

**Canara Bank posted a 20% beat on earnings at Rs50bn/1.3% RoA, mainly aided by treasury gains/recovery from written-off loans and provision reversal on SR investments. Credit growth outpaced expectations at 12.6% YoY/2.5% QoQ, while deposit growth was strong at 11% YoY/6.4% QoQ. This, coupled with higher loan yields, led to nearly flat NIMs at 2.7% after a steady fall for the past two quarters, akin to BOB/PNB. The bank's headline asset quality continues to improve, with GNPA ratio down by 40bps QoQ to 2.9% due to higher write-offs, while specific PCR surged by 258bps QoQ to 77%. We revise up FY26-28E earnings by 5-7%, while we expect the bank to deliver a healthy 0.9-1.1% RoA over FY26-28E. We retain BUY with unchanged TP to Rs120, valuing the standalone bank at 0.9x Mar-27E ABV and subs at Rs6/sh.**

#### Healthy business growth with steady margins

Canara Bank posted healthy credit growth of 12.6% YoY/2.5% QoQ (owing to strong retail growth). Due to recent changes in PSL guidelines, the bank has reclassified some agri gold loans to retail gold loans and could thus reduce PSL outflow in future. However, commission rates have gone up on agri PSL due to lower supply and may thus not have much of an impact on PSLC fees, which are otherwise a healthy source for Canara Bank and Indian Bank. Deposit growth too was healthy, at 11% YoY/6.4% QoQ, with CASA ratio improving by 94bps QoQ to 28.5% (primarily led by robust 64% QoQ growth in CA). This, coupled with higher loan yields and interest on excess liquidity deployed with the RBI/inter-bank money markets, led to nearly stable NIMs at 2.7%. Going forward, the bank expects gross advances growth of 10-11% and deposit growth of 9-10%.

#### Asset quality, PCR continues to improve

Gross slippage was slightly higher QoQ at Rs27bn/1.2% of loans due to slight uptick in SME NPAs on technical grounds, but higher write-offs led to reduction in GNPA ratio by ~40bps QoQ to 2.9%. The overall SMA book too improved a bit, to Rs103bn/1% of gross advances (vs Rs120bn/1.14% of gross advances in Q3), but remains elevated vs peers, primarily due to inclusion of two government a/cs and one corporate a/c, aggregating to Rs70bn. The management endeavors to maintain its GNPA/NNPA ratio below 2.5%/0.6%, respectively, in FY26.

#### We retain BUY on the stock

We raise earnings for FY26-28E by ~5-7%, factoring in the better treasury gains/NPA recoveries and lower LLP. Thus, we expect the bank to deliver 0.9-1.1% RoA over FY26-28E. We retain BUY, with an unchanged TP of Rs120, valuing the standalone bank now at 0.9x FY27E ABV and subsidiaries at Rs6/share. Key Risks: Slowdown in growth, lower margins due to macroeconomic challenges, and higher-than-expected increase in provisioning due to the ensuing ECL impact.

Target Price – 12M	Mar-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.3

Stock Data	CBK IN
52-week High (Rs)	129
52-week Low (Rs)	79
Shares outstanding (mn)	9,070.7
Market-cap (Rs bn)	865
Market-cap (USD mn)	10,092
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	25
ADTV-3M (Rs mn)	2,445.5
ADTV-3M (USD mn)	28.5
Free float (%)	37.1
Nifty-50	24,273.8
INR/USD	85.7

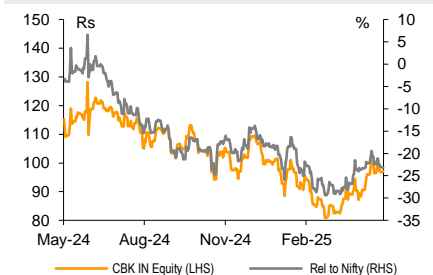
#### Shareholding, Mar-25

Promoters (%)	62.9
FPIs/MFs (%)	10.6/11.9

#### Price Performance

(%)	1M	3M	12M
Absolute	6.6	1.4	(14.5)
Rel. to Nifty	(1.0)	(1.6)	(21.4)

