

Canara Bank

Sensex: 33343

CMP: INR 388

Target: INR 390



BFSI

Canara bank reported better NIMs at 2.60% (25bps y-o-y & 4bps q-o-q) led by improvement in C/D ratio 72.2% (462bps y-o-y & 161bps q-o-q). Non-interest income grew 9% y-o-y & -8% q-o-q led by recovery in w/off a/c's to INR19.3bn. GNPA in absolute terms grew marginally (4% q-o-q) led by reduction in slippages (39% q-o-q) and higher recoveries (55% q-o-q). Controlled opex (8% y-o-y) resulted in higher PPOP (16% y-o-y). However, elevated provisions (36% y-o-y) resulted in lower PAT of 2.6mn (-27% y-o-y).

Asset quality remains stressed; Improvement in stressed loans as a % of loan book

GNPA / NNPA declined marginally by 5bps/7bps q-o-q to 10.5%/7.0% respectively. PCR stood at 54.8% (23 q-o-q). GNPA in absolute terms stood at INR 391.7bn (4% q-o-q) led by reduction in slippages to INR 33.7bn (-39% q-o-q), higher recoveries at INR 5bn (55% q-o-q) and lower upgrades INR 1.4bn (-60% q-o-q). ~24% of the gross slippages (INR 33.7bn) were from 2 power accounts and the remaining were from MSME - INR 8bn, agri - INR 5bn, MSE / non priority / overseas - INR 3bn each and other priority sector loans INR 1.5bn. The bank has guided INR 25bn slippages in each of the next 2 quarters. The bank requires additional provisioning of INR 25bn spread over the next 2 quarters for the 1st & 2nd list of NCLT accounts. Total stressed loans (Std. Restructured Advances, SDR, S4A, 5:25, SMA2) as a % of advances improved from 13.8% in Q4 FY17 to 13.4% in Q2 FY18. Std. Rest. Book/ 5:25/ S4A / SDR / SMA-2 stood at INR 74bn/65bn/25bn/65bn/96bn respectively

Healthy Operating Performance

Domestic NIMs grew marginally to 2.6% (4bps q-o-q) led by higher C/D ratio of 72% (161bps q-o-q). Q1 FY18 NII had INR 0.8-0.9bn of interest reversals. Other income grew 9% y-o-y (-8% q-o-q as 1Q included gains from stake sale in CARE). Net Income grew by (INR 47.2bn) 12% y-o-y & -2% q-o-q, where as opex (INR 22.3bn) grew by (8% y-o-y & -5% q-o-q) resulting in higher PPOP INR 24.8bn (16% y-o-y & 0% q-o-q) Total loan book growth grew 3% q-o-q & 10% y-o-y led by retail book (9% q-o-q & 22% y-o-y) & MSME book

(3% q-o-q & 11% y-o-y). The retail book growth was led by direct housing loan (+19% y-o-y), vehicle segment (+26% y-o-y) and other personal loan segment (+29% y-o-y). Management has guided 10-12% of loan book growth for FY18 with focus on retail and SME segments. Deposits grew by 2.2% q-o-q and 2.5% y-o-y.

Other Highlights

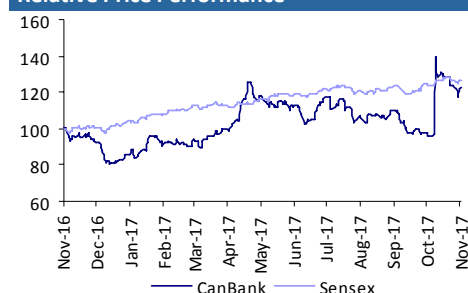
- Bank plans to raise a total capital of INR 63bn (INR 35bn in equity) in FY18.
- CET1 ratio/tier 1 ratio/CAR stood at 8.68%/9.5%/12.45% respectively.
- Canara Bank added 22 branches during the quarter taking the total strength of branches to 6119.

Outlook & Valuation

Recapitalization plan by the government is big positive for all PSBs over the longer run. However, consolidation of PSBs will bring uncertainty in the earnings for PSBs going ahead. We expect Canara bank to report high credit cost going ahead which will adversely impact the earnings and keep return ratios subdued over the next 3-4 quarters. Faster resolution of stress assets remain a key monitor able. Given the weak operating environment, we would like to wait and watch the developments of the bank in terms of asset quality and credit growth going ahead. We maintain our HOLD rating on the stock with a revised TP of INR 390 (INR 319 earlier) based on SOTP (0.6x P/BV for the bank & INR 17 per share for other investments).

