KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- GNPA/NNPA ratios improved by 16bp/5bp QoQ to 4.23%/1.27%.
- Deposits increased 11.3% YoY (3.9% QoQ), while the loan book increased 12.2% YoY (1.2% QoQ). CASA ratio increased to 32.3% QoQ by 64bp.
- Margins improved 4bp QoQ to 3.07%.
- RoA improved to 1.01% in FY24

2. MANAGEMENT COMMENTARY:

- Since CASA has been such a hardship, the bank has made it its primary focus. To that end, the bank has introduced six items in an attempt to attract CASA deposits.
- Bank's new female-focused product, Angel, has gained popularity.
- The bank holds INR600b-700b in low-yielding corporate books and is willing to cut exposure if yields are not satisfactory. Reduced low-yielding exposure, leading to higher yields and NIMs.
- Global advances grew by 11% YoY. Global deposit increase was 11% YoY.
- Bank is well prepared if the provision requirements are increased.
- Bank will continue to invest in IT and tech.
- The bank aims to maximize revenues by churning AFS and HTM accounts.
- One subsidiary is nearing the end of its listing process, which is projected to be completed by 3QFY25. The listing process for the other subsidiary is similarly on track.

3. BUSINESS OVERVIEW:

- Canara Bank has merged with Syndicate Bank to become the third largest public sector bank in terms of overall business. With almost a century of banking operations in India, it has established itself as a major player in the southern area. Apart from banking, it has a presence in a variety of financial services through subsidiaries and joint ventures. The bank's asset mix is well-balanced, and it has strengthened its focus on retail, agriculture, and MSME ("RAM") sectors, resulting in better risk diversification, more income, and improved profitability.

4. MANAGEMENT GUIDANCE

- Confident of advances growth greater than 10% for FY25.
- Credit cost guidance of 110bps for FY25
- Deposit Growth guidance of 9% for FY-25
- The bank intends to increase PCR to 90% by the end of FY25.
- NIM (Global) guidance of 2.9% for FY-25.
- GNPA guidance of 3.5% for FY-25.
- NNPA guidance of 1.1% for FY-25.
- CASA Ratio guidance of 33% for FY-25.

5. BANKING INDUSTRY

- The Indian banking sector has recovered strongly following the covid epidemic, owing to a variety of factors including as early regulatory action, careful capital raising by banks, improved lending discipline, and cautious provisioning practices at banks. Indian banks have an all-time high CET 1 / tier 1 level, decadal low gross / net NPAs, the highest PCR, and robust contingent provisions as of FY23.

6. VALUATION AND OUTLOOK:

- This financial year, Canara Bank has achieved solid performance, bolstered by improvements in asset quality and a robust loan book. Expect the bank to post a RoA/RoE of 1.1%/19.7% in FY24E. 10% credit growth is anticipated for the entire year. GNPA/NNPA expected to be below 3.5%/1.1%. The bank has improved risk diversification through its well-balanced asset mix and increased emphasis on the retail, agricultural, and MSME ("RAM") sectors.

- We value the company at 7.5x FY25 EPS to arrive at the target of 138.

RECOMMENDATION - BUY
CMP - 118
TARGET - 138 (17%)

Industry	**Bank - Public**
NSE CODE	CANBK
BSE CODE	532483
Market Cap (₹ Cr)	107623
Shares Outstanding (in Cr)	181.41
52 wk High/Low (₹)	129 / 59.5
P/E	7.04
P/BV	1.17
Face Value (₹)	2.00
Book Value (₹)	102
EPS (FY23) (₹)	16.05
Dividend Yield (%)	2.67

SHAREHOLDING PATTERN

	Mar'24	Dec'23	Sep'23
Promoters	62.93	62.93	62.93
Mutual Funds	5.82	5.21	4.83
FII/FPI	10.55	11.21	10.19
Non-Institutions	12.11	11.56	11.96
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024A	2025E
Core			
Interest Earned	84425	108687	121729
Other Income	18762	18966	19650
Total Income	103187	127654	141379
Interest Expense	52989	72121	78485
Profit from Ordinary Activity	14173	19704	22656
PAT	10603	14554	16766
Adj EPS	11.69	16.05	18.48
Ratios			
ROE (%)	17.14	20.22	19.7
ROA (%)	0.82	1.03	1.1
Valuation			
P/E (x)	4.87	7.24	7.5
P/BV (x)	0.78	1.35	1.43

