Canara Bank

September 5, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds (Basel-III) – I#	3,000.00	CARE AAA; Stable	Reaffirmed
Tier-II Bonds (Basel-III) – II#	2,900.00$ (Reduced from 3,900.00)	CARE AAA; Stable	Reaffirmed
Tier-II Bonds (Basel-III) – III#	2,500.00	CARE AAA; Stable	Reaffirmed

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. The 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 the PONV.

Rationale and key rating drivers

The ratings assigned to the debt instruments of Canara Bank continue to derive strength from the 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 the strategic importance of Canara Bank as the fourth-largest public sector bank (PSB) as on March 31, 2023. The ratings also derive strength from the established retail franchise of the bank with a strong network in the Southern states of India, its experienced management, the improvement in its profitability indicators along with comfortable capital adequacy levels, and the strong liquidity position.

That said, the rating strengths are partially offset by the relatively low current account and savings accounts (CASA). The ratings also take note of the improved albeit moderate asset quality levels during FY23 (FY refers to the period from April 1 to March 31) and Q1FY24, as reflected in the improved gross non-performing assets (GNPA) and gross stressed assets.

Rating sensitivities

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Significant slippages resulting in a deterioration of the net non-performing asset (NNPA) ratio above 3.5%, thereby impacting the earnings profile.
- Deterioration in the capitalisation levels on a sustained basis and inability to maintain sufficient cushion of 1% over the regulatory capital.
- Reduction in government support and the GoI's stake in the bank falling below 51%.

Analytical approach: Standalone, along with expected support from the GoI.

Outlook: Stable

The stable outlook factors in the majority government shareholding in the bank, its strong market position, healthy capitalisation, and healthy profitability.

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

Detailed description of the key rating drivers

Key strengths

Majority ownership by the GOI and demonstrated support

The GoI continues to have majority stake in Canara Bank and it has received periodical capital infusion from the GoI, which is expected to continue. Syndicate Bank had merged with Canara Bank with effect from April 01, 2020. Currently, Canara Bank is the fourth-largest PSB as on March 31, 2023, increasing the strategic importance of the bank. During the period FY16-FY20, the GoI infused ₹21,449 crore on a combined basis in Canara Bank and Syndicate Bank. The GoI is the majority shareholder holding 62.93% stake as on June 30, 2023 (62.93% as on March 31, 2023). During FY21 and FY22, the bank has raised ₹4,500 crore equity via qualified institutional placement (QIP) issue.

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

The total business of Canara Bank stood at ₹20.42 lakh crore as on March 31, 2023, with deposits of ₹11.79 lakh crore and advances of ₹8.63 lakh crore. The bank has an established presence with a network of 9,709 branches and 10,726 ATMs as on March 31, 2023. It also has three international branches in New York, London, and Dubai.

Improvement in profitability during FY23

During FY23, Canara Bank reported an improvement in profitability with a profit-after-tax (PAT) of ₹10,604 crore in FY23 as against a PAT of ₹5,678 in FY22. The improvement in PAT is supported by the increase in both, net interest income (NII) and reduction in the credit cost. During FY23, the bank's yield witnessed improvement, resulting in an improvement in the net interest margin (NIM) to 2.47% in FY23 from 2.25% in FY22. The cost to income stood at 44.79% in FY23 as against 46.16% in FY22. Canara Bank reported a pre-provisioning operating profit (PPOP) of ₹27,716 crore in FY23 as against ₹23,089 crore in FY22. During FY23, the credit cost improved to 1.07% from 1.21% in FY22. Thus, with a reduction in the credit cost and stable operating expenses, the bank reported a return on total assets (ROTA) of 0.83% in FY23 as against 0.48% in FY22.

During Q1FY24, the bank reported a PAT of ₹3,535 crore as against a PAT of ₹2,022 crore in Q1FY23. With an increase in NIM and reducing operating expenses, Canara Bank reported an improvement in the PPOP of 15% (y-o-y) to ₹7,604 crore in Q1FY24 as against ₹6,606 crore in Q1FY23. The ROTA stood at 1.04% in Q1FY24.

Improved capitalisation levels in FY23, supported by good internal accruals

Canara Bank's CET-I, Tier-I, and total capital adequacy ratio (CAR) improved and stood comfortable at 11.59%, 13.78%, and 16.68%, respectively, as on March 31, 2023, as against 10.26%, 11.91%, and 14.90%, respectively, as on March 31, 2022 (11.50%, 13.58%, and 16.24%, respectively, as on June 30, 2023). The improvement in capital adequacy is supported by internal accruals. The bank also raised ₹4,000 crore of AT1 bonds and ₹2,000 crore of Tier II bonds during FY23, which improved the overall CAR. CARE Ratings expects the capital adequacy to remain comfortable in the medium term.

