

# Canara Bank

Refer to important disclosures at the end of this report

## Margins power earnings beat; retain BUY

<b>CMP</b>	<b>Target Price</b>
<b>Rs 323</b> as of (January 23, 2023)	<b>Rs 385 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>19.2 %</b>

- Canara Bank reported a strong beat on PAT at Rs28.8bn, up 92% YoY (vs our estimate of Rs20.2bn), mainly backed by continued uptick in margins and lower opex. The bank has moved to the new tax regime in 3Q and, thus, effective tax rate has been lower, at 25%, supporting profitability.
- Credit growth was decent at 18% YoY/4% QoQ, largely driven by robust traction in the corporate book. Unlike PVBs, deposit growth was better than the industry run rate at 12%/3% QoQ. However, NIM shot up by 19bps to 3.1% due to continued asset re-pricing and higher yield on balances with the RBI.
- Fresh slippages moderated to Rs32bn/1.9% of loans that, coupled with higher recoveries/w-offs, led to 47bps QoQ reduction in GNPA ratio to 5.9%. Bank has several resolutions lined up (SREI, Religare Finvest, ADAG Group) which are largely written-off and should boost its 'other income'.
- We raise our earnings estimates by 18-28% over FY23-25, factoring-in better margins, higher recovery from written-off accounts 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 Rs385/share, based on 0.9x Dec-24E ABV and subsidiary/investment value of Rs23.

- Healthy growth coupled with better loan yields lead to sharp margin uptick:** Canara Bank reported decent credit growth, at 18% YoY/4% QoQ, owing to healthy traction in the corporate book. RAM book growth slowed down a bit due to contraction in the SME book and some moderation in the retail book. Deposit growth was better than the industry run rate, at 12%/3% QoQ, but CASA ratio slipped to 30% due to deceleration in the SA book. However, NIM shot up by 19bps to 3.1% as a result of continued asset re-pricing and higher yield on balances with the RBI. Going forward, Bank guides for double digit growth of 14-15% and some moderation in NIM at 3% as deposit mobilization at higher cost should have some consequence.
- Asset quality continues to improve:** Fresh slippages moderated to Rs32bn/1.9% of loans, due to near-absence of corporate slippages that, coupled with higher recoveries/w-offs, led to 47bps QoQ reduction in GNPA ratio to 5.9%. The restructured book (RF1 & 2) contracted by 33bps to 1.8% of loans. Bank is confident about keeping net slippages in the negative zone and thus continue to see moderation in NPA ratios. This, along with healthy PCR (68%), should help keep LLP in check.
- Outlook & Valuations:** We raise our earnings by 18-28% over FY23-25E, factoring-in better margins, higher recovery from written-off accounts 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 a revised TP of Rs385/share, based on 0.9x Dec-24E ABV and subsidiary/investment value of Rs23. **Key risks:** Slower growth due to macro-headwinds, faster than expected rise in CoF, and delay in lumpy NPA resolutions.

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	390,271	428,809	497,446	517,630	569,320
Net profit	25,576	56,784	104,042	121,105	141,981
EPS (Rs)	19.1	32.8	57.4	66.8	78.3
ABV (Rs)	256.1	261.0	314.6	374.0	442.4
RoA (%)	0.3	0.5	0.8	0.8	0.9
RoE (%)	6.1	10.5	16.7	16.8	17.0
PE (x)	16.0	9.3	5.3	4.5	3.8
P/ABV	1.2	1.2	1.0	0.8	0.7

Source: Company, Emkay Research

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### Change in Estimates

EPS Chg FY23E/FY24E (%)	27.9/23.0
Target Price change (%)	16.7
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	57.4	66.8
Consensus	54.4	61.0
Mean Consensus TP (12M)	Rs 316	

### Stock Details

Bloomberg Code	CBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,814
52 Week H/L	342 / 172
M Cap (Rs bn/USD bn)	586 / 7.20
Daily Avg Volume (nos.)	12,693,820
Daily Avg Turnover (USD mn)	47.8

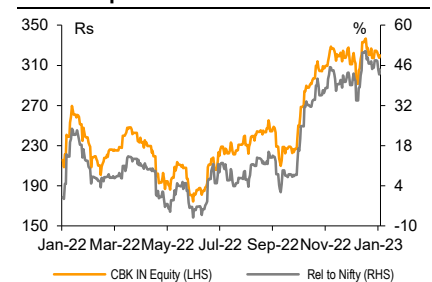
### Shareholding Pattern Dec '22

Promoters	62.9%
FIIs	8.7%
DIIIs	16.6%
Public and Others	11.7%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	11	20	41	50
<b>Rel. to Nifty</b>	9	17	30	46

