

Punjab National Bank

Brickwork Ratings (BWR) upgrades the ratings for Punjab National Bank’s (PNB) outstanding Basel III - Additional Tier I Bonds of Rs. 495 Crs. to BWR AA+/Stable from BWR AA/Stable and the rating for PNB’s unutilised Basel III - Additional Tier I Bonds of Rs. 2,505 Crs. to BWR AA+/Stable from BWR AA/Stable; BWR also withdraws the ratings of PNB’s Basel III Tier II Bonds of Rs. 500 Crs on full redemption

Particulars

Instruments**	Amount Rs Crs		Tenure	Rating*	
	Previous	Present		Previous (17 Nov 2022)	Present
Tier II Bonds (Basel III)	500	0.00	Long Term	BWR AA+/Stable (Reaffirmed)	Withdrawn on full redemption
Additional Tier 1 Bonds (Basel III)	495.00	495.00		BWR AA/Stable (Reaffirmed)	Upgraded to BWR AA+/Stable from BWR AA/Stable
Unutilised Additional Tier 1 Bonds (Basel III)	2,505.00	2,505.00		BWR AA/Stable (Reaffirmed)	Upgraded to BWR AA+/Stable from BWR AA/Stable
TOTAL	3,500.00	3,000.00	Rupees Three Thousand Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of Bonds are provided in Annexure II.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) upgrades the ratings for Punjab National Bank’s (PNB) outstanding Basel III - Additional Tier I Bonds of Rs. 495 Crs. to BWR AA+/Stable from BWR AA/Stable and the rating for PNB’s unutilised Basel III - Additional Tier I Bonds of Rs. 2,505 Crs. to BWR AA+/Stable from BWR AA/Stable; BWR also withdraws the ratings of PNB’s Basel III Tier II Bonds of Rs. 500 Crs on full redemption as tabulated above.

The upgrade in the long-term ratings for the Basel III - Additional Tier I Bonds factors in PNB’s consistent improvement in headline asset quality metrics, and steady reduction in fresh slippages over the recent past. These could likely further improve given PNB’s attempts to improve the overall asset quality, leading to possible lower credit costs and consequent improvement in overall profitability going forward.

The ratings continue to factor in the majority ownership of, and the continued & expected support from, the Government of India (GoI) to the bank considering its systemic importance and position in the Indian banking sector as the third-largest public sector bank by way of total

business (advances and deposits) as of 30 Sep 2023. The ratings continue to consider PNB's comfortable resource profile, and established franchise through its India-wide branch network which aids it in deposit acquisition. The ratings also take into account the adequate capitalisation levels of the bank, aided by capital injection over the recent past, and accretion to profit, which have provided the bank a reasonable capital buffer, over and above the minimum regulatory requirement.

BWR also withdraws its rating on the Basel III Tier II bonds of Rs. 500 Crs on account of full redemption. The rating has been withdrawn on the basis of independent confirmation from the debenture trustee, of full redemption of these bonds, along with the bank's confirmation of redemption of these bonds and request for withdrawal of the rating. The withdrawal of the rating of these bonds is in line with BWR's policy of withdrawal.

KEY RATING DRIVERS

Credit Strengths:-

- **Strong support and majority ownership of the Government of India (GOI):** There is high sovereign support to the bank, with the GOI holding 73.15% as on 30 September 2023. The GOI's support of public sector banks (PSBs) has always been of prime importance. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress, through various recapitalisation plans announced over the years. The GOI's support to the bank in the form of capital injection is expected to continue, given that the bank is the third largest PSB in the country by way of total business (deposits plus advances) size. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet to cover any asset-side risks. Over the past four years, GoI has injected around Rs 55,000+ crore into PNB, erstwhile Oriental Bank of Commerce (OBC), and erstwhile United Bank of India (UBI). (OBC and UBI were the banks amalgamated into PNB with effect from 1 April 2020).
- **Established track record and strong market presence**

Incorporated in 1894, PNB has an established operational track record of almost 13 decades and has become the third largest public sector bank in India by way of business size. Post the amalgamation, PNB had total standalone assets of Rs 14.97 lakh Crs as of 30 Sep 2023, with a network of 10,092 domestic branches and 2 overseas branches, and 12,645 ATMs. The global business amounted to Rs 22.51 lakh Crs. as on 30 Sep 2023, registering a YoY growth of 11.26%. As of 30 Sep 2023, 44.4% of the loan book exposure was to corporates, 24.1% to Retail, 16.2% to agriculture, and 15.3% to MSME segments.
- **Adequate capitalisation:** Total Capital to Risk Weighted Asset ratio (CRAR) was 15.09% as on 30 Sep 2023. The Tier-I capital ratio was at 12.02% (CET-1 ratio was at 10.23%, Additional Tier 1 ratio was at 1.79%) and Tier-II ratio was at 3.07%. The bank's net worth (capital and reserves & surplus) coverage for net NPAs improved to 7.8 times as on 30 Sep 2023 from 3.4 times as on 30 Sep 2022.

