

Stable margins, healthy RoA; retain BUY

BFSI - Banks ▶ Result Update ▶ May 9, 2024

TARGET PRICE (Rs): 650

Despite higher opex/LLP, Canara Bank (CBK) reported nearly inline PAT at Rs37.6bn/RoA @ 1%. This was mainly driven by steady & healthy margins at 3% and fees/treasury gains. Going forward, the bank expects credit growth to remain moderate @10% (with a slight upward bias), with clear focus on managing margins at 2.9-3%, hence also the overall profitability. Bank has indicated that it has ~Rs1,000bn (~10% of gross advances) exposure towards project finance, and our back-of-the-envelope calculation suggests a maximum ~7-8bps impact on loans in FY25E (without adjusting any exposure with Govt guarantee), per the RBI's recent draft IRACP guidelines. Factoring-in healthy growth in fees and the lower opex, we revise FY25-26E earnings by 6-7% and expect the bank to deliver a healthy 1-1.1% RoA/17-21% RoE over FY25-27E. Given our general positive stance for PSBs and in particular CBK's sustained strong performance, we retain BUY, lifting our TP to Rs650/sh (from Rs550), rolling forward the standalone bank at 1.1x FY26E ABV and subs at Rs30/sh.

Canara Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	106,038	145,543	175,399	185,467	189,740
Loan growth (%)	18.1	12.2	11.1	11.3	12.1
NII growth (%)	19.1	16.3	7.9	8.8	10.2
NIM (%)	2.6	2.7	2.6	2.6	2.6
PPOP growth (%)	20.0	6.1	9.7	6.3	9.7
Adj. EPS (Rs)	58.5	80.2	96.7	102.2	104.6
Adj. EPS growth (%)	417.1	37.3	20.5	5.7	2.3
Adj. BV (INR)	312.2	385.7	467.5	548.5	629.1
Adj. BVPS growth (%)	247.2	23.5	21.2	17.3	14.7
RoA (%)	0.8	1.0	1.1	1.1	1.0
RoE (%)	17.1	20.2	20.7	18.7	16.6
P/E (x)	9.2	6.7	5.5	5.2	5.0
P/ABV (x)	1.7	1.4	1.1	1.0	0.8

Source: Company, Emkay Research

Slower growth, but steady margins

Canara Bank continued to report relatively moderate credit growth at 12% YoY/1% QoQ, whereas deposits grew relatively faster at 11%YoY/4% QoQ leading to moderation in LDR to 71%. Nevertheless, higher yields on account of increased share of retail loans coupled with a 66bps QoQ improvement in CASA ratio to 30% (and hence the contained cost) led to a 3bps QoQ uptick in NIMs to 3.1%. Going forward, the bank expects credit growth to remain moderate @10% (with a slight upward bias) and margins at 2.9-3%, on the back of better cost management and portfolio mix, incl. the high-yielding RAM segment.

Asset quality continues to improve

Gross slippages were slightly higher seasonally at Rs34bn/1.6% of loans which, coupled with higher write-offs, led to a further 16bps QoQ reduction in GNPA ratio to 4.2%. The bank's restructured loan book too declined, to 1.3% of loans (vs 1.6% in Q3). The SMA 1&2 book stayed largely stable at 0.7% of loans. Bank expects NPAs to keep trending down led by contained slippages, aggressive write-off strategy, and persistent recoveries at the current run-rate; this, coupled with reasonable specific PCR at 71%, should limit LLP, thereby supporting overall profitability. Bank has indicated that it has ~Rs1,000bn (~10% of gross advances) exposure to project finance, and our back of the envelope calculation suggests a maximum impact of ~7-8bps on loans in FY25E (without adjusting any exposure with Govt guarantee), per the RBI's recent draft IRACP guidelines. Moreover, the bank has created AIF provision of Rs0.12bn during the quarter.

We retain BUY

Factoring-in the healthy growth in fees and lower opex, we revise FY25-26E earnings by 6-7% and expect the bank to deliver a healthy 1-1.1% RoA/17-21% RoE over FY25-27E. Given our general positive stance for PSBs and in particular CBK's sustained strong performance, we retain BUY, lifting our TP to Rs650/sh (from Rs550), rolling forward the standalone bank at 1.1x FY26E ABV and subs at Rs30/sh. **Key Risks:** Slower growth due to macroeconomic challenges and higher-than-expected increase in provisioning due to new IRACP guidelines and the ensuing ECL impact.

