Punjab and Sind Bank

December 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds	300.00	**CARE AA; Negative (Double A; Outlook: Negative)**	Reaffirmed and outlook revised from 'Stable' to 'Negative'
Tier II Bonds (Basel-III)	500.00	**CARE AA; Negative (Double A; Outlook: Negative)**	Reaffirmed and outlook revised from 'Stable' to 'Negative'
Tier II Bonds (Basel-III)	237.30	**CARE AA; Negative (Double A; Outlook: Negative)**	Reaffirmed and outlook revised from 'Stable' to 'Negative'
Tier II Bonds (Basel-III)	500.00	**CARE AA; Negative (Double A; Outlook: Negative)**	Reaffirmed and outlook revised from 'Stable' to 'Negative'
Basel III Compliant Tier I Bonds	1,000.00	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	Reaffirmed and outlook revised from 'Stable' to 'Negative'
Total	**2,537.30 (Rupees Two Thousand Five Hundred thirty seven crore and thirty lacs Only)**		

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 revision in outlook to **Negative** on the ratings of various instruments of Punjab & Sind Bank (P&SB) takes in account continual weakening in bank's profitability with losses sharply widening during the quarter ended September 30, 2019. This is on account of further degradation of asset quality with increased slippages that caused the provisioning expenses to increase to almost three fold during the quarter. End September 2019, the absolute GNPA increased by 28% Y-o-Y or 3.7% Q-o-Q. This coupled with loan book contraction (-6% Y-o-Y or -2% Q-o-Q), led to GNPA ratio rising to 13.64% end September 2019. Given

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

the protracted de-growth in loan book, expectation of further slippages going forward coupled with subdued recoveries, CARE expects PSB's asset quality and financial metrics to remain weak. The ratings, however, continue to be supported by majority ownership of the Government of India (GoI), adequate liquidity profile and average capitalization levels which marginally improved after infusion of Rs.787 crores from GoI. Going forward, the continued majority ownership of and support from GoI while improving capitalization, profitability and asset quality would be the key rating sensitivities.

Outlook: Negative

The outlook of the bank has been revised to Negative on account of protracted downward trend in profitability in past fiscal and further in H1FY20, degradation in GNPA, substantial amount of SMA-2 accounts as on September-2019 coupled with de-growth in loan book. The outlook could be revised back to Stable if the bank is able to attain positive loan growth, contain NPA slippages and improve profitability while simultaneously maintaining capitalization levels above regulatory requirements on an on-going basis.

Rating Sensitivities

Positive Factors:

- Sustainable improvement in asset quality with slippage ratio below 0.5% and GNPA below 10%
- Strong and sustainable loan growth

Negative Factors:

- Further deterioration in asset quality with GNPA ratio increasing to 16%
- Any material change in government shareholding and/or government support to the bank
- Weakening in capitalization levels with CET-I % and/ or Tier 1% going below statutory minimum

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of Government of India (GOI)

The bank is majority owned by the Government of India (GoI) with GoI holding increasing to 83.06% as on November 22, 2019 from 80.28% as on September 30, 2019 after capital infusion of Rs.787 crores in September-2019. GoI's shareholding stood at 85.56% end March-2019 which came down after capital raising of Rs.100 crores through Employee Stock Purchase Scheme (ESPS) in Q1FY20. GoI had planned infusion of Rs.70,000 crores in FY20 for public sector banks and has already infused Rs.55,250 crores in various public sector banks followed by announcement of merger of 10 PSBs. 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 bank raised capital of Rs.100 crores via ESPS in Q1FY20 and further capital infusion of Rs.787 crores from GoI in September-2019. However the improvement in capital ratios was moderated by heavy losses incurred by the bank in Q2 FY20. As a result, the bank's capital ratios stood at 8.14%, 9.87% and 11.68% respectively, only slightly above the above the regulatory minimum requirement (including CCB) of 7.375%, 8.875% and 10.88% respectively (as on Sep-19). It should be noted that the minimum capital requirement are going to increase by 0.625% each by Mar-20. To improve its capitalization and provide headroom for growth, the bank raised tier-II capital of Rs.500 crores (in the form of BASEL III Tier-II bonds) in November-2019 and the bank's board also approved raising of equity capital of Rs.500 crores through QIP over next 12 months by Dec-2020.

Support from GoI and bank's ability to raise capital 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

Liquidity: Strong

As per Structural Liquidity Statement as on September 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).

