

## Growth slows, margin slips, but still delivers healthy RoA

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TARGET PRICE (Rs): 130

Despite margin slip in 1Q due to seasonal factors and change in recognition of penal interest into other income, Canara Bank reported largely in-line earnings with PAT at Rs39bn/1% RoA mainly led by higher PSLC fees at Rs17.5bn and contained provisions. The bank guided for slower growth in FY25 with margins around 2.95-3%, but contained credit costs should help it deliver healthy RoA. Following the implementation of new investment classification norms, the bank's CET 1 ratio has improved by 50bps QoQ to 12%. However, given the potential impact of ECL, we believe the bank will need to shore-up capital from the market or offload its stake in a few subsidiaries. We slightly trim our earnings estimate for FY25-27 by 2-3% factoring margin pressure, but expect Canara Bank to deliver healthy RoA at 1-1.1%. Thus, we retain BUY on the bank with an unchanged TP of Rs130/share, valuing the standalone bank at 1.1x Jun-26E ABV and subsidiaries at Rs6/sh.

## Canara Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	106,038	145,538	169,704	180,150	186,080
Loan growth (%)	18.1	12.2	10.6	11.4	12.1
NII growth (%)	19.1	16.3	7.2	10.8	8.6
NIM (%)	2.6	2.7	2.6	2.6	2.6
PPOP growth (%)	20.0	6.1	8.3	10.5	7.7
Adj. EPS (Rs)	58.5	16.0	18.7	19.9	20.5
Adj. EPS growth (%)	417.1	37.3	16.6	6.2	3.3
Adj. BV (Rs)	312.2	77.2	95.0	110.6	126.3
Adj. BVPS growth (%)	247.2	23.6	23.0	16.4	14.2
RoA (%)	0.8	1.0	1.1	1.0	1.0
RoE (%)	17.1	20.2	19.9	18.0	16.2
P/E (x)	9.3	6.6	5.7	5.3	5.2
P/ABV (x)	1.7	1.4	1.1	1.0	0.8

Source: Company, Emkay Research

## Growth remains soft; margin slips QoQ, mainly due to change in classification of penal interest

Canara Bank reported yet another quarter of sluggish credit growth at 10.7% YoY/1.6% QoQ, whereas deposit growth was at 12% YoY/1.7% QoQ, leading to LDR being sticky at ~71%. Moreover, a fall in loan yields due to seasonal factors (higher average assets) and change in recognition policy of penal interest due to RBI regulation, coupled with rising CoF, led to higher-than-expected margin contraction at ~15bps QoQ to 2.9%. Going forward, the bank guided for slower growth in FY25 with margins at 2.95-3%.

## Asset quality improves, albeit at a slower pace

Gross slippages were largely contained at Rs33bn/1.6% of loans (despite a seasonally-weak quarter), which coupled with moderate write-offs/recoveries led to reduction in GNPA ratio, albeit at a slower pace of 7bps QoQ to 4.1%. The SMA 1&2 book remained largely stable at 0.7% of loans, but the SMA-0 book shot up to Rs60bn/0.6% (vs Rs15bn/0.2% in Q4) of loans, as seen in the case of Union Bank in 1Q. As per the management, this is mainly due to one large PSU account (~Rs38bn) based out of Andhra Pradesh slipping into SMA. For this, the bank has made 15% provision in 1Q, and hence, does not expect any further impact on provision.

## We retain BUY on the stock

We have slightly trimmed our earnings estimate for FY25-27 by 2-3% factoring margin pressure, but expect the bank to deliver healthy RoA at 1-1.1%. Thus, we retain BUY on the bank with unchanged TP of Rs130/share, valuing standalone bank at 1.1x Jun-26E ABV and subsidiaries at Rs6/sh. **Key Risks:** Further slowdown in growth, margins due to macroeconomic challenges and higher-than-expected increase in provisioning due to new IRACP guidelines and the ensuing ECL impact.