### Relative price trend



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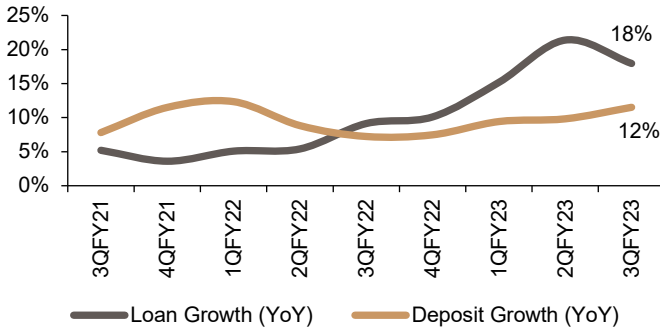
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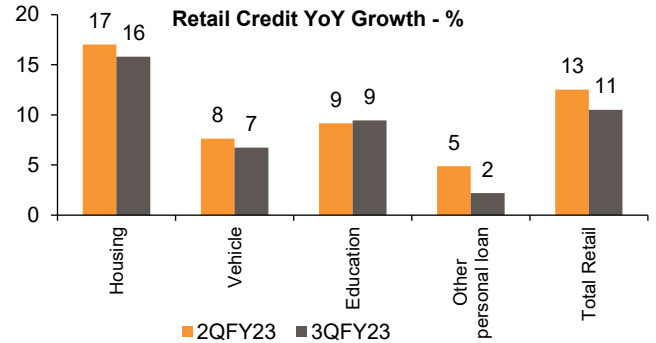
# Story in Charts

