

# Ratings

## Rating Rationale

August 29, 2020 | Mumbai

### Canara Bank

*Ratings removed from 'Watch Developing'; Ratings reaffirmed*

#### Rating Action

Rs.3400 Crore Tier II Bonds (Under Basel III)*	CRISIL AAA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Rs.1000 Crore Lower Tier II Bonds (Under Basel II)*	CRISIL AAA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Rs.3250 Crore Tier I Bonds (Under Basel III)*	CRISIL AA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Rs.2500 Crore Tier I Bonds (Under Basel III)	CRISIL AA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Tier II Bonds Aggregating Rs.7900 Crore (Under Basel III)	CRISIL AAA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Upper Tier-II Bonds Aggregating Rs.1000 Crore (Under Basel II)	CRISIL AAA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Perpetual Tier-I Bonds Aggregating Rs.749.3 Crore (Under Basel II)	CRISIL AAA/Negative (Removed from 'Rating Watch with Developing Implications'; Rating Withdrawn)
Rs.30000 Crore Certificate of Deposits	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

\*Originally issued by erstwhile Syndicate Bank

#### Detailed Rationale

CRISIL has removed its rating on the long-term debt instruments of Canara Bank from 'Rating Watch with Developing Implications' and has assigned a **'Negative'** outlook. The ratings on these instruments have been reaffirmed at **'CRISIL AAA/CRISIL AA'**, while the rating on the certificates of deposit programme has been reaffirmed at **'CRISIL A1+'**.

CRISIL had placed the ratings on the bank's long-term debt instruments on 'Watch with Developing Implications' on December 20, 2019, given the significant progress in the amalgamation of Syndicate Bank with Canara Bank and pending clarity on the business and financial risk profiles of the combined entity.

The watch resolution follows the completion of the amalgamation process, effective April 1, 2020, and greater clarity on the credit risk profile of the merged entity.

The reaffirmation of the rating on the long-term instruments continues to factor in expectation of strong support Canara Bank is likely to receive from its majority owner, Government of India (GoI). The rating also reflects the merged entity's larger balance sheet size with wider geographic presence. The 'CRISIL AA' 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.

At the same time, the 'Negative' outlook on the debt instruments reflects the potential stress that the bank's asset quality and, consequently, profitability could witness on account of the challenging macro environment. Following the amalgamation, Canara Bank's asset quality metrics have weakened, with an uptick in non-performing assets (NPAs); gross NPA of the bank stood at 9.4% as on April 01, 2020, compared with gross NPAs of 8.2% as on March 31, 2020, for Canara Bank-pre amalgamation. The resource profile of the bank is average, with lower proportion of current account and savings account (CASA) deposits compared to peers-32.4% as on June 30, 2020. Also, the combined entity reported loss of Rs 5,838 crore for fiscal 2020 with return on assets (RoA) of negative 0.6% for the period. While the first quarter of fiscal 2021 saw some improvement, with GNPA's at 8.8% and profit after tax (PAT) of Rs 406 crore because of reduction in slippages and provisioning expenses, continued improvement in performance would be a key rating sensitivity factor, especially in the context of the lower-than-industry-level provisioning coverage ratio.

From an industry perspective, the nationwide lockdown imposed by the GoI to contain the Covid-19 pandemic has impacted disbursements and collections of financial institutions. The lockdown has now been extended in containment zones, with re-opening of the prohibited activities in a phased manner in other areas. However, certain states have implemented localised lockdowns. Herein, eventual lifting of restrictions will, likely, continue to be in a phased manner. Any delay in return to normalcy will put further pressure on the collections and asset quality metrics of companies.

Canara Bank has provided moratorium to its borrowers in line with the relief measures provided by Reserve Bank of India (RBI); around 22.7% of the bank's advances were under moratorium as on June 30, 2020. Any change in the behaviour of borrowers on the payment discipline can affect asset quality levels following the moratorium. Also, while the one-time restructuring scheme announced by RBI will help in providing necessary support to affected borrowers in the current environment, the details and operational implementation of that will have to be seen.

CRISIL has withdrawn its rating on Rs 749.3 crore Tier I perpetual bonds (under Basel II), since there was no outstanding amount against the same.

#### Analytical Approach

For arriving at the ratings, CRISIL 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 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 Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.*

### **Key Rating Drivers & Detailed Description**

#### **Strengths:**

##### **\* Expectation of strong support from GoI**

The rating continues to factor in expectation of strong government support on an ongoing basis and in case of distress. This is because GoI 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 GoI to support PSBs, including Canara Bank.

As 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 and eSyndicate Bank combined received Rs 7,704 crore in fiscal 2018 and Rs 3,963 crore in fiscal 2019 under this package. Also, GoI allocated Rs 70,000 crore in fiscal 2020, of which Rs 6,571 crore was received. Thus, over the past three fiscals, GoI infused around Rs 18,238 crore into the combined entity.

