

## India

**Overweight** (no change)**Highlighted Companies****Bank of Baroda****HOLD, TP Rs245, Rs236 close**

BoB has strong B/S but LDR at 83% can restrict loan growth to deposit growth outcomes over the near- to medium-term. Also, the bank lacks material levers to offset moderation in profitability. Risk reward appears balanced with stock trading at 0.8x F27F book for ~12% RoE.

**Canara Bank****ADD, TP Rs105, Rs89 close**

Canara Bank has stepped up provisioning over the past few years and credit cost moderation hereon will aid profitability, partly offsetting margin moderation. The valuation is attractive (0.7x F27F BV) for ~13% RoE.

**Punjab National Bank****ADD, TP Rs111, Rs97 close**

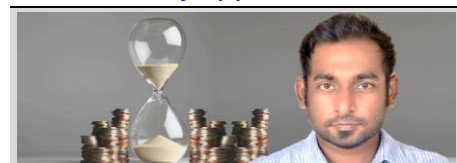
Punjab National Bank has strong liquidity and few levers to offset margin compression. Moreover, there is strong optionality by way of recovery from the written-off pool. The risk-reward ratio appears attractive at the current valuation (0.7x F27F BV) for ~12% RoE.

**Summary Valuation Metrics**

| P/E (x)              | Mar25-F | Mar26-F | Mar27-F |
|----------------------|---------|---------|---------|
| Bank of Baroda       | 6.5     | 8.7     | 7.2     |
| Canara Bank          | 5.2     | 6.0     | 5.4     |
| Punjab National Bank | 6.7     | 8.2     | 6.7     |

| P/BV (x)             | Mar25-F | Mar26-F | Mar27-F |
|----------------------|---------|---------|---------|
| Bank of Baroda       | 1.0     | 0.9     | 0.8     |
| Canara Bank          | 0.8     | 0.7     | 0.7     |
| Punjab National Bank | 0.9     | 0.8     | 0.7     |

| Dividend Yield       | Mar25-F | Mar26-F | Mar27-F |
|----------------------|---------|---------|---------|
| Bank of Baroda       | 3.1%    | 2.3%    | 2.8%    |
| Canara Bank          | 3.9%    | 3.3%    | 3.7%    |
| Punjab National Bank | 3.0%    | 2.4%    | 3.0%    |

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**Banks****SOE Banks: It's time to be selective & tactical**

- We prefer banks having on-balance sheet liquidity (thus the ability to drive loan growth) levers to offset margin compression & provide valuation comfort.
- SOE banks' profits are set to moderate, with the through-the-cycle margin structurally down ~5-10bp. We build margin compression of 15-20bp in FY26F.
- Risk-reward attractive for PNB & Canara Bank (ADD); HOLD rating on SBI, BoB & BoI. From our coverage, we prefer large private banks over SOE banks.

**Profitability set to moderate in the repo rate downcycle**

SOE banks' profitability is set to moderate, with margin being structurally lower by ~5-10bp (even by 4QFY27F-end – factoring 50bp repo rate cut), mainly as savings account deposits (~30% of avg. interest-earning assets) have limited room to get repriced downwards and any material MCLR benefit is difficult to come by, given the intense pricing competition. Banks which can protect margin by improving the loan-to-deposit ratio, increase the share of higher-yielding loans, and improve their mix of low-cost deposits will be better placed in this cycle. Moreover, profitability will also moderate due to lower non-core income (i.e. treasury gains & recovery from written-off accounts) and normalized credit costs over the next few years.

**We prefer SOE banks with liquidity and valuation comfort**

Given this backdrop and amid lingering concerns over system liquidity/deposit growth and the extent of repo rate cuts, we assessed as to which SOE banks are better placed vs. their peers in the current environment (see Fig. 18). We prefer SOE banks which have healthy on-balance sheet liquidity (see Fig. 2), have levers to offset margin compression to some extent, and have reasonable valuation comfort (see Fig. 19). In this context, we prefer Punjab National Bank (PNB) and Canara Bank (CBK).

**Past SOE bank rally had structural levers which may not recur**

State-owned enterprises or SOE bank stocks had rallied during Mar 2021 to Jul 2024 and outperformed their large private sector peers. This was mainly led by improving balance sheets (especially the coverage on stressed loans), moderating credit costs and healthy growth (partly led by deployment of excess liquidity). Strong non-core income (i.e. treasury gains and recovery from the w/off pool) also aided profitability during this period. Valuations of SOE stocks rerated from 0.6x one-year forward P/BV in Mar 2021 to 1.3x in Jul 2024. Over the past six months, concerns over growth/margin outlook and the extent of repo rate cuts partly led to a de-rating. SOE stocks (under our coverage) have corrected by ~15% (from Jul 2024 levels). A material rerating looks difficult & will hinge on volume growth and margin outcome. So far, SOE banks posted a healthy growth of 14% YoY as of 3QFY25-end. Here on, growth outcomes will depend on balance sheet liquidity and the ability to garner deposits. We expect ex-SBI SOE banks to grow by ~12%-13% over FY26F/27F.

**Prefer pvt banks over SOE; in SOE, PNB & CBK are tactical plays**

Within our banking coverage universe, we prefer private banks over SOE banks, given their strong liability franchise, and the ability to post better volume growth as well as valuation comfort. Within SOE banks, we prefer PNB (ADD), given the fact that it can enjoy benign credit costs, strong optionality from the recovery pool of written-off accounts and can cut the tax rate. Canara Bank (ADD) will see a moderation in credit costs and has valuation comfort. Key downside risk would be the asset quality cycle in secured retail/MSME loans, which appears unlikely in the near- to medium-term. State Bank of India (SBI) & Bank of Baroda (BoB) are quality franchises among SOE banks, but their valuations led us to assign a HOLD rating to them. Low on-balance sheet liquidity and low profitability led us to assign a HOLD rating to Bank of India or BoI. With this report, we initiate coverage on BoB, BoI, CBK, and PNB.

**Figure 1: Valuation summary**

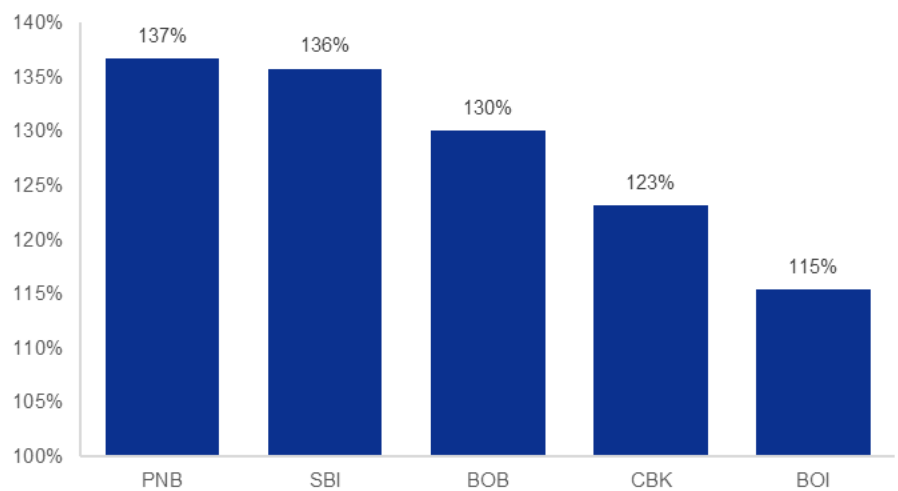
| Company Name | Rating | Current Price | Target Price | Upside/Downside | Core price to book (x) |      | ROA  |      | ROE  |      |
|--------------|--------|---------------|--------------|-----------------|------------------------|------|------|------|------|------|
|              |        |               |              |                 | FY26                   | FY27 | FY26 | FY27 | FY26 | FY27 |
| SBI          | HOLD   | 769           | 795          | 3%              | 1.1                    | 1.0  | 0.8% | 0.8% | 13%  | 14%  |
| BoB          | HOLD   | 236           | 245          | 4%              | 0.9                    | 0.8  | 0.7% | 0.8% | 11%  | 12%  |
| PNB          | ADD    | 97            | 111          | 14%             | 0.8                    | 0.7  | 0.7% | 0.8% | 10%  | 12%  |
| CBK          | ADD    | 89            | 105          | 17%             | 0.7                    | 0.7  | 0.8% | 0.8% | 13%  | 13%  |
| BOI          | HOLD   | 109           | 115          | 6%              | 0.6                    | 0.6  | 0.6% | 0.7% | 8%   | 10%  |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## SOE banks with healthy on-balance sheet liquidity are better placed to deliver loan growth

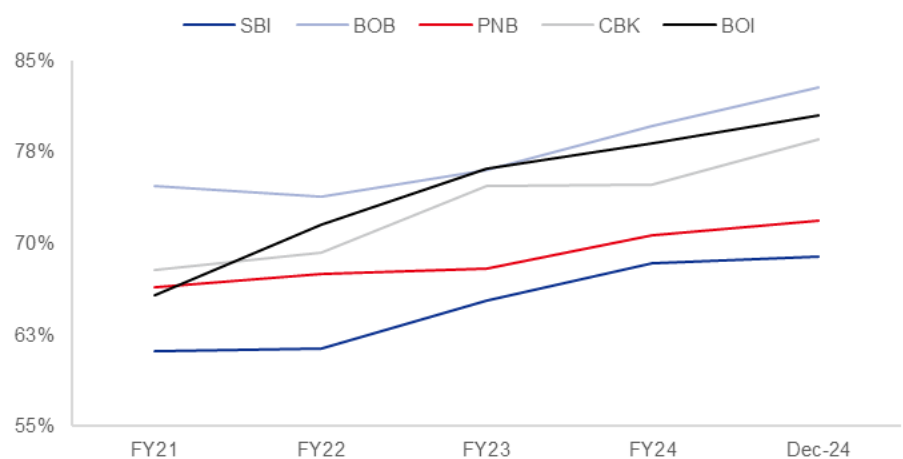
PNB and SBI have healthy on-balance sheet liquidity, with an average LCR ratio of 136-137% and they also have room to improve the domestic loan-to-deposit ratio or LDR (from ~69-72% as of 3QFY25-end). BoB has a decent liquidity buffer (with an average LCR at 130%) but limited room to improve the domestic LDR (which is at ~83%). Moreover, banks are unlikely to draw down their entire liquidity buffer, which was partly created for revised LCR guidelines (got postponed by a year). We believe SOE banks with healthy liquidity buffer (i.e. average LCR) and room to expand domestic LDR will be better placed in an environment where deposit growth is a challenge, and the system liquidity is tight (although improving).

**Figure 2: Average liquidity coverage ratio (LCR)**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Domestic loan-to-deposit ratio**

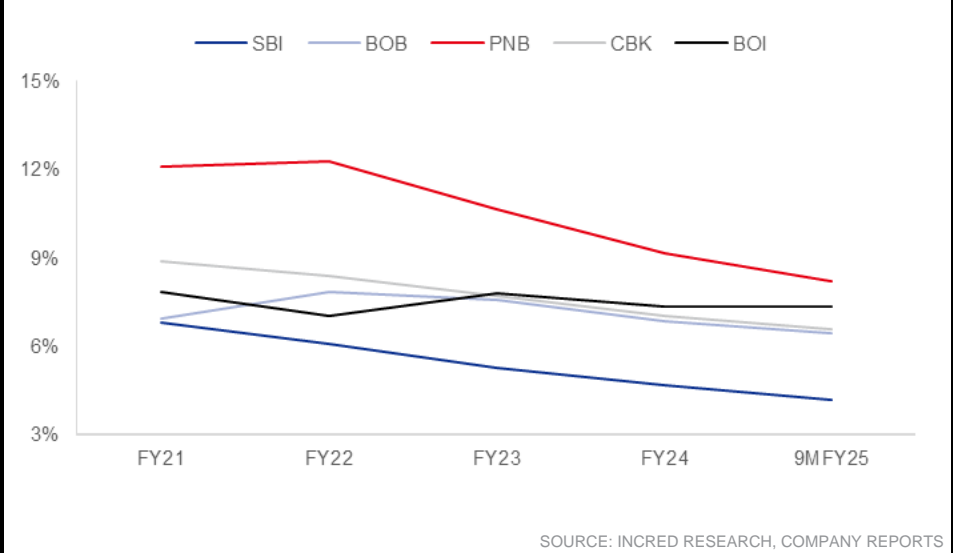


SOURCE: INCRED RESEARCH, COMPANY REPORTS

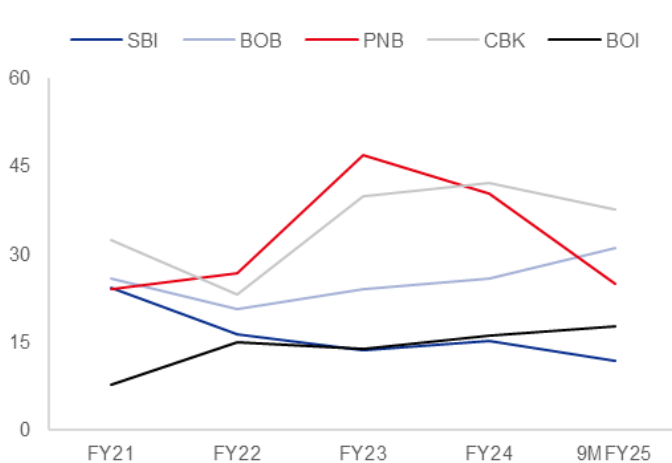
## Pace of recovery from written-off accounts (as a % of avg. assets) should moderate over the next few years

PNB has the highest share of recovery from the written-off accounts (as a % of gross loans) and we believe it has the potential to earn better recovery income vs. peers. Over the past few years, SOE banks have witnessed strong recovery from written-off accounts. This was partly helped by resolution of lumpy accounts. We believe the pace of recovery income should moderate over the next few years as strong lumpy account recovery is difficult (as seen in the past few years).

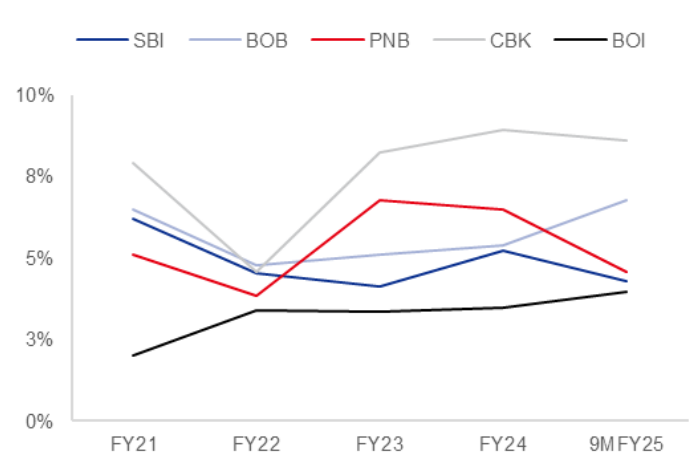
**Figure 4: Technically written-off accounts as a % of gross loans**



**Figure 5: Recovery from written-off accounts (% of avg. assets - in bp)**



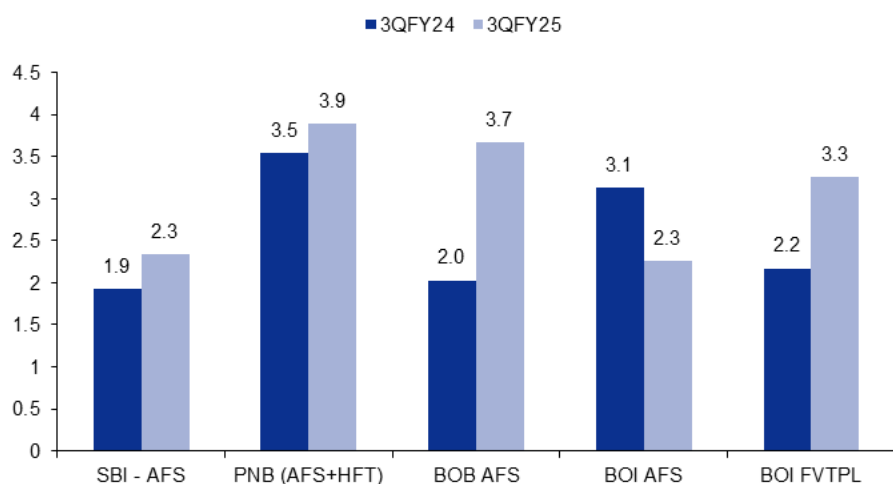
**Figure 6: Recovery income run rate (as a % of trailing TWO pool)**



## Strong treasury income in FY25F had multiple levers; in a repo rate downcycle, banks with healthy liquidity and longer duration investment portfolio are well-placed

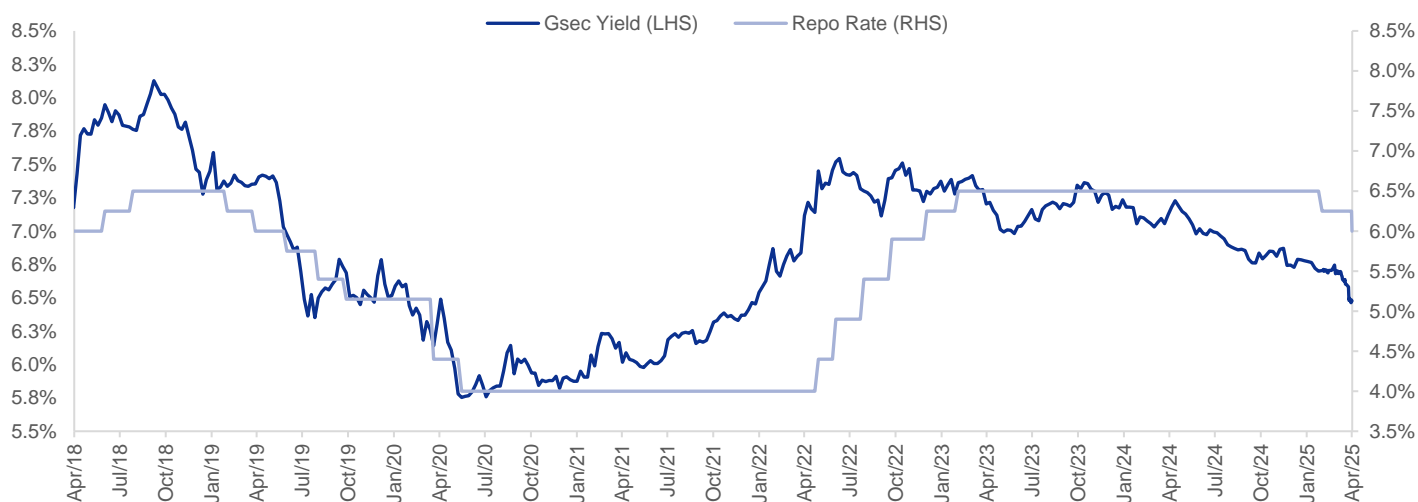
SOE banks witnessed strong treasury gains of 10-20bp during 9MFY25 led by the change in investment guidelines and a sharp decline in yields (by 30bp during 9MFY25). They also had liquidity buffer throughout the year (FY25F). In the current environment, system liquidity is stressed (although improving) and deposit growth remains a challenge. SOE banks with a higher duration portfolio are better-placed as they look to deploy funds to drive loan growth in the near- to medium-term.

