BOBCAPS
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**BUY**
**TP: Rs 140 | ⮝ 18%**

## CANARA BANK | Banking | 24 June 2024

# Consistent recovery in business performance

- **Stable business growth coupled with change in credit mix likely to aid margin. CBK targets NIM of 2.9-3.0% and opex of 47% over FY25**
- **Controlled slippages and higher recovery and upgrades led to asset quality improvement. Target credit cost of below 100bps to aid PAT**
- **With consistent improvement in business performance, we assume coverage with TP of Rs 140 set at 1.2x FY26 ABV and maintain BUY**

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**Consistent recovery in business performance:** CBK witnessed stable business growth and consistent recovery in its bottomline, supported by improved margins and asset quality. This has helped the company regain its appeal over the past year. In its latest result in Q4, the bank clocked NII growth of 11.2% YoY (2% QoQ) with a 4bps improvement in NIM, while posting credit growth of 12% and deposit growth of 11% leading to a CD ratio of 71%. CBK guided for conservative business growth of 9-10% for FY25, while it aims to maintain NIM at 2.9-3.0% supported by changes in portfolio mix from AAA-rated low-yielding corporate book to retail lending. Credit/ deposits grew 12%/11% YoY in Q4, backed by healthy growth in RAM (retail, Agriculture and MSME; 13.5% YoY) while CBK guided for 10-11% YoY growth for FY25 skewed towards retail.

**Other income supports PPOP growth:** Considering CBK's focus on deposit mobilisation and business granularity, we model for credit/deposit CAGR of 12.5%/11.6% over FY24-26 with a stable margin of 2.7% (calc.). Other income rose 21% QoQ in Q4, driven by treasury gains (Rs 6.6bn) and consistent recovery in written-off A/Cs (Rs 19bn), which the bank expects to be recurring in nature and guided to be Rs 40bn-50bn in FY25-FY26. CoI remained elevated due to higher wage revision (maintained guidance at 47%) leading to muted POP growth (9% YoY). Higher provision dragged PAT (18% YoY) to Rs 37.6bn in Q4.

**Upgrades and recovery led to asset quality improvement**: Controlled slippages with higher upgrades and recovery led to consistent improvement in asset quality, wherein GNPA/NNPA improved 112bps/46bps YoY in FY24 to 4.2%/1.3% with PCR of 71%. Bank credit cost stood at 1.1% and CBK guided it would be below 1%, aiding bottomline. Restructured book at 1.3% and SMA book at 76bps seem higher than for its peers but management is confident of improving its overall asset quality.

**Maintain BUY:** Considering overall recovery in business performance and stable growth and margin, we model for PAT CAGR of 9% over FY24-26 with ROA and RoE approaching 1%/16% by FY26E. We value the bank at 1.2x FY26E ABV using the Gordon Growth Model and assume coverage with a TP of 140.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | CBK IN/Rs 119 |
| Market cap | US$ 13.1bn |
| Free float | 42% |
| 3M ADV | US$ 43.8mn |
| 52wk high/low | Rs 129/Rs 58 |
| Promoter/FPI/DII | 63%/11%/14% |

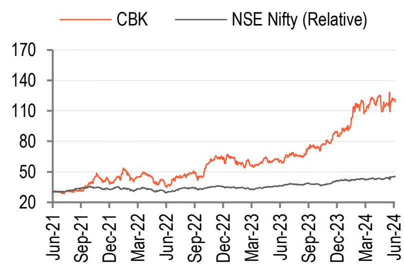
Source: NSE | Price as of 21 Jun 2024

### Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|---|---|---|---|
| NII (Rs mn) | 365,659 | 397,523 | 452,329 |
| NII growth (%) | 16.3 | 8.7 | 13.8 |
| Adj. net profit (Rs mn) | 145,543 | 148,532 | 171,683 |
| EPS (Rs) | 16.0 | 16.4 | 18.9 |
| Consensus EPS (Rs) | 80.2 | 18.0 | 19.6 |
| P/E (x) | 7.4 | 7.3 | 6.3 |
| P/BV (x) | 1.2 | 1.1 | 1.0 |
| ROA (%) | 1.0 | 0.9 | 1.0 |
| ROE (%) | 18.1 | 16.0 | 16.3 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

### Fig 1 – Quarterly snapshot: Income statement

| (Rs mn) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | | |
| Interest Income | 175,377 | 180,642 | 193,670 | 198,936 | 208,637 | 19.0 | 4.9 |
| Income on investments | 52,636 | 53,490 | 56,465 | 57,751 | 59,019 | 12.1 | 2.2 |
| Int. on bal. with RBI & inter-bank funds & Others | 11,086 | 22,104 | 18,242 | 23,702 | 20,417 | 84.2 | (13.9) |
| Interest income | 239,098 | 256,236 | 268,377 | 280,388 | 288,074 | **20.5** | **2.7** |
| Interest expense | 152,930 | 163,384 | 179,347 | 186,217 | 192,272 | 25.7 | 3.3 |
| **Net interest income** | **86,168** | **92,852** | **89,030** | **94,171** | **95,802** | **11.2** | **1.7** |
| Growth YoY (%) | 23.0 | 36.9 | 19.8 | 9.5 | 11.2 | (1,181bps) | 168bps |
| **Non-interest income** | **47,752** | **48,190** | **46,345** | **42,951** | **52,178** | **9.3** | **21.5** |
| Growth YoY (%) | 7.0 | (6.9) | (4.0) | 7.7 | 9.3 | 224bps | 153bps |
| **Total income** | **133,920** | **141,042** | **135,375** | **137,122** | **147,980** | **10.5** | **7.9** |
| Growth YoY (%) | 16.8 | 17.9 | 10.4 | 8.9 | 10.5 | (628bps) | 155bps |
| Staff expenses | 37,265 | 36,510 | 37,914 | 45,333 | 44,584 | 19.6 | (1.7) |
| Other operating expenses | 24,133 | 22,296 | 21,305 | 23,733 | 29,522 | 22.3 | 24.4 |
| **Operating expenses** | **61,397** | **58,806** | **59,219** | **69,067** | **74,106** | **20.7** | **7.3** |
| **Pre-Provisioning Profit (PPoP)** | **72,522** | **82,236** | **76,156** | **68,055** | **73,875** | **1.9** | **8.6** |
| Growth YoY (%) | 16.9 | 24.5 | 10.3 | (2.1) | 1.9 | (1,507bps) | 397bps |
| **Provisions** | **30,950** | **27,189** | **26,080** | **18,989** | **24,818** | **(19.8)** | **30.7** |
| Growth YoY (%) | (16.5) | (26.3) | (28.3) | (39.2) | (19.8) | (326bps) | 1,935bps |
| **PBT** | **41,573** | **55,047** | **50,076** | **49,066** | **49,056** | **18.0** | **0.0** |
| Tax | 9,826 | 13,503 | 14,015 | 12,505 | 11,484 | 16.9 | (8.2) |
| **PAT** | **31,747** | **41,544** | **36,061** | **36,561** | **37,572** | **18.3** | **2.8** |
| Growth YoY (%) | 90.5 | 105.5 | 42.8 | 26.9 | 18.3 | (7,219bps) | (853bps) |
| **Per Share** | | | | | | | |
| FV (Rs) | 10 | 10 | 10 | 10 | 10 | 0.0 | 0.0 |
| EPS (Rs) | 18 | 19 | 20 | 20 | 21 | 18.3 | 2.8 |
| Book Value (Rs) | 406 | 425 | 445 | 465 | 479 | 18.1 | 3.1 |

