

# CANARA BANK

Earnings & Business momentum continue with improvement in credit quality

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## Price Analysis

The Canara Bank has been reporting consistent growth in net profit since previous thirteen quarters. In 2QFY24, the profitability increased by 42% YoY and 2% sequentially on the back of lower provisioning expenses. A bulky provision (₹54bn) made in 4QFY20 (three years ago), continued to safeguard the balance sheet from delinquencies from restructuring with PCR (calculated) of 71.5% and PCR (including TWO) of 89%. On asset quality front, the GNPA/NNPA ratio (4.76%/1.41%) improved by 39bps and 16bps respectively on the back of stable slippages of ₹29bn. The slippages ratio (calculated) marginally down at 137bps annualized v/s 163bps in the previous quarter. The cumulative SMA1/2 book also stable at 11bps/48bps of loan book. On the business front, the bank has reported healthy net credit growth of 13.2% YoY and 4.3% sequentially. The bank's recoveries are in line with the guidance and expect the credit cost to be below 2% for FY24. Furthermore, the NIMs flat sequentially to 3.02%. We believe the bank is growing the balance sheet with well-adjusted margins and it is expected to bode well in near term. We believe the bank has recovered well and expected to witness gradual improvement in profitability with FY25E ROA/ROE of 1.1%/17.2%. With an inexpensive valuation (0.87x trailing PBVPS) we recommend BUY.

## Gazing the core

**Asset Quality improvement continues:** The absolute GNPA is decreasing gradually with lower slippages and higher recoveries. In 2QFY24, Gross NPA addition were at ₹29b (lower sequentially) while stable recoveries and upgrades along with strong loan growth aided 39bps/16bps decline in the GNPA/NNPA ratios, respectively. PCR (calculated) improved 80bps sequentially to 71.44%. Total SMA overdue (1/2) are stable and stand at 0.11% from 0.48% in 2QFY24. Accounts referred to NCLT stands at ₹412bn; the bank has provided 97% of the outstanding dues. Factoring higher recoveries, we estimate the GNPA/NNPA ratio at 4.7%/1.5% at the end of FY24 with a stable PCR of 70%.

## Key Financials

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	240,622	263,840	314,360	318,713	355,690
PPOP	200,093	230,890	277,150	286,019	327,919
PAT	25,576	70,333	106,040	121,464	161,489
Networth	588,849	661,113	736,072	857,536	1,019,025
Loans	6,390,490	7,036,018	8,306,726	9,220,465	10,234,716
Deposits	10,108,746	10,864,093	11,792,186	12,853,483	14,010,296

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
EPS (Rs)	16	39	58	67	89
Adj. BVPS (₹)	283	313	366	435	525
GNPA	8.9	7.5	5.4	4.7	4.1
NNPA	3.8	2.7	1.7	1.5	1.3
ROA	0.3	0.6	0.8	0.9	1.1
ROE	5.2	11.3	15.2	15.2	17.2

Rating	BUY
Current Market Price (₹)	388
12M Price Target (₹)	506
Potential upside (%)	30

## Stock Data

Sector:	PSU Banking
FV (₹):	10
Market Cap Full (₹ bn):	702
Market Cap Free Float (₹ bn):	260
52-Week High / Low (₹):	351 / 208
BSE Code / NSE Symbol:	543276 / CANBK
Bloomberg:	CBK IN

## Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
GOI	62.93	62.93	62.93	62.93
FPIs	10.19	8.91	8.95	8.74
MFs	4.83	4.62	4.53	4.77
Insurance	8.79	10.24	10.59	10.81
Others	13.26	13.30	13.00	12.75

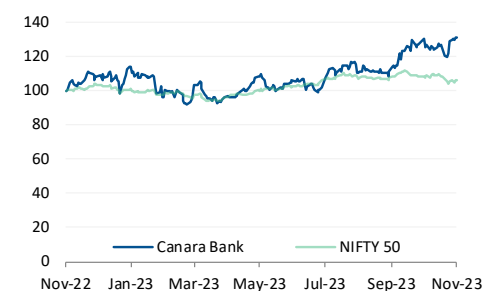
Source: BSE

## Price Performance (%)

(%)	1M	3M	6M	12M
Canara Bank	0.8%	18.4%	21.1%	31.3%
Nifty 50	-1.5%	-0.8%	6.0%	6.5%

