

India

ADD (no change)

Consensus ratings*: Buy 15 Hold 4 Sell 2

Current price: Rs133
 Target price: ▲ Rs147
 Previous target: Rs127
 Up/downside: 10.5%
 InCred Research / Consensus: 18.4%

Reuters: CNBK.NS
 Bloomberg: CBK IN
 Market cap: US\$13,589m
 Rs1,205,399m
 Average daily turnover: US\$35.6m
 Rs3159.9m
 Current shares o/s: 136.7m
 Free float: 37.1%

*Source: Bloomberg

Key changes in this note

- We revisit our earnings estimates based on 2QFY26 results.
- We raise our target price as we roll forward valuation by six months & cut risk-free rate.

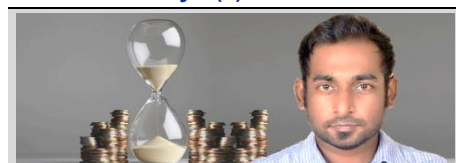


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	22.8	28.6
Relative (%)	2.2	18.1	20.9

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

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Canara Bank

PAT beat on strong non-core income

- Canara Bank's 2QFY26 PAT beat was due to strong non-core income, while the core performance was in line and asset quality improved sequentially.
- Canara Bank still has a few levers left to offset margin compression with moderation in credit costs, while stake sale gains of its arms to aid profitability.
- Raise our TP to Rs147 (10.5% upside) or 0.9x target multiple on Sep 2027F BV. The risk-reward ratio offers a decent upside despite stretched valuation.

PAT beat on strong non-core income; core performance in line

2QFY26 PAT of Canara Bank at Rs47.7bn (1.1% annualized RoA) beat our estimate on strong treasury income (Rs12.2bn; 30bp of avg. assets, annualized), better-than-expected PSLC income (Rs9.2bn; 20bp), and recovery from written-off accounts (Rs16.8bn; 40bp). Core performance was in line with our estimate. Margin (adj. for IT refund) declined by ~5 bp QoQ to 2.4% and net interest income grew by 2% QoQ, partly helped by avg. balance sheet growth (3% QoQ; 12% YoY). Core fee growth was subdued at 6% YoY (16% QoQ) and the growth in costs was in line, although elevated at 15% YoY. Headline credit costs at 87bp included step-up provisioning on a sub-standard account (20bp). NPA credit costs moderated QoQ (55bp vs. 70bp) and were partly helped by lower net slippage (0.4% vs. 0.5% annualized). Volume growth was strong, with loan book growth at 14% YoY (5% QoQ) & deposit growth at 13% YoY (4% QoQ). The CET-1 ratio stood at 12.2%.

Asset quality improves with moderation in slippage, NPA credit costs

The gross slippage moderated QoQ (Rs21bn vs. Rs22bn). Healthy recovery & upgrades (Rs11bn, steady vs. last quarter) and elevated write-offs (Rs35bn vs. Rs32bn) led to the decline in GNPA's by 8% QoQ to Rs270bn. The GNPA ratio moderated by 34bp QoQ to 2.35%. PCR improved marginally QoQ (77.4% vs. 77.1%). The net NPA ratio moderated QoQ to 0.5%. We expect credit costs to moderate over the next few years, given net NPA level and PCR now in a comfortable range. We have built in credit costs of ~60/65bp for FY27F/28F, respectively, vs. 80bp in FY26F. On ECL, the bank highlighted that the impact could be less than 1% of loans, given that it proactively steps up provision on SMA loans (overall SMA i.e. incl. accounts below Rs50m is ~3% of loans).

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

We believe Canara Bank is well-placed to offset some margin compression by moderating credit costs over the next few years. It will also benefit from the stake sale/listing of life insurance and AMC subsidiaries in 3QFY26F (~Rs20bn; 10bp of avg. assets). We expect its RoA to moderate to 0.75%/0.8% in FY27F/28F, respectively, from 1.1%/0.9% in FY25/FY26F. The RoE to decline to 12%/13% in FY27F/28F, respectively, from ~15% in FY26F. The risk-reward ratio, at the current valuation of 0.8x Sep 2027F, still offers a decent upside. We have increased our target price to Rs147 (Rs127 earlier) as we roll forward the valuation by six months and revisit our earnings estimates. Maintain ADD rating. Downside risks: Lower-than-expected loan/deposit growth, higher delinquency in retail/MSME portfolios, and a higher-than-expected growth in costs.