The bank had networth of Rs 52,726 crore as on June 30, 2020; CET 1, Tier-I capital adequacy ratio (CAR) and overall CAR stood at 8.15%, 9.29% and 12.77%, 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 6.5 lakh crore and Rs 9.1 lakh crore, respectively, as on June 30, 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 June 30, 2020. It has a pan-India branch presence, with around 10,451 domestic branches and 13,401 automated teller machines (ATMs) across the country as on June 30, 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.

#### **Weaknesses**

##### **\* Modest asset quality impacting the earnings profile**

The asset quality, with gross NPAs of 8.84% as on June 30, 2020 (9.39% as on March 31, 2020) is modest in relation to its rating category. Slippages for the bank, although still high, decreased to Rs 24,107 crore in fiscal 2020 compared with Rs 27,072 crore in fiscal 2019. The slippages have primarily been 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. However, with the bank's focus on recoveries, also supported by recoveries through the Insolvency and Bankruptcy Code route, gross NPAs have declined. GNPA's from the corporate segment stood at around 11.36%, followed by micro, small and medium enterprises (10.9%), agriculture (6.9%) and retail (2.2%) as on June 30, 2020.

Primarily as a result of the elevated asset quality metrics, Canara Bank's earnings profile has been restricted over the last few years because of high provisioning costs, pressure on net interest margin (NIM) and subdued growth in the loan book. The lower proportion of CASA deposits also impacts the NIM of banks and the pre-provisioning operating profit. The provisioning coverage ratio (PCR; excluding technical write-offs) increased substantially to around 58% as on June 30, 2020, from 44% as on March 31, 2019; however, this remains moderate compared with peers in the similar rating category.

While the bank reported higher net loss of Rs 5,838 crore (RoA at a negative 0.6%) in fiscal 2020, compared with net loss of Rs 2,241 crore in fiscal 2019, losses before tax remained at similar levels of around Rs 5,400 crore. For the quarter ended June 30, 2020, the bank reported PAT and annualised RoA of Rs 406 crore and 0.2%, respectively.

Asset quality may witness pressure because of the Covid-19 pandemic and possible slowdown in recoveries in the near to medium term. This could be partly offset by the restructuring scheme. Ability to contain deterioration in the asset quality will remain a key monitorable, as will the impact of this on the bank's profitability levels.

#### **Liquidity Superior**

Liquidity continues to be superior, supported by a sizeable retail deposit base that forms a significant part of the total deposits. Liquidity coverage ratio was 136.5% as on June 30, 2020. The excess statutory liquidity ratio was Rs 46,060 crore (5.11%) as of the said date. Liquidity also benefits from access to systemic sources of funds, such as the liquidity adjustment facility from the 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: Negative**

CRISIL believes Canara Bank will continue to benefit from strong government support. The 'Negative' outlook on the debt instruments reflects the potential stress on the bank's asset quality, and consequently its profitability, on account of the challenging macro environment.

#### **Rating sensitivity factors**

##### **Upward factors**

- \* Continuous improvement in earnings profile with RoA > 0.4%
- \* Sustained and substantial improvement in the asset quality

##### **Downward factors**

- \* Higher-than-expected deterioration in the asset quality because of increasing slippages, with GNPA's crossing 11%, thereby also impacting the earnings profile; and/or
- \* Significant and sustained decline in CARs (including CCB, which is Tier I of 9.5% and overall CAR of 11.5%)

#### **About the Company**

Set up in 1906, Canara Bank is a one of the larger PSBs. In 2002, it made its initial public offering, resulting in dilution of GoI's ownership, which stood at 78.6% as on June 30, 2020, following issuing of shares under amalgamation to the shareholders of eSyndicate Bank.

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 10,451 domestic branches and 13,401 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.

Furthermore, for the quarter ended June 30, 2020, the bank reported PAT of Rs 406 crore on total income (net of interest expense) of Rs 8,746 crore.

#### Key Financial Indicators

As on / for the period June 30,		2020	2019
Total assets	Rs crore	1046172	1005078
Total income (net of interest expense)	Rs crore	8,746	7,430
PAT	Rs crore	406	-651
Gross NPA	%	8.84	10.28
Overall CAR	%	12.77	12.31
Return on assets (annualised)	%	0.16	-0.26

**Any other information:** Not applicable

#### Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

#### 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 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 I, including CCB, 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.

