

Margin slips; asset quality continues to improve

BFSI - Banks ▶ Result Update ▶ January 27, 2025

TARGET PRICE (Rs): 120

Despite continued contraction in margins due to lower loan yields/other interest income, and higher provisions, Canara Bank posted in-line earnings with PAT at Rs41bn/1% RoA, mainly aided by higher other income (especially treasury gains/recovery from written-off loans). Credit growth remains range-bound at 11% YoY/4% QoQ, while deposit growth is still lower leading to steady expansion in the bank's otherwise LDR at ~74%. The bank's headline asset quality continues to improve, with GNPA ratio down by 40bps QoQ to 3.3% due to contained slippages, partly offset by higher write-offs, while specific PCR is stable at 74%. The bank's SMA 1+2 book (1.1% of loans) remains elevated, but notably, government support for RINL should de-stress the SMA pool. We trim FY25-27E earnings by 1-2% due to slower growth/margin pressure, but expect the bank to deliver 1% RoA. We retain BUY with a cut (of 7.7%) in TP to Rs120 (earlier Rs130), valuing the SA bank at 1x Dec-26E ABV vs earlier 1.1x Sep-26E ABV and, additionally, subs at Rs6/sh.

Canara Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	106,038	145,538	162,075	174,189	178,633
Loan growth (%)	18.1	12.2	11.2	10.0	12.3
NII growth (%)	19.1	16.3	1.2	5.1	9.0
NIM (%)	2.6	2.7	2.5	2.4	2.4
PPOP growth (%)	20.0	6.1	5.2	4.7	6.2
Adj. EPS (Rs)	11.7	16.0	17.9	19.2	19.7
Adj. EPS growth (%)	(27.1)	37.3	11.4	7.5	2.6
Adj. BV (INR)	62.4	77.2	94.7	110.0	125.3
Adj. BVPS growth (%)	(19.1)	23.6	22.7	16.1	13.9
RoA (%)	0.8	1.0	1.0	1.0	1.0
RoE (%)	17.1	20.2	19.1	17.7	15.9
P/E (x)	7.6	5.4	4.8	4.5	4.4
P/ABV (x)	1.4	1.1	0.9	0.8	0.7

Source: Company, Emkay Research

Margin slips again

Canara Bank posted some pick-up in credit growth at 11.2% YoY/4% QoQ during 3Q, while deposits growth was moderate at 8.4% YoY/1.6% QoQ, leading to LDR expansion of ~170bps QoQ to ~74%. CASA ratio dipped further by 120bps to 28% due to cannibalization effect. This, coupled with lower loan yields (partly due to interest reversal) and other interest income including interest on balance with the RBI and IT refund, led to continued contraction in NIM by 5bps QoQ to 2.83%. The bank expects growth as well as margins to remain range-bound.

Asset quality continues to improve QoQ

Gross slippages were contained at Rs24.6bn/1.1% of loans which, coupled with higher write-offs, led to reduction in GNPA ratio by ~40bps QoQ to 3.3%. However, the SMA-1&2 book is still elevated at Rs113bn/1.1% of gross advances (vs Rs116bn/1.1% of gross advances in Q2), primarily due to inclusion of RINL (Rs38bn) and a state government account (Rs30bn). With government announcing funding support to revive RINL, we believe the probability of an eventual default remains low and could thus lead to reversal of provisions in due course.

We retain BUY on the stock

We fine-tune our earnings for FY25-27 by ~1-2%, but expect Canara Bank to deliver healthy RoA at 1%. Thus, we retain BUY on the bank, but cut our TP to Rs120 from Rs130, valuing the standalone bank now at 1x Dec-26E ABV vs 1.1x Sep-26E, amid rising macro/growth dislocations and subsidiaries at Rs6/share. **Key Risks:** Further slowdown in growth, lower margins due to macroeconomic challenges, and higher-than-expected increase in provisioning due to ensuing ECL impact.

