

Canara Bank

Refer to important disclosures at the end of this report

Strong growth and steady improvement in asset quality

- Canara Bank reported a strong beat on PAT at Rs20bn in Q1 (est.: Rs15bn), driven by higher treasury income, PSLC fees and lower LLP, partly offset by higher NPI (mainly on Future Group/Bajaj Hindustan and a telecom co). Treasury losses were relatively lower at Rs3.6bn, and there could be Rs1-1.5bn more losses, if the yield rises in Q2.
- Overall credit growth surprised positively - up 15% yoy/6% qoq on strong corporate, RAM and gold loan growth. However, NIMs were flat at 2.8% due to a moderation in loan yields as growth was mainly driven by the corporate book, partly offset by better investment yields. The bank has guided for double-digit credit growth and stable-to-better margins.
- Asset quality continued to improve in Q1, with the GNPA ratio down 53bps qoq to 7%, helped by lower slippages, while the restructured book declined by 20bps to 2.6% of loans. The relapse rate in the restructured book has been 10%, and the bank expects the overall relapse rate to be 18-20% in restructured book. Slippages in the ECLGS book remain low at 3%, and thus do not pose any risk. NARCL transfers in Q2 should further reduce NPAs.
- We expect a gradual improvement in the bank's RoA/RoE to 0.6-0.7%/12-15% over FY23-25E from 0.5%/11% in FY22, driven by better growth and lower LLP. That said, we believe the bank will need to shore up capital, given CET 1 is sub-optimal at 10.5%. Retain Buy with a TP of Rs282, based on 0.7x FY24E ABV and subs/investment value of Rs23.

Strong credit growth but NIMs remain stable: Credit growth was better than expected at 15% yoy/6% qoq, mainly led by strong growth in the corporate book (14% yoy/9% qoq). Growth in the RAM segment was driven by mortgages and agri/gold loans. The bank's CASA ratio declined to 32% in Q1 from 34% in Q4, which, coupled with an increase in TD rates, led to a slight increase in CoF. This, along with lower loan yields, mainly due to higher growth in the corporate book and interest reversals on lumpy NPAs, led to nearly flat NIMs at 2.8%. The bank has guided for double-digit credit growth and stable-to-better margins.

Slippages shoot up; needs to shore up provision buffers: Despite the recognition of Future Retail in Q1, overall slippages were contained at Rs39.5bn/2.4% of loans. This, coupled with better recovery/upgrades and higher credit growth, resulted in a 50bps reduction in the GNPA ratio to 7%. The restructuring book remained elevated at Rs195bn (2.8% of loans). The restructured book contracted by 20bps to 2.6% of loans. The relapse rate in the restructured book has been 10%, and the bank expects the overall relapse rate to be 18-20%. Slippages in the ECLGS book remain low at 3%, and thus do not pose any risk. We believe that NARCL transfers in Q2 will further reduce NPAs.

Outlook and valuations: We expect a gradual improvement in the bank's RoA/RoE to 0.6-0.7%/12-15% over FY23-25E from 0.5%/11% in FY22, driven by better growth/leverage and lower LLP. That said, we believe the bank will need to shore up capital, given CET 1 is sub-optimal at 10.5%. Retain Buy with a TP of Rs282. **Key risks:** Higher-than-expected NPA formation, a slower growth trajectory, and a sharp rise in G-Sec yields which could lead to MTM losses in the investment book.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	3,90,271	4,28,809	4,70,363	5,02,934	5,48,271
Net profit	25,576	56,784	76,165	92,100	1,14,907
EPS (Rs)	19.1	32.8	42.0	50.8	63.3
ABV (Rs)	256.1	261.0	293.9	344.3	401.8
RoA (%)	0.3	0.5	0.6	0.7	0.7
RoE (%)	6.1	10.5	12.5	13.4	14.6
PE (x)	10.9	6.3	4.9	4.0	3.2
P/ABV	0.8	0.8	0.7	0.6	0.5

Source: Company, Emkay Research

CMP	Target Price
Rs 225 as of (July 25, 2022)	Rs 282 (■) 12 months
Rating	Upside
BUY (■)	25.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	0.1/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	42.0	50.8
Consensus	46.7	56.6
Mean Consensus TP (12M)	Rs 266	

Stock Details

Bloomberg Code	CBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,814
52 Week H/L	273 / 142
M Cap (Rs bn/USD bn)	408 / 5.11
Daily Avg Volume (nos.)	101,54,320
Daily Avg Turnover (US\$ mn)	26.1

