

Punjab National Bank

November 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Basel III Compliant Tier I Bonds	3000	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Assigned

Details of instrument in Annexure-1

CARE has rated the aforesaid Basel III Compliant Additional Tier-I Bonds after taking into consideration its key features as mentioned 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, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves including statutory reserves and/or credit balance in profit and loss account and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios 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's 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 rating assigned to the Basel III Complaint Tier I Bonds of Punjab National Bank (PNB) takes into account the completion of amalgamation process that was announced on August 30, 2019 by Ministry of Finance (MoF), Government of India (GoI). As per the amalgamation process, PNB is acting as an anchor bank and has taken over Oriental Bank of Commerce (OBC) and United Bank of India (UBI). With the completion of amalgamation, PNB has become the second largest public sector bank in terms of asset size. Accordingly, it is expected, that in the long term, the bank will benefit from larger scale of operations, wider geographic footprint leading to higher lending capacity, potential operational and cost efficiencies.

The ratings of PNB factor in the majority ownership by the Government of India (GoI) with consistent track of capital infusion, long track record of operations with PNB holding strong market presence that has improved further post the amalgamation, healthy resource profile/deposit base and strong liquidity position. The rating strengths are however partially offset by the weak, albeit improving, asset quality profile, weak profitability and capitalization levels

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by the Government of India (GoI)

PNB has a majority ownership of GoI that held 85.6% stake in the bank as on June 30, 2020 (up from 83.2% as on March 31, 2020). GoI has been supporting public sector banks (PSBs) with regular capital infusions and steps to improve capitalization, operational efficiency and asset quality of PSBs. Also, on August 30, 2019 GoI announced an upfront capital infusion of Rs.55,250 crores (out of proposed plan of Rs.70,000 crores in fiscal 2020); wherein PNB was allocated around Rs.16,091 crores. As part of its recapitalization programme for PSBs, GoI infused Rs 6,686 crore in fiscal 2019 and Rs 3571 crore fiscal 2018 in e-OBC. On the other hand, received equity infusion of Rs.4,998 crore in FY 19 and further Rs.1,666 crore in Q2FY20 from GoI in e-UBI .

In view of completion of amalgamation exercise, PNB's systemic importance and its dominant market position in the domestic banking system has further risen and hence adequate and timely capital support from GoI is expected to be forthcoming whenever needed.

Long track record of operations, strong market position being among the largest PSB

Established in 1894, PNB has a long and established operational track record of more than 12 decades and is one of the largest nationalised banks in terms of business and outreach. End June 2020, post the amalgamation, PNB reported total

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

assets of Rs 12.3 lakh crore and became the second largest public sector bank in country (by total assets). The merged entity had a customer base of over 18 crore customers and global consolidated business (advances plus deposits) Rs.17.9 lakh crore as at the end of June 20 (up 2.9% Y-o-Y). For amalgamated entity the total gross loans stood at Rs 7.22 lakh crore as on June 30, 2020. Additionally the bank has 3 domestic subsidiaries and 2 international subsidiaries.

Strong franchise and healthy deposit base

Post the amalgamation of OBC and UBI with PNB, the pan India presence of PNB has risen substantially with a network of 10,930 domestic branches/13,856 ATMs spread across the country and with over 18 crore plus customers as on June 30, 2020. End June 2020, the amalgamated entity's deposits stood at Rs 10.75 lakh crore, largely unchanged from last quarter although the CASA deposits increased 2.45% Q-o-Q thereby improving the CASA deposits to constitute 43.45% of total deposits, up from 42% last quarter and 40.6% end June 2019.

Key Rating Weaknesses

Modest asset quality

For the amalgamated PNB, the asset quality stabilised with GNPA and NNPA ratio at 14.1% and 5.4% respectively end June 2020 as against 13.8% and 5.5% respectively as on March 31, 2020 and 15.5% and 6.9% respectively as on June 30, 2019. The merged entity's absolute GNPA stood at Rs 101,849 crore as on June 30, 2020 down 7.6% Y-o-Y driven by lower fresh additions. Slippages during the quarter ended June 20 were at Rs 1,917 crore, down 70% Y-o-Y from Rs 6,400 crore for the corresponding quarter previous year. The amount of write offs remained broadly same at around Rs 4120 crore end June 2020. The CARE adjusted provision coverage ratio stood at 65% as on June 30, 2020. As on March 31, 2020, the bank had 335 accounts amounting to Rs 51,309 crore under NCLT with total provision coverage of 91%. Post the amalgamation, the amount of loans under NCLT stood at Rs 77,763 crore with total provision coverage of 93%.

