

## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- The QoQ improvements for the GNPA and NNPA ratios were 41 bps and 25 bps, respectively, to 3.73% and 0.99%.
- The retail segment expanded 10.7% QoQ, driving the loan book's 10.3% YoY/4% QoQ growth. CASA deposits drove the modest 9.3% YoY (0.9% QoQ) growth in deposits.
- NIM reduced 4bp QoQ to 2.86% during the quarter, while NII increased 4.6% YoY to INR93.2b.

### 2. MANAGEMENT COMMENTARY:

- For FY25, management directs an 11% YoY increase in credit. Guidance for FY25 credit costs is less than 1%. Retail, Agriculture, and MSME (RAM) sector credit grew by 11.54%, with retail credit specifically growing at 31.27%.
- The CASA ratio increased sequentially from 30.98% to 31.27%, which helped to generate ₹8,000 crore in CASA growth over the previous quarter.
- Of the INR 180 billion in unsecured personal loans, about INR 120 billion went to retirees and wage accounts. As a result, there is no worry, and the remaining INR 60 billion was an education debt.
- Gold loans are disbursed through account and therefore customer should have an account with the bank.
- The bank anticipates 3.5–4% QoQ credit growth in the third and fourth quarters, with 11% full-year projection. The RAM category, which is expected to continue growing at a rate of about 12%, will be the focus.

### 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

- Advances growth greater than 11% 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 2.90% 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 1.04%/20.10% in FY25E. 11% 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 6.8x FY25 EPS to arrive at the target of 118.

## RECOMMENDATION - BUY

CMP - 100

TARGET - 118(18.00%)

Industry	Bank - Public
NSE CODE	CANBK
BSE CODE	543720
Market Cap (₹ Cr)	83132.45
Shares Outstanding (in Cr)	907.07
52 wk High/Low (₹)	128.9 / 87.19
P/E	5.69
P/BV	0.98
Face Value (₹)	2.00
Book Value (₹)	102.96
EPS (FY23) (₹)	16.84
Dividend Yield (%)	2.77

## SHAREHOLDING PATTERN

	Sep'24	Jun'24	Mar'24
Promoters	62.93	62.93	62.93
Mutual Funds	4.34	3.49	5.82
FII/FPI	11.26	11.89	10.55
Non-Institutions	14.17	13.96	12.11
Promoter Pledging	0.00	0.00	0.00

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2024A	2025E
<b>Core</b>			
Interest Earned	84425	108688	118500
Other Income	18762	18966	19100
Total Income	103187	127654	137600
Interest Expense	52989	72122	79000
Profit from Ordinary Activity	14173	19705	21000
PAT	10603	14554	15750
EPS	11.7	16.0	17.36
<b>Ratios</b>			
ROE (%)	17.14	20.22	20.10
ROA (%)	0.82	1.03	1.04
<b>Valuation</b>			
P/E (x)	4.87	7.24	6.8
P/BV (x)	0.78	1.35	1.28

## Historical & Industrial Val Ratios

Historical P/E	5.69
Industry P/E	9.62
Historical P/B	0.98
Industry P/B	1.44

Liability Trends	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23
<b>Total Deposit</b>	<b>1238713</b>	<b>1231184</b>	<b>1214951</b>	<b>1166848</b>	<b>1143394</b>	<b>1104506</b>	<b>1094746</b>
<b>CASA</b>	<b>387327</b>	<b>381448</b>	<b>392327</b>	<b>369256</b>	<b>367614</b>	<b>364464</b>	<b>366472</b>
<b>Total Advances</b>	<b>954149</b>	<b>920334</b>	<b>908182</b>	<b>901465</b>	<b>878256</b>	<b>843063</b>	<b>817762</b>
<b>CASA Ratio (%)</b>	<b>31.3%</b>	<b>31.0%</b>	<b>32.3%</b>	<b>31.6%</b>	<b>32.2%</b>	<b>33.0%</b>	<b>33.5%</b>

