

FINANCIAL STATEMENT ANALYSIS & VALUATION

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1. INTRODUCTION

Financial statement analysis plays a crucial role in evaluating the financial performance stability and value creation of a business. It enables investors, analysts, and management to assess profitability, liquidity, solvency, and operational efficiency through structure tools like such as ratio analysis and trend analysis. In the banking sector, these evaluations become even more important due to the sector's contribution to economic growth of the country and high volume of trades.

This report presents a comprehensive financial statement analysis and valuation of Canara Bank for the three year period from 2023 to 2025. The objective is to examine the bank's financial performance using profitability, liquidity, solvency, and efficiency ratios, alongside visual trend analysis. Furthermore, the report applies Discounted Cash Flow (DCF) valuation and market multiple valuation (P/E, P/B, EV/EBITDA) to estimate the intrinsic value of Canara Bank's equity and compare it with the current market price.

2. DATA COLLECTION & METHODOLOGY

The Financial data used in this study was collected from Moneycontrol, one of India's Most reliable financial information platforms. 3 primary financial statements Income Statement, Balance sheet, and Cash Flow were extracted from (Moneycontrol) Canara Bank covering the financial years 2023, 2024 & 2025. These statements formed the foundation for conducting ratio analysis, trend analysis & DCF Valuation.

To ensure accuracy, consistency, and analytical depth, the data was processed using Python along with widely used analytical libraries such as Pandas, NumPy, and Matplotlib. These tools were employed to clean, format, and analyze the raw data. Since the statements contained inconsistent date formats, especially in the balance sheet and cash flow data, column names were standardized to "Mar '23", "Mar '24", and "Mar '25" for uniformity across all datasets.

Ratio formulas for profitability, liquidity, solvency, and efficiency were coded programmatically to eliminate manual errors and enhance precision. Visualization tools were used to generate trend charts that clearly illustrated three-year performance movements. For valuation, the study applied both Discounted Cash Flow (DCF) analysis using Free Cash Flow projections, discount rate, and terminal growth assumptions and market multiple valuation based on P/E, P/B, and EV/EBITDA metrics. This systematic approach ensures a comprehensive and data-driven financial assessment of Canara Bank.

3. FINANCIAL RATIOS

Financial ratios are calculations that compare two or more figures from a company's financial statements to measure performance and financial health. They are important for analysis because they simplify complex data, provide a way to compare a company's financial performance over a period of time or against competitors, and help assess key areas like profitability, liquidity, solvency and efficiency

• PROFITABILITY RATIO

Ratio	Mar '23	Mar '24	Mar '25
Gross Profit Margin	48.65%	43.50%	41.86%
Net Profit Margin	−2.85%	3.80%	5.81%
Return on Equity (ROE)	−3.77%	5.26%	7.84%
Return on Assets (ROA)	−0.21%	0.32%	0.48%

INTERPRETATION

Profitability ratios evaluate the bank's ability to generate earnings from its income, equity and asset base.

- **Gross Profit Margin** decreased from 0.4865 in 2023 to 0.4186 in 2025, indicating that interest and other funding costs have grown faster than interest income.
- **Net Profit Margin** shows a strong turnaround: it moved from a negative −0.0285 in 2023 to 0.0380 in 2024 and further to 0.0581 in 2025. This reflects better control over provisions, operating expenses and credit quality.
- **Return on Equity (ROE)** improved sharply from −0.0377 to 0.0784, indicating that shareholders' funds are now generating positive and rising returns. Similarly,
- **Return on Assets (ROA)** recovered from −0.0021 in 2023 to 0.0048 in 2025, showing improved utilization of the asset base to generate profits.

Overall, profitability ratios suggest that while gross spreads have narrowed slightly, the bank's bottom-line performance has improved significantly after 2023, pointing to a successful operational and asset-quality recovery.

• LIQUIDITY RATIO

Ratio	Mar '23	Mar '24	Mar '25
Current Ratio	1.0527	1.0560	1.0593
Quick Ratio	0.3799	0.3817	0.3892

INTERPRETATION

Liquidity ratios measure Canara Bank's ability to meet its short-term obligations.

