Punjab and Sind Bank (Revised)

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Lower Tier-II Bonds (Basel II)	500.00	CARE AA-; Positive	Reaffirmed
Tier-II Bonds (Basel III)&	237.30	CARE AA-; Positive	Reaffirmed
Tier-II Bonds (Basel III) &	500.00	CARE AA-; Positive	Reaffirmed

Details of instruments/facilities in Annexure-1.

& Tier-II Bonds under Basel III are characterised 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 the 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.

Rationale and key rating drivers

The ratings assigned to the debt instruments of Punjab and Sind Bank (PSB) continue to factor in majority ownership, demonstrated and expected support from Government of India (GoI), comfortable capitalisation levels supported by multiple equity infusions by way of recapitalisation bonds and accretion of profit and established presence in northern states of India. The ratings further factor in improvement in asset quality parameters (although NPA levels are relatively higher) due to lower incremental slippages, recoveries, and write-offs. The bank has been increasing the provision coverage on the NPAs over the last few years.

The ratings continue to be constrained on account of modest asset quality parameters as compared to peer public sector banks with higher proportion of potential weak assets (SMA 1, 2 and restructured loans) especially in the micro, small and medium (MSME) segment and higher than expected slippages the in near term. The bank's profitability remains moderate with high interest expenses and operating costs and remains a monitorable along with its ability to improve its asset quality while containing incremental slippages remain key rating monitorable. The ratings also factor in PSB's relatively lower proportion of low cost Current Account Savings Account (CASA) deposit ratio and relatively higher geographical concentration in the states of northern India with major presence in New Delhi and the state of Punjab.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in the profitability parameters
- Significant improvement in the size of the bank with comfortable capitalisation and maintaining good asset quality

Negative factors

- Reduction in government support and GoI's stake in the bank falling below 51%
- Deterioration in asset quality parameters over with GNPA exceeding 8%
- Deterioration in profitability resulting in impact on capitalisation levels leading to cushion above the minimum regulatory requirement lower than 1% on a sustained basis

Analytical approach: Standalone

The ratings are based on standalone profile of the bank and factors in strong and continued support from Government of India (GOI), which holds majority shareholding in the bank.

Outlook: Positive

The 'Positive' outlook reflects CARE Ratings' expectation of continued growth in business and comfortable capitalisation levels along with improvement in profitability and further improvement in asset quality parameters over the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Majority ownership and support by GOI

GOI continues to be the majority shareholder holding 98.25% stake in PSB. GOI has been supporting public sector banks with regular capital infusions and taking steps to improve capitalisation, operational efficiency, and asset quality. During FY22, GOI had infused equity capital of ₹4,600 crore into the bank, which helped the bank in improving the capital ratios and support growth. GOI has infused cumulative capital of ₹11,672 crore (₹785 crore in FY18, ₹787 crore in FY20, ₹5,500 crore in FY21 and ₹4,600 crore in FY22) against recapitalisation bonds (with maturities between 10 and 15 years). Given the majority ownership of GOI, CARE Ratings expects PSB to receive timely and adequate support in the form of capital as and when required.

Adequate capitalisation levels

PSB has received significant amount of equity capital against zero coupon recapitalisation bonds during FY21 and FY22 (₹5,500 crore in FY21 and ₹4,600 crore in FY22) from GOI. Further, the bank has seen improvement in profitability over the last two years leading to accretion to net worth which has helped the capitalisation level of the bank.
In line with the RBI amendment to 'Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021' dated March 31, 2022, PSB had fair valued the investments in recapitalisation bonds of ₹4,600 crore received during FY22; however, the difference was not adjusted through P&L as required by the notification as the bank was given special exemption by RBI to not do so. Accordingly, the net worth of the bank post marking down of zero-coupon recap bonds stood at ₹6,786 crore as on March 31, 2023, and ₹7,836 crore as on March 31, 2024.
The bank reported capital adequacy ratio (CAR) (after considering the net present value of recapitalisation bonds) of 17.16% with Common Equity Tier-I (CET I) ratio of 14.74% as on March 31, 2024, as compared with CAR of 17.10% with CET I Ratio of 14.32% as on March 31, 2023.

In accordance with the revised framework and the Bank's Board Approved Policy, the Bank has classified its investment portfolio as on April 01, 2024. On transition to the framework on April 01, 2024, the net difference of ₹4,249.54 crore (debit), net of tax impact, between the revised carrying value and the previous carrying value of the investment portfolio has been adjusted in the General Reserve in accordance with this framework. The bank reported net worth of ₹8,655 crore as on June 30, 2024. As on June 30, 2024, the bank reported CAR of 17.30% with CET I Ratio of 14.80%.
The bank has significant cushion over the minimum regulatory requirement, which would help the bank to achieve its targeted credit growth for the medium term. CARE Ratings expects the bank to maintain sufficient capital cushion to meet the targeted credit growth supported by improvement in internal accruals, capital raise as well as unwinding of discount on recapitalisation bonds.

