



Earnings growth to sustain at 15-18%

Asset quality outlook remains robust

We met with the top management team of Canara Bank, represented by Mr. K Satyanarayana Raju – MD & CEO, Mr. Ashok Chandra, Mr. Bhavendra Kumar, Mr. Debashish Mukherjee, and Mr. Hardeep Ahluwalia – Executive Directors, to discuss the bank's business outlook, profitability goals, and other key focus areas. Here are the key takeaways from the discussion:

Loan growth to remain healthy; mix of RAM to improve further

Canara Bank has exhibited healthy loan growth, driven by sustained momentum in Retail, Agriculture, and MSME. It reported a 15% CAGR in loans over FY22-24 to INR9.3t, with the share of the RAM segment rising to 56.4% in FY24.

Management reiterated its focus on further increasing the mix of high-yielding RAM asset books, and aims to raise the share to 58%. The domestic business constituted ~95% of the overall loan book and stood at INR9.1t in FY24. The bank has a healthy corporate pipeline of INR520b under discussion, with ~INR220b already sanctioned, and it is focusing on the pending proposals from infrastructure, green energy, steel, power, and data center industries.

Additionally, the bank has taken a prudent call to unwind INR600b of corporate loans given at a lower rate of interest, which involved offloading a portion of this book amounting to ~INR150-160b in FY24. While there is a strong demand in the NBFC lending space, management has exercised a cautious view, reduced its exposure by ~INR70b in FY24, and passed on the increase in RWA burden to NBFC borrowers. The bank anticipates ~10-12% YoY credit growth in FY25, with corporate growth at ~10%, even as the management will continue reorganizing the corporate book to improve overall book yields.

Focus remains on the improving mix of CASA & retail deposits; NIM to remain range-bound

Canara Bank has delivered ~10% CAGR in deposits over FY22-24, though the CASA mix remained relatively lower vs. peer banks at ~32% in FY24. Management remains focused on increasing the mix of CASA deposits and aims to take this ratio to 35%. The bank has thus initiated various campaigns and taken steps to ramp up growth in CASA deposits, aiming to achieve a CASA ratio of 33% in FY25. The bank stands to benefit from any potential rate cuts in the near future, as a significant portion of its book (~52%) is linked to MCLR, with 38% linked to RLLR and the remainder consisting of fixed-rate, staff loans, and others. Management thus expects lending yields to remain broadly stable, while gradual moderation in funding costs will cushion margins. That being said, management indicated 1HFY25 margins to be slightly better than 2H, as the RBI's monetary easing may have an immediate impact on lending yields for all banks, and this will depend on the extent and timing of rate cuts. The bank anticipates its deposit base to grow at a healthy ~9-10%, driven by retail deposits via CASA and retail TDs. With a current CD ratio of 71%, the bank has sufficient room in place to further boost loan growth and is eyeing an optimal CD ratio of ~76%.

The RBI's draft circular on project finance to have a limited impact

Canara Bank has a limited exposure to project finance loans at ~INR600b. The bank anticipates a minimal impact as it has limited exposure to under-construction projects and suggests a total provisioning impact of ~INR12-13b if the guidelines are stringently followed. The bank plans to transfer 90% of the burden to the borrowers and will vigilantly monitor the developments to mitigate the potential impact of the regulatory changes.

Canara Bank



Mr. K Satyanarayana Raju, MD & CEO

Mr. Raju took charge as the MD & CEO of Canara Bank on Feb'23.

He has over three decades of experience in financial services.

Mr. Raju joined the erstwhile Vijaya Bank in 1988 and rose to the level of CGM in Bank of Baroda, where he headed the operations and services departments.

Prior to taking charge as the MD & CEO, he was the ED of Canara Bank. Mr. Raju is a graduate and a postgraduate in Business Administration (Banking and Finance).

Branch rationalization and digitalization to help contain the cost ratios

Canara Bank has seen an expansion in the yield on advances to 8.7%, driven by the rising share of the RAM segment. However, elevated interest rates have led to an increase in the cost of funds to 5% in 4QFY24. Despite this, NIM stood at 3.05%, remaining within the upper end of the management's guided range of 2.9-3.0%. The opex run rate has been high as the bank made additional provisions in FY24 for a 17% wage hike settlement, resulting in a higher C/I ratio of ~47% in FY24. Looking ahead, the bank expects a modest ~9-10% increase in opex, leading to a moderation in C/I ratio to the range of 45-47% in FY25. Further, the rationalization of branches, with a focus on increasing the business per branch and prioritizing digital and technological advancements, will boost operational efficiencies and result in a moderation in cost ratios.

