

Canara Bank

Refer to important disclosures at the end of this report

Robust growth, new tax regime boosts profitability

- Canara Bank posted a strong beat on PAT at Rs25.3bn (our est: Rs20.3bn), mainly driven by margin improvement and lower tax, albeit partly offset by the prudent higher provisions for shoring-up its specific PCR. Bank has shifted to a new tax regime post adjusting for the DTA which should keep tax rate below 25% in H2FY23 and continue boosting profitability.
- Credit growth surprised positively by 21% YoY/6% QoQ, on strong corporate & retail loan traction. Deposit growth remains moderate, as seen across peers, leading to better LDR. This, coupled with higher interest spreads, led to an 8-bps improvement in NIM to 2.86%. Bank guides for decent double-digit credit growth and NIM of around 2.9%, leading to healthy core-profitability, although likely to partly offset the treasury hit expected in Q3
- Fresh slippages were elevated, but headline GNPA ratio sharply declined by 61bps QoQ to 6.4% due to strong recovery/w-offs. The restructured book, too, witnessed a severe fall, by 42bps to 2.1%. With the NARCL transfer around the corner, the bank expects NPAs to further trend down. Benefiting from the strong profitability/DTA adjustment, CET improved to 11.1%, but higher growth would call for a capital raise in the next 12-15 months.
- We meaningfully raise our earnings estimates by 22-27% over FY23-25, factoring-in the higher credit growth/margin and lower tax rate. We now expect RoA/RoE to improve to 0.9%/17% by FY25E (without considering capital raise). We retain BUY on the stock, with revised TP of Rs330/share, based on 0.7x FY24E ABV and subsidiary/investment value of Rs23. **Key risks:** MD change in Dec-22, higher run-up in G-Sec yields hurting treasury performance, and macro dislocation leading to stress in the SME book.

- Results – What we liked:** Strong credit/margin delivery, sharp improvement in asset quality (GNPA ratio down 61bps QoQ to 6.4%/RSA down 42bps to 2.1% of loans) and steady shoring-up of PCR. **What we did not like:** Higher growth in the low-margin overseas book, slower deposit/CASA growth and continued elevated slippages.
- Cranking-up the growth machine:** Credit growth was higher than expected at 21% YoY/6% QoQ, propped by better growth in the corporate as well as the retail book. Bank has raised its credit growth guidance to a higher double-digit. Deposit growth remains slow, but the bank has increased deposit rates and expects growth to accelerate in H2. Margin expanded 8bps QoQ, aided by better LDR/interest spreads in Q2 which the bank expects to sustain in H2 as well.
- Headline NPAs down, but Bank prudently shores-up PCR:** Overall slippages remained higher than expected at Rs39.5bn/2.4% of loans. However, higher recoveries and w-offs along with healthy credit growth led to a 61-bps reduction in GNPA ratio to 6.4%. The restructured book contracted by 42bps to 2.1% of loans. With the NARCL transfer around the corner, NPA ratios should continue trending down. This, coupled with healthy PCR, should also lead to lower LLP, albeit being partly offset by the hit on treasury.

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	390,271	428,809	492,018	538,587	593,871
Net profit	25,576	56,784	93,044	117,281	142,665
EPS (Rs)	19.1	32.8	51.3	64.6	78.6
ABV (Rs)	256.1	261.0	311.3	370.6	442.1
RoA (%)	0.3	0.5	0.7	0.8	0.9
RoE (%)	6.1	10.5	15.0	16.3	17.0
P/E (x)	12.7	7.3	4.7	3.7	3.0
P/ABV	0.9	0.9	0.8	0.6	0.5

Source: Company, Emkay Research

CMP	Target Price
Rs 259 as of (October 20, 2022)	Rs 330 (▲) 12 months
Rating	Upside
BUY (■)	27.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	22.2/ 27.3
Target Price change (%)	17.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	51.3	64.6
Consensus	47.3	55.1
Mean Consensus TP (12M)	Rs 285	

Stock Details

Bloomberg Code	CBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,814
52 Week H/L	273 / 172
M Cap (Rs bn/USD bn)	470 / 5.68
Daily Avg Volume (nos.)	10,887,850
Daily Avg Turnover (USD mn)	30.6