### QUARTERLY PERFORMANCE (STANDALONE)

Y/E March	FY23		FY24				FY25		FY25E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>Interest Earned</b>	<b>22231</b>	<b>23910</b>	<b>25004</b>	<b>26838</b>	<b>28039</b>	<b>28807</b>	<b>28701</b>	<b>29740</b>	<b>118500</b>
<b>YoY change (%)</b>	26%	34%	38%	33%	26%	20%	15%	11%	9.0%
<b>Other Income</b>	3986	4775	4819	4635	4295	5218	5319	4981	19100
<b>Total Income</b>	<b>26218</b>	<b>28685</b>	<b>29823</b>	<b>31472</b>	<b>32334</b>	<b>34025</b>	<b>34020</b>	<b>34721</b>	<b>137600</b>
<b>Interest Expense</b>	13631	15293	16338	17935	18622	19227	19535	20425	79000
<b>Operating Expenses</b>	5634	6140	5881	5922	6907	7411	6869	6642	28200
<b>Operating Profit</b>	<b>6952</b>	<b>7252</b>	<b>7604</b>	<b>7616</b>	<b>6806</b>	<b>7387</b>	<b>7616</b>	<b>7654</b>	<b>30400</b>
<b>Provision</b>	3121	3095	2719	2608	1899	2482	2282	2251	9400
<b>Profit Before Tax</b>	3831	4157	4885	5008	4907	4906	5334	5403	21000
<b>Tax</b>	949	983	1350	1401	1251	1148	1429	1388	5250
<b>Net Profit After Tax</b>	<b>2882</b>	<b>3175</b>	<b>3535</b>	<b>3606</b>	<b>3656</b>	<b>3757</b>	<b>3905</b>	<b>4015</b>	<b>15750</b>
<b>YoY change (%)</b>	92%	91%	75%	43%	27%	18%	10%	11%	8.2%

Source: Company, Hem Securities Research.

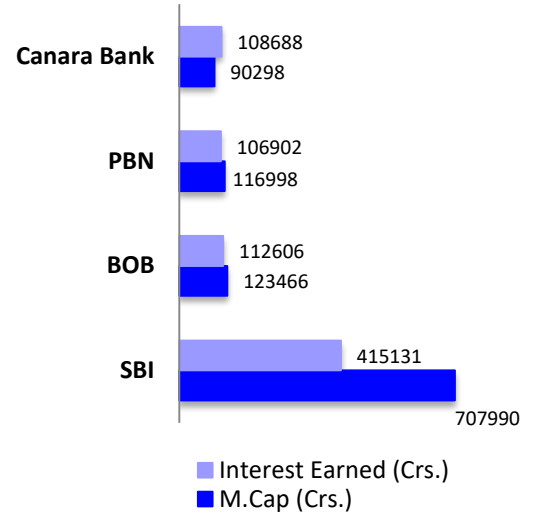
#### EWS\*Insights into the assumptions:

- 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 Indian government announced a significant improvement in the health of public sector banks. The gross non-performing asset (NPA) ratio of PSBs has witnessed a dramatic decline, falling to 3.12% in September 2024 from its peak of 14.58% in March 2018 and 4.97% in March 2015. This reflects a systemic effort to strengthen the financial backbone of the economy and reduce legacy issues in the banking sector.
- One of the standout achievements of these reforms has been the enhancement of the capital adequacy ratio (CAR) for PSBs, which rose by 396 basis points (bps) from 11.45% in March 2015 to 15.43% in September 2024. This metric indicates the ability of banks to absorb potential losses and sustain growth, showcasing the improved resilience of the sector.
- PSBs recorded their highest-ever aggregate net profit of ₹1.41 trillion in FY24, a notable increase from ₹1.05 trillion in FY23. The upward trajectory continues in FY25, with the first half yielding a net profit of ₹0.86 trillion.
- 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.

