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National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400051	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001

Date: 13.12.2024

Dear Sir(s),

Reg.: Rating Action by India Ratings and Research Pvt. Ltd.

The Exchange is hereby informed that India Ratings and Research Pvt. Ltd. vide its rating action dated 13.12.2024 has **assigned/ affirmed** ratings as given below:

Instrument Type	Rating / Outlook	Rating Action
Long-Term Issuer Rating	IND AAA/Stable	Affirmed
Additional Tier 1 (AT1) Bonds	IND AA+/Stable	Affirmed
Fixed Deposits	IND AAA/Stable	Affirmed
Basel III Tier 2 Bonds	IND AAA/Stable	Affirmed
Basel III Tier 2 Bonds	IND AAA/Stable	Assigned
Senior Infrastructure Bonds	IND AAA/Stable	Affirmed
Certificates of Deposit	IND A1+	Affirmed

A copy of the detailed rating rationale is enclosed.

The above is submitted in compliance with Regulation 30 and 51 of SEBI (LODR) Regulations, 2015.

Thanking You,
Yours faithfully,

(Ekta Pasricha)
Company Secretary
Encl.: A/a



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India Ratings Affirms Punjab National Bank and its Debt at 'IND AAA'/Stable; Rates Additional Tier-2 Bonds

Dec 13, 2024 | Public Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on Punjab National Bank (PNB) and its debt instruments:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Additional Tier 1 bonds*	-	-	-	INR137.95	IND AA+/Stable	Affirmed
Fixed deposits	-	-	-	-	IND AAA/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR185.00 (reduced from INR195.00)	IND AAA/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR10.00	IND AAA/Stable	Assigned
Senior infrastructure bonds*	-	-	-	INR60.00	IND AAA/Stable	Affirmed
Certificates of deposit	-	-	1-365 days	INR600.00	IND A1+	Affirmed

*Details in Annexure

Analytical Approach

Ind-Ra continues to fully consolidate PNB's [subsidiaries](#) while arriving at the ratings.

Detailed Rationale of the Rating Action

Ind-Ra factors into the ratings PNB's systemically important position and the likelihood of the bank continuously receiving financial support from the government of India (GoI). Ind-Ra also considers the improvement in PNB's pre-provisioning operating profitability in FY24, helping the bank maintain its market share in advances and deposits.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds.

List of Key Rating Drivers

Strengths

- High systemic importance - large pan-India franchise
- Capital buffers adequately placed; internal accruals improved
- Stable Low-cost liability franchise

- Stability in operational metrics

Weaknesses

- Stable asset quality, but need to provide for ECL provisions

Detailed Description of Key Rating Drivers

High Systemic Importance - Large Pan-India Franchise: PNB's systemic importance has increased further with its amalgamation with Oriental Bank of Commerce and United Bank Of India, making it the second-largest public sector bank (PSB) in terms of deposit market share and third largest in terms of net advances market share, leading to a high probability of financial support from the GoI, if required. In terms of systemic importance, on an amalgamated basis, PNB's market share in total deposits and gross advances was about 6.7% and 5.7%, respectively, in FY24, down 40bp yoy each; however, it maintains a dominant position in the banking landscape. Even if private banks were to be included, PNB's positioning would remain significant, with the bank being the fourth largest in terms of deposits market share and sixth largest in terms of net advances market share. The amalgamated bank has 10,159 branches, two international branches, 12,040 automated teller machines, 33,010 business correspondents and about 180 million customers, which have strategically increased in the past two years, even after rationalising post amalgamation. PNB is also a convenor bank in six state-level banking committees, second only to the State Bank of India ([SBI; 'IND AAA/Stable'](#)), and it is also a district-level convener bank in 112 districts (18.3% of total).

Capital Buffers Adequately Placed; Internal Accruals have Improved: PNB is a well-capitalised PSB, with a common equity tier-1 (CET-1) ratio of 11.59% in 2QFY25 (FY24: 11.04%, FY23: 11.22%) and a capital adequacy ratio (CAR) of 16.36% (15.97%, 15.50%). The bank had already raised INR50.0 billion in 1HFY25, which augmented the capital base during this period. The bank achieved a return on assets of 0.92% in 1HFY25 (under old tax regime) and intends to increase it to 1% in the medium term, which clearly signifies the improving internal accruals over the past two years (FY24: 0.54%, FY23: 0.18%). Even after factoring in elevated provisioning requirements in the near term (even after net NPA of 0.46%), Ind-Ra believes the capital buffers would remain significantly higher than the regulatory requirements, owing to its increasing internal accruals. Furthermore, PNB had raised INR55.9 billion through two qualified institutional placements in FY21 and FY22; this gives the agency incremental comfort with respect to the bank's capital raising ability. The agency believes while the capital base is adequate for now, there is a need to continuously grow advances and build buffers ahead of the implementation of expected credit loss norms. This will continue to be a key monitorable.

