

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



BUY | CMP 223 | TARGET 277 | POTENTIAL UPSIDE 24%

25 FEBRUARY 2019

Stock Data

M.Cap (₹ in cr)	16797
Equity (₹ in cr)	753.24
52 wk H/L ₹	302/205
Face Value ₹	10
Div. Yield	-
NSE Code	CANBK
BSE Code	532483

LEAD RATIONALE

Bank expects **Global NIM to reach 2.75% (currently 2.65%) going forward & aims at improving the bottom-line further with balanced thrust on both retail and corporate advances coupled with increased adoption of digitalization for efficiency improvement.** Bank intends to continue with the growth in the retail advances while simultaneously focusing on improvement in corporate book with high rated corporate advances. Moreover, management is highly confident to maintain itself as one of the **leading market players in the industry with adequate capital to build up business growth.**

Valuation Data

EV/EBITDA	22.24
P/BV	0.4
BV	508.71

Valuation Outlook

Canara Bank will continue to benefit from the strong support received from GOI, especially given the recent recapitalization announcement. In addition, with reduction in credit cost combined with improvement in NPA's, setting aside lower provisions for bad loans, CANARA is expected to post good earnings show going ahead.

Index Detail

Sensex	36213.38
Nifty	10880.10
Index	S&P BSE 200

Banks, especially PSU's in the past months gone by has faced multi-fold problems. Financial as well as liquidity crunches & above all stringent norms for banks marked panic over head of many. Despite the stated reasons, we recommend to BUY CANARA BANK which delivered sequential growth and improved fundamentals beating our calculations and are available at attractive valuations. Considering post sharpened numbers going forward, **We estimate P/BV at 0.65x (Est. 5yr avg.) for FY20, share price turns around to ₹ 277**

Healthy market position

Canara Bank is one of India's larger PSBs, with total advances and deposits at ₹ 4.17 lakh crore and ₹ 5.76 lakh crore, respectively, as on December 31, 2018. **bank has improved deposits market share to 4.33% and advance market share to 4.34% end December 2018.** The bank also has a pan-India branch presence, with around 6307 branches and 9004 ATM across the country as on December 31, 2018. **Revenue profile is also diversified across businesses, products, and geographies, augmenting its strong overall market position.**

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



Furthermore, bank has adequate capitalization, underpinned by its sizeable net worth of Rs 36,534 crore as December 31, 2018. However, given asset quality pressure, the net worth coverage for net non-performing assets (NPAs) stood at 1.37 times as on December 31, 2018. Also, **bank has adequate liquidity, supported by a sizeable retail deposit base that forms a significant part of the total deposits. Liquidity coverage ratio was 102.13% as on December 31, 2018, against the regulatory requirement of 90%.** The excess statutory liquidity ratio was ₹23315 crore (4.43%) as on that date. Looking ahead, **bank is focusing on recoveries, which is expected to aid the asset quality performance over the medium term.**

Strong Support from Government of India

Announced the reform package for the public sector banks (PSBs) that control 2/3 of the banking in India in terms of deposits and advances.

In December 2018, the government increased capital infusions for FY19 by a combined ₹ 41,000 crore to ₹ 1.06 lakh crore from the originally planned ₹ 65,000 crore. Capital support to state-run banks have been increased from the original plan as banks' capital shortfalls have grown larger than the initial projections. **Fresh capital will enable banks to use operating profit to significantly boost provisions for bad loans. It expects state-run banks' capital shortages to shrink substantially in FY20 as their asset quality improves, which will lead to declines in credit costs and gains in profitability.** GoI infused ₹ 4,865 crore in Canara Bank in fiscal 2018 (₹743 crore in fiscal 2017).

Key Financials (₹ in crores)				Key Ratios		
Particulars	Q3 FY 19	Q3 FY 18	Variation %	Particulars	Q3 FY 19	Q3 FY 18
Interest Income	12188.56	10774.64	13.12	CAR(%)	12.21	12.49
NII	3813.80	3679.13	3.66	ROAA(%)	0.20	0.15
Operating profit	2357.24	2831.39	(16.75)	ROE(%)	5.01	3.14
PAT	317.52	125.75	152.50	GNPA(%)	10.25	10.38
EPS	4.33	2.11	105.21	NNPA(%)	6.37	6.78

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



Sustains growth trajectory with improved fundamentals

Net profit for Q3FY19 grew by a **robust 152% Y-O-Y** to ₹ 318 crore aided by **strong growth domestic advances and a healthy CASA growth**. The domestic advances grew by a robust 24.6% on year basis and CASA deposits by 10.7% with Savings deposits growing at 11.42% during the period. Consequently, the **Net Interest Margin (NIM) of the Bank improved to 2.65%, from 2.39% a year ago**. During the **first nine months of FY2019, the Net Interest Income (NII) grew by a healthy 19.6% Y-O-Y**.

Further the provision coverage ratio has improved a healthy 670 bps to **62.54% from the Dec'17 level of 55.81%**. Also, unbroken efforts to boost the asset quality have marked well for the bank. **Rich restoration & up gradations has helped GNPA decrease by 31bps to 10.25% combined with net NPA lower by 17bps at 6.37%**. Cumulative cash recovery improved to ₹ 7927 crore as on Dec' 18.

