

CRISIL (i) downgrades seven public sector banks and (ii) Changes outlook to 'Negative' on four others

Steep rise in NPAs, expected further surge in stressed assets and the consequent hit on profitability and capital will dent credit profile

Significant stress in the corporate loan book of PSBs is expected to result in their weak assets ballooning to Rs 7.1 lakh crore by March 31, 2017 (11.3 percent of total loan book) from around Rs 4.0 lakh crore as on March 31, 2015 (7.2 percent of loan book). Over the next few quarters, CRISIL expects slippages to NPAs to remain high driven by stretched cash flows of highly leveraged Corporate (mainly in the vulnerable sectors such as infrastructure, metals and real estate), continued proactive recognition of stressed assets by banks, and limited ability of banks in the current environment to recover from exposures to large Corporate that have slipped into NPAs.

Further, the earnings profile of most PSBs has deteriorated with many expected to report a full-year net loss this fiscal. With the banking system having to migrate to the marginal cost of funds-based lending rate, or MCLR, regime from April 1, 2016, and the proportion of zero income-generating bad assets in the loan book of PSBs rising, net interest margin will come under fresh pressure in the near-term. This, coupled with loan loss provisioning at a number of PSBs surpassing pre-provisioning profit, due to increased slippages and a rising inventory of ageing NPAs, could result in many PSBs reporting a loss even for the next fiscal.

Given that capital raising through the non-government route will be a challenge for PSBs because of their weak financial performance and low valuations, and in the absence of any commitment of enhanced capital support from the government, CRISIL has lowered its floor rating for corporate credit rating (or Tier II bonds) for PSBs to 'CRISIL A+' from the current 'CRISIL AA-'. Most ratings, however, for now continue to remain in the AA category or higher.

Banks	Tier II Bonds (Under Basel II & Basel III) / Infrastructure Bonds	Hybrid Instruments (Under Basel II)	Tier I Bonds (Under Basel III)
(i) RATING DOWNGRADED			
Bank of India	CRISIL AA+/Negative (Downgraded from CRISIL AAA/Negative)	CRISIL AA+/Negative (Downgraded from CRISIL AAA/Negative)	CRISIL A+/Negative (Assigned)
Central Bank of India	CRISIL AA-/Negative (Downgraded from CRISIL AA/Negative)	CRISIL A+/Negative (Downgraded from CRISIL AA-/Negative)	
Corporation Bank	CRISIL AA/Negative (Downgraded from CRISIL AA+/Stable; Outlook revised to negative)	CRISIL AA-/Negative (Downgraded from CRISIL AA/Stable; Outlook revised to negative)	CRISIL A/Negative (Downgraded from CRISIL AA-/Stable; Outlook revised to negative)
Dena Bank	CRISIL AA-/Negative (Downgraded from CRISIL AA+/Negative)	CRISIL A+/Negative (Downgraded from CRISIL AA/Negative)	CRISIL A-/Negative (Downgraded from CRISIL AA-/Negative)
Indian Overseas Bank	CRISIL A+/Negative (Downgraded from CRISIL AA-/Negative)	CRISIL A-/Negative (Downgraded from CRISIL A+/Negative)	

Syndicate Bank	CRISIL AA (Downgraded from CRISIL AA+/Stable; Placed on 'Rating Watch with Negative Implications')	CRISIL AA (Downgraded from CRISIL AA+/Stable; Placed on 'Rating Watch with Negative Implications')	
UCO Bank	CRISIL AA/Negative (Downgraded from CRISIL AA+/Negative)	CRISIL AA-/Negative (Downgraded from CRISIL AA/Negative)	CRISIL A-/Negative (Downgraded from CRISIL A+/Negative)
(ii) OUTLOOK REVISED			
Andhra Bank	CRISIL AA+/Negative (Outlook revised from Stable)	CRISIL AA/Negative (Outlook revised from Stable)	CRISIL AA-/Negative (Outlook revised from Stable)
Bank of Baroda	CRISIL AAA/Negative (Outlook revised from Stable)	CRISIL AAA/Negative (Outlook revised from Stable)	
Punjab National Bank	CRISIL AAA/Negative (Outlook revised from Stable)	CRISIL AAA/Negative (Outlook revised from Stable)	
Punjab & Sind Bank	CRISIL AA/Negative (Outlook revised from Stable)		