

Canara Bank

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Infrastructure Bonds- II	10,000.00	CARE AAA; Stable	Reaffirmed
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. 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

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 market position and strategic importance of Canara Bank as the fourth-largest public sector bank (PSB) as on March 31, 2024.

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, improvement in its profitability indicators and comfortable capital adequacy levels, and strong liquidity position.

Ratings' strengths are partially offset by relatively low current account and savings accounts (CASA). Ratings also take note of improved albeit moderate asset quality levels in FY24 (FY refers to April 01 to March 31), as reflected in 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 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, and expected support from GoI

Outlook: Stable

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

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

Detailed description of key rating drivers:

Key strengths

Majority ownership by GoI and demonstrated support

GoI is the majority shareholder, holding 62.93% stake as on June 30, 2024, (62.93% as on March 31, 2023) and the bank has received periodical capital infusion from GoI, which is expected to continue. Syndicate Bank merged with Canara Bank on April 01, 2020. During FY16- FY20, GoI infused ₹21,449 crore on a combined basis in Canara Bank and Syndicate Bank. Currently, Canara Bank is the fourth largest PSB by assets as on March 31, 2024, and has high strategic importance of the bank considering the asset size.

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

Canara Bank's total business stood at ₹23.10 lakh crore as on June 30, 2024, with deposits of ₹13.35 lakh crore and advances of ₹9.75 lakh crore. The bank has an established presence with a network of 9,627 branches and 10,014 ATMs as on June 30, 2024. It also has four international branches in New York, London, Dubai and IBU in Gift City.

Improvement in profitability in FY24

Canara Bank reported an improvement in profitability with profit-after-tax (PAT) of ₹14,554 crore in FY24 as against PAT of ₹10,604 crore in FY23. Improvement in PAT is supported by the increase in net interest income (NII) and reduction in credit cost. In 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. 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. In FY24, credit cost improved to 0.69% from 1.07% in FY23. Thus, supported by reduced credit cost, the bank reported a return on total assets (ROTA) of 1.04% in FY24 as against 0.83% in FY23.

In Q1FY25, the bank reported PAT of ₹3,905 crore on total income of ₹34,020 crore. With increase in cost of deposits, NIM moderated to 2.44% in Q1FY25. Opex remained at 1.83% in Q1FY25. Credit cost improved to 0.61% in Q1FY25. Despite lower NIM, lower credit cost aided ROTA to remain stable at 1.04% in Q1FY25.

Comfortable capitalisation levels, supported by good internal accruals

The bank's current capital adequacy level stood comfortable and remained well above the regulatory requirement. CET-I, Tier-I and total CAR stood 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, (12.05%, 14.37% and 16.38% respectively as on June 30, 2024). Improvement in capital adequacy was majorly considering healthy internal accruals. The bank raised AT1 bonds amounting to ₹3403 crore in FY24 and ₹3000 crore in H1FY25. Tangible net worth (TNW) stood at ₹72,143 crore as on March 31, 2024, as against ₹60,151 crore as on March 31, 2023. CARE Ratings expects 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 lower 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. 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. Asset quality stood stable with GNPA and NNPA at 4.14% and 1.24% as on June 30, 2024. The bank's standard restructured portfolio under the COVID-19 Resolution Framework 1.0 and 2.0, stood at ₹13,246 crore as on March 31, 2024, (1.38% of the gross advances) as against ₹17,989 crore (2.08% of gross advances) as on March 31, 2023. 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 bank's ability to limit incremental slippages and maintain asset quality will be critical to the bank's earnings profile and this will be a key rating sensitivity.

Relatively low CASA share

Aided by a widespread branch network, Canara Bank 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. 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. Share of bulk deposits stood at 39% of total domestic term deposits as on March 31, 2024 (37% as on March 31, 2023).

CASA deposits further declined to 30.98% as on June 30, 2024. Improvement in deposit profile with growth in CASA ratio remains a key monitorable.

Liquidity: Strong

According to the bank's structural liquidity statement (SLS) as on June 30, 2024, there are no negative cumulative mismatches in up to one year maturity bucket. Further, bank has maintained an excess SLR investment of ₹83,804 crore as on June 30, 2024.

