# Punjab National Bank

September 11, 2019

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Upper Tier II Bonds | 990 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Upper Tier II Bonds | 2000 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Perpetual Bonds (Basel II) | 563 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Perpetual Bonds (Basel II) | 379.50 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Perpetual Bonds(Basel II) | 700 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Upper Tier II Bonds | 1,000 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Upper Tier II Bonds | 3,000 | CARE AA- [Double A Minus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Basel III Compliant Tier I Bonds | 1,500 | CARE A+ [Single A Plus] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Infrastructure Bonds | 2,000 | CARE AA [Double A] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Infrastructure Bonds | 3,000 | CARE AA [Double A] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Basel III Compliant Tier II Bonds | 2,000 | CARE AA [Double A] (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| Certificate of Deposit | 60,000 | CARE A1+ (under credit watch with developing implications) | Placed on Credit Watch with Developing implications |
| **Total** | **77,132.50 (Rupees Seventy Seven Thousand One Hundred and Thirty Two Crore Fifty Lacs Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to various instruments of Punjab National Bank have been placed on **Credit Watch with Developing Implications**. This has been done on account of the announcements made by the Ministry of Finance (MoF) GoI, with respect to the proposed amalgamation of public sector banks, up-fronting of capital infusion earmarked for fiscal 2020 and measures to improve corporate governance standards of public sector banks.

On August 30, 2019, MoF announced proposed amalgamation of ten public sector banks into four banks, under which Punjab National Bank (PNB) will act as an anchor bank and will take over Oriental Bank of Commerce (**OBC: CARE A+/CARE A*; under credit watch with developing implications**) and United Bank of India (**UBI: CARE A+/CARE A-*; under credit watch with developing implications**). The proposed amalgamation plan is currently undergoing various levels of approval processes. In the long term, the banks are expected to benefit from larger scale of operations leading to higher lending capacity, potential operational and cost efficiencies; however, in the short to medium term, the banks may face some operational challenges with respect to integration process.

The MoF has also announced upfront capital infusion of Rs.55,250 crores (out of total capital infusion plans of Rs.70,000 crores earmarked for FY20) with an aim to strengthen the capital structure of public sector banks. Additionally to increase governance standards of PSBs, MoF has allowed bank boards to take decisions with respect to succession plans and has advised banks to recruit chief risk officers at market linked compensation levels to attract suitable candidates.

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

The Board of Punjab National Bank (PNB) on September 05, 2019 has given in-principle approval for the amalgamation of Oriental Bank of Commerce (OBC) and United Bank of India (UBI) in Punjab National Bank (PNB). On completion of amalgamation, Punjab National Bank will be the second largest public sector bank in terms of asset size.

*(For Upper Tier II Bonds & Perpetual Bonds)

***The detailed description of the key rating factors is contained in the press release dated February 19, 2019.***

**Analytical approach:** Standalone, factoring in capital support and majority ownership of Government of India being a public sector bank.

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for placing rating on credit watch
Criteria for Short term instruments
CARE's Rating Methodology for Banks
Financial Sector –Financial Ratios
Factoring Linkages in Ratings

**About the Company**
Punjab National Bank (PNB) was incorporated under the Indian Companies Act, 1882 (Act VI of 1882) in 1894 as Punjab National Bank Limited and commenced operations on April 12, 1895 from Lahore. It is one of India's largest nationalized banks in terms of business and number of branches. On June 29, 1947 the registered office of the Bank was shifted from Lahore to New Delhi. Post nationalization in 1969, PNB has grown substantially to a bank with 6,989 branches and 9,255 ATMs as on March 31, 2019 throughout the country. Mr. Sunil Mehta, has been appointed as Managing Director and Chief Executive officer from 05th May, 2017. The Bank has three domestic subsidiaries, namely, PNB Gilts Ltd (74.07% stake), PNB Investment Services Ltd (100% stake), PNB Insurance Broking Pvt. Ltd (81% stake) and two international subsidiaries, namely, PNB (International) Ltd., UK (100% stake) and Druk PNB Bank Ltd., Bhutan (51% stake) as on March 31, 2019.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total Income | 56,877 | 58,688 |
| PAT | -12,283 | -9,975 |
| Net Advances | 4,33,735 | 4,58,249 |
| Net NPA (%) | 11.24 | 6.56 |
| ROTA (%) | -ve | -ve |
| Capital Adequacy Ratio (%) | 9.20 | 9.73 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating |
|---|---|---|---|---|---|---|
| Bonds-Perpetual Bonds | INE160A09199 | 18.01.2008 | 9.45% (First 10 Years) 9.95% (Subsequent Years) | Perpetual | 300 | CARE AA- (under credit watch with developing implications) |
| Bonds-Perpetual Bonds | Proposed | | | | 79.5 | CARE AA- (under |

