

India

ADD (no change)

Consensus ratings*: Buy 13 Hold 4 Sell 2

Current price:	Rs114
Target price:	Rs127
Previous target:	Rs110
Up/downside:	11.4%
InCred Research / Consensus:	10.5%
Reuters:	CNBK.NS
Bloomberg:	CBK IN
Market cap:	US\$11,916m
	Rs1,029,610m
Average daily turnover:	US\$33.2m
	Rs2872.7m
Current shares o/s:	122.8m
Free float:	37.1%

*Source: Bloomberg

Key changes in this note

- We revisit our earnings estimates to build strong treasury gains and lower provision.
- We tweak our sustainable RoE to factor in better asset quality outcome.

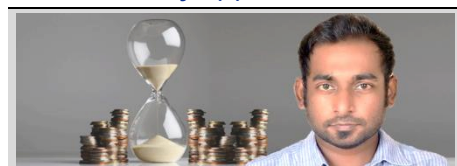


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.6	14.2	0.9
Relative (%)	3.3	10.1	(1.7)

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

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Canara Bank

Weak margin; PAT beat on treasury gains

- 1QFY26 PAT beat was due to strong treasury gains while the core performance was weak. The asset quality improved with moderation in slippage/credit costs.
- Canara Bank still has a few levers left to offset margin compression with moderation in credit costs while stake sale gains of its arms to aid profitability.
- We raise our TP to Rs127 (~11% upside) or 0.9x target multiple on FY27F BV. The risk-reward ratio offers a decent upside even as the valuation is not cheap.

PAT beat on strong treasury/PSL income; weak core performance

1QFY26 PAT of Canara Bank at Rs47.5bn (1.1% annualized RoA) beat our estimate on strong treasury gains (Rs16bn) and better income from the sale of PSL certificates (Rs12bn). Recovery from written-off accounts moderated QoQ to Rs12bn (27bp of avg. assets pre-tax) vs. Rs25bn in 4QFY25. Core performance was weak, given the margin dip of 18bp QoQ to 2.55% (we had built in a decline of 13bp QoQ). Core fee income grew by 16% YoY (7% below our estimate) while the rise in costs was contained (9% YoY; in line with our estimate). The asset quality improved following a moderation in NPA credit costs (70bp vs. 110bp in 4QFY25) as well as slippage (0.9% of trailing loans – annualized vs. 1.1% last quarter). The loan book grew by 13% YoY (2% QoQ) & deposits rose by 10% YoY (1% QoQ). The bank gave loan growth guidance of 10-11% & deposit growth guidance of 9-10% for FY26F. The CET-1 ratio stood at 12.3%.

Asset quality improves with moderation in slippage & uptick in PCR

The gross slippage moderated QoQ (Rs22bn vs. Rs27bn). Healthy recovery & upgrades (Rs11bn vs. Rs12bn) and elevated write-offs (although they dipped QoQ; Rs31bn vs. Rs50bn) led to the decline in GNPA by 6% QoQ to Rs295bn. The GNPA ratio moderated by 25bp QoQ to 2.7%. PCR improved marginally QoQ (77.1% vs. 76.7%). The net NPA ratio stood at 0.6%. Conservatively, the bank gave credit cost guidance of 90bp, but we believe it can potentially register much lower credit costs given that net NPAs and PCR are now in a comfortable range. We have built in credit costs of ~80/70bp for FY26F/27F, respectively, vs. 100bp in FY25.

