

# Canara Bank

Refer to important disclosures at the end of this report

## QIP to shore up core capital levels but will need more to support growth

- After the first round of capital raise in Dec'20 (Rs20bn at Rs109 per share), CBK raised Rs25bn this week via the second tranche of QIP at a better price of Rs149.3 per share. We believe that the capital raise will mainly shore up its capital ratios, which remain sub-par compared to peers after the merger with Syndicate Bank.
- The second round of QIP was subscribed by LIC (15.9%), BNP Paribas (12.6%), Societe Generale (8%), Indian Bank (6.4%), ICICI Pru Life insurance (6.4%), Morgan Stanley (6.2%) and Volrado Ventures (6.1%). Major investors in the Dec'20 QIP were LIC (25%), BNP Paribas (9.1%), Nippon Life (8.8%) and Societe Generale (7.9%). After the QIP, the government's stake has fallen to 62.9% from 69.3%.
- The fresh QIP will improve CET-1 by 48bps to 9.3% (8.9% in Q1FY22), Tier-1 to 10.8% (10.3% in Q1FY22) and overall CAR to 13.8% (13.4% in Q1FY22). However, the CET-1 ratio still remains relatively lower vs. the large peers (9.8% - 11.6%). Thus, we believe that CBK needs to further raise capital either from the market or via a stake sale in subsidiaries (Life Insurance/CanFin homes).
- After the capital raise at Rs149.3 per share (0.5x Jun'21 ABV), our estimated ABV for FY22-24 has come down by ~4-5% without factoring in growth/margins related benefits from the capital raise.
- CBK had reduced headline NPAs in Q1 (down 43bps qoq to 8.5%). It has identified NPAs to the tune of Rs51.5bn (0.8% of loans) to be transferred to NARCL. This will further bring down NPAs in Q2/Q3, which could be a near-term positive. CBK has also shored up the specific provision cover to 61%, which otherwise has been an irritant.
- We believe that merger-related concerns are largely behind and the bank should report a gradual improvement in its RoA/RoE to 0.4-0.5%/10-11% by FY23E-24E, led by better growth and moderate LLP. Retain Buy with a TP of Rs185, valuing the core bank at 0.6x Sep'23E ABV and subs at Rs22 per share.
- Key risks to our call/estimates: Higher-than-expected NPA formation in retail/SME, a slower growth trajectory and a sharp rise in G-Sec yields leading to lower treasury gains.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 6\)](#)

<b>CMP</b>	<b>Target Price</b>
<b>Rs 156</b> as of (August 24, 2021)	<b>Rs 185 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>18.8 %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-4/-9
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	20.5	30.4
Consensus	23.3	29.5
Mean Consensus TP (12M)	Rs 174	

### Stock Details

Bloomberg Code	CBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,647
52 Week H/L	175 / 82
M Cap (Rs bn/USD bn)	256 / 3.46
Daily Avg Volume (nos.)	15,279,640
Daily Avg Turnover (US\$ mn)	31.8

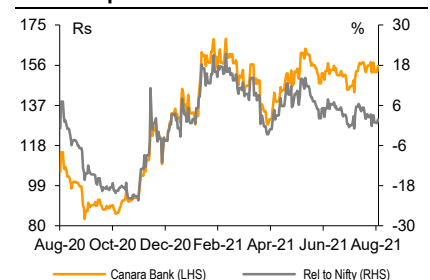
### Shareholding Pattern Jun '21

Promoters	69.3%
FIIIs	3.9%
DIIIs	12.4%
Public and Others	14.4%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	7	1	(3)	50
<b>Rel. to Nifty</b>	2	(8)	(13)	4

### Relative price chart



Source: Bloomberg

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	209,371	394,241	403,945	432,640	477,977
Net profit	(22,357)	26,344	35,477	55,124	70,405
EPS (Rs)	(21.7)	19.7	20.5	30.4	38.8
ABV (Rs)	203.0	259.8	247.7	265.5	306.9
RoA (%)	(0.3)	0.3	0.3	0.4	0.5
RoE (%)	(7.1)	6.3	6.6	9.3	10.9
PE (x)	(7.2)	7.9	7.6	5.1	4.0
P/ABV	0.7	0.6	0.6	0.6	0.5

