



पंजाब नैशनल बैंक



punjab national bank

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Scrip Code : PNB	Scrip Code : 532461
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Date: 16.10.2020

Dear Sir(s),

Reg.: RATING ACTION BY BRICKWORK RATINGS

The Exchanges are hereby informed that Brickwork Ratings has assigned/reaffirmed the BWR AA+/Stable rating for Basel III Tier II Bonds, Upper Tier II Bonds and the Innovative Perpetual Debt Instrument; reaffirmed the BWR AA/Stable rating for Basel III Additional Tier I Bonds and has withdrawn the rating of the Innovative Perpetual Debt Instrument of Rs 200 Crores of Bank. The Credit Watch with Developing Implications has been removed.

The instrument-wise rating actions are given below:-


Instrument	Amount (Rs Cr)		Tenor	Ratings	
	Previous	Present		Previous	Present
Innovative Perpetual Debt Instrument (Basel II)	200	200	Long Term	BWR AA+/Credit Watch with Developing Implications	Withdrawn
	-	300^		-	BWR AA+/Stable (Assigned)
Upper Tier II Bonds (Basel II) ^	-	200	Long Term	-	BWR AA+/Stable (Assigned)
Tier II Bonds (Basel III) #	-	1000	Long Term	-	BWR AA+/Stable (Assigned)
Additional Tier 1 Bonds (Basel III)	5250	5250	Long Term	BWR AA/Credit Watch with Developing Implications	BWR AA/ Stable (Removed from Credit Watch and rating reaffirmed with Stable outlook)
Total	5450	6950			

^ Issued by Oriental Bank of Commerce, transferred to Punjab National Bank on amalgamation

issued by United Bank of India, transferred to Punjab National Bank on amalgamation

The complete rating action is enclosed herewith. This is in compliance of SEBI (LODR) Regulations, 2015

Thanking you
Yours faithfully,


(Ekta Pasricha)
Company Secretary



RATING RATIONALE

15 October 2020

Punjab National Bank

Brickwork Ratings assigns/reaffirms the BWR AA+/Stable rating for Basel III Tier II Bonds, Upper Tier II Bonds and the Innovative Perpetual Debt Instrument; reaffirms the BWR AA/Stable rating for Basel III Additional Tier I Bonds and withdraws the rating of the Innovative Perpetual Debt Instrument of Rs 200 Crs of Punjab National Bank. The Credit Watch with Developing Implications has been removed.

Particulars:

Instruments**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (Oct 2019)	Present
Innovative Perpetual Debt Instrument (Basel II)	200	200	Long Term	BWR AA+/Credit Watch with Developing Implications	Withdrawn
	-	300 ^		-	BWR AA+/Stable (Assigned)
Upper Tier II Bonds (Basel II) ^	-	200	Long Term	-	BWR AA+/Stable (Assigned)
Tier II Bonds (Basel III) #	-	1000	Long Term	-	BWR AA+/Stable (Assigned)
Additional Tier 1 Bonds (Basel III)	5250	5250	Long Term	BWR AA/Credit Watch with Developing Implications	BWR AA/ Stable (Removed from Credit Watch and rating reaffirmed with Stable outlook)
Total	5450	6950	Rupees Six Thousand Nine Hundred Fifty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** ISIN Details of Instruments are provided in Annexure-I

^ Issued by Oriental Bank of Commerce, transferred to Punjab National Bank on amalgamation

Issued by United Bank of India, transferred to Punjab National Bank on amalgamation

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) assigns BWR AA+/Stable for the innovative perpetual debt instrument of Rs 300 Cr, upper Tier II bonds of Rs 200 Cr and Tier II bonds of Rs 1000 Cr, which have been transferred from Oriental Bank of Commerce (OBC) and United Bank of India (UBI) to Punjab National Bank (PNB) upon amalgamation. BWR also reaffirms the rating of Basel III additional Tier I (AT1) bonds of Rs 5250

Cr at BWR AA/Stable of Punjab National Bank and withdraws the ratings of the innovative perpetual debt instrument of Rs 200 Cr, as tabulated above. BWR has resolved the Credit Watch with Developing Implications on the ratings of PNB following the completion of the amalgamation process with OBC and UBI.