\* To date / current date : November 3, 2023

## Canara Bank vs Nifty 50



**Robust business growth across segments:** On the business front, the bank has been reporting consistent credit growth with stable CD ratio. In 2QFY24, the bank has reported a healthy 13.2% YOY and 4.3% sequential growth in gross loan book driven by the corporate portfolio (2.7% QoQ, 13.75% YoY). Additionally, RAM credit growth was 13.6% YoY and agriculture credit growth was 4.4% QoQ with superior underwriting process. We have incorporated at loan CAGR of 15% for FY23-25E. Improving CD ratio will keep the NIMs around 2.9%. The operating expenses are not likely to witness a sharp jump as the bank has up-fronted the entire pension-related provision of ₹13.5bn in 3QFY22 instead of amortizing over the five years as permitted by the RBI. Thus, we estimate a healthy PAT growth with lower provision expenses and ROA/ROE of 1.1%/17.5% for FY25E.

**Higher profitability continues; driven by higher NIMs and stable opex:** NIMs flat sequentially at 3.05% driven by higher YOA (8.56% v/s 8.43% in 1QFY24) and meaningfully higher cost of deposit (5.35% v/s 5.22% in 1QFY24). An improved NIMs have resulted in 20% YoY jump in NII against 13.2% YoY net credit growth. The bank has reported sequentially lower other income of ₹46.4bn. Nevertheless, with superior operating performance the PPOP and PAT registered a growth of 10% YoY and 43% YoY respectively.

#### **Outlook and Valuation:**

We expect the bank's loan book to fatten cautiously at CAGR of ~15% over FY23-25E, led by RAM and corporate book growth. In our opinion, the bank's credit cost to normalise further by FY24E and estimate return ratio ROA/ROE of 1.1% and 17.5% in FY25E. We value the standalone entity with 0.9x FY25E BVPS (₹562) and arrive at a target price of ₹506. We recommend BUY with a potential upside of 30%.

## Quarterly story

### Exhibit 1: Profit & Loss Account ( (Qtr)

(₹ mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Interest Earned	170,637	177,006	178,616	181,766	201,069	222,314	239,098	250,041	268,377
Interest Expended	107,899	107,556	108,557	113,919	126,731	136,315	152,930	163,384	179,347
<b>Net Interest Income</b>	<b>62,738</b>	<b>69,450</b>	<b>70,059</b>	<b>67,847</b>	<b>74,338</b>	<b>86,000</b>	<b>86,168</b>	<b>86,657</b>	<b>89,030</b>
YoY (%)	-0.5	14.1	25.3	10.4	18.5	23.8	23.0	27.7	19.8
QoQ (%)	2.1	10.7	0.9	-3.2	9.6	15.7	0.2	0.6	2.7
<i>NIM (% , Reported)</i>	<i>2.70</i>	<i>2.75</i>	<i>2.93</i>	<i>2.78</i>	<i>2.83</i>	<i>2.93</i>	<i>2.95</i>	<i>3.05</i>	<i>3.00</i>
Other Income	42,678	36,117	44,615	51,753	48,253	39,864	47,752	48,190	46,345
YoY (%)	37.5	-13.0	-14.3	16.6	13.1	10.4	7.0	-6.9	-4.0
QoQ (%)	-3.8	-15.4	23.5	16.0	-6.8	-17.4	19.8	0.9	-3.8
<b>Net Operating Revenue</b>	<b>105,416</b>	<b>105,567</b>	<b>114,674</b>	<b>119,601</b>	<b>122,591</b>	<b>125,864</b>	<b>133,920</b>	<b>134,847</b>	<b>135,375</b>
YoY (%)	12.0	3.1	6.2	13.0	16.3	19.2	16.8	12.7	10.4
QoQ (%)	-0.4	0.1	8.6	4.3	2.5	2.7	6.4	0.7	0.4
<b>Operating Expenses</b>	<b>49,380</b>	<b>47,541</b>	<b>52,655</b>	<b>53,538</b>	<b>53,536</b>	<b>56,343</b>	<b>61,397</b>	<b>58,806</b>	<b>59,219</b>
Employee Cost	31,382	29,724	32,276	34,164	31,195	34,815	37,265	36,510	37,914
Other Operating Expenses	17,997	17,817	20,379	19,374	22,341	21,528	24,133	22,296	21,305
<i>C/I Ratio (%)</i>	<i>47</i>	<i>45</i>	<i>46</i>	<i>45</i>	<i>44</i>	<i>45</i>	<i>46</i>	<i>44</i>	<i>44</i>
<b>Pre - Provision Profit</b>	<b>56,036</b>	<b>58,025</b>	<b>62,019</b>	<b>66,062</b>	<b>69,055</b>	<b>69,521</b>	<b>72,522</b>	<b>76,040</b>	<b>76,156</b>
YoY (%)	21.9	10.2	8.8	14.9	23.2	19.8	16.9	15.1	10.3
QoQ (%)	-2.6	3.5	6.9	6.5	4.5	0.7	4.3	4.9	0.2
Provisions and Contingencies	33,602	22,448	37,087	36,901	36,368	31,212	30,950	27,189	26,080
YoY (%)	-15.4	-46.7	-10.3	-1.0	8.2	39.0	-16.5	-26.3	-28.3
QoQ (%)	-9.9	-33.2	65.2	-0.5	-1.4	-14.2	-0.8	-12.1	-4.1
Credit cost (% , calculated)	2	1	2	2	2	2	2	1	1
<b>PBT</b>	<b>22,434</b>	<b>35,577</b>	<b>24,933</b>	<b>29,162</b>	<b>32,687</b>	<b>38,309</b>	<b>41,573</b>	<b>48,851</b>	<b>50,076</b>
YoY (%)	260.1	236.7	59.0	44.2	45.7	7.7	66.7	67.5	53.2
QoQ (%)	10.9	58.6	-29.9	17.0	12.1	17.2	8.5	17.5	2.5
Tax	9,108	7,007	8,270	8,942	7,432	9,493	9,826	13,503	14,015
<i>Effective tax rate (%)</i>	<i>41</i>	<i>20</i>	<i>33</i>	<i>31</i>	<i>23</i>	<i>25</i>	<i>24</i>	<i>28</i>	<i>28</i>
<b>Profit After Tax</b>	<b>13,326</b>	<b>28,570</b>	<b>16,662</b>	<b>20,220</b>	<b>25,255</b>	<b>28,815</b>	<b>31,747</b>	<b>35,348</b>	<b>36,061</b>
YoY (%)	199.9	310.5	64.8	71.7	89.5	0.9	90.5	74.8	42.8
QoQ (%)	13.2	114.4	-41.7	21.4	24.9	14.1	10.2	11.3	2.0

