

Canara Bank | BUY

Steady quarter despite wage rate provision impact

Canara Bank (CBK) delivered a steady quarter with PAT at INR 36.6bn (+1.4% QoQ, +26.9% YoY, inline JMFe) on the back of a) robust growth in NII (+5.8% QoQ, +9.5% YoY, +5% JMFe) and b) healthy growth in net advances (+3.2% QoQ, +12.8% YoY). Increase in CoFs (+7 bps QoQ) was off-set by an upward re-pricing of yields, which resulted in NIMs inching up to 3.03% (+3bps QoQ). Though, management anticipates CoFs to have an upward bias going ahead and thereby expects NIMs to stabilize in the range of 2.9-3%. The Cost-to-Income ratio spiked to 50.4% in the quarter due to a wage provision revision from 15% to 17% for 14 months (starting Nov '22), leading to an INR 4.5 billion increase in the wage bill. Additionally, the revision prompted a provision of INR 2.5 billion for actuaries on retirement benefits, culminating in a total provision of INR 7 billion for employee costs. However, management is confident of ending the fiscal year at the guided level of 45%. Asset quality metrics continued to improve with GNPL/NNPL at 4.39%/1.32% (-37bps QoQ, -8bps QoQ) with PCR at a healthy 71%. Credit cost at 1.06% is one of the lowest in several years, which coupled with healthy NII growth and stable cost to income ratios has helped the bank sustain its RoA above 1% over the past couple of quarters. We expect CBK's rerating to continue going forward, driven by a) steady NIMs and continued expansion in return profile with RoA/RoE of 1.03%/18.7% by FY26E, and b) stable asset quality with moderate credit costs. We maintain a BUY keeping TP unchanged at INR 485 (valuing core bank at 0.9x FY26E BVPS).

- Healthy growth in advances and deposits:** Net advances grew by (+3.2% QoQ, +12.8% YoY) with RAM growing by (+2.61% QOQ, +14.56% YoY) and corporate book by (+3.19% QoQ, +8.26% YoY). Within the RAM segment, growth was led by retail credit (+3.66% QoQ, +12.14% YoY), followed by agriculture and allied book (+2.33% QoQ, +19.26% YoY) and MSME book (+1.93% QoQ, +9.46% YoY). The management continues to devote its focus to increasing the share of high yielding RAM credit, which currently forms 56% of the loan book (vs 54% in 3QFY23). Deposits saw a steady growth (+2.5% QoQ, +8.5% YoY) with domestic deposits growing by (+2.05% QoQ, +8.07% YoY) which was led by growth in TD (+2.81% QoQ, +9.53% YoY) though CASA growth remained sluggish at (+0.45% QoQ, +5.05% YoY). The management continues to take initiatives for deposit mobilization so as to be able to achieve its guided CASA ratio of 35% (currently at 31.65%).
- Steady headline parameters led by stable margins:** Despite a strong growth in NII (+5.8% QoQ, +9.5% YoY), operating profit stood at INR 68.1bn (-10.6% QoQ, -2.1% YoY) due to higher operating expense (+16.6% QoQ, +22.6% YoY). This was a result of revision in wage provision from 15% to 17% for 14 months (starting Nov '22), leading to an INR 4.5 billion increase in the wage bill. Additionally, the revision prompted a provision of INR 2.5 billion for actuaries on retirement benefits, culminating in a total provision of INR 7 billion for employee costs. However, due to the one-off nature of it, management remains confident of ending the fiscal year with a cost to income ratio of 45%. Increase in CoFs (+7 bps QoQ) was off-set by an upward re-pricing of yields, which resulted in NIMs



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	485
Upside/(Downside)	6.8%
Previous Price Target	485
Change	0.0%

Key Data – CBK IN

Current Market Price	INR454
Market cap (bn)	INR824.2/US\$9.9
Free Float	28%
Shares in issue (mn)	1,814.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR3,151.4/US\$37.9
52-week range	485/269
Sensex/Nifty	71,060/21,454
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	6.6	33.7	41.9
Relative*	6.7	24.9	21.8