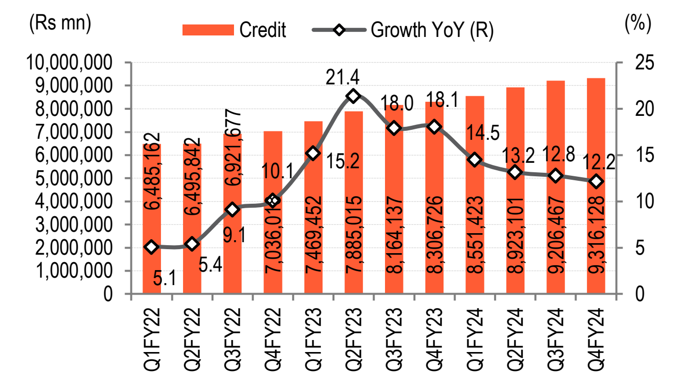
Source: BOBCAPS Research, Company

**Fig 2 – Quarterly snapshot: Key balance sheet & other metrics**

| (Rs mn) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| Deposits | 11,792,186 | 11,924,699 | 12,322,151 | 12,629,306 | 13,123,666 | 11.3 | 3.9 |
| Growth YoY (%) | 8.5 | 6.6 | 8.7 | 8.5 | 11.3 | 275bps | 274bps |
| Advances | 8,306,726 | 8,551,423 | 8,923,101 | 9,206,467 | 9,316,128 | 12.2 | 1.2 |
| Growth YoY (%) | 18.1 | 14.5 | 13.2 | 12.8 | 12.2 | (591bps) | (62bps) |
| Investment | 3,190,385 | 3,318,095 | 3,443,376 | 3,433,763 | 3,574,544 | 12.0 | 4.1 |
| Equity | 736,072 | 771,166 | 807,238 | 843,798 | 869,546 | 18.1 | 3.1 |
| Assets | 13,457,323 | 13,854,726 | 14,260,621 | 14,690,855 | 14,915,407 | 10.8 | 1.5 |
| Growth YoY (%) | 9.7 | 9.2 | 9.9 | 11.3 | 10.8 | 116bps | (49bps) |
| **Yield (%)** | | | | | | | |
| Yield on Funds | 7.50 | 7.83 | 7.96 | 8.07 | 8.09 | 59bps | 2bps |
| Cost of Funds | 4.98 | 5.20 | 5.54 | 5.59 | 5.65 | 67bps | 6bps |
| Spread | 2.52 | 2.63 | 2.42 | 2.48 | 2.44 | (8bps) | (4bps) |
| Net Interest Margin (calc.) | 2.70 | 2.84 | 2.64 | 2.71 | 2.69 | (1bps) | (2bps) |
| **Ratios (%)** | | | | | | | |
| Other Income / Net Income | 35.7 | 34.2 | 34.2 | 31.3 | 35.3 | (40bps) | 394bps |
| Cost to Income ratio | 45.8 | 41.7 | 43.7 | 50.4 | 50.1 | 423bps | (29bps) |
| CASA ratio | 31.1 | 30.6 | 29.8 | 29.2 | 29.9 | (118bps) | 66bps |
| C/D ratio | 70.4 | 71.7 | 72.4 | 72.9 | 71.0 | 54bps | (191bps) |
| Investment to Assets | 23.7 | 23.9 | 24.1 | 23.4 | 24.0 | 26bps | 59bps |
| **Asset Quality** | | | | | | | |
| GNPA | 461,595 | 457,274 | 439,556 | 417,219 | 406,046 | (12.0) | (2.68) |
| NNPA | 143,493 | 134,614 | 125,540 | 121,759 | 118,228 | (17.6) | (2.9) |
| Provision | 318,102 | 322,659 | 314,016 | 295,460 | 287,817 | (9.5) | (2.6) |
| GNPA (%) | 5.35 | 5.15 | 4.76 | 4.39 | 4.23 | (112bps) | (16bps) |
| NNPA (%) | 1.73 | 1.57 | 1.41 | 1.32 | 1.27 | (46bps) | (5bps) |
| Provision (%) | 68.9 | 70.6 | 71.4 | 70.8 | 70.9 | 197bps | 7bps |
| **Others** | | | | | | | |
| Branches | 9,709 | 9,656 | 9,522 | 9,588 | 9,608 | (28) | (135) |
| ATMs | 12,130 | 10,683 | 10,553 | 12,120 | 12,155 | 1,313 | (27) |

