

Canara Bank | BUY

Steady quarter

Canara bank (CBK) reported steady headline parameters with PAT at INR 37.6bn (+18.3% YoY, +2.8% QoQ) and steady growth in net advances (+12.2% YoY, +1.2% QoQ). Despite an increase in CoFs, reported NIMs expanded to 3.07% (+4bps QoQ), which mgmt. indicated was a result of their gradual efforts to rejig the bank's exposure of older low yielding corporate book by either renewing them at current yields which are higher or by replacing them with other products that offer more favourable returns. On the back of this, mgmt. guides for NIMs to remain stable at ~3% going forward. Staff costs remained slightly elevated which mgmt. clarified was primarily driven by actual provisions and gratuity benefits related to previous wage hike, totalling INR 3.5bn as against earlier estimated amount of INR 2.5bn. However, mgmt. remains confident of employee costs to stabilise hereon and expects cost to income ratio to be restricted to 47%. Asset quality metrics continued to improve with GNPL/NNPL at 4.23%/1.27% (-16bps QoQ, -5bps QoQ) and PCR at a healthy 71%. With the bank consistently maintaining stable NIMs, ongoing moderation in credit costs and sustained RoA of ~1% for several quarters, we expect CBK's rerating to continue going ahead. We build in RoA/ROE of 1.02%/16.7% by FY26E. We maintain BUY with a revised TP of INR 600 (valuing core bank at 1.0x FY26E BVPS).

- Healthy growth in advances and deposits:** Net advances grew (+12.2% YoY, +1.2% QoQ) with RAM growing (+13.5% YoY, +2.1% QoQ) and corporate book de-growing sequentially (-0.2%, +8.6% YoY). Mgmt. indicated that they are gradually in the process of rejigging their exposure of older low yielding corporate book by either renewing them at current yields which are higher or by replacing them with other products that offer more favourable returns. Within RAM, growth was led by agriculture and allied book (+18.7% YoY, +4.4% QoQ), followed by retail book (+11.7% YoY, +1.8% QoQ) and MSME book (+6.7% YoY, -1.8% QoQ). RAM credit now forms 56% of the book (vs 55% in 4QFY23). Deposits saw a healthy growth (+11.3% YoY, +3.9% QoQ) with CASA ratio improving to 32.39%. On the back of new product launches and various government tie-ups, current deposits saw a robust growth of (+34.2% YoY, +41.4% QoQ). Mgmt. continues to introduce new products and take new tech initiatives to mobilize CASA.
- Steady operational performance; Margins sustain:** Operating profit increased to INR 73.9bn (+8.6% QoQ, +1.9% YoY) led by a) healthy growth in NII (+11.2% YoY, +1.7% QoQ), b) robust other income (+9.3% YoY, +21.5% QoQ), and c) moderation of C/I ratio to 50.1% (-29bps QoQ). Mgmt. clarified that the slight elevation in staff costs was primarily driven by actual provisions and gratuity benefits related to previous wage hike, totalling INR 3.5bn as against earlier estimated amount of INR 2.5bn. However, mgmt. remains confident of employee costs to stabilise hereon and expects cost to income ratio to be restricted to 47%. Increase in CoFs (+7bps QoQ) was offset by an upward re-pricing of yields (+11bps QoQ), which resulted in NIMs inching up to 3.07% (+4bps QoQ). Mgmt. guides for NIMs to remain stable at ~3% as they actively try to rejig their exposure of older low yielding corporate book.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	7.6%
Previous Price Target	485
Change	23.7%

Key Data – CBK IN

Current Market Price	INR558
Market cap (bn)	INR1,011.7/US\$12.1
Free Float	29%
Shares in issue (mn)	1,814.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR4,989.0/US\$59.7
52-week range	633/291
Sensex/Nifty	73,466/22,303
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-8.9	44.9	78.1
Relative*	-7.4	27.8	49.7

