Punjab and Sind Bank

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds@	500.00	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed
Lower Tier II Bonds	300.00	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed
Lower Tier II Bonds	500.00	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed
Tier I Bonds^	1,000.00	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed
Tier II Bonds@	237.30	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed
Total Long-term Instruments	**2,537.30 (Rs. Two thousand five hundred thirty seven crore and thirty lakh only)**		

Details of instruments in Annexure-1

@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 the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

^CARE Ratings has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, the coupon may be paid through profits of the previous years and reserves representing appropriation of net profits, including statutory reserves, but excluding reserves created through share premium, revaluation reserve, foreign currency translation reserve, investment reserve and amalgamation, provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios at all times and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Punjab and Sind Bank (PSB) factor in majority ownership, demonstrated and expected continued support from Government of India (GoI), improvement in capitalisation ratios post equity infusion of Rs.5,500 crore during FY21 (refers to the period April 01 to March 31) by way of recapitalisation bonds which would help the bank to support business growth in the near term. The ratings further factor in the bank's established presence in north India and strong liquidity profile.

The ratings continue to be constrained on account of weak asset quality parameters; however, the bank has made significant amount of provisioning during the third quarter of FY21, which has improved the provision coverage ratio (PCR) on Gross NPA for the bank. The bank's asset quality is expected to remain under pressure over the near term with sizeable proportion of Gross Advances are stressed (including SMA 1 and SMA 2 and

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

restructured portfolio) and higher than expected slippages would further deteriorate the asset quality parameters.
Furthermore, the bank's earnings profile has been moderate as it has started reporting profits for two consecutive quarters ending June 2021; however, the level of profit continues to be moderate and any higher than expected impact on account of Covid-19-related stress may impact the profitability. The ratings also factor in PSB's relatively lower but improving proportion of Current Account Savings Account (CASA) deposit ratio, predominantly corporate focused advances book and relatively higher geographical concentration in the states of northern India with major presence in New Delhi and the state of Punjab.

Outlook: The 'Negative' outlook is on account of expectations of continued asset quality pressures accentuated by the second Covid wave and its resultant impact on the bank's profitability in the near term.
The outlook may be revised to 'Stable' if the bank continues to contain its slippages thereby maintaining its asset quality parameters and credit costs helping the continued improvement in profitability.
The rating may be downgraded in case the bank has higher-than-expected slippages which further deteriorates the asset quality parameters and impacts profitability due to higher credit costs.

Rating Sensitivities
Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:
- Improvement in asset quality parameters with Gross non-performing asset (NPA) reducing below 10% or Net NPA ratio of over 4% on a sustained basis.
- Consistent improvement in profitability.

Negative factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:
- Worsening of asset quality parameters over with Gross NPA exceeding 15% or Net NPA ratio of over 6% on a sustained basis.
- Deterioration in capitalisation levels below 12% on a sustained basis.

Detailed description of the key rating drivers
Key Rating Strengths
Majority ownership and support by GOI and demonstrated support
Government of India (GOI) continues to be the majority shareholder holding 97.07% stake in PSB as on June 30, 2021. GOI has been supporting public sector banks with regular capital infusions and steps to improve capitalization, operational efficiency and asset quality.
In the last four years, GOI has cumulatively infused equity capital of Rs.7,072 crore with significant proportion (Rs.5,500 crore) being infused in FY21 through non-coupon paying recapitalisation bonds. The bonds are non-interest bearing bonds issued at par having maturities between 10 years and 15 years, which would be held under HTM category and would redeem at par on maturity. Given the majority ownership of GOI, PSB is expected to receive timely and adequate support in the form of capital as and when required.

Improvement in capitalisation levels post equity infusion
On account of weak asset quality, leading to higher credit cost PSB has been reporting losses during FY18 to FY21 which impacted the capitalisation levels of the bank and the distributable reserves eroded with the bank having accumulated losses of Rs.3,577 crore as on March 31, 2021.
Post the infusion of equity, the bank has seen improvement in its capitalisation ratios and the bank reported capital adequacy ratio (CAR) of 17.06% (Tier I CAR: 13.98%) and Common Equity Tier I (CET I) Ratio of 12.05% as on March 31, 2021 as compared with CAR of 12.76% (Tier I CAR: 9.58%) and CET I Ratio of 7.59% as on March 31, 2020. The bank reported CAR of 17.62% (Tier I CAR: 14.34%) and CET I Ratio of 12.38% as on June 30, 2021.
The Department of Financial Services Gazette notification no. CG-DL-E-23032020-218862 (S.O. 1200 E) dated March 23, 2020, which is referred to as Nationalised Banks (Management and Miscellaneous Provisions) Amendment Scheme, 2020, allows nationalised banks to set off accumulated losses against the share premium account subject to approval from shareholders, GOI and the Reserve Bank of India (RBI). In line with this, the bank has transferred amount of Rs.3,577.55 crore from Securities Premium Account (amount of Rs.4,835.11 crore) in August 2021 post approval from the Reserve Bank of India (RBI) and shareholders.