#### 1-Year share price trend (Rs)



#### Canara Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	145,538	170,267	183,619	191,630	198,433
Loan growth (%)	12.2	12.6	10.5	11.3	12.2
NII growth (%)	16.3	1.4	5.3	9.3	11.2
NIM (%)	2.7	2.4	2.3	2.3	2.3
PPOP growth (%)	6.1	6.7	2.3	6.9	7.9
Adj. EPS (Rs)	16.0	18.8	20.2	21.1	21.9
Adj. EPS growth (%)	37.3	17.0	7.8	4.4	3.5
Adj. BV (INR)	77.2	94.6	112.2	128.9	145.5
Adj. BVPS growth (%)	23.6	22.5	18.6	14.9	12.9
RoA (%)	1.0	1.1	1.1	1.0	0.9
RoE (%)	20.2	20.2	18.7	17.0	15.4
P/E (x)	5.7	4.8	4.4	4.2	4.1
P/ABV (x)	1.2	1.0	0.8	0.7	0.6

Source: Company, Emkay Research

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## Key Concall takeaways

### Outlook on loans, deposits, and NIM

- The PL/CC is Rs180-190bn, which is given to existing salaried/pensioner customers by Canara Bank; the CC book is Rs12-13bn, and PL NPAs are at 0.49-0.50%.
- Core agri loans are growing well, at 10.5%. The bank had earlier stopped giving agri gold loans in metropolitan regions. Now it is planning to prune down its overall agri gold loans, to tackle the RBI's new guidelines on gold loans. Under these guidelines, agri gold loans shall be classified under retail, and not agri, and hence will not be included in PSL.
- Agri gold loans stand at Rs 1.33trn, down from Rs 1.53trn earlier; outstanding retail gold loans have increased to Rs 480bn from the Rs 10-20bn base.
- 45% of the loan book is linked to MCLR and 44% to EBLR; gold loans are MCLR-linked.
- Demand for bulk deposits has decreased; interest rates have softened and now stand at around 7%. Further, the bank may cut SA rate and have a 20bps reduction cushion. However, the decision will be taken at the next ALCO meeting.
- NIM: The bank expects some stress in H1, with recovery expected in Q3. NIM is expected to hover at 2.75-2.8%.

### Asset quality

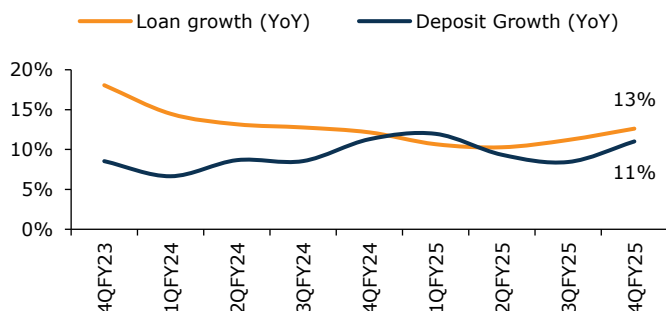
- Slippages in Q4: for MSME, Rs12.5bn; for Agri, Rs7.5bn. and for retail, Rs 6.5bn. Most slippages occurred in the MSME segment and were largely due to technical factors.
- SMA slippages have declined on a QoQ basis, driven by accounts such as RINL. However, there are three a/cs under the SMA book, including two government and one corporate, totaling Rs70bn.
- The bank undertook a reversal provision, leading to 150bps improvement in the PCR, aligning it with peers; of the Rs17bn in SR, Rs11bn was reversed in the March quarter. Further, of the Rs11bn reversed, Rs5bn was accounted for in profits, while Rs6bn was used for NPA provisioning to further strengthen PCR.
- The bank is targeting PCR (including TWO) of over 95%, with the current PCR, ex TWO, having reached 76%, which is now nearly in line with peers.
- The bank has a total write-off pool of Rs780bn, and the bank has been recovering at a run rate of Rs40-50bn, which is largely recoverable through OTS and collections, mainly from small accounts.

