

Rating Rationale

August 31, 2020 | Mumbai

Punjab and Sind Bank

Rating outlook revised to 'Negative'; rating reaffirmed

Rating Action

Rs.200 Crore Lower Tier-II Bonds (under Basel II)	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its rating outlook on the long-term debt instruments of Punjab and Sind Bank (P&SB) to '**Negative**' from 'Stable' while reaffirming the rating at 'CRISIL AA'.

CRISIL has also withdrawn its rating on Lower Tier II bonds aggregating to Rs 200 crore (See Annexure 'Details of Rating Withdrawn') in-line with its withdrawal policy. CRISIL has received independent confirmation that these instruments are fully redeemed.

The rating continues to factor in expectation of strong support from majority owner, the Government of India (GoI). These strengths are partially offset by the bank's weak asset quality and modest earnings.

The 'Negative' outlook on the debt instruments reflects weakening in the bank's asset quality and profitability, especially in relation to the rating category. Further, it remains susceptible to current challenging macro environment. Gross non-performing assets (NPAs) of the bank stood at 14.2% as on March 31, 2020. Also, the bank reported a loss of Rs 991 crore for fiscal 2020 with a return on assets (RoA) of negative 0.95%. While the first quarter of fiscal 2021 saw only marginal deterioration in gross NPAs at 14.34% and a lower loss of Rs 117 crore, this was largely attributed to the standstill on asset classification and substantial part of the loan book being under moratorium.

The nation-wide lockdown to contain the spread of the Covid-19 pandemic has impacted disbursements and collections of financial institutions. The lockdown has been eased in a phased manner. However, certain states have implemented local lockdowns. CRISIL believes the eventual lifting of restrictions will be in a phased manner. Any delay in return to normalcy will put further pressure on collections and asset quality metrics of financial institutions.

Punjab & Sind Bank has provided moratorium to its borrowers in-line with the relief measures provided by the Reserve Bank of India (RBI). Moratorium given on the asset side stands at 72% as on June 30, 2020, which is significantly higher than other banks. Any change in the payment discipline of borrowers could affect asset quality post the moratorium. Also, while the one-time restructuring scheme announced by RBI will provide the necessary support to affected borrowers in the current environment, the details and operational implementation of the same will have to be seen.

Analytical Approach

For arriving at the ratings, CRISIL has considered the standalone business and financial risk profiles of P&SB. CRISIL has also factored in the strong support that the bank is expected to receive from its majority owner, the GoI, both on an ongoing basis and in the event of distress.

Key Rating Drivers & Detailed Description

Strengths:

* Expectation of strong support from GoI

The rating continues to factor in the expectation of strong government support, both on an ongoing basis and in the event of distress. This is because GoI is both, majority shareholder in public sector banks (PSBs), and the guardian of India's financial system. Stability of the banking sector is of prime importance to the government, given its criticality to the economy, strong public perception of sovereign backing for PSBs, and severe implications of any PSB failure, in terms of political fallout, systemic stability, and investor confidence. The majority ownership creates a moral obligation on GoI to support PSBs, including P&SB.

As part of the Indradhanush framework, the government had pledged to infuse at least Rs 70,000 crore in PSBs over fiscals 2015 to 2019, of which Rs 25,000 crore each was infused in fiscals 2016 and 2017. Further, in October 2017, the government had outlined a recapitalisation package of Rs 2.11 lakh crore over fiscals 2018 and 2019. P&SB received Rs 785 crore in fiscal 2018 under this package. Also, GoI allocated Rs 70,000 crore in fiscal 2020, of which Rs 750 crore was received by P&SB. Thus, over the past three fiscals, GoI has infused around Rs 1535 crore into the bank.

The bank's CET-1, tier-1 and overall capital adequacy ratio (CAR) stood at 7.42%, 9.46% and 12.81%, respectively, as on June 30, 2020 (7.59%, 9.58% and 12.76%, respectively, as on March 31, 2020).

Weaknesses:

* Weak asset quality

Asset quality has been under stress, with gross non-performing assets (NPAs) at 14.34% as on June 30, 2020 (14.18% as on March 31, 2020 and 11.83% a year ago). This was largely driven by slippages in large corporate accounts and subdued growth in loan book. In absolute terms, gross NPAs were more or less stable at Rs 8848 crore as on June 30, 2020 (Rs 8875 crore as on March 31, 2020 and Rs 8606 crore as on March 31, 2019). Slippages of the bank stood at 4.2% in fiscal 2020 as compared to 5.5% in fiscal 2019. While the pace of deterioration in asset quality may slow down with decrease in slippages (partly on account of one-time restructuring), gross NPAs are expected to remain high in the near term owing to possible slowdown in recoveries in the near-to-medium term due to Covid-19 pandemic. The bank's ability to contain deterioration in asset quality remains a key monitorable.