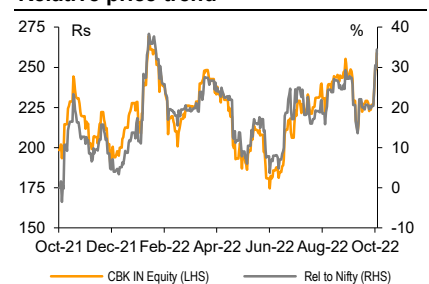
Shareholding Pattern Sep '22

Promoters	62.9%
FIIIs	8.4%
DIIIs	15.4%
Public and Others	13.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	18	11	33
Rel. to Nifty	6	11	8	38

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Anand Dama

anand.dama@emkayglobal.com
 +91 22 6624 2480

Heet Khimawat

heet.khimawat@emkayglobal.com
 +91 22 6612 1275

Dixit Sankharva

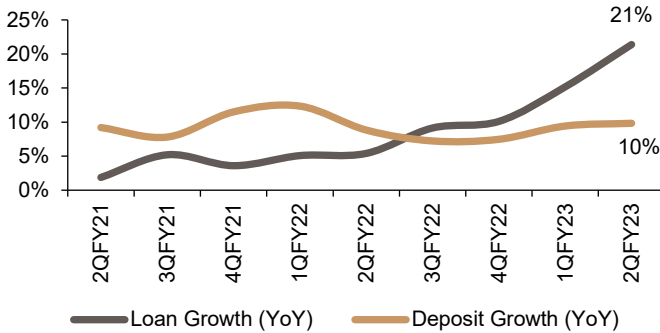
dixit.sankharva@emkayglobal.com
 +91 22 6612 1281