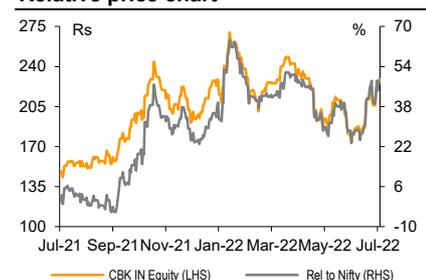
Shareholding Pattern Jun '22

Promoters	62.9%
FIIs	8.0%
DIIIs	13.8%
Public and Others	15.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	21	(1)	2	54
Rel. to Nifty	14	-	5	47

Relative price chart



Source: Bloomberg

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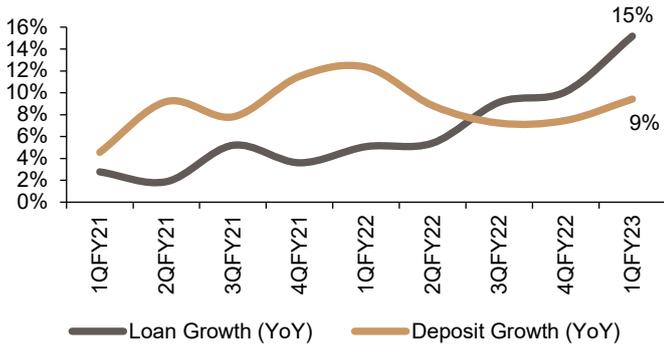
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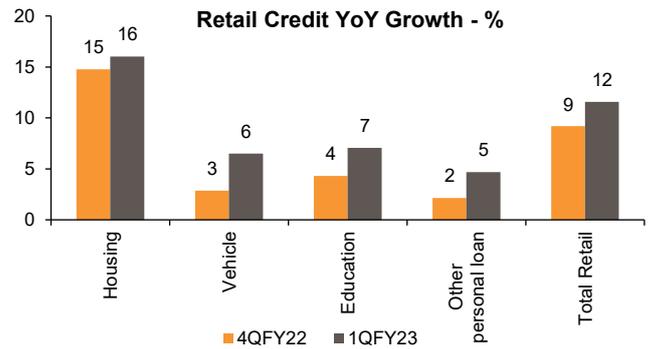
Story in Charts

Exhibit 1: Strong pick-up in credit growth led by corporate book



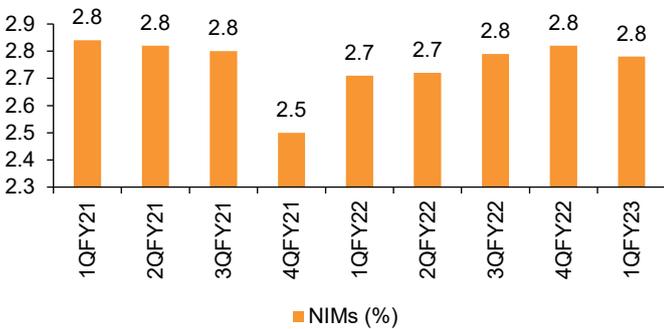
Source: Company, Emkay Research

Exhibit 2: Within retail, housing remained a key driver



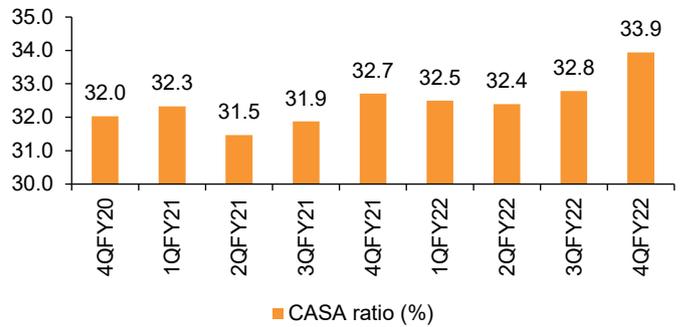
Source: Company, Emkay Research

Exhibit 3: NIM was largely stable, partly due to higher corporate growth and interest reversal on NPAs



