

Syndicate Bank

November 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Lower Tier-II Bonds	1500.00	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)
Upper Tier-II Bonds	200.10 [^]	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Perpetual Bonds	773.00 ^{^^}	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Basel III Tier-II Bonds	4850.00	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)
Basel III Additional Tier-I Bonds	3800.00	CARE A+; Negative (Single A Plus; Outlook: Negative)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Total	11,123.10 (Rupees Eleven thousand One hundred and Twenty Three crore and Ten lakh only)		

Details of instruments/facilities in Annexure-1

[^]Bank has repaid Rs.200.1 crore against the bond issue; No-Due Certificate from Debenture Trustee is awaited

^{^^} Bank has repaid Rs.240 crore against the bond issue; No-Due Certificate from Debenture Trustee is awaited

CARE has rated the aforesaid Upper Tier-II Bonds and Perpetual Bonds one notch lower than Lower Tier-II Bonds of Syndicate Bank (SB) in view of their increased sensitiveness to Syndicate Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of instruments. The ratings factor in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in the payment of interest/principal (as the case may be), following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments. Tier-II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier-II instruments even under Basel II. CARE has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV. Additional Tier-I Bonds (AT 1) under Basel III are characterized 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 revision in ratings of Syndicate Bank (SB) takes into account continuing pressure on earnings resulting from continuing high levels of fresh slippages in asset quality eventually weakening capital ratios. The bank reported net loss of

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

Rs.2824 in H1FY19. Bank's CET-1 ratio has deteriorated to 6.04% as on September 30, 2018 as against 7.01% as on June 30, 2018 and 7.56% as on March 31, 2018 and the same is below the regulatory requirement of 8.0% (including CCB of 2.5%) required as on March 31, 2019 reflecting requirement of sizeable equity infusion. The bank had raised Rs.728 crore in equity from Gol during Oct'18 and would require more to restore the capital ratios to regulatory levels. Further, asset quality ratios have further deteriorated from its earlier levels. Bank's NNPA level at 6.83% is a breach of threshold 1 criteria under Prompt Corrective Action (PCA) framework for banks for three consecutive quarters. The ratings continue to derive strength from the majority ownership by the Government of India (Gol), and continued support from Gol. The rating also takes note of bank's effort to shift assets to lower risk weighted category and bank maintaining CASA deposits at satisfactory levels helping contain cost of deposit.

Going forward, SB's ability to control incremental slippages, and achieve higher recovery will remain critical to counter pressure from ageing NPA provisioning impacting profitability. Further, continued support from Gol and bank maintaining adequate capitalization remains 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

Key Rating Strengths

Majority ownership by Government of India with continuing support: Government of India (Gol) continues to hold majority stake in the bank, at 73.07% as on September 30, 2018. Gol has infused capital amounting to Rs 728 crore in October 2018 under recapitalization program by way of preferential allotment of shares. Bank requires further equity infusion of an estimated Rs.3000 crore to restore the capital adequacy levels to the regulatory requirements.

Key Rating Weaknesses

Moderation in asset quality, with continuing high slippages during H1FY19 resulting in elevated NPA levels: SB's asset quality has weakened further during H1FY19, with Gross NPA and Net NPA deteriorating further from 11.53% and 6.28% as on March 31, 2018 to 12.98% and 6.83% as on September 30, 2018 respectively. The sharp deterioration is mainly on account of higher accretions to NPA amounting to Rs.6,462 crore in H1FY19 against recoveries/upgradations amounting to Rs.2796 crore. Slippages during H1FY19 were mainly attributable to slippage in agriculture credit (majorly slippage from restructured standard advances), and retail credit. Moreover bank has breached threshold 1 criteria related to asset quality (NNPA>=6% but <9.0%) for inclusion in PCA framework for banks for three consecutive quarters. The bank has an overall exposure of around Rs.5424 crore in NCLT referred accounts, and has made overall provision of 70%, of which around Rs.3600 crore worth of exposure accounts are at an advanced stage of resolution and recovery from the same is crucial to help in reduction of NPA levels and shore up profitability.

