

CENTRAL BANK OF INDIA | PSU Banking

Credit cost normalization to improve return ratios

LKP

Price Analysis

After incurring losses for six consecutive years (FY16-FY21), Central Bank returned to profitability in FY22. Furthermore, the bank has been reporting consistent growth in net profit since last six quarters. A bulky provision (Rs30.8bn) made in 4QFY21, continued to safeguard the balance sheet with PCR (calculated) of 72% and PCR (including TWO) of 89%. The bank's margin (3.4% in the 2QFY23) is in upward trajectory with continuous improvement in CD ratio. On the business front, the bank has been reporting stable credit growth (18.1% YoY and 6.3% sequential jump seen in previous quarter) across segments. The bank's recoveries are in line with the guidance and we expect the credit cost to be below 1.5% for FY23E. Moreover, the bank has raised capital in FY22 which resulted in the CET -1 of 11.6% (at par). We believe the asset quality hurdles are behind and the bank shall witness gradual improvement in profitability with FY23E ROA/ROE of 0.5%/6.6%. With inexpensive valuation (0.8x PBVPS) we recommend BUY.

Gazing the core

Asset quality improvement continues: The absolute GNPA is decreasing gradually with lower slippages and higher recoveries. In previous quarter, slippages dropped sharply to Rs7.7bn (v/s Rs20.4b in 1QFY23) while higher recoveries and upgrades along with robust loan growth aided 520bp/90bp decline in the GNPA/NNPA ratios, respectively. PCR (Inc. TWO) improved 260bps sequentially to 89.2%. Total SMA overdue (1/2) are improving and dipped to 3.3% from 4.9% in 2QFY22. Further, the bank's restructured book (4%) is at par with peers and declining gradually. Factoring higher recoveries, we estimate the GNPA/NNPA ratio at 8.9%/2.5% at the end of FY23 with a stable PCR (calculated) of 74%.

Business growth on track; margin improving: On the business front, the bank has been reporting consistent credit growth with improving CD ratio. Recent quarter reported a sharp 18% YoY and 6.2% sequential growth in loan book driven by the RAM segment (67.5% of loan book) and guided for double-digit advances growth. The surplus SLR (30% of deposit) against the regulatory requirement of 18% may provide additional resources for lending.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
NII	76,288	82,450	94,868	98,053	1,09,498
PPOP	43,441	45,785	51,972	54,292	60,137
PAT	-11,214	-8,876	10,448	19,429	30,087
Networth	2,14,295	2,65,051	2,75,267	2,94,696	3,24,783
Loans	35,62,491	36,92,150	38,65,656	41,07,047	44,82,043
Deposits	31,37,632	32,99,729	34,26,919	36,32,535	39,59,463

Key Ratios (%)	FY20	FY21	FY22	FY23E	FY24E
EPS	-	-	1.2	2.2	3.5
BVPS	38	45	32	34	37
GNPA	18.9	16.6	14.8	8.9	8.0
NNPA	7.6	5.8	4.0	2.5	2.0
ROA	-0.3	-0.2	0.3	0.5	0.7
ROE	-6.5	-4.9	5.0	6.6	9.3

Rating	BUY
Current Market Price (₹)	26
12 M Price Target (₹)	37
Potential upside (%)	42

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	228
Free Float Market Cap (₹ bn) :	16
52-Week High / Low (₹)	27 / 16
2-Year High / Low (₹) :	30 / 12
1 Year Avg. Dly Traded Volume (in lakh)	65
BSE Code / NSE Symbol	532885 / CENTRALBK
Bloomberg :	CBOI IN

Shareholding Pattern

(%)	Sep-22	Jun-22	Mar-22	Dec-21
GOI	93.08	93.08	93.08	93.08
FPIs	0.10	0.09	0.11	0.10
MFs	0.15	0.11	0.07	0.06
Insurance	2.69	2.69	2.69	2.69
Others	3.98	4.03	4.05	4.07

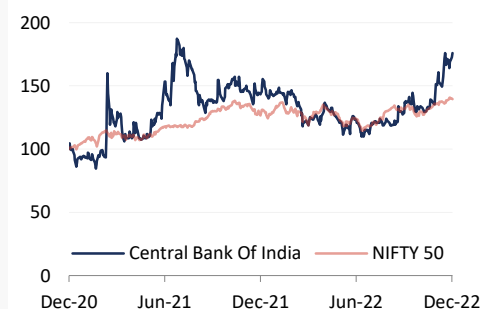
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Central Bank	16.3%	28.2%	42.7%	22.8%
Nifty 50	2.9%	5.6%	12.5%	10.2%

* To date / current date : December 6, 2022

Central Bank vs Nifty 50



We have incorporated a loan CAGR of 18% for FY22-24E. Improving CD ratio and higher CASA base (50% of deposit) will keep the NIMs in a range of 3.2% - 3.4%. The operating expenses are not likely to witness a sharp jump as the bank has up-fronted the entire pension-related provision in 4QFY22 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 0.5%/6.6% for FY23E.

