

# Canara Bank

Rating: ◀▶ Target price: ▼

ABV: ▼

CMP	Rs. 580	Absolute	Reduce
Target	Rs. 534	Relative	Underperform

## Tough times ahead, Continue to be Underperform

Canara Bank's 4QFY11 earnings were a disappointing deviation from what the bank has posted in the last three quarters. The result was a disappointment on NIMs, Asset Quality, Credit costs and overall profitability.

NII declined qoq despite huge loan growth due to a sequential margin compression by 45bps. We feel canara bank is not able to pass on incremental cost of funds to asset side. We don't expect the macro environment to turn benign in the short term and we expect core margins of the bank will improve from here on at snail's pace, as we don't see the pricing power of the bank improve in a hurry. Added to that savings bank deposit rate hike will have an impact on NIMs by 10bps for the bank so we expect bank to end FY12E with 20bps lower NIMs. Non-interest income was a saviour this quarter as a sequential incremental Rs. 4bn non-interest income offset the sequential Rs. 4bn increase in credit costs. Going forward we expect margins to be muted and non-interest income supporting but slightly higher credit costs should drag down overall RoA.

Slippages for the quarter was Rs. 18.5bn a whopping 3.9% annualized slippage, one of the highest we have seen by any bank in the recent past. We believe credit costs at 0.3% during the quarter are not sufficient to tackle the kind of slippages being generated by the bank. The outcome is the bank's PCR (excluding write-offs) has fallen to 24% from an already low 27.7%. Picture on the recoveries side is not interesting either. In absolute terms Canara bank's recoveries from written off accounts were high at Rs. 5.5bn, yet the recovery ratio is very low. Bank has recovered only 10% of its opening stock of written off accounts one of the lowest among similar sized PSU banks.

With all the negativities so strikingly evident, at 1.3x FY12E ABV, stock is more than fairly valued. We continue with Reduce and UNDERPERFORM ratings on the stock on absolute and relative basis.

### Highlights of the quarter's performance

- **High growth:** Advances grew by 12% sequentially and 25.5% yoy; Deposits grew 11.6% qoq and up 25.3% yoy; CASA grew 8.7% qoq and now stands at 28.3%;
- **NII down 7% qoq; PAT down 19% qoq :** NII grew 23.5% yoy and down 7% qoq. Non-interest income grew 31% yoy and 74% qoq; Core fee income grew 26% qoq and 53% yoy. PAT grew 79% yoy and down 19% qoq;
- **Asset Quality :** Gross NPAs grew 12% qoq and up 19% yoy; Net NPAs are at 1.1%; Coverage Ratio has further dropped to 24% excluding write-offs.

### Financial summary

Year	NII (Rs. mn)	PAT (Rs. mn)	ROE (%)	ROA (%)	ABV (Rs.)	P/ABV (x)
FY10	56,805	30,214	26.7	1.2	263	2.1
FY11	78,233	40,254	26.4	1.3	350	1.6
FY12E	88,797	47,914	24.0	1.3	445	1.3

### 4QFY11 Update

Date: May 6, 2011

### Market Data

SENSEX	18519
Nifty	5551
Bloomberg	CBK IN
Shares o/s	443mn
Market Cap	Rs. 257bn
52-wk High-Low	Rs. 844-386
3m Avg. Daily Vol	Rs. 699mn
Index member	BSE 200

### Latest shareholding (%)

Promoters	67.7
Institutions	26.4
Public	5.9

### Stock performance (%)

	1m	3m	12m
Canara	-9	3	32
Sensex	-6	3	9
Bankex	-5	7	17

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## Quarterly Financial Results

<b>CMP</b>	<b>Rs. 580</b>	<b>Absolute</b>	<b>Reduce</b>
<b>Target</b>	<b>Rs. 534</b>	<b>Relative</b>	<b>Underperform</b>

