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<b>The Vice President BSE Ltd. Phiroze Jeejeebhoy Towers Dalal Street MUMBAI - 400 001</b>	<b>The Vice President Listing Department National Stock Exchange of India Ltd EXCHANGE PLAZA Bandra-Kurla Complex, Bandra [E] MUMBAI - 400 051</b>
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Dear Sir/Madam,

**Sub : Affirmation of Ratings by India Ratings & Research (A Fitch Group Company)**

**Ref : Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015**

The Exchanges are hereby informed that India Ratings & Research has revised the Bank's Outlook to Stable from Negative while affirming the Long-Term Issuer Rating at 'IND AAA.' The instrument-wise rating is as under:

Sl No.	Instrument Type	Size of Issue (billion)	Rating / Outlook	Rating Action
1.	Basel III AT1 bonds	INR34	IND AA/Stable	Assigned
2.	Basel III Tier 2 instrument	INR100	IND AAA/Stable	Affirmed; Outlook revised to Stable from Negative
3.	Basel III AT1 bonds	INR93	IND AA/Stable	Affirmed
4.	Certificate of deposits	INR300	IND A1+	Affirmed
5.	Certificate of deposits	INR150	WD	Withdrawn (paid in full)

The details of the rating along with the rating rationale is available on their website (<https://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

  
सहायक महा प्रबंधक और कर्पनि सचिव  
Assistant General Manager & Company Secretary  
**VINAY MOHTA**  
COMPANY SECRETARY



सचिवीय विभाग  
प्रधान कार्यालय  
112, जे सी रोड बेंगलूरु - 560002  
E-Mail - [hosecretarial@canarabank.com](mailto:hosecretarial@canarabank.com)

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

F +91 80 22248831  
T +91 80 22100250

## India Ratings Revises Canara Bank's Outlook to Stable; Affirms 'IND AAA'; Rates AT1 Bonds

# 01

JUL 2021

By [Jindal Haria](#)

India Ratings and Research (Ind-Ra) revises Canara Bank's (Canara) Outlook to Stable from Negative while affirming the Long-Term Issuer Rating at 'IND AAA'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III AT1 bonds*	-	-	-	INR34	IND AA/Stable	Assigned
Basel III Tier 2 instrument*	-	-	-	INR100	IND AAA/Stable	Affirmed; Outlook revised to Stable from Negative
Basel III AT1 bonds*	-	-	-	INR93	IND AA/Stable	Affirmed
Certificate of deposits	-	-	7-365 days	INR300	IND A1+	Affirmed
Certificate of deposits	-	-	7-365 days	INR150	WD	Withdrawn (paid in full)

\* Details in annexure

The affirmation of 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 government of India (GoI). The Outlook revision reflects the bank's ability to absorb the impact of asset quality deterioration in FY21 without material deterioration in its credit profile, demonstrated equity raising ability and further plans for the same and expectations of modest profitability in FY22-FY23 that 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.

The bank witnessed a sharp improvement in its distributable reserves on an amalgamated basis at end-June 2020, resulting in a significant improvement in its coupon-paying ability on AT1 instruments. The gazette notification issued by the Ministry of Finance on 23 March 2020 allows a nationalised bank to appropriate any sum from its share premium account by following the same procedure as for the reduction of paid-up capital. The bank has received board approval and would seek shareholders' approval for the same. Ind-Ra believes this provision reduces the risk of erosion of serviceable distributable reserve, as the bank can set-off its losses through the premium account, if required. Post the above adjustment, Canara's distributable reserves would have been at 4.3% of the risk weighted assets at FYE21.

### 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 is the fourth largest in terms of number of states, union territories and districts where it is a lead bank; this, in the agency's view, is an indicator of its role in financial inclusion. Among its peers, Canara's common equity tier 1 (CET1) has been the lowest over the last few years. Canara received a capital infusion of INR48.6 billion from the GoI in FY18 and INR65 billion in 1HFY20 and was the first PSB to raise equity of INR20 billion from the markets in FY21.

**Medium-Term Capital Plans:** Canara's CET1 decreased to 8.61% at end-March 2021 from a peak of 10.35% at end-9MFY20. The bank has revoked its plan to sell its stake in its subsidiary Can Fin Homes ([IND AA/Stable](#)). The bank's provision cover (excluding technical write-offs) is still lower than that of its peers' at 60%; most PSBs have provision cover (excluding technical write-offs) of 65%-70%. Nevertheless, its CET1 less net non-performing asset (NPA) is at par with some of its peers. The COVID-19 effects of FY21 were absorbed and were manageable, except potential slippages from restructured assets and accounts supported by emergency credit lines over FY22-FY24. Canara reported a profit of INR25 billion in FY21, against Ind-Ra's expectation of breakeven. While the second wave of COVID-19 infections in FY22 would continue to keep the bank's financial profile under pressure, Ind-Ra expects the same to be manageable without significantly impacting the bank's profile.

