

**BUY**
**Target: 400**
**Upside: 25%**
**VALUE PARAMETERS**

Face Value (Rs.)	10.00
Mrk.Cap (Rs. in Cr)	53,351
Enterprise value (Rs in Cr)	10,03,586
52-Week High/Low	342/172
EPS (TTM)	54.2
P/E Ratio (TTM)	5.56
Book Value per share (Rs)	386
Industry P/E	12.6
P/B Ratio (calc at CMP)	0.77
Dividend Yield (%)	2.18%
Cash equivalents (Rs. Cr)	1,82,391
Debt (Rs. Cr)	11,32,626

**SHAREHOLDING PATTERN (%)**

Promoters	62.93
FIIs	8.95
DIIIs	16.20
Public	11.92

**FINANCIAL PERFORMANCE (INR b)**

Consolidated	FY22	FY23E	FY24E
<b>NII</b>	<b>263.8</b>	<b>351</b>	<b>414</b>
<i>Growth (%)</i>	<i>9.5%</i>	<i>33.0%</i>	<i>20.00%</i>
Operating Profit	230.8	269	310
<b>PAT (Rs. Cr)</b>	<b>56.8</b>	<b>90.2</b>	<b>112.5</b>
<i>Growth (%)</i>	<i>122.0%</i>	<i>60.0%</i>	<i>25.0%</i>
Loans	122.7	137.4	154
Deposit	108.65	122	136
<i>EPS (Rs)</i>	<i>31</i>	<i>50</i>	<i>84</i>
GNPA	7.5%	5.6	4.9
NNPA	2.7%	1.9%	1.7%
ROA	0.5%	0.7%	1%
ROE	8.6%	11.5%	15%
BVPS (Rs)	364	415	500

**PRICE PERFORMANCE**


**Our Recommendation:** Near-term capital infusion will fatten the bank's loan book at CAGR of 20% over FY22-24E led by RAM and corporate book growth. The bank's credit cost will normalize further by FY23E and return ratio ROA & ROE of 1% and 17% in FY24E respectively. We value the stock 0.8x FY24E BVPS (Rs. 500). We recommend BUY in price range Rs. 300-320 with target price Rs 400 (upside 25%).

**Investment Rationale:**

**About Company:** Canara Bank is a public sector bank. The services offered by the bank includes Personal Banking-i.e.saving accounts, deposits, loans, mutual funds, Insurance, internet banking, debit card, credit card, etc.;Corporate Banking-i.e.Cash Management Services, loans, IPO monitoring services, etc.; NRI Banking-ie. remittance services, consultancy services to its NRI Clients. The company also offers various products and services to the priority and SME sector. The bank merged with Syndicate bank effective from 1st April 2020. Post-merger, it became the 4th largest PSU bank in India.

**Q3FY23 Results:**

- Net Interest Income increased by 23.8% YoY to Rs. 8939.7 from Rs. 7221.1. On sequential basis, NII increased by 14.6% from Rs 7801 on the back of lower provisioning expenses.
- PAT increased by 79.3% YoY to Rs. 2,923.2 from Rs 1630.7. On sequential basis, PAT increased by 12.7% to Rs. 2593.5 fueled by healthy NII growth and lower provisions.
- Net interest margin 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).
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**Asset quality improvement continued:** GNPA is decreasing gradually with moderate slippages and higher recoveries. In 3QFY23, GNPA addition has been Rs. 32.1b which is down sequentially while stable recoveries and upgrades along with strong loan growth aided 47bps/23bps decline in the GNPA/NNPA ratios.

**Robust business growth across segments:** Loan growth remained healthy driven by corporate, retail and Agri segments. But deposits growth was modest led by term deposits, while CASA deposits declined on Quarter on Quarter basis. Total loans rose 3.5% QoQ with strong momentum witnessed in the Corporate segment that grew 5% QoQ, while Retail/Agri increased 2%/ and % sequentially.

**Key Highlights from management commentary:**

- Loan growth likely to remain at 15-15% in FY23.
- Margins are expected to be at 3% for FY23.
- Management is confident to maintain credit cost at 1.2%.

Q3, 2023 Financial results, consolidated (Rs. Cr)

Particulars	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	22,561.3	17,982.5	25.5%	20,482.4	10.1%
Interest Expended	13,621.5	10,761.4	26.6%	12,681.1	7.4%
<b>Net interest income</b>	<b>8,939.7</b>	<b>7,221.1</b>	<b>23.8%</b>	<b>7,801.3</b>	<b>14.6%</b>
Expenditures	7,707.2	6,140.2	25.5%	7,688.7	0.2%
<b>Operating Income</b>	<b>1,232.5</b>	<b>1,081.0</b>	<b>14.0%</b>	<b>112.6</b>	<b>994.6%</b>
Other Income	5,776.8	4,861.0	18.8%	6,876.0	-16.0%
Provis. & contingency	3,123.5	2,246.1	39.1%	3,637.7	-14.1%
Exception items	0.0	-1,354.9		0.0	
<b>PBT</b>	<b>3,885.9</b>	<b>2,341.0</b>	<b>66.0%</b>	<b>3,350.9</b>	<b>16.0%</b>
Tax	962.7	710.3	35.5%	757.4	27.1%
<b>PAT</b>	<b>2,923.2</b>	<b>1,630.7</b>	<b>79.3%</b>	<b>2,593.5</b>	<b>12.7%</b>
Minority Int	-25.3	-55.0		-24.0	
Shares associate	135.1	81.4		136.1	
<b>Net Profit</b>	<b>3,032.9</b>	<b>1,657.1</b>	<b>83.0%</b>	<b>2,705.6</b>	<b>12.1%</b>
<b>Asset Quality measures</b>					
GNPA (Rs Cr)	50,212	56,893	-11.7%	52,485	-4.3%
NNPA (Rs Cr)	15,993	19,819	-19.3%	17,286	-7.5%
GNPA %	5.9	7.8	-190 bps	6.37	-47 bps
NNPA %	1.96	2.9	-94 bps	2.19	-23 bps
PCR, calculated	68.1	65.2	296	67.1	106
<b>Operating Parameters</b>					
Deposits (INR b)	11,635	10,434	11.5%	11,340	2.6%
Loan (INR b)	8,164	6,922	17.9%	7,885	3.5%

