Punjab and Sind Bank

October 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds	300.00	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	Revised from CARE AA; Negative (Double AA, Outlook: Negative)
Tier II Bonds (Basel-III)	500.00	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	Revised from CARE AA; Negative (Double AA, Outlook: Negative)
Tier II Bonds (Basel-III)	237.30	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	Revised from CARE AA; Negative (Double AA, Outlook: Negative)
Tier II Bonds (Basel-III)	500.00	**CARE AA-; Negative (Double A Minus; Outlook:Negative)**	Revised from CARE AA; Negative (Double AA, Outlook: Negative)
Basel III Compliant Tier I Bonds	1,000.00	**CARE A; Negative (Single A; Outlook: Negative)**	Revised from CARE A+; Negative (Single A plus; Outlook: 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 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI. Any delay in 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 other 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.

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

Detailed Rationale & Key Rating Drivers

The revision in ratings to **CARE AA-; Negative** for lower tier II and tier II bonds and at **CARE A; Negative** for Basel III compliant Tier I bonds of Punjab & Sind Bank (P&SB) takes in account continual weakening in bank's profitability with losses widening during the fiscal ending March 31, 2020. This is on account of further degradation of asset quality with high slippages and increased provisioning expenses

End fiscal 2020, the bank's Gross NPA absolute (GNPA) stood at Rs 8875 crore, up 3.12% Y-o-Y. This coupled with loan book contraction led to bank reported GNPA ratio rising to 14.18% end FY 20, up from 11.83% previous fiscal. End Q1 FY 21, the GNPA ratio further inched up to 14.34%. Given the protracted de-growth in loan book, expectation of further slippages going forward along 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), moderate liquidity profile and adequate capitalization levels. 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 maintained at **Negative** on account of continued downward trend in profitability with bank reporting losses for three years in a row (FY 18-FY 20) and in Q1FY21, degradation in asset quality with substantial amount of book under moratorium and under SMA-2 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 coming below 10%
- Strong and sustainable loan growth
- Improving capitalisation levels

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
- Further weakness in bank's profitability metrics

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of Government of India (GOI)

PSB has a majority ownership with Government of India (GoI) holding 83.06% stake as on June 30, 2020. The GoI infused Rs.787 crore towards preferential allotment of equity shares in FY20. 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. Given majority government ownership, timely support from GoI is expected to continue going forward and remains a key rating sensitive.

Average capitalization levels

On account of three consequent years of losses from FY 18 to FY 20, with net loss widening to Rs.991 crore in FY20, the capitalization profile of bank has continued to weaken. While some marginal improvement was reported after bank raised capital of Rs.100 crores via ESPS in Q1FY20 and further received capital infusion of Rs.787 crores from GoI in September-2019, the improvement in capital ratios was moderated by heavy losses incurred by the bank. Accordingly bank's Basel III core equity tier 1 ratio (CET -1) declined to 7.59% end FY 20 as against 7.80% in FY19. End Q1 FY 21, the bank's CET 1 further decreased to 7.42%. The bank's Tier 1 and total CAR stood at 9.59% and 12.76% respectively as on March 31, 2020 as against 9.58% and 10.93% respectively previous fiscal.

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) has helped reduce 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

Key Rating Weaknesses

Deteriorating asset quality in FY20 and further in Q1FY21:

During FY20, the bank witnessed further weakening in its asset quality with absolute Gross NPA (GNPA) rising to Rs 8875 crore, up 3.12% Y-O-Y. On the other hand, the Net NPA (NNPA), decreased by 6.21% Y-O-Y to Rs. 4,684 crore resulting in provision coverage ratio of 47% end FY 20, up from 42% previous fiscal.

During FY 20, the bank registered fresh slippages of Rs.2,908 crore translating into slippage ratio of 4.54% as against Rs.3,666 crore in FY19 with slippage ratio of 5.92%. Owing to consistently higher slippages coupled with loan book reduction, the reported GNPA and NNPA metrics continued to decline. During FY 20, the cash recoveries halved to Rs 549.38 crore from Rs 1163.9 crore a year ago. While the write offs increased by 9% Y-o-Y, however owing to high slippages, low recoveries coupled with loan book reduction, the GNPA ratio and NNPA ratio stood at 14.18% and 8.03% respectively as on Mar-20 as against 11.83% and 7.22% respectively as on Mar-19. The bank's CARE adjusted provision coverage ratio stood at 47% in FY20 as against 42% in FY19. The GNPA and NNPA ratio further increased to 14.34% and 7.57% respectively as on Jun-20. As on March 31, 2020, 58 accounts with an amount outstanding to the tune of Rs 4708.9 crore had been referred to NCLT, for which the bank is maintaining provision coverage of 74%.

In line with the RBI's regulatory package for COVID-19, the bank has 72% of its loan book is under moratorium. Agriculture sector has maximum moratorium sanctioned with 87% followed by LAP with 86%. The RBI also came out with a resolution framework on August 06, 2020, to address borrower stress concerns on account of Covid-19. Going forward, the ability of the bank to maintain its asset quality and reduce its credit costs especially in view of Covid-19 impact would be critical for the bank's earning profile and profitability.