The capital optimization measures taken by the bank have led to decrease in risk-weight density to **87.39% as at Dec 2018 from 91.27% as at Dec 2017**. Indeed, the **well capitalized position of the bank will provide helping hands for further credit growth**. In addition, CET1 at 8.81% and Tier 1 capital at 9.54% are at comfortable levels.

Global business of the bank **surged 13.2%** to reach ₹9.93 lakh crore, driven by a higher growth of 15.7% Y-O-Y in domestic business. The domestic business growth was propelled by 16.1% growth in deposits and 15.1% growth in advances. Consequently, the domestic market share of the bank improved significantly Y-O-Y by 18 Bps under deposits to 4.33% and 19 Bps under advances to 4.34%. The global deposits of the bank improved 14.2% to ₹5.76 lakh crore and the global net advances grew by 11.8% Y-O-Y to reach ₹ 4.17 lakh crore with a CD ratio of 72.50%. The **CASA ratio stood at 32.2%**.

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



Key Takeaways to watch out - Efficiency Parameters

- Cost of deposits stood at 5.60% against 5.59% last year
- Yield on advances improved to 8.49% as against 8.21 last year
- NIM (Domestic) improved to 2.85% and NIM (Global) 2.65%.
- Cost to Income ratio stood at 51.45%.
- Improve **PCR to 70% in the medium term**, going forward.
- Aims to **improve CASA ratio to 37.5% in FY2020**.
- Bank aims to **reduce GNPA ratio below 10% and Net NPA ratio below 6% by end March 2019**. The slippages are expected to be ₹ 2500 crore, of which ₹ 2000 crore would come from SMA-2.
- Bank expects **restructuring of ₹ 3000 crore of MSME loans in Q4 FY2019 under latest RBI guidelines**. MSME NPA will remain under control at 10-12%.

Focus Areas - FY 2018-19

- **Augmenting core operating profits from operations**
- **Accelerated NPA resolution**
- **Balanced growth in advances with proper mix of Retail and Corporate Credit**
- **Improving operational financial ratios - NIM, RoA, RoE and Cost-to-Income.**
- **Continued focus on digitization for better services and cost minimization**

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



Disclosures :

Business Activity :

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

Disciplinary History :

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

Terms & Conditions of issuance of Research Report:

The Research report is issued to the registered clients. The Research Report is based on the facts, figures and information that are considered true, correct and reliable. The information is obtained from publicly available media or other sources believed to be reliable. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation to buy or sell or subscribe for securities or other financial instruments for clients.

Disclosures with regard to ownership and material conflicts of interest :

Rudra or its research analysts, or his/her relative or associate has any direct or Indirect financial interest in the subject company.	NO
Rudra or its research analysts, or his/her relative or associate has any other material conflict of interest at time of publication of the research report.	NO
Rudra or its research analysts, or his/her relative or associates have actual ownership of one per cent or more securities of the subject company.	NO

Disclosures with regard to receipt of compensation :

Rudra or its associates have received any compensation from the subject company in the past twelve months.	NO
Rudra or its associates have managed or co-managed public offering of securities for the subject in the past twelve months.	NO
Rudra or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report .	NO

FUNDAMENTAL COVERAGE

CANARA BANK LIMITED



Other Disclosures:

The research analyst has served as an officer,director,employee of the subject company.	NO
Rudra or its research analyst has been engaged in market making activity for the subject company.	NO
Rudra or its or associates have received any compensation from the subject company in the past twelve months.	NO

Disclaimers:

This Research Report (hereinafter called report) has been prepared and presented by RUDRA SHARES & STOCK BROKERS LIMITED, which does not constitute any offer or advice to sell or does solicitation to buy any securities. The information presented in this report, are for the intended recipients only. Further, the intended recipients are advised to exercise restraint in placing any dependence on this report, as the sender, Rudra Shares & Stock Brokers Limited, neither guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinion or the dependence placed on the same.

Despite the information in this document has been previewed on the basis of publicly available information, internal data , personal views of the research analyst(s)and other reliable sources, believed to be true, we do not represent it as accurate, complete or exhaustive. It should not be relied on as such, as this document is for general guidance only. Besides this, the research analyst(s) are bound by stringent internal regulations and legal and statutory requirements of the Securities and Exchange Board of India(SEBI) and the analysts' compensation was, is, or will be not directly or indirectly related with the other companies and/or entities of Rudra Shares & Stock Brokers Ltd and have no bearing whatsoever on any recommendation, that they have given in the research report. Rudra Shares & Stock Brokers Ltd or any of its affiliates/group companies shall not be in any way responsible for any such loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Rudra Shares & Stock Brokers Ltd has not independently verified all the information, which has been obtained by the company for analysis purpose, from publicly available media or other sources believed to be reliable. Accordingly, we neither testify nor make any representation or warranty, express or implied, of the accuracy, contents or data contained within this document. Rudra Share & Stock Brokers Ltd and its affiliates are engaged in investment advisory, stock broking, retail & HNI and other financial services. Details of affiliates are available on our website i.e. www.rudrashares.com.

We hereby declare, that the information herein may change any time due to the volatile market conditions, therefore, it is advised to use own discretion and judgment while entering into any transactions, whatsoever.

Individuals employed as research analyst by Rudra Shares & Stock Brokers Ltd or their associates are not allowed to deal or trade in securities, within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or profits.