

Ratings

Rating Rationale

December 20, 2019 | Mumbai

Syndicate Bank

Rating placed on 'Watch Positive'

Rating Action

Lower Tier-II Bonds Aggregating Rs.2225 Crore (Under Basel II) (Reduced from Rs.2725 Crore)	CRISIL AA (Placed on 'Rating Watch with Positive Implications')
Rs.777 Crore Perpetual Tier-I Bonds (under Basel II)	CRISIL AA (Placed on 'Rating Watch with Positive Implications')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its rating on debt instruments of Syndicate Bank on '**Rating Watch with Positive Implications**'. CRISIL has also withdrawn its rating on the Lower Tier-II bonds (under Basel II) of Rs 500 crore and Perpetual Tier-I Bonds (Under Basel II) of Rs 773 crore (see Annexure 'Details of rating withdrawn' for details) on confirmation from the debenture trustee that these instruments have been fully redeemed. The rating withdrawal is in line with CRISIL's policy.

On August 30, 2019, the Ministry of Finance announced a set of reforms for public sector banks (PSBs) including consolidation, capital infusion, and measures to enhance governance standards. A key announcement was also the amalgamation of six PSBs into four anchor PSBs. As part of this announcement, it was proposed to amalgamate Syndicate Bank with Canara Bank. In response to the announcement, CRISIL had published a credit bulletin on September 5, 2019, conveying that it will continue to closely monitor developments, engage with various stakeholders, and take appropriate rating action thereafter.

The ratings on the debt instruments have now been placed on 'watch with positive implications as there has been significant progress on the amalgamation including approvals from the boards of directors of both banks. CRISIL expects the credit risk profile of the merged entity to be better than that of Syndicate Bank currently. In September 2019, in-principle approval from the boards of both the merging banks was received. Later, in November 2019, Alternative Mechanism accorded its in-principal approval for the merger of the two banks. Further, CRISIL has had discussions with several of the amalgamating banks and understands that the integration process in terms of branch rationalisation, alignment of policies, processes and products, and joint training of staff are already underway. The merger is expected to be completed after receipt of all regulatory approvals. CRISIL will remove the rating from watch once clarity emerges on the merger completion.

In terms of pro-forma merged financials, the merged bank would have had total assets of Rs 10.2 lakh crore, with gross non-performing assets (NPAs) of 9.6%, as on September 30, 2019. Common equity tier I (CET-I), Tier I, and overall capital adequacy ratio (CAR) were at 9.9%, 11.1%, and 13.9%, respectively, as on September 30, 2019. On the business side, there are potential synergies stemming from a larger distribution network with deeper penetration in key states and operational efficiencies.

Till the amalgamation is completed, the ratings will continue to reflect expectation of strong support from the majority owner, the Government of India (GoI), adequate capitalisation, and a comfortable resource profile. The rating also factors in stress on asset quality and the resultant decline in earnings due to high provisioning requirement.

Analytical Approach

For arriving at the rating, CRISIL has considered the standalone business and financial risk profiles of Syndicate Bank and has factored in the support that the bank is likely to receive from GoI.

Key Rating Drivers & Detailed Description

Strengths:

* Strong expectation of support from GoI:

Strong support is expected from the government, both on an ongoing basis and in the event of distress. That's because GoI is both the majority shareholder in PSBs and the guardian of India's financial system. The stability of the banking sector is of prime importance to the government, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs, and the severe implications of any PSB failure in terms of political fallout, systemic stability, and investor confidence in public sector institutions. CRISIL believes the majority ownership creates a moral obligation on the government to support PSBs. It infused Rs 2,839 crore in Syndicate Bank in fiscal 2018, Rs 728 crore in September 2018, and Rs 1,632 crore in December 2018.

* Adequate capitalisation:

Tier-I and overall CAR (under Basel III) were 10.95% and 13.78%, respectively, as on September 30, 2019 (11.36% and 14.23%, respectively, as on March 31, 2019). However, the networth coverage for net NPAs remained low at 1.3 time as on September 30, 2019 (0.9 time as on September 30, 2018), given asset quality pressure. Nevertheless, capitalisation is likely to remain adequate over the medium term on account of continued government support, which will help to meet regulatory capital requirements.

Weaknesses:

* Weak asset quality:

Gross NPAs were high at 11.5% as on September 30, 2019 (11.4% as on March 31, 2019). Slippages to NPAs, as a percentage

of opening net advances, declined but remained high at 4.4% (on an annualised basis) in the six months through September 2019 (6.8% for fiscal 2019). However, the bank has increased the focus on recoveries (including through the IBC route) and resolving asset quality challenges. Asset quality is likely to gradually improve over the medium term, but ability to arrest slippages and improve recovery will remain key rating monitorables.

* Modest earnings:

There was a loss of Rs 729 crore for the six months through September 2019 as compared with a loss of Rs 2,824 crore for the corresponding period in the previous fiscal, primarily because of high provisioning expense. This is likely to remain high over the next few quarters, given the ageing of NPAs and limited recoveries. The net interest margin (NIM) increased to 2.68% (annualised) for the six months through September 2019 from 2.42% for fiscal 2019. Return on assets (RoA) was a negative 0.5% (annualised) for the period (a negative 0.8% for fiscal 2019). Profitability should remain modest in the near term on account of high credit cost. However, as the book starts growing and with improvement in asset quality, profitability is expected to improve.