Established franchise in Northern states of India

PSB has an established presence and franchise in northern states of India with 971 branches out of its pan India network of 1,569 branches as on June 30, 2024 being in the north. The bank witnessed deposit growth of ~9% during FY24 while CASA deposits growth of over 5%. The proportion of CASA stood at 32.42% as on March 31, 2024 and 31.62% as on June 30, 2024 which was lower than average for peer public sector banks resulting in comparatively higher cost of deposits. However, the bank's depositor profile had granularity with low concentration in depositors and CASA + retail term deposits (ticket size <₹2 crore) constituted 73.90% of total deposits as on March 31, 2024 (P.Y.; 75.40%).

Key weaknesses

Although having improved, the asset quality parameters remain weak with larger proportion of stressed portfolio

While the asset quality parameters of PSB remain weak and continue to be higher compared to the average of public sector banks, there has been significant improvement over the last three years. The bank reported Gross NPA ratio of 5.43% as on March 31, 2024, as compared to 6.97% as March 31, 2023. The slippage ratio also improved to 1.28% in FY24 from 1.46% in FY23. The recovery efforts by the bank along with write-offs amounting to ₹796 crore in FY24 have led to improvement in GNPA levels. The bank had provision coverage ratio (PCR) without technical write-offs of 69.2% as on March 31, 2024 (March 31, 2023: 73.6%) resulting in NNPA ratio of 1.63% as on March 31, 2024 (March 31, 2023: 1.84%). The Net NPA to net worth ratio stood at 17% as on March 31, 2024, which although improved from 21% as on March 31, 2023, was higher as compared to peer public sector banks.
During Q1FY25, the bank saw slippages in the MSME loan portfolio, which contributed 65% to the total slippages for the quarter followed by slippages in the retail book, which accounted for 23% of total slippages, while slippages from the agricultural loans

were at 12% of total slippages. However, due to higher recoveries and write-offs, the bank's GNPA ratio improved further to 4.72%, as on June 30, 2024.

PSB's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) stood at ₹3,200 crore constituting 3.72% of gross advances as on March 31, 2024. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 excluding restructured accounts stood at 3.25% of gross advances as on March 31, 2024. The bank has witnessed a marginal decrease in SMA 2 exposure in Q1FY25 from ₹1,615 crore (1.88% of gross advances) as on March 31, 2024, to ₹1,533 crore (1.75% of gross advances) as on June 30, 2024. The net stressed assets (NNPA + Standard Restructured assets + Security Receipts) stood at 40% of net worth on June 30, 2024 (March 31, 2024: 49% of net worth). The bank's ability of the bank to manage its slippages in the stressed assets and improve its asset quality parameters continues to be a key monitorable.

Moderation in profitability due to lower incremental credit cost

The bank has struggled with profitability from FY18 to FY21 and reported losses during these four years on account of weak asset quality leading to high credit costs. CARE Ratings observes that after being under pressure for four years, PSB's earnings profile has improved significantly during FY22 and FY23, owing to improvement in asset quality parameters.

During FY24, the bank's advances growth was moderated as compared to the industry growth. The interest income of the bank has increased to ₹9,694 crore in FY24 from ₹7,993 crore in FY24 registering a growth of 21% while its interest expense also increased significantly by 37% from ₹5,019 crore in FY23 to ₹6,853 crore in FY24. As a result, the bank's net interest income witnessed a decrease of 4%, from ₹2,973 crore in FY23 to ₹2,841 crore in FY24. The bank's net interest margin (NIM) contracted from 2.54% in FY23 to 2.32% in FY24. The bank's non-interest income grew by 30% from ₹940 crore in FY23 to ₹1,221 crore in FY24 supported by increase in fee income and recovery from written-off accounts. The bank has been trying to increase its fee income by providing distribution of insurance products and mutual funds. The total income of the bank demonstrated a growth of 22% in FY24 from ₹8,933 crore in FY23 to ₹10,915 crore in FY24.

The bank's operating expenses increased by 19% during the year FY24 with higher employee costs due to wage revision and provision for pension liabilities resulting in the pre-provisioning operating profit (PPOP) of the bank witnessing de-growth of 22% from ₹1,450 crore in FY23 to ₹1,131 crore in FY24. The cost to income ratio of the bank has also increased from 56% in FY23 to 69% in FY24.

