Punjab National Bank

October 06, 2017

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Remarks
Infrastructure Bonds	5,000	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Basel III Compliant Tier II Bonds	2,000	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Perpetual Bonds	2,163 (reduced from 2,663)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Upper Tier II Bonds	9,000 (reduced from 9500)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Basel III Compliant Perpetual Tier I Bonds	1,500	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Certificate of Deposit	60,000	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**79,663 (Rupees Seventy Nine Thousand Six Hundred and Sixty Three Crore only)**		

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds (under Basel II) one notch lower than the Tier II Bonds in view of their increased sensitiveness to the bank's Capital Adequacy Ratio (CAR), capital-raising ability and profitability during the long tenure of the instruments. The ratings for these hybrid instruments factor in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute an event of default as per CARE's definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

CARE 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, coupon may be paid subject to availability of sufficient revenue reserves and / or credit balance in profit and loss account, 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 trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.
- Any delay in the 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's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared with the conventional subordinated debt instruments.

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.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters

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

considered to assess the rating of Tier II instruments even under Basel II. CARE has rated the Tier II Bonds under Basel III after factoring in the additional feature of PONV.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various instruments of Punjab National Bank (PNB) continue to factor in the capital support and majority ownership by the Government of India (GoI), its long track record of operations, adequate capitalization levels and comfortable liquidity and resource profile. These rating strengths are partially offset by PNB's weak asset quality indicators and with modest financial performance in FY17.

Going forward, continued ownership and support from GoI, asset quality, profitability and capital adequacy of the Bank would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by the Government of India (GoI)

PNB has a majority ownership of Government of India holding 65.10% stake in the bank as on June 30, 2017. GoI has been supporting public sector banks including PNB with regular capital infusions. During FY17, GoI infused Rs.2,112 cr of fresh equity capital in the bank under the Indradhanush Scheme.

Long track record of operations with a strong market position

PNB has a long and established track record of 122 years with a network of 6,937 branches (including overseas branches). It has a customer base of over 9.5 crore customers. PNB continues to be one of the largest nationalized banks in terms of business.

Adequate capitalization levels and comfortable liquidity profile

PNB's capitalization profile remains adequate with total CAR at 11.66%, Tier-I CAR at 8.91% and CET 1 Ratio at 7.87% as on March 31, 2017. The capital infusion by GoI during FY17, helped the bank maintain its capitalization levels. According to Structural Liquidity Statement as on March 31, 2017, the bank has positive cumulative mismatches in all the buckets. As on March 31, 2017, Statutory Liquidity Ratio (SLR) of PNB stood at 25.69% (against regulatory requirement of 21.5%). PNB has excess SLR investments to the extent of 4.19% as on March 31, 2017. In addition, strong resource raising ability of the bank provides comfort. The bank has a Liquidity Coverage Ratio of 143% (quarterly average) at consolidated level (including domestic & foreign subsidiaries) as at March 31, 2017, against the regulatory requirement of 80%.

Comfortable resource profile

As on March 31, 2017, total borrowed funds of the bank stood at Rs. 662,467 crore with deposits of Rs.621,704 crore (PY: Rs. 553,051 crore) and borrowings of Rs.40,763 crore (PY: 59,755 crore). PNB's resource profile has changed with increase in proportion of deposits to 93.8% in FY17 from 90.2% in FY16. The cost of borrowed funds (deposits + external borrowings) decreased to 5.06% in FY17 from 5.54% in FY16. This was mainly due to decrease in average cost of deposits to 5.10% in FY17 from 5.65% in FY16. The bank has been able to reduce their cost of deposits with decrease in proportion of bulk deposits (deposits > Rs. 1 crore) to total deposits to 0.06% as on March 31, 2017 from 0.57% as on March 31, 2016. The CASA ratio increased to 41.82% as on March 31, 2017 from 37.17% as on March 31, 2016.

Key Rating Weaknesses

Moderate business growth with modest financial performance in FY17

During FY17, total business of PNB registered an increase of 7.8% to Rs. 10,41,197 crore with net advances and deposits registering y-o-y growth of 1.7% and 12.4%, respectively. Though the average cost of deposits declined to 5.1% in FY17 (from 5.65% in FY16), on account of growth in average CASA, a more than proportionate decline in the average yield on advances to 7.92% in FY17 from 8.69% in FY16, resulted in a reduction in core spread by 21bps to 2.83%. During FY17, Net interest income declined by 2.08% to Rs. 14,993 crore. Interest income declined by 0.31% over last year while interest expenses grew by 0.53% resulting in decrease in NIM to 2.19% during FY17.

The Bank reported net profit of Rs.1,325 crore during FY17 as against a net loss of Rs. 4851 crore during FY16. As a result the ROTA of Bank has improved to 0.19% in FY17 as against -0.77% in FY16. During Q1FY18, the bank reported PAT of Rs.343 crore on total income of Rs.14,468 crore with a ROTA of 0.19%..