Liquidity Superior

Liquidity is supported by a sizeable retail deposit base that forms a significant part of the total deposits. Liquidity coverage ratio was 136.89% as on September 30, 2019, against the regulatory requirement of 100%. The excess statutory liquidity was Rs 3,461 crore (1.40%) as on that date. Liquidity also benefits from access to systemic sources of funds such as the liquidity adjustment facility from the Reserve Bank of India, access to the call money market, and refinance limits from sources such as National Housing Bank and National Bank for Agriculture and Rural Development.

Rating Sensitivity factors

Upward factors:

- * Sustained improvement in asset quality and profitability, leading to RoA of over 0.75% on a steady-state basis.
- * Completion of the proposed amalgamation with Canara Bank.

Downward factors:

- * More-than-expected deterioration in asset quality, thereby impacting earnings
- * Sustained decline in CARs below minimum regulatory requirements (including CCB which was Tier I CAR of 9.5% and overall CAR of 11.5% as on March 31, 2020)

About the Bank

Syndicate Bank was set up in 1925. As on September 30, 2019, the bank had 4062 branches (including a branch in London), global advances of Rs 2,21,638 crore, and global deposits of Rs 2,59,443 crore.

Total income (net of interest charges) was Rs 8,873 crore and loss Rs 2,588 crore in fiscal 2019, against Rs 9,358 crore and Rs 3,223 crore, respectively, in the previous fiscal. loss was Rs 729 crore and total income (net of interest charges) Rs 4,813 crore in the six months ended September 30, 2019, against a loss of Rs 2,824 crore and total income (net of interest charges) of Rs 3,948 crore in the corresponding period of the previous fiscal.

Key Financial Indicators

As on / for the period ended September 30,	Unit	2019	2018
Total assets	Rs crore	3,15,628	3,09,833
Total income	Rs crore	12,234	11526
Profit after tax	Rs crore	(729)	(2824)
Gross NPAs	%	11.5	13.0
Overall capital adequacy ratio	%	13.78	10.95
Return on assets (annualized)	%	-0.48	-1.87

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Note on Hybrid Instruments (under Basel II)

Given that hybrid capital instruments (Tier-I perpetual bonds and Upper Tier-II bonds; under Basel II) have characteristics that set them apart from Lower Tier-II bonds (under Basel II), the ratings on the two instruments may not necessarily be identical. The factors that could trigger a default event for hybrid instruments include: the bank breaching the regulatory minimum capital requirement, or the regulator's denial of permission to the bank to make payments of interest and principal if the bank reports losses. Hence, the transition from one rating category to another may be significantly sharper for these instruments than in the case of Lower Tier-II bonds. This is because debt servicing on hybrid instruments is far more sensitive to the bank's overall capital adequacy levels and profitability.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Outstanding with Outlook
NA	Perpetual Tier-I Bonds (Under Basel II)*	NA	NA	NA	4.0	CRISIL AA/Watch Positive
INE667A09177	Lower Tier-II Bonds (Under Basel II)	31-Dec-12	9.00	31-Dec-22	1000.00	CRISIL AA/Watch Positive
NA	Lower Tier-II Bonds (Under Basel II)*	NA	NA	NA	1225.0	CRISIL AA/Watch Positive

*Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)
INE667A09151	Lower Tier-II Bonds (Under Basel II)	15-Jun-09	8.49	15-Jun-19	200.00
INE667A09128	Perpetual Tier-I Bonds (Under Basel II)	25-Mar-08	9.9	Perpetual	240.0
INE667A09144	Perpetual Tier-I Bonds (Under Basel II)	12-Jan-09	9.4	Perpetual	339.0
INE667A09169	Perpetual Tier-I Bonds (Under Basel II)	29-Jun-09	8.9	Perpetual	194.0

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Lower Tier-II Bonds (under Basel II)	LT	1000.00 20-12-19	CRISIL AA/(Watch) Positive	05-09-19	CRISIL AA/Stable	25-01-18	CRISIL AA/Stable	29-08-17	CRISIL AA/Negative	26-08-16	CRISIL AA/Negative	CRISIL AA+/Stable
				30-01-19	CRISIL AA/Stable					10-03-16	CRISIL AA/Watch Negative	
Perpetual Tier-I Bonds (under Basel II)	LT	0.00 20-12-19	CRISIL AA/(Watch) Positive	05-09-19	CRISIL AA/Stable	25-01-18	CRISIL AA/Stable	29-08-17	CRISIL AA/Negative	26-08-16	CRISIL AA/Negative	CRISIL AA+/Stable
				30-01-19	CRISIL AA/Stable					10-03-16	CRISIL AA/Watch Negative	
Tier I Bonds (Under Basel III)	LT		--		--		--		--	10-03-16	Withdrawal	CRISIL AA-/Stable
Upper Tier-II Bonds (under Basel II)	LT				--		--	29-08-17	Withdrawal	26-08-16	CRISIL AA/Negative	CRISIL AA+/Stable
										10-03-16	CRISIL AA/Watch Negative	

All amounts are in Rs.Cr.

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

[Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Krishnan Sitaraman Senior Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 8070 krishnan.sitaraman@crisil.com</p> <p>Subhasri Narayanan Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3403 subhasri.narayanan@crisil.com</p> <p>Trimukh Phene Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 4097 8128 Trimukh.Phene1@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestor@crisil.com</p>

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