ಕೆನರಾ ಬ್ಯಾಂಕ್ Canara Bank

सिंडिकेट Syndicate

Ref :: SD: 208/07::2021 August 4, 2021

To,
Singapore Stock Exchange
11 North Buona Vista Drive
#06-07 The Metropolis Tower 2
Singapore - 138589

Dear Sir,

Sub : Affirmation of Ratings / Upgradation in Rating Outlook by CARE Ratings (Rating Agency)

The Exchanges are hereby informed that CARE Ratings has revised the Bank's Outlook to Stable from Negative while reaffirming the Ratings. The instrument-wise rating is as under:

Sl No.	Instrument Type	Amount (Rs. Crore)	Rating / Outlook	Rating Action
1.	Tier II Bonds (Basel III)	3,000.00	CARE AAA; Stable (Triple A); Outlook : Stable	Reffirmed; Outlook revised from Negative
2.	Tier II Bonds (Basel III)*	4,400.00	CARE AAA; Stable (Triple A); Outlook : Stable	Reffirmed; Outlook revised from Negative
3.	Additional Tier I Bonds (Basel III)*	1,450.00 (Reduced from 3,250.00)	CARE AA; Stable (Double A); Outlook : Stable	Reffirmed; Outlook revised from Negative
	Total	**8,850.00 (Rupees Eight Thousand Eight Hundred Fifty Crore Only)**		

**Issued by Erstwhile Syndicate Bank*

The details of the rating along with the rating rationale is available on their website (www.careratings.com). A copy of the ratings along with the rating rationale is also enclosed herewith.

This is for your information and appropriate dissemination.

Yours faithfully,

कृते केनरा बैंक
For CANARA BANK

सहायक महा प्रबंधक और कंपनि सचिव
Assistant General Manager & Company Secretary

VINAY MOHTA
COMPANY SECRETARY

केनरा बैंक CANARA BANK Secretarial Dept., H.O., Bangalore-2 - 560 002 सचिवालय विभाग, प्रधान कार्यालय, बेंगलूर

सचिवीय विभाग
प्रधान कार्यालय
112, जे सी रोड बेंगलूरु - 560002
E-Mail - hosecretarial@canarabank.com

Secretarial Department
Head Office
112 J C Road, Bengaluru - 560002
www.canarabank.com

F +91 80 22248831
T +91 80 22100250

Canara Bank

August 3, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)#	3,000.0	**CARE AAA; Stable (Triple A); Outlook: Stable**	**Reaffirmed; Outlook revised from Negative**
Tier II Bonds (Basel III)#	4,400.0$	**CARE AAA; Stable (Triple A); Outlook: Stable**	**Reaffirmed; Outlook revised from Negative**
Additional Tier I Bonds (Basel III)@	1,450.0$ (Reduced from 3,250)	**CARE AA; Stable (Double A); Outlook: Stable**	**Reaffirmed; Outlook revised from Negative**
Total	8,850.0 **(Rs. Eight thousand eight hundred fifty 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 characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a 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 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's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier-II instruments even under Basel II. CARE has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV.

@CARE has rated the aforesaid Basel III Compliant Additional Tier-I Bonds after taking into consideration its key features as mentioned below:

- *The bank has full discretion at all times to cancel coupon payments.*
- *The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves and/or credit balance in profit and loss account provided the bank meets the minimum regulatory 2 CARE Ratings Limited Press Release requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].*
- *The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after October 1, 2021, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI. Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to debt instruments of Canara Bank continue to derive strength from majority ownership by Government of India (GoI), its market position as fourth-largest Public Sector Bank (PSB), its established retail franchise with strong network in southern states of India and experienced management. The rating strengths are partially offset by relatively low CASA and modest asset quality levels. The ratings also take note of improvement in capitalization levels supported by fresh equity infusion of Rs.2,000 crore in FY21 (refers to the period April 1 to March 31).

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 impacting earnings profile and deterioration in Net NPA to net worth.
- Deterioration in capitalisation levels on a sustained basis and inability to maintain sufficient cushion over the regulatory capital.

Outlook: Stable

The revision in the outlook from Negative to Stable factors in lower than expected slippages in FY21. As on March 31, 2021, GNPA stood at 8.93% (slightly better than GNPA of 9.39% as on March 31, 2020) and the slippage ratio was 2.35% in FY21. During FY21, on account of COVID-19 pandemic-induced slowdown, increase in slippages was expected. Furthermore, there was limited capital cushion available to absorb the losses. However, aided by lower net slippages on account of various measures announced by RBI including extension of moratorium & additional credit lines under various schemes and along with higher amount of recoveries, the bank's asset quality witnessed slight improvement in FY21. Moreover, the bank has been able to raise capital funds in a timely manner in FY21 aggregating to Rs.4,936 crore, which has improved the capitalization levels of the bank. The bank has also received board's approval for setting off accumulated loss amounting Rs.18,495.30 crore against share premium reserve which is expected to improve the amount of distributable reserves available for AT1 coupon payment.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India (GOI) and demonstrated support