### Others

- PSLC commission income stood at Rs15.46bn for FY25; the bank earned 3% commission in Q4. This income is expected to remain strong due to high demand and favorable commission rates.
- The amount of HTM book is limited owing to the new RBI guidelines. Hence, free trade is limited, as also the treasury income scope, akin to earlier. The bank is focusing on growing its AFS book.
- The bank earned interest on NPAs at Rs7bn in Q4.
- The bank's average LCR remains healthy at 139-140%.
- The bank has provided a Rs2.5bn incentive under the Production Linked Incentive (PLI) scheme.
- The bank has opened 500 branches over the last 2 years and plans to open 250 more in current year.
- Digital spending stands at Rs 8bn during the year.

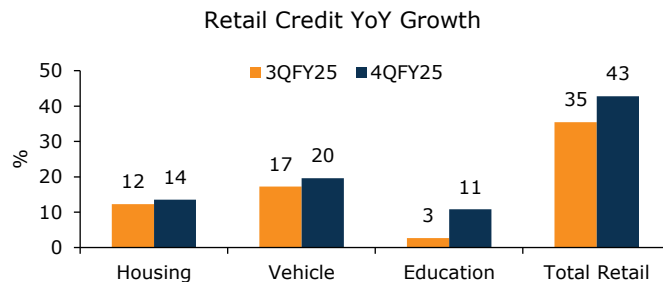
## Story in Charts

**Exhibit 1: Healthy business growth during 4Q**



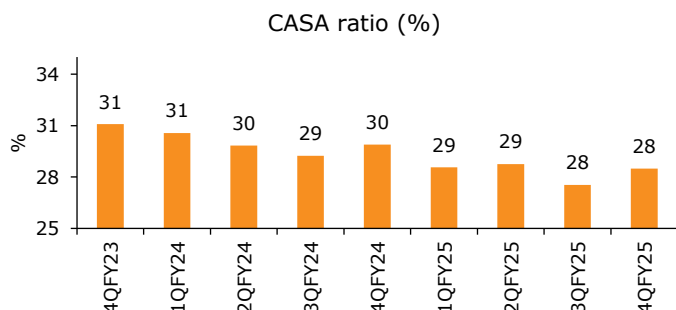
Source: Company, Emkay Research

**Exhibit 2: Retail credit growth remains healthy**



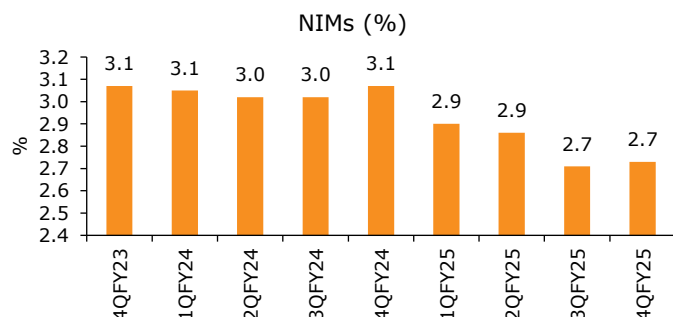
Source: Company, Emkay Research

**Exhibit 3: CASA ratio is largely stable**



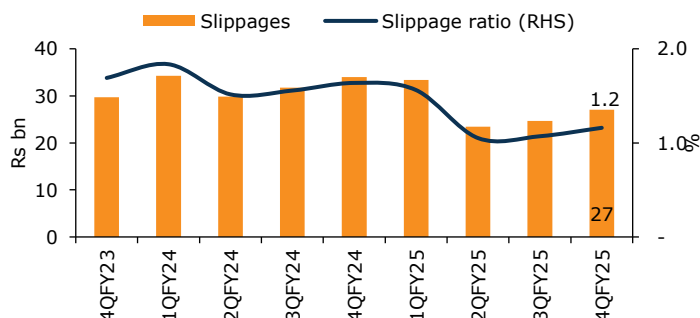
Source: Company, Emkay Research

**Exhibit 4: Margins are flat QoQ due to better loan yields and deployment of excess liquidity**



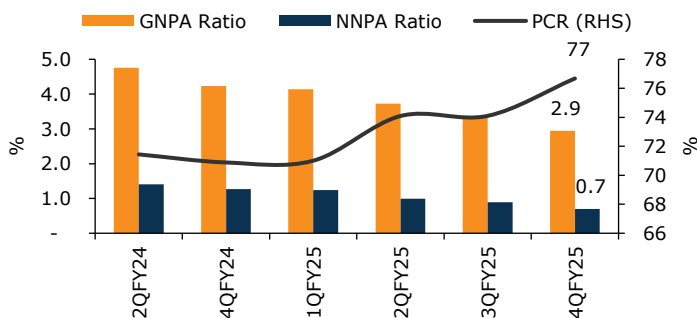
Source: Company, Emkay Research

**Exhibit 5: Gross slippages inched up a bit in 4Q, due to seasonal factors including technical NPAs in the SME portfolio...**



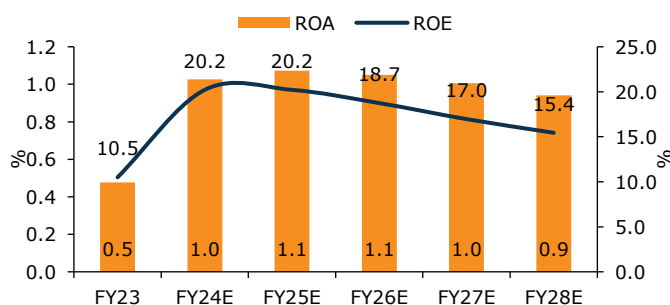
Source: Company, Emkay Research

**Exhibit 6: ...but higher w-offs led to continued reduction in GNPA ratio**



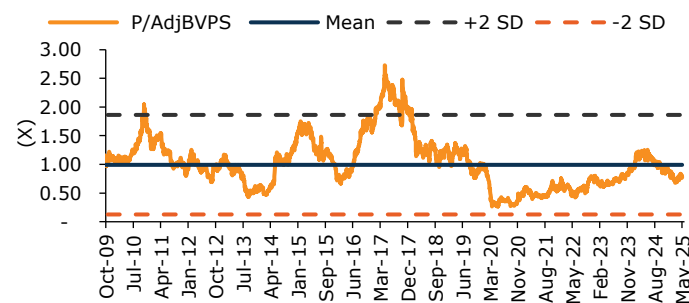
Source: Company, Emkay Research

