केनरा बैंक Canara Bank

सिंडिकेट Syndicate

Ref:: SD:414/415/11/12::2021 **17.11.2021**

The Vice President **BSE Ltd.** **Phiroze Jeejeebhoy Towers** **Dalal Street** **MUMBAI - 400 001** Scrip Code: **532483**	**The Vice President** **Listing Department** **National Stock Exchange of India Ltd** **EXCHANGE PLAZA** **Bandra-Kurla Complex, Bandra [E]** **MUMBAI - 400 051** Scrip Code: **CANBK**

Dear Sir/Madam,

Sub : Upgradation/Affirmation of Ratings by India Ratings & Research (Rating Agency)
Ref : Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015

The Exchanges are hereby informed that India Ratings & Research (Ind-Ra) has upgraded the rating of Bank's Basel III AT1 bonds to 'IND AA+/Stable'. India Ratings & Research has also affirmed its Long Term Issuer rating and rating on the Basel III Tier 2 instruments to 'IND AAA/Stable. The summary of rating action is as under:

Sl. No.	Instrument Type	Size of Issue (billion)	Rating/Outlook	Rating Action
1	Long-Term Issuer Rating	-	IND AAA/Stable	Affirmed
2	Basel III AT1 bonds	INR 99	IND AA+/Stable	Upgraded
3	Basel III Tier 2 instrument	INR 100	IND AAA/Stable	Affirmed
4	Certificate of Deposits	INR 300	WD	Withdrawn (Paid in Full)

The detailed rating action along with the rating rationale is available on their website (www.indiaratings.co.in). 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

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VINAY MOHTA
COMPANY SECRETARY

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India Ratings Upgrades Canara Bank’s AT1 Bonds to ‘IND AA+’/Stable; Affirms Other Ratings

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NOV 2021

By Jindal Haria

India Ratings and Research (Ind-Ra) has taken the following rating actions on Canara Bank (Canara):

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Basel III AT1 bonds*	-	-	-	INR99 (reduced from INR127)	IND AA+/Stable	Upgraded
Basel III Tier 2 instrument*	-	-	-	INR100	IND AAA/Stable	Affirmed
Certificate of deposits	-	-	7-365 days	INR300	WD	Withdrawn (paid in full)

* Details in annexure

The upgrade of the bank’s AT1 rating reflects Ind-Ra’s strengthening view that the government of India’s (GoI) support stance for the junior debt of public sector banks (PSBs) remains fairly strong, and it could be closer to the support stance for the senior debt than earlier envisaged, and hence, the anchor rating for AT1 instruments would increasingly be considered as the issuer default rating. While the junior debt has been designed for loss absorption before public funds could be infused, Ind-Ra believes that the government and regulator may be considering that losses incurred by the investors of junior debt of PSBs could have a high systemic impact and would not be limited to challenges regarding PSBs’ system-wide ability to access hybrid instruments. Please refer to ‘Anchor Rating for PSBs’ AT1 Shifted to Long-term IssuerRating on Stronger Government Support Stance’ for more details.

This assessment has been strengthened by multiple precedents, including the following: i) the accounting policy change that has enabled banks to offset accumulated losses with the share premium reserve, thereby increasing the AT1 coupon servicing ability; ii) expanding the definition of distributable reserves; iii) timing equity infusions in a manner that enabled the PSBs to exercise call options, iv) providing of asset recognition and provision concessions through stress events while the corporate stress cycle was underway, and most recently, v) the redefining of the prompt corrective action benchmarks, giving the Reserve Bank of India greater discretion in terms of attributing point of non-viability. The first point has significantly enhanced the government’s ability to bail out AT1 instruments even if the bank reserves are depleted.

Additionally, the balance sheets of PSBs have been significantly strengthened in the wake of COVID-19. The banks have substantially ramped up the provision cover on legacy gross non-performing assets and have strengthened their standalone financial profiles, especially in terms of the asset quality being manageable in the aftermath of the pandemic and the capital levels (including CET1) being the highest in the last four-to-five years.

The Long-Term Issuer Rating factors in Canara’s systemically important position and Ind-Ra’s expectations that the bank will continue to receive support from the GoI. The rating also considers the bank’s demonstrated equity raising ability, further plans for the same and the likelihood of improved material profitability over FY22-FY23, which could help the bank maintain and possibly grow its market share in advances and deposits.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank’s senior debt factoring in a higher probability of an ultimate loss for investors in these bonds.

KEY RATING DRIVERS

Systemic Importance: Canara is the fourth-largest public sector bank (PSB) and the seventh-largest bank on an overall basis in the country in terms of its assets. Post Canara’s amalgamation with Syndicate Bank, its share in net advances increased to 6.3% at FYE21 (FYE19: 4.6%) and that in deposits to 6.3% (4.9%). The bank was the fourth-largest at FYE21 in terms of number of states, union territories and districts where it was a lead bank; this, in the agency’s view, is an indicator of its role in financial inclusion in the country. Among its peers, Canara’s common equity tier 1 (CET1), which has been the lowest over the last few years, has increased materially, given the bank’s enhanced ability to raise equity from the markets. While Canara received a capital infusion of INR48.6 billion from the GoI in FY18 and INR65 billion in 1HFY20, it also raised about INR45 billion of equity from the market during 2HFY21-1HFY22.