Government of India (GoI) continues to have majority stake in the bank from which CB has received periodical capital infusion and experienced management and the same is expected to continue. As per directive from Ministry of Finance, GOI, Syndicate Bank (SB) has merged with Canara Bank (CB) effective from April 01, 2020. The amalgamated bank is the fourth-largest PSB post amalgamation increasing the strategic importance of the bank. During past five fiscals (FY16-FY20), Government of India (GOI) has infused Rs.21,449 crore on a combined basis in Canara Bank and Syndicate Bank. As part of its recapitalization plan, GOI had infused Rs.6,571 crore during September 2019. GOI is the majority shareholder holding 69.33% stake as on March 31, 2021 (78.52% as on March 31, 2020). During Q3FY21, the bank raised Rs.2,000 crore by way of QIP issue in which LIC was major subscriber.

Merger update:

The bank has completed integration process in terms of policies and processes for services provided to customers, and customers of both Canara Bank and e-Syndicate Bank can avail the services from any of the branches of the merged entity. Treasury operations and IT processes have been successfully integrated from April 01, 2020. The bank has reorganized the Regional Offices, Circle Offices and created various Verticals at Head Office to meet the requirement of Amalgamated Bank. The Migration of CBS to upgraded version 11.8 and Peripheral Applications (Internet Banking, Mobile Banking, UPI, CTS, Government Business Modules, etc) was completed in January 2021.

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

Total business of the bank stood at Rs.16.86 lakh crore as on March 31, 2021 with deposit base of Rs.10.10 lakh crore and advances of Rs.6.75 lakh crore. The bank has an established presence with network of 10,416 branches and 12,272 ATMs as on March 31, 2021. With both banks being based out of South India, CB has a strong network with 45.23% of branches and deposit base especially in south India.

Improvement in Profitability in FY21

During FY21, the bank reported PAT of Rs.2,557 crore as against loss of Rs.5,838 crore reported in FY20. The improvement in PAT is supported by both increase in net interest income and non-interest income. Supported by relatively higher decrease in cost of deposits, NIM improved to 2.22% in FY21 from 2.01%. With increase of 40% in non-interest income and relatively stable operating expenses, Canara Bank reported pre-provisioning operating profit (PPOP) of Rs.20,009 crore in FY21 (PY: Rs.12,832 crore in FY20). During FY21, Credit cost improved to 1.61% from 1.85%. The bank made additional provision in FY21 on account of Covid-19, aggregating to Rs.500 crore. Total Provisioning on account of Covid-19 stood at Rs.994 crore (of this Rs.494 crore corresponds to provision related to OTR accounts). The provision coverage ratio (Including technical write-off) stood at around 80%.

Capital Adequacy improved with fresh Infusion of Capital in FY21

Canara Bank raised capital in form of AT1 bonds and Common Equity during FY21 aggregating to Rs.4,936 crore. The bank has raised Equity Capital to the tune of Rs.2,000 crore in Q3FY21 through QIP. CB's CET I, Tier I and Total CAR stood at 8.62%, 10.08% and 13.18% as on March 31, 2021 as against 8.40%, 9.56% and 12.96% as on April 1, 2020. The bank has board approval to raise Rs.9,000 crore, which includes equity capital of Rs.2,500 crore, AT1 issue of Rs.4,000 crore and Tier II bonds issue of Rs.2,500 crore. With mobilisation of equity, capitalisation levels are expected to improve in FY22.

Key Rating Weaknesses

Improvement in asset quality with relatively more recoveries and reduced slippages in FY21 despite pandemic induced economic slowdown

Bank's asset quality continues to remain moderate albeit improved during FY20 and FY21. Aided by lower net slippages on account of various measures announced by RBI including extension of moratorium & additional credit lines under various schemes, higher amount of recoveries and write-off, the bank's asset quality improved in FY21. Bank's Gross NPA ratio improved to 8.93% (PY:9.39%) and Net NPA ratio improved of 3.82% (PY: 4.34%). The slippage ratio improved to 2.35% in FY21 from 4.28% in FY20. Going forward, with challenging macro environment due to COVID-19, the impact of second wave of Covid-19 remains to be seen. However, as per RBI circular dated May 5, 2021, the banks are allowed to provide relief to borrowers including by way of moratorium. 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 but high retail deposit

Aided by widespread branch network, the bank has witnessed steady growth in the bank's low-cost CASA deposits by 14% YoY to Rs.3.30 lakh crore as on March 31, 2021 from Rs.2.90 lakh crore as on March 31, 2020 (on combined basis) and the bank's share of CASA in domestic deposits improved to 34.33% as on March 31, 2021 from 33.36% as on March 31, 2020. Share of bank retail term deposit (as a % of total deposit) stood at 41.58% as on March 31, 2021 (PY: 39.84%). Share of Bulk deposits reduced to 21.00% of the total deposits as on March 31, 2021 (24.10% as on March 31, 2020).