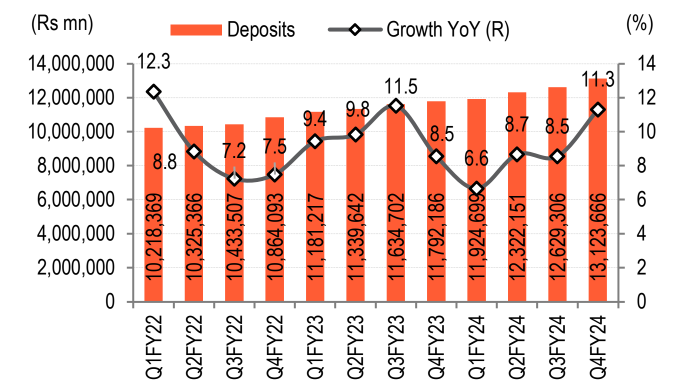
Source: BOBCAPS Research, Company

**Fig 3 – Loan growth remained healthy**



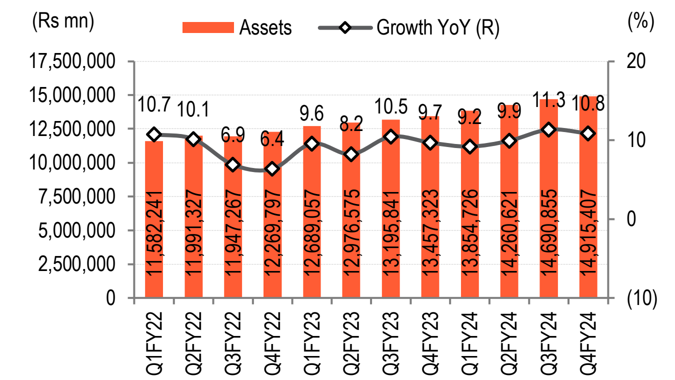

Source: Company, BOBCAPS Research

**Fig 4 – Deposits grew in line with industry, led by term deposits**



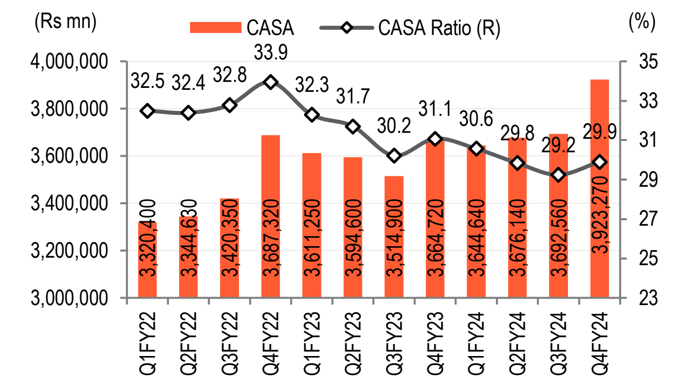

Source: Company, BOBCAPS Research

### Fig 5 – Asset grew 11% YoY



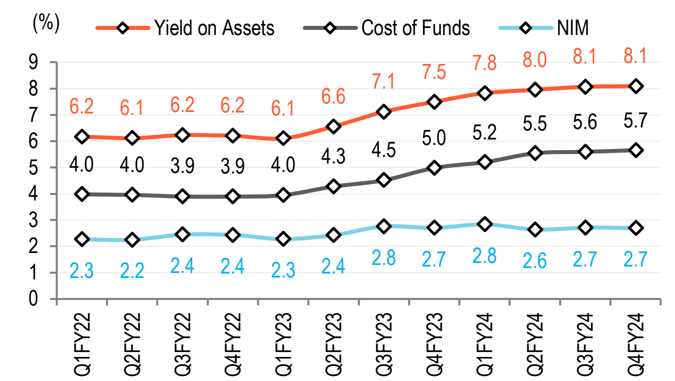

Source: Company, BOBCAPS Research

### Fig 6 – Focus on CASA mobilisation led to 66bps QoQ rise in CASA ratio



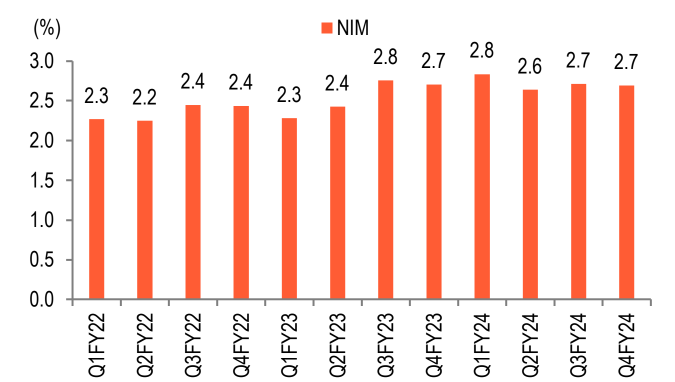

Source: Company, BOBCAPS Research

### Fig 7 – NIM (calc.) remained flat



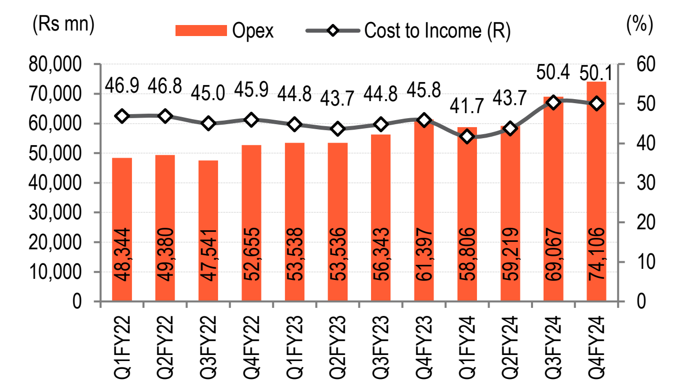

Source: Company, BOBCAPS Research

### Fig 8 – NIM (Calc.) expected to sustain at 2.7% over FY25E



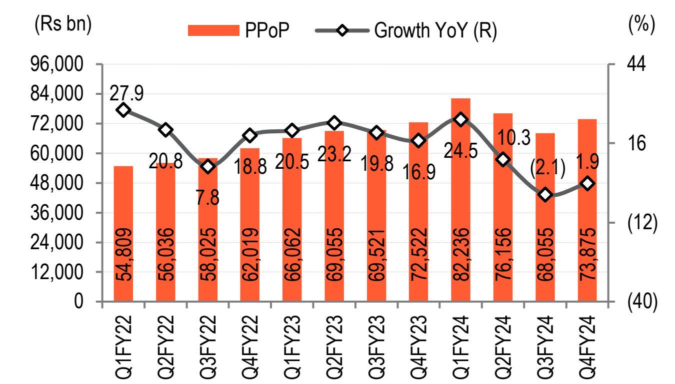

Source: Company, BOBCAPS Research

### Fig 9 – Target CoI at 47% vs current 50%



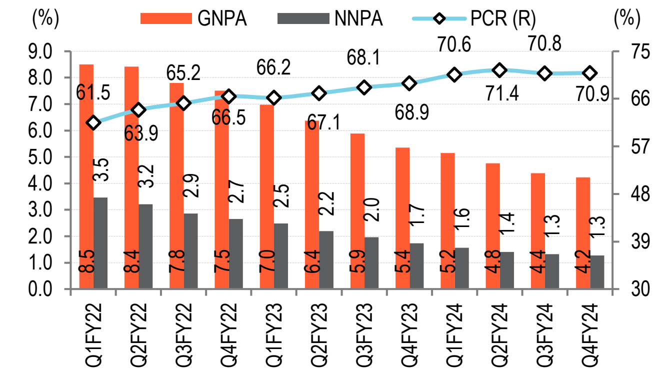

Source: Company, BOBCAPS Research

### Fig 10 – Higher opex dragged PPOP



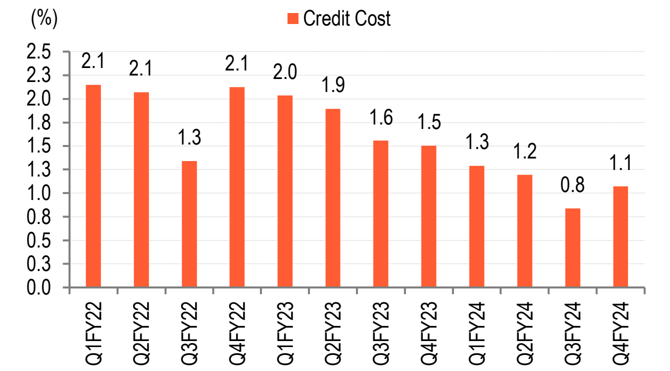

Source: Company, BOBCAPS Research

### Fig 11 – Asset quality continues to improve



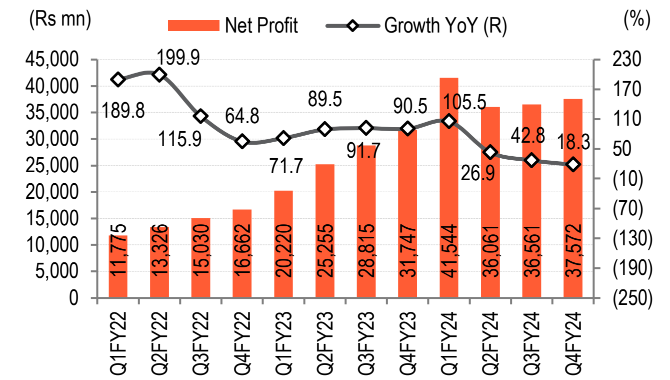

Source: Company, BOBCAPS Research

### Fig 12 – Credit cost remained stable at 110bps



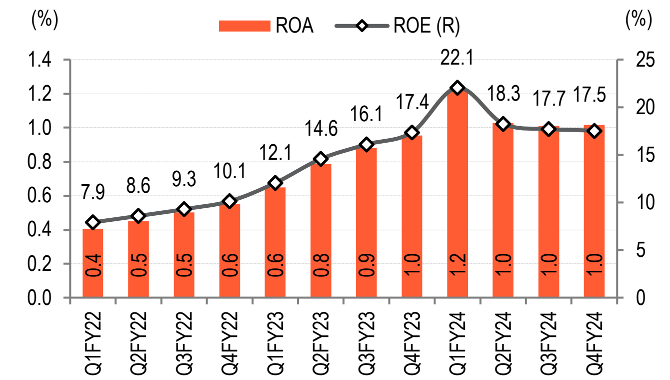

Source: Company, BOBCAPS Research

### Fig 13 – Other income continued to support PAT




Source: Company, BOBCAPS Research

### Fig 14 – Return ratios have potential for further improvement




Source: Company, BOBCAPS Research

### Fig 15 – Loan book trend

| (Rs mn) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| Retail Loans | 1,400,510 | 1,422,970 | 1,482,090 | 1,536,400 | 1,564,140 | **11.7** | **1.8** |
| Agriculture | 2,133,270 | 2,227,570 | 2,369,530 | 2,424,700 | 2,532,060 | **18.7** | 4.4 |
| SME | 1,236,270 | 1,264,210 | 1,317,870 | 1,343,340 | 1,318,690 | **6.7** | (1.8) |
| RAM | 4,770,050 | 4,914,750 | 5,169,490 | 5,304,440 | 5,414,890 | **13.5** | 2.1 |
| Corporate | 3,857,770 | 3,961,960 | 4,070,170 | 4,199,860 | 4,191,130 | **8.6** | (0.2) |
| Domestic Gross Advances | 8,177,620 | 8,430,630 | 8,782,560 | 9,014,650 | 9,081,820 | **11.1** | 0.7 |
| Overseas Gross Loan | 450,200 | 446,080 | 457,100 | 489,650 | 524,200 | **16.4** | 7.1 |