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	70,333	1,06,038	1,48,163	1,62,451	1,83,335
Net Profit (YoY) (%)	175.0%	50.8%	39.7%	9.6%	12.9%
Assets (YoY) (%)	6.4%	9.8%	11.4%	11.9%	12.5%
ROA (%)	0.6%	0.8%	1.0%	1.0%	1.0%
ROE (%)	13.0%	17.1%	20.6%	19.3%	18.7%
EPS	38.8	58.5	81.7	89.5	101.1
EPS (YoY) (%)	149.6%	50.8%	39.7%	9.6%	12.9%
PE (x)	11.7	7.8	5.6	5.1	4.5
BV	318	365	429	501	581
BV (YoY) (%)	3.3%	14.8%	17.8%	16.6%	16.0%
P/BV (x)	1.43	1.25	1.06	0.91	0.78

Source: Company data, JM Financial. Note: Valuations as of 24/Jan/2024

inching up to 3.03% (+3bps QoQ). However, management anticipates CoFs to have an upward bias going ahead and thereby expects NIMs to stabilize in the range of 2.9-3%.

- **Improvement in Asset quality:** Asset quality metrics continued to improve with GNPL/NNPL at 4.39%/1.32% (-37bps QoQ, -8bps QoQ) with PCR at a healthy 71%. Slippages moderated to INR 27bn (vs INR 29bn in 2QFY24) leading to lowest credit cost of 1.06% for the bank in several years. We build in avg. credit costs of 1.01% for FY24E-26E.
- **Valuation and view:** Healthy NII growth coupled with largely stable cost to income ratio and moderation in credit costs has helped the bank to sustain RoAs above 1% over the past couple of quarters. We expect CBK's rerating to continue going forward, driven by a) steady NIMs and continued expansion in return profile with RoA/RoE at 1.03%/18.7% by FY26E, and b) stable asset quality with moderate credit costs. We maintain a BUY keeping TP unchanged at INR 485 (valuing core bank at 0.9x FY26E BVPS).