Key Rating Weaknesses

Weakness in asset quality profile; further deteriorated in H1FY20:

P&SB's asset quality witnessed further weakening during H1FY20 with absolute gross non-performing assets (GNPA) up by 7.1% to Rs.9,218 crores as on September 30, 2019 from Mar-19 (Rs.8,606 crores). Also, as per RBI assessment the bank had reported divergence in GNPA of Mar-19 by Rs.320 crores, hence effective GNPA as on Mar-19 stood at Rs.8,926 crores. The incremental asset quality weakness during the first half of fiscal 2020 was on account of slippages of Rs.1,323 crores (annualized slippage ratio of 4.2% on net advances) coupled with lower recoveries of Rs.399 crores. Bank's SMA-2 account list and quantum remains critical and slippages from SMA-2 and few standard accounts could further deteriorate asset quality of the bank. As on September 30, 2019, 35 accounts with an amount outstanding to the tune of Rs.2,051 crores had been referred to NCLT, for which the bank is maintaining provision coverage of 76%. Owing to rise in absolute level of GNPAs combined with loan book de-growth, the reported Gross NPA ratio (GNPA%) increased from 11.83% as on Mar-19 to 13.64% as on Sep-19. However, the Net NPA ratio (NNPA%) of the bank improved marginally from 7.22% as on Mar-19 to 7.07% as on Sep-19 on account of increase provisioning on NPA with provision coverage ratio (CARE adjusted and excluding TWOs) improving 52% as on Sep-19 (from 42% as on Mar-19).

Also, the bank reported divergence of Rs 317 crore in net NPA which stood at Rs.4677 crores as on Mar-19 (previously reported Rs.4994 crores). The divergence in GNPA, NNPA and hence in the provisioning further adversely impacted the reported losses of the bank. 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%.

De-growth in loan book and sustained losses in FY18, FY19 & H1FY20:

PSB's gross advances de-grew by 6% Y-o-Y to Rs.67,587 crores as on Sep-19. This decline in advances is on account of 9% Y-o-Y decline in corporate advances (57.3% of loans as on September 30, 2019). RAM advances (Retail, Agriculture excl. RIDF and MSME) constituting 42% of loans also registered marginal decline of 1.8% since September 2018. Driven by continual de-growth in loan book, impending asset quality concerns coupled with margin contraction owing to higher cost of funds and higher provisioning costs, the bank had reported 31% Y-o-Y decline (H1FY20 vs H1FY19) on operating profits.

Bank's margins have moderated marginally during H1FY20 with NIM% of 2.02% (annualized) as against 2.33% for H1FY19. As per RBI assessment, bank's PAT for FY19 has been adjusted after taking in account increased provisioning for NPA, hence net losses of the bank increased to Rs.1180 crores (as per RBI assessment) as against Rs.543 crores as reported by the bank

Relatively low share Current and Savings account (CASA) deposits:

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 high. Its share of CASA deposits increased in FY19 despite overall decline in deposit base and was 26.8% as on March 31, 2019 (vs. 23.65% as on March 31, 2018) and 26.2% as on September 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. Hence, bank retail term deposit (below Rs.2 crores) increased to 38.5% as on Sep-19 from 34.4% as on Mar-19.

Analytical approach: Standalone; factoring in timely equity support from Government of India given P&SB majority owned by GoI

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)

About the bank

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. Further during September-2019 GOI had infused equity capital of Rs.787 crores, hence increasing GOI's shareholding to 83.06% as on November 22, 2019. 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.

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
*As per RBI assessment, adjusted PAT stood at Rs.-1180 crore for FY19

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	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	Jun 24, 2011	INE608A09130	9.73%	24-Oct-21	300	CARE AA; Negative
Bonds-Lower Tier II	Oct 19, 2019	INE608A08017	7.99%	19-Oct-26	500	CARE AA; Negative
Bonds-Tier II Bonds	Jun 25, 2019	INE608A08033	9.50%	26-Oct-29	237.3	CARE AA; Negative
Bonds-Tier I Bonds	May 08, 2017	INE608A08025	10.90%	Perpetual	1000	CARE A+; Negative
Bonds-Tier II Bonds	Nov 04, 2019	INE608A08041	8.67%	03-Dec-29	500	CARE AA; Negative

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)Withdrawn (24-Sep-19)	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)Withdrawn (24-Sep-19)	1)CARE AA; Stable	1)CARE AA; Stable	1)CARE AA; Stable

						(27-Nov-18)	(06-Oct-17)	(12-Dec-16) 2)CARE AA (12-Oct-16)
3.	Bonds-Lower Tier II	LT	300.00	CARE AA; Negative	1)CARE AA; Stable (24-Sep-19)	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; Negative	1)CARE AA; Stable (24-Sep-19)	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; Negative	1)CARE AA; Stable (24-Sep-19)	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+; Negative	1)CARE A+; Stable (24-Sep-19)	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; Negative	1)CARE AA; Stable (24-Sep-19)	-	-	-

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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