The amalgamation of OBC and UBI with PNB was initially announced on 30 August 2019 by the Government of India (GOI), and the amalgamation was complete effective from 1 April 2020. With the completion of the amalgamation, PNB has become the second largest public sector bank (PSB) in terms of asset size.

The ratings, inter alia, factor in PNB's strong support from its majority shareholder, the GOI, established track record and large size of operations, and comfortable resource profile. The ratings are, however, constrained by the average earnings profile and weak asset quality.

Additional Tier I (AT1) Bonds under Basel III

The differentiating features of additional Tier-I capital instruments (under Basel III) include the discretionary payment of coupons by the bank and principal write-down upon the breach of pre-specified triggers. These features increase the risk attributes of AT1 instruments over those of Tier-II instruments under Basel III. To factor in these risks, BWR notches down the rating on these instruments from the bank's Tier-II bonds. The rating on PNB's AT1 bonds (under Basel III) has, therefore, been lowered by one notch from its Tier-II bonds (under Basel III) rating. The factors based on which the rating of the AT1 bonds (under Basel III) is lowered are the bank's weak asset quality and its impact on profitability and capitalisation. Nevertheless, the bank's revenue reserves are comfortable, and the bank is ensuring timely coupon payments.

The Stable outlook on the Tier I Basel III bonds is mainly on account of the bank's adequate capitalisation levels. However, the impact on asset quality and profitability, mainly due to lower loan collections and recovery, the restructuring of loans under RBI-approved schemes and the resulting impact on provisioning costs over the near term will be monitorable. The bank's ability to improve and maintain its capital adequacy levels, with the CET-I ratio being at a minimum of 1% above the regulatory minimum requirement and Tier I at a minimum of 1.5% above the regulatory minimum requirement, will be key rating monitorable.

KEY RATING DRIVERS

Credit Strengths:

- **Strong support from GOI:** Punjab National Bank is the second largest PSB in the country (by total assets), with a strong presence in North and Central India, and is hence, of significant importance to the GOI. PNB benefits from strong sovereign support from the GOI that had an 85.58% shareholding as on 30 September 2020. As on 30 August 2019, the GOI announced an

upfront capital infusion of Rs 55250 Cr into PSBs, of which Rs 16091 Cr was infused into PNB. BWR takes comfort in the completion of the amalgamation, PNB's systemic importance, its strong market position, and the demonstrated capital support from the GOI on an ongoing basis, and expects continued, adequate and timely capital support from the GOI for the bank to pursue growth and also adequately cover for asset-side risks over the medium term.

- Established track record and large size of operations:** Incorporated in 1894, PNB has an established operational track record of more than 12 decades and is one of the largest nationalised banks in terms of business and outreach. Post the amalgamation, PNB had total assets of Rs 12.3 lakh Cr as of 30 June 2020, with a network of 10,930 branches, 13856 ATMs and a customer base of over 18 Cr pan-India. The global consolidated business (deposits plus advances) amounted to Rs 17.9 lakh Cr as on 30 June 2020, i.e., YoY growth of 2.7%. As of 30 June 2020, 47% of the loan book exposure was to corporates, 17% to MSME segments and 18% to retail segments.
- Comfortable resource profile:** PNB has a comfortable resource profile, with a deposit base of Rs 10,74,917 Cr as of 30 June 2020, compared with Rs 10,71,569 Cr at the end of the previous quarter. The Current Account and Savings Account (CASA) deposits improved over the period to Rs 4,53,816 Cr as on 30 June 2020, compared with Rs 4,42,971 Cr as of 31 March 2020. The share of low-cost CASA deposits thus improved to constitute 43.45% of total deposits as of 30 June 2020, compared with 42% in the previous quarter and 40.6% as of 30 June 2019. The cost of deposits reduced over the period to 4.92% as of 30 June 2020, from 5.35% as of 30 June 2019. The other borrowings of the bank were limited to only 3.6% of the balance sheet size, at Rs 44,471 Cr, as on 30 June 2020.
- Adequate capitalisation:** The bank has an adequate capitalisation profile, although the levels reduced post the amalgamation, with the Capital Adequacy Ratio (CAR), Tier-I CAR and Common Equity Tier I (CET I) ratios at 12.63%, 10.25% and 9.44%, respectively, as on 30 June 2020, as against 14.14%, 11.9% and 10.69%, respectively, as on 31 March 2020, before the amalgamation. As per the regulatory capital requirements, the banks need to have a minimum total CAR of 11.5%, Tier-I ratio of 9.5% and CET-1 ratio of 8.0%, (including the capital conservation buffer of 2.5%) as of 30 September 2020. The GOI infused Rs 16091 Cr in PNB in the first half of fiscal 2020, placing the net worth at Rs 86,289 Cr as of 30 June 2020. However, the net worth coverage to net NPA was low, at 2.41 times, as of 30 June 2020. Timely, regular support from the GOI and the bank's ability to raise capital via internal accruals and improving the overall earnings profile to maintain adequate capitalisation levels will be a key monitorable.