Key rating weaknesses

Weak asset quality parameters with larger proportion of stressed portfolio

The asset quality of the bank had seen deteriorating trend up to FY20 with Gross NPA ratio of 14.18% and Net NPA ratio of 8.03% with Net NPA to Net worth ratio of 160.31% as on March 31, 2020, largely on account of exposure to weaker corporate accounts. During FY21, the bank has seen lower slippages as compared with previous years; however, the Gross NPAs in absolute term increased from Rs.8,875 crore as on March 31, 2020 to Rs.9,334 crore as on March 31, 2021. As the bank saw increase in advances, its Gross NPA ratio decreased to 13.76% as on March 31, 2021. The bank reported Gross NPA ratio of 13.33% and Net NPA ratio of 3.61% as on June 30, 2021 and the slippage ratio continued to be stable at 2.61% for Q1FY22 as compared with 2.49% for FY21.

Furthermore, high amount of provisioning during FY21 has helped the bank improve the PCR (without technical write off [TWO]) from 47.22% as on March 31, 2020 to 73.62% as on March 31, 2021. As a result, the Net NPA ratio for PSB reduced to 4.04% as on March 31, 2021 as from 8.03% as on March 31, 2020. Due to capital infusion and higher provisioning, the Net NPA to tangible net worth ratio improved from 160% as on March 31, 2020 to 48% as on March 31, 2021.

With the Covid-19-related stress as well as stress in couple of large ticket corporate accounts, the bank has seen increase in its stressed accounts, which constituted 15.55% (SMA 1, SMA 2, standard restructured and OTR) of advances as on June 30, 2021. The amount of credit cost and its impact on profitability remains a key monitorable.

Weak profitability with improvement in Q1FY22

PSB's earning profile has been moderate with relatively lower Net Interest Income (NII) as compared to other public sector banks due to higher cost of funds and interest reversals on account of high slippages resulting in NIM in the range of around 2% to 2.2%. Although the bank has been reporting pre-provisioning operating profit (PPOP), higher provisioning over the years has impacted the overall profitability of the bank.
During FY21, the bank reported PPOP of Rs.771 crore which was lower by 30% as compared with Rs.1,097 crore on account of one-time expense of Rs.369 crore towards terminal benefits to employees as per revised actuarial valuation. Furthermore, the bank made significant amount of provisioning for NPAs to increase the PCR on NPAs resulting in the third quarter of FY21 which resulted in the bank reporting net loss of Rs.2,733 crore for FY21 as compared with net loss of Rs.991 crore for FY20.
PSB reported a net profit of Rs.174 crore for the quarter ended June 30, 2021, on a total income of Rs.2,039 crore (PAT of Rs.161 crore for Q4FY21). While there has been improvement in profitability over the last two quarters, the level of profit continues to be moderate and any incremental credit costs due to higher than expected slippages could impact the profitability and is a key monitorable in the near term.

Predominantly corporate focused mix with geographical concentration

The gross advances stood at Rs.67,811 crore as on March 31, 2021 (Rs.67,933 as on June 30, 2021) registering growth of around 9% during FY21 as compared with de-growth of 14% during the previous year. The mix of corporate and retail advances more of less remained unchanged with corporate advances contributing around 54% of gross advances as on March 31, 2021 (June 30, 2021 – 56%) as compared with 53% as on March 31, 2020 (June 30, 2020 – 57%). The bank having established presence in north India, majority of the business is focused in the states of north India with the top three states (Delhi, Punjab and Maharashtra) contributing 61% of the total business (Deposits + Advances) as on June 30, 2021.