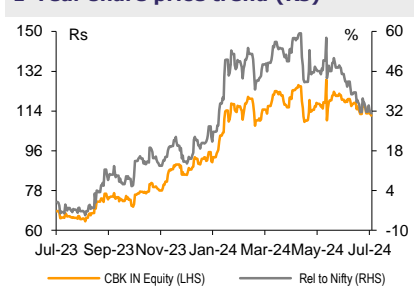
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	16.2
CMP (25-Jul-24) (Rs)	111.9

Stock Data	Ticker
52-week High (Rs)	129
52-week Low (Rs)	64
Shares outstanding (mn)	9,070.7
Market-cap (Rs bn)	1,015
Market-cap (USD mn)	12,125
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	48
ADTV-3M (Rs mn)	5,613.9
ADTV-3M (USD mn)	67.1
Free float (%)	37.0
Nifty-50	24,406
INR/USD	83.7
<b>Shareholding, Jun-24</b>	
Promoters (%)	62.9
FPIs/MFs (%)	11.9/11.2

## Price Performance

(%)	1M	3M	12M
Absolute	(5.2)	(9.3)	68.1
Rel. to Nifty	(7.9)	(16.1)	35.5

## 1-Year share price trend (Rs)



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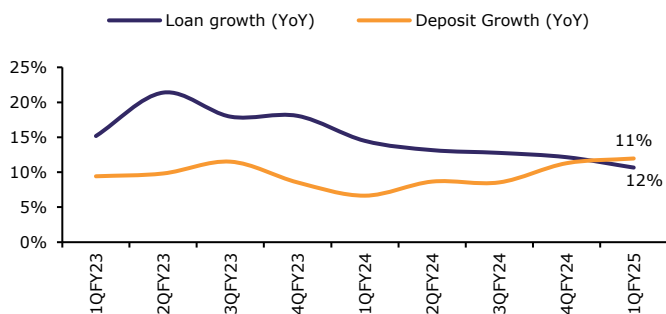
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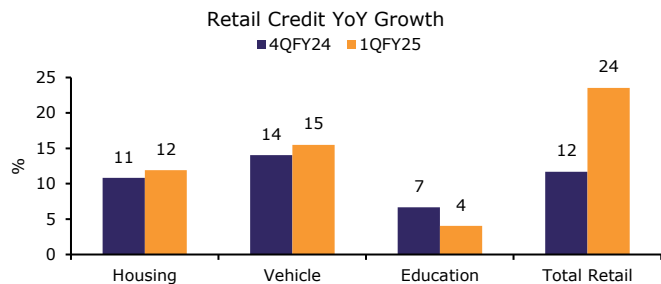
# Story in Charts

