

Canara bank reported higher NII of INR 36.8bn (52% y-o-y & 32% q-o-q) as there was a onetime income on interest on income tax refund of INR 7.4bn. Net total Income of INR 52.4bn (25% y-o-y & 11% q-o-q) & total opex of INR 24.1bn (9% y-o-y & 8% q-o-q) resulted in lower cost to income ratio of ~46% (-686bps y-o-y & -143 q-o-q). Elevated provisions of INR 26.7bn (80% y-o-y & 24% q-o-q) resulted in lower PAT of INR 1.25bn (-61% y-o-y & -52% q-o-q). Loan book stood at INR 3.73tn (13% y-o-y & 4% q-o-q) for the quarter. GNPA in absolute terms remained stable at INR 403bn (3% q-o-q) as both slippages and recoveries fell by ~20% q-o-q.

Asset Quality remains stressed

GNPA / NNPA declined marginally by 13bps/24bps q-o-q to 10.4%/6.8% respectively. PCR stood at 55.8% (106 bps q-o-q). GNPA in absolute terms increased by (3% q-o-q) to INR 403bn despite lower slippages of INR 26.4bn (-22% q-o-q) as recoveries / upgrades too fell by -20% q-o-q to INR 14.9bn. Total exposure of the bank for NCLT lists 1 & 2 are INR 102.2bn / INR 50bn respectively. List 1 cases are in the bid evaluation stage and the bank expects the resolution of cases by 1QFY19. Bank has guided that resolutions have started forming for more than 40% of the total GNPA. SDR/5:25/OSRL stood at 1.4%/1.8%/1.9% of advances. SMA-2 advances stood at INR 148.8b (4% of the advances). Moratorium granted under SDR and S4A are coming to an end in FY18 (~INR 10bn). Technical W/off pool stood at INR 165bn and the management has guided ~10% recoveries every year. Bank is yet to receive the final report from the RBI for the divergence.

Advances growth of 13% led by Retail and MSE Segment

NII stood at INR 36.8bn (52% y-o-y & 32% q-o-q) largely due to onetime income on interest on income tax refund of INR 7.4bn. NIMs for the quarter stood at 2.6% (4bps q-o-q & 30bps y-o-y) and loan book stood at INR 3.73tn (13% y-o-y & 4% q-o-q) led by high growth in Retail/MSE/MSME segments (33%/27%/16% y-o-y) which comprises 20%/17%/22% of the total loan book respectively. Corporate book as a % of total advances has gone down from 41% in Q3 FY17 to 37% in Q3 FY18 which in turn has hampered the overall growth in advances. We expect this to decrease further going ahead as the bank's focus shifts from corporate to retail

and MSME segments. CASA stood at INR 1.57tn (2.5% y-o-y & 1.6% q-o-q). CASA (%) stood at INR 33.8% (171bps y-o-y). Cost of deposits declined by 11bps q-o-q to 5.59%.

Other Highlights

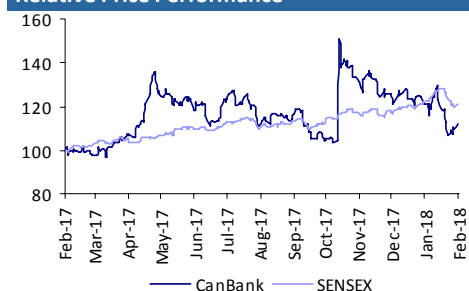
- Bank plans to raise INR 10bn through QIP by FY18E and has taken an approval to raise INR 35bn of equity.
- CET1 ratio/tier 1 ratio/CAR stood at 8.75%/9.57%/12.49% respectively.
- Standard Restructured: INR70bn (approx. 80% overlap is reflected in the SDR & S4A).
- Bank is planning to divest its stake in Canfin homes
- Canara Bank added 60 branches during the quarter taking the total strength of branches to 6179.

Outlook & Valuation

The new restructuring scheme by RBI is relatively stringent and will result in faster recognition of NPAs reducing the gap between stressed & NPA assets. The new scheme is also applicable for existing stressed accounts under resolution and will warrant higher provisioning if not resolved as they move to the IBC. We expect Canara bank to report high credit cost going ahead which will adversely impact the earnings and keep return ratios (5.3% ROE for FY19E) subdued over the next 5-6 quarters. Faster resolution of stress assets will remain a key monitor able. We have factored in equity infusion of INR 10bn in our numbers and revised our FY18/19 estimates. We revise our rating from HOLD to BUY with a TP of INR 384 (INR 390 earlier) based on SOTP (0.6x P/BV for the bank & INR 13 per share for other investments).