Favourable risk-reward with levers aiding profitability yet to play out

We believe Canara Bank is well-placed 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 near- to medium-term (not yet built in our estimates – could be 10bp of average assets). We expect its RoA to moderate to 0.8%/0.9% in FY26F/27F, respectively, from 1.1% in FY25. The RoE to decline to 14%/14.5% in FY26F/27F, respectively, from ~18% in FY25. The risk-reward ratio at the current valuation of 0.8x FY27F still appears favourable. We have increased our target price to Rs127 (Rs110 earlier) as we revisited our earnings estimates and increased our sustainable RoE assumptions. Downside risks: Lower-than-expected loan/deposit growth, higher delinquency in retail/MSME portfolios, and a 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	380,731	444,477	501,697
Total Non-Interest Income (Rsm)	189,664	224,528	201,021	191,029	200,538
Operating Revenue (Rsm)	555,324	595,248	581,751	635,506	702,235
Total Provision Charges (Rsm)	(97,076)	(87,636)	(86,440)	(85,760)	(89,081)
Net Profit (Rsm)	145,543	170,267	143,536	164,497	191,412
Core EPS (Rs)	16.05	18.77	15.82	18.14	21.10
Core EPS Growth	37%	17%	(16%)	15%	16%
FD Core P/E (x)	7.07	6.05	7.17	6.26	5.38
DPS (Rs)	3.22	4.00	3.16	3.63	4.22
Dividend Yield	2.84%	3.52%	2.79%	3.20%	3.72%
BVPS (Rs)	95.9	110.1	122.0	136.9	154.4
P/BV (x)	1.18	1.03	0.93	0.83	0.74
ROE	18.1%	18.2%	13.6%	14.0%	14.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs Mn	1QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	91,663	94,419	90,088	-2%	-5%
Other Income	53,189	63,508	70,605	33%	11%
--Core Fee	19,100	23,350	22,230	16%	-5%
--Treasury Income	3,490	7,110	16,170	363%	127%
--Misc. Income	30,599	33,048	32,205	5%	-3%
Total income	144,852	157,927	160,692	11%	2%
--Core Revenues	110,763	117,769	112,318	1%	-5%
Operating Expenses	68,690	75,090	75,157	9%	0%
--Staff Expenses	42,296	47,828	47,955	13%	0%
--Other Operating Expenses	26,394	27,262	27,201	3%	0%
Operating Profit	76,161	82,837	85,536	12%	3%
--Core PPOp	42,073	42,679	37,161	-12%	-13%
Provisions	22,823	18,317	23,516	3%	28%
PBT	53,338	64,520	62,020	16%	-4%
Tax	14,285	14,493	14,500	2%	0%
PAT	39,053	50,027	47,520	22%	-5%
EPS	17	22	21		
Advances	9,463,531	10,491,550	10,735,762	13%	2%
Deposits	13,351,669	14,568,832	14,676,553	10%	1%
LD Ratio	71%	72%	73%		
CASA Ratio	29%	28%	27%		
Margins (%)	2.90	2.73	2.55	-0.35	-0.18
Overall provisions (in bps)	97	71	89		
---Credit cost (in bps)	103	122	91		
-----NPA provisions	92	110	70		
GNPA	403,564	315,300	295,184	-27%	-6%
GNPA Ratio (%)	4.14%	2.94%	2.69%		
NNPA	117,018	73,533	67,652	-42%	-8%
NNPA Ratio (%)	1.24	0.70	0.63		
PCR	286,546	241,767	227,532	-21%	-6%
PCR Ratio (%)	71%	77%	77%		
Slippages	33,370	27,020	21,660	-35%	-20%
--% of trailing loans	1.6%	1.2%	0.9%		
CET-1 Ratio (%)	12.1%	12.0%	12.3%		
RoA	1.1%	1.3%	1.1%		
RoE	20.9%	21.3%	21.1%		