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	70,333	1,06,038	1,45,543	1,62,152	1,79,104
Net Profit (YoY) (%)	175.0%	50.8%	37.3%	11.4%	10.5%
Assets (YoY) (%)	6.4%	9.8%	11.5%	11.7%	11.7%
ROA (%)	0.6%	0.8%	1.0%	1.0%	1.0%
ROE (%)	13.0%	17.1%	19.0%	17.4%	16.7%
EPS	38.8	58.5	80.2	89.4	98.7
EPS (YoY) (%)	149.6%	50.8%	37.3%	11.4%	10.5%
PE (x)	14.4	9.5	7.0	6.2	5.7
BV	318	365	479	551	630
BV (YoY) (%)	3.3%	14.8%	31.5%	14.9%	14.3%
P/BV (x)	1.76	1.53	1.16	1.01	0.89

Source: Company data, JM Financial. Note: Valuations as of 08/May/2024

JM Financial Institutional Securities Limited

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Asset quality continues to improve:** Headline asset quality metrics continued to improve with GNPL/NNPL at 4.23%/1.27% (-16bps QoQ, -5bps QoQ) with PCR at a healthy 71%. Though slippages stood at INR 34bn, cash recoveries and upgradation surpassed it at INR 36.8bn. Mgmt. remains confident of sustaining this trend going forward. Credit costs further moderated to 1.03% (vs 1.06% in 3QFY24). We build avg. credit cost of 0.93% over FY25/26E.
- **Valuation and view:** CBK has been able to sustain its RoA of ~1% over several quarters, driven by a) stable NIMs by strategically moving away from older low-yielding corporate book, b) largely stable cost to income ratio, and c) continuous moderation of credit costs. On the back of this, we expect CBK's rerating to continue going ahead and expect RoA/ROE to reach 1.02%/16.7% by FY26E. We maintain BUY with a revised TP of INR 600 (valuing core bank at 1.0x FY26E BVPS).

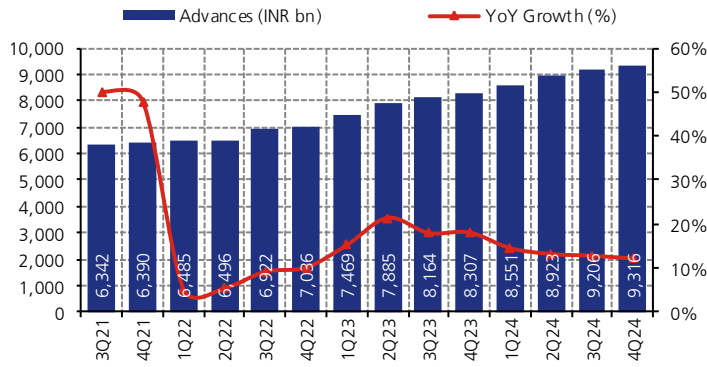
Canara Bank – 4QFY24 trends

Exhibit 1. CBK: Key quarterly trends

Earnings Table (INR mn)	4Q23	3Q24	4Q24	YoY (%)	QoQ (%)
Interest Income (a)	2,39,098	2,80,388	2,88,074	20.5%	2.7%
Interest Expenses (b)	1,52,930	1,86,217	1,92,272	25.7%	3.3%
NII	86,168	94,171	95,802	11.2%	1.7%
Fee based Income	3,870	3,830	4,370	12.9%	14.1%
Trading Profits	1,510	3,100	6,630	339.1%	113.9%
Other Income	42,372	36,021	41,178	-2.8%	14.3%
Non-Interest income	47,752	42,951	52,178	9.3%	21.5%
Total Income	1,33,920	1,37,122	1,47,980	10.5%	7.9%
Employee Cost	37,265	45,333	44,584	19.6%	-1.7%
Operating Expenses	24,133	23,733	29,522	22.3%	24.4%
Total Operating Expenses	61,397	69,067	74,106	20.7%	7.3%
Operating Profit	72,522	68,055	73,875	1.9%	8.6%
Total Provisions	30,950	18,989	24,818	-19.8%	30.7%
PBT	41,573	49,066	49,056	18.0%	0.0%
Tax	9,826	12,505	11,484	16.9%	-8.2%
Reported Profit	31,747	36,561	37,572	18.3%	2.8%
Balance sheet (Rs. bn.)					
Deposits	11,792	12,629	13,124	11.3%	3.9%
Net Advances	8,307	9,206	9,316	12.2%	1.2%
Total Assets	13,457	14,691	14,915	10.8%	1.5%
Low-cost Deposits (%)	31.1%	29.2%	29.9%	-1.2%	0.7%
CD Ratio (%)	70.4%	72.9%	71.0%	0.5%	-1.9%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. Mn.)	4,61,595	4,17,219	4,06,046	-12.0%	-2.7%
Net NPAs (Rs. Mn.)	1,43,493	1,21,759	1,18,228	-17.6%	-2.9%
Gross NPA (%)	5.35%	4.39%	4.23%	-1.12%	-0.16%
Net NPA (%)	1.73%	1.32%	1.27%	-0.46%	-0.05%
LLP (Incl. Prov. for Std. Assets) (Q) (%)	1.2%	1.0%	1.1%	-0.16%	0.04%
Coverage Ratio (%)	68.9%	70.8%	70.9%	1.97%	0.1%
Capital Adequacy					
Tier I (%)	13.78%	13.38%	13.95%	0.17%	0.57%
CAR (%)	16.68%	15.78%	16.28%	-0.40%	0.50%
Du-pont Analysis					
NII / Assets (%)	2.59%	2.60%	2.59%	0.00%	-0.01%
Non-Interest Inc. / Assets (%)	1.43%	1.19%	1.41%	-0.02%	0.22%
Op. Cost / Assets (%)	1.84%	1.91%	2.00%	0.16%	0.09%
PPP / Assets (%)	2.18%	1.88%	2.00%	-0.18%	0.12%
Provisions / Assets (%)	0.93%	0.52%	0.67%	-0.26%	0.15%
Reported ROA (%)	0.95%	1.01%	1.02%	0.06%	0.00%

