

Canara Bank

Refer to important disclosures at the end of this report

Merger pain behind; strengthening provision/capital buffer should be priority

- Despite moderate credit growth and lower margins, Canara Bank reported a strong beat on PAT at Rs10.1bn (est. Rs4.9bn), driven by higher recovery from the written-off accounts, including Bhushan Power.
- Reported GNPA was flat at 8.9% vs. pro forma GNPA in Q3, mainly due to higher recovery and write-offs. The overall restructuring pool is low at 1.3% of loans, which is positive. The bank guides for FY22 slippages to be ~2.1-2.3% with higher recoveries following resolutions in some lumpy corporate accounts.
- CBK has gradually increased specific PCR to 60%, while the Covid-19-related contingent buffer stood at 0.1% of loans, which we believe needs to be further strengthened. CET 1 remains sub-par at 8.6%, and thus the bank may consider raising capital soon. The bank has the option to offload stake in subsidiaries, but it is not exploring as of now.
- In our view, merger related concerns are largely behind and the bank should report gradual improvement in its RoA/RoE to 0.4-0.5%/8-10% by FY23E-24E (without factoring in dilution), led by better growth/moderate LLP. Retain Buy with a revised TP of Rs175 (from Rs155), factoring in upgrades in earnings/multiple (core bank valued at 0.6x vs. 0.5x).

Focus to shift to growth, and thus better LDR feeding into NIMs: Credit growth has moderated to 3.6% yoy/0.8% qoq mainly due to corporate debulking and tepid growth in MSME (up 2.5% yoy/down 4.7% qoq). The retail portfolio clocked 12% yoy growth, led by housing and vehicle segments. Deposit growth has come in strong at 11.5% yoy/3.9% qoq, driven by a healthy momentum in CASA (up 14% yoy) and Retail TD (up 16.3% yoy). Reported NIM was moderate at 2.75%, mainly impacted by NPA recognition and interest waiver. The bank believes that it is well prepared to face the second Covid-19 wave and expects credit growth to improve in FY22. Better credit growth should lead to better LDR, which will structurally support core margins in the long run.

Stress still remains elevated; need to shore up provision buffer: Reported GNPA was flat qoq at 8.9% (pro forma basis) due to higher recoveries and write-offs. The overall restructuring book stands low at Rs81.4bn - 1.3% of loans (including MSME restructuring of Rs36bn under the Jan'19 circular), while OTR pool stands low at Rs45bn - 0.7% of loans (Corporate- Rs27bn, MSME- Rs11.7bn, Retail- Rs6.4bn) under the RBI RE scheme. CBK used up the entire contingent buffer created earlier and provided Rs5bn (0.1% of advances) toward Covid-19 effects and has additionally provided Rs4.9bn on the OTR book. SMA (0-2)-above Rs50mn A/Cs improved to 3.2% as of Mar'21 (down 41bps qoq). That said, lower collection efficiency of 89% in Apr'21 (92% in Mar'21) remains a concern. CBK expects both credit cost and slippages to be in the range of ~2.1-2.3% for FY22.

Outlook and valuations: We believe that merger related concerns are largely behind and the bank should report gradual improvement in its RoA/RoE to 0.4-0.5%/8-10% by FY23E-24E (without factoring in dilution), led by better growth/moderate LLP. Retain Buy with a revised TP of Rs175 (from Rs155), factoring in upgrades in earnings/multiple (core bank valued at 0.6x vs. 0.5x). Key risks to our call/estimates: Higher-than-expected NPA formation, slower growth trajectory and sharp rise in G-Sec yields leading to lower treasury gains.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	209,371	394,241	407,879	433,458	476,940
Net profit	(22,357)	26,344	33,047	53,830	67,449
EPS (Rs)	(21.7)	19.7	20.1	32.7	41.0
ABV (Rs)	203.0	259.8	236.1	266.2	311.2
RoA (%)	(0.3)	0.3	0.3	0.4	0.5
RoE (%)	(7.1)	6.3	6.3	9.5	11.0
PE (x)	(6.7)	7.4	7.3	4.5	3.6
P/ABV	0.7	0.6	0.6	0.5	0.5

Source: Company, Emkay Research

CMP	Target Price
Rs 146 as of (May 19, 2021)	Rs 175 (▲) 12 months
Rating	Upside
BUY (■)	19.9 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	74.2/27.3
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	20.1	32.7
Consensus	20.4	29.8
Mean Consensus TP (12M)	Rs 150	