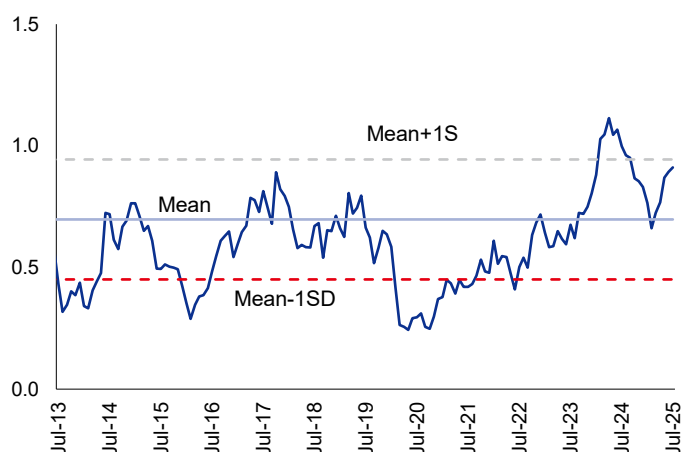
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates				Old Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Net Interest Income	371	381	444	502	370	427	478	3%	4%	5%
--Growth YoY	1%	3%	17%	13%	0%	15%	12%			
Non-Interest Income	225	201	191	201	185	191	200	9%	0%	0%
--Growth YoY	18%	-10%	-5%	5%	-18%	4%	5%			
Total Income	595	582	636	702	554	618	678	5%	3%	4%
--Growth YoY	7%	-2%	9%	11%	-7%	11%	10%			
Opex	281	305	330	358	308	338	371	-1%	-2%	-4%
--Growth YoY	8%	9%	8%	8%	9%	10%	10%			
PPOP	314	276	305	344	247	280	307	12%	9%	12%
--Growth YoY	7%	-12%	10%	13%	-21%	14%	10%			
Provision	88	86	86	89	87	91	88	-1%	-6%	1%
--as a % of avg. loans	88	77	68	63	78	73	63			
PBT	226	190	219	255	160	189	219	19%	16%	17%
Tax	56	47	55	64	40	47	55	-14%	-14%	-14%
PAT	170	144	164	191	120	142	164	20%	16%	17%
--Growth YoY	17%	-16%	15%	16%	-30%	18%	16%			
Advances	10,492	11,845	13,265	14,856	11,749	13,158	14,735	1%	1%	1%
--Growth YoY	13%	13%	12%	12%	12%	12%	12%			
Deposits	14,569	16,171	17,950	19,925	16,171	17,950	19,925	0%	0%	0%
--Growth YoY	11%	11%	11%	11%	11%	11%	11%			
Book Value	110	122	137	154	122	138	156	0%	-1%	-1%
--Growth YoY	15%	11%	12%	13%	10%	13%	13%			
EPS	19	16	18	21	15	19	21	3%	-3%	-2%
--Growth YoY	17%	-16%	15%	16%	-18%	21%	15%			
RoA	1.1%	0.8%	0.8%	0.9%	0.8%	0.9%	0.9%	2	-3	-2
RoE	18.2%	13.6%	14.0%	14.5%	13.3%	14.4%	14.6%	31	-42	-14

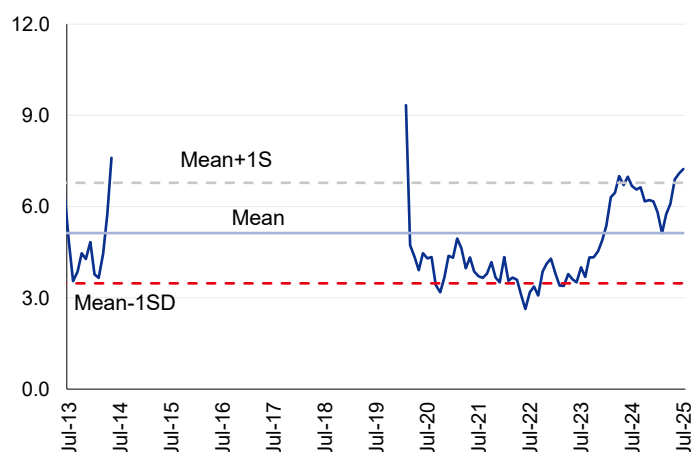
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/BV