| **Total Gross Loan** | **8,627,820** | **8,876,710** | **9,239,660** | **9,504,300** | **9,606,020** | **11.3** | **1.1** |

Source: Company, BOBCAPS Research

### Fig 16 – Loan book distribution

| (%) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| Retail Loans | 16.2 | 16.0 | 16.0 | 16.2 | 16.3 | 5bps | 12bps |
| Agriculture | 24.7 | 25.1 | 25.6 | 25.5 | 26.4 | 163bps | 85bps |
| SME | 14.3 | 14.2 | 14.3 | 14.1 | 13.7 | (60bps) | (41bps) |
| RAM | 55.3 | 55.4 | 55.9 | 55.8 | 56.4 | 108bps | 56bps |
| Corporate | 44.7 | 44.6 | 44.1 | 44.2 | 43.6 | (108bps) | (56bps) |
| Domestic advances | 94.8 | 95.0 | 95.1 | 94.8 | 94.5 | (24bps) | (31bps) |
| Overseas Loan | 5.2 | 5.0 | 4.9 | 5.2 | 5.5 | 24bps | 31bps |
| **Total Gross Loan** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **-** | **-** |

Source: Company, BOBCAPS Research

### Fig 17 – Deposits trend

| (Rs mn) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| CASA Deposits | 3,664,720 | 3,644,640 | 3,676,140 | 3,692,560 | 3,923,270 | 7.1 | 6.2 |
| Term Deposits | 7,282,740 | 7,400,420 | 7,757,800 | 7,975,920 | 8,226,240 | 13.0 | 3.1 |
| Domestic Deposits | 10,947,460 | 11,045,060 | 11,433,940 | 11,668,480 | 12,149,510 | 11.0 | 4.1 |
| Overseas Deposits | 844,730 | 879,640 | 888,210 | 960,820 | 974,150 | 15.3 | 1.4 |
| **Total Deposits** | **11,792,190** | **11,924,700** | **12,322,150** | **12,629,300** | **13,123,660** | **11.3** | **3.9** |

Source: Company, BOBCAPS Research

### Fig 18 – Deposits distribution

| (%) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|---|---|
| Domestic CASA Deposits | 33.5 | 33.0 | 32.2 | 31.6 | 32.3 | (118bps) | 65bps |
| CASA Deposits | 31.1 | 30.6 | 29.8 | 29.2 | 29.9 | (118bps) | 66bps |
| Term Deposits | 61.8 | 62.1 | 63.0 | 63.2 | 62.7 | 92bps | (47bps) |
| Domestic Deposits | 92.8 | 92.6 | 92.8 | 92.4 | 92.6 | (26bps) | 19bps |
| Overseas Deposits | 7.2 | 7.4 | 7.2 | 7.6 | 7.4 | 26bps | (19bps) |
| **Total Deposits** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **-** | **-** |

Source: Company, BOBCAPS Research

## Earnings call highlights

### Management guidance

Management guided for business growth of 9-10% in FY25, which is conservative but aims to achieve more.

