



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- NII increased by 20% YoY and 3% QoQ, with NIM remaining relatively consistent at 3%.
- Consistent Assets Quality trends with sustained improvement in GNPA ratio (down 40 bps QoQ) to 4.76%, PCR up 88 bps QoQ to 71%, and slippages reduced to 1.3%.
- The bank reported global gross advances of Rs. 9,23,966 crores, up 12/4% YoY/QoQ, with domestic advances amounting to Rs. 8,78,256 crores, up 13/4% YoY/QoQ. Its CASA ratio was 30%, down from 41% in Q1FY24 and 32% in Q2FY23.

2. MANAGEMENT COMMENTARY:

- The bank focuses on the RAM industry, which offers low interest rates. However, it is also attempting to reprice its low-yielding corporate accounts. As a result, the bank's total yields have been solid.
- The bank's product of giving free term life insurance coverage to deposit customers is gaining popularity.
- Plans to open 275 branches to boost CASA deposits.
- The bank's profits are under strain as deposit rates rise, but it sees no trouble in attracting new deposits. It has no intentions to lower or raise its deposit rates.
- For the first time in a decade, the RoA exceeded 1%.

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 12% for FY24.
- Credit cost guidance of 100-120bps for FY24
- Deposit Growth guidance of 8.5% for FY-24
- The bank intends to increase PCR to 90% by the end of FY24.
- NIM (Global) guidance of 3.05% for FY-24.
- GNPA guidance of 4.5% for FY-24.
- NNPA guidance of 1.2% for FY-24.
- CASA Ratio guidance of 35% for FY-24.

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 0.9%/17.6% in FY24E. 12–14% credit growth is anticipated for the entire year. GNPA/NNPA expected to be below 4.5%/1.2%. 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 6.6x FY24 EPS to arrive at the target of 538.

RECOMMENDATION - BUY

CMP - 458

TARGET - 538 (17.50%)

Industry	Bank - Public
NSE CODE	CANBK
BSE CODE	532483
Market Cap (₹ Cr)	83132.45
Shares Outstanding (in Cr)	181.41
52 wk High/Low (₹)	471 / 269
P/E	5.95
P/BV	1.04
Face Value (₹)	10.00
Book Value (₹)	406
EPS (FY23) (₹)	58.45
Dividend Yield (%)	2.69

SHAREHOLDING PATTERN

	Sep'23	Jun'23	Mar'23
Promoters	62.93	62.93	62.93
Mutual Funds	5.21	4.83	4.62
FII/FPI	11.21	10.19	8.91
Non-Institutions	11.56	11.96	12.22
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023A	2024E
Core			
Interest Earned	69410	84425	103684
Other Income	16497	18762	21483
Total Income	85907	103187	125167
Interest Expense	43026	52989	67116
Profit from Ordinary Activity	8961	14173	19671
PAT	5678	10603	14753
EPS	31.30	58.45	81.50
Ratios			
ROE (%)	10.15	17.14	17.6
ROA (%)	0.48	0.82	0.98
Valuation			
P/E (x)	7.27	4.87	6.6
P/BV (x)	0.72	0.78	0.9

Historical & Industrial Val Ratios

Historical P/E	5.98
Industry P/E	10.06
Historical P/B	1.07
Industry P/B	1.47



Liability Trends	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
Total Deposit	1143394	1104506	1094746	1079700	1056519	1052907	1027767
CASA	367614	364464	366472	351490	359460	361125	368732
Total Advances	878256	843063	817762	800907	780049	748140	711046
CASA Ratio (%)	32.15%	33%	33.48%	32.55%	34.02%	34.30%	35.88%

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY22				FY23			FY24		FY24E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	
Interest Earned	17064	17701	17862	18177	20107	22231	23910	25004	26838	103684
YoY change (%)	-3.54%	2.84%	9.33%	8.30%	17.83%	25.60%	33.86%	37.56%	33.47%	22.81%
Other Income	4268	3612	4462	5175	4825	3986	4775	4819	4635	21483
Total Income	21331	21312	22323	23352	24932	26218	28685	29823	31472	125167
Interest Expense	10790	10756	10856	11392	12673	13631	15293	16338	17935	67116
Operating Expenses	4938	4754	5265	5354	5354	5634	6140	5881	5922	26630
Operating Profit	5604	5803	6202	6606	6905	6952	7252	7604	7616	31421
Provision	3360	2245	3709	3690	3637	3121	3095	2719	2608	11750
Profit Before Tax	2243	2203	2493	2916	3269	3831	4157	4885	5008	19671
Tax	911	701	827	894	743	949	983	1350	1401	4918
Net Profit After Tax	1333	1502	1666	2022	2525	2882	3175	3535	3606	14753
YoY change (%)	199.86%	115.80%	64.83%	71.73%	89.51%	91.83%	90.54%	74.82%	42.79%	39.12%

Source: Company, Hem Securities Research.