Source: Company, Emkay Research

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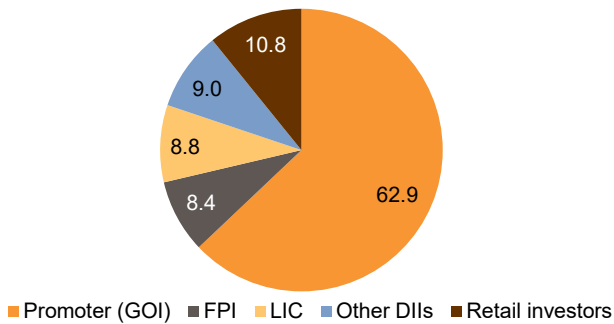
## Story in charts

**Exhibit 1: Key investors in latest QIP**

	Number of shares (mn)	Value (Rs mn)	% of Total issue
LIC	26.6	3,973	15.9
BNP Paribas	21	3,136	12.6
Societe General	13.3	1,986	8.0
Indian Bank	10.6	1,583	6.4
ICICI Prudential Life insurance	10.6	1,583	6.4
Morgan Stanley	10.3	1,538	6.2
Volrado Venture Partners	10.1	1,508	6.1
	102.5	15,308	61.4
Other investor (lower than 5% of issue)	64.9	9,692	38.6
<b>Total Issue</b>	<b>167.4</b>	<b>25,000</b>	<b>100</b>

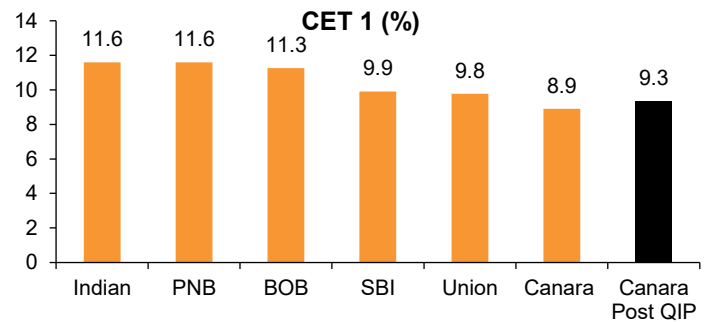
Source: Company, Emkay Research

**Exhibit 2: Shareholding pattern post QIP**



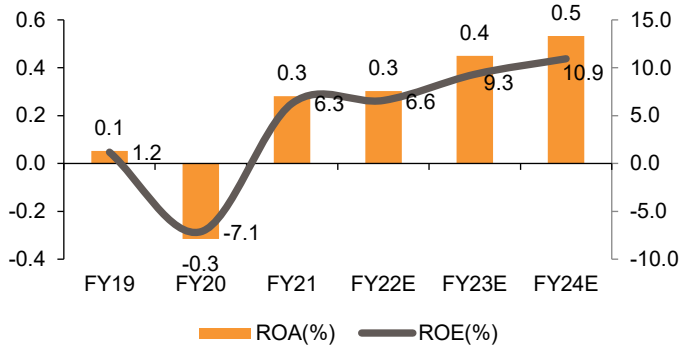
Source: Company, Emkay Research

**Exhibit 3: Post QIP, Canara Bank CET-1(%) will improve by 48bps to 9.3%**



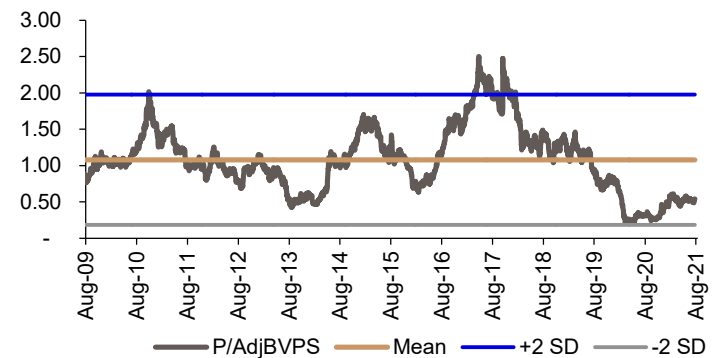
Source: Company, Emkay Research

**Exhibit 4: Return ratio to improve by FY24E**



Source: Company, Emkay Research

**Exhibit 5: The stock trades at 0.5x -1-Year forward ABV**



Source: Company, Emkay Research

**Exhibit 6: Estimate revision**

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	403,945	403,945	0.00%	432,640	432,640	0.00%	477,977	477,977	0.00%
PPOP	200,136	200,136	0.0%	212,776	212,776	0.0%	236,905	236,905	0.0%
PAT	35,477	35,477	0.0%	55,124	55,124	0.0%	70,405	70,405	0.0%
EPS (Rs)	21.5	20.5	-4.8%	33.5	30.4	-9.2%	42.8	38.8	-9.2%
BV (Rs)	330.2	328.6	-0.5%	358.7	338.8	-5.5%	394.4	370.6	-6.0%