**Exhibit 1: Healthy credit growth led by traction in the corporate book; SME/Retail growth drags**



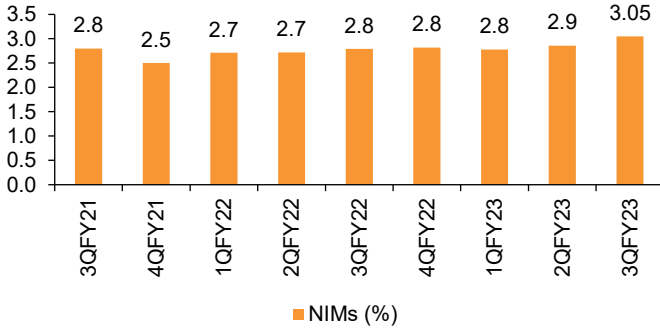
Source: Company, Emkay Research

**Exhibit 2: Within Retail, housing remains a key growth driver**



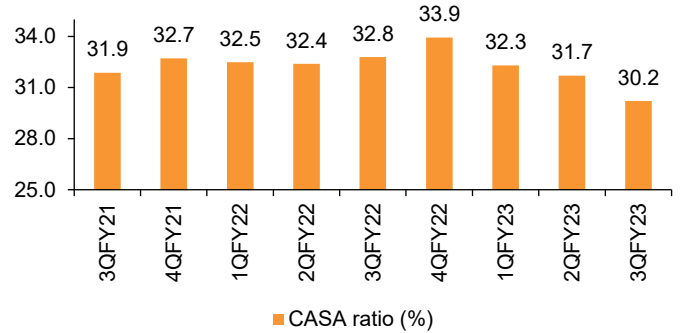
Source: Company, Emkay Research

**Exhibit 3: NIM saw a sharp uptick of 19bps qoq tp 3.05% due to better LDR and asset yields**



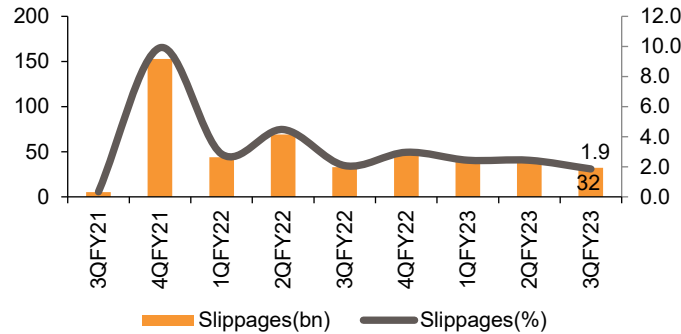
Source: Company, Emkay Research

**Exhibit 4: CASA ratio slipped to 30%, as the SA book decelerated**



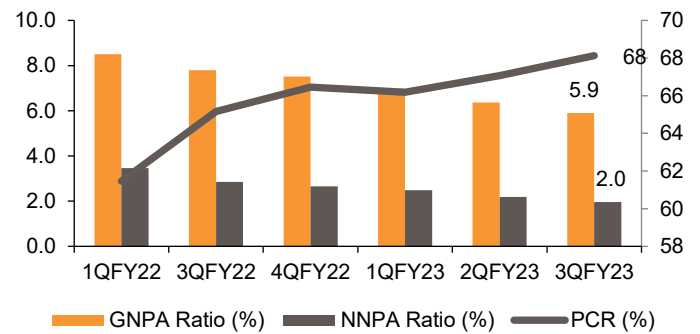
Source: Company, Emkay Research

**Exhibit 5: Fresh slippages continued to moderate, as corporate slippages were virtually NIL...**



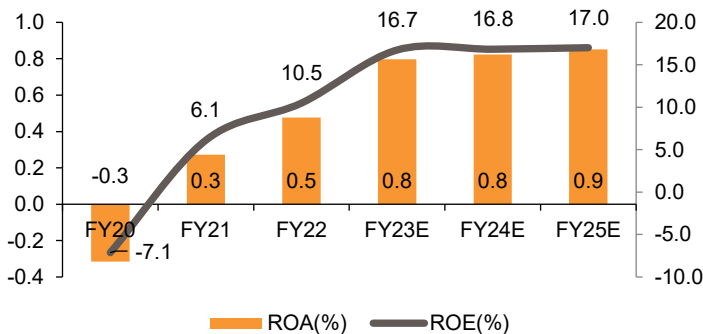
Source: Company, Emkay Research

**Exhibit 6: ...this, coupled with higher recoveries/w-offs, led to 47bps QoQ reduction in GNPA ratio to 5.9%**



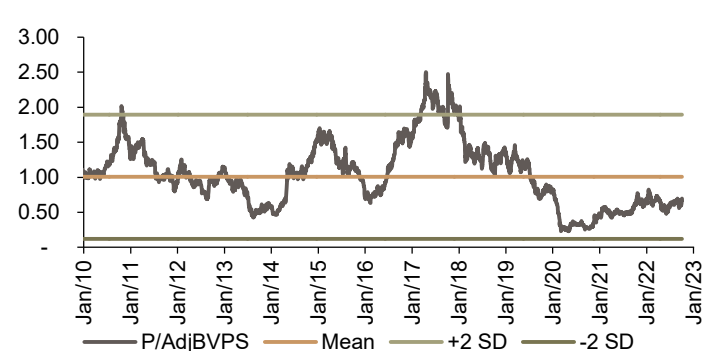
Source: Company, Emkay Research

**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 0.8x one-year forward PABV**



Source: Bloomberg, Emkay Research

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**Exhibit 9: Actuals vs. Estimates (Q3FY23)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,25,864	1,16,589	1,20,583	8%	4%	Better Margins, led to a beat
PPOP	69,521	58,808	62,802	18%	11%	Higher Net Income coupled with lower opex led to a beat
PAT	28,815	20,221	26,222	43%	10%	Higher PPOP, led to beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

Rs (mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	170,637	177,006	178,616	181,766	201,069	222,314	26	11	694,102	835,110	20
Interest Exp	107,899	107,556	108,557	113,919	126,731	136,315	27	8	430,263	521,313	21
Net Interest Income	62,738	69,450	70,059	67,847	74,338	86,000	24	16	263,840	313,797	19
Global NIMs (reported)	2.77	2.83	2.93	2.78	2.86	3.05	22bps	19bps	2.40	2.56	16bps
Non-interest Income	42,678	36,117	44,615	51,753	48,253	39,864	10	-17	164,969	183,649	11
Operating Expenses	49,380	61,090	52,655	53,538	53,536	56,343	-8	5	211,468	223,484	6
Pre Provisioning Profit	56,036	44,476	62,019	66,062	69,055	69,521	56	1	217,341	273,962	26
Provision & Contingencies	33,602	22,448	37,087	36,901	36,368	31,212	39	-14	127,725	134,868	6
PBT	22,434	22,028	24,933	29,162	32,687	38,309	74	17	89,616	139,094	55
Income Tax Expense (Gain)	9,108	7,007	8,270	8,942	7,432	9,493	35	28	32,832	35,052	7
Net Profit/(Loss)	13,326	15,021	16,662	20,220	25,255	28,815	92	14	56,784	104,042	83
Gross NPA (%)	8.42	7.80	7.51	6.98	6.37	5.90	-190bps	-48bps	7.52	5.58	-193bps
Net NPA (%)	3.21	2.86	2.65	2.48	2.19	1.96	-90bps	-23bps	2.68	1.74	-93bps
Deposits (Rs in bn)	10,325	10,434	10,864	11,181	11,340	11,635	12	3	10,864	12,103	11
Net Advances (Rs in bn)	6,496	6,922	7,036	7,469	7,885	8,164	18	4	7,036	8,324	18