Profit & Loss Statement, standalone (INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22
Interest Income	412.5	468.1	489.3	692.8	694.1
Interest Expense	290.9	323.3	358.1	451.8	430.3
<b>Net Interest Income</b>	<b>121.6</b>	<b>144.8</b>	<b>131.2</b>	<b>241</b>	<b>263.8</b>
Growth (%)	23.2	19	-9.4	83.7	9.5
Non-Interest Income	69.4	65.7	78.1	149.2	165
<b>Total Income</b>	<b>191.1</b>	<b>210.5</b>	<b>209.4</b>	<b>390.3</b>	<b>428.8</b>
Growth (%)	9.6	10.2	-0.6	86.4	9.9
Operating Expenses	95.6	104.6	115.8	193.4	184.4
<b>Pre-Provision Profits</b>	<b>95.5</b>	<b>105.9</b>	<b>93.6</b>	<b>196.9</b>	<b>244.4</b>
Growth (%)	7.1	10.9	-11.6	110.4	24.2
<b>Core PPP</b>	<b>76.3</b>	<b>65.7</b>	<b>86</b>	<b>166.9</b>	<b>218.5</b>
Growth (%)	70.5	-13.9	31	94.1	30.9
Provisions	161.1	129.2	111.2	159.8	141.3
Exceptional Item	NA	NA	NA	NA	13.5
<b>PBT</b>	<b>-65.6</b>	<b>-23.3</b>	<b>-17.6</b>	<b>37.1</b>	<b>89.6</b>
Tax	-23.4	-26.7	4.8	11.5	32.8
Tax Rate (%)	35.6	114.9	-27.4	31	36.6
<b>PAT</b>	<b>-42.2</b>	<b>3.5</b>	<b>-22.4</b>	<b>25.6</b>	<b>56.8</b>
Growth (%)	-476.3	-108.2	-744.3	-214.4	122
EPS (Rs)	-58	5	-22	16	31

**Balance Sheet, consolidated (INR b)**

Y/E March	FY18	FY19	FY20	FY21	FY22
Equity Share Capital	7.3	7.5	10.3	16.5	18.1
Reserves & Surplus	348.7	354.2	382.6	572.4	643
<b>Net Worth</b>	<b>356</b>	<b>361.8</b>	<b>392.9</b>	<b>588.8</b>	<b>661.1</b>
<b>Deposits</b>	<b>5,247.70</b>	<b>5,990.30</b>	<b>6,253.50</b>	<b>10,108.70</b>	<b>10,864.10</b>
Growth (%)	6	14.2	4.4	61.6	7.5
<b>of which CASA Deposits</b>	<b>1,670.3</b>	<b>1,748.1</b>	<b>1,962.1</b>	<b>3,309.0</b>	<b>3,688.3</b>
Growth (%)	11.5	4.7	12.2	68.6	11.5
Borrowings	388.1	409.9	427.6	499.8	462.8
Other Liabilities & Prov.	177	185.6	164.7	339.3	281.7
<b>Total Liabilities</b>	<b>6,168.9</b>	<b>6,947.7</b>	<b>7,238.7</b>	<b>11,536.8</b>	<b>12,269.8</b>
Current Assets	499.1	661.5	682.7	1,784.10	1,820.50
<b>Investments</b>	<b>1,440.5</b>	<b>1,529.9</b>	<b>1,762.4</b>	<b>2,616.9</b>	<b>2,820.1</b>
Growth (%)	-4.1	6.2	15.2	48.5	7.8
<b>Loans</b>	<b>3,817</b>	<b>4,277</b>	<b>4,322</b>	<b>6,391</b>	<b>7,036</b>
Growth (%)	11.6	12.1	1	47.9	10.1
Fixed Assets	83.2	84.1	82.8	112.1	113.6
Other Assets	329	394.9	389.1	633.2	479.5
<b>Total Assets</b>	<b>6,168.9</b>	<b>6,947.7</b>	<b>7,238.7</b>	<b>11,536.8</b>	<b>12,269.8</b>

**Asset Quality**

Y/E March	FY18	FY19	FY20	FY21	FY22
GNPA (INR M)	474.7	392.2	370.4	602.9	556.5
NNPA (INR M)	287	231.8	184.7	248.4	189.6
GNPA Ratio	11.9	8.8	8.2	8.9	7.5
NNPA Ratio	7.5	5.4	4.3	3.9	2.7
Slippage Ratio	7.2	4.1	3.5	6.8	2.2
Credit Cost	4.1	3.1	2.5	2.6	1.5
PCR (calculated%)	39.5	40.9	50.1	58.8	65.9

**Key Ratios**

(Rs mn)	FY18	FY19	FY20	FY21	FY22
<b>Financial Ratios</b>					
EPS (Rs)	-58	5	-22	16	31
BVPS (Rs, Calculated)	486	480	381	358	364
<b>Performance Ratios</b>					
ROA(% , Calculated)	-0.7	0	-0.3	0.2	0.5
ROE(% , Calculated)	-11.9	1	-5.7	4.3	8.6
<b>Efficiency Ratios</b>					
Cost Income Ratio	50	50	55	49	50
CASA (%)	32	29	31	33	36

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**Disclosure:**

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