Weak asset quality

During FY17, the asset quality of the bank continued to remain weak with fresh slippages of Rs. 22,415 crore reported in FY17 (Rs. 42,252 crore in FY16) resulting into a slippage ratio 5.95%. As such, the Gross NPA ratio and Net NPA ratio

remained similar at 12.53% and 7.8% respectively as on March 31, 2017 from 12.90% and 8.61% respectively as on March 31, 2016. Furthermore, net NPAs as a % of tangible net worth stood at 102.44% as on March 31, 2017 compared to 115.18% a year earlier.
Furthermore, net stressed assets (Net NPAs+ restructured standard assets+ security receipts) of Rs. 46,464 crore continue to constitute a high proportion of net worth at 145.55% as on March 31, 2017 (PY: 183.58%). During FY17, the bank sold NPAs of Rs.631.03 crore for total consideration of Rs.1,336.21 crore. The total security receipts outstanding as on March 31, 2017 were Rs.1830 crore.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology for Banks
Financial Sector –Financial Ratios

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 6,759 branches (including 4 overseas branches) and 9,463 ATMs as on March 31, 2016 catering to a customer base of over 9.5 crore 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).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	53,424	56,227
PAT	-4,851	1,325
Total Assets	6,59,928	7,10,479
Net NPA (%)	8.59	7.80
ROTA (%)	-0.77	0.19

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

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.*

Analyst Contact:
Name: Mr Gaurav Dixit
Tel: 011 – 4533 3235
Mobile: +91 97170 70079
Email: gaurav.dixit@careratings.com

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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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Perpetual Bonds	11.12.2007	8.9-9.75%	19.01.2019	900.00	CARE AA; Stable
Bonds-Upper Tier II	21.04.2009	8.37-8.8%	27.11.2024	2000.00	CARE AA; Stable
Bonds-Perpetual Bonds	28.08.2009	9-9.15%	27.11.2019	700.00	CARE AA; Stable
Bonds-Upper Tier II	12.12.2007	8.95-9.35%	18.12.2023	1000.00	CARE AA; Stable
Bonds-Upper Tier II	18.02.2009	9.15%	18.02.2024	1000.00	CARE AA; Stable
Bonds-Upper Tier II	24.05.2010	8.5%	24.05.2025	3000.00	CARE AA; Stable
Bonds-Upper Tier II	5.3.2008	9.35-10.85%	29.9.2023	2000.00	CARE AA; Stable
Bonds-Perpetual Bonds	-	-	Proposed	563.00	CARE AA; Stable
Bonds-Tier I Bonds	13.02.2015	9.15%	13.02.2025-	1500.00	CARE AA-; Stable
Bonds-Infrastructure Bonds	-	-	Proposed	2000.00	CARE AA+; Stable
Bonds-Infrastructure Bonds	09.02.2015	8.23-8.35%	24.03.2025	3000.00	CARE AA+; Stable
Bonds-Tier II Bonds	05.02.2006	8.65%	05.02.2026	2000.00	CARE AA+; Stable
Certificate Of Deposit	-	-	-	60000.00	CARE A1+
Bonds-Upper Tier II	-	-	-	0.00	Withdrawn
Bonds-Perpetual Bonds	-	-	-	0.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Perpetual Bonds	LT	900.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
3.	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
4.	Bonds-Perpetual Bonds	LT	-	-	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
5.	Bonds-Upper Tier II	LT	2000.00	CARE	-	1)CARE AA; Stable	1)CARE AA+	1)CARE AAA

				AA; Stable		(13-Dec-16) 2)CARE AA (19-Jul-16)	(25-Mar-16) 2)CARE AAA (29-Oct-15)	(22-Oct-14)
6.	Bonds-Perpetual Bonds	LT	700.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
7.	Bonds-Upper Tier II	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
8.	Bonds-Upper Tier II	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
9.	Bonds-Upper Tier II	LT	3000.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
10.	Bonds-Upper Tier II	LT	2000.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
11.	Bonds-Perpetual Bonds	LT	563.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA+ (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (22-Oct-14)
12.	Certificate Of Deposit	ST	60000.00	CARE A1+	-	1)CARE A1+ (13-Dec-16) 2)CARE A1+ (19-Jul-16)	1)CARE A1+ (25-Mar-16) 2)CARE A1+ (29-Oct-15)	1)CARE A1+ (22-Oct-14)
13.	Bonds-Tier I Bonds	LT	1500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-16) 2)CARE AA- (19-Jul-16)	1)CARE AA (25-Mar-16) 2)CARE AA+ (29-Oct-15)	1)CARE AA+ (27-Jan-15)
14.	Bonds-Infrastructure Bonds	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (27-Jan-15)
15.	Bonds-Infrastructure Bonds	LT	3000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Oct-15)	1)CARE AAA (25-Mar-15)
16.	Bonds-Tier II Bonds	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (13-Dec-16) 2)CARE AA+ (19-Jul-16)	1)CARE AAA (25-Mar-16) 2)CARE AAA (29-Feb-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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