**Figure 7: Duration of investment portfolio**



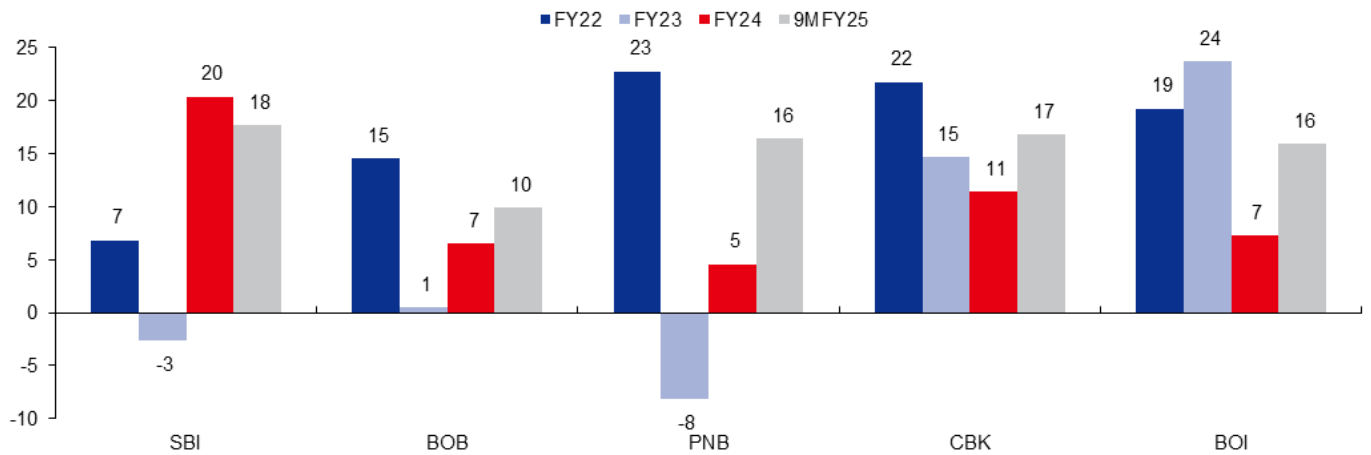
SOURCE: INCRED RESEARCH

**Figure 8: 10-year G-sec yield and repo rate**



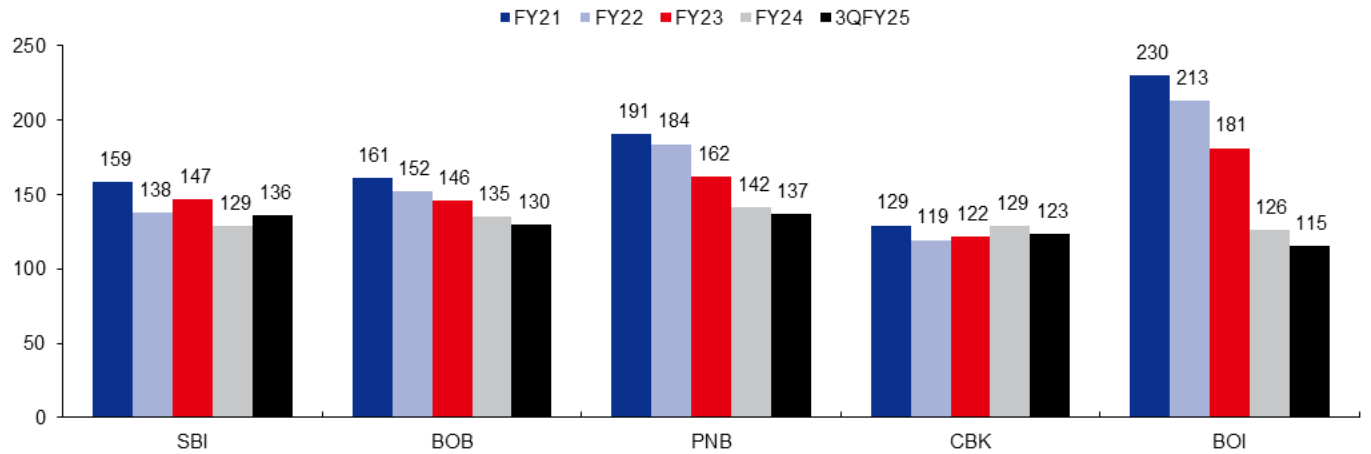
SOURCE: INCRED RESEARCH

**Figure 9: SOE banks - treasury gains as a % of avg. assets (annualized – in bp)**



SOURCE: INCRED RESEARCH

**Figure 10: SOE banks' liquidity coverage ratio during FY21 to 3QFY25 (%)**

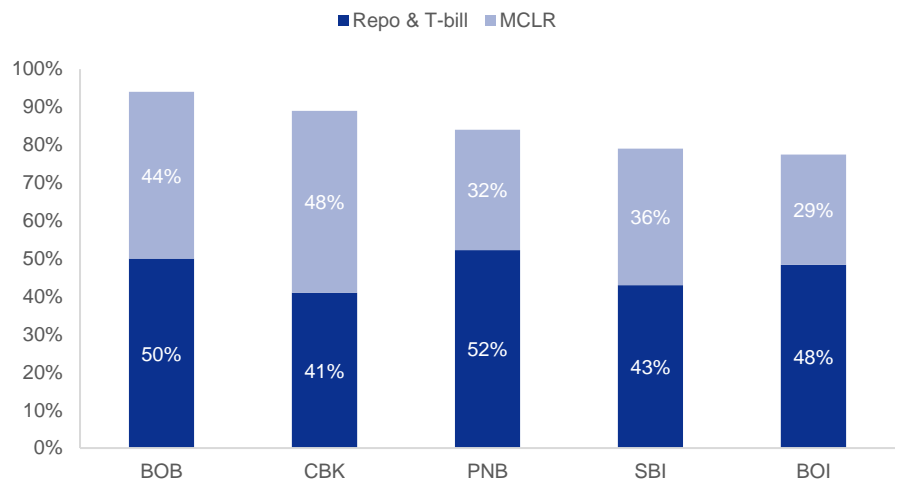


SOURCE: INCRED RESEARCH

## Profitability is set to moderate with structurally lower margin

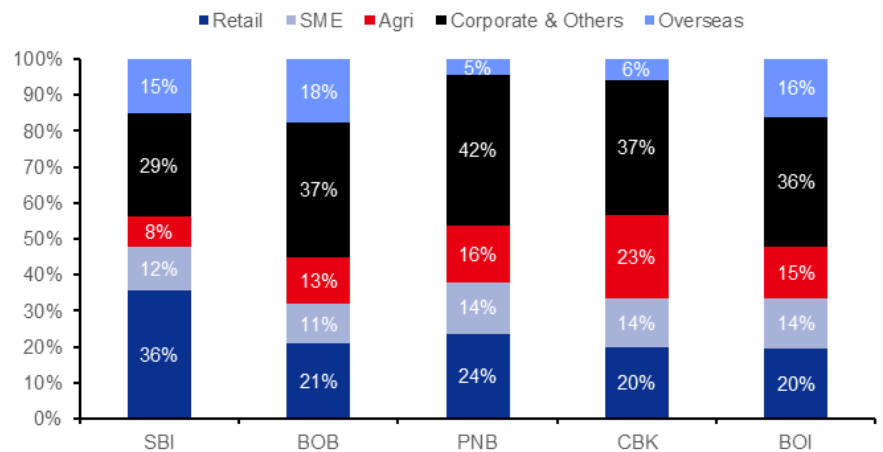
We expect margin to compress by 15-20bp in FY26F (assuming a 50bp rate cut) and then improve by 10-15bp during FY27F as the deposit base gets repriced. Our margin assumption for FY26F includes ~15bp cut in the MCLR rate (vs. 50bp repo rate cut), ~25 bp cut in term deposit rates and steady fixed-rate yields in FY26F. As per our calculations, approx. 5-10bp of margin (from 3QFY25 level) will not be recouped through the cycle, given the fact that SA deposit costs have limited room to get repriced downwards. That said, SOE banks with the ability to a) increase the loan-to-deposit ratio, b) improve the mix of low-cost deposits, and c) drive the mix to shift towards higher-yielding assets will be better placed in this repo rate downcycle.

**Figure 11: SOE banks – proportion of loans linked to repo rate, T-bills & MCLR**



SOURCE: INCRED RESEARCH

**Figure 12: SOE banks' overall loan mix**



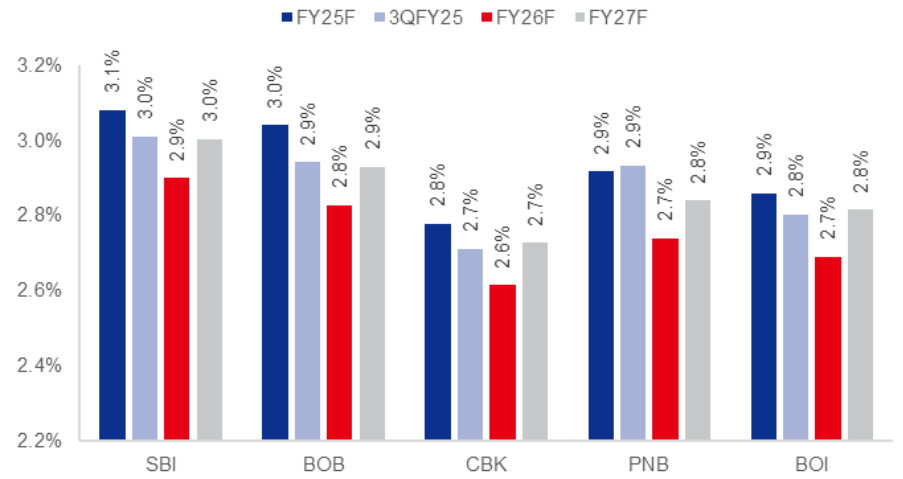
SOURCE: INCRED RESEARCH

**Figure 13: SoE banks' proportion of avg. IEA across players**

| As % of avg. IEA                    | SBI  | BoB  | PNB  | CBK  | BoI  |
|-------------------------------------|------|------|------|------|------|
| <b>Balance with banks</b>           | 2%   | 4%   | 4%   | 6%   | 6%   |
| <b>Investments</b>                  | 30%  | 24%  | 30%  | 26%  | 28%  |
| <b>Advances</b>                     | 68%  | 72%  | 66%  | 68%  | 66%  |
| --Repo & T-Bill                     | 29%  | 36%  | 35%  | 28%  | 44%  |
| --MCLR                              | 25%  | 32%  | 21%  | 33%  | 19%  |
| --Fixed & Others                    | 14%  | 4%   | 11%  | 7%   | 3%   |
| <b>Avg. IEA</b>                     | 100% | 100% | 100% | 100% | 100% |
| <b>Deposits</b>                     | 90%  | 88%  | 95%  | 92%  | 84%  |
| <b>CASA Deposits</b>                | 34%  | 29%  | 36%  | 26%  | 30%  |
| ---CA Deposits                      | 5%   | 5%   | 4%   | 3%   | 3%   |
| ---SA Deposits                      | 29%  | 25%  | 31%  | 23%  | 26%  |
| <b>Term Deposits</b>                | 56%  | 58%  | 59%  | 66%  | 54%  |
| --Retail Term Deposits              | 40%  | 34%  | 40%  | 53%  | 44%  |
| --Non-Retail Term Deposits          | 16%  | 25%  | 19%  | 14%  | 10%  |
| <b>Borrowings</b>                   | 11%  | 7%   | 5%   | 6%   | 14%  |
| <b>Avg. IBL</b>                     | 101% | 95%  | 100% | 99%  | 97%  |
| Liability/AIEA to reprice (ex-CASA) | 67%  | 66%  | 64%  | 73%  | 68%  |

SOURCE: INCRED RESEARCH

**Figure 14: SOE banks' margin progression**

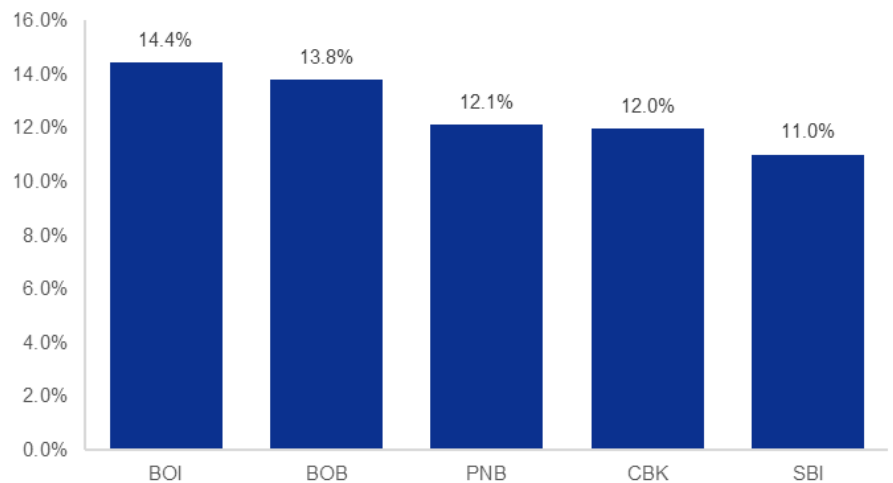


SOURCE: INCRED RESEARCH

## SOE banks with strong balance sheets (capital level and overall net stress) will be better placed to adopt ECL guidelines

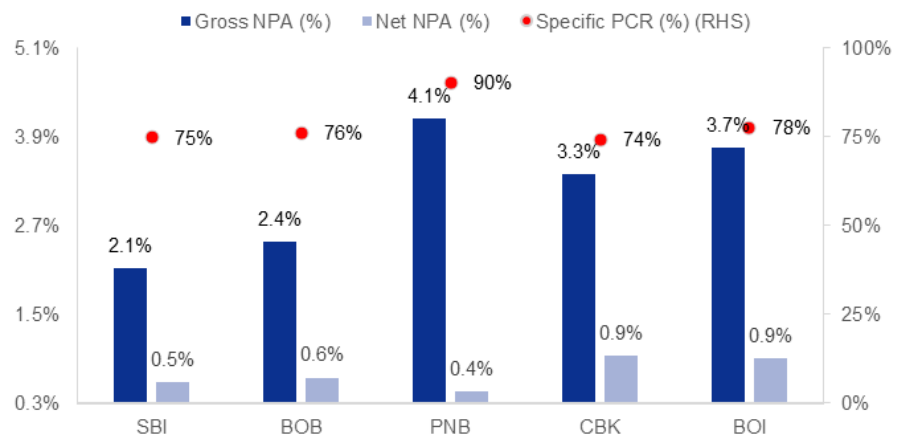
SOE banks with strong balance sheets will be in a better position to adopt expected credit loss guidelines. BoB has strong capital levels and low net stress ratio. SBI has relatively lower capital level, but net stress level is also low. BoI is well capitalized. Canara Bank and PNB have decent capital ratio and comfortable net stress ratio. Moreover, the recent move by the Reserve Bank of India or RBI to reduce risk weights on unsecured loans and loans to non-banking finance companies or NBFCs will further aid the capital ratio of these banks by 40-50bp.

**Figure 15: CET-1 ratio (incl. profit) as of Dec 2024-end**



SOURCE: INCRED RESEARCH

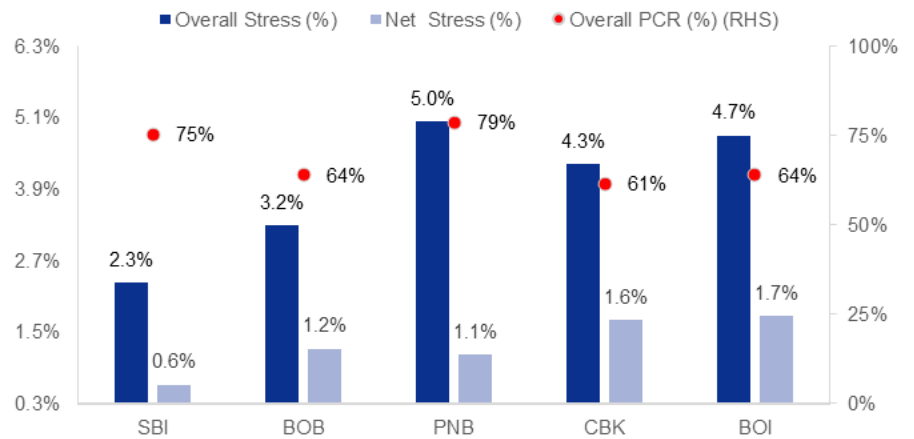
**Figure 16: SOE banks' NPA ratio (as of 3QFY25-end)**



SOURCE: INCRED RESEARCH



Figure 17: SOE banks' overall stress ratio (as of 3QFY25-end)



SOURCE: INCRED RESEARCH

Figure 18: SOE banks – Summary table

| Rs Bn                         | SBI    | BOB    | PNB    | CBK    | BOI   |
|-------------------------------|--------|--------|--------|--------|-------|
| Margins (%)                   | 3.01   | 2.94   | 2.93   | 2.71   | 2.80  |
| --Domestic Margins (%)        | 3.15   | 3.11   | 3.09   | NA     | NA    |
| Loan book                     | 40,678 | 11,730 | 11,109 | 10,497 | 6,515 |
| --- Domestic                  | 85%    | 82%    | 95%    | 94%    | 84%   |
| --- Overseas                  | 15%    | 18%    | 5%     | 6%     | 16%   |
| Loan growth - 3QFY25          | 13.8   | 12.4   | 16.8   | 11.2   | 16.7  |
| Deposit growth - 3QFY25       | 9.8    | 11.8   | 15.6   | 8.4    | 12.3  |
| Domestic LDR                  | 69%    | 83%    | 72%    | 79%    | 80%   |
| GNPA                          | 844    | 294    | 454    | 351    | 240   |
| Restructured                  | 70     | 78     | 79     | 86     | 60    |
| Total Stress                  | 914    | 372    | 534    | 437    | 300   |
| Provisions                    | 630    | 226    | 410    | 260    | 186   |
| Addl. Provisions              | 57     | 12     | 10     | 9      | 5     |
| Total provisions              | 687    | 237    | 420    | 268    | 192   |
| NNPA                          | 214    | 68     | 44     | 91     | 54    |
| Net Stress                    | 226    | 135    | 114    | 168    | 108   |
| Specific PCR (%)              | 75%    | 77%    | 90%    | 74%    | 78%   |
| Overall PCR (%)               | 75%    | 64%    | 79%    | 61%    | 64%   |
| Gross NPA (%)                 | 2.1%   | 2.4%   | 4.1%   | 3.3%   | 3.7%  |
| Overall Stress (%)            | 2.3%   | 3.2%   | 4.9%   | 4.3%   | 4.7%  |
| Net NPA (%)                   | 0.5%   | 0.6%   | 0.4%   | 0.9%   | 0.9%  |
| Net Stress (%)                | 0.6%   | 1.2%   | 1.1%   | 1.6%   | 1.7%  |
| CET-1 Ratio (incl. profits)   | 11.0%  | 13.8%  | 12.1%  | 12.0%  | 14.4% |
| Avg. liquidity coverage ratio | 136%   | 130%   | 137%   | 123%   | 115%  |
| Credit cost - F25e (bps)      | 36     | 58     | 25     | 89     | 68    |
| Credit cost - F26e (bps)      | 54     | 72     | 50     | 78     | 73    |
| RoA - F25e                    | 1.0%   | 1.1%   | 1.0%   | 1.0%   | 0.9%  |
| RoA - F26e                    | 0.8%   | 0.7%   | 0.7%   | 0.8%   | 0.6%  |
| RoA - F27e                    | 0.8%   | 0.8%   | 0.8%   | 0.8%   | 0.7%  |
| RoE - F25e                    | 16%    | 16%    | 14%    | 17%    | 12%   |
| RoE - F26e                    | 13%    | 11%    | 10%    | 13%    | 8%    |
| RoE - F27e                    | 14%    | 12%    | 12%    | 13%    | 10%   |
| Core P/B - F26e               | 1.1    | 0.9    | 0.8    | 0.7    | 0.6   |
| Core P/B - F27e               | 1.0    | 0.8    | 0.7    | 0.7    | 0.6   |

SOURCE: INCRED RESEARCH

## We prefer stocks with healthy on-balance sheet liquidity, levers to offset margin compression and reasonable valuation comfort

SOE bank stocks have corrected by ~15% from their peak in Jul 2024, which was due to uncertainty over volume growth and margin outcomes, depending on the extent of repo rate cuts. We expect RoA for SOE banks to moderate by ~20-30bp over FY25F-27F. RoE to also decline by 2-3ppt, given the elevated leverage.

Within our banking sector coverage universe, we continue to prefer private banks over SOE banks, given their strong liability franchise, ability to post better volume growth vs. SOE peers as well as reasonable valuation comfort, especially at large private banks.

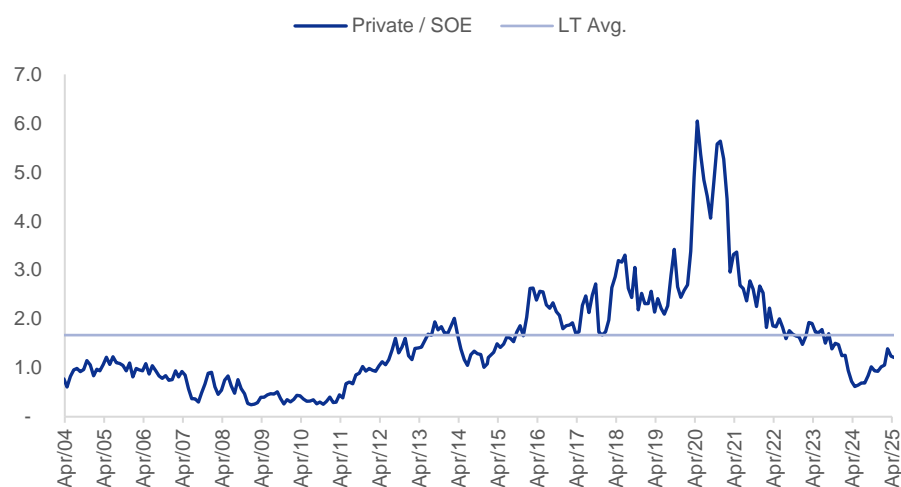
Within SOE banks, we prefer PNB (ADD), given that it can enjoy benign credit costs, strong optionality from the recovery pool of written-off accounts and can reduce the tax rate (during FY26F). Canara Bank (ADD) can see a moderation in credit costs and has valuation comfort. Key downside risk would be the asset quality cycle deterioration in secured retail/MSME loans, which appears unlikely in the near- to medium-term. SBI & BoB are quality franchises among SOE banks, but their valuations led us to assign a HOLD rating to them. Low on-balance sheet liquidity and low RoE led us to assign a HOLD rating to BoI.

**Figure 19: Core price-to-book value one-year forward (x) vs. avg. RoE in FY26F-27F**



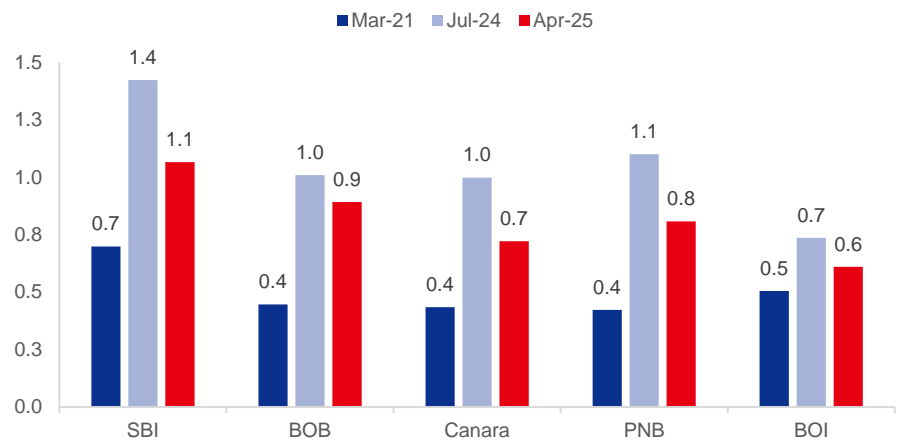
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 20: Relative core price-to-book value - private sector banks over SOE banks**



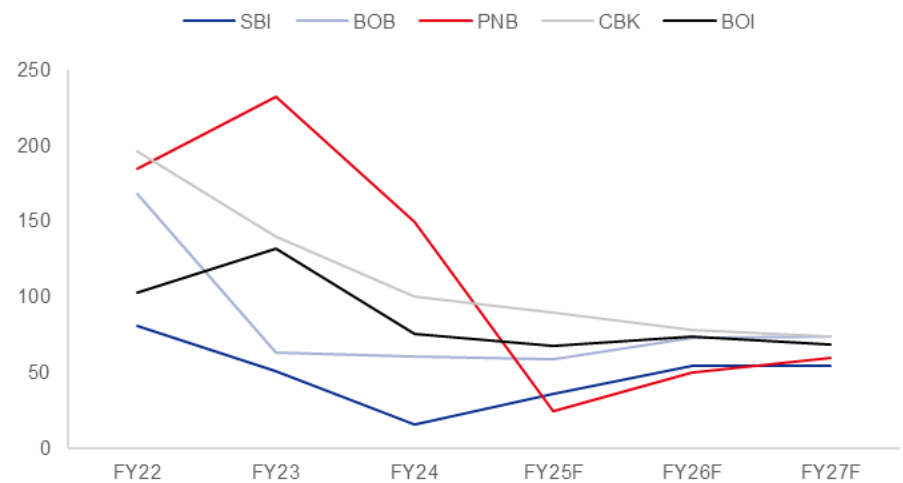
SOURCE: INCRED RESEARCH

**Figure 21: SOE banks' one-year forward core P/BV (x)**



SOURCE: INCRED RESEARCH

**Figure 22: SOE banks' credit costs (in bp)**



SOURCE: INCRED RESEARCH

## Earnings estimates

**Figure 23: SOE banks' loan growth estimates**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 12%  | 17%  | 16%  | 14%   | 15%   | 15%   |
| BOB | 10%  | 21%  | 13%  | 12%   | 12%   | 13%   |
| PNB | 8%   | 14%  | 12%  | 17%   | 12%   | 13%   |
| CBK | 10%  | 18%  | 12%  | 12%   | 12%   | 12%   |
| BOI | 15%  | 15%  | 16%  | 15%   | 12%   | 13%   |