CB's liquidity coverage ratio remained adequate at 146.53% for quarter ended June 30, 2024, against the minimum regulatory requirement of 100% and NSFR of 133.74% as on June 30, 2024. Further, the bank has access to market liquidity support like Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) from RBI.

Environment, social, and governance (ESG) risks

The bank has a Green Deposit Policy to encourage individuals to support environmentally friendly initiatives. Deposits are used to fund projects and activities that promote sustainable development. The bank has become a founding member of Indian Green Building Council (IGBC) from April of 2023. The bank has earmarked 100 Branches to obtain IGBC Green Certification as one of green initiatives (Non-credit) under Environmental, Social & Governance framework. The bank has also put in place an e-waste policy, which focuses on recycling of e-waste generated by the bank.

The bank as part of its social obligations has made significant efforts to empower underserved communities through the implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY). The bank opened 1.95 crore of PMJDY accounts. To promote diversity equity inclusive growth, the bank has formed an all women, Women Empowerment Committee Advaita at Bank level with representatives from all levels of the Bank

Canara Bank also has a Whistle Blower mechanism in place which helps to ensure that unethical practices and frauds are reported by the employees. The policy clearly outlines the process of reporting unethical practices. Objective of having the policy in place is to achieve greater transparency in the operational area, protect the interest of bank and adhere to the statutory and regulatory requirements.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services financial services	Financial services	Banks	Public sector bank

Canara Bank is a Bengaluru-based public sector bank established in 1906. Effective from April 01, 2020, another public sector bank (PSB), Syndicate Bank (SB) was amalgamated with Canara Bank.

The amalgamated bank is the 4th largest PSB post amalgamation. Government of India is the majority shareholder holding 62.93% stake in the bank followed by LIC of India holding 6.21% as on March 31, 2024 (PY: 62.93 % and 8.83% respectively). As on March 31, 2024, the bank had 9,608 branches of which 32% of branches are in rural, 29% semi-urban, 19% metro and 20% urban.

The bank also has three overseas branches at New York, London, Dubai. The bank has eight subsidiaries and five associate and JV companies. Mr. K Satyanarayana Raju is the MD and CEO w.e.f. February 07, 2023, who is assisted by a team of executive directors and General Managers heading various departments. As on March 31, 2024, the bank had advances of ₹9,60,602 crore and deposits of ₹13,12,366 crore (PY: ₹8,62,782 crore and ₹11,79,219 crore, respectively as on March 31, 2023. As on June 30, 2024, the bank had advances of ₹9,46,353 crore and deposits of ₹13,35,167 crore with 9,627 branches.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	30-06-2024 (UA)
Total income	1,03,187	1,27,654	34,020
PAT	10,604	14,554	3,905
Total Assets	13,32,276	14,76,729	15,32,193
Net NPA (%)	1.73	1.27	1.24
ROTA (%)	0.83	1.04	1.04

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 Issue (₹ crore)	Rating Assigned and Rating Outlook
Infrastructure Bonds-II	INE476A08233	July 19, 2024	7.40%	July 19, 2034	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 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 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 (08-Jul-24)	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 (08-Jul-24)	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 (08-Jul-24)	1)CARE AAA; Stable (21-Sep-23)	1)CARE AAA; Stable (07-Sep-22)	1)CARE AAA; Stable (15-Dec-21)

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
						2)CARE AAA; Stable (05-Sep-23)		
5	Bonds-Infrastructure Bonds	LT	10000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jul-24)	1)CARE AAA; Stable (21-Sep-23)	-	-
6	Bonds-Infrastructure Bonds	LT	10000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jul-24)	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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 lender-wise details of bank facilities please [click here](#)

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

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in</p>	<p>Analytical Contacts</p> <p>Sanjay Agarwal Senior Director CARE Ratings Limited Phone: +91-22-6754 3500 E-mail: Sanjay.Agarwal@careedge.in</p> <p>Vineet Jain Senior Director CARE Ratings Limited Phone: 91-22-67543623 E-mail: vineet.jain@careedge.in</p> <p>Ravi Shankar R Associate Director CARE Ratings Limited Phone: +91-44-2850 1016 E-mail: ravi.s@careedge.in</p>
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About us:

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