**Exhibit 7: We expect some margin contraction in FY26E, but lower LLP and healthy treasury income/NPA recoveries are likely to support RoAs**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 0.8x FY27E ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actuals vs Estimates (Q4FY25)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	157,927	148,630	150,029	6%	5%	Higher other income led to a beat
PPOP	82,837	78,234	76,983	6%	8%	Higher net income and contained opex led to a beat
PAT	50,027	41,834	41,240	20%	21%	Higher PPOP and lower provision led to a beat

Source: Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)	FY24	FY25A	YoY (%)
Interest Earned	288,074	287,014	297,401	303,116	310,020	8	2	1,086,879	1,197,551	10
Interest Expenses	192,272	195,351	204,249	211,630	215,601	12	2	721,220	826,831	15
Net Interest Income	95,802	91,663	93,152	91,486	94,419	-1	3	365,659	370,720	1
Global NIMs (Reported)	3.07	2.90	2.86	2.71	2.73	-34bps	2bps	2.70	2.43	-28bps
Non-interest Income	52,178	53,189	49,810	58,022	63,508	22	9	189,664	224,528	18
Operating Expenses	74,106	68,690	66,424	71,141	75,090	1	6	261,198	281,345	8
Pre-Provisioning Profit	73,875	76,162	76,538	78,366	82,837	12	6	294,125	313,903	7
Provision & Contingencies	24,818	22,823	22,513	23,983	18,317	-26	-24	97,080	87,636	-10
PBT	49,056	53,338	54,025	54,384	64,520	32	19	197,045	226,267	15
Income Tax Expense (Gain)	11,484	14,285	13,880	13,342	14,493	26	9	51,507	56,000	9
Net Profit/(Loss)	37,572	39,053	40,145	41,042	50,027	33	22	145,538	170,267	17
Gross NPA (%)	4.23	4.14	3.73	3.34	2.94	-129bps	-40bps	4.23	2.94	-129bps
Net NPA (%)	1.27	1.24	0.99	0.89	0.70	-57bps	-19bps	1.27	0.70	-57bps
Deposits (Rs bn)	13,124	13,352	13,473	13,695	14,569	11	6	13,124	14,569	11
Net Advances (Rs bn)	9,316	9,464	9,840	10,237	10,492	13	2	9,316	10,492	13