Soumya Jain

soumya.jain@emkayglobal.com
 +91 22 6612 1262

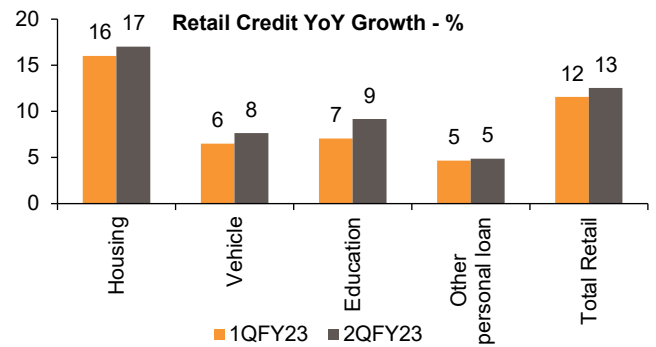
Story in Charts

Exhibit 1: Strong credit delivery aided by the corporate/retail book



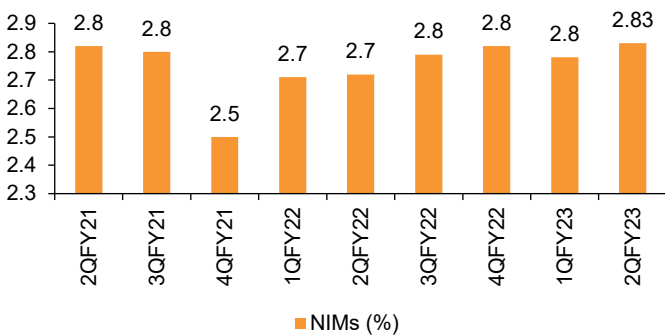
Source: Company, Emkay Research

Exhibit 2: Within Retail, housing remains a key driver



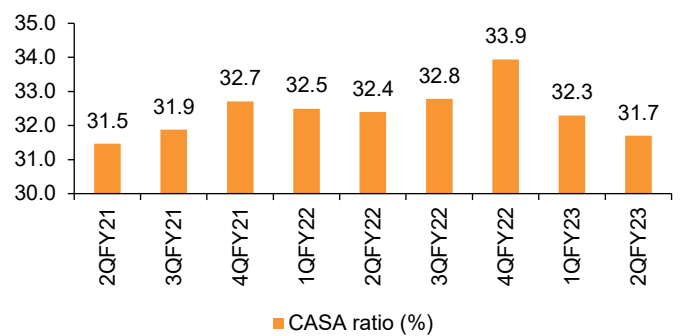
Source: Company, Emkay Research

Exhibit 3: NIM improves aided by better LDR/asset repricing



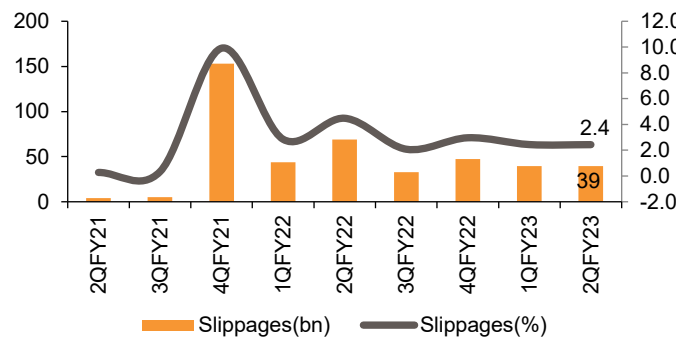
Source: Company, Emkay Research

Exhibit 4: CASA ratio slips QoQ



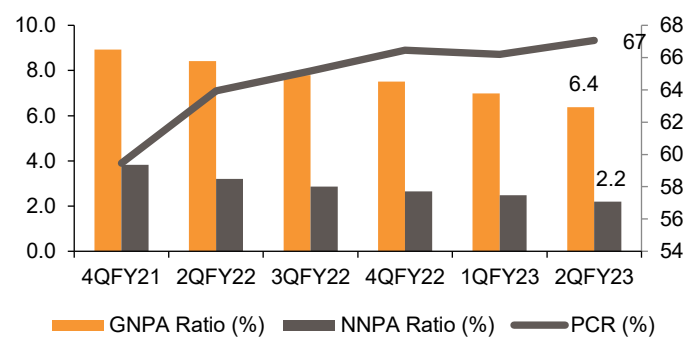
Source: Company, Emkay Research

Exhibit 5: Slippages remain elevated...



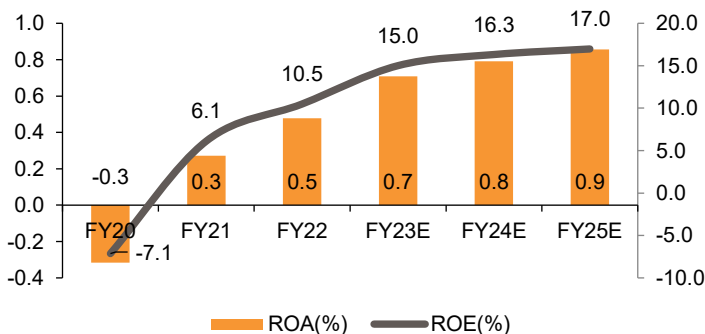
Source: Company, Emkay Research

Exhibit 6: ...however, higher recoveries/upgrades lead to improvement in GNPA ratio



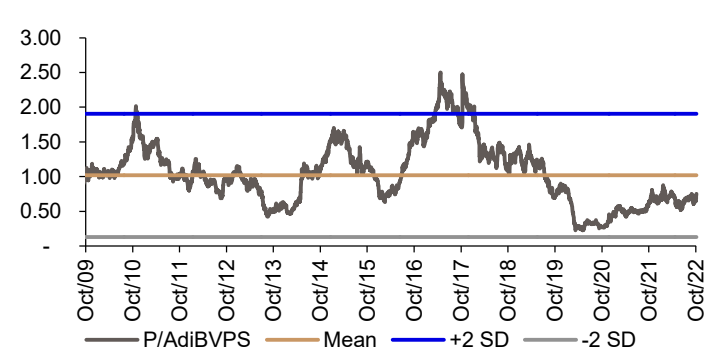
Source: Company, Emkay Research

Exhibit 7: The bank should show gradual improvement in return ratios over FY23-25E (not including capital raise)



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.8x one-year forward ABV



Source: Company, Emkay Research

Exhibit 9: Quarterly Summary (Q2FY23)