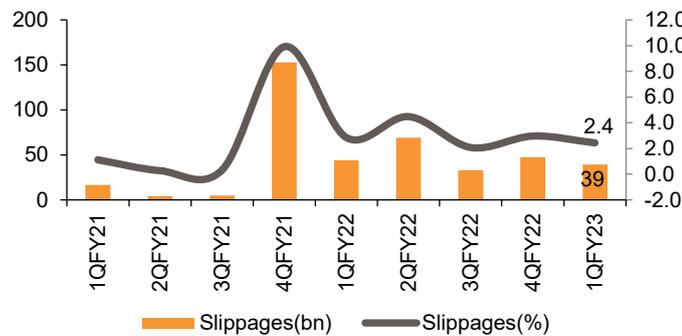
Source: Company, Emkay Research

Exhibit 4: CASA ratio slips and thus could cast some pressure on CoF



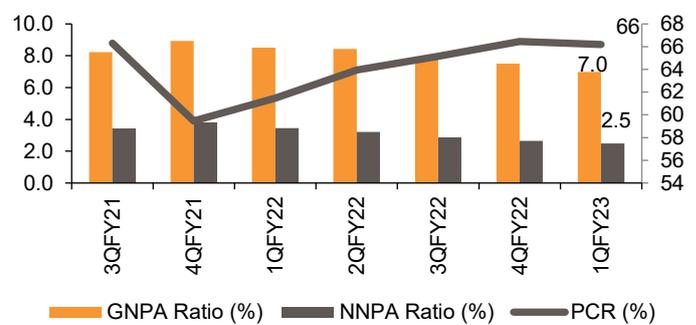
Source: Company, Emkay Research

Exhibit 5: Slippages were down qoq, despite lumpy corporates including Future Retail...



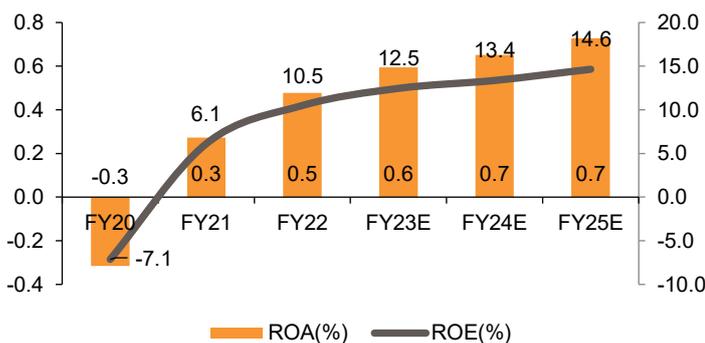
Source: Company, Emkay Research

Exhibit 6: Contained slippages and better credit growth led to improvement in GNPA ratio



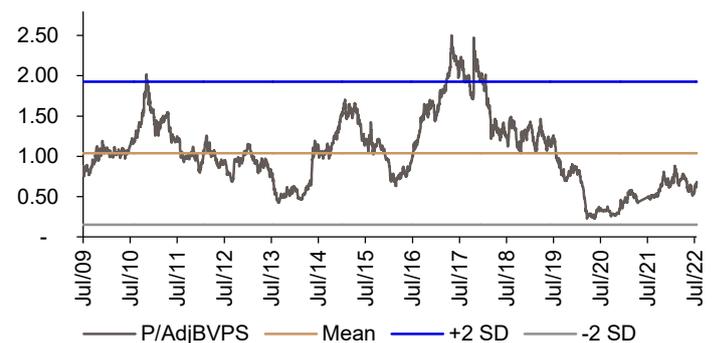
Source: Company, Emkay Research

Exhibit 7: The bank should show gradual improvement in return ratios over FY23-25E



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.7x one-year forward ABV



Source: Bloomberg, Emkay Research

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Exhibit 9: Actuals vs. Estimates (Q1FY23)