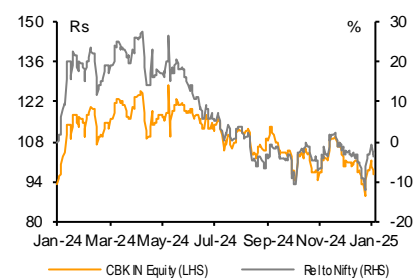
Target Price – 12M	Dec-25
Change in TP (%)	(7.7)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.5
CMP (27-Jan-25) (Rs)	91.9

Stock Data	Ticker
52-week High (Rs)	129
52-week Low (Rs)	88
Shares outstanding (mn)	9,070.7
Market-cap (Rs bn)	834
Market-cap (USD mn)	9,658
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	24
ADTV-3M (Rs mn)	2,428.1
ADTV-3M (USD mn)	28.1
Free float (%)	37.0
Nifty-50	22,829
INR/USD	86.3
Shareholding, Dec-24	
Promoters (%)	62.9
FPIs/MFs (%)	11.1/11.7

Price Performance

(%)	1M	3M	12M
Absolute	(8.4)	(2.5)	(1.2)
Rel. to Nifty	(4.5)	3.3	(7.6)

1-Year share price trend (Rs)



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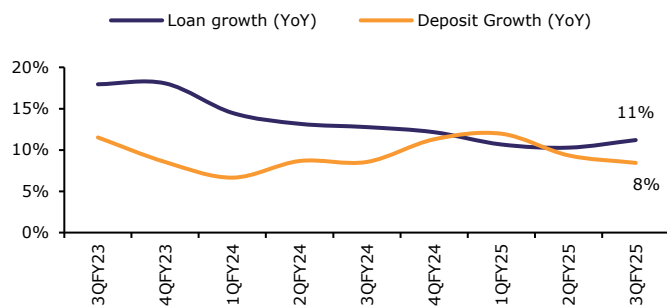
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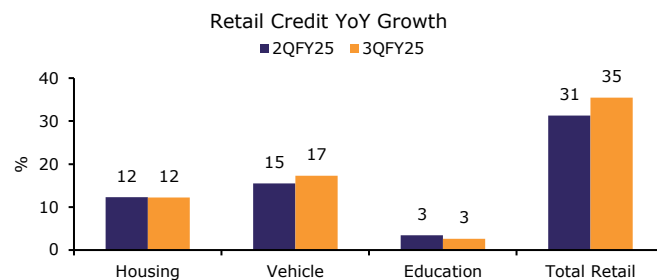
Story in Charts

Exhibit 1: Healthy credit growth and moderate deposit growth led to marginal expansion in LDR



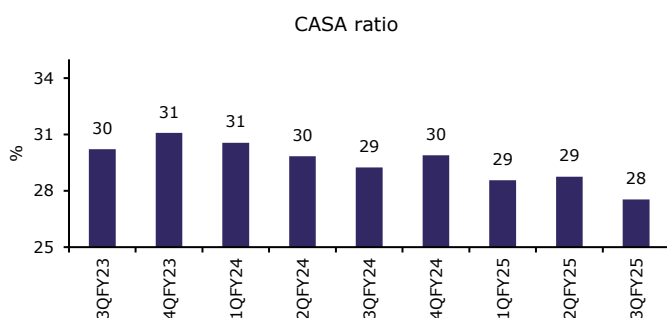
Source: Company, Emkay Research

Exhibit 2: Retail credit growth remains healthy, led by broad based growth across the segment



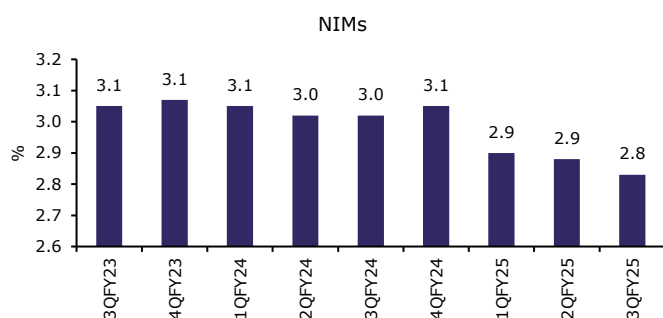
Source: Company, Emkay Research

Exhibit 3: CASA ratio dipped QoQ led by slower SA growth



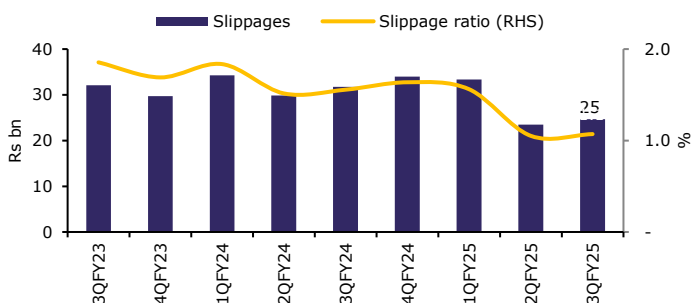
Source: Company, Emkay Research

Exhibit 4: Margins slipped QoQ due to lower loan yields and other interest income



