



पंजाब नैशनल बैंक



punjab national bank

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The Assistant Vice President National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400 051	The Deputy General Manager BSE Limited 1st Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

Date: .14.10.2021

Dear Sir(s),

Reg.: Rating Action by India Ratings

The Exchange is hereby informed that India Ratings has vide its rating action 13.10.2021 has **assigned** 'IND AAA/Stable' rating to Rs. 2,000 Crore Tier 2 Bonds (under Basel III) of Punjab National Bank (PNB) while **affirming** its Long-Term Issuer Rating at 'IND AAA/Stable', Short-Term Issuer Rating at 'IND A1+' and ratings on existing Basel III Tier 2 Bonds, & Senior Infrastructure Bonds at 'IND AAA/Stable' and Additional Tier 1 Bonds at 'IND AA/Stable'. A copy of the rating action is enclosed as Annexure.

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

Thanking you,

Yours faithfully,

(Ekta Pasricha)
Company Secretary
Encl.: as above

India Ratings Affirms Punjab National Bank at 'IND AAA'/Stable; Rates Tier II Bonds

13

OCT 2021

By [Karan Gupta](#)

India Ratings and Research (Ind-Ra) has affirmed Punjab National Bank's (PNB) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier 2 bonds *	-	-	-	INR20	IND AAA/Stable	Assigned
Basel III Tier 2 bonds*	-	-	-	INR95	IND AAA/Stable	Affirmed
AT1 bonds*	-	-	-	INR82.5	IND AA/Stable	Affirmed
Senior infrastructure bonds*	-	-	-	INR20	IND AAA/Stable	Affirmed

*Details in Annexure

Analytical Approach: The ratings continue to reflect PNB's high systemic importance, and hence, the high probability of support from the government of India (GoI; 73.15% stake as of June 2021), if required.

The ratings reflect PNB's high systemic importance, large franchise with a pan-India presence, healthy capitalisation, adequate and stable funding base and liquidity, and its provision coverage ratio being lower than the peer group. While slippages for PNB remained elevated in FY21, it declined on a yoy basis during the year; nevertheless, it would remain a key monitorable over the near term.

The AT1 bonds' rating reflects the bank's strong standalone credit profile, along with its ability to service coupons and manage the principal write-down risk on its debt capital instruments. To arrive at the rating, Ind-Ra has considered the discretionary component; coupon omission risk; and the write-down/conversion risk as key parameters. 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. Ind-Ra envisages coupon deferrals and principal write-down risk as a remote possibility in view of the bank's adequate revenue reserve buffers.

KEY RATING DRIVERS

High Systemic Importance: PNB's systemic importance has increased further with the amalgamation, 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 high probability of support from the GoI, if required. In terms of systemic importance, on an amalgamated basis, PNB's market share in total deposits and net advances was about 7.6% and 6.6%, respectively, in FY21. Even if private banks were to be included, PNB's positioning would remain significant, with the bank being the third-largest in terms of deposit market share and fourth-largest in terms of net advances market share. The amalgamated bank has 10,641 branches, two international branches, 13,690 automated teller machines and 180 million customers. PNB is also the convener bank in six state-level banking committees, second only to the State Bank of India ([IND AAA/Stable](#)), and it is also the district-level convener bank in 111 districts (18.3% of total).

Capital Buffers Adequately Placed: PNB is a well-capitalised PSB, with a common equity tier-1 (CET-1) ratio of 11.56% in 1QFY22 (1QFY21: 9.44%) and capital adequacy ratio (CAR) of 15.19% (12.63%). The bank's CET levels are higher than those of larger PSBs. Even after factoring in elevated provisioning requirements in the near term on account of the pandemic, the agency believes that the capital buffers would remain significantly higher than regulatory requirements owing to increasing internal accruals. The existing capital buffers are adequately placed to also absorb asset quality shocks, unless the pandemic situation continues for a protracted period and the severity is also high. Furthermore, PNB raised INR55.9 billion (8.2% of 1QFY22 CET I capital) through two qualified institutional placements in the last 12 months; this gives the agency incremental comfort with respect to the bank's capital raising ability. Moreover, PNB also has board approvals in place to raise INR60 billion through the issuance of bonds – both tier II and additional tier I bonds, which could add up to 100bp to the CAR.

Improvement in Low-cost Liability Franchise: PNB's liability franchise has increased in size and dominance within the Indian banking industry with it becoming the second-largest PSB on an amalgamated basis. Its strong and stable low-cost current account and savings account (CASA) deposit base, with CASA ratio at 44.4% in 1QFY22 (1QFY21: 42.2%), continues to improve and is comparable to that of the State Bank of India (CASA ratio of 44.6% in 1QFY22). PNB's cost of funds has also benefited from the improvement in its low-cost liability franchise, with the cost of deposits declining by 85bp to 4.07% over 1QFY21-1QFY22; similarly, the cost of funds declined by 71bp to 3.47% in 1QFY22 from 4.18% in 1QFY21. The agency expects the implementation of the Reserve Bank of India's circular on current accounts to provide tailwinds to PNB's low-cost current account franchise, considering the bank's market share in system advances is significantly higher than its share in the current account deposits market.

Liquidity Indicator - Superior: PNB's short-term (one year) asset-liability surplus stood at 5.3% at end-1QFY22. PNB also maintained 25.7% of the total assets in balances with the Reserve Bank of India and in government securities in 1QFY22, which assures Ind-Ra that it is adequately placed to meet its short-term funding requirements. Moreover, PNB maintained a liquidity coverage ratio of 188.47% in 1QFY22 on a consolidated basis as against the regulatory requirement of 100%.