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,19,601	1,08,483	1,07,816	10%	11%	Higher treasury income and PSLC fees led to a beat
PPOP	66,062	55,819	55,151	18%	20%	Higher net income and in-line opex led to beat
PAT	20,220	14,877	13,739	36%	47%	High income partly offset by higher NPI resulted in a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs (mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	1,67,844	1,70,637	1,77,006	1,78,616	1,81,766	8	2	6,94,102	7,67,995	11
Interest Exp	1,06,250	1,07,899	1,07,556	1,08,557	1,13,919	7	5	4,30,263	4,84,352	13
Net Interest Income	61,593	62,738	69,450	70,059	67,847	10	-3	2,63,840	2,83,643	8
Global NIMs (reported)	2.71	2.72	2.79	2.82	2.78	7bps	-4bps	2.40	2.36	-3bps
Non-interest Income	41,559	42,678	36,117	44,615	51,753	25	16	1,64,969	1,86,720	13
Operating Expenses	48,344	49,380	61,090	52,655	53,538	11	2	2,11,468	2,25,089	6
Pre Provisioning Profit	54,809	56,036	44,476	62,019	66,062	21	7	2,17,341	2,45,274	13
Provision & Contingencies	34,587	33,602	22,448	37,087	36,901	7	-1	1,27,725	1,31,595	3
PBT	20,221	22,434	22,028	24,933	29,162	44	17	89,616	1,13,679	27
Income Tax Expense (Gain)	8,447	9,108	7,007	8,270	8,942	6	8	32,832	37,514	14
Net Profit/(Loss)	11,775	13,326	15,021	16,662	20,220	72	21	56,784	76,165	34
Gross NPA (%)	8.50	8.42	7.80	7.51	6.98	-152bps	-53bps	7.52	6.46	-106bps
Net NPA (%)	3.46	3.21	2.86	2.65	2.48	-98bps	-17bps	2.68	2.16	-52bps
Deposits (Rs bn)	10,218	10,325	10,434	10,864	11,181	9	3	10,864	11,935	10
Net Advances (Rs bn)	6,485	6,496	6,922	7,036	7,469	15	6	7,036	7,964	13

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	4,55,269	4,70,363	3.3%	4,94,845	5,02,934	1.6%	5,50,746	5,48,271	-0.4%
PPOP	2,27,363	2,45,274	7.9%	2,45,289	2,56,200	4.4%	2,74,185	2,74,423	0.1%
PAT	76,064	76,165	0.1%	92,100	92,100	0.0%	1,14,907	1,14,907	0.0%
EPS (Rs)	41.9	42.0	0.1%	50.8	50.8	0.0%	63.3	63.3	0.0%
BV (Rs)	356.5	356.5	0.0%	403.2	403.3	0.0%	461.6	461.6	0.0%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	10.1	13.2	15.5	16.6
Deposit Growth %	7.5	9.9	11.2	11.2
NIM %	2.4	2.4	2.4	2.5
GNPA %	7.5	6.5	5.6	4.9
Credit Cost %	1.4	1.2	1.1	0.9

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Loans (Rs bn)	6,168	6,172	6,163	6,342	6,390	6,485	6,496	6,922	7,036	7,469
-Growth % (YoY)	44.2	2.8	1.9	5.2	3.6	5.1	5.4	9.1	10.1	15.2
-Growth % (QoQ)	2.3	0.1	-0.1	2.9	0.8	1.5	0.2	6.6	1.7	6.2
Liability Profile & Capital (%)										
CASA	32.0	32.3	31.5	31.9	32.7	32.5	32.4	32.8	33.9	32.3
-CA	4.4	4.5	4.2	4.4	4.9	4.1	4.3	4.7	4.9	4.0
-SA	27.6	27.9	27.3	27.5	27.8	28.4	28.1	28.0	29.1	28.3
Branches	10,391	10,451	10,495	10,494	10,416	9,877	9,057	9,007	8,957	8,927
CAR %	13.0	12.8	12.8	13.7	13.2	13.4	14.4	14.8	14.9	14.9
Tier I %	9.6	9.3	9.5	10.5	10.1	10.3	11.4	11.6	11.9	12.1
Asset Quality (%)										
GNPA	9.4	8.8	8.2	7.5	8.9	8.5	8.4	7.8	7.5	7.0
NNPA	4.3	4.0	3.4	2.6	3.8	3.5	3.2	2.9	2.7	2.5
PCR	56.2	57.7	60.6	66.3	59.5	61.5	63.9	65.2	66.5	66.2
Slippages (Rs mn)	52,670	16,750	4,150	5,080	1,52,870	43,910	68,960	32,920	47,360	39,490
Slippages - annualized (%)	4.9	1.1	0.3	0.3	9.9	2.8	4.5	2.1	3.0	2.4
ROE Decomposition %										
NII	2.3	2.5	2.4	2.2	2.0	2.1	2.1	2.3	2.3	2.2
Other Income	1.3	1.1	1.2	1.5	1.7	1.4	1.4	1.2	1.5	1.7
Treasury	0.1	0.3	0.2	0.5	0.1	0.2	0.4	0.1	0.2	0.3
Opex	2.5	1.8	1.8	1.8	1.8	1.7	1.7	2.0	1.7	1.7
PPOP	1.1	1.8	1.7	2.0	1.8	1.9	1.9	1.5	2.0	2.1
Provisioning Cost	3.9	1.6	1.5	1.6	1.3	1.2	1.1	0.8	1.2	1.2
PBT	-2.9	0.2	0.2	0.4	0.6	0.7	0.8	0.7	0.8	0.9
Tax	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.2	0.3	0.3
ROA	(2.9)	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.6	0.6
Leverage (x)	23.0	18.5	19.6	19.4	19.3	19.3	18.4	18.3	18.3	18.3
ROE	-66.9	3.1	3.3	4.9	6.9	7.8	8.3	9.2	10.1	11.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	2,41,028	2,63,840	2,83,643	3,26,012	3,72,661
Other income	1,49,243	1,64,969	1,86,720	1,76,922	1,75,609
Fee income	20,402	14,160	15,859	17,921	20,429
Net income	3,90,271	4,28,809	4,70,363	5,02,934	5,48,271
Operating expenses	1,93,382	2,11,468	2,25,089	2,46,735	2,73,848
Pre provision profit	1,96,889	2,17,341	2,45,274	2,56,200	2,74,423
PPP excl treasury	1,66,932	1,91,414	2,28,712	2,44,606	2,63,409
Provisions	1,59,816	1,27,725	1,31,595	1,22,721	1,07,891
Profit before tax	37,073	89,616	1,13,679	1,33,478	1,66,532
Tax	11,497	32,832	37,514	41,378	51,625
Tax rate	31	37	33	31	31
Profit after tax	25,576	56,784	76,165	92,100	1,14,907

