

Price Analysis

Canara Bank has been reporting consistent growth in net profit since previous ten quarters. In 3QFY23, the profitability increased by 92% YoY and 14% sequentially on the back of lower provisioning expenses. A bulky provision (₹54bn) made in 4QFY20 (two years ago), continued to safeguard the balance sheet from delinquencies out of restructuring with PCR (calculated) of 68.2% and PCR (including TWO) of 86.3%. On asset quality front, the GNPA/NNPA ratio (5.90%/1.96%) improved by 47bps and 23bps respectively on the back of lower NPA addition of ₹32bn. The slippages ratio (reported) marginally down at 34bps v/s 35bps in the previous quarter. The cumulative SMA1/2 book also eased to 49bps v/s 51bps in 2QFY23. On the business front, the bank has reported healthy gross credit growth of 13.6% YoY and 2.9% sequentially. The bank's recoveries are in line with the guidance and expect the credit cost to be below 2% for FY23. Furthermore, the NIMs have expanded by 10bps sequentially to 2.93% driven by higher YOA (7.45% v/s 7.24% in 2QFY23) and slightly higher cost of deposit (4.19% v/s 4.09% in 2QFY23). We believe the bank is growing the balance sheet with well-adjusted margins and it is expected to bode well in near term. Moreover, the CET – 1 (11.45%) has improved with AT-1 bond issues. We believe the hurdles are long behind us and the bank shall witness gradual improvement in profitability with FY24E ROA/ROE of 1%/17%. In view of inexpensive valuation (0.66x PBVPS) we recommend BUY.

Gazing the core

Asset quality improvement continues: The absolute GNPA is decreasing gradually with moderate slippages and higher recoveries. In 3QFY23, Gross NPA addition were at ₹32.1b (down sequentially) while stable recoveries and upgrades along with strong loan growth aided 47bps/23bps decline in the GNPA/NNPA ratios, respectively. PCR (calculated) improved 109bps sequentially to 68.1%. Total SMA overdue (1/2) are stable and stand at 0.34% from 0.14% in 3QFY23. Accounts referred to NCLT stands at ₹409bn; the bank has provided 96% of the outstanding dues. Factoring higher recoveries, we estimate the GNPA/NNPA ratio at 5.6%/1.9% at the end of FY23 with a stable PCR of 68.7%.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
NII	1,31,239	2,40,622	2,63,840	3,51,053	4,14,542
PPOP	93,598	2,00,093	2,30,890	2,68,966	3,09,548
PAT	-22,357	25,576	56,784	90,223	1,53,133
Networth	3,92,930	5,88,849	6,61,113	7,51,336	9,04,469
Loans	72,38,747	1,15,36,750	1,22,69,797	1,37,38,170	1,54,33,342
Deposits	62,53,512	1,01,08,746	1,08,64,093	1,21,67,784	1,36,27,918

Key Ratios	FY20	FY21	FY22	FY23E	FY24E
EPS (₹)	-	16	31	50	84
BVPS (₹)	381	358	364	414	499
GNPA (%)	8.2	8.9	7.5	5.6	4.9
NNPA (%)	4.2	3.8	2.7	1.9	1.7
ROA (%)	-0.3	0.2	0.5	0.7	1.0
ROE (%)	-5.7	4.3	8.6	12.0	16.9

Rating	BUY
Current Market Price (₹)	291
12 M Price Target (₹)	349
Potential upside (%)	20

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	527
Market Cap Free Float (₹ bn) :	195
52-Week High / Low (₹) :	342 / 172
2-Year High / Low (₹) :	342 / 124
1 Yr Avg. Dly Traded Volume (in lakh)	116
BSE Code / NSE Symbol	532483 / CANBK
Bloomberg :	CBK IN

Shareholding Pattern

(%)	Dec-22	Sep-22	Jun-22	Mar-22
GOI	62.93	62.93	62.93	62.93
FPIs	8.74	8.44	7.97	8.48
MFs	4.77	3.75	3.44	3.22
Insurance	10.81	10.29	9.04	9.04
Others	12.75	14.59	16.62	16.33

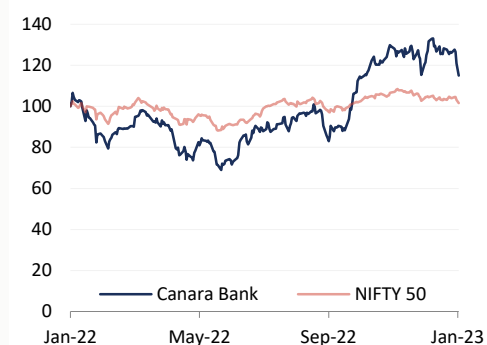
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Canara Bank	-5.2%	0.5%	28.1%	15.0%
Nifty 50	-2.9%	-0.7%	5.8%	1.5%

