Share Department, Board & Coordination Division, HO Plot No.4 Sector 10, Dwarka, New Delhi-110075
Tel No. : 011-28044857, E-mail: hosd@pnb.co.in

Scrip Code : PNB	Scrip Code : 532461
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: 16.11.2021

Dear Sir(s),

Reg.: Rating Action by India Ratings

The Exchange is hereby informed that India Ratings vide its rating action 16.11.2021 has **upgraded** the rating on Basel III AT1 Bonds from 'IND AA/Stable' to 'IND AA+/Stable' while **affirming** its Long-Term Issuer Rating at 'IND AAA/ Stable', Short-Term Issuer Rating at 'IND A1+' and ratings on Basel III Tier 2 Bonds & Senior Infrastructure Bonds at 'IND AAA/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 & Research
A Fitch Group Company

India Ratings Upgrades Punjab National Bank's AT1 Bonds to 'IND AA+'/Stable; Affirms Other Ratings

16

NOV 2021

By Karan Gupta

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

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating/Short-Term Issuer Rating					IND AAA/Stable/IND A1+	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR115	IND AAA/Stable	Affirmed
AT1 bonds*	-	-	-	INR82.5	IND AA+/Stable	Upgraded
Senior infrastructure bonds*	-	-	-	INR20	IND AAA/Stable	Affirmed

*Details in Annexure

The upgrade of the bank's AT1 rating reflects Ind-Ra's strengthening view that the government of India's (GoI) support stance for the junior debt of public sector banks (PSBs) remains fairly strong and could be closer to the senior debt than earlier envisaged, and hence, the anchor rating for AT1 instruments would increasingly be considered as the issuer default rating. While the junior debt has been designed for loss absorption before public funds could be infused, Ind-Ra believes that the government and regulator may be considering that losses incurred by the investors of junior debt of PSBs could have a high systemic impact and would not be limited to challenges regarding PSBs' system-wide ability to access hybrid instruments. Please refer to 'Anchor Rating for PSBs' AT1 Shifted to Long-term IssuerRating on Stronger Government Support Stance' for more details.

This assessment has been strengthened by multiple precedents, including the following: i) the accounting policy change that has enabled banks to offset accumulated losses with the share premium reserve, thereby increasing the AT1 coupon servicing ability; ii) expanding the definition of distributable reserves; iii) timing equity infusions in a manner that enabled the PSBs to exercise call options; iv) providing of asset recognition and provision concessions through stress events while the corporate stress cycle was underway, and most recently, v) the redefining of the prompt corrective action benchmarks, giving the Reserve Bank of India greater discretion in terms of attributing point of non-viability. The first point has significantly enhanced the government's ability to bail out AT1 instruments even if the bank reserves are depleted.

Additionally, the balance sheets of PSBs have been significantly strengthened in the wake of COVID-19. The banks have substantially ramped up the provision cover on legacy gross non-performing assets and have strengthened their standalone financial profiles, especially in terms of the asset quality being manageable in the aftermath of the pandemic and the capital levels (including CET1) being the highest in the last four-to-five years..

The Long-Term Issuer Rating factors in PNB's systemically important position and Ind-Ra's expectations that the bank will continue to receive support from the GoI. The rating also considers the bank's demonstrated equity raising ability, further plans for the same and the likelihood of improved material profitability over FY22-FY23, which could help the bank maintain and possibly grow 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.

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 10,528 branches, two international branches, 13,506 automated teller machines and 180 million customers. PNB is also the convenor 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 11.58% in 2QFY22 (2QFY21: 9.53%) and capital adequacy ratio (CAR) of 15.20% (12.84%). 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 had raised INR55.9 billion (8.2% of 2QFY22 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 44.7% in 2QFY22 (2QFY21: 43.0%), continues to improve and is comparable to that of the State Bank of India (CASA ratio of 46.2% in 2QFY22). PNB's cost of funds has also benefited from the improvement in its low-cost liability franchise, with the cost of deposits declining by 44bp to 4.04% over 2QFY21-2QFY22; similarly, the cost of funds declined by 33bp to 3.47% in 2QFY22 from 3.80% in 2QFY21. 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 six 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 63.2% (excluding technical write-offs) in 2QFY22 (2QFY21: 67.9%), 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 98.6% against the overall NCLT exposure at 2QFYE22. Its gross non-performing assets and net non-performing assets continued to be elevated at 13.63% and 5.49%, respectively, at 2QFYE22 (2QFYE21: gross non-performing assets at 13.43% and net non-performing assets at 4.75%) in comparison to peers. Furthermore, the special mention accounts-2 pools accounted for 1.4% of the net advances at 2QFYE22 along with a COVID-19 restructuring pool of INR208.0 billion and emergency credit line guarantee scheme disbursements of INR127.0 billion (together 5.0% of the net advances), which is the potential pool for slippages over the near-to-medium term.

RATING SENSITIVITIES

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, there is a change in the GoI's support stance for public sector banks or there is 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 public sector banks 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 wider notching from the Long-Term Issuer Rating. These capital buffers could be important as the banks' 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.

COMPANY PROFILE

PNB had a domestic branch network of 10,528 branches, two international branches and 13,506 automated teller machines as of September 2021. Of the existing branches, 36.7% are located in rural areas, 24.6% in semi-urban and the balance 38.9% 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	-0.65
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 R					
	Rating Type	Rated Limits (billion)	Rating	13 October 2021	21 October 2020	14 October 2020	24 September 2020	31 July 2020	30 June 2020	22
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	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+	AA
Basel III Tier 2 bonds	Long-term	INR115	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IN
Basel III AT1 bonds	Long-term	INR82.5	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND A/RWE	IND A/RWE	IND A/RWE	I
Senior infrastructure bonds	Long-term	INR20	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA+/RWE	IND AA+/RWE	IND AA+/RWE	IN

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**

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

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies
Rating Bank Subordinated and Hybrid Securities

Analyst Names

Primary Analyst

Karan Gupta

Director
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001744

Secondary Analyst

Meet Shah

Analyst
9870259951

Committee Chairperson

Jindal Haria

Director
+91 22 40001750

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121