For FY24, the PNB Board approved raising of capital for an amount up to Rs. 12,000 Cr through issue of Basel III compliant Additional Tier-I Bonds (upto Rs. 7,000 Cr) and Basel III Tier II Bonds (upto Rs. 5,000 Cr), to be raised in one or more tranches.

- **Reasonable resource profile:** PNB has a reasonable resource profile, with a deposit base of Rs 13.10 lakh Crs as of 30 Sep 2023. The share of low-cost CASA deposits stood at 42.15% of total deposits as of 30 Sep 2023, compared with 44.91% as of 30 Sep 2022. The cost of deposits rose over the period to 4.86% as of 30 Sep 2023, from 3.90% as of 30 Sep 2022. These trends of drop in CASA and rise in deposit costs are in line with the overall banking system, as interest rates continued to rise in FY23, and currently stay elevated.

Credit Risks:-

- **Asset quality metrics remain modest, albeit on an improving trend:**
GNPA ratio improved to 6.96% as of 30 Sep 2023 from 10.48% as on 30 Sep 2022. There was an improvement from 7.73% on a sequential basis. NNPA ratio improved to 1.47% on 30 Sep 2023 from 3.80% on 30 Sep 2022. There was an improvement from 1.98% on a sequential basis. As on 30 Sep 2023, the Bank has NCLT exposure of Rs 61,923 Crs across 544 accounts. The provision coverage ratio (PCR) on these accounts was 99.73%.

During the first half of FY24 (H1FY24), the bank had recovered Rs 6,311 Crs from NPAs, including cash recovery of Rs 3,892 Crs and upgrade of Rs 2,419 Crs to standard accounts with fresh slippages of Rs 3,318 Crs. The Bank's efforts to reduce the slippages and improve the recovery / collections will likely assist in improving the asset quality and reduce impact on the provisions cost and profitability.

The Provision Coverage Ratio excluding technical write-offs (TWO) improved on a YoY basis to 80.00% as of 30 Sep 2023 as against 66.28% as of 30 Sep 2022. Furthermore, since the bank has been focusing on enhancing its provision coverage, the Net NPA considerably improved to 1.47% as on 30 Sep 2023, from 3.80% as on 30 Sep 2022. Asset quality is likely to continue its trajectory of improvement over the near-to-medium term given the bank's focus on ameliorating it.

Moderate profitability metrics:

Total Income of the Bank was at Rs. 29,383 Crs for Q2FY24 (up 27.7% YoY), and Rs. 57,962 Crs for H1FY24 (up 30.9% YoY). Total Interest Income of the Bank for Q2FY24 was at Rs. 26,355 Crs (up 30.8% YoY) and Rs. 51,500 Crs (up 32.4% YoY) for H1FY24. Fee based income for Q2FY24 was at Rs. 1,375 Crs and Rs. 3,160 Crs for H1FY24; it grew by 5.2% and 3.3% respectively on a YoY basis.

The Bank's standalone net profit grew by 327.1% YoY to Rs 1,756 Crs in Q2FY24 (Rs 411 Crs in Q2FY23). Sequentially, net profit jumped 39.9% from Rs 1,255 Crs reported in Q1FY24. The Bank has also provided aggressively (99.73%) for all NCLT accounts. PNB reported a Return on Assets (RoA) of 0.46% for Q2FY24, and 0.40% for H1FY24. Keeping the bank's industry position in mind, improving profitability & RoA while maintaining the NIM & reducing provisioning costs will remain key for the Bank to improve its earning profile over the medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the standalone performance of Punjab National Bank. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Not Applicable since the (potential) senior debt ratings (from which the AT1 ratings are mapped) would be at the highest end of the rating scale.