* To date / current date : January 27, 2023

Canara Bank vs Nifty 50



Robust business growth across segments: On the business front, the bank has been reporting consistent credit growth with stable CD ratio. In 3QFY23, the bank has reported a healthy 18% YOY and 3.5% sequential growth in net loan book driven by the corporate portfolio (5% QoQ, 20.2% YoY). However, RAM credit growth was 1.8% QoQ and agriculture credit growth was 3.4% QoQ with superior underwriting process. The bank has guided for double-digit advances growth for FY23 and it seems achievable. We have incorporated loan CAGR of 20% for FY22-24E. Improving CD ratio will keep the NIMs around 2.9%. The operating expenses are not likely to witness a sharp jump as the bank has up-fronted the entire pension-related provision of ₹13.5bn in 3QFY22 instead of amortizing over the five years as permitted by the RBI. Thus, we estimate a healthy PAT growth with lower provision expenses and ROA/ROE of 1%/17% for FY24E.

Higher profitability continues driven by higher NIMs and stable opex: NIMs have expanded marginally by 10bps sequentially to 2.93% driven by lower YOA (7.45% v/s 7.24% in 2QFY23) and slightly higher cost of deposit (4.19% v/s 4.09% in 2QFY23). Improved NIMs have resulted in 23.8% YoY jump in NII against 18% YoY net credit growth. The bank has reported sequential de-growth in other income of 17%. Nevertheless, with superior operating performance the PPOP and PAT registered a growth of 20% YoY and 92% YoY respectively.

Outlook and Valuation

Factoring near term capital infusion, we expect the bank's loan book to fatten cautiously at CAGR of ~20% over FY22-24E, led by RAM and corporate book growth. In our opinion, the bank's credit cost shall normalise further by FY23E and estimate return ratio ROA/ROE of 1% and 17% in FY24E. We value the standalone entity with 0.7x FY24E BVPS (₹499) and arrive at a target price of ₹349. We recommend BUY with a potential upside of 20%.

Exhibit 1 : Income Statement (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Interest Earned	1,67,717	1,70,637	1,77,006	1,78,616	1,81,766	2,01,069	2,22,314	25.6	10.6
Interest Expended	1,06,250	1,07,899	1,07,556	1,08,557	1,13,919	1,26,731	1,36,315	26.7	7.6
Net Interest Income	61,466	62,738	69,450	70,059	67,847	74,338	86,000	23.8	15.7
Other Income	44,384	42,678	36,117	44,615	51,753	48,253	39,864	10.4	-17.4
Net Operating Revenue	1,05,850	1,05,416	1,05,567	1,14,674	1,19,601	1,22,591	1,25,864	19.2	2.7
Operating Expenses	48,344	49,380	47,541	52,655	53,538	53,536	56,343	18.5	5.2
Employee Cost	33,424	31,382	29,724	32,276	34,164	31,195	34,815	17.1	11.6
Other Operating Expenses	14,920	17,997	17,817	20,379	19,374	22,341	21,528	20.8	-3.6
Pre - Provision Profit	57,507	56,036	58,025	62,019	66,062	69,055	69,521	19.8	0.7
Provisions and Contingencies	37,285	33,602	22,448	37,087	36,901	36,368	31,212	39.0	-14.2
PBT	20,221	22,434	22,028	24,933	29,162	32,687	38,309	73.9	17.2
Tax	8,447	9,108	7,007	8,270	8,942	7,432	9,493	35.5	27.7
Profit After Tax	11,775	13,326	15,021	16,662	20,220	25,255	28,815	91.8	14.1