SOURCE: INCRED RESEARCH

Figure 4: One-year forward P/E



SOURCE: INCRED RESEARCH

Earnings call highlights

- Overall loans of Canara Bank grew by 12% YoY (2% QoQ), of which the domestic book grew by 12% YoY (2% QoQ) and the overseas book grew by 17% YoY (declined by 1% QoQ). In the domestic market, the growth was led by retail, agri and MSME (RAM) segments at 14% YoY (3% QoQ) while corporate loans grew by 9% YoY (1% QoQ). Management gave domestic growth guidance of 12% YoY for FY26F, mainly led by the RAM segment (15% YoY) while the corporate loan book is expected to grow by 10% YoY.
- Margin declined by 18bp QoQ to 2.55%. This was mainly owing to repricing the repo rate book (which led to a material decline in loan yields - by 48bp QoQ, a part of which could be lower interest income booked from the recovery in written-off accounts). Management noted that the margin could trough at 2.5% in 2QFY26F and then improve from there on. The bank resets the repo rate at its ALCO meeting, which is held on the 12th of every month. It expects some of the yield impact to flow in the coming quarters. However, a part of it will be offset by the benefit from wholesale deposit repricing as well as the benefit of a cut in SA rates (15bp cut taken, effective 1 Jul 2025).

- The recovery from written-off accounts stood at Rs11.6bn vs. Rs24.7bn during 4QFY25 and Rs11.6bn during 1QFY25. Management gave guidance about a better recovery from written-off accounts in 2QFY26F, given that repayments from lumpy OTS accounts are likely to flow through during the quarter.
- The treasury income was strong at Rs16bn, vs. Rs2.8bn last quarter, and it included Rs5bn from the Reserve Bank of India's open market operation or OMO transaction, which is non-recurring in nature.
- The income from the sale of priority sector lending certificates (PSLCs) booked during 1QFY26 stood at Rs12.5bn. Management noted that the revised guidelines led to a volume decline of 30-40% of eligible PSLs. Despite this, it clocked a strong income, given the higher rates (~3%) vs. the usual rate of 1.6%-1.7%. The bank still has some excess PSL (given 45% compliant). This includes the excess in critical categories (such as agriculture and small & marginal farmers) and the bank will look at monetizing these during 2HFY26F.
- The overall special mention account (SMA) pool stood at Rs87.5bn (0.8% of loans) and SMA 1&2 stood at Rs73bn (0.67% of loans). SMA includes a couple of lumpy accounts (one real estate account and one irrigation account). Management is confident that both these accounts will not turn into NPAs while they keep swinging between the SMA buckets. On a prudent basis, the bank has made a provision of Rs12bn against these accounts.

Figure 5: Financial Summary

Canara Bank

Profit and Loss Statement

Rs Mn (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	1,197,551	1,212,300	1,358,571	1,515,883
Interest Expense	826,831	831,570	914,095	1,014,186
Net Interest Income	370,720	380,731	444,477	501,697
—Fee Income	20,521	22,984	25,742	28,831
—Forex Income	8,285	9,279	10,392	11,639
—Capital Gains	22,648	19,170	2,000	2,000
—Miscellaneous Inc.	173,074	149,588	152,895	158,068
Total Non Interest Income	224,528	201,021	191,029	200,538
Total Operating Income	595,248	581,751	635,506	702,235
—Employee Exp	178,561	194,041	208,064	223,350
—Other Expenses	102,784	111,230	122,353	134,588
Total Operating Expenses	281,345	305,271	330,417	357,938
Operating Profit	313,903	276,480	305,089	344,297
—Prov. For Investment Dep.	-10,907	-550	0	0
—Loan Loss Provisions	95,864	77,494	80,789	83,515
—Other Provisions	2,679	9,496	4,970	5,566
Total provisions	87,636	86,440	85,760	89,081
Profit Before Tax	226,267	190,041	219,329	255,216
Provision for Tax	56,000	46,505	54,832	63,804
Net Profit	170,267	143,536	164,497	191,412
Core Operating profit	109,896	98,444	139,802	172,590