Outlook and Valuation

On the back of digital lending platform, we expect the bank's loan book to fatten cautiously at CAGR of 18% over FY22-24E, led by RAM growth. In our opinion, the bank's credit cost will normalise (1.4%) by FY23E and estimate return ratio ROA/ROE of 0.5% and 6.6% in FY23E. We value Central Bank at 1x FY24E BVPS to arrive at a target price of Rs37. We recommend BUY with a potential upside of 42%.

Quarterly story

Exhibit 1 : Profit & Loss account

(₹ mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Interest Earned	60,533	57,826	48,780	54,712	54,936	60,568	57,873	55,265	61,550	12.0	11.4
Interest Expended	36,981	35,545	33,616	33,441	32,883	33,112	33,713	33,844	34,075	3.6	0.7
Net Interest Income	23,552	22,281	15,164	21,271	22,053	27,456	24,161	21,421	27,475	24.6	28.3
Other Income	7,091	7,744	8,514	8,284	10,336	6,096	6,323	8,310	9,100	-12.0	9.5
Net Operating Revenue	30,643	30,025	23,678	29,555	32,388	33,552	30,483	29,731	36,575	12.9	23.0
Operating Expenses	16,771	18,097	17,307	17,233	17,938	21,321	12,363	17,518	19,097	6.5	9.0
Employee Cost	10,061	11,986	8,981	11,377	11,096	14,696	3,825	11,292	11,049	-0.4	-2.1
Other Operating Expenses	6,710	6,112	8,326	5,856	6,842	6,626	8,538	6,226	8,048	17.6	29.3
Pre - Provision Profit	13,872	11,928	6,370	12,322	14,450	12,231	18,120	12,213	17,478	21.0	43.1
Provisions and Contingencies	10,333	7,437	30,799	6,106	10,723	8,789	10,610	9,137	11,247	6,106.4	10,722.5
PBT	3,539	4,490	-24,428	6,216	3,728	3,442	7,510	3,076	6,231	67.2	102.5
Tax	1,931	2,836	-10,936	4,160	1,027	653	881	729	3,050	196.8	318.5
Profit After Tax	1,608	1,654	-13,492	2,056	2,700	2,789	6,628	2,348	3,182	17.8	35.5

Source: Company, LKP Research

Exhibit 2 : Balance Sheet

(₹ mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Share Capital	58,756	58,756	58,756	86,809	86,809	86,809	86,809	86,809	86,809	0.0	0.0
Share warrants & Outstanding	0	0	48,000	0	0	0	0	0	0		
Reserves and Surplus	1,61,051	1,62,692	1,58,295	1,80,297	1,82,798	1,85,587	1,88,458	1,90,805	1,93,987	6.1	1.7
Networth	2,19,807	2,21,448	2,65,051	2,67,107	2,69,607	2,72,396	2,75,267	2,77,615	2,80,797	4.2	1.1
Deposits	32,34,440	32,38,725	32,99,730	33,14,829	33,65,002	33,76,877	34,26,919	34,26,615	34,30,807	2.0	0.1
Borrowings	62,775	57,871	54,686	54,482	59,981	55,009	74,744	1,27,539	76,671	27.8	-39.9
Other Liabilities & Provisions	1,66,396	98,746	72,683	79,937	72,459	97,754	88,726	75,048	79,817	10.2	6.4
Total Liabilities	36,83,418	36,16,791	36,92,150	37,16,355	37,67,048	38,02,036	38,65,656	39,06,817	38,68,091	2.7	-1.0
Cash and balance with RBI	3,63,363	2,75,003	3,21,878	2,55,672	4,45,911	3,88,169	3,80,337	4,44,926	2,65,571	-40.4	-40.3
Balances with banks and money at call and short notice	11,796	23,668	67,635	79,582	95,088	1,35,412	1,50,606	1,34,987	1,91,845	101.8	42.1
Investments	15,06,759	14,60,520	14,85,824	15,36,732	14,20,201	14,01,487	14,07,870	13,54,649	13,36,548	-5.9	-1.3
Advances	15,50,853	15,87,765	15,65,787	15,51,535	15,52,677	16,15,144	16,81,735	17,24,313	18,33,691	18.1	6.3
Fixed Assets	42,597	42,464	51,324	50,852	50,274	49,860	49,550	49,209	48,696	-3.1	-1.0
Other Assets	2,08,050	2,27,370	1,99,702	2,41,981	2,02,898	2,11,965	1,95,558	1,98,733	1,91,740	-5.5	-3.5
Total Assets	36,83,418	36,16,791	36,92,150	37,16,355	37,67,048	38,02,036	38,65,656	39,06,817	38,68,091	2.7	-1.0