Standalone financial results								
Rs. mn\Period	31-Mar-11	31-Mar-10	yoy Growth	31-Dec-10	qoq Growth	FY11	FY12E	yoy Growth
Interest Earned	64,178	47,966	33.8%	59,079	8.6%	230,640	298,684	29.5%
Interest Expended	44,449	31,990	38.9%	37,887	17.3%	152,408	209,888	37.7%
<b>Net Interest Income</b>	<b>19,729</b>	<b>15,976</b>	<b>23.5%</b>	<b>21,192</b>	<b>-6.9%</b>	<b>78,233</b>	<b>88,797</b>	<b>13.5%</b>
Other Income	9,328	7,101	31.4%	5,366	73.8%	27,026	30,464	12.7%
Fee Income	2,490	2,130	16.9%	1,690	47.3%	7,558	17,958	137.6%
Trading Gains	980	1,570	-37.6%	1,490	-34.2%	6,179	1,506	-75.6%
<b>Total Income</b>	<b>29,057</b>	<b>23,077</b>	<b>25.9%</b>	<b>26,558</b>	<b>9.4%</b>	<b>105,258</b>	<b>119,261</b>	<b>13.3%</b>
Operating Expenses	12,109	8,772	38.0%	11,428	6.0%	44,193	43,706	-1.1%
<b>Pre-Provision Profit</b>	<b>16,949</b>	<b>14,305</b>	<b>18.5%</b>	<b>15,130</b>	<b>12.0%</b>	<b>61,065</b>	<b>75,555</b>	<b>23.7%</b>
Provisions	5,460	7,274	-24.9%	1,573	247.1%	10,811	13,329	23.3%
PBT	11,489	7,031	63.4%	13,557	-15.3%	50,254	62,226	23.8%
<b>PAT</b>	<b>8,989</b>	<b>5,031</b>	<b>78.7%</b>	<b>11,057</b>	<b>-18.7%</b>	<b>40,254</b>	<b>47,914</b>	<b>19.0%</b>
EPS (Rs.)	20.3	12.3	65.4%	27.0	-24.8%	90.9	108.2	19.0%
NIM%	2.7%	2.7%		3.2%		2.8%	2.6%	
CASA%	28.3%	29.9%		29.0%		28.3%	30.5%	
ROA%	1.1%	0.9%		1.5%		1.3%	1.3%	
Gross NPA %	1.5%	1.5%	19.3%	1.4%	12.2%	1.5%	1.3%	8.2%
Net NPA %	1.1%	1.1%	30.4%	1.1%	17.9%	1.1%	0.9%	-0.9%
Advances	2,124,672	1,693,350	25.5%	1,898,820	11.9%	2,124,672	2,557,128	20.4%
Deposits	2,939,727	2,346,510	25.3%	2,634,970	11.6%	2,939,727	3,505,740	19.3%

# Canara Bank

## Business Overview

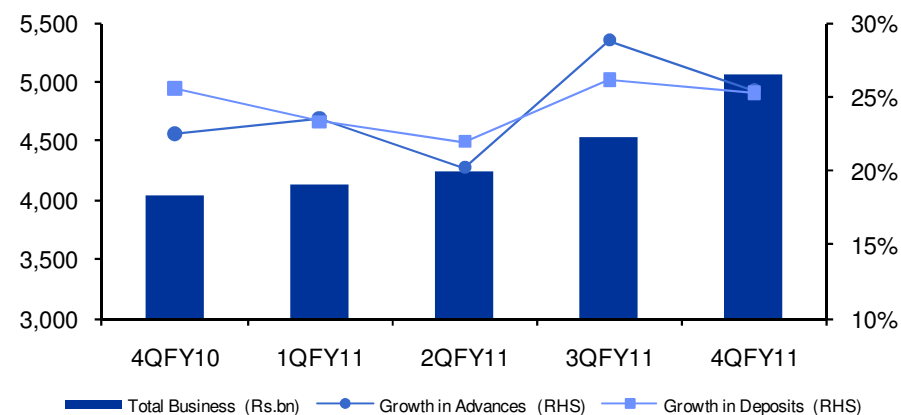
<b>CMP</b>	<b>Rs. 580</b>	<b>Absolute</b>	<b>Reduce</b>
<b>Target</b>	<b>Rs. 534</b>	<b>Relative</b>	<b>Underperform</b>

### Key estimate revision

	FY11	FY12E		
		Old	New	Change
NII	78,233	97,415	88,797	-9%
NIM (%)	2.8%	3.0%	2.6%	
PAT	40,254	48,905	47,914	-2%
ROA (%)	1.3%	1.4%	1.3%	
ABV	350	451	445	-1%