Stable Low-cost Liability Franchise: The bank's current account and saving account (CASA) deposit ratio on global deposits declined to 38.2% in 2QFY25 (FY24: 40.3%), which has largely been the industry phenomenon; but it remains better than larger PSBs. PNB continues to be the second-largest PSB in terms of deposit market share. The agency believes competitive intensity among banks will remain high in the near term as they compete to accrete low-cost deposits. PNB's domestic deposits grew 10.9% yoy, largely through 16.8% yoy growth in term deposits, while CASA balances grew just 3.4% yoy in 2QFY25. However, with 28.2% yoy growth in international deposits (2.9% of overall deposits), the overall deposits growth stood at 11.3% yoy in 2QFY25. The share of bulk deposits (INR30 million and above) in PNB's term deposits stood at 12.1% in 2QFY25 (FY24: 17.9%, 1QFY24: 17.8%) and is a likely reflection of its loan growth appetite, at least in line with system credit growth and possibly higher.

Stability in Operational Metrics: PNB has introduced changes to its underwriting process in the past few years such as retail sanctions above INR1 million are now routed through the central infrastructure rather than through the branches, and accordingly the book originated since FY20 has shown much lower slippages. Although the advance growth has moderated now (vs system), delinquencies are monitored regularly, and business rule engines are tweaked accordingly.

PNB's pre-provisioning operating profit (PPOP) grew 10.3% yoy to INR134.3 billion and its net interest income grew 8.1% yoy in 1HFY25, largely driven by net loan growth of 14.6% yoy. However, its global net interest margins moderated to 2.99% in 1HFY25, (FY24: 3.09%, FY23: 3.06%), largely because of penalty charges moving to other income from net interest income. PNB's profit after tax for 1HFY25 grew 150.8% yoy to INR75.6 billion (FY24: INR82.5 billion, FY23: INR25.1 billion), as provisions declined 86.6% yoy to INR9.9 billion, which amounted to annualised credit cost of 0.33% (1.3,2.3%). As PNB's net NPA had already reached 0.46% in 2QFY25, implying a lower requirement of ageing provisions, Ind-Ra expects the ROA is to stabilise around current levels in FY25. Furthermore, with cost of deposits being near its peak level (1HFY25: 5.12%; FY22: 3.90%) and the overall average yield on investments standing at 7.06% in 1HFY25,

there is low pressure on margins for the medium term. Also, the bank expects a recovery of INR180 billion in FY25 (FY24: INR200 billion), which would further support the recovery income.

The agency believes PNB's ability to further capitalise on its strategy to increase its retail exposure, improve its low-cost CASA franchise further, maintain a stable margin and strengthen its core non-interest income (ex-recovery) generation, while increasing digital adoption, will be key to demonstrate a through-the-cycle stable performance.

Stable Asset Quality, But Need to Provide for ECL Provisions: PNB has been increasing its provision coverage ratio (2QFY25: 90.2% (excluding technical write-offs; FY24: 87.93%, FY23: 70.8%, FY22: 62.2%) and it is now at higher levels compared to peer groups. The bank also carried almost 100% provisions against its exposures to the National Company Law Tribunal (NCLT)-1 and NCLT -2 list. Its gross NPAs and net NPAs continued to decline and stood at 4.48% and 0.46% in 2QFY25 (FY24: 5.73% and 0.73%, FY23: 8.74% and 2.72%). However, in Ind-Ra's opinion, the bank now needs to incrementally provide for provisions in ECL framework to strengthen the balance sheet further. The bank had created floating provisions of INR5.0 billion until 2QFYE25. The special mention account-2 pool with ticket size of above INR50 million stood at negligible levels in 2QFY25 (0.20% of net advances). However, its COVID-19 restructuring pool under one-time restructuring 1 and one-time restructuring 2 of INR59.0 billion (0.58% of net advances) along with Mudra exposure among MSME is the potential pool for slippages over the near-to-medium term.

Liquidity

Superior: PNB's short-term (one year) asset-liability surplus stood at 7.3% at 1QFY25. The bank also maintained 24.0% of the total assets in balances with the Reserve Bank of India and in government securities in 1QFY25, which assures Ind-Ra that it is adequately placed to meet its short-term funding requirements. Moreover, PNB maintained a liquidity coverage ratio of 134.76% in 1QFY25 on a standalone basis as against the regulatory requirement of 100%.

Rating Sensitivities

Positive: Not applicable

Negative: PNB's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if, in Ind-Ra's opinion, the Govt's support stance for PSBs changes or there is a material drop in the banks' systemic importance which could, among other things, reflect in a material decline in PNB's market share or loss of deposit franchise.