Financial summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	365,659	370,720	358,982	410,614	471,124
Total Non-Interest Income (Rsm)	189,664	224,528	254,190	204,183	214,066
Operating Revenue (Rsm)	555,324	595,248	613,172	614,797	685,190
Total Provision Charges (Rsm)	(97,076)	(87,636)	(84,889)	(81,295)	(91,041)
Net Profit (Rsm)	145,543	170,267	164,188	145,573	169,118
Core EPS (Rs)	16.05	18.77	18.10	16.05	18.64
Core EPS Growth	37%	17%	(4%)	(11%)	16%
FD Core P/E (x)	8.28	7.08	7.34	8.28	7.13
DPS (Rs)	3.22	4.00	3.62	3.21	3.73
Dividend Yield	2.42%	3.01%	2.72%	2.42%	2.81%
BVPS (Rs)	95.9	110.1	124.2	136.6	151.9
P/BV (x)	1.39	1.21	1.07	0.97	0.87
ROE	18.1%	18.2%	15.4%	12.3%	12.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY26 results summary

Rs m	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Net Interest Income	93,152	90,088	91,412	-2%	1%
Adj. Net Interest Income	93,152	86,088	87,412	-6%	2%
Other Income	49,810	70,605	70,538	42%	0%
--Core Fee	24,360	22,230	25,860	6%	16%
--Treasury Income	6,610	16,170	12,170	84%	-25%
--Misc. Income	18,840	32,205	32,508	73%	1%
Total income	142,962	160,692	161,950	13%	1%
--Core Revenue	117,512	108,318	113,272	-4%	5%
Operating Expenses	66,424	75,157	76,069	15%	1%
--Staff Expenses	43,632	47,955	48,223	11%	1%
--Other Operating Expenses	22,792	27,201	27,847	22%	2%
Operating Profit	76,538	85,536	85,881	12%	0%
--Core PPOP	51,088	33,161	37,203	-27%	12%
Provisions	22,513	23,516	23,542	5%	0%
PBT	54,025	62,020	62,340	15%	1%
Tax	13,880	14,500	14,600	5%	1%
PAT	40,145	47,520	47,740	19%	0%
EPS	18	21	21		
Advances	9,840,412	10,735,762	11,301,139	15%	5%
Deposits	13,473,467	14,676,553	15,279,219	13%	4%
LD Ratio	73%	73%	74%		
CASA Ratio	29%	27%	28%		
Margins (%)	2.86	2.55	2.50	-0.36	-0.05
Adj.Margins (%)	2.86	2.44	2.39	-0.47	-0.05
Overall provisions (in bps)	93	89	85		
---Credit cost (in bps)	96	91	87		
-----NPA provisions	107	70	55		
GNPA	377,333	295,184	270,403	-28%	-8%
GNPA Ratio (%)	3.73%	2.69%	2.35%		
NNPA	97,774	67,652	61,132	-37%	-10%
NNPA Ratio (%)	0.99	0.63	0.54		
PCR	279,559	227,532	209,271	-25%	-8%
PCR Ratio (%)	74%	77%	77%		
Slippage	23,450	21,660	21,020	-10%	-3%
--% of Trailing Loans	1.1%	0.9%	0.9%		
CET-1 Ratio (%)	12.0%	12.3%	12.2%		
RoA	1.1%	1.1%	1.1%		
RoE	19.8%	21.1%	20.0%		

