

Ref No: PSB/HO/Shares Cell / 89 /2023-24

March 5, 2024

To,

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| BSE Limited, Department of Corporate Services, 25 th 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), <u>Mumbai – 400 051.</u> SYMBOL: PSB SERIES: EQ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Dear Sir,

Reg: Rating by Infomerics Ratings

We hereby inform that Infomerics Ratings has reaffirmed the Rating of the Tier II Bonds issued by the Bank as detailed hereunder:

| Instrument Type | Rating / Outlook |
|---------------------------------------------------------------|-----------------------------------------------------------------|
| Basel III compliant Tier II Bond Series XV of Rs.237.30 crore | IVR AA / Stable (IVR Double A with Stable Outlook) (Reaffirmed) |

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
Company Secretary



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Corporate Office: NBCC Office Complex, Block 3, East Kidwai Nagar, New Delhi – 110023

Email: complianceofficer@psb.co.in



Press Release

Punjab and Sind Bank (PSB)

March 05, 2024

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|-----------------------------------------------------------|--------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------|---------------|--------------------------------------|
| BASEL III Complaint Tier II Bonds - INE608A08033 | 237.30 | IVR AA/ Stable (IVR Double A with Stable Outlook) | IVR AA/ Stable (IVR Double A with Stable Outlook) | Reaffirmed | Highly Complex |
| Total | | 237.30 (Rupees Two Hundred and Thirty-Seven Crores and Thirty Lacs only) | | | |

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed the rating assigned to the Tier II bonds of PSB which continues to derive strength from sovereign ownership with continued support, adequate capitalisation, diversified loan book and improvement in earnings profile over the years. However, the ratings are constrained by moderate asset quality albeit improving, moderate resource profile, relatively moderate size & geographically concentrated operations.

Note on Basel-III Compliant Tier-II Instruments

The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, the occurrence of such situation might result in loss of principal to the investors and, henceforth, to default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. Infomerics believes the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.



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Key Rating Sensitivities:

Upward Factors

- Substantial growth in advances and deposits, profitability, and capitalisation levels.

Downward Factors

- Any weakening of linkages with Government of India.
- Any major increase in slippages leading to weakening of asset quality, thereby impacting the earnings profile.
- Any material decline in overall capital adequacy ratios below the current level.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Sovereign ownership with continued support:

As on 31st December 23, Government of India (GoI) is majority shareholder with holding of 98.25% stake in PSB. GoI has been continuously demonstrated support in the form of periodic capital infusion and provided support to improve its operational efficiency. Given GoI's majority ownership and the significant role of public sector banks in the domestic banking system, Infomerics anticipates that PSB will receive timely and sufficient capital and operational assistance from the GoI as needed, considering it a crucial factor affecting the rating.

Adequate capitalisation:

PSB's capitalisation remain adequate, with reported Common Equity Tier-1 (CET 1) ratio, Tier-I capital adequacy ratio (CAR) and overall, CAR at 13.75%, 13.75% & 16.13% respectively, as on December 31, 2023 (14.32%, 14.32% & 17.10% respectively, as on March 31, 2023). The capital level is also supported by regular infusion from GoI. PSB is also planning to raise capital worth Rs. 2,000 crores through either follow on public issue/ rights issue / QIP (Qualified Institutional Placement) / issuance of AT I (additional tier 1) and Tier II Bonds or any other mode or combinations within 12 months from Feb 2024 and the same has been duly approved by the PSB's board. Infomerics expects PSB maintaining a



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sufficient capital cushion above the minimum regulatory requirement to meet credit growth supported by the improvement in internal accruals and expected capital raising in FY25.

Diversified loan book:

PSB's domestic advances has grown y-o-y by ~7.5% to Rs 83,559 crore as on 31st December 2023 with the RAM (Retail, Agriculture and MSME) shares in the total advances at ~51%. Among the RAM segment, retail has grown by ~16% led by the growth of ~36% in gold loan followed by ~20% in vehicle loan and ~13.50% in home loan, followed by MSME which has grown by ~13% and agriculture which has grown by ~6%. Corporate segment which form ~49% of the total advances has grown moderately by ~3% on a y-o-y basis with exposure to industries / sectors like infrastructure, NBFC, textiles among others.

Improvement in earning's profile over the years:

From FY18 to FY21, PSB faced challenges in maintaining profitability, experiencing losses attributed to poor asset quality and resulting in elevated credit costs. However, PSB's earnings profile has improved significantly during FY22 and FY23 owing to the improvement in asset quality. PSB's total interest income has grown y-o-y by ~23% to Rs. 7,213 crores as on 31st December 2023 on account of higher yield of advances which has increased by 79 bps on y-o-y basis to 8.91%. As on 31st December 2023, PSB's net interest margin declined by 58 bps to 2.54% due to higher cost of funds which has increased by 96 bps to 5.71% which can be attributed to rate hikes in FY23 and higher cost of deposits. PSB's non-interest income has grown y-o-y by ~106% to Rs. 809 crores as on 31st December 2023. PSB's operating profit has declined by ~13% to Rs. 795 crores owing to higher operating expenses as on 31st December 2023.



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Key Rating Weaknesses

Moderate asset quality albeit improving:

Asset quality of PSB is moderate though has shown significant improvement over the years, with reported gross NPAs of 5.70% as on December 31, 2023 (FY21: 13.76%, FY22: 12.17%, FY23: 6.97%). The Net NPA has improved to 1.80% as on December 31, 2023 (FY21: 4.04%, FY22: 2.74%, FY23: 1.84%). Bank's restructured standard advances (including RF1 & RF2) to gross advances and special mention accounts to gross advances has decreased to 2.40% & 0.51% as on 31st December 2023. Gross NPAs are led by MSME (9.42%) followed by agriculture (9.36%), corporate (4.09%) and retail (3.27%) as on December 31, 2023. PSB's provision coverage ratio stood at a comfortable 88.16% as on 31st December 2023. Infomerics expects further improvement in asset quality over the medium term on account of lower slippages, better recovery and growth in advances.