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating |
|---|---|---|---|---|---|---|
| | | | | | | credit watch with developing implications) |
| **Bonds-Perpetual Bonds** | **Total** | | | | **379.50** | |
| Bonds-Perpetual Bonds | INE160A09280 | 28.08.2009 | 9.15% (First 10 Years) 9.65% (Subsequent Years) | Perpetual | 500 | CARE AA- (under credit watch with developing implications) |
| Bonds-Perpetual Bonds | INE160A09314 | 27.11.2009 | 9.00% (First 10 Years) 9.50% (Subsequent Years) | Perpetual | 200 | CARE AA- (under credit watch with developing implications) |
| **Bonds-Perpetual Bonds** | **Total** | | | | **700** | |
| Bonds-Perpetual Bonds | Proposed | | | | 563 | CARE AA- (under credit watch with developing implications) |
| **Bonds-Perpetual Bonds** | **Total** | | | | **563** | |
| Bonds-Upper Tier II | INE160A09264 | 21.04.2009 | 8.80 %(First 10 Years) 9.30% (Last 5 Years) | 21.04.2024 | 500 | CARE AA- (under credit watch with developing implications) |
| Bonds-Upper Tier II | INE160A09272 | 04.06.2009 | 8.37 %(First 10 Years) 8.87% (Last 5 Years) | 04.06.2024 | 500 | CARE AA- (under credit watch with developing implications) |
| Bonds-Upper Tier II | INE160A09298 | 09.09.2009 | 8.60 %(First 10 Years) 9.10% (Last 5 Years) | 09.09.2024 | 500 | CARE AA- (under credit watch with developing implications) |
| Bonds-Upper Tier II | INE160A09306 | 27.11.2009 | 8.50 %(First 10 Years) 9.00%(Last 5 Years) | 27.11.2024 | 500 | CARE AA- (under credit watch with developing implications) |
| **Bonds-Upper Tier II** | **Total** | | | | **2000** | |
| Bonds-Upper Tier II | INE160A09215 | 27.03.2008 | 9.45 % (First 10 Years) 9.95% (Last 5 Years) | 28.03.2023 | 600 | CARE AA- (under credit watch with developing implications) |
| Bonds-Upper Tier II | Proposed | | | | 390 | |
| **Bonds-Upper Tier II** | **Total** | | | | **990** | |
| Bonds-Upper Tier II | INE160A09256 | 18.02.2009 | 9.15 %(First 10 Years) 9.65% (Last 5 Years) | 18.02.2024 | 1000 | CARE AA- (under credit watch with developing implications) |
| **Bonds-Upper Tier II** | **Total** | | | | **1000** | |
| Bonds-Upper Tier II | INE160A09322 | 24.05.2010 | 8.50 %(First 10 Years) 9.00% (Last 5 Years) | 24.05.2025 | 500 | CARE AA- (under credit watch with developing implications) |