- **Current Ratio** remains very stable, rising marginally from **1.0527 in 2023** to **1.0560 in 2024** and **1.0593 in 2025**. This indicates that current assets slightly exceed current liabilities throughout the period, suggesting consistent short-term solvency.
- **Quick Ratio** also shows a gradual improvement, moving from **0.3799** to **0.3817** and then **0.3892** over the same period.

For a bank, where advances and deposits dominate the balance sheet, quick ratios are naturally lower than those of manufacturing firms. The mild upward trend indicates better management of highly liquid assets such as cash, balances with RBI, and investments.

Overall, liquidity appears stable and slightly improving, implying that the bank is comfortably positioned to meet immediate obligations.

- **SOLVENCY RATIO**

Ratio	Mar '23	Mar '24	Mar '25
Debt-to-Equity	0.7440	0.6245	0.8506
Interest Coverage	1.2001	1.2018	1.2059

INTERPRETATION

Solvency ratios assess the bank's long-term financial risk and capital structure.

- **Debt-to-Equity Ratio** was **0.7440 in 2023**, fell to **0.6245 in 2024**, and then increased notably to **0.8506 in 2025**. The drop in 2024 suggests a temporary strengthening of the capital base relative to borrowings.
- **Interest Coverage Ratio** improved steadily from **1.2001** to **1.2018** and **1.2059**, showing that earnings before interest and tax have grown slightly faster than interest costs.

However, the rise in 2025 indicates that the bank has taken on more leverage. Even so, the level remains within a generally acceptable range for a large public-sector bank, where higher leverage is normal due to the nature of deposit funding. This **gradual improvement indicates** a stronger ability to service debt and manage interest obligations. **Overall**, solvency ratios suggest that while leverage increased in 2025, the bank's capacity to cover interest payments remains adequate, pointing to manageable long-term financial risk.

- **EFFICIENCY RATIO**

Ratio	Mar '23	Mar '24	Mar '25
Receivable Turnover	0.1242	0.1370	0.1355
Asset Turnover	0.0747	0.0832	0.0822

INTERPRETATION

Efficiency ratios focus on how effectively the bank uses its assets, particularly advances and total assets, to generate income.

- **Receivable Turnover Ratio** (using advances as a proxy for receivables) increased from 0.1242 in 2023 to 0.1370 **in 2024**, before slightly easing to **0.1355 in 2025**. This indicates that the bank improved its ability to earn income from its loan book, with 2024 marking the peak efficiency, and 2025 maintaining almost the same level.
- **Total Asset Turnover Ratio** also rose from 0.0747 to 0.0832 and then settled at 0.0822.