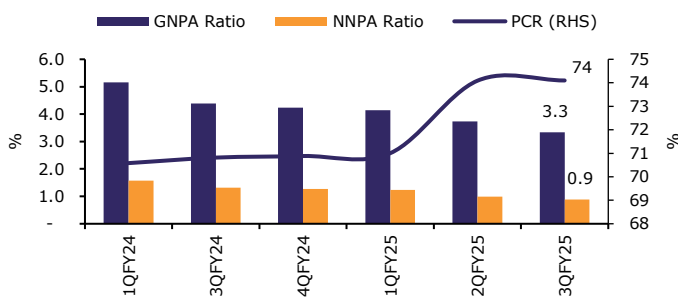
Source: Company, Emkay Research

Exhibit 5: Gross slippages were largely contained QoQ...



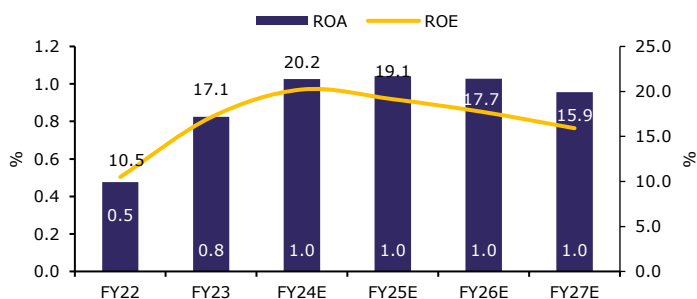
Source: Company, Emkay Research

Exhibit 6: ...this, coupled with higher write-offs, led to continued reduction in GNPA ratio



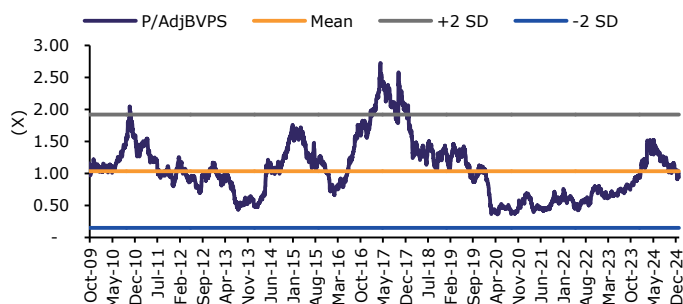
Source: Company, Emkay Research

Exhibit 7: We slightly trim FY25-27E earnings, but expect the bank to deliver RoA of ~1%



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.9x (post subs valuation) Sep-26E ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q3FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	149,507	141,842	144,545	5%	3%	Higher other income led to a miss in Net income
PPOP	78,366	72,279	75,432	8%	4%	Higher net income, partly offset by lower opex, led to a PPOP miss
PAT	41,042	40,601	39,130	1%	5%	PPoP miss and higher LLP led to a stable PAT

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	280,388	288,074	287,014	297,401	303,116	8	2	1,086,879	1,196,402	10
Interest Expenses	186,217	192,272	195,351	204,249	211,630	14	4	721,220	826,420	15
Net Interest Income	94,171	95,802	91,663	93,152	91,486	-3	-2	365,659	369,981	1
Global NIMs (Reported)	3.02	3.05	2.90	2.88	2.83	-19bps	-5bps	2.70	2.48	-23bps
Non-interest Income	42,951	52,178	53,189	49,810	58,022	35	16	189,664	215,969	14
Operating Expenses	69,067	74,106	68,690	66,424	71,141	3	7	261,198	276,650	6
Pre-Provisioning Profit	68,055	73,875	76,162	76,538	78,366	15	2	294,125	309,300	5
Provision & Contingencies	18,989	24,818	22,823	22,513	23,983	26	7	97,080	92,622	-5
PBT	49,066	49,056	53,338	54,025	54,384	11	1	197,045	216,678	10
Income Tax Expense (Gain)	12,505	11,484	14,285	13,880	13,342	7	-4	51,507	54,603	6
Net Profit/(Loss)	36,561	37,572	39,053	40,145	41,042	12	2	145,538	162,075	11
Gross NPA (%)	4.39	4.23	4.14	3.73	3.34	-105bps	-39bps	4.23	3.09	-114bps
Net NPA (%)	1.32	1.27	1.24	0.99	0.89	-43bps	-10bps	1.27	0.82	-45bps
Deposits (Rs bn)	12,629	13,124	13,352	13,473	13,695	8	2	13,124	14,079	7
Net Advances (Rs bn)	9,209	9,316	9,464	9,840	10,237	11	4	9,316	10,360	11