SOURCE: INCRED RESEARCH

**Figure 24: SOE banks' deposit growth estimates**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 10%  | 9%   | 11%  | 10%   | 13%   | 14%   |
| BoB | 8%   | 15%  | 10%  | 11%   | 11%   | 13%   |
| PNB | 4%   | 12%  | 7%   | 10%   | 11%   | 12%   |
| CBK | 7%   | 9%   | 11%  | 11%   | 11%   | 11%   |
| BoI | 0%   | 7%   | 10%  | 11%   | 12%   | 12%   |

SOURCE: INCRED RESEARCH

**Figure 25: SOE banks' net interest margin (%)**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 3.1% | 3.3% | 3.2% | 3.1%  | 2.9%  | 3.0%  |
| BoB | 3.0% | 3.3% | 3.3% | 3.0%  | 2.8%  | 2.9%  |
| PNB | 2.7% | 3.0% | 3.1% | 2.9%  | 2.7%  | 2.8%  |
| CBK | 2.8% | 2.9% | 3.0% | 2.8%  | 2.6%  | 2.7%  |
| BoI | 2.4% | 3.0% | 2.9% | 2.9%  | 2.7%  | 2.8%  |

SOURCE: INCRED RESEARCH

**Figure 26: SOE banks' NII growth – YoY (%)**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 7%   | 20%  | 11%  | 5%    | 6%    | 17%   |
| BOB | 13%  | 27%  | 8%   | 4%    | 4%    | 17%   |
| PNB | -6%  | 19%  | 17%  | 7%    | 6%    | 15%   |
| CBK | 9%   | 19%  | 16%  | 1%    | 4%    | 15%   |
| BOI | -1%  | 44%  | 14%  | 6%    | 5%    | 18%   |

SOURCE: INCRED RESEARCH

**Figure 27: SOE banks' costs-to-avg. assets (%)**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 1.8% | 1.9% | 2.0% | 1.8%  | 1.8%  | 1.7%  |
| BoB | 1.8% | 1.8% | 1.9% | 1.7%  | 1.7%  | 1.7%  |
| PNB | 1.6% | 1.7% | 1.9% | 1.9%  | 1.9%  | 1.8%  |
| CBK | 1.7% | 1.7% | 1.8% | 1.8%  | 1.8%  | 1.8%  |
| BoI | 1.6% | 1.8% | 1.7% | 1.7%  | 1.7%  | 1.7%  |

SOURCE: INCRED RESEARCH

**Figure 28: SOE banks' credit costs (bp)**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 81   | 51   | 16   | 36    | 54    | 54    |
| BOB | 168  | 63   | 61   | 58    | 72    | 73    |
| PNB | 185  | 232  | 149  | 25    | 50    | 59    |
| CBK | 196  | 140  | 100  | 89    | 78    | 73    |
| BOI | 102  | 131  | 75   | 68    | 73    | 68    |

SOURCE: INCRED RESEARCH

**Figure 29: SOE banks' return on average assets (%)**

|     | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|-----|------|------|------|-------|-------|-------|
| SBI | 0.7% | 1.0% | 1.0% | 1.0%  | 0.8%  | 0.8%  |
| BOB | 0.6% | 1.0% | 1.2% | 1.1%  | 0.7%  | 0.8%  |
| PNB | 0.3% | 0.2% | 0.5% | 1.0%  | 0.7%  | 0.8%  |
| CBK | 0.5% | 0.8% | 1.0% | 1.0%  | 0.8%  | 0.8%  |
| BOI | 0.5% | 0.5% | 0.7% | 0.9%  | 0.6%  | 0.7%  |

SOURCE: INCRED RESEARCH

**Figure 30: SOE banks' return on average equity (%)**

|     | FY22  | FY23  | FY24  | FY25F | FY26F | FY27F |
|-----|-------|-------|-------|-------|-------|-------|
| SBI | 11.9% | 16.5% | 17.3% | 16.4% | 12.5% | 13.5% |
| BoB | 8.9%  | 15.3% | 16.9% | 15.8% | 10.6% | 11.7% |
| PNB | 3.7%  | 2.6%  | 8.0%  | 14.0% | 10.4% | 11.6% |
| CBK | 9.1%  | 15.2% | 18.1% | 16.8% | 12.9% | 12.9% |
| BoI | 6.8%  | 7.1%  | 9.9%  | 11.9% | 8.1%  | 9.9%  |

SOURCE: INCRED RESEARCH

## India

**ADD** (Initiating coverage)

Consensus ratings\*: Buy 10 Hold 4 Sell 5

|                           |              |
|---------------------------|--------------|
| Current price:            | Rs97         |
| Target price:             | Rs111        |
| Previous target:          | NA           |
| Up/downside:              | 14.4%        |
| EIP Research / Consensus: | -4.3%        |
| Reuters:                  | PNBK.NS      |
| Bloomberg:                | PNB IN       |
| Market cap:               | US\$12,914m  |
|                           | Rs1,113,781m |
| Average daily turnover:   | US\$36.3m    |
|                           | Rs3126.7m    |
| Current shares o/s:       | 103.4m       |
| Free float:               | 29.92%       |

\*Source: Bloomberg

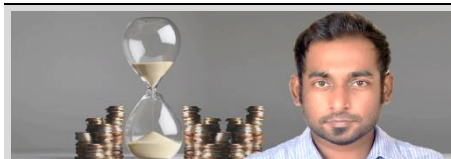


Source: Bloomberg

| Price performance | 1M  | 3M    | 12M    |
|-------------------|-----|-------|--------|
| Absolute (%)      | 6.3 | (5.0) | (26.9) |
| Relative (%)      | 6.4 | (0.7) | (26.4) |

| Major shareholders | % held |
|--------------------|--------|
| President of India | 70.1   |
| LIC                | 8.3    |
| SBI                | 1.7    |

## Research Analyst(s)

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# Punjab National Bank

## Strong optionality from recoveries

- PNB has strong liquidity and a few levers to offset margin compression. Moreover, there is strong optionality in recoveries from the written-off pool.
- We expect RoA to moderate to 0.7-0.8% in FY26F-27F, from 1% in FY25F. RoE to decline to ~12% in FY27F, from ~14% in FY25F.
- Risk-reward ratio appears attractive at the current valuation (0.8x F27F BV). Initiate coverage with an ADD rating and a TP of Rs111 (a 12% upside).

### Asset quality normalization lags; strong optionality from recoveries

Punjab National Bank or PNB is witnessing a lag in the asset quality normalization cycle vs. peer SOE banks. Over the past couple of years, PNB has stepped up its specific provisioning coverage to 90% (vs. ~69% in 3QFY23). Also, the bank has written off ~10% of its loan portfolio over the past three-to-four years. The outstanding technically written-off pool stands at ~Rs900bn (i.e. 8% of gross loans), higher than its SoE peers. Credit costs declined sharply to 25bp in FY25F, from ~150bp in FY23, given strong recovery/upgrades and contained slippage (at 0.8% annualized on trailing gross). We believe the bank can witness benign credit costs over the next few years as well, given the strong coverage level and bulky written-off pool. We still have built credit costs of 50-60bp over FY26F-27F, from 25bp in FY25F.

### Core profitability is set to moderate, but there are a few offsets

PNB has 52% of its loan book linked to the repo rate and 32% is MCLR-linked. Assuming a 50bp rate cut, we expect margin to moderate by ~20bp from the 3QFY25 level to 2.7% in FY26F. On a full-year basis, margin will moderate by 20bp in FY26F and then recover by ~10bp in FY27F as the deposit base gets repriced. We expect loan growth at 12%/13% in FY26F/27F. NII growth should be at a 10% CAGR over FY26F-27F. Operating expenses growth is likely to be 8% YoY in FY26F. This will be lower vs. peer SOE banks, given the fact that the bank did catch up on its AS-15 provisioning in FY25F. Core PPOp growth should be at ~15% CAGR over FY25F-26F. Moreover, the bank will benefit from a reduced tax rate as it prefers to move to the new tax regime anytime during FY26F.

### Risk-reward ratio appears attractive; well-placed among SOE peers

We believe PNB is relatively better placed among SOE banks, given its strong balance sheet liquidity (average LCR at 137% and domestic LDR at 72%), few levers to partly offset margin compression, and optionality from the written-off pool. The risk-reward ratio appears attractive, with the stock trading at 0.7x FY27F BV for RoE of ~12% in FY27F. We expect RoA to moderate to 0.7-0.8% in FY26F-27F, from 1% in FY25F. We have assigned an ADD rating to the stock with a target price of Rs111. Key downside risks are lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, and a higher-than-expected growth in costs.

| Financial Summary                 | Mar-23A   | Mar-24A   | Mar-25F  | Mar-26F  | Mar-27F  |
|-----------------------------------|-----------|-----------|----------|----------|----------|
| Net Interest Income (Rsm)         | 341,366   | 400,831   | 427,242  | 451,147  | 520,004  |
| Total Non-Interest Income (Rsm)   | 124,975   | 133,835   | 162,032  | 131,623  | 132,520  |
| Operating Revenue (Rsm)           | 466,342   | 534,666   | 589,275  | 582,770  | 652,524  |
| Total Provision Charges (Rsm)     | (182,405) | (117,366) | (26,658) | (57,328) | (77,431) |
| Net Profit (Rsm)                  | 25,072    | 82,446    | 159,235  | 130,204  | 158,669  |
| Core EPS (Rs)                     | 2.28      | 7.49      | 14.46    | 11.82    | 14.41    |
| Core EPS Growth                   | (27%)     | 229%      | 93%      | (18%)    | 22%      |
| FD Core P/E (x)                   | 42.56     | 12.94     | 6.70     | 8.20     | 6.73     |
| DPS (Rs)                          | 0.65      | 1.50      | 2.89     | 2.36     | 2.88     |
| Dividend Yield                    | 0.67%     | 1.55%     | 2.98%    | 2.44%    | 2.97%    |
| BVPS (Rs)                         | 90.7      | 96.7      | 109.7    | 118.6    | 130.6    |
| P/BV (x)                          | 1.07      | 1.00      | 0.88     | 0.82     | 0.74     |
| ROE                               | 2.6%      | 8.0%      | 14.0%    | 10.4%    | 11.6%    |
| % Change In Core EPS Estimates    |           |           |          |          |          |
| InCred Research/Consensus EPS (x) |           |           |          |          |          |

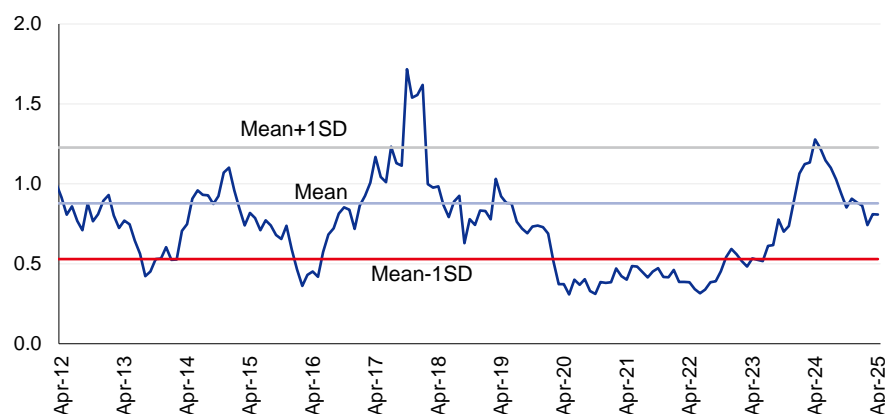
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 31: Punjab National Bank - DuPont analysis

| Dupont (as % of Avg. Assets)                   | FY17        | FY18          | FY19          | FY20        | FY21        | FY22        | FY23        | FY24        | FY25F        | FY26F        | FY27F        |
|--|-------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>                     | <b>2.2%</b> | <b>2.0%</b>   | <b>2.2%</b>   | <b>2.2%</b> | <b>2.9%</b> | <b>2.2%</b> | <b>2.5%</b> | <b>2.7%</b> | <b>2.6%</b>  | <b>2.5%</b>  | <b>2.6%</b>  |
| Core Fee                                       | 0.6%        | 0.6%          | 0.5%          | 0.5%        | 0.6%        | 0.5%        | 0.5%        | 0.4%        | 0.4%         | 0.4%         | 0.4%         |
| <b>Core Revenue</b>                            | <b>2.8%</b> | <b>2.6%</b>   | <b>2.8%</b>   | <b>2.7%</b> | <b>3.5%</b> | <b>2.7%</b> | <b>2.9%</b> | <b>3.1%</b> | <b>3.0%</b>  | <b>2.9%</b>  | <b>3.0%</b>  |
| Opex   | 1.4%        | 1.8%          | 1.5%          | 1.5%        | 1.9%        | 1.6%        | 1.7%        | 1.9%        | 1.9%         | 1.9%         | 1.8%         |
| --Staff Expense                                | 0.8%        | 1.2%          | 0.9%          | 0.9%        | 1.2%        | 0.9%        | 1.1%        | 1.2%        | 1.3%         | 1.2%         | 1.1%         |
| --Other Opex                                   | 0.6%        | 0.6%          | 0.6%          | 0.6%        | 0.8%        | 0.7%        | 0.7%        | 0.7%        | 0.7%         | 0.7%         | 0.7%         |
| <b>Core PPOp</b>                               | <b>1.4%</b> | <b>0.8%</b>   | <b>1.3%</b>   | <b>1.2%</b> | <b>1.5%</b> | <b>1.1%</b> | <b>1.2%</b> | <b>1.2%</b> | <b>1.1%</b>  | <b>1.0%</b>  | <b>1.2%</b>  |
| Credit Cost (Provisions less Invest.)          | 1.7%        | 3.7%          | 3.5%          | 1.8%        | 1.8%        | 1.0%        | 1.3%        | 0.9%        | 0.2%         | 0.3%         | 0.4%         |
| Recovery from w/off                            | -0.3%       | -0.1%         | -0.2%         | -0.5%       | -0.2%       | -0.3%       | -0.5%       | -0.4%       | -0.3%        | -0.1%        | -0.1%        |
| <b>Net Credit Cost</b>                         | <b>1.4%</b> | <b>3.6%</b>   | <b>3.2%</b>   | <b>1.2%</b> | <b>1.6%</b> | <b>0.7%</b> | <b>0.8%</b> | <b>0.5%</b> | <b>-0.1%</b> | <b>0.2%</b>  | <b>0.3%</b>  |
| <b>Operating Profit</b>                        | <b>0.0%</b> | <b>-2.8%</b>  | <b>-2.0%</b>  | <b>0.0%</b> | <b>0.0%</b> | <b>0.4%</b> | <b>0.4%</b> | <b>0.7%</b> | <b>1.3%</b>  | <b>0.9%</b>  | <b>0.9%</b>  |
| Other Income/expense                           | 0.3%        | 0.2%          | 0.0%          | 0.1%        | 0.4%        | 0.0%        | 0.0%        | 0.1%        | 0.2%         | 0.2%         | 0.2%         |
| --Net Treasury gains                           | 0.3%        | 0.2%          | -0.1%         | 0.2%        | 0.4%        | 0.0%        | -0.1%       | 0.1%        | 0.2%         | 0.0%         | 0.0%         |
| ----Capital Gains                              | 0.4%        | 0.4%          | 0.1%          | 0.2%        | 0.3%        | 0.2%        | -0.1%       | 0.0%        | 0.2%         | 0.0%         | 0.0%         |
| ----Provision for Investment                   | -0.1%       | -0.3%         | -0.2%         | 0.0%        | 0.0%        | -0.3%       | 0.0%        | 0.1%        | 0.0%         | 0.0%         | 0.0%         |
| --Other Income                                 | 0.0%        | 0.0%          | 0.0%          | -0.1%       | 0.0%        | 0.0%        | 0.1%        | 0.0%        | 0.0%         | 0.1%         | 0.1%         |
| <b>Profit before Tax (before exceptionals)</b> | <b>0.3%</b> | <b>-2.6%</b>  | <b>-2.0%</b>  | <b>0.1%</b> | <b>0.3%</b> | <b>0.3%</b> | <b>0.3%</b> | <b>0.9%</b> | <b>1.5%</b>  | <b>1.0%</b>  | <b>1.0%</b>  |
| Exceptionals/Minority/Others                   | 0.0%        | 0.0%          | 0.0%          | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%         | 0.0%         | 0.0%         |
| <b>PBT</b>                                     | <b>0.3%</b> | <b>-2.6%</b>  | <b>-2.0%</b>  | <b>0.1%</b> | <b>0.3%</b> | <b>0.3%</b> | <b>0.3%</b> | <b>0.9%</b> | <b>1.5%</b>  | <b>1.0%</b>  | <b>1.0%</b>  |
| Tax  | 0.1%        | -1.0%         | -0.7%         | 0.1%        | 0.1%        | 0.1%        | 0.1%        | 0.3%        | 0.5%         | 0.3%         | 0.3%         |
| <b>RoA</b>                                     | <b>0.2%</b> | <b>-1.7%</b>  | <b>-1.3%</b>  | <b>0.0%</b> | <b>0.2%</b> | <b>0.3%</b> | <b>0.2%</b> | <b>0.5%</b> | <b>1.0%</b>  | <b>0.7%</b>  | <b>0.8%</b>  |
| Leverage (x)                                   | 17          | 18            | 18            | 15          | 14          | 14          | 14          | 15          | 14           | 14           | 15           |
| <b>RoE</b>                                     | <b>3.3%</b> | <b>-29.6%</b> | <b>-23.2%</b> | <b>0.6%</b> | <b>2.8%</b> | <b>3.7%</b> | <b>2.6%</b> | <b>8.0%</b> | <b>14.0%</b> | <b>10.4%</b> | <b>11.6%</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 32: PNB's one-year forward core P/BV (x)



SOURCE: INCRED RESEARCH

## Valuation methodology

We valued PNB using the justified P/BV methodology. We assumed sustainable RoE of 12.5% and the cost of equity at 14.4%. We have used a risk-free rate of 7%, a beta of 1.35x and a market risk premium of 5.5%. Our terminal growth assumption is 6%. Our target multiple of 0.8x on FY27F BV led us to a target price of Rs111 (a 12% upside from the CMP).

Figure 33: PNB - standalone valuation summary

|                                 |            |
|---------------------------------|------------|
| <b>PNB: Standalone bank</b>     |            |
| Core BVPS, Mar 2027F(Rs)        | 131        |
| RoE, 12 months ending Mar 2027F | 11.6%      |
| Sustainable RoE                 | 12.5%      |
| CoE                             | 14.2%      |
| ---Risk-free rate               | 7.00%      |
| --Beta                          | 1.30x      |
| --Market risk premium           | 5.5%       |
| Growth                          | 6.0%       |
| Target multiple                 | 0.8x       |
| <b>Value of bank (Rs)</b>       | <b>104</b> |

SOURCE: INCRED RESEARCH

**Figure 34: Subsidiary PNB Housing's valuation summary**

| <b>PNB Housing Finance (Rs m)</b> |          |
|-----------------------------------|----------|
| Net worth (Rs bn) - FY24          | 150      |
| ---CAGR since Mar 2024            | 12%      |
| Net worth (Rs bn) - FY27F         | 211      |
| --Multiple - P/BV (x)             | 1.4      |
| Entity valuation (Rs bn)          | 284      |
| PNB 's stake (%)                  | 28.1%    |
| PNB's stake valuation (Rs bn)     | 80       |
| <b>Value per share (Rs)</b>       | <b>7</b> |

SOURCE: INCRED RESEARCH

**Figure 35: PNB's SOTP valuation**

| <b>PNB: Sum-of-the-parts valuation (Rs)</b> |            |
|---|------------|
| Banking business                            | 104        |
| Housing finance subsidiary                  | 7          |
| <b>Fair value</b>                           | <b>111</b> |

SOURCE: INCRED RESEARCH

**Figure 36: Punjab National Bank – Financial summary**
**Punjab National Bank**
**Profit and Loss Statement**

| Rs M (Year-end March)            | FY24           | FY25F          | FY26F          | FY27F          |
|----------------------------------|----------------|----------------|----------------|----------------|
| Interest Income                  | 1,069,016      | 1,103,416      | 1,198,341      | 1,362,067      |
| Interest Expense                 | 668,186        | 676,174        | 747,194        | 842,063        |
| <b>Net Interest Income</b>       | <b>400,831</b> | <b>427,242</b> | <b>451,147</b> | <b>520,004</b> |
| --Fee Income                     | 28,133         | 19,639         | 14,047         | 6,771          |
| --Forex Income                   | 4,660          | 3,253          | 2,327          | 1,121          |
| --Capital Gains                  | 6,910          | 39,090         | 8,000          | 8,000          |
| --Miscellaneous Inc.             | 126,925        | 122,942        | 123,623        | 124,520        |
| <b>Total Non Interest Income</b> | <b>133,835</b> | <b>162,032</b> | <b>131,623</b> | <b>132,520</b> |
| <b>Total Operating Income</b>    | <b>534,666</b> | <b>589,274</b> | <b>582,770</b> | <b>652,524</b> |
| --Employee Exp                   | 184,863        | 209,023        | 221,065        | 228,070        |
| --Other Expenses                 | 100,495        | 107,689        | 120,412        | 135,464        |
| Total Operating Expenses         | 285,358        | 316,712        | 341,477        | 363,534        |
| <b>Operating Profit</b>          | <b>249,308</b> | <b>272,563</b> | <b>241,293</b> | <b>288,990</b> |
| --Prov. For Investment Dep.      | -14,080        | 1,690          | 0              | 0              |
| --Loan Loss Provisions           | 123,455        | 26,593         | 57,328         | 77,431         |
| --Other Provisions               | 7,991          | -1,626         | 0              | 0              |
| Total provisions                 | 117,366        | 26,658         | 57,328         | 77,431         |
| <b>Profit Before Tax</b>         | <b>131,942</b> | <b>245,905</b> | <b>183,965</b> | <b>211,559</b> |
| Provision for Tax                | 49,496         | 86,670         | 53,761         | 52,890         |
| <b>Net Profit</b>                | <b>82,446</b>  | <b>159,235</b> | <b>130,204</b> | <b>158,669</b> |
| Core Operating profit            | 148,266        | 133,422        | 126,044        | 164,363        |

**Balance Sheet Data**

| Rs M (Year-end March)     | FY24              | FY25F             | FY26F             | FY27F             |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Shareholders' equity      | 1,064,766         | 1,207,484         | 1,305,841         | 1,438,470         |
| Deposits                  | 13,697,128        | 15,066,841        | 16,724,193        | 18,731,097        |
| Borrowings                | 153,476           | 167,288           | 185,690           | 207,973           |
| Other Liabilities & Prov. | 702,981           | 766,249           | 850,536           | 944,095           |
| <b>Total Liabilities</b>  | <b>15,618,350</b> | <b>17,207,863</b> | <b>19,066,261</b> | <b>21,321,635</b> |
| Cash & Balances with RBI  | 650,329           | 961,780           | 1,067,576         | 1,195,174         |
| Balances with Banks       | 640,717           | 698,381           | 775,203           | 860,475           |
| Investments               | 4,203,182         | 3,791,533         | 4,082,967         | 4,435,436         |
| Advances                  | 9,344,306         | 10,913,559        | 12,222,527        | 13,822,038        |
| Fixed Assets              | 123,188           | 126,883           | 130,690           | 134,611           |
| Other Assets              | 656,629           | 715,725           | 787,298           | 873,900           |
| <b>Total Assets</b>       | <b>15,618,350</b> | <b>17,207,863</b> | <b>19,066,261</b> | <b>21,321,635</b> |
| Earning Assets            | 14,838,534        | 16,365,254        | 18,148,274        | 20,313,124        |

