

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 4 Sell 1

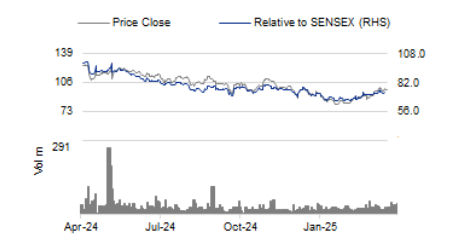
Current price: Rs94
 Target price: ▲ Rs110
 Previous target: Rs105
 Up/downside: 17.0%
 InCred Research / Consensus: -1.3%

Reuters: CNBK.NS
 Bloomberg: CBK IN
 Market cap: US\$10,016m
 Rs849,648m
 Average daily turnover: US\$28.4m
 Rs2406.3m
 Current shares o/s: 106.2m
 Free float: 37.1%

*Source: Bloomberg

Key changes in this note

- We revisit our estimates to build margin factoring in ~50bp repo rate cut.
- We have cut the risk-free rate by 25bp.
- We have introduced FY28F estimates.

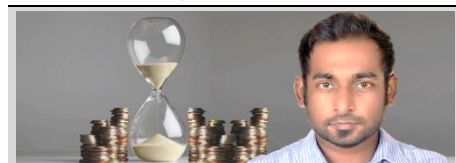


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.5	(0.4)	(18.8)
Relative (%)	(1.1)	(4.0)	(26.1)

Major shareholders	% held
PRESIDENT OF INDIA	62.9
LIC	5.7
MR. RAKESH JHUNJHUNWALA	1.4

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Canara Bank

Good quarter; PAT beat on strong recovery

- The 4QFY25 PAT beat was due to better-than-expected core business performance and strong recoveries from written-off accounts.
- Canara Bank will be able to offset some margin compression as credit costs moderate and stake sale/listing gains of its subsidiaries also aid profitability.
- We raise our TP to Rs110 (17% upside) or 0.8x target multiple on FY27F BV. The risk-reward ratio appears attractive at 0.65x FY27F core BV. Retain ADD.

PAT beat on core PPOP and strong recovery from w/off accounts

4QFY25 PAT of Canara Bank at Rs50bn (1.25% annualized RoA) beat our estimate on steady margin (+2bp QoQ at 2.73%; we build in a dip of ~5bp), healthy core fee (+20% YoY) & strong recovery from written-off (Rs25bn vs. Rs20bn) accounts. Overall credit cost moderated QoQ (71bp vs. 96bp) although NPA credit costs rose QoQ (110bp vs. 79bp). This was due to the bank utilizing a part of the SR provision reversal (~Rs11bn) to step up NPA provision (~Rs6bn). NII grew 3% QoQ, aided by steady margin & healthy avg. balance sheet growth (+11% YoY; +2% QoQ). Core fee was healthy & opex was lower than expected (+6% QoQ; 1% YoY – owing to a high base). Core PPOP growth at +4% YoY was better than expected. The loan book grew by 13% YoY (+2% QoQ) & deposits grew by 11% YoY (+6% QoQ). The bank gave loan growth guidance of 10-11% & deposit growth of 9-10% for FY26F. CET-1 ratio stood at 12%. Avg. LCR improved QoQ (140% vs. 123%).

Uptick in slippage led by MSME loans - partly technical in nature

Gross slippage increased QoQ (Rs27bn vs. Rs25bn), mainly led by the uptick in MSME loan slippage – which was partly technical in nature. Strong write-off (Rs50bn vs. Rs40bn) and healthy recovery/upgrades (Rs12bn, steady vs. last quarter) led to the decline in GNPA by 10% QoQ. The GNPA ratio moderated to 2.94% vs. 3.34% last quarter. PCR improved QoQ (77% vs. 74%) and the net NPA ratio moderated QoQ (0.7% vs. 0.9%). Management gave guidance of strong recovery from the w/off accounts to sustain in FY26F as well. Conservatively, it gave credit cost guidance of 90bp as it looks to further improve the PCR (incl. technically written-off accounts) to 95% by FY26F, from 92.7% as of Mar 2025-end. We have built credit costs of ~80/70bp for FY26F/27F vs. 100bp during FY25.