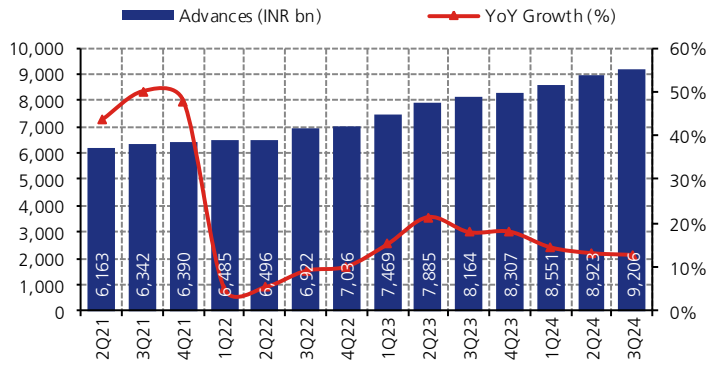
Canara Bank – 3QFY24 trends

Exhibit 1. CBK: Key quarterly trends

Earnings Table (INR mn)	3Q23	2Q24	3Q24	YoY (%)	QoQ (%)
Interest Income (a)	2,22,314	2,68,377	2,80,388	26.1%	4.5%
Interest Expenses (b)	1,36,315	1,79,347	1,86,217	36.6%	3.8%
NII	86,000	89,030	94,171	9.5%	5.8%
Fee based Income	3,330	3,290	3,830	15.0%	16.4%
Trading Profits	3,860	3,560	3,100	-19.7%	-12.9%
Other Income	32,674	39,495	36,021	10.2%	-8.8%
Non-Interest income	39,864	46,345	42,951	7.7%	-7.3%
Total Income	1,25,864	1,35,375	1,37,122	8.9%	1.3%
Employee Cost	34,815	37,914	45,333	30.2%	19.6%
Operating Expenses	21,528	21,305	23,733	10.2%	11.4%
Total Operating Expenses	56,343	59,219	69,067	22.6%	16.6%
Operating Profit	69,521	76,156	68,055	-2.1%	-10.6%
Total Provisions	31,212	26,080	18,989	-39.2%	-27.2%
PBT	38,309	50,076	49,066	28.1%	-2.0%
Tax	9,493	14,015	12,505	31.7%	-10.8%
Reported Profit	28,815	36,061	36,561	26.9%	1.4%
Balance sheet (Rs. bn.)					
Deposits	11,635	12,322	12,629	8.5%	2.5%
Net Advances	8,164	8,923	9,206	12.8%	3.2%
Total Assets	13,196	14,261	14,691	11.3%	3.0%
Low-cost Deposits (%)	30.2%	29.8%	29.2%	-1.0%	-0.6%
CD Ratio (%)	70.2%	72.4%	72.9%	2.7%	0.5%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. Mn.)	5,01,428	4,39,556	4,17,219	-16.8%	-5.1%
Net NPAs (Rs. Mn.)	1,59,817	1,25,540	1,21,759	-23.8%	-3.0%
Gross NPA (%)	5.90%	4.76%	4.39%	-1.50%	-0.37%
Net NPA (%)	1.96%	1.41%	1.32%	-0.64%	-0.08%
LLP (Incl. Prov. for Std. Assets) (Q) (%)	1.1%	1.1%	1.0%	-0.08%	-0.07%
Coverage Ratio (%)	68.1%	71.4%	70.8%	2.69%	-0.6%
Capital Adequacy					
Tier I (%)	13.68%	13.60%	13.38%	-0.30%	-0.22%
CAR (%)	16.72%	16.20%	15.78%	-0.94%	-0.42%
Du-pont Analysis					
NII / Assets (%)	2.63%	2.53%	2.60%	-0.03%	0.07%
Non-Interest Inc. / Assets (%)	1.22%	1.32%	1.19%	-0.03%	-0.13%
Op. Cost / Assets (%)	1.72%	1.69%	1.91%	0.19%	0.22%
PPP / Assets (%)	2.13%	2.17%	1.88%	-0.24%	-0.29%
Provisions / Assets (%)	0.95%	0.74%	0.52%	-0.43%	-0.22%
Reported ROA (%)	0.88%	1.03%	1.01%	0.13%	-0.02%