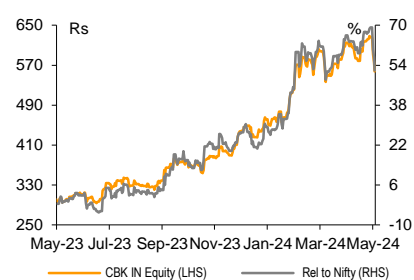
Target Price – 12M	Mar-25
Change in TP (%)	18.2
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	16.6
CMP (08-May-24) (Rs)	557.7

Stock Data	Ticker
52-week High (Rs)	633
52-week Low (Rs)	291
Shares outstanding (mn)	1,814.1
Market-cap (Rs bn)	1,012
Market-cap (USD mn)	12,114
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	4,989.0
ADTV-3M (USD mn)	59.7
Free float (%)	37.0
Nifty-50	22,303
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	62.9
FPIs/MFs (%)	10.6/14.4

Price Performance

(%)	1M	3M	12M
Absolute	(8.9)	(2.0)	78.1
Rel. to Nifty	(7.5)	(4.6)	45.8

1-Year share price trend (Rs)



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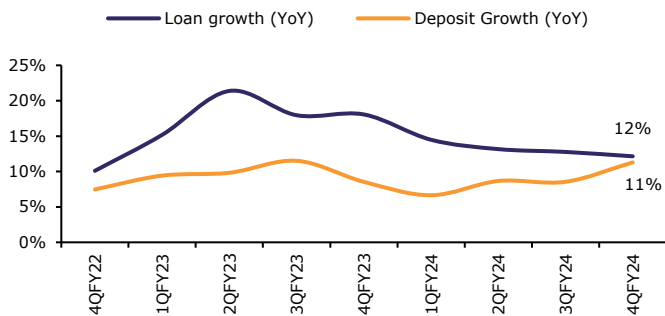
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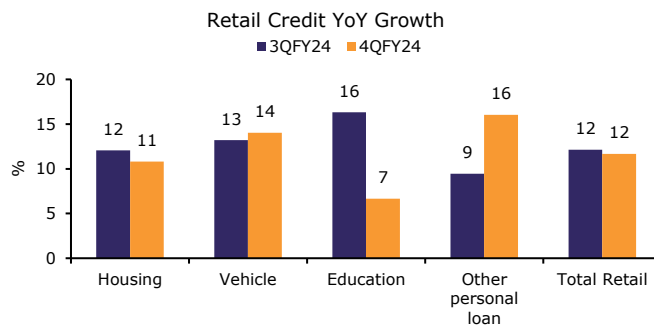
Story in Charts