**Asset Quality**

|                                    |         |         |         |         |
|------------------------------------|---------|---------|---------|---------|
| Credit Costs / Advances (bps)      | 149     | 25      | 50      | 59      |
| Gross NPL                          | 563,443 | 442,354 | 433,453 | 499,791 |
| Net NPL                            | 67,988  | 30,749  | 16,581  | 34,561  |
| Reserve Coverage                   | 495,455 | 411,605 | 416,872 | 465,230 |
| Gross NPL Ratio                    | 5.7%    | 3.9%    | 3.4%    | 3.5%    |
| Net NPL Ratio                      | 0.7%    | 0.3%    | 0.1%    | 0.3%    |
| Coverage Ratio (excl. tech w/offs) | 88%     | 93%     | 96%     | 93%     |

**Per Share Data and Valuations**

| Year-end March                | FY24 | FY25F | FY26F | FY27F |
|-------------------------------|------|-------|-------|-------|
| <b>Per Share Data (in Rs)</b> |      |       |       |       |
| EPS                           | 7.5  | 14.5  | 11.8  | 14.4  |
| Book Value                    | 96.7 | 109.7 | 118.6 | 130.6 |
| Core Op. Profit               | 16.4 | 16.7  | 17.1  | 21.9  |
| DPS                           | 1.5  | 2.9   | 2.4   | 2.9   |

**Valuations**

|                                 |      |      |      |      |
|---------------------------------|------|------|------|------|
| PE (Core)                       | 11.9 | 6.1  | 7.5  | 6.2  |
| Price to Book (Core)            | 0.9  | 0.8  | 0.7  | 0.7  |
| Price to Core Op. Profit (Core) | 5.4  | 5.3  | 5.2  | 4.1  |
| Dividend Yield                  | 1.6% | 3.0% | 2.5% | 3.0% |

**Ratio Analysis**

| Year-end March            | FY24 | FY25F | FY26F | FY27F |
|---------------------------|------|-------|-------|-------|
| <b>Spread Analysis</b>    |      |       |       |       |
| Average yield on assets   | 7.5% | 7.1%  | 6.9%  | 7.1%  |
| Cost of earning assets    | 4.7% | 4.3%  | 4.3%  | 4.4%  |
| Net Interest Margin (NIM) | 3.1% | 2.9%  | 2.7%  | 2.8%  |

**Growth Ratios**

|                       |        |       |        |       |
|-----------------------|--------|-------|--------|-------|
| Net Interest Income   | 17.4%  | 6.6%  | 5.6%   | 15.3% |
| Non Interest Income   | 7.1%   | 21.1% | -18.8% | 0.7%  |
| Operating expenses    | 18.4%  | 11.0% | 7.8%   | 6.5%  |
| Core Operating Profit | 10.0%  | 1.5%  | 2.5%   | 28.0% |
| Net Profit            | 228.8% | 93.1% | -18.2% | 21.9% |
| EPS                   | 228.5% | 93.1% | -18.2% | 21.9% |
| Deposits              | 6.9%   | 10.0% | 11.0%  | 12.0% |
| Advances              | 12.5%  | 16.8% | 12.0%  | 13.1% |
| Total Assets          | 6.8%   | 10.2% | 10.8%  | 11.8% |

**Profitability Ratios**

|                  |      |       |       |       |
|------------------|------|-------|-------|-------|
| Return On Equity | 8.0% | 14.0% | 10.4% | 11.6% |
| Return on Assets | 0.5% | 1.0%  | 0.7%  | 0.8%  |

**Efficiency Ratios**

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Cost Income Ratio   | 53.4% | 53.7% | 58.6% | 55.7% |
| Expenses/Avg Assets | 1.9%  | 1.9%  | 1.9%  | 1.8%  |

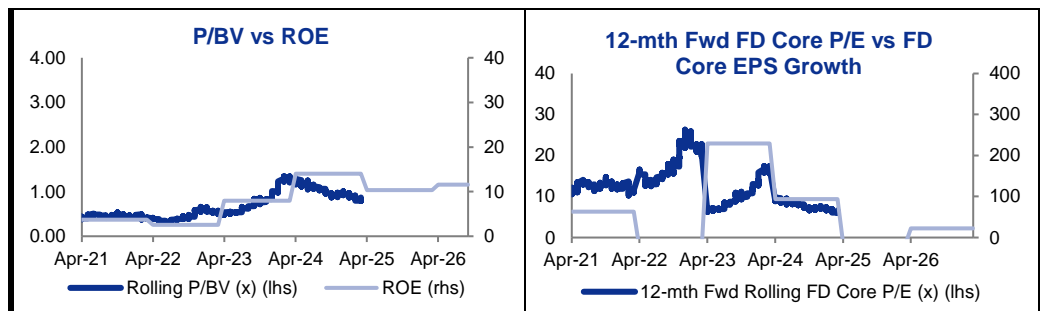
**Capital Ratios**

|                        |       |       |       |       |
|------------------------|-------|-------|-------|-------|
| CET 1 Ratio            | 11.0% | 11.9% | 11.7% | 11.7% |
| Tier 1 Ratio           | 13.2% | 13.8% | 13.4% | 13.4% |
| Capital Adequacy Ratio | 16.0% | 16.6% | 16.2% | 16.2% |

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

SOURCE: INCRED RESEARCH

## BY THE NUMBERS



### Profit & Loss

| (Rsm)                                   | Mar-23A          | Mar-24A          | Mar-25F          | Mar-26F          | Mar-27F          |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income                     | 341,366          | 400,831          | 427,242          | 451,147          | 520,004          |
| <b>Total Non-Interest Income</b>        | <b>124,975</b>   | <b>133,835</b>   | <b>162,032</b>   | <b>131,623</b>   | <b>132,520</b>   |
| Operating Revenue                       | 466,342          | 534,666          | 589,275          | 582,770          | 652,524          |
| <b>Total Non-Interest Expenses</b>      | <b>(241,054)</b> | <b>(285,358)</b> | <b>(316,712)</b> | <b>(341,477)</b> | <b>(363,534)</b> |
| Pre-provision Operating Profit          | 225,287          | 249,308          | 272,563          | 241,293          | 288,990          |
| <b>Total Provision Charges</b>          | <b>(182,405)</b> | <b>(117,366)</b> | <b>(26,658)</b>  | <b>(57,328)</b>  | <b>(77,431)</b>  |
| Operating Profit After Provisions       | 42,882           | 131,942          | 245,905          | 183,965          | 211,559          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                  |                  |                  |                  |                  |
| Operating EBIT (incl Associates)        | 42,882           | 131,942          | 245,905          | 183,965          | 211,559          |
| <b>Non-Operating Income/(Expense)</b>   |                  |                  |                  |                  |                  |
| Profit Before Tax (pre-EI)              | 42,882           | 131,942          | 245,905          | 183,965          | 211,559          |
| <b>Exceptional Items</b>                |                  |                  |                  |                  |                  |
| Pre-tax Profit                          | 42,882           | 131,942          | 245,905          | 183,965          | 211,559          |
| Taxation                                | (17,811)         | (49,496)         | (86,670)         | (53,761)         | (52,890)         |
| Consolidation Adjustments & Others      |                  |                  |                  |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                  |                  |                  |                  |                  |
| Profit After Tax                        | 25,072           | 82,446           | 159,235          | 130,204          | 158,669          |
| Minority Interests                      |                  |                  |                  |                  |                  |
| Pref. & Special Div                     |                  |                  |                  |                  |                  |
| <b>FX And Other Adj.</b>                |                  |                  |                  |                  |                  |
| Net Profit                              | 25,072           | 82,446           | 159,235          | 130,204          | 158,669          |
| Recurring Net Profit                    |                  |                  |                  |                  |                  |

### Balance Sheet Employment

| (Rsm)                                  | Mar-23A       | Mar-24A       | Mar-25F       | Mar-26F       | Mar-27F       |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits              |               |               |               |               |               |
| Avg Loans/Avg Deposits                 | 64.2%         | 66.6%         | 70.4%         | 73.1%         | 74.5%         |
| Avg Liquid Assets/Avg Assets           | 94.2%         | 94.8%         | 95.1%         | 95.1%         | 95.2%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>112.4%</b> | <b>111.0%</b> | <b>110.4%</b> | <b>111.3%</b> | <b>111.3%</b> |
| Net Cust Loans/Assets                  |               |               |               |               |               |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       |               |               |               |               |               |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> | <b>2.34%</b>  | <b>1.33%</b>  | <b>0.26%</b>  | <b>0.50%</b>  | <b>0.59%</b>  |
| <b>Provision Charge/Avg Assets</b>     | <b>1.31%</b>  | <b>0.78%</b>  | <b>0.16%</b>  | <b>0.32%</b>  | <b>0.38%</b>  |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS...cont'd

### Balance Sheet

| (Rsm)                                     | Mar-23A          | Mar-24A          | Mar-25F           | Mar-26F           | Mar-27F           |
|---|------------------|------------------|-------------------|-------------------|-------------------|
| <b>Total Gross Loans</b>                  | <b>8,308,340</b> | <b>9,344,306</b> | <b>10,913,559</b> | <b>12,222,527</b> | <b>13,822,038</b> |
| Liquid Assets & Invst. (Current)          | 3,959,967        | 4,203,182        | 3,791,533         | 4,082,967         | 4,435,436         |
| Other Int. Earning Assets                 |                  |                  |                   |                   |                   |
| Total Gross Int. Earning Assets           | 12,268,307       | 13,547,488       | 14,705,092        | 16,305,494        | 18,257,474        |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                  |                   |                   |                   |
| Total Net Interest Earning Assets         | 12,268,307       | 13,547,488       | 14,705,092        | 16,305,494        | 18,257,474        |
| Intangible Assets                         |                  |                  |                   |                   |                   |
| <b>Other Non-Interest Earning Assets</b>  | <b>678,408</b>   | <b>656,629</b>   | <b>715,725</b>    | <b>787,298</b>    | <b>873,900</b>    |
| <b>Total Non-Interest Earning Assets</b>  | <b>798,919</b>   | <b>779,816</b>   | <b>842,609</b>    | <b>917,988</b>    | <b>1,008,511</b>  |
| Cash And Marketable Securities            | 1,551,088        | 1,291,046        | 1,660,162         | 1,842,779         | 2,055,650         |
| <b>Long-term Investments</b>              |                  |                  |                   |                   |                   |
| Total Assets                              | 14,618,314       | 15,618,350       | 17,207,862        | 19,066,262        | 21,321,634        |
| Customer Interest-Bearing Liabilities     | 12,811,631       | 13,697,128       | 15,066,841        | 16,572,155        | 18,395,092        |
| Bank Deposits                             |                  |                  |                   |                   |                   |
| Interest Bearing Liabilities: Others      |                  |                  |                   |                   |                   |
| Total Interest-Bearing Liabilities        | 13,005,618       | 13,850,604       | 15,234,129        | 16,757,845        | 18,603,066        |
| Banks Liabilities Under Acceptances       |                  |                  |                   |                   |                   |
| Total Non-Interest Bearing Liabilities    | 614,139          | 702,981          | 766,249           | 850,537           | 944,096           |
| Total Liabilities                         | 13,619,757       | 14,553,584       | 16,000,378        | 17,608,382        | 19,547,160        |
| Shareholders Equity                       | 998,557          | 1,064,766        | 1,207,484         | 1,305,841         | 1,438,470         |
| <b>Minority Interests</b>                 |                  |                  |                   |                   |                   |
| Total Equity                              | 998,557          | 1,064,766        | 1,207,484         | 1,305,841         | 1,438,470         |

### Key Ratios

|  | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--|---------|---------|---------|---------|---------|
| Total Income Growth                      | 19.0%   | 17.4%   | 6.6%    | 5.6%    | 15.3%   |
| Operating Profit Growth                  | 8.5%    | 10.7%   | 9.3%    | (11.5%) | 19.8%   |
| Pretax Profit Growth                     | (1%)    | 208%    | 86%     | (25%)   | 15%     |
| Net Interest To Total Income             | 73.2%   | 75.0%   | 72.5%   | 77.4%   | 79.7%   |
| Cost Of Funds                            | 4.11%   | 4.98%   | 4.65%   | 4.67%   | 4.76%   |
| Return On Interest Earning Assets        | 7.3%    | 8.3%    | 7.8%    | 7.7%    | 7.9%    |
| Net Interest Spread                      | 3.18%   | 3.31%   | 3.16%   | 3.06%   | 3.12%   |
| Net Interest Margin (Avg Deposits)       | 2.81%   | 3.02%   | 2.97%   | 2.85%   | 2.97%   |
| Net Interest Margin (Avg RWA)            |         |         |         |         |         |
| Provisions to Pre Prov. Operating Profit | 81%     | 47%     | 10%     | 24%     | 27%     |
| Interest Return On Average Assets        | 2.46%   | 2.65%   | 2.60%   | 2.49%   | 2.58%   |
| Effective Tax Rate                       | 41.5%   | 37.5%   | 35.2%   | 29.2%   | 25.0%   |
| Net Dividend Payout Ratio                | 28.5%   | 20.0%   | 20.0%   | 20.0%   | 20.0%   |
| Return On Average Assets                 | 0.18%   | 0.55%   | 0.97%   | 0.72%   | 0.79%   |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

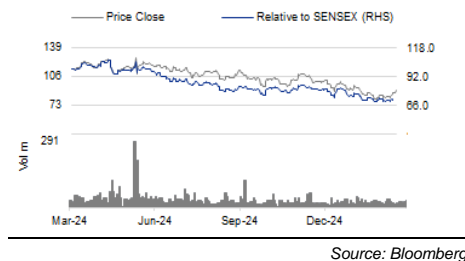
## India

**ADD** (Initiating coverage)

Consensus ratings\*: Buy 13 Hold 4 Sell 1

|                           |            |
|---------------------------|------------|
| Current price:            | Rs89       |
| Target price:             | Rs105      |
| Previous target:          | NA         |
| Up/downside:              | 18.0%      |
| EIP Research / Consensus: | -6.2%      |
| Reuters:                  | CNBK.NS    |
| Bloomberg:                | CBK IN     |
| Market cap:               | US\$9,405m |
|                           | Rs811,188m |
| Average daily turnover:   | US\$26.8m  |
|                           | Rs2312.3m  |
| Current shares o/s:       | 101.1m     |
| Free float:               | 37.07%     |

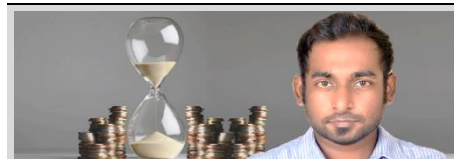
\*Source: Bloomberg



| Price performance | 1M  | 3M    | 12M    |
|-------------------|-----|-------|--------|
| Absolute (%)      | 5.2 | (6.6) | (26.5) |
| Relative (%)      | 5.3 | (2.3) | (26.0) |

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

## Research Analyst(s)

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# Canara Bank

## Attractive valuation

- Canara Bank has stepped up provisioning over the past year & credit cost moderation here on could aid profitability, partly offsetting margin moderation.
- We expect RoA to moderate to 0.8% in FY26F-27F, from 1% in FY25F. RoE to decline to ~13% in FY26F-27F, from ~17% in FY25F.
- The risk-reward ratio appears attractive at the current valuation (0.6x F27F BV). Initiate coverage with an ADD rating and a TP of Rs105 (a 12% upside).

### Stepped-up provisioning; credit costs to moderate

Canara Bank has stepped up provisioning over the past few years. This has helped in improving its specific provisioning cover to 74% as of 3QFY25-end, from 66% in FY22. This partly led to credit costs of ~90-100bp in FY24 & FY25, higher vs. peer SOE banks. Net slippage was contained at 0.6-0.8% during FY24-25F and we believe the bank could witness some moderation in credit costs over the next few years. We have built in credit costs of 70-80bp over FY26F-27F.

### Core profitability to moderate - mainly led by moderation in margin

Canara Bank has 41% of its loan book linked to the repo rate and 48% is MCLR-linked. Assuming a 50bp rate cut, we expect margin to moderate by ~10bp from the 3QFY25 level to 2.6% in FY26F. On a full-year basis, margin will moderate by ~20bp in FY26F and then recover by ~10bp in FY27F as the deposit base gets repriced. We expect loan growth at 12% in FY26F/27F. NII growth should be at a 10% CAGR over FY26F-27F. Operating expenses growth should be at a 10% CAGR over the same period. Core PPOP growth should be at ~10% CAGR over FY26F-27F.

### Attractive valuation; credit cost moderation to aid profitability

Canara Bank will be able to offset some margin compression by clocking lower credit costs over the next few years. It will also benefit from stake sale/listing of its life insurance and AMC subsidiaries in the coming years (not built in our estimates as yet). We expect RoA to moderate to 0.8% in FY26F-27F, from 1% in FY25F. RoE to decline to ~13% in FY26F-27F, from ~17% in FY25F. The risk-reward ratio appears attractive, with the stock trading at 0.6x FY27F BV. We have assigned an ADD rating to the stock with a target price of Rs105. Key downside risks are lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, and a higher-than-expected growth in costs.

| Financial Summary                 | Mar-23A   | Mar-24A  | Mar-25F  | Mar-26F  | Mar-27F  |
|-----------------------------------|-----------|----------|----------|----------|----------|
| Net Interest Income (Rsm)         | 314,353   | 365,659  | 367,988  | 383,896  | 441,948  |
| Total Non-Interest Income (Rsm)   | 187,622   | 189,664  | 218,524  | 195,452  | 192,013  |
| Operating Revenue (Rsm)           | 501,975   | 555,324  | 586,513  | 579,347  | 633,962  |
| Total Provision Charges (Rsm)     | (135,430) | (97,076) | (90,715) | (86,558) | (90,800) |
| Net Profit (Rsm)                  | 106,038   | 145,543  | 157,174  | 135,011  | 149,711  |
| Core EPS (Rs)                     | 11.69     | 16.05    | 17.33    | 14.88    | 16.50    |
| Core EPS Growth                   | 87%       | 37%      | 8%       | (14%)    | 11%      |
| FD Core P/E (x)                   | 7.65      | 5.57     | 5.16     | 6.01     | 5.42     |
| DPS (Rs)                          | 2.40      | 3.22     | 3.47     | 2.98     | 3.30     |
| Dividend Yield                    | 2.68%     | 3.60%    | 3.88%    | 3.33%    | 3.69%    |
| BVPS (Rs)                         | 81.1      | 95.9     | 110.0    | 121.4    | 134.9    |
| P/BV (x)                          | 1.10      | 0.93     | 0.81     | 0.74     | 0.66     |
| ROE                               | 15.2%     | 18.1%    | 16.8%    | 12.9%    | 12.9%    |
| % Change In Core EPS Estimates    |           |          |          |          |          |
| InCred Research/Consensus EPS (x) |           |          |          |          |          |

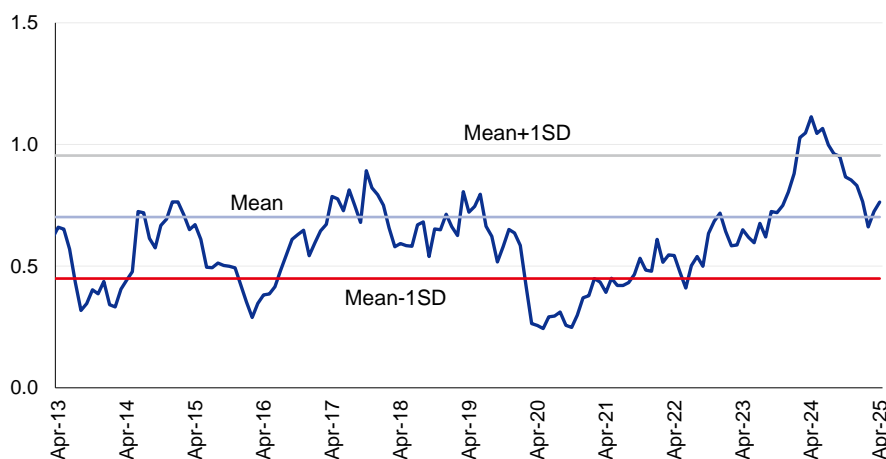
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 37: Canara Bank's Dupont analysis

