

## Punjab and Sind Bank

November 27, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Lower Tier II Bonds	875 (Rupees Eight Hundred and Seventy Five Crore Only)	<b>CARE AA; Stable (Double A; Outlook: Stable)</b>	Reaffirmed
Tier II Bonds (Basel-III)	500 (Rupees Five Hundred Crore Only)	<b>CARE AA; Stable (Double A; Outlook: Stable)</b>	Reaffirmed
Tier II Bonds (Basel-III) (Proposed)	500 (Rupees Five Hundred Crore Only)	<b>CARE AA; Stable (Double A; Outlook: Stable)</b>	Reaffirmed
Basel III Compliant Tier I Bonds	1,000 (Rupees One Thousand Crore Only)	<b>CARE A+; Stable (Single A Plus; Outlook: Stable)</b>	Reaffirmed
<b>Total</b>	<b>2,875 (Rupees Two Thousand Eight Hundred Seventy Five Crore Only)</b>		

*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 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 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), healthy loan book growth seen in FY18 although profitability remained under pressure in FY18 & H1, FY19, average capitalization levels and liquidity profile. These strengths are, however, partially offset by P&SB's pressure on asset quality indicators although some improvement seen in H1, FY19, relatively small size of operations and 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

## Detailed description of the key rating drivers

### Key Rating Strengths

**Majority ownership of Gol:** The bank is majority owned by the Government of India (Gol) with Gol holding 85.56% equity shares of the bank as on September 30, 2018. The Gol has been supporting public sector banks including P&SB with regular capital infusions. Gol infused equity capital of Rs.785 crore in P&SB in FY18. Given majority ownership with Gol and P&SB being a public sector bank, Gol is expected to provide capital support to the bank in timely manner.

**Healthy loan book growth in FY18 however profitability remains under pressure in FY18-H1FY19:** The bank's gross advances has grown by around 15.7% in FY18 and further 3% in H1, FY19 (over Mar-18) to Rs.71,897 crore as on September 30, 2018. Bank's deposits have grown by around 19% in FY18 to Rs.1,01,726 crore as on March 31, 2018. However, despite healthy loan book growth, bank's profitability has been under pressure in FY18 & H1, FY19 on account of higher provisions following weakness in asset quality profile. Following higher provision made in FY18 & H1, FY19, Bank's provision cover (including technical write offs) increased from 46.7% as on Mar-17 to 54.4% as on Mar-18 and further to 64.8% as on Sep-18, provision cover (excluding technical write offs) increased from 30.5% as on Mar-17 to 50.2% as on Sep-18. The bank reported net loss of Rs.744 crore in FY18 and Rs.507 crore in H1, FY19. Profitability in H1, FY19 was also impacted by mark-to-market provision for investment portfolio following hardening of G-sec yields. Bank's net interest margin (NIMs) was 2.3% in H1, FY19 and 2.1% in FY18 (vs. 2.2% in FY17).

**Average Capitalization Levels; Gol is expected to provide capital support in timely manner:** On account of net loss in FY18 & H1, FY19, P&SB's capitalization profile deteriorated with CRAR, Tier 1 capital and CET-1 respectively at 10.66%, 9.27% and 7.65% as on September 30, 2018 vs. 11.25%, 9.85% and 8.37% as on March 31, 2018. While bank's CET 1 and Tier 1 capital levels as on Sep-18 are above the regulatory minimum requirement (including CCB) of 7.375% and 8.875% respectively (as on Mar-18), however its overall CRAR was around 21 bps lower than the regulatory requirement of 10.875% (including CCB) or approximately Rs.130 crore. The bank intends to raise capital through QIP before end of FY19 to improve its capitalization ratios. The bank has also reduced risk weighted assets (RWA) by around Rs.5,500 crore in H1, FY19 while growing its portfolio by 3% which led to improvement in CRAR by around 20 bps during Q2, FY19. The bank is focusing on further rationalize of RWAs. Also, given P&SB's majority ownership with Gol and it being a public sector bank, Gol is expected to provide capital support to the bank in timely manner.

**Average liquidity profile:** As per Structural Liquidity Statement as on March 31, 2018, 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 5 years). In up to 1 year bucket, the bank had negative cumulative mismatches of around Rs.10,120 crore (around 18% of cumulative outflows in up to 1 year bucket) and hence to that extent bank will be dependent on rollover of bulk deposits. These mismatches are within the limits set by the bank's Board. Given, P&SB's deposit franchise and it being a public sector bank, P&SB is expected to plug the mismatches in ALM comfortably. Further the bank was maintaining a liquidity coverage ratio of 144.31% as on September 30, 2018 as against the statutory limit of 90% mandated by the Reserve Bank of India (RBI).