Predominantly corporate focused book though loan book de-growth continues:

End FY 2020, PSB's loan book stood at Rs 62,564 crore, down 14% Y-o-Y with decline registered across all segments except retail and MSME advances. Traditionally PSB has focused on providing loans to corporate sector. However in view to reduce bank's risk weighted assets, increase portfolio granularity by reducing large exposures, the bank has been focusing on increasing its exposure to retail (excl. food credit) and MSME exposures that grew by 3% and 1.5% respectively during the year. On the other hand the share of corporate advances came down to 52% of book end fiscal 2020, down from 59% end fiscal 2019. The primary retail book constituted a fourth of total gross advances (26.4%) end fiscal 2020 and stood at Rs 16,552 crore, up 6% Y-o-Y driven by significant growth in housing and multi- purpose bus loan portfolio. Overall, in last three fiscal, the share of retail loans has been on a rise which is in line with management's assertion of bringing down large ticket corporate loans however since the de-growth in high ticket corporate loans outpaces growth in retail loans, the overall loan book has continued to shrink.

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

Overall the deposits of bank have been coming down in last three fiscal since 2018 and settling at Rs 89,668 crore (down 9% Y-o-Y) and further coming down by another 5% Q-o-Q end June 2020. 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. End March 2020, the absolute amount of CASA deposits remained largely stagnant at around Rs 26,517 crore. However owing to reduction in total deposit base, the proportion of CASA deposits optically improved to 29.57% as on March 31, 2020 as against 26.8% as on Mar-19 and 23.6% as on March 31, 2018. End June 2020, the CASA ratio further increased to 31.6%, mainly due to lower base as total deposits came down.

Overall the bank is consistently working on shedding its high cost bulk deposits and replacing them with CASA and retail deposits that are stickier in nature. As on March 31, 2020 the bank's share of bulk deposit in total deposits was 26%, down from 45% two years ago. On the other hand, the share of retail term deposits (below Rs.2 crores) stood at 42% end FY 20 as against 27% two years ago.

Liquidity: Moderate
As on June 30, 2020, ALM profiles has positive cumulative mismatches up to 6 months' time bucket, however there were negative cumulative mismatch in the remaining buckets (6 months – 5 years), although the negative mismatches are within the prescribed limits. As on August 14, 2020, Statutory Liquidity Ratio (SLR) of PSB stood at 20.73% (as against the regulatory requirement of 18%). Further the liquidity coverage ratio stood at 220.80% as on June 30, 2020 vis-à-vis 164% as on Mar-19 as against regulatory requirement of 90% mandated by the Reserve Bank of India (RBI) from October 31, 2020 to March 31, 2021

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
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 (PSB) was established at Amritsar, Punjab in 1908, by BhaiVir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh. It was nationalized in the year 1980. In December 2010, the Government of India (GoI) divested 17.93% stake through an IPO. However post the equity infusion in subsequent years, the GoI shareholding and steady risen and stood at 83.06% end June 2020. GOI, in FY20, infused Rs.787 crore towards preferential allotment of equity shares. PSB is a mid-sized corporate focused public sector bank that operates through a network of 1,526 branches as on March 31, 2020 with a mix of branches that are 37% rural, 18% semi-urban, 23% urban and 22% metro cities. The bank has sponsored one Regional Rural Bank viz. Satluj Gramin Bank (SGB).

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total Income	9,387	8,827
PAT	-543*	-991
Total Assets	1,08,982	1,00,504
ROTA (%)	-ve	-ve
Net NPA (%)	7.22	8.03
CAR (%)	10.93	12.76

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	INE608A09130	June 24, 2011	9.73%	24-Oct-2021	300.00	CARE AA-; Negative
Bonds-Lower Tier II	INE608A08017	October 19, 2019	7.99%	19-Oct-2026	500.00	CARE AA-; Negative
Bonds-Tier II Bonds	INE608A08033	June 25, 2019	9.5%	26-Oct-2029	237.30	CARE AA-; Negative
Bonds-Tier I Bonds	INE608A08025	May 08, 2017	10.90%	Perpetual	1000.00	CARE A; Negative
Bonds	NA	September 20, 2019	NA	NA	500.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)
3.	Bonds-Lower Tier II	LT	300.00	CARE AA-; Negative	-	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)
4.	Bonds-Lower Tier II	LT	500.00	CARE AA-; Negative	-	1)CARE AA; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)	1)CARE AA; Stable (27-Nov-18)	1)CARE AA; Stable (06-Oct-17)
5.	Bonds-Tier II	LT	237.30	CARE AA-;	-	1)CARE AA;	1)CARE	1)CARE

	Bonds			Negative		Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)	AA; Stable (27-Nov-18)	AA; Stable (06-Oct-17)
6.	Bonds-Tier I Bonds	LT	1000.00	CARE A; Negative	-	1)CARE A+; Negative (27-Dec-19) 2)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; Negative (27-Dec-19) 2)CARE AA; Stable (24-Sep-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

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

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.

Contact us

Media Contact
Mradul Mishra
Contact no: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. Gaurav Dixit
Group Head Contact no.-011-45333235
Group Head Email ID- gaurav.dixit@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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