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	170,637	177,006	178,616	181,766	201,069	18	11	694,102	810,055	17
Interest Exp	107,899	107,556	108,557	113,919	126,731	17	11	430,263	509,760	18
Net Interest Income	62,738	69,450	70,059	67,847	74,338	18	10	263,840	300,294	14
Global NIMs (reported)	2.72	2.79	2.82	2.78	2.83	11bps	5bps	2.40	2.43	4bps
Non-interest Income	42,678	36,117	44,615	51,753	48,253	13	-7	164,969	191,724	16
Operating Expenses	49,380	61,090	52,655	53,538	53,536	8	0	211,468	226,386	7
Pre Provisioning Profit	56,036	44,476	62,019	66,062	69,055	23	5	217,341	265,632	22
Provision & Contingencies	33,602	22,448	37,087	36,901	36,368	8	-1	127,725	141,573	11
PBT	22,434	22,028	24,933	29,162	32,687	46	12	89,616	124,059	38
Income Tax Expense (Gain)	9,108	7,007	8,270	8,942	7,432	-18	-17	32,832	31,015	-6
Net Profit/(Loss)	13,326	15,021	16,662	20,220	25,255	90	25	56,784	93,044	64
Gross NPA (%)	8.42	7.80	7.51	6.98	6.37	-205bps	-61bps	7.52	5.67	-185bps
Net NPA (%)	3.21	2.86	2.65	2.48	2.19	-102bps	-29bps	2.68	1.77	-91bps
Deposits (Rs bn)	10,325	10,434	10,864	11,181	11,340	10	1	10,864	12,148	12
Net Advances (Rs bn)	6,496	6,922	7,036	7,469	7,885	21	6	7,036	8,461	20

Source: Company, Emkay Research

Exhibit 10: Actual vs Estimates (Q2FY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay Consensus	Emkay Consensus	Emkay Consensus	Emkay Consensus	
Net income	122,591	113,860	115,414	8%	6%	Better margins and higher other income led to a beat
PPOP	69,055	58,287	59,841	18%	15%	Higher net income and lower opex led to a beat
PAT	25,255	20,323	20,323	24%	24%	Higher PPOP coupled with lower tax provision, partly offset by higher LLP, led to a beat

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	470,363	492,018	4.6%	502,934	538,587	7.1%	548,271	593,871	8.3%
PPOP	245,274	265,632	8.3%	256,200	289,550	13.0%	274,423	316,086	15.2%
PAT	76,165	93,044	22.2%	92,100	117,281	27.3%	114,907	142,665	24.2%
EPS (Rs)	42.0	51.3	22.2%	50.8	64.6	27.3%	63.3	78.6	24.2%
BV (Rs)	356.5	365.8	2.6%	403.3	426.5	5.7%	461.6	500.1	8.3%

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	10.1	20.3	15.5	17.5
Deposit Growth	7.5	11.8	11.2	13.9
NIM	2.4	2.4	2.5	2.6
GNPA	7.5	5.7	5.1	4.5
Credit Cost	1.4	1.2	1.1	0.9

Source: Company, Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs bn)	6,163	6,342	6,390	6,485	6,496	6,922	7,036	7,469	7,885
- % Growth (YoY)	1.9	5.2	3.6	5.1	5.4	9.1	10.1	15.2	21.4
-% Growth (QoQ)	-0.1	2.9	0.8	1.5	0.2	6.6	1.7	6.2	5.6
Liability Profile & Capital (%)									
CASA	31.5	31.9	32.7	32.5	32.4	32.8	33.9	32.3	31.7
- CA	4.2	4.4	4.9	4.1	4.3	4.7	4.9	4.0	0.0
- SA	27.3	27.5	27.8	28.4	28.1	28.0	29.1	28.3	31.7
Branches (No. of)	10,495	10,494	10,416	9,877	9,057	9,007	8,957	8,927	8,898
CAR	12.8	13.7	13.2	13.4	14.4	14.8	14.9	14.9	16.5
Tier I	9.5	10.5	10.1	10.3	11.4	11.6	11.9	12.1	13.4
Asset Quality (%)									
GNPA	8.2	7.5	8.9	8.5	8.4	7.8	7.5	7.0	6.4
NNPA	3.4	2.6	3.8	3.5	3.2	2.9	2.7	2.5	2.2
PCR	60.6	66.3	59.5	61.5	63.9	65.2	66.5	66.2	67.1
Slippages (Rs mn)	4,150	5,080	152,870	43,910	68,960	32,920	47,360	39,490	39,480
Slippages - annualized	0.3	0.3	9.9	2.8	4.5	2.1	3.0	2.4	2.4
ROE Decomposition (%)									
NII	2.4	2.2	2.0	2.1	2.1	2.3	2.3	2.2	2.3
Other Income	1.2	1.5	1.7	1.4	1.4	1.2	1.5	1.7	1.5
Treasury	0.2	0.5	0.1	0.2	0.4	0.1	0.2	0.3	0.1
Opex	1.8	1.8	1.8	1.7	1.7	2.0	1.7	1.7	1.7
PPOP	1.7	2.0	1.8	1.9	1.9	1.5	2.0	2.1	2.2
Provisioning Cost	1.5	1.6	1.3	1.2	1.1	0.8	1.2	1.2	1.1
PBT	0.2	0.4	0.6	0.7	0.8	0.7	0.8	0.9	1.0
Tax	0.1	0.1	0.2	0.3	0.3	0.2	0.3	0.3	0.2
ROA	0.2	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.8
Leverage (x)	19.6	19.4	19.3	19.3	18.4	18.3	18.3	18.3	18.2
ROE	3.3	4.9	6.9	7.8	8.3	9.2	10.1	11.9	14.3

