

Canara Bank



DOLAT CAPITAL

CMP: ₹ 455

TP: ₹ 515

Accumulate

Core interest income lesser than estimates, robust growth in other income resulted in higher operating profit; higher provisioning dents bottom-line growth

- In Q3 FY12, Canara Bank's net interest income (NII) de-grew by 9.5% YoY to ₹ 19.2bn - 9.4% lesser than our estimates of ₹ 21bn. The bank reported operating profit of ₹ 15.8bn (Dolat est: ₹ 15.5bn). Net profit declined by 20.8% YoY to ₹ 8.8bn (our estimates of ₹ 9.9bn) and consensus estimates of ₹ 9.2bn
- The deviation on core income level was due to much higher than expected liabilities cost. Interest expense grew by 55.6% YoY to ₹ 58.9bn as against 32.2% YoY growth in interest income to ₹ 78.1bn. Further, its reported decline in NIM by 60bps YoY and 12bps QoQ to 2.52% as against 3.12% in Q3 FY11 and 2.64% in Q2 FY12.
- However, operating level was slightly higher than expected mainly due to robust growth in other income (primarily on account of much higher capital gains and fee income). At the bottom-line level, performance was subdued due to much higher provisioning for investment depreciation and NPA losses on restructured account.
- Sequentially, gross additions to NPAs were lesser at ₹ 8.6bn, compared to ₹ 12.4bn in Q2 FY12. The total restructured loan book increased to ₹ 95bn as against ₹ 85bn in Q2 FY12.
- Overall, the bank's quarterly result was below expectations mainly due to lesser than expected NII and provisions for fresh restructuring. NPL levels remained contained but restructuring provisions dented bottom-line further. We reduce our FY12 and FY13 earnings estimates by 2.5% and 1% respectively and reduce target price to ₹ 515 at 1.14x adjusted book value (ABV) FY13. At current price, the stock quotes at 1.0x ABV FY13. We rate the stock as an Accumulate.

High Points

- Core interest income lower than our expectation
- Decline in margin
- Robust other income and drop in overheads aids operating profit
- Higher provisioning on restructured accounts and investment mar bottom-line growth
- View: Rate the stock as an Accumulate with target price of ₹ 515**

Scrip Details

Equity	₹ 4430mn
Face Value	₹ 10/-
Market Cap	₹ 212bn
	USD 4.4bn
52 week High / Low	₹ 668 / 349
Avg. Volume (no)	451,521
BSE Sensex	16,863
NSE Nifty	5,087
Bloomberg Code	CBK IN
Reuters Code	CNBK.BO

Q3FY12 Result (₹ mn)

Particulars	Q3FY12	Q2FY12	Q3FY11	QoQ (%)	YoY (%)	9MFY12	9MFY11	YoY (%)
Interest Income	78121	76145	59079	2.6	32.2	225831	165811	36.2
Interest Exp.	58935	56528	37887	4.3	55.6	169340	107959	56.9
Net interest income	19186	19617	21192	(2.2)	(9.5)	56492	57852	(2.4)
Other op. income	7791	8283	5366	(5.9)	45.2	21583	18353	17.6
Total Net Income	26976	27900	26558	(3.3)	1.6	78075	76206	2.5
Overheads	11209	11846	11428	(5.4)	(1.9)	33550	32084	4.6
Operating profit	15767	16053	15130	(1.8)	4.2	44525	44121	0.9
Tax Provision	2000	2000	2500	0.0	(20.0)	6000	7500	(20.0)
Other Provisions	5012	5531	1573	(9.4)	218.7	13988	5351	161.4
Net profit	8756	8522	11057	2.7	(20.8)	24536	31270	(21.5)
Equity Capital	4430	4430	4100	0.0	8.0	4430	4100	8.0
EPS (Unit INR)	20	19	27	2.7	(26.7)	55	76	(27.4)
GNPA	39986	37933	27533	5.4	45.2			
NNPA	32654	31170	19910	4.8	64.0			
GNPA (%)	1.8	1.7	1.4					
NNPA (%)	1.5	1.4	1.1					
RoA (Annualised)	1.0	1.0	1.6					