Credit Risks

- Weak asset quality:** The bank's asset quality is weak, with the gross Non-Performing Assets (NPA) at 14.1% as of 30 June 2020, compared with 13.8% as of 31 March 2020 and 15.5% as of 30 June 2019. The gross NPA in absolute amounts stood at Rs 1,01,849 Cr as of 30 June 2020, down by ~7.6% YoY due to limited fresh slippages. The contribution to the gross NPA is led by

corporates and others at 57.3% of the gross NPA, followed by agriculture and allied at 18.8% of the gross NPA, and MSME and retail loans contribute to 17.1% and 4.4% of the gross NPA, respectively, as of 30 June 2020. Slippages during the quarter ended June 2020 were at Rs 1917 Cr, down by ~70% YoY from Rs 6400 Cr during the corresponding quarter the previous year. The write-offs remained broadly similar, at Rs 4120 Cr as of 30 June 2020, compared with Rs 4413 Cr during the corresponding quarter in the previous year.

Due to the economic slowdown on account of the COVID-19 pandemic, retail low-income borrower segments, self-employed professionals and MSME businesses, among others, are expected to be impacted. For PNB, 47% of the loan book exposure was to corporates, 17% was to MSME segments and 18% was to retail segments, as of 30 June 2020. Cash flows from these segments may experience potential stress, and hence, impact asset quality. As of 30 June 2020, ~29% of advances were under moratorium, which reduced to ~25% as of August 2020. Considering the RBI recommendation of a one-time restructuring of MSME accounts that were standard as of 31 March 2020, there is a possibility for PNB to restructure a portion of its MSME book. PNB's ability to manage asset quality as it scales business in view of the COVID-19 pandemic will be a key rating monitorable over the medium term.

- **Average earnings profile:** PNB's earnings profile is average, with a reported net profit of Rs 308 Cr on an operating income of Rs 10,436 Cr for the quarter ended 30 June 2020, compared with a net profit of Rs 1210 Cr on an operating income of Rs 9660 Cr for the corresponding quarter in the previous year. (The results for the quarter ended 30 June 2020 onwards is inclusive of the operations of erstwhile OBC and UBI). Although the operating income improved by ~8% YoY, profits reduced due to an increase in the provisioning cost by ~26.2% YoY to Rs 4972 Cr as of 30 June 2020 and increase in operating expenses by ~14.3% YoY to Rs 5156 Cr as of 30 June 2020. The increase in operating expenses and provisioning cost was primarily driven by the amalgamation of OBC and UBI with PNB. The Return on Assets (ROA) hence, reduced to 0.09% for the quarter ended 30 June 2020, compared with 0.4% for the corresponding quarter in the previous year.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Punjab National Bank's ability to grow profitably and improve the asset quality and capitalisation while maintaining deposits will be key rating sensitivity factors.

Positive: The bank's ability to substantially improve and sustain its asset quality, profitability and capitalisation are key rating positives.

Negative: A substantial deterioration in asset quality and capitalisation levels. Further, for AT -I bonds, the bank's inability to improve and maintain its capital adequacy levels, with the CET-I ratio being at a minimum of 1% above the regulatory minimum requirement and Tier I at a minimum of 1.5% above the regulatory minimum requirement will be key rating negatives.

LIQUIDITY POSITION: Strong

The bank's liquidity profile was strong, with a reported average Liquidity Coverage Ratio (LCR) for the quarter ended 30 June 2020 at 171.9%, which is well above the prescribed minimum requirement of 80% (restored to 90% by 1 October 2020 and to 100% by 1 April 2021).

