

CANARA BANK | PSU Banking

...earnings and business momentum continues

LKP

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Price Analysis:

Canara Bank has been reporting consistent growth in net profit since previous twelve quarters. In 1QFY24, the profitability increased by 75% YoY and 11.3% sequentially on the back of lower provisioning expenses. A bulky provision (₹54bn) made in 4QFY20 (three years ago), continued to safeguard the balance sheet from delinquencies from restructuring with PCR (calculated) of 70.6% and PCR (including TWO) of 88%. On asset quality front, the GNPA/NNPA ratio (5.15%/1.57%) improved by 20bps and 16bps respectively on the back of stable slippages of ₹32bn. The slippages ratio (reported) marginally down at 34bps v/s 35bps in the previous quarter. The cumulative SMA1/2 book also stable at 39bps/38bps of loan book. On the business front, the bank has reported healthy gross credit growth of 13.3% 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 FY24. Furthermore, the NIMs have expanded by 10bps sequentially to 3.05%. We believe the bank is growing the balance sheet with well-adjusted margins and it is expected to bode well. We believe the bank has recovered well and is expected to witness gradual improvement in profitability with FY24E ROA/ROE of 1%/17.5%. With an inexpensive valuation (0.8x PBVPS) we recommend BUY.

Gazing the core:

Asset Quality improvement continues: The absolute GNPA is decreasing gradually with moderate slippages and higher recoveries. In 1QFY24, Gross NPA addition were at ₹32b (steady sequentially) while stable recoveries and upgrades along with strong loan growth aided 20bps/16bps decline in the GNPA/NNPA ratios, respectively. PCR (calculated) improved 100bps sequentially to 70.6%. Total SMA overdue (1/2) are stable and stand at 0.39% from 0.38% in 1QFY24. Accounts referred to NCLT stands at ₹412bn; the bank has provided 97% of the outstanding dues. Factoring higher recoveries, we estimate the GNPA/NNPA ratio at 4.9%/1.5% at the end of FY24 with a stable PCR of 70%.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	240,622	263,840	314,360	374,891	415,128
PPOP	200,093	230,890	277,150	318,857	350,022
PAT	25,576	56,784	92,491	155,918	170,882
Networth	588,849	661,113	736,072	891,990	1,062,872
Loans	11,536,750	12,269,797	13,457,323	15,121,209	17,081,356
Deposits	10,108,746	10,864,093	11,792,186	13,207,248	14,792,118

Key Ratios (%)	FY21	FY22	FY23E	FY24E	FY25E
EPS (₹)	16	31	51	86	94
BVPS (₹)	358	364	406	492	586
GNPA	8.9	7.5	5.4	4.9	4.1
NNPA	3.8	2.7	1.7	1.5	1.3
ROA	0.2	0.5	0.7	1.0	1.0
ROE	4.3	8.6	12.6	17.5	16.1

Rating	BUY
Current Market Price (₹)	337
12 M Price Target (₹)	410
Potential upside (%)	22

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	611
Market Cap Free Float (₹ bn) :	226
52-Week High / Low (₹) :	351 / 208
BSE Code / NSE Symbol :	543276 / CANBK
Bloomberg :	CBK IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
GOI	62.93	62.93	62.93	62.93
FPIs	8.91	8.95	8.74	8.44
MFs	4.62	4.53	4.77	3.75
Insurance	10.24	10.59	10.81	10.29
Others	13.30	13.00	12.75	14.59

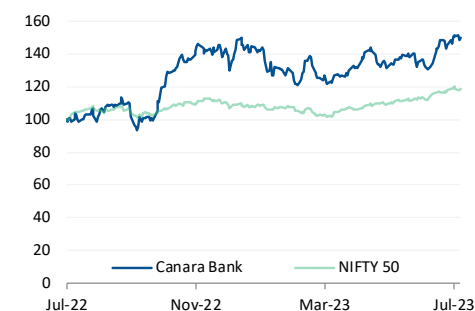
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Canara Bank	14.8%	8.9%	10.2%	52.2%
Nifty 50	5.8%	11.0%	10.5%	20.0%

* To date / current date : July 26, 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 1QFY24, the bank has reported a healthy 13.3% YOY and 2.9% sequential growth in gross loan book driven by the corporate portfolio (2.7% QoQ, 13.75% YoY). Additionally, RAM credit growth was 3% QoQ and agriculture credit growth was 4.4% QoQ with superior underwriting process. We have incorporated a loan CAGR of 15% for FY23-25E. 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%/17.5% for FY24E.