Financials

Year	NII	PPP	NP	NIM (%)	BV (₹)	ABV (₹)	RoAA (%)	RoAE (%)	P/B (x)	P/ABV (x)	P/E (x)
FY10	56,805	50,608	30,214	2.4	306	271	1.2	26.8	1.5	1.7	6.2
FY11	78,233	61,070	40,259	2.7	405	363	1.3	26.4	1.1	1.3	4.7
FY12E	76,974	63,255	33,925	2.2	469	407	0.9	17.5	1.0	1.1	5.9
FY13E	85,039	69,403	34,692	2.0	536	450	0.8	15.6	0.8	1.0	5.8

Figures in ₹ mn

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Moderation in business growth: In Q3 FY12, the bank's total business grew by 17.9% YoY to ₹ 5.4tn. Deposits and net advances grew by 19.7% and 15.5% to ₹ 3.2tn and ₹ 2.2tn respectively. Credit-deposit ratio stayed flat on sequential basis at 69.5%. On the credit book side, the agriculture, infrastructure and industrial segments were key contributors to growth. In deposits, CASA share declined to 25% from 26.7% in Q2 FY12.

Going forward, moderate deposit growth could aid CASA share. We factor in flat CASA share in FY12 and FY13. The management expects 20% YoY expansion in total business in FY12 and we expect business to grow 17.3% YoY on the back of a 19.1% growth in deposit mobilization and 15.6% YoY expansion in credit book.

Stress on margin: Much higher liabilities cost dented NII growth and margin. Interest expense grew by 55.6% YoY to ₹ 58.9bn as against 32.2% YoY growth in interest income to ₹ 78.1bn. NIM declined by 60bps YoY and 12bps QoQ to 2.52% as against 3.12% in Q3 FY11 and 2.64% in Q2 FY12. In FY13, we expect a slight drift in margins due to faster decline in lending rates. We estimate margins to be in the 2.0-2.2% range for FY12-13.

Robust growth in other income and contained operating expenses aided operating profit: Other income rose 45% to ₹ 7.8bn, primarily on account of treasury profit of ₹ 1.6bn as against profit of only ₹ 290mn in Q3 FY11. Going forward, it is expected that Canara Bank will maintain its non-fund income growth at 17.7% CAGR over FY11-13 primarily, on account of higher fee income.

The bank's total operating expenses declined by 1.9% YoY to ₹ 11.2bn mainly due to 9.1% fall in employee expenses. The bank's cost-income ratio drifted to 41.6% from 43% in Q3 FY11 and 42.5% in Q2 FY12. Hence, robust other income and decline in operating expenses aided operating profit (4.2% YoY growth to ₹ 15.8bn compared to our estimates of ₹ 15.5bn).

Asset quality uncertainty remains on restructuring front: During the quarter, the bank's gross NPAs rose by 45.2% YoY and 5% QoQ to ₹ 40bn. In percentage terms, Net NPA ratio rose by 6bps QoQ and 44bps YoY to 1.49%, while gross NPAs ratio increase by 7bps QoQ and 37bps YoY to 1.81%. Provision coverage remained flat on sequential basis.

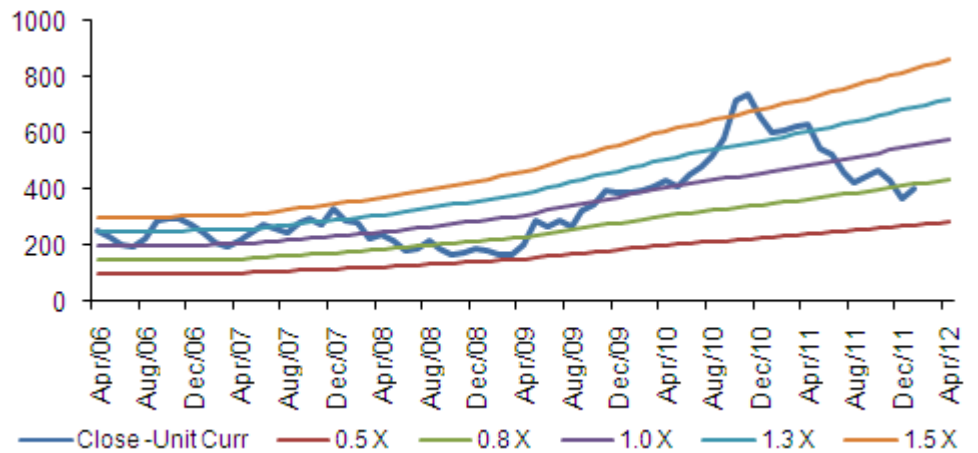
By the end of Q3 FY12, the restructured loans book increased to ₹ 95bn as against ₹ 85bn in Q2 FY12. NPL levels remained contained but provisioning was higher on restructuring accounts and investment depreciation. However, it recorded cash recoveries at ₹ 23bn for 9M FY12 compared to ₹ 20bn in FY11. For the Q3 FY12, the cash recovery stood at ₹ 7.9bn. The slippage ratio declined to 1.68% from 2.5% in Q2 FY12. In FY12, we expect the bank to maintain its gross and net NPAs ratio at 1.7% and 1.4% respectively and sustain PCR around 70%.