Historical & Industrial Val Ratios	
Historical P/E	7.04
Industry P/E	12.10
Historical P/B	1.30
Industry P/B	1.79

Liability Trends	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23
Total Deposit	1214951	1166848	1143394	1104506	1094746	1079700	1056519
CASA	392327	369256	367614	364464	366472	351490	359460
Total Advances	908182	901465	878256	843063	817762	800907	780049
CASA Ratio (%)	32.29%	31.65	32.15%	33%	33.48%	32.55%	34.02%

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY23				FY24				FY25E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Interest Earned	18177	20107	22231	23910	25004	26838	28039	28807	121729
YoY change (%)	8.3%	17.8%	25.6%	33.9%	37.6%	33.5%	26.1%	20.5%	12%
Other Income	5175	4825	3986	4775	4819	4635	4295	5218	19650
Total Income	23352	24932	26218	28685	29823	31472	32334	34025	141379
Interest Expense	11392	12673	13631	15293	16338	17935	18622	19227	78485
Operating Expenses	5354	5354	5634	6140	5881	5922	6907	7411	30038
Operating Profit	6606	6905	6952	7252	7604	7616	6806	7387	32856
Provision	3690	3637	3121	3095	2719	2608	1899	2482	10200
Profit Before Tax	2916	3269	3831	4157	4885	5008	4907	4906	22656
Tax	894	743	949	983	1350	1401	1251	1148	5890
Net Profit After Tax	2022	2525	2882	3175	3535	3606	3656	3757	16766
YoY change (%)	71.7%	89.5%	91.8%	90.5%	74.8%	42.8%	26.9%	18.3%	15.2%

Source: Company, Hem Securities Research.

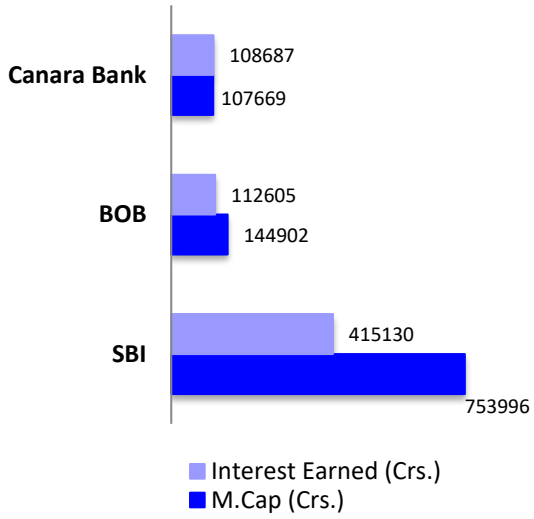
EWS*Insights into the assumptions:

1> Bank credit growth is likely to increase up, Credit growth has started showing signs of recovery.
2> Asset quality improved as lower slippages and better recoveries helped the overall performance.
3> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
4> Improvement in collection.
5> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.

INDUSTRY OVERVIEW

- The RBI changed its accommodative stance and raised the repo rate by a total of 225 basis points over the previous five monetary policy meetings, which led to an increase in interest rates. Banks may gain in the short run on the margin front because the majority of loans are made on a floating rate basis and higher deposit costs may take some time to take impact.
- Scheduled Commercial Banks (SCBs) continued to maintain robust capital positions, with CRAR and CET-1 Ratios of SCBs reaching as high as 16.7% and 13.6%, respectively, in March 2022. (RoE). The ratios of SCBs' gross nonperforming assets (GNPA) and net non-performing assets (NNPA) fell to six-year lows of 5.9 percent and 1.7%, respectively, in March 2022. The provisioning coverage ratio (PCR) increased from 67.6 percent in March 2021 to 70.9 percent in March 2022.
- Banks, especially larger banks, are getting ready to increase their digital offerings through internal development or partnerships with fintech. Incumbents will be helped by persistent focus on digital offerings to manage disruptive issues. Additionally, "digital banking," a new banking format, is developing steadily.
- According to RBI monthly figures, systemic credit growth reached a multi-year high of 15.0% YoY in FY23. Credit growth began the year at 11.2% (YoY) and peaked at 17.9% YoY in October'22.