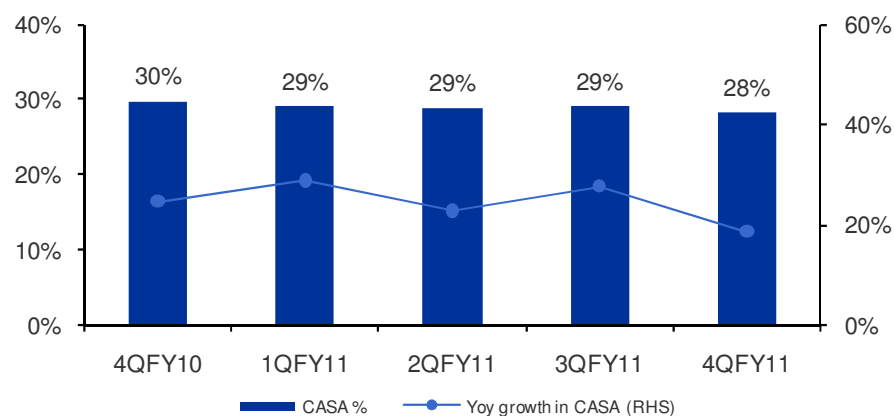
All figures in Rs. mn, except ABV, which is in Rs.

### Total business up 11.7% qoq, Loans up 11.9%, Deposits up 11.6%



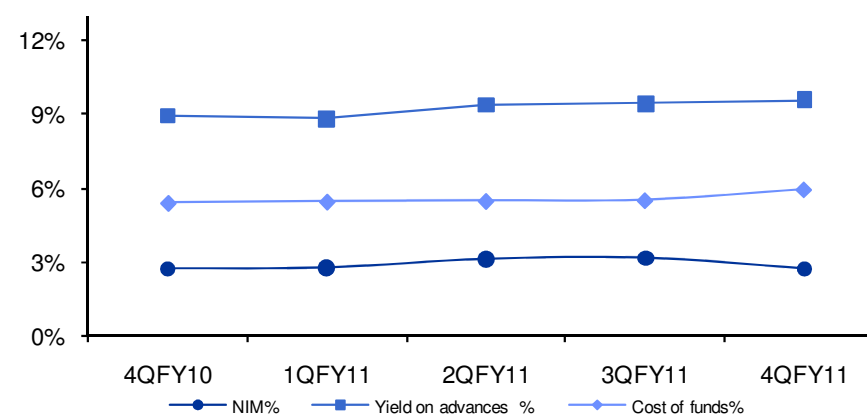
Source: Company, Spark Research

### CASA dropped to 28.3% as CASA growth was slow



Source: Company, Spark Research

### NIMs at 2.7%, 45bps drop qoq due to higher cost of funds



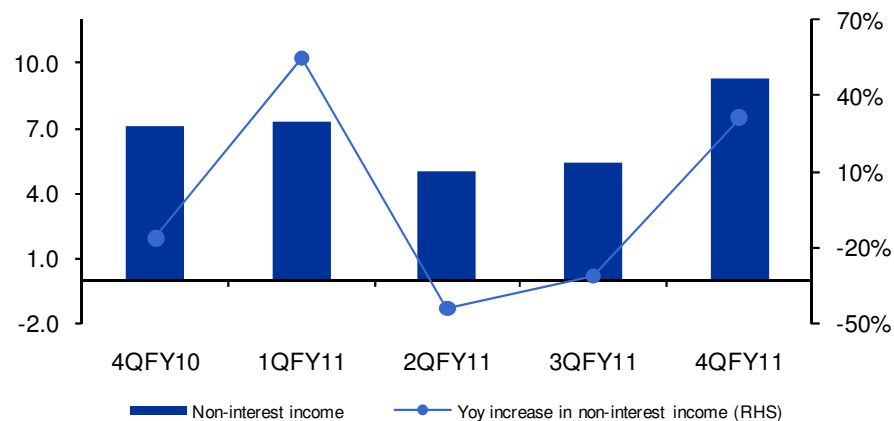
Source: Company, Spark Research

# Canara Bank

## Business Overview (Contd.)

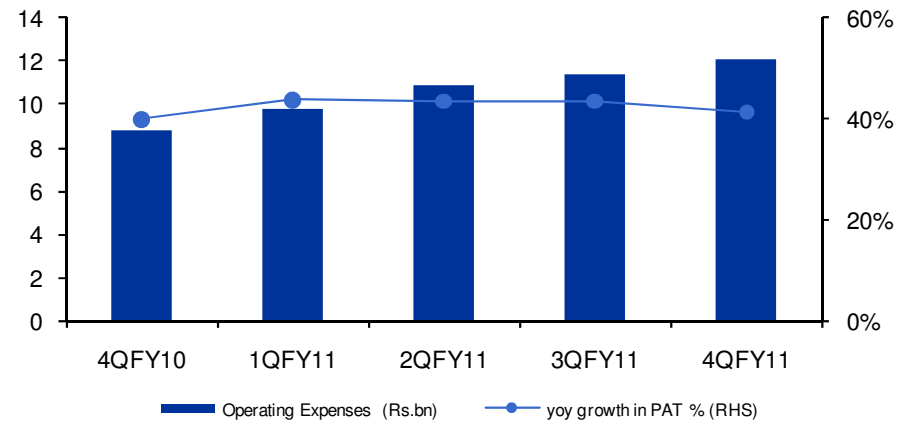
<b>CMP</b>	Rs. 580	<b>Absolute</b>	Reduce