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	619,093	617,402	-0.3%	661,921	661,348	-0.1%	NA	712,929	NA
PPOP	323,740	321,147	-0.8%	343,912	343,429	-0.1%	NA	370,536	NA
PAT	174,189	183,619	5.4%	178,633	191,630	7.3%	NA	198,433	NA
EPS (Rs)	19.2	20.2	5.4%	19.7	21.1	7.3%	NA	21.9	NA
BV (Rs)	116.0	116.1	0.0%	131.5	133.0	1.1%	NA	150.3	NA

Source: Emkay Research

**Exhibit 12: Key Assumptions**

(%)	FY25	FY26E	FY27E	FY28E
Loan Growth	12.6	10.5	11.3	12.2
Deposit Growth	11.0	9.5	10.1	11.7
NIM	2.4	2.3	2.3	2.3
GNPA	2.9	2.3	1.9	1.8
Credit Cost	1.0	0.7	0.7	0.8

Source: Emkay Research

## Exhibit 13: Key Ratios and Trends

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>Loans (Rs bn)</b>	<b>8,307</b>	<b>8,551</b>	<b>8,923</b>	<b>9,209</b>	<b>9,316</b>	<b>9,464</b>	<b>9,840</b>	<b>10,237</b>	<b>10,492</b>
- Growth YoY (%)	18.1	14.5	13.2	12.8	12.2	10.7	10.3	11.2	12.6
- Growth QoQ (%)	1.7	2.9	4.3	3.2	1.2	1.6	4.0	4.0	2.5
<b>Liability Profile &amp; Capital (%)</b>									
CASA	31.1	30.6	29.8	29.2	29.9	28.6	28.7	27.5	28.5
- CA	4.0	3.7	3.6	3.6	4.9	3.7	3.5	3.5	5.3
- SA	27.1	26.9	26.2	25.7	25.0	24.9	25.3	24.1	23.1
Branches (no of)	8,883	8,865	8,757	8,964	8,984	8,997	9,032	9,190	9,224
CAR	16.7	16.2	16.2	15.8	16.3	16.4	16.6	16.4	16.3
Tier I	13.8	13.6	13.6	13.4	14.0	14.4	14.6	14.6	14.4
<b>Asset Quality (%)</b>									
GNPA	5.4	5.2	4.8	4.4	4.2	4.1	3.7	3.3	2.9
NNPA	1.7	1.6	1.4	1.3	1.3	1.2	1.0	0.9	0.7
PCR	68.9	70.6	71.4	70.8	70.9	71.0	74.1	74.1	76.7
Slippages (Rs mn)	29,730	34,280	29,870	31,760	34,000	33,370	23,450	24,640	27,020
Slippages - annualized	1.7	1.8	1.5	1.6	1.6	1.6	1.1	1.1	1.2
<b>ROE Decomposition (%)</b>									
NII	2.6	2.5	2.5	2.8	2.6	2.4	2.4	2.3	2.3
Other Income	1.4	1.4	1.3	1.3	1.4	1.4	1.3	1.5	1.6
Treasury	0.0	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Opex	1.8	1.7	1.7	2.0	2.0	1.8	1.7	1.8	1.8
PPOP	2.2	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Provisioning Cost	0.9	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.4
PBT	1.2	1.4	1.4	1.5	1.3	1.4	1.4	1.4	1.6
Tax	0.3	0.4	0.4	0.4	0.3	0.4	0.4	0.3	0.4
ROA	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.0	1.3
Leverage (x)	18.1	17.7	17.4	20.9	21.8	19.9	19.5	18.5	18.6
ROE	17.3	18.3	17.9	21.1	22.1	20.9	20.4	19.1	23.2