Shareholding (%)	Sep-17
Promoters	66.30
FII's	5.98
DII's	21.33
Others	6.39

Relative Price Performance



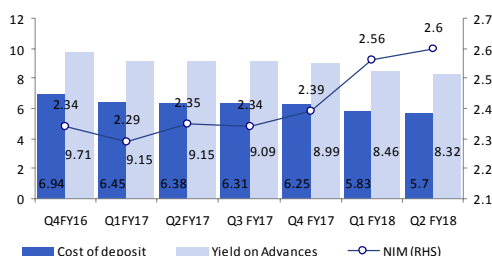
Key Data	
BSE Code	532483
NSE Code	CANBK
Bloomberg Code	CBK IN
Reuters Code	CNBK.BO
Shares Outstanding (mn)	597.29
Face Value	10
Mcap (INR bn)	210.31
52 Week H/L	414.90/231.25
2W Avg. Qty.NSE	2658977
Free Float (INR Bn)	70.88
Beta	1.55

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	440221	413876	406245	417975
Interest Expended	342588	315159	299856	298981
Net interest income	97634	98718	106389	118994
Growth	1.0%	1.1%	7.8%	11.8%
NIM	1.9%	1.8%	1.9%	2.1%
APAT	(28128)	11219	12472	22357
Growth	-204.1%	-139.9%	11.2%	79.3%
Adj. EPS (INR)	(50.4)	18.8	20.9	37.4
ABV (INR)	193	202	189	204
P/ABV (x)	1.0	1.5	1.9	1.7
Net NPA (%)	6.4%	6.3%	6.2%	5.8%
RoA	-0.5%	0.2%	0.2%	0.4%
RoE	-8.9%	3.4%	3.6%	6.2%

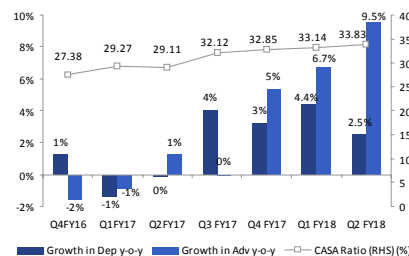
Quarterly Financials

Particulars (INR mn)	Q2 FY18	Q2 FY17	Q1 FY18	YoY	QoQ	H1 FY18	H1 FY17	YoY
Interest Earned	100585	104054	101956	-3%	-1%	202540	206071	-2%
Interest Expended	72751	79630	74824	-9%	-3%	147574	158573	-7%
Net Interest Income	27834	24424	27132	14%	3%	54966	47498	16%
Domestic NIM (%)	2.6	2.4	2.6	25 bps	4 bps	2.6	2.33	27 bps
Other Income	19362	17818	21085	9%	-8%	40447	33664	20%
Net Total Income	47196	42241	48218	12%	-2%	95413	81162	18%
Operating Expenses	22397	20834	23494	8%	-5%	45891	41565	10%
Employee Cost	13773	12169	13518	13%	2%	27290	24251	13%
Other operating expenses	8625	8664	9976	0%	-14%	18601	17314	7%
Cost/Income Ratio (%)	47.5%	49.3%	48.7%	-186 bps	-127 bps	48.1%	51.2%	-312 bps
Operating Profits	24798	21408	24724	16%	0%	49522	39596	25%
Provisions & Contingencies	21566	15857	22038	36%	-2%	43604	30787	42%
Profit Before Tax	3232	5550	2686	-42%	20%	5918	8810	-33%
Provision for Tax	630	1981	170	-68%	271%	800	2951	-73%
Net Profit	2602	3569	2516	-27%	3%	5118	5859	-13%
EPS	4.4	6.4	4.2	-32%	4%	9	10	-18%
Equity	5973	5430	5973	10%	0%	5973	5430	10%
Advances	3582552	3271293	3428156	10%	5%	3582552	3271293	10%
Deposits	4964398	4843213	4859052	3%	2%	4964398	4843213	3%
Advance / Deposit Ratio (%)	72.2%	67.5%	70.6%	462 bps	161 bps	72%	68%	462 bps
GNPA	391641	333154	376578	18%	4%	391641	333154	18%
NNPA	251656	218871	243006	15%	4%	251656	218871	15%
GNPA (%)	10.5	9.8	10.6	70 bps	-5 bps	10.5	10	70 bps
NNPA (%)	7.0	6.7	7.1	33 bps	-7 bps	7.0	7	33 bps
PCR (%)	54.8	51.8	54.5	300 bps	23 bps	55	52	300 bps
RoA (%)	0.2	0.3	0.2	-7 bps	1 bps	0.4	0.4	-6 bps