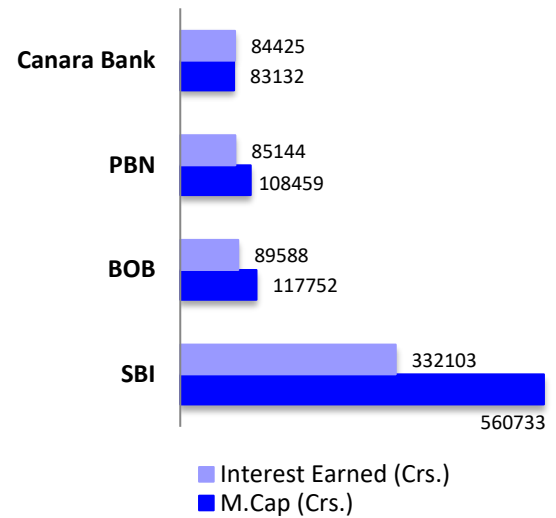
EWS*Insights into the assumptions:

- 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



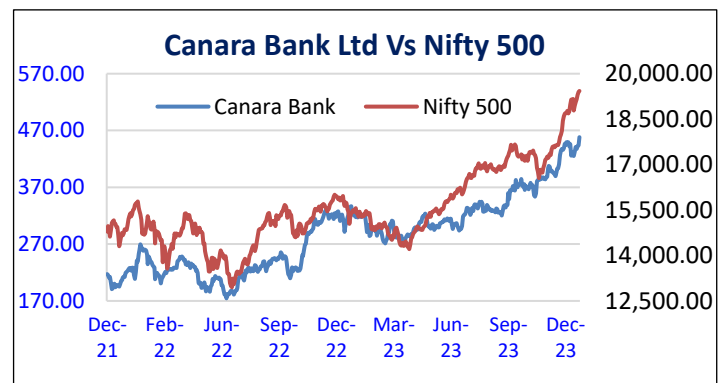
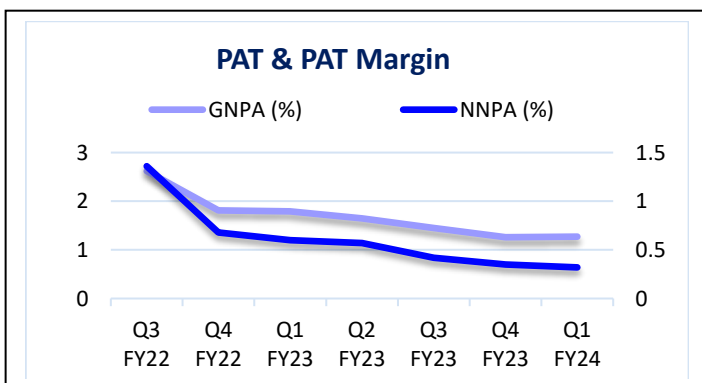
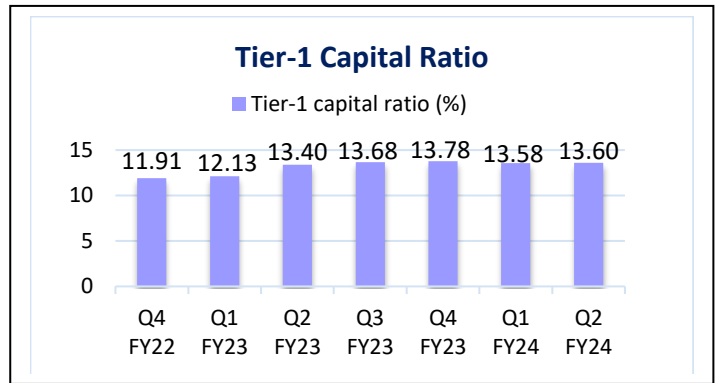
