Punjab and Sind Bank

September 30, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Lower Tier-II Bonds (Basel II)	500.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier-II Bonds (Basel III)[&]	500.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier-II Bonds (Basel III) [&]	237.30	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Lower Tier-II Bonds (Basel II)	-	-	Withdrawn
Additional Tier-I Bonds (Basel III)	-	-	Withdrawn
Total long-term instruments	**1,237.30 (₹ One thousand two hundred thirty-seven crore and thirty lakh only)**		

Details of instruments in Annexure-1.

[&] Tier-II Bonds under Basel III are characterised 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 the 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.

Detailed rationale and key rating drivers

The ratings assigned to the debt instruments of Punjab and Sind Bank (PSB) factor in majority ownership, demonstrated and expected continued support from Government of India (GoI) being the majority shareholder holding 98.25% share in the bank, improvement in capitalisation post equity infusion of ₹5,500 crore during FY21 (refers to the period April 01 to March 31) and ₹4,600 crore in FY22 by way of recapitalisation bonds, which have helped the bank to maintain its capitalisation ratios and would support business growth in the near term. The ratings further factor in the bank's established presence in north India as well as its strong liquidity profile.

The change in the outlook to 'Stable' is on account of improvement in profitability and asset quality parameters resulting in limited impact of credit costs on the profitability of the bank.

Furthermore, the bank's earnings profile has been moderate as it has started reporting profits from FY22; however, any higher-than-expected impact on account of COVID-19-related stress might impact the profitability.

The ratings continue to be constrained on account of relatively weaker asset quality parameters as compared to peer public sector banks and higher proportion of stressed assets; however, the bank has made significant amount of provisioning during the third quarter of FY21, which has improved the provision coverage ratio (PCR) on gross non-performing assets (GNPA) for the bank.

The bank's asset quality is expected to remain under pressure over the near term with sizeable proportion of gross advances are stressed (including SMA 1 and SMA 2 and restructured portfolio), especially in the Ministry of Micro, Small & Medium Enterprises (MSME) segment, with stress in the corporate lending book largely recognised which is in line with peer public sector banks. Higher-than-expected slippages would further deteriorate the asset quality parameters and remain a key rating factor.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The ratings also factor in PSB's relatively lower but improving proportion of Current Account Savings Account (CASA) deposit ratio, predominantly corporate-focused advances book; although the bank has improved the retail proportion over the past few years and relatively higher geographical concentration in the states of northern India with major presence in New Delhi and the state of Punjab.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to Additional Tier-I Bonds (Basel III) of ₹1,000 crore and Lower Tier-II Bonds (Basel II) of ₹300 crore, as these bonds have been redeemed by the bank.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the asset quality parameters with GNPA reducing below 10% or net NPA (NNPA) ratio below 2.5% on a sustained basis.
- Consistent improvement in profitability.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in government support and ownership below 51%.
- Decline in the asset quality parameters with GNPA exceeding 12% or NNPA ratio of over 4% on a sustained basis.
- Decline in profit for a sustained basis leading to deterioration in capitalisation levels below 12.5%.

Detailed description of the key rating drivers

Key rating strengths

Majority ownership and support by GOI and experienced management: Government of India (GOI) continues to be the majority shareholder holding 98.25% stake in PSB. GOI has been supporting public sector banks with regular capital infusions and steps to improve capitalisation, operational efficiency and asset quality. During FY22, GOI infused equity capital of ₹4,600 crore into the bank, which helped the bank in improving the capital ratios and support growth. GOI has infused cumulative capital of ₹11,672 crore (₹785 crore in FY18, ₹787 crore in FY20, ₹5,500 crore in FY21 and ₹4,600 crore in FY22) against recapitalisation bonds (with maturities between 10 and 15 years over the past five financial years). Given the majority ownership of GOI, PSB is expected to receive timely and adequate support in the form of capital as and when required.

Improvement in capitalisation levels post equity infusion: PSB has received significant amount of equity capital against zero coupon recapitalisation bonds during the last two years (₹5,500 crore in FY21 and ₹4,600 crore in FY22) from GOI. In line with RBI amendment to 'Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021' dated March 31, 2022, PSB had fair valued the investments in recapitalisation bonds of Rs.4,600 crore received during FY22, however, the difference was not adjusted through P&L as required by the notification as the bank was given special exemption by RBI to not do so. Accordingly, the net worth of the bank post marking down of zero-coupon recap bonds stood at ₹5,052 crore as on March 31, 2022.
As a result, the bank reported capital adequacy ratio (CAR) of 18.54% with Common Equity Tier-I (CET I) ratio of 12.77% as on March 31, 2022, as compared with CAR of 17.06% with CET I Ratio of 12.05% as on March 31, 2021, which was higher compared to peer public sector banks. The bank redeemed Additional Tier-I (AT I) bonds during Q1FY23, which resulted in decline in CAR at 16.79% with CET I Ratio of 13.08% as compared with March 31, 2022. The bank has significant cushion over the minimum regulatory requirement, which would help the bank to achieve its targeted credit growth for the medium term.

