

Sector: Banking

Sensex:	17,380
CMP (Rs):	409
Target price (Rs):	462
Upside (%):	12.9
52 Week h/l (Rs):	442 / 181
Market cap (Rscr) :	16,761
6m Avg vol ('000Nos):	729
No of o/s shares (mn):	410
FV (Rs):	10
Bloomberg code:	CBK IB
Reuters code:	CNBK.BO
BSE code:	532483
NSE code:	CANBK

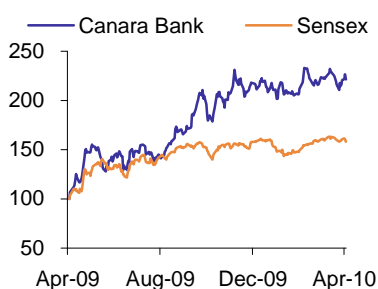
Prices as on 28 April, 2010

Shareholding pattern

September '09	(%)
Promoters	73.2
Institutions	20.5
Non promoter corp hold	0.7
Public & others	5.6

Performance rel. to sensx

(%)	1m	3m	1yr
Canara Bank	0.4	2.8	68.7
PNB	3.2	10.4	65.2
BOB	8.6	16.5	67.3
BOI	21.2	(2.7)	(4.1)

Share price trend


- ✦ Strong business growth of 13% qoq after two quarters of modest growth
- ✦ Material improvement in NIM aided by significant decline in the cost of deposits
- ✦ Other income decline on lower trading profits; this coupled with higher opex drive a substantial increase in C/I ratio
- ✦ Asset quality improves commendably but bank makes higher loan-loss provisions; capital adequacy fell on robust loan growth
- ✦ Retain BUY on Canara Bank due to attractive valuation and upgrade target price to Rs462

Result table

(Rs m)	Q4 FY10	Q3 FY10	% qoq	Q4 FY09	% yoy
Total Interest Income	47,966	46,878	2.3	46,539	3.1
Interest expended	(31,990)	(32,100)	(0.3)	(33,486)	(4.5)
Net Interest Income	15,976	14,778	8.1	13,053	22.4
Other income	7,101	7,813	(9.1)	8,465	(16.1)
Total Income	23,077	22,591	2.2	21,518	7.2
Operating expenses	(8,772)	(7,891)	11.2	(8,792)	(0.2)
Provisions	(7,274)	(1,674)	334.5	(3,538)	105.6
PBT	7,031	13,026	(46.0)	9,188	(23.5)
Tax	(2,000)	(2,500)	(20.0)	(2,000)	-
Reported PAT	5,031	10,526	(52.2)	7,188	(30.0)
EPS	49.1	102.7	(52.2)	70.1	(30.0)

Key Ratios	FY10	9mFY10	chg qoq	FY09	chg yoy
NIM (%)	2.8	2.7	0.1	2.8	0.0
Yield on advances (%)	9.8	10.0	(0.2)	10.8	(1.0)
Yield on Funds (%)	8.1	8.2	(0.1)	8.7	(0.6)
Cost of Deposits (%)	6.1	6.3	(0.1)	6.9	(0.8)
Cost of Funds (%)	5.7	5.8	(0.1)	6.3	(0.7)

Other Ratios	Q4 FY10	Q3 FY10	chg qoq	Q4 FY09	chg yoy
CASA (%)	29.1	28.7	0.4	30.1	(1.0)
C/D (x)	0.7	0.7	0.0	0.7	(0.0)
Non-int income (%)	12.9	14.3	(1.4)	15.4	(2.5)
Non-int inc/Int exp (%)	22.2	24.3	(2.1)	25.3	(3.1)
Cost to Income (%)	38.0	34.9	3.1	40.9	(2.8)
Provisions/Income (%)	13.2	3.1	10.1	6.4	6.8
RoA (%)	-	1.9	(1.9)	1.5	(1.5)
CAR (%)	13.4	14.4	(1.0)	14.1	(0.7)
Gross NPA (%)	1.5	1.8	(0.3)	1.6	(0.0)
Net NPA (%)	1.1	1.3	(0.3)	1.1	(0.0)

Source: Company, India Infoline Research

Strong business growth of 13% qoq after two quarters of modest growth

Canara Bank delivered a strong 15% qoq loan growth and 12% qoq deposits growth in Q4 FY10 which was significantly ahead of our expectations of 7% and 6% respectively. The bank witnessed robust growth in infrastructure and retail credit during the quarter. With higher growth in advances vis-à-vis deposits, the C/D ratio improved sequentially to 72% while CASA also inched up marginally to 29.1%. After substantially increasing in the previous two quarters, Investments remained flat qoq (standing at lower 29% of deposits) due to significant uptick in credit growth. Full-year loan and deposits growth was healthy 23% and 26% respectively.