* Weak earnings

Earnings has been impacted by deterioration in asset quality. The bank reported a loss of Rs 991 crore for fiscal 2020 as against a loss of Rs 543 crore for the previous fiscal. This is largely on account of higher provisioning requirement; credit cost increased to 2.5% for fiscal 2020 from 2.04% for the previous fiscal. This has, however, led to an increase in provision coverage ratio (PCR), which stood 51.1% as on June 30, 2020 (47.22% as on March 31, 2020, and 41.97% as on March 31, 2019; however this is significantly below the industry average. The bank's pre-provisioning profits (as a proportion of average assets) also remains lower than industry average and declined by 30 bps in fiscal 2020 to 1% from 1.3% the previous fiscal. P&SB has reported a loss of Rs 117 crore in the first quarter of fiscal 2021. The ability to improve its asset quality, and hence profitability, will remain a key monitorable.

Liquidity Strong

Liquidity is comfortable. Liquidity coverage ratio was 220.80% for the quarter ended June 30, 2020, against the regulatory requirement of 80%. The excess statutory liquidity ratio was Rs 2223.78 crore (2.54% of net demand and time liabilities) as on that date. The bank's liquidity also benefits from access to systemic sources of funds such as the liquidity adjustment facility from the Reserve Bank of India, access to the call money market, and refinance limits from sources such as the National Housing Bank and National Bank for Agriculture and Rural Development.

Outlook: Negative

CRISIL believes P&SB will continue to benefit from the strong government support. The bank's asset quality and profitability though will remain under pressure over the medium term.

Rating Sensitivity factors

Upward factors

- * Substantial and sustained improvement in asset quality (GNPA ratio less than 10%) and the bank reporting net profits on a continuous basis
- * Significant improvement in the overall market position over the medium term

Downward factors

- * Continuous losses and further deterioration in asset quality with GNPA's rising above 15%
- * Decline in capital adequacy ratios below minimum regulatory requirements over an extended period of time.

About the Bank

P&SB is a relatively small PSB, founded in 1908 in New Delhi. The bank has 1526 branches and 1060 ATMs as on June 30, 2020, primarily in northern India. Gol's ownership stood at 83.06% as on June 30, 2020.

For fiscal 2020, the bank reported a loss of Rs 991 crore and total income (net of interest expenses) of Rs 2954 crore, against a loss of Rs 543 crore and total income (net of interest expenses) of Rs 3108 crore for the previous fiscal.

For the quarter ended June 30, 2020, net loss was Rs 117 crore and total income (net of interest expense) was Rs 692 crore, against a loss of Rs 30 crore and total income (net of interest expense) of Rs 735 crore for the corresponding period of the previous fiscal.

Key Financial Indicators

As on / for the year ended March 31,		2020	2019
Total assets	Rs crore	100504	108982
Total income (net of interest expense)	Rs crore	2954	3108
Profit after tax	Rs crore	(991)	(543)
Gross NPA	%	14.18	11.83
Overall capital adequacy ratio	%	12.76	10.93
Return on assets	%	-0.95	-0.49

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Outstanding rating with outlook
INE608A08017	Debentures/Bonds	19-Oct-16	7.99	19-Oct-26	500	Simple	CRISIL AA/Negative
INE608A08041	Debentures/Bonds	04-Nov-19	8.67	03-Dec-29	500	Simple	CRISIL AA/Negative

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels
INE608A09122	Debentures/Bonds	11-Jan-10	8.70	11-Apr-20	200	Simple

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Lower Tier-II Bonds (under Basel II)	LT	0.00 31-08-20	CRISIL AA/Negative			20-09-19	CRISIL AA/Stable	30-08-18	CRISIL AA/Stable	12-09-17	CRISIL AA/Negative	CRISIL AA/Negative
						27-08-19	CRISIL AA/Stable	25-01-18	CRISIL AA/Stable	15-03-17	CRISIL AA/Negative	
Tier II Bonds (Under Basel III)	LT	500.00 31-08-20	CRISIL AA/Negative			20-09-19	CRISIL AA/Stable	30-08-18	CRISIL AA/Stable	12-09-17	CRISIL AA/Negative	CRISIL AA/Negative
						27-08-19	CRISIL AA/Stable	25-01-18	CRISIL AA/Stable	15-03-17	CRISIL AA/Negative	

All amounts are in Rs.Cr.

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

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