**Exhibit 1: Deposit growth picks up a bit, whereas credit growth remains sluggish**



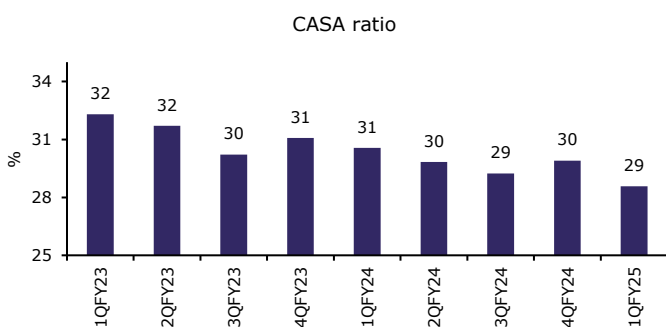
Source: Company, Emkay Research

**Exhibit 2: Retail credit growth rose at a faster pace, during the quarter**



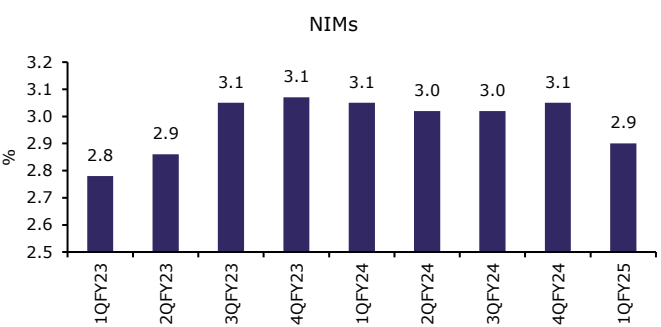
Source: Company, Emkay Research

**Exhibit 3: CASA ratio remains under pressure**



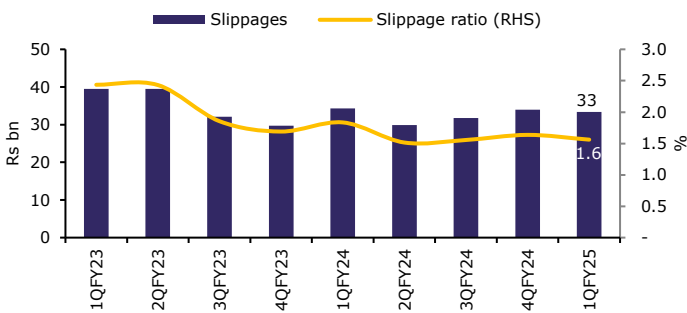
Source: Company, Emkay Research

**Exhibit 4: Margins slip as well due to reduction in loan yields and rising CoFs**



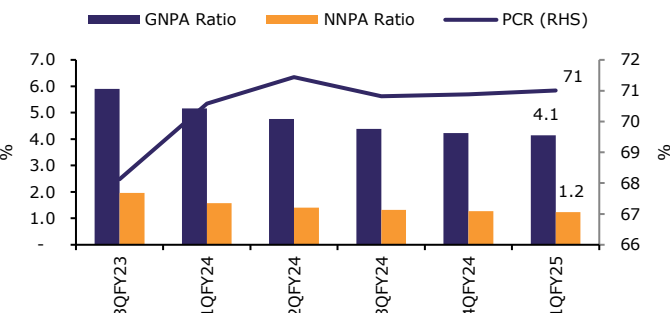
Source: Company, Emkay Research

**Exhibit 5: Gross slippages were largely contained QoQ despite being a seasonally-weak quarter...**



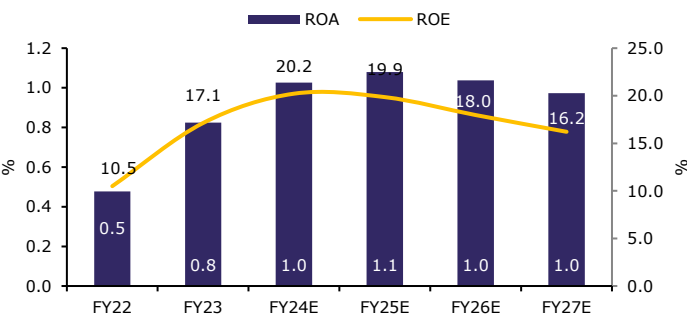
Source: Company, Emkay Research

**Exhibit 6: ...but higher recoveries and write-offs cause continued decline in GNPA/NNPA ratios**



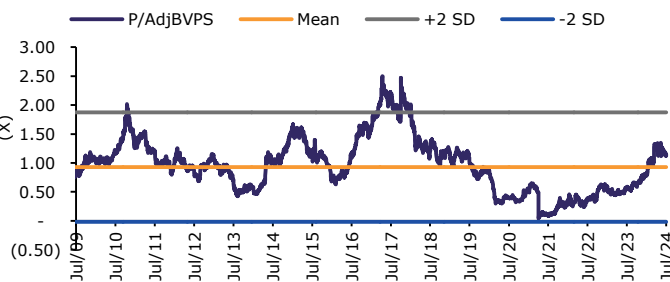
Source: Company, Emkay Research

**Exhibit 7: We have slightly trimmed earnings over FY25-27E, factoring margin pressure but expect the bank to deliver RoA ~1%**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 0.9x (post subs valuation) Jun-26E ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actuals vs Estimates (Q1FY25)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	144,852	146,975	146,271	-1%	-1%	Higher margin contraction led to a miss in net income
PPOP	76,162	77,787	79,674	-2%	-4%	Lower net income partly offset by lower staff opex, led to a PPOP miss
PAT	39,053	39,859	39,487	-2%	-1%	PPOP beat partially offset by lower LLP, led to slight miss on PAT