Material improvement in NIM aided by significant decline in the cost of deposits

Canara Bank's FY10 NIM stood at 2.8% higher than 2.7% for 9m FY10 implying material margin improvement (at least 20bps qoq) in Q4 FY10. The margin expansion was driven by higher C/D ratio and significant decline (at least 40bps qoq) in the bank's cost of deposits which stood lower at 6.1% for FY10 in comparison to 6.3% for 9m FY10. Reduction in deposits cost could have been on account lower share of high-cost bulk deposits, re-pricing of term deposits and marginal improvement in the CASA mix. The average yield on advances is likely to have declined sharply (at least 40bps qoq) in Q4 FY10 after being largely flat in the first three quarters of FY10. NII grew by 22% yoy in Q4 FY10 and 20% yoy for the full-year FY10.

Other income decline on significantly lower trading profits; this coupled with higher operating expenses drive a substantial increase in C/I ratio

Other income declined by 9% qoq to Rs7.1bn impacted by lower trading profits on G-Secs (Rs1.1bn v/s Rs3bn in Q3 FY10). Excluding the treasury gains, there was a robust increase in other income of 23% qoq driven by a strong 22% growth in fee income. Operating expenses grew by 11% qoq after a gradual increase in the past two quarters on account of significant branch additions (314 branches) during FY10. Resultantly, cost/income ratio deteriorated materially to 38% from 35% in the previous quarter.

Asset quality improves commendably but bank makes higher loan-loss provisions; capital adequacy comes down on robust loan growth

Canara Bank's GNPLs declined slightly qoq in absolute terms but stood significantly lower at 1.5% of advances as compared to 1.8% at the end of Q3 FY10. With substantially lower provisioning coverage at 25% excluding the technical write-offs at the end of previous quarter, the bank made significantly higher NPA provisions of Rs5.8bn (annualized 1.4% of average advances), up 55% qoq. This has improved provisioning coverage to 30% which including the technical write-offs was above RBI's requirement of 70%. Resultantly, the NNPL% also declined to 1.1% from 1.3%. Impacted by lower trading profits, higher operating expenses and significant increase in NPL provisions, the net profit for the quarter declined 52% qoq and 30% yoy. CAR and Tier-1 ratio declined by 100bps (to 13.4%) and 70bps qoq (to 8.5%) respectively on robust growth in business during the quarter. Capital adequacy has become the key concern for the bank now and would constraint balance sheet growth if not augmented. The relatively higher GoI holding of 73.2% represents an important potential source of funding for Canara Bank.

Retain BUY on Canara Bank due to attractive valuation and upgrade target price to Rs462

