Ref No: PSB/HO/Shares Cell / 77 /2024-25 **October 23, 2024**

To,

BSE Limited,	National Stock Exchange of India Ltd.,
Department of Corporate Services, 25th floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001. **SCRIP ID : PSB** **SCRIP CODE : 533295**	Exchange Plaza, C – 1, Block – G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051. **SYMBOL: PSB SERIES: EQ**

Dear Sir,

Reg: Rating by India Ratings

We hereby inform that India Ratings vide its Press Release dated 23.10.2024 has assigned its 'IND AA/Stable' rating to the proposed Rs.3000 crore Infrastructure Bonds as detailed hereunder:

Instrument Type	Rating / Outlook
Infrastructure Bonds of Rs 3000 crore	IND AA/Stable (Assigned)

The Press Release 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 Digitally signed by SAKET MEHROTRA Date: 2024.10.23 14:34:07 +05'30'

Punjab & Sind Bank H.O. Accounts & Audit Deptt. (Shares Cell) (शेयर कक्ष) Rajendra Place, New Delhi-8

Saket Mehrotra
Company Secretary

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Punjab & Sind Bank's Infrastructure Bond 'IND AA'/Stable

Oct 23, 2024 | Public Sector Bank

India Ratings and Research (Ind-Ra) has rated Punjab & Sind Bank's (PSB) infrastructure bonds as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Infrastructure bonds*	-	-	-	INR30.00	IND AA/Stable	Assigned

* unutilised

Analytical Approach

Ind-Ra has factored in the availability of support from the government of India (GoI) to arrive at the ratings. The GoI held a 98.25% stake in PSB at end-June 2024 and the bank is of systemic importance to the government.

Detailed Rationale of the Rating Action

The rating reflects the bank's improved capital position and operating buffers, indicating its enhanced ability to absorb the impact of any rise in credit costs. Furthermore, the rating reflects an improvement in PSB's systems and processes, improved profitability buffers, strengthened provision cover for stressed assets, and improved capitalisation through a combination of reducing risk weight assets and movement towards a granular loan portfolio.

Post the implementation of centralised processing centres (CENMARG) in August 2022 for granular ticket sizes in the retail, agri and micro, small & medium enterprises (RAM) segment, PSB has witnessed gross non-performing assets (GNPA) of just 0.76% for outstanding credit of INR121.1 billion for the RAM segment against outstanding on-book credit of INR460.6 billion with GNPA of 6.79%. Also, upgradation of core banking system to Finacle 10 in 2QFY24 which would enable them to provide value added services and improve cross selling of products. Also, PSB's recent initiative to spend INR8 billion as its information technology budget over the next three years would sustain its opex at a higher trajectory; however, this would also provide traction on the margin, fees and liability origination front, which would ultimately lead to higher sustainable return on assets (ROA) in the medium-to-long term. These factors, in the agency's opinion, could sustain PSB's improved profitability in the medium term on a sustainable basis and help the bank gain market share in advances and deposits.

List of Key Rating Drivers

Strengths

- Strengthened capital buffers; internal accruals have improved
- Structural changes to support consistency in performance
- Improvement in profitability led by muted credit costs

Weaknesses

- Improvement visible in asset quality, but more effort required
- Need to strengthen low-cost liability franchise

Detailed Description of Key Rating Drivers

Strengthened Capital Buffers; Internal Accruals have Improved: PSB is a well-capitalised PSB, with a common equity tier-1 (CET-1) ratio of 14.8% in 1QFY25 (FY24: 14.74%, FY23: 14.32%) and a capital adequacy ratio (CAR) of 17.30% (17.16%, 17.10%). Furthermore, the bank has taken board approval to raise equity capital of INR20.0 billion in FY25, which would augment the capital base by 310bp. The bank already achieved ROA of 0.50% in 1QFY25 (under the old tax regime) and intends to increase it to 0.75% in the medium term, which clearly indicates the improved internal accruals over the past two years (FY24: 0.42%, FY23: 1.02%, FY22: 0.90). However, it is pertinent to sustain this trajectory through the cycle. Moreover, during 1QFY25, in lieu of regulatory requirements, the bank took a revaluation hit of INR42.5 billion on recapitalisation bonds of INR116.7 billion, which was adjusted through general reserves. Every year, about INR 4.5 billion (until the recap bonds are paid) will be reverted to the shareholder reserves. Even after factoring in elevated provisioning requirements in the near term (reducing NNPA to below 1% by 2QFY26 from 1.59% in 1QFY25), Ind-Ra believes PSB's capital buffers would remain significantly higher than the regulatory requirements, owing to its increasing internal accruals. The agency believes, while the capital base is adequate for now, there is a need to continuously grow advances and build buffers ahead of the implementation of expected credit loss norms. This will be a key monitorable.