Source: Company, LKP Research

## Exhibit 2: Balance Sheet (Qtr)

(₹ mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Share Capital	18,141	18,141	18,141	18,141	18,141	18,141	18,141	18,141	18,141
Face Value	10	10	10	10	10	10	10	10	10
Reserves and Surplus	620,826	635,464	642,972	662,767	687,225	708,283	717,931	753,024	789,097
Networth	638,967	653,606	661,113	680,908	705,366	726,424	736,072	771,166	807,238
YoY (%)	17.4	15.2	12.3	13.5	10.4	11.1	11.3	13.3	14.4
QoQ (%)	6.5	2.3	1.1	3.0	3.6	3.0	1.3	4.8	4.7
Deposits	10,325,366	10,433,507	10,864,093	11,181,217	11,339,642	11,634,702	11,792,186	11,924,699	12,322,151
YoY (%)	8.8	7.2	7.5	9.4	9.8	11.5	8.5	6.6	8.7
QoQ (%)	1.0	1.0	4.1	2.9	1.4	2.6	1.4	1.1	3.3
Borrowings	751,133	540,154	462,850	551,759	625,052	554,475	580,898	849,144	810,654
YoY (%)	47.9	-5.0	-7.4	6.7	-16.8	2.7	25.5	53.9	29.7
QoQ (%)	45.3	-28.1	-14.3	19.2	13.3	-11.3	4.8	46.2	-4.5
Other Liabilities & Provisions	275,861	320,001	281,742	266,115	306,515	280,240	348,167	309,718	320,579
<b>Total Liabilities</b>	<b>11,991,327</b>	<b>11,947,267</b>	<b>12,269,797</b>	<b>12,679,999</b>	<b>12,976,575</b>	<b>13,195,841</b>	<b>13,457,323</b>	<b>13,854,726</b>	<b>14,260,621</b>
Cash and balance with Reserve Bank of India	469,271	530,763	516,029	634,551	553,580	565,988	549,885	552,535	603,463
Balances with banks and money at call and short notice	1,556,759	1,153,381	1,304,514	952,822	850,261	754,897	864,348	859,207	737,334
Cash & Cash Equivalents	2,026,030	1,684,144	1,820,543	1,587,373	1,403,841	1,320,885	1,414,232	1,411,741	1,340,797
Investments	2,835,063	2,748,033	2,820,129	3,077,788	3,087,501	3,114,760	3,190,385	3,318,095	3,443,376
YoY (%)	6.9	1.2	7.8	12.7	8.9	13.3	13.1	7.8	11.5
QoQ (%)	3.8	-3.1	2.6	9.1	0.3	0.9	2.4	4.0	3.8
Advances	6,495,842	6,921,677	7,036,018	7,469,452	7,885,015	8,164,137	8,306,726	8,551,423	8,923,101
YoY (%)	5.4	9.1	10.1	15.2	21.4	18.0	18.1	14.5	13.2
QoQ (%)	0.2	6.6	1.7	6.2	5.6	3.5	1.7	2.9	4.3
Fixed Assets	110,817	110,542	113,563	111,653	109,056	102,108	102,307	101,894	101,540
Other Assets	523,576	482,871	479,544	433,733	491,162	493,952	443,674	471,574	451,807
<b>Total Assets</b>	<b>11,991,327</b>	<b>11,947,267</b>	<b>12,269,797</b>	<b>12,679,999</b>	<b>12,976,575</b>	<b>13,195,841</b>	<b>13,457,323</b>	<b>13,854,726</b>	<b>14,260,621</b>

