtr)

(₹ mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
CASA (%)	33	32	33	33	34	37	34	34	36
NIM %	2.5	2.8	2.8	2.8	2.8	2.7	2.7	2.8	2.9
ROA (% , annualized)	-1.8	0.2	0.2	0.2	0.4	0.4	0.4	0.5	0.5
ROE (% , annualized)	-33.2	3.1	3.3	4.9	6.9	7.8	8.3	9.2	10.1
BVPS (₹)	381	363	375	345	358	364	352	360	364
EPS (₹ , annualized)	-31.6	2.8	3.1	4.2	6.1	7.2	7.3	8.3	9.2

Source: Company, LKP Research

Annual Projections

Exhibit 5: Income Statement

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	4,12,521	4,68,103	4,89,350	6,92,398	6,94,103	8,11,909	8,91,477
Interest Expended	2,90,888	3,23,322	3,58,111	4,51,776	4,30,263	4,99,235	5,38,175
Net Interest Income	1,21,633	1,44,781	1,31,239	2,40,622	2,63,840	3,12,674	3,53,301
YoY (%)	23	19	-9	83	10	19	13
Other Income	69,429	65,750	78,132	1,52,853	1,64,969	1,78,167	1,92,420
Net Operating Income	1,91,062	2,10,531	2,09,371	3,93,475	4,28,809	4,90,841	5,45,721
Operating Expenses	95,579	1,04,622	1,15,772	1,93,382	1,97,919	2,26,550	2,51,881
Employee Cost	54,441	60,398	71,342	1,26,900	1,27,036	1,45,414	1,61,672
Other Operating expenses	41,138	44,224	44,431	66,482	70,883	81,137	90,208
Pre - Provision Profit	95,482	1,05,909	93,598	2,00,093	2,30,890	2,64,291	2,93,841
Provisions and Contingencies	1,61,091	1,29,183	1,11,154	1,63,020	1,27,725	1,02,180	81,744
Profit Before Tax	-65,609	-23,274	-17,556	37,072	89,616	1,62,111	2,12,097
Taxes	-23,386	-26,744	4,802	11,497	32,832	37,581	41,783
Profit After Tax	-42,222	3,470	-22,357	25,576	56,784	1,24,530	1,70,314
EPS (₹)	-58	5	-22	16	31	69	94

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	7,332	7,532	10,302	16,467	18,142	18,142	18,142
Face Value	10	10	10	10	10	10	10
Total Reserves	3,48,716	3,54,240	3,82,627	5,72,382	6,42,972	7,67,501	9,37,815
Networth	3,56,048	3,61,772	3,92,930	5,88,849	6,61,113	7,85,643	9,55,956
Deposits	52,47,719	59,90,333	62,53,512	1,01,08,746	1,08,64,093	1,16,78,899	1,25,89,854
YoY (%)	6	14	4	62	7	8	8
Borrowings	3,88,085	4,09,923	4,27,618	4,99,836	4,62,850	4,97,563	5,36,373
Other Liabilities & Provisions	1,77,009	1,85,639	1,64,688	3,39,320	2,81,742	2,95,829	3,10,620
Total Liabilities	61,68,861	69,47,667	72,38,747	1,15,36,750	1,22,69,797	1,32,57,934	1,43,92,803
Cash and balance with Reserve Bank of India	2,21,000	2,99,190	2,25,701	4,31,116	5,16,029	5,65,052	6,20,427
Balances with banks and money at call	2,78,123	3,62,337	4,57,013	13,52,964	13,04,514	14,28,443	15,68,430
Investments	14,40,537	15,29,853	17,62,449	26,16,904	28,20,129	30,88,041	33,90,669
Advances	38,17,030	42,77,273	43,21,752	63,90,490	70,36,018	77,04,440	84,59,475
YoY (%)	12	12	1	48	10	10	10
Fixed Assets	83,186	84,102	82,763	1,12,065	1,13,563	1,15,834	1,18,151
Other Assets	3,28,985	3,94,912	3,89,068	6,33,211	4,79,544	3,56,124	2,35,651
Total Assets	61,68,861	69,47,667	72,38,747	1,15,36,750	1,22,69,797	1,32,57,934	1,43,92,803
BVPS (₹)	486	480	381	358	364	433	527

Source: Company, LKP Research

Exhibit 7: Asset Quality

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GNPA (%)	11.8	8.8	8.2	8.9	7.5	7.3	6.9
NNPA (%)	7.5	5.4	4.2	3.8	2.7	2.6	2.4
GNPA Amount	4,74,685	3,92,241	3,70,418	6,02,880	5,56,516	5,93,920	6,16,391
NNPA Amount	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	2,00,315	2,03,027
PCR (% , calculated)	39.9	41.5	50.7	59.5	66.5	66.3	67.1
Movement of GNPA							
Opening Balance	3,42,020	4,74,685	3,92,241	3,70,412	6,02,880	5,56,516	5,93,920
Additions during the year	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	1,14,943	2,37,245	1,72,271	1,87,240	3,61,146	1,98,682	1,54,593
Closing balance	4,74,685	3,92,241	3,70,418	6,02,880	5,56,516	5,93,920	6,16,391
Movement of NNPA							
Opening Balance	2,16,490	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	2,00,315
Additions during the year	1,83,878	18,535	17,882	1,55,211	1,16,408	87,306	65,479
Reductions during the year	1,14,943	74,408	64,923	93,300	1,74,148	73,671	62,767
Closing balance	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	2,00,315	2,03,027

Source: Company, LKP Research

Exhibit 8: Ratios

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Financial Ratios							
EPS (₹)	-58	5	-22	16	31	69	94
BVPS (₹, Calculated)	486	480	381	358	364	433	527
Performance Ratios							
ROA(% , Calculated)	-0.7	0.0	-0.3	0.2	0.5	0.9	1.2
ROE(% , Calculated)	-11.9	1.0	-5.7	4.3	8.6	15.9	17.8
Efficiency Ratios							
Cost Income Ratio	50	50	55	49	50	49	49
CASA (%)	32	29	31	33	36	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.