KEY PLAYERS



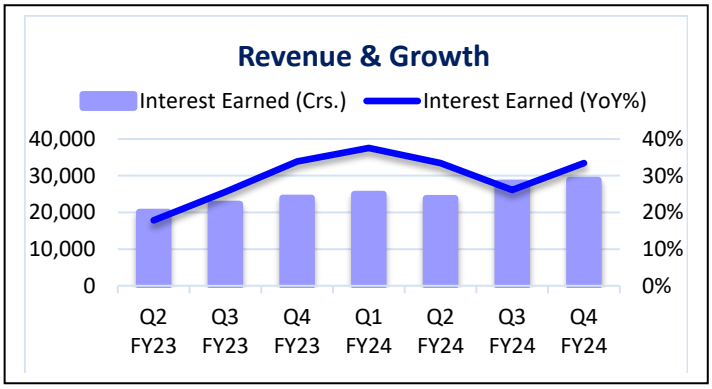
PEER PERFORMANCE

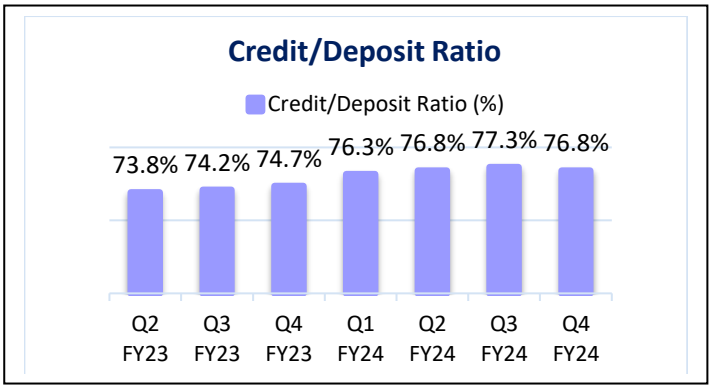
(₹ Cr)

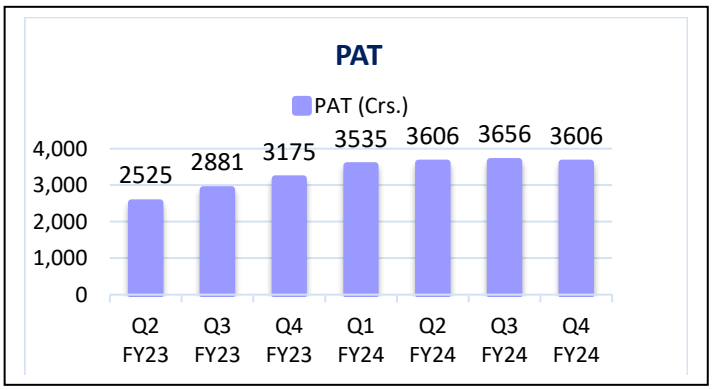
Particulars	Canara Bank	SBI	BOB
Market Cap	107669	753996	144902
Interest Earned (FY-24)	108687	415130	112605
Profit from Ordinary Activities	29412	81782	24889
PAT	14554	61076	17788
EPS(Rs)	16.05	68.44	34.40
Total Deposit	1214951	4916077	1128514
CASA Ratio	32.29	41.11	41.33
Net Interest Income	36566	159876	44722
NIM	3.05	3.43	3.18
Total Advances	908182	3767535	898116
Gross NPA (%)	5.35	2.24	2.92
Net NPA (%)	1.73	0.57	0.68
Provision Coverage Ratio	89.10	75.02	77.34
Capital Adequacy Ratio	16.268	14.28	16.24

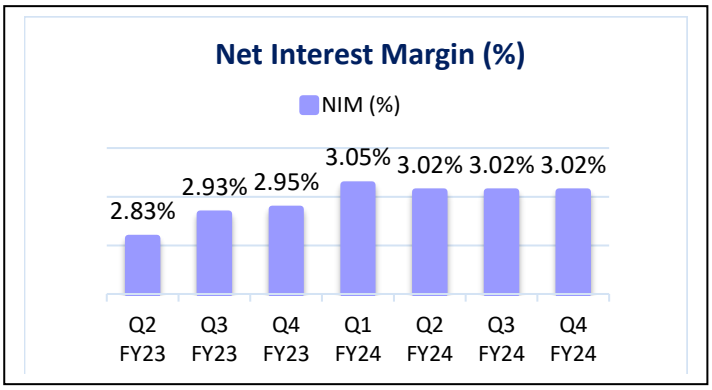
Source: Company, Hem Securities Research.