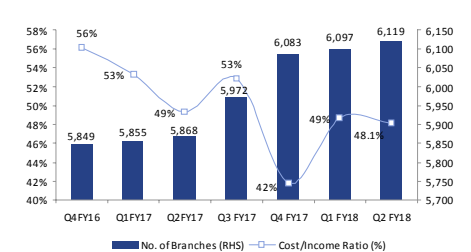
Improved C/D Ratio resulted in better NIMs



CASA expected to improve as new branches get matured



C/I Ratio to improve gradually as new branches get matured



Source: Company, SPA Research

Financials

Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	440221	413876	406245	417975
<i>Growth (%)</i>	<i>0.6%</i>	<i>-6.0%</i>	<i>-1.8%</i>	<i>2.9%</i>
Interest Expended	342588	315159	299856	298981
Net interest income	97634	98718	106389	118994
<i>Growth</i>	<i>1.0%</i>	<i>1.1%</i>	<i>7.8%</i>	<i>11.8%</i>
Other Income	48752	75544	82949	91570
Net Income	146386	174262	189338	210564
Operating Expenditure	74919	85123	89484	93684
Pre Provisioning Profit	71467	89139	99854	116879
Provisions & Contingencies	103324	72720	83225	87070
PBT	(31858)	16419	16629	29809
Tax	(3730)	5200	4157	7452
PAT	(28128)	11219	12472	22357
<i>Growth</i>	<i>-204.1%</i>	<i>-139.9%</i>	<i>11.2%</i>	<i>79.3%</i>
EPS (INR)	(50.4)	18.8	20.9	37.4

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	5430	5973	5973	5973
Reserves	310602	330882	343354	365711
Total Shareholders Funds	316032	336855	349327	371684
Total Deposits	4797916	4952752	5012185	5262795
<i>Growth</i>	<i>1.3%</i>	<i>3.2%</i>	<i>1.2%</i>	<i>5.0%</i>
Borrowings	268733	395036	414787	439675
Other Liabilities & Provisions	146927	150551	160660	170594
Total Liabilities	5529608	5835194	5936960	6244747
APPLICATION OF FUNDS				
C/B with RBI and Call Money	567337	588255	599145	476917
Investments	1423093	1502659	1166989	1081808
Advances	3247148	3420088	3830047	4327722
<i>Growth</i>	<i>-1.6%</i>	<i>5.3%</i>	<i>12.0%</i>	<i>13.0%</i>
Fixed Assets	71981	71683	73117	74579
Other Assets	220049	252510	267661	283720
Total Assets	5529608	5835194	5936960	6244747

Key Ratios

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
EPS	-50	19	21	37
BVPS	566	564	585	622
ABVPS	193	202	189	204
DPS	-	-	-	-
Profitability Ratios				
Yield on Advances	9.6%	8.9%	8.3%	8.1%
Cost of Deposits	7.1%	6.3%	5.8%	5.6%
Net Interest Margin (Calc)	1.9%	1.8%	1.9%	2.1%
RoA	-0.5%	0.2%	0.2%	0.4%
RoE	-8.9%	3.4%	3.6%	6.2%
Balance Sheet Ratios				
Credit/Deposit Ratio	67.7%	69.1%	76.4%	82.2%
Investment/Deposit Ratio	29.7%	30.3%	23.3%	20.6%
CASA Ratio	25.7%	30.2%	32.6%	34.1%
Capital Adequacy Ratio (CAR)	11.1	12.9	11.9	11.1
Tier I	8.8	9.8	9.2	8.7
Asset Quality Ratios				
GNPA (INR mn)	316378	342020	384715	420274
NNPA (INR mn)	208329	216490	236600	250063
Gross NPA	9.2%	9.4%	9.5%	9.2%
Net NPA	6.4%	6.3%	6.2%	5.8%
PCR (incl. technical w/off)	49.7%	55.2%	58.9%	62.1%
Efficiency Ratios				
Cost to Income Ratio	51.2%	48.8%	47.3%	44.5%
Business per Employee (in INR mn)	149	150	156	167
Profit per Employee (in INR mn)	-0.5	0.2	0.2	0.4
Valuation Ratios				
P/E (x)	NA	16.1	16.9	9.4
P/ABV (x)	1.0	1.5	1.9	1.7
Dividend Yield	0%	0%	0%	0%

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