Attractive valuation; multiple levers to aid profitability

Canara Bank will be able to offset some margin compression by moderating credit costs over the next few years. It will also benefit from the stake sale/listing of life insurance and AMC subsidiaries in the coming years (not yet built in our estimates). We expect RoA to moderate to 0.8%/0.9% in FY26F-27F, from 1.1% in FY25F. RoE to decline to ~13-14% in FY26F-27F, from ~18% in FY25F. The risk-reward ratio appears attractive, with the stock trading at 0.65x FY27F BV. We have raised our target price to Rs110 (Rs105 earlier) as we reduced the risk-free rate, the benefit of which is partly offset by lower margin assumptions for FY26F/27F. Downside risks: Lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, and higher-than-expected growth in costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	365,659	370,720	369,708	426,862	478,038
Total Non-Interest Income (Rsm)	189,664	224,528	184,549	191,017	200,150
Operating Revenue (Rsm)	555,324	595,248	554,257	617,879	678,189
Total Provision Charges (Rsm)	(97,076)	(87,636)	(86,968)	(91,230)	(88,361)
Net Profit (Rsm)	145,543	170,267	119,766	141,744	164,169
Core EPS (Rs)	16.05	18.77	13.20	15.63	18.10
Core EPS Growth	37%	17%	(30%)	18%	16%
FD Core P/E (x)	5.84	4.99	7.09	5.99	5.18
DPS (Rs)	3.22	4.00	2.64	3.13	3.62
Dividend Yield	3.44%	4.27%	2.82%	3.34%	3.86%
BVPS (Rs)	95.9	110.1	121.6	137.6	156.0
P/BV (x)	0.98	0.85	0.77	0.68	0.60
ROE	18.1%	18.2%	11.4%	12.1%	12.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	95,802	91,486	94,419	-1%	3%
Other Income	52,178	58,022	63,508	22%	9%
--Core Fee	19,410	21,850	23,350	20%	7%
--Treasury Income	6,630	9,450	7,110	7%	-25%
--Misc. Income	26,138	26,722	33,048	26%	24%
-----o/w Recovery From w/off Accounts	19,000	20,080	24,710	30%	23%
Total income	147,980	149,507	157,927	7%	6%
--Core Revenues	115,212	113,336	117,769	2%	4%
Operating Expenses	74,106	71,141	75,090	1%	6%
--Staff Expenses	44,584	44,805	47,828	7%	7%
--Other Operating Expenses	29,522	26,336	27,262	-8%	4%
Operating Profit	73,875	78,366	82,837	12%	6%
--Core PPoP	41,106	42,195	42,679	4%	1%
Provisions	24,818	23,983	18,317	-26%	-24%
PBT	49,056	54,384	64,520	32%	19%
Tax	11,484	13,342	14,493	26%	9%
PAT	37,572	41,042	50,027	33%	22%
EPS	21	18	22		
Advances	9,316,128	10,237,269	10,491,550	13%	2%
Deposits	13,123,666	13,694,647	14,568,832	11%	6%
LD Ratio	71%	75%	72%		
CASA Ratio	30%	28%	28%		
Margins (%)	3.07	2.71	2.73	-0.34	0.02
Overall Provisions (in bp)	107	96	71		
---Credit Costs (in bp)	94	78	122		
-----NPA Provision	98	79	110		
GNPA	406,046	350,606	315,300	-22%	-10%
GNPA Ratio (%)	4.23%	3.34%	2.94%		
NNPA	118,228	90,811	73,533	-38%	-19%
NNPA Ratio (%)	1.27	0.89	0.70		
PCR	287,817	259,795	241,767	-16%	-7%
PCR Ratio (%)	71%	74%	77%		
Slippage	34,000	24,640	27,020	-21%	10%
--% of trailing loans	1.7%	1.1%	1.2%		
CET-1 Ratio (%)	11.6%	12.0%	12.0%		
RoA	1.0%	1.0%	1.3%		
RoE	21.2%	19.1%	21.3%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates				Old Estimates		Change	
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY26F	FY27F
Net Interest Income	371	370	427	478	384	442	-4%	-3%
--Growth YoY	1%	0%	15%	12%	4%	15%		
Non-Interest Income	225	185	191	200	195	192	-6%	-1%
--Growth YoY	18%	-18%	4%	5%	-11%	-2%		
Total Income	595	554	618	678	579	634	-4%	-3%
--Growth YoY	7%	-7%	11%	10%	-1%	9%		
Opex	281	308	338	371	313	344	-2%	-2%
--Growth YoY	8%	9%	10%	10%	10%	10%		
PPOP	314	247	280	307	267	290	-7%	-4%
--Growth YoY	7%	-21%	14%	10%	-12%	9%		
Provision	88	87	91	88	87	91	0%	0%
--as a % of Avg. Loans	88	78	73	63	78	73		
PBT	226	160	189	219	180	200	-11%	-5%
Tax	56	40	47	55	45	50	13%	6%
PAT	170	120	142	164	135	150	-11%	-5%
--Growth YoY	17%	-30%	18%	16%	-14%	11%		
Advances	10,492	11,749	13,158	14,735	11,694	13,096	0%	0%
--Growth YoY	13%	12%	12%	12%	12%	12%		
Deposits	14,569	16,171	17,950	19,925	16,170	17,948	0%	0%
--Growth YoY	11%	11%	11%	11%	11%	11%		
Book Value	110	122	138	156	121	135	0%	2%
--Growth YoY	15%	10%	13%	13%	10%	11%		
EPS	19	15	19	21	15	17	4%	13%
--Growth YoY	17%	-18%	21%	15%	-14%	11%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key highlights