Weak capital adequacy ratios owing to continuing losses in H1FY19, on account of high provisioning for NPA: Bank has continued to report losses (Rs.2824cr of net loss during H1FY19) as continuing high levels of fresh slippages led to elevated credit provisioning affecting capital ratios. Bank's CET-1 ratio, has deteriorated to 6.04% as on September 30, 2018 as against 7.56% as on March 31, 2018, and the same is below the regulatory requirement of 8.0% required as on March 31, 2019 reflecting requirement of large equity infusion. Tier I and total CAR stood at 8.07% and 10.95% respectively as on September 30, 2018.

During H1FY19 bank reported total operating income of Rs.11,526 crore. The treasury income of the bank has fallen from Rs.1740 crore in FY17 to Rs.946 crore in FY18, on account of hardening of yields and the same continued to remain low at Rs.63 crore during H1FY19. Bank's operating profit was low at Rs.1129 crore, which along with high credit cost of Rs.3396 crore towards provision of NPAs led to losses of Rs.2824 crore in H1FY19.

Going forward bank expects to contain major slippages with more than 90% of SMA-2 accounts being small ticket exposures and agricultural advances being already provided for. Further, bank expects higher recovery and faster resolution of NCLT accounts. CARE would continue to monitor the development regarding asset quality resolution and its capital raising plan.

Industry prospects:

The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory. Though GOI has announced the plan for recapitalization of public sector banks which is a positive for the industry, the implementation of the same is yet to be seen.

Analytical approach: Standalone

Applicable Criteria

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

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

[Financial ratios – Financial sector](#)

[CARE's Rating Methodology for Banks](#)

About the Company

Syndicate Bank (SB) is a Manipal based public sector bank which was established in 1925. As on September 30, 2018, GOI holds a majority stake [73.07%] in the bank. Bank has network of 4018 branches as on September 30, 2018 comprising of 1236 rural, 1134 semi-urban, 814 urban, 833 metro branches. The bank also has a branch in London. The bank has presence across all the States and Union Territories of India.

The day-to-day affairs of the bank are looked after by Mr. Mrutyunjay Mahapatra, Managing Director and CEO. He is assisted by the executive directors who are supported by general managers heading important functions of credit, recovery, treasury, risk management, planning and development, information technology, vigilance, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	26,461	24,582
PAT	359	-3,223
Interest coverage (times)	1.25	1.25
Total Assets	2,97,478	3,22,427
Net NPA (%)	5.21	6.28
ROTA (%)	0.12	-1.04

A: Audited

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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: System generated

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	December 26, 2008	8.60%	December 26, 2018	300.00	CARE AA; Negative
Bonds-Lower Tier II	June 15, 2009	8.49%	June 15, 2019	200.00	CARE AA; Negative
Bonds-Upper Tier II [^]	February 28, 2007	9.30%	February 28, 2022	200.10	CARE AA-; Negative
Bonds-Perpetual Bonds [^]	March 25, 2008	9.90%	-	240.00	CARE AA-; Negative
Bonds-Perpetual Bonds	January 12, 2009	9.40%	-	339.00	CARE AA-; Negative
Bonds-Perpetual Bonds	June 29, 2009	8.90%	-	194.00	CARE AA-; Negative
Bonds-Lower Tier II	December 31, 2012	9.00%	December 31, 2022	1000.00	CARE AA; Negative
Bonds-Tier II Bonds	December 02, 2014	8.95%	December 02, 2024	750.00	CARE AA; Negative
Bonds-Tier II Bonds	March 23, 2015	8.75%	March 23, 2025	400.00	CARE AA; Negative
Bonds-Tier II Bonds	-	-	-	350.00	CARE AA; Negative
Bonds-Tier II Bonds	September 28, 2015	8.58%	September 28, 2025	1000.00	CARE AA; Negative
Bonds-Tier II Bonds	December 28, 2015	8.62%	December 28, 2025	750.00	CARE AA; Negative
Bonds-Tier I Bonds	March 30, 2016	11.25%	-	370.00	CARE A+; Negative
Bonds-Tier I Bonds	March 30, 2016	11.25%	-	500.00	CARE A+; Negative
Bonds-Tier I Bonds	July 15, 2016	11.25%	-	930.00	CARE A+; Negative
Bonds-Tier I Bonds	October 24, 2016	9.95%	-I	1000.00	CARE A+; Negative
Bonds-Tier II Bonds	May 03, 2017	8.00%	May 03, 2027	500.00	CARE AA; Negative
Bonds-Tier II Bonds	-	-	-	1100.00	CARE AA; Negative
Bonds-Tier I Bonds	July 25, 2017	9.80%	-I	450.00	CARE A+; Negative
Bonds-Tier I Bonds	-	-	-	550.00	CARE A+; Negative