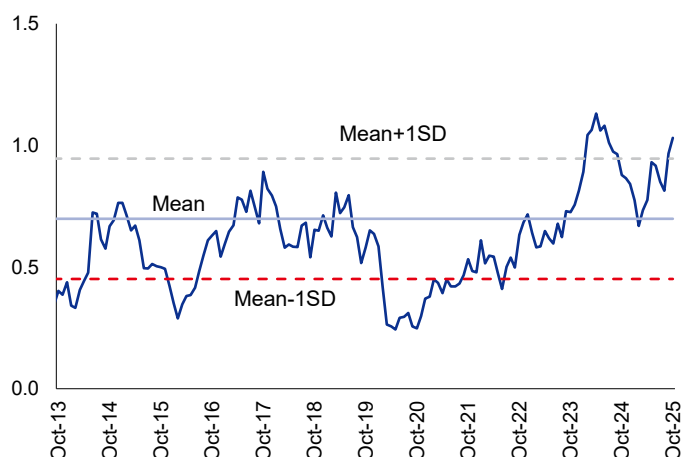
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Changes to our earnings estimates

Rs bn	New Estimates				Old Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Net Interest Income	371	359	411	471	381	444	502	-6%	-8%	-6%
--Growth YoY	1%	-3%	14%	15%	3%	17%	13%			
Non-Interest Income	225	254	204	214	201	191	201	26%	7%	7%
--Growth YoY	18%	13%	-20%	5%	-10%	-5%	5%			
Total Income	595	613	615	685	582	636	702	5%	-3%	-2%
--Growth YoY	7%	3%	0%	11%	-2%	9%	11%			
Opex	281	312	339	369	305	330	358	2%	3%	3%
--Growth YoY	8%	11%	9%	9%	9%	8%	8%			
PPOP	314	301	275	317	276	305	344	9%	-10%	-8%
--Growth YoY	7%	-4%	-9%	15%	-12%	10%	13%			
Provision	88	85	81	91	86	86	89	-2%	-5%	2%
--as a % of avg. loans	88	75	63	63	77	68	63			
PBT	226	216	194	225	190	219	255	14%	-12%	-12%
Tax	56	52	49	56	47	55	64	-11%	13%	13%
PAT	170	164	146	169	144	164	191	14%	-12%	-12%
--Growth YoY	17%	-4%	-11%	16%	-16%	15%	16%			
Advances	10,492	12,106	13,557	15,182	11,845	13,265	14,856	2%	2%	2%
--Growth YoY	13%	15%	12%	12%	13%	12%	12%			
Deposits	14,569	16,171	17,950	19,925	16,171	17,950	19,925	0%	0%	0%
--Growth YoY	11%	11%	11%	11%	11%	11%	11%			
Book Value	110	124	137	152	122	137	154	2%	0%	-2%
--Growth YoY	15%	13%	10%	11%	11%	12%	13%			
EPS	19	18	16	19	16	18	21	14%	-12%	-12%
--Growth YoY	17%	-4%	-12%	16%	-16%	15%	16%			
ROA	1.1%	0.9%	0.7%	0.8%	0.8%	0.8%	0.9%	11	-10	-10
ROE	18.2%	15.4%	12.3%	12.9%	13.6%	14.0%	14.5%	178	-176	-160

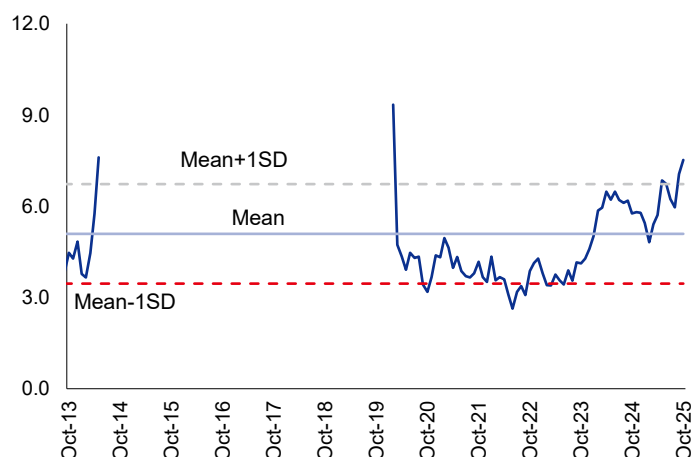
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: : One-year forward P/BV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: : One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings-call highlights