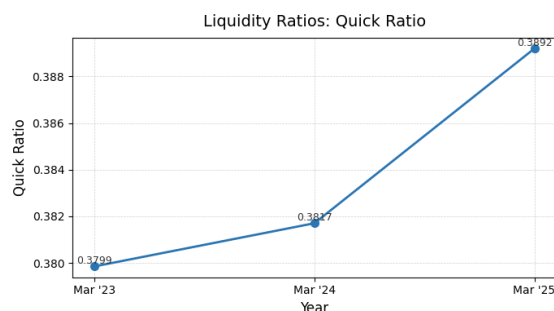
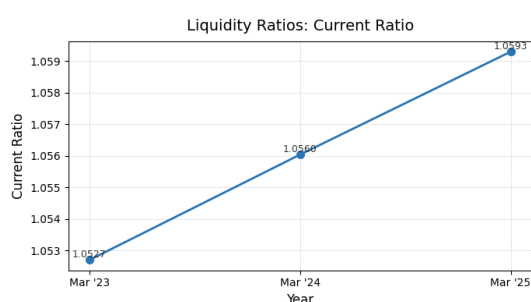
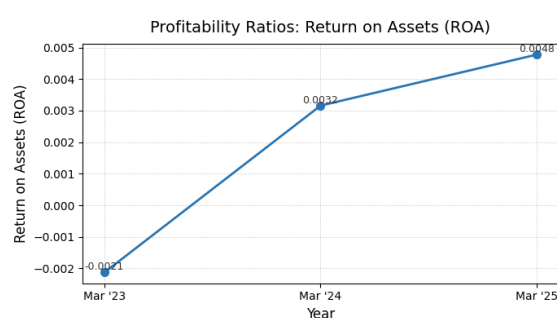
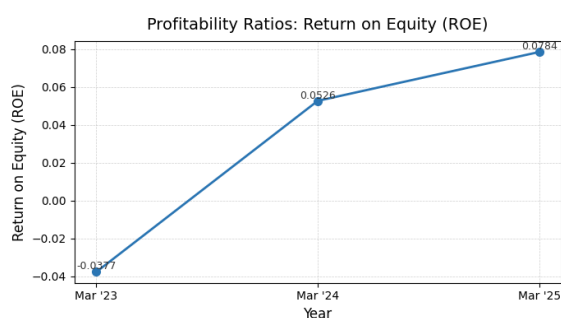
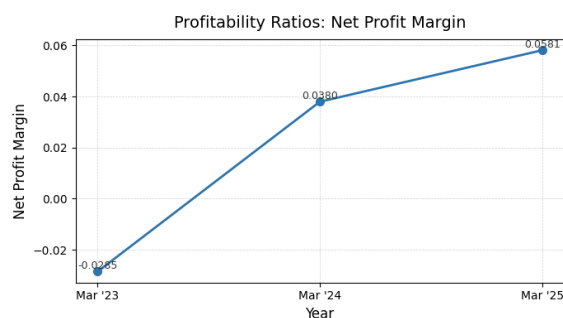
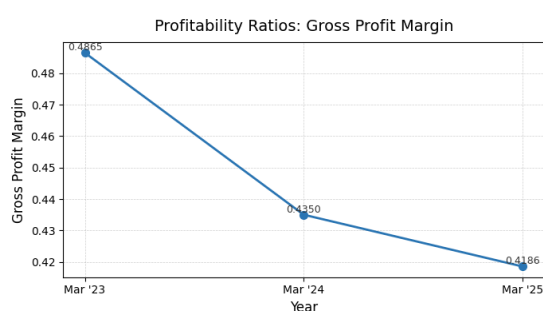
This trend shows that Canara Bank has been using its total asset base more productively over time, generating more income per unit of assets than in 2023. Taken together, the efficiency

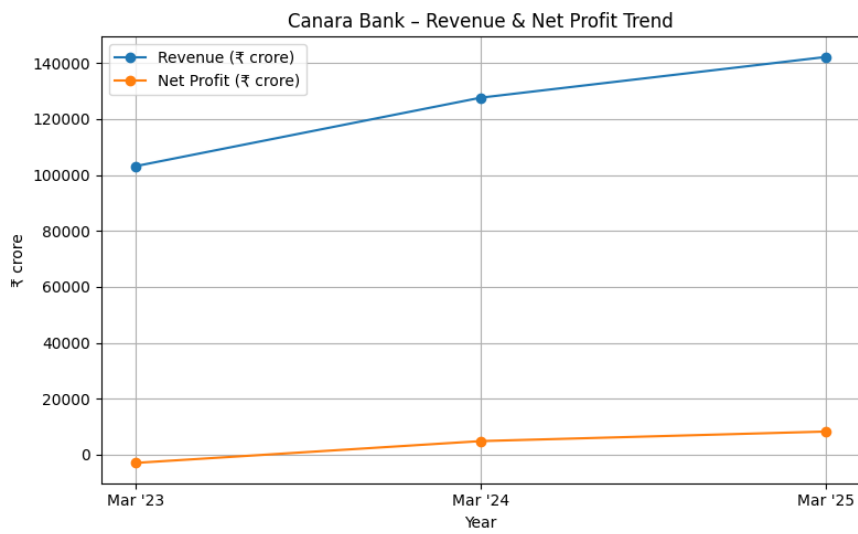
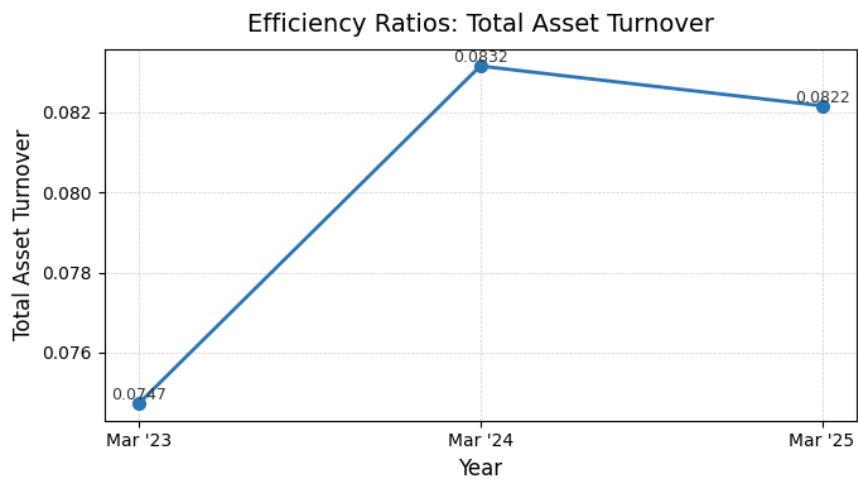
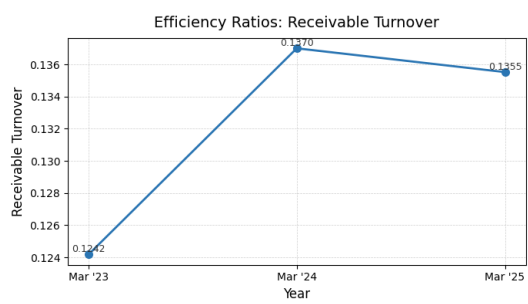
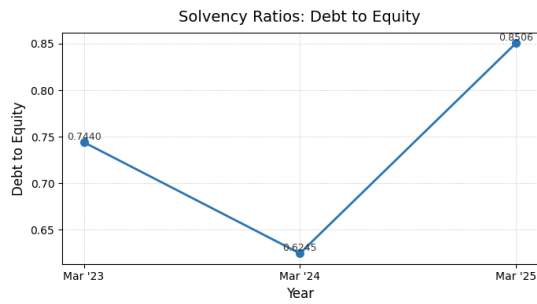
ratios highlight **better utilization of assets and advances** over the period, with only a marginal moderation in 2025 that still remains above 2023 levels.