Asset quality steady; recoveries and upgrades will continue to outpace slippages

Canara Bank's asset quality has been improving steadily, marked by a consistent decline in NPA ratios, with GNPA decreasing ~330bp to 4.2% over the past two years. Conversely, NNPA was down ~145bp to 1.3% over the same period. The improving asset quality has enabled lower credit costs with the same declining to ~66bp in FY24. The bank has also increased its PCR from 76% in FY20 to 89% in FY24 (including TWO) and aims to further raise it to 95%. About INR650-750b still remain in the TWO pool, and the bank aims to recover a minimum of INR40b from this pool, with efforts being focused on maximizing recoveries. Along with healthy recovery rates, the bank expects fresh slippages to remain under control, anticipating recoveries and upgrades to outpace the slippages in FY25 as well. We believe that improvements in underwriting standards, negligible SMA book, and higher provisions on stressed accounts should aid asset quality and it will support earnings. Management thus suggested for a credit cost of ~1.1%.

Other highlights:

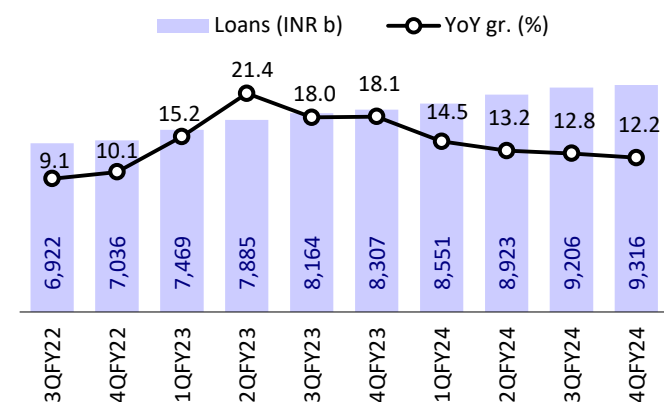
- **Subsidiaries related:** 1) Canara Bank is set to transform its existing subsidiary into a dedicated credit card subsidiary, with ambitions to establish a base of 10m cards. It will get approval within 15-20 days and may start functioning on 1st Oct'24; 2) another focus is on the Canara Venture Fund that was not active for some time, but now the bank is focusing on the same; 3) Canbank Computer Services, a subsidiary, will now become a wholly-owned entity of Canara Bank, following the acquisition of KVB's stake in it; 4) looking ahead, management has plans to list Canara Robecco Asset Management and Canara HSBC Life Insurance with an estimated timeframe of 2HFY25 and 1HFY26, respectively.
- Canara Bank plans to open 200 branches in FY25, with consistent yearly run-rate going forward.
- The bank is leveraging direct Staff Engagement to drive 86% of the business, leading to lower opex vs. third-party channels.
- The ECL requirement for the bank is not as critical now because the RBI is implementing other regulations (increase in risk weight, provisions on project financing exposure, etc.) that address this issue, and the bank has already set aside provisions for it.
- **The bank expects ~8-10% operating profit growth and 15-18% net profit growth.** The bank believes that it is well capitalized and strong internal accruals will be sufficient enough to support its growth requirements.

Valuations and view: Reiterate BUY with a TP of INR140

Canara Bank has been reporting a healthy performance, with earnings driven by steady revenue growth and controlled provisions. With a comfortable CD ratio, it is well positioned to grow its loan book with a continued focus on high-yielding RAM segments, especially, housing finance and vehicle loans. Management expects NIM to remain rangebound as the company remains watchful of potential monetary easing and the associated impact on lending yields, even as a high mix of MCLR loans places the bank in an advantageous position over the medium term. Asset quality improvement is likely to continue with slippages sustaining at ~1.2%, while recoveries and upgrades continue to outperform slippages, thus keeping credit costs under control. Canara Bank delivered FY24 RoA/RoE of 1.0%/20%. We estimate return ratios to remain steady with RoA improving to 1.1% by FY26E, supported by 12% CAGR in loan growth. **We reiterate our BUY rating on the stock with a revised TP of INR140 (premised on 1.2x FY26E ABV).**