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	583,752	585,950	0.4%	631,112	619,093	-1.9%	684,253	661,921	-3.3%
PPOP	307,102	309,300	0.7%	335,759	323,740	-3.6%	366,245	343,912	-6.1%
PAT	162,675	162,075	-0.4%	174,071	174,189	0.1%	182,587	178,633	-2.2%
EPS (Rs)	17.9	17.9	-0.4%	19.2	19.2	0.1%	20.1	19.7	-2.2%
BV (Rs)	101.9	100.9	-0.9%	117.0	116.0	-0.8%	132.9	131.5	-1.0%

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	12.2	11.2	10.0	12.3
Deposit Growth	11.3	7.3	9.3	11.2
NIM	2.7	2.5	2.4	2.4
GNPA	4.2	3.1	2.5	2.2
Credit Cost	1.0	0.9	0.8	0.9

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Loans (Rs bn)	8,164	8,307	8,551	8,923	9,209	9,316	9,464	9,840	10,237
- Growth YoY (%)	18.0	18.1	14.5	13.2	12.8	12.2	10.7	10.3	11.2
- Growth QoQ (%)	3.5	1.7	2.9	4.3	3.2	1.2	1.6	4.0	4.0

Liability Profile & Capital (%)

CASA	30.2	31.1	30.6	29.8	29.2	29.9	28.6	28.7	27.5
- CA	4.0	4.0	3.7	3.6	3.6	4.9	3.7	3.5	3.5
- SA	26.2	27.1	26.9	26.2	25.7	25.0	24.9	25.3	24.1
Branches (no of)	8,897	8,883	8,865	8,757	8,964	8,984	8,997	9,032	9,190
CAR	16.7	16.7	16.2	16.2	15.8	16.3	16.4	16.6	16.4
Tier I	13.7	13.8	13.6	13.6	13.4	14.0	14.4	14.6	14.6

Asset Quality (%)

GNPA	5.9	5.4	5.2	4.8	4.4	4.2	4.1	3.7	3.3
NNPA	2.0	1.7	1.6	1.4	1.3	1.3	1.2	1.0	0.9
PCR	68.1	68.9	70.6	71.4	70.8	70.9	71.0	74.1	74.1
Slippages (Rs mn)	32,100	29,730	34,280	29,870	31,760	34,000	33,370	23,450	24,640
Slippages - annualized	1.9	1.7	1.8	1.5	1.6	1.6	1.6	1.1	1.1

ROE Decomposition (%)

NII	2.6	2.6	2.5	2.5	2.8	2.6	2.4	2.4	2.3
Other Income	1.2	1.4	1.4	1.3	1.3	1.4	1.4	1.3	1.5
Treasury	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.2	0.2
Opex	1.7	1.8	1.7	1.7	2.0	2.0	1.8	1.7	1.8
PPOP	2.1	2.2	2.2	2.2	2.0	2.0	2.0	2.0	2.0
Provisioning Cost	1.0	0.9	0.8	0.7	0.6	0.7	0.6	0.6	0.6
PBT	1.2	1.2	1.4	1.4	1.5	1.3	1.4	1.4	1.4
Tax	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.4	0.3
ROA	0.9	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.0
Leverage (x)	18.0	18.1	17.7	17.4	20.9	21.8	19.9	19.5	18.5
ROE	15.9	17.3	18.3	17.9	21.1	22.1	20.9	20.4	19.1

