

Ref:: SD:1722/1723/11/12::2021

05.03.2021

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

Sub : Reaffirmation / Revision of Ratings by CRISIL

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

The Exchanges are hereby informed that CRISIL (Rating Agency) has reaffirmed / revised the ratings for the following instruments as under:

Sl No.	Particulars	Rating Action
1.	Rs.1000 Crore Upper Tier-II Bonds (under Basel II)	CRISIL AAA/Stable (Withdrawn)^
2.	Rs.2500 Crore Tier I Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
3.	Rs.3250 Crore Tier I Bonds (Under Basel III)*	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
4.	Rs.1500 Crore Tier I Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
5.	Rs.2400 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
6.	Rs.3400 Crore Tier II Bonds (Under Basel III)*	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
7.	Rs.2500 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
8.	Rs.3000 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
9.	Rs.1000 Crore Lower Tier-II Bonds (under Basel II)*	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
10.	Rs.30000 Crore Certificate of Deposits	CRISIL A1+ (Reaffirmed)

*Originally issued by erstwhile Syndicate Bank

^CRISIL Ratings has withdrawn its rating on Rs 1,000 Crore Upper Tier II bonds (under Basel II), since there is no outstanding amount against the same.

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

This is for your information and appropriate dissemination.

Yours faithfully,

For **CANARA BANK**



सहायक महा प्रबंधक और कंपनी सचिव
 Assistant Company Secretary

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COMPANY SECRETARY



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Pursuant to SEBI notifications, CRISIL Limited (CRISIL) has transferred its Ratings business to its wholly owned subsidiary, CRISIL Ratings Limited (CRISIL Ratings), with effect from December 31st 2020. Any reference to CRISIL in the documents published by the Ratings division of CRISIL, such as Rating Rationales, Credit Rating Reports, Press Releases, Criteria, Methodology, FAQs, Policies and Disclosures, shall henceforth refer to CRISIL Ratings.

Rating Rationale

March 02, 2021 | Mumbai

Canara Bank

Ratings reaffirmed at 'CRISIL AAA / CRISIL AA / CRISIL A1+' ; outlook revised to 'Stable' ; Upper Tier-II Bonds (Under Basel II) Withdrawn

Rating Action

Rs.1000 Crore Upper Tier-II Bonds (under Basel II)	CRISIL AAA/Stable (Withdrawn)
Rs.2500 Crore Tier I Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.3250 Crore Tier I Bonds (Under Basel III)&	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.1500 Crore Tier I Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.2400 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.3400 Crore Tier II Bonds (Under Basel III)^	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.2500 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.3000 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.1000 Crore Lower Tier-II Bonds (under Basel II)%	CRISIL AAA/Stable (Reaffirmed and outlook revised to 'Stable')
Rs.30000 Crore Certificate of Deposits	CRISIL A1+ (Reaffirmed)

& *Originally issued by erstwhile Syndicate Bank

^ *Originally issued by erstwhile Syndicate Bank

% *Originally issued by erstwhile Syndicate Bank

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term debt instruments of Canara Bank to 'Stable' from 'Negative', while reaffirming the ratings at 'CRISIL AAA/CRISIL AA'. The rating on the certificate of deposits has been reaffirmed at 'CRISIL A1+'.

CRISIL Ratings had assigned a 'Negative' outlook to the long-term debt instruments of Canara Bank on August 29, 2020, following resolution of 'watch with developing implications'. The 'Negative' outlook was assigned to reflect the potential stress that the bank's asset quality and, consequently, profitability could witness on account of the challenging macro environment.

Revision in the outlook to 'Stable' factors in better-than-expected performance of the bank during the current challenging macro environment due to the ongoing Covid-19 pandemic. The reported gross non-performing assets (NPA) stood at 7.46% as on December 31, 2020. Excluding the benefit of Supreme Court stay on NPA recognition, the pro-forma gross NPA was at 8.95% (against reported gross NPA of 9.39% as on March 31, 2020). While it would increase from these levels, it is expected to remain lower than what CRISIL Ratings had earlier envisaged. Asset quality has also been supported by various schemes launched by the Government of India (GoI) and Reserve Bank of India (RBI), like Emergency Credit Line Guarantee Scheme, which has benefitted the micro, small & medium enterprises. The one-time restructuring scheme is also expected to benefit reported NPA metrics. Canara Bank has restructured ~1.6% of its advances as on December 31, 2020 and could additionally restructure another ~1.7% of advances over next couple of quarters.