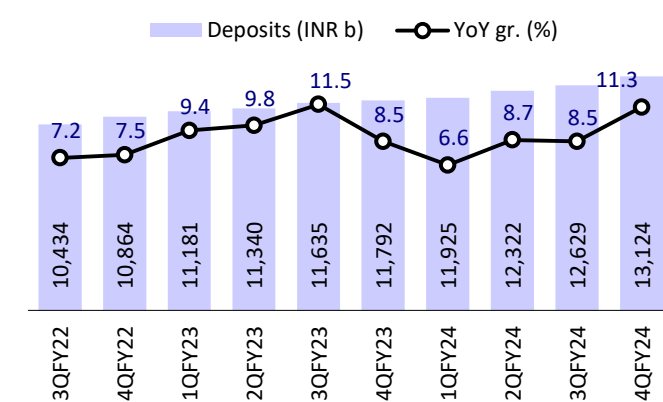
STORY IN CHARTS

Exhibit 1: Loan book grew ~12% YoY (up 1.2% QoQ)



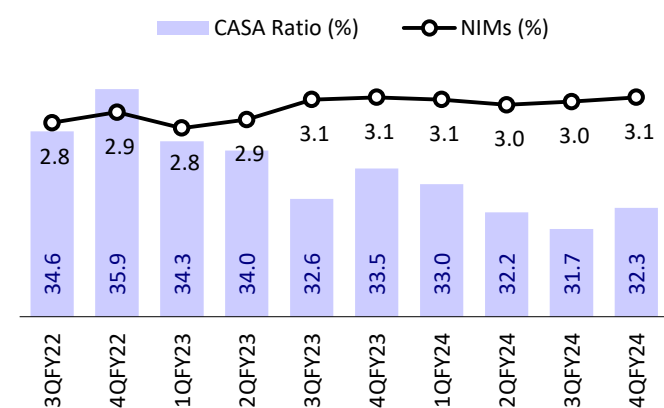
Source: MOFSL, Company

Exhibit 2: Deposits grew 11% YoY (up 3.9% QoQ)



