Ref No: PSB/HO/Shares Cell / 53 /2023-24 **September 30, 2023**

To,

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

Dear Sir,

Reg: Rating by CARE Ratings

We hereby inform that CARE Ratings vide its Press Release dated 29.09.2023 has revised the Rating Outlook and reaffirmed the Rating of the Tier II Bonds issued by the Bank as detailed hereunder:

Instrument Type	**Rating / Outlook**
Tier II Bond Series XIV of Rs 500 crore	CARE AA- / Positive (Reaffirmed and Outlook revised from Stable)
Tier II Bond Series XV of Rs 237.30 crore	CARE AA- / Positive (Reaffirmed and Outlook revised from Stable)
Tier II Bond Series XVI of Rs 500 crore	CARE AA- / Positive (Reaffirmed and Outlook revised from Stable)

The Press Release 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 Digitally signed by SAKET MEHROTRA Date: 2023.09.30 16:09:46 +05'30'

Punjab & Sind Bank H.O. Accounts & Audit Deptt. (Shares Cell) (शेयर कक्ष) Rajendra Place, New Delhi-8

Saket Mehrotra
Company Secretary

Punjab and Sind Bank

September 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Lower Tier-II Bonds (Basel II)	500.00	CARE AA-; Positive	Reaffirmed and Outlook revised from Stable
Tier-II Bonds (Basel III)[&]	500.00	CARE AA-; Positive	Reaffirmed and Outlook revised from Stable
Tier-II Bonds (Basel III) [&]	237.30	CARE AA-; Positive	Reaffirmed and Outlook revised from Stable

Details of instruments in Annexure-1.

[&] Tier-II Bonds under Basel III are characterised 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 the 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.

Rationale and key rating drivers

The ratings assigned to the debt instruments of Punjab and Sind Bank (PSB) continue to factor in majority ownership, demonstrated and expected support from Government of India (GoI), comfortable capitalisation levels supported by multiple equity infusions by way of recapitalisation bonds and accretion of profit, improvement in profitability and established presence in northern states of India. The ratings further factor in improvement in asset quality parameters (although NPA levels are relatively higher) due to lower incremental slippages, recoveries, and write-offs. The bank has been increasing the provision coverage on the NPAs over the last few years.

The ratings continue to be constrained on account of modest asset quality parameters as compared to peer public sector banks with higher proportion of potential weak assets (SMA 1, 2 and restructured loans) especially in the micro, small and medium (MSME) segment and higher than expected slippages the in near term. The bank's ability to improve its asset quality while containing incremental slippages remain key rating monitorable. The ratings also factor in PSB's relatively lower proportion of Current Account Savings Account (CASA) deposit ratio and relatively higher geographical concentration in the states of northern India with major presence in New Delhi and the state of Punjab.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in asset quality parameters with gross non-performing asset (GNPA) reducing below 6% or net non-performing assets (NNPA) ratio of less than 2% on a sustained basis.
- Consistent improvement in profitability

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality parameters over with GNPA exceeding 8%
- Deterioration in profitability resulting in impact on capitalisation levels leading to cushion above the minimum regulatory requirement lower than 1% on a sustained basis

Analytical approach

The ratings are based on standalone profile of the bank and factors in strong and continued support from Government of India (GOI), which holds majority shareholding in the bank.

Outlook: Positive

The 'Positive' outlook reflects CARE Ratings' expectation of sustained improvement in profitability and further improvement in asset quality parameters over the medium term along with continued growth in business and comfortable capitalisation levels.

Detailed description of the key rating drivers

Key strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Majority ownership and support by GOI

GOI continues to be the majority shareholder holding 98.25% stake in PSB. GOI has been supporting public sector banks with regular capital infusions and taking steps to improve capitalisation, operational efficiency, and asset quality. During FY22, GOI had infused equity capital of ₹4,600 crore into the bank, which helped the bank in improving the capital ratios and support growth. GOI has infused cumulative capital of ₹11,672 crore (₹785 crore in FY18, ₹787 crore in FY20, ₹5,500 crore in FY21 and ₹4,600 crore in FY22) against recapitalisation bonds (with maturities between 10 and 15 years). Given the majority ownership of GOI, CARE Ratings expects PSB to receive timely and adequate support in the form of capital as and when required.