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	470,904	497,446	5.6%	506,873	517,630	2.1%	564,447	569,320	0.9%
PPOP	244,518	273,962	12.0%	257,836	270,190	4.8%	286,662	294,946	2.9%
PAT	81,356	104,042	27.9%	98,499	121,105	23.0%	120,784	141,981	17.5%
EPS (Rs)	44.8	57.4	27.9%	54.3	66.8	23.0%	66.6	78.3	17.5%
BV (Rs)	359.4	367.4	2.2%	409.7	425.6	3.9%	471.3	494.4	4.9%

Source: Emkay Research

**Exhibit 12: Key Assumptions**

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	10.1	18.3	15.7	16.5
Deposit Growth %	7.5	11.4	14.1	14.9
NIM %	2.4	2.6	2.4	2.4
GNPA %	7.5	5.6	4.7	4.1
Credit Cost %	1.4	1.2	0.9	0.9

Source: Emkay Research

**Exhibit 13: Key Ratios and Trends**

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Loans (Rs bn)	6,342	6,390	6,485	6,496	6,922	7,036	7,469	7,885	8,164
- YoY Growth (%)	5.2	3.6	5.1	5.4	9.1	10.1	15.2	21.4	18.0
- QoQ Growth (%)	2.9	0.8	1.5	0.2	6.6	1.7	6.2	5.6	3.5
<b>Liability Profile &amp; Capital (%)</b>									
CASA	31.9	32.7	32.5	32.4	32.8	33.9	32.3	31.7	30.2
-CA	4.4	4.9	4.1	4.3	4.7	4.9	4.0	4.0	3.9
-SA	27.5	27.8	28.4	28.1	28.0	29.1	28.3	27.7	26.3
Branches (No. of)	10,494	10,416	9,877	9,057	9,007	8,957	8,927	8,898	8,897
CAR	13.7	13.2	13.4	14.4	14.8	14.9	14.9	16.5	16.7
Tier I	10.5	10.1	10.3	11.4	11.6	11.9	12.1	13.4	13.7
<b>Asset Quality (%)</b>									
GNPA	7.5	8.9	8.5	8.4	7.8	7.5	7.0	6.4	5.9
NNPA	2.6	3.8	3.5	3.2	2.9	2.7	2.5	2.2	2.0
PCR	66.3	59.5	61.5	63.9	65.2	66.5	66.2	67.1	68.1
Slippages (Rs mn)	5,080	1,52,870	43,910	68,960	32,920	47,360	39,490	39,480	32,100
Slippages - annualized (%)	0.3	9.9	2.8	4.5	2.1	3.0	2.4	2.4	1.9
<b>ROE Decomposition (%)</b>									
NII	2.2	2.0	2.1	2.1	2.3	2.3	2.2	2.3	2.6
Other Income	1.5	1.7	1.4	1.4	1.2	1.5	1.7	1.5	1.2
Treasury	0.5	0.1	0.2	0.4	0.1	0.2	0.3	0.1	0.1
Opex	1.8	1.8	1.7	1.7	2.0	1.7	1.7	1.7	1.7
PPOP	2.0	1.8	1.9	1.9	1.5	2.0	2.1	2.2	2.1
Provisioning Cost	1.6	1.3	1.2	1.1	0.8	1.2	1.2	1.1	1.0
PBT	0.4	0.6	0.7	0.8	0.7	0.8	0.9	1.0	1.2
Tax	0.1	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.3
ROA	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.8	0.9
Leverage (x)	19.4	19.3	19.3	18.4	18.3	18.3	18.3	18.2	18.0
ROE	4.9	6.9	7.8	8.3	9.2	10.1	11.9	14.3	15.9

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>241,028</b>	<b>263,840</b>	<b>313,797</b>	<b>338,677</b>	<b>381,237</b>
<b>Other income</b>	<b>149,243</b>	<b>164,969</b>	<b>183,649</b>	<b>178,953</b>	<b>188,083</b>
Fee income	20,402	14,160	15,859	17,921	20,609
<b>Net income</b>	<b>390,271</b>	<b>428,809</b>	<b>497,446</b>	<b>517,630</b>	<b>569,320</b>
Operating expenses	193,382	211,468	223,484	247,440	274,374
<b>Pre provision profit</b>	<b>196,889</b>	<b>217,341</b>	<b>273,962</b>	<b>270,190</b>	<b>294,946</b>
<b>PPP excl treasury</b>	<b>166,932</b>	<b>191,414</b>	<b>255,034</b>	<b>247,476</b>	<b>267,689</b>
Provisions	159,816	127,725	134,868	108,285	105,132
<b>Profit before tax</b>	<b>37,073</b>	<b>89,616</b>	<b>139,094</b>	<b>161,905</b>	<b>189,814</b>
Tax	11,497	32,832	35,052	40,800	47,833
Tax rate	31	37	25	25	25
<b>Profit after tax</b>	<b>25,576</b>	<b>56,784</b>	<b>104,042</b>	<b>121,105</b>	<b>141,981</b>