Bank Returns to Profitability, But Stability is Key: Post the amalgamation, which became effective from 1QFY21, PNB has reported profits for the last five quarters. However, the trend has been volatile, though this can be partially attributed to the ongoing pandemic conditions. The management has guided for lower slippages on a yoy basis, higher recoveries and upgrades than FY21 and lower credit costs of 1.25%-1.50% in FY22, after factoring in the impact of COVID-19; however, the agency believes this could be difficult to achieve in view of the ongoing pandemic. The agency expects the provisioning requirement in FY22 to remain significant due to i) ageing provisioning requirements; ii) provisioning requirements for fresh slippages, including that from the emergency credit line guarantee scheme and COVID-19 restructuring pools; iii) provisioning for credit migration of a large non-banking financial company in 2QFY22; and iv) provisioning requirement for accounts declared as fraud.

Asset Quality Challenges Continue: PNB maintained a provision coverage ratio of 62.9% (excluding technical write-offs) in 1QFY22 (1QFY21: 65.3%), which was at the lower end within the peer group. PNB also carries 100% provisions against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists and 97.4% against the overall NCLT exposure at 1QFY22. Its gross non-performing assets and net non-performing assets continued to be elevated at 14.33% and 5.84%, respectively, at 1QFY22 (1QFY21: gross non-performing assets at 14.11% and net non-performing assets at 5.39%) in comparison to peers. Furthermore, the special mention accounts-1 and -2 pools accounted for 5.2% of the net advances at 1QFY22 along with a COVID-19 restructuring pool of INR133.9 billion and emergency credit line guarantee scheme disbursements of INR120.0 billion (together 3.8% of the net advances), which is the potential pool for slippages over the near-to-medium term.

RATING SENSITIVITIES

Negative: The Basel III Tier 2 bond rating is linked to PNB's Long-Term Issuer Rating, which has been derived from the bank's strong standalone credit profile and Ind-Ra's expectation of support from the GoI, and is unlikely to change, unless there is a change in the GoI's support stance.

The rating of the AT1 bonds could be downgraded in case of a substantial deterioration in the unsupported credit profile of the bank which, among other factors, could reflect in a material decline in PNB's market share; loss of deposit franchise or a large spike in delinquencies that could result in substantial losses. The rating could also undergo a review in case of CET-1 capital buffer remains below 8.5%, given the bank's ability to service coupons could be impacted in Ind-Ra's opinion. This could be important in case the bank incurs losses, causing the capital ratios to fall below the minimum regulatory requirement, thereby impairing its ability to pay coupons.

COMPANY PROFILE

PNB had a domestic branch network of 10,641 branches, two international branches and 13,690 automated teller machines as of June 2021. Of the existing branches, 36% are located in rural areas, 25% in semi-urban and the balance 39% in urban and metro regions.

FINANCIAL SUMMARY

Particulars	FY21	1 April 2020
Total assets (INR billion)	12,606.3	12,513.9
Total equity (INR billion)	909.4	851.7
Net income/loss (INR billion)	20.2	-83.11
Return on assets (%)	0.2	-3.03
CET-1 (%)	10.62	9.17
Capital adequacy ratio (%)	14.32	12.33
Source: PNB, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook								
	Rating Type	Rated Limits (billion)	Rating	21 October 2020	14 October 2020	24 September 2020	31 July 2020	30 June 2020	22 May 2020	4 September 2019	25 June 2019	
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AA+/RWE/IND A1+	IND AA+/RWE/IND A1+	IND AA+/RWE/IND A1+	IND AA+/RWE/IND A1+	IND AA+/RWE/IND A1+	IND AA+/Negative/IND A1+	IND A
Basel III Tier 2 bonds	Long-term	INR115	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND
Basel III AT1 bonds	Long-term	INR82.5	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND A/RWE	IND A/RWE	IND A/RWE	IND A/RWE	IND A/RWE	IND A/Negative	
Senior infrastructure bonds	Long-term	INR20	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IND AA+/Negative	IND

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 VIII	INE160A08100	3 March 2017	8.95 (semi-annual)	Perpetual	INR15	IND AA/Stable
Basel III AT1 bonds series IX	INE160A08118	29 March 2017	9.21	Perpetual	INR5	IND AA/Stable
Basel III AT1 bonds series X	INE160A08126	31 March 2017	9.21	Perpetual	INR2.5	IND AA/Stable
Basel III AT1 bonds series XI	INE160A08134	25 July 2017	8.98	Perpetual	INR15	IND AA/Stable
Basel III AT1 bonds series XII	INE160A08183	22 January 2021	8.60	Perpetual	INR4.95	IND AA/Stable
Total utilised						INR57.45
Total unutilised						INR25.05
Basel III Tier 2 bonds series XV	INE160A08027	28 March 2014	9.68	28 March 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVI	INE160A08035	3 April 2014	9.68	3 April 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVII	INE160A08043	9 September 2014	9.35	9 September 2024	INR5	IND AAA/Stable
Basel III Tier 2 bonds series XVIII	INE160A08050	30 September 2014	9.25	30 September 2024	INR10	IND AAA/Stable
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	7.10	11 November 2030	INR15	IND AAA/Stable
Total utilised						INR94.94
Total unutilised						INR20.06
Senior infrastructure bonds Series I	INE160A 08068	9 February 2015	8.23	9 February 2025	INR10	IND AAA/Stable

	Total utilised	INR10
	Total unutilised	INR10

BANK WISE FACILITIES DETAILS

[Click here to see the details](#)

COMPLEXITY LEVEL OF INSTRUMENTS

Complexity Indicator	Complexity Indicator
Basel III Tier 2 instrument	Low
Basel III AT1 bonds	High
Senior infrastructure bonds	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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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

[Financial Institutions Rating Criteria](#)

[Rating FI Subsidiaries and Holding Companies](#)

[Rating Bank Subordinated and Hybrid Securities](#)

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