OCTOBER 26, 2016

CARE ASSIGNS 'CARE AA+'AND 'CARE AA-'RATINGS TO BASEL III TIER II BONDS AND BASEL III ADDITIONAL TIER I BONDS OF SYNDICATE BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Basel III Tier II Bonds	1,600	**CARE AA+ (Double A Plus)**	Assigned
Basel III Additional Tier I Bonds	1,000	**CARE AA – (Double A Minus)**	Assigned
Total Facilities	**2,600 (Rupees Two Thousand Six Hundred crore only)**		

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 with 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.

Rating Rationale

The ratings of Syndicate Bank (SB) continue to derive strength from the majority ownership by the Government of India (GoI), continued support it receives from GoI, modest capitalization levels albeit witnessing moderation during FY16 (refers to the period April 1 to March 31). The ratings are, however, constrained by sharp deterioration in the bank's asset quality, pressure on bank's earnings profile resulting from continued pressure on asset quality and provisioning on account of fraud in the branches in Jaipur region. Going forward, SB's ability to control incremental slippages, improve its asset quality and capitalization levels amidst weak demand outlook and challenging operating environment, continued ownership and support from GoI would be the key rating sensitivities.

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

Background

SB is a Manipal-based public sector bank which was established in 1925. GOI holds a majority stake of 73% in the bank as on September 30, 2016. With opening of 26 branches in Q1FY17, the total branches increased to 3,791 as on June 30, 2016, comprising 1,242 rural, 1,033 semi-urban, 827 urban, 689 metro branches. The bank also has a branch in London. Furthermore, the bank has 3,730 ATMs as on March 31, 2016. 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 3.66% of the total revenue for FY16. All branches in India have been brought under core banking solutions (CBS) since March 31, 2009. The day-to-day affairs of the bank are looked after by Mr. Arun Shrivastava, 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.

During FY16, the bank reported a net loss of Rs.1,643 crore (FY15: Rs.1,523 crore) on a total income of Rs.25,706 crore (FY15: Rs.23,725 crore). During Q1FY17, the bank reported a PAT of Rs.79 crore (Q1FY16: Rs.302 crore). As per Basel III, the CAR stood at 11% and Tier I CAR at 7.69% as on June 30, 2016. The Gross NPA% and Net NPA% were 7.53% and 5.04%, respectively, as on June 30, 2016.

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

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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