Source: Company, LKP Research

Exhibit 3 : Asset Quality

(₹ mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (% , bps)	QoQ (% , bps)
Amount of GNPA	3,07,854	2,94,861	2,92,770	2,78,917	2,72,517	2,76,084	2,81,562	2,90,016	1,90,592	-30	-34
Amount of NNPA	86,836	75,147	90,365	79,040	70,040	70,850	66,752	67,847	54,067	-23	-20
NNPA (%)	6	5	6	5	5	4	4	4	3	-33	-23
GNPA (%)	17	16	17	16	16	15	15	15	10	-37	-35
PCR (% , calculated)	72	75	69	72	74	74	76	77	72	-4	-6
PCR (% , Inc. TWO)	82	84	83	84	86	86	87	87	89	4	3

Source: Company, LKP Research

Exhibit 4 : Important Ratios

(₹ mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (% , bps)	QoQ (% , bps)
CASA (%)	47.7	48.1	49.2	49.2	49.8	50.0	50.6	51.2	51.0	2.4	-0.4
NIM %	3.2	3.0	2.0	2.8	3.4	3.8	3.3	2.9	3.4	0.0	17.2
ROA (% , annualized , calculated)	0.2	0.2	-1.5	0.2	0.3	0.3	0.7	0.2	0.3	14.8	36.9
ROE (% , annualized , calculated)	2.9	3.0	-20.4	3.1	4.0	4.1	9.6	3.4	4.5	13.1	34.0
BVPS (Rs , calculated)	37.4	37.7	45.1	30.8	31.1	31.4	31.7	32.0	32.3	4.2	1.1
EPS (Rs , annualized)	0.3	0.3	-2.3	0.2	0.3	0.3	0.8	0.3	0.4	17.8	35.5

Source: Company, LKP Research

Annual Projections

Exhibit 5: Income Statement

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	2,58,879	2,46,614	2,40,355	2,26,386	2,35,625	2,27,302	2,28,016	2,50,358	2,75,544
Interest Expended	1,88,223	1,80,874	1,75,185	1,58,664	1,59,336	1,44,852	1,33,149	1,52,305	1,66,046
Net Interest Income	70,656	65,740	65,170	67,722	76,288	82,450	94,868	98,053	1,09,498
YoY (%)	-	-7.0	-1	4	13	8	15	3	12
Other Income	19,388	28,756	26,224	24,129	36,368	31,157	29,685	32,060	34,624
Net Operating Income	90,044	94,497	91,394	91,851	1,12,657	1,13,607	1,24,552	1,30,113	1,44,122
Operating Expenses	63,615	63,610	64,064	60,586	69,215	67,822	72,581	75,821	83,985
Employee Cost	44,657	42,143	39,834	35,652	42,167	41,413	44,719	46,715	51,745
Other Operating expenses	18,958	21,467	24,230	24,934	27,048	26,409	27,862	29,106	32,240
Pre - Provision Profit	26,429	30,886	27,330	31,265	43,441	45,785	51,972	54,292	60,137
Provisions and Contingencies	53,121	66,175	1,06,290	1,12,967	52,536	59,021	34,802	27,842	22,273
Profit Before Tax	-26,692	-35,289	-78,960	-81,702	-9,095	-13,236	17,170	26,450	37,864
Taxes	-12,510	-10,898	-27,911	-25,287	2,119	-4,360	6,721	7,021	7,777
Profit After Tax	-14,182	-24,391	-51,049	-56,415	-11,214	-8,876	10,448	19,429	30,087
EPS (Rs)	-8.4	-12.8	-19.5	-13.9	-2.0	-1.5	1.2	2.2	3.5