Key weaknesses

Improvement in asset quality with relatively more recoveries and reduced slippages in FY23, however, remained moderate

Aided by lower net slippages and a higher amount of recoveries and write-offs, the bank's asset quality witnessed improvement in FY23. The slippage ratio stood at 1.75% in FY23 as against 2.26% in FY22. The GNPA and NNPA improved to 5.35% and 1.73% as on March 31, 2023, as against 7.51% and 2.65% as on March 31, 2022. The asset quality further improved with GNPA and NNPA of 5.15% and 1.57% as on June 30, 2023. The bank has a standard restructured portfolio under the COVID-19 Resolution Framework 1.0 and 2.0, aggregating to ₹17,989 crore as on March 31, 2023 (2.08% of the gross advances). The gross stressed assets (GNPA + COVID-19 restructured assets + security receipts) improved and stood at 7.51% as on March 31, 2023, as against 10.35% as on March 31, 2022.

Going forward, the ability of the bank to limit incremental slippages or restructuring and maintain asset quality will be critical to the earnings profile of the bank and the same will be a key rating sensitivity.

Relatively low CASA share

Aided by a widespread branch network, Canara Bank has witnessed steady growth in the bank's deposits by 9% y-o-y to ₹11.79 lakh crore as on March 31, 2023, from ₹10.86 lakh crore as on March 31, 2022, and the bank's share of CASA in domestic deposits declined to 33.48% as on March 31, 2023, as against 35.88% as on March 31, 2022. The share of retail term deposits (as a percentage of term deposits) stood at 63% as on March 31, 2023, as against 62% as on March 31, 2022. The share of bulk deposits stood at 37% of the total term deposits as on March 31, 2023 (38% as on March 31, 2022). As on June 30, 2023, domestic deposits stood at ₹1,104,506 crore and the share of CASA in domestic deposits stood at 33% as on June 30, 2023. The improvement in the deposit profile with growth in the CASA ratio remains a key monitorable.

Liquidity: Strong

According to the bank's structural liquidity statement (SLS) as on June 30, 2023, there are no negative cumulative mismatches in up to the one-year maturity bucket. Furthermore, the bank has maintained an excess statutory liquidity ratio (SLR) investment of ₹56,544 crore as on June 30, 2023. Canara Bank's liquidity coverage ratio remained adequate at 129.47% for the quarter ended June 30, 2023, 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 the Reserve Bank of India (RBI).

Environment, social, and governance (ESG) risks

Given that Canara Bank is engaged in the lending business, it may be exposed to environmental risks indirectly through its portfolio of assets. The banking sector, with financial inclusion being the prime agenda, has a social impact on the economy. Within communities, the bank engages in helping and uplifting the underserved communities through its non-profit organisations, which have impacted the people and the society at large.

As part of green initiatives, the bank proposes to increase the usage of energy-efficient forms of electricity, with green energy and solar power. Furthermore, the bank has become a founding member of the Indian Green Building Council (IGBC).

The bank has incorporated Climate ESG Risk in the rating model as a pre-sanction and enhancement exercise for corporate borrowers beyond a certain threshold. The bank is a member of the Indian Banks' Association's (IBA's) Standing Committee on ESG, which is overseeing the implementation of ESG in the banking industry.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

Canara Bank is a Bengaluru-based PSB, which was established in 1906. As per the directive from the Ministry of Finance, GoI, for the 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, 2023, increasing the strategic importance of the bank. The GoI is the majority shareholder, holding 62.93% stake in the bank, followed by the LIC of India holding 8.56% as on June 30, 2023. As on June 30, 2023, the bank (on a combined basis) had 9,653 branches, of which 3,049 are in rural, 2,723 in semi-urban, 1,970 in urban, and 1,911 in metro areas. The bank also has three overseas branches located at New York, London, and Dubai. K Satyanarayana Raju is the Managing Director and CEO, who is assisted by a team of executive directors and general managers heading various departments. As on June 30, 2023, the bank had gross advances of ₹887,671 crore and deposits of ₹1,192,470 crore.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	85,907	103,187	29,823
PAT	5,678	10,604	3,535
Total assets	1,209,520	1,332,276	1,385,472
Net NPA (%)	2.65	1.73	1.57
ROTA (%)	0.48	0.83	1.04

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	0.00	Withdrawn
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

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)-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)-III	INE476A08142	December 24, 2021	7.09%	December 24, 2036	2,500.00	CARE AAA; Stable

*Bank has redeemed the instrument.

Annexure-2: Rating history for the 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 2023-2024	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
1	Bonds-Tier II Bonds	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (03-Aug-21)	1)CARE AAA; Negative (03-Sep-20)
2	Bonds-Tier II Bonds	LT	2900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-22)	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)Withdrawn (07-Sep-22)	1)CARE AA+; Stable (15-Dec-21) 2)CARE AA+; Stable (24-Nov-21)	1)CARE AA; Negative (03-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							3)CARE AA; Stable (03-Aug-21)	
4	Bonds-Tier II Bonds	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (15-Dec-21)	-

*Long term/Short term.

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

Not applicable

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

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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