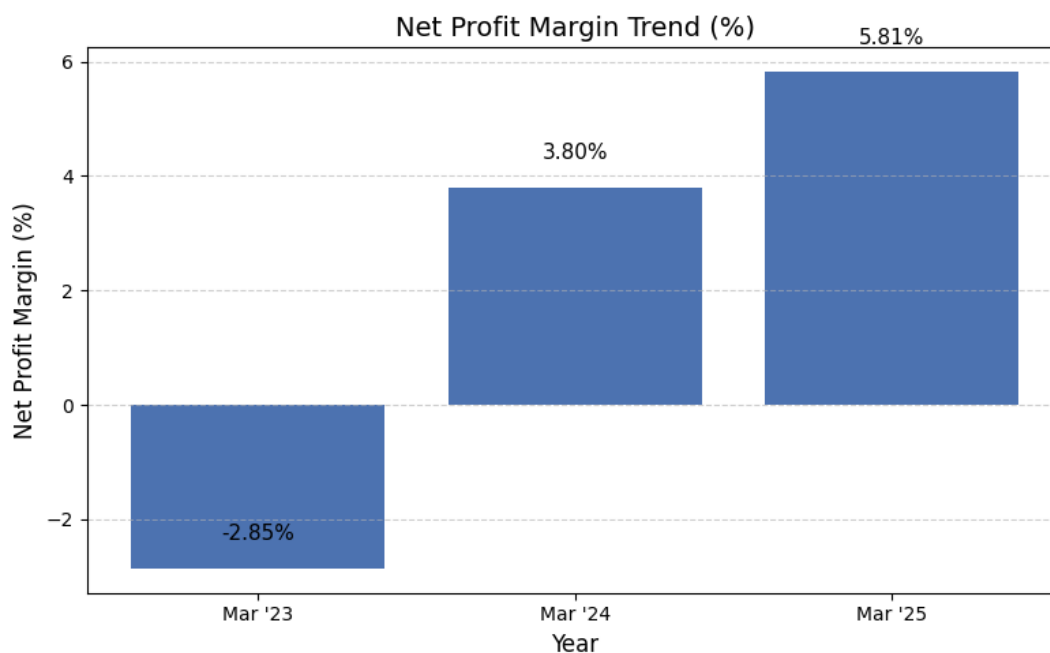
4. TREND ANALYSIS

The profitability trend shows a mixed pattern for Canara Bank.

