

Canara Bank (Revised)

September 7, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Tier-II Bonds (Basel-III) – I #	3,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel-III) – II #	3,900.00 [‡] (Reduced from 4,400.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel-III) – III #	2,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Additional Tier-I Perpetual Bonds (Basel-III) – I	-	-	Withdrawn
Total long-term instruments	9,400.00 (₹ Nine thousand four hundred crore only)		

Details of instruments/facilities in Annexure-1;

[‡]Transferred from erstwhile Syndicate Bank pursuant to its amalgamation with Canara Bank.

#Tier-II Bonds under Basel-III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in the financial losses and raising Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE Ratings Limited's (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier-II instruments even under Basel-II. CARE Ratings has rated the Tier-II Bonds under Basel-III after factoring in the additional feature of PONV.

Detailed rationale and key rating drivers

The ratings assigned to the debt instruments of Canara Bank continue to derive strength from majority ownership by Government of India (GoI) and its demonstrated track record for capital support. Canara Bank merged with Syndicate Bank in April 2020, thus, improving the market position and strategic importance of Canara Bank as the fourth-largest public sector bank (PSB) as on March 31, 2022. The ratings also derive strength from the established retail franchise of the bank with strong network in southern states of India, its experienced management, improvement in profitability indicators along with comfortable capital adequacy levels and strong liquidity position.

The rating strengths are partially offset by relatively low Current Account and Savings Accounts (CASA). The ratings also take note of the improved albeit moderate asset quality levels during FY22 (refers to the period April 1 to March 31) and Q1FY23 as reflected in gross stressed assets of 9.48% as on June 30, 2022.

CARE Ratings has withdrawn the rating assigned to the Additional Tier-I Perpetual Bonds (Basel-III) of Canara Bank with immediate effect, as the company has repaid the aforementioned Additional Tier-I Perpetual Bonds (Basel-III) issue in full and there is no amount outstanding under the issue as on date.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant slippages resulting in deterioration of net non-performing asset (NNPA) ratio above 5.5% thereby impacting the earnings profile.
- Deterioration in the capitalisation levels on a sustained basis and inability to maintain sufficient cushion over the regulatory capital.
- Reduction in government support and GoI's stake in the bank falling below 51%.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GOI and demonstrated support

GoI continues to have majority stake in Canara Bank and it has received periodical capital infusion from GoI, which is expected to continue. As per directive from Ministry of Finance, GOI, Syndicate Bank has merged with Canara Bank effective from April 01, 2020. Currently, Canara Bank is the fourth-largest PSB as on March 31, 2022, increasing the strategic importance of the

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

bank. During the past five fiscals (FY16-FY20 [refers to the period April 1 to March 31]), GOI has infused ₹21,449 crore on a combined basis in Canara Bank and Syndicate Bank. GOI is the majority shareholder holding 62.93% stake as on June 30, 2022 (62.93% as on March 31, 2022). During FY22, the bank raised ₹2,500 crore by way of qualified institutional placement (QIP) issue, in which LIC was the major subscriber. Over the last two years, the bank has raised ₹4,500 crore equity via QIP issue.

Established franchise and deposit base with a strong presence in the southern states

The total business of Canara Bank stood at ₹18.27 lakh crore as on March 31, 2022, with deposit base of ₹10.86 lakh crore and advances of ₹7.41 lakh crore. The bank has an established presence with a network of 9,734 branches and 10,817 ATMs as on March 31, 2022. The bank also has three international branches in New York, London, and Dubai.

Improvement in profitability levels

During FY22, Canara Bank reported improvement in profitability with a profit after tax (PAT) of ₹5,678 crore as against a PAT of ₹2,558 crore in FY21. The improvement in PAT is supported by increase in both, net interest income (NIM) and non-interest income and reduction in the credit cost. During FY22, Canara Bank has increased exposure to higher-rated entities resulting in an impact on the yields of the bank; however, with relatively higher decrease in the cost of deposits, NIM improved to 2.25% in FY22 from 2.22% in FY21. Canara Bank reported pre-provisioning operating profit (PPOP) of ₹23,089 crore in FY22 (PY: ₹20,009 crore in FY21). During FY22, credit cost improved to 1.09% from 1.51% in FY21. Thus, with reduction in the credit cost and stable operating expenses, the bank reported ROTA of 0.48% in FY22 as against 0.24% in FY21.