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### Non-interest income robust; grew 31% yoy and 74% qoq



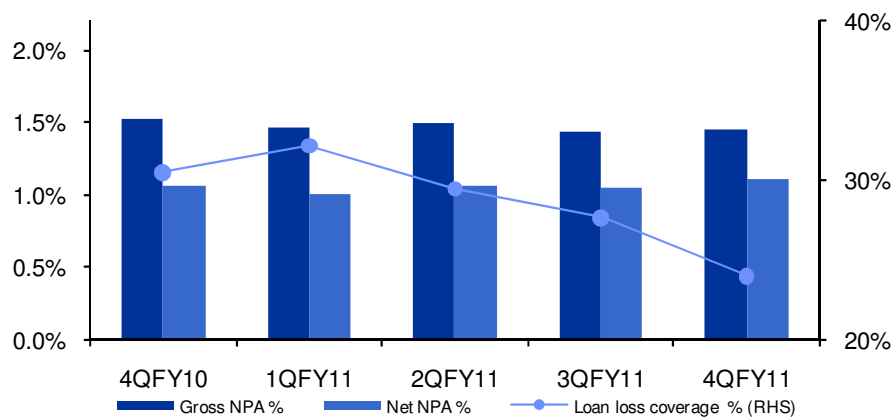
Source: Company, Spark Research

### Pension liabilities fully provided; CIR at 43% for the year



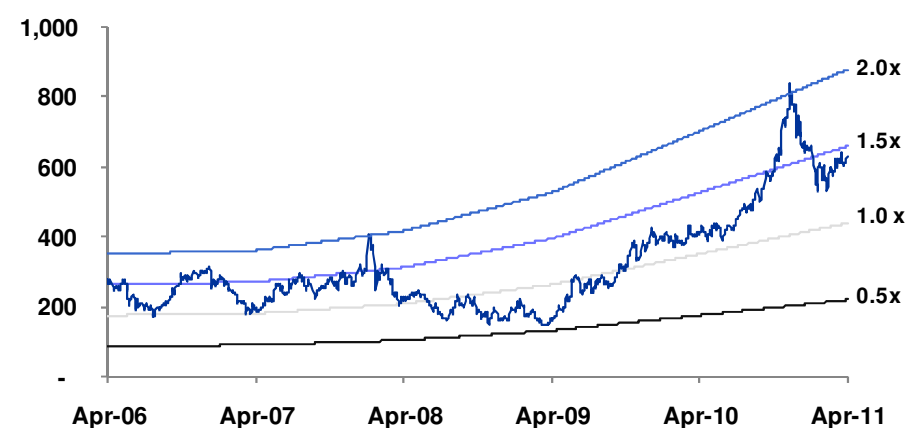
Source: Company, Spark Research

### Both Gross and Net NPAs worsened sequentially; PCR at 24%



Source: Company, Spark Research

### Canara Bank - P/ABV Band



Source: Bloomberg, Company, Spark Research

# Canara Bank

## Financial Summary

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<b>Target</b>	<b>Rs. 534</b>	<b>Relative</b>	<b>Underperform</b>