Branch network expansion: Canara Bank opened 132 branches and 42 ATMs in Q3 FY12, taking its network to 3,569 branches and 2,665 ATMs. The management plans to add around 200branches more and significantly increase its ATMs strength this fiscal.

Valuation

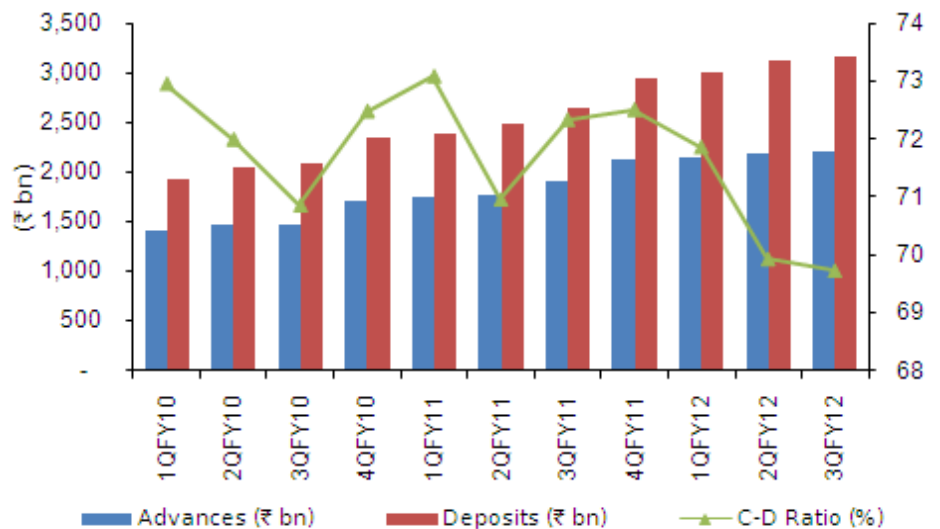
We reduce our FY12 and FY13 earnings estimates by 2.5% and 0.7% respectively and reduce the target price marginally to ₹ 515 (from previous target price of ₹ 516) at 1.14x adjusted book value (ABV) FY13. At current price, the stock quotes at 1.0x ABV FY13. We reduce our **Buy** rating to Accumulate.