Shareholding (%)	Dec-17
Promoters	66.3
FII's	0.00
DII's	27.58
Others	1.37

Relative Price Performance

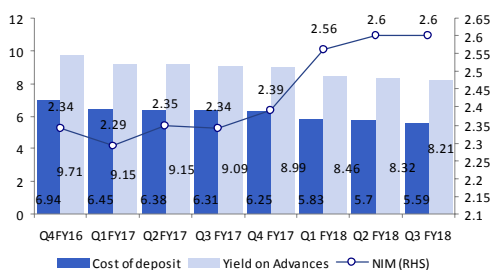
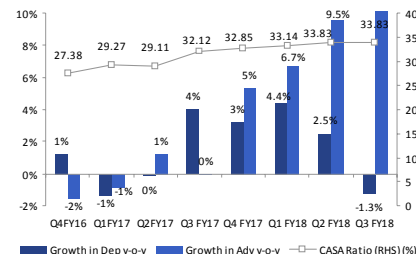
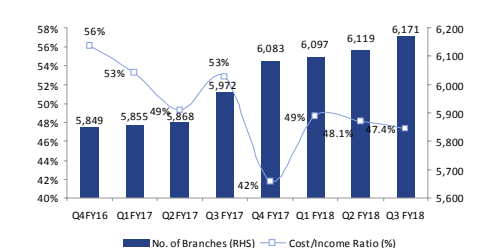


Key Data	
BSE Code	532483
NSE Symbol	CANBK
Bloomberg Code	CBK IN
Reuters Code	CNBK.BO
Shares Outstanding (mn)	597
Face Value	10
Mcap (INR bn)	181.49
52 Week H/L	463/281
2W Avg. Vol, BSE	399883
Beta	2.11

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	440221	413876	411385	438085
Interest Expended	342588	315159	289602	305852
Net interest income	97634	98718	121784	132234
Growth	1.0%	1.1%	23.4%	8.6%
NIM	1.9%	1.8%	2.2%	2.2%
APAT	(28128)	11219	8028	18839
Growth	-204.1%	-139.9%	-28.4%	134.7%
Adj. EPS (INR)	(50.4)	18.8	13.4	31.5
ABV (INR)	193	202	149	161
P/ABV (x)	1.0	1.5	2.4	2.2
Net NPA (%)	6.4%	6.3%	6.7%	6.3%
RoA	-0.5%	0.2%	0.1%	0.3%
RoE	-8.9%	3.4%	2.4%	5.3%

Quarterly Financials

Particulars (INR mn)	Q3 FY18	Q3 FY17	Q2 FY18	y-o-y	q-o-q	9M FY18	9M FY17	y-o-y
Interest Earned	107746	102877	100585	5%	7%	310287	308947	0%
Interest Expended	70955	78739	72751	-10%	-2%	218529	237312	-8%
Net Interest Income	36791	24138	27834	52%	32%	91757	71636	28%
Domestic NIM (%)	2.6	2.3	2.6	30 bps	4 bps	NA	NA	NA
Other Income	15665	17917	19362	-13%	-19%	56112	51581	9%
Net Total Income	52456	42055	47196	25%	11%	147869	123217	20%
Operating Expenses	24142	22242	22397	9%	8%	70033	63807	10%
Employee Cost	14084	13057	13773	8%	2%	41374	37309	11%
Other operating expenses	10058	9184	8625	10%	17%	28659	26499	8%
Cost/Income Ratio (%)	46.0%	52.9%	47.5%	-686 bps	-143 bps	47.4%	51.8%	-442 bps
Operating Profits	28314	19813	24798	43%	14%	77836	59410	31%
Provisions & Contingencies	26736	14846	21566	80%	24%	70341	45632	54%
Profit Before Tax	1577	4968	3232	-68%	-51%	7495	13777	-46%
Provision for Tax	320	1749	630	-82%	-49%	1120	4700	-76%
Net Profit	1257	3219	2602	-61%	-52%	6375	9077	-30%
EPS	2.1	5.9	4.4	-64%	-52%	10.7	16.3	-34%
Equity	5973	5430	5973	10%	0%	5973	5430	10%
Advances	3731230	3316364	3582552	13%	4%	3731230	3316364	13%
Deposits	5038880	5103275	4964398	-1%	2%	5038880	5103275	-1%
Advance / Deposit Ratio (%)	74.0%	65.0%	72.2%	906 bps	188 bps	74.0%	65.0%	906 bps
GNPA	403120	343387	391641	17%	3%	403120	343387	17%
NNPA	252953	222958	251656	13%	1%	252953	222958	13%
GNPA (%)	10.4	10.0	10.5	41 bps	-13 bps	10.4	10.0	41 bps
NNPA (%)	6.8	6.7	7.0	6 bps	-24 bps	6.8	6.7	6 bps
PCR (%)	55.8	52.5	54.8	329 bps	106 bps	55.8	52.5	329 bps
RoA (%)	0.1	0.2	0.2	-14 bps	-10 bps	0.1	0.2	-14 bps