Negative: A reduction in government support and the GoI's stake in Punjab National Bank falling below 51% could negatively impact the ratings and/or outlook. A substantial deterioration in the bank's asset quality, resulting in an adverse impact on the profitability and capitalization metrics, could also adversely impact the ratings and/or outlook.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

NCDs:

- For the Tier II Bonds (under Basel III) (ISIN INE695A09103) of Rs. 500.00 Crs, coupon rate was 8.75%, the date of maturity was 25 June 2023. The bonds were issued by erstwhile United Bank of India, which got amalgamated with PNB from 1 April 2020 onwards. The bonds have since been redeemed.
- For the Additional Tier I Bonds (under Basel III) (ISIN INE160A08183) of Rs. 495.00 Crs, coupon rate is 8.60%, the bonds are perpetual in nature.

Note on Additional Tier I Bonds under Basel III:

The differentiating features of Additional Tier-I (AT1) capital instruments (under Basel III) include the discretionary payment of coupons by the bank and principal write-down upon the breach of pre-specified triggers. These features increase the risk attributes of AT1 instruments over those of Tier-II instruments under Basel III. To factor in these risks, BWR notches down the rating on these instruments from the bank's Tier-II bonds. The rating on PNB's AT1 bonds (under Basel III) has, therefore, been lowered by one notch from its Tier-II bonds (under Basel III) rating. The factors based on which the rating of the AT1 bonds (under Basel III) is lowered are the bank's moderate asset quality and its impact on profitability and capitalisation. Nevertheless, the bank's revenue reserves are comfortable, and the bank is ensuring timely coupon payments.

The Stable outlook on the Basel III Additional Tier-I bonds is mainly on account of the bank's adequate capitalisation levels. However, the impact on asset quality and profitability, potentially due to lower loan collections and recovery, the restructuring of loans under RBI-approved schemes, and the resulting impact on provisioning costs over the near term along with higher slippages will be monitorable. The bank's ability to maintain its capital adequacy levels along with improving the asset quality in near to long term will be a key rating monitorable.

Note on TIER-II Instruments (under BASEL III):

The key features of Tier-II capital instruments under Basel III is the existence of the Point of Non-Viability (PONV) trigger. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. The triggering of the PONV may result in the loss of principal to the investors and a default of the instrument. Given the robust regulatory and supervisory framework and the systemic importance of the banking sector, BWR believes that the PONV getting triggered is a remote possibility. The inherent risk associated with the PONV feature is

adequately factored into the rating of the instrument. The rating for such instruments is generally at par with the base rating of the issuer and may be lower in the case of any adverse rating sensitivity.

LIQUIDITY INDICATOR: ADEQUATE

As on 30 Sep 2023, PNB's Liquidity Coverage Ratio (LCR) was at 146.06%, as against the regulatory requirement of 100%. The Bank's standalone Basel III leverage ratio was 5.43%, as against 4.59% as on 30 Sep 2022. As per the Bank's Structural Liquidity Statement of 30 Sep 2023, the bank reported high positive cumulative gaps in the short-term (upto 1 year) buckets and longer term (upto 5 year) buckets, indicating a well-matched ALM and adequate liquidity.

COMPANY PROFILE

Punjab National Bank is India's first Swadeshi Bank. It started operations in April 1895 from Lahore. On March 4, 2020, the Union Cabinet approved the amalgamation of PNB, United Bank of India and Oriental Bank of Commerce. The merger became effective from April 1, 2020. PNB is among the top three Public Sector Banks in India by way of business size, with a strong presence in North and Central India. As on 30 September 2023, the Bank had 10,092 Domestic branches (Rural: 3,905, Semi-Urban: 2,461, Urban: 1,998 & Metro: 1,728) and 2 International Branches, 12,645 ATMs, and 28,782 Business Correspondents. The GoI owned 73.15% of the bank as on 30 Sep 2023.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY22 (31 Mar 2022)	FY23 (31 Mar 2023)	Q2FY24 (30 Sep 2023)
Result Type		Audited	Audited	Reviewed
Total Assets	Rs. in Crs.	13,14,805	14,61,831	14,97,100
Business (Global Deposit + Global Gross Advance)	Rs. in Crs.	19,31,322	21,65,844	22,51,631
CASA ratio (Domestic)	%	47.40	43.00	42.15
Gross NPA ratio	%	11.78	8.74	6.96
Net NPA ratio	%	4.80	2.72	1.47
PCR (Excluding technical write-offs)	%	62.24	70.79	80.00
NIM (Global)	%	2.71	3.06	3.11
RoA (annualised for quarterly)	%	0.26	0.18	0.46
Net Profit	Rs. in Crs.	3,457	2,507	1,756
CET I ratio	%	10.56	11.22	10.23
Tier I ratio	%	11.73	12.69	12.02
Tier II ratio	%	2.77	2.81	3.07
Total CRAR	%	14.50	15.50	15.09