The notching of the AT1 bonds could be widened from its anchor ratings if Ind-Ra believes that there is a dilution in the government's support stance towards hybrid instruments of PSBs or any delay in the timeliness of extending this support. This could reflect, among other things, in capital buffers continuing to be close to the regulatory levels. Ind-Ra also expects that for banks with weaker unsupported profiles, the capital buffers would be higher; if not, it could reflect in a wider notching from the Long-Term Issuer Rating. These capital buffers could be important as PNB's ability to service the instrument could be impaired in the event of the bank making losses and/or if the capital levels are below the regulatory minimum.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on PNB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

PNB is second-largest PSB in terms of deposit market share and third largest in terms of net advances market share. The bank had a domestic branch network of 10,159 branches, two international branches as of September 2024. Of the existing branches, 38.7% are located in rural areas, 24.6% in semi-urban and the balance 36.7% in urban and metro regions.

Key Financial Indicators

Particulars	FY24	FY23
Total assets (INR billion)	15,618.3	14,618.3
Total equity (INR billion)	1064.8	998.6
Net income/loss (INR billion)	82.5	25.1
Return on assets (%)	0.54	0.18
CET-1 (%)	11.04	11.22
CAR (%)	15.97	15.50
Source: PNB, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook											
	Rating Type	Rated Limits (billion)	Rating	13 Sept emb er 2024	14 Sept emb er 2023	12 Sept emb er 2023	21 June 2023	16 Febr uary 2023	25 Novem ber 2022	9 Novem ber 2022	8 Sept emb er 2022	22 June 2022	24 Decem ber 2021	16 Novem ber 2021	13 Octo ber 2021
Issuer rating	Long - term	-	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+	IND AAA/ Stable/IND A1+
Basel III Tier 2 bonds	Long - term	INR195	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable
Basel III Additional Tier 1 bonds	Long - term	INR137.95	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA+/ Stable	IND AA/St able
Senior infrastructure bonds	Long - term	INR60	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable
Fixed deposit	Long - term		IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	IND AAA/ Stable	-	-	-
Certificate of deposit	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	-	-	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Additional Tier 1 bonds	High
Basel III Tier 2 bonds	Medium
Certificate of deposit	Low
Fixed deposit	Low
Senior infrastructure bonds	Low

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III AT1 bonds series VII	INE160A08076	13 February 2015	9.15	Perpetual	INR15	IND AA+/Stable
Basel III AT1 bonds series XII	INE160A08183	22 January 2021	8.6	Perpetual	INR4.95	IND AA+/Stable
Basel III AT1 bonds series XIII	INE160A08209	9 December 2021	8.4	Perpetual	INR20.00	IND AA+/Stable
Basel III AT1 bonds series XIV	INE160A08217	17 January 2022	8.5	Perpetual	INR19.71	IND AA+/Stable
Basel III AT1 bonds series XV	INE160A08225	6 July 2022	8.75	Perpetual	INR20.00	IND AA+/Stable
Basel III AT1 bonds series XVI	INE160A08233	21 September 2022	8.3	Perpetual	INR6.58	IND AA+/Stable
Basel III AT1 bonds series XVII	INE160A08258	23 December 2022	8.4	Perpetual	INR5.82	IND AA+/Stable
Basel III AT1 bonds series XVIII	INE160A08266	27 March 2023	8.75	Perpetual	INR9.74	IND AA+/Stable
Basel III AT1 bonds series XIX	INE160A08282	27 September 2023	8.59	Perpetual	INR30.00	IND AA+/Stable
Total utilised					INR131.80	
Total unutilised					INR6.15	
Basel III Tier 2 bonds series XVIII	INE160A08050	30 September 2014	9.25	30 September 2024	INR10	WD (Paid in Full)
Basel III Tier 2 bonds Series XIX	INE160A08092	5 February 2016	8.65	5 February 2026	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XX	INE160A08142	26 December 2019	8.15	26 December 2029	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XXI	INE160A08159	29 July 2020	7.25	29 July 2030	INR9.94	IND AAA/Stable
Basel III Tier 2 bonds Series XXII	INE160A08167	14 October 2020	7.25	14 October 2030	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XXIII	INE160A08175	11 November 2020	7.1	9 November 2035	INR15	IND AAA/Stable
Basel III Tier 2 bonds Series XXIV	INE160A08191	18 November 2021	7.1	18 November 2031	INR19.19	IND AAA/Stable
Basel III Tier 2 bonds XXV	INE160A08241	1 December 2022	7.89	1 December 2037	INR40.00	IND AAA/Stable
Basel III Tier 2 bonds XXVI	INE160A08274	30 June 2023	7.74	30 June 2038	INR30.90	IND AAA/Stable
Total utilised					INR160.03	
Total unutilised					INR34.97	
Senior infrastructure bonds Series I	INE160A 08068	9 February 2015	8.23	9 February 2025	INR10	IND AAA/Stable
Total utilised					INR10	
Total unutilised					INR50	
Source: NSDL, PNB						

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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APPLICABLE CRITERIA AND POLICIES

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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