Medium-Term Capital Plans: Canara's CET1 increased to 10.1% at end-1HFY22 (end-FY21: 8.61%) on the back of 0.4% annualised return on assets, steady risk weighted assets with a modest increase in advances, the utilisation of deferred tax assets, and equity raised from markets. The bank has revoked its plan to sell its stake in its subsidiary, Can Fin Homes ('IND AA'/Stable). Canara's provision cover (excluding technical write-offs) stood at 64% at end-1HFY22, only modestly lower than the average of 66% for the top five PSBs (other than State Bank of India ('IND AAA'/Stable). Furthermore, the bank's CET1 less net non-performing assets is also closer to the average for the same five banks. Ind-Ra expects that manageable asset quality would enable the bank to maintain its profitability though the rest of FY22; This combined with further utilisation of deferred tax assets would help Canara to at least maintain its capital levels.

The planned AT1 issuances would mostly replace the older instruments, which have call dates scheduled, and hence, is replacement capital through FY22. Ind-Ra expects Canara to shore up its capital further in the medium term to stay at par with peer banks. The bank also plans to raise about INR25 billion of tier 2 bonds, which would bolster its total capital adequacy.

Improvement in Deposit Profile: With the seasoning of the branches set up during FY13-FY15 (52% growth in branches), Canara's low-cost current account and savings account deposits increased to about 32% at end-1HFY22 (FY21: 33%, FY20: 31.4%, FY15: 24%). The retail term deposits grew 16% yoy in FY21 (FY20: 18% yoy) against 12% yoy growth in total deposits (9% yoy). The competitive intensity for deposits has traditionally been high in Karnataka (accounts for about 20% of the bank's deposits). Ind-Ra believes the amalgamated entity could have higher pricing power on both assets and liability side with lower competition, given that the erstwhile Canara Bank and Syndicate Bank had a large presence in Karnataka and are now amalgamated.

Liquidity Indicator – Adequate: The bank's March 2021 asset-liability management demonstrated an asset funding surplus (excess of short-term assets over short term liabilities) of 3%, displaying a substantial and sustained improvement from the funding gap of about 12% in FY18. The bank's excess statutory liquidity qualifying securities of about INR454 billion also provide substantial liquidity comfort in addition to the mandatory cash reserve and statutory liquidity ratio requirements. Canara's average liquidity coverage at end-June 2021 stood at 133.4%, higher than the minimum regulatory requirement.

Material Profitability in FY22; Scope for Improvement in Quality of Earnings : Canara reported a modest profit of about INR25.10 billion in 1HFY22 (FY21: net profit of INR25.57 billion; FY20: loss of INR58.38 billion), mainly backed by the decline in credit costs. The net profitability of the bank (and most other PSBs) has been also substantially driven by income from the sale of investments (has been material in FY21 and 1HFY22) and recoveries from written off assets; the bank witnessed significant recoveries from a large housing finance company during 1HFY22. For 1HFY22, these two items amounted to INR29.34 billion, translating into 1.17x of the net profit; the ratio is at similar levels for most other banks. The bank had unutilised provisions of INR5 billion at end-1HFY22, which it could utilise in 2HFY22. Ind-Ra expects the bank to continue to face credit costs of about 2%-2.25% per year in FY22 and FY23, as slippages on account of the second wave of COVID-19 continue to impact the bank's asset quality; at end-1HFY22, the restructured assets constituted about 3% of the bank's advances and the disbursement under emergency credit line guarantee scheme amounted to about INR110 billion. Ind-Ra believes these credit costs will emanate from aging provisions, slippages from existing stressed accounts, the restructured book and the accounts that are supported via emergency credit lines. The bank might be able to achieve a higher operating leverage as it grows its scale and fortifies its yield, with a continued rise in the share of non-corporate assets.

RATING SENSITIVITIES

Negative: Canara's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if, in Ind-Ra's opinion, there is a change in the GoI's support stance for public sector banks or there is material drop in the banks' systemic importance, which could, among other things, reflect in a material decline in Canara's market share or loss of deposit franchise.

The notching of the AT1 bonds could be widened from its anchor ratings if Ind-Ra believes that there is a dilution in the government's support stance towards hybrid instruments of public sector banks or any delay in the timeliness of extending this support. This could reflect among other things in capital buffers continuing to be close to the regulatory levels. Ind-Ra also expects that for banks with weaker unsupported profiles, the capital buffers would be higher; if not, it could reflect in wider notching from the Long-Term Issuer Rating. These capital buffers could be important as the banks' ability to service the instrument could be impaired in the event of the bank making losses and/or if the capital levels are lower than the regulatory minimum levels.