Exhibit 1: Credit growth moderates, leading to lower LDR



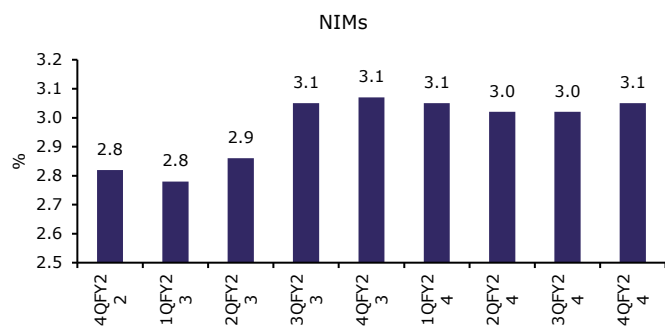
Source: Company, Emkay Research

Exhibit 2: Retail credit growth has moderated due to slowdown in mortgages



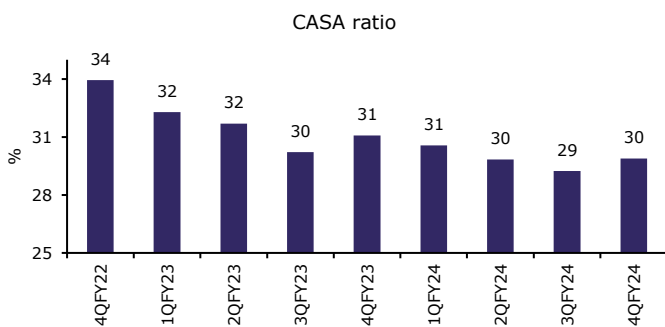
Source: Company, Emkay Research

Exhibit 3: Steady margins owing to higher yields and improvement in CASA



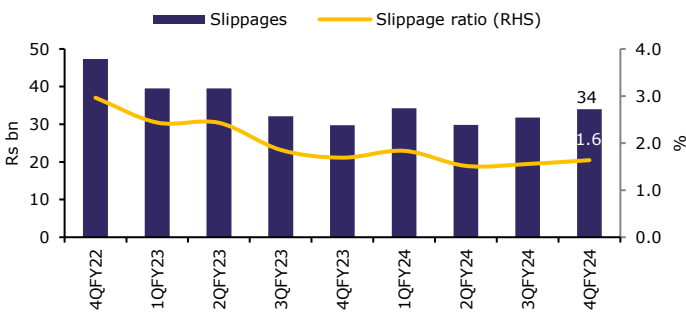
Source: Company, Emkay Research

Exhibit 4: CASA ratio improves by 66bps QoQ



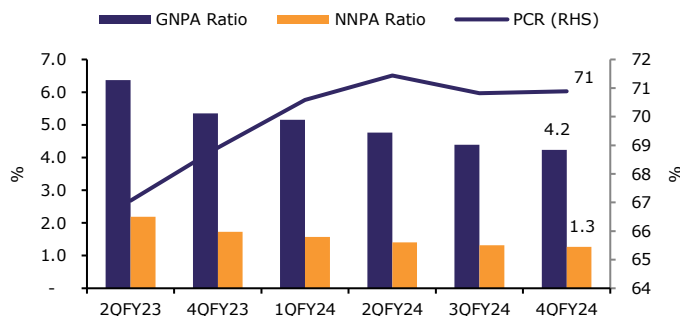
Source: Company, Emkay Research

Exhibit 5: Gross slippages were slightly higher QoQ due to seasonal factors...



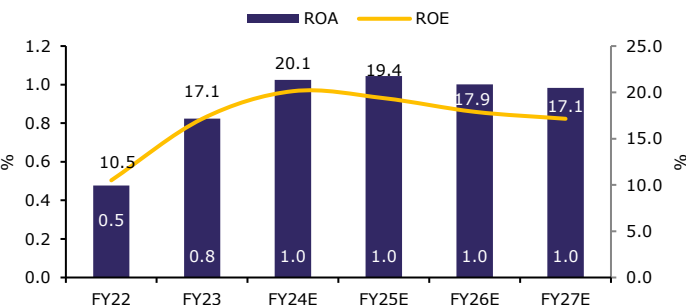
Source: Company, Emkay Research

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



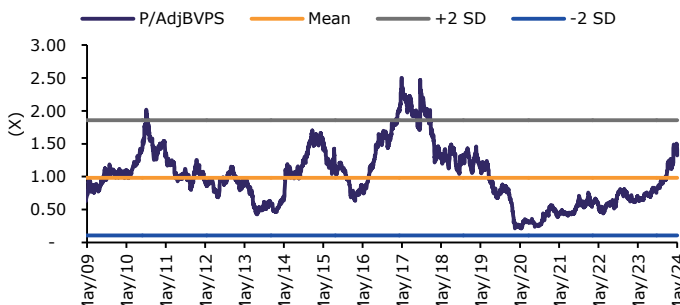
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to remain healthy over FY25-27E, mainly due to stable NIMs, better fees, and lower opex



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.3x its one-year forward P/ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs. Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	147,980	134,986	134,695	10%	10%	Better margins (partly) and higher other income led to a beat in Net income
PPOP	73,875	68,861	70,181	7%	5%	Higher net income partly offset by higher staff costs/opex led to a PPOP beat
PAT	37,572	36,825	36,445	2%	3%	PPOP beat partially offset by higher provisions and tax expenses led to a slight beat on PAT