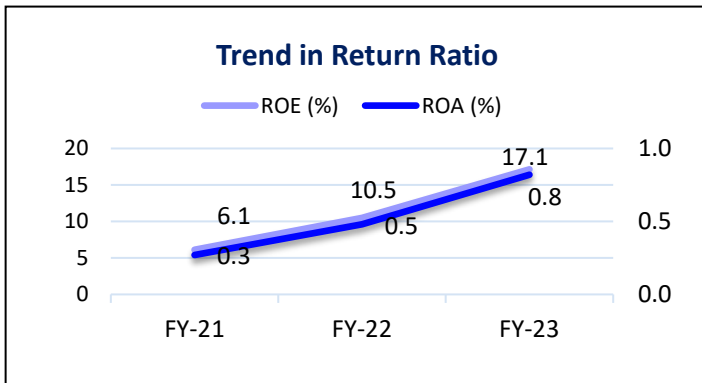
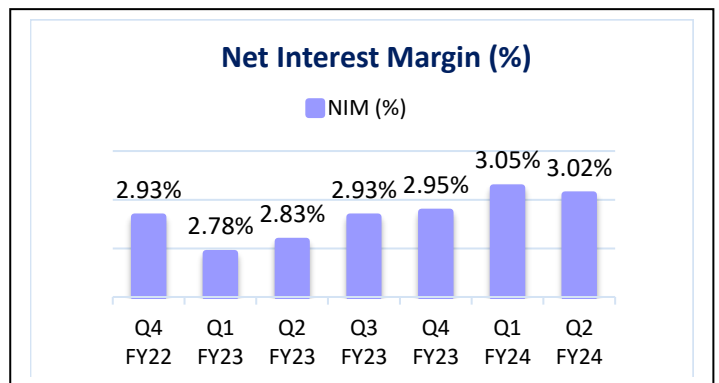
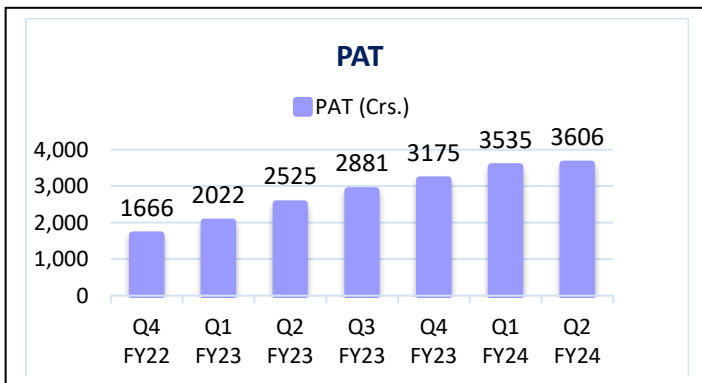
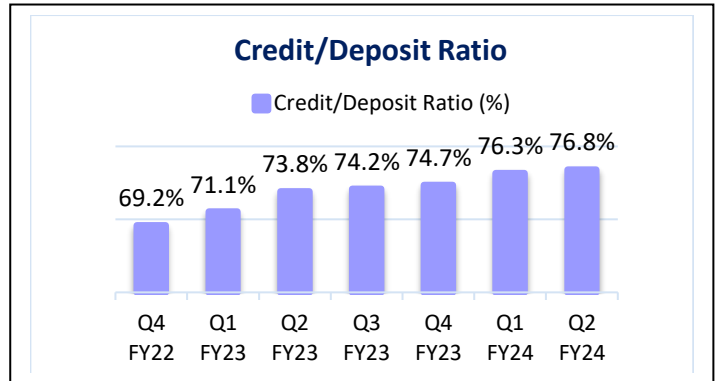
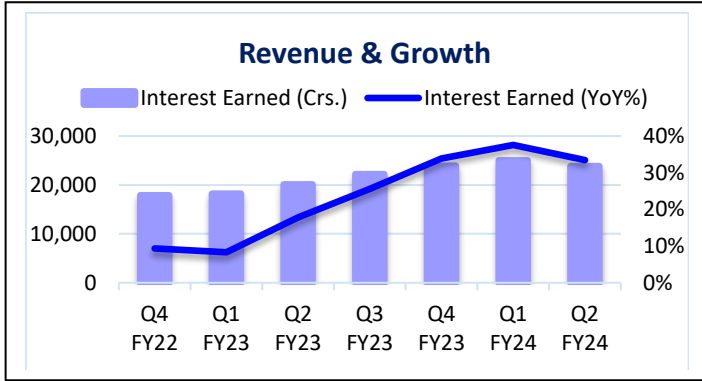
PEER PERFORMANCE

(₹ Cr)

