

Ref No: PSB/HO/Shares Cell / 63 /2024-25

September 20, 2024

To,

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), Mumbai – 400 051. SYMBOL: PSB SERIES: EQ
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Dear Sir,

Reg: Rating by CRISIL Ratings

We hereby inform that CRISIL Ratings vide its Rating Rationale dated 20.09.2024 has assigned its 'CRISIL AA/Stable' rating to Rs.3000 crore Infrastructure Bonds and reaffirmed its rating on the Tier-II Bonds at 'CRISIL AA/Stable' as detailed hereunder:

Instrument Type	Rating / Outlook
Infrastructure Bonds of Rs 3000 crore	CRISIL AA/Stable (Assigned)
Tier II Bond Series XIV of Rs 500 crore	CRISIL AA/Stable (Reaffirmed)
Tier II Bond Series XVI of Rs 500 crore	CRISIL AA/Stable (Reaffirmed)

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



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Rating Rationale

September 20, 2024 | Mumbai

Punjab and Sind Bank

'CRISIL AA/Stable' assigned to Infrastructure Bonds

Rating Action

Rs.3000 Crore Infrastructure Bonds	CRISIL AA/Stable (Assigned)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed)
Rs.500 Crore Tier II Bonds (Under Basel III)	CRISIL AA/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA/Stable**' rating to Rs 3000 crore Infrastructure Bonds and reaffirmed its rating on the Tier-II Bonds (under Basel III) of Punjab and Sind Bank (P&SB) at '**CRISIL AA/Stable**'.

The rating factors in the sustained improvement in asset quality, and strengthening of capital position, which is likely to be maintained over the medium term. The rating is constrained by the company's weak earnings profile.

Capital position is supported by regular fund infusion and expectation of strong support from the majority stakeholder, the Government of India (GoI). In fiscals 2021 and 2022, the bank received Rs 5,500 crore and Rs 4,600 crore, respectively, from the GoI. Capitalisation metrics maintain an improving trend with tier 1 and overall capital adequacy ratio (CAR) improved to 14.8% and 17.3%, respectively, as on June 30, 2024, from 14.5% and 17.2%, a year earlier. As a result, the bank was able to build a sufficient buffer for its non-performing assets (NPAs), with a provision coverage ratio (PCR) of 71% as on March 31, 2024 (75% as on March 31, 2023).

Asset quality has seen sequential improvement with gross NPAs (GNPAs) at 4.72% as on June 30, 2024, compared with 5.43% as on March 31, 2024, and 6.97% as on March 31, 2023. This gradual improvement was driven by controlled slippages as well as write offs.

The earnings profile remains weak. However, the bank has been profitable since the past three fiscals (fiscal 2022). The profits after tax declined to 595 crores in fiscal 2024 as compared to 1,313 crores in the last fiscal due to wage revision, credit costs (versus a reversal of provision in the previous fiscal due to a large recovery) and higher cost of funds. With adequate provisions and lower slippages, the bank is expected to maintain profitability over the medium term.

The rating continues to factor in the expectation of strong support from majority owner, the GoI. These strengths are partially offset by the bank's modest earnings and asset quality.

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 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 case 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. Furthermore, 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 fiscals 2021 and 2022, the bank received Rs 5,500 crore and Rs 4,600 crore, respectively, from GoI. Thus, over the past five fiscals, GoI has infused around Rs 11,672 crore into P&SB.

The bank's tier-1 and overall CAR stood at 14.8% and 17.3%, respectively, as on June 30, 2024, (14.74% and 17.16%, respectively, as on March 31, 2024).

Weaknesses:

- **Modest asset quality, albeit improving**

The bank's asset quality has improved with GNPA's, at 5.43% as on March 31, 2024, from the earlier elevated level of 6.97% as on March 31, 2023 and 12.17% as of March 31, 2022. The improvement was largely driven by higher upgradations and write-offs during the years. In absolute terms, GNPA's decreased to Rs 4,145 crore as on June 30, 2024 (Rs 4,665 crore as on March 31, 2024, and Rs 5,648 crore as on March 31, 2023). The bank has written off close to ~Rs 5,910 crore over fiscals 2020-2024. As on June 30, 2024, GNPA further improved to 4.72% while NNPA improved further to 1.59%. Slippages reduced marginally to 1.3% in fiscal 2024 from 1.4% in fiscal 2023; however, they remain better than in the previous years (3.4% in fiscal 2022, 2.9% in fiscal 2021 and 4.2% in fiscal 2020). The pace of deterioration in asset quality is expected to slow down over the medium term with decrease in slippages and higher recoveries.

- **Average resource profile**

Resource profile remains average, marked by below industry average CASA deposits of 32.42% as on March 31, 2024 (33.59% as on March 31, 2023). As on March 31, 2024, the bank had 1,564 branches, of which around 56% are in rural and semi-urban areas. As a result, there is geographic diversity in the deposit base.

Gross advances grew 6% to Rs 85,964 crore, while deposits grew 9% to Rs 1,19,410 crore in fiscal 2024. The reason for moderate growth in advances is due to a strategical shift to focus on improving the mix of Retail, Agriculture and MSME (RAM) segment from the corporate segment.