During Q1FY23, the bank reported PAT of ₹2,022 crore as against PAT of ₹1,177 crore in Q1FY22. With increase in treasury income and reduction in the operating expenses, Canara Bank reported improvement in PPOP of 15% (Y-o-Y) to ₹6,606 crore in Q1FY23 as against ₹5,751 crore in Q1FY22. ROTA stood at 0.65% in Q1FY23.

Improved capitalisation levels in FY22 with mobilisation of fresh equity

Canara Bank has raised capital in the form of equity aggregating to ₹2,500 crore through QIP during FY22. The bank also raised AT1 bonds and Tier-II bonds aggregating to ₹6,500 crore during FY22. Furthermore, in Q2FY23, the bank raised AT1 bonds aggregating to ₹2,000 crore. CB's CET-I, Tier-I and total CAR stood comfortable at 10.26%, 11.91% and 14.90% as on March 31, 2022 as against 8.61%, 10.08%, 13.18% as on March 31, 2021 (10.49%, 12.43% and 14.91%, respectively, as on June 30, 2022). Furthermore, the bank has raised ₹2,000 crore in the form of Tier-II bonds in August 2022, which will further strengthen the capital position of the bank.

Key Rating Weaknesses

Improvement in asset quality with relatively more recoveries and reduced slippages in FY22; however, gross stressed assets stood relatively high at 10.35% as on March 31, 2022

Aided by lower net slippages on account of restructuring framework, higher amount of recoveries and write-off, the bank's asset quality witnessed improvement in FY22. GNPA and NNPA improved to 7.51% and 2.65% as on March 31, 2022, as against 8.93% and 3.82% as on March 31, 2021. The asset quality further improved with GNPA and NNPA of 6.98% and 2.48% as on June 30, 2022.

The bank has restructured the portfolio, under COVID-19 Resolution Framework 1.0 and 2.0 aggregating to ₹19,503 crore as on March 31, 2022. (2.6% of gross advances). The gross stressed assets stood relatively high at 10.35% as on March 31, 2022. (GNPA+ COVID-19 Restructured assets+ SR). The bank has also disbursed Emergency Credit Line Guarantee Scheme (ECLGS) aggregating to around ₹17,000 crore (2.3% of Gross advances). Going forward, the ability of the bank to limit incremental slippages or restructuring and maintain asset quality would be critical to the earnings profile of the bank and the same will be a key rating sensitivity.

Relatively low CASA share

Aided by widespread branch network, Canara Bank has witnessed steady growth in the bank's low-cost CASA deposits by 12% YoY to ₹3.68 lakh crore as on March 31, 2022 from ₹3.30 lakh crore as on March 31, 2021 and the bank's share of CASA in domestic deposits remained almost stable at 35.87% as on March 31, 2022 and 34.30% as on June 30, 2022 (34.33% as on March 31, 2021).

The share of retail term deposits (as a percentage of total deposits) stood at 40.66% as on March 31, 2022, as against 41.58% as on March 31, 2021. The share of bulk deposits marginally reduced to 20% of the total deposits as on March 31, 2022 (21% as on March 31, 2021). As on June 30, 2022, domestic deposits stood at ₹1,052,907 crore, and share of CASA in domestic deposits stood at 34.33% as on June 30, 2022.

Liquidity: Strong

According to the bank's structural liquidity statement (SLS) as on June 30, 2022, there are no negative cumulative mismatches in up to 1-year maturity bucket. Furthermore, the bank has maintained an excess SLR investment of ₹87,121 crore as on June

30, 2022. These factors provide cushion to the bank's liquidity profile. Canara Bank's liquidity coverage ratio stood at 134% for the quarter ended June 30, 2022, against the minimum regulatory requirement of 100%. Furthermore, the bank has access to market liquidity support like liquidity adjustment facility (LAF) and marginal standing facility (MSF) from RBI.

Analytical approach: Standalone along with expected support from GOI.