Canara Bank's P/BV Chart



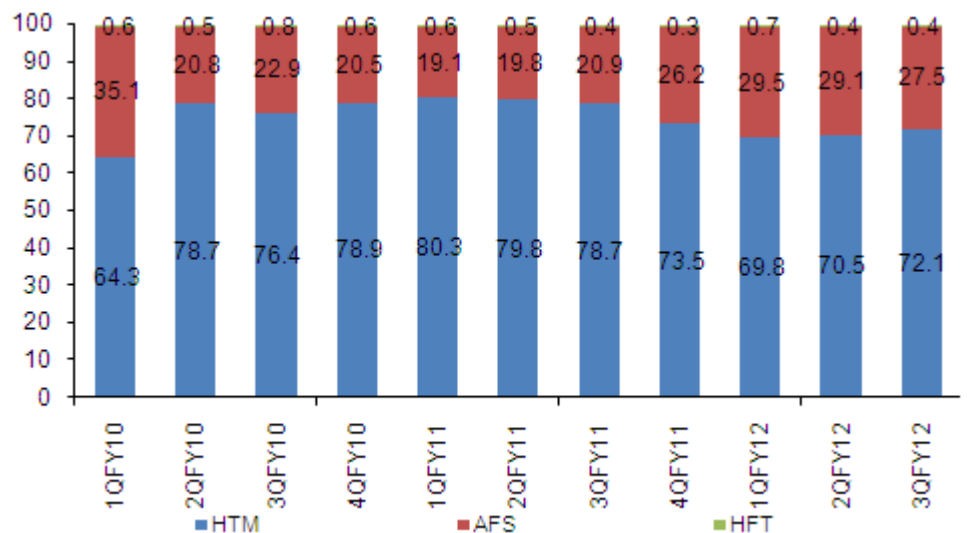
Source: Capitaline, Dolat Research

Canara Bank's Business mix



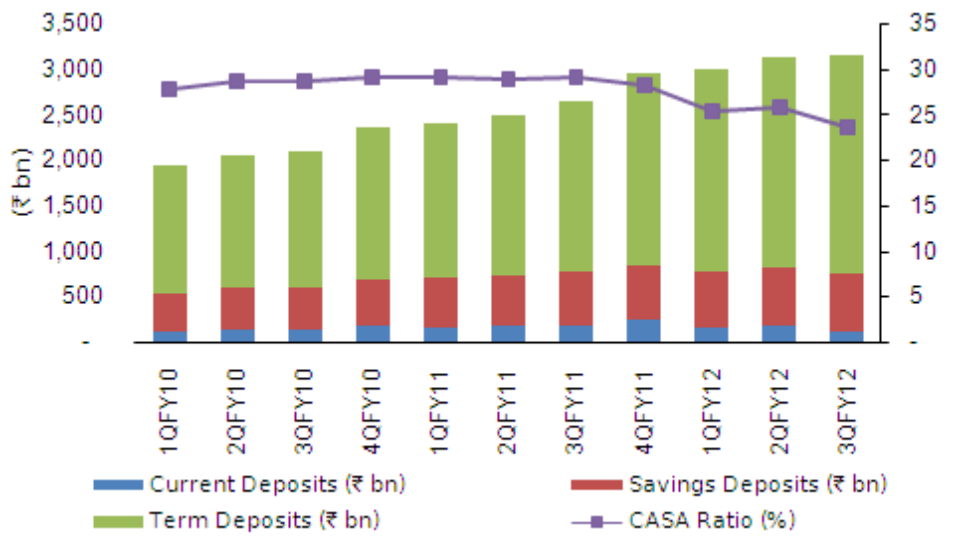
Source: Banks, Dolat Research

Canara Bank's Domestic Investment Profile



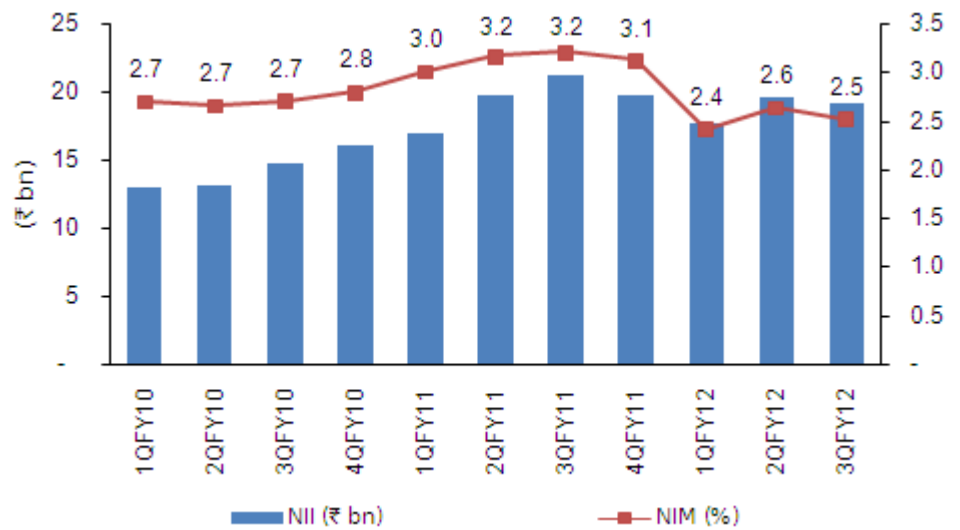