Adequate capitalisation levels

PSB has received significant amount of equity capital against zero coupon recapitalisation bonds during FY21 and FY22 (₹5,500 crore in FY21 and ₹4,600 crore in FY22) from GOI. Further, the bank has seen improvement in profitability over the last two years leading to accretion to net worth which has helped the capitalisation level of the bank.

In line with the RBI amendment to 'Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021' dated March 31, 2022, PSB had fair valued the investments in recapitalisation bonds of ₹4,600 crore received during FY22; however, the difference was not adjusted through P&L as required by the notification as the bank was given special exemption by RBI to not do so. Accordingly, the net worth of the bank post marking down of zero-coupon recap bonds stood at ₹5,052 crore as on March 31, 2022, and ₹6,786 crore as on March 31, 2023.

As a result, the bank has reported capital adequacy ratio (CAR) of 17.10% with Common Equity Tier-I (CET I) ratio of 14.32% as on March 31, 2023, as compared with CAR of 18.54% with CET I Ratio of 12.77% as on March 31, 2022, which was higher compared to peer public sector banks. The bank has significant cushion over the minimum regulatory requirement, which would help the bank to achieve its targeted credit growth for the medium term. The bank has plan to raise additional equity capital of ₹250 crore by way of qualified institutional placement (QIP) during the second half of FY24. CARE Ratings expects the bank to maintain sufficient capital cushion to meet the targeted credit growth supported by improvement in internal accruals, capital raise as well as unwinding of discount on recapitalisation bonds.

Improving profitability due to lower incremental credit cost

The bank has struggled with profitability from FY18 to FY21 and reported losses during these four years on account of weak asset quality leading to high credit costs. CARE Ratings observes that after being under pressure for four years, PSB's earnings profile has improved significantly during FY22 and FY23, owing to improvement in asset quality parameters.

The interest income of the bank has increased to ₹7,993 crore in FY23 from ₹7,096 crore in FY22 registering a growth of 13% while its interest expense also increased by 13% from ₹4,444 crore in FY22 to ₹5,019 crore in FY23. As a result, the bank's net interest income witnessed an increase of 12%, from ₹2,651 crore in FY22 to ₹2,973 crore in FY23. The bank's net interest margin (NIM) marginally expanded from 2.35% in FY22 to 2.37% in FY23. Although the bank suffered a degrowth of ₹285 crore in treasury income from ₹271 crore in FY22 to a loss of ₹14 crore in FY23, the bank's non-interest income has remained flat, helped by high recovery from written-off accounts at ₹512 crore for FY23 as against ₹261 crore in FY22. The bank has also been trying to increase its fee income by providing distribution of insurance products and mutual funds. The total income of the bank demonstrated a growth of 11% in FY23 from ₹8,055 crore in FY22 to ₹8,933 crore in FY23.

The bank's operating expenses increased by 8% during the year FY23 and pre-provisioning operating profit (PPOP) of the bank witnessed a growth of 9%, from ₹1,330 crore in FY22 to ₹1,450 crore in FY23. The cost to income ratio of the bank has also moderated from a high of 76% in FY21 to 63% in FY22 and FY23. With improved asset quality parameters in FY23, the provisions have materially reduced from ₹4,176 crore in FY21 to ₹143 crore in FY22, and further to (-) ₹170 crore in FY23 due to reversals in provisioning done for bad debts. The reduction in provisioning expenses has led to profit after tax (PAT) increase by 26% in FY23 from ₹1,039 crore in FY22 to ₹1,313 crore in FY23 translating into a return on total assets (ROTA) of 1.09% in FY23 as against 0.95% in FY22.