Applicable criteria

[Criteria on assigning outlook and credit watch to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[Rating Methodology – Banks](#)

[Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

[Factoring Linkages Government Support](#)

[Policy on Withdrawal of ratings](#)

About the Bank

Canara Bank is a Bengaluru-based PSB, which was established in 1906. As per the directive from Ministry of Finance, GOI for amalgamation of Syndicate Bank into Canara Bank, the merger has become effective from April 1, 2020. Currently, Canara Bank is the fourth-largest PSB as on March 31, 2022, increasing the strategic importance of the bank. GOI is the majority shareholder holding 62.93% stake in the bank followed by LIC of India holding 8.83% as on June 30, 2022. As on June 30, 2022, the bank (on combined basis) had 9,732 branches, of which 3,041 are in rural, 2,751 in semi-urban, 1,997 in urban and 1,943 in metro areas. The bank also has three overseas branches located at New York, London, and Dubai. Lingam Venkata Prabhakar is the MD and CEO, who is assisted by a team of Executive Directors and General Managers heading various departments. As on June 30, 2022, the bank had gross advances of ₹783,654 crore and deposits of ₹1,118,122 crore.

Brief Financials (₹ crore)	FY21 (A)	FY22(A)	Q1FY23(P)
Total operating income	84,525	85,907	23,352
PAT	2,557	5,678	2,022
Total Assets	11,34,372	12,09,520	12,68,000
Net NPA (%)	3.82	2.65	2.48
ROTA (%)	0.24	0.48	0.65

A: Audited; P: Provisional

Note: All Analytical ratios are as per CARE Ratings Ltd's calculations.

Total Assets exclude deferred tax assets and are net of revaluation reserve

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier-II Bonds (Basel-III)-I	INE476A08076	March 11, 2020	7.18%	March 11, 2030	3000.00	CARE AAA; Stable
Bonds- Lower Tier-II bonds-II	INE667A09177	December 31, 2012	9.00%	December 31, 2022	1000.00	CARE AAA; Stable
Tier-II Bonds (Basel-III)-II	INE667A08021	March 23, 2015	8.75%	March 23, 2025	400.00	CARE AAA; Stable
Tier-II Bonds (Basel-III)-II	INE667A08013	December 02, 2014	8.95%	December 02, 2024	750.00	CARE AAA; Stable
Tier-II Bonds (Basel-III)-II	INE667A08039	September 28, 2015	8.58%	September 28, 2025	1000.00	CARE AAA; Stable
Tier-II Bonds (Basel-III)-II	INE667A08047	December 18, 2015	8.62%	December 18, 2025	750.00	CARE AAA; Stable
Tier-II Bonds (Basel-III)-II	INE667A08096	-	-	-	-	Withdrawn
Additional Tier-I Perpetual Bonds (Basel-III)-I	INE667A08104					Withdrawn
Tier II Bonds (Basel-III)-III	INE476A08142	December 24, 2021	7.09%	December 24, 2036	2,500.00	CARE AAA; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Tier-II Bonds	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (03-Aug-21)	1)CARE AAA; Negative (03-Sep-20)	1)CARE AAA (CWD) (03-Mar-20)
2	Bonds-Tier-II Bonds	LT	3900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (03-Aug-21)	1)CARE AAA; Negative (03-Sep-20)	-
3	Bonds-Tier-I Bonds	LT	-	-	-	1)CARE AA+; Stable (15-Dec-21) 2)CARE AA+; Stable (24-Nov-21)	1)CARE AA; Negative (03-Sep-20)	-

						3)CARE AA; Stable (03-Aug-21)		
4	Bonds-Tier-II Bonds	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (15-Dec-21)	-	-

*Long term/Short term

Annexure-3 Detailed explanation of covenants of the rated instruments/facilities:

Name of the Instrument	Detailed Explanation
Non-financial covenants	
Conditions for exercise of call option for Tier-II bonds (Basel-III)-I	The bank has call option after 5 years from the date of issue and on each anniversary day with prior approval of Reserve Bank of India.
Conditions for exercise of call option for Tier-II bonds (Basel-III)-III	On the 10th anniversary date from the deemed date of allotment or any anniversary date thereafter with prior approval of RBI, subject to 'Tax call'/'Regulatory Call'

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Tier-I Bonds	Complex
2	Bonds-Tier-II Bonds	Complex
3	Bonds-Tier-II Bonds	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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