Improving but relatively low share Current and Savings account (CASA) deposits

The proportion of CASA deposits has been relatively lower as compared to major public sector banks considering the geographical concentration of business and the bank is focusing on granularization of deposits and increase the proportion of its CASA deposits.
During FY21, CASA and retail deposits of PSB grew significantly both registering a growth of 19% (y-o-y) and constituted 32.81% of the total deposits as on March 31, 2021 (March 31, 2020: 29.57%) and 31.31% as on June 30, 2021. Furthermore, PSB continued to reduce its dependence on bulk deposits which shrunk by 26% YOY as on March 31, 2021. The growth in CASA and retail deposits combined with reduction of bulk deposits has translated into reducing the cost of deposits for PSB from 5.96% for FY20 to 4.79% for FY21.

Liquidity Profile: Strong
According to the asset liability maturity (ALM) profile of the bank as on June 30, 2021, there were no negative cumulative mismatches as per the ALM above in time buckets up to 6 months. The bank's average Liquidity Coverage Ratio (LCR) stood at 215.52% for the quarter ended June 30, 2021, as against the regulatory requirement of 100%. Comfort can be drawn from the excess Statutory Liquidity Ratio (SLR) maintained by PSB at 7.64% of net demand and time liabilities as on June 30, 2021. Furthermore, the bank has access to systemic liquidity like RBI's LAF and MSF facility along with access to refinance from SIDBI, NHB, NABARD, etc and access to call money markets.

Analytical approach: The ratings are based on standalone profile of the bank and continue to factor in strong support from Government of India (GOI) which holds majority shareholding in the bank.

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology: Notching by factoring linkages with Government
Rating Methodology - Banks
Financial Ratios – Financial Sector
Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks

About the Bank
Punjab & Sind Bank (PSB), established in 1908, is a mid-sized corporate focused public sector bank based out of New Delhi that operates through a network of 1,531 branches as on June 30, 2021, with branch concentration in North India. It was nationalized in the year 1980. In December 2010, the Government of India (GOI) divested 17.93% stake through an IPO. However, post many capital infusions over the subsequent years (FY18 onwards), the GOI shareholding had steadily risen and stood at 97.07% as on June 30, 2021.
PSB reported a net profit of Rs.174 crore for the quarter ended June 30, 2021, on a total operating income of Rs.2,039 crore.

Brief Financials (Rs. crore)*	FY20 (A)	FY21 (A)
Total operating income	7,930	6,974
PAT	-991	-2,733
Total Assets	97,829	1,07,247
Net NPA (%)	8.03	4.04
ROTA (%)	-0.97	-2.67

A: Audited;
Note: All Analytical ratios are as per CARE Ratings' calculations.
Total Assets exclude deferred tax assets and are net of revaluation reserve

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure I- Instrument Details

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Lower Tier II Bonds – Series XIII	INE608A09130	24-Jun-2011	9.73%	24-Oct-2021	300.00	CARE AA-; Negative
Lower Tier II Bonds – Series XIV	INE608A08017	19-Oct-2016	7.99%	19-Oct-2026	500.00	CARE AA-; Negative
Tier II Bonds – Series XV	INE608A08033	27-Jun-2019	9.5%	26-Oct-2029	237.30	CARE AA-; Negative
Bonds-Tier I Bonds	INE608A08025	08-May-2017	10.90%	Perpetual	1000.00	CARE A; Negative
Tier II Bonds – Series XVI	INE608A08041	04-Nov-2019	8.67%	03-Dec-2029	500.00	CARE AA-; Negative

Annexure 2- Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)
2	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)
3	Bonds-Lower Tier II	LT	300.00	CARE AA-; Negative	-	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19)2)CARE AA; Stable (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)
4	Bonds-Lower Tier II	LT	500.00	CARE AA-; Negative	-	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19)2)CARE AA; Stable (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)
5	Bonds-Tier II Bonds	LT	237.30	CARE AA-; Negative	-	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19)2)CARE AA; Stable (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)
6	Bonds-Tier I Bonds	LT	1000.00	CARE A; Negative	-	1)CARE A; Negative	1)CARE A+; Negative (27-Dec-19)2)CARE	1)CARE A+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						(06-Oct-20)	A+; Stable (24-Sep-19)	(27-Nov-18)
7	Bonds-Tier II Bonds	LT	500.00	CARE AA-; Negative	-	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19)2)CARE AA; Stable (24-Sep-19)	-

** Long Term / Short Term*

Annexure -3: Detailed explanation of covenants of the rated instrument: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Lower Tier II	Complex
2.	Bonds-Tier I Bonds	Highly Complex
3.	Bonds-Tier II Bonds	Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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.

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