As per Ind-Ra's base case, the bank is unlikely to witness a capital erosion in FY22. In Ind-Ra's assessment, the bank needs about INR50 billion of equity in FY22-FY23 in addition to its internal accruals to have a CET1 of around 9% over the medium term and be prepared to achieve its medium-term growth plans. Ind-Ra also believes the bank's plan of raising equity over FY22-FY23 would be adequate to bring its CET1 closer to 9%. The planned AT1 issuances would mostly replace the older instruments, which have call dates scheduled, and hence is replacement capital. Ind-Ra expects Canara to shore up its capital further in the medium term to stay at par with peer banks.

**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 34% in FY21 (FY20: 31.4%, FY15: 24%). The retail term deposits grew 18% yoy in FY20 and 16% yoy in FY21, against 9% yoy and 12% yoy growth in total deposits. 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 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%, which has been a substantial and a 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 liquidity coverage at end-September 2020 stood at 129.25%, higher than the minimum regulatory requirement.

**Likely Profits in FY22:** Canara reported a modest profit of about INR25.57 billion in FY21, against a net loss of INR58.38 billion in FY20, mainly due to the increase in provisions. The bank has INR5 billion of unutilised provisions that it could utilise in FY22. Ind-Ra expects the bank to continue to face credit costs of about 2.5% in FY22 and FY23, each, as slippages on account of the second wave of COVID-19 continue to the bank's impact asset quality and credit costs. Ind-Ra believes these credit costs will emanate from aging provisions, slippages from existing stressed accounts, restructured book and accounts that are supported via emergency credit lines. The bank could be able to achieve a higher operating leverage as it grows its scale and fortifies its yield as the share of non-corporate assets continue to increase. Ind-Ra expects the bank to be modestly profitable in FY22.

## RATING SENSITIVITIES

**Negative:** Canara's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if there is a change in the GoI's support stance, thereby restricting its ability to maintain its systemic importance, or if the equity buffers of the bank consistently operate at close to the minimum regulatory levels of 8% from 1 October 2021.

The rating of the AT1 bonds could be downgraded in case of a material deterioration in the unsupported credit profile of the bank which, among other factors, could reflect in a material decline in Canara's market share, loss of deposit franchise or a larger-than-expected spike in delinquencies. The rating could also be downgraded in the event of the bank reporting high annual losses or a significant depletion of CET 1 capital buffers on a consistent basis which could impair the coupon servicing capability. The AT1 bonds could also be downgraded if the bank is unable to get the required approvals for adjusting accumulated losses against the share premium account in the near term. This could be important in case the bank incurs losses, causing the capital ratios to fall below the minimum regulatory requirement, thereby impairing its ability to pay coupons.

## 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)	FY21	FY20 (Amalgamated)
Net advances	6,390.49	6,164.75
Total deposits	10,108.75	9,055.23
Net income/loss	25.57	-58.38
CET I (%)	8.61	8.40
Capital adequacy ratio (%)	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	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/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/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	INR127	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	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
<b>Basel III Tier 2 instrument</b>									
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-complaint 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		INR89					
		Unutilised limit		INR11					
		Total		INR100					
<b>Basel III AT1 bonds</b>									
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	INE667A08088	INR10	24 October 2016	INR10	Annual	9,95	Nil	Perpetual	IND AA/Stable

Basel III AT1 perpetual bonds	INE667A08062	INR3.7	30 March 2016	INR3.7	Annual	11.25	NIL	Perpetual	IND AA/Stable
Basel III AT1 perpetual bonds	INE667A08054	INR5	30 March 2016	INR5	Annual	11.25	NIL	Perpetual	IND AA/Stable
Basel III AT1 perpetual bonds	INE667A08070	INR9.3	15 July 2016	INR9.3	Annual	11.25	NIL	Perpetual	IND AA/Stable
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	INR10.12	11 September 2020	INR10.12	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
		Utilised limit		INR86.861					
		Unutilised limit		INR40.139					
		Total		INR127.0					

## 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

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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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Rating FI Subsidiaries and Holding Companies](#)

[Rating Bank Subordinated and Hybrid Securities](#)

## Analyst Names

Primary Analyst

**Jindal Haria**

Director

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051

+91 22 40001750

Secondary Analyst

**Amit Rane**

Senior Analyst

+91 22 40001700

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Committee Chairperson

**Prakash Agarwal**

Director and Head Financial Institutions

+91 22 40001753

---

Media Relation

**Ankur Dahiya**

Manager – Corporate Communication

+91 22 40356121

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