
September 21, 2010

CARE REAFFIRMS RATING ASSIGNED TO OUTSTANDING BOND ISSUES OF SYNDICATE BANK

CARE has reaffirmed the 'CARE AA+' [Double A Plus] rating assigned to Syndicate Bank's Lower Tier II Bonds and the 'CARE AA' [Double A] rating assigned to its Upper Tier II Bonds and its Perpetual Bonds.

CARE has also retained the 'PR1+' [PR One Plus] rating assigned to Syndicate Bank's Certificate of Deposits programme having a limit of Rs.10,000 crore with a maturity of upto one year.

Instruments	Amount o/s (Rs. Crore)	Rating
Lower Tier II Bonds	1200.0	CARE AA+
Upper Tier II bonds	819.7	CARE AA
Perpetual Bonds	773.0	CARE AA

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds one notch lower than the usual Tier II Bonds of Syndicate Bank in view of their increased sensitiveness to Syndicate Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments.

The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in 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 somewhat sharper migration of rating compared to conventional subordinated debt instruments.

Rating Rationale

The rating factors in the majority ownership of Syndicate Bank by the Government of India (GoI), the bank's pan-India presence, well diversified credit portfolio, modest growth in business, significant improvement in its Current Account - Saving Account (CASA) deposits base and its adequate capitalisation levels. The bank's ability to increase the proportion of fee-based income, improve its margins while improving asset quality and further strengthen its resources profile to fund business growth effectively are key rating sensitivities.

Bank Profile

Syndicate Bank is a Karnataka-based public sector bank in which GoI holds 66.47% stake. It is one of the larger public sector banks with an asset size of Rs 1,38,647 crore, a network of 2,308 branches (including a branch at London) and 1,187 ATMs as on March 31, 2010. Almost 53% of its branches are in the rural/semi-urban areas.

For FY10, the bank earned a Net Profit of Rs.813 crore (FY09: Rs. 913 crore) on a Total income of Rs.11,215 crore on account of a low core earnings growth and a twofold increase in tax provisions. Total advances stood at Rs.90,406 crore while the total deposits stood at Rs.1,17,025 crore as on March 31, 2010.

During Q1FY11, the bank posted a Net Profit of Rs.265 crore on a Total income of Rs.2,820 crore driven largely by a fall in interest expenses and tax provisions. The Gross NPA and Net NPA ratios stood at 2.31% (FY10: 2.19%) and 1.06% (FY10: 1.07%), respectively. The total restructured assets outstanding as on June 30, 2010 stood at Rs.4,392 crore constituting 4.73% of net advances. As on June 30, 2010, the CAR as per Basel II stood at a comfortable at 12.37% with Tier I CAR at 8.32%.

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