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	16,467	18,141	18,141	18,141	18,141
Reserves	5,72,382	6,42,972	7,13,694	7,98,538	9,04,374
Net worth	5,88,849	6,61,113	7,31,836	8,16,679	9,22,515
Deposits	101,08,745	108,64,093	119,34,657	132,69,058	147,54,658
Borrowings	2,68,674	1,95,989	1,98,117	2,08,023	2,18,425
Total liabilities	115,36,749	122,69,797	133,54,389	149,31,203	166,74,466
Cash and bank	4,31,116	5,16,029	5,41,831	5,68,922	5,97,368
Investments	26,16,903	28,20,129	30,18,181	32,70,681	35,52,136
Loans	63,90,489	70,36,018	79,63,696	92,00,679	107,27,877
Others	6,33,211	4,79,543	5,13,019	5,43,343	5,76,421
Total assets	115,36,749	122,69,797	133,54,389	149,31,203	166,74,466

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.8	2.4	2.4	2.4	2.5
Non-ll/avg assets	1.6	1.4	1.5	1.3	1.1
Fee income/avg assets	0.2	0.1	0.1	0.1	0.1
Opex/avg assets	2.1	1.8	1.8	1.7	1.7
Provisions/avg assets	1.7	1.1	1.0	0.9	0.7
PBT/avg assets	0.4	0.8	0.9	0.9	1.1
Tax/avg assets	0.1	0.3	0.3	0.3	0.3
RoA	0.3	0.5	0.6	0.7	0.7
RoAE	6.1	10.5	12.5	13.4	14.6
GNPA (%)	8.9	7.5	6.5	5.6	4.9
NNPA (%)	3.9	2.7	2.2	1.8	1.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	19.1	32.8	42.0	50.8	63.3
BVPS	378.0	332.9	356.5	403.3	461.6
ABVPS	256.1	261.0	293.9	344.3	401.8
DPS	0.0	6.8	3.0	4.0	5.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	10.9	6.3	4.9	4.0	3.2
P/BV	0.6	0.6	0.6	0.5	0.4
P/ABV	0.8	0.8	0.7	0.6	0.5
P/PPOP	1.9	1.9	1.7	1.6	1.5
Dividend Yield (%)	0.0	3.0	1.3	1.8	2.2

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	83.7	9.5	7.5	14.9	14.3
PPOP	110.4	10.4	12.9	4.5	7.1
PAT	(214.4)	122.0	34.1	20.9	24.8
Loans	47.9	10.1	13.2	15.5	16.6

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	61,593	62,738	69,450	70,059	67,847
NIM(%)	2.7	2.7	2.8	2.8	2.8
PPOP	54,809	56,036	44,476	62,019	66,062
PAT	11,775	13,326	15,021	16,662	20,220
EPS (Rs)	7.15	7.35	8.28	9.18	11.15

Source: Company, Emkay Research

Shareholding Pattern (%)	Aug-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	62.9	62.9	62.9	62.9	62.9
FII	8.4	5.6	7.6	8.5	8.0
DII	15.0	14.7	13.8	13.6	13.8
Public and Others	13.7	16.8	15.6	15.0	15.3