Source: Company, Emkay research

Canara Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,086,879	1,197,551	1,243,886	1,280,885	1,348,240
Interest Expense	721,220	826,831	853,530	854,049	873,755
Net interest income	365,659	370,720	390,356	426,835	474,485
NII growth (%)	16.3	1.4	5.3	9.3	11.2
Other income	189,664	224,528	227,046	234,512	238,444
Total Income	555,323	595,248	617,402	661,348	712,929
Operating expenses	261,198	281,345	296,255	317,919	342,394
PPOP	294,125	313,903	321,147	343,429	370,536
PPOP growth (%)	6.1	6.7	2.3	6.9	7.9
Core PPOP	277,897	287,243	291,821	312,636	338,204
Provisions & contingencies	97,080	87,636	75,667	87,239	105,252
PBT	197,045	226,267	245,480	256,190	265,284
Extraordinary items	0	0	0	0	0
Tax expense	51,507	56,000	61,861	64,559	66,851
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	145,538	170,267	183,619	191,630	198,433
PAT growth (%)	37.3	17.0	7.8	4.4	3.5
Adjusted PAT	145,538	170,267	183,619	191,630	198,433
Diluted EPS (Rs)	16.0	18.8	20.2	21.1	21.9
Diluted EPS growth (%)	37.3	17.0	7.8	4.4	3.5
DPS (Rs)	3.2	4.0	4.1	4.2	4.6
Dividend payout (%)	20.1	21.3	20.3	19.9	21.0
Effective tax rate (%)	26.1	24.7	25.2	25.2	25.2
Net interest margins (%)	2.7	2.4	2.3	2.3	2.3
Cost-income ratio (%)	47.0	47.3	48.0	48.1	48.0
Shares outstanding (mn)	9,070.7	9,070.7	9,070.7	9,070.7	9,070.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	406,050	315,300	266,657	252,896	260,969
Net NPLs	118,617	73,533	53,331	55,637	65,242
GNPA ratio (%)	4.2	2.9	2.3	1.9	1.8
NNPA ratio (%)	1.3	0.7	0.5	0.4	0.5
Provision coverage (%)	70.8	76.7	80.0	78.0	75.0
Gross slippages	106,260	108,480	121,608	137,606	161,458
Gross slippage ratio (%)	1.1	1.0	1.0	1.1	1.1
LLP ratio (%)	1.0	1.0	0.7	0.7	0.8
NNPA to networth (%)	14.8	7.8	4.9	4.5	4.6
Capital adequacy					
Total CAR (%)	16.3	16.3	16.1	16.7	17.0
Tier-1 (%)	14.0	14.4	13.9	14.2	14.2
CET-1 (%)	11.3	11.9	11.8	12.3	12.6
RNA-to-Total Assets (%)	44.9	44.0	48.0	48.0	48.0
Miscellaneous					
Total income growth (%)	23.7	11.4	3.4	3.0	4.7
Opex growth (%)	16.2	7.7	5.3	7.3	7.7
Core PPOP growth (%)	7.6	3.4	1.6	7.1	8.2
PPOP margin (%)	23.0	22.1	21.8	22.7	23.4
PAT/PPOP (%)	49.5	54.2	57.2	55.8	53.6
LLP-to-Core PPOP (%)	34.9	30.5	25.9	27.9	31.1
Yield on advances (%)	9.0	9.0	8.4	7.9	7.5
Cost of funds (%)	5.5	5.7	5.3	4.9	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	18,141	18,141	18,141	18,141	18,141
Reserves & surplus	851,405	980,860	1,127,289	1,280,823	1,437,530
Net worth	869,546	999,001	1,145,430	1,298,964	1,455,671
Deposits	13,123,666	14,568,832	15,958,525	17,571,746	19,631,047
Borrowings	575,923	896,651	641,736	705,909	776,500
Interest bearing liab.	13,699,589	15,465,483	16,600,260	18,277,656	20,407,547
Other liabilities & prov.	346,272	364,012	385,128	388,675	371,771
Total liabilities & equity	14,915,407	16,828,496	18,130,819	19,965,295	22,234,989
Net advances	9,316,128	10,491,550	11,593,324	12,908,121	14,482,299
Investments	3,574,544	3,803,434	4,088,438	4,468,923	4,889,470
Cash, other balances	1,507,597	2,053,402	1,910,921	2,012,433	2,246,721
Interest earning assets	14,398,270	16,348,386	17,592,683	19,389,478	21,618,491
Fixed assets	122,282	102,152	135,566	145,037	155,204
Other assets	394,856	377,959	402,571	430,780	461,295
Total assets	14,915,407	16,828,496	18,130,819	19,965,295	22,234,989
BVPS (Rs)	85.8	99.9	116.1	133.0	150.3
Adj. BVPS (INR)	77.2	94.6	112.2	128.9	145.5
Gross advances	9,603,561	10,733,317	11,806,649	13,105,381	14,678,026
Credit to deposit (%)	71.0	72.0	72.6	73.5	73.8
CASA ratio (%)	29.9	28.5	27.9	28.6	29.7
Cost of deposits (%)	5.3	5.5	5.1	4.8	4.4
Loans-to-Assets (%)	62.5	62.3	63.9	64.7	65.1
Net advances growth (%)	12.2	12.6	10.5	11.3	12.2
Deposit growth (%)	11.3	11.0	9.5	10.1	11.7
Book value growth (%)	17.7	16.4	16.2	14.6	13.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	5.7	4.8	4.4	4.2	4.1
P/B (x)	1.1	0.9	0.8	0.7	0.6
P/ABV (x)	1.2	1.0	0.8	0.7	0.6
P/PPOP (x)	2.9	2.8	2.7	2.5	2.3
Dividend yield (%)	3.4	4.2	4.3	4.4	4.8
DuPont-RoE split (%)					
NII/avg assets	2.6	2.3	2.2	2.2	2.2
Other income	1.3	1.4	1.3	1.2	1.1
Fee income	0.8	0.8	0.9	0.9	0.9
Opex	1.8	1.8	1.7	1.7	1.6
PPOP	2.1	2.0	1.8	1.8	1.8
Core PPOP	2.0	1.8	1.7	1.6	1.6
Provisions	0.7	0.6	0.4	0.5	0.5
Tax expense	0.4	0.4	0.4	0.3	0.3
RoA (%)	1.0	1.1	1.1	1.0	0.9
Leverage ratio (x)	19.7	18.8	17.8	16.9	16.4
RoE (%)	20.2	20.2	18.7	17.0	15.4
Quarterly data					
Rs mn, Y/E Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
NII	95,802	91,663	93,152	91,486	94,419
NIM (%)	3.1	2.9	2.9	2.7	2.7
PPOP	73,875	76,162	76,538	78,366	82,837
PAT	37,572	39,053	40,145	41,042	50,027
EPS (Rs)	16.6	17.2	17.7	18.1	22.1