In line with the RBI's regulatory package for COVID-19, PNB had Rs 1.7 lakh crore or about a third (29%) of its book under moratorium as on June 30, 2020. Sector wise analysis shows that in case of MSME segment, 38% of MSME loans and 33% of agricultural loans are under moratorium. As per management, the overall book under moratorium is expected to be around 20% by end July 2020, though it is still higher compared to private banks. With RBI introducing one-time restructuring of MSME accounts that were standard as on March 1, 2020, there is a possibility that bank may also restructure some proportion of its MSME book. RBI also came out with a resolution framework on August 06, 2020, to address borrower stress concerns on account of Covid-19. Going forward, the ability of the bank to maintain its asset quality and reduce its credit costs especially in view of Covid-19 impact would be critical for the bank's earning profile and profitability.

Moderate business growth with half of book towards corporate loans

PNB's standalone business registered a modest growth in FY20 with gross advances and net advances up by 2.12% and 2.96% on Y-o-Y basis and deposit by 4.11% Y-o-Y. For the amalgamated entity, end June 30, 2020, the total gross loans stood at Rs 7.22 lakh crore, almost flat Y-o-Y, though down sequentially, of which about 18% each were towards retail loans and agriculture sector, another 17% towards MSME and the rest 47% towards corporate loans.

Modest Profitability metrics

The results for quarter ended June 30th, 2020 onwards include operations of erstwhile OBC and UBI. The amalgamation is accounted under the 'pooling of interest' method as prescribed in AS-14 on Accounting for amalgamation to record amalgamation with effect from April 01, 2020. For the quarter ending June 30, 2020, PNB reported profit of Rs 308 crore on operating income of Rs 10436 crore as against net profit of Rs 1210 crore on operating income of Rs 9660 crore for the corresponding quarter for the last year. While the topline registered a resilient 8% Y-o-Y growth, the results were impacted by rise in operating expenses (+14.3% Y-o-Y) and higher provisioning costs (+26.2% Y-o-Y) primarily driven by amalgamation of OBC and UBI

Adequate capitalization levels

With modest profit reported in FY20, bank's capitalization at consolidated level has slightly improved with Tier 1 and total CAR at 10.25% and 12.63% respectively end June 30, 2020 as against 9.97% and 12.32% as on 1st April 2020. However, PNB has not received any capital infusion since September 2019. To improve its capitalization, the bank is focused on credit accretive lending and the share of A & above rated entities. Although post the merger, the share of A and above rated entities has come down to 57% end June 2020 from 66% in March 2020. The RBI's move is to align risk weights of bank's exposure to NBFCs based upon latter's credit rating (as announced by RBI in its monetary policy in March 2019) has helped reduce RWA of banks including PNB. Under the revised norms, the AAA, AA and rated NBFCs will be accorded risk weights of 20%, 30% and 50% respectively as against the earlier 100%, thereby shoring up bank's capital ratios. Post the merger, the amalgamated entity's RWA constituted 74% of total advances up from 65% for standalone entity. Accordingly timely and regular support

from Gol and bank's ability to raise capital via its internal accruals to maintain adequate capitalization levels will be crucial going forward

Liquidity: Strong

Under Basel-III framework, RBI has devised Liquidity Coverage Ratio (LCR) which promotes short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. For Q2FY21, the bank maintained daily average LCR at 194.14% (based on simple average of daily observations) at consolidated level, as against the regulatory requirement 80% mandated by the Reserve Bank of India (RBI) from March 27, 2020 to September 30, 2020.