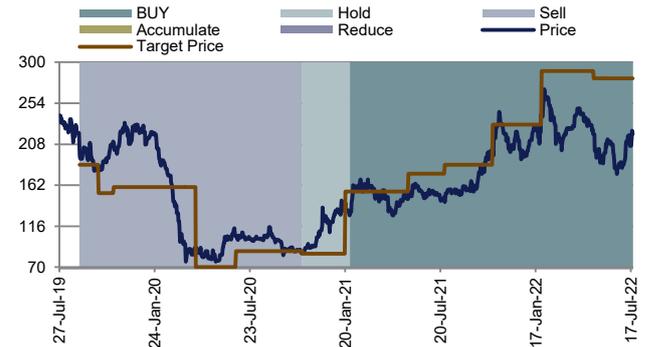
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-May-22	219	282	12m	Buy	Anand Dama
28-Jan-22	239	290	12m	Buy	Anand Dama
27-Oct-21	201	230	12m	Buy	Anand Dama
25-Aug-21	151	185	12m	Buy	Anand Dama
28-Jul-21	143	185	12m	Buy	Anand Dama
20-May-21	147	175	12m	Buy	Anand Dama
29-Jan-21	132	155	12m	Buy	Anand Dama
20-Jan-21	142	155	12m	Hold	Anand Dama
31-Oct-20	86	85	12m	Hold	Anand Dama
26-Jun-20	105	88	12m	Sell	Anand Dama
11-Apr-20	92	70	12m	Sell	Anand Dama
24-Jan-20	219	160	12m	Sell	Anand Dama
07-Nov-19	210	160	12m	Sell	Anand Dama
09-Oct-19	184	153	12m	Sell	Anand Dama
03-Sep-19	197	185	12m	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.07	20.03	-0.2%	-4	100.00	
Axis Bank	2.02	2.06	2%	4	10.29	39
AU Small Finance Bank	0.27	0.22	-19%	-5	1.08	-14
Bandhan Bank	0.20	0.20	0%	0	0.98	-1
Bank of Baroda	0.22	0.22	0%	0	1.09	9
Canara Bank	0.13	0.13	0%	0	0.65	9
City Union Bank	0.00	0.04	NA	4	0.20	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.22	0.22	0%	0	1.08	8
HDFC Bank	6.19	6.25	1%	6	31.14	-186
ICICI Bank	5.64	5.76	2%	12	28.68	94
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.58	0.66	14%	8	3.28	24
Karur Vysya Bank	0.00	0.06	NA	6	0.32	0
Kotak Mahindra Bank	2.42	2.09	-14%	-34	10.40	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.00	2.12	6%	12	10.55	15
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.05	0.01	-82%	-4	0.04	4
Cash	0.00	0.00	NA	0	0.0	-24

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Jul-21	21-Jan-22	22-Apr-22	22-Jun-22	22-Jul-22
EAP - BFSI-Banks	100.0	117.6	129.6	123.1	113.4	126.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.1	127.0	120.7	111.2	123.8

*Performance measurement base date 1st April 2019

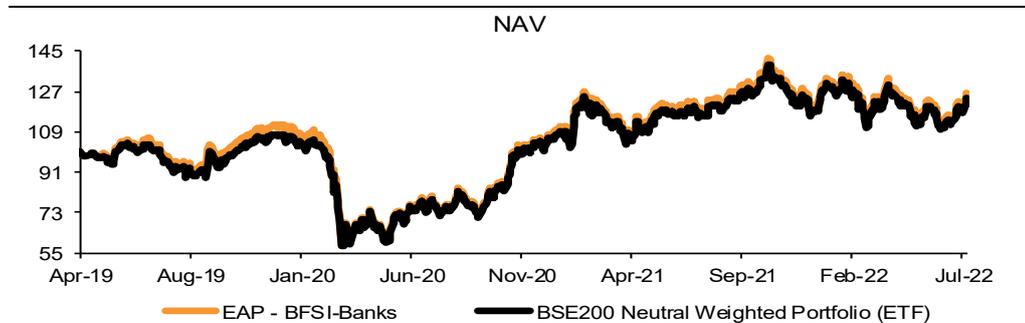
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	11.6%	2.7%	-2.4%	7.6%
BSE200 Neutral Weighted Portfolio (ETF)	11.4%	2.6%	-2.5%	7.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Jul 2022 01:29:35 (SGT)

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