

Annual Surveillance-Rating Review

Brickwork Ratings assigns “BWR AAA” for Canara Bank’s IPDI Issue of Rs. 800 crore and reaffirms “BWR AAA” for Canara Bank’s IPDI Issues of Rs 400 crore, 150 crore and 300 crore

Issue Rating: BWR AAA

Outlook: Stable

Brickwork Ratings has assigned and reaffirmed the rating grade of BWR AAA (Pronounced BWR Triple A) with a stable outlook for the following ratings of Canara Bank:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History	
						Review As on	Rating As on
IPDI	Rs. 800 crore	BWR AAA (Stable)	Assigned	NA	NA	NA	NA
IPDI	Tranche 1: Rs 240.30 crore	BWR AAA (Stable)	Reaffirmed	March 30, 2009	Call option- after 10 years	BWR AAA (Stable) March 2010	BWR AAA (Stable) March 2009
	Tranche 2: Rs 159.70 crore	BWR AAA (Stable)	Reaffirmed	August 21, 2009	Call option- after 10 years	BWR AAA (Stable) March 2010	BWR AAA (Stable) March 2009
IPDI	Rs 150 crore	BWR AAA (Stable)	Reaffirmed	August 21, 2009	Call option- after 10 years	BWR AAA (Stable) June 2009	-
IPDI	Rs 300 crore	BWR AAA (Stable)	Reaffirmed	Raised Rs 290.30 cr- August 21, 2009	Call option- after 10 years	BWR AAA (Stable) August 2009	-

The rating grade ‘BWR AAA’ stands for an instrument that is considered to offer the BEST credit quality in terms of timely serving of debt obligations. A “Stable” rating outlook signifies the expectation of the rating being stable in the near term. The rating has been assigned and reaffirmed taking into account the financial performance of the bank, publicly available information and clarifications sought from the bank.

The rating, inter alia, factors increasing operating profits, its focus on garnering low cost deposits and the Government of India's equity stake and continued support. Risk factors include decreasing levels of low-cost resources such as current and savings account deposits (CASA deposits) and increasing exposure to infrastructure.

Canara Bank is one of the larger public sector banks with total business of Rs 4,12,649 Crore as on 30th June 2010 (as compared to Rs. 4,03,986 Crore as on 31st March 2010). With a growth of 23.34% in its deposits and a growth of 23.55% in its advances year-on-year in June 2010, Canara Bank has reported a growth in profitability of 82.52% during Q1 FY11 as compared to Q1 FY10.

While the asset quality of the bank is still relatively healthy, there has been slippage in the first quarter with the gross NPA levels of Rs. 2549 crore as on 30th June 2010 as compared to Rs. 2463 crore as on 30th June 2009 while the gross NPA levels as on 31st March 2010 were Rs. 2590 crore. The gross NPA levels as a percentage of total advances decreased from 1.74% as on 30th June 2009 to 1.53% as on 31st March 2010 to 1.46% as on 30th June 2010. The net NPA levels have decreased from 1.29% as on 30th June 2009 to 1.06% as on 31st March 2010 to 1% as on 30th June 2010. The bank's performance under settlements and recovery has shown improvement as it has recovered Rs. 88 Crore in Q1 FY11 as against Rs 79 Crore in Q1 FY10.

The bank is still well placed in terms of provisioning with provisioning levels at 78.01%, higher than the minimum required provisioning cover as stipulated by the Reserve Bank of India.

The bank's net interest margins have substantially increased to 3.01% in Q1 FY11 as compared to a NIM of 2.70% in Q1 FY10 and of 2.80% in March 2010. CASA levels stood at 29.03% in June 2010, down from 29.09% in March 2010. The cost of deposits has decreased to 5.69% during Q1 FY11 as against 6.12% during March FY 10. However, this has been offset by a decreasing return on advances (from 9.81% in March FY10 to 10.05% in Q1 FY 11).

The bank's exposure to housing sector stands at Rs.10,101 Crores as of June 2010. The growth in lending to housing sector stands at 26.70% as of June 2010 (year-on-year). The growth in lending to infrastructure stands at 91.10% with total exposure to infrastructure sector of Rs 40,173 crore as of June 2010 (Rs. 21,027 crore as of June 2009). Brickwork Ratings believes that the increased exposure to the infrastructure sector is a risk factor for the bank.

Canara Bank is one of the top profitable public sector banks in India, with a net profit of Rs. 1,013 Crore in Q1 FY 11 and with a growth of 82.52% as against Rs. 555 Crore in Q1 FY 10. This reflects the growth in fund based income and its focus on healthy earning assets, which contributed to the improvement in profitability. Profitability has been largely driven by the lean operating structure, healthy earning assets and growth in non-interest income.

The return on average assets has increased from 1.02% in Q1 FY 10 to 1.55% in Q1 FY 11. The cost to Income Ratio has come down to 39.75% in Q1 FY 11 from 40.73% as on March 2010 due to better operating efficiency.

The bank has a well defined internal capital adequacy assessment policy to comprehensively evaluate capital adequacy requirements. As on 30th June 2010, the bank has reported a total capital adequacy ratio and Tier I capital adequacy ratio of 12.44% and 8.10% respectively.

Credit growth has been sluggish in the banking industry over the last few quarters resulting in low credit-deposit ratios across banks. Canara Bank has reported a credit-deposit ratio of 72.76% in June 2010 which is around the average levels reported.

Brickwork Ratings expects the performance of the bank to be "Stable" over the next one year.

Analysts	Media
Rajalakshmi R, Lead Analyst rajalakshmi.r@brickworkratings.com	Anitha G media@brickworkratings.com
Shilpi A, Co-Analyst Shilpi.a@brickworkratings.com	Relationship Contact K N Suvarna Sr. Vice President – Business Development kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

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