Source: Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>131,239</b>	<b>240,622</b>	<b>251,636</b>	<b>279,253</b>	<b>316,362</b>
<b>Other income</b>	<b>78,132</b>	<b>153,620</b>	<b>152,308</b>	<b>153,387</b>	<b>161,615</b>
Fee income	12,571	52,430	55,052	60,557	69,640
<b>Net income</b>	<b>209,371</b>	<b>394,241</b>	<b>403,945</b>	<b>432,640</b>	<b>477,977</b>
Operating expenses	115,772	193,381	203,809	219,863	241,073
<b>Pre provision profit</b>	<b>93,598</b>	<b>200,860</b>	<b>200,136</b>	<b>212,776</b>	<b>236,905</b>
<b>PPP excl treasury</b>	<b>86,004</b>	<b>167,700</b>	<b>170,292</b>	<b>185,917</b>	<b>212,731</b>
Provisions	111,154	163,021	152,707	139,082	142,780
<b>Profit before tax</b>	<b>(17,556)</b>	<b>37,840</b>	<b>47,429</b>	<b>73,695</b>	<b>94,124</b>
Tax	4,802	11,496	11,952	18,571	23,719
Tax rate	(27)	30	25	25	25
<b>Profit after tax</b>	<b>(22,357)</b>	<b>26,344</b>	<b>35,477</b>	<b>55,124</b>	<b>70,405</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	10,302	16,467	18,141	18,141	18,141
Reserves	382,627	572,382	630,278	676,331	734,037
<b>Net worth</b>	<b>392,930</b>	<b>588,849</b>	<b>648,419</b>	<b>694,472</b>	<b>752,178</b>
Deposits	6,253,512	10,108,746	10,660,662	11,415,734	12,227,906
Borrowings	276,125	333,193	266,555	239,899	227,904
<b>Total liabilities</b>	<b>7,238,749</b>	<b>11,536,750</b>	<b>11,869,941</b>	<b>12,636,325</b>	<b>13,764,017</b>
Cash and bank	225,701	431,116	477,672	501,556	526,633
Investments	1,762,449	2,616,904	2,747,923	2,810,177	3,000,947
Loans	4,321,752	6,390,490	6,860,124	7,569,038	8,487,899
Others	389,070	633,211	700,529	772,567	879,942
<b>Total assets</b>	<b>7,238,749</b>	<b>11,536,750</b>	<b>11,869,941</b>	<b>12,636,325</b>	<b>13,764,018</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.0	2.8	2.4	2.5	2.6
Non-II/avg assets	1.1	1.6	1.3	1.3	1.2
Fee income/avg assets	0.2	0.6	0.5	0.5	0.5
Opex/avg assets	1.6	2.1	1.7	1.8	1.8
Provisions/avg assets	1.6	1.7	1.3	1.1	1.1
PBT/avg assets	(0.2)	0.4	0.4	0.6	0.7
Tax/avg assets	0.1	0.1	0.1	0.2	0.2
RoA	(0.3)	0.3	0.3	0.4	0.5
RoAE	(7.1)	6.3	6.6	9.3	10.9
GNPA (%)	8.2	8.9	7.9	7.3	6.6
NNPA (%)	4.2	3.8	3.1	2.7	2.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	(21.7)	19.7	20.5	30.4	38.8
BVPS	319.9	380.3	328.6	338.8	370.6
ABVPS	203.0	259.8	247.7	265.5	306.9
DPS	0.0	0.0	0.5	5.0	7.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	(7.2)	7.9	7.6	5.1	4.0
P/BV	0.8	0.6	0.6	0.6	0.5
P/ABV	0.7	0.6	0.6	0.6	0.5
P/PPOP	1.7	1.2	1.4	1.3	1.1
Dividend Yield (%)	0.0	0.0	0.3	3.2	4.5

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	(9.4)	83.3	4.6	11.0	13.3
PPOP	(11.6)	114.6	(0.4)	6.3	11.3
PAT	(744.3)	(217.8)	34.7	55.4	27.7
Loans	1.0	47.9	7.3	10.3	12.1

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	60,956	62,965	60,809	55,892	61,466
NIM(%)	2.8	2.8	2.8	2.5	2.7
PPOP	42,855	46,398	53,816	57,026	57,507
PAT	4,062	4,444	6,961	10,109	11,775
EPS (Rs)	2.79	3.06	4.23	6.14	7.15