Cost of funds saw an uptick and stood at 5.77% in March 2024 from 4.98%, a year earlier due to repricing on the liability side. As on June 30, 2024, gross advances and deposits stood at Rs 87,738 crore and Rs 1,20,593 crore, respectively, while cost of funds decreased marginally to 5.7% in first quarter of fiscal 2025.

- **Weak earnings profile**

Earnings have remained impacted by weak asset quality and wage revisions. The bank reported a profit of Rs 595 crore for fiscal 2024 against a profit of Rs 1,313 crore for the previous fiscal. The decline in PAT was attributable to a combination of factors which include contraction in net interest income as a result of modest loan growth and higher funding costs, higher operating expenses stemming from wage revision (Rs 335 crore) and shrinkage in NIM during fiscal 2024. The bank witnessed higher credit cost of Rs 194 crore in fiscal 2024 compared to a reversal of Rs 170 crore for the previous fiscal.

The bank's pre-provisioning profits (as a proportion of average assets) declined to 0.8% in fiscal 2024 compared to 1.1% in the previous fiscal; and it remains lower than industry average. Notwithstanding, profitability is expected to be supported by steady loan growth, absence of one-off expenses and moderate credit costs. For the quarter ended June 30, 2024, P&SB reported a profit of Rs 182 crore, up 31% q-o-q and 19% over the same period last year.

Ability to improve asset quality, and hence profitability, will remain a key monitorable.

Liquidity: Strong

Liquidity coverage ratio was 125.4% for the quarter ended March 31, 2024, and was higher than the regulatory requirement. The excess statutory liquidity ratio was Rs 10,489 crore (8.8% of net demand and time liabilities) as on June 30, 2024. Liquidity also benefits from access to systemic sources of funds such as the liquidity adjustment facility from the RBI, 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: Stable

CRISIL Ratings believes P&SB will continue to benefit from the strong government support. The bank's asset quality and profitability, are expected to maintain positive trajectory, however, will remain a monitorable.

Rating sensitivity factors**Upward factors**

- Significant improvement in overall market position over the medium term
- Sustained improvement in profitability, with ROA over 1.0% on steady-state basis

Downward factors

- Material change in shareholding or expectation of support from the government
- Deterioration in asset quality and continuous pressure on profitability
- Substantial decline in capital adequacy buffers above minimum regulatory requirements (which including CCB, is Tier I of 9.5% and overall, CAR of 11.5%) over an extended period of time.

About the Bank

P&SB is a relatively small PSB, founded in 1908. The bank had 1,569 branches and 1053 ATMs as on June 30, 2024, primarily in northern India. GoI's ownership stood at 98.25% as on June 30, 2024.

For fiscal 2024, the bank reported a profit of Rs 595 crore and total income (net of interest expenses) of Rs 4,062 crore, against a profit of Rs 1,313 crore and total income (net of interest expenses) of Rs 3,914 crore in the previous fiscal.

For the quarter ended June 30, 2024, net profit was Rs 182 crore and total income (net of interest expense) was Rs 1,044 crore, against a net profit of Rs 153 crore and total income (net of interest expense) of Rs 917 crore for the corresponding period previous fiscal.

Key Financial Indicators

As on / for the year ended March 31,	Units	2024	2023	2022
Total assets	Rs crore	1,47,657	1,36,455	1,21,068
Total income (net of interest expense)	Rs crore	4,062	3,914	3,611

Profit after tax (PAT)	Rs crore	595	1,313	1,039
GNPA	%	5.43	6.97	12.17
Overall capital adequacy ratio	%	17.16	17.10	18.54
Return on assets	%	0.42	1.02	0.90

As on / for the quarter ended June 30,	Units	2024	2023	2022
Total assets	Rs crore	1,44,886	1,40,933	1,24,477
Total income (net of interest expense)	Rs crore	1,044	917	824
PAT	Rs crore	182	153	205
GNPA	%	4.72	6.80	11.34
Overall capital adequacy ratio	%	17.30	17.19	16.79
Return on assets (annualized)	%	0.51	0.46	0.69

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Infrastructure Bonds#	NA	NA	NA	3000.00	Simple	CRISIL AA/Stable
INE608A08017	Tier II Bonds (Under Basel III)	19-Oct-16	7.99%	19-Oct-26	500.00	Simple	CRISIL AA/Stable
INE608A08041	Tier II Bonds (Under Basel III)	04-Nov-19	8.67%	03-Dec-29	500.00	Simple	CRISIL AA/Stable

Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Infrastructure Bonds	LT	3000.0	CRISIL AA/Stable		--		--		--		--	--
Lower Tier-II Bonds (under Basel II)	LT		--		--		--	26-08-22	Withdrawn	31-08-21	CRISIL AA/Negative	CRISIL AA/Negative
Tier II Bonds (Under Basel III)	LT	1000.0	CRISIL AA/Stable	12-08-24	CRISIL AA/Stable	17-08-23	CRISIL AA/Stable	26-08-22	CRISIL AA/Negative	31-08-21	CRISIL AA/Negative	CRISIL AA/Negative

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
Rating criteria for Basel III - compliant non-equity capital instruments
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support

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