Balance Sheet Data

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	999,001	1,106,241	1,242,105	1,400,624
Deposits	14,568,832	16,171,403	17,950,258	19,924,786
Borrowings	366,760	407,104	451,885	501,593
Other Liabilities & Prov.	893,903	992,232	1,101,378	1,222,529
Total Liabilities	16,828,496	18,676,980	20,745,626	23,049,532
Cash & Balances with RBI	899,986	998,984	1,108,872	1,230,848
Balances with Banks	1,153,416	1,280,292	1,421,124	1,577,448
Investments	3,803,434	4,028,823	4,378,446	4,760,387
Advances	10,491,550	11,845,153	13,265,222	14,855,537
Fixed Assets	102,152	104,195	106,278	108,404
Other Assets	377,959	419,534	465,683	516,908
Total Assets	16,828,496	18,676,980	20,745,626	23,049,532
Earning Assets	16,303,275	18,105,885	20,123,929	22,371,998

Asset Quality

Credit Costs / Advances (bps)	99	78	68	63
Gross NPL	315,300	252,006	251,292	253,709
Net NPL	73,529	60,391	63,316	76,768
Reserve Coverage	241,772	191,615	187,976	176,941
Gross NPL Ratio	2.9%	2.1%	1.9%	1.7%
Net NPL Ratio	0.7%	0.5%	0.5%	0.5%
Coverage Ratio (Ex. Tech W/offs)	77%	76%	75%	70%

Per Share Data and Valuations

Rs Mn (Year-end March)	FY25	FY26F	FY27F	FY28F
Per Share Data				
EPS	18.8	15.8	18.1	21.1
Book Value	110	122	137	154
Core Op. Profit	12.1	10.9	15.4	19.0
DPS	4	3	4	4
Valuations				
P/E (Core)	5.9	7.0	6.1	5.2
Price to Book (Core)	1.0	0.9	0.8	0.7
Price to Core Op. Profit (Core)	9.1	10.2	7.2	5.8
Dividend Yield	4.2%	3.3%	3.8%	4.4%

Ratio Analysis

(Year-end March)	FY25	FY26F	FY27F	FY28F
Spread Analysis				
Average yield on assets	7.8%	7.0%	7.1%	7.1%
Cost of earning assets	5.4%	4.8%	4.8%	4.8%
Net Interest Margin (Reported)	2.8%	2.6%	2.7%	2.8%

Growth Ratios

Net Interest Income	1%	3%	17%	13%
Non Interest Income	18%	-10%	-5%	5%
Operating expenses	8%	9%	8%	8%
Core Operating Profit	15%	11%	11%	11%
Net Profit	17%	-16%	15%	16%
EPS	17%	-16%	15%	16%
Deposits	11%	11%	11%	11%
Advances	13%	13%	12%	12%
Total Assets	13%	11%	11%	11%

Profitability Ratios

Return On Equity	18.2%	13.6%	14.0%	14.5%
Return on Assets	1.1%	0.8%	0.8%	0.9%

Efficiency Ratios

Cost Income Ratio	47.3%	52.5%	52.0%	51.0%
Expenses/Avg Assets	1.8%	1.7%	1.7%	1.6%