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	241,028	263,840	300,294	345,042	404,664
Other income	149,243	164,969	191,724	193,545	189,207
Fee income	20,402	14,160	15,859	17,921	20,609
Net income	390,271	428,809	492,018	538,587	593,871
Operating expenses	193,382	211,468	226,386	249,037	277,785
Pre provision profit	196,889	217,341	265,632	289,550	316,086
PPP excl treasury	166,932	191,414	253,802	281,269	307,391
Provisions	159,816	127,725	141,573	133,176	125,866
Profit before tax	37,073	89,616	124,059	156,375	190,220
Tax	11,497	32,832	31,015	39,094	47,555
Tax rate	31	37	25	25	25
Profit after tax	25,576	56,784	93,044	117,281	142,665

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	572,382	642,972	730,574	840,598	974,193
Net worth	588,849	661,113	748,715	858,740	992,334
Deposits	10,108,745	10,864,093	12,147,889	13,509,615	15,392,460
Borrowings	268,674	195,989	244,986	257,235	270,097
Total liabilities	11,536,749	12,269,797	13,976,586	15,648,489	17,697,090
Cash and bank	431,116	516,029	541,831	568,922	597,368
Investments	2,616,903	2,820,129	3,093,873	3,359,667	3,726,269
Loans	6,390,489	7,036,018	8,461,211	9,774,173	11,482,923
Others	633,211	479,543	514,911	545,568	580,774
Total assets	11,536,749	12,269,797	13,976,586	15,648,489	17,697,090

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.8	2.4	2.4	2.5	2.6
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	1.7	1.7	1.7
Provisions/avg assets	1.7	1.1	1.1	0.9	0.8
PBT/avg assets	0.4	0.8	0.9	1.1	1.1
Tax/avg assets	0.1	0.3	0.2	0.3	0.3
RoA	0.3	0.5	0.7	0.8	0.9
RoAE	6.1	10.5	15.0	16.3	17.0
GNPA (%)	8.9	7.5	5.7	5.1	4.5
NNPA (%)	3.9	2.7	1.8	1.6	1.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	19.1	32.8	51.3	64.6	78.6
BVPS	378.0	332.9	365.8	426.5	500.1
ABVPS	256.1	261.0	311.3	370.6	442.1
DPS	0.0	6.8	3.0	4.0	5.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	12.7	7.3	4.7	3.7	3.0
P/BV	0.6	0.7	0.7	0.6	0.5
P/ABV	0.9	0.9	0.8	0.6	0.5
P/PPOP	2.2	2.2	1.8	1.6	1.5
Dividend Yield (%)	0.0	2.6	1.2	1.5	1.9

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	83.7	9.5	13.8	14.9	17.3
PPOP	110.4	10.4	22.2	9.0	9.2
PAT	(214.4)	122.0	63.9	26.0	21.6
Loans	47.9	10.1	20.3	15.5	17.5

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	62,738	69,450	70,059	67,847	74,338
NIM (%)	2.7	2.8	2.8	2.8	2.8
PPOP	56,036	44,476	62,019	66,062	69,055
PAT	13,326	15,021	16,662	20,220	25,255
EPS (Rs)	7.35	8.28	9.18	11.15	13.92

