

**RATING RATIONALE**

**Punjab and Sind Bank**

**Brickwork Ratings reaffirms ‘BWR AA’/rating for the Tier II bonds (under Basel III) of Rs.237.30 Crores of Punjab & Sind Bank. The Outlook is revised from Stable to Negative**

**Particulars:**

Instruments	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (March, 2020)	Present
Tier II Bonds (under Basel III)	237.30	<b>237.30</b>	<b>Long Term</b>	BWR AA/ Stable	<b>BWR AA/ Negative Reaffirmation and revision in Outlook</b>
	262.70	-	<b>Long Term</b>	Withdrawn on non utilisation	-
<b>Total</b>	500	<b>237.30</b>	<b>Rupees Two Hundred Thirty Seven Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* ISIN wise details is provided in Annexure-I&II

**RATING ACTION/OUTLOOK**

Brickwork Ratings (BWR) reviews the rating of Basel III Tier II bonds of Punjab & Sind Bank (‘P&SB’ or ‘the Bank’), as tabulated above.

The rating reaffirmation factors in the Government of India (GOI)’s equity stake of 83.06% as of 31 December 2020 and its continued support to the Bank. The GOI has infused capital funds amounting to Rs.5500 Crores in the Bank during Q3FY20 and has strengthened the capital adequacy of the Bank. As of 31 December 2020, the Bank has a total CAR of 16.4%, Tier I ratio of 13.4% and CET-1 Ratio of 11.45%, and is comfortably above the regulatory requirements. The rating however is constrained by high levels of gross non performing assets, average earnings and continued negative return on assets. The bank is reducing its exposure to corporates and infrastructure, however it continues to be higher than the comparable peers in the industry.

The Outlook has been revised from Stable to Negative factoring the continued net losses for the bank expected for the current financial year FY21. Further, any unexpected high levels of provisions due to incremental slippages to NPA may continue to impact the near to medium term profitability of the Bank.



### **Note on Tier-II Instruments (under Basel III)**

The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, and the occurrence of such a situation may result in the loss of principal to investors, entailing into default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. BWR believes that the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

BWR has essentially relied on audited financials upto FY20 and the bank's unaudited financials of upto 9MFY21, publicly available information and information/clarifications provided by the bank's management.

### **RATIONALE / DESCRIPTION OF KEY RATING DRIVERS/RATING SENSITIVITIES KEY RATING DRIVERS**

#### **CREDIT STRENGTHS**

**Continued strong support from GoI:** The GoI's stake in the bank, which is among the 12 public sector banks (PSBs) in India post the consolidation of many PSBs, is 83% as of 31 December 2020. The Bank is one of the few regional PSBs in the country, and it assumes importance from its presence in the northern part of the country. The bank received capital infusion of Rs.5500 Crs in Q3FY21 from the GoI, and expects continued support of the GOI. The share application money pending allocation has improved the Bank's capital adequacy ratios. As of 31 December 2020, the capital adequacy ratios of the bank have strengthened, with total CAR at 16.4% from 12.8% as of 31 March 2020, the Tier I ratio at 13.4% from 9.6% as of 31 March 2020 and the CET-1 ratio at 11.5% from 7.6% as of 31 March 2020.

**Increased focus to building the retail business:** During the period ending 31 December 2020 on a yoy basis, the Bank's CASA deposits have increased from Rs.25,572 Crs to Rs.29,322 Crs and the retail term deposits increased from Rs.36,790 Crs to Rs.43,223 Crs. CASA @32% is however lower amongst the peers in the industry. The Bank's total retail portfolio has increased from Rs.16,415 Cr as on 31 December 2019 to Rs.18,042 Cr as on 31 December 2020 mainly on account of increase in lending under Multi purpose business loans, PSB Mortgage scheme and PSB Vyapar Loan.

#### **CREDIT WEAKNESS**

**Average asset quality:** Incremental slippages post COVID-19 shall remain monitorable with regard to provisioning and profitability. As of 31 December 2020, the Bank's gross NPAs were at 13.1% (FY20: 14.2%) and net NPAs at 2.8% (FY20: 8.0%). During 9MFY21, the bank made recoveries of Rs.329 Crs, upgrades of Rs.141 Crs, and write-offs of Rs.4 Crs. The additions to the NPA during 9MFY21 was Rs,89 Crs, as against Rs.2909 Crs for FY20. The assets from SMA 2 book and restructured portfolio are the assets under higher credit risk. The GNPA ratio, although having improved to 13.1% (FY20:14.2%), any incremental slippages from the standard borrower profile, SMA accounts and the restructuring of loans may be a concern on the overall asset quality.



The Bank is reducing its corporate book from Rs.36,249 Crs as of 31 December 2019 to Rs.33,299 Crs as of 31 December 2020. The Bank's exposure to corporate advances at 51% and infrastructure advances at 22%, is higher than the peers in the industry. Reduction in exposures to such advances and the continued GOI support shall enable bank to improve its profits