- Gross loans of Canara Bank grew by 14% YoY (5% QoQ), of which the domestic book grew by 13% YoY (5% QoQ) and the overseas book grew by 20% YoY (8% QoQ). In the domestic market, the growth was led by retail, agri and MSME (RAM) segments at 16% YoY (6% QoQ) while corporate loans grew by 9% YoY (2% QoQ). Management continues to give guidance of relatively better growth in the RAM (Retail, Agri and MSME) segment vs. the corporate segment, as it aspires to increase the share of the RAM segment to 60% vs. 58% currently.
- Headline margin declined by 5bp QoQ to 2.5%. Adjusted for income-tax refund (10bp each in 1QFY26 & 2QFY26), margin declined by 5p QoQ to 2.4%. This was led by the decline in yields (down 14bp QoQ), which was partly offset by the decline in funding costs (down 12bp QoQ). Management gave guidance of steady margin in 3QFY26F and a gradual improvement from there on, aided by term deposit book repricing. It aspires to clock a margin of 2.75% in FY27F, while we believe it will be difficult as MCLR repricing will offset the benefit from deposit repricing. We therefore build in margin of 2.5%/2.6% in FY27F/28F, respectively.
- The recovery from written-off accounts stood at Rs16.8bn vs. Rs11.6bn during 1QFY26 and Rs24.7bn during 4QFY25. Management gave guidance of healthy recovery from written-off accounts in 2HFY26F and over the next few years as well. It remains confident of recovering ~Rs50bn (30bp of avg. assets) from the written-off pool of Rs710bn (6% of gross loans).
- The income from the sale of priority sector lending certificates (PSLCs) booked was Rs9.2bn (20bp of avg. assets, annualized) vs. Rs12.5bn (30bp) in the previous quarter. Management noted that the bank still has some excess PSLCs which it will look to monetize in 2HFY26F.
- Deposits grew by 13% YoY, vs. 10% YoY last quarter. Sequentially, deposits grew by 4% vs. 1% last quarter. This was led by strong growth in current account deposits (40% QoQ; 63% YoY, led by lumpy institutional flows) as well as healthy growth in term deposits (2.6% QoQ; 15% YoY) and savings account deposits (3% QoQ; 3% YoY).

Figure 5: Financial summary

Canara Bank

Profit and Loss Statement

Rs Mn (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	1,197,551	1,190,551	1,324,709	1,485,309
Interest Expense	826,831	831,570	914,095	1,014,186
Net Interest Income	370,720	358,982	410,614	471,124
—Fee Income	20,521	22,984	25,742	28,831
—Forex Income	8,285	9,279	10,392	11,639
—Capital Gains	22,648	49,340	2,000	2,000
—Miscellaneous Inc.	173,074	172,588	166,049	171,596
Total Non Interest Income	224,528	254,190	204,183	214,066
Total Operating Income	595,248	613,172	614,797	685,190
—Employee Exp	178,561	195,340	211,051	227,469
—Other Expenses	102,784	116,685	128,354	141,189
Total Operating Expenses	281,345	312,025	339,405	368,658
Operating Profit	313,903	301,147	275,393	316,531
—Prov. For Investment Dep.	-10,907	-910	0	0
—Loan Loss Provisions	95,864	68,504	76,216	85,353
—Other Provisions	2,679	17,295	5,080	5,689
Total provisions	87,636	84,889	81,295	91,041
Profit Before Tax	226,267	216,258	194,097	225,490
Provision for Tax	56,000	52,070	48,524	56,373
Net Profit	170,267	164,188	145,573	169,118
Core Operating profit	109,896	69,940	96,951	131,296

