

Canara Bank

July 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Infrastructure Bonds(Proposed)	10,000.00	CARE AAA; Stable	Assigned
Infrastructure Bonds- I	10,000.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel-III)- I [#]	3,000.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel-III)- II [#]	2,900.00 ^{\$}	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 the 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 the 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, 2024.

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 ratings' 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 FY24 (FY refers to the period from April 1 to March 31), as reflected in the improved gross non-performing assets (GNPA) and stressed assets.

Rating sensitivities : Factors likely to lead to rating actions

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 assets (NNPA) ratio above 3.5%, thereby impacting the earnings profile.
- Deterioration in the capitalisation levels on a sustained basis and the 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.

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

Outlook: Stable

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

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 the latter 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, 2024, 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 March 31, 2024 (62.93% as on March 31, 2023). During FY21 and FY22, the bank has raised ₹4,500 crore equity via a qualified institutional placement (QIP) issue.

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

The total business of Canara Bank stood at ₹22.72 lakh crore as on March 31, 2024, with deposits of ₹13.12 lakh crore and advances of ₹9.60 lakh crore. The bank has an established presence with a network of 9,608 branches and 10,209 ATMs as on March 31, 2024. It also has four international branches in New York, London, Dubai and IBU in Gift City.

Improvement in profitability during FY24

Canara Bank reported an improvement in profitability with a profit-after-tax (PAT) of ₹14,554 crore in FY24 as against a profit-after-tax (PAT) of ₹10,604 crore in FY23. The improvement in PAT is supported by the increase in both, net interest income (NII) and reduction in credit cost. During FY24, the bank's yield witnessed improvement, resulting in an improvement in the net interest margin (NIM) to 2.60% in FY24 from 2.47% in FY23. The cost to income stood at 47.04% in FY24 as against 44.79% in FY23. Canara Bank reported a pre-provisioning operating profit (PPOP) of ₹29,413 crore in FY24 as against ₹27,716 crore in FY23. During FY24, the credit cost improved to 0.69% from 1.07% in FY23. Thus, supported by improved credit the bank reported a return on total assets (ROTA) of 1.04% in FY24 as against 0.83% in FY23.

Comfortable capitalisation levels, supported by good internal accruals

Canara Bank's CET-I, Tier-I, and total capital adequacy ratio (CAR) improved and stood comfortable at 11.58%, 13.95% and 16.28% respectively, as on March 31, 2024 as against 11.59%, 13.78% and 16.68% respectively, as on March 31, 2023. The bank raised ₹3,403 crore of AT1 bonds during FY24. CARE Ratings expects the capital adequacy to remain comfortable in the medium term. CARE Ratings also expects Canara Bank to provide need-based support to its subsidiaries and associates.

Key weaknesses**Improvement in asset quality in FY24, however, remained moderate**

Aided by low net slippages and high amount of write-offs, the bank's asset quality witnessed improvement in FY24. The slippage ratio stood at 1.30% in FY24 as against 1.75% in FY23. The GNPA and NNPA improved to 4.23% and 1.27% as on March 31, 2024 as against 5.35% and 1.73%, respectively, as on March 31, 2023. The bank has a standard restructured portfolio under the COVID-19 Resolution Framework 1.0 and 2.0, aggregating to ₹13,246 crore as on March 31, 2024 (1.38% of the gross advances). The gross stressed assets (GNPA + COVID-19 restructured assets + security receipts) improved and stood at 5.72% as on March 31, 2024 as against 7.51% as on March 31, 2023.

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 11% y-o-y to ₹13.12 lakh crore as on March 31, 2024 from ₹11.79 lakh crore as on March 31, 2023 and the bank's share of CASA in domestic deposits declined to 32.29% as on March 31, 2024 as against 33.48% as on March 31, 2023. The share of retail term deposits (as a percentage of domestic term deposits) stood at 61% as on March 31, 2024 as against 63% as on March 31, 2023. The share of bulk deposits stood at 39% of the total domestic term deposits as on March 31, 2024 (37% as on March 31, 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 March 31, 2024, 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 ₹1,18,129 crore as on March 31, 2024. Canara Bank's liquidity coverage ratio remained adequate at 129.04% for the quarter ended March 31, 2024, against the minimum regulatory requirement of 100%. Furthermore, the bank has access to market liquidity support such as the 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 its green initiatives, the bank increased usage of Solar Power, LED Lights and other sustainable sources of energy.

The Bank has incorporated Qualitative ESG & Climate Risk parameters which forms a part of the existing Proposal Rating Model for better assessment of its Corporate borrowers. The bank is a member of the Standing Committee on ESG of the Indian Banks' Association (IBA), which is overseeing the implementation of ESG in the banking industry.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Government Support](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

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

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, established in 1906. Currently, Canara Bank is the fourth largest PSB as on March 31, 2024, 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 5.83% as on March 31, 2024. As on March 31, 2024, the bank (on a combined basis) had 9,608 branches, of which 3,103 are in rural, 2,751 in semi-urban, 1,907 in urban, and 1,843 in metro areas. The bank also has

four overseas branches located at New York, London, Dubai and IBU in GIFT City. 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 March 31, 2024, the bank had gross advances of ₹9,60,602 crore and deposits of ₹13,12,367 crore.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	103,187	1,27,654
PAT	10,604	14,554
Total assets	1,332,276	14,76,729
Net NPA (%)	1.73	1.27
ROTA (%)	0.83	1.04

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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
Infrastructure Bonds (Proposed)	-	-	-	-	10,000	CARE AAA; Stable
Infrastructure Bonds – I	INE476A08191	September 27, 2023	7.54%	September 27, 2033	5,000	CARE AAA; Stable
Infrastructure Bonds – I	INE476A08209	November 29, 2023	7.68%	November 29, 2033	5,000	CARE AAA; Stable
Tier-II Bonds (Basel-III)-I	INE476A08076	March 11, 2020	7.18%	March 11, 2030	3000.00	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)-III	INE476A08142	December 24, 2021	7.09%	December 24, 2036	2,500.00	CARE AAA; Stable

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 2024-2025	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
1	Bonds-Tier II Bonds	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Sep-23) 2)CARE AAA; Stable (05-Sep-23)	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (03-Aug-21)
2	Bonds-Tier II Bonds	LT	2900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Sep-23) 2)CARE AAA; Stable (05-Sep-23)	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (03-Aug-21)
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) 3)CARE AA; Stable (03-Aug-21)
4	Bonds-Tier II Bonds	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Sep-23) 2)CARE AAA; Stable	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (15-Dec-21)

						(05-Sep-23)		
5	Bonds-Infrastructure Bonds	LT	10000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Sep-23)	-	-
6	Bonds-Infrastructure Bonds	LT	10000.00	CARE AAA; Stable				

LT: Long 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-Infrastructure Bonds	Simple
2	Bonds-Tier II Bonds	Complex
3	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:

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