Impact of Covid-19

Impacted by the second wave of Covid-19, In April 2021, Collection Efficiency reduced to 88.8% from 92% in March 2021. The bank has restructured around Rs.5,086 crore of portfolio under resolution framework 1.0 and has disbursed Rs.10,383 crore under ECLGS in FY21. The bank has also sanctioned Covid-19 Loan aggregating to Rs.1,576 crore for Medical loan book in Q1FY22. The bank has additional Rs.500 crore as floating provision and Rs.494 crore provision for OTR accounts RBI's resolution framework 2.0 shall enable the bank to provide moratorium up to 2 years. The same is expected to moderate the impact on asset quality. During Q1FY22, CB has restructured loans amounting Rs.13,234 crore under resolution framework 2.0.

Liquidity: Strong

According to the bank's structural liquidity statement (SLS) as on March 31, 2021, there are no negative cumulative mismatches in up to 1-year maturity bucket. Furthermore, the bank has maintained an excess SLR investment of Rs.103,942 crore as on March 31, 2021. These factors provide cushion to the bank's liquidity profile. CB's liquidity coverage ratio stood at 129.18% for quarter ended March 31, 2021, against the minimum regulatory requirement of 90% (till March 31, 2021). (100% from April 1, 2021). Further, 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's Policy on Default Recognition
Rating Methodology – Banks
Financial ratios – Financial sector
Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks
Factoring Linkages Government Support

About the Company

Canara Bank (CB) is a Bengaluru-based public sector bank which was established in 1906. As per directive from Ministry of Finance, GOI for amalgamation of Syndicate Bank (SB) into Canara Bank the merger has become effective from April 1, 2020. The amalgamated bank is the fourth-largest PSB post amalgamation. GOI is the majority shareholder holding 69.33% stake in the bank followed by LIC of India holding 8.11% as on March 31, 2021. As on March 31, 2021, the Bank (on combined basis) had 10,416 branches, of which 3,069 are in rural, 3,140 in semi urban, 2,094 in urban and 2,113 in metro areas. The bank also has four overseas branches located at New York, London, Hong Kong and Dubai. Mr 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 March 31, 2021, the bank had advances of Rs.675,155 crore and deposits of Rs.1,010,875 crore.

Brief Financials (Rs. crore)	FY20*	FY21 (A)*
Total operating income	81,710	84,525
PAT	-5,838	2,557
Total Assets	10,28,429	11,34,372
Net NPA (%)	4.34	3.82
ROTA (%)	-0.58	0.24

*A: Audited; *Combined Financials of CB+SB.*
Note: All Analytical ratios are as per CARE'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

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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	1000.0	CARE AAA; Stable
Tier II Bonds (Basel III)-II	INE667A08021	March 23, 2015	8.75%	March 23, 2025	400.0	CARE AAA; Stable
Tier II Bonds (Basel III)-II	INE667A08013	December 02, 2014	8.95%	December 02, 2024	750	CARE AAA; Stable
Tier II Bonds (Basel III)-II	INE667A08039	September 28, 2015	8.58%	September 28, 2025	1000.0	CARE AAA; Stable
Tier II Bonds (Basel III)-II	INE667A08047	December 18, 2015	8.62%	December 18, 2025	750.0	CARE AAA; Stable
Tier II Bonds (Basel III)-II	INE667A08096	May 03, 2017	8.00%	May 03, 2027	500.0	CARE AAA; Stable
Additional Tier I Perpetual Bonds (Basel III)-I	INE667A08088	October 24, 2016	9.95%	Perpetual	1000.0	CARE AA; Stable
Additional Tier I Perpetual Bonds (Basel III)-I	INE667A08104	July 25, 2017	9.80%	Perpetual	450.0	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Tier II Bonds	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Negative (03-Sep-20)	1)CARE AAA (CWD) (03-Mar-20)	-
2.	Bonds-Tier II Bonds	LT	4400.00	CARE AAA; Stable	-	1)CARE AAA; Negative (03-Sep-20)	-	-
3.	Bonds-Tier I Bonds	LT	1450.00	CARE AA; Stable	-	1)CARE AA; Negative (03-Sep-20)	-	-

Annexure-3 Detailed explanation of covenants of the rated instrument / facilities

Basel III Tier-II bonds	Detailed explanation
Non-Financial covenants	
i. Conditions for exercise of call option	On or after the 5th anniversary date from the date of allotment or any anniversary issuer may at its sole discretion, having notified the trustee not less than 21 calendar days prior to date of exercise of such issuer call subject to prior approval of RBI subject to tax call/regulatory call or issuer demonstrates that its capital position is well above the minimum capital requirements after the issuer call is exercised.

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

Sr No	Name of instrument	Complexity level
1	Tier II Bonds (Basel III)	Simple
2	Tier II Bonds (Basel III)	Complex
3	Lower Tier II	Complex
4	Tier I Bonds (Basel III)	Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Name: Mr. P Sudhakar
Tel: 044-2850 1000
Email: p.sudhakar@careratings.com

Analyst Contact 2
Name: Mr. Ravi Shankar R
Contact no. - 044-2850 1016
Email ID: ravi.s@careratings.com

Relationship Contact
Name: Mr. Pradeep Kumar V
Contact no.: 044-2850 1001
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**