## KEY PLAYERS



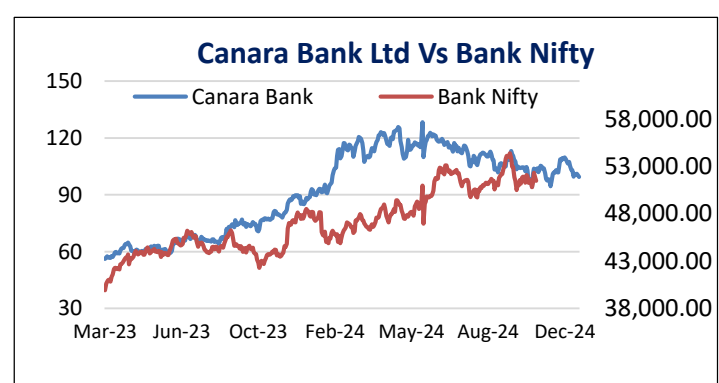
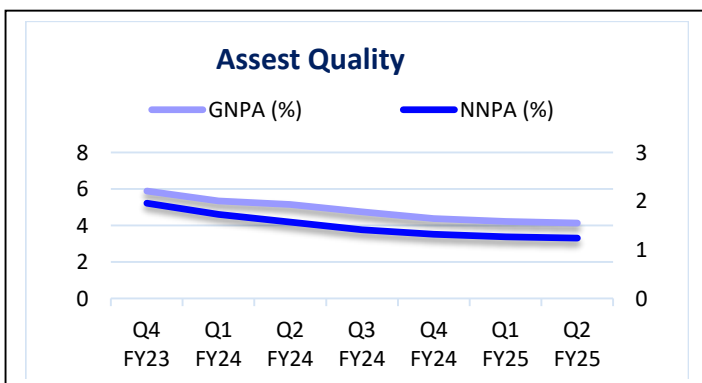
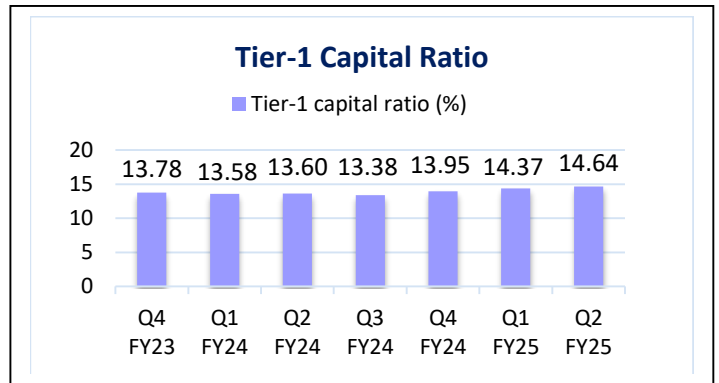
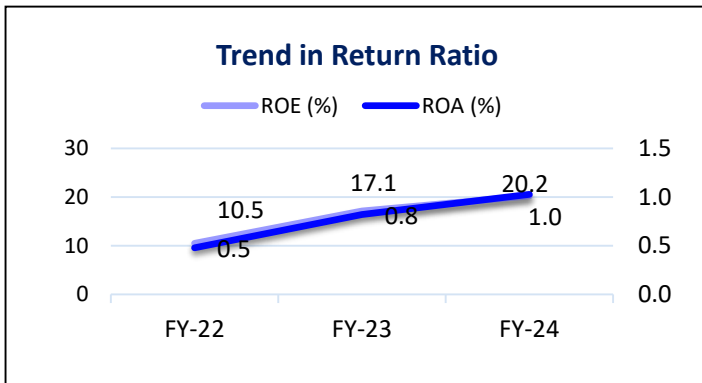