Improving profitability due to lower credit cost: PSB's earning profile has been impacted by the weak asset quality due to which the bank was not been able to post profits for the last four financial years (FY18 to FY21). During FY22, PSB saw 3.80% growth in advances largely driven by increase in lending to the retail, agriculture and MSME (RAM) segment, which constituted 50.7% of the total advances as on March 31, 2022.

The bank's net interest margin (NIM) improved marginally to 2.42% for FY22 against 2.21% for the previous year due to higher fall in the cost of deposit as compared to fall in the yields in a decreasing interest rate scenario except for the last quarter for FY22 when the interest rates started rising. The bank's non-interest income improved during FY22 compared with the previous year because of the higher core fee income and higher recovery despite reduction in treasury income. However, supported by net interest income (NII), the PSB's Pre-Provisions Operating Profit (PPOP) improved from ₹772 crore for FY21 to ₹1,330 crore for FY22. As the bank made higher provisions during FY21, the incremental provisions for FY22 was lower which resulted in the credit cost to reduce from 4.07% in FY21 to 0.13% in FY22 helping the bank to report profit after tax (PAT) of ₹1,039 crore during FY22 as compared with net loss of ₹2,733 crore for FY21, translating into return on total assets (ROTA) of 0.95% for FY22.

During Q1FY23, the bank continued to see increase in its NII, which was more than off-set by decline in the non-interest income largely due to treasury losses and lower recoveries from written-off accounts resulting in 34% (y-o-y) decline in operating profit to ₹252 crore as compared with ₹380 crore for Q1FY22. The bank saw significant reduction in credit costs with lower provisioning resulting in the bank reporting 18% increase in PAT to ₹205 crore for Q1FY23 as compared with ₹174 crore for Q1FY22. The bank has also started expanding the fee income revenue by offering services like life insurance, health insurance mutual funds, etc., which may improve the other income going forward.

Key rating weaknesses

Weak asset quality parameters with improving trend; larger proportion of stressed portfolio: While the asset quality parameters of PSB asset quality remain weak, there has been improvement during FY22. The bank reported GNPA ratio of 12.17% as on March 31, 2022, which continues to be at elevated level but has seen improvement from 13.76% as March 31, 2021. While the slippage ratio (on net opening advances) worsened to 3.71% in FY22 from 2.90% in FY21 on account of certain large corporate account which contributed over 66% of the total slippages, the bank had higher recoveries and write-offs despite increase in slippages during FY22 as compared with previous year due to the impact of second wave of COVID-19. The bank had provision coverage ratio (PCR) without technical write-offs of 79.66% as on March 31, 2022 (March 31, 2021: 73.62%) resulting in NNPA ratio of 2.74% as on March 31, 2022 (March 31, 2021: 4.04%). The NNPA to net worth ratio stood at 34.48% as on March 31, 2022, which although improved from 48.03% as on March 31, 2021, was higher as compared to peer public sector banks.

During Q1FY23, the bank saw slippages in the MSME loan portfolio, which contributed 55% of total slippages for the quarter followed by slippages in the retail book and agriculture lending book, which 28% and 16% of total slippages, while slippages from the corporate book were very low at 1%. The bank's NNPA ratio and NNPA to net worth ratio improved further 2.56% and 32.13%, respectively, as on June 30, 2022.

PSB's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) continued to remain relatively higher at ₹2,640 crore constituting 3.63% of gross advances as on June 30, 2022, and Emergency Credit Line Guarantee Scheme (ECLGS) disbursement of Rs.1,831 crore (2.52% of Gross Advances) as on June 30, 2022. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 excluding restructured accounts stood at 5.14% of gross advances as on June 30, 2022.

The gross stressed assets (GNPA + Standard Restructured assets + Security Receipts) stood at 14.97% (March 31, 2022: 16.64%) of gross advances and net stressed assets (NNPA + Standard Restructured assets + Security Receipts) stood at 82% of net worth or 7% of net advances as on June 30, 2022 (March 31, 2022: 97% of net worth or 8% of net advances), which was relatively higher than peer public sector banks.

The bank expects higher recoveries and upgradation than slippages which would be contained at 1.5% for FY23 resulting in the Gross NPA ratio to reduce below 10% by end of FY23. In case of sale of NPAs to National Asset Reconstruction Company Limited (NARCL) during the year, the GNPA ratio would be below 9%. The ability of the bank to manage its slippages in the stressed assets especially in the MSME book and improve its asset quality parameters continue to be a key rating sensitivity.