Structural Changes to Support Consistency in Performance: Around 2015, PSB was mostly a community bank, and with higher concentration in Punjab and Uttar Pradesh, it faced higher agriculture delinquencies. Furthermore, after going through the asset quality review (AQR) cycle and NBFC crisis during 2016-2020 and the impact of covid in FY21, PSB reported aggregate losses of INR50.1 billion between FY18-FY21 and the GoI had to infuse INR 101 billion in the bank during FY21-FY22. PSB has taken several measures to recover from its dire position, including the following: i) the implementation of the central loan origination system in FY20, which has reduced the load at branches for underwriting; and ii) launching centralised processing centres (CENMARG) in August 2022, which now through 25 centralised processing centres take underwriting decisions for entire retail sourcing , agri sourcing (INR0.5 million and above), and MSME sourcing (INR1 million and above). Subsequently, the RAM segment has shown GNPA of just 0.76% for outstanding credit of INR121.1 billion for the RAM segment post August 2022 against outstanding on-book credit INR460.6 billion with GNPA of 6.79%. Moreover, the agriculture delinquencies have significantly reduced, with SMA 2 of 0.9% in 1QFY25.

The bank witnessed a turnaround in FY22, reporting PAT of INR10.4 billion during the year (ROA of 0.9%), and PAT of INR13.1 billion in FY23 (ROA of 1.02% with advances growth of 20.7%). Furthermore, collection efficiencies (including overdues) improved to 98% in September 2024 from 66.7% in March 2022. However, during FY24, largely because of implementation of Finacle 10 in 2QFY24 (which had led to slowdown in sourcing for the next two quarters) and the entire impact of bipartite wage settlement cost in FY24, PSB reported PAT of INR6.0 billion in FY24. Now PSB has undertaken an initiative spend of INR8 billion as its information technology budget for the next three years, which would involve the setting up of revamped customer relationship management (CRM) solutions, upgrade of the centralised trade finance module for forex solutions, back-office structure for mobilising CASA accounts and data warehouse project, which would enable the bank to establish CRM for leveraging own captive data.

Moreover, the advances mix of the bank has changed over the past few years, with the share of the RAM segment increasing to 52% of loans in 1QFY25 from 47.2% in FY20. Also, the rating profile of the corporate advance mix has improved, with the share of 'A' and above ratings (including GoI guaranteed) in the overall mix rising to 83.0% in 1QFY25 from 71% in FY20. The above structural changes in the bank over the last five years could help sustain the consistency in the operating performance of the bank.

Improvement in Profitability led by Muted Credit Costs: PSB, which had witnessed losses of INR50.1 billion over FY18-FY21, reported PAT of INR29.5 billion during FY22-FY24 (FY24: INR6.0 billion, FY23: INR13.1 billion, FY22: INR10.4 billion). The improvement in net interest income (NII) to INR28.4 billion in FY24 from INR22.6 billion in FY21 was largely led by an improvement in the net loans to deposit (LDR) ratio to 69.3% in FY24 (63.4% in FY21), though the NIM remained rangebound between 2.45% - 2.9% during the period. The NIM stood at 2.69% in 1QFY25, and the bank expects it to range between 2.75% -2.8% at FYE25, largely led by higher yielding retail sourcing and churning of the NBFC portfolio away from lower-yielding exposure. Furthermore, PSB carried technical written off (TWO) book of INR72.0 billion in1QFY25, which has led to strong recovery from written off accounts worth INR6.9 billion in FY24 (FY23: INR5.1 billion);

the bank expects a similar performance in FY25, largely led by recovery and upgrades guidance of INR 10 billion in FY25 (1QFY25: INR 2.8 billion). The cost-to-income ratio, which had been steady around 63% during FY22-FY23, increased to 72% in FY24, largely led by bipartite wage settlement cost of INR4 billion, though PSB expect the ratio to moderate to 60%-62% within two years (including tech capex of INR 8 billion), which will further support the profitability.

Also, a substantial decline in average credit costs to 0.1% in FY22-FY24 (FY24: 0.24%; FY23: -0.24%; FY22: 0.23%) from levels of 3.3% in FY20 and 7.0% in FY21 have supported the profitability in meaningful way. The bank needs to bring down NNPA to below 1% (1QFY25: 1.59%) and provide for ECL implementation, which would entail higher provisions; however, barring any major credit events such as COVID-19, Ind-Ra expects the bank to maintain adequate profitability over the medium term, with return on assets of 0.6%-0.8%. Furthermore, the management aims to achieve mid-teens return on equity on a sustainable basis, which should provide a runway for advances growth in the near-to-medium term.