#### 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/Negative
NA	Tier I Bonds (under Basel III)^	NA	NA	NA	1500	Highly complex	CRISIL AA/Negative
INE476A09264	Tier II Bonds (under Basel III)	31-Dec-15	8.40%	31-Dec-25	1500	Complex	CRISIL AAA/Negative
INE476A08043	Tier II Bonds (under Basel III)	07-Jan-16	8.40%	07-Jan-26	900	Complex	CRISIL AAA/Negative
INE476A08050	Tier II Bonds (under Basel III)	27-Apr-16	8.40%	27-Apr-26	3000	Complex	CRISIL AAA/Negative
INE476A09249	Tier II Bonds (under Basel III)	03-Jan-14	9.73%	03-Jan-24	1500	Complex	CRISIL AAA/Negative
INE476A09256	Tier II Bonds (under Basel III)	27-Mar-14	9.70%	27-Mar-24	1000	Complex	CRISIL AAA/Negative
INE476A09231	Upper Tier II bonds (under Basel II)	29-Sep-10	8.62%	29-Sep-25	1000	Highly complex	CRISIL AAA/Negative
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/Negative
INE667A08054	Tier I Bonds (Under Basel III)*	30-Mar-16	11.25	Perpetual	500.00	Highly complex	CRISIL AA/Negative
INE667A08070	Tier I Bonds (Under Basel III)*	15-Jul-16	11.25	Perpetual	930.00	Highly complex	CRISIL AA/Negative
INE667A08088	Tier I Bonds (Under Basel III)*	24-Oct-16	9.95	Perpetual	1,000.00	Highly complex	CRISIL AA/Negative
INE667A08104	Tier I Bonds (Under Basel III)*	25-Jul-17	9.80	Perpetual	450.00	Highly complex	CRISIL AA/Negative
INE667A08021	Tier II Bonds (Under Basel III)*	23-Mar-15	8.75	23-Mar-25	400.00	Complex	CRISIL AAA/Negative
INE667A08096	Tier II Bonds (Under Basel III)*	03-May-17	8	03-May-27	500.00	Complex	CRISIL AAA/Negative
INE667A08039	Tier II Bonds (Under Basel III)*	28-Sep-15	8.58	28-Sep-25	1,000.00	Complex	CRISIL AAA/Negative
INE667A08013	Tier II Bonds (Under	02-Dec-14	8.95	02-Dec-24	750.00	Complex	CRISIL AAA/Negative

	Basel III)*						
INE667A08047	Tier II Bonds (Under Basel III)*	18-Dec-15	8.62	18-Dec-25	750.00	Complex	CRISIL AAA/Negative
INE667A09177	Lower Tier II Bonds (under Basel II)*	31-Dec-12	9.00	31-Dec-22	1000.00	Complex	CRISIL AAA/Negative

^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
INE476A09223	Tier I perpetual bonds (under Basel II)	03-Aug-10	9.05%	Perpetual	749.3	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		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	30000.00	CRISIL A1+	03-06-20	CRISIL A1+	20-12-19	CRISIL A1+			08-09-17	CRISIL A1+	CRISIL A1+
						05-09-19	CRISIL A1+					
						27-03-19	CRISIL A1+					
						29-01-19	CRISIL A1+					
Lower Tier-II Bonds (under Basel II)	LT	1000.00 29-08-20	CRISIL AAA/Negative	03-06-20	CRISIL AAA/Watch Developing	27-03-19	Withdrawal	25-01-18	CRISIL AAA/Stable	08-09-17	CRISIL AAA/Negative	CRISIL AAA/Negative
						29-01-19	CRISIL AAA/Stable					
Perpetual Tier-I Bonds (under Basel II)	LT	0.00 29-08-20	Withdrawn	03-06-20	CRISIL AAA/Watch Developing	20-12-19	CRISIL AAA/Watch Developing	25-01-18	CRISIL AAA/Stable	08-09-17	CRISIL AAA/Negative	CRISIL AAA/Negative
						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	4750.00 29-08-20	CRISIL AA/Negative	03-06-20	CRISIL AA/Watch Developing	20-12-19	CRISIL AA/Watch Developing	25-01-18	CRISIL AA/Negative	08-09-17	CRISIL AA/Negative	CRISIL AA/Negative
						05-09-19	CRISIL AA/Stable					
						27-03-19	CRISIL AA/Stable					
						29-01-19	CRISIL AA/Stable					
Tier II Bonds (Under Basel III)	LT	11330.00 29-08-20	CRISIL AAA/Negative	03-06-20	CRISIL AAA/Watch Developing	20-12-19	CRISIL AAA/Watch Developing	25-01-18	CRISIL AAA/Stable	08-09-17	CRISIL AAA/Negative	CRISIL AAA/Negative
						05-09-19	CRISIL AAA/Stable					
						27-03-19	CRISIL AAA/Stable					
						29-01-19	CRISIL AAA/Stable					
Upper	LT	1000.00	CRISIL	03-06-20	CRISIL	20-12-19	CRISIL	25-01-18	CRISIL	08-09-17	CRISIL	CRISIL

Tier-II Bonds (under Basel II)	29-08-20	AAA/Negative	AAA/Watch Developing	AAA/Watch Developing	AAA/Stable	AAA/Negative	AAA/Negative
				05-09-19	CRISIL AAA/Stable		
				27-03-19	CRISIL AAA/Stable		
				29-01-19	CRISIL AAA/Stable		

All amounts are in Rs.Cr.

#### Links to related criteria

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

[CRISILs Criteria for Consolidation](#)

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

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

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