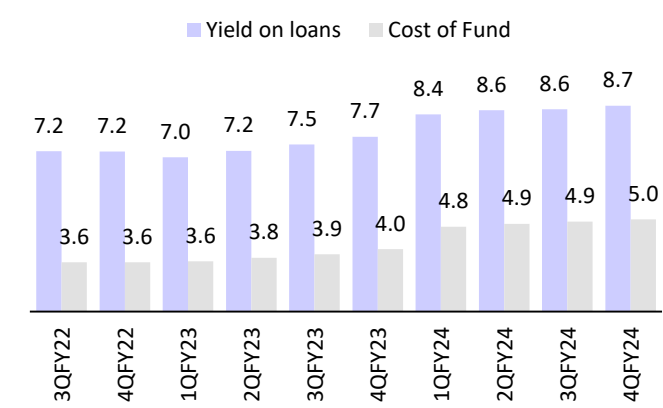
Source: MOFSL, Company

Exhibit 3: NIM expanded 4bp QoQ to 3.07%



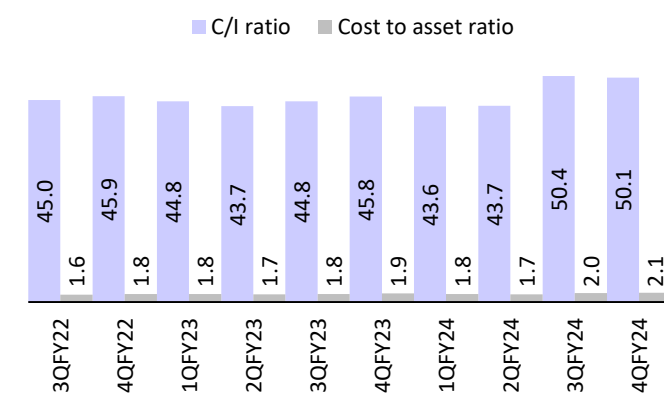
Source: MOFSL, Company

Exhibit 4: Yield on advances improved 11bp QoQ to 8.7%



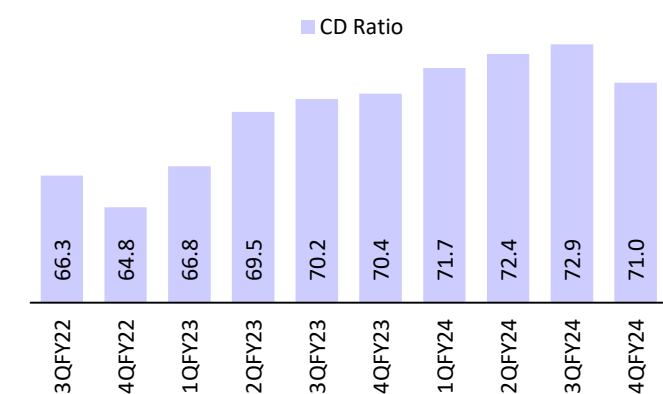
Source: MOFSL, Company

Exhibit 5: C/I ratio moderated 29bp QoQ to 50.1%



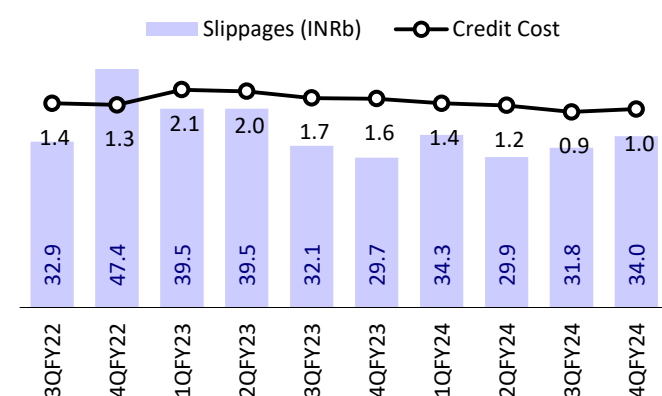
Source: MOFSL, Company

Exhibit 6: CD ratio moderated to 71% vs. 72.9% in 3QFY24



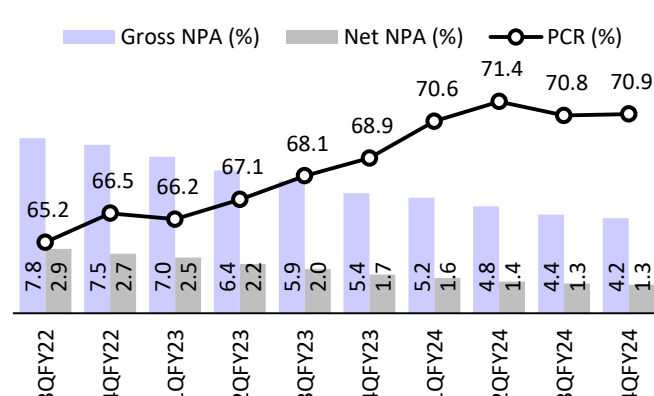
Source: MOFSL, Company

Exhibit 7: Gross slippages increased to INR34b in 4QFY24



Source: MOFSL, Company

Exhibit 8: GNPA/NNPA ratio improved to 4.2%/1.3%



Source: MOFSL, Company

Exhibit 9: DuPont Analysis

Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	7.14	6.90	6.29	5.83	6.56	7.66	7.19	7.13
Interest Expense	4.93	5.05	4.10	3.61	4.12	5.08	4.67	4.61
Net Interest Income	2.21	1.85	2.19	2.22	2.44	2.58	2.52	2.53
Non-Interest income	1.00	1.10	1.35	1.39	1.46	1.34	1.38	1.41
Total Income	3.21	2.95	3.54	3.60	3.90	3.91	3.90	3.94
Operating Expenses	1.60	1.63	1.76	1.55	1.75	1.84	1.78	1.78
Employee cost	0.92	1.01	1.15	0.95	1.07	1.12	1.08	1.08
Other operating expenses	0.67	0.63	0.60	0.60	0.68	0.72	0.69	0.70
Operating Profits	1.61	1.32	1.79	2.05	2.15	2.07	2.12	2.16
Core operating Profits	1.00	1.21	1.52	1.83	2.01	1.92	1.96	1.99
Provisions	1.97	1.57	1.45	1.19	1.05	0.68	0.68	0.66
PBT	(0.35)	(0.25)	0.34	0.87	1.10	1.39	1.44	1.49
Tax	(0.41)	0.07	0.10	0.28	0.28	0.36	0.37	0.38
RoA	0.05	(0.32)	0.23	0.48	0.82	1.03	1.08	1.11
Leverage (x)	20.08	22.63	26.37	22.01	20.80	19.49	17.94	16.58
RoE	1.06	(7.13)	6.12	10.50	17.14	19.99	19.32	18.44

