

Canara Bank

Sensex: 36170

CMP: INR 261

Target: INR 247



BFSI

Canara Bank reported NII of INR 32.8bn (-15% q-o-q & 18% y-o-y) largely due to one-off lumpy interest recovery of INR 5.2bn from resolution of Bhushan steel in Q1 FY19. Net total Income stood at INR 48.3bn (-15% q-o-q & 2% y-o-y) largely due to lower other income of INR 15.55bn (-15% q-o-q & -20% y-o-y). Elevated provision of INR 28.4bn (10% q-o-q & 31% y-o-y) and a tax write back of INR 8.1bn resulted positive PAT of INR 3bn (6% q-o-q & 15% y-o-y). Loan book for the quarter stood at INR 4.1tn (14% y-o-y & 6% q-o-q) while GNPA / NNPA stood at 10.6% / 7.0% respectively.

Asset Quality improved further

GNPA / NNPA declined and stood at 10.6% / 6.5% (-49bps / -35bps q-o-q). However GNPA / NNPA in absolute terms rose marginally to INR 452bn / 268bn (1.3% / 0.3% q-o-q). Gross annualized slippage ratio moderated to 3.4% vs. 3.7% average for last 7 quarters excl. Q4 FY18 where it climbed to 13.2%. Recoveries and upgrades were down by (-60% q-o-q & 163% y-o-y) largely due to one off lumpy recovery of a large steel account in Q1FY19. Three accounts have been resolved from NCLT list 1. Exposure to List 1 and List 2 stood at INR 88.9bn and INR 54.7bn with a PCR of 62.8% and 76.7% respectively. The bank expects to reach a PCR of 45-46% excluding TWO and 65% including TWO in FY19E. Recovery from resolutions in FY19E should amount to ~INR 45-50bn which include Uttam Galva (amount received), Essar Steel (expected), Binani cement (expected) and Bhushan Power (resolution expected soon). In addition to this, the process of one time settlement and ARC sales will continue. Provision on Essar steel is 50%. The SMA 1 / SMA 2 / S4A std / 5:25 std book is INR 36.2bn / INR 51.7bn / INR 1.1bn / INR 25.6bn respectively. The total exposure to power sector is INR 297 bn of which INR 122 bn, INR 35 bn and INR 141 bn is towards private, central and state power sector respectively. 48% of the private power sector (~INR 58bn) is already NPA. Of these, 9 accounts worth INR 18-20bn under Samadhan scheme have gone to Supreme Court. 7-8 accounts under 5:25 scheme in power sector are doing well and will remain standard. Within 5:25 scheme, Tamil Nadu Power exposure of INR 3bn slipped into NPA in Q2 FY19. The bank has availed MSME dispensation of 180 days for some accounts and exposure towards same is INR 6bn.

Advance growth of 14% y-o-y led by Retail and MSE Segment

Reported domestic NIMs stood at 2.74% (-1bps q-o-q & 14bps y-o-y) and net advances stood at INR 4.09tn (14% y-o-y & 6% q-o-q). Retail (core) / MSE loan book grew by 35%/26% y-o-y which comprises of 19% / 17% of the total loan book respectively. Growth in retail loan book was led by housing (direct / indirect), other retail loans and vehicle loans which grew by 30% , 74% , 32% y-o-y and comprises of 34%, 31%, 8% of the total retail book respectively. CASA in absolute terms rose by 4.3% q-o-q to INR 1.70tn while global CASA (%) stood at 32.3%. Non-interest income declined by 19.7% y-o-y and 15.1% q-o-q largely due to 98.8% y-o-y decline in treasury income. Despite lower opex of INR 25.1bn (-10 q-o-q & 12% y-o-y) cost to income ratio rose

to 51.9% (319bps q-o-q & 442bps y-o-y) as net total income declined and stood at INR 48.4bn (-15% q-o-q & 2% y-o-y).

Other Highlights

- Plans to sell CanFin Home stake in FY19E.
- CET1 ratio/tier 1 ratio/CAR stood at 9.11%/9.86%/12.62% respectively.
- Canara Bank added 1 branch during the quarter taking the total strength of branches to 6300.
- NBFC exposure is INR 460bn. The bank is looking to finance only A and above rated entities.
- IL&FS exposure is ~INR 25 bn. At present 13 entities of group are enjoying limits with the bank, of which 2 are substandard with INR 4 bn exposure. Another INR 8 bn are 3 road projects which may slip into NPA. One account has been closed recently. ITNL exposure is INR 6 bn. INR 1.3 bn exposure is to financial services business. No exposure to parent IL&FS.