Stock Details

Bloomberg Code	CBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,647
52 Week H/L	175 / 76
M Cap (Rs bn/USD bn)	241 / 3.29
Daily Avg Volume (nos.)	22,162,320
Daily Avg Turnover (US\$ mn)	45.6

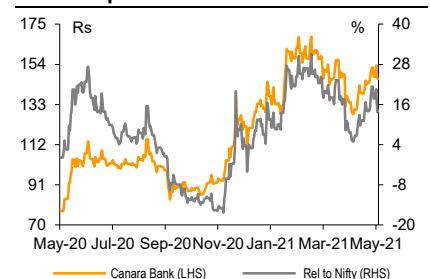
Shareholding Pattern Mar '21

Promoters	69.3%
FIIIs	4.6%
DIIIs	12.6%
Public and Others	13.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	(9)	57	92
Rel. to Nifty	8	(9)	33	13

Relative price chart



Source: Bloomberg

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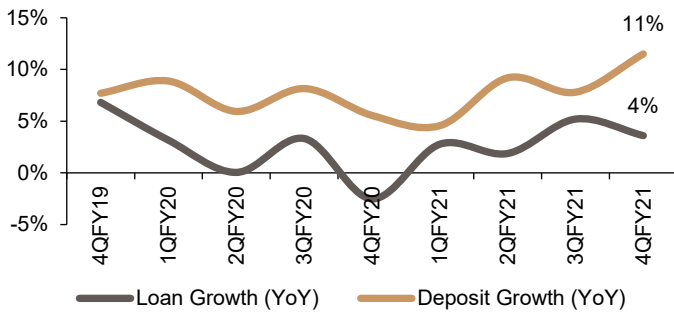
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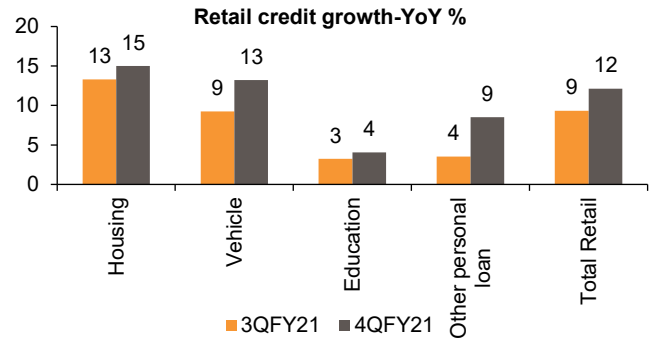
Story in Charts

Exhibit 1: Credit growth remains moderate dragged by corporate de-bulking, while deposit growth remains healthy