Analytical approach: Standalone; factoring in capital support and majority ownership of Government of India given it 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](#)

[Bank - Rating framework for Basel III instruments \(Tier I & Tier II\)](#)

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. The financial year 2019- 20 was significant in view of the announcement of amalgamation of Public sector Banks (PSBs) wherein Oriental Bank of Commerce (OBC) and United Bank of India (UBI) amalgamated with PNB with effect from April 1, 2020. With the amalgamation, PNB has grown substantially with a pan-India network of 10,930 branches and 13,856 ATMs as on June 30, 2020 and catering to a customer base of over 18 crore throughout the country. The amalgamation has led PNB to become the 2nd largest PSB in the country. Global Business of PNB has increased by 2.7% Y-O-Y to Rs.17,96,612 crore as at the end of June'20 from Rs.17,49,047 crore in June'19. The Bank continues to maintain its low cost CASA deposits with share at 43.45%. 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). Additionally, PNB has 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)	FY19 (A) #	FY20 (A)#	1 st April 2020*
Total Income	58,688	63,074	
PAT	-9,975	336	
Net Advances	4,58,249	4,71,828	6,96,848
Net NPA (%)	6.56	5.78	5.45
ROTA (%)	-ve	0.04	
Capital Adequacy Ratio (%)	9.73	14.14	12.32

A: Audited

#Standalone

*Amalgamated entity

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier I Bonds (Proposed)	-	-	-	3000.00	CARE AA-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Perpetual Bonds	LT	379.50	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	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)
2.	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (06-Oct-17)
3.	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-17)
4.	Bonds-Upper Tier II	LT	990.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	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)
5.	Bonds-Perpetual Bonds	LT	700.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						(11-Sep-19)		
6.	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)
7.	Bonds-Upper Tier II	LT	1000.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	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)
8.	Bonds-Upper Tier II	LT	3000.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	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)
9.	Bonds-Upper Tier II	LT	2000.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	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)
10.	Bonds-Perpetual Bonds	LT	563.00	CARE AA;	1)CARE AA; Stable	1)CARE AA- (Under Credit	1)CARE AA-; Negative	1)CARE AA (Under Credit

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
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				Stable	(05-Oct-20)	watch with Developing Implications) (09-Oct-19) 2)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	(19-Feb-19) 2)CARE AA-; Negative (23-May-18)	watch with Developing Implications) (20-Feb-18) 2)CARE AA; Stable (06-Oct-17)
11.	Certificate Of Deposit	ST	60000.00	CARE A1+	1)CARE A1+ (05-Oct-20)	1)CARE A1+ (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (11-Sep-19)	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)
12.	Bonds-Tier I Bonds	LT	1500.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Oct-20)	1)CARE A+ (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19)	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)
13.	Bonds-Infrastructure Bonds	LT	2000.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	1)CARE AA (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	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)
14.	Bonds-Infrastructure Bonds	LT	3000.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	1)CARE AA (Under Credit watch with	1)CARE AA; Negative (19-Feb-19)	1)CARE AA+ (Under Credit watch with

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						Developing Implications) (09-Oct-19) 2)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	2)CARE AA; Negative (23-May-18)	Developing Implications) (20-Feb-18) 2)CARE AA+; Stable (06-Oct-17)
15.	Bonds-Tier II Bonds	LT	2000.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	1)CARE AA (Under Credit watch with Developing Implications) (09-Oct-19) 2)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	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)
16.	Bonds-Lower Tier II	LT	200.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	-	-	-
17.	Debt-Perpetual Debt	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	-	-	-
18.	Bonds-Perpetual Bonds	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	-	-	-
19.	Bonds-Lower Tier II	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	-	-	-
20.	Bonds-Upper Tier II	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (05-Oct-20)	-	-	-
21.	Bonds-Lower Tier II	LT	725.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	-	-	-
22.	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	-	-	-
23.	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	1)CARE AA+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				Stable	(05-Oct-20)			
24.	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Oct-20)	-	-	-
25.	Bonds-Tier I Bonds	LT	3000.00	CARE AA-; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Infrastructure Bonds	Simple
2.	Bonds-Lower Tier II	Complex
3.	Bonds-Perpetual Bonds	Complex
4.	Bonds-Perpetual Bonds	Highly Complex
5.	Bonds-Tier I Bonds	Highly Complex
6.	Bonds-Tier II Bonds	Complex
7.	Bonds-Upper Tier II	Complex
8.	Bonds-Upper Tier II	Highly Complex
9.	Certificate Of Deposit	Simple
10.	Debt-Perpetual Debt	Complex

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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