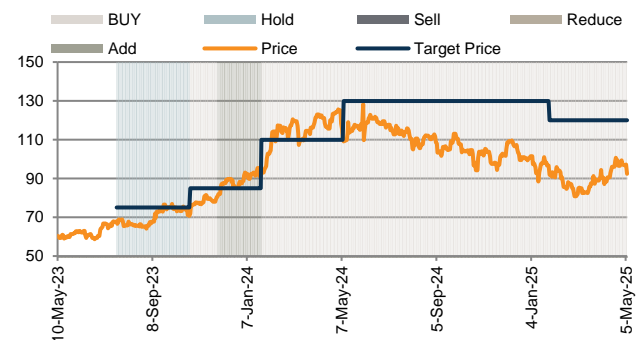
Source: Company, Emkay Research

## RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-25	88	120	Buy	Anand Dama
27-Jan-25	92	120	Buy	Anand Dama
30-Oct-24	103	130	Buy	Anand Dama
25-Jul-24	112	130	Buy	Anand Dama
09-May-24	109	130	Buy	Anand Dama
25-Jan-24	93	110	Buy	Anand Dama
30-Nov-23	81	85	Add	Anand Dama
26-Oct-23	72	85	Buy	Anand Dama
24-Jul-23	68	75	Hold	Anand Dama
09-May-23	61	70	Hold	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research



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<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	<15% downside

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