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	250,041	268,377	280,388	288,074	287,014	15	0	1,086,879	1,202,035	11
Interest Exp.	163,384	179,347	186,217	192,272	195,351	20	2	721,220	810,215	12
Net Interest Income	86,657	89,030	94,171	95,802	91,663	6	-4	365,659	391,820	7
Global NIMs (Reported)	3.05	3.02	3.02	3.05	2.90	-15bps	-15bps	2.70	2.60	-11bps
Non-interest Income	48,190	46,345	42,951	52,178	53,189	10	2	189,664	207,112	9
Operating Expenses	58,806	59,219	69,067	74,106	68,690	17	-7	261,198	280,433	7
Pre-Provisioning Profit	76,040	76,156	68,055	73,875	76,162	0	3	294,125	318,499	8
Provision & Contingencies	27,189	26,080	18,989	24,818	22,823	-16	-8	97,080	91,622	-6
PBT	48,851	50,076	49,066	49,056	53,338	9	9	197,045	226,877	15
Income Tax Expense (Gain)	13,503	14,015	12,505	11,484	14,285	6	24	51,507	57,173	11
Net Profit/(Loss)	35,348	36,061	36,561	37,572	39,053	10	4	145,538	169,704	17
Gross NPA (%)	5.16	4.76	4.39	4.23	4.14	-102bps	-9bps	4.23	3.44	-79bps
Net NPA (%)	1.57	1.41	1.32	1.27	1.24	-34bps	-3bps	1.27	1.02	-25bps
Deposits (Rs bn)	11,925	12,322	12,629	13,124	13,352	12	2	13,124	14,338	9
Net Advances (Rs bn)	8,551	8,923	9,209	9,316	9,464	11	2	9,316	10,306	11

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	601,561	598,932	-0.4%	643,378	653,997	1.7%	700,146	704,478	0.6%
PPOP	322,788	318,499	-1.3%	343,035	351,886	2.6%	376,464	378,914	0.7%
PAT	175,399	169,704	-3.2%	185,465	180,150	-2.9%	189,739	186,080	-1.9%
EPS (Rs)	19.3	18.7	-3.2%	20.4	19.9	-2.9%	20.9	20.5	-1.9%
BV (Rs)	101.3	102.6	1.3%	117.6	118.4	0.7%	134.3	134.7	0.3%

Source: Company, Emkay Research

**Exhibit 12: Key Assumptions**

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	12.2	10.6	11.4	12.1
Deposit Growth	11.3	9.2	10.0	11.2
NIM	2.7	2.6	2.6	2.6
GNPA	4.2	3.4	3.0	2.9
Credit Cost	1.0	0.9	1.0	1.0

Source: Emkay Research

## Exhibit 13: Key Ratios and Trends

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
<b>Loans (Rs bn)</b>	<b>7,469</b>	<b>7,885</b>	<b>8,164</b>	<b>8,307</b>	<b>8,551</b>	<b>8,923</b>	<b>9,209</b>	<b>9,316</b>	<b>9,464</b>
- Growth YoY (%)	15.2	21.4	18.0	18.1	14.5	13.2	12.8	12.2	10.7
- Growth QoQ (%)	6.2	5.6	3.5	1.7	2.9	4.3	3.2	1.2	1.6

## Liability Profile &amp; Capital (%)

CASA	32.3	31.7	30.2	31.1	30.6	29.8	29.2	29.9	28.6
- CA	4.0	4.0	4.0	4.0	3.7	3.6	3.6	4.9	3.7
- SA	28.3	27.7	26.2	27.1	26.9	26.2	25.7	25.0	24.9
Branches (no. of)	8,927	8,898	8,897	8,883	8,865	8,757	8,964	8,984	8,997
CAR	14.9	16.5	16.7	16.7	16.2	16.2	15.8	16.3	16.4
Tier I	12.1	13.4	13.7	13.8	13.6	13.6	13.4	14.0	14.4