| DuPont analysis (as a % of avg. assets)             | FY17         | FY18          | FY19         | FY20         | FY21         | FY22        | FY23         | FY24         | FY25F        | FY26F        | FY27F        |
|---|--------------|---------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>                          | <b>1.7%</b>  | <b>2.0%</b>   | <b>2.2%</b>  | <b>1.9%</b>  | <b>2.6%</b>  | <b>2.2%</b> | <b>2.4%</b>  | <b>2.6%</b>  | <b>2.3%</b>  | <b>2.2%</b>  | <b>2.3%</b>  |
| Core Fee  | 0.2%         | 0.2%          | 0.2%         | 0.1%         | 0.6%         | 0.5%        | 0.5%         | 0.5%         | 0.6%         | 0.6%         | 0.6%         |
| <b>Core Revenue</b>                                 | <b>1.9%</b>  | <b>2.2%</b>   | <b>2.4%</b>  | <b>2.0%</b>  | <b>3.1%</b>  | <b>2.7%</b> | <b>3.0%</b>  | <b>3.1%</b>  | <b>2.9%</b>  | <b>2.8%</b>  | <b>2.8%</b>  |
| Opex  | 1.5%         | 1.6%          | 1.6%         | 1.6%         | 2.1%         | 1.7%        | 1.7%         | 1.8%         | 1.8%         | 1.8%         | 1.8%         |
| --Staff Expenses                                    | 0.9%         | 0.9%          | 0.9%         | 1.0%         | 1.4%         | 1.1%        | 1.1%         | 1.2%         | 1.1%         | 1.1%         | 1.1%         |
| --Other Opex  | 0.6%         | 0.7%          | 0.7%         | 0.6%         | 0.7%         | 0.6%        | 0.7%         | 0.7%         | 0.7%         | 0.7%         | 0.7%         |
| <b>Core PPOp</b>                                    | <b>0.4%</b>  | <b>0.6%</b>   | <b>0.8%</b>  | <b>0.3%</b>  | <b>1.1%</b>  | <b>1.1%</b> | <b>1.2%</b>  | <b>1.3%</b>  | <b>1.1%</b>  | <b>1.0%</b>  | <b>1.1%</b>  |
| Credit Costs (Provisions less Investments)          | 1.3%         | 2.4%          | 1.9%         | 1.5%         | 1.7%         | 1.1%        | 0.8%         | 0.6%         | 0.6%         | 0.5%         | 0.5%         |
| Recovery from w/off                                 | -0.1%        | -0.2%         | -0.2%        | -0.2%        | -0.3%        | -0.2%       | -0.4%        | -0.4%        | -0.4%        | -0.3%        | -0.2%        |
| <b>Net Credit Cost</b>                              | <b>1.2%</b>  | <b>2.2%</b>   | <b>1.7%</b>  | <b>1.3%</b>  | <b>1.3%</b>  | <b>0.9%</b> | <b>0.4%</b>  | <b>0.2%</b>  | <b>0.2%</b>  | <b>0.2%</b>  | <b>0.3%</b>  |
| <b>Operating Profit</b>                             | <b>-0.7%</b> | <b>-1.6%</b>  | <b>-0.9%</b> | <b>-1.0%</b> | <b>-0.3%</b> | <b>0.2%</b> | <b>0.8%</b>  | <b>1.1%</b>  | <b>0.9%</b>  | <b>0.8%</b>  | <b>0.8%</b>  |
| Other Income/Expenses                               | 1.0%         | 0.5%          | 0.6%         | 0.7%         | 0.7%         | 0.6%        | 0.3%         | 0.3%         | 0.4%         | 0.3%         | 0.2%         |
| --Net Treasury Gains                                | 0.5%         | 0.0%          | 0.0%         | 0.0%         | 0.3%         | 0.1%        | -0.1%        | 0.1%         | 0.1%         | 0.0%         | 0.0%         |
| ----Capital Gains                                   | 0.5%         | 0.3%          | 0.1%         | 0.1%         | 0.3%         | 0.2%        | 0.1%         | 0.1%         | 0.2%         | 0.0%         | 0.0%         |
| ----Provision for Investment                        | 0.0%         | -0.3%         | -0.1%        | -0.1%        | 0.0%         | -0.1%       | -0.2%        | -0.1%        | 0.0%         | 0.0%         | 0.0%         |
| --Other Income                                      | 0.5%         | 0.5%          | 0.6%         | 0.7%         | 0.4%         | 0.4%        | 0.4%         | 0.3%         | 0.3%         | 0.2%         | 0.2%         |
| <b>Profit before Tax (Before Exceptional Items)</b> | <b>0.3%</b>  | <b>-1.1%</b>  | <b>-0.4%</b> | <b>-0.2%</b> | <b>0.4%</b>  | <b>0.8%</b> | <b>1.1%</b>  | <b>1.4%</b>  | <b>1.3%</b>  | <b>1.0%</b>  | <b>1.0%</b>  |
| Exceptional Items/Minority Interest/Others          | 0.0%         | 0.0%          | 0.0%         | 0.0%         | 0.0%         | 0.0%        | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| <b>PBT</b>  | <b>0.3%</b>  | <b>-1.1%</b>  | <b>-0.4%</b> | <b>-0.2%</b> | <b>0.4%</b>  | <b>0.8%</b> | <b>1.1%</b>  | <b>1.4%</b>  | <b>1.3%</b>  | <b>1.0%</b>  | <b>1.0%</b>  |
| Tax   | 0.1%         | -0.4%         | -0.4%        | 0.1%         | 0.1%         | 0.3%        | 0.3%         | 0.4%         | 0.3%         | 0.3%         | 0.3%         |
| <b>RoA</b>  | <b>0.2%</b>  | <b>-0.7%</b>  | <b>0.1%</b>  | <b>-0.3%</b> | <b>0.3%</b>  | <b>0.5%</b> | <b>0.8%</b>  | <b>1.0%</b>  | <b>1.0%</b>  | <b>0.8%</b>  | <b>0.8%</b>  |
| Leverage (x)  | 17           | 17            | 18           | 19           | 20           | 19          | 18           | 18           | 17           | 17           | 17           |
| <b>RoE</b>  | <b>3.4%</b>  | <b>-12.2%</b> | <b>1.0%</b>  | <b>-5.9%</b> | <b>5.4%</b>  | <b>9.1%</b> | <b>15.2%</b> | <b>18.1%</b> | <b>16.8%</b> | <b>12.9%</b> | <b>12.9%</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: Canara Bank's one-year forward core P/BV (x)



SOURCE: INCRED RESEARCH

## Valuation methodology

We valued Canara Bank using the justified P/BV methodology. We assumed sustainable RoE of 12.5% and cost of equity at 14.4%. We have used a risk-free rate of 7%, a beta of 1.35x and a market risk premium of 5.5%. Our terminal growth assumption is 6%. Our target multiple of 0.8x on FY27F BV led us to a target price of Rs105 (a 12% upside from the CMP).

Figure 39: Canara Bank – standalone entity's valuation summary

|                                       |            |
|---------------------------------------|------------|
| <b>Canara Bank - banking business</b> |            |
| Core BVPS, Mar 2027F (Rs)             | 135        |
| Sustainable RoE                       | 12.5%      |
| CoE                                   | 14.4%      |
| ---Risk-free rate                     | 7.00%      |
| --Beta                                | 1.35x      |
| --Market risk premium                 | 5.5%       |
| Growth                                | 6.0%       |
| Target multiple                       | 0.8x       |
| <b>Value of bank (Rs)</b>             | <b>102</b> |

SOURCE: INCRED RESEARCH

**Figure 40: Subsidiary Can Fin Homes' valuation summary**

|                                       |          |
|---------------------------------------|----------|
| <b>CAN FIN Homes (Rs m)</b>           |          |
| Net worth (Rs bn) - FY24              | 43       |
| ---CAGR since Mar 2024                | 17%      |
| Net worth (Rs bn) - FY27F             | 70       |
| --Multiple - P/BV (x)                 | 1.5      |
| Entity valuation (Rs bn)              | 104      |
| Canara Bank's stake (%)               | 30%      |
| Canara Bank's stake valuation (Rs bn) | 31       |
| <b>Value per share (Rs)</b>           | <b>3</b> |

SOURCE: INCRED RESEARCH

**Figure 41: Canara Bank – SOTP valuation**

|   |            |
|---|------------|
| <b>Canara Bank: Sum-of-the-parts valuation (Rs)</b> |            |
| Banking business                                    | 102        |
| Housing finance subsidiary                          | 3          |
| <b>Fair value</b>                                   | <b>105</b> |

SOURCE: INCRED RESEARCH

**Figure 42: Canara Bank - InCred estimates vs. Bloomberg consensus estimates**

| Rs bn                | FY24   | InCred Estimates |        |        | Bloomberg Estimates |        |        | Change |       |       |
|----------------------|--------|------------------|--------|--------|---------------------|--------|--------|--------|-------|-------|
|                      |        | FY25F            | FY26F  | FY27F  | FY25F               | FY26F  | FY27F  | FY25F  | FY26F | FY27F |
| Net Interest Income  | 366    | 368              | 384    | 442    | 372                 | 406    | 451    | -1%    | -5%   | -2%   |
| --Growth YoY         |        | 1%               | 4%     | 15%    | 2%                  | 9%     | 11%    |        |       |       |
| Non-Interest Income  | 190    | 219              | 195    | 192    | 218                 | 225    | 238    | 0%     | -13%  | -19%  |
| --Growth YoY         |        | 15%              | -11%   | -2%    | 15%                 | 3%     | 6%     |        |       |       |
| Total Income         | 555    | 587              | 579    | 634    | 589                 | 630    | 689    | 0%     | -8%   | -8%   |
| --Growth YoY         |        | 6%               | -1%    | 9%     | 6%                  | 7%     | 9%     |        |       |       |
| Opex                 | 261    | 285              | 313    | 344    | 289                 | 312    | 342    | -1%    | 0%    | 0%    |
| --Growth YoY         |        | 9%               | 10%    | 10%    | 11%                 | 8%     | 10%    |        |       |       |
| PPOP                 | 294    | 302              | 267    | 290    | 310                 | 328    | 358    | -3%    | -19%  | -19%  |
| --Growth YoY         |        | 3%               | -12%   | 9%     | 5%                  | 6%     | 9%     |        |       |       |
| Provision            | 97     | 91               | 87     | 91     | 94                  | 105    | 120    | -4%    | -18%  | -24%  |
| --as % of Avg. Loans | 110    | 92               | 78     | 73     | 95                  | 96     | 98     |        |       |       |
| PBT                  | 197    | 211              | 180    | 200    | 215                 | 222    | 238    | -2%    | -19%  | -16%  |
| Tax                  | 52     | 54               | 45     | 50     | 55                  | 56     | 60     | 2%     | 25%   | 21%   |
| PAT                  | 146    | 157              | 135    | 150    | 162                 | 170    | 177    | -3%    | -20%  | -15%  |
| --Growth YoY         |        | 8%               | -14%   | 11%    | 11%                 | 5%     | 4%     |        |       |       |
| Advances             | 9,316  | 10,442           | 11,694 | 13,096 | 10,435              | 11,622 | 12,950 | 0%     | 1%    | 1%    |
| --Growth YoY         |        | 12%              | 12%    | 12%    | 12%                 | 11%    | 11%    |        |       |       |
| Deposits             | 13,124 | 14,567           | 16,170 | 17,948 | 14,051              | 15,421 | 17,059 | 4%     | 5%    | 5%    |
| --Growth YoY         |        | 11%              | 11%    | 11%    | 7%                  | 10%    | 11%    |        |       |       |
| Book Value           | 96     | 110              | 121    | 135    | 106                 | 121    | 135    | 3%     | 1%    | 0%    |
| --Growth YoY         |        | 15%              | 10%    | 11%    | 11%                 | 14%    | 12%    |        |       |       |
| EPS                  | 16     | 17               | 15     | 17     | 18                  | 18     | 19     | -2%    | -18%  | -13%  |
| --Growth YoY         |        | 8%               | -14%   | 11%    | 10%                 | 2%     | 5%     |        |       |       |

SOURCE: INCRED RESEARCH

Figure 43: Canara Bank – Financial summary

Canara Bank

Profit and Loss Statement

| Rs M (Year-end March)            | FY24           | FY25F          | FY26F          | FY27F          |
|----------------------------------|----------------|----------------|----------------|----------------|
| Interest Income                  | 1,086,879      | 1,098,793      | 1,194,847      | 1,333,309      |
| Interest Expense                 | 721,220        | 730,805        | 810,952        | 891,361        |
| <b>Net Interest Income</b>       | <b>365,659</b> | <b>367,988</b> | <b>383,896</b> | <b>441,948</b> |
| --Fee Income                     | 17,916         | 20,066         | 22,474         | 25,171         |
| --Forex Income                   | 7,650          | 8,568          | 9,596          | 10,748         |
| --Capital Gains                  | 16,230         | 24,550         | 4,000          | 2,000          |
| --Miscellaneous Inc.             | 147,868        | 165,340        | 159,381        | 154,095        |
| <b>Total Non Interest Income</b> | <b>189,664</b> | <b>218,524</b> | <b>195,452</b> | <b>192,013</b> |
| <b>Total Operating Income</b>    | <b>555,324</b> | <b>586,513</b> | <b>579,347</b> | <b>633,962</b> |
| --Employee Exp                   | 164,342        | 176,076        | 190,168        | 205,528        |
| --Other Expenses                 | 96,856         | 108,730        | 122,607        | 138,020        |
| Total Operating Expenses         | 261,198        | 284,806        | 312,775        | 343,548        |
| <b>Operating Profit</b>          | <b>294,126</b> | <b>301,707</b> | <b>266,573</b> | <b>290,414</b> |
| --Prov. For Investment Dep.      | 9,110          | 2,430          | 0              | 0              |
| --Loan Loss Provisions           | 90,053         | 88,073         | 82,176         | 85,893         |
| --Other Provisions               | -2,087         | 212            | 4,381          | 4,907          |
| Total provisions                 | 97,076         | 90,715         | 86,558         | 90,800         |
| <b>Profit Before Tax</b>         | <b>197,050</b> | <b>210,992</b> | <b>180,015</b> | <b>199,614</b> |
| Provision for Tax                | 51,507         | 53,818         | 45,004         | 49,904         |
| <b>Net Profit</b>                | <b>145,543</b> | <b>157,174</b> | <b>135,011</b> | <b>149,711</b> |
| <b>Core Operating profit</b>     | <b>122,378</b> | <b>103,248</b> | <b>93,595</b>  | <b>123,571</b> |

Balance Sheet Data

| Rs M (Year-end March)     | FY24              | FY25F             | FY26F             | FY27F             |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Shareholders' equity      | 869,546           | 997,519           | 1,101,115         | 1,223,893         |
| Deposits                  | 13,123,666        | 14,567,269        | 16,169,669        | 17,948,333        |
| Borrowings                | 268,562           | 298,104           | 330,895           | 367,293           |
| Other Liabilities & Prov. | 653,633           | 725,533           | 805,342           | 893,929           |
| <b>Total Liabilities</b>  | <b>14,915,407</b> | <b>16,588,425</b> | <b>18,407,020</b> | <b>20,433,448</b> |
| Cash & Balances with RBI  | 710,682           | 788,857           | 875,631           | 971,950           |
| Balances with Banks       | 796,915           | 884,576           | 981,879           | 1,089,886         |
| Investments               | 3,574,544         | 3,909,961         | 4,241,920         | 4,606,031         |
| Advances                  | 9,316,128         | 10,442,014        | 11,693,866        | 13,095,797        |
| Fixed Assets              | 122,282           | 124,727           | 127,222           | 129,766           |
| Other Assets              | 394,856           | 438,290           | 486,502           | 540,017           |
| <b>Total Assets</b>       | <b>14,915,407</b> | <b>16,588,425</b> | <b>18,407,020</b> | <b>20,433,448</b> |
| Earning Assets            | 14,370,700        | 15,996,459        | 17,762,901        | 19,731,749        |

Asset Quality

|                                  |         |         |         |         |
|----------------------------------|---------|---------|---------|---------|
| Credit Costs / Advances (bps)    | 100     | 89      | 78      | 73      |
| Gross NPL                        | 406,050 | 333,207 | 248,301 | 163,808 |
| Net NPL                          | 118,228 | 87,663  | 70,519  | 66,833  |
| Reserve Coverage                 | 287,822 | 245,544 | 177,783 | 96,976  |
| Gross NPL Ratio                  | 4.2%    | 3.1%    | 2.1%    | 1.2%    |
| Net NPL Ratio                    | 1.3%    | 0.8%    | 0.6%    | 0.5%    |
| Coverage Ratio (Ex. Tech W/offs) | 71%     | 74%     | 74%     | 74%     |

Per Share Data and Valuations

| Rs (Year-end March)             | FY24  | FY25F | FY26F | FY27F |
|---------------------------------|-------|-------|-------|-------|
| <b>Per Share Data</b>           |       |       |       |       |
| EPS                             | 16.0  | 17.3  | 14.9  | 16.5  |
| Book Value                      | 96    | 110   | 121   | 135   |
| Core Op. Profit                 | 13.5  | 11.4  | 10.3  | 13.6  |
| DPS                             | 16    | 17    | 15    | 17    |
| <b>Valuations</b>               |       |       |       |       |
| PE (Core)                       | 5.4   | 5.0   | 5.8   | 5.3   |
| Price to Book (Core)            | 0.9   | 0.8   | 0.7   | 0.6   |
| Price to Core Op. Profit (Core) | 6.4   | 7.6   | 8.4   | 6.4   |
| Dividend Yield                  | 17.8% | 19.2% | 16.5% | 18.3% |

Ratio Analysis

| (Year-end March)               | FY24 | FY25F | FY26F | FY27F |
|--------------------------------|------|-------|-------|-------|
| <b>Spread Analysis</b>         |      |       |       |       |
| Average yield on assets        | 8.0% | 7.2%  | 7.1%  | 7.1%  |
| Cost of earning assets         | 5.3% | 4.8%  | 4.8%  | 4.8%  |
| Net Interest Margin (Reported) | 3.0% | 2.8%  | 2.6%  | 2.7%  |

Growth Ratios

|                       |     |     |      |     |
|-----------------------|-----|-----|------|-----|
| Net Interest Income   | 16% | 1%  | 4%   | 15% |
| Non Interest Income   | 1%  | 15% | -11% | -2% |
| Operating expenses    | 16% | 9%  | 10%  | 10% |
| Core Operating Profit | 13% | 15% | 11%  | 11% |
| Net Profit            | 37% | 8%  | -14% | 11% |
| EPS                   | 37% | 8%  | -14% | 11% |
| Deposits              | 11% | 11% | 11%  | 11% |
| Advances              | 12% | 12% | 12%  | 12% |
| Total Assets          | 11% | 11% | 11%  | 11% |

Profitability Ratios

|                  |       |       |       |       |
|------------------|-------|-------|-------|-------|
| Return On Equity | 18.1% | 16.8% | 12.9% | 12.9% |
| Return on Assets | 1.0%  | 1.0%  | 0.8%  | 0.8%  |

Efficiency Ratios

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Cost Income Ratio   | 47.0% | 48.6% | 54.0% | 54.2% |
| Expenses/Avg Assets | 1.8%  | 1.8%  | 1.8%  | 1.8%  |

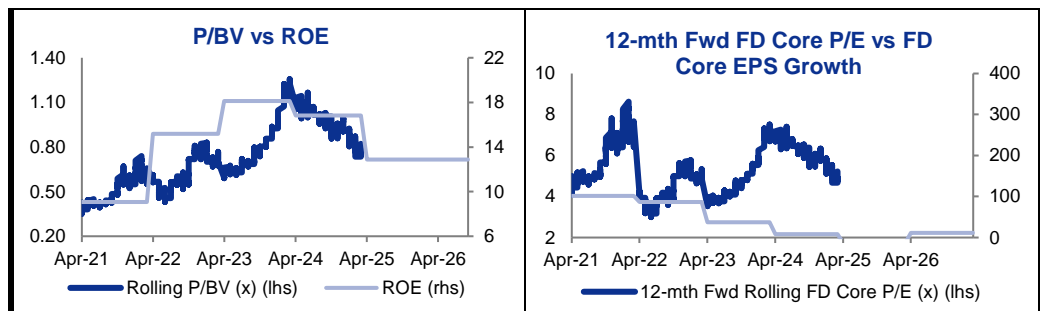
Capital Ratios

|                        |       |       |       |       |
|------------------------|-------|-------|-------|-------|
| CET 1 Ratio            | 11.6% | 11.8% | 11.8% | 11.9% |
| Tier 1 Ratio           | 14.0% | 14.3% | 14.1% | 13.9% |
| Capital Adequacy Ratio | 16.3% | 16.7% | 16.4% | 16.2% |

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

SOURCE: INCRED RESEARCH

## BY THE NUMBERS



### Profit & Loss

| (Rsm)                                   | Mar-23A          | Mar-24A          | Mar-25F          | Mar-26F          | Mar-27F          |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income                     | 314,353          | 365,659          | 367,988          | 383,896          | 441,948          |
| <b>Total Non-Interest Income</b>        | <b>187,622</b>   | <b>189,664</b>   | <b>218,524</b>   | <b>195,452</b>   | <b>192,013</b>   |
| Operating Revenue                       | 501,975          | 555,324          | 586,513          | 579,347          | 633,962          |
| <b>Total Non-Interest Expenses</b>      | <b>(224,815)</b> | <b>(261,198)</b> | <b>(284,806)</b> | <b>(312,775)</b> | <b>(343,548)</b> |
| Pre-provision Operating Profit          | 277,160          | 294,126          | 301,707          | 266,573          | 290,414          |
| <b>Total Provision Charges</b>          | <b>(135,430)</b> | <b>(97,076)</b>  | <b>(90,715)</b>  | <b>(86,558)</b>  | <b>(90,800)</b>  |
| Operating Profit After Provisions       | 141,730          | 197,050          | 210,992          | 180,015          | 199,614          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                  |                  |                  |                  |                  |
| Operating EBIT (incl Associates)        | 141,730          | 197,050          | 210,992          | 180,015          | 199,614          |
| <b>Non-Operating Income/(Expense)</b>   |                  |                  |                  |                  |                  |
| Profit Before Tax (pre-EI)              | 141,730          | 197,050          | 210,992          | 180,015          | 199,614          |
| <b>Exceptional Items</b>                |                  |                  |                  |                  |                  |
| Pre-tax Profit                          | 141,730          | 197,050          | 210,992          | 180,015          | 199,614          |
| Taxation                                | (35,692)         | (51,507)         | (53,818)         | (45,004)         | (49,904)         |
| Consolidation Adjustments & Others      |                  |                  |                  |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                  |                  |                  |                  |                  |
| Profit After Tax                        | 106,038          | 145,543          | 157,174          | 135,011          | 149,711          |
| Minority Interests                      |                  |                  |                  |                  |                  |
| Pref. & Special Div                     |                  |                  |                  |                  |                  |
| <b>FX And Other Adj.</b>                |                  |                  |                  |                  |                  |
| Net Profit                              | 106,038          | 145,543          | 157,174          | 135,011          | 149,711          |
| Recurring Net Profit                    |                  |                  |                  |                  |                  |

