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
National Stock Exchange of India Limited "Exchange Plaza" Bandra – Kurla Complex, Bandra (E) Mumbai – 400 051	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

Date: 21.06.2023

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 21.06.2023 has **assigned/ affirmed** ratings as given below:

Instrument Type	Rating / Outlook	Rating Action
Long Term Issuer Rating	IND AAA/Stable	Affirmed
Basel III Tier II Bonds	IND AAA/Stable	Assigned
AT1 Bonds	IND AA+/Stable	Affirmed
Fixed Deposits	IND AAA/Stable	Affirmed
Basel III Tier II Bonds	IND AAA/Stable	Affirmed
Senior Infrastructure Bonds	IND AAA/Stable	Affirmed
Certificate of Deposit (CDs)	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

Digitally signed by EKTA PASRICHA
DN: cn=EKTA PASRICHA, c=IN, st=Delhi, o=Personal, title=5725, serialNumber=BEE4AE6E829EEEE60E0B52E2EF065410CCB94EC654442F55DAEC24909CCAF6C9
Date: 2023.06.21 19:02:51 +05'30'

पंजाब नैशनल बैंक P.N.B. शेयर विभाग बोर्ड व समन्वय प्रभाग Board & Coord. Division H.O. Share Department, New Delhi-110075 प्र. का., नई दिल्ली-110075

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

India Ratings & Research
A Fitch Group Company

Login

India Ratings Assigns Punjab National Bank's Tier II Bonds 'IND AAA'/Stable; Affirms Existing Ratings

Jun 21, 2023 | Public Sector Bank

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	-	-	-	-	IND AAA/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR40.00	IND AAA/Stable	Assigned
AT1 bonds*	-	-	-	INR117.95	IND AA+/Stable	Affirmed
Fixed deposits	-	-	-	-	IND AAA/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR170.00	IND AAA/Stable	Affirmed
Senior infrastructure bonds*	-	-	-	INR20.00	IND AAA/Stable	Affirmed
Certificates of deposit (CDs)	-	-	1-365 days	INR600.00	IND A1+	Affirmed

*Details in Annexure

Analytical Approach: Ind-Ra factors into the ratings PNB's systemically important position and the likelihood of the bank continuously receiving the support from the government of India (GoI). Ind-Ra also considers PNB's demonstrated equity raising ability and the likelihood of an improvement in its pre-provisioning operating profitability over FY23, helping 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 gross advances was about 7.1% and 6.3%, respectively, in FY23. Even if private banks were to be included, PNB's positioning would remain significant, with the bank being the third-largest in terms of deposits market share and sixth-largest in terms of net advances market share. The amalgamated bank has 10,076 branches, two international branches, 12,898 automated teller machines, 24,227 Business correspondents and about 180 million customers. PNB is also the convenor bank in six state-level banking committees, second only to the State Bank of India (SBI; 'IND AAA'/Stable), and it is also the district-level convener bank in 112 districts (18.3% of total).

Capital Buffers Adequately Placed; Weak Internal Accruals May Dampen Growth Prospects: PNB is a well-capitalised PSB, with a common equity tier-1 (CET-1) ratio of 11.22% in 4QFY23 (4QFY22: 10.56%) and a capital adequacy ratio (CAR) of 15.50% (14.50%). The bank's CET levels are largely in line with that of large PSBs. Even after factoring in elevated provisioning requirements in the near term on account of aeging provisions, the agency believes that the capital buffers would remain significantly higher than the regulatory requirements, owing to its increasing internal accruals. Furthermore, PNB had raised INR55.9 billion (8.1% of 3QFY23 CET I capital) 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 that while the capital is adequate for now, continued growth in advances, a further catch-up in the provision coverage ratio and the need to build buffers ahead of the implementation of Expected Credit Loss norms while having subdued internal accruals could keep the capital ratios under pressure.

Strong 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 of 43.0% in 4QFY23 (4QFY22: 47.4%) is largely in line with the median of the peer group. The agency believes that given the bank's market share in system advances is significantly higher than that of its current account deposit market, it would continue to benefit from its focus on improving the CASA ratio.

Liquidity Indicator - Superior: PNB's short-term (one year) asset-liability surplus stood at 18.0% at 4QFYE23. The bank also maintained 24.1% of the total assets in balances with the Reserve Bank of India and in government securities in 4QFY23, which assures Ind-Ra that it is adequately placed to meet its short-term funding requirements. Moreover, PNB maintained a liquidity coverage ratio of 162.29% in 4QFY23 on a consolidated basis as against the regulatory requirement of 100%.