Margin

- Margin guidance is in the range of 2.75-2.8% for FY26F vs. 2.8% for FY25. Management stated that there will be some stress on margin during 1HFY26F but the trajectory should improve during 2HFY26F.
- Net interest income includes interest on recovery from written-off accounts amounting to Rs5.8bn (6bp) during 4QFY25 vs. Rs3.9bn (4bp) last quarter.
- Savings account or SA rate cut – Management indicated that it will take a call on SA card rates during its next ALCO meeting. If it chooses to cut SA rates (from 2.9% currently) – it will offset that by lowering account charges. We note that a 15bp SA rate cut would benefit full-year margin by ~5bp.

Growth

- Overall loans grew by 12% YoY (+2% QoQ), of which the domestic book grew by 11% YoY (+2% QoQ) and the overseas book grew by 23% YoY (+4% QoQ). Within the domestic space, growth was led by the retail segment +43% YoY (+7% QoQ) while MSME loans grew by 8% YoY (decline of 1% QoQ) and agri loans declined by 2% YoY (+1% QoQ). Corporate loans grew by 8% YoY (+1% QoQ).
- Management stated that the sharp growth in retail was due to a new gold loan product introduced for metro city customers a year ago (particularly for consumption purpose). This retail gold loan book has scaled to Rs480bn as of Mar 2025-end from Rs10bn as of Mar 2024-end. The retail gold loan product has cannibalized the agri gold loan product (book size of Rs1.5tr), which was a deliberate outcome sought by management. Retail gold loan yield is ~9%-9.1% vs. agri gold loan yield of ~8.7%. The bank gave guidance of a further increase in the retail gold loan book to Rs700bn by FY26F (implies a growth of 45% YoY).

Asset quality

- Management noted that the personal loan book of Rs180bn includes unsecured education loans (~Rs60-70bn) and the remaining (~Rs120bn) is unsecured personal loans to pension/salaried accounts having credit accounts with Canara Bank. The net NPA ratio in this portfolio is 0.5%.

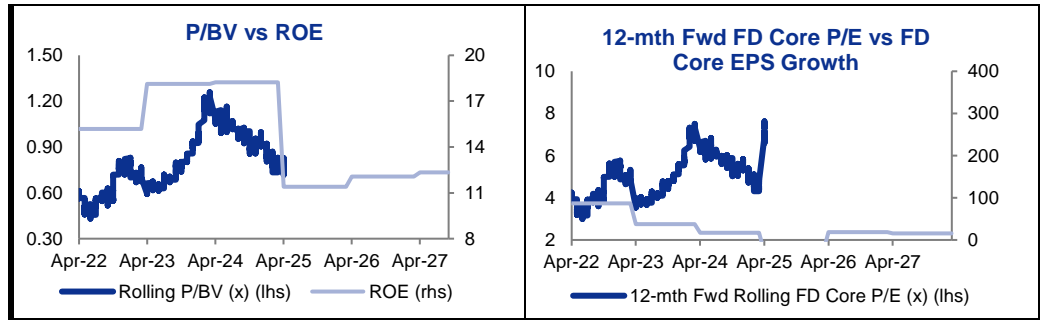
Others

- Priority sector lending certificates (PSLC) income booked during 4QFY25, given good market rates – The bank earned PSLC income of Rs1.3bn during 4QFY25 and Rs15.5bn in FY25 (10bp of avg. assets). Usually, the bank earns PSL income during the quarter ended June but given good market rates, the bank booked some of the income during the quarter ended March. The bank indicated that PSL rates shot up to 2% during Mar 2025 and further to 3% likely in Jun 2025F vs. the normal range of 1.75%.
- Under the new PSL guidelines, the quantum of qualified PSL loans will reduce but given the good market rates, there won't be any material impact on the overall income earned through the sale of PSL certificates, as per the bank.
- Loan mix by rate type – EBLR is 44% (repriced on T+1 basis), MCLR is 45% and the remaining is fixed rate & others. The gold loan product is MCLR-linked.
- Special mention account (SMA) included a few lumpy accounts – Management noted that SMA 1&2 book worth Rs75bn includes Rs40bn pertaining to three lumpy accounts (some of which are state government accounts).
- Recovery from written-off accounts is expected to be healthy at Rs40-50bn in FY26F, vs. Rs68bn during FY25 and Rs60bn during FY24.
- Staff costs included performance-linked incentive of Rs2.5bn.