Higher profitability continues; driven by higher NIMs and stable opex: NIMs have expanded marginally by 10bps sequentially to 3.05% driven by higher YOA (8.43% v/s 7.7% in 4QFY23) and meaningfully higher cost of deposit (5.22% v/s 4.38% in 4QFY23). Improved NIMs have resulted in 28% YoY jump in NII against 14.5% YoY net credit growth. The bank has reported sequentially stable other income of ₹48.2bn. Nevertheless, with superior operating performance the PPOP and PAT registered a growth of 15% YoY and 74% YoY respectively.

Outlook and Valuation:

We expect the bank's loan book to fatten cautiously at CAGR of ~15% over FY23-25E, led by RAM and corporate book growth. In our opinion, the bank's credit cost shall normalise further by FY24E and estimate return ratio ROA/ROE of 1% and 17.5% in FY24E. We value the standalone entity at 0.7x FY25E BVPS (₹586) and arrive at a target price of ₹410. We recommend BUY with a potential upside of 22%.

Recent Performance at a glance

Exhibit 1 : Profit & Loss Account (Qtr, ₹mn)

Qtr/End	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Interest Earned	178,616	181,766	201,069	222,314	239,098	250,041	37.6	4.6
Interest Expended	108,557	113,919	126,731	136,315	152,930	163,384	43.4	6.8
Net Interest Income	70,059	67,847	74,338	86,000	86,168	86,657	27.7	0.6
Other Income	44,615	51,753	48,253	39,864	47,752	48,190	-6.9	0.9
Net Operating Revenue	114,674	119,601	122,591	125,864	133,920	134,847	12.7	0.7
Operating Expenses	52,655	53,538	53,536	56,343	61,397	58,806	9.8	-4.2
Employee Cost	32,276	34,164	31,195	34,815	37,265	36,510	6.9	-2.0
Other Operating Expenses	20,379	19,374	22,341	21,528	24,133	22,296	15.1	-7.6
Pre - Provision Profit	62,019	66,062	69,055	69,521	72,522	76,040	15.1	4.9
Provisions and Contingencies	37,087	36,901	36,368	31,212	30,950	27,189	-26.3	-12.1
PBT	24,933	29,162	32,687	38,309	41,573	48,851	67.5	17.5
Tax	8,270	8,942	7,432	9,493	9,826	13,503	51.0	37.4
Profit After Tax	16,662	20,220	25,255	28,815	31,747	35,348	74.8	11.3

Source: Company, LKP Research

Exhibit 2 : Balance Sheet (Qtr, ₹mn)

Qtr/End	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Share Capital	18,141	18,141	18,141	18,141	18,141	18,141	-	-
Reserves and Surplus	642,972	662,767	687,225	708,283	717,931	753,024	13.6	4.9
Networth	661,113	680,908	705,366	726,424	736,072	771,166	13.3	4.8
Deposits	10,864,093	11,181,217	11,339,642	11,634,702	11,792,186	11,924,699	6.6	1.1
Borrowings	462,850	551,759	625,052	554,475	580,898	849,144	53.9	46.2
Other Liabilities & Provisions	281,742	266,115	306,515	280,240	348,167	309,718	16.4	-11.0
Total Liabilities	12,269,797	12,679,999	12,976,575	13,195,841	13,457,323	13,854,726	9.3	3.0
Cash and balance with RBI	516,029	634,551	553,580	565,988	549,885	552,535	-12.9	0.5
Balances with banks and money at call and short notice	1,304,514	952,822	850,261	754,897	864,348	859,207	-9.8	-0.6
Investments	2,820,129	3,077,788	3,087,501	3,114,760	3,190,385	3,318,095	7.8	4.0
Advances	7,036,018	7,469,452	7,885,015	8,164,137	8,306,726	8,551,423	14.5	2.9
Fixed Assets	113,563	111,653	109,056	102,108	102,307	101,894	-8.7	-0.4
Other Assets	479,544	433,733	491,162	493,952	443,674	471,574	8.7	6.3
Total Assets	12,269,797	12,679,999	12,976,575	13,195,841	13,457,323	13,854,726	9.3	3.0

Source: Company, LKP Research

Exhibit 3: Asset Quality (Qtr)

(₹ mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (% bps)	QoQ (% bps)
Amount of GNPA	556,516	547,339	524,850	502,115	461,600	457,274	-16.5	-0.9
Amount of NNPA	186,680	185,049	172,860	159,930	143,490	134,614	-27.3	-6.2
NNPA (%)	2.65	2.48	2.19	1.96	1.73	1.57	-37	-9
GNPA (%)	7.51	6.98	6.37	5.90	5.35	5.15	-26	-4
PCR (% calculated)	66.5	66.19	67.06	68.15	68.91	70.56	7	2
PCR (% Inc. TWO)	84.3	84.5	85.4	86.3	87.3	88.0	4	1