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	239,098	250,041	268,377	280,388	288,074	20	3	844,248	1,086,879	29
Interest Exp.	152,930	163,384	179,347	186,217	192,272	26	3	529,895	721,220	36
Net Interest Income	86,168	86,657	89,030	94,171	95,802	11	2	314,353	365,659	16
Global NIMs (Reported)	3.07	3.05	3.02	3.02	3.05	-2bps	3bps	2.59	2.70	11bps
Non-interest Income	47,752	48,190	46,345	42,951	52,178	9	21	187,622	189,664	1
Operating Expenses	61,397	58,806	59,219	69,067	74,106	21	7	224,815	261,198	16
Pre-Provisioning Profit	72,522	76,040	76,156	68,055	73,875	2	9	277,160	294,126	6
Provision & Contingencies	30,950	27,189	26,080	18,989	24,818	-20	31	135,430	97,076	-28
PBT	41,573	48,851	50,076	49,066	49,056	18	0	141,730	197,050	39
Income Tax Expense (Gain)	9,826	13,503	14,015	12,505	11,484	17	-8	35,692	51,507	44
Net Profit/(Loss)	31,747	35,348	36,061	36,561	37,572	18	3	106,038	145,543	37
Gross NPA (%)	5.35	5.16	4.76	4.39	4.23	-112bps	-16bps	5.35	4.23	-112bps
Net NPA (%)	1.73	1.57	1.41	1.32	1.27	-46bps	-5bps	1.73	1.27	-46bps
Deposits (Rs bn)	11,792	11,925	12,322	12,629	13,124	11	4	11,792	13,124	11
Net Advances (Rs bn)	8,307	8,551	8,923	9,209	9,316	12	1	8,307	9,316	12

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E March (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	568,309	601,561	5.9%	616,169	643,379	4.4%
PPOP	306,015	322,788	5.5%	333,762	343,036	2.8%
PAT	153,469	175,399	14.3%	172,507	185,467	7.5%
EPS (Rs)	84.6	96.7	14.3%	95.1	102.2	7.5%
BV (Rs)	494.3	506.0	2.4%	570.3	587.7	3.0%

Source: Emkay Research

Exhibit 12: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	12.2	11.1	11.3	12.1
Deposit Growth	11.3	9.2	10.0	10.5
NIM	2.7	2.6	2.6	2.6
GNPA	4.2	3.4	3.0	2.9
Credit Cost	1.0	0.8	0.9	1.0

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs bn)	7,036	7,469	7,885	8,164	8,307	8,551	8,923	9,209	9,316
- Growth YoY (%)	10.1	15.2	21.4	18.0	18.1	14.5	13.2	12.8	12.2
- Growth QoQ (%)	1.7	6.2	5.6	3.5	1.7	2.9	4.3	3.2	1.2
Liability Profile & Capital (%)									
CASA	33.9	32.3	31.7	30.2	31.1	30.6	29.8	29.2	29.9
- CA	4.9	4.0	4.0	4.0	4.0	3.7	3.6	3.6	4.9
- SA	29.1	28.3	27.7	26.2	27.1	26.9	26.2	25.7	25.0
Branches (no. of)	8,957	8,927	8,898	8,897	8,883	8,865	8,757	8,964	8,984
CAR	14.9	14.9	16.5	16.7	16.7	16.2	16.2	15.8	16.3
Tier I	11.9	12.1	13.4	13.7	13.8	13.6	13.6	13.4	14.0
Asset Quality (%)									
GNPA	7.5	7.0	6.4	5.9	5.4	5.2	4.8	4.4	4.2
NNPA	2.7	2.5	2.2	2.0	1.7	1.6	1.4	1.3	1.3
PCR	66.5	66.2	67.1	68.1	68.9	70.6	71.4	70.8	70.9
Slippages (Rs mn)	47,360	39,490	39,480	32,100	29,730	34,280	29,870	31,760	34,000
Slippages - annualized	3.0	2.4	2.4	1.9	1.7	1.8	1.5	1.6	1.6
ROE Decomposition (%)									
NII	2.3	2.2	2.3	2.6	2.6	2.5	2.5	2.8	2.6
Other Income	1.5	1.7	1.5	1.2	1.4	1.4	1.3	1.3	1.4
Treasury	0.2	0.3	0.1	0.1	0.0	0.1	0.1	0.1	0.2
Opex	1.7	1.7	1.7	1.7	1.8	1.7	1.7	2.0	2.0
PPOP	2.0	2.1	2.2	2.1	2.2	2.2	2.2	2.0	2.0
Provisioning Cost	1.2	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.7
PBT	0.8	0.9	1.0	1.2	1.2	1.4	1.4	1.5	1.3
Tax	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3
ROA	0.6	0.6	0.8	0.9	1.0	1.0	1.0	1.0	1.0
Leverage (x)	18.3	18.3	18.2	18.0	18.1	17.7	17.4	20.9	21.8
ROE	10.1	11.9	14.3	15.9	17.3	18.3	17.9	21.1	22.1