Figure 3: Financial summary

Canara Bank					Per Share Data and Valuations				
Profit and Loss Statement					Rs (Year-end March)				
Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F	Rs (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	1,197,551	1,201,350	1,341,187	1,492,647	Per Share Data				
Interest Expense	826,831	831,642	914,325	1,014,608	EPS	18.8	15.4	18.7	21.5
Net Interest Income	370,720	369,708	426,862	478,038	Book Value	110	122	138	156
---Fee Income	20,066	22,474	25,171	28,191	Core Op. Profit	12.1	9.3	12.6	14.9
---Forex Income	8,568	9,596	10,748	12,037	DPS	4	3	3	4
---Capital Gains	26,660	4,000	2,000	2,000	Valuations				
---Miscellaneous Inc.	169,234	148,479	153,098	157,921	P/E (Core)	4.9	5.9	4.9	4.3
Total Non Interest Income	224,528	184,549	191,017	200,150	Price to Book (Core)	0.8	0.8	0.7	0.6
Total Operating Income	595,248	554,257	617,879	678,189	Price to Core Op. Profit (Core)	7.6	9.8	7.3	6.1
---Employee Exp	178,561	191,734	207,235	224,131	Dividend Yield	4.2%	2.8%	3.3%	3.8%
---Other Expenses	102,784	115,866	130,421	146,805	Ratio Analysis				
Total Operating Expenses	281,345	307,600	337,656	370,936	(Year-end March)	FY25	FY26F	FY27F	FY28F
Operating Profit	313,903	246,657	280,223	307,253	Spread Analysis				
---Prov. For Investment Dep.	-10,910	0	0	0	Average yield on assets	7.8%	7.0%	7.0%	7.0%
---Loan Loss Provisions	95,864	82,566	86,300	82,840	Cost of earning assets	5.4%	4.8%	4.8%	4.8%
---Other Provisions	2,682	4,402	4,930	5,521	Net Interest Margin (Reported)	2.8%	2.7%	2.9%	2.9%
Total provisions	87,636	86,968	91,230	88,361	Growth Ratios				
Profit Before Tax	226,267	159,689	188,992	218,892	Net Interest Income	1%	0%	15%	12%
Provision for Tax	56,000	39,922	47,248	54,723	Non Interest Income	18%	-18%	4%	5%
Net Profit	170,267	119,766	141,744	164,169	Operating expenses	8%	9%	10%	10%
Core Operating profit	109,441	84,582	114,377	135,294	Core Operating Profit	15%	11%	11%	11%
Balance Sheet Data					Net Profit	17%	-30%	18%	16%
Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F	EPS	17%	-18%	21%	15%
Shareholders' equity	999,001	1,102,697	1,248,488	1,414,935	Deposits	11%	11%	11%	11%
Deposits	14,568,832	16,171,403	17,950,258	19,924,786	Advances	13%	12%	12%	12%
Borrowings	558,554	619,995	688,195	763,896	Total Assets	13%	11%	11%	11%
Other Liabilities & Prov.	702,109	779,341	865,068	960,226	Profitability Ratios				
Total Liabilities	16,828,496	18,673,436	20,752,009	23,063,843	Return On Equity	18.2%	13.3%	14.4%	14.6%
Cash & Balances with RBI	899,986	998,984	1,108,872	1,230,848	Return on Assets	1.1%	0.8%	0.9%	0.9%
Balances with Banks	1,153,416	1,280,292	1,421,124	1,577,448	Efficiency Ratios				
Investments	3,803,434	4,121,091	4,492,129	4,894,861	Cost Income Ratio	47.3%	55.5%	54.6%	54.7%
Advances	10,491,550	11,749,341	13,157,923	14,735,374	Expenses/Avg Assets	1.8%	1.7%	1.7%	1.7%
Fixed Assets	102,152	104,195	106,278	108,404	Capital Ratios				
Other Assets	377,959	419,534	465,683	516,908	CET 1 Ratio	12.0%	12.1%	12.4%	12.7%
Total Assets	16,828,496	18,673,436	20,752,009	23,063,843	Tier 1 Ratio	14.4%	14.2%	14.3%	14.4%
Earning Assets	16,319,438	18,119,312	20,148,132	22,405,020	Capital Adequacy Ratio	16.3%	16.2%	16.2%	16.4%
Asset Quality					Source: Company Data, InCred Research				
Credit Costs / Advances (bps)	100	78	73	63	E=InCred Research Estimates				
Gross NPL	315,300	254,808	255,233	258,924	SOURCE: INCRED RESEARCH, COMPANY REPORTS				
Net NPL	73,529	60,922	58,791	73,428					
Reserve Coverage	241,772	193,886	196,441	185,496					
Gross NPL Ratio	2.9%	2.1%	1.9%	1.7%					
Net NPL Ratio	0.7%	0.5%	0.4%	0.5%					
Coverage Ratio (Ex. Tech W/offs)	77%	76%	77%	72%					