Guidance

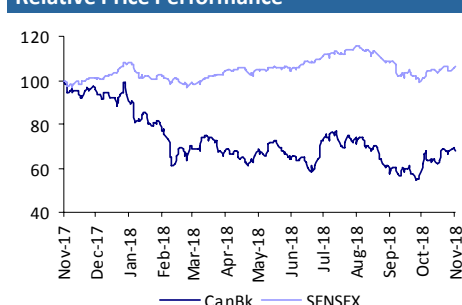
- The bank will be raising INR 70 bn growth capital in FY19E, of which INR 60bn will be equity by way of QIP or rights issue and INR 10bn through ESOPs.
- Slippages expected to be ~INR 30bn each for the next 2 quarters.
- Domestic NIM of ~2.75% by FY19.
- Credit cost expected to be <2% for H2FY19.
- The bank is planning to cross business of INR 10 tn by FY19. Within advances it is looking at RAM: corporate proportion of 60:40.

Outlook & Valuation

While operating & return metrics are in line with our expectations, equity dilution below book value in FY19E (trading at ~47% discount to current book value) and the risk of amalgamation with weaker PSU banks has elevated. Resolution mechanisms may provide some recoveries in assets and remains a key monitorable. Considering the above risks, we have reduced our target multiple to 0.5x from 0.6x P/BV FY20E and revise our rating from BUY to HOLD with a TP of INR 247 based on SOTP (0.5x P/BV FY20E for the bank and INR 7 per share for other investment).

Shareholding (%)	Sep-18
Promoters	72.55
FPI's / FI's	5.17
DII's	16.75
Others	5.53

Relative Price Performance



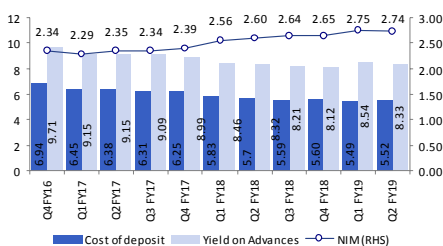
Key Data	
BSE Code	532483
NSE Symbol	CANBK
Bloomberg Code	CBK IN
Reuters Code	CNBK.BO
Shares Outstanding (mn)	733
Face Value	10
Mcap (INR bn)	192.29
52 Week H/L	390/205
2W Avg. Vol, NSE, 000	7212
CMP	261
Beta	1.87

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
Interest income	413876	412521	458763	524339
Interest Expended	315159	290888	311351	353519
Net interest income	98718	121633	147412	170820
Growth	1.1%	23.2%	21.2%	15.9%
NIM	1.8%	2.2%	2.4%	2.5%
APAT	11219	(42223)	11704	29080
Growth	NA	NA	NA	148.5%
Adj. EPS (INR)	18.8	NA	16.0	39.7
BV (INR)	564	486	583	619
P/BV (x)	0.54	0.55	0.43	0.41
Net NPA (%)	6.3%	7.5%	5.5%	4.3%
RoA	0.2%	-0.7%	0.2%	0.4%
RoE	3.4%	-12.2%	3.0%	6.6%

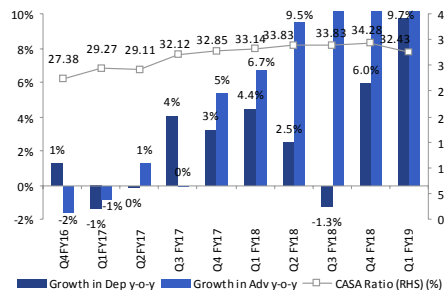
Quarterly Financials

Particulars (INR mn)	Q2 FY19	Q2 FY18	Q1 FY19	y-o-y	q-o-q	H1 FY19	H1 FY18	y-o-y
Interest Earned	111238	100585	113596	11%	-2%	224833	202540	11%
Interest Expended	78425	72751	74767	8%	5%	153191	147574	4%
Net Interest Income	32813	27834	38829	18%	-15%	71642	54966	30%
Domestic NIM (%)	2.74	2.60	2.75	14 bps	-1 bps	NA	NA	NA
Other Income	15553	19362	18329	-19.7%	-15.1%	33882	40447	-16%
Net Total Income	48366	47196	57158	2%	-15%	105524	95413	11%
Operating Expenses	25092	22397	27830	12%	-10%	52922	45891	15%
Employee Cost	15524	13773	15169	13%	2%	30693	27290	12%
Other operating expenses	9568	8625	12661	11%	-24%	22229	18601	20%
Cost/Income Ratio (%)	51.9%	47.5%	48.7%	442 bps	319 bps	50.2%	48.1%	205 bps
Operating Profits	23274	24798	29328	-6%	-21%	52602	49522	6%
Provisions & Contingencies	28351	21566	25823	31%	10%	54174	43604	24%
Profit Before Tax	(5078)	3232	3505	-257%	NA	(1573)	5918	NA
Provision for Tax	(8073)	630	690	-1381%	NA	(7383)	800	NA
Net Profit	2995	2602	2815	15%	6%	5810	5118	NA
EPS	4.1	4.4	3.8	-6%	NA	8	9	NA
Equity	7332	5973	7332	23%	0%	7332	5973	23%
Advances	4095290	3582552	3862520	14%	6%	4095290	3582552	14%
Deposits	5519260	4964398	5332740	11%	3%	5519260	4964398	11%
Advance / Deposit Ratio (%)	74.2%	72.2%	72.4%	204 bps	177 bps	74.2%	72.2%	204 bps
GNPA	452332	391641	446596	15%	1.3%	474685	342020	39%
NNPA	267776	251656	266935	6%	0.3%	285424	216490	32%
GNPA (%)	10.6	10.5	11.1	5 bps	-49 bps	10.6	10.5	5 bps
NNPA (%)	6.5	7.0	6.9	-48 bps	-37 bps	6.5	7.0	-48 bps
PCR (%)	61.4	54.8	60.7	664 bps	70 bps	61.4	54.8	664 bps
RoA (%)	0.2	0.2	0.2	1 bps	1 bps	0.4	0.4	2 bps