Stable 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	411385	438085
<i>Growth (%)</i>	0.6%	-6.0%	-0.6%	6.5%
Interest Expended	342588	315159	289602	305852
Net interest income	97634	98718	121784	132234
<i>Growth</i>	1.0%	1.1%	23.4%	8.6%
Other Income	48752	75544	75328	84494
Net Income	146386	174262	197112	216728
Operating Expenditure	74919	85123	92656	99412
Pre Provisioning Profit	71467	89139	104455	117316
Provisions & Contingencies	103324	72720	94420	92198
PBT	(31858)	16419	10035	25118
Tax	(3730)	5200	2007	6280
PAT	(28128)	11219	8028	18839
<i>Growth</i>	-204.1%	-139.9%	-28.4%	134.7%
EPS (INR)	(50.4)	18.8	13.4	31.5

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	5430	5973	5973	6276
Reserves	310602	330882	338910	362565
Total Shareholders Funds	316032	336855	344883	368841
Total Deposits	4797916	4952752	5106288	5770105
<i>Growth</i>	1.3%	3.2%	3.1%	13.0%
Borrowings	268733	395036	481943	568693
Other Liabilities & Provisions	146927	150551	151265	154501
Total Liabilities	5529608	5835194	6084379	6862141
APPLICATION OF FUNDS				
C/B with RBI and Call Money	567337	588255	584536	657228
Investments	1423093	1502659	1320525	1484541
Advances	3247148	3420088	3838540	4362072
<i>Growth</i>	-1.6%	5.3%	12.2%	13.6%
Fixed Assets	71981	71683	73117	74579
Other Assets	220049	252510	267661	283720
Total Assets	5529608	5835194	6084379	6862141

Key Ratios

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
EPS	-50	19	13	32
BVPS	566	564	577	618
ABVPS	193	202	149	161
DPS	-	-	-	3.2
Profitability Ratios				
Yield on Advances	10.0%	9.5%	8.6%	8.5%
Cost of Deposits	7.1%	6.3%	5.5%	5.4%
Net Interest Margin (Calc)	1.9%	1.8%	2.2%	2.2%
RoA	-0.5%	0.2%	0.1%	0.3%
RoE	-8.9%	3.4%	2.4%	5.3%
Balance Sheet Ratios				
Credit/Deposit Ratio	67.7%	69.1%	75.2%	75.6%
Investment/Deposit Ratio	29.7%	30.3%	25.9%	25.7%
CASA Ratio	25.7%	30.2%	31.8%	32.4%
Capital Adequacy Ratio (CAR)	11.1	12.9	12.3	11.7
Tier I	8.8	9.8	9.6	9.3
Asset Quality Ratios				
GNPA (INR mn)	316378	342020	415917	458566
NNPA (INR mn)	208329	216490	255789	272847
Gross NPA	9.4%	9.6%	10.4%	10.1%
Net NPA	6.4%	6.3%	6.7%	6.3%
PCR (incl. technical w/off)	49.7%	55.2%	57.6%	60.2%
Efficiency Ratios				
Cost to Income Ratio	51.2%	48.8%	47.0%	45.9%
Business per Employee (in INR mn)	149	150	155	172
Profit per Employee (in INR mn)	-0.5	0.2	0.1	0.3
Valuation Ratios				
P/E (x)	-3.7	16.1	26.2	11.2
P/ABV (x)	1.0	1.5	2.4	2.2
Dividend Yield	0.0%	0.0%	0.0%	0.9%

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