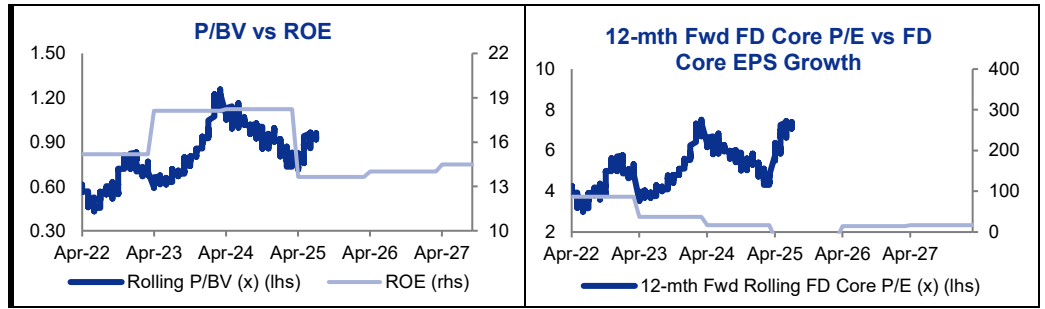
Capital Ratios

CET 1 Ratio	12.0%	11.9%	12.1%	12.4%
Tier 1 Ratio	14.4%	14.0%	14.0%	14.0%
Capital Adequacy Ratio	16.3%	16.0%	15.9%	16.0%

Source: Company Data, InCred Research
E=InCred Research Estimates

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	365,659	370,720	380,731	444,477	501,697
Total Non-Interest Income	189,664	224,528	201,021	191,029	200,538
Operating Revenue	555,324	595,248	581,751	635,506	702,235
Total Non-Interest Expenses	(261,198)	(281,345)	(305,271)	(330,417)	(357,938)
Pre-provision Operating Profit	294,126	313,903	276,480	305,089	344,297
Total Provision Charges	(97,076)	(87,636)	(86,440)	(85,760)	(89,081)
Operating Profit After Provisions	197,050	226,267	190,041	219,329	255,216
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	197,050	226,267	190,041	219,329	255,216
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	197,050	226,267	190,041	219,329	255,216
Exceptional Items					
Pre-tax Profit	197,050	226,267	190,041	219,329	255,216
Taxation	(51,507)	(56,000)	(46,505)	(54,832)	(63,804)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	145,543	170,267	143,536	164,497	191,412
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	145,543	170,267	143,536	164,497	191,412
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%	72.7%	73.6%	74.2%
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%	0.77%	0.68%	0.63%
Provision Charge/Avg Assets	0.68%	0.55%	0.49%	0.44%	0.41%
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	11,845,153	13,265,222	14,855,537
Liquid Assets & Invst. (Current)	3,574,544	3,803,434	4,028,823	4,378,447	4,760,388
Other Int. Earning Assets					
Total Gross Int. Earning Assets	12,890,672	14,294,984	15,873,976	17,643,668	19,615,924
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	12,890,672	14,294,984	15,873,976	17,643,668	19,615,924
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	18,676,980	20,745,626	23,049,532
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	14,935,592	16,578,507	18,402,142	20,426,378
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	653,633	893,903	992,232	1,101,378	1,222,529
Total Liabilities	14,045,861	15,829,495	17,570,740	19,503,520	21,648,908
Shareholders Equity	869,546	999,001	1,106,241	1,242,105	1,400,624
Minority Interests					
Total Equity	869,546	999,001	1,106,241	1,242,105	1,400,624

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	16.3%	1.4%	2.7%	16.7%	12.9%
Operating Profit Growth	6.1%	6.7%	(11.9%)	10.3%	12.9%
Pretax Profit Growth	39%	15%	(16%)	15%	16%
Net Interest To Total Income	65.8%	62.3%	65.4%	69.9%	71.4%
Cost Of Funds	5.67%	5.84%	5.28%	5.23%	5.22%
Return On Interest Earning Assets	8.9%	8.8%	8.0%	8.1%	8.1%
Net Interest Spread	3.25%	2.97%	2.76%	2.88%	2.91%
Net Interest Margin (Avg Deposits)	2.94%	2.68%	2.48%	2.61%	2.65%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	33%	28%	31%	28%	26%
Interest Return On Average Assets	2.58%	2.34%	2.14%	2.25%	2.29%
Effective Tax Rate	26.1%	24.7%	24.5%	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%	0.81%	0.83%	0.87%

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.