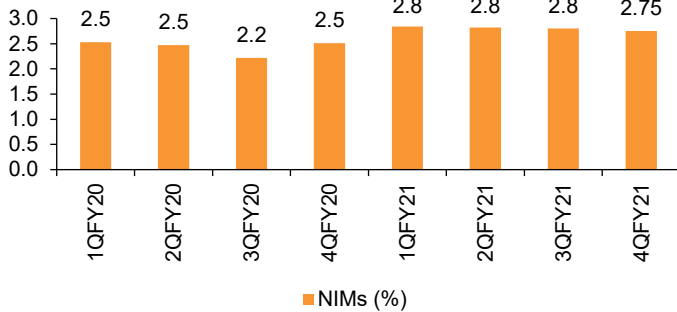
Source: Company, Emkay Research

Exhibit 2: Retail credit growth has improved, led by housing and vehicle segment



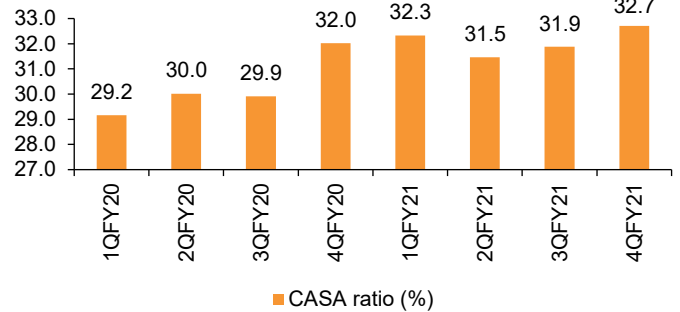
Source: Company, Emkay Research

Exhibit 3: NIM is slightly impacted due to NPA recognition and interest waiver



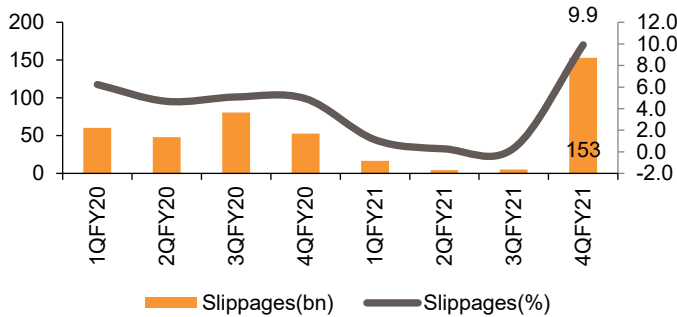
Source: Company, Emkay Research

Exhibit 4: CASA stands at a multi-quarter high of 32.7%



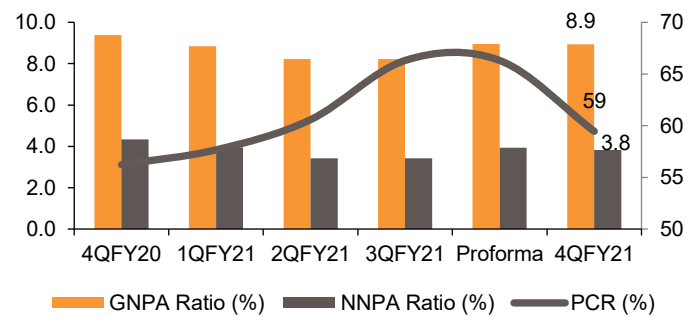
Source: Company, Emkay Research

Exhibit 5: Slippages during Q4 look optically higher due to addition of pro forma numbers from previous quarters



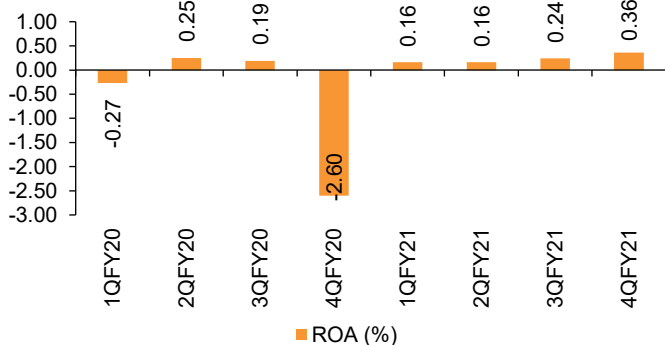
Source: Company, Emkay Research

Exhibit 6: GNPA remains flat qoq, however PCR stands lower at ~59%



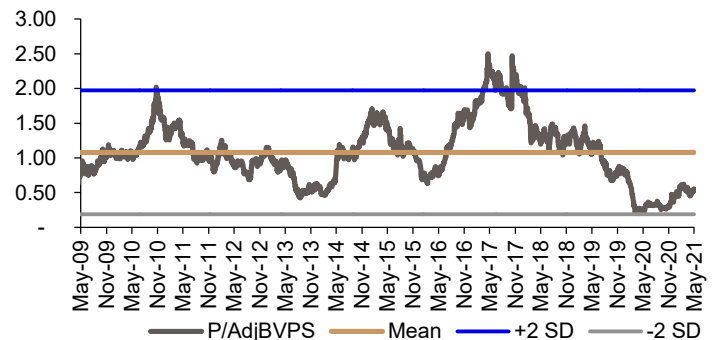
Source: Company, Emkay Research

Exhibit 7: Higher recoveries from written-off accounts aid return ratios for the quarter



