

# Canara Bank

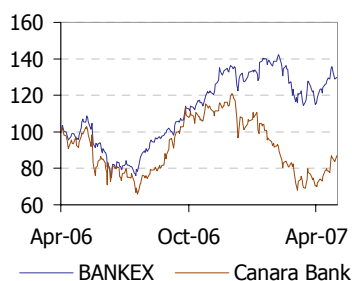
Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 410mn  
Market cap : Rs 93bn  
52 week high/low : Rs 320/ Rs.165  
Avg. daily vol. (6mth) : 648,700 shares  
Bloomberg code : CBK IN  
Reuters code : CNBK.BO

## Shareholding (%) Mar-07 QoQ chg

Category	Mar-07 (%)	QoQ chg
Promoters	73.2	0.0
FIIs	17.2	0.2
MFs / UTI	1.7	(1.2)
Banks / FIs	0.9	0.0
Others	7.1	1.0

## Financial summary

Y/E Mar	PAT (Rs mn)	EPS (Rs )	Change YoY (%)	P/E (x)	BV (Rs )	P/BV (x)	NPAs (%)	P/Adj.BV (x)	RoE (%)	RoA (%)
2006	13,432	32.8	21	6.9	171	1.3	1.1	1.5	20.6	1.1
2007	14,208	34.7	6	6.5	198	1.1	0.9	1.3	18.8	1.0
2008E	16,369	39.9	15	5.7	229	1.0	0.9	1.1	18.7	0.9
2009E	19,039	46.4	16	4.9	265	0.9	0.8	0.9	18.8	0.9

Source: Company, ENAM estimates

## NOT AS BAD AS IT LOOKS

Canara Bank's Q4FY07 net profit growth at 2% was largely inline with our expectations. At the operating level, low NII growth (7.7% YoY) was compensated by a 51% YoY growth in other income and an almost flat growth of 1% in operating expenses. However, a high growth of 56% in provisions for the quarter supplemented by a tax payment of Rs 500mn (vs. a tax write-back of Rs.400mn in Q4FY06) led to a flattish growth in PAT to Rs.5bn.

## Q4FY07 Highlights

- The 7.7% growth in NII was subdued largely on account of interest on income tax refunds to the tune of Rs 752mn in Q4FY06. Excluding this, NII growth stood at 16% YoY driven by a growth of 22% in deposits.
- The growth of 51% in other income was largely on account of higher treasury income of Rs 850mn in this quarter vs. Rs 353mn in Q4FY06 and high recoveries from written-off accounts to the tune of Rs 2.6bn in Q4FY07.
- Total provisions rose 56% largely on account of a MTM hit of Rs 2.2bn on the bond portfolio. While AFS duration has been brought down to 2.3yrs the HTM proportion at 40% is still on the low side.
- Deposits growth has moderated from 26% till 9MFY07 to 22% for FY07. However, despite the moderation in deposit growth, CASA has fallen 70bps sequentially to 32%. The cost of deposits rose 18bps sequentially and 77bps on a yearly basis to 5.46%.

The bank has done a satisfactory job in maintaining margins with a low CASA in a difficult funding environment. While asset growth appears to be moderating, it should aid NIM. Tier-I at 7.17% appears comfortable to fund growth for another year or so. At CMP of Rs 226 the stock trades at 1.0x FY08E BV and 5.7x FY08E earnings. We are upgrading the stock to sector **Neutral**, given strong Q4 earnings, steady outlook on NIM and relative underperformance so far.

**Results update**

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07	Mar-06	% Chg
Interest Income	32,105	23,906	34.3	29,614	8.4	113,646	87,115	30.5
Interest Expended	21,512	14,069	52.9	19,228	11.9	73,377	51,300	43.0
<b>Net Interest Income*</b>	<b>10,593</b>	<b>9,838</b>	<b>7.7</b>	<b>10,386</b>	<b>2.0</b>	<b>40,268</b>	<b>35,815</b>	<b>12.4</b>
Non-Interest Income	6,262	4,145	51.1	2,993	109.2	14,510	13,775	5.3
<b>Net Income</b>	<b>16,855</b>	<b>13,982</b>	<b>20.5</b>	<b>13,379</b>	<b>26.0</b>	<b>54,778</b>	<b>49,590</b>	<b>10.5</b>
Operating Expenses	6,334	6,269	1.0	6,369	(0.5)	25,653	23,471	9.3
% of Net Income	38	51	-	48	-	47	47	-
- Staff expenses	3,731	3,878	(3.8)	4,013	(7.0)	16,093	15,153	6.2
Operating Income	10,521	7,713	36.4	7,010	50.1	29,125	26,119	11.5
Provision & Contingencies	4,970	3,178	56.4	2,630	89.0	12,417	10,687	16.2
- Provisioning for NPAs	1,018	3,063	(66.8)	493	106.5	4,580	6,352	(27.9)
<b>PBT</b>	<b>5,551</b>	<b>4,535</b>	<b>22.4</b>	<b>4,380</b>	<b>26.7</b>	<b>16,708</b>	<b>15,432</b>	<b>8.3</b>
Tax	500	(400)	-	750	(33.3)	2,500	2,000	25.0
<b>Net Profit</b>	<b>5,051</b>	<b>4,935</b>	<b>2.3</b>	<b>3,630</b>	<b>39.1</b>	<b>14,208</b>	<b>13,432</b>	<b>5.8</b>
<b>EPS (Rs.)</b>	<b>12</b>	<b>12</b>	<b>2.3</b>	<b>9</b>	<b>39.1</b>	<b>35</b>	<b>33</b>	<b>5.8</b>
NIM (%)	3.15	3.36	-	3.14	-	3.15	3.36	-
Yield on advances (%)	8.95	8.24	-	8.82	-	8.95	8.24	-
Yield on Investments (%)	7.74	7.40	-	-	-	7.74	7.40	-
Cost of deposits (%)	5.46	4.69	-	5.28	-	5.46	4.69	-
Advances (Rs.bn)	985	794	24	907	9	985	794	24
Retail Advances (Rs.bn)	176	146	20	171	3	176	146	20
Deposits (Rs.bn)	1,424	1,168	22	1,318	8	1,424	1,168	22
Gross NPAs (Rs.bn)	14.9	17.9	-	18.7	-	14.9	17.9	-
Gross NPAs (%)	1.5	2.3	-	2.1	-	1.5	2.3	-
Net NPAs (Rs.bn)	9.3	8.7	-	8.7	-	9.3	8.7	-
Net NPAs (%)	0.9	1.1	-	1.0	-	0.9	1.1	-
CAR (%)	13.5	11.2	-	12.7	-	13.5	11.2	-

Source: Company, ENAM Research. \*Adjusted for interest on tax refund in Q4FY06, NII grew 16% in Q4FY07

- Asset quality remains stable with gross and net NPAs at 1.5% and 0.94%, respectively in Q4FY07. While NPAs at the gross level have fallen from Rs 2.1bn in Q3FY07 to Rs 1.5bn in Q4FY07, they have increased at a net level from Rs 8.7bn in Q3FY07 to Rs 9.3bn in this quarter, reflecting the lower provisioning coverage in Q4FY07.
- The bank now has ~330 branches or 40% of its business on the CBS platform.

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