Ref:: SD:255/256/11/12::2024-25 16.08.2024

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 - 400051** Scrip Code: **CANBK**

Dear Sir/Madam,

Sub: Ratings by India Ratings and Research (Ind-Ra).

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

The Exchanges are hereby informed that the Bank is in receipt of credit rating from India Ratings and Research (Ind-Ra) for it's Bonds.

A copy of the rating letter received is enclosed herewith.

This is for your information and appropriate dissemination.

Yours faithfully,

SANTOSH KUMAR BARIK

Digitally signed by SANTOSH KUMAR BARIK
Date: 2024.08.16 16:26:48 +05'30'

SANTOSH KUMAR BARIK
COMPANY SECRETARY

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India Ratings Affirms Canara Bank at 'IND AAA'/Stable; Assigns AT1 Bonds 'IND AA+'/Stable

Aug 16, 2024 | Public Sector Bank

India Ratings and Research (Ind-Ra) has affirmed Canara Bank's (Canara) Long-Term Issuer Rating at 'IND AAA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned with Outlook/Watch	Rating Action
Basel III AT1 Bonds^	-	-	-	INR40	IND AA+/Stable	Assigned
Infrastructure Bonds*	-	-	-	INR100	IND AAA/Stable	Affirmed
Basel III Tier 2 instruments*	-	-	-	INR129 (reduced from INR144)	IND AAA/Stable	Affirmed
Basel III AT1 bonds*	-	-	-	INR124.361 (reduced from INR139.5)	IND AA+/Stable	Affirmed

*Details in annexure

^Yet to be issued

Analytical Approach

Ind-Ra continues to take a fully consolidated view of Canara and its subsidiaries while arriving at the ratings.

Detailed Rationale of the Rating Action

The affirmation of the Long-Term Issuer Rating factors in Canara's systemically important position and the likelihood of the bank continuing to receive support from the government of India (GoI). The rating also considers Canara's demonstrated moderate equity raising ability and the likelihood of continued and improved profitability in the near-to-medium term, which could help the bank maintain its market share in

Share

APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Rating FI Subsidiaries and Holding Companies

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

RELATED INDUSTRY RESEARCH

Feb 29, 2024 | Financial Services
FY25 OUTLOOK: NON-BANKING FINANCIAL

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.

List of Key Rating Drivers

Strengths

- Systemic importance
- Adequate capitalisation
- Improved profitability
- Prospective asset quality metrics likely to be benign

Weaknesses

- Deposit profile improvement to be seen

Detailed Description of 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. Its share in net advances declined slightly but remained high at 5.8% at FYE24 (FYE23: 6.1%) and that in deposits fell slightly to 6.5% (6.6%). At FYE24, the bank was the fourth-largest in terms of the 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. At 1QFYE25, the bank had 9,623 branches, four international branches, and 10,014 automated teller machines. While the bank's common equity tier 1 (CET1) improved to 12.05% in 1QFY25 (FY24:11.6%; FY23: 11.59%; FY22: 10.3%; FY21: 8.6%), it remained lower than that of most PSBs while having comparable net non-performing assets (NPAs). Although the bank did not raise equity capital in FY24, it continued to raise AT1 and tier 2 bonds.

Adequate Capitalisation: Canara's CET1 increased to 12.05% at 1QFYE25 (FYE24: 11.6%; FYE22: 10.26%) on the back of return on assets (RoA) of 1.05% (FY24: 1%; FY23: 0.8%), supported by improving profitability. Its tier 1 increased to 14.3% at FYE24 (FYE23: 13.78%; FYE22: 11.91%). The risk weighted assets to net advances increased to about 71.8% in FY24 (FY23: 68.3%; FY22: 72.6%; FY21: 78.5%). Its capital levels are lower than that of peers and even larger PSBs. Canara's provision cover (excluding technical write-offs) stood at 70.8% in FY24 (FY23: 68.9%; FY22: 66.5%). Ind-Ra believes the manageable asset quality would enable the bank to maintain its RoA of 0.8%-1% in the medium term. This combined with further utilisation of deferred tax assets would help Canara at least maintain its capital levels. Ind-Ra believes the existing capital buffers are adequately placed to also absorb asset quality shocks. In addition, the agency believes that the bank's capital buffers would remain higher than the regulatory requirements of CET1 ratio of over 6%. Canara does not have any plans to raise additional equity capital, but it would continue to raise sub-debt over the medium term.