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	1,205,046	1,277,292	1,363,593
Interest Expense	529,895	721,220	810,373	847,892	890,227
Net interest income	314,353	365,659	394,673	429,400	473,366
NII growth (%)	19.1	16.3	7.9	8.8	10.2
Other income	187,622	189,664	206,888	213,979	226,780
Total Income	501,975	555,324	601,561	643,379	700,146
Operating expenses	224,815	261,198	278,773	300,344	323,681
PPOP	277,160	294,126	322,788	343,036	376,465
PPOP growth (%)	20.0	6.1	9.7	6.3	9.7
Core PPOP	258,230	277,896	300,066	314,633	342,382
Provisions & contingencies	135,430	97,076	88,297	95,087	122,803
PBT	141,730	197,050	234,491	247,949	253,662
Extraordinary items	0	0	0	0	0
Tax expense	35,692	51,507	59,092	62,483	63,922
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	106,038	145,543	175,399	185,467	189,740
PAT growth (%)	86.7	37.3	20.5	5.7	2.3
Adjusted PAT	106,038	145,543	175,399	185,467	189,740
Diluted EPS (Rs)	(72.5)	(99.6)	(120.0)	(126.9)	(129.8)
Diluted EPS growth (%)	(323.2)	37.3	20.5	5.7	2.3
DPS (Rs)	12.0	16.1	19.4	20.5	21.0
Dividend payout (%)	20.5	20.1	20.1	20.1	20.1
Effective tax rate (%)	25.2	26.1	25.2	25.2	25.2
Net interest margins (%)	2.4	2.6	2.7	2.6	2.6
Cost-income ratio (%)	44.8	47.0	46.3	46.7	46.2
Shares outstanding (mn)	1,814.1	1,814.1	1,814.1	1,814.1	1,814.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	461,599.6	406,049.6	364,010.3	358,926.4	386,825.7
Net NPLs	143,937.2	118,229.4	105,563.0	107,677.9	116,047.7
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	70.9	71.0	70.0	70.0
Gross slippages	119,790.0	129,910.0	137,960.7	164,916.1	197,899.3
Gross slippage ratio (%)	1.4	1.4	1.3	1.4	1.5
LLP ratio (%)	1.4	1.3	1.0	0.8	0.9
NNPA to networth (%)	31.6	21.0	14.7	11.1	9.8
Capital adequacy					
Total CAR (%)	16.7	16.5	16.7	17.0	17.4
Tier-1 (%)	13.8	13.4	13.5	13.7	14.0
CET-1 (%)	11.2	11.2	11.6	12.0	12.5
RWA-to-Total Assets (%)	42.2	45.0	47.0	48.0	48.0
Miscellaneous					
Total income growth (%)	20.1	23.7	10.6	5.6	6.6
Opex growth (%)	13.6	16.2	6.7	7.7	7.8
Core PPOP growth (%)	26.0	7.6	8.0	4.9	8.8
PPOP margin (%)	26.9	23.0	22.9	23.0	23.7
PAT/PPOP (%)	38.3	49.5	54.3	54.1	50.4
LLP-to-Core PPOP (%)	52.4	34.9	29.4	30.2	35.9
Yield on advances (%)	8.2	9.0	9.2	8.8	8.5
Cost of funds (%)	4.5	5.5	5.7	5.4	5.1