## Asset Quality (%)

GNPA	7.0	6.4	5.9	5.4	5.2	4.8	4.4	4.2	4.1
NNPA	2.5	2.2	2.0	1.7	1.6	1.4	1.3	1.3	1.2
PCR	66.2	67.1	68.1	68.9	70.6	71.4	70.8	70.9	71.0
Slippages (Rs mn)	39,490	39,480	32,100	29,730	34,280	29,870	31,760	34,000	33,370
Slippages - annualized	2.4	2.4	1.9	1.7	1.8	1.5	1.6	1.6	1.6

## ROE Decomposition (%)

NII	2.2	2.3	2.6	2.6	2.5	2.5	2.8	2.6	2.4
Other Income	1.7	1.5	1.2	1.4	1.4	1.3	1.3	1.4	1.4
Treasury	0.3	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.1
Opex	1.7	1.7	1.7	1.8	1.7	1.7	2.0	2.0	1.8
PPOP	2.1	2.2	2.1	2.2	2.2	2.2	2.0	2.0	2.0
Provisioning Cost	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.7	0.6
PBT	0.9	1.0	1.2	1.2	1.4	1.4	1.5	1.3	1.4
Tax	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.4
ROA	0.6	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.1
Leverage (x)	18.3	18.2	18.0	18.1	17.7	17.4	20.9	21.8	19.9
ROE	11.9	14.3	15.9	17.3	18.3	17.9	21.1	22.1	20.9