Further, the bank reported profit after tax (PAT) of Rs 1,547 crore for the nine months ended December 31, 2020, with an annualised return on assets (RoA) of 0.2%. CRISIL Ratings believes the bank will report a profit for the full year (fiscal 2021) as well, against the substantial loss of Rs 5,839 crore for fiscal 2020.

The ratings continue to factor in expectation of strong support Canara Bank is likely to receive from its majority owner, GoI, and the healthy market position. The 'CRISIL AA/Stable' rating on Tier I bonds (under Basel III) factors in the adequacy of Canara Bank's eligible reserves to service coupon after adjusting for any medium-term impact of profitability on the bank's reserves position in a stress scenario.

While the economic activity has started picking up, any sudden surge in Covid-19 cases leading to partial lockdowns could negatively impact the collections. Hence, the bank's asset quality and its consequent impact on earnings profile will continue to be closely monitored.

CRISIL Ratings has withdrawn its rating on Rs 1,000 crore Upper Tier II bonds (under Basel II), since there is no outstanding amount against the same.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of Canara Bank and its subsidiaries and associates. This is because of majority shareholding, business and financial linkages and shared brand. CRISIL Ratings has also factored in the strong support the bank is expected to receive from its majority owner, the GoI, on an ongoing basis as well as in case of distress.

Please refer to Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Expectation of strong support from Gol**

The ratings continue to factor in expectation of strong government support on an ongoing basis and during distress. This is because Gol is a majority shareholder in public sector banks (PSBs) and the guardian of India's financial system. Stability of the banking sector is of prime importance to the government given its criticality to the economy, strong public perception of sovereign backing for PSBs and severe implications of any PSB failure in terms of political fallout, systemic stability and investor confidence. The majority ownership creates a moral obligation on Gol to support PSBs, including Canara Bank. Any material change in shareholding by Gol and/or privatisation of the bank in line with Finance Minister's announcement in the recent budget for privatisation of two PSBs will be a key rating sensitivity factor.

As a part of the Indradhanush framework, the government had pledged to infuse at least Rs 70,000 crore in PSBs over fiscals 2015-2019, of which Rs 25,000 crore each was infused in fiscals 2016 and 2017. Furthermore, in October 2017, the government had outlined a recapitalisation package of Rs 2.11 lakh crore over fiscals 2018 and 2019; Canara Bank and eSyndicate Bank combined received Rs 7,704 crore in fiscal 2018 and Rs 3,963 crore in fiscal 2019 under this package. Also, Gol allocated Rs 70,000 crore in fiscal 2020, of which Rs 6,571 crore was received. Thus, over the past three fiscals, Gol infused around Rs 18,238 crore into the combined entity.

The bank had network of Rs 56,742 crore as on December 31, 2020, also supported by Rs 2,000 crore equity raised by the bank via qualified institutional placement during the last quarter. Common equity tier (CET) 1, Tier-I capital adequacy ratio (CAR) and overall CAR stood at 8.77%, 10.45% and 13.69%, respectively, on the said date (8.47%, 9.63%, 13.03%, respectively, as on March 31, 2020).

- **Healthy market position**

Canara Bank is one of India's larger PSBs, with total advances and deposits of Rs 6.7 lakh crore and Rs 9.7 lakh crore, respectively, as on December 31, 2020. With merger of eSyndicate Bank, the market position of the bank has further strengthened. The bank had a market share of more than 6% in advances and deposits as on December 31, 2020. It has a pan-India branch presence, with around 10,491 domestic branches and 12,973 automated teller machines (ATMs) across the country as on December 31, 2020. It also has overseas branches at five locations. Revenue is diversified across businesses, products and geographies, augmenting the strong overall market position. The bank has a strong franchise in the large and mid-size corporate banking segments.