Financials and valuations

Income Statement

								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	468.1	489.3	692.8	694.1	844.2	1,086.9	1,127.1	1,233.7
Interest Expense	323.3	358.1	451.8	430.3	529.9	721.2	732.1	796.7
Net Interest Income	144.8	131.2	241.0	263.8	314.4	365.7	395.0	437.0
Growth (%)	19.0	-9.4	83.7	9.5	19.1	16.3	8.0	10.6
Non-Interest Income	65.7	78.1	149.2	165.0	187.6	189.7	216.2	244.3
Total Income	210.5	209.4	390.3	428.8	502.0	555.3	611.2	681.3
Growth (%)	10.2	-0.6	86.4	9.9	17.1	10.6	10.1	11.5
Operating Expenses	104.6	115.8	193.4	184.4	224.8	261.2	278.2	308.4
Pre Provision Profits	105.9	93.6	196.9	244.4	277.2	294.1	333.0	372.9
Growth (%)	10.9	-11.6	110.4	24.2	13.4	6.1	13.2	12.0
Core PPOp	65.7	86.0	166.9	218.5	258.2	272.4	307.9	344.1
Growth (%)	-13.9	31.0	94.1	30.9	18.2	5.5	13.1	11.7
Provisions	129.2	111.2	159.8	141.3	135.4	97.1	106.7	114.9
Exceptional Item (Exp)	NA	NA	NA	13.5	NA	NA	NA	NA
PBT	-23.3	-17.6	37.1	89.6	141.7	197.0	226.3	258.0
Tax	-26.7	4.8	11.5	32.8	35.7	51.5	57.5	65.5
Tax Rate (%)	114.9	-27.4	31.0	36.6	25.2	26.1	25.4	25.4
PAT	3.5	-22.4	25.6	56.8	106.0	145.5	168.8	192.5
Growth (%)	-108.2	-744.3	-214.4	122.0	86.7	37.3	16.0	14.0

Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	7.5	10.3	16.5	18.1	18.1	18.1	18.1	18.1
Reserves & Surplus	354.2	382.6	572.4	643.0	717.9	851.4	1,009.3	1,190.9
Net Worth	361.8	392.9	588.8	661.1	736.1	869.5	1,027.4	1,209.0
Deposits	5,990.3	6,253.5	10,108.7	10,864.1	11,792.2	13,123.7	14,370.4	15,807.5
Growth (%)	14.2	4.4	61.6	7.5	8.5	11.3	9.5	10.0
- CASA Dep	1,748.1	1,962.1	3,309.0	3,688.3	3,665.8	4,199.6	4,584.2	5,105.8
Growth (%)	4.7	12.2	68.6	11.5	-0.6	14.6	9.2	11.4
Borrowings	409.9	427.6	499.8	462.8	580.9	575.9	642.3	712.3
Other Liabilities & Prov.	185.6	164.7	339.3	293.0	348.2	346.3	391.3	438.2
Total Liabilities	6,947.7	7,238.7	11,536.8	12,281.0	13,457.3	14,915.4	16,431.5	18,167.0
Current Assets	661.5	682.7	1,784.1	1,820.5	1,414.2	1,507.6	1,576.3	1,701.5
Investments	1,529.9	1,762.4	2,616.9	2,820.1	3,190.4	3,574.5	3,874.8	4,204.2
Growth (%)	6.2	15.2	48.5	7.8	13.1	12.0	8.4	8.5
Loans	4,277.3	4,321.8	6,390.5	7,036.0	8,306.7	9,316.1	10,443.4	11,696.6
Growth (%)	12.1	1.0	47.9	10.1	18.1	12.2	12.1	12.0
Fixed Assets	84.1	82.8	112.1	113.6	102.3	122.3	112.8	120.7
Other Assets	394.9	389.1	633.2	490.8	443.7	394.9	424.2	444.1
Total Assets	6,947.7	7,238.7	11,536.8	12,281.0	13,457.3	14,915.4	16,431.5	18,167.0