### Key Rating Weaknesses

**Weakness in asset quality profile in FY18, although some improvement seen in H1, FY19:** P&SB's asset quality witnessed deterioration in FY18 with increase in Gross NPAs from Rs.6,298 crore (10.45%) as on Mar-17 to Rs.7,802 crore (11.19%) as on Mar-18. The weakness in asset quality was also following RBI's Feb-18 circular following which stressed accounts under dispensations were classified as NPA. As part of fresh NPA slippages in FY18 were from restructured accounts, standard restructured advances for the bank declined from Rs.1,343 crore as on Mar-17 to Rs.536 crore as on Mar-18. Bank witnessed improvement in asset quality in H1, FY19 with reduction in gross NPAs to Rs.7,202 crore (10.02%) as on Sep-18. Also, as the bank provided for NPAs and improved provision coverage from 30.5% as on Mar-17 to 50.2% as on Sep-18, its net NPAs declined from 7.51% as on Mar-17 to 6.93% as on Mar-18 and further to 5.25% as on Sep-18. Nevertheless, the bank's asset quality could remain under pressure on account of its exposure to IL&FS Group (around 3% of its loan book), some of these exposure could slip to NPA category and hence impact bank's asset quality profile going forward. CARE will closely monitor the impact of bank's exposure to IL&FS group on bank's asset quality, profitability and capitalization profile and it will remain a key rating sensitivity.

**Relatively low share Current and Savings account (CASA) deposits and higher dependence on bulk deposits:** Bank's proportion of CASA deposits in total deposits has relatively been lower than other public sector banks and consequently bank's dependence on bulk deposits have been relatively high. Its share of CASA deposits was 23.7% as on March 31, 2018 (vs. 27.5% as on March 31, 2017) and 22.9% as on September 30, 2018. P&SB's bulk deposits have been high at around 45% of total deposits as on March 31, 2018

**Analytical approach:** Standalone; factoring in timely equity support from Government of India given P&SB majority owned by Gol, 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](#)

[Bank - CARE's Rating Methodology For Banks](#)

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

[Financial Ratios \(Financial Sector\)](#)

#### About the Company

Punjab & Sind Bank (P&SB) was established at Amritsar, Punjab in 1908, by BhaiVir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh. It was nationalized in 1980. In December 2010, the Government of India (Gol) divested 17.93% stake through an IPO. GOI holding is 85.56% as on March 31, 2018 after capital infusion of Rs.785 crores in FY18. The bank operates through a network of 1,514 branches as on March 31, 2018. The bank has sponsored one Regional Rural Bank viz Satlej Gramin Bank (SGB).

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total Income	8,751	8,530
PAT	201	-744
Total Assets	96,643	1,13,759
ROTA (%)*	0.20	-ve
Net NPA (%)	7.51	6.93
CAR (%)	11.05	11.25

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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 assigned along with Rating Outlook
Bonds-Lower Tier II	INE608A09098	Sep 22, 2008	11.05%	April 22, 2019	400.00	CARE AA; Stable
Bonds-Lower Tier II	INE608A09114	June 26, 2009	8.70%	April 26, 2019	175.00	CARE AA; Stable
Bonds-Lower Tier II	INE608A09130	June 24, 2011	9.73%	Oct 24, 2021	300.00	CARE AA; Stable
Tier II Bonds-Basel III	INE608A08017	Oct 19, 2019	7.99%	Oct 19, 2026	500.00	CARE AA; Stable
Tier II Bonds-Basel III (Proposed)	-	-	-	-	500.00	CARE AA; Stable
AT 1 Bonds (Tier-I Bonds)	INE608A08025	May 08, 2017	10.90%	Perpetual	1000.00	CARE A+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	400.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)	1)CARE AA (16-Oct-15)
2.	Bonds-Lower Tier II	LT	175.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)	1)CARE AA (16-Oct-15)
3.	Bonds-Lower Tier II	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)	1)CARE AA (16-Oct-15)
4.	Bonds-Lower Tier II	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA; Stable (12-Dec-16) 2)CARE AA (12-Oct-16)	1)CARE AA (11-Jan-16)
5.	Bonds-Tier II Bonds	LT	500.00	CARE AA; Stable	-	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 (06-Oct-17) 2)CARE A+; Stable (27-Apr-17)	-	-

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