### Balance Sheet Employment

| (Rsm)                                  | Mar-23A       | Mar-24A       | Mar-25F       | Mar-26F       | Mar-27F       |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits              |               |               |               |               |               |
| Avg Loans/Avg Deposits                 | 67.7%         | 70.7%         | 71.4%         | 72.0%         | 72.7%         |
| Avg Liquid Assets/Avg Assets           | 95.5%         | 96.3%         | 96.6%         | 96.6%         | 96.7%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>115.1%</b> | <b>112.0%</b> | <b>111.7%</b> | <b>111.7%</b> | <b>111.7%</b> |
| Net Cust Loans/Assets                  |               |               |               |               |               |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       |               |               |               |               |               |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> | <b>1.77%</b>  | <b>1.10%</b>  | <b>0.92%</b>  | <b>0.78%</b>  | <b>0.73%</b>  |
| <b>Provision Charge/Avg Assets</b>     | <b>1.05%</b>  | <b>0.68%</b>  | <b>0.58%</b>  | <b>0.49%</b>  | <b>0.47%</b>  |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

| (Rsm)                                     | Mar-23A          | Mar-24A          | Mar-25F           | Mar-26F           | Mar-27F           |
|---|------------------|------------------|-------------------|-------------------|-------------------|
| <b>Total Gross Loans</b>                  | <b>8,306,726</b> | <b>9,316,128</b> | <b>10,442,014</b> | <b>11,693,866</b> | <b>13,095,797</b> |
| Liquid Assets & Invst. (Current)          | 3,190,385        | 3,574,544        | 3,909,961         | 4,241,921         | 4,606,032         |
| Other Int. Earning Assets                 |                  |                  |                   |                   |                   |
| Total Gross Int. Earning Assets           | 11,497,110       | 12,890,672       | 14,351,975        | 15,935,786        | 17,701,828        |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                  |                   |                   |                   |
| Total Net Interest Earning Assets         | 11,497,110       | 12,890,672       | 14,351,975        | 15,935,786        | 17,701,828        |
| Intangible Assets                         |                  |                  |                   |                   |                   |
| <b>Other Non-Interest Earning Assets</b>  | <b>443,674</b>   | <b>394,856</b>   | <b>438,290</b>    | <b>486,502</b>    | <b>540,017</b>    |
| <b>Total Non-Interest Earning Assets</b>  | <b>545,981</b>   | <b>517,138</b>   | <b>563,017</b>    | <b>613,724</b>    | <b>669,783</b>    |
| Cash And Marketable Securities            | 1,414,232        | 1,507,597        | 1,673,433         | 1,857,511         | 2,061,837         |
| <b>Long-term Investments</b>              |                  |                  |                   |                   |                   |
| Total Assets                              | 13,457,322       | 14,915,407       | 16,588,425        | 18,407,020        | 20,433,448        |
| Customer Interest-Bearing Liabilities     | 11,792,186       | 13,123,666       | 14,567,269        | 16,169,669        | 17,948,332        |
| Bank Deposits                             |                  |                  |                   |                   |                   |
| Interest Bearing Liabilities: Others      |                  |                  |                   |                   |                   |
| Total Interest-Bearing Liabilities        | 12,065,723       | 13,392,228       | 14,865,373        | 16,500,564        | 18,315,626        |
| Banks Liabilities Under Acceptances       |                  |                  |                   |                   |                   |
| Total Non-Interest Bearing Liabilities    | 655,528          | 653,633          | 725,533           | 805,342           | 893,929           |
| Total Liabilities                         | 12,721,251       | 14,045,861       | 15,590,906        | 17,305,906        | 19,209,556        |
| Shareholders Equity                       | 736,072          | 869,546          | 997,519           | 1,101,115         | 1,223,893         |
| <b>Minority Interests</b>                 |                  |                  |                   |                   |                   |
| Total Equity                              | 736,072          | 869,546          | 997,519           | 1,101,115         | 1,223,893         |

### Key Ratios

|  | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--|---------|---------|---------|---------|---------|
| Total Income Growth                      | 19.1%   | 16.3%   | 0.6%    | 4.3%    | 15.1%   |
| Operating Profit Growth                  | 20.0%   | 6.1%    | 2.6%    | (11.6%) | 8.9%    |
| Pretax Profit Growth                     | 58%     | 39%     | 7%      | (15%)   | 11%     |
| Net Interest To Total Income             | 62.6%   | 65.8%   | 62.7%   | 66.3%   | 69.7%   |
| Cost Of Funds                            | 4.58%   | 5.67%   | 5.17%   | 5.17%   | 5.12%   |
| Return On Interest Earning Assets        | 7.9%    | 8.9%    | 8.1%    | 7.9%    | 7.9%    |
| Net Interest Spread                      | 3.32%   | 3.25%   | 2.89%   | 2.72%   | 2.81%   |
| Net Interest Margin (Avg Deposits)       | 2.77%   | 2.94%   | 2.66%   | 2.50%   | 2.59%   |
| Net Interest Margin (Avg RWA)            |         |         |         |         |         |
| Provisions to Pre Prov. Operating Profit | 49%     | 33%     | 30%     | 32%     | 31%     |
| Interest Return On Average Assets        | 2.44%   | 2.58%   | 2.34%   | 2.19%   | 2.28%   |
| Effective Tax Rate                       | 25.2%   | 26.1%   | 25.5%   | 25.0%   | 25.0%   |
| Net Dividend Payout Ratio                | 20.5%   | 20.1%   | 20.0%   | 20.0%   | 20.0%   |
| Return On Average Assets                 | 0.82%   | 1.03%   | 1.00%   | 0.77%   | 0.77%   |

SOURCE: INCRED RESEARCH, COMPANY REPORTS



## India

**HOLD** (Initiating coverage)

Consensus ratings\*: Buy 29 Hold 5 Sell 2

|                           |                             |
|---------------------------|-----------------------------|
| Current price:            | Rs236                       |
| Target price:             | Rs245                       |
| Previous target:          | NA                          |
| Up/downside:              | 3.8%                        |
| EIP Research / Consensus: | -10.6%                      |
| Reuters:                  | BOB.NS                      |
| Bloomberg:                | BOB IN                      |
| Market cap:               | US\$14,141m<br>Rs1,219,614m |
| Average daily turnover:   | US\$32.7m<br>Rs2816.5m      |
| Current shares o/s:       | 245.0m                      |
| Free float:               | 36.03%                      |

\*Source: Bloomberg



Source: Bloomberg

| Price performance | 1M   | 3M  | 12M    |
|-------------------|------|-----|--------|
| Absolute (%)      | 14.5 | 2.1 | (11.2) |
| Relative (%)      | 14.7 | 6.7 | (10.6) |

| Major shareholders | % held |
|--------------------|--------|
| PRESIDENT OF INDIA | 64.0   |
| LIC                | 6.3    |
| HDFC AMC           | 2.3    |

# Bank of Baroda

## The risk-reward ratio appears balanced

- Strong B/S but stressed LDR will restrict loan growth to deposit growth over the near- to medium-term. Also, lacks lever to offset moderation in profitability.
- We expect RoA to moderate to 0.7-0.8% in FY26F-27F, from 1.1% in FY25F, and RoE to decline to 11-12% in FY26F-27F, from 16% in FY25F.
- The stock trades at 0.8x FY27F BV. The risk-reward ratio appears balanced. Initiate coverage on the stock with a HOLD rating & TP of Rs245 (a 3% upside).

### Strong B/S but LDR at ~83% restricts loan growth to deposit growth

Bank of Baroda or BoB has a strong balance sheet, with its CET-1 ratio at 14% and net stress ratio at 1.2% as of 3QFY25-end. The bank has posted a healthy loan growth CAGR of 15% over FY22-3QFY25. This was led by deployment of excess liquidity, as deposit growth lagged at a 11% CAGR over FY22-3QFY25. During this period, the average LCR fell (152% vs. 130%) and domestic LDR improved (74% vs. 83%). Given the challenging deposit environment, we believe the loan growth from here on will be constrained by the ability of the bank to garner deposit growth. We have built in loan growth of 12%/13% for FY26F/27F, respectively.

### Core profitability is set to moderate led by margin decline

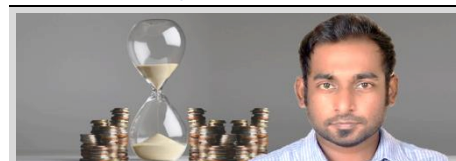
BoB has 50% of its loan book linked to the repo rate and 44% MCLR-linked. Assuming a 50bp rate cut, we expect margin to moderate by ~10bp from the 3QFY25 level to 2.8% in FY26F. On a full-year basis, margin will moderate by 20bp in FY26F and then recover by 10bp in FY27F as the deposit base gets repriced. NII growth should be at a 10% CAGR over FY26F-27F. We expect opex growth at a 10% CAGR over FY26F-27F. Core PPOp growth should be ~10% CAGR over FY25F-26F.

### BoB lacks material lever to offset RoA dip; risk-reward balanced

BoB has been delivering RoA of ~1% over the past few years. We expect RoA to moderate to 0.7-0.8% in FY26F-27F mainly owing to a) moderation in margin, b) lower non-core income, and c) credit cost normalization (70bp vs. 60bp in FY25F). RoE will decline to 11-12% in FY26F-27F, from 16% in FY25F. The stock trades at 0.9x one-year forward BV for a RoE of 11-12%. Moreover, BoB lacks any lever to materially offset the moderation in margin over the next few years. The risk-reward ratio at the current valuation appears balanced. We have assigned a HOLD rating to the stock with a target price of Rs245.

Key downside risks are lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, and higher-than-expected growth in costs. Key upside risks are higher-than-expected margin outcome, stronger-than-expected loan growth, and a significant improvement in the retail liability franchise.

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## Financial Summary

|                                 | Mar-23A  | Mar-24A  | Mar-25F  | Mar-26F  | Mar-27F   |
|---------------------------------|----------|----------|----------|----------|-----------|
| Net Interest Income (Rsm)       | 413,560  | 447,215  | 465,514  | 482,777  | 562,584   |
| Total Non-Interest Income (Rsm) | 100,258  | 144,954  | 152,625  | 121,541  | 124,395   |
| Operating Revenue (Rsm)         | 513,818  | 592,169  | 618,139  | 604,318  | 686,979   |
| Total Provision Charges (Rsm)   | (71,369) | (60,756) | (66,198) | (91,530) | (104,071) |
| Net Profit (Rsm)                | 141,096  | 177,888  | 189,023  | 140,570  | 168,438   |
| Core EPS (Rs)                   | 27.25    | 34.36    | 36.51    | 27.15    | 32.53     |
| Core EPS Growth                 | 94%      | 26%      | 6%       | (26%)    | 20%       |
| FD Core P/E (x)                 | 8.65     | 6.86     | 6.46     | 8.69     | 7.25      |
| DPS (Rs)                        | 5.50     | 7.60     | 7.30     | 5.43     | 6.51      |
| Dividend Yield                  | 2.33%    | 3.22%    | 3.10%    | 2.30%    | 2.76%     |
| BVPS (Rs)                       | 189.7    | 216.7    | 245.7    | 265.5    | 292.6     |
| P/BV (x)                        | 1.24     | 1.09     | 0.96     | 0.89     | 0.81      |
| ROE                             | 15.3%    | 16.9%    | 15.8%    | 10.6%    | 11.7%     |

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

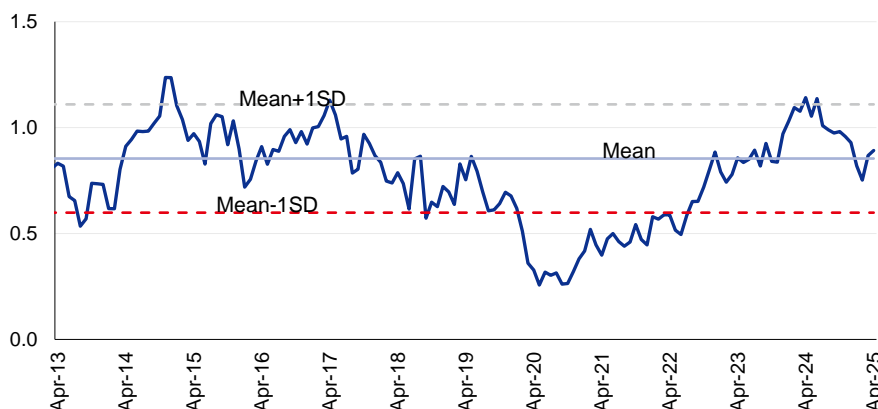


Figure 44: BoB's Dupont analysis

| DuPont analysis (as % of avg. assets)               | FY17         | FY18         | FY19         | FY20         | FY21        | FY22        | FY23         | FY24         | FY25F        | FY26F        | FY27F        |
|---|--------------|--------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>                          | <b>2.0%</b>  | <b>2.2%</b>  | <b>2.5%</b>  | <b>2.8%</b>  | <b>2.5%</b> | <b>2.7%</b> | <b>3.0%</b>  | <b>2.9%</b>  | <b>2.8%</b>  | <b>2.6%</b>  | <b>2.7%</b>  |
| Core Fee  | 0.4%         | 0.5%         | 0.5%         | 0.6%         | 0.5%        | 0.5%        | 0.5%         | 0.5%         | 0.4%         | 0.4%         | 0.4%         |
| <b>Core Revenue</b>                                 | <b>2.4%</b>  | <b>2.7%</b>  | <b>3.0%</b>  | <b>3.4%</b>  | <b>3.0%</b> | <b>3.2%</b> | <b>3.5%</b>  | <b>3.4%</b>  | <b>3.1%</b>  | <b>2.9%</b>  | <b>3.0%</b>  |
| Opex  | 1.4%         | 1.4%         | 1.5%         | 1.9%         | 1.8%        | 1.8%        | 1.8%         | 1.9%         | 1.7%         | 1.7%         | 1.7%         |
| --Staff Expenses                                    | 0.7%         | 0.7%         | 0.7%         | 1.0%         | 1.0%        | 1.0%        | 1.0%         | 1.0%         | 1.0%         | 0.9%         | 0.9%         |
| --Other Opex  | 0.7%         | 0.8%         | 0.8%         | 1.0%         | 0.8%        | 0.8%        | 0.8%         | 0.8%         | 0.8%         | 0.8%         | 0.8%         |
| <b>Core PPOp</b>                                    | <b>1.0%</b>  | <b>1.2%</b>  | <b>1.5%</b>  | <b>1.5%</b>  | <b>1.2%</b> | <b>1.4%</b> | <b>1.7%</b>  | <b>1.6%</b>  | <b>1.4%</b>  | <b>1.2%</b>  | <b>1.3%</b>  |
| Credit Cost (Provisions less Invest.)               | 1.2%         | 2.0%         | 1.7%         | 2.0%         | 1.3%        | 1.0%        | 0.4%         | 0.4%         | 0.4%         | 0.5%         | 0.5%         |
| Recovery from w/off                                 | 0.0%         | -0.1%        | -0.1%        | -0.2%        | -0.3%       | -0.2%       | -0.2%        | -0.3%        | -0.3%        | -0.2%        | -0.1%        |
| <b>Net Credit Cost</b>                              | <b>1.2%</b>  | <b>1.9%</b>  | <b>1.6%</b>  | <b>1.9%</b>  | <b>1.0%</b> | <b>0.8%</b> | <b>0.2%</b>  | <b>0.1%</b>  | <b>0.1%</b>  | <b>0.3%</b>  | <b>0.4%</b>  |
| <b>Operating Profit</b>                             | <b>-0.2%</b> | <b>-0.7%</b> | <b>-0.1%</b> | <b>-0.4%</b> | <b>0.2%</b> | <b>0.6%</b> | <b>1.5%</b>  | <b>1.4%</b>  | <b>1.3%</b>  | <b>0.9%</b>  | <b>1.0%</b>  |
| Other Income/Expenses                               | 0.5%         | 0.3%         | 0.2%         | 0.2%         | 0.3%        | 0.2%        | -0.1%        | 0.2%         | 0.3%         | 0.1%         | 0.1%         |
| --Net Treasury Gains                                | 0.4%         | 0.2%         | 0.1%         | 0.2%         | 0.3%        | 0.1%        | -0.1%        | 0.1%         | 0.1%         | 0.0%         | 0.0%         |
| ----Capital Gains                                   | 0.4%         | 0.3%         | 0.1%         | 0.3%         | 0.3%        | 0.1%        | 0.0%         | 0.1%         | 0.1%         | 0.0%         | 0.0%         |
| ----Provision for Investment                        | 0.0%         | -0.1%        | 0.0%         | -0.1%        | -0.1%       | 0.0%        | -0.1%        | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| --Other Income                                      | 0.1%         | 0.1%         | 0.1%         | 0.0%         | 0.0%        | 0.1%        | 0.0%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         |
| <b>Profit Before Tax (Before Exceptional Items)</b> | <b>0.4%</b>  | <b>-0.4%</b> | <b>0.1%</b>  | <b>-0.2%</b> | <b>0.5%</b> | <b>0.8%</b> | <b>1.4%</b>  | <b>1.6%</b>  | <b>1.5%</b>  | <b>1.0%</b>  | <b>1.1%</b>  |
| Exceptionals/Minority Interest/Others               | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%        | 0.0%        | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| <b>PBT</b>  | <b>0.4%</b>  | <b>-0.4%</b> | <b>0.1%</b>  | <b>-0.2%</b> | <b>0.5%</b> | <b>0.8%</b> | <b>1.4%</b>  | <b>1.6%</b>  | <b>1.5%</b>  | <b>1.0%</b>  | <b>1.1%</b>  |
| Tax   | 0.2%         | -0.1%        | 0.0%         | -0.2%        | 0.4%        | 0.2%        | 0.4%         | 0.5%         | 0.4%         | 0.3%         | 0.3%         |
| <b>RoA</b>  | <b>0.2%</b>  | <b>-0.3%</b> | <b>0.1%</b>  | <b>0.1%</b>  | <b>0.1%</b> | <b>0.6%</b> | <b>1.0%</b>  | <b>1.2%</b>  | <b>1.1%</b>  | <b>0.7%</b>  | <b>0.8%</b>  |
| Leverage (x)  | 17           | 17           | 16           | 17           | 16          | 15          | 15           | 14           | 14           | 14           | 15           |
| <b>RoE</b>  | <b>3.4%</b>  | <b>-5.8%</b> | <b>0.9%</b>  | <b>1.0%</b>  | <b>1.1%</b> | <b>8.9%</b> | <b>15.3%</b> | <b>16.9%</b> | <b>15.8%</b> | <b>10.6%</b> | <b>11.7%</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 45: BoB's one-year forward core P/BV (x)



SOURCE: INCRED RESEARCH

We valued BoB using the justified P/BV methodology. We assumed sustainable RoE of 12.5% and the cost of equity at 13.9%. We have used a risk-free rate of 7%, a beta of 1.25x and a market risk premium of 5.5%. Our terminal growth assumption is 6%. Our target multiple of 0.8x on FY27F BV led us to a target price of Rs245 (a 3% upside from the CMP).

Figure 46: Bank of Baroda – valuation summary

|                       |            |
|-----------------------|------------|
| <b>Bank of Baroda</b> |            |
| <b>(Rs)</b>           |            |
| BVPS, Mar-2027F       | 293        |
| Sustainable RoE       | 12.5%      |
| CoE                   | 13.9%      |
| ---Risk-free rate     | 7.00%      |
| --Beta                | 1.25x      |
| --Market risk premium | 5.5%       |
| Growth                | 6.0%       |
| Target multiple       | 0.8x       |
| <b>Value of bank</b>  | <b>245</b> |

SOURCE: INCRED RESEARCH

Figure 47: Bank of Baroda – InCred estimates vs. Bloomberg consensus estimates

| Rs bn                | FY24   | InCred Estimates |        |        | Bloomberg Estimates |        |        | Change |       |       |
|----------------------|--------|------------------|--------|--------|---------------------|--------|--------|--------|-------|-------|
|                      |        | FY25F            | FY26F  | FY27F  | FY25F               | FY26F  | FY27F  | FY25F  | FY26F | FY27F |
| Net Interest Income  | 447    | 465              | 482    | 562    | 469                 | 516    | 576    | -1%    | -6%   | -2%   |
| --Growth YoY         |        | 4%               | 4%     | 16%    | 5%                  | 10%    | 12%    |        |       |       |
| Non-Interest Income  | 145    | 150              | 110    | 112    | 151                 | 157    | 171    | -1%    | -30%  | -34%  |
| --Growth YoY         |        | 3%               | -27%   | 3%     | 4%                  | 4%     | 9%     |        |       |       |
| Total Income         | 592    | 615              | 592    | 674    | 620                 | 673    | 747    | -1%    | -12%  | -10%  |
| --Growth YoY         |        | 4%               | -4%    | 14%    | 5%                  | 9%     | 11%    |        |       |       |
| Opex                 | 283    | 295              | 325    | 358    | 316                 | 343    | 375    | -7%    | -5%   | -5%   |
| --Growth YoY         |        | 4%               | 10%    | 10%    | 12%                 | 9%     | 9%     |        |       |       |
| PPOP                 | 310    | 320              | 267    | 316    | 323                 | 348    | 386    | -1%    | -23%  | -18%  |
| --Growth YoY         |        | 3%               | -17%   | 18%    | 4%                  | 8%     | 11%    |        |       |       |
| Provision            | 61     | 66               | 92     | 104    | 66                  | 88     | 102    | 1%     | 4%    | 2%    |
| --as % of avg. loans | 61     | 59               | 72     | 73     | 58                  | 70     | 72     |        |       |       |
| PBT                  | 249    | 254              | 175    | 212    | 257                 | 260    | 284    | -1%    | -33%  | -25%  |
| Tax                  | 71     | 67               | 44     | 53     | 68                  | 69     | 75     | 2%     | 56%   | 41%   |
| PAT                  | 178    | 187              | 131    | 159    | 189                 | 187    | 201    | -1%    | -30%  | -21%  |
| --Growth YoY         |        | 5%               | -30%   | 21%    | 6%                  | -1%    | 8%     |        |       |       |
| Advances             | 10,658 | 11,916           | 13,338 | 15,080 | 11,895              | 13,363 | 14,906 | 0%     | 0%    | 1%    |
| --Growth YoY         |        | 12%              | 12%    | 13%    | 12%                 | 12%    | 12%    |        |       |       |
| Deposits             | 13,270 | 14,729           | 16,349 | 18,475 | 14,610              | 16,277 | 18,250 | 1%     | 0%    | 1%    |
| --Growth YoY         |        | 11%              | 11%    | 13%    | 10%                 | 11%    | 12%    |        |       |       |
| Book Value           | 217    | 245              | 263    | 289    | 245                 | 275    | 307    | 0%     | -4%   | -6%   |
| --Growth YoY         | 14%    | 13%              | 7%     | 10%    | 13%                 | 12%    | 12%    |        |       |       |
| EPS                  | 34     | 36               | 25     | 31     | 37                  | 37     | 40     | -1%    | -31%  | -23%  |
| --Growth YoY         | 26%    | 5%               | -30%   | 21%    | 6%                  | 1%     | 8%     |        |       |       |