It expects net interest margin (NIM) to be 2.9-3.0%, assuming the current liquidity position continues, but should be maintained at 3% in the first quarter.

It anticipates gross non-performing assets (GNPA) to be around 3.5% and net non-performing assets (NNPA) to be 1.1%.

The cost-to-income ratio is expected to stabilise at around 47% in FY25.

### Asset quality

Regarding asset quality, the bank's written-off pool stands at Rs 680bn-720bn, with yearly recoveries from this pool expected to continue at around Rs 40bn-50bn.

The bank experienced slippages of Rs 10.8bn from the agriculture sector, Rs 12bn from the small and medium enterprise (SME) segment, Rs 4bn from retail, and Rs 4bn from the mid-corporate segment in Q4FY24

The bank's standard restructured book stands at Rs 120bn as Q4FY24, and it holds additional standard provisions of Rs 18bn, including Rs 3bn set aside for a stressed account, beyond the minimum regulatory requirements.

### NIM

The bank has reduced some (Rs 100bn-120bn) of its lower-yielding AAA rated corporate exposures, which has helped improve NIM despite a decline in the credit deposit (CD) ratio in FY24.

The bank plans to reduce gradually its large, finely priced corporate exposures, which currently aggregate around Rs 700bn, to Rs 250bn-300bn.

The average yield on the corporate book increased to 8.1% from 7.06% a year ago.

Management expects the marginal cost of deposits (CoD) to be 6.5-6.75%, while the average cost of term deposits (TDs) is anticipated to be 6.25-6.5% for FY25.

About 52% of the bank's advances are linked to the marginal cost of funds-based lending rate (MCLR), 38% to the repo-linked lending rate (RLLR), and 10% to staff loans and loans against fixed deposits.

### OPEX

The bank has made a provision of Rs 3.5bn towards pension this quarter.

It expects normalised staff costs to be Rs 40bn-41bn going forward.

The higher other operating expenses in the fourth quarter included some impact of IT expenses and depreciation-related expenses.

It expects the cost-to-income ratio to stabilise to 47% during FY25.

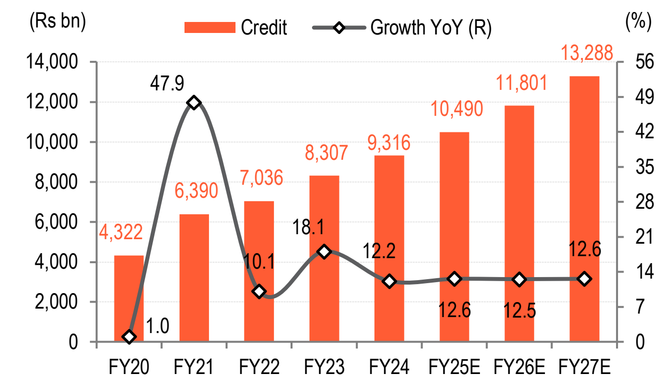
### Update on Project Finance book

The impact of the Project Finance circular is still in its early stages, and the bank does not expect significant pressure on its bottomline or capital ratios.

#### Deposits

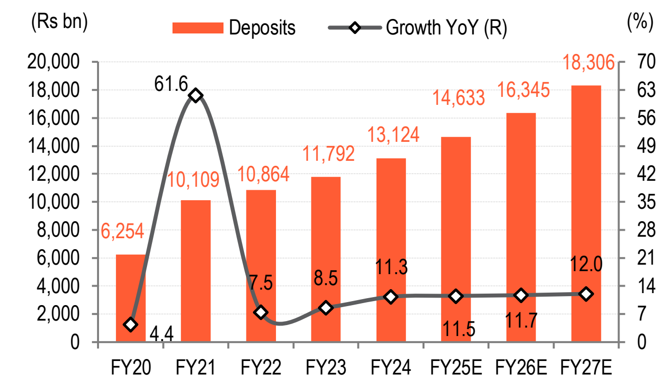
The bank has implemented various initiatives to drive growth in its current account and savings account (CASA) segment. These efforts contributed to a notable increase in current account balances during Q4FY24, although a portion of this growth is attributed to seasonally higher floating balances. The bank aims to increase its CASA ratio to 35% over the next two years.