**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	733,408	839,092	963,839
<b>Net worth</b>	<b>588,849</b>	<b>661,113</b>	<b>751,549</b>	<b>857,234</b>	<b>981,980</b>
Deposits	10,108,745	10,864,093	12,103,127	13,809,042	15,872,349
Borrowings	268,674	195,989	244,986	257,235	270,097
<b>Total liabilities</b>	<b>11,536,749</b>	<b>12,269,797</b>	<b>13,822,927</b>	<b>15,611,748</b>	<b>17,760,118</b>
Cash and bank	431,116	516,029	541,831	568,922	597,368
Investments	2,616,903	2,820,129	3,083,801	3,425,541	3,829,445
Loans	6,390,489	7,036,018	8,324,143	9,630,985	11,222,600
Others	633,211	479,543	514,659	547,215	583,353
<b>Total assets</b>	<b>11,536,749</b>	<b>12,269,797</b>	<b>13,822,927</b>	<b>15,611,748</b>	<b>17,760,118</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.8	2.4	2.6	2.4	2.4
Non-ll/avg assets	1.6	1.4	1.4	1.2	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	1.6
Provisions/avg assets	1.7	1.1	1.0	0.7	0.6
PBT/avg assets	0.4	0.8	1.1	1.1	1.1
Tax/avg assets	0.1	0.3	0.3	0.3	0.3
RoA	0.3	0.5	0.8	0.8	0.9
RoAE	6.1	10.5	16.7	16.8	17.0
GNPA (%)	8.9	7.5	5.6	4.7	4.1
NNPA (%)	3.9	2.7	1.7	1.5	1.3

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	19.1	32.8	57.4	66.8	78.3
BVPS	378.0	332.9	367.4	425.6	494.4
ABVPS	256.1	261.0	314.6	374.0	442.4
DPS	0.0	6.8	7.5	8.5	9.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	16.0	9.3	5.3	4.5	3.8
P/BV	0.8	0.9	0.8	0.7	0.6
P/ABV	1.2	1.2	1.0	0.8	0.7
P/PPOP	2.7	2.7	2.1	2.2	2.0
Dividend Yield (%)	0.0	2.1	2.3	2.6	2.9

Source: Company, Emkay Research

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<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
NII	83.7	9.5	18.9	7.9	12.6
PPOP	110.4	10.4	26.1	(1.4)	9.2
PAT	(214.4)	122.0	83.2	16.4	17.2
Loans	47.9	10.1	18.3	15.7	16.5

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
NII	69,450	70,059	67,847	74,338	86,000
NIM(%)	2.8	2.9	2.8	2.9	3.1
PPOP	44,476	62,019	66,062	69,055	69,521
PAT	15,021	16,662	20,220	25,255	28,815
EPS (Rs)	8.28	9.18	11.15	13.92	15.88

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	62.9	62.9	62.9	62.9	62.9
FIIs	7.6	8.5	8.0	8.4	8.7
DIIIs	13.8	13.6	13.8	15.4	16.6
Public and Others	15.6	15.0	15.3	13.3	11.7

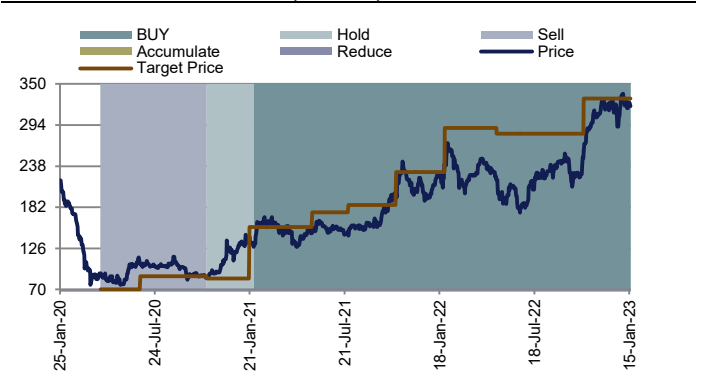
Source: Capitaline

## RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Oct-22	259	330	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

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

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