Weakness:

- **Modest, albeit improving, asset quality and earnings profile**

The bank's asset quality, with reported and pro-forma gross NPAs of 7.46% and 8.95%, respectively, as on December 31, 2020 (9.39% as on March 31, 2020) remains modest, albeit with an improving trend. Till fiscal 2020, the slippages for the bank were high, at Rs 24,107 crore during fiscal 2020 and Rs 27,072 crore during fiscal 2019. The slippages were primarily from the bank's large corporate exposure to vulnerable sectors, such as iron and steel, infrastructure and construction and financial sector companies. Its micro and small enterprises exposure has also experienced elevated levels of stress. The slippages have been much lower for nine months ended December 31, 2020, at Rs 2,598 crore; however, this was also supported by the Supreme Court stay on NPA recognition. The traction in the slippages, especially in current challenging macro environment, will continue to be monitored. Nevertheless, with the bank's focus on recoveries, also supported by recoveries through the Insolvency and Bankruptcy Code route, gross NPAs have seen an improving trend. Gross NPAs from the corporate segment stood at around 10.7%, followed by micro, small and medium enterprises (8.2%), agriculture (5.2%) and retail (1.4%) as on December 31, 2020.

While the bank's earnings profile has been impacted over the last few years primarily because of high credit costs, the same has also seen an improvement in current fiscal. The bank reported PAT of Rs 1,547 crore during the nine months ended December 31, 2020, as compared to substantial losses over last couple of years (loss of Rs 5839 crore reported for fiscal 2020). Nevertheless, the earning profile remain modest, constrained by the lower proportion of current account savings account deposits impacting net interest margin and the pre-provisioning operating profit of the bank. Further, the provisioning coverage ratio (excluding technical write-offs) while increased substantially to around 66% as on December 31, 2020, from 44% as on March 31, 2019, remains moderate.

Nevertheless, CRISIL Ratings will continue to monitor the traction in asset quality and its consequent impact on profitability, given the continued weak macro environment.

Liquidity: Superior

Liquidity continues to be superior, supported by sizeable retail deposit base that forms a significant part of the total deposits. Liquidity coverage ratio was 138.9% as on December 31, 2020. The excess statutory liquidity ratio was Rs 76582.00 crore (8.07%) as on the said date. Liquidity also benefits from access to systemic sources of funds, such as the liquidity adjustment facility from RBI, access to the call money market and refinance limits from sources such as National Housing Bank and National Bank for Agriculture and Rural Development.

Outlook: Stable

Canara Bank should continue to benefit from strong government support, and have a healthy market share.

Rating Sensitivity factors

Downward factors

- Material change in shareholding and/or expectation of support from Gol
- Higher-than-expected deterioration in the asset quality because of increasing slippages, with gross NPAs crossing 11%, thereby also impacting the earnings profile
- Significant and sustained decline in CAR

About the Company

Set up in 1906, Canara Bank is a one of the larger PSBs. It made its initial public offering in 2002. As on December 31, 2020, Gol's ownership in the bank stood at 69.33%.

Amalgamation of eSyndicate Bank into Canara Bank was effective from April 01, 2020. Following the amalgamation, the merged entity enjoys the benefits of larger balance sheet size, optimised capital utilisation and wider geographic reach, leading to deeper penetration. Canara Bank has a strong domestic branch network, comprising 10,491 domestic branches and 12,973 ATMs. Additionally, it has international presence via five overseas branches (Johannesburg, New York, London, Hong Kong and Dubai).

Besides banking, it undertakes factoring, asset management, insurance and retail and institutional broking services through its subsidiaries and associates.

In fiscal 2020, the combined bank reported loss of Rs 5,838 crore on total income (net of interest expense) of Rs 31,154 crore against Rs 2,241 crore and Rs 29,926 crore, respectively, for the previous fiscal. For the nine months ended December 31, 2020, PAT was Rs 1,547 crore on total income (net of interest expense) of Rs 28,551 crore.

Key Financial Indicators

As on / for the period December 31,			
Total assets	Rs crore	2020	2019
Total income (net of interest expense)	Rs crore	28551	23042

PAT	Rs crore	1547	729
Gross NPA	%	7.46	9.82
Overall CAR	%	13.69	14.01
RoA (annualised)	%	0.2	0.1

Any other information: Not applicable

Note on non-equity Tier 1 capital instruments (Under Basel III)

The distinguishing features of non-equity Tier-I capital instruments (under Basel III) are the existence of coupon discretion at all times, high capital thresholds for likely coupon non-payment and principal write-down (on breach of a pre-specified trigger). These features increase the risk attributes of non-equity Tier-I instruments over those of Tier-II instruments under Basel III and capital instruments under Basel II. To factor in these risks, CRISIL Ratings notches down the rating on these instruments from the bank's corporate credit rating.