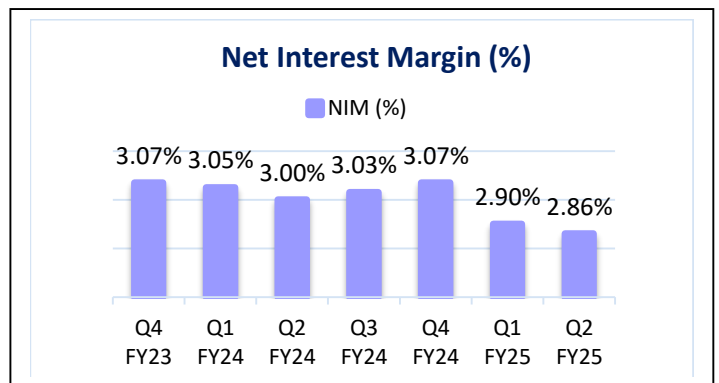
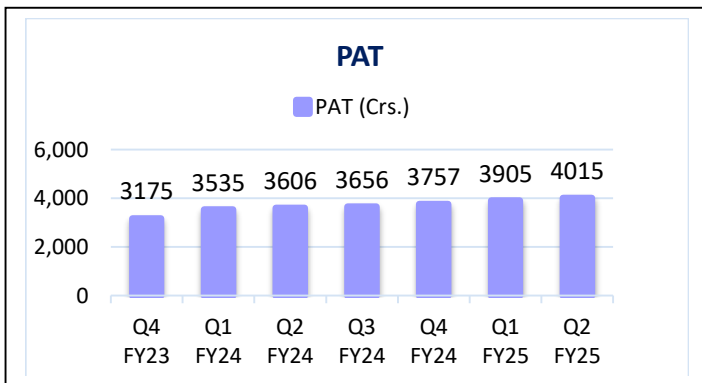
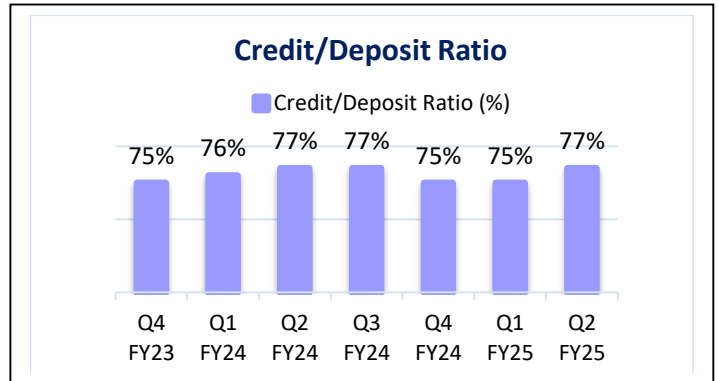
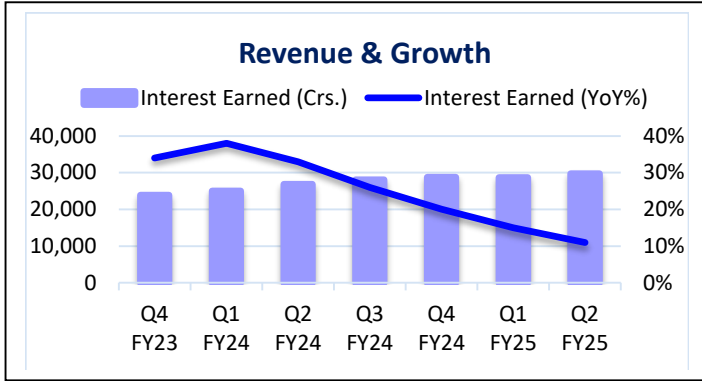
## PEER PERFORMANCE