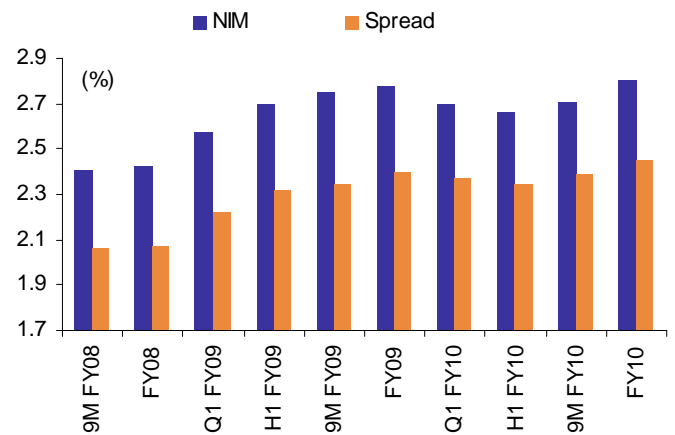
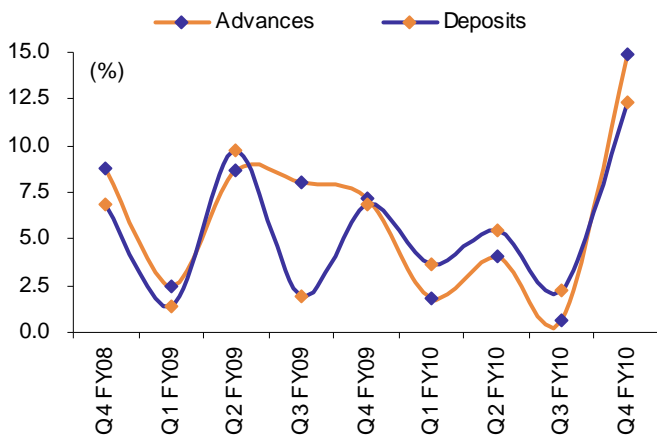
Post the strong return in business growth and NIM performance in Q4 FY10, we upgrade our loan and deposits growth and margin assumptions for FY11 and FY12. On the other hand, we also factor higher operating expenses and NPL provisions. Without any significant change in our book value estimates, we retain BUY on Canara Bank upgrading the target price to Rs462. Attribute marginally higher valuation (1.15x FY12 P/BV) to the bank due to improvement in balance sheet growth and asset quality.

Financial summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	70,290	85,385	90,611	112,961
yoy growth (%)	22.2	21.5	6.1	24.7
Operating profit (pre-provisions)	39,638	50,609	46,445	59,079
Net profit	20,724	27,215	20,384	29,672
yoy growth (%)	32.4	31.3	(25.1)	45.6
EPS (Rs)	50.5	66.4	49.7	72.4
BVPS (Rs)	297.8	305.8	342.3	401.4
P/E (x)	8.1	6.2	8.2	5.7
P/BV (x)	1.4	1.3	1.2	1.0
ROE (%)	22.6	26.7	18.3	22.5
ROA (%)	1.0	1.1	0.7	0.8
Dividend yield (%)	2.0	2.4	2.4	2.4
CAR (%)	14.1	13.4	11.7	10.2

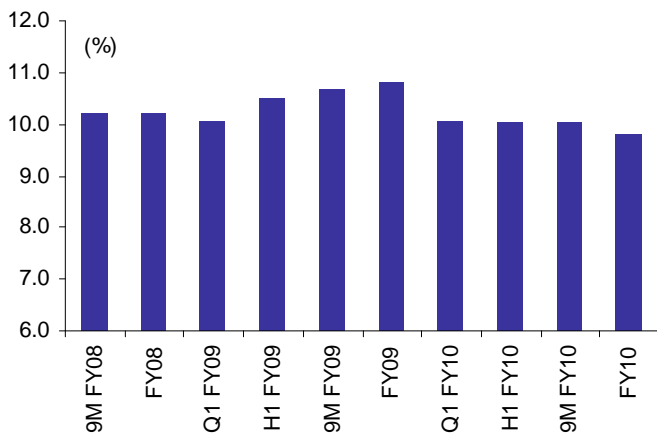
Source: Company, India Infoline Research

Strong growth in business after two quarters of modest growth **NIM improve on spread expansion**

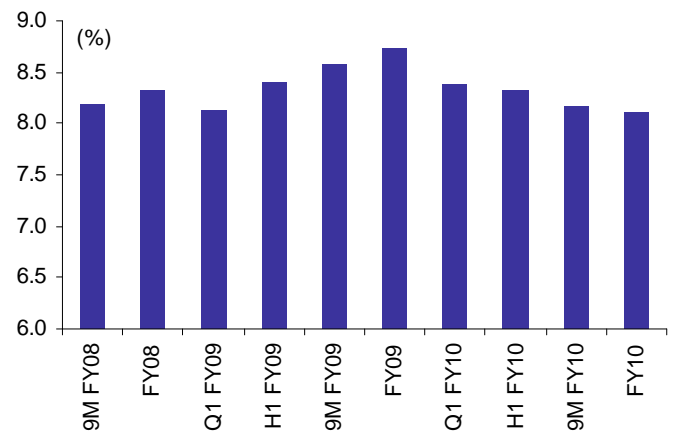


Source: Company, India Infoline Research

Yield on advances marginally decline due to ample liquidity and poor credit demand

