

About the Company

Founded in 1906, Canara Bank Ltd. (CANBK) is the third-largest PSU Bank in India. Over the years, the Bank has been scaling up its market position to emerge as a major financial conglomerate with as many as thirteen subsidiaries/sponsored institutions in India and abroad. As of Mar'25, CANBK services over ~11.8 Cr customers through a network of 9,849 branches and 11,144 ATMs/Recyclers spread across all Indian states and Union Territories.

Investment Rationale

- **Business growth expected to remain healthy; Lower PCR to support better credit growth:** In FY25, CANBK delivered a healthy gross advances growth of ~12% YoY vs its guidance of 10%. Strong growth momentum was visible in the retail segment (+43% YoY), with the RAM segment reporting 13% YoY growth, while the corporate book grew by 10% YoY. While the retail book growth was ~14-15%, faster growth was steered by retail gold loans, with the bank shifting its focus towards the segment, which is relatively better yielding from agri-gold loans. The management has guided for 10-11% credit growth and 9-10% of deposit growth in FY26; however, this could be a conservative estimate. We have factored in credit growth of 11% CAGR over FY25-27E. This is broadly inline with management guidance, with improved systemic liquidity and lower LCR (72% in FY25), enabling the bank to accelerate credit growth.
- **Asset quality to continue to improve:** CANBK continued to witness a continued asset quality improvement over FY25. In Q4FY25, the slippages were marginally higher owing to higher slippages from the MSME segment, due to technical factors. The asset quality improvement in Q4FY25 was aided by higher write-offs and recoveries. Currently, the bank has a total write-off pool of Rs 780 Bn, and the bank has been recovering at a run rate of Rs 40-50 Bn, mainly from small accounts. Going forward, the bank does not expect any major headwinds on asset quality and has continued to guide for a <1% slippage ratio in FY26. CANBK will continue to strengthen its PCR incl. TWO accounts) to 95% vs ~92.7% in FY25. We expect credit costs to remain under control, ranging between 90bps (+/-5bps).
- **Focused efforts on CASA accretion:** CANBK has enhanced its focus on Retail TD and CASA deposit accretion. The bank has assigned each staff to mobilise Rs 1 Mn worth of CASA and Retail term deposits, and the response so far has been encouraging. Additionally, the bank has opened 500 branches in the last couple of years and plans to open another 250 in FY26. It will open branches in geographies showing strong CASA deposit growth potential.
- **NIMs to stabilize post navigating near-term headwinds:** In Q4FY25, CANBK passed the repo rate cut to its borrowers (T+1 basis); however, the pressure on yields was offset by robust growth in the retail gold loans (better yielding) and re-deployment of excess liquidity. Currently, ~44% of the bank's book is EBLR-linked, and the impact of the rate cut will be meaningful in H1FY26. However, some respite on NIMs could be visible from Q3FY26E onwards. CANBK remains confident of maintaining NIMs between 2.75-2.8%. The bulk deposit rates have softened meaningfully. Moreover, the bank has headroom to lower its SA rates by ~20bps, thereby aiding margins in the latter half of the year.

Valuation & Analyst recommendation:

We believe CANBK remains well placed to deliver RoA/RoE of 0.9-1%/15-16% over the medium term, supported by (i) Ability to maintain steady margins despite near-term headwinds, (ii) Potentially better treasury gains in FY26E, (iii) Stable asset quality trends keeping credit costs under control. CANBK is likely to report Advances/NII/Earnings growth of 11/11/6% CAGR over FY25-27E. **We recommend a BUY on the stock with a target price of Rs 117/share, implying an upside of 11% from the CMP.**

Financial Summary

Y/E March	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY24	366	294	145	16.0	82.8	1.3	1.0	1.3
FY25	371	314	170	18.8	102.0	1.0	1.0	0.7
FY26E	395	324	166	18.4	115.2	0.9	0.9	0.6
FY27E	456	371	191	21.0	131.2	0.8	1.0	0.5

Source: Axis Securities; CMP as on 14th May, 2025

Duration: 3-6 Months

CMP (Rs)	105.8
Target Price (Rs)	117.0
Upside (%)	11%

| Why Canara Bank Ltd

- ✓ **Asset Quality Seeing an Improving Trend**
- ✓ **Healthy Business Growth Prospects**
- ✓ **Ability to Deliver ROA of 1% over Medium Term**

| Key risks

- ✓ **Slowdown in Credit Growth**
- ✓ **Higher Than Expected Margin Headwinds Impacting Earnings**

MARKET DATA

No. of Shares	907.1 Cr
Market Cap	95,949
52-week High / Low	129/79
BSE Code	532483
NSE Code	CANBK

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| OBJECTIVE



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| Axis PUNCH is strong research based idea based on



Events Based: Our recommendations are based on the following critical factors, providing a comprehensive approach to medium-term investment opportunities:

- **Company-Specific Events:** Recommendations consider significant company-specific events such as new orders, product launches, acquisitions, management changes, and the commissioning of new plants.
- **Commodity Price Fluctuations:** We analyze changes in commodity prices, including metals, cement, chemicals, and pharmaceutical materials.
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- **Earnings Surprises:** We identify companies expected to report better-than-anticipated earnings in upcoming quarters.
- **Corporate Actions:** Corporate actions such as mergers and acquisitions, capital raising programs, and regulatory announcements that impact a company or its industry form crucial elements for our recommendations.

Strategic Insights: Benefit from insights based on a blend of critical business events, economic trends, and thorough company valuations.

Informed Decisions: Make well-informed investment decisions backed by the expertise of our dedicated research team.

Medium-term Horizon: Enjoy the medium-term investment strategy, perfectly suited for those looking to optimize returns over 3 to 6 months.

| Why to choose Axis PUNCH



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