(₹ Cr)

Particulars	Canara Bank	Bank of Baroda	PNB	SBI
Market Cap	90298	123466	116998	707990
Interest Earned (FY-24)	108688	112606	106902	415131
PAT	14554	17789	8245	61077
EPS(Rs)	16.05	34.40	7.49	68.44
Total Deposit	1238713	1150791	1458342	5117285
CASA Ratio	31.3%	39.84%	39.31%	40.03
Net Interest Income	9315	11622	10517	41620
NIM	2.86	3.27	3.06	3.31
Total Advances	954149	938883	1061904	3920719
Gross NPA (%)	4.39	2.50	4.48	2.13
Net NPA (%)	1.32	0.60	0.46	0.53
Provision Coverage Ratio	89.01	93.61	96.70	92.21
Capital Adequacy Ratio	15.78	16.26	16.36	13.76

Source: Company, Hem Securities Research.

## STORY IN CHARTS



## INVESTMENT RATIONALE:

- The government is the biggest shareholder in public sector banks (PSBs) and the custodian of India's financial system. While the government's shareholding fell to 62.93% as of March 31, 2024, from 78.55% as of September 30, 2020, following the Rs 2,000 crore qualified institutional placement (QIP) in December 2020 and the Rs 2,500 crore QIP in August 2021, it still holds the majority stake. The government places a high priority on banking sector stability due to its importance to the economy, the strong public perception of sovereign backing for PSBs, and the serious consequences of any PSB collapse in terms of political fallout, systemic stability, and investor confidence. The majority ownership imposes a moral obligation on the government to support PSBs, especially Canara Bank.
- Canara Bank is one of India's largest PSBs, with gross advances of Rs 10.1 lakh crore and deposits of Rs 13.4 lakh crore as of September 30, 2024. The merger of Syndicate Bank strengthened Canara Bank's market position. As of March 31, 2024, it has a market share of more than 6% for advances and deposits.
- Canara Bank's profits improved to ₹14,554 crore in FY24, up from ₹10,604 crore in FY23. Increased net interest income (NII) and lower credit costs contribute to better PAT results. In FY24, the bank's yield improved, resulting in an increase in the net. The interest margin (NIM) increased to 2.60% in FY24 from 2.47% in FY23.
- Revenue is spread among businesses, products, and geographies, which strengthens the company's total market position. The bank has a strong presence in the big and midsize corporate banking categories.
- The bank's current capital adequacy level stood comfortable and remained well above the regulatory requirement. CET-I, Tier-I and total CAR stood at 11.58%, 13.95% and 16.28%, respectively as on March 31, 2024, as against 11.59%, 13.78%, and 16.68%, respectively as on March 31, 2023, (12.05%, 14.37% and 16.38% respectively as on June 30, 2024). Improvement in capital adequacy was majorly considering healthy internal accruals.
- Asset quality remains low, with gross non-performing assets (NPAs) of 4.39% as of December 30, 2024 (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.

## RISK FACTORS:

- The bank's ability to reduce slippages and preserve asset quality is crucial for its profits profile and a significant rating factor.
- 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. We will keep an eye on the traction in slippages, particularly in the difficult macro situation we are now in.
- CASA deposits further declined to 31.3% as on December 30, 2024. Improvement in deposit profile with growth in CASA ratio remains a key monitorable.

## 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	48935	69280	69410	84425	108688	118500
YoY change (%)	4.5%	41.6%	0.2%	21.6%	28.7%	9.0%
Other Income	7813	14924	16497	18762	18966	19100
<b>Total Income</b>	<b>56748</b>	<b>84205</b>	<b>85907</b>	<b>103187</b>	<b>127654</b>	<b>137600</b>
Interest Expense	35811	45178	43026	52989	72122	79000
Operating Expense	11577	19338	19792	22481	26120	28200
Provision	11115	15982	14127	13543	9708	9400
<b>Profit from Ordinary Activities Before Tax</b>	<b>-1756</b>	<b>3707</b>	<b>8962</b>	<b>14173</b>	<b>19705</b>	<b>21000</b>
YoY change (%)	-24.6%	-311.2%	141.7%	58.2%	39.0%	6.5%
Tax	480	1150	3283	3569	5151	5250
<b>Net Profit After Tax</b>	<b>-2236</b>	<b>2558</b>	<b>5678</b>	<b>10604</b>	<b>14554</b>	<b>15750</b>
YoY change (%)	-744.3%	-214.4%	122.0%	86.7%	37.3%	8.2%
EPS	-4.3	3.1	6.3	11.7	16.0	17.36

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	(₹ Cr)				
	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	668,113	1,060,858	1,132,694	1,237,308	1,369,959
Other Liabilities	16,469	33,932	29,299	34,817	34,627
<b>Total Liabilities &amp; Equity</b>	<b>723,875</b>	<b>1,153,675</b>	<b>1,228,105</b>	<b>1,345,732</b>	<b>1,491,541</b>
Fixed Assets	8,276	11,204	11,354	10,231	12,228
CWIP	0	2	2	0	0
Investments	176,245	261,690	282,013	319,038	357,454
Other Assets	539,354	880,778	934,736	1,016,463	1,121,858
<b>Total Assets</b>	<b>723,875</b>	<b>1,153,675</b>	<b>1,228,105</b>	<b>1,345,732</b>	<b>1,491,541</b>

Source: Company, Hem Securities Research.

<b>Ratios</b>				
<b>Y/E March (Basic (INR))</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Margin Ratios</b>				
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
<b>Liquidity Ratios</b>				
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
<b>Valuations Ratios</b>				
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
<b>Growth Ratio</b>				
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
31-December-2024	BUY	118

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Name of the Research Analyst: Madhur Mandhana

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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

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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.