**Average earnings, higher provisions and impact on profitability:** As of 31 December 2020, the Bank had a net income (Net Interest Income + Other income) of Rs.1767 Crs (FY20: Rs.2058 Crs). The improvement in net interest income is on account of a higher rate of decrease in interest expenses than on the interest income, and an increase in the other income. The decrease in the interest expenses from Rs.1464 Crs in Q3FY20 to Rs.1147 Crs in Q3FY21, as against the decrease in interest income from Rs.1941 Crs in Q3FY20 to Rs.1763 Crs in Q3FY21. The increase in other income from Rs.136 Crs in Q3FY20 to Rs.220 Crs in Q3FY21 is mainly on account of profit on sale of investments of Rs.55 Crs and recovery in written off accounts of Rs.19 Crs during the period Q3FY20 to Q3FY21. The operating profits for 9MFY21 were at Rs.597 Crs (FY20: Rs.1097 Crs) due to an increase in provisions on employees retirement benefits. This has led to an increase in the Cost to Income ratio to 74.5% for 9MFY21 (FY20: 62.9%). The total provisions & contingencies (other than tax) increased from Rs.1801 Crs in 9MFY20 to Rs.4171 Crs in 9MFY21. Of which, NPA provisions were higher at Rs.2658 Crs for 9MFY21 (Rs.2308 for FY20 and Rs.1625 Crs for 9MFY20). This has led to the Bank continuing to incur a net loss of Rs.2894 Crs for 9MFY21 (net loss of Rs.991 Crs for FY20). The Bank's profitability for the ensuing quarters is expected to remain on the lower side, including write back of any higher levels of earlier provisions.

Furthermore, the bank's yield on advances of 8.1% as of 31 December 2020 is lower than that of 8.5% as of 31 March 2020. The credit deposit ratio of 71.4% as of 31 December 2020 is in line with the industry average of 70.0%. Improving the yield on advances and maintaining the credit deposit ratio above the industry average shall remain monitorable

**Coronavirus disease (COVID-19),** declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).



## **RATING SENSITIVITIES**

Basel III compliant bonds are subject to guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in the term sheet of respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments; however, any restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines shall be a key rating sensitivity.

### **Upward:**

The bank's ability to grow its business, improve on its yield on advances and maintain its capital adequacy ratios with substantial buffers of at least 1.0% to 1.5% over the regulatory requirements shall be positives for the bank.

### **Downward:**

A deterioration in the asset quality, resulting in pressure on the profits, impacting the capital adequacy ratios, shall remain a key rating monitorable.

## **LIQUIDITY INDICATORS: ADEQUATE**

As on 31 December 2020, the bank had a comfortable liquidity position, with a liquidity coverage ratio (LCR) of 210%, which is well above the regulatory requirement of 100%. The Basel III leverage ratio of 6.7% is also strong as against the regulatory requirements of 4.5%

## **ABOUT THE BANK**

### **Background:**

**Punjab & Sind Bank**, is one amongst the 12 Public Sector Banks (PSBs) in India post consolidation of many PSBs. As of 31 December 2020, the Government of India holds 83% stake in the bank. The Bank has a network of 1529 branches and 1087 ATMs as of 31 December 2020. One of the few regional PSBs in the country assumes importance from its presence being in the northern part of the country. Dr Charan Singh is the Non-Executive Chairman of the Bank since May 23, 2018. Shri S. Krishnan is the Managing Director and Chief Executive Officer of the Bank since September 04, 2020. The two Executive Directors of the Bank are Mr Ajit Kumar Das since 01 April 2020 and Mr Raghavendra Kollegal Venkatasheshan since 10 March 2021.

**KEY FINANCIAL INDICATORS (in Rs Crs)**

KEY Parameters	Units	Audited	Audited	Audited
		31-March-2018	31-March-2019	31-March-2020
Total Assets	Rs Crs	113759	108982	100503
Total Business	Rs Crs	171,465	171,305	152232
Net Income (Net Interest Income + Other Income)	Rs Crs	2,235	2,280	2058
Net Profits (Loss)	Rs Crs	-744	-543	-991
ROA	%	-0.7	-0.5	-0.9
NIM	%	2.1	2.0	1.9
Gross NPA	%	11.2	11.8	14.2
Net NPA	%	6.9	7.2	8.0
CET-I ratio	%	8.37	7.80	7.59
Tier I ratio	%	9.86	9.50	9.59
Total CAR	%	11.25	10.93	12.76

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

Nil

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -nil**

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

Sl. No.	Instrument	Rating			Rating History		
		Type	Amount raised (Rs Crs)	Rating	2020	2019	2018
1	Basel III – Tier II –Bonds	Long term	237.30	BWR AA/ Negative (Reaffirmed and Revised Outlook)	BWR AA / Stable (Reaffirmed) (16-Mar-2020)	BWR AA / Stable (Reaffirmed and Revised Outlook) (08-Mar-2019)	BWR AA / Negative (Reaffirmed and Revised Outlook) (06-Apr-2018)
2	Basel III – Tier II –Bonds	Long term	262.70	-	BWR AA / Stable (Withdrawn) (16-Mar-2020)	BWR AA / Stable (Reaffirmed and Revised Outlook) (08-Mar-2019)	BWR AA / Negative (Reaffirmed and Revised outlook) (06-Apr-2018)
<b>Total</b>			<b>500</b>	<b>Rupees Five Hundred Crores Only</b>			



**COMPLEXITY LEVELS OF THE INSTRUMENTS : HIGHLY COMPLEX**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**  
**Complexity levels of the Rated Instruments**
- **Banks and Financial Institutions**
- **Basel III Compliant Instruments**

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**Punjab &**

**Sind Bank**

**ANNEXURE**

**I**

**INSTRUMENT DETAILS**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount Rs. Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
Basel III Tier II Bonds	27-Jun-2019	237.30	9.50%	26-Oct-2029	INE608A08033

**Total Rupees Two Hundred Thirty Seven Crores Thirty Lakhs Only**



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