Factors that could trigger a default event for non-equity Tier-I capital instruments (under Basel III), resulting in non-payment of coupon, include: i) the bank exercising coupon discretion, ii) inadequacy of eligible reserves to honour coupon payment if the bank reports low profit or a loss or iii) the bank breaching the minimum regulatory CET 1, including capital conservation buffer, ratios. Moreover, given their additional risk attributes, the rating transition for non-equity Tier-I capital instruments (under Basel III) can potentially be higher than that for Tier-II instruments.

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Complexity	Rating assigned with outlook
INE476A08068	Tier I Bonds (under Basel III)	13-Dec-16	8.60%	Perpetual	1000	Highly complex	CRISIL AA/Stable
INE476A08084	Tier I Bonds (under Basel III)	11-Sep-20	8.30%	Perpetual	1012	Highly complex	CRISIL AA/Stable
INE476A08092	Tier I Bonds (under Basel III)	29-Sep-20	8.30%	Perpetual	169.1	Highly complex	CRISIL AA/Stable
INE476A08100	Tier I Bonds (under Basel III)	31-Dec-20	8.50%	Perpetual	1635	Highly complex	CRISIL AA/Stable
INE476A08118	Tier I Bonds (under Basel III)	02-Feb-21	8.30%	Perpetual	120	Highly complex	CRISIL AA/Stable
NA	Tier I Bonds (under Basel III)^	NA	NA	NA	63.9	Highly complex	CRISIL AA/Stable
INE476A09264	Tier II Bonds (under Basel III)	31-Dec-15	8.40%	31-Dec-25	1500	Complex	CRISIL AAA/Stable
INE476A08043	Tier II Bonds (under Basel III)	07-Jan-16	8.40%	07-Jan-26	900	Complex	CRISIL AAA/Stable
INE476A08050	Tier II Bonds (under Basel III)	27-Apr-16	8.40%	27-Apr-26	3000	Complex	CRISIL AAA/Stable
INE476A09249	Tier II Bonds (under Basel III)	03-Jan-14	9.73%	03-Jan-24	1500	Complex	CRISIL AAA/Stable
INE476A09256	Tier II Bonds (under Basel III)	27-Mar-14	9.70%	27-Mar-24	1000	Complex	CRISIL AAA/Stable
NA	Certificate of Deposit	NA	NA	7-365 days	30000	Simple	CRISIL A1+
INE667A08062	Tier I Bonds (Under Basel III)*	30-Mar-16	11.25%	Perpetual	370.00	Highly complex	CRISIL AA/Stable
INE667A08054	Tier I Bonds (Under Basel III)*	30-Mar-16	11.25%	Perpetual	500.00	Highly complex	CRISIL AA/Stable
INE667A08070	Tier I Bonds (Under Basel III)*	15-Jul-16	11.25%	Perpetual	930.00	Highly complex	CRISIL AA/Stable
INE667A08088	Tier I Bonds (Under Basel III)*	24-Oct-16	9.95%	Perpetual	1,000.00	Highly complex	CRISIL AA/Stable
INE667A08104	Tier I Bonds (Under Basel III)*	25-Jul-17	9.80%	Perpetual	450.00	Highly complex	CRISIL AA/Stable
INE667A08021	Tier II Bonds (Under Basel III)*	23-Mar-15	8.75%	23-Mar-25	400.00	Complex	CRISIL AAA/Stable
INE667A08096	Tier II Bonds (Under Basel III)*	03-May-17	8.00%	03-May-27	500.00	Complex	CRISIL AAA/Stable
INE667A08039	Tier II Bonds (Under Basel III)*	28-Sep-15	8.58%	28-Sep-25	1,000.00	Complex	CRISIL AAA/Stable
INE667A08013	Tier II Bonds (Under Basel III)*	02-Dec-14	8.95%	02-Dec-24	750.00	Complex	CRISIL AAA/Stable
INE667A08047	Tier II Bonds (Under Basel III)*	18-Dec-15	8.62%	18-Dec-25	750.00	Complex	CRISIL AAA/Stable
INE667A09177	Lower Tier II Bonds (under Basel II)*	31-Dec-12	9.00%	31-Dec-22	1000.00	Complex	CRISIL AAA/Stable

*yet to be issued

*Originally issued by erstwhile Syndicate Bank

Annexure: Details of ratings withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Complexity
INE476A09231	Upper Tier II bonds (under Basel II)	29-Sep-10	8.62%	29-Sep-25	1000	Highly complex