**Fig 19 – RAM to drive credit growth**



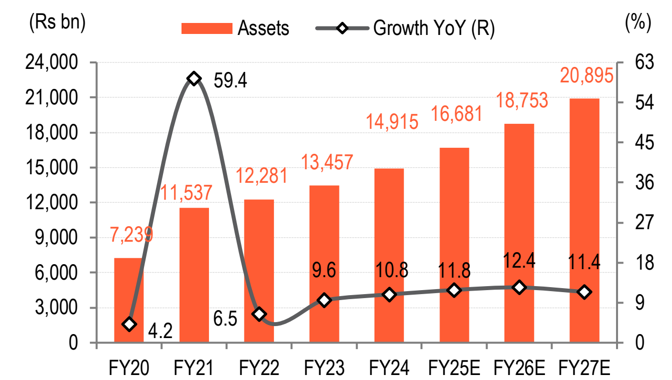

Source: Company, BOBCAPS Research

**Fig 20 – Focus on deposit mobilisation can reduce CD ratio**



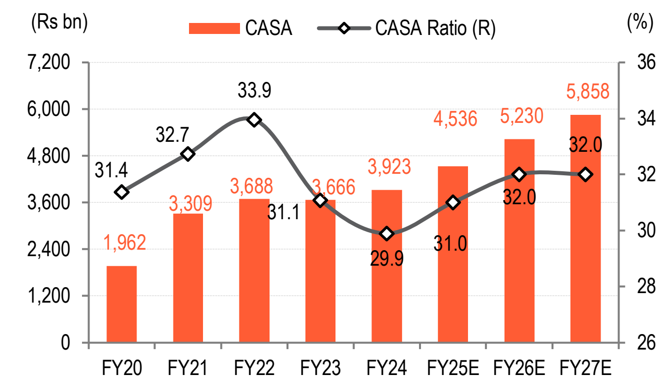

Source: Company, BOBCAPS Research

**Fig 21 – Asset grew 11% YoY; expecting 12% CAGR over FY24-FY26**



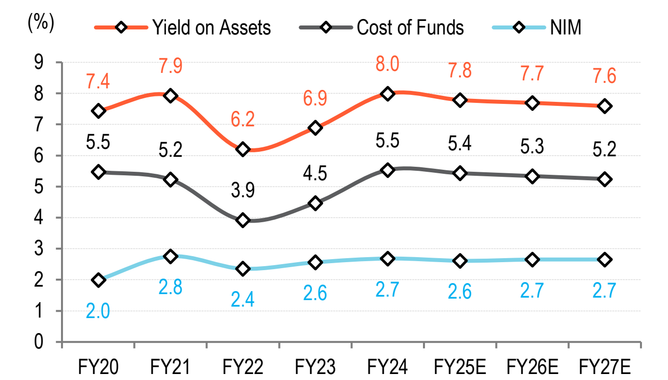

Source: Company, BOBCAPS Research

**Fig 22 – Focus on deposit granularity likely to improve low-cost CASA deposits**



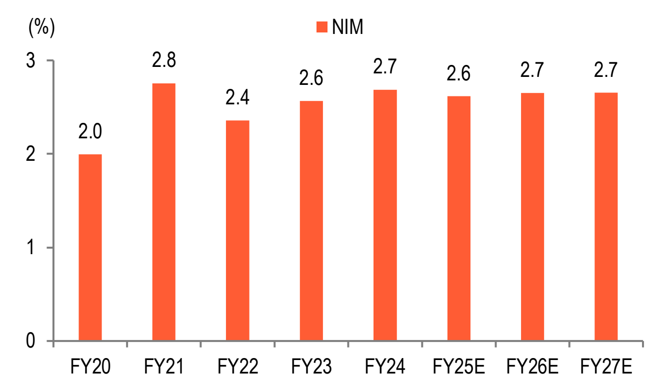

Source: Company, BOBCAPS Research

### Fig 23 – NIM to remain stable at current level with upward bias



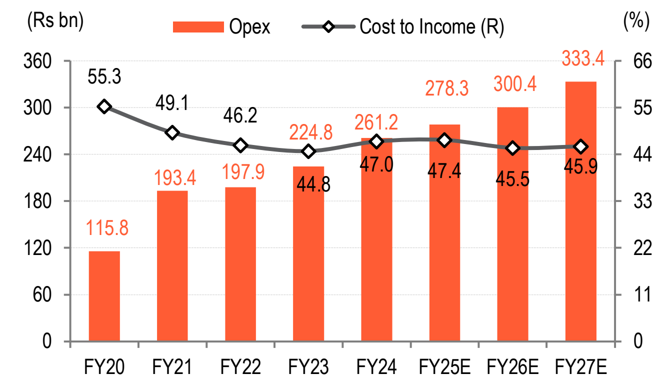

Source: Company, BOBCAPS Research

### Fig 24 – Change in business mix likely to aid margin



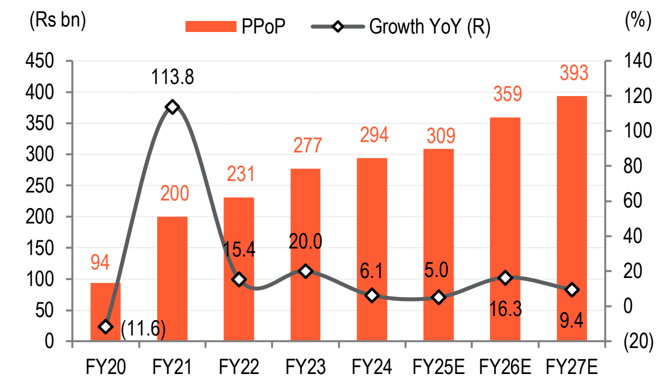

Source: Company, BOBCAPS Research

### Fig 25 – Volume leverage to moderate opex



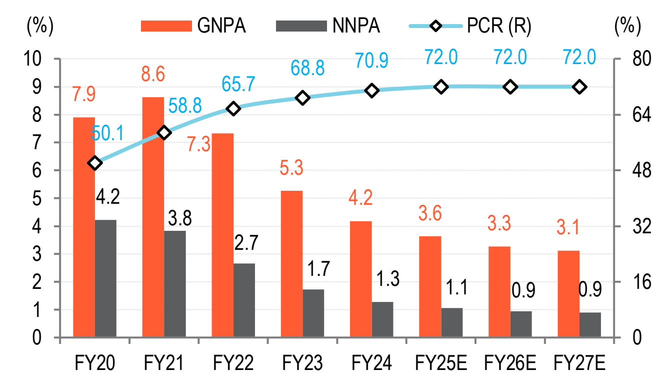

Source: Company, BOBCAPS Research

### Fig 26 – PPOP supported by higher other income



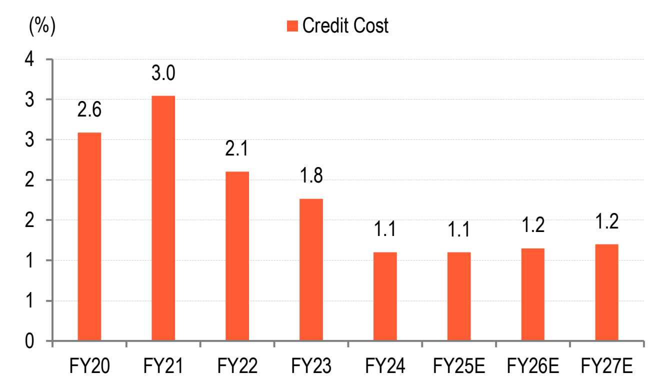

Source: Company, BOBCAPS Research

### Fig 27 – Asset quality continues to improve



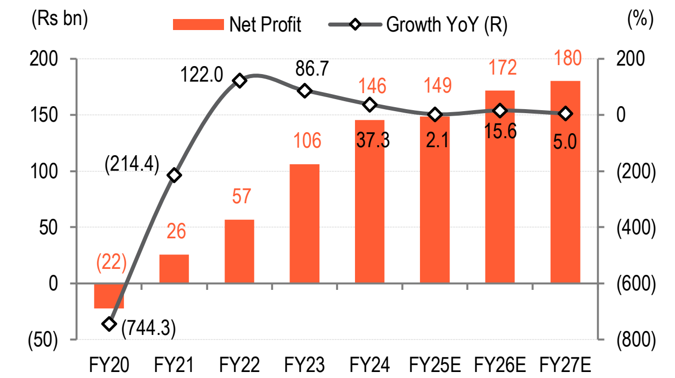

Source: Company, BOBCAPS Research

### Fig 28 – Credit cost to stabilise at 100-120bps



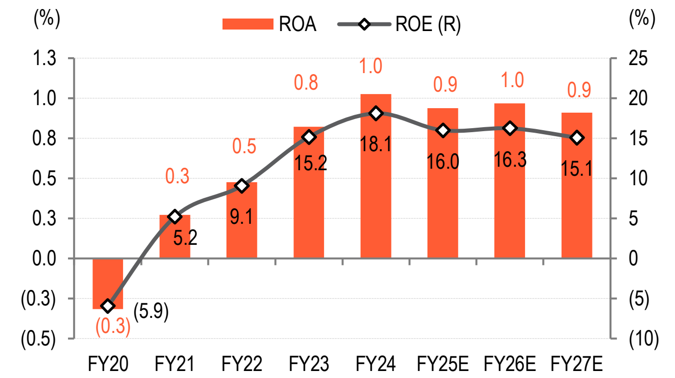

Source: Company, BOBCAPS Research

**Fig 29 – PAT growth to get support from higher other income; moderate opex**




Source: Company, BOBCAPS Research

**Fig 30 – Return ratios have potential to improve further**




Source: Company, BOBCAPS Research

## Valuation methodology

We model in credit/deposit growth CAGR of 12.5%/11.6% for FY24-FY26 mainly driven by RAM, while expecting margin to remain stable at the current level with some upward bias supported by change in mix (gradual shift in portfolio towards high-yielding RAM from the low yielding AAA rated corporate book). We estimate NII CAGR of 11% while expecting NIM (calc.) at 2.7% over FY24-FY26. However, expect moderation in CoI over same period leading to PPOP CAGR of 10.5%. We expect recovery in written-off accounts will continue with average recovery of Rs 40bn-50bn per year aiding topline, as the bank has a large pool of written-off accounts to be recovered.

In terms of asset quality, the bank's conservative approach and its focus on higher recovery and upgradation are likely to augur well and we estimate its GNPA and NNPA to approach 3.3% /0.95% in FY26E. We model in credit cost of 110/115bps over FY25E/FY26E being at the conservative end of the bank's guidance of below 100bps as its portfolio shifts more towards retail and SME is likely to stress.