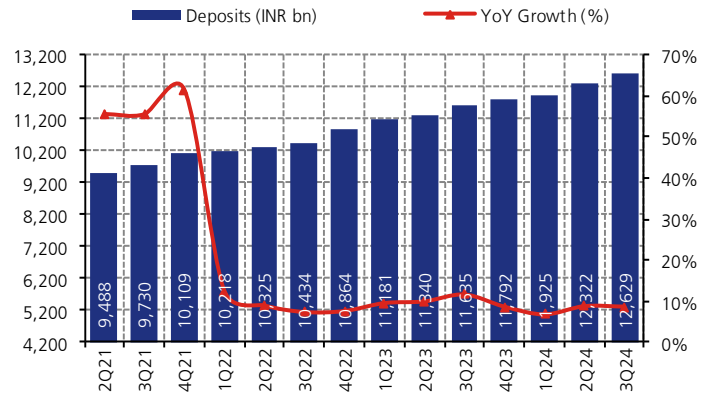
Source: Company, JM Financial

Exhibit 2. CBK: Trends in Advances



Source: Company, JM Financial

Exhibit 3. CBK: Trends in Deposits



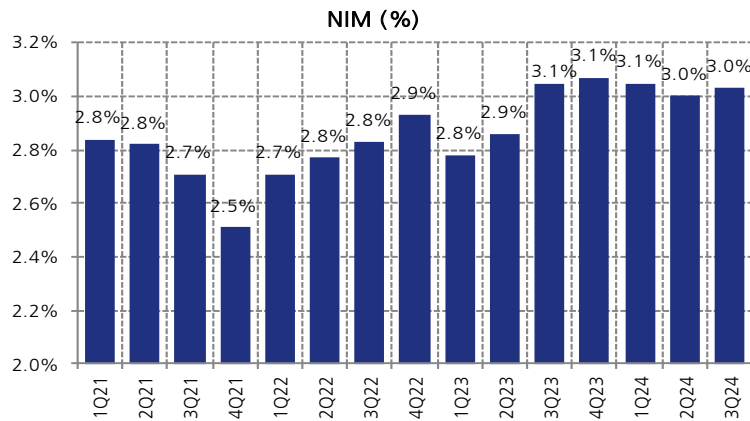
Source: Company, JM Financial

Exhibit 4. Loan book mix

Loan Book Composition (INR bn)	3Q23	2Q24	3Q24	YoY (%)	QoQ (%)
Infrastructure Advances	1,147	1,153	1,267	10.5%	9.9%
MSME	1,227	1,318	1,343	9.5%	1.9%
Retail	1,370	1,482	1,536	12.1%	3.7%
Agriculture	2,033	2,370	2,425	19.3%	2.3%
Others	2,733	2,917	2,933	7.3%	0.5%
Total Gross advances	8,510	9,240	9,504	11.7%	2.9%
Infrastructure Advances	13%	12%	13%	-0.1%	0.9%
MSME	14%	14%	14%	-0.3%	-0.1%
Retail	16%	16%	16%	0.1%	0.1%
Agriculture	24%	26%	26%	1.6%	-0.1%
Others	32%	32%	31%	-1.3%	-0.7%
Total	100%	100%	100%		

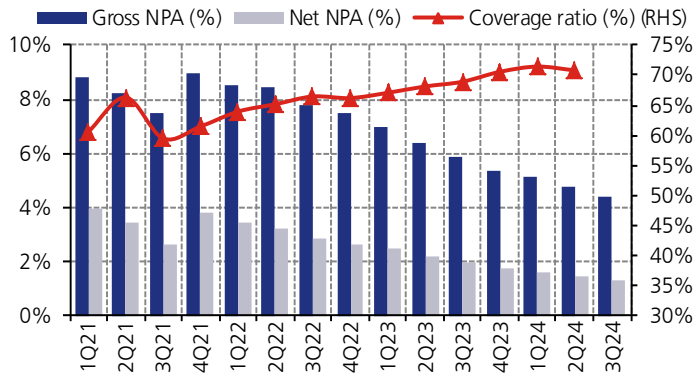
Source: Company, JM Financial

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



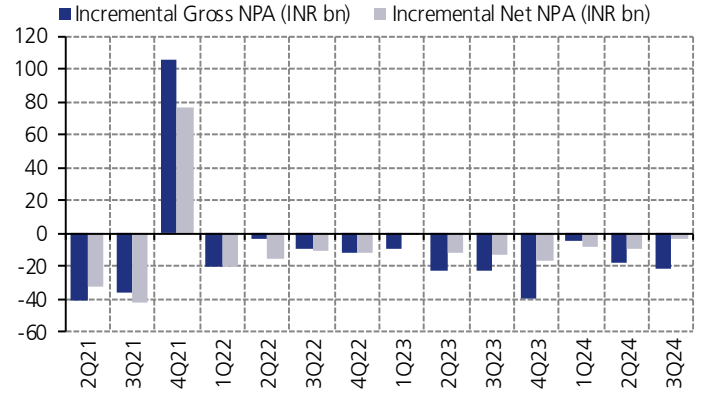
Source: Company, JM Financial

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	6.0
Fully adjusted FY26E BVPS (Rs)	518
Target Price / Fully Adj BV (x)	0.9
Fair value (rounded off)	466

Source: Company, JM Financial

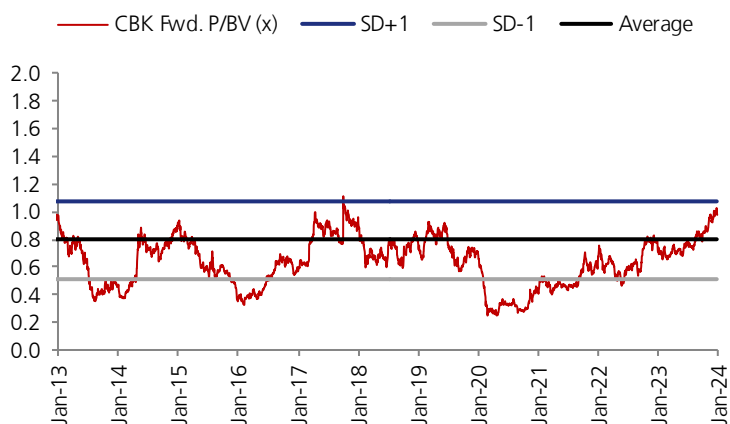
We value CBK on an SOTP basis: a) Canfin Homes based on market cap and b) Canara AMC at 4% of Mar'22 AUM. The SOTP valuation is summarised below:

Exhibit 9. CBK : SOTP valuation

SOTP	Holding	Methodology	Value per share
Canara Bank - Parent	100%	0.9x fwd FY26E ABV	466
Canfin Homes	30%	Based on market cap	17
Canara AMC	51%	4% of Mar22 AUM	7
Less: Cost of investments			-6
Total (INR) (Rounded up)			485

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	FY24E	FY25E	FY26E	
Net Interest Income	2,63,840	3,14,353	3,62,356	4,18,857	4,74,595	
Profit on Investments	25,926	18,930	15,000	15,000	8,000	
Exchange Income	28,127	22,450	25,817	30,464	33,511	
Fee & Other Income	1,10,915	1,46,242	1,39,894	1,51,944	1,49,638	
Non-Interest Income	1,64,969	1,87,622	1,80,711	1,97,408	1,91,149	
Total Income	4,28,809	5,01,975	5,43,067	6,16,265	6,65,744	
Operating Expenses	1,97,919	2,24,815	2,43,794	2,84,467	3,31,655	
Pre-provisioning Profits	2,30,890	2,77,160	2,99,273	3,31,798	3,34,089	
Loan-Loss Provisions	96,149	1,00,734	99,739	1,13,166	87,543	
Provisions on Investments	14,283	25,342	0	0	0	
Others Provisions	30,842	9,353	1,500	1,500	1,500	
Total Provisions	1,41,274	1,35,430	1,01,239	1,14,666	89,043	
PBT	89,616	1,41,730	1,98,034	2,17,132	2,45,045	
Tax	32,832	35,692	49,872	54,681	61,711	
PAT (Pre-Extraordinaries)	56,784	1,06,038	1,48,163	1,62,451	1,83,335	
Extra ordinaries (Net of Tax)	13,549	0	0	0	0	
Reported Profits	70,333	1,06,038	1,48,163	1,62,451	1,83,335	
Dividend paid	11,792	21,770	30,418	33,351	37,639	
Retained Profits	58,541	84,268	1,17,745	1,29,100	1,45,696	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY) (%)					
Deposits	7.5%	8.5%	12.0%	12.5%	13.0%
Advances	10.1%	18.1%	13.0%	13.5%	13.5%
Total Assets	6.4%	9.8%	11.4%	11.9%	12.5%
NII	9.5%	19.1%	15.3%	15.6%	13.3%
Non-interest Income	10.5%	13.7%	-3.7%	9.2%	-3.2%
Operating Expenses	2.3%	13.6%	8.4%	16.7%	16.6%
Operating Profits	17.3%	20.0%	8.0%	10.9%	0.7%
Core Operating profit	22.8%	26.0%	10.1%	11.4%	2.9%
Provisions	-11.6%	-4.1%	-25.2%	13.3%	-22.3%
Reported PAT	175.0%	50.8%	39.7%	9.6%	12.9%
Yields / Margins (%)					
Interest Spread	2.26%	2.40%	2.40%	2.49%	2.52%
NIM	2.35%	2.56%	2.64%	2.72%	2.75%
Profitability (%)					
Non-IR to Income	38.5%	37.4%	33.3%	32.0%	28.7%
Cost to Income	46.2%	44.8%	44.9%	46.2%	49.8%
ROA	0.60%	0.83%	1.05%	1.03%	1.03%
ROE	13.0%	17.1%	20.6%	19.3%	18.7%
Assets Quality (%)					
Slippages	2.26%	1.75%	2.15%	2.00%	2.10%
Gross NPA	7.51%	5.35%	3.74%	3.12%	3.04%
Net NPAs	2.65%	1.73%	1.15%	0.89%	1.24%
Provision Coverage	66.5%	68.9%	70.0%	72.0%	60.0%
Specific LLP	1.47%	1.27%	1.08%	1.08%	0.72%
Net NPAs / Networth	32.4%	21.7%	13.9%	10.5%	14.2%
Capital Adequacy (%)					
Tier I	11.91%	13.78%	14.23%	14.53%	14.75%
CAR	14.90%	16.68%	16.72%	16.66%	16.57%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Equity Capital	18,141	18,141	18,141	18,141	18,141	
Reserves & Surplus	5,57,909	6,43,180	7,60,925	8,90,025	10,35,721	
Deposits	1,08,64,093	1,17,92,186	1,32,07,248	1,48,58,154	1,67,89,715	
Borrowings	4,62,850	5,80,898	5,97,494	6,15,578	6,35,188	
Other Liabilities	2,81,741	3,48,167	3,30,758	3,14,220	2,98,509	
Total Liabilities	1,21,84,734	1,33,82,572	1,49,14,567	1,66,96,119	1,87,77,274	
Investments	28,20,129	31,90,385	32,92,895	35,26,046	39,62,718	
Net Advances	70,36,018	83,06,726	93,86,600	1,06,53,791	1,20,92,053	
Cash & Equivalents	18,20,543	14,14,232	18,87,644	20,30,430	22,80,387	
Fixed Assets	28,501	27,556	30,711	34,379	38,665	
Other Assets	4,79,543	4,43,674	3,16,717	4,51,472	4,03,451	
Total Assets	1,21,84,734	1,33,82,572	1,49,14,567	1,66,96,119	1,87,77,274	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	2.23%	2.46%	2.56%	2.65%	2.68%
Other Income / Assets	1.40%	1.47%	1.28%	1.25%	1.08%
Total Income / Assets	3.63%	3.93%	3.84%	3.90%	3.75%
Cost / Assets	1.67%	1.76%	1.72%	1.80%	1.87%
PBP / Assets	1.95%	2.17%	2.12%	2.10%	1.88%
Provisions / Assets	1.20%	1.06%	0.72%	0.73%	0.50%
PBT / Assets	0.76%	1.11%	1.40%	1.37%	1.38%
Tax rate	36.6%	25.2%	25.2%	25.2%	25.2%
ROA	0.60%	0.83%	1.05%	1.03%	1.03%
RoRWAs	1.32%	1.92%	2.47%	2.42%	2.44%
Leverage	21.2	20.2	19.1	18.4	17.8
ROE	13.0%	17.1%	20.6%	19.3%	18.7%