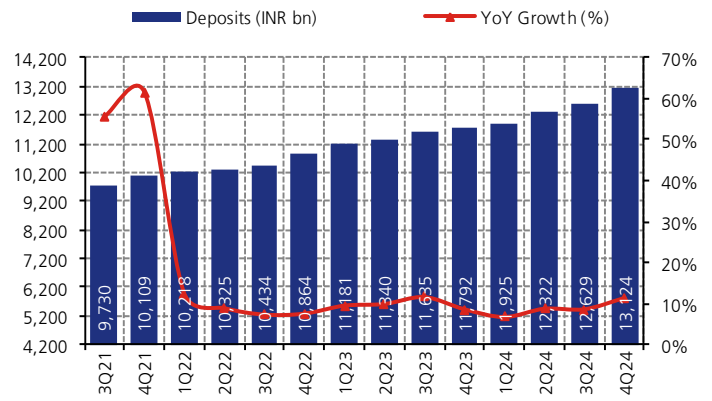
Source: Company, JM Financial

Exhibit 2. CBK: Trends in Advances



Source: Company, JM Financial

Exhibit 3. CBK: Trends in Deposits



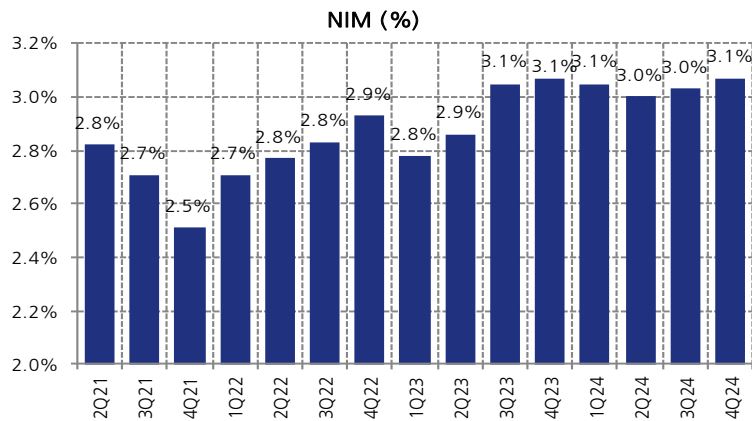
Source: Company, JM Financial

Exhibit 4. Loan book mix

Loan Book Composition (INR bn)	4Q23	3Q24	4Q24	YoY (%)	QoQ (%)
Infrastructure Advances	1,155	1,267	1,294	12.0%	2.1%
MSME	1,236	1,343	1,319	6.7%	-1.8%
Retail	1,401	1,536	1,564	11.7%	1.8%
Agriculture	2,133	2,425	2,532	18.7%	4.4%
Others	2,702	2,933	2,897	7.2%	-1.2%
Total Gross advances	8,628	9,504	9,606	11.3%	1.1%
Infrastructure Advances	13%	13%	13%	0.1%	0.1%
MSME	14%	14%	14%	-0.6%	-0.4%
Retail	16%	16%	16%	0.1%	0.1%
Agriculture	25%	26%	26%	1.6%	0.8%
Others	31%	31%	30%	-1.2%	-0.7%
Total	100%	100%	100%		