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. COVID-19 has impacted the domestic economy of India, as the nation had gone into lockdown 24 March 2020 onwards (later converted to partial lockdown in various states). As per BWR, financial institutions, mainly those lending to retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India, on interest and principal on bank debt, has provided some cushion to the lending community to realign its collection mechanism and operations during this period. However, lenders' ability to ensure credit discipline among borrowers, to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact of its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

ABOUT THE BANK

Punjab National Bank is India's first Swadeshi Bank, which started operations in April 1895 from Lahore. It is one of the largest PSBs in India, with a strong presence in North and Central India. Post the amalgamation of OBC and UBI with PNB, with effect from 1 April 2020, the bank has a strong pan-India network of 10,930 branches and 13,856 ATMs as of 30 June 2020, and caters to a customer base of over 18 Cr across the country. The amalgamation has led PNB to become the second largest PSB in the country.

KEY FINANCIAL INDICATORS

		PNB (Pre merger of OBC & UBI)			Merged^
		FY2018	FY2019	FY2020	Q1 FY21
Key Parameters	Units	Audited	Audited	Audited	Audited
Total Assets	Rs in Crs	765830	774949	830666	1232401
Net worth	Rs in Crs	41074	44787	62358	86289
Net Interest Income	Rs in Crs	14922	17156	17438	6748
Profit after Tax	Rs in Crs	-12283	-9975	336	308
Gross NPA	%	18.4	15.5	14.2	14.11
Overall capital adequacy ratio	%	9.2	9.7	14.1	12.63
Return on assets	%	Negative	-1.25	0.04	0.09

^ merged financials of Punjab National Bank, Oriental Bank of Commerce and United Bank of India

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

S r. N o.	Name of Instru ment	Current Rating (2020)			2019		2018		2017		
		Type	Amount (Rs Crores)	Rating	15 October 2019	01 April 2019	14-Dec-18	21-Feb-18	05-Jul-17	23-Mar-17	03-Feb-17
1	Innovative Perpetual Debt Instrument	Long Term	200	Withdrawn*	BWR AA+/Credit Watch with Developing Implications	BWR AA+/Stable	BWR AA+/Negative	BWR AA+/Credit Watch with Developing Implications	BWR AAA/Stable	BWR AAA/Stable	BWR AAA/Stable
2	Innovative Perpetual Debt Instrument	Long Term	300	BWR AA+/Stable (Assigned)^	NA	NA	NA	NA	NA	NA	NA
3	Basel III Additional Tier I Bonds	Long Term	5250	BWR AA/Stable (Reaffirmed)	BWR AA/Credit Watch with Developing Implications	BWR AA/Stable	BWR AA/Negative	BWR AA/Credit Watch with Developing Implications	BWR AA+/Stable	BWR AA+/Stable	BWR AA+/Stable
4	Upper Tier II Bonds (Basel II)	Long Term	200	BWR AA+/Stable (Assigned)^	NA	NA	NA	NA	NA	NA	NA
5	Tier II Bonds (Basel III)	Long Term	1000	BWR AA+/Stable (Assigned)^	NA	NA	NA	NA	NA	NA	NA
Total			6950	Rupees Six Thousand Nine Hundred Fifty Crores Only							

* Rating is withdrawn on account of redemption

^ Issued by OBC and UBI and on amalgamation, transferred to Punjab National Bank.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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Punjab National Bank

ANNEXURE I

INSTRUMENT DETAILS

Instrument	Issue date	Amt Rs Crs	Coupon Rate%	Maturity Date	ISIN
Innovative Perpetual Debt Instrument	27-Nov-09	200	9%	Redeemed	INE160A09314
	17-Sep-10	300 ^	9.05%	Perpetual	INE141A09116
Basel III Additional Tier I Bonds	03-Mar-17	1500	8.95%		INE160A08100
	29-Mar-17	500	9.21%		INE160A08118
	31-Mar-17	250	9.21%		INE160A08126
	25-Jul-17	3000 (raised Rs 1500)	8.98%		INE160A08134
Upper Tier II Bonds (Basel II)	20-Sep-10	200 ^	8.68%	20-Sep-25	INE141A09124
Tier II Bonds (Basel III)	25-Jun-13	500 ^	8.75%	25-Jun-23	INE695A09103
	23-Aug-17	500 ^	9.00%	23-Aug-27	INE695A08030
Total		6950			

^ Issued by Oriental Bank of Commerce or United Bank of India and on amalgamation, transferred to PNB.



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DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.