[^]Bank has repaid the money against these instruments, No-Due Certificate from Debenture Trustee is awaited

Annexure-2: Rating History of last three years: System generated

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	500.00	CARE AA; Negative	CARE AA+; Negative (06-Jul-18)	1)CARE AA+; Negative (20-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)
2.	Bonds-Upper Tier II	LT	200.10	CARE AA-; Negative	CARE AA; Negative (06-Jul-18)	1)CARE AA; Negative (20-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)
3.	Bonds-Perpetual Bonds	LT	240.00	CARE AA-; Negative	CARE AA; Negative (06-Jul-18)	1)CARE AA; Negative (20-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA	1)CARE AA (21-Jul-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
							(08-Jul-16)	
4.	Bonds-Perpetual Bonds	LT	339.00	CARE AA-; Negative	CARE AA; Negative (06-Jul-18)	1)CARE AA; Negative (20-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)
5.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (27-Apr-16)	1)CARE AA+ (21-Jul-15)
6.	Bonds-Perpetual Bonds	LT	194.00	CARE AA-; Negative	CARE AA; Negative (06-Jul-18)	1)CARE AA; Negative (20-Jul-17)	1)CARE AA; Negative (23-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (21-Jul-15)
7.	Certificate Of Deposit	ST	-	-	-	1)Withdrawn (20-Jul-17)	1)CARE A1+ (23-Dec-16) 2)CARE A1+ (08-Jul-16)	1)CARE A1+ (21-Jul-15)
8.	Bonds-Lower Tier II	LT	1000.00	CARE AA; Negative	CARE AA+; Negative (06-Jul-18)	1)CARE AA+; Negative (20-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)
9.	Bonds-Tier II Bonds	LT	1500.00	CARE AA; Negative	CARE AA+; Negative (06-Jul-18)	1)CARE AA+; Negative (20-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (21-Jul-15)
10.	Bonds-Tier II Bonds	LT	1750.00	CARE AA; Negative	CARE AA+; Negative (06-Jul-18)	1)CARE AA+; Negative (20-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (23-Sep-15)
11.	Bonds-Tier I Bonds	LT	100.00	CARE A+; Negative	CARE AA-; Negative (06-Jul-18)	1)CARE AA-; Negative (20-Jul-17)	1)CARE AA-; Negative (23-Dec-16) 2)CARE AA- (08-Jul-16)	1)CARE AA- (19-Feb-16)
12.	Bonds-Tier I Bonds	LT	1700.00	CARE A+; Negative	CARE AA-; Negative (06-Jul-18)	1)CARE AA-; Negative (20-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	1000.00	CARE A+; Negative	CARE AA-; Negative (06-Jul-18)	1)CARE AA-; Negative (20-Jul-17)	1)CARE AA-; Negative (23-Dec-16) 2)CARE AA- (26-Oct-16)	-
14.	Bonds-Tier II Bonds	LT	1600.00	CARE AA; Negative	CARE AA+; Negative (06-Jul-18)	1)CARE AA+; Negative (20-Jul-17)	1)CARE AA+; Negative (23-Dec-16) 2)CARE AA+ (26-Oct-16)	-
15.	Bonds-Tier I Bonds	LT	1000.00	CARE A+; Negative	CARE AA-; Negative (06-Jul-18)	1)CARE AA-; Negative (20-Jul-17)	-	-

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