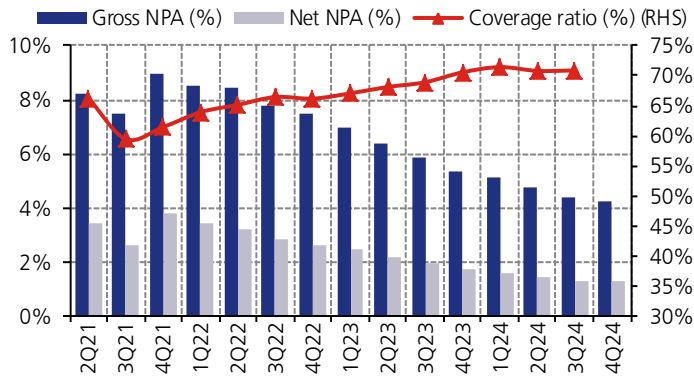
Source: Company, JM Financial

Exhibit 5. CBK: Trends in reported NIMs (%)



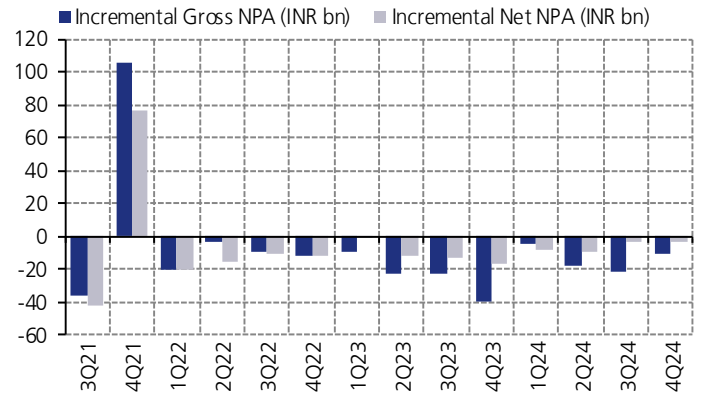
Source: Company, JM Financial

Exhibit 6. CBK: Trends in Asset quality



Source: Company, JM Financial

Exhibit 7. CBK: Trends in incremental GNPA/NNPA



Source: Company, JM Financial

Valuation and 12M TP

We value Canara Bank on a two-stage Gordon growth model. Our assumptions are as follows:

Exhibit 8. CBK: Valuation summary

Initial no of years	10
Growth rate for the first 10 years (%)	12%
Pay out ratio for the first 10 years (%)	10%
Perpetual growth rate (%)	4%
Perpetual payout ratio (%)	70%
K1	0.9
K2	6.5
Fully adjusted FY26E BVPS (Rs)	567
Target Price / Fully Adj BV (x)	1.0
Fair value (rounded off)	567

Source: Company, JM Financial

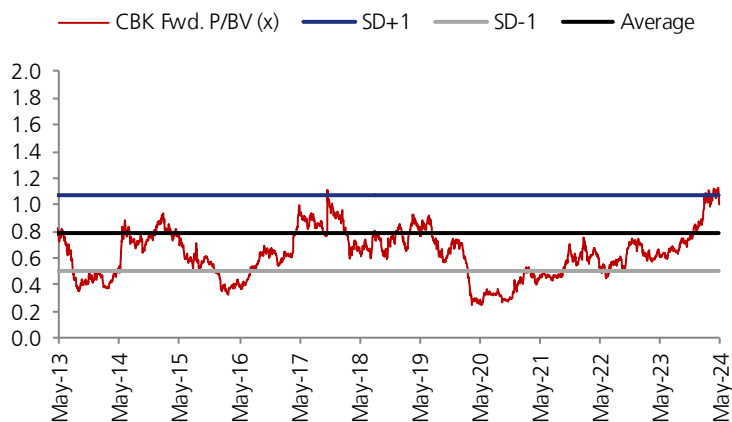
We value CBK on an SOTP basis: a) Canfin Homes based on market cap and b) Canara AMC at 6% of Mar'24 AUM. The SOTP valuation is summarised below:

Exhibit 9. CBK : SOTP valuation

SOTP	Holding	Methodology	Value per share
Canara Bank - Parent	100%	1.0x fwd FY26E ABV	567
Canfin Homes	30%	Based on market cap	16
Canara AMC	51%	6% of Mar24 AUM	15
Less: Cost of investments			-6
Total (INR) (Rounded up)			600

Source: Company, JM Financial

Exhibit 10. Canara Bank : One year forward P/B chart



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Interest Income	2,63,840	3,14,353	3,65,659	4,25,763	4,79,840	
Profit on Investments	25,926	18,930	16,230	16,230	16,230	
Exchange Income	28,127	22,450	7,650	9,180	11,016	
Fee & Other Income	1,10,915	1,46,242	1,65,784	1,57,784	1,61,756	
Non-Interest Income	1,64,969	1,87,622	1,89,664	1,83,194	1,89,002	
Total Income	4,28,809	5,01,975	5,55,324	6,08,957	6,68,843	
Operating Expenses	1,97,919	2,24,815	2,61,198	2,90,121	3,25,758	
Pre-provisioning Profits	2,30,890	2,77,160	2,94,126	3,18,835	3,43,084	
Loan-Loss Provisions	96,149	1,00,734	92,374	97,799	99,097	
Provisions on Investments	14,283	25,342	9,110	0	0	
Others Provisions	30,842	9,353	-4,408	1,500	1,500	
Total Provisions	1,41,274	1,35,430	97,076	99,299	1,00,597	
PBT	89,616	1,41,730	1,97,050	2,19,536	2,42,487	
Tax	32,832	35,692	51,507	57,384	63,383	
PAT (Pre-Extraordinaries)	56,784	1,06,038	1,45,543	1,62,152	1,79,104	
Extra ordinaries (Net of Tax)	13,549	0	0	0	0	
Reported Profits	70,333	1,06,038	1,45,543	1,62,152	1,79,104	
Dividend paid	11,792	21,770	29,207	32,540	35,942	
Retained Profits	58,541	84,268	1,16,336	1,29,611	1,43,162	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Deposits	7.5%	8.5%	11.3%	12.0%	12.0%
Advances	10.1%	18.1%	12.2%	13.0%	13.0%
Total Assets	6.4%	9.8%	11.5%	11.7%	11.7%
NII	9.5%	19.1%	16.3%	16.4%	12.7%
Non-interest Income	10.5%	13.7%	1.1%	-3.4%	3.2%
Operating Expenses	2.3%	13.6%	16.2%	11.1%	12.3%
Operating Profits	17.3%	20.0%	6.1%	8.4%	7.6%
Core Operating profit	22.8%	26.0%	7.6%	8.9%	8.0%
Provisions	-11.6%	-4.1%	-28.3%	2.3%	1.3%
Reported PAT	175.0%	50.8%	37.3%	11.4%	10.5%
Yields / Margins (%)					
Interest Spread	2.26%	2.40%	2.43%	2.57%	2.57%
NIM	2.35%	2.56%	2.68%	2.80%	2.82%
Profitability (%)					
Non-IR to Income	38.5%	37.4%	34.2%	30.1%	28.3%
Cost to Income	46.2%	44.8%	47.0%	47.6%	48.7%
ROA	0.60%	0.83%	1.03%	1.03%	1.02%
ROE	13.0%	17.1%	19.0%	17.4%	16.7%
Assets Quality (%)					
Slippages	2.26%	1.75%	2.71%	2.00%	2.20%
Gross NPA	7.51%	5.35%	4.23%	3.33%	3.16%
Net NPAs	2.65%	1.73%	1.27%	1.02%	1.29%
Provision Coverage	66.5%	68.9%	70.9%	70.0%	60.0%
Specific LLP	1.47%	1.27%	1.02%	0.94%	0.84%
Net NPAs / Networth	32.4%	21.7%	13.6%	10.8%	13.4%
Capital Adequacy (%)					
Tier I	11.91%	13.78%	13.95%	14.23%	14.46%
CAR	14.90%	16.68%	16.28%	16.23%	16.17%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Equity Capital	18,141	18,141	18,141	18,141	18,141	
Reserves & Surplus	5,57,909	6,43,180	8,51,405	9,81,016	11,24,177	
Deposits	1,08,64,093	1,17,92,186	1,31,23,666	1,46,98,506	1,64,62,327	
Borrowings	4,62,850	5,80,898	5,75,923	5,92,928	6,11,406	
Other Liabilities	2,81,741	3,48,167	3,46,272	3,63,586	3,81,765	
Total Liabilities	1,21,84,734	1,33,82,572	1,49,15,407	1,66,54,178	1,85,97,817	
Investments	28,20,129	31,90,385	35,74,544	34,92,384	38,96,110	
Net Advances	70,36,018	83,06,726	93,16,128	1,05,27,225	1,18,95,764	
Cash & Equivalents	18,20,543	14,14,232	15,07,597	20,12,393	22,44,328	
Fixed Assets	28,501	27,556	1,22,282	34,293	38,295	
Other Assets	4,79,543	4,43,674	3,94,856	5,87,882	5,23,320	
Total Assets	1,21,84,734	1,33,82,572	1,49,15,407	1,66,54,178	1,85,97,817	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	2.23%	2.46%	2.58%	2.70%	2.72%
Other Income / Assets	1.40%	1.47%	1.34%	1.16%	1.07%
Total Income / Assets	3.63%	3.93%	3.92%	3.86%	3.79%
Cost / Assets	1.67%	1.76%	1.85%	1.84%	1.85%
PBP / Assets	1.95%	2.17%	2.08%	2.02%	1.95%
Provisions / Assets	1.20%	1.06%	0.69%	0.63%	0.57%
PBT / Assets	0.76%	1.11%	1.39%	1.39%	1.38%
Tax rate	36.6%	25.2%	26.1%	26.1%	26.1%
ROA	0.60%	0.83%	1.03%	1.03%	1.02%
RoRWAs	1.32%	1.92%	2.35%	2.29%	2.26%
Leverage	21.2	20.2	17.2	16.7	16.3
ROE	13.0%	17.1%	19.0%	17.4%	16.7%

