ICRA

July 31, 2017

Canara Bank

Canara Bank has announced its Q1 FY2018 results on July 19, 2017.

Advances: During Q1FY2018, the bank has reported a growth of 7.1% in gross advances on YoY basis, which is slightly higher than the recent trends of 5.6% growth in advances during FY2017. The QoQ growth remained modest at 0.4% in Q1FY2018 as compared to a QoQ de-growth of 1.0 % in Q1FY2017.

NIMs & NII: In-line with declining interest rate environment, the yield on advances declined to 8.5% during Q1FY2018 (9.2% in Q1FY2017 and 8.9% during FY2018) with a concurrent decline in the cost of funds to 5.6% during Q1FY2018 (6.3% in Q1FY2017 and 6.0% during FY2017). The yield on advances is also impacted on accounts of elevated levels of NPAs and high slippages in Q1FY2018. With higher decline in cost of funds, the Net Interest margins (NIMs) (as % of average total assets – ATA) improved to 1.9% during Q1FY2018 (1.7% in Q1FY2017 and 1.8% during FY2017). With improvement in NIMs coupled with steady growth in advances, the Net Interest income (NII) witnessed a growth of 17.6% during Q1FY2018 (-8.3% in Q1FY2017 and 1.1% during FY2017).

Asset Quality: The asset quality weakened with Gross NPAs (GNPAs) increasing to 10.6% at end Q1FY2018 (9.7% at end of Q1FY2017 and 9.6% at end of Q4FY2017) with higher slippages in corporate segment. With increase in slippage, the net NPAs (NNPAs) increased to 7.1% at end of Q1FY2018 (6.7% at end of Q1FY2017 and 6.3% at end of Q4FY2017).

Profitability: Despite an increase in credit cost and operating expenses (as a % of ATA) to 1.5% and 1.6% respectively during Q1FY2018 (1.1% and 1.5% respectively during Q1FY2017 and 1.8% and 1.5% respectively during Q4FY2017), the profit before tax (as a % of ATA) was maintained at 0.2% for Q1FY2018 (same level during Q1FY2017 and Q4FY2017) because of improvement in the bank’s net interest margin and supported by gain on sale of investments.

Capitalisation: Canara Bank’s capital ratios (CET1, Tier 1 and CRAR) remains moderate (as % of risk weighted assets) at 8.7%, 9.6%, and 12.6% respectively at end of Q1FY2018, which are comfortable in relation to regulatory levels. The solvency level has weakened with NNPAs/Net worth of 85.2% at end of Q1FY2018 (81.5% at end of Q1FY2017 and 76.5% at end of Q4FY2017) and is higher than peers in AAA rating category.

- During Q1 FY2018, higher than expected slippages from the corporate segment reflects continued pressure on bank’s asset quality.
- Higher incremental credit provision requirements for ageing of existing NPAs and corporate accounts referred to National Company Law Tribunal would continue to exert pressure on the bank’s profits during FY2018
- The other key operating and financial parameters including capitalization profile has been largely stable and in line with our expectations
- ICRA will continue to closely monitor the bank’s asset quality, profitability and capitalisation indicators

ICRA currently has outstanding ratings of [ICRA]AAA for the lower tier-II bonds, [ICRA]AAA(hyb) for the Basel III compliant tier-II bonds and [ICRA]AA(hyb) for the Basel III compliant additional tier-I bonds with Negative outlook. ICRA also has outstanding rating of [ICRA]A1+ for the bank’s certificate of deposit programme.

The previous rating rationale is available on the following link: Click here

Key Financial Indicators:

	FY2016	FY2017	Q1FY2017	Q1FY2018
Net Interest Income	9,763	9,872	2,307	2,713
Profit before tax	-3,186	1,642	326	269
Profit after tax	-2,813	1,122	229	252
Net advances	3,24,715	3,42,009	3,21,283	3,42,816
Total assets	5,47,516	5,78,146	5,34,340	5,74,520
%CET 1	8.18%	8.92%	8.21%	8.72%
%Tier 1	8.80%	9.77%	8.83%	9.57%
% CRAR	11.08%	12.86%	12.11%	12.61%
% Net Interest Margin / Average total assets	1.79%	1.75%	1.71%	1.88%
%Net Profit / Average total assets	-0.52%	0.20%	0.17%	0.17%
%Return on Net Worth	-10.75%	3.96%	3.49%	3.54%
% Gross NPAs	9.40%	9.63%	9.71%	10.56%
% Net NPAs	6.42%	6.33%	6.69%	7.09%
% Provision coverage incl technical write offs	50.11%	55.62%	50.82%	54.52%
% Net NPA/ Net worth	79.64%	76.46%	81.47%	85.24%

Note: Total assets excluding revaluation reserves. Amounts in Rs. crore
Source: Canara Bank

Analyst Contacts:

Mr. Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. Anil Gupta
+91 124 4545 314
anilg @icraindia.com

Mr. Vivekanandan L
+91 44 4297 4306
l.vivekanandan@icraindia.com

Relationship Contact:

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

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ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	