During Q1FY24, the bank witnessed a sequential decline in the total income from ₹2,652 crore in Q4FY23 to ₹2,494 crore in Q1FY24 due to larger base in Q4FY23 owing to high non-interest income of ₹547 crore in Q4FY23. This was primarily due to high recovery from written-off accounts in Q4FY23. The total income in Q1FY24 increased by 30% as compared to Q1FY23. However, PPOP remained flat in Q1FY24 as compared to the corresponding quarter last year. The bank reported PAT of ₹153 crore in Q1FY24 demonstrating a decline of 25% from ₹205 crore during Q1FY23 due to provision reversals during Q1FY23 thereby setting a higher base. Going forward, although the bank expects to have some impact on its margins due to re-pricing of deposits in H2FY24 but expects to improve the profitability with controlled operating expenses and lower credit costs.

Key weaknesses

Although having improved, the asset quality parameters remain weak with larger proportion of stressed portfolio

While the asset quality parameters of PSB asset quality remain weak, there has been significant improvement during FY23. The bank reported GNPA ratio of 6.97% as on March 31, 2023, which continues to be at elevated level but has seen significant improvement from 12.17% as March 31, 2022. The slippage ratio also improved to 1.47% in FY23 from 3.53% in FY22. The recovery efforts by the bank along with write-offs amounting to ₹2,283 crore in FY23 have led to improvement in GNPA levels. The bank had provision coverage ratio (PCR) without technical write-offs of 73.6% as on March 31, 2023 (March 31, 2022: 79.6%) resulting in NNPA ratio of 1.84% as on March 31, 2023 (March 31, 2022: 2.74%). The Net NPA to net worth ratio stood at 21% as on March 31, 2023, which although improved from 34% as on March 31, 2022, was higher as compared to peer public sector banks.

During Q1FY24, the bank saw slippages in the MSME loan portfolio, which contributed 42% to the total slippages for the quarter followed by slippages in the retail book and a couple of accounts in the corporate lending book, which accounted for 21% and 19% of total slippages, while slippages from the agricultural loans were at 18% of total slippages. However, due to higher recoveries and write-offs, the bank's GNPA ratio improved further to 6.80%, as on June 30, 2023.

PSB's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) stood at ₹2,117 crore constituting 1.14% of gross advances as on June 30, 2023, and Emergency Credit Line Guarantee Scheme (ECLGS) disbursement of ₹916 crore (1.14% of Gross Advances) as on June 30, 2023. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 excluding restructured accounts stood at 4.23% of gross advances as on June 30, 2023. The bank has witnessed an increase in SMA 2 exposure in Q1FY24 from ₹344 crore (0.42% of gross advances) as on March 31, 2023, to ₹1,687 crore (2.10% of gross advances) as on June 30, 2023.

The gross stressed assets (GNPA + Standard Restructured assets + Security Receipts) stood at 9.47% (March 31, 2023: 9.85%) of gross advances as on June 30, 2023. and net stressed assets (NNPA + Standard Restructured assets + Security Receipts) stood at 50% of net worth on June 30, 2023 (March 31, 2022: 94% of net worth).

The bank expects higher recoveries and upgradation than slippages which the bank would contain at 1.25% for FY24 resulting in the GNPA ratio to reduce further. CARE Ratings will continue to monitor the ability of the bank to manage its slippages in the stressed assets and improve its asset quality parameters.

Predominantly corporate-focused portfolio mix, albeit steady increase in the retail proportion in recent years with geographical concentration in the northern part of India

The gross advances growth stood at 15% for FY23 as against 4% in FY22. The gross advances stood at ₹80,982 crore as on March 31, 2023 (₹80,314 as on June 30, 2023). The bank grew its corporate book by 9%, whereas the retail book (RAM) grew by 21%. As a result, the mix of corporate and retail advances improved with the proportion of corporate advances declining to 47% of gross advances as on March 31, 2023 (June 30, 2022 – 46%) as compared with 49% as on March 31, 2022.

