Punjab and Sind Bank

September 24, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Lower Tier II Bonds	0.00* (Reduced from Rs.575) (Rupees Nil)	-	Withdrawn
Lower Tier II Bonds	300 (Rupees Three Hundred Crore only)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Tier II Bonds (Basel-III)*	737.30 (Reduced from Rs.1,000 crores) (Rupees Seven Hundred thirty seven Crores and thirty lacs Only)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Tier II Bonds (Basel-III) (Proposed)	500.00 (Rupees Five Hundred Crore Only)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Basel III Compliant Tier I Bonds	1,000 (Rupees One Thousand Crore Only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Total	**2,537.30 (Rupees Two Thousand Five Hundred thirty seven crore and thirty lacs Only)**		

** Withdrawn basis redemptions of instruments (INE608A09098 and INE608A09114)*

Details of instruments/facilities in Anneuxre-1

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, 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 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 the 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 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 instruments of Punjab & Sind Bank (P&SB), factors in the majority ownership of the Government of India (GoI), adequate capitalization levels and liquidity profile. These strengths are, however, partially offset by P&SB's pressure on asset quality indicators, moderate loan book growth in FY19, loss making operations in FY19 & Q1FY20, relatively

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

small size of operations and declining overall deposit base with low proportion of low-cost CASA deposits. Going forward, the continued ownership and support from the Government of India while improving capitalization and profitability and maintaining asset quality would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of GoI: The bank is majority owned by the Government of India (GoI) with GoI holding 80.28% of the shares as on June 30, 2019 down from 85.56% after capital raising of Rs.100 crores that was through Employee Stock Purchase Scheme (ESPS) in Q1FY20. On August 30, 2019, the GoI announced an upfront release of Rs 55,250 crore (out of planned infusion of Rs.70,000 crores in FY20) for public sector banks, of which P&SB was allocated Rs 750 crore. Post this infusion, the government shareholding in bank will go up again. Given majority government ownership, timely support from GoI is expected to continue going forward.

Average Capitalization Levels: Owing to net losses incurred in FY18 and FY19, the bank's capitalization profile weakened with CET-1, Tier-1 and CAR of 7.80%, 9.50% and 10.93% respectively as on March 31, 2019 (8.37%, 9.85% and 11.25% respectively as on March 31, 2018). However, some marginal improvement was reported in Q1FY20 after the bank raised capital of Rs.100 crores via ESPS in Q1FY20. End June 2019, the bank's capital ratios stood at 7.87%, 9.59% and 11.36% respectively as on June 30, 2019, slightly above the above the regulatory minimum requirement (including CCB) of 7.375%, 8.875% and 10.88% respectively (as on Mar-19). However as the minimum capital requirement are likely to increase by 0.625% each by Mar-20, support from GoI to maintain adequate capitalization levels will be crucial going forward. P&SB is looking to rationalize its risk weighted assets (RWA) in FY20 by reducing its exposure in lower rated entities. 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) would reduce the RWA of banks. 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. Since P&SB has high share of corporate exposure, it is expected to benefit from revised risk weight norms

Average liquidity profile: As per Structural Liquidity Statement as on June 30, 2019, the bank had comfortable liquidity profile with positive cumulative mismatches in up to 6 months' time bucket. However, on account of bank's higher dependence on bulk deposits, the bank had negative cumulative mismatches in later buckets (6 months to 7 years). However these mismatches are within the limits set by the bank's Board. Further the bank was maintaining a liquidity coverage ratio of 164% as on March 31, 2019 as against the statutory limit of 100% mandated by the Reserve Bank of India (RBI) and is maintaining a buffer of 155 bps over minimum SLR requirement as on June 30, 2019.

Key Rating Weaknesses

Weakness in asset quality profile; further deteriorated in FY19: P&SB's asset quality witnessed deterioration in FY19 with absolute gross non-performing assets (GNPA) up 10.3% Y-o-Y to Rs 8606 crore as on March 31, 2019. The incremental weakness in asset quality was on account of higher slippages of 5.9% in FY19 as against 4.8% in FY18 due to bank's exposure towards IL&FS Group. As a result, the gross NPA ratio and net NPA ratio stood at 11.83% and 7.22% respectively as on Mar-19 and further to 12.88% and 7.77% respectively as on Jun-19. However, the bank's provision coverage ratio (CARE adjusted and excluding TWOs) remained adequate at 41.97% as on March 31, 2019. In July 2019, PSB flagged a fraud of Rs 238.3 crore with respect to Bhushan Power and Steel Limited (BPSL). The bank alleged that BPSL misappropriated funds, manipulated books accounts to raise funds to be able to borrow from consortium lenders. The bank has a provision of Rs 189.35 crore against the same translating into coverage ratio of ~79%.