Source: Company, Emkay Research

Canara Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	844,248	1,086,879	1,196,402	1,264,216	1,346,162
Interest Expense	529,895	721,220	826,420	875,352	922,334
Net interest income	314,353	365,659	369,981	388,864	423,828
NII growth (%)	19.1	16.3	1.2	5.1	9.0
Other income	187,622	189,664	215,969	230,230	238,093
Total Income	501,975	555,323	585,950	619,093	661,921
Operating expenses	224,815	261,198	276,650	295,353	318,009
PPOP	277,160	294,125	309,300	323,740	343,912
PPOP growth (%)	20.0	6.1	5.2	4.7	6.2
Core PPOP	258,230	277,897	286,879	296,835	314,316
Provisions & contingencies	135,430	97,080	92,622	90,867	105,099
PBT	141,730	197,045	216,678	232,873	238,813
Extraordinary items	0	0	0	0	0
Tax expense	35,692	51,507	54,603	58,684	60,181
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	106,038	145,538	162,075	174,189	178,633
PAT growth (%)	86.7	37.3	11.4	7.5	2.6
Adjusted PAT	106,038	145,538	162,075	174,189	178,633
Diluted EPS (Rs)	11.7	16.0	17.9	19.2	19.7
Diluted EPS growth (%)	(27.1)	37.3	11.4	7.5	2.6
DPS (Rs)	12.0	16.1	19.4	20.5	21.0
Dividend payout (%)	20.5	20.1	21.7	21.4	21.3
Effective tax rate (%)	25.2	26.1	25.2	25.2	25.2
Net interest margins (%)	2.6	2.7	2.5	2.4	2.4
Cost-income ratio (%)	44.8	47.0	47.2	47.7	48.0
Shares outstanding (mn)	1,814.1	1,814.1	1,814.1	1,814.1	1,814.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	461,599.6	406,049.6	327,374.0	295,079.1	284,610.1
Net NPLs	143,937.2	118,617.2	85,117.2	82,622.2	85,383.0
GNPA ratio (%)	5.4	4.2	3.1	2.5	2.2
NNPA ratio (%)	1.7	1.3	0.8	0.7	0.7
Provision coverage (%)	68.8	70.8	74.0	72.0	70.0
Gross slippages	119,790.0	106,260.0	111,324.5	127,705.1	149,531.0
Gross slippage ratio (%)	1.4	1.1	1.1	1.1	1.2
LLP ratio (%)	1.3	1.0	0.9	0.8	0.9
NNPA to networth (%)	21.0	14.8	9.0	7.6	6.9
Capital adequacy					
Total CAR (%)	16.7	17.5	17.5	17.8	18.0
Tier-1 (%)	13.8	13.4	13.6	13.8	13.9
CET-1 (%)	11.2	11.2	11.7	12.1	12.4
RWA-to-Total Assets (%)	42.2	45.0	47.0	48.0	48.0
Miscellaneous					
Total income growth (%)	20.1	23.7	10.6	5.8	6.0
Opex growth (%)	13.6	16.2	5.9	6.8	7.7
Core PPOP growth (%)	26.0	7.6	3.2	3.5	5.9
PPOP margin (%)	26.9	23.0	21.9	21.7	21.7
PAT/PPOP (%)	38.3	49.5	52.4	53.8	51.9
LLP-to-Core PPOP (%)	52.4	34.9	32.3	30.6	33.4
Yield on advances (%)	8.2	9.0	9.0	8.7	8.4
Cost of funds (%)	4.5	5.5	5.8	5.7	5.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	18,141	18,141	18,141	18,141	18,141
Reserves & surplus	717,930	851,405	989,852	1,126,852	1,267,388
Net worth	736,072	869,546	1,007,993	1,144,993	1,285,529
Deposits	11,792,186	13,123,666	14,078,710	15,383,545	17,098,896
Borrowings	580,898	575,923	724,368	796,805	876,485
Interest bearing liab.	12,373,084	13,699,589	14,803,078	16,180,350	17,975,381
Other liabilities & prov.	348,167	346,272	396,473	374,261	397,448
Total liabilities & equity	13,457,322	14,915,407	16,207,544	17,699,603	19,658,358
Net advances	8,306,726	9,316,128	10,360,074	11,397,096	12,803,472
Investments	3,190,385	3,574,544	3,821,024	4,101,111	4,433,215
Cash, other balances	1,414,232	1,507,597	1,482,199	1,619,926	1,799,429
Interest earning assets	12,911,342	14,398,270	15,663,297	17,118,133	19,036,116
Fixed assets	102,307	122,282	126,742	135,566	145,036
Other assets	443,674	394,856	417,505	445,905	477,206
Total assets	13,457,322	14,915,407	16,207,544	17,699,603	19,658,358
BVPS (Rs)	72.9	85.8	100.9	116.0	131.5
Adj. BVPS (INR)	62.4	77.2	94.7	110.0	125.3
Gross advances	8,624,388	9,603,561	10,602,331	11,609,552	13,002,699
Credit to deposit (%)	70.4	71.0	73.6	74.1	74.9
CASA ratio (%)	31.1	29.9	26.8	27.0	27.7
Cost of deposits (%)	4.3	5.3	5.6	5.5	5.2
Loans-to-Assets (%)	61.7	62.5	63.9	64.4	65.1
Net advances growth (%)	18.1	12.2	11.2	10.0	12.3
Deposit growth (%)	8.5	11.3	7.3	9.3	11.2
Book value growth (%)	(15.1)	17.7	17.6	15.0	13.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	7.6	5.4	4.8	4.5	4.4
P/B (x)	1.2	1.0	0.9	0.7	0.7
P/ABV (x)	1.4	1.1	0.9	0.8	0.7
P/PPOP (x)	0.6	0.6	0.5	0.5	0.5
Dividend yield (%)	2.6	3.5	4.2	4.5	4.6
DuPont-RoE split (%)					
NII/avg assets	2.4	2.6	2.4	2.3	2.3
Other income	1.5	1.3	1.4	1.4	1.3
Fee income	0.9	0.8	0.9	0.9	0.9
Opex	1.7	1.8	1.8	1.7	1.7
PPOP	2.2	2.1	2.0	1.9	1.9
Core PPOP	2.0	2.0	1.8	1.8	1.7
Provisions	1.1	0.7	0.6	0.5	0.6
Tax expense	0.3	0.4	0.4	0.3	0.3
RoA (%)	0.8	1.0	1.0	1.0	1.0
Leverage ratio (x)	20.8	19.7	18.4	17.2	16.6
RoE (%)	17.1	20.2	19.1	17.7	15.9
Quarterly data					
Rs mn, Y/E Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	94,171	95,802	91,663	93,152	91,486
NIM(%)	3.0	3.1	2.9	2.9	2.8
PPOP	68,055	73,875	76,162	76,538	78,366
PAT	36,561	37,572	39,053	40,145	41,042
EPS (Rs)	20.15	20.71	21.53	22.13	22.62