The bank had a network of 1,553 branches, most of which are in the northern states. The bank having established presence in north India, north India constitutes around 50% of bank's advances and 60% of bank's deposits as on June 30, 2023.

Relatively low share CASA deposits

The low-cost CASA of PSB registered a growth of 7% Y-O-Y to ₹36,833 crore as on March 31, 2023, compared with ₹34,528 crore as on corresponding date of previous year. However, the share of CASA deposits in total deposits remained relatively low at around 33.59% as on March 31, 2023 (June 30, 2023: 31.69%) as compared to other public sectors banks which is around 40%. The drop in CASA ratio is due to depositors preferring term deposits in a high interest rate environment.

Liquidity: Adequate

According to structural liquidity statement as on June 30, 2023, there are no negative cumulative mismatches in time buckets up to six months. The bank manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like RBI's LAF and MSF facility along with access to refinance from SIDBI, NHB, NABARD, etc and access to call money markets. The liquidity coverage ratio (LCR) for the bank stood at 117% for the quarter ended June 30, 2023, which is above the regulatory requirement of 100%.

Environment, social, and governance (ESG)

- The bank has disbursed loans under the solar and green energy segment, the outstanding amount for which stood at ₹52 crore as on June 30, 2023. The bank has also introduced digital & paperless banking initiatives.
- The bank has sanctioned loans worth ₹42 crore under PM Svanidhi for financial inclusion of street vendors. The bank also sanctioned ₹246 crore under Pradhan Mantri Mudra Yojna (PMMY) during Q1FY24, out of which ₹69 crore were sanctioned to women entrepreneurs.
- The bank has strong risk management policies along with cyber security and customer rights policy in place.

Applicable criteria

Policy on default recognition

Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

Punjab and Sind Bank (PSB), established in 1908, is a mid-sized corporate-focused public sector bank based out of New Delhi that operates through a network of 1,553 branches as on June 30, 2023, with branch concentration in north India. It was nationalised in the year 1980. In December 2010, the Government of India (GOI) divested 17.93% stake through an initial public offer (IPO). However, post many capital infusions over the subsequent years (FY18 onwards), the GOI shareholding had steadily risen and stood at 98.25% as on June 30, 2023.

PSB Financials

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	FY23(A)	Q1FY24 (UA)
Total income	7,877	8,055	8,933	2,494
PAT	-2,733	1,039	1,313	153
Total assets	1,07,245	1,12,109	1,28,132	1,32,884
Net NPA (%)	4.04	2.74	1.84	1.95
ROTA (%)	-2.67	0.95	1.09	0.47

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Lower Tier-II Bonds – Series XIV	INE608A08017	19-Oct-16	7.99%	19-Oct-26	500	CARE AA-; Positive
Tier-II Bonds – Series XV	INE608A08033	27-Jun-19	9.50%	26-Oct-29	237.3	CARE AA-; Positive
Tier-II Bonds – Series XVI	INE608A08041	04-Nov-19	8.67%	03-Dec-29	500	CARE AA-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)
2	Bonds-Lower Tier II	LT	500.00	CARE AA-; Positive	-	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)
3	Bonds-Tier II Bonds	LT	237.30	CARE AA-; Positive	-	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)
4	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE A; Negative (05-Oct-21)	1)CARE A; Negative (06-Oct-20)
5	Bonds-Tier II Bonds	LT	500.00	CARE AA-; Positive	-	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Negative (05-Oct-21)	1)CARE AA-; Negative (06-Oct-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments

Tier-II Bonds (Basel III)	Detailed explanation
Covenants	
Call option	Applicable
Write-down trigger	PONV Trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Lower Tier-II	Complex
2	Bonds-Tier-II Bonds	Complex

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in