Source: Banks, Dolat Research

Canara Bank's Deposit Profile



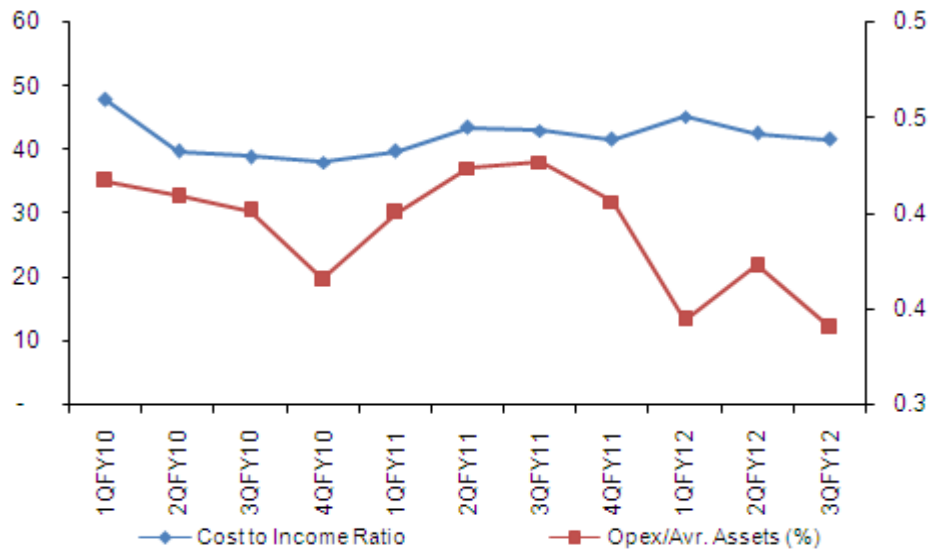
Source: Banks, Dolat Research

Canara Bank's NII & NIM (%)



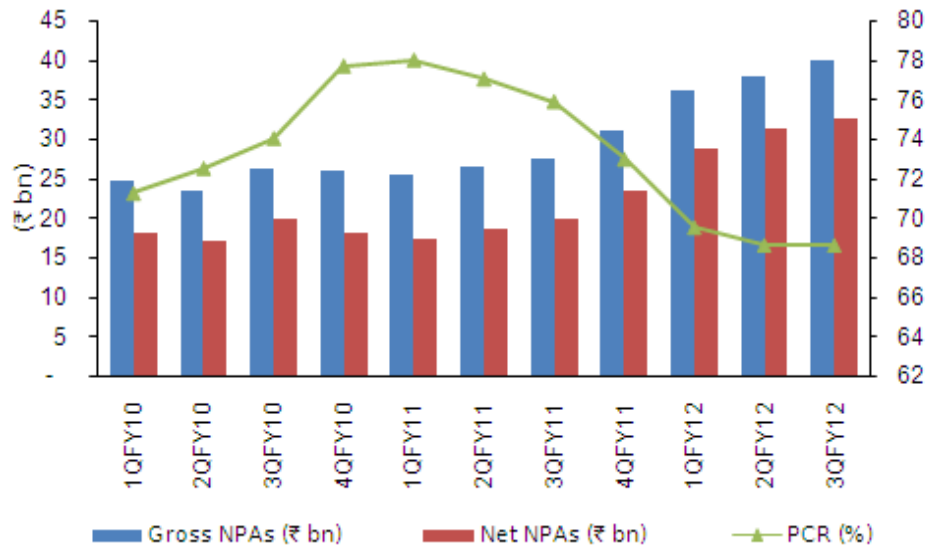
Source: Capitaline, Dolat Research

Canara Bank's Operating Cost Structure (%)