Improved Profitability: Despite lacklustre treasury performance due to rising market interest rates, Canara's profit improved to INR145.5 billion in FY24 (FY23: INR106 billion; FY22: INR56.8 billion), and it reported a profit of about INR39 billion in 1QFY25, mainly backed by the decline in credit costs, growth in advances and improved net interest margins (faster repricing in advances than in

COMPANIES

Feb 29, 2024 | Financial Services
FY25 OUTLOOK: HOUSING FINANCE COMPANIES

Feb 29, 2024 | Financial Services
FY25 OUTLOOK: MICROFINANCE INSTITUTIONS

deposits played a role). Over the medium term, most segments would follow the slippage trend; in FY24, the bank saw gross slippage of nearly 1.5%, but the net slippage (gross slippage less upgrades and recoveries) was negligible. The agency understands that the bank has witnessed normalisation of performance of residual restructured loan accounts and those that benefited from the emergency credit line guarantee scheme. Ind-Ra considers the levels of stressed corporate assets and special mention accounts to be modest, and hence, incremental slippages from these could be lower than trend levels, leading to lower levels of credit costs. The provisions have also continued to improve, rising to nearly 71% in FY24 (FY23: 70%; FY22: 66%; excluding technical write -offs); it has been higher for peer banks. Ind-Ra expects the bank to continue to face credit costs of at least 1%-1.5% per year over the medium term. In the agency's opinion, the bank is likely to maintain adequate profitability in the near-to-medium term with RoA of around 1%.

Prospective Asset Quality Metrics Likely to be Benign: The gross NPAs of the bank declined to 4.14% at 1QFYE25 (FYE24: 4.23%; FYE23: 5.4%; FYE22: 7.5%), while net NPAs declined to 1.24% (1.27%, 1.67%; 2.67%). The bank's gross slippage in FY24 was about 1.5% and the net slippage (slippage net of recoveries and upgrades) was negligible. Ind-Ra does not expect the gross slippages trend to witness any significant deviation from FY24 levels in the near-to-medium term. The bank's special mention account assets of over INR50 million accounted for 1.13% of the gross advances as of June 2024; its restructured assets now account for a negligible portion of the gross advances, and the agency expects limited slippages from these pools. The bank has guided for gross NPAs of 3.5% and net NPA of 1.1% by FYE25.

Deposit Profile Improvement to be Seen: Canara's low-cost current account and savings account (CASA) deposits stood at 30.98% at 1QFYE24 (FY24: 32.4%, FYE23: 31.1%), which is low compared to most PSBs. The bank has been taking various measures to improve its CASA ratio and has guided for an improvement in the CASA ratio to 33% for FY25. The CASA grew by about 7% yoy in FY24, while total deposits grew by 11.3% yoy. The bank's cost of domestic deposits increased to 5.5% in FY24 (FY23: 4.3%; FY22: 3.8%) amid deposit repricing pressures. Ind-Ra believes the bank would need to at least maintain its deposit profile to achieve mid-term growth expectations and it might need to keep deposit rates at elevated levels compared to other banks for the same.

Liquidity

Adequate: The bank's asset-liability management for March 2024 demonstrated an asset liability surplus; the excess of short-term assets over short-term liabilities was about 19%. Canara's excess statutory liquidity qualifying securities of more than INR400 billion also provide substantial liquidity comfort in addition to the mandatory cash reserve and statutory liquidity ratio requirements. Canara's average liquidity coverage stood at 129% at end-March 2024, higher than the minimum regulatory requirement. Canara's top 20 deposits formed around 11.2% of the total deposits as of March 2024 (10.2% as of March 2023), and the bank believes this shall not change significantly. In Ind-Ra's opinion, a material increase in the bulk deposits would contribute to additional weakening of the liquidity and liability profiles, causing the bank to experience higher refinance pressure, as it had witnessed during FY18-FY19.