Source: Company, LKP Research

Exhibit 2 : Balance Sheet (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Share Capital	16,467	18,141	18,141	18,141	18,141	18,141	18,141	-	-
Reserves and Surplus	5,83,702	6,20,826	6,35,464	6,42,972	6,62,767	6,87,225	7,08,283	11.5	3.1
Networth	6,00,169	6,38,967	6,53,606	6,61,113	6,80,908	7,05,366	7,26,424	11.1	3.0
Deposits	1,02,18,369	1,03,25,366	1,04,33,507	1,08,64,093	1,11,81,217	1,13,39,642	1,16,34,702	11.5	2.6
Borrowings	5,17,038	7,51,133	5,40,154	4,62,850	5,51,759	6,25,052	5,54,475	2.7	-11.3
Other Liabilities & Provisions	2,46,665	2,75,861	3,20,001	2,81,742	2,66,115	3,06,515	2,80,240	-12.4	-8.6
Total Liabilities	1,15,82,241	1,19,91,327	1,19,47,267	1,22,69,797	1,26,79,999	1,29,76,575	1,31,95,841	10.5	1.7
Cash and balance with Reserve Bank of India	4,27,195	4,69,271	5,30,763	5,16,029	6,34,551	5,53,580	5,65,988	6.6	2.2
Balances with banks and money at call and short notice	13,10,183	15,56,759	11,53,381	13,04,514	9,52,822	8,50,261	7,54,897	-34.5	-11.2
Investments	27,30,668	28,35,063	27,48,033	28,20,129	30,77,788	30,87,501	31,14,760	13.3	0.9
Advances	64,85,162	64,95,842	69,21,677	70,36,018	74,69,452	78,85,015	81,64,137	18.0	3.5
Fixed Assets	1,11,426	1,10,817	1,10,542	1,13,563	1,11,653	1,09,056	1,02,108	-7.6	-6.4
Other Assets	5,17,606	5,23,576	4,82,871	4,79,544	4,33,733	4,91,162	4,93,952	2.3	0.6
Total Assets	1,15,82,241	1,19,91,327	1,19,47,267	1,22,69,797	1,26,79,999	1,29,76,575	1,31,95,841	10.5	1.7

Source: Company, LKP Research

Exhibit 3 : Asset Quality (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (% bps)	QoQ (% bps)
Amount of GNPA	5,82,155	5,78,531	5,68,933	5,56,516	5,47,339	5,24,850	5,02,115	-11.7	-4.3
Amount of NNPA	2,24,341	2,08,620	1,98,193	1,86,680	1,85,049	1,72,860	1,59,930	-19.3	-7.5
NNPA (%)	3.50	3.20	2.90	2.65	2.48	2.19	1.96	-32	-11
GNPA (%)	8.50	8.40	7.80	7.51	6.98	6.37	5.90	-24	-7
PCR (% calculated)	61.5	63.9	65.2	66.5	66.19	67.06	68.15	5	2
PCR (% Inc. TWO)	81.2	82.4	83.3	84.3	84.5	85.4	86.3	4	1

Source: Company, LKP Research

Exhibit 4 : Important Ratios (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (% bps)	QoQ (% bps)
CASA (%)	37	34	34	36	32	32	30	-7	-2
NIM %	2.70	2.70	2.75	2.93	2.78	2.83	2.93	5	2
ROA (% annualized)	0.4	0.4	0.5	0.5	0.6	0.8	0.9	75	22
ROE (% annualized)	7.8	8.3	9.2	10.1	11.9	14.3	15.9	72	21
BVPS (₹)	364	352	360	364	375	389	440	10.4	3.6
EPS (₹ annualized)	7.2	7.3	8.3	9.2	11.1	13.9	17.5	89.5	24.9

Source: Company, LKP Research

Annual Projections

Exhibit 5: Income Statement

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	4,12,521	4,68,103	4,89,350	6,92,398	6,94,103	8,64,468	9,89,155
Interest Expended	2,90,888	3,23,322	3,58,111	4,51,776	4,30,263	5,13,415	5,74,613
Net Interest Income	1,21,633	1,44,781	1,31,239	2,40,622	2,63,840	3,51,053	4,14,542
YoY (%)	23	19	-9	83	10	33	18
Other Income	69,429	65,750	78,132	1,52,853	1,64,969	1,48,472	1,60,350
Net Operating Income	1,91,062	2,10,531	2,09,371	3,93,475	4,28,809	4,99,525	5,74,892
Operating Expenses	95,579	1,04,622	1,15,772	1,93,382	1,97,919	2,30,558	2,65,345
Employee Cost	54,441	60,398	71,342	1,26,900	1,27,036	1,47,986	1,70,314
Other Operating expenses	41,138	44,224	44,431	66,482	70,883	82,572	95,030
Pre - Provision Profit	95,482	1,05,909	93,598	2,00,093	2,30,890	2,68,966	3,09,548
Provisions and Contingencies	1,61,091	1,29,183	1,11,154	1,63,020	1,27,725	1,40,497	1,12,398
Profit Before Tax	-65,609	-23,274	-17,556	37,072	89,616	1,28,469	1,97,150
Taxes	-23,386	-26,744	4,802	11,497	32,832	38,246	44,017
Profit After Tax	-42,222	3,470	-22,357	25,576	56,784	90,223	1,53,133
EPS (₹)	-58	5	-22	16	31	50	84