Asset Quality

GNPA	392.2	370.4	602.9	556.5	461.6	406.0	382.8	385.9
NNPA	231.8	184.7	248.4	190.6	143.9	118.2	109.0	108.3
Slippages	154.8	150.4	419.7	138.9	119.8	129.9	143.3	163.8
GNPA Ratio	8.8	8.2	8.9	7.5	5.4	4.2	3.6	3.2
NNPA Ratio	5.4	4.3	3.9	2.7	1.7	1.3	1.0	0.9
Slippage Ratio	4.1	3.5	6.8	2.2	1.7	1.4	1.5	1.5
Credit Cost	3.1	2.5	2.6	1.5	1.3	1.0	1.0	1.0
PCR (Excl Tech. write off)	40.9	50.1	58.8	65.7	68.8	70.9	71.5	71.9

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	7.7	7.4	6.7	6.2	6.9	8.0	7.4	7.4
Avg. Yield on loans	8.5	8.4	8.0	7.4	8.0	8.9	8.5	8.4
Avg. Yield on Investments	7.5	7.0	6.7	6.3	6.6	6.8	6.9	6.9
Avg. Cost-Int. Bear. Liab.	5.4	5.5	4.4	3.8	4.3	4.9	5.1	5.0
Avg. Cost of Deposits	5.4	5.5	4.4	3.8	4.3	4.9	5.1	5.0
Interest Spread	2.3	1.9	2.3	2.4	2.6	3.1	2.4	2.3
Net Interest Margin	2.4	2.0	2.3	2.4	2.6	2.7	2.6	2.6

Capitalisation Ratios (%)

CAR	12.0	13.7	13.3	15.0	16.7	14.1	14.2	15.0
CET-1			8.6	10.3	11.6	11.6	11.4	11.1
Tier I	9.2	10.2	10.2	12.0	13.8	14.0	14.0	14.2
Tier II	2.8	3.5	3.1	3.0	2.9	0.1	0.2	0.9

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	71.4	69.1	63.2	64.8	70.4	71.0	72.7	74.0
CASA Ratio	29.2	31.4	32.7	33.9	31.1	32.0	31.9	32.3
Cost/Assets	1.5	1.6	1.7	1.5	1.7	1.8	1.7	1.7
Cost/Total Income	49.7	55.3	49.6	43.0	44.8	47.0	45.5	45.3
Cost/Core Income	61.4	57.4	53.7	45.8	46.5	49.0	47.5	47.3
Int. Expense/Int. Income	69.1	73.2	65.2	62.0	62.8	66.4	65.0	64.6
Fee Income/Net Income	12.1	33.7	30.6	32.4	33.6	30.2	31.3	31.6
Non Int. Inc./Net Income	31.2	37.3	38.2	38.5	37.4	34.2	35.4	35.9
Empl. Cost/Op. Exps.	57.7	61.6	65.6	61.6	61.1	60.7	61.0	60.5
CASA/Branch (INRm)	277.0	309.8	317.7	378.9	377.7	437.3	472.6	521.2
Deposit/Branch (INRm)	949.3	987.3	970.5	1,116.1	1,214.9	1,366.5	1,481.5	1,613.5
Business per Employee (INR m)	176.0	180.4	187.0	205.9	237.0	259.4	281.3	305.6
Profit per Employee (INR m)	0.1	-0.4	0.3	0.7	1.3	1.7	1.9	2.1
Investment/Deposit Ratio	25.5	28.2	25.9	26.0	27.1	27.2	27.0	26.6

Profitability and Valuation

RoE	1.2	-7.1	6.1	10.5	17.1	20.0	19.3	18.4
RoA	0.1	-0.3	0.2	0.5	0.8	1.0	1.1	1.1
RoRWA	0.1	-0.6	0.5	1.1	1.9	2.3	2.3	2.4
Book Value (INR)	87	70	66	68	77	91	109	129
Growth (%)	-0.8	-19.8	-5.1	2.6	13.1	19.2	19.1	18.4
Price-BV (x)	1.4	1.7	1.8	1.8	1.6	1.3	1.1	0.9
Adjusted BV (INR)	41	43	44	52	64	81	99	119
Price-ABV (x)	2.9	2.8	2.7	2.3	1.9	1.5	1.2	1.0
EPS (INR)	0.9	-5.0	3.1	6.6	11.7	16.0	18.6	21.2
Growth (%)	-107.4	-637.0	-161.9	111.3	78.1	37.3	16.0	14.0
Price-Earnings (x)	127.4	-23.7	38.3	18.1	10.2	7.4	6.4	5.6
Dividend Per Share (INR)	0.0	0.0	0.0	1.3	2.4	0.9	1.2	1.2
Dividend Yield (%)	0.0	0.0	0.0	1.1	2.0	0.8	1.0	1.0

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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