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	365,659	370,720	369,708	426,862	478,038
Total Non-Interest Income	189,664	224,528	184,549	191,017	200,150
Operating Revenue	555,324	595,248	554,257	617,879	678,189
Total Non-Interest Expenses	(261,198)	(281,345)	(307,600)	(337,656)	(370,936)
Pre-provision Operating Profit	294,126	313,903	246,657	280,223	307,253
Total Provision Charges	(97,076)	(87,636)	(86,968)	(91,230)	(88,361)
Operating Profit After Provisions	197,050	226,267	159,689	188,992	218,892
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	197,050	226,267	159,689	188,992	218,892
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	197,050	226,267	159,689	188,992	218,892
Exceptional Items					
Pre-tax Profit	197,050	226,267	159,689	188,992	218,892
Taxation	(51,507)	(56,000)	(39,922)	(47,248)	(54,723)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	145,543	170,267	119,766	141,744	164,169
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	145,543	170,267	119,766	141,744	164,169
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	70.7%	71.5%	72.4%	73.0%	73.6%
Avg Liquid Assets/Avg Assets	96.3%	96.9%	97.2%	97.2%	97.3%
Avg Liquid Assets/Avg IEAs	112.0%	113.1%	114.4%	114.3%	114.3%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.10%	0.88%	0.78%	0.73%	0.63%
Provision Charge/Avg Assets	0.68%	0.55%	0.49%	0.46%	0.40%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	9,316,128	10,491,550	11,749,341	13,157,923	14,735,374
Liquid Assets & Invst. (Current)	3,574,544	3,803,434	4,121,091	4,492,129	4,894,862
Other Int. Earning Assets					
Total Gross Int. Earning Assets	12,890,672	14,294,984	15,870,432	17,650,052	19,630,236
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	12,890,672	14,294,984	15,870,432	17,650,052	19,630,236
Intangible Assets					
Other Non-Interest Earning Assets	394,856	377,959	419,534	465,683	516,908
Total Non-Interest Earning Assets	517,138	480,110	523,728	571,961	625,312
Cash And Marketable Securities	1,507,597	2,053,402	2,279,276	2,529,996	2,808,296
Long-term Investments					
Total Assets	14,915,407	16,828,496	18,673,436	20,752,008	23,063,842
Customer Interest-Bearing Liabilities	13,123,666	14,568,832	16,171,403	17,950,258	19,924,786
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	13,392,228	15,127,386	16,791,398	18,638,452	20,688,682
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	653,633	702,109	779,341	865,069	960,226
Total Liabilities	14,045,861	15,829,495	17,570,740	19,503,520	21,648,908
Shareholders Equity	869,546	999,001	1,102,697	1,248,488	1,414,935
Minority Interests					
Total Equity	869,546	999,001	1,102,697	1,248,488	1,414,935

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	16.3%	1.4%	(0.3%)	15.5%	12.0%
Operating Profit Growth	6.1%	6.7%	(21.4%)	13.6%	9.6%
Pretax Profit Growth	39%	15%	(29%)	18%	16%
Net Interest To Total Income	65.8%	62.3%	66.7%	69.1%	70.5%
Cost Of Funds	5.67%	5.80%	5.21%	5.16%	5.16%
Return On Interest Earning Assets	8.9%	8.8%	8.0%	8.0%	8.0%
Net Interest Spread	3.25%	3.01%	2.75%	2.84%	2.85%
Net Interest Margin (Avg Deposits)	2.94%	2.68%	2.41%	2.50%	2.52%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	33%	28%	35%	33%	29%
Interest Return On Average Assets	2.58%	2.34%	2.08%	2.17%	2.18%
Effective Tax Rate	26.1%	24.7%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	20.1%	21.3%	20.0%	20.0%	20.0%
Return On Average Assets	1.03%	1.07%	0.67%	0.72%	0.75%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.