- **Gross Profit Margin** declined steadily from 48.6% in 2023 to 41.8% in 2025,
- **Net Profit Margin, ROE, and ROA** improved significantly, reflecting stronger earnings recovery and better asset utilization.
- **Liquidity ratios** remained stable throughout the period, with the Current Ratio moving slightly from 1.05 to 1.06, indicating consistent short-term financial health.
- **Solvency ratios** showed moderate fluctuations, with Debt-to-Equity falling in 2024 and rising again in 2025, while Interest Coverage improved marginally each year.
- **Efficiency ratios** displayed mild improvement, driven by better receivable and asset turnover in 2024.
- Overall, the trends indicate improved profitability and operational efficiency from 2023 to 2025.







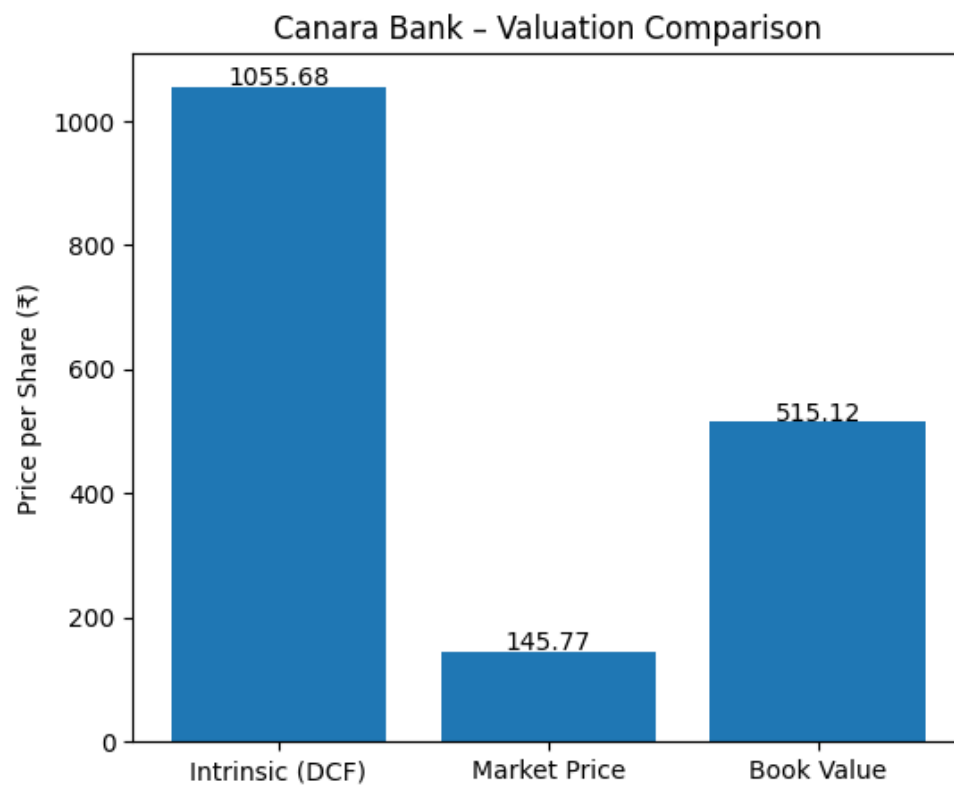
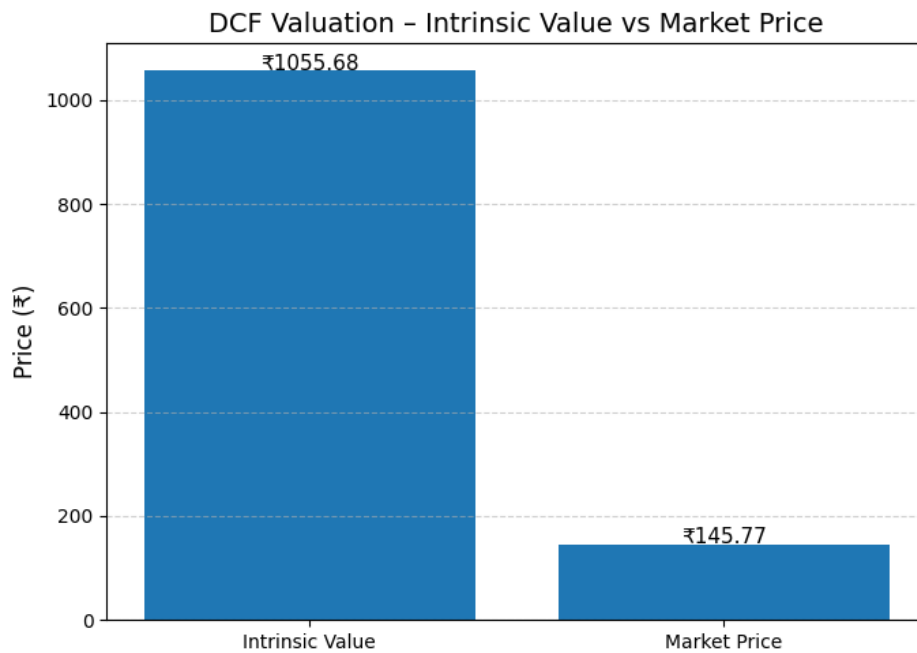
5. VALUATION ANALYSIS