Source: Company, LKP Research

**Exhibit 3: Asset Quality (Qtr)**

(₹ mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Amount of GNPA	578,531	568,933	556,516	547,339	524,850	502,115	461,600	457,274	439,556
Amount of NNPA	208,620	198,193	186,680	185,049	172,860	159,930	143,490	134,614	125,540
GNPA (%)	8.40	7.80	7.51	6.98	6.37	5.90	5.35	5.15	5
NNPA (%)	3.20	2.90	2.65	2.48	2.19	1.96	1.73	1.57	1.41
PCR (% ,calculated)	63.9	65.2	66.5	66.19	67.06	68.15	68.91	70.56	71.44
PCR (% ,Inc. TWO)	82.4	83.3	84.3	84.5	85.4	86.3	87.3	88.0	88.7

Source: Company, LKP Research

**Exhibit 4: Important Ratios (Qtr)**

(₹ mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
CASA (%)	34.1	34.0	35.9	32.3	31.7	30.2	31.0	30.6	30.8
NIM (% ,Reported)	2.70	2.75	2.93	2.78	2.83	2.93	2.95	3.05	3.00
ROA (% ,annualized)	0.45	0.95	0.55	0.65	0.79	0.88	0.95	1.04	1.03
ROE (% ,annualized)	8.60	17.68	10.14	12.05	14.57	16.10	17.37	18.76	18.28
BVPS (₹ ,calculated)	352	360	364	375	389	400	406	425	445
Adj. BVPS (₹ ,calculated)	295	306	313	324	341	356	366	388	410
EPS (₹ ,calculated)	7.3	15.7	9.2	11.1	13.9	15.9	17.5	19.5	19.9