Apart from operating profitability being impacted, the bank's overall profitability was impacted by increased provisioning during FY24 as against significant amount of write-back due to recovery of big-ticket accounts resolved during FY23. The bank made provisions of ₹194 crore in FY24 as compared to write-back of provisions of ₹170 crore during FY23. The bank continued to write-back provisions on NPAs (write-back of ₹179 crore for FY24 as compared to ₹471 crore for FY23) during the year.

The bank's profit after tax (PAT) decreased by 55% to ₹595 crore for FY24 from ₹1,313 crore for FY23 translating into a return on total assets (ROTA) of 0.43% in FY24 as against 1.04% in FY23.

During Q1FY25, the bank witnessed a marginal decline in the total income from ₹2,894 crore in Q4FY24 to ₹2,846 crore in Q1FY25 owing to low non-interest income of ₹194 crore in Q1FY25. The PPOP increased 23% in Q1FY25 as compared to the corresponding quarter last year. The bank reported PAT of ₹182 crore in Q1FY25 demonstrating a growth of 19% from ₹153 crore during Q1FY24. The bank's ROTA for Q1FY25 (annualised) was at 0.53%. Going forward, although the bank expects to have some impact on its margins due to re-pricing of deposits in H2FY25 but expects to improve the profitability with controlled operating expenses and lower credit costs.

Predominantly corporate-focused portfolio mix, albeit steady increase in the retail proportion in recent years with geographical concentration in the northern part of India

The gross advances growth stood at 6% for FY24 as against 15% in FY23. The gross advances stood at ₹85,964 crore as on March 31, 2024 (₹87,738 as on June 30, 2024). The bank grew its corporate book by 3%, whereas the retail book (RAM) grew by 9%. As a result, the mix of corporate and retail advances improved with the proportion of corporate advances declining to 48% of gross advances as on March 31, 2024 (June 30, 2024 – 47%) as compared with 50% as on March 31, 2023.

Relatively low share CASA deposits

The low-cost CASA of PSB registered a growth of 5% (y-o-y) to ₹38,708 crore as on March 31, 2024, compared with ₹36,833 crore as on March 31, 2023. However, the share of CASA deposits in total deposits has been declining in line with the industry trend and remained relatively low at around 32.42% as on March 31, 2024 (June 30, 2024: 31.62%) as compared to other public sectors banks which is around 40%.

Liquidity: Adequate

According to structural liquidity statement as on June 30, 2024, there are no negative cumulative mismatches in time buckets up to six months. The bank manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. 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. The liquidity coverage ratio (LCR) for the bank stood at 125% for the quarter ended March 31, 2024, which is above the regulatory requirement of 100%.

Environment, social, and governance (ESG) risks

- The bank has disbursed loans under the solar and green energy segment, the outstanding amount for which stood at ₹233 crore as on June 30, 2024. The bank has also introduced digital & paperless banking initiatives.
- The bank has sanctioned loans worth ₹88 crore under PM Svanidhi for financial inclusion of street vendors. The bank also sanctioned ₹195 crore under Pradhan Mantri Mudra Yojna (PMMY) during Q1FY25, out of which ₹100 crore were sanctioned to women entrepreneurs.
- The bank has strong risk management policies along with cyber security and customer rights policy in place.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks
Factoring Linkages Government Support

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

Punjab and 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 1,569 branches as on June 30, 2024, with branch concentration in north India. It was nationalised in the year 1980. In December 2010, the Government of India (GOI) divested 17.93% stake through an initial public offer (IPO). However, post many capital infusions over the subsequent years (FY18 onwards), the GOI shareholding had steadily risen and stood at 98.25% as on June 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total income	8,933	10,915	2,846
PAT	1,313	595	182
Total assets	1,28,132	1,39,959	1,42,149
Net NPA (%)	1.84	1.63	1.59
ROTA (%)	1.09	0.44	0.53

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Lower Tier II Bonds Series XIV	INE608A08017	19-Oct-2016	7.99	19-Oct-2026	500.00	CARE AA-; Positive
Tier II Bonds Series XV	INE608A08033	27-Jun-2019	9.50	26-Oct-2029	237.30	CARE AA-; Positive
Tier II Bonds Series XVI	INE608A08041	04-Nov-2019	8.67	03-Dec-2029	500.00	CARE AA-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)
2	Bonds-Lower Tier II	LT	500.00	CARE AA-; Positive	-	1)CARE AA-; Positive (29-Sep-23)	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)
3	Bonds-Tier II Bonds	LT	237.30	CARE AA-; Positive	-	1)CARE AA-; Positive (29-Sep-23)	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)
4	Bonds-Tier I Bonds	LT	-	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE A; Negative (05-Oct-21)
5	Bonds-Tier II Bonds	LT	500.00	CARE AA-; Positive	-	1)CARE AA-; Positive (29-Sep-23)	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)

*LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
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