Predominantly corporate focused mix with geographical concentration: The gross advances growth stood at 3.8% for FY22 as against 8.39% in FY21. The gross advances stood at ₹70,387 crore as on March 31, 2022 (₹72,727 as on June 30, 2022) registering growth of around 3.8% during FY21 as compared with growth of 8.39% for the previous year. The bank consciously degrew its corporate book by 5.5%, whereas the retail book (RAM) grew by 14.8%. As a result, the mix of corporate and retail advances improved with the proportion of corporate advances declining to 49% of gross advances as on March 31, 2022 (June 30, 2022 – 50%) as compared with 54% as on March 31, 2021.

The bank had a network of 1,526 branches, most of which are located in the northern states, including 635 branches in Punjab as on June 30, 2022. The bank having established presence in north India, majority of the business is focused in the states of north India with the top three states (Delhi, Punjab and Maharashtra) contributing 60% of the total advances and 65% of deposits as on June 30, 2022.

Relatively low share CASA deposits: The low-cost CASA of PSB grew significantly registering a growth of 9.5% Y-O-Y as on March 31, 2022, compared to corresponding date of previous year. Although there has been an improvement in absolute numbers, the share of CASA deposits in total deposits remained relatively low at around 33.81% as on March 31, 2022 (June 30, 2022: 34.00%) as compared to other public sectors banks which is around 40%.

Liquidity: Adequate

According to asset liabilities maturity (ALM) profile as on June 30, 2022, the bank had no negative cumulative mismatches as per the ALM above in time buckets up to one month. The bank's average liquidity coverage ratio (LCR) stood at 214.03% for the quarter ended June 30, 2022 as against the regulatory requirement of 100%. The comfort can be drawn from the excess statutory liquidity ratio (SLR) maintained by PSB at 2.67% of net demand and time liabilities as on June 30, 2022. The bank manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like RBI's LAF and MSF facility along with access to refinance from SIDBI, NHB, NABARD, etc, and access to call money markets.

Analytical approach

The ratings are based on standalone profile of the bank and factors in strong and continued support from Government of India (GOI), which holds majority shareholding in the bank.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank
Policy on Withdrawal of Ratings

About the company

Punjab and Sind Bank (PSB), established in 1908, is a mid-sized corporate-focused public sector bank based out of New Delhi that operates through a network of 1,526 branches as on June 30, 2022, with branch concentration in north India. It was nationalised in the year 1980. In December 2010, the Government of India (GOI) divested 17.93% stake through an initial public offer (IPO). However, post many capital infusions over the subsequent years (FY18 onwards), the GOI shareholding had steadily risen and stood at 98.25% as on June 30, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23(UA)
Total income	7,878	8,055	1,915
PAT	-2,733	1,039	205
Total assets	1,07,245	1,12,109	1,15,488
Net NPA (%)	4.04	2.74	2.56
ROTA (%)	-2.67	0.95	0.72

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Lower Tier-II Bonds – Series XIII	INE608A09130	24-Jun-11	9.73%	24-Oct-21	-	Withdrawn
Lower Tier-II Bonds – Series XIV	INE608A08017	19-Oct-16	7.99%	19-Oct-26	500	CARE AA-; Stable
Tier-II Bonds – Series XV	INE608A08033	27-Jun-19	9.50%	26-Oct-29	237.3	CARE AA-; Stable
Bonds-Tier-I Bonds	INE608A08025	08-May-17	10.90%	Perpetual	-	Withdrawn
Tier-II Bonds – Series XVI	INE608A08041	04-Nov-19	8.67%	03-Dec-29	500	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (24-Sep-19)
2	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (24-Sep-19)
3	Bonds-Lower Tier-II	LT	-	-	-	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)
4	Bonds-Lower Tier-II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)
5	Bonds-Tier-II Bonds	LT	237.30	CARE AA-; Stable	-	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)
6	Bonds-Tier-I Bonds	LT	-	-	-	1)CARE A; Negative (05-Oct-21)	1)CARE A; Negative (06-Oct-20)	1)CARE A+; Negative (27-Dec-19) 2)CARE A+; Stable (24-Sep-19)
7	Bonds-Tier-II Bonds	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments

Tier-II Bonds (Basel III)	Detailed explanation
Covenants	
Call option	Applicable
Write-down trigger	PONV Trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Lower Tier-II	Complex
2	Bonds-Tier-I Bonds	Highly Complex
3	Bonds-Tier-II Bonds	Complex

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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