Moderate resource profile:

Resource profile of PSB has remained moderate with the proportion of low-cost CASA deposits at 32.77% as on December 31, 2023 (FY23: 33.59%). The cost of deposits and cost of funds have increased to 5.63% & 5.71% as on December 31, 2023 (FY23: 4.53% & 4.61%) as post rate hikes in FY23, banking industry is experiencing challenges in raising CASA deposits as the depositors' preferences have shifted towards term deposits with attractive rates. Infomerics expects moderate growth in CASA deposits over medium term.

Relatively moderate size & geographically concentrated operations:

With a total business of about Rs. 2.02 lakh crore and an asset size of Rs. 1.45 lakh crore as on 31st December 2023, PSB is one of the moderately sized public sector bank. Infomerics expects it will take some time for PSB to reach scale and become competitive with the larger public sector banks. Also, PSB's operations are highly concentrated in the northern parts of India which accounts for ~62% of the total branches. Moreover, ~56% of the total branches are concentrated in the rural and semi-urban parts of the country. While PSB has been opening branches outside the regions, concentration risk is likely to reduce only in the long term.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Criteria for Default Recognition](#)

[Criteria for Government Support](#)

[Criteria of Assigning Rating Outlook](#)

Liquidity –Adequate

PSB's liquidity position is supported by the strength of its liabilities franchise and its sovereign ownership. PSB is having a sizeable retail deposit base that forms a significant part of the total deposits. Its liquidity coverage ratio stood at 123.58% as on 31 December 2023, as against minimum regulatory requirement of 100%. PSB had cash and cash equivalents amounting to Rs. 6215 crores and investments of Rs. 49881 crores as on December 31, 2023. Liquidity is further supported by PSB's access to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

About the 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 1,561 branches as on December 31, 2023, with branch concentration in north India. It was nationalised in the year 1980.



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Financials (Standalone)*:

Rs in Crores

| For the year ended/As on* | 31-03-2022 | 31-03-2023 | 31-12-2023 |
|---------------------------|------------|------------|-------------|
| | (Audited) | (Audited) | (Unaudited) |
| Total Income | 8055 | 8933 | 8022 |
| PAT | 1039 | 1313 | 456 |
| Advances | 70387 | 80982 | 83559 |
| Deposits | 102137 | 109665 | 118355 |
| Total Business | 172524 | 190647 | 201915 |
| Total Assets | 121068 | 136454 | 145261 |
| NIM (%) | 2.80 | 2.91 | 2.50 |
| ROTA (%) | 0.85 | 0.98 | 0.42 |
| CET I CRAR (%) | 12.77 | 14.32 | 13.75 |
| Overall CRAR (%) | 18.54 | 17.10 | 16.13 |
| Gross NPA (%) | 12.17 | 6.97 | 5.70 |
| Net NPA (%) | 2.74 | 1.84 | 1.80 |
| CASA (%) | 33.81 | 33.59 | 32.77 |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA



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Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Ratings (Year 2023 - 24) | | | Rating History for the past 3 years | | |
|---------|-----------------------------------|----------------------------------|--------------------------------|-------------------------|----------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| | | Type | Amount outstanding (Rs. Crore) | Rating – March 05, 2024 | Date(s) & Rating(s) assigned in 2022-23 – March 09, 2023 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 |
| 1. | BASEL III Complaint Tier II Bonds | Long Term | 237.30 | IVR AA/ Stable | IVR AA / Stable | - | - |

Name and Contact Details of the Rating Director:

Name: Mr. Amey Joshi
Tel: (022) 62396023
Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to the best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.



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Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities/Instrument:

| Name of Instrument | ISIN | Date of Issuance | Coupon Rate/ IRR (%) | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|-----------------------------------|--------------|------------------|----------------------|-----------------|------------------------------|--------------------------|
| BASEL III Compliant Tier II Bonds | INE608A08033 | 27 June 2019 | 9.50 | 26 October 2029 | 237.30 | IVR AA / Stable |
| Total | | | | | 237.30 | |

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details – Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

| | |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Security Name | Punjab & Sind Bank, BASEL III Tier II Bonds – Series XV |
| Issuer/Bank | Punjab and Sind Bank |
| Type of Instrument | Listed, rated, Unsecured, Subordinated, Taxable, Non-Convertible, fully paid -up Basel III Compliant Tier II Bonds, (Series XV) in the nature of Debentures eligible for inclusion in Tier II Capital ("Bonds") |
| Issue Size | Aggregate total issue size not exceeding Rs.500 crore, with a base issue size of Rs.200crore and a Green shoe option to retain oversubscription up to Rs.300 crore. |
| Amount raised | Rs 237.30 Crores |



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| | |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------|
| Option to retain oversubscription | Green shoe option to retain oversubscription up to Rs 300 crores in single or multiple tranches |
| Objects of the issue | Augmenting Tier II capital and overall capital of the bank |
| Security | Unsecured and Subordinated |
| ISIN | INE608A08033 |
| Issue date | June 27, 2019 |
| Maturity date | October 26, 2029 |
| Coupon (%) | 9.50% Subject to Loss absorbency, "Permanent Principal Write down" on PONV trigger event and other events |
| Coupon payment frequency | Annual |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.