Moderate loan book growth and loss making operations: The bank's gross advances grew by tepid 4.3% Y-o-Y in FY19 to Rs 72,747 crore driven by growth in corporate advances (59% of FY 2019 loan book, +6.3% Y-o-Y), MSME loans (14.7%, +2.6% Y-o-Y) and retail loans (11.7%, +4.9% Y-o-Y) though partially offset by contraction in agri loans. End June 2019, the bank's loan book declined by 5.2% Q-o-Q and stood at Rs.68,975 crores. Owing to moderate loan growth, impending asset quality concerns coupled with margin contraction owing to higher cost of funds, the bank continued to reported losses for second year in a row. For the year ending March 31, 2019, the bank reported loss of Rs.543 crore as against losses of Rs. 744 crores reported last fiscal. The bank's pre-provision operating profits increased by 22% on annual basis to Rs.1397 crores (PY: Rs.1145 crore) mainly on account of sharp rise in other income end fiscal 2019. For the year ending March 31, 2019, the bank's other income stood at Rs 828 crore, up 43% Y-o-Y and its share in total income rising to 9% as on March 31, 2019 as against 7% previous year. On the other hand, the company's core revenues in the form of net interest income remained broadly unchanged (+2% Y-o-Y). For the quarter ending June 30, 2019 bank's reported losses narrowed with net loss of Rs 30 crore end Q1 FY 2020 as against a loss of Rs 398 crore for the corresponding quarter last year and loss of Rs 59 crore for the quarter ended March 31, 2019.

Relatively low share Current and Savings account (CASA) deposits; although improved in FY19: The bank's proportion of CASA deposits in total deposits has relatively been lower than other public sector banks and consequently its dependence on bulk deposits have been relatively high. Its share of CASA deposits has increased in FY19 despite overall decline in deposit base and was 26.8% as on March 31, 2019 (vs. 22.6% as on March 31, 2018) and 25.7% as on June 30, 2019. The bank is working on shedding its high cost bulk deposits and replacing them with CASA and retail deposits that are stickier in nature. As on March 31, 2019 the bank's share of bulk deposit in total deposits stood at 38% down from 45% as on Mar-18.

Analytical approach: Standalone; factoring in timely equity support from Government of India given P&SB majority owned by GoI, demonstrated support with equity infusion of Rs.785 crore in FY18 and P&SB being a public sector bank

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Financial sector
Bank - CARE's Rating Methodology For Banks
Bank - Rating framework for Basel III instruments (Tier I & Tier II)
CARE's Policy on withdrawal

About the Company

Punjab & Sind Bank (P&SB) is a mid-sized public sector bank that was established at Amritsar, Punjab in 1908, by BhaiVir Singh, Sir Sunder Singh Majitha and SardarTarlochan Singh. In December 2010, Government of India (GoI) divested 17.93% stake through an IPO. The GOI holding stood at 85.56% as on March 31, 2019 which has reduced to 80.28% as on June 30, 2019. On August 30, 2019, the GoI announced capital infusion in P&SB, thereby further increasing its stake in the bank. The bank operates through a network of 1,518 branches as on March 31, 2019 with a mix of branches 37% rural, 18% semi-urban, 23% urban and 22% metro cities. The bank has sponsored one Regional Rural Bank viz. SatlujGramin Bank (SGB)

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total Income	8,530	9,387
PAT	-744	-543
Total Assets	1,13,759	1,08,982
ROTA (%)*	-ve	-ve
Net NPA (%)	6.93	7.22
CAR (%)	11.25	10.93

A: Audited

**Note: Ratios computed based on average of annual opening and closing balances*

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-Lower Tier II	September 22, 2008	11.05%	22-April-2019	0.00	Withdrawn
Bonds-Lower Tier II	June 26, 2009	8.70%	26-April-2019	0.00	Withdrawn
Bonds-Lower Tier II	June 24, 2011	9.73%	24-Oct-2021	300.00	CARE AA; Stable
Bonds-Lower Tier II	October 19, 2019	7.99%	19-Oct-2026	500.00	CARE AA; Stable
Bonds-Tier II Bonds	June 25, 2019	9.5%	26-Oct-2029	237.30	CARE AA; Stable
Bonds-Tier I Bonds	May 08, 2017	10.90%	Perpetual	1000.00	CARE A+; Stable
Bonds-Tier II Bonds*	-	-	-	500.00	CARE AA; Stable

* Not yet raised

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-Lower Tier II	LT	-	-	-	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)
2.	Bonds-Lower Tier II	LT	-	-	-	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)
3.	Bonds-Lower Tier II	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)
4.	Bonds-Lower Tier II	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)
5.	Bonds-Tier II Bonds	LT	237.30	CARE AA; Stable	-	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (09-Nov-16)
6.	Bonds-Tier I Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Nov-18)	1)CARE A+; Stable (06-Oct-17) 2)CARE A+; Stable (27-Apr-17)	-
7.	Bonds	LT	500.00	CARE AA; Stable	-	-	-	-

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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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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