Source: Company, Emkay Research

Exhibit 8: The stock is currently trading at 0.5x- 1-year forward ABV



Source: NSE, Emkay Research

Exhibit 9: Actual vs. Estimates – (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	107,963	90,532	93,225	19%	16%	Higher other income led to beat
PPOP	57,026	41,004	43,697	39%	31%	Higher Net income led to beat
PAT	10,109	4,865	5,029	108%	101%	Higher PPOP led to beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	176,070	180,358	176,821	172,064	163,155	-7	-5	692,398	750,833	8
Interest Exp	125,210	119,403	113,856	111,255	107,263	-14	-4	451,777	493,663	9
Net Interest Income	50,860	60,956	62,965	60,809	55,892	10	-8	240,622	257,169	7
Global NIMs (reported)	2.51	2.84	2.82	2.80	2.75	24bps	-5bps	2.81	2.41	-40bps
Non-interest Income	30,270	26,501	31,546	42,735	52,071	72	22	153,620	150,710	-2
Operating Expenses	57,020	44,602	48,114	49,728	50,937	-11	2	193,381	205,437	6
Pre Provisioning Profit	24,110	42,855	46,398	53,816	57,026	137	6	200,860	202,442	1
Provision & Contingencies	88,960	38,263	40,168	43,248	41,342	-54	-4	163,021	158,261	-3
PBT	-64,850	4,591	6,229	10,568	15,684	-124	48	37,840	44,181	NM
Income Tax Expense (Gain)	830	529	1,785	3,607	5,575	572	55	11,496	11,134	NM
Net Profit/(Loss)	-65,680	4,062	4,444	6,961	10,109	-115	45	26,344	33,047	25
Gross NPA (%)	9.39	8.84	8.23	7.46	8.93	-46bps	147bps	8.93	8.64	-29bps
Net NPA (%)	4.34	3.95	3.42	2.64	3.82	-52bps	118bps	3.82	3.38	-44bps
Deposits (Rs in bn)	9,066	9,096	9,488	9,730	10,109	11	4	10,109	10,661	5
Net Advances (Rs in bn)	6,168	6,172	6,163	6,342	6,390	4	1	6,390	6,828	7

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	383,362	407,879	6.40%	412,929	433,458	4.97%	476,940
PPOP	179,422	202,442	12.8%	194,163	213,095	9.8%	239,205
PAT	18,972	33,047	74.2%	42,329	53,830	27.2%	67,449
EPS (Rs)	11.5	20.1	74.2%	25.7	32.7	27.2%	41.0
BV (Rs)	302.9	328.7	8.5%	323.6	356.4	10.1%	390.4

Source: Emkay Research

We have increased our earnings estimate by 27-74% for FY22-23, factoring in better growth and moderate LLP.

Exhibit 12: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	47.9	6.8	10.2	12.1
Deposit Growth %	61.6	5.5	7.1	7.1
NIM %	2.8	2.4	2.5	2.6
GNPA %	8.9	8.6	8.1	7.4
Credit Cost %	2.7	2.2	1.8	1.7

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans (Rs bn)	4,277	6,005	6,050	6,029	6,168	6,172	6,163	6,342	6,390
-Growth % (YoY)	12.1	55.5	47.7	44.5	44.2	2.8	1.9	5.2	3.6
-Growth % (QoQ)	2.5	40.4	0.7	-0.3	2.3	0.1	-0.1	2.9	0.8
Liability Profile & Capital (%)									
CASA	29.2	29.2	30.0	29.9	32.0	32.3	31.5	31.9	32.7
-CA	3.9	3.6	3.7	3.9	4.4	4.5	4.2	4.4	4.9
-SA	25.3	25.6	26.3	26.0	27.6	27.9	27.3	27.5	27.8
Branches	6,315	10,380	10,366	10,396	10,391	10,451	10,495	10,494	10,416
CAR %	11.9	12.3	13.9	12.2	13.0	12.8	12.8	13.7	13.2
Tier I %	9.0	9.5	11.1	11.1	9.6	9.3	9.5	10.5	10.1
Asset Quality (%)									
GNPA	8.8	10.3	10.1	9.8	9.4	8.8	8.2	7.5	8.9
NNPA	5.4	5.9	5.7	5.6	4.3	4.0	3.4	2.6	3.8
PCR	41.5	45.6	46.1	45.4	56.2	57.7	60.6	66.3	59.5
Slippages (Rs mn)	24,690	60,200	47,870	80,550	52,670	16,750	4,150	5,080	152,870
Slippages - annualized (%)	2.6	6.2	4.7	7.7	4.9	1.1	0.3	0.3	9.9
ROE Decomposition %									
NII	2.1	2.6	2.2	2.4	2.3	2.5	2.4	2.2	2.0
Other Income	1.1	1.2	1.3	1.2	1.3	1.1	1.2	1.5	1.8
Treasury	0.1	0.1	0.2	0.2	0.1	0.3	0.2	0.5	0.2
Opex	1.4	2.1	1.9	1.9	2.5	1.8	1.8	1.8	1.8
PPOP	1.7	1.7	1.6	1.6	1.1	1.8	1.7	2.0	2.0
Provisioning Cost	3.2	2.0	1.2	1.3	3.9	1.6	1.5	1.6	1.5
PBT	-1.5	-0.3	0.4	0.4	-2.9	0.2	0.2	0.4	0.6
Tax	-1.2	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.2
ROA	(0.3)	(0.3)	0.3	0.3	(2.9)	0.2	0.2	0.3	0.4
Leverage (x)	18.8	21.3	20.1	20.2	23.0	18.5	19.6	19.4	19.3
ROE	-6.1	-7.1	5.7	6.9	-66.9	3.1	3.3	4.9	6.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	131,239	240,622	257,169	279,331	313,710
Other income	78,132	153,620	150,710	154,128	163,230
Fee income	12,571	52,430	55,052	60,557	69,640
Net income	209,371	394,241	407,879	433,458	476,940
Operating expenses	115,772	193,381	205,437	220,364	237,735
Pre provision profit	93,598	200,860	202,442	213,095	239,205
PPP excl treasury	86,004	167,700	172,598	186,235	215,032
Provisions	111,154	163,021	158,261	141,130	149,032
Profit before tax	(17,556)	37,840	44,181	71,965	90,173
Tax	4,802	11,496	11,134	18,135	22,724
Tax rate	(27)	30	25	25	25
Profit after tax	(22,357)	26,344	33,047	53,830	67,449