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	993,176	1,141,453	1,293,097
Net worth	736,072	869,546	1,011,318	1,159,595	1,311,238
Deposits	11,792,186	13,123,666	14,337,519	15,771,271	17,425,699
Borrowings	580,898	575,923	644,638	709,102	780,012
Interest bearing liab.	12,373,084	13,699,589	14,982,157	16,480,373	18,205,710
Other liabilities & prov.	348,167	346,273	362,246	408,104	422,568
Total liabilities & equity	13,457,322	14,915,408	16,355,720	18,048,072	19,939,517
Net advances	8,306,726	9,316,128	10,353,916	11,528,474	12,922,512
Investments	3,190,385	3,574,544	3,881,040	4,203,243	4,568,909
Cash, other balances	1,414,232	1,507,597	1,575,018	1,732,330	1,822,462
Interest earning assets	12,911,342	14,398,270	15,809,973	17,464,048	19,313,883
Fixed assets	102,307	122,280	126,742	135,565	145,036
Other assets	443,674	394,858	419,005	448,458	480,598
Total assets	13,457,322	14,915,408	16,355,720	18,048,072	19,939,517
BVPS (Rs)	364.5	428.7	506.0	587.7	671.3
Adj. BVPS (INR)	312.2	385.7	467.5	548.5	629.1
Gross advances	8,624,388	9,603,948	10,612,363	11,779,723	13,193,290
Credit to deposit (%)	70.4	71.0	72.2	73.1	74.2
CASA ratio (%)	31.1	29.9	29.4	29.4	29.7
Cost of deposits (%)	4.3	5.3	5.5	5.2	5.0
Loans-to-Assets (%)	61.7	62.5	63.3	63.9	64.8
Net advances growth (%)	18.1	12.2	11.1	11.3	12.1
Deposit growth (%)	8.5	11.3	9.2	10.0	10.5
Book value growth (%)	217.9	17.6	18.0	16.2	14.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	9.2	6.7	5.5	5.2	5.0
P/B (x)	1.5	1.3	1.1	0.9	0.8
P/ABV (x)	1.7	1.4	1.1	1.0	0.8
P/PPOP (x)	3.7	3.4	3.1	3.0	2.7
Dividend yield (%)	2.2	2.9	3.5	3.7	3.8
DuPont-RoE split (%)					
NII/avg assets	2.4	2.6	2.5	2.5	2.5
Other income	1.5	1.3	1.3	1.2	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
PPOP	2.2	2.1	2.1	2.0	2.0
Core PPOP	2.0	2.0	1.9	1.8	1.8
Provisions	1.1	0.7	0.6	0.6	0.6
Tax expense	0.3	0.4	0.4	0.4	0.3
RoA (%)	0.8	1.0	1.1	1.1	1.0
Leverage ratio (x)	20.8	19.7	18.4	17.3	16.6
RoE (%)	17.1	20.2	20.7	18.7	16.6
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	86,168	86,657	89,030	94,171	95,802
NIM(%)	3.1	3.1	3.0	3.0	3.1
PPOP	72,522	76,040	76,156	68,055	73,875
PAT	31,747	35,348	36,061	36,561	37,572
EPS (Rs)	17.50	19.49	19.88	20.15	20.71

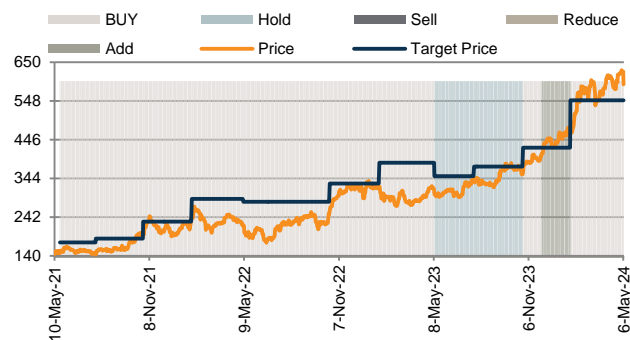
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Jan-24	465	550	Buy	Anand Dama
30-Nov-23	403	425	Add	Anand Dama
26-Oct-23	359	425	Buy	Anand Dama
24-Jul-23	340	375	Hold	Anand Dama
09-May-23	303	350	Hold	Anand Dama
09-Mar-23	310	385	Buy	Anand Dama
23-Jan-23	323	385	Buy	Anand Dama
20-Oct-22	259	330	Buy	Anand Dama
25-Jul-22	225	282	Buy	Anand Dama
07-May-22	219	282	Buy	Anand Dama
28-Jan-22	239	290	Buy	Anand Dama
27-Oct-21	201	230	Buy	Anand Dama
25-Aug-21	151	185	Buy	Anand Dama
28-Jul-21	143	185	Buy	Anand Dama
20-May-21	147	175	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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SELL	<15% downside

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