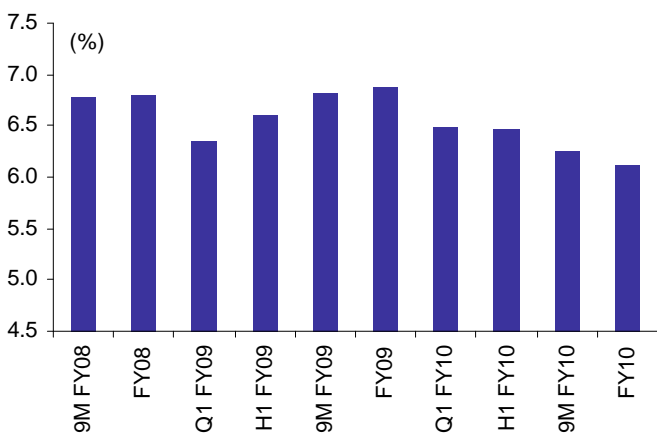


Yield on funds decline in line with yield on advances

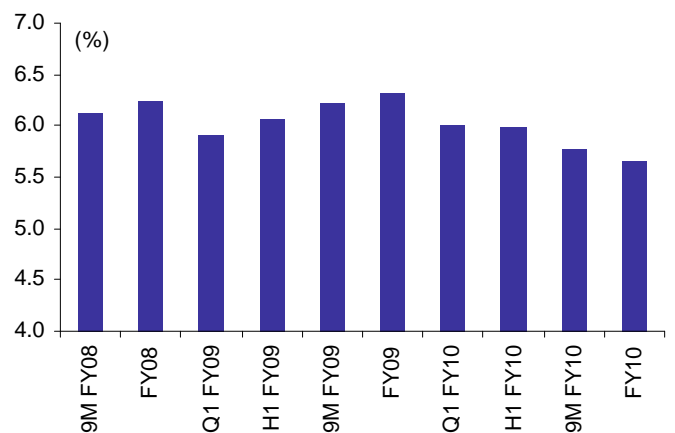


Source: Company, India Infoline Research

Cost of Deposits decline driven by CASA improvement and lower term deposit rates

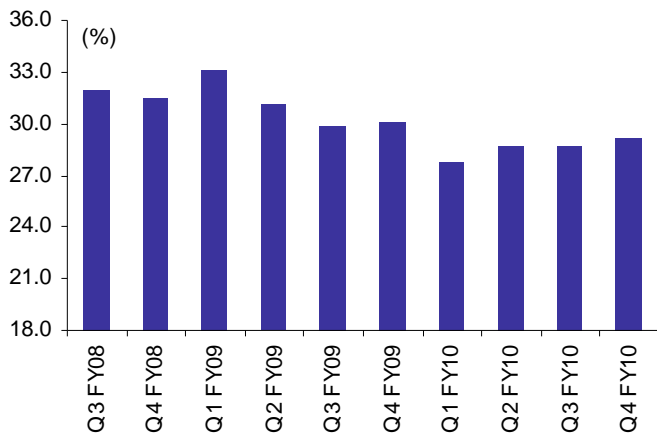


Cost of funds decline in line with cost of deposits

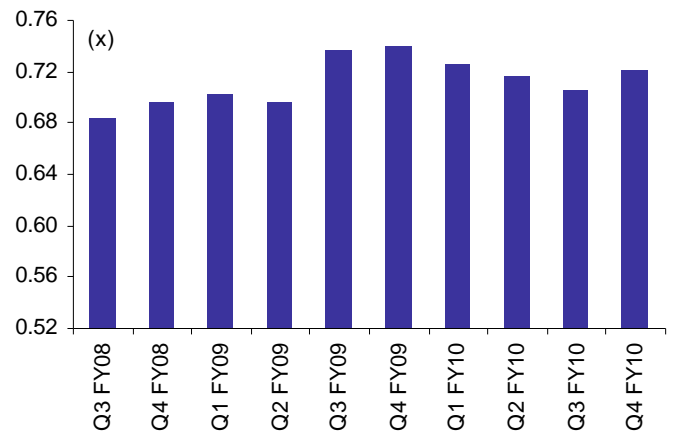


Source: Company, India Infoline Research

CASA continue to improve gradually on robust branch expansion in FY10

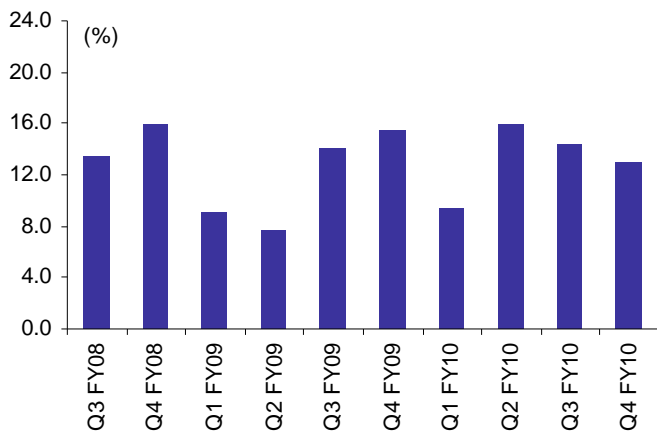


C/D ratio improve on higher growth in advances