Balance Sheet Data

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	999,001	1,126,515	1,238,631	1,378,099
Deposits	14,568,832	16,171,403	17,950,258	19,924,786
Borrowings	366,760	407,104	451,885	501,593
Other Liabilities & Prov.	893,903	992,232	1,101,378	1,222,529
Total Liabilities	16,828,496	18,697,254	20,742,151	23,027,007
Cash & Balances with RBI	899,986	998,984	1,108,872	1,230,848
Balances with Banks	1,153,416	1,280,292	1,421,124	1,577,448
Investments	3,803,434	3,788,470	4,083,100	4,410,999
Advances	10,491,550	12,105,780	13,557,094	15,182,400
Fixed Assets	102,152	104,195	106,278	108,404
Other Assets	377,959	419,534	465,683	516,908
Total Assets	16,828,496	18,697,254	20,742,151	23,027,007
Earning Assets	16,303,275	18,126,159	20,120,455	22,349,474

Asset Quality

Credit Costs / Advances (bps)	99	76	63	63
Gross NPL	315,300	236,428	233,356	232,306
Net NPL	73,529	50,199	56,754	66,981
Reserve Coverage	241,772	186,229	176,602	165,324
Gross NPL Ratio	2.9%	1.9%	1.7%	1.5%
Net NPL Ratio	0.7%	0.4%	0.4%	0.4%
Coverage Ratio (Ex. Tech W/offs)	77%	79%	76%	71%

Per Share Data and Valuations

Rs Mn (Year-end March)	FY25	FY26F	FY27F	FY28F
Per Share Data				
EPS	18.8	18.1	16.0	18.6
Book Value	110	124	137	152
Core Op. Profit	12.1	7.7	10.7	14.5
DPS	4	4	3	4
Valuations				
P/E (Core)	6.5	6.8	7.7	6.6
Price to Book (Core)	1.1	1.0	0.9	0.8
Price to Core Op. Profit (Core)	10.1	15.9	11.5	8.5
Dividend Yield	3.0%	2.7%	2.4%	2.8%

Ratio Analysis

(Year-end March)	FY25	FY26F	FY27F	FY28F
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Spread Analysis

Average yield on assets	7.8%	6.9%	6.9%	7.0%
Cost of earning assets	5.4%	4.8%	4.8%	4.8%
Net Interest Margin (Reported)	2.8%	2.4%	2.5%	2.6%

Growth Ratios

Net Interest Income	1%	-3%	14%	15%
Non Interest Income	18%	13%	-20%	5%
Operating expenses	8%	11%	9%	9%
Core Operating Profit	3%	-14%	8%	15%
Net Profit	17%	-4%	-11%	16%
EPS	17%	-4%	-12%	16%
Deposits	11%	11%	11%	11%
Advances	13%	15%	12%	12%
Total Assets	13%	11%	11%	11%

Profitability Ratios

Return On Equity	18.2%	15.4%	12.3%	12.9%
Return on Assets	1.1%	0.9%	0.7%	0.8%

Efficiency Ratios

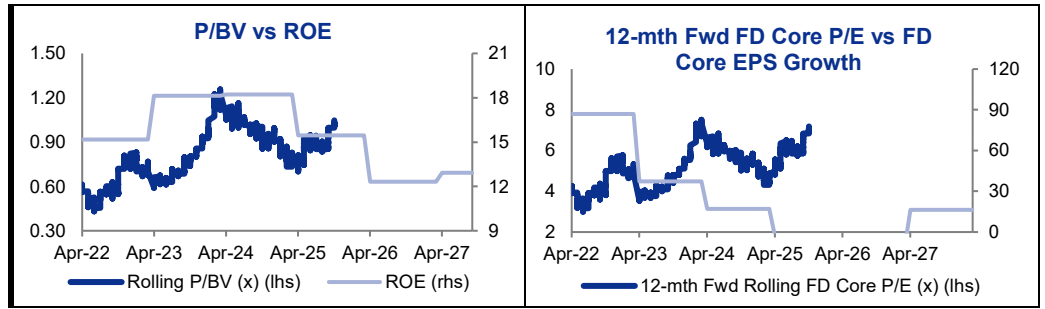
Cost Income Ratio	47.3%	50.9%	55.2%	53.8%
Expenses/Avg Assets	1.8%	1.8%	1.7%	1.7%