Annexure – List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Canbank Venture Capital Fund Ltd	Full	Subsidiary
Canbank Financial Services Ltd	Full	Subsidiary
Canara Bank Securities Ltd	Full	Subsidiary
Canbank Factors Ltd	Full	Subsidiary
Canbank Computer Services Ltd	Full	Subsidiary
Canara Robeco Asset Management Company Ltd	Full	Subsidiary

Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd	Full	Subsidiary
Canara Bank(Tanzania) Ltd	Full	Subsidiary
Canfin Homes Ltd	Proportionate	Associate
Karnataka Gramin Bank	Proportionate	Associate
Kerala Gramin Bank	Proportionate	Associate
Commercial Indo Bank LLC	Proportionate	Joint venture

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	30000.0	CRISIL A1+		--	21-12-20	CRISIL A1+	20-12-19	CRISIL A1+	25-01-18	CRISIL A1+	CRISIL A1+
					--	07-12-20	CRISIL A1+	05-09-19	CRISIL A1+		--	--
					--	29-08-20	CRISIL A1+	27-03-19	CRISIL A1+		--	--
					--	03-06-20	CRISIL A1+	29-01-19	CRISIL A1+		--	--
Lower Tier-II Bonds (under Basel II)	LT	1000.0	CRISIL AAA/Stable		--	21-12-20	CRISIL AAA/Negative	27-03-19	Withdrawn	25-01-18	CRISIL AAA/Stable	CRISIL AAA/Negative
					--	07-12-20	CRISIL AAA/Negative	29-01-19	CRISIL AAA/Stable		--	--
					--	29-08-20	CRISIL AAA/Negative		--		--	--
					--	03-06-20	CRISIL AAA/Watch Developing		--		--	--
Perpetual Tier-I Bonds (under Basel II)	LT		--		--	29-08-20	Withdrawn	20-12-19	CRISIL AAA/Watch Developing	25-01-18	CRISIL AAA/Stable	CRISIL AAA/Negative
					--	03-06-20	CRISIL AAA/Watch Developing	05-09-19	CRISIL AAA/Stable		--	--
					--		--	27-03-19	CRISIL AAA/Stable		--	--
					--		--	29-01-19	CRISIL AAA/Stable		--	--
Tier I Bonds (Under Basel III)	LT	7250.0	CRISIL AA/Stable		--	21-12-20	CRISIL AA/Negative	20-12-19	CRISIL AA/Watch Developing	25-01-18	CRISIL AA/Negative	CRISIL AA/Negative
					--	07-12-20	CRISIL AA/Negative	05-09-19	CRISIL AA/Stable		--	--
					--	29-08-20	CRISIL AA/Negative	27-03-19	CRISIL AA/Stable		--	--
					--	03-06-20	CRISIL AA/Watch Developing	29-01-19	CRISIL AA/Stable		--	--
Tier II Bonds (Under Basel III)	LT	11300.0	CRISIL AAA/Stable		--	21-12-20	CRISIL AAA/Negative	20-12-19	CRISIL AAA/Watch Developing	25-01-18	CRISIL AAA/Stable	CRISIL AAA/Negative
					--	07-12-20	CRISIL AAA/Negative	05-09-19	CRISIL AAA/Stable		--	--
					--	29-08-20	CRISIL AAA/Negative	27-03-19	CRISIL AAA/Stable		--	--
					--	03-06-20	CRISIL AAA/Watch Developing	29-01-19	CRISIL AAA/Stable		--	--
Upper Tier-II Bonds (under Basel II)	LT	1000.0	Withdrawn		--	21-12-20	CRISIL AAA/Negative	20-12-19	CRISIL AAA/Watch Developing	25-01-18	CRISIL AAA/Stable	CRISIL AAA/Negative
					--	07-12-20	CRISIL AAA/Negative	05-09-19	CRISIL AAA/Stable		--	--
					--	29-08-20	CRISIL AAA/Negative	27-03-19	CRISIL AAA/Stable		--	--
					--	03-06-20	CRISIL AAA/Watch Developing	29-01-19	CRISIL AAA/Stable		--	--

All amounts are in Rs.Cr.

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)

[Rating criteria for Basel III - compliant non-equity capital instruments](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

[CRISILs Criteria for Consolidation](#)

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