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	7,332	7,532	10,302	16,467	18,142	18,142	18,142
Face Value (₹)	10	10	10	10	10	10	10
Total Reserves	3,48,716	3,54,240	3,82,627	5,72,382	6,42,972	7,33,195	8,86,328
Networth	3,56,048	3,61,772	3,92,930	5,88,849	6,61,113	7,51,336	9,04,469
Deposits	52,47,719	59,90,333	62,53,512	1,01,08,746	1,08,64,093	1,21,67,784	1,36,27,918
YoY (%)	6	14	4	62	7	12	12
Borrowings	3,88,085	4,09,923	4,27,618	4,99,836	4,62,850	5,09,135	5,60,048
Other Liabilities & Provisions	1,77,009	1,85,639	1,64,688	3,39,320	2,81,742	3,09,916	3,40,907
Total Liabilities	61,68,861	69,47,667	72,38,747	1,15,36,750	1,22,69,797	1,37,38,170	1,54,33,342
Cash and balance with Reserve Bank of India	2,21,000	2,99,190	2,25,701	4,31,116	5,16,029	5,21,189	5,26,401
Balances with banks and money at call	2,78,123	3,62,337	4,57,013	13,52,964	13,04,514	13,17,559	13,30,735
Investments	14,40,537	15,29,853	17,62,449	26,16,904	28,20,129	30,17,538	32,28,766
Advances	38,17,030	42,77,273	43,21,752	63,90,490	70,36,018	84,43,222	1,01,31,866
YoY (%)	12	12	1	48	10	20	20
Fixed Assets	83,186	84,102	82,763	1,12,065	1,13,563	1,15,834	1,18,151
Other Assets	3,28,985	3,94,912	3,89,068	6,33,211	4,79,544	3,22,828	97,424
Total Assets	61,68,861	69,47,667	72,38,747	1,15,36,750	1,22,69,797	1,37,38,170	1,54,33,342
BVPS (₹)	486	480	381	358	364	414	499

Source: Company, LKP Research

Exhibit 7: Asset Quality

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GNPA (%)	11.8	8.8	8.2	8.9	7.5	5.6	4.9
NNPA (%)	7.5	5.4	4.2	3.8	2.7	1.9	1.7
GNPA Amount	4,74,685	3,92,241	3,70,418	6,02,880	5,56,516	4,99,298	5,24,263
NNPA Amount	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	1,56,200	1,67,176
PCR (% ,calculated)	39.9	41.5	50.7	59.5	66.5	68.7	68.1
Movement of GNPA							
Opening Balance	3,42,020	4,74,685	3,92,241	3,70,412	6,02,880	5,56,516	4,99,298
Additions during the year	2,47,608	1,54,802	1,50,448	4,19,709	3,14,781	2,36,086	1,77,065
Reductions during the year	1,14,943	2,37,245	1,72,271	1,87,240	3,61,146	2,93,303	1,52,100
Closing balance	4,74,685	3,92,241	3,70,418	6,02,880	5,56,516	4,99,298	5,24,263
Movement of NNPA							
Opening Balance	2,16,490	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	1,56,200
Additions during the year	1,83,878	18,535	17,882	1,55,211	1,16,408	87,306	65,479
Reductions during the year	1,14,943	74,408	64,923	93,300	1,74,148	1,17,787	54,503
Closing balance	2,85,424	2,29,551	1,82,510	2,44,420	1,86,680	1,56,200	1,67,176

Source: Company, LKP Research

Exhibit 8: Ratios

(₹ mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Financial Ratios							
EPS (₹)	-58	5	-22	16	31	50	84
BVPS (₹, Calculated)	486	480	381	358	364	414	499
Performance Ratios							
ROA(% ,Calculated)	-0.7	0.0	-0.3	0.2	0.5	0.7	1.0
ROE(% ,Calculated)	-11.9	1.0	-5.7	4.3	8.6	12.0	16.9
Efficiency Ratios							
Cost Income Ratio	50	50	55	49	50	49	49
CASA (%)	32	29	31	33	36	34	34

Source: Company, LKP Research

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