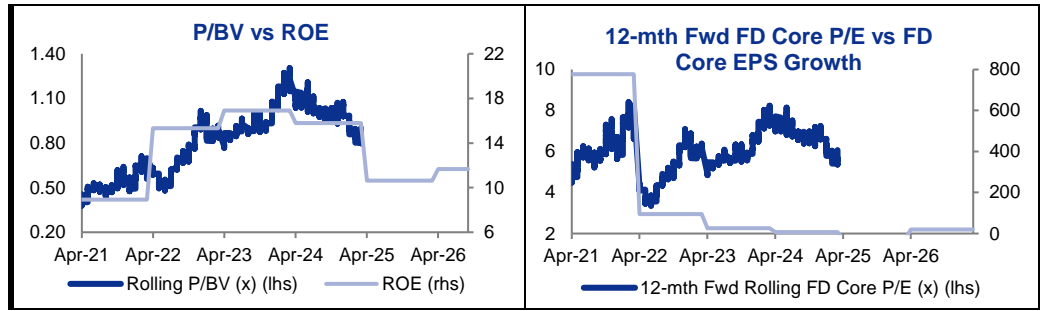
SOURCE: INCRED RESEARCH

Figure 48: Bank of Baroda – Financial summary

| Bank of Baroda                   |                |                |                |                | Per Share Data and Valuations         |       |       |        |       |
|----------------------------------|----------------|----------------|----------------|----------------|---------------------------------------|-------|-------|--------|-------|
| Profit and Loss Statement        |                |                |                |                | Per Share Data (in Rs)                |       |       |        |       |
| Rs M (Year-end March)            | FY24           | FY25F          | FY26F          | FY27F          | Year-end March                        | FY24  | FY25F | FY26F  | FY27F |
| Interest Income                  | 1,126,059      | 1,240,136      | 1,348,103      | 1,521,613      | EPS (diluted)                         | 34.4  | 36.5  | 27.1   | 32.5  |
| Interest Expense                 | 678,844        | 774,622        | 865,326        | 959,029        | Book Value                            | 216.7 | 245.7 | 265.5  | 292.6 |
| <b>Net Interest Income</b>       | <b>447,215</b> | <b>465,514</b> | <b>482,777</b> | <b>562,584</b> | Core Op. Profit                       | 46.6  | 44.9  | 43.5   | 53.8  |
| ---Fee Income                    | 35,620         | 29,161         | 32,078         | 35,285         | DPS                                   | 7.6   | 7.3   | 5.4    | 6.5   |
| ---Forex Income                  | 12,887         | 0              | 0              | 0              |                                       |       |       |        |       |
| ---Capital Gains                 | 9,937          | 21,910         | 6,000          | 6,000          | <b>Valuations</b>                     |       |       |        |       |
| ---Miscellaneous Inc.            | 86,510         | 101,554        | 83,463         | 83,110         | PE                                    | 6.6   | 6.3   | 8.4    | 7.0   |
| <b>Total Non Interest Income</b> | <b>144,954</b> | <b>152,625</b> | <b>121,541</b> | <b>124,395</b> | Price to Book                         | 1.1   | 0.9   | 0.9    | 0.8   |
| <b>Total Operating Income</b>    | <b>592,169</b> | <b>618,139</b> | <b>604,318</b> | <b>686,979</b> | Price to Core Op. Profit              | 4.9   | 5.1   | 5.3    | 4.2   |
| ---Employee Exp                  | 158,160        | 163,693        | 177,547        | 192,002        | Dividend Yield                        | 3.3%  | 3.2%  | 2.4%   | 2.8%  |
| ---Other Expenses                | 124,357        | 131,116        | 147,388        | 165,812        |                                       |       |       |        |       |
| Total Operating Expenses         | 282,517        | 294,809        | 324,935        | 357,813        |                                       |       |       |        |       |
| <b>Operating Profit</b>          | <b>309,652</b> | <b>323,330</b> | <b>279,382</b> | <b>329,165</b> |                                       |       |       |        |       |
| ---Prov. For Investment Dep.     | -320           | 210            | 0              | 0              | <b>Ratio Analysis</b>                 |       |       |        |       |
| ---Loan Loss Provisions          | 64,700         | 59,231         | 86,554         | 97,973         | (Year-end March)                      | FY24  | FY25F | FY26F  | FY27F |
| ---Other Provisions              | -3,624         | 6,758          | 4,976          | 6,098          | <b>Spread Analysis</b>                |       |       |        |       |
| Total provisions                 | 60,756         | 66,198         | 91,530         | 104,071        | Average yield on assets               | 7.7%  | 7.6%  | 7.4%   | 7.5%  |
| <b>Profit Before Tax</b>         | <b>248,896</b> | <b>257,132</b> | <b>187,853</b> | <b>225,094</b> | Cost of earning assets                | 4.6%  | 4.8%  | 4.8%   | 4.7%  |
| Provision for Tax                | 71,008         | 68,109         | 47,282         | 56,656         | Net Interest Margin (Reported)        | 3.3%  | 3.0%  | 2.8%   | 2.9%  |
| <b>Net Profit</b>                | <b>177,888</b> | <b>189,023</b> | <b>140,570</b> | <b>168,438</b> |                                       |       |       |        |       |
| Core Operating profit            | 200,318        | 199,866        | 189,919        | 240,056        | <b>Growth Ratios</b>                  |       |       |        |       |
|                                  |                |                |                |                | Net Interest Income                   | 8.1%  | 4.1%  | 3.7%   | 16.5% |
|                                  |                |                |                |                | Non Interest Income                   | 44.6% | 5.3%  | -20.4% | 2.3%  |
|                                  |                |                |                |                | Operating expenses                    | 15.2% | 4.4%  | 10.2%  | 10.1% |
|                                  |                |                |                |                | Core Operating Profit                 | 5.4%  | 12.1% | 14.3%  | 15.8% |
|                                  |                |                |                |                | Net Profit                            | 26.1% | 6.3%  | -25.6% | 19.8% |
|                                  |                |                |                |                | EPS                                   | 26.1% | 6.1%  | -25.6% | 19.8% |
|                                  |                |                |                |                | Deposits                              | 10.2% | 11.0% | 11.0%  | 13.0% |
|                                  |                |                |                |                | Advances                              | 13.3% | 11.8% | 11.9%  | 13.1% |
|                                  |                |                |                |                | Total Assets                          | 8.7%  | 12.7% | 11.0%  | 12.9% |
|                                  |                |                |                |                |                                       |       |       |        |       |
|                                  |                |                |                |                | <b>Profitability Ratios</b>           |       |       |        |       |
|                                  |                |                |                |                | Return On Equity                      | 16.9% | 15.8% | 10.6%  | 11.7% |
|                                  |                |                |                |                | Return on Assets                      | 1.2%  | 1.1%  | 0.7%   | 0.8%  |
|                                  |                |                |                |                |                                       |       |       |        |       |
|                                  |                |                |                |                | <b>Efficiency Ratios</b>              |       |       |        |       |
|                                  |                |                |                |                | Cost Income Ratio                     | 47.7% | 47.7% | 53.8%  | 52.1% |
|                                  |                |                |                |                | Expenses/Avg Assets                   | 1.9%  | 1.7%  | 1.7%   | 1.7%  |
|                                  |                |                |                |                |                                       |       |       |        |       |
|                                  |                |                |                |                | <b>Capital Ratios</b>                 |       |       |        |       |
|                                  |                |                |                |                | CET 1 Ratio                           | 12.5% | 13.1% | 12.8%  | 12.8% |
|                                  |                |                |                |                | Tier 1 Ratio                          | 14.1% | 14.1% | 13.7%  | 13.6% |
|                                  |                |                |                |                | Capital Adequacy Ratio                | 16.3% | 16.3% | 15.9%  | 15.8% |
|                                  |                |                |                |                |                                       |       |       |        |       |
|                                  |                |                |                |                | Source: Company Data, InCred Research |       |       |        |       |
|                                  |                |                |                |                | E-InCred Research Estimates           |       |       |        |       |

SOURCE: INCRED RESEARCH

## BY THE NUMBERS



### Profit & Loss

| (Rsm)                                   | Mar-23A          | Mar-24A          | Mar-25F          | Mar-26F          | Mar-27F          |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income                     | 413,560          | 447,215          | 465,514          | 482,777          | 562,584          |
| <b>Total Non-Interest Income</b>        | <b>100,258</b>   | <b>144,954</b>   | <b>152,625</b>   | <b>121,541</b>   | <b>124,395</b>   |
| Operating Revenue                       | 513,818          | 592,169          | 618,139          | 604,318          | 686,979          |
| <b>Total Non-Interest Expenses</b>      | <b>(245,183)</b> | <b>(282,517)</b> | <b>(294,809)</b> | <b>(324,935)</b> | <b>(357,813)</b> |
| Pre-provision Operating Profit          | 268,635          | 309,652          | 323,330          | 279,382          | 329,165          |
| <b>Total Provision Charges</b>          | <b>(71,369)</b>  | <b>(60,756)</b>  | <b>(66,198)</b>  | <b>(91,530)</b>  | <b>(104,071)</b> |
| Operating Profit After Provisions       | 197,266          | 248,896          | 257,132          | 187,853          | 225,094          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                  |                  |                  |                  |                  |
| Operating EBIT (incl Associates)        | 197,266          | 248,896          | 257,132          | 187,853          | 225,094          |
| <b>Non-Operating Income/(Expense)</b>   |                  |                  |                  |                  |                  |
| Profit Before Tax (pre-EI)              | 197,266          | 248,896          | 257,132          | 187,853          | 225,094          |
| <b>Exceptional Items</b>                |                  |                  |                  |                  |                  |
| Pre-tax Profit                          | 197,266          | 248,896          | 257,132          | 187,853          | 225,094          |
| Taxation                                | (56,170)         | (71,008)         | (68,109)         | (47,282)         | (56,656)         |
| Consolidation Adjustments & Others      |                  |                  |                  |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                  |                  |                  |                  |                  |
| Profit After Tax                        | 141,096          | 177,888          | 189,023          | 140,570          | 168,438          |
| Minority Interests                      |                  |                  |                  |                  |                  |
| Pref. & Special Div                     |                  |                  |                  |                  |                  |
| <b>FX And Other Adj.</b>                |                  |                  |                  |                  |                  |
| Net Profit                              | 141,096          | 177,888          | 189,023          | 140,570          | 168,438          |
| Recurring Net Profit                    |                  |                  |                  |                  |                  |

### Balance Sheet Employment

| (Rsm)                                  | Mar-23A       | Mar-24A       | Mar-25F       | Mar-26F       | Mar-27F       |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits              |               |               |               |               |               |
| Avg Loans/Avg Deposits                 | 76.4%         | 79.3%         | 80.6%         | 81.3%         | 81.6%         |
| Avg Liquid Assets/Avg Assets           | 95.6%         | 96.2%         | 96.6%         | 96.6%         | 96.6%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>109.1%</b> | <b>107.0%</b> | <b>106.6%</b> | <b>106.6%</b> | <b>106.7%</b> |
| Net Cust Loans/Assets                  |               |               |               |               |               |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       |               |               |               |               |               |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> | <b>0.83%</b>  | <b>0.61%</b>  | <b>0.59%</b>  | <b>0.72%</b>  | <b>0.73%</b>  |
| <b>Provision Charge/Avg Assets</b>     | <b>0.52%</b>  | <b>0.40%</b>  | <b>0.39%</b>  | <b>0.49%</b>  | <b>0.49%</b>  |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

| (Rsm)                                     | Mar-23A          | Mar-24A           | Mar-25F           | Mar-26F           | Mar-27F           |
|---|------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Total Gross Loans</b>                  | <b>9,409,983</b> | <b>10,657,817</b> | <b>11,916,116</b> | <b>13,337,709</b> | <b>15,079,981</b> |
| Liquid Assets & Invst. (Current)          | 3,624,854        | 3,698,169         | 4,273,192         | 4,619,132         | 5,186,380         |
| Other Int. Earning Assets                 |                  |                   |                   |                   |                   |
| Total Gross Int. Earning Assets           | 13,034,836       | 14,355,986        | 16,189,308        | 17,956,840        | 20,266,360        |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                   |                   |                   |                   |
| Total Net Interest Earning Assets         | 13,034,836       | 14,355,986        | 16,189,308        | 17,956,840        | 20,266,360        |
| Intangible Assets                         |                  |                   |                   |                   |                   |
| <b>Other Non-Interest Earning Assets</b>  | <b>506,681</b>   | <b>471,619</b>    | <b>530,571</b>    | <b>599,545</b>    | <b>680,484</b>    |
| <b>Total Non-Interest Earning Assets</b>  | <b>593,747</b>   | <b>550,744</b>    | <b>611,674</b>    | <b>682,676</b>    | <b>765,693</b>    |
| Cash And Marketable Securities            | 957,032          | 951,241           | 1,071,025         | 1,198,678         | 1,357,286         |
| <b>Long-term Investments</b>              |                  |                   |                   |                   |                   |
| Total Assets                              | 14,585,615       | 15,857,971        | 17,872,008        | 19,838,194        | 22,389,340        |
| Customer Interest-Bearing Liabilities     | 12,036,878       | 13,269,578        | 14,729,232        | 16,349,448        | 18,474,876        |
| Bank Deposits                             |                  |                   |                   |                   |                   |
| Interest Bearing Liabilities: Others      |                  |                   |                   |                   |                   |
| Total Interest-Bearing Liabilities        | 12,814,868       | 13,950,786        | 15,716,983        | 17,465,606        | 19,741,716        |
| Banks Liabilities Under Acceptances       |                  |                   |                   |                   |                   |
| Total Non-Interest Bearing Liabilities    | 788,519          | 784,949           | 883,068           | 997,867           | 1,132,579         |
| Total Liabilities                         | 13,603,386       | 14,735,735        | 16,600,051        | 18,463,472        | 20,874,294        |
| Shareholders Equity                       | 982,229          | 1,122,236         | 1,271,957         | 1,374,722         | 1,515,046         |
| <b>Minority Interests</b>                 |                  |                   |                   |                   |                   |
| Total Equity                              | 982,229          | 1,122,236         | 1,271,957         | 1,374,722         | 1,515,046         |

### Key Ratios

|  | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--|---------|---------|---------|---------|---------|
| Total Income Growth                      | 26.8%   | 8.1%    | 4.1%    | 3.7%    | 16.5%   |
| Operating Profit Growth                  | 20.0%   | 15.3%   | 4.4%    | (13.6%) | 17.8%   |
| Pretax Profit Growth                     | 110%    | 26%     | 3%      | (27%)   | 20%     |
| Net Interest To Total Income             | 80.5%   | 75.5%   | 75.3%   | 79.9%   | 81.9%   |
| Cost Of Funds                            | 4.01%   | 5.07%   | 5.22%   | 5.22%   | 5.16%   |
| Return On Interest Earning Assets        | 7.5%    | 8.2%    | 8.1%    | 7.9%    | 8.0%    |
| Net Interest Spread                      | 3.47%   | 3.15%   | 2.90%   | 2.68%   | 2.81%   |
| Net Interest Margin (Avg Deposits)       | 3.68%   | 3.53%   | 3.33%   | 3.11%   | 3.23%   |
| Net Interest Margin (Avg RWA)            |         |         |         |         |         |
| Provisions to Pre Prov. Operating Profit | 27%     | 20%     | 20%     | 33%     | 32%     |
| Interest Return On Average Assets        | 3.02%   | 2.94%   | 2.76%   | 2.56%   | 2.66%   |
| Effective Tax Rate                       | 28.5%   | 28.5%   | 26.5%   | 25.2%   | 25.2%   |
| Net Dividend Payout Ratio                | 20.2%   | 22.1%   | 20.0%   | 20.0%   | 20.0%   |
| Return On Average Assets                 | 1.03%   | 1.17%   | 1.12%   | 0.75%   | 0.80%   |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## India

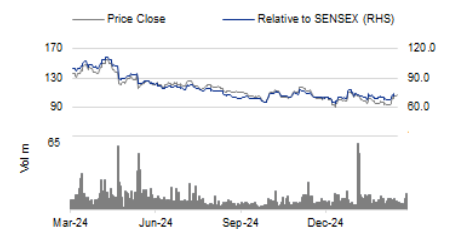
**HOLD** (Initiating coverage)

Consensus ratings\*: Buy 3 Hold 0 Sell 1

Current price: Rs109  
 Target price: Rs115  
 Previous target: NA  
 Up/downside: 5.5%  
 EIP Research / Consensus: -7.9%

Reuters: BOI.NS  
 Bloomberg: BOI IN  
 Market cap: US\$5,767m  
 Rs497,379m  
 Average daily turnover: US\$11.3m  
 Rs978.1m  
 Current shares o/s: 115.5m  
 Free float: 26.62%

\*Source: Bloomberg



Source: Bloomberg

| Price performance | 1M   | 3M   | 12M    |
|-------------------|------|------|--------|
| Absolute (%)      | 12.2 | 10.7 | (23.0) |
| Relative (%)      | 12.3 | 15.8 | (22.5) |

| Major shareholders | % held |
|--------------------|--------|
| PRESIDENT OF INDIA | 73.4   |
| LIC                | 8.0    |
| SBI Funds          | 1.9    |

# Bank of India

## Low liquidity & RoE keep us on the sidelines

- Bol is well capitalized with its CET-1 ratio at 14%, but low on-balance sheet liquidity amid a challenging deposit environment keep us on the sidelines.
- We expect RoA to moderate to 0.6%-0.7% in FY26F-27F, from 0.9% in FY25F. RoE to decline to ~8-10% in FY26F-27F, from ~12% in FY25F.
- Risk-reward ratio appears balanced despite cheap valuation (0.6x FY27F BV). We assign a target multiple of 0.6x for a target price of Rs115 (an 6% upside).

### Low balance sheet liquidity; lower profitability vs. peers

Bank of India or Bol accelerated its loan growth to ~17% YoY as of 3QFY25, from ~14% last year. This was mainly owing to its strong liquidity buffer, with an average LCR of ~148% a year ago while deposit growth (at ~12% YoY) materially lagged loan growth. With deposit accretion now being a system-wide challenge and the bank being low on balance sheet liquidity (average LCR at 115%), we believe the loan growth outcome will be constrained by the ability of the bank to garner deposits. We expect loan growth at 12-13% over FY26F/27F. Bol is well capitalized with a 14% CET-1 ratio, but lower profitability vs. peers remains a cause of concern.

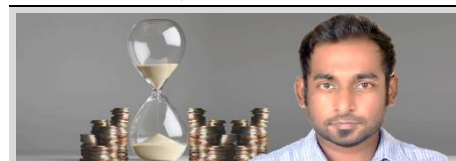
### Core profitability to moderate - mainly led by margins

Bol has 48% of its loan book linked to the repo rate (which is higher than its SOE peers) while 29% is MCLR-linked. Assuming a 50bp rate cut, we expect margin to moderate by ~10bp from the 3QFY25 level to 2.7% in FY26F. On a full-year basis, margin will moderate by ~20bp in FY26F and then recover by ~10bp in FY27F. NII growth should be at a 11% CAGR over FY26F-27F. Operating expenses growth should be at a 10% CAGR over the same period. Core PPOp growth is likely to be at ~13% CAGR over FY26F-27F.

### The risk-reward ratio appears balanced despite cheap valuation

Bol's low-on balance sheet liquidity keeps us skeptical on its volume growth outcome in the current challenging environment. Leverage is also lower vs. peers. We expect RoA to moderate to 0.6%-0.7% in FY26F-27F, from 0.9% in FY25F. RoE to decline from ~12% in FY25F to ~8%-10% in FY26F-27F. The risk-reward ratio, in our view, appears balanced despite cheap valuation (at 0.6x FY27F BV). We have assigned a HOLD rating to the stock with a target price of Rs115. Key downside risks are lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, and higher-than-expected growth in costs. Key upside risks are lower-than-expected credit costs, higher-than-expected margin outcome, and stronger-than-expected loan/deposit growth.

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## Financial Summary

|                                   | Mar-23A  | Mar-24A  | Mar-25F  | Mar-26F  | Mar-27F  |
|-----------------------------------|----------|----------|----------|----------|----------|
| Net Interest Income (Rsm)         | 202,749  | 230,529  | 244,678  | 256,197  | 301,796  |
| Total Non-Interest Income (Rsm)   | 70,999   | 60,949   | 76,410   | 62,255   | 64,416   |
| Operating Revenue (Rsm)           | 273,748  | 291,478  | 321,088  | 318,452  | 366,212  |
| Total Provision Charges (Rsm)     | (71,633) | (39,695) | (38,143) | (50,437) | (52,883) |
| Net Profit (Rsm)                  | 40,229   | 63,179   | 86,214   | 63,414   | 83,754   |
| Core EPS (Rs)                     | 9.80     | 13.88    | 18.93    | 13.93    | 18.39    |
| Core EPS Growth                   | 18%      | 42%      | 36%      | (26%)    | 32%      |
| FD Core P/E (x)                   | 11.15    | 7.87     | 5.77     | 7.84     | 5.94     |
| DPS (Rs)                          | 2.00     | 2.80     | 3.79     | 2.79     | 3.68     |
| Dividend Yield                    | 1.83%    | 2.56%    | 3.47%    | 2.55%    | 3.37%    |
| BVPS (Rs)                         | 143.7    | 151.3    | 167.4    | 177.5    | 193.2    |
| P/BV (x)                          | 0.76     | 0.72     | 0.65     | 0.62     | 0.57     |
| ROE                               | 7.1%     | 9.9%     | 11.9%    | 8.1%     | 9.9%     |
| % Change In Core EPS Estimates    |          |          |          |          |          |
| InCred Research/Consensus EPS (x) |          |          |          |          |          |