Source: Company, LKP Research

## Annual Projections

### Exhibit 5: Income Statement

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Earned	694,103	844,250	925,613	1,017,211	1,122,822
Interest Expended	430,263	529,890	606,900	661,521	721,058
<b>Net Interest Income</b>	<b>263,840</b>	<b>314,360</b>	<b>318,713</b>	<b>355,690</b>	<b>401,765</b>
YoY (%)	9.6	19.1	1.4	11.6	13.0
NIM (%)	2.3	2.6	2.4	2.5	2.6
Other Income	164,969	187,620	204,506	222,911	242,973
YoY (%)	7.9	13.7	9.0	9.0	9.0
<b>Net Operating Income</b>	<b>428,809</b>	<b>501,980</b>	<b>523,219</b>	<b>578,601</b>	<b>644,738</b>
YoY (%)	9.0	17.1	4.2	10.6	11.4
Operating Expenses	197,919	224,830	237,200	250,682	265,379
Employee Cost	127,036	137,440	149,810	163,292	177,989
Other Operating expenses	70,883	87,390	87,390	87,390	87,390
C/I Ratio (%)	46.2	44.8	45.3	43.3	41.2
<b>Pre - Provision Profit</b>	<b>230,890</b>	<b>277,150</b>	<b>286,019</b>	<b>327,919</b>	<b>379,359</b>
YoY (%)	15.4	20.0	3.2	14.6	15.7
Provisions and Contingencies	127,725	135,420	121,878	109,690	98,721
YoY (%)	-21.7	6.0	-10.0	-10.0	-10.0
Credit cost (% ,calculated)	1.9	1.8	1.4	1.1	0.9
<b>Profit Before Tax</b>	<b>103,165</b>	<b>141,730</b>	<b>164,141</b>	<b>218,229</b>	<b>280,638</b>
Taxes	32,832	35,690	42,677	56,739	72,966
Effective tax rate (%)	32	25	26	26	26
<b>Profit After Tax</b>	<b>70,333</b>	<b>106,040</b>	<b>121,464</b>	<b>161,489</b>	<b>207,672</b>
YoY (%)	175.0	50.8	14.5	33.0	28.6
ROA (% ,calculated)	0.6	0.8	0.9	1.1	1.3
ROE (% ,calculated)	11.3	15.2	15.2	17.2	18.5
EPS (₹)	39	58	67	89	114

## Exhibit 6: Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	18,142	18,141	18,141	18,141	18,141
Face Value	10	10	10	10	10
Total Reserves	642,972	717,931	839,395	1,000,884	1,208,556
Networth	661,113	736,072	857,536	1,019,025	1,226,697
YoY (%)	12.3	11.3	16.5	18.8	20.4
Deposits	10,864,093	11,792,186	12,853,483	14,010,296	15,271,223
YoY (%)	7.5	8.5	9.0	9.0	9.0
Borrowings	462,850	580,898	633,179	690,165	752,280
YoY (%)	-7.4	25.5	9.0	9.0	9.0
Other Liabilities & Provisions	281,742	348,167			
<b>Total Liabilities</b>	<b>12,269,797</b>	<b>13,457,323</b>	<b>14,344,198</b>	<b>15,719,486</b>	<b>17,250,200</b>
Cash and balance with Reserve Bank of India	516,029	549,885	296,707	323,410	352,517
Balances with banks and money at call	1,304,514	864,348	620,386	676,221	737,081
Cash & Cash Equivalents	1,820,543	1,414,232	917,093	999,631	1,089,598
Investments	2,820,129	3,190,385	3,142,392	3,572,212	3,893,711
YoY (%)	7.8	13.1	-1.5	13.7	9.0
Advances	7,036,018	8,306,726	9,220,465	10,234,716	11,360,535
YoY (%)	10.1	18.1	11.0	11.0	11.0
Fixed Assets	113,563	102,307	112,537	123,791	136,170
Other Assets	479,544	443,674	951,710	789,135	770,185
<b>Total Assets</b>	<b>12,269,797</b>	<b>13,457,323</b>	<b>14,344,198</b>	<b>15,719,486</b>	<b>17,250,200</b>
BVPS (₹)	364	406	473	562	676
Adj. BVPS (₹)	313	366	435	525	635

**Exhibit 7: Asset Quality**

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
GNPA (%)	7.5	5.4	4.7	4.1	4.1
NNPA (%)	2.7	1.7	1.5	1.3	1.3
GNPA Amount	556,516	461,595	433,362	419,623	465,782
NNPA Amount	186,680	143,493	138,307	133,051	147,687
Cummulative Provision	369,836	318,102	295,055	286,572	318,095
PCR (% , calculated)	66.5	68.9	68.1	68.3	68.3
<b>Movement of GNPA</b>					
Opening Balance	602,880	556,516	461,595	433,362	419,623
Additions during the year	314,781	236,086	177,065	132,798	99,599
Reductions during the year	361,146	331,007	205,298	146,537	53,440
Closing balance	556,516	461,595	433,362	419,623	465,782

**Exhibit 8: Ratios**

	FY22	FY23	FY24E	FY25E	FY26E
<b>Financial Ratios</b>					
EPS (₹)	39	58	67	89	114
BVPS (₹, Calculated)	364	406	473	562	676
<b>Performance Ratios</b>					
ROA(% , Calculated)	0.6	0.8	0.9	1.1	1.3
ROE(% , Calculated)	11.3	15.2	15.2	17.2	18.5
<b>Efficiency Ratios</b>					
Cost Income Ratio	46	45	45	43	41
CASA (%)	36	31	34	34	34



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