Source: Company, Emkay Research

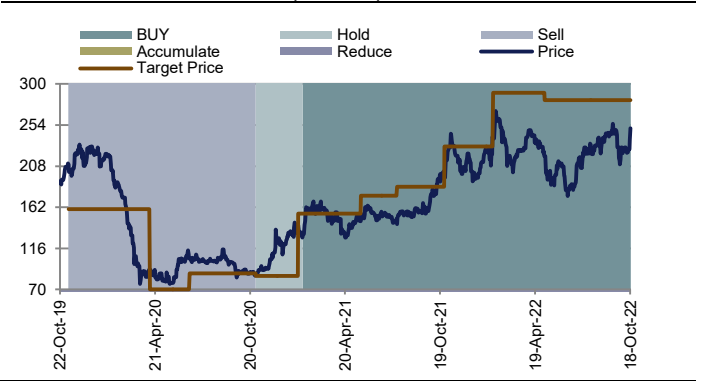
Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	62.9	62.9	62.9	62.9	62.9
FII	5.6	7.6	8.5	8.0	8.4
DII	14.7	13.8	13.6	13.8	15.4
Public and Others	16.8	15.6	15.0	15.3	13.3

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
25-Jul-22	225	282	12m	Buy	Anand Dama
7-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
7-Nov-19	210	160	12m	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)

Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

Contact Details

anand.dama@emkayglobal.com
+91 22 6624 2480

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	20.95	20.95	0.0%	0	100.00	
Axis Bank	2.20	2.32	5%	12	11.06	0
AU Small Finance Bank	0.28	0.28	0%	0	1.35	0
Bandhan Bank	0.20	0.19	0%	0	0.93	0
Bank of Baroda	0.25	0.21	-15%	-4	1.00	0
Canara Bank	0.16	0.22	37%	6	1.05	0
City Union Bank	0.00	0.00	NA	0	0.00	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	0.25	0.25	0%	0	1.20	0
HDFC Bank	6.14	6.19	1%	4	29.52	0
ICICI Bank	5.95	6.13	3%	18	29.26	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.76	0.83	9%	7	3.95	0
Karur Vysya Bank	0.00	0.08	NA	8	0.38	0
Kotak Mahindra Bank	2.56	2.03	-21%	-53	9.70	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.99	2.18	10%	19	10.40	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.05	0.00	-100%	-5	0.00	0
Yes Bank	0.05	0.05	-2%	0	0.22	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-Oct-21	20-Apr-22	21-Jul-22	19-Sep-22	19-Oct-22
EAP - BFSI-Banks	100.0	135.8	124.0	124.4	139.5	137.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	133.0	121.5	121.8	136.7	134.6

*Performance measurement base date 1st April 2019

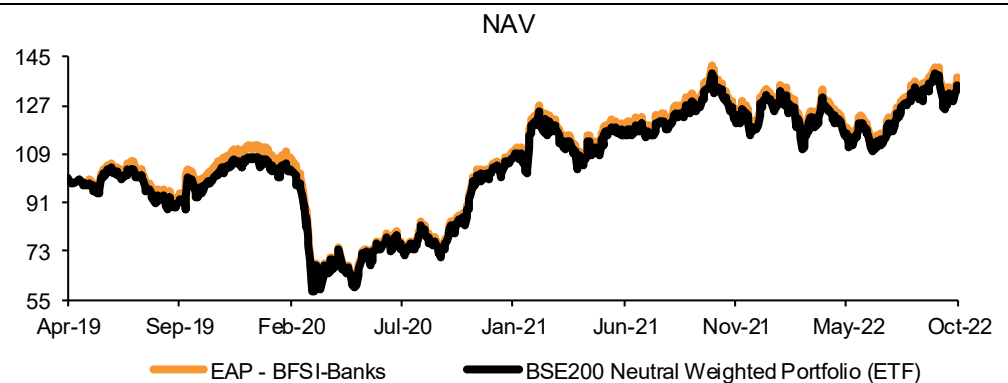
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-1.4%	10.5%	10.9%	1.2%
BSE200 Neutral Weighted Portfolio (ETF)	-1.5%	10.4%	10.7%	1.1%

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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Ratings	Expected Return within the next 12-18 months.
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HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 21 Oct 2022 13:15:04 (SGT)

Dissemination Date: 21 Oct 2022 13:16:04 (SGT)

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7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com