Source: Company, Emkay Research

## Canara Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	844,248	1,086,879	1,202,035	1,281,847	1,369,386
Interest Expense	529,895	721,220	810,215	847,842	898,181
<b>Net interest income</b>	<b>314,353</b>	<b>365,659</b>	<b>391,820</b>	<b>434,005</b>	<b>471,206</b>
NII growth (%)	19.1	16.3	7.2	10.8	8.6
Other income	187,622	189,664	207,112	219,992	233,272
<b>Total Income</b>	<b>501,975</b>	<b>555,323</b>	<b>598,932</b>	<b>653,997</b>	<b>704,478</b>
Operating expenses	224,815	261,198	280,433	302,111	325,564
<b>PPOP</b>	<b>277,160</b>	<b>294,125</b>	<b>318,499</b>	<b>351,886</b>	<b>378,914</b>
PPOP growth (%)	20.0	6.1	8.3	10.5	7.7
<b>Core PPOP</b>	<b>258,230</b>	<b>277,897</b>	<b>300,002</b>	<b>327,840</b>	<b>350,058</b>
Provisions & contingencies	135,430	97,080	91,622	111,044	130,144
<b>PBT</b>	<b>141,730</b>	<b>197,045</b>	<b>226,877</b>	<b>240,842</b>	<b>248,770</b>
Extraordinary items	0	0	0	0	0
Tax expense	35,692	51,507	57,173	60,692	62,690
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>106,038</b>	<b>145,538</b>	<b>169,704</b>	<b>180,150</b>	<b>186,080</b>
PAT growth (%)	86.7	37.3	16.6	6.2	3.3
<b>Adjusted PAT</b>	<b>106,038</b>	<b>145,538</b>	<b>169,704</b>	<b>180,150</b>	<b>186,080</b>
<b>Diluted EPS (Rs)</b>	<b>(72.5)</b>	<b>67.2</b>	<b>78.3</b>	<b>83.2</b>	<b>85.9</b>
Diluted EPS growth (%)	(323.2)	(192.6)	16.6	6.2	3.3
<b>DPS (Rs)</b>	<b>2.4</b>	<b>3.2</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>
<b>Dividend payout (%)</b>	<b>20.5</b>	<b>20.1</b>	<b>20.7</b>	<b>20.6</b>	<b>20.5</b>
Effective tax rate (%)	25.2	26.1	25.2	25.2	25.2
Net interest margins (%)	2.6	2.7	2.6	2.6	2.6
Cost-income ratio (%)	44.8	47.0	46.8	46.2	46.2
Shares outstanding (mn)	9,070.7	9,070.7	9,070.7	9,070.7	9,070.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Asset quality</b>					
Gross NPLs	461,599.6	406,049.6	363,380.5	357,543.7	384,539.7
Net NPLs	143,937.2	118,617.2	105,380.3	107,263.1	115,361.9
GNPA ratio (%)	5.4	4.2	3.4	3.0	2.9
NNPA ratio (%)	1.7	1.3	1.0	0.9	0.9
Provision coverage (%)	68.8	70.8	71.0	70.0	70.0
Gross slippages	119,790.0	106,260.0	137,330.9	164,163.3	196,995.9
Gross slippage ratio (%)	1.4	1.1	1.3	1.4	1.5
LLP ratio (%)	1.3	1.0	0.9	1.0	1.0
NNPA to networth (%)	21.0	14.8	11.0	9.7	9.1
<b>Capital adequacy</b>					
Total CAR (%)	16.7	17.5	16.7	17.0	17.3
Tier-1 (%)	13.8	13.4	13.5	13.7	13.9
CET-1 (%)	11.2	11.2	11.7	12.0	12.4
RWA-to-Total Assets (%)	42.2	45.0	47.0	48.0	48.0
<b>Miscellaneous</b>					
Total income growth (%)	20.1	23.7	10.4	6.6	6.7
Opex growth (%)	13.6	16.2	7.4	7.7	7.8
Core PPOP growth (%)	26.0	7.6	8.0	9.3	6.8
PPOP margin (%)	26.9	23.0	22.6	23.4	23.6
PAT/PPOP (%)	38.3	49.5	53.3	51.2	49.1
LLP-to-Core PPOP (%)	52.4	34.9	30.5	33.9	37.2
Yield on advances (%)	8.2	9.0	9.1	8.8	8.5
Cost of funds (%)	4.5	5.5	5.6	5.4	5.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	18,141	18,141	18,141	18,141	18,141
Reserves & surplus	717,930	851,405	1,005,531	1,148,491	1,296,475
<b>Net worth</b>	<b>736,072</b>	<b>869,546</b>	<b>1,023,672</b>	<b>1,166,632</b>	<b>1,314,616</b>
Deposits	11,792,186	13,123,666	14,337,520	15,771,272	17,541,650
Borrowings	580,898	575,923	644,638	709,102	780,012
<b>Interest bearing liab.</b>	<b>12,373,084</b>	<b>13,699,589</b>	<b>14,982,158</b>	<b>16,480,374</b>	<b>18,321,662</b>
<b>Other liabilities &amp; prov.</b>	<b>348,167</b>	<b>346,272</b>	<b>532,242</b>	<b>517,183</b>	<b>470,152</b>
<b>Total liabilities &amp; equity</b>	<b>13,457,322</b>	<b>14,915,407</b>	<b>16,538,072</b>	<b>18,164,190</b>	<b>20,106,430</b>
Net advances	8,306,726	9,316,128	10,305,917	11,475,667	12,863,884
Investments	3,190,385	3,574,544	4,105,773	4,368,048	4,777,635
Cash, other balances	1,414,232	1,507,597	1,575,018	1,732,330	1,834,057
<b>Interest earning assets</b>	<b>12,911,342</b>	<b>14,398,270</b>	<b>15,986,707</b>	<b>17,576,045</b>	<b>19,475,576</b>
Fixed assets	102,307	122,282	126,742	135,566	145,036
Other assets	443,674	394,856	424,623	452,578	485,817
<b>Total assets</b>	<b>13,457,322</b>	<b>14,915,407</b>	<b>16,538,072</b>	<b>18,164,190</b>	<b>20,106,430</b>
BVPS (Rs)	364.5	85.8	102.6	118.4	134.7
Adj. BVPS (INR)	312.2	77.2	95.0	110.6	126.3
Gross advances	8,624,388	9,603,561	10,563,917	11,725,948	13,133,061
Credit to deposit (%)	70.4	71.0	71.9	72.8	73.3
CASA ratio (%)	31.1	29.9	29.4	29.4	30.2
Cost of deposits (%)	4.3	5.3	5.5	5.2	5.0
Loans-to-Assets (%)	61.7	62.5	62.3	63.2	64.0
Net advances growth (%)	18.1	12.2	10.6	11.4	12.1
Deposit growth (%)	8.5	11.3	9.2	10.0	11.2
Book value growth (%)	217.9	(76.5)	19.6	15.4	13.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	9.3	6.6	5.7	5.3	5.2
P/B (x)	1.5	1.2	1.0	0.9	0.8
P/ABV (x)	1.7	1.4	1.1	1.0	0.8
P/PPOP (x)	0.7	0.7	0.6	0.6	0.5
Dividend yield (%)	2.1	2.9	3.5	3.7	3.8
<b>DuPont-RoE split (%)</b>					
NII/avg assets	2.4	2.6	2.5	2.5	2.5
Other income	1.5	1.3	1.3	1.3	1.2
Fee income	0.9	0.8	0.9	0.9	0.9
Opex	1.7	1.8	1.8	1.7	1.7
<b>PPOP</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Core PPOP	2.0	2.0	1.9	1.9	1.8
Provisions	1.1	0.7	0.6	0.6	0.7
Tax expense	0.3	0.4	0.4	0.3	0.3
<b>RoA (%)</b>	<b>0.8</b>	<b>1.0</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>
Leverage ratio (x)	20.8	19.7	18.4	17.3	16.7
<b>RoE (%)</b>	<b>17.1</b>	<b>20.2</b>	<b>19.9</b>	<b>18.0</b>	<b>16.2</b>
<b>Quarterly data</b>					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	86,657	89,030	94,171	95,802	91,663
NIM(%)	3.1	3.0	3.0	3.1	2.9
PPOP	76,040	76,156	68,055	73,875	76,162
PAT	35,348	36,061	36,561	37,572	39,053
EPS (Rs)	19.49	19.88	20.15	20.71	21.53

