

ੴ ਸ੍ਰੀ ਵਾਹਿਗੁਰੂ ਜੀ ਕੀ ਫਤਹ ॥



प्र.का. लेखा एवं लेखा परिक्षा विभाग
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**पंजाब एण्ड सिंध बैंक**
Punjab & Sind Bank
ਪੰਜਾਬ ਐਂਡ ਸਿੰਧ ਬੈਂਕ
ਪੀ.ਐਸ.ਬੀ. (भारत सरकार का उपक्रम/A Govt. of India Undertaking)

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संदर्भ /Ref. No. PSB/HO/Shares Cell/ 62 /2022-23

दिनांक /Dated: August 29, 2022

To,

BSE Limited, Department of Corporate Services, 25 th floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, <u>Mumbai – 400 001.</u> SCRIP ID : PSB SCRIP CODE : 533295	National Stock Exchange of India Ltd., Exchange Plaza, C – 1, Block – G, Bandra Kurla Complex, Bandra (East), <u>Mumbai – 400 051.</u> SYMBOL: PSB SERIES: EQ
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Dear Sir,

SUB: Rating by CRISIL Ratings

We hereby inform that CRISIL Ratings has reaffirmed the rating of the Tier II Bonds issued by the Bank on Friday, August 26, 2022 at CRISIL AA/Negative.

The Rating Rationale is enclosed for reference.

We request you to take note of the above pursuant to Regulation 30 and 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Yours faithfully,


Saket Mehrotra
Company Secretary

Rating Rationale

August 26, 2022 | Mumbai

Punjab and Sind Bank

Rating reaffirmed at 'CRISIL AA / Negative'; Lower Tier-II Bonds (under Basel II) Withdrawn

Rating Action

Rs.200 Crore Lower Tier-II Bonds (under Basel II)	CRISIL AA/Negative (Withdrawn)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Negative (Reaffirmed)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Negative (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating on the long-term debt instruments of Punjab & Sind Bank (P&SB) at 'CRISIL AA/Negative'.

CRISIL Ratings has also **withdrawn** its rating on Lower Tier II bonds aggregating to Rs 200 crore (See Annexure 'Details of Rating Withdrawn') in-line with its withdrawal policy.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 Ratings 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 bank's weak asset quality and profitability, especially in relation to the rating category. Gross non-performing assets (NPAs) of the bank improved in fiscal 2022 and stood at 12.2% as on March 31, 2022. Also, the bank reported a profit of Rs 1039 crore for fiscal 2022 with a return on assets (RoA) of 0.9%. However, the pace of improvement remains slower than expected. Nevertheless, the first quarter of fiscal 2022 saw further improvement in gross NPAs at 11.3% and a profit after tax of Rs 205 crore.

Under the RBI August 2020 and May 2021 resolution framework for Covid-19-related stress, the bank implemented restructuring on around 3.7% of gross advances as on June 30, 2022. This is over and above around 0.6% of advances restructured under the MSME scheme. The performance of the restructured portfolio and the ability of the bank to manage collections and asset quality will remain a key monitorable.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of P&SB. CRISIL Ratings 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 787 crore was received by P&SB. In fiscal 2021 and 2022, bank had received Rs 5500 crore and Rs 4600 crore, respectively from GoI. Thus, over the past four fiscals, GoI has infused around Rs 11672 crore into the bank.

The bank's tier-1 and overall capital adequacy ratio (CAR) stood at 13.08% and 16.79%, respectively, as on June 30, 2022 (14.80% and 18.54%, respectively, as on March 31, 2022).

Weaknesses

• Weak asset quality

Asset quality has been under stress, with gross non-performing assets (NPAs) at 11.34% as on June 30, 2022 (12.17% as on March 31, 2022 and 13.76% a year ago). The decline in NPAs in fiscal 2022 was largely driven by higher upgradations and write offs during the fiscal. The elevated level of NPAs is on account of slippages in large corporate accounts and subdued growth in loan book in previous years. In absolute terms, gross NPAs decreased to Rs 8244 crore as on June 30, 2022 (Rs 8565 crore as on March 31, 2022 and Rs 9334 crore as on March 31, 2021). Slippages of the bank increased and stood at 3.4% in fiscal 2022 as compared to 2.7% in fiscal 2021. Nevertheless, the pace of deterioration in asset quality is expected to slow down with decrease in slippages and higher recoveries owing to pick up in economic activities. The bank's ability to contain deterioration in asset quality remains a key monitorable.

• Weak earnings

Earnings have remain impacted by weak asset quality. The bank reported a profit of Rs 1039 crore for fiscal 2022 as against a loss of Rs 2733 crore for the previous fiscal. The profitability is majorly supported by lower credit cost and improved NIMs during fiscal 2022. Credit cost declined to 0.1% for fiscal 2022 as compared to 4% for the previous fiscal. The provision coverage ratio (PCR) remained healthy and increased to 79.7% as on March 31, 2022 from 73.6% as on March 31, 2021. As on June 30, 2022, PCR stood at 79.5%.

The bank's pre-provisioning profits (as a proportion of average assets) improved by 40 bps in fiscal 2022 to 1.1% from 0.7% in the previous fiscal, however, remains lower than industry average. For the quarter ended June 30, 2022, P&SB reported a profit of Rs 205 crore.

The ability to improve its asset quality, and hence profitability, will remain a key monitorable.

Liquidity: Strong

Liquidity coverage ratio was 214.03% for the quarter ended June 30, 2022 and was higher than the regulatory requirement. The excess statutory liquidity ratio was Rs 8328 crore (7.92% of net demand and time liabilities) as on same 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 Ratings 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 802 ATMs as on June 30, 2022, primarily in northern India. Gol's ownership stood at 98.25% as on June 30, 2022.

For fiscal 2022, the bank reported a profit of Rs 1039 crore and total income (net of interest expenses) of Rs 3611 crore, against a loss of Rs 2733 crore and total income (net of interest expenses) of Rs 3166 crore for the previous fiscal.

For the quarter ended June 30, 2022, net profit was Rs 205 crore and total income (net of interest expense) was Rs 824 crore, against a net profit of Rs 174 crore and total income (net of interest expense) of Rs 897 crore for the corresponding period of the previous fiscal.

Key Financial Indicators

As on / for the year ended March 31,		2022	2021
Total assets	Rs crore	121068	110482
Total income (net of interest expense)	Rs crore	3611	3165
Profit after tax	Rs crore	1039	(2733)
Gross NPA	%	12.17	13.76
Overall capital adequacy ratio	%	18.54	17.06

Return on assets	%	0.90	-2.59
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As on / for the quarter ended June 30,		2022	2021
Total assets	Rs crore	124477	112666
Total income (net of interest expense)	Rs crore	824	897
Profit after tax	Rs crore	205	174
Gross NPA	%	11.34	13.33
Overall capital adequacy ratio	%	16.79	17.62
Return on assets (annualized)	%	0.69	0.67

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

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

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Lower Tier-II Bonds (under Basel II)	LT	200.0	Withdrawn		--	31-08-21	CRISIL AA/Negative	31-08-20	CRISIL AA/Negative	20-09-19	CRISIL AA/Stable	CRISIL AA/Stable
			--		--		--		--	27-08-19	CRISIL AA/Stable	--
Tier II Bonds (Under Basel III)	LT	1000.0	CRISIL AA/Negative		--	31-08-21	CRISIL AA/Negative	31-08-20	CRISIL AA/Negative	20-09-19	CRISIL AA/Stable	CRISIL AA/Stable
			--		--		--		--	27-08-19	CRISIL AA/Stable	--

All amounts are in Rs.Cr.

Criteria Details

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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