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY):

There is no non-cooperation with any other CRA

ANY OTHER INFORMATION: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr No	Instrument / Facilities	Current Rating 2023			Rating History		
		Type	Amount (Rs. Crs.)	Rating	2022	2021	2020
1	Tier II Bonds (Basel III)	Long Term	0.00	Rs 500 Crs Withdrawn on full redemption	17 Nov 2022 BWR AA+/Stable (Reaffirmed)	09 Nov 2021 BWR AA+/Stable (Reaffirmed)	29 Oct 2020 BWR AA+/Stable (Reaffirmed) 15 Oct 2020 BWR AA+/Stable
2	Additional Tier 1 Bonds (Basel III)	Long term	495.00	Upgraded to BWR AA+/Stable from BWR AA/Stable	Rs 3000 Crs BWR AA/Stable (Reaffirmed)	09 Nov 2021 BWR AA/Stable (Reaffirmed) NA	29 Oct 2020 BWR AA/Stable (Reaffirmed) Rs 5250 Crs
3	Unutilised Additional Tier I Bonds (BASEL III)	Long Term	2,505.00	Upgraded to BWR AA+/Stable from BWR AA/Stable	Rs 3750 Crs Withdrawn on full redemption		BWR AA/Stable (Assigned) for Rs 1500 Crs 15 Oct 2020 BWR AA/Stable
	Total		3,000.00	Rupees Three Thousand Crores only			

COMPLEXITY LEVELS OF THE INSTRUMENTS:

Tier II Bonds (Basel III): **Highly Complex**

Additional Tier 1 Bonds (Basel III): **Highly Complex**

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Complexity levels](#)
- [Capital Instruments Issued by Banks and Financial Institutions](#)
- [Criteria for BASEL III Compliant Instruments](#)

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Punjab National Bank
ANNEXURE I
Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II
INSTRUMENT (Bonds) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Amount O/s Rs. Crs.	Coupon Rate	Maturity Date / Redemption date	ISIN Particulars
Tier II Bonds (Basel III)	25-Jun- 2013	500.00	0.00	8.75%	25-Jun-2023	INE695A 09103
Additional Tier I Bonds (BASEL III)	22-Jan- 2021	495.00	495.00	8.60%	Perpetual	INE160A 08183
Unutilised Additional Tier 1 Bonds (Basel III)	-	2,505.00	-	-	Yet to be raised	-

Total Outstanding: Rupees Four Hundred Ninety Five Crores Only

ANNEXURE III

List of entities consolidated:

S. No.	Entities	Percentage of Holding as on 30 Sep 2023
Subsidiaries		
Domestic Subsidiaries		
1	PNB Gilts Ltd.	74.07%
2	PNB Investment Services Ltd.	100%
3	PNB Cards and Services Ltd.	100%
Overseas Subsidiaries		
4	Punjab National Bank (International) Ltd., UK.	100%
5	Druk PNB Bank Ltd, Bhutan.	51%
Associates & Joint Ventures		
Domestic		
1	PNB Metlife India Insurance Company Ltd	30%
2	PNB Housing Finance Limited	28.14%
3	Canara HSBC Life Insurance Co. Ltd.	23%
4	India SME Asset Reconstruction Co. Ltd.	20.90%
Foreign		
5	Everest Bank Limited, Kathmandu, Nepal	20.03%
Regional Rural Banks		
6	Dakshin Bihar Gramin Bank, Patna	35%
7	Himachal Pradesh Gramin Bank, Mandi	35%
8	Punjab Gramin Bank, Kapurthala	35%
9	Sarva Haryana Gramin Bank, Rohtak	35%
10	Prathama UP Gramin Bank, Moradabad	35%
11	Assam Gramin Vikas Bank, Guwahati	35%
12	Bangiya Gramin Vikas Bank, West Bengal	35%
13	Manipur Rural Bank, Imphal	35%
14	Tripura Gramin Bank, Agartala	35%



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