Abridged Financial Statements				
Rs.mn	FY09	FY10	FY11	FY12E
<b>Profit &amp; Loss</b>				
<b>Net Interest Income</b>	<b>47,178</b>	<b>56,805</b>	<b>78,233</b>	<b>88,797</b>
Other Income	23,110	28,579	27,026	30,464
Fee Income	6,388	7,240	7,558	17,958
Treasury Income	6,746	8,720	2,365	1,506
<b>Total Income</b>	<b>70,288</b>	<b>85,384</b>	<b>105,258</b>	<b>119,261</b>
Operating Expenses	30,653	34,776	44,193	43,706
<b>Pre-Provision Profit</b>	<b>39,636</b>	<b>50,608</b>	<b>61,065</b>	<b>75,555</b>
Provisions	13,914	12,394	10,811	13,329
PBT	25,722	38,214	50,254	62,226
<b>PAT</b>	<b>20,722</b>	<b>30,214</b>	<b>40,254</b>	<b>47,914</b>
<b>Balance Sheet</b>				
Net worth	100,396	125,816	178,717	220,412
Deposits	1,868,925	2,346,510	2,939,727	3,505,740
CASA	561,678	700,433	831,170	1,068,907
Borrowings & Current Liabilities	205,455	153,203	220,663	230,932
<b>Total Liabilities &amp; Networth</b>	<b>2,196,458</b>	<b>2,647,210</b>	<b>3,360,788</b>	<b>3,978,765</b>
Cash with RBI & other banks	166,598	208,905	307,081	325,959
Advances	1,382,194	1,693,350	2,124,672	2,557,128
Investments	577,769	691,140	836,999	995,830
Fixed & Current Assets	69,897	53,815	92,036	99,848
<b>Total Assets</b>	<b>2,196,458</b>	<b>2,647,210</b>	<b>3,360,788</b>	<b>3,978,765</b>
<b>Other Information</b>				
Shares outstanding (mn)	410	410	443	443
Current market price (Rs.)			580	
Market capitalisation (Rs. mn)			257,117	
Earnings per share (Rs.)	50.5	73.7	90.9	108.2
Dividend per share (Rs.)	8.0	10.0	11.0	12.0

Key Metrics				
	FY09	FY10	FY11	FY12E
<b>Growth ratios</b>				
ABV per share	15.4%	26.4%	33.3%	27.0%
Advances	28.9%	22.5%	25.5%	20.4%
Deposits	21.3%	25.6%	25.3%	19.3%
NII	33.4%	20.4%	37.7%	13.5%
PAT	32.4%	45.8%	33.2%	19.0%
EPS	32.4%	45.8%	23.3%	19.0%
<b>Asset Quality</b>				
Gross NPA (Rs.mn)	21,680	25,903	30,892	33,439
Gross NPA	1.6%	1.5%	1.5%	1.3%
Net NPA	1.1%	1.1%	1.1%	0.9%
Slippage	2.2%	2.4%	2.1%	1.7%
Coverage	30.5%	30.5%	24.0%	30.4%
Growth in Gross NPA	70.4%	19.5%	19.3%	8.2%
<b>Asset-Liability Profile</b>				
Leverage (x)	20.1	19.8	17.7	16.9
CD ratio	74.0%	72.2%	72.3%	72.9%
CASA	30.1%	29.9%	28.3%	30.5%
Tier I CAR	8.0%	8.5%	10.9%	11.0%
<b>Profitability and Efficiency</b>				
Net Interest Margin	2.59%	2.53%	2.84%	2.65%
ROA	1.04%	1.25%	1.34%	1.31%
ROE	22.6%	26.7%	26.4%	24.0%
<b>Valuation</b>				
Book Value per share (Rs.)	245	307	403	498
Adj Book Value per share (Rs.)	208	263	350	445
P/ABV (x)	2.8	2.2	1.7	1.3
P/E (x)	11.5	7.9	6.4	5.4

<b>CMP</b>	<b>Rs. 580</b>	<b>Absolute</b>	<b>Reduce</b>
<b>Target</b>	<b>Rs. 534</b>	<b>Relative</b>	<b>Underperform</b>

## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
15-Feb-11	581	540	REDUCE	U-PF
10-Jan-11	589	528	SELL	U-PF
15-Dec-10	660	514	SELL	U-PF
25-Oct-10	732	593	-	U-PF
14-Agu-10	503	434	-	U-PF

### Analyst Certification

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