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	16,897	19,022	26,182	40,472	57,098	58,756	86,809	86,809	86,809
Face Value	10	10	10	10	10	10	10	10	10
Share warrants & outstanding	5,350	6,830	-	2,125	-	48,000	-	-	-
Total Reserves	1,59,894	1,53,660	1,53,674	1,48,877	1,57,197	1,58,295	1,88,458	2,07,886	2,37,973
Networth	1,82,141	1,79,511	1,79,855	1,91,474	2,14,295	2,65,051	2,75,267	2,94,696	3,24,783
Deposits	26,61,842	29,66,712	29,48,389	29,98,554	31,37,632	32,99,729	34,26,919	36,32,535	39,59,463
YoY (%)		11.5	-1	2	5	5	4	6	9
Borrowings	92,079	92,824	57,061	52,391	57,872	54,686	74,744	82,218	90,440
Other Liabilities & Provisions	1,18,599	94,972	76,948	64,758	1,52,693	72,683	88,726	97,598	1,07,358
Total Liabilities	30,54,661	33,34,019	32,62,253	33,07,177	35,62,491	36,92,150	38,65,656	41,07,047	44,82,043
Cash and balance with RBI	1,40,695	7,50,868	3,59,999	2,07,791	3,00,598	3,21,878	3,80,337	3,84,140	3,87,982
Balances with banks and money at call	14,715	36,798	32,285	1,04,208	60,173	67,635	1,50,606	1,52,112	1,53,633
Investments	8,88,675	9,20,949	10,26,316	12,52,981	14,25,175	14,85,824	14,07,869	14,21,948	14,36,168
Advances	18,00,096	13,93,988	15,65,422	14,65,254	15,11,009	15,65,786	16,81,735	19,84,447	23,61,492
YoY (%)		-22.6	12	-6	3	4	7	18	19
Fixed Assets	43,593	42,904	43,434	43,102	43,362	51,324	49,550	50,541	51,552
Other Assets	1,66,886	1,88,514	2,34,797	2,33,841	2,22,174	1,99,702	1,95,558	1,13,857	91,216
Total Assets	30,54,661	33,34,019	32,62,253	33,07,177	35,62,491	36,92,150	38,65,656	41,07,047	44,82,043
BVPS (Rs)	108	94	69	47	38	45	32	34	37

Source: Company, LKP Research

Exhibit 7: Asset Quality

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GNPA (%)	12.0	17.8	21.5	19.3	18.9	16.6	14.8	8.9	8.0
NNPA (%)	7.4	10.2	11.1	7.7	7.6	5.8	4.0	2.5	2.0
GNPA Amount	2,27,210	2,72,510	3,81,307	3,23,560	3,25,891	2,92,770	2,81,562	1,94,277	2,07,811
NNPA Amount	82,380	1,18,620	1,96,013	1,99,336	1,98,721	1,91,495	2,04,659	49,611	47,230
PCR (% , calculated)	63.7	56.5	48.6	38.4	39.0	34.6	66.5	74.5	77.3
Movement of GNPA									
Opening Balance	1,18,730	2,27,210	2,72,513	3,81,307	3,23,560	3,25,891	2,92,770	2,81,562	1,94,277
Additions during the year	1,51,450	1,04,870	1,70,712	1,03,286	81,506	64,485	47,179	35,384	26,538
Reductions during the year	42,970	59,570	61,919	1,61,033	79,176	97,607	58,387	1,22,669	13,004
Closing balance	2,27,210	2,72,510	3,81,307	3,23,560	3,25,891	2,92,770	2,81,562	1,94,277	2,07,811
Movement of NNPA									
Opening Balance	68,070	1,32,420	1,42,178	1,73,779	1,13,332	1,15,345	90,365	66,752	49,611
Additions during the year	98,900	44,590	62,468	70,870	35,791	18,838	29,321	21,991	16,493
Reductions during the year	34,550	34,830	30,868	1,31,316	33,779	43,818	52,934	39,131	18,874
Closing balance	1,32,420	1,42,180	1,73,779	1,13,332	1,15,345	90,365	66,752	49,611	47,230

Source: Company, LKP Research

Exhibit 8: Ratios

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Financial Ratios									
EPS (Rs)	-8	-13	-19	-14	-2	-2	1	2	3
BVPS (Rs, Calculated)	108	94	69	47	38	45	32	34	37
Performance Ratios									
ROA(% , Calculated)	-0.5	-0.8	-1.5	-1.7	-0.3	-0.2	0.3	0.5	0.7
ROE(% , Calculated)	-9.4	-17.1	-35.3	-36.7	-6.5	-4.9	5.0	6.6	9.3
Efficiency Ratios									
Cost Income Ratio	71	67	70	66	61	60	58	49	49
CASA (%)	35	39	42	46	46	49	51	34	34

Source: Company, LKP Research

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