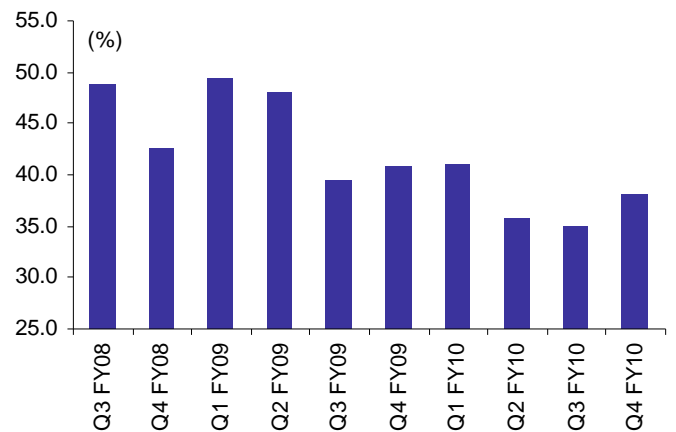


Source: Company, India Infoline Research

Non-int income % decline on lower trading profits; fee income was higher though

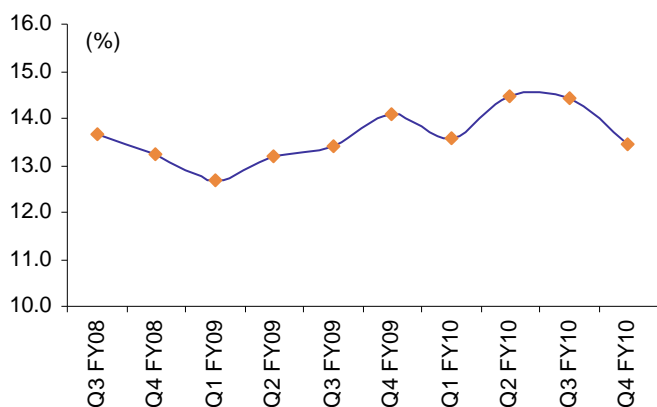


C/I ratio deteriorate due to strong branch expansion in FY10

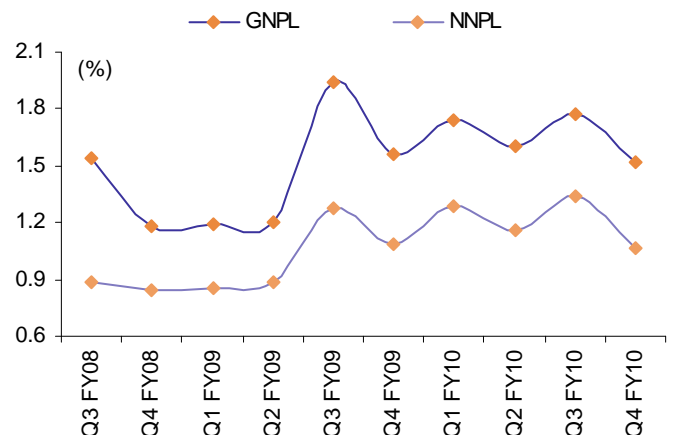


Source: Company, India Infoline Research

Capital adequacy deteriorates on robust growth in business



Asset quality improves materially with significant decline in GNPL % and NNPL %



Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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