Rating Sensitivities

Positive: Not Applicable

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 PSBs or there is material drop in the bank's 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 PSBs 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 bank's 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.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Canara, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Canara has a pan-India presence, with the third-largest network of more than 9,623 domestic branches at end-1QFY25. Of its branches, about 60% are based in rural and semi-urban areas, supporting the GoI's initiative of banking for all.

Key Financials Indicators

Particulars (INR billion)	FY24	FY23
Net advances	9,316.1	8,306.7
Total deposits	13,123.7	11,792.2
Net income/loss	145.5	106.04
CET I (%)	11.6	11.59
Capital adequacy ratio (%)	16.3	16.7
Source: Canara, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch						
	Rating Type	Rated Limits (billion)	Rating	20 September 2023	17 August 2023	18 August 2022	12 July 2022	14 December 2021	16 November 2021	1 July 2021

Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Basel III Tier 2 instrument	Long-term	INR129	IND AAA/Stable	IND AAA/Stable	Ind AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Basel III AT1 bonds	Long-term	INR164.361	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA/Stable
Infrastructure Bonds	Long-Term	INR 100	IND AAA/Stable	IND AAA/Stable						

Complexity Level of the Instruments

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

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

Annexure

Instrument Type	ISIN	Date of issuance	Coupon rate (%)	Maturity Date	Issue Size (billion)	Rating/ Outlook
Basel III Tier 2 instrument						
BASEL III TIER II Bonds 2015-16 (Series I)	INE476A09264	31 December 2015	8.4	31 December 2025	INR15	IND AAA/Stable
BASEL III TIER II Bonds 2015-16 (Series II)	INE476A08043	7 January 2016	8.4	7 January 2026	INR9	IND AAA/Stable
BASEL III COMPLIANT TIER II Bonds 2016-17	INE476A08050	27 April 2016	8.4	27 April 2026	INR30	IND AAA/Stable
Basel III Compliant Tier II Bonds 2019-20	INE476A08076	11 March 2020	7.18	11 March 2030	INR30	IND AAA/Stable
Basel III-complaint Tier II bonds	INE476A08142	24 December 2021	7.09	24 December 2036	INR25	IND AAA/Stable
Basel III- compliant Tier II bonds	INE476A08175	26 August 2022	7.48%	26 August 2032	INR20	IND AAA/Stable
	Utilised Limit				INR129	
	Unutilised Limits				INR15	WD*
	Total				INR129	
Basel III AT1 bonds						
BASEL III COMPLIANT ADDITIONAL TIER 1	INE476A08035	5 March 2015	9.55	Perpetual	INR15	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08084	11 September 2020	8.3	Perpetual	INR10.12	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08092	29 September 2020	8.3	Perpetual	INR1.691	IND AA+/Stable
Basel III Compliant Additional Tier I S III	INE476A08100	31 December 2020	8.5	Perpetual	INR16.35	IND AA+/Stable
Basel III Compliant Additional Tier I S IV	INE476A08118	2 February 2021	8.3	Perpetual	INR1.2	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08126	25 October 2021	8.4	Perpetual	INR15	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08134	2 December 2021	8.05	Perpetual	INR15	IND AA+/Stable
Basel III AT1 perpetual bonds	INE476A08159	4 March 2022	8.07	Perpetual	INR10	IND AA+/Stable
BASEL III AT I 2022-23 Series I	INE476A08167	19 July 2022	8.24	Perpetual	INR20	IND AA+/Stable
BASEL III AT1 2022-23 Series II	INE476A08183	15 September 2022	7.99	Perpetual	INR20	IND AA+/Stable
	Utilised Limit				INR124.361	
	Unutilised Limit				INR15.139	WD*
	Total				INR124.361	

* issuer did not proceed with the instrument as envisaged
Source: NSDL, Canara

Infrastructure Bonds

Instrument Type	ISIN	Date of Issuance	Coupon Rate(%)	Maturity Date	Issue Size (billion)	Rating/Outlook
Infrastructure Bonds	INE476A08191	27 September 2023	7.54	27 September 2033	INR50	IND AAA/Stable
Infrastructure Bonds	INE476A08209	29 November 2023	7.68	29 November 2033	INR50	IND AAA/Stable
Total					INR100	IND AAA/Stable

Source: NSDL, Canara

Contact

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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.
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