Particulars	Canara Bank	SBI	BOB	PNB
Market Cap	83132	560733	117752	108459
Interest Earned (FY-23)	84425	332103	89588	85144
Profit from Ordinary Activities	14173	67205	19726	4288
PAT	10607	50232	14110	2507
EPS(Rs)	58.45	56.29	27.28	2.28
Total Deposit	1143394	4689218	1074114	1277183
CASA Ratio	32.15	41.88	39.88	42.15
Net Interest Income	8903	39500	10831	9923
NIM	3	3.43	3.07	3.24
Total Advances	878256	3411252	834723	905043
Gross NPA (%)	4.76	2.55	3.32	6.96
Net NPA (%)	1.41	0.64	0.76	1.47
Provision Coverage Ratio	88.73	75.45	77.64	80
Capital Adequacy Ratio	16.20	14.28	15.30	15.09

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)					
	2019	2020	2021	2022	2023	2024E
Interest Earned	46810.34	48934.99	69280.46	69410.24	84424.78	103684
YoY change (%)	13.47%	4.54%	41.58%	0.19%	21.63%	22.81%
Other Income	6574.96	7813.15	14924.31	16496.90	18762.20	21483
Total Income	53385.30	56748.14	84204.77	85907.14	103186.98	125167
Interest Expense	32332.22	35811.08	45177.62	43026.26	52989.49	67116
Operating Expense	10462.21	11577.23	19338.18	19791.91	22481.48	26630
Provision	12918.28	11115.39	15981.74	14127.39	13543.01	11750
Profit from Ordinary Activities Before Tax	-2327.40	-1755.57	3707.23	8961.58	14173.00	19671
YoY change (%)				141.73%	58.15%	38.79%
Tax	-2674.42	480.15	1149.65	3283.17	3569.24	4918
Net Profit After Tax	347.02	-2235.72	2557.58	5678.41	10603.76	14753
YoY change (%)				122%	87%	39.12%
EPS	4.61	-21.70	15.53	31.30	58.45	81.50

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	(₹ Cr)				
	2019	2020	2021	2022	2023
Share Capital	753	1,030	1,647	1,814	1,814
Reserves	35,424	38,263	57,238	64,297	71,793
Borrowings	6,40,026	6,68,113	10,60,858	11,32,694	12,37,308
Other Liabilities	18,564	16,469	33,932	29,299	34,817
Total Liabilities & Equity	6,94,767	7,23,875	11,53,675	12,28,105	13,45,732
Fixed Assets	8,410	8,276	11,204	11,354	10,231
CWIP	0	0	2	2	0
Investments	1,52,985	1,76,245	2,61,690	2,82,013	3,19,038
Other Assets	5,33,371	5,39,354	8,80,778	9,34,736	10,16,463
Total Assets	6,94,767	7,23,875	11,53,675	12,28,105	13,45,732

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2020	2021	2022	2023
Margin Ratios				
Yield on Advances	11.32	10.84	9.86	10.16
Yield on Investments	6.86	7.73	6.86	6.41
Cost of Liabilities	5.36	4.26	3.80	4.28
NIM(%)	1.94	2.23	2.26	2.43
Interest Spread	5.96	6.58	6.07	5.88
Liquidity Ratios				
Loans/Deposits(x)	0.07	0.05	0.04	0.05
Cash/Deposits(x)	0.04	0.04	0.05	0.05
Investment/Deposits(x)	0.28	0.26	0.26	0.27
Inc Loan/Deposit(%)	6.84	4.94	4.26	4.93
Credit/Deposits(%)	69.11	63.22	64.76	70.44
Interest Expended / Interest earned(%)	73.18	65.21	61.99	62.77
Interest income / Total funds (%)	6.76	6.01	5.65	6.27
Interest Expended / Total funds (%)	4.95	3.92	3.50	3.94
CASA (%)	31.38	32.73	33.95	31.09
Net NPAs (funded) to Net Advances (%)	4.22	3.82	2.65	1.73
Valuations Ratios				
P/E (x)	0	9.8	7.27	4.87
P/BV (x)	0.28	0.5	0.72	0.78
Dividend Yield (%)	0	0	2.86	4.22
Growth Ratio				
Core Operating Income Growth	-9.35	83.66	9.46	19.15
Net Profit Growth	-744.27	214.40	122.02	86.74
BVPS Growth	-18.94	-3.95	3.34	14.80
Advances Growth	1.04	47.87	10.10	18.06
Adj. EPS Growth(%)	-571.06	171.57	101.54	86.74

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
18-January-2024	BUY	538

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any

other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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.