Source: Company, JM Financial

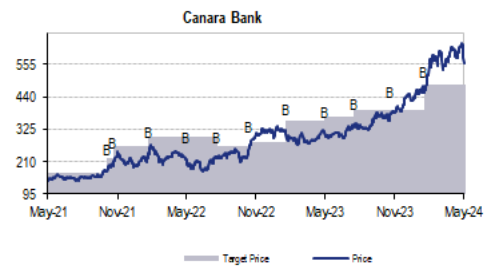
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	1,814.1	1,814.1	1,814.1	1,814.1	1,814.1
EPS (INR)	38.8	58.5	80.2	89.4	98.7
EPS (YoY) (%)	149.6%	50.8%	37.3%	11.4%	10.5%
PER (x)	14.4	9.5	7.0	6.2	5.7
BV (INR)	318	365	479	551	630
BV (YoY) (%)	3.3%	14.8%	31.5%	14.9%	14.3%
ABV (INR)	265	326	446	509	567
ABV (YoY) (%)	-13.3%	23.3%	36.6%	14.1%	11.4%
P/BV (x)	1.76	1.53	1.16	1.01	0.89
P/ABV (x)	2.11	1.71	1.25	1.10	0.98
DPS (INR)	6.5	12.0	16.1	17.9	19.8
Div. yield (%)	1.2%	2.2%	2.9%	3.2%	3.6%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Jan-20	Hold	215	
11-Mar-20	Hold	145	-32.6
13-Apr-20	Sell	90	-37.9
11-Jan-21	Hold	170	88.9
31-Jan-21	Hold	170	0.0
11-Oct-21	Buy	225	32.4
27-Oct-21	Buy	265	17.8
27-Jan-22	Buy	300	13.2
7-May-22	Buy	300	0.0
26-Jul-22	Buy	265	-11.7
20-Oct-22	Buy	280	5.7
24-Jan-23	Buy	355	26.8
8-May-23	Buy	371	4.5
24-Jul-23	Buy	395	6.5
27-Oct-23	Buy	395	0.0
24-Jan-24	Buy	485	22.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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