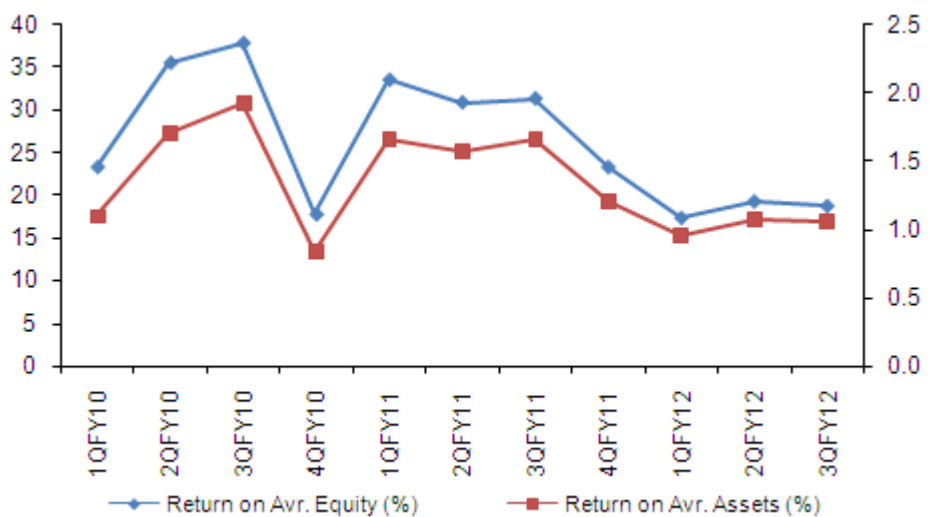
Source: Banks, Dolat Research

Canara Bank's Asset Quality



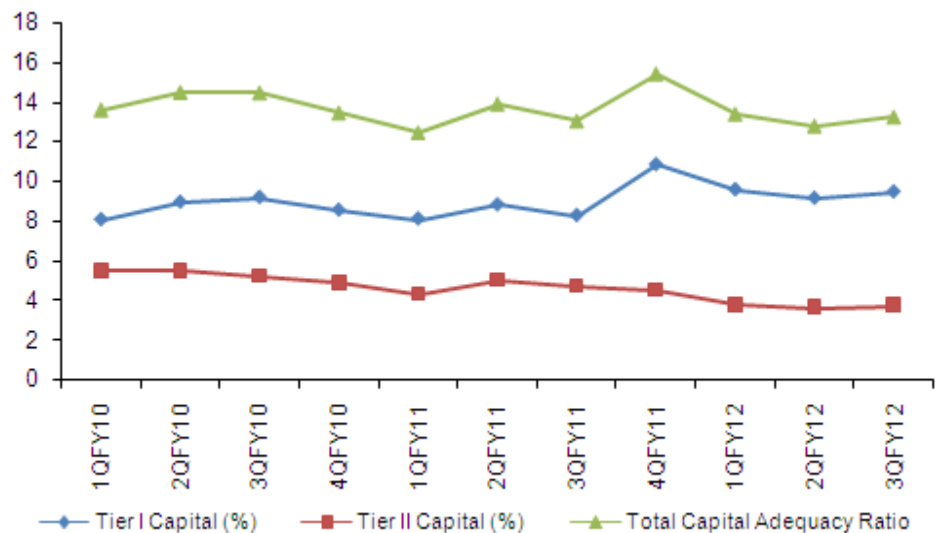
Source: Banks, Dolat Research

Canara Bank's Return Ratios (%)



Source: Banks, Dolat Research

Canara Bank's Capital Adequacy (%)



Source: Banks, Dolat Research

INCOME STATEMENT

₹ mn

Particulars	Mar10	Mar11	Mar12E	Mar13E
Net Interest Income	56,805	78,233	76,974	85,039
CXB	7,239	7,558	9,780	11,565
Profits on sale of investments	8,724	2,363	2,950	2,000
Profits on foreign exchange	2,152	3,814	4,095	6,080
Other operating income	10,463	13,295	15,727	17,809
Total other income	28,579	27,030	32,552	37,454
Total Income	85,384	105,263	109,526	122,493
Salaries	21,937	29,548	29,701	34,105
Other operating costs	12,839	14,645	16,570	18,985
Total Overheads	34,776	44,193	46,271	53,090
Profit before provisions	50,608	61,070	63,255	69,403
Bad Debt Provisions	14,262	10,012	13,553	18,580
Std. Asset Provision	918	1,843	1,262	1,757
Investment Provisions	(3,287)	426	2,260	1,455
Other provision	501	(1,470)	3,365	3,540
Total provisions	12,394	10,811	20,440	25,332
Profit before tax	38,214	50,259	42,815	44,072
Tax	8,000	10,000	8,890	9,380
Reported Net profit	30,214	40,259	33,925	34,692