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating |
|---|---|---|---|---|---|---|
| Bonds-Upper Tier II | Proposed | | | | 2500 | |
| **Bonds-Upper Tier II** | **Total** | | | | **3000** | |
| Bonds-Tier I Bonds | INE160A08076 | 13.02.2015 | 9.15% | Perpetual | 1500 | CARE A+ (under credit watch with developing implications) |
| **Bonds-Tier I Bonds** | **Total** | | | | **1500** | |
| BASEL III -Tier II Bonds | INE160A08092 | 05.02.2016 | 8.65% | 05.02.2026 | 2000 | CARE AA [Double A] (under credit watch with developing implications) |
| **Total** | **Total** | | | | **2000** | |
| Infrastructure Bonds | INE160A08068 | 09.02.2015 | 8.23% | 09.02.2025 | 1000 | CARE AA [Double A] (under credit watch with developing implications) |
| Infrastructure Bonds | INE160A08084 | 24.03.2015 | 8.35% | 24.03.2025 | 1800 | CARE AA [Double A] (under credit watch with developing implications) |
| Infrastructure Bonds | Proposed | | | | 200 | |
| **Infrastructure Bonds** | **Total** | | | | **3000** | |
| Infrastructure Bonds | Proposed | | | | 2000 | CARE AA [Double A] (under credit watch with developing implications) |
| Infrastructure Bonds | **Total** | | | | **2000** | |
| **Certificate Of Deposit** | | **-** | **Market Determined** | **<=1 Year** | **60000** | CARE A1+ (under credit watch with developing implications) |
| **Overall Total** | | | | | **77132.50** | |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Bonds-Perpetual Bonds | LT | 379.50 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19)<br>2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18)<br>2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16)<br>2)CARE AA (19-Jul-16) |
| 2. | Bonds-Lower Tier II | LT | - | - | - | - | - | 1)Withdrawn (19-Jul-16) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 3. | Bonds-Upper Tier II | LT | - | - | - | - | 1)Withdrawn (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 4. | Bonds-Perpetual Bonds | LT | - | - | - | - | 1)Withdrawn (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 5. | Bonds-Upper Tier II | LT | 990.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 6. | Bonds-Perpetual Bonds | LT | 700.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 7. | Bonds-Upper Tier II | LT | - | - | - | 1)Withdrawn (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 8. | Bonds-Upper Tier II | LT | 1000.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 9. | Bonds-Upper Tier II | LT | 3000.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | 2)CARE AA; Stable (06-Oct-17) | |
| 10. | Bonds-Upper Tier II | LT | 2000.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 11. | Bonds-Perpetual Bonds | LT | 563.00 | CARE AA- (Under Credit watch with Developing Implications) | - | 1)CARE AA-; Negative (19-Feb-19) 2)CARE AA-; Negative (23-May-18) | 1)CARE AA (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17) | 1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16) |
| 12. | Certificate Of Deposit | ST | 60000.00 | CARE A1+ (Under Credit watch with Developing Implications) | - | 1)CARE A1+ (19-Feb-19) 2)CARE A1+ (23-May-18) | 1)CARE A1+ (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE A1+ (06-Oct-17) | 1)CARE A1+ (13-Dec-16) 2)CARE A1+ (19-Jul-16) |
| 13. | Bonds-Tier I Bonds | LT | 1500.00 | CARE A+ (Under Credit watch with Developing Implications) | - | 1)CARE A+; Negative (19-Feb-19) 2)CARE A+; Negative (23-May-18) | 1)CARE AA- (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA-; Stable (06-Oct-17) | 1)CARE AA-; Stable (13-Dec-16) 2)CARE AA- (19-Jul-16) |
| 14. | Bonds-Infrastructure Bonds | LT | 2000.00 | CARE AA (Under Credit watch with Developing Implications) | - | 1)CARE AA; Negative (19-Feb-19) 2)CARE AA; Negative (23-May-18) | 1)CARE AA+ (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA+; Stable (06-Oct-17) | 1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16) |
| 15. | Bonds-Infrastructure Bonds | LT | 3000.00 | CARE AA (Under Credit watch with Developing Implications) | - | 1)CARE AA; Negative (19-Feb-19) 2)CARE AA; Negative (23-May-18) | 1)CARE AA+ (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA+; | 1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Stable (06-Oct-17) | |
| 16. | Bonds-Tier II Bonds | LT | 2000.00 | CARE AA (Under Credit watch with Developing Implications) | - | 1)CARE AA; Negative (19-Feb-19) 2)CARE AA; Negative (23-May-18) | 1)CARE AA+ (Under Credit watch with Developing Implications) (20-Feb-18) 2)CARE AA+; Stable (06-Oct-17) | 1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16) |

***Note on complexity levels of the rated instrument:*** *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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