Capital Ratios

CET 1 Ratio	12.0%	11.8%	11.8%	11.8%
Tier 1 Ratio	14.4%	13.8%	13.5%	13.3%
Capital Adequacy Ratio	16.3%	15.7%	15.4%	15.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	365,659	370,720	358,982	410,614	471,124
Total Non-Interest Income	189,664	224,528	254,190	204,183	214,066
Operating Revenue	555,324	595,248	613,172	614,797	685,190
Total Non-Interest Expenses	(261,198)	(281,345)	(312,025)	(339,405)	(368,658)
Pre-provision Operating Profit	294,126	313,903	301,147	275,393	316,531
Total Provision Charges	(97,076)	(87,636)	(84,889)	(81,295)	(91,041)
Operating Profit After Provisions	197,050	226,267	216,258	194,097	225,490
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	197,050	226,267	216,258	194,097	225,490
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	197,050	226,267	216,258	194,097	225,490
Exceptional Items					
Pre-tax Profit	197,050	226,267	216,258	194,097	225,490
Taxation	(51,507)	(56,000)	(52,070)	(48,524)	(56,373)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	145,543	170,267	164,188	145,573	169,118
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	145,543	170,267	164,188	145,573	169,118
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	70.7%	71.5%	73.5%	75.2%	75.9%
Avg Liquid Assets/Avg Assets	96.3%	96.9%	97.2%	97.2%	97.3%
Avg Liquid Assets/Avg IEAs	112.0%	113.1%	114.4%	114.3%	114.3%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.10%	0.88%	0.75%	0.63%	0.63%
Provision Charge/Avg Assets	0.68%	0.55%	0.48%	0.41%	0.42%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	9,316,128	10,491,550	12,105,780	13,557,094	15,182,400
Liquid Assets & Invst. (Current)	3,574,544	3,803,434	3,788,470	4,083,100	4,411,000
Other Int. Earning Assets					
Total Gross Int. Earning Assets	12,890,672	14,294,984	15,894,250	17,640,194	19,593,400
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	12,890,672	14,294,984	15,894,250	17,640,194	19,593,400
Intangible Assets					
Other Non-Interest Earning Assets	394,856	377,959	419,534	465,683	516,908
Total Non-Interest Earning Assets	517,138	480,110	523,728	571,961	625,312
Cash And Marketable Securities	1,507,597	2,053,402	2,279,276	2,529,996	2,808,296
Long-term Investments					
Total Assets	14,915,407	16,828,496	18,697,254	20,742,152	23,027,008
Customer Interest-Bearing Liabilities	13,123,666	14,568,832	16,171,403	17,950,258	19,924,786
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	13,392,228	14,935,592	16,578,507	18,402,142	20,426,378
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	653,633	893,903	992,232	1,101,378	1,222,529
Total Liabilities	14,045,861	15,829,495	17,570,740	19,503,520	21,648,908
Shareholders Equity	869,546	999,001	1,126,515	1,238,631	1,378,100
Minority Interests					
Total Equity	869,546	999,001	1,126,515	1,238,631	1,378,100

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	16.3%	1.4%	(3.2%)	14.4%	14.7%
Operating Profit Growth	6.1%	6.7%	(4.1%)	(8.6%)	14.9%
Pretax Profit Growth	39%	15%	(4%)	(10%)	16%
Net Interest To Total Income	65.8%	62.3%	58.5%	66.8%	68.8%
Cost Of Funds	5.67%	5.84%	5.28%	5.23%	5.22%
Return On Interest Earning Assets	8.9%	8.8%	7.9%	7.9%	8.0%
Net Interest Spread	3.25%	2.97%	2.61%	2.67%	2.75%
Net Interest Margin (Avg Deposits)	2.94%	2.68%	2.34%	2.41%	2.49%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	33%	28%	28%	30%	29%
Interest Return On Average Assets	2.58%	2.34%	2.02%	2.08%	2.15%
Effective Tax Rate	26.1%	24.7%	24.1%	25.0%	25.0%
Net Dividend Payout Ratio	20.1%	21.3%	20.0%	20.0%	20.0%
Return On Average Assets	1.03%	1.07%	0.92%	0.74%	0.77%

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.