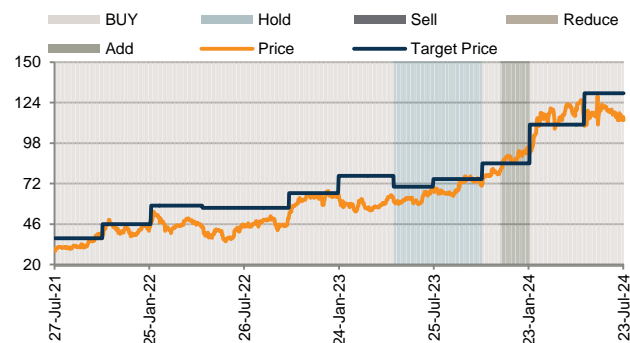
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-May-24	109	130	Buy	Anand Dama
25-Jan-24	93	110	Buy	Anand Dama
30-Nov-23	81	85	Add	Anand Dama
26-Oct-23	72	85	Buy	Anand Dama
24-Jul-23	68	75	Hold	Anand Dama
09-May-23	61	70	Hold	Anand Dama
09-Mar-23	62	77	Buy	Anand Dama
23-Jan-23	65	77	Buy	Anand Dama
20-Oct-22	52	66	Buy	Anand Dama
25-Jul-22	45	56	Buy	Anand Dama
07-May-22	44	56	Buy	Anand Dama
28-Jan-22	48	58	Buy	Anand Dama
27-Oct-21	40	46	Buy	Anand Dama
25-Aug-21	30	37	Buy	Anand Dama
28-Jul-21	29	37	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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