

Syndicate Bank

July 20, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Basel III Additional Tier-I Bonds	1000.00	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Assigned
Total	1000.00 (Rupees One thousand crore only)		

Details of instruments/facilities in Annexure-1

Additional Tier-I Bonds (AT 1) under Basel III are characterised by the existence of banks having coupon discretion at all points of time, capital thresholds for coupon non-payment, and principal write-down (on breach of a pre-specified trigger). As prescribed by RBI, the pre-specified trigger for AT 1 bonds before March 31, 2019, will be CET-1 ratio of 5.5% and 6.125% after March 31, 2019, or the Point of Non-viability (PONV) trigger is breached in RBI's opinion. These features increase the risk attributes of AT 1 bonds compared with Tier-II instruments under Basel III and capital instruments issued under Basel II.

In CARE's opinion, these loss absorption features increase the risk parameters associated with AT 1 bonds compared to the parameters considered to assess rating of Tier-II instruments under Basel III and capital instruments under Basel II. Thus, CARE has rated the Additional Tier-I bonds under Basel III two notches below the rating of Tier-II instruments under Basel III.

Detailed Rationale & Key Rating Drivers

The rating of Syndicate Bank (SB) continues to derive strength from the majority ownership by the Government of India (GoI), continued support it receives from GoI, moderate capitalisation levels, notwithstanding improvement during FY17 (refers to the period April 1 to March 31), requiring further strengthening. The rating is, however, constrained by bank's modest asset quality and moderate profitability parameters witnessing improvement in FY17. Going forward, SB's ability to bolster credit growth while controlling incremental slippages, improve its asset quality and capitalisation levels amidst weak demand outlook and challenging operating environment, continued ownership and support from GoI, would be the key rating sensitivities.

Outlook: Negative

The negative outlook on the rating reflects the expectation of continued stress on banks' earnings profile resulting from weak asset quality parameters and subdued growth in assets on account of low credit off-take.

Detailed description of the key rating drivers
Majority ownership by Government of India and moderate capitalization level

Government of India (GoI) continues to hold majority stake in the bank, at 72.92% as on March 31, 2017, increasing from 69.32% a year ago. The GoI has infused capital amounting to Rs.776 crore in FY17 by way of preferential allotment of shares.

As per Basel III requirements the CAR stood at 12.03% (PY: 11.16%) and Tier-I CAR at 9.26% (PY: 7.75%) as on March 31, 2017. During the year, the bank has raised Basel III Compliant Additional Tier-I Bonds of Rs.1,930 crore supporting capitalisation levels though the same requires further strengthening. High GoI holding offers it flexibility to raise additional equity capital. The bank's eligible reserves available for servicing coupon payment for AT1 bonds vis-à-vis provisions and distributable reserve to risk weighed assets were satisfactory.

Modest profitability

During FY17, the bank witnessed a marginal growth in gross advances by 0.50% (however domestic gross advances grew by 2%) and the deposits witnessed a degrowth of 0.45%. The total income grew by 2.94% on y-o-y basis mainly supported by the growth in non-interest income. The non-interest income which includes treasury profits grew by 38% in FY17.

With the increasing share of CASA deposits and reducing high cost bulk deposits, interest expenses decreased, resulting in the growth of NII by 4.86% to Rs.6276 crore in FY17. However, the yield on advances reduced by 22 bps in FY17. As a result, improvement in NIM was only marginally higher at 2.08% in FY17 (FY16: 1.97%). Supported by the non-interest income from treasury, the bank registered a PAT of Rs.359 crore in FY17 against a net loss of (Rs.1643) crore in FY16. Resultantly, the ROTA improved to 0.12% in FY17 (FY16: -0.54%).

Moderate asset quality

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Syndicate Bank historically has a relatively healthy asset quality amongst peer public sector banks. The challenges faced by the industries predominantly in iron & steel, infrastructure, power, mining and textiles led to deterioration in corporate performance impacting banks asset quality. The gross NPA and Net NPA increased to 8.50% and 5.21% as on March 31, 2017 from 6.70% and 4.48% as on March 31, 2016 respectively. The bank added fresh NPA of Rs.8,138 crore in FY17 (FY16: 12,200 crore, FY15: Rs.5500cr) reflecting in the slippage ratio of 4.22% in FY17 as against 6.12% in FY16. However, total stressed asset (including Net NPA, Standard restructured advances and Security Receipts) to net advances was at 7.94% which compares favorably among peer banks.

Subdued Asset Growth

The bank has been witnessing subdued growth in its assets over the past two years. During FY17, the growth was subdued on account of marginal growth in gross advances by 0.50% (however domestic gross advances grew by 2%) and the deposits witnessed a degrowth of 0.45%. The bank saw 4.48% growth in retail advances and 6.62% growth in agriculture advances. The credit growth in FY17 was more prominent in industries like chemicals and chemical products (growth of 22.2% over March 31, 2016) and petroleum (18.37%). Exposure to infrastructure reduced by 6.73% and to iron and steel reduced by 1.20%.