BALANCE SHEET

Particulars	Mar10	Mar11	Mar12E	Mar13E
Cash with RBI	157,195	220,148	233,987	280,317
Cash at call	39,337	86,933	145,860	113,455
Total Cash	196,532	307,081	379,847	393,772
Govt. securities	627,804	711,493	864,119	1,007,475
Other investments	68,965	125,507	152,492	177,790
Total Investments	696,770	836,999	1,016,611	1,185,265
Bills discounted	63,289	71,632	98,234	115,984
Cash credit	798,922	1,025,568	1,154,245	1,362,817
Term loans	831,135	1,027,472	1,203,362	1,420,809
Total Credit	1,693,346	2,124,672	2,455,840	2,899,611
Gross Fixed Assets	44,713	46,789	48,625	49,710
Accumulated Depreciation	16,119	18,345	18,960	19,682
Net Fixed Assets	28,594	28,444	29,665	30,028
Lease Adjustment	(91)	(72)	0	0
Other Assets	32,169	63,591	106,263	187,614
Total Assets	2,647,411	3,360,788	3,988,225	4,696,290
Demand Deposits	183,859	245,000	280,122	330,436
Savings Deposits	498,754	586,171	700,305	826,091
Term Deposits	1,663,901	2,108,556	2,521,099	2,973,928
Total Deposits	2,346,514	2,939,727	3,501,526	4,130,455
Perpetual Debts (IPDI)	8,403	15,896	17,896	22,396
Upper Tier II Capital	21,206	31,197	39,372	49,872
Subordinate Debt	44,385	43,540	48,540	54,640
Other Borrowings	10,411	51,984	60,860	72,782
Total Borrowings	84,406	142,616	166,668	199,690
Other liabilities	69,773	78,046	91,420	108,553
Equity	4,100	4,430	4,430	4,430
Reserves	142,618	195,968	224,182	253,162
Total Equity	146,718	200,398	228,612	257,592
Total Liab & Equity	2,647,411	3,360,788	3,988,225	4,696,290

E-estimates

IMPORTANT RATIOS

Particulars	Mar10	Mar11	Mar12E	Mar13E
DPS (₹)	10.0	11.0	11.0	11.0
Book Value (₹)	305.8	405.0	469.2	536.2
Adjusted Book Value (₹)	271.1	362.6	406.6	450.3
EPS (₹)	73.7	97.8	76.6	78.3
EPS Growth (%)	45.8	32.8	(21.7)	2.3
Payout (%)	13.6	11.2	14.4	14.0
Net interest margin (%)	2.4	2.7	2.2	2.0
Spread (%)	2.1	2.3	1.8	1.7
Cost-to-income (%)	40.7	42.0	42.2	43.3

ROAA

Net Interest Income	2.3	2.6	2.1	2.0
Other Income	1.2	0.9	0.9	0.9
Less Overheads	(1.4)	(1.5)	(1.3)	(1.2)
Less Provisions	(0.5)	(0.4)	(0.6)	(0.6)
Less Tax	(0.3)	(0.3)	(0.2)	(0.2)
ROAA	1.2	1.3	0.9	0.8
ROAE	26.8	26.4	17.5	15.6

Valuation

Price Earnings (x)	6.2	4.7	5.9	5.8
Price to Book Value (x)	1.5	1.1	1.0	0.8
Price to Adjusted BV (x)	1.7	1.3	1.1	1.0
Dividend Yield (%)	2.2	2.4	2.4	2.4

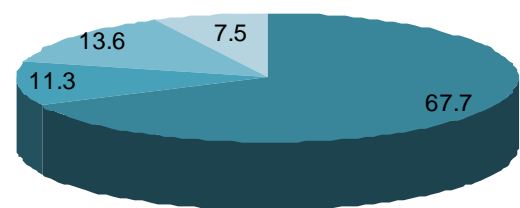
Asset Quality

Gross NPLs	25,903	30,897	42,837	60,740
Restructured standard Loans	54,727	80,780	130,100	179,200
Gross Impaired Loans	80,630	111,677	172,937	239,940
Net NPLs	17,997	23,473	34,990	48,333
Provision coverage ratio (%)	77.7	73.0	74.0	76.0
Gross NPLs (%)	1.5	1.4	1.7	2.1
Net NPLs (%)	1.1	1.1	1.4	1.7

Assumptions

Yield on Advances (%)	9.1	8.9	10.4	10.9
Yield on Investment (%)	7.2	7.5	7.6	8.1
Cost of Deposits (%)	5.8	5.4	6.9	7.4
Interest Inc. on Cash (%)	1.2	0.9	0.8	0.8
CRAR (%)	13.4	15.4	14.4	13.8
Growth in credit book (%)	22.5	25.5	15.6	18.1
Growth in Deposits (%)	25.6	25.3	19.1	18.0
Growth in Investments (%)	20.6	20.1	21.5	16.6
Gross slippages ratio (%)	2.1	1.8	2.0	2.4
Credit Cost (%)	0.9	0.5	0.6	0.7

E-estimates

Shareholding Pattern as on Dec'11 (%)


■ Promoter ■ MF/Banks/FIs ■ FIs ■ Public / Others



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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