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	10,302	16,467	16,467	16,467	16,467
Reserves	382,627	572,382	604,606	650,202	706,124
Net worth	392,930	588,849	621,073	666,669	722,591
Deposits	6,253,512	10,108,746	10,660,662	11,415,734	12,227,906
Borrowings	276,125	333,193	266,555	239,899	227,904
Total liabilities	7,238,749	11,536,750	11,837,917	12,592,958	13,711,859
Cash and bank	225,701	431,116	452,672	475,306	499,071
Investments	1,762,449	2,616,904	2,747,923	2,810,177	3,000,947
Loans	4,321,752	6,390,490	6,828,100	7,525,670	8,435,740
Others	389,070	633,211	700,529	772,567	879,942
Total assets	7,238,749	11,536,750	11,837,917	12,592,958	13,711,859

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.0	2.8	2.4	2.5	2.6
Non-ll/avg assets	1.1	1.6	1.3	1.3	1.2
Fee income/avg assets	0.2	0.6	0.5	0.5	0.5
Opex/avg assets	1.6	2.1	1.8	1.8	1.8
Provisions/avg assets	1.6	1.7	1.4	1.2	1.1
PBT/avg assets	(0.2)	0.4	0.4	0.6	0.7
Tax/avg assets	0.1	0.1	0.1	0.1	0.2
RoA	(0.3)	0.3	0.3	0.4	0.5
RoAE	(7.1)	6.3	6.3	9.5	11.0
GNPA (%)	8.2	8.9	8.6	8.1	7.4
NNPA (%)	4.2	3.8	3.4	3.0	2.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	(21.7)	19.7	20.1	32.7	41.0
BVPS	319.9	380.3	328.7	356.4	390.4
ABVPS	203.0	259.8	236.1	266.2	311.2
DPS	0.0	0.0	0.5	5.0	7.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	(6.7)	7.4	7.3	4.5	3.6
P/BV	0.7	0.6	0.6	0.5	0.5
P/ABV	0.7	0.6	0.6	0.5	0.5
P/PPOP	1.6	1.2	1.2	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.3	3.4	4.8

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	(9.4)	83.3	6.9	8.6	12.3
PPOP	(11.6)	114.6	0.8	5.3	12.3
PAT	(744.3)	(217.8)	25.4	62.9	25.3
Loans	1.0	47.9	6.8	10.2	12.1

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	50,860	60,956	62,965	60,809	55,892
NIM (%)	2.5	2.8	2.8	2.8	2.8
PPOP	24,110	42,855	46,398	53,816	57,026
PAT	(65,680)	4,062	4,444	6,961	10,109
EPS (Rs)	(63.75)	2.79	3.06	4.23	6.14