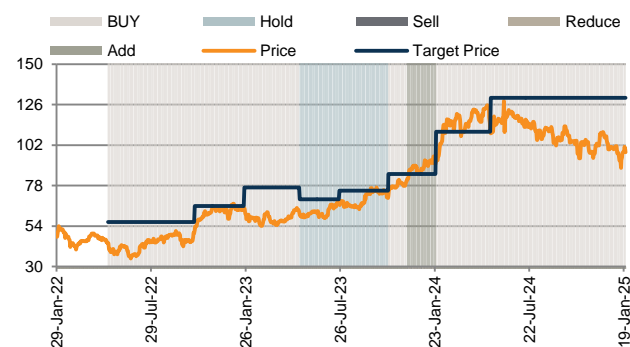
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Oct-24	103	130	Buy	Anand Dama
25-Jul-24	112	130	Buy	Anand Dama
09-May-24	109	130	Buy	Anand Dama
25-Jan-24	93	110	Buy	Anand Dama
30-Nov-23	81	85	Add	Anand Dama
26-Oct-23	72	85	Buy	Anand Dama
24-Jul-23	68	75	Hold	Anand Dama
09-May-23	61	70	Hold	Anand Dama
09-Mar-23	62	77	Buy	Anand Dama
23-Jan-23	65	77	Buy	Anand Dama
20-Oct-22	52	66	Buy	Anand Dama
25-Jul-22	45	56	Buy	Anand Dama
07-May-22	44	56	Buy	Anand Dama
28-Jan-22	48	58	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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