Source: Company, JM Financial

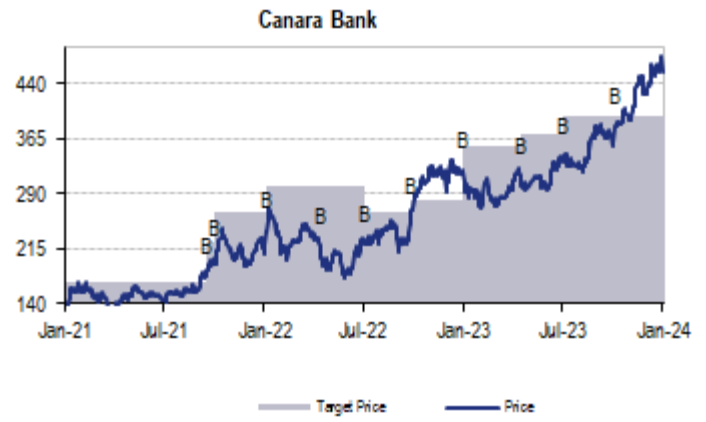
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	1,814.1	1,814.1	1,814.1	1,814.1	1,814.1
EPS (INR)	38.8	58.5	81.7	89.5	101.1
EPS (YoY) (%)	149.6%	50.8%	39.7%	9.6%	12.9%
PER (x)	11.7	7.8	5.6	5.1	4.5
BV (INR)	318	365	429	501	581
BV (YoY) (%)	3.3%	14.8%	17.8%	16.6%	16.0%
ABV (INR)	265	326	394	462	518
ABV (YoY) (%)	-13.3%	23.3%	20.7%	17.3%	12.1%
P/BV (x)	1.43	1.25	1.06	0.91	0.78
P/ABV (x)	1.71	1.39	1.15	0.98	0.88
DPS (INR)	6.5	12.0	16.8	18.4	20.7
Div. yield (%)	1.4%	2.6%	3.7%	4.0%	4.6%

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

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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