The recovery in business growth, and stable margins and asset quality are likely to provide further potential performance improvement. We expect stable NIM at 2.7% (calc.) and ROA/ROE of 1%/16% by FY26E. We value the bank at 1.2x FY26 ABV using the Gordon Growth Model and assume coverage with a TP of Rs 140. Maintain BUY.

**Fig 31 – Key operational assumptions**

| (%) | FY23A | FY24A | FY25E | FY26E |
|---|---|---|---|---|
| Advances Growth | 18.1 | 12.2 | 12.6 | 12.5 |
| Net Interest Income Growth | 19.1 | 16.3 | 8.7 | 13.8 |
| PPoP Growth | 20.0 | 6.1 | 5.0 | 16.3 |
| PAT Growth | 86.7 | 37.3 | 2.1 | 15.6 |
| NIM | 2.6 | 2.7 | 2.6 | 2.7 |
| GNPA | 5.3 | 4.2 | 3.6 | 3.3 |
| CAR | 16.7 | 16.3 | 16.0 | 15.8 |

Source: Company, BOBCAPS Research

**Fig 32 – Key Estimates**

| Parameters (Rs mn) | BOBCAPS Research | | Consensus | | Deviation vs. Consensus (%) | |
|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Total Income | 587,104 | 659,623 | 595,772 | 654,948 | (1.5) | 0.7 |
| PAT | 148,532 | 171,683 | 161,174 | 177,447 | (7.8) | (3.2) |
| EPS | 16.4 | 18.9 | 17.9 | 19.8 | (8.7) | (4.6) |

Source: BOBCAPS Research, Reuters

### Fig 33 – Valuation assumptions

| Gordon Growth Model | (%) |
|---|---|
| Return on Equity (RoE) | 14.7 |
| Cost of Equity (Ke) | 13.9 |
| Growth (Period 1) | 11.8 |
| Growth (Long Term) | 5.9 |
| Initial High Growth Period (years) | 10.0 |
| Dividend Payout (Period 1) | 20.0 |
| Dividend Payout (Long Term) | 60.0 |
| Factor 1 | 1.8 |
| Factor 2 | 6.6 |
| Justified P/BV (x) | 1.2 |

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- any sudden delinquency in the retail and SME segments, resulting in higher provision requirements, and
- inability to manage cost of funds, which may drag NIM and overall profitability.

## Sector recommendation snapshot

| Company | Ticker | Market Cap (US$ bn) | Price (Rs) | Target (Rs) | Rating |
|---|---|---|---|---|---|
| Axis Bank | AXSB IN | 46.5 | 1,237 | 1,252 | HOLD |
| Canara Bank | CBK IN | 13.1 | 119 | 140 | BUY |
| DCB Bank | DCBB IN | 0.5 | 141 | 172 | BUY |
| HDFC Bank | HDFCB IN | 152.8 | 1,666 | 1,872 | BUY |
| ICICI Bank | ICICIBC IN | 99.0 | 1,159 | 1,272 | HOLD |
| IDFC First Bank | IDFCBK IN | 6.8 | 83 | 96 | BUY |
| Indusind Bank | IIB IN | 14.5 | 1,527 | 1,881 | BUY |
| Kotak Mahindra Bank | KMB IN | 43.0 | 1,776 | 2,000 | BUY |
| RBL Bank | RBK IN | 1.9 | 264 | 309 | BUY |
| State Bank of India | SBIN IN | 90.8 | 836 | 969 | BUY |