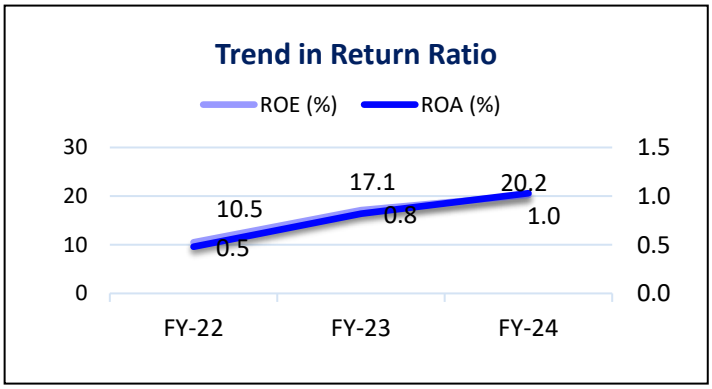
STORY IN CHARTS

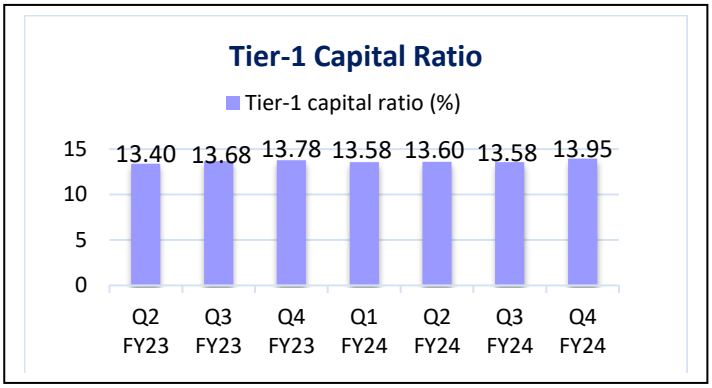


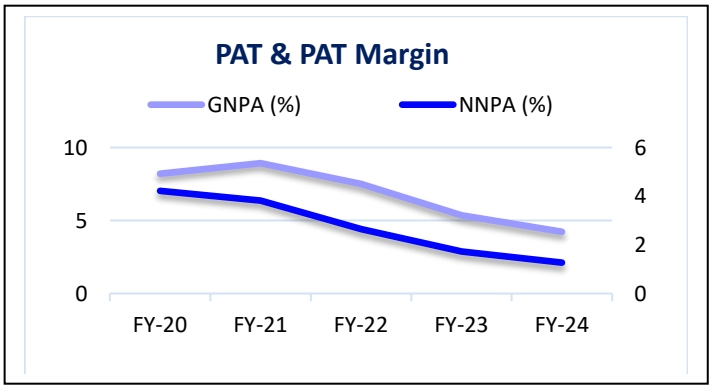


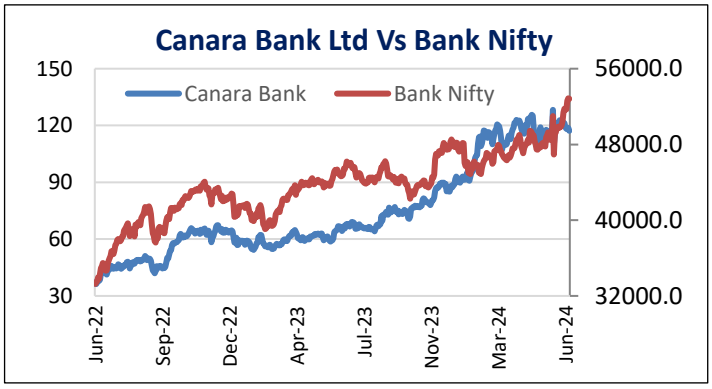












INVESTMENT RATIONALE:

- Canara Bank's balance sheet has experienced significant improvement in the last few quarters, with coverage on impaired loans increasing, capitalization reaching a healthy level following a recent fund raising, decreased fresh NPA and a greater emphasis on CASA ratio, among other things. We believe there is still room for increase in its stock price due to the banking sector's strong credit growth trend. Furthermore, as evidenced by the increasing participation of the retail segment and incremental corporate lending to better-rated corporates, underwriting standards have improved. Lower slippages, combined with a strong rate of recovery, enable the bank lower credit costs, resulting in an increased RoA.
- As of Sep 30, 2023, it was the fourth largest public sector bank (PSB) and the sixth largest bank in the Indian financial system in terms of overall business (cumulative advances and deposits). Canara's excellent deposit franchise, which results in a well-developed retail franchise and a robust liquidity profile, also contributes to the ratings.
- The Government of India is the bank's largest stakeholder, with a 62.93% equity ownership as of September 30, 2023, down from 69.33% as of March 31, 2021, following two rounds of equity capital raising from the market totaling Rs. 4,500 crore in FY2021 and FY2022. The Government of India has not invested any money in Canara in the last three fiscal years because its capital position has remained stable and it has raised cash from the market.
- Asset quality remains low, with gross non-performing assets (NPAs) of 4.8% as of September 30, 2023 (5.4% as of March 31, 2023 and 7.5% as of March 31, 2022), albeit improving. Lower slippages and significant write-offs have both contributed to the improvement throughout the years.
- Liquidity is excellent, thanks to a sizable retail deposit base that accounts for a sizable portion of total deposits. As of September 30, 2023, the liquidity coverage ratio was 132.4%, compared to the regulation requirement of 100%.
- Networth of Rs 80,724 crore as of September 30, 2023 (Rs 73,607 crore as of March 31, 2023) is additionally backed by Rs 2,000 crore equity raised via QIP in fiscal 2021 and Rs 2,500 crore equity raised in fiscal 2022. CET1, Tier-I capital adequacy ratio (CAR), and overall CAR were 11.6%, 13.6%, and 16.2%, respectively, on September 30, 2023 (11.6%, 13.8%, and 16.7%, respectively, on March 31, 2023).

RISK FACTORS:

- Both the special mention account (SMA1 and SMA2) loan book and the total standard restructured book, which was around Rs. 14,000 crore (1.6% of standard advances) as of September 30, 2023, are still subject to monitoring.
- Being a well-known operator in the south, Canara Bank is susceptible to the risks that come with having its activities geographically concentrated because a large portion of its branches are located in southern India.
- In the 2019 and 2020 fiscal years, the bank experienced extremely significant slippages of Rs 27,072 crore and Rs 24,107 crore, respectively. These were mostly caused by its significant corporate exposure to businesses in industries that were deemed susceptible, including iron and steel, construction and infrastructure, and banking. We will keep an eye on the traction in slippages, particularly in the difficult macro situation we are now in.

COMPANY RECAP

- Widely known for customer centricity, Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks.

- Over the years, the Bank has been scaling up its market position to emerge as a major Financial Conglomerate with as many as thirteen subsidiaries/sponsored institutions in India and abroad. As at September 2023, Canara Bank services over 11.19 crore customers through a network of 9,518 branches and 12,118 ATMs/Recycler spread across all Indian states and Union Territories.

- Shri K. Satyanarayana Raju is a Physics graduate, post graduate in Business Administration (Banking and Finance) and CAIIB. He took charge as Executive Director of Canara Bank on 10th March 2021 and has overseen various verticals in Canara Bank including information technology & digital banking, business analytics & information system, inspection, compliance, priority credit, financial inclusion, gold loan, MSME, retail asset, corporate credit, general administration, marketing & public relations, etc. He is also a director on the Board of Canara HSBC Life Insurance Company Limited and Canara Computer Services Limited. He has rich experience in all segments of banking including branch banking, corporate credit, retail credit, MSME, agri financing, credit monitoring, recovery, inspection, compliance, audit, general administration, information technology & digital banking, etc. He took charge as Managing Director & CEO of Canara Bank on 07.02.2023.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement (₹ Cr)