Source: Company, LKP Research

Exhibit 4: Important Ratios (Qtr)

(₹ mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (% bps)	QoQ (% bps)
CASA (%)	36	32	32	30	31	31	-5	-1
NIM %	2.93	2.78	2.83	2.93	2.95	3.05	10	3
ROA (% annualized)	0.5	0.6	0.8	0.9	1.0	1.0	55	4
ROE (% annualized)	10.1	11.9	14.3	15.9	21.7	23.0	93	6
BVPS (₹)	364	375	389	400	406	425	13.3	4.8
EPS (₹ annualized)	9.2	11.1	13.9	15.9	17.5	19.5	74.8	11.3

Source: Company, LKP Research

Annual Projections

Exhibit 5: Income Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Interest Earned	692,398	694,103	844,250	935,663	1,045,263
Interest Expended	451,776	430,263	529,890	560,773	630,136
Net Interest Income	240,622	263,840	314,360	374,891	415,128
YoY (%)	83	10	19	19	11
Other Income	152,853	164,969	187,620	202,630	218,840
Net Operating Income	393,475	428,809	501,980	577,520	633,968
Operating Expenses	193,382	197,919	224,830	258,663	283,945
Employee Cost	126,900	127,036	137,440	158,123	173,578
Other Operating expenses	66,482	70,883	87,390	100,541	110,368
Pre - Provision Profit	200,093	230,890	277,150	318,857	350,022
Provisions and Contingencies	163,020	127,725	135,420	121,878	134,066
Profit Before Tax	37,072	89,616	128,181	196,979	215,956
Taxes	11,497	32,832	35,690	41,061	45,074
Profit After Tax	25,576	56,784	92,491	155,918	170,882
EPS (₹)	16	31	51	86	94

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	16,467	18,142	18,141	18,141	18,141
Face Value	10	10	10	10	10
Total Reserves	572,382	642,972	717,931	873,849	1,044,731
Networth	588,849	661,113	736,072	891,990	1,062,872
Deposits	10,108,746	10,864,093	11,792,186	13,207,248	14,792,118
YoY (%)	62	7	9	12	12
Borrowings	499,836	462,850	580,898	638,988	766,785
Other Liabilities & Provisions	339,320	281,742	348,167	382,983	459,580
Total Liabilities	11,536,750	12,269,797	13,457,323	15,121,209	17,081,356
Cash and balance with RBI	431,116	516,029	549,885	555,383	560,937
Balances with banks and money at call	1,352,964	1,304,514	864,348	872,991	881,721
Investments	2,616,904	2,820,129	3,190,385	3,413,711	3,652,671
Advances	6,390,490	7,036,018	8,306,726	9,552,734	10,985,644
YoY (%)	48	10	18	15	15
Fixed Assets	112,065	113,563	102,307	104,353	106,440
Other Assets	633,211	479,544	443,674	622,036	893,942
Total Assets	11,536,750	12,269,797	13,457,323	15,121,209	17,081,356
BVPS (₹)	358	364	406	492	586

Exhibit 7: Asset Quality

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
GNPA (%)	8.9	7.5	5.4	4.9	4.1
NNPA (%)	3.8	2.7	1.7	1.5	1.3
GNPA Amount	602,880	556,516	461,595	494,297	475,634
NNPA Amount	244,420	186,680	143,493	143,291	142,813
PCR (% , calculated)	59.5	66.5	68.9	71.0	70.0
Movement of GNPA					
Opening Balance	370,412	602,880	556,516	461,595	494,297
Additions during the year	419,709	314,781	236,086	177,065	132,798
Reductions during the year	187,240	361,146	331,007	144,363	151,461
Closing balance	602,880	556,516	461,595	494,297	475,634
Movement of NNPA					
Opening Balance	182,510	244,420	186,680	143,493	143,291
Additions during the year	155,211	116,408	87,306	65,479	49,110
Reductions during the year	93,300	174,148	130,493	65,682	49,587
Closing balance	244,420	186,680	143,493	143,291	142,813

Exhibit 8: Ratios

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Financial Ratios					
EPS (₹)	16	31	51	86	94
BVPS (₹, Calculated)	358	364	406	492	586
Performance Ratios					
ROA(% , Calculated)	0.2	0.5	0.7	1.0	1.0
ROE(% , Calculated)	4.3	8.6	12.6	17.5	16.1
Efficiency Ratios					
Cost Income Ratio	49	50	47	49	49
CASA (%)	33	36	31	34	34

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