Source: BOBCAPS Research, NSE | Price as of 21 Jun 2024

# Financials

### Income Statement

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Net interest income** | **314,353** | **365,659** | **397,523** | **452,329** | **506,398** |
| NII growth (%) | 19.1 | 16.3 | 8.7 | 13.8 | 12.0 |
| Non-interest income | 187,622 | 189,664 | 189,581 | 207,294 | 220,048 |
| Total income | 501,975 | 555,324 | 587,104 | 659,623 | 726,446 |
| Operating expenses | 224,815 | 261,198 | 278,261 | 300,382 | 333,354 |
| PPOP | 277,160 | 294,126 | 308,842 | 359,241 | 393,092 |
| PPOP growth (%) | 20.0 | 6.1 | 5.0 | 16.3 | 9.4 |
| Provisions | 135,430 | 97,076 | 108,933 | 128,174 | 150,536 |
| PBT | 141,730 | 197,050 | 199,909 | 231,067 | 242,556 |
| Tax | 35,692 | 51,507 | 51,377 | 59,384 | 62,337 |
| **Reported net profit** | **106,038** | **145,543** | **148,532** | **171,683** | **180,219** |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **106,038** | **145,543** | **148,532** | **171,683** | **180,219** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Equity capital | 18,141 | 18,141 | 18,141 | 18,141 | 18,141 |
| Reserves & surplus | 717,930 | 851,405 | 968,745 | 1,104,374 | 1,246,747 |
| Net worth | 736,072 | 869,546 | 986,886 | 1,122,516 | 1,264,889 |
| Deposits | 11,792,186 | 13,123,666 | 14,632,888 | 16,344,936 | 18,306,328 |
| Borrowings | 580,898 | 575,923 | 607,023 | 634,339 | 668,593 |
| Other liab. & provisions | 348,167 | 346,272 | 454,629 | 651,572 | 655,074 |
| **Total liab. & equities** | **13,457,322** | **14,915,407** | **16,681,426** | **18,753,362** | **20,894,883** |
| Cash & bank balance | 1,414,232 | 1,507,597 | 1,623,758 | 1,812,203 | 2,027,099 |
| Investments | 3,190,385 | 3,574,544 | 3,993,651 | 4,494,576 | 4,853,816 |
| Advances | 8,306,726 | 9,316,128 | 10,489,960 | 11,801,206 | 13,288,157 |
| Fixed & Other assets | 545,980 | 517,138 | 574,056 | 645,378 | 725,810 |
| **Total assets** | **13,457,322** | **14,915,407** | **16,681,426** | **18,753,362** | **20,894,883** |
| Deposit growth (%) | 8.5 | 11.3 | 11.5 | 11.7 | 12.0 |
| Advances growth (%) | 18.1 | 12.2 | 12.6 | 12.5 | 12.6 |

### Per Share

| Y/E 31 Mar (Rs) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| EPS | 11.7 | 16.0 | 16.4 | 18.9 | 19.9 |
| Dividend per share | 2.4 | 3.2 | 3.4 | 4.0 | 4.2 |
| Book value per share | 81.1 | 95.9 | 108.8 | 123.8 | 139.4 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| P/E | 10.2 | 7.4 | 7.3 | 6.3 | 6.0 |
| P/BV | 1.5 | 1.2 | 1.1 | 1.0 | 0.9 |
| Dividend yield (%) | 2.0 | 2.7 | 2.9 | 3.3 | 3.5 |

### DuPont Analysis

| Y/E 31 Mar (%) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Net interest income | 2.8 | 2.6 | 2.5 | 2.6 | 2.6 |
| Non-interest income | 1.7 | 1.3 | 1.2 | 1.2 | 1.1 |
| Operating expenses | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 |
| Pre-provisioning profit | 2.6 | 2.1 | 2.0 | 2.0 | 2.0 |
| Provisions | 1.2 | 0.7 | 0.7 | 0.7 | 0.8 |
| PBT | 1.4 | 1.4 | 1.3 | 1.3 | 1.2 |
| Tax | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 |
| ROA | 1.1 | 1.0 | 0.9 | 1.0 | 0.9 |
| Leverage (x) | 19.7 | 17.7 | 17.0 | 16.8 | 16.6 |
| ROE | 20.9 | 18.1 | 16.0 | 16.3 | 15.1 |

### Ratio Analysis

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Net interest income | 19.1 | 16.3 | 8.7 | 13.8 | 12.0 |
| Pre-provisioning profit | 20.0 | 6.1 | 5.0 | 16.3 | 9.4 |
| EPS | 78.1 | 37.3 | 2.1 | 15.6 | 5.0 |
| **Profitability & Return ratios (%)** | | | | | |
| Net interest margin | 0.0 | 3.1 | 3.0 | 3.0 | 3.0 |
| Fees / Avg. assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost-Income | 44.8 | 47.0 | 47.4 | 45.5 | 45.9 |
| ROE | 20.9 | 18.1 | 16.0 | 16.3 | 15.1 |
| ROA | 1.1 | 1.0 | 0.9 | 1.0 | 0.9 |
| **Asset quality (%)** | | | | | |
| GNPA | 5.3 | 4.2 | 3.6 | 3.3 | 3.1 |
| NNPA | 1.7 | 1.3 | 1.1 | 0.9 | 0.9 |
| Slippage ratio | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 |
| Credit cost | 1.8 | 1.1 | 1.1 | 1.2 | 1.2 |
| Provision coverage | 67.2 | 69.6 | 70.9 | 71.1 | 71.1 |
| **Ratios (%)** | | | | | |
| Credit-Deposit | 70.4 | 71.0 | 71.7 | 72.2 | 72.6 |
| Investment-Deposit | 27.1 | 27.2 | 27.3 | 27.5 | 26.5 |
| CAR | 16.7 | 16.3 | 16.0 | 15.8 | 15.7 |
| Tier-1 | 13.8 | 14.0 | 13.8 | 13.8 | 13.8 |

Source: Company, BOBCAPS Research | Note: Stock split in 1:5 ratio (Record Date 15 May 2024)

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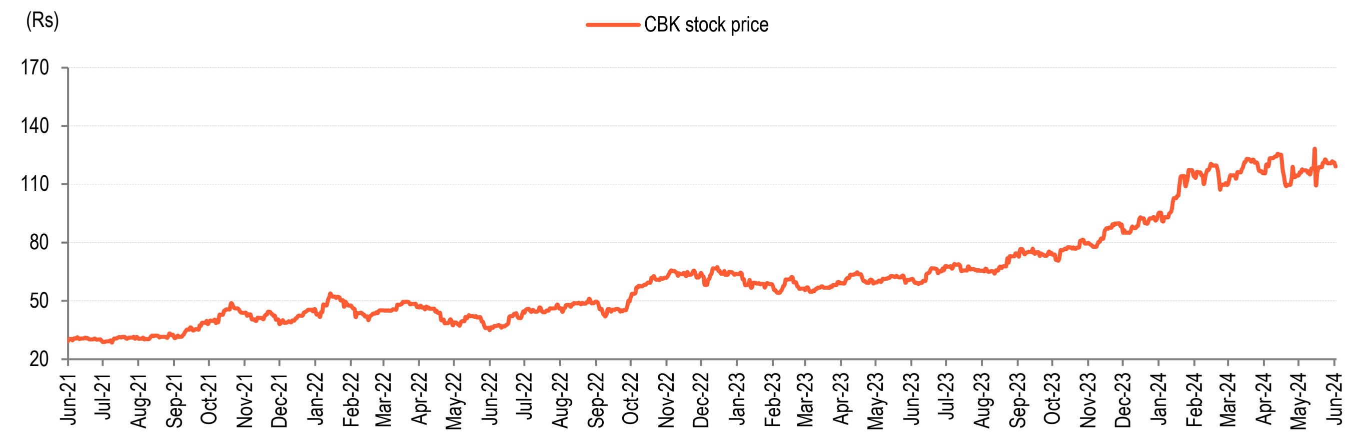


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