Prospects:

Bank credit has remained lackluster in FY17 with subdued growth of 4.4% in FY17 as against 8.7% growth of FY16. Credit growth witnessed by the banking sector during FY17 was one the lowest in the past few decades. The slowdown in bank credit mainly ascribed to subdued credit off-take by industry, increase in gross non-performing assets of banks and corporates opting for bond market funding given the competitive interest rates in these markets. Asset quality pressure continued which led to increased provisioning and dampened profitability for the banking sector. Improvement in economic environment is expected to reduce the stress on the asset quality of banks and reduce the pace of NPA addition, which in turn is expected to improve profitability of the banks. However, the improvement would be gradual. Going forward, the revival in the banking sector hinges on economic revival which would lead to improvement in asset quality and profitability.

Analytical approach: Standalone

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[Bank - CARE's Rating Methodology For Banks](#)

[Financial Sector - Financial Ratios](#)

Background

SB is a Manipal-based public sector bank which was established in 1925. GOI holds a majority stake of 72.92% in the bank as on March 31, 2017. With opening of 167 branches in FY17, the total branches increased to 3,932 as on March 31, 2017, comprising 1,190 rural, 1,091 semi-urban, 813 urban, 838 metro branches. The bank also has a branch in London. Furthermore, the bank has 3,974 ATMs as on March 31, 2017. The bank has presence across all the States and Union Territories of India. The branch at London is involved in the syndication of loans abroad and ECBs. The revenue from international operation constituted 3.58% of the total revenue for FY17. All branches in India have been brought under core banking solutions (CBS) since March 31, 2009.

During FY17, the bank reported a PAT of Rs.359 crore on a total income of Rs.26,461 crore as against a net loss of Rs.1,643 crore in FY16 on a total income of Rs.25,706 crore. As per Basel III, the CAR stood at 12.03% and Tier-I CAR at 9.26% as on March 31, 2017. The Gross NPA% and Net NPA% were 8.50% and 5.21%, respectively, as on March 31, 2017.

(In Rs. Cr)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	25,706	26,461
PAT	-1,643	359
Interest coverage before provisions (times)	1.24	1.25
Total Assets	306,355	297,478
Net NPA (%)	4.48	5.21
ROTA (%)	-0.54	0.12

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier-I Bonds*	-	-	-	1000.00	CARE AA-; Negative

*yet to be raised

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier-II	LT	500.00	CARE AA+; Negative	1)CARE AA+; Negative (12-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)	1)CARE AA+ (09-Jul-14)
2.	Bonds-Upper Tier-II	LT	200.10	CARE AA; Negative	1)CARE AA; Negative (12-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA	1)CARE AA (21-Jul-15)	1)CARE AA (09-Jul-14)

						(08-Jul-16)		
3.	Bonds-Perpetual Bonds	LT	240.00	CARE AA; Negative	1)CARE AA; Negative (12-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)	1)CARE AA (09-Jul-14)
4.	Bonds-Perpetual Bonds	LT	339.00	CARE AA; Negative	1)CARE AA; Negative (12-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)	1)CARE AA (09-Jul-14)
5.	Bonds-Lower Tier-II	LT	-	-	-	1)Withdrawn (27-Apr-16)	1)CARE AA+ (21-Jul-15)	1)CARE AA+ (09-Jul-14)
6.	Bonds-Perpetual Bonds	LT	194.00	CARE AA; Negative	1)CARE AA; Negative (12-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)	1)CARE AA (09-Jul-14)
7.	Certificate Of Deposit	ST	-	-	1)Withdrawn (12-Jul-17)	1)CARE A1+ (23-Dec-16) 2)CARE A1+ (08-Jul-16)	1)CARE A1+ (21-Jul-15)	1)CARE A1+ (09-Jul-14)
8.	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (31-Dec-14) 2)CARE AA+ (09-Jul-14)
9.	Bonds-Lower Tier-II	LT	1000.00	CARE AA+; Negative	1)CARE AA+; Negative (12-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)	1)CARE AA+ (09-Jul-14)
10.	Bonds-Tier-II Bonds	LT	1500.00	CARE AA+; Negative	1)CARE AA+; Negative (12-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)	1)CARE AA+ (09-Jul-14)
11.	Bonds-Tier-II Bonds	LT	1750.00	CARE AA+; Negative	1)CARE AA+; Negative (12-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (23-Sep-15)	-
12.	Bonds-Tier-I Bonds	LT	100.00	CARE AA-; Negative	1)CARE AA-; Negative (12-Jul-17)	1)CARE AA-; Negative (23-Dec-16) 2)CARE AA- (08-Jul-16)	1)CARE AA- (19-Feb-16)	-
13.	Bonds-Tier-I Bonds	LT	1700.00	CARE AA-; Negative	1)CARE AA-; Negative (12-Jul-17)	1)CARE AA-; Negative (23-Dec-16) 2)CARE AA- (08-Jul-16)	1)CARE AA- (19-Feb-16)	-
14.	Bonds-Tier-I Bonds	LT	1000.00	CARE AA-; Negative	1)CARE AA-; Negative (12-Jul-17)	1)CARE AA-; Negative (23-Dec-16) 2)CARE AA- (26-Oct-16)	-	-
15.	Bonds-Tier-II Bonds	LT	1600.00	CARE AA+; Negative	1)CARE AA+; Negative (12-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (26-Oct-16)	-	-
16.	Bonds-Tier-I Bonds	LT	1000.00	CARE AA-; Negative	-	-	-	-

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