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Dec-20	Mar-21
Promoters	78.6	78.6	69.3	69.3	69.3
FII	2.6	2.3	4.5	8.0	4.6
DII	9.4	8.9	12.0	12.9	12.6
Public and Others	9.5	10.3	14.2	9.7	13.5

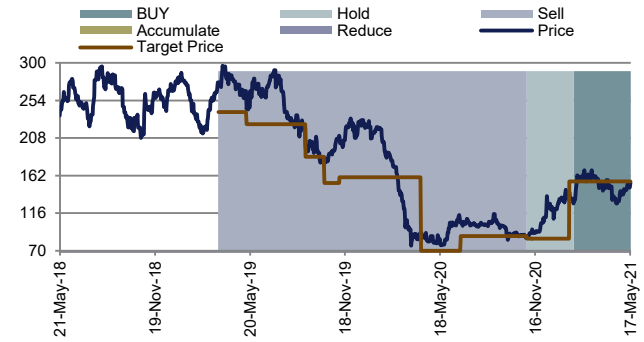
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jan-21	132	155	12m	Buy	Anand Dama
20-Jan-21	142	155	12m	Hold	Anand Dama
31-Oct-20	86	85	12m	Hold	Anand Dama
26-Jun-20	105	88	12m	Sell	Anand Dama
11-Apr-20	92	70	12m	Sell	Anand Dama
24-Jan-20	219	160	12m	Sell	Anand Dama
7-Nov-19	210	160	12m	Sell	Anand Dama
9-Oct-19	184	153	12m	Sell	Anand Dama
3-Sep-19	197	185	12m	Sell	Anand Dama
25-Jul-19	239	225	12m	Sell	Anand Dama
13-May-19	243	225	12m	Sell	Anand Dama
20-Mar-19	276	240	12m	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.64	20.61	-0.1%	-3	100.00
Axis Bank	2.18	2.27	4%	8	10.98
AU Small Finance Bank	0.24	0.20	-18%	-4	0.95
Bandhan Bank	0.25	0.29	17%	4	1.40
Bank of Baroda	0.17	0.11	-31%	-5	0.56
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.05
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.19
Federal Bank	0.20	0.24	23%	4	1.17
HDFC Bank	7.01	7.12	1%	11	34.47
ICICI Bank	5.09	5.25	3%	15	25.41
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.64	0.75	16%	10	3.61
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.67	2.20	-18%	-47	10.64
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.12	0.09	-27%	-3	0.41
State Bank of India	1.71	1.86	9%	15	9.02
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.15

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	19-May-20	18-Nov-20	16-Feb-21	16-Apr-21	18-May-21
EAP - BFSI-Banks	100.0	60.8	103.2	126.4	109.8	116.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	60.0	101.4	124.0	107.7	114.1

*Performance measurement base date 1st April 2019

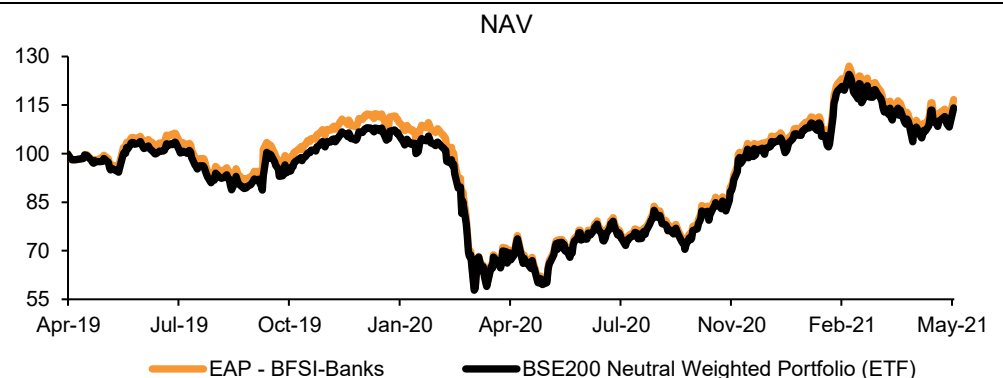
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	6.3%	-7.7%	13.1%	91.9%
BSE200 Neutral Weighted Portfolio (ETF)	6.0%	-7.9%	12.6%	90.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 20 May 2021 02:38:29 (SGT)

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