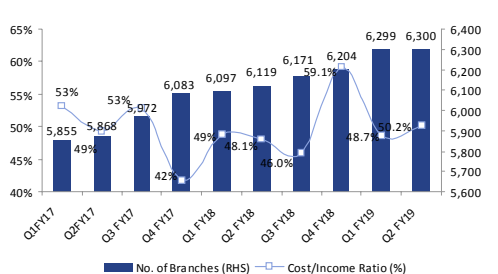
NIMs declined q-o-q due to one-off lumpy interest recovery in Q1 FY19



Domestic CASA stable at 32.34%



C/I Ratio declined largely due to lower Net total Income



Source: Company, SPA Research

Financials

Income Statement

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
Interest income	413876	412521	458763	524339
<i>Growth (%)</i>	-6.0%	-0.3%	11.2%	14.3%
Interest Expended	315159	290888	311351	353519
Net interest income	98718	121633	147412	170820
<i>Growth</i>	1.1%	23.2%	21.2%	15.9%
Other Income	75544	69429	70975	74134
Net Income	174262	191061	218387	244954
Operating Expenditure	85123	95579	106263	115326
Pre Provisioning Profit	89139	95482	112124	129628
Provisions & Contingencies	72720	161091	100976	86225
PBT	16419	(65609)	11147	43403
Tax	5200	(23386)	(557)	14323
PAT	11219	(42223)	11704	29080
<i>Growth</i>	NA	NA	NA	148.5%
EPS (INR)	18.8	NA	16.0	39.7

Balance Sheet

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	5973	7332	9475	9475
Reserves	330882	348716	418277	444450
Total Shareholders Funds	336855	356048	427753	453925
Total Deposits	4952752	5247719	5851206	6553351
<i>Growth</i>	3.2%	6.0%	11.5%	12.0%
Borrowings	395036	388085	426894	490928
Other Liabilities & Provisions	150551	177009	145672	161403
Total Liabilities	5835194	6168861	6851525	7659607
APPLICATION OF FUNDS				
C/B with RBI and Call Money	588255	499123	531697	530620
Investments	1502659	1440537	1477632	1575102
Net Advances	3420088	3817030	4446890	5142124
<i>Growth</i>	5.3%	11.6%	16.5%	15.6%
Fixed Assets	71683	83186	82770	83598
Other Assets	252510	328985	312535	328162
Total Assets	5835194	6168861	6851525	7659607

Key Ratios

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
Per Share Data (INR)				
EPS	19	NA	16	40
BVPS	564	486	583	619
ABVPS	202	96	251	315
DPS	-	-	-	4.0
Profitability Ratios				
Yield on Advances	9.5%	8.6%	8.7%	8.7%
Cost of Deposits	6.3%	5.6%	5.5%	5.4%
Net Interest Margin	1.8%	2.2%	2.4%	2.5%
RoA	0.2%	-0.7%	0.2%	0.4%
RoE	3.4%	-12.2%	3.0%	6.6%
Balance Sheet Ratios				
Credit/Deposit Ratio	69.1%	72.7%	76.0%	78.5%
Investment/Deposit Ratio	30.3%	27.5%	25.3%	24.0%
CASA Ratio	30.2%	31.8%	31.2%	31.2%
Capital Adequacy Ratio (CAR)	12.9	13.2	13.6	13.3
Tier I	9.8	10.3	10.7	10.3
Asset Quality Ratios				
GNPA (INR mn)	342020	474685	425100	403882
NNPA (INR mn)	216490	285424	243413	223143
Gross NPA	9.6%	11.8%	9.2%	7.6%
Net NPA	6.3%	7.5%	5.5%	4.3%
PCR (incl. technical w/off)	55.2%	57.9%	63.0%	65.0%
Efficiency Ratios				
Cost to Income Ratio	48.8%	50.0%	48.7%	47.1%
Business per Employee (in INR mn)	150	154	171	192
Profit per Employee (in INR mn)	0.2	-0.7	0.2	0.5
Valuation Ratios				
P/E (x)	16.1	NA	15.8	6.3
P/BV (x)	0.5	0.5	0.4	0.4
Dividend Yield	0.0%	0.0%	0.0%	1.6%

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