Increasing Pre-Provisioning Operating Profit; Although Profitability Under Pressure: Post-amalgamation, which was effective from 1QFY21, PNB has reported profits consistently on a quarterly basis and the profit for FY22 grew significantly over FY21. However, the trend has been volatile, partially due to the COVID-19 pandemic. During FY23, the profit after tax declined sharply to INR25.1 billion (FY22: INR34.6 billion) on account of higher operating expenses and provisioning requirements, despite healthy growth in the pre-provisioning operating profit to INR225.3 billion (INR207.6 billion). The pre-provisioning operating profit for FY23 has been higher on a year-on-year basis despite factoring in the provisions related to Accounting Standard – 15, which arose on account of the impact of impending wage revision on pension and gratuity.

The management has guided for a further decline in the gross non-performing assets and gross non-performing assets ratios. The agency believes that the provisioning requirement in FY24 are likely to remain subdued in comparison to earlier years as the prevailing risk environment is benign and large corporate slippages have already been recognised. However, provisions will still remain significant due to: i) ageing provisioning requirements; and ii) provisioning requirements for fresh slippages, including that from the Emergency Credit Line Guarantee Scheme and COVID-19 restructuring pools.

Asset Quality Challenges Continue: PNB has been increasing its provision coverage ratio, which stood at 70.8% (excluding technical write-offs) in FY23 (FY22: 62.2%) but is still at the lower end within the peer group. The bank also carried almost 100% provisions against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists and 99.5% against the overall NCLT exposure in FY23. In FY23, its gross non-performing assets and net non-performing assets continued to decline but remained elevated at 8.74% and 2.72%, respectively, (FY22: 11.78% and 4.80%, respectively) compared to peers. Furthermore, the special mention accounts-2 pool with ticket size of above INR50 million stood at negligible levels (0.01% of net advances). COVID-19 restructuring pool under OTR 1 and OTR 2 of INR109.3 billion (1.32% of net advances) and Emergency Credit Line Guarantee Scheme outstanding of INR110.6 billion (1.33% of net advances), together 2.65% 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, the GoI's support stance for PSBs changes 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 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.

Company Profile

PNB had a domestic branch network of 10,076 branches, two international branches and 12,898 automated teller machines as of March 2023. Of the existing branches, 39% are located in rural areas, 24% in semi-urban and the balance 37% in urban and metro regions.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR billion)	14,618.3	13,148.0
Total equity (INR billion)	998.6	954.8
Net income/loss (INR billion)	25.1	34.6
Return on assets (%)	0.18	0.26
CET-1 (%)	11.22	10.56
CAR (%)	15.50	14.50
Source: PNB, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook						
	Rating Type	Rated Limits (billion)	Rating	16 February 2023	25 November 2022	9 November 2022	8 Sep 20
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IN AAA/St A
Basel III Tier 2 bonds	Long-term	INR210	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA
Basel III AT1 bonds	Long-term	INR117.95	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA
Senior infrastructure bonds	Long-term	INR20	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA
Fixed Deposit	Long-term		IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AA
Certificate of Deposit	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND A1+	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 XII	INE160A08183	22 January 2021	8.60	Perpetual	INR4.95	IND AA+/Stable
Basel III AT1 bonds series XIII	INE160A08209	9 December 2021	8.40	Perpetual	INR20.00	IND AA+/Stable
Basel III AT1 bonds series XIV	INE160A08217	17 January 2022	8.50	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	8.30	Perpetual	INR6.58	IND AA+/Stable
Basel III AT1 bonds series XVII	INE160A08258	23 December 2022	8.40	Perpetual	INR5.82	IND AA+/Stable
Basel III AT1 bonds series XVIII	INE160A08266	27 March 2023	8.75	Perpetual	INR9.74	IND AA+/Stable
Total utilised					INR101.80	
Total unutilised					INR16.15	
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
Basel III Tier 2 bonds Series XXIV	INE160A08191	18 November 2021	7.10	18 November 2031	INR19.19	IND AAA/Stable
Basel III Tier 2 bonds	INE695A09103	25 June 2013	8.75	25 June 2023	INR5.00	IND AAA/Stable
Basel III Tier 2 bonds XXV	INE160A08241	1 December 2022	7.89	1 December 2032	INR40.00	IND AAA/Stable

Total utilised						**INR159.13**
Total unutilised						**INR50.87**
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

Instrument Type	**Complexity Indicator**
Fixed deposits	Low
Certificate of deposits	Low
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.

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Rating FI Subsidiaries and Holding Companies

Evaluating Corporate Governance

The Rating Process