	2020	2021	2022	2023	2024	2025E
Interest Earned	48934.99	69280.46	69410.24	84424.78	108687.93	*121729*
YoY change (%)	4.54%	41.58%	0.19%	21.63%	28.74%	*12%*
Other Income	7813.15	14924.31	16496.90	18762.20	18966.44	*19650*
Total Income	56748.14	84204.77	85907.14	103186.98	127654.36	141379
Interest Expense	35811.08	45177.62	43026.26	52989.49	72121.99	*78485*
Operating Expense	11577.23	19338.18	19791.91	22481.48	26119.80	*30038*
Provision	11115.39	15981.74	14127.39	13543.01	9707.61	*10200*
Profit from Ordinary Activities Before Tax	-1755.57	3707.23	8961.58	14173.00	19704.97	*22656*
YoY change (%)			141.73%	58.15%	39.03%	*15%*
Tax	480.15	1149.65	3283.17	3569.24	5150.65	*5890*
Net Profit After Tax	-2235.72	2557.58	5678.41	10603.76	14554.32	*16766*
YoY change (%)			122%	87%	37.26%	*15.2%*
Adjusted EPS	-4.34	3.11	6.26	11.69	16.05	18.48

Source: Company, Hem Securities Research.

Balance Sheet (₹ Cr)

Y/E March	2020	2021	2022	2023	2024
Share Capital	1,030	1,647	1,814	1,814	1,814
Reserves	38,263	57,238	64,297	71,793	85,140
Borrowings	6,68,113	10,60,858	11,32,694	12,37,308	13,69,959
Other Liabilities	16,469	33,932	29,299	34,817	34,627
Total Liabilities & Equity	**7,23,875**	**11,53,675**	**12,28,105**	**13,45,732**	**14,91,541**
Fixed Assets	8,276	11,204	11,354	10,231	12,228
CWIP	0	2	2	0	0
Investments	1,76,245	2,61,690	2,82,013	3,19,038	3,57,454
Other Assets	5,39,354	8,80,778	9,34,736	10,16,463	11,21,858
Total Assets	**7,23,875**	**11,53,675**	**12,28,105**	**13,45,732**	**14,91,541**

Source: Company, Hem Securities Research.

Ratios				
Y/E March (Basic (INR)	**2021**	**2022**	**2023**	**2024**
Margin Ratios				
Yield on Advances	10.84	9.86	10.16	11.67
Yield on Investments	7.73	6.86	6.41	6.66
Cost of Liabilities	4.26	3.80	4.28	5.26
NIM(%)	2.23	2.26	2.43	2.54
Interest Spread	6.58	6.07	5.88	6.40
Liquidity Ratios				
Loans/Deposits(x)	0.05	0.04	0.05	0.04
Cash/Deposits(x)	0.04	0.05	0.05	0.05
Investment/Deposits(x)	0.26	0.26	0.27	0.27
Inc Loan/Deposit(%)	4.94	4.26	4.93	4.39
Credit/Deposits(%)	63.22	64.76	70.44	70.99
Interest Expended / Interest earned(%)	65.21	61.99	62.77	66.36
Interest income / Total funds (%)	6.01	5.65	6.27	7.29
Interest Expended / Total funds (%)	3.92	3.50	3.94	4.84
CASA (%)	32.73	33.95	31.09	29.90
Net NPAs (funded) to Net Advances (%)	3.82	2.65	1.73	1.27
Valuations Ratios				
P/E (x)	9.8	7.27	4.87	7.24
P/BV (x)	0.5	0.72	0.78	1.35
Dividend Yield (%)	0	2.86	4.22	2.77
Growth Ratio				
Core Operating Income Growth	83.66	9.46	19.15	16.32
Net Profit Growth	214.40	122.02	86.74	37.26
BVPS Growth	-3.95	3.34	14.80	17.72
Advances Growth	47.87	10.10	18.06	12.15
Adj. EPS Growth(%)	171.57	101.54	86.74	37.26

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
27-June-2024	BUY	138

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ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: Madhur Mandhana

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.