COMPANY PROFILE

Canara has a pan-India presence, with the third-largest network of more than 10,400 domestic branches at FYE21. Of its branches, 60% are based in rural and semi-urban areas, supporting the GoI's initiative of banking for all.

FINANCIAL SUMMARY

Particulars (INR billion)	**1HFY22**	**FY21**	**FY20 (Amalgamated)**
Net advances	6,495.84	6,390.49	6,164.75
Total deposits	10,325.36	10,108.75	9,055.23
Net income/loss	25.1	25.57	-58.38
CET I (%)	10.1	8.61	8.40
Capital adequacy ratio (%)	14.4	13.18	12.96
Source: Canara, Ind-Ra			

RATING HISTORY

Instrument Type	**Current Rating/Outlook**		**Historical Rating/Outlook/Rating Watch**

	Rating Type	Rated Limits (billion)	Rating	1 July 2021	22 December 2020	14 October 2020	22 May 2020	28 February 2020	4 December 2019	4 September 2019	10 June 2019	26 October 2018
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/RWN	IND AAA/RWN	IND AAA/RWN	IND AAA/RWN	IND AAA/Stable	IND AAA/Stable
Basel III Tier 2 instrument	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/RWN	IND AAA/RWN	IND AAA/RWN	IND AAA/RWN	IND AAA/Stable	IND AAA/Stable
Basel III AT1 bonds	Long-term	INR99	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/RWN	IND AA/RWN	IND AA/RWN	IND AA/RWN	IND AA/Stable	IND AA/Stable
Certificate of deposits	Short-term	INR300	WD	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	-

ANNEXURE

Instrument Type	ISIN	Issue Size (billion)	Date of Allotment/Issuance	Amount Outstanding (billion)	Coupon Payment Frequency	Coupon rate/Interest Rate (%)	Principal Payment Due Dates	Instrument Maturity Date	Rating/Outlook
Basel III Tier 2 instrument									
BASEL III TIER II Bonds 2015-16 (Series I)	INE476A09264	INR15	31 December 2015	INR15	Annual	8.4	31 December 2025	31 December 2025	IND AAA/Stable
BASEL III TIER II Bonds 2015-16 (Series II)	INE476A08043	INR9	7 January 2016	INR9	Annual	8.4	7 January 2026	7 January 2026	IND AAA/Stable
BASEL III COMPLIANT TIER II Bonds 2016-17	INE476A08050	INR30	27 April 2016	INR30	Annual	8.4	27 April 2026	27 April 2026	IND AAA/Stable
Basel III-complaint Tier II bonds	INE667A08096	INR5	3 May 2017	INR5	Annual	8.0	3 May 2027	3 May 2027	IND AAA/Stable
Basel III-compliant Tier II bonds 2019-20	INE476A08076	INR30	11 March 2020	INR30	Annual	7.18	11 March 2030	11 March 2030	IND AAA/Stable
	Utilised limit			INR 89					
	Unutilised limit			INR11					
	Total			INR 100					
Basel III AT1 bonds									
BASEL III COMPLIANT ADDITIONAL TIER I	INE476A08068	INR10	13 December 2016	INR10	Annual	8.6	Perpetual Bond - Call Option- 13 December 2021)	Perpetual	IND AA+/Stable
BASEL III COMPLIANT ADDITIONAL TIER 1	INE476A08035	INR15	5 March 2015	INR15	Annual	9.55	Perpetual Bond - Call Option- 5 March 2025	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE667A08062	INR3.7	30 March 2016	INR3.7	Annual	11.25	NIL	Perpetual	WD (paid in full)
Basel III AT1 perpetual bonds	INE667A08054	INR5	30 March 2016	INR5	Annual	11.25	NIL	Perpetual	WD (paid in full)
Basel III AT1 perpetual bonds	INE667A08070	INR9.3	15 July 2016	INR9.3	Annual	11.25	NIL	Perpetual	WD (paid in full)

Basel III AT1 perpetual bonds	INE667A08104	INR4.5	25 July 2017	INR4.5	Annual	9.80	NIL	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08084	INR 10.12	11 September 2020	INR 10.12	Annual	8.3	Perpetual Bond - Call option after the bond run for at least five years	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08092	INR1.691	29 September 2020	INR1.691	Annual	8.3	Perpetual Bond - Call option after the bond run for at least five years	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08100	INR16.35	31 December 2020	INR16.35	Annual	8.5	Perpetual Bond - Call option after the bond run for at least five years	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08118	INR1.2	2 February 2021	INR1.2	Annual	8.3	Perpetual Bond - Call option after the bond run for at least five years	Perpetual	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08126	INR 15	25 October 2021	INR 15	Annual	8.4	Perpetual Bond - Call option after the bond run for at least five years	Perpetual	IND AA+/Stable
	Utilised limit			INR73.861					
	Unutilised limit			INR25.139					
	Total			INR99.0					

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Basel III AT1 bonds	High
Basel III Tier 2 bonds	Moderate

Certificates of deposit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies
Rating Bank Subordinated and Hybrid Securities

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