Valuation Analysis Uses 2 key valuation approaches: Discounted Cash Flow (DCF) and Market Multiples. Both models provide a comprehensive estimate of whether the current market price reflects the bank's true financial performance and growth potential.

Discounted Cash Flow (DCF) Valuation

DCF estimates the present value of future free cash flows. For banks, **Net Cash From Operating Activities (₹59,946.57 crore)** is used as a proxy for FCF.

DCF Input / Metric	Value
Base-Year FCF	₹ 59,946.57 crore
5-Year Net Profit CAGR (FCF Growth Rate)	15%
Terminal Growth Rate (IMF/World Bank, India long-term)	5%
Beta (vs Nifty Bank computed vs Nifty 50)	1.27
Discount Rate / WACC (CAPM auto-calculated)	13.77%
Projected Year-5 FCF	₹ 1,20,573.96 crore
PV of 5-Year FCFs	₹ 3,09,563 crore (sum of all PV FCFs)
PV of Terminal Value	₹ 6,55,623.72 crore
DCF Enterprise Value	₹ 9,57,567.60crore
Intrinsic Value per Share	₹1,055.68
Current Market Price	₹ 145.77



INTERPRETATION

The intrinsic value per share ₹ **1,055.68** is more than **8x higher** than the current market price ₹145.77. This implies **substantial undervaluation**, driven by rising profitability, strong operating cash flows, and long-term growth potential.

MULTIPLES VALUATION

Market multiples compare the bank's market valuation with standard profitability and balance-sheet metrics.

Valuation Metric	Value
P/E (Price / EPS)	3.20
P/B (Price / Book Value)	0.28
EV/EBITDA	0.33
Trailing P/E (Yahoo Finance)	6.18
Price-to-Book (Yahoo Finance)	1.15

INTERPRETATION

- A **P/E of 3.2** is extremely low compared to the banking sector average (10–14).
- A **P/B of 0.28** suggests the stock trades **72% below book value**, which is deeply undervalued for a profitable PSU bank.
- The **EV/EBITDA of 0.33** indicates strong operating performance relative to enterprise value.

Together, these multiples confirm the DCF conclusion that Canara Bank is **mispriced and significantly undervalued**.

6. CONCLUSION & INVESTMENT RECOMMENDATION

Based on updated financial analysis and valuation metrics, Canara Bank demonstrates **strong performance improvement** across profitability, liquidity, and solvency between 2023 and 2025. Net Profit Margin, ROE, and ROA continue to rise steadily, reflecting better operational efficiency and credit quality. The discount rate (13.77%) and beta (1.27) indicate a moderate risk profile suitable for a PSU bank.

The updated DCF valuation yields an intrinsic value of **₹1,055.68 per share**, which is dramatically higher than the current market price of **₹145.77**, showing large upside potential. Multiples such as P/E (3.2), P/B (0.28), and EV/EBITDA (0.33) further reinforce the undervaluation signal.

Canara Bank appears **fundamentally strong, financially stable, and trading far below its intrinsic worth**. Based on the combined valuation models, the stock presents a **high-conviction long-term investment opportunity** with substantial upside potential as earnings and market sentiment improve.