



# Canara Bank

 Relative to sector: **Outperformer**
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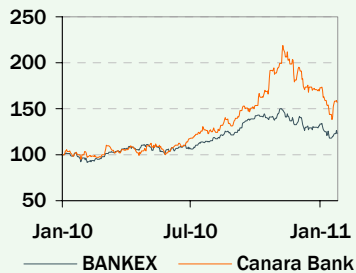
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

 No. of shares : 410 mn  
 Market cap : Rs 247 bn  
 52 week high/low : Rs 844/ Rs 345  
 Avg. daily vol. (6mth) : 1.1 mn shares  
 Bloomberg code : CBK IB  
 Reuters code : CNBK.BO

**Shareholding (%) Dec-10 QoQ chg**

Category	Dec-10 (%)	QoQ chg
Promoters	73.2	0.0
FIs	13.5	2.1
MFs / UTI	0.8	(1.9)
Banks / FIs	6.6	(0.3)
Others	5.9	0.2

**Financial summary**

Y/E Mar	PAT (Rs m)	EPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	20,724	51	32	11.9	245	220	2.5	2.7	22.6	1.0	1.1
2010	30,215	74	46	8.2	306	276	2.0	2.2	26.8	1.2	1.1
2011E	42,209	91	24	6.6	425	395	1.4	1.5	26.2	1.4	1.0
2012E	47,871	103	13	5.8	510	480	1.2	1.3	22.1	1.4	0.8

Source: Company, ENAM Estimates; Note: We have assumed dilution of Rs 35 bn in FY12E

**SUSTAINED CORE INCOME; STABLE ASSET QUALITY**

Canara Bank reported 5% YoY rise in net profit, at ~Rs 11 bn, which was marginally above our estimates. Core income witnessed robust growth (up 43% YoY) led by a 29% increase in advances and margin expansion. Margins impressed at 3.21% (up 50 bps YoY and 5 bps QoQ) due to reduction in cost of deposits. Non interest income declined 31% YoY due to lower treasury gains; however, core fee income growth was sound at 18% YoY. Asset quality is stable with gross and net NPA ratios at 1.44% (down 5 bps QoQ) and 1.05% (down 1 bp QoQ) respectively. Cash recoveries at Rs 12 bn (of bad loans) were impressive.

**Key highlights**

- ❑ Credit growth was driven by Infra lending (up 63% YoY and contributes ~23% of overall lending). Retail portfolio witnessed traction too with 35% YoY growth, driven primarily by housing loans.
- ❑ Provisioning expenses have more than doubled YoY (3QFY10 numbers have been restated, without considering this restatement, provisioning declines by 6% YoY).
- ❑ The bank has estimated Rs 22 bn towards 2nd Pension liability – to be provided for over 5 years, and has provided Rs 1 bn during the quarter. Further, it has provided Rs 2 bn towards gratuity expenses.

**Valuations**

Canara Bank has been growing at higher-than-industry average for the last few years with healthy return ratios (RoE of over 26% and RoA of 1.4% in FY11E). Both advances and deposits have been growing equitably with current C-D ratio at 72%. Moreover, the margins have expanded to over 3.2% in Q3FY11 along with healthy asset quality and adequate NPA coverage ratio of over 75%. The bank is also planning a QIP which will be book accretive. However, increase in duration (to ~4 years) of AFS portfolio poses MTM risks during rising G-Sec yields. We have marginally revised our earnings estimates downwards by 6% in FY12E to factor in lower non interest income. We maintain our **BUY rating** on the stock with a revised **target price of Rs 768** (1.6x FY12E ABV and 7x FY12E earnings) – 28% upside from CMP.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	59,079	46,878	26	55,774	6	228,807	187,519	22
Interest Expended	37,887	32,100	18	35,741	6	148,922	130,714	14
<b>Net Interest Income</b>	<b>21,192</b>	<b>14,778</b>	<b>43</b>	<b>20,033</b>	<b>6</b>	<b>79,885</b>	<b>56,805</b>	<b>41</b>
Non-Interest Income	5,366	7,813	(31)	4,996	7	23,478	28,579	(18)
<b>Net Income</b>	<b>26,558</b>	<b>22,591</b>	<b>18</b>	<b>25,029</b>	<b>6</b>	<b>103,363</b>	<b>85,384</b>	<b>21</b>
Operating Expenses	11,428	8,791	30	10,872	5	43,091	34,776	24
<b>Operating profit</b>	<b>15,130</b>	<b>13,800</b>	<b>10</b>	<b>14,158</b>	<b>7</b>	<b>60,273</b>	<b>50,608</b>	<b>19</b>
Provision & Contingencies	1,573	774	103	1,579	(0)	7,179	12,394	(42)
<b>PBT</b>	<b>13,557</b>	<b>13,026</b>	<b>4</b>	<b>12,579</b>	<b>8</b>	<b>53,093</b>	<b>38,215</b>	<b>39</b>
Tax	2,500	2,500	0	2,500	0	10,884	8,000	36
<b>Net Profit</b>	<b>11,057</b>	<b>10,526</b>	<b>5</b>	<b>10,079</b>	<b>10</b>	<b>42,209</b>	<b>30,215</b>	<b>40</b>
No. of shares (mn)	410	410	-	410	-	464	410	-
<b>Rep. EPS - non-annualized (Rs.)</b>	<b>27.0</b>	<b>25.7</b>	<b>5</b>	<b>25</b>	<b>10</b>	<b>91</b>	<b>74</b>	<b>24</b>
<b>Yields &amp; Margins (%)</b>								
Yield on advances	9.67	10.01	(34)bps	9.61	6 bps	9.12	9.15	(3)bps
Cost of deposits	5.66	6.25	(59)bps	5.69	(3)bps	5.48	5.83	(35)bps
Net interest margin	3.21	2.71	50 bps	3.16	5 bps	2.80	2.42	38 bps
Cost to income ratio	43.0	38.9	412 bps	43.4	(40)bps	41.7	40.7	96 bps
<b>Asset quality</b>								
Gross NPAs (Rs bn)	27.5	26.19	5	26.36	4	29.12	25.9	12
Gross NPAs (%)	1.44	1.77	(33)bps	1.49	(5)bps	1.36	1.52	(16)bps
Net NPAs (Rs bn)	19.9	19.76	1	18.60	7	20.38	18.0	13
Net NPAs (%)	1.05	1.34	(29)bps	1.06	(1)bps	0.95	1.06	(11)bps
Provisioning coverage (%)	27.7	24.5	3.1	29.5	(1.8)	30.0	30.4	(0.4)
<b>Capital (%)</b>								
Tier-I	8.3	9.2	(93)bps	8.8	(55)bps	10.6	8.5	201 bps
CAR	13.0	14.4	(142)bps	13.9	(86)bps	14.5	13.4	103 bps
<b>Balance sheet (Rs. Bn)</b>								
Advances	1,899	1,474	29	1,761	7.8	2,135	1,693	26
Deposits	2,635	2,101	25	2,492	5.7	2,835	2,347	21
CASA (%)	30.5	29.5	102 bps	30.1	40 bps	30.2	29.1	107 bps

Source: Company, ENAM Research. Note: Full year (FY10 and FY11E) numbers and ratios are on calculated basis

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