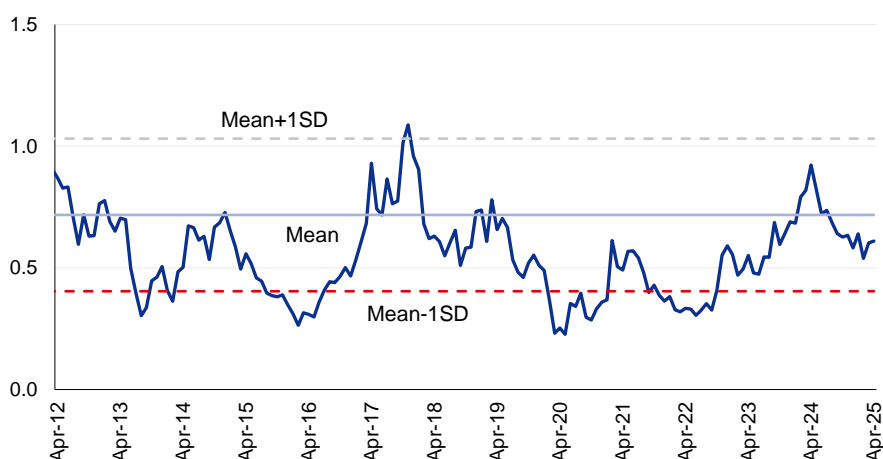
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 49: Bank of India's - DuPont analysis

| Dupont (as % of Avg. Assets)                   | FY17         | FY18          | FY19          | FY20         | FY21         | FY22        | FY23        | FY24        | FY25F        | FY26F       | FY27F       |
|--|--------------|---------------|---------------|--------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|
| <b>Net Interest Income</b>                     | <b>1.9%</b>  | <b>1.7%</b>   | <b>2.2%</b>   | <b>2.4%</b>  | <b>2.1%</b>  | <b>1.9%</b> | <b>2.6%</b> | <b>2.7%</b> | <b>2.5%</b>  | <b>2.4%</b> | <b>2.5%</b> |
| Core Fee                                       | 0.2%         | 0.2%          | 0.2%          | 0.2%         | 0.2%         | 0.2%        | 0.2%        | 0.2%        | 0.2%         | 0.2%        | 0.2%        |
| <b>Core Revenue</b>                            | <b>2.1%</b>  | <b>1.9%</b>   | <b>2.4%</b>   | <b>2.6%</b>  | <b>2.2%</b>  | <b>2.1%</b> | <b>2.8%</b> | <b>2.9%</b> | <b>2.7%</b>  | <b>2.5%</b> | <b>2.7%</b> |
| Opex   | 1.4%         | 1.5%          | 1.7%          | 1.6%         | 1.6%         | 1.6%        | 1.8%        | 1.7%        | 1.7%         | 1.7%        | 1.7%        |
| --Staff Expense                                | 0.9%         | 0.8%          | 1.0%          | 1.0%         | 0.9%         | 1.0%        | 1.1%        | 1.1%        | 1.0%         | 1.0%        | 1.0%        |
| --Other Opex                                   | 0.6%         | 0.7%          | 0.7%          | 0.7%         | 0.6%         | 0.7%        | 0.7%        | 0.7%        | 0.7%         | 0.7%        | 0.7%        |
| <b>Core PPOp</b>                               | <b>0.7%</b>  | <b>0.4%</b>   | <b>0.8%</b>   | <b>1.0%</b>  | <b>0.7%</b>  | <b>0.5%</b> | <b>1.0%</b> | <b>1.1%</b> | <b>1.0%</b>  | <b>0.8%</b> | <b>1.0%</b> |
| Credit Cost (Provisions less Invest.)          | 1.9%         | 2.3%          | 2.5%          | 2.5%         | 0.9%         | 0.6%        | 0.8%        | 0.5%        | 0.4%         | 0.5%        | 0.4%        |
| Recovery from w/off                            | 0.0%         | -0.1%         | -0.2%         | -0.3%        | -0.1%        | -0.2%       | -0.1%       | -0.2%       | -0.2%        | -0.1%       | -0.1%       |
| <b>Net Credit Cost</b>                         | <b>1.9%</b>  | <b>2.2%</b>   | <b>2.4%</b>   | <b>2.2%</b>  | <b>0.8%</b>  | <b>0.4%</b> | <b>0.6%</b> | <b>0.3%</b> | <b>0.2%</b>  | <b>0.4%</b> | <b>0.4%</b> |
| <b>Operating Profit</b>                        | <b>-1.2%</b> | <b>-1.8%</b>  | <b>-1.6%</b>  | <b>-1.2%</b> | <b>-0.2%</b> | <b>0.1%</b> | <b>0.4%</b> | <b>0.8%</b> | <b>0.7%</b>  | <b>0.5%</b> | <b>0.6%</b> |
| Other Income/expense                           | 0.8%         | 0.4%          | 0.2%          | 0.5%         | 0.6%         | 0.7%        | 0.4%        | 0.3%        | 0.5%         | 0.3%        | 0.3%        |
| --Net Treasury gains                           | 0.5%         | 0.0%          | -0.2%         | 0.0%         | 0.2%         | 0.1%        | 0.1%        | 0.1%        | 0.2%         | 0.0%        | 0.0%        |
| ----Capital Gains                              | 0.5%         | 0.2%          | -0.1%         | 0.1%         | 0.3%         | 0.2%        | 0.2%        | 0.1%        | 0.2%         | 0.0%        | 0.0%        |
| ----Provision for Investment                   | 0.0%         | -0.2%         | -0.2%         | -0.1%        | -0.1%        | -0.1%       | -0.2%       | 0.0%        | 0.0%         | 0.0%        | 0.0%        |
| --Other Income                                 | 0.3%         | 0.4%          | 0.5%          | 0.5%         | 0.5%         | 0.6%        | 0.4%        | 0.3%        | 0.3%         | 0.3%        | 0.3%        |
| <b>Profit before Tax (before exceptionals)</b> | <b>-0.4%</b> | <b>-1.4%</b>  | <b>-1.4%</b>  | <b>-0.7%</b> | <b>0.5%</b>  | <b>0.8%</b> | <b>0.8%</b> | <b>1.2%</b> | <b>1.2%</b>  | <b>0.8%</b> | <b>0.9%</b> |
| Exceptionals/Minority/Others                   | 0.0%         | 0.0%          | 0.0%          | 0.0%         | 0.0%         | 0.0%        | 0.0%        | 0.0%        | 0.0%         | 0.0%        | 0.0%        |
| <b>PBT</b>                                     | <b>-0.4%</b> | <b>-1.4%</b>  | <b>-1.4%</b>  | <b>-0.7%</b> | <b>0.5%</b>  | <b>0.8%</b> | <b>0.8%</b> | <b>1.2%</b> | <b>1.2%</b>  | <b>0.8%</b> | <b>0.9%</b> |
| Tax  | -0.1%        | -0.4%         | -0.5%         | -0.3%        | 0.2%         | 0.3%        | 0.3%        | 0.4%        | 0.3%         | 0.2%        | 0.2%        |
| <b>RoA</b>                                     | <b>-0.3%</b> | <b>-1.0%</b>  | <b>-0.9%</b>  | <b>-0.5%</b> | <b>0.3%</b>  | <b>0.5%</b> | <b>0.5%</b> | <b>0.7%</b> | <b>0.9%</b>  | <b>0.6%</b> | <b>0.7%</b> |
| Leverage (x)                                   | 19           | 18            | 15            | 14           | 15           | 14          | 14          | 14          | 13           | 14          | 14          |
| <b>RoE</b>                                     | <b>-4.8%</b> | <b>-17.8%</b> | <b>-13.6%</b> | <b>-6.6%</b> | <b>4.8%</b>  | <b>6.8%</b> | <b>7.1%</b> | <b>9.9%</b> | <b>11.9%</b> | <b>8.1%</b> | <b>9.9%</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 50: Bank of India's one-year forward core P/BV (x)



SOURCE: INCRED RESEARCH

## Valuation methodology

We valued BoI using the justified P/BV methodology. We assumed sustainable RoE of 10% and the cost of equity at 14.4%. We have used a risk-free rate of 7%, a beta of 1.35x and a market risk premium of 5.5%. Our terminal growth assumption is 2%. Our target multiple of 0.6x on FY27F BV led us to a target price of Rs115 (an 6% upside from the CMP).

Figure 51: BoI's valuation summary

|                               |            |
|-------------------------------|------------|
| <b>Bank of India</b>          |            |
| <b>Rs</b>                     |            |
| BVPS, Mar-27e                 | 193        |
| RoE, 12 months ending Mar-27e | 9.9%       |
| Sustainable RoE               | 10.0%      |
| CoE                           | 14.4%      |
| ---Risk Free Rate             | 7.00%      |
| --Beta                        | 1.35x      |
| --Market Risk Premium         | 5.5%       |
| G                             | 3.0%       |
| Target Multiple               | 0.6x       |
| <b>Value of Bank</b>          | <b>115</b> |

SOURCE: INCRED RESEARCH

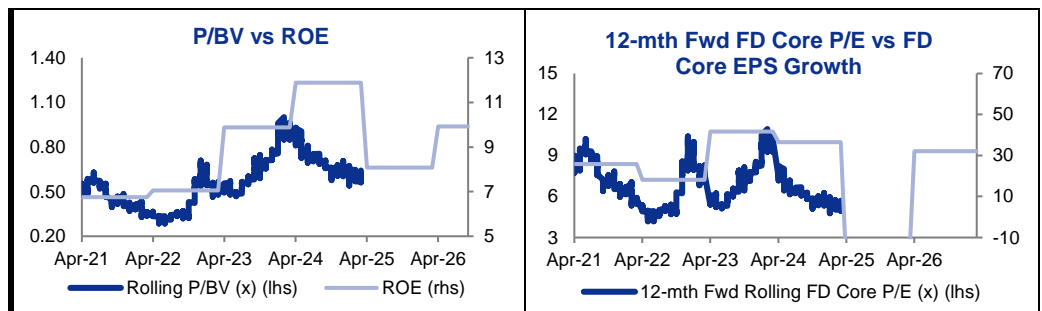
Figure 52: Bank of India – Financial summary

| Bank of India                    |                  |                   |                   |                   | Per Share Data and Valuations         |       |       |       |       |
|----------------------------------|------------------|-------------------|-------------------|-------------------|---------------------------------------|-------|-------|-------|-------|
| Profit and Loss Statement        |                  |                   |                   |                   | Year-end March                        |       |       |       |       |
| Rs M (Year-end March)            | FY24             | FY25F             | FY26F             | FY27F             | FY24                                  | FY25F | FY26F | FY27F |       |
| Interest Income                  | 607,095          | 681,455           | 734,727           | 824,969           | Per Share Data (Rs)                   |       |       |       |       |
| Interest Expense                 | 376,566          | 436,777           | 478,530           | 523,173           | EPS                                   | 14.9  | 18.9  | 13.9  | 18.4  |
| <b>Net Interest Income</b>       | <b>230,529</b>   | <b>244,678</b>    | <b>256,197</b>    | <b>301,796</b>    | Book Value                            | 151   | 167   | 178   | 193   |
| ---Fee Income                    | 17,493           | 17,425            | 19,167            | 21,084            | Core Op. Profit                       | 22.9  | 20.9  | 20.2  | 26.6  |
| ---Forex Income                  | 5,130            | 3,123             | 3,279             | 3,443             | DPS                                   | 2.8   | 3.8   | 2.8   | 3.7   |
| ---Capital Gains                 | 6,290            | 14,620            | 2,000             | 2,000             | Valuations                            |       |       |       |       |
| ---Miscellaneous Inc.            | 32,036           | 41,243            | 37,809            | 37,890            | PE                                    | 7.3   | 5.8   | 7.8   | 5.9   |
| <b>Total Non Interest Income</b> | <b>60,949</b>    | <b>76,410</b>     | <b>62,255</b>     | <b>64,416</b>     | Price to Book                         | 0.7   | 0.7   | 0.6   | 0.6   |
| <b>Total Operating Income</b>    | <b>291,478</b>   | <b>321,088</b>    | <b>318,452</b>    | <b>366,212</b>    | Price to Core Op. Profit              | 4.8   | 5.2   | 5.4   | 4.1   |
| ---Employee Exp                  | 91,885           | 99,087            | 107,009           | 115,724           | Dividend Yield                        | 2.6%  | 3.5%  | 2.5%  | 3.4%  |
| ---Other Expenses                | 58,907           | 67,929            | 76,375            | 85,922            | Ratio Analysis                        |       |       |       |       |
| Total Operating Expenses         | 150,792          | 167,016           | 183,385           | 201,646           | (Year-end March)                      | FY24  | FY25F | FY26F | FY27F |
| <b>Operating Profit</b>          | <b>140,686</b>   | <b>154,072</b>    | <b>135,067</b>    | <b>164,566</b>    | Spread Analysis                       |       |       |       |       |
| ---Loan Loss Provisions          | 41,098           | 43,671            | 47,823            | 49,830            | Average yield on assets               | 7.4%  | 7.4%  | 7.1%  | 7.1%  |
| ---Other Provisions              | -1,402           | -5,528            | 2,614             | 3,054             | Cost of earning assets                | 4.6%  | 4.7%  | 4.6%  | 4.5%  |
| Total provisions                 | 39,695           | 38,143            | 50,437            | 52,883            | Net Interest Margin (Reported)        | 2.9%  | 2.9%  | 2.7%  | 2.8%  |
| <b>Profit Before Tax</b>         | <b>100,991</b>   | <b>115,930</b>    | <b>84,630</b>     | <b>111,682</b>    | Growth Ratios                         |       |       |       |       |
| Provision for Tax                | 37,812           | 29,716            | 21,216            | 27,929            | Net Interest Income                   | 14%   | 6%    | 5%    | 18%   |
| <b>Net Profit</b>                | <b>63,179</b>    | <b>86,214</b>     | <b>63,414</b>     | <b>83,754</b>     | Non Interest Income                   | -14%  | 25%   | -19%  | 3%    |
| Core Operating profit            | 97,230           | 95,087            | 91,979            | 121,233           | Operating expenses                    | 8%    | 11%   | 10%   | 10%   |
| Balance Sheet Data               |                  |                   |                   |                   | Core Operating Profit                 | 27%   | 5%    | 22%   | 17%   |
| Rs M (Year-end March)            | FY24             | FY25F             | FY26F             | FY27F             | Net Profit                            | 57%   | 36%   | -26%  | 32%   |
| Shareholders' equity             | 688,807          | 762,271           | 808,442           | 879,513           | EPS                                   | 52%   | 27%   | -26%  | 32%   |
| Deposits                         | 7,379,202        | 8,190,914         | 9,173,824         | 10,274,683        | Deposits                              | 10%   | 11%   | 12%   | 12%   |
| Borrowings                       | 809,241          | 898,257           | 1,006,048         | 1,126,774         | Advances                              | 16%   | 15%   | 12%   | 13%   |
| Other Liabilities & Prov.        | 248,730          | 380,613           | 426,286           | 477,440           | Total Assets                          | 12%   | 12%   | 12%   | 12%   |
| <b>Total Liabilities</b>         | <b>9,125,979</b> | <b>10,232,055</b> | <b>11,414,601</b> | <b>12,758,411</b> | Profitability Ratios                  |       |       |       |       |
| Cash & Balances w ith RBI        | 385,563          | 427,975           | 479,332           | 536,851           | Return On Equity                      | 9.9%  | 11.9% | 8.1%  | 9.9%  |
| Balances w ith Banks             | 443,809          | 492,628           | 551,743           | 617,952           | Return on Assets                      | 0.7%  | 0.9%  | 0.6%  | 0.7%  |
| Investments                      | 2,271,445        | 2,394,020         | 2,647,411         | 2,912,086         | Efficiency Ratios                     |       |       |       |       |
| Advances                         | 5,631,447        | 6,486,902         | 7,265,279         | 8,176,555         | Cost Income Ratio                     | 51.7% | 52.0% | 57.6% | 55.1% |
| Fixed Assets                     | 102,265          | 109,934           | 118,180           | 127,043           | Expenses/Avg Assets                   | 1.7%  | 1.7%  | 1.7%  | 1.7%  |
| Other Assets                     | 291,452          | 320,597           | 352,657           | 387,922           | Capital Ratios                        |       |       |       |       |
| <b>Total Assets</b>              | <b>9,125,979</b> | <b>10,232,055</b> | <b>11,414,601</b> | <b>12,758,411</b> | CET 1 Ratio                           | 14.2% | 14.2% | 13.7% | 13.5% |
| Earning Assets                   | 8,732,263        | 9,801,524         | 10,943,764        | 12,243,445        | Tier 1 Ratio                          | 14.9% | 14.8% | 14.3% | 14.0% |
| Asset Quality                    |                  |                   |                   |                   | Tier 2 Ratio                          | 2.0%  | 2.0%  | 2.0%  | 2.0%  |
| Credit Costs / Advances (bps)    | 75               | 68                | 73                | 68                | Capital Adequacy Ratio                | 17.0% | 16.8% | 16.3% | 16.1% |
| Gross NPL                        | 291,836          | 228,711           | 182,649           | 141,499           | Source: Company Data, InCred Research |       |       |       |       |
| Net NPL                          | 68,453           | 49,409            | 34,902            | 32,537            | E=InCred Research Estimates           |       |       |       |       |
| Reserve Coverage                 | 223,383          | 179,302           | 147,747           | 108,962           |                                       |       |       |       |       |
| Gross NPL Ratio                  | 5.0%             | 3.4%              | 2.5%              | 1.7%              |                                       |       |       |       |       |
| Net NPL Ratio                    | 1.2%             | 0.8%              | 0.5%              | 0.4%              |                                       |       |       |       |       |
| Coverage Ratio (Excl. w/off)     | 77%              | 78%               | 81%               | 77%               |                                       |       |       |       |       |

SOURCE: INCRED RESEARCH



## BY THE NUMBERS



### Profit & Loss

| (Rsm)                                   | Mar-23A          | Mar-24A          | Mar-25F          | Mar-26F          | Mar-27F          |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income                     | 202,749          | 230,529          | 244,678          | 256,197          | 301,796          |
| <b>Total Non-Interest Income</b>        | <b>70,999</b>    | <b>60,949</b>    | <b>76,410</b>    | <b>62,255</b>    | <b>64,416</b>    |
| Operating Revenue                       | 273,748          | 291,478          | 321,088          | 318,452          | 366,212          |
| <b>Total Non-Interest Expenses</b>      | <b>(139,822)</b> | <b>(150,792)</b> | <b>(167,016)</b> | <b>(183,385)</b> | <b>(201,646)</b> |
| Pre-provision Operating Profit          | 133,926          | 140,686          | 154,072          | 135,067          | 164,566          |
| <b>Total Provision Charges</b>          | <b>(71,633)</b>  | <b>(39,695)</b>  | <b>(38,143)</b>  | <b>(50,437)</b>  | <b>(52,883)</b>  |
| Operating Profit After Provisions       | 62,293           | 100,991          | 115,930          | 84,630           | 111,682          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                  |                  |                  |                  |                  |
| Operating EBIT (incl Associates)        | 62,293           | 100,991          | 115,930          | 84,630           | 111,682          |
| <b>Non-Operating Income/(Expense)</b>   |                  |                  |                  |                  |                  |
| Profit Before Tax (pre-EI)              | 62,293           | 100,991          | 115,930          | 84,630           | 111,682          |
| <b>Exceptional Items</b>                |                  |                  |                  |                  |                  |
| Pre-tax Profit                          | 62,293           | 100,991          | 115,930          | 84,630           | 111,682          |
| Taxation                                | (22,064)         | (37,812)         | (29,716)         | (21,216)         | (27,929)         |
| Consolidation Adjustments & Others      |                  |                  |                  |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                  |                  |                  |                  |                  |
| Profit After Tax                        | 40,229           | 63,179           | 86,214           | 63,414           | 83,754           |
| Minority Interests                      |                  |                  |                  |                  |                  |
| Pref. & Special Div                     |                  |                  |                  |                  |                  |
| <b>FX And Other Adj.</b>                |                  |                  |                  |                  |                  |
| Net Profit                              | 40,229           | 63,179           | 86,214           | 63,414           | 83,754           |
| Recurring Net Profit                    |                  |                  |                  |                  |                  |

### Balance Sheet Employment

| (Rsm)                                  | Mar-23A       | Mar-24A       | Mar-25F       | Mar-26F       | Mar-27F       |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits              |               |               |               |               |               |
| Avg Loans/Avg Deposits                 | 69.9%         | 74.5%         | 77.8%         | 79.2%         | 79.4%         |
| Avg Liquid Assets/Avg Assets           | 94.3%         | 95.4%         | 95.7%         | 95.8%         | 95.9%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>113.7%</b> | <b>111.3%</b> | <b>110.4%</b> | <b>110.4%</b> | <b>110.4%</b> |
| Net Cust Loans/Assets                  |               |               |               |               |               |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       |               |               |               |               |               |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> | <b>1.58%</b>  | <b>0.76%</b>  | <b>0.63%</b>  | <b>0.73%</b>  | <b>0.68%</b>  |
| <b>Provision Charge/Avg Assets</b>     | <b>0.92%</b>  | <b>0.46%</b>  | <b>0.39%</b>  | <b>0.47%</b>  | <b>0.44%</b>  |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS...cont'd

### Balance Sheet

| (Rsm)                                     | Mar-23A          | Mar-24A          | Mar-25F          | Mar-26F          | Mar-27F          |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>Total Gross Loans</b>                  | <b>4,858,997</b> | <b>5,631,447</b> | <b>6,486,902</b> | <b>7,265,279</b> | <b>8,176,556</b> |
| Liquid Assets & Invst. (Current)          | 2,043,979        | 2,271,445        | 2,394,020        | 2,647,411        | 2,912,087        |
| Other Int. Earning Assets                 |                  |                  |                  |                  |                  |
| Total Gross Int. Earning Assets           | 6,902,975        | 7,902,892        | 8,880,922        | 9,912,690        | 11,088,642       |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                  |                  |                  |                  |
| Total Net Interest Earning Assets         | 6,902,975        | 7,902,892        | 8,880,922        | 9,912,690        | 11,088,642       |
| Intangible Assets                         |                  |                  |                  |                  |                  |
| <b>Other Non-Interest Earning Assets</b>  | <b>309,018</b>   | <b>291,452</b>   | <b>320,597</b>   | <b>352,657</b>   | <b>387,922</b>   |
| <b>Total Non-Interest Earning Assets</b>  | <b>408,628</b>   | <b>393,717</b>   | <b>430,532</b>   | <b>470,836</b>   | <b>514,965</b>   |
| Cash And Marketable Securities            | 843,953          | 829,371          | 920,602          | 1,031,074        | 1,154,803        |
| <b>Long-term Investments</b>              |                  |                  |                  |                  |                  |
| Total Assets                              | 8,155,556        | 9,125,979        | 10,232,055       | 11,414,601       | 12,758,411       |
| Customer Interest-Bearing Liabilities     | 6,695,858        | 7,379,202        | 8,190,915        | 9,173,824        | 10,274,683       |
| Bank Deposits                             |                  |                  |                  |                  |                  |
| Interest Bearing Liabilities: Others      |                  |                  |                  |                  |                  |
| Total Interest-Bearing Liabilities        | 7,254,128        | 8,188,443        | 9,089,172        | 10,179,872       | 11,401,457       |
| Banks Liabilities Under Acceptances       |                  |                  |                  |                  |                  |
| Total Non-Interest Bearing Liabilities    | 311,722          | 248,730          | 380,613          | 426,286          | 477,441          |
| Total Liabilities                         | 7,565,850        | 8,437,172        | 9,469,784        | 10,606,158       | 11,878,897       |
| Shareholders Equity                       | 589,706          | 688,807          | 762,271          | 808,442          | 879,514          |
| <b>Minority Interests</b>                 |                  |                  |                  |                  |                  |
| Total Equity                              | 589,706          | 688,807          | 762,271          | 808,442          | 879,514          |

### Key Ratios

|  | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--|---------|---------|---------|---------|---------|
| Total Income Growth                      | 44.2%   | 13.7%   | 6.1%    | 4.7%    | 17.8%   |
| Operating Profit Growth                  | 34.1%   | 5.0%    | 9.5%    | (12.3%) | 21.8%   |
| Pretax Profit Growth                     | 12%     | 62%     | 15%     | (27%)   | 32%     |
| Net Interest To Total Income             | 74.1%   | 79.1%   | 76.2%   | 80.5%   | 82.4%   |
| Cost Of Funds                            | 3.99%   | 4.88%   | 5.06%   | 4.97%   | 4.85%   |
| Return On Interest Earning Assets        | 7.4%    | 8.2%    | 8.1%    | 7.8%    | 7.9%    |
| Net Interest Spread                      | 3.42%   | 3.32%   | 3.06%   | 2.85%   | 3.01%   |
| Net Interest Margin (Avg Deposits)       | 3.13%   | 3.28%   | 3.14%   | 2.95%   | 3.10%   |
| Net Interest Margin (Avg RWA)            |         |         |         |         |         |
| Provisions to Pre Prov. Operating Profit | 53%     | 28%     | 25%     | 37%     | 32%     |
| Interest Return On Average Assets        | 2.62%   | 2.67%   | 2.53%   | 2.37%   | 2.50%   |
| Effective Tax Rate                       | 35.4%   | 37.4%   | 25.6%   | 25.1%   | 25.0%   |
| Net Dividend Payout Ratio                | 20.4%   | 20.2%   | 20.0%   | 20.0%   | 20.0%   |
| Return On Average Assets                 | 0.52%   | 0.73%   | 0.89%   | 0.59%   | 0.69%   |

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.