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Dec-20	Mar-21	Jun-21
Promoters	78.6	69.3	69.3	69.3	69.3
FII	2.3	4.5	8.0	4.6	3.9
DII	8.9	12.0	12.9	12.6	12.4
Public and Others	10.3	14.2	9.7	13.5	14.4

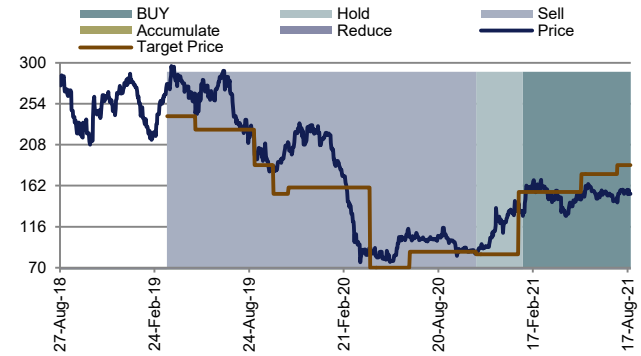
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Jul-21	143	185	12m	Buy	Anand Dama
20-May-21	147	175	12m	Buy	Anand Dama
29-Jan-21	132	155	12m	Buy	Anand Dama
20-Jan-21	142	155	12m	Hold	Anand Dama
31-Oct-20	86	85	12m	Hold	Anand Dama
26-Jun-20	105	88	12m	Sell	Anand Dama
11-Apr-20	92	70	12m	Sell	Anand Dama
24-Jan-20	219	160	12m	Sell	Anand Dama
7-Nov-19	210	160	12m	Sell	Anand Dama
9-Oct-19	184	153	12m	Sell	Anand Dama
3-Sep-19	197	185	12m	Sell	Anand Dama
25-Jul-19	239	225	12m	Sell	Anand Dama
13-May-19	243	225	12m	Sell	Anand Dama
20-Mar-19	276	240	12m	Sell	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>19.76</b>	<b>19.76</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.08	2.18	5%	10	11.03
AU Small Finance Bank	0.29	0.21	-30%	-9	1.04
Bandhan Bank	0.21	0.21	0%	0	1.05
Bank of Baroda	0.15	0.15	0%	0	0.74
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.12	0.12	0%	0	0.58
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.10
Federal Bank	0.17	0.21	24%	4	1.05
HDFC Bank	6.66	6.76	1%	9	34.19
ICICI Bank	5.06	5.22	3%	16	26.42
Indian Bank	0.00	0.02	NA	2	0.08
Indusind Bank	0.61	0.73	18%	11	3.68
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.41	2.07	-14%	-34	10.46
Punjab National Bank	0.12	0.00	-100%	-12	0.00
RBL Bank	0.08	0.06	-27%	-2	0.32
State Bank of India	1.68	1.83	9%	15	9.28
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	24-Aug-20	22-Feb-21	24-May-21	23-Jul-21	23-Aug-21
EAP - BFSI-Banks	100.0	79.2	119.7	119.8	119.8	120.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	78.1	117.6	117.2	117.2	118.3

\*Performance measurement base date 1<sup>st</sup> April 2019

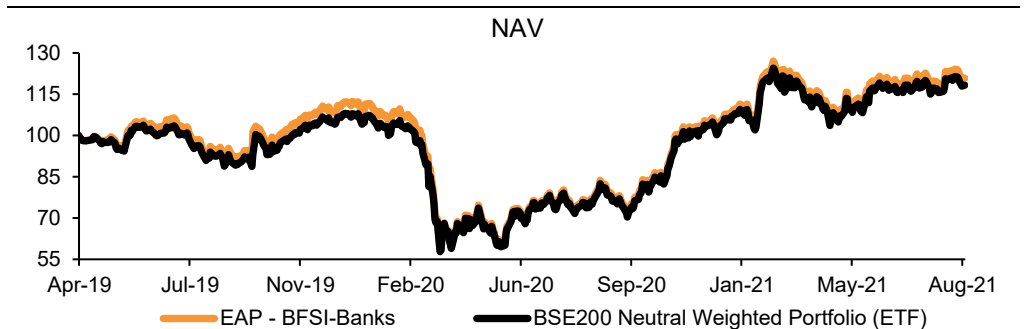
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	0.9%	0.9%	1.0%	52.7%
BSE200 Neutral Weighted Portfolio (ETF)	0.9%	0.9%	0.6%	51.4%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Aug 2021 04:33:32 (SGT)

Dissemination Date: 25 Aug 2021 04:34:32 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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