Improvement Visible in Asset Quality, But More Effort Required: In 1QFY25, PSB's gross NPA and net NPA improved to 4.72% (FY24: 5.43%; FY23: 6.97%, FY22: 12.17%) and 1.59% (FY24: 1.63%; FY23: 1.84%, FY22: 2.74%), respectively. Although the bank maintained an adequate provision coverage ratio (excluding technical write-offs) of 68% in 1QFY25, it plans to bring the NNPA below 1% by 2QFY26.The improved asset quality is supported by a substantial decline in average slippages ratio to 1.25% during FY24-1QFY25 (2.77% over FY21-FY22; average of 4.5% during FY17-FY20, largely led by CENMARG implementation). Also, the write-offs taken by the bank declined to INR5.5 billion in 1QFY25 (FY24: INR8.0 billion; FY23: INR22.8 billion; FY22: INR11.3 billion). The agency expects the bank to maintain comfortable asset quality over the medium term, given adequate provisioning on the slipped assets. The special mention account-2 pool with ticket size of above INR10 million stood at negligible levels during 1QFY25 (0.92% of net advances). However, its COVID-19 restructuring pool under one-time restructuring 1 and one-time restructuring 2 of INR17.8 billion (2.09% of net advances) and Mudra exposure among MSMEs are potential pools for slippages over the near-to-medium term but would be manageable for the bank over the medium term.

Need to Strengthen Low-cost Liability Franchise: The bank’s current account and saving account (CASA) deposit ratio on global deposits declined to 31.6% in 1QFY25 (FY24: 32.4%, FY23:33.6%), which has largely been the industry phenomenon, but it remains below similar rated peers. The bank has been taking measures to enhance its CASA franchise, such as signing a memorandum of understanding with the Indian Army to garner defence accounts and partnering with mutual fund fintech companies for demat accounts. However, material improvement in the CASA franchise is yet to be seen. The management is cognisant of the loss in market share over the past few years and has been taking steps for improving PSB’s market share in both deposit and advances in the medium term. Although PSB’s CASA share is weak, its CASA + retail term deposit (RTD) stood at 74.2% in 1QFY25 (FY24:73.9%, FY23:75.4%), which has ensured that the cost of deposits remained lower at 5.64% in 1QFY25 compared to FY20 levels, and it has increased just 138bp for an increase of 250bp in the repo rate since April 2022 (FY24 cost of deposit: 5.55%, FY22 : 4.28% , FY20 : 6.04%).

PSB continues to face high competition for mobilisation of deposits, which is reflected in in its guidance for FY25 (loan growth of 10%-12% against deposit growth of 8%-10%); however, this is partly mitigated by the fact that the LDR, though it has been increasing, remained comfortable at 70.5% in 1QFY25 (FY24: 69.3%, FY23: 70.1%, FY22: 62.3%). The agency expects the bank to maintain the LDR between 75%-80% in the medium term. The bank’s ability to maintain the loan growth in the face of continued competition for mobilisation of deposits would be a key monitorable in the near-to-medium term.

Liquidity

Adequate: PSB’s short-term (one year) asset-liability deficit stood at 19.6% at 1QFY25. As of June 2024, 61% of the total liabilities had a maturity within one year period, while 29.4% of the total assets had a maturity within one year period. Its liquidity coverage ratio, which stood at 132.97% as of June 2024, which was well above the regulatory requirement of 100%. Also, the bank maintained around 25.8% of its total assets as statutory liquidity ratio (SLR) investments, which gives the agency comfort that the bank will be able to meet its short-term funding requirements.

Rating Sensitivities

Positive: A substantial, demonstrated growth in the franchise, delivering of consistent market share gains, consistency in the profitability while maintaining capital buffers at materially higher levels than the regulatory requirements and an improvement in the deposit profile hereon could result in a positive rating action.

Negative: The infrastructure bond rating is based on Ind-Ra's expectation of continued support from the GoI (majority shareholder) to meet the minimum capital requirements. Events that could, individually or collectively, lead to a negative rating action:

- any change in the majority GoI ownership or a change in the agency's opinion regarding the GoI's timely support for the bank
- a material reduction in the capital buffers, with the CET 1 capital buffer reducing below 12% on a sustained basis,
- sharp deterioration in the operating performance and consistent pressure on the asset quality, thereby impacting profitability buffers, with the ROA remaining below 0.5% on sustained basis

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 Punjab and Sind Bank, 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.

About the Company

PSB is a public sector bank, with operations across India. At end-June 2024, the bank had over 1,569 branches, with a strong presence in north India.

Key Financial Indicators

Particulars	FY24	FY23
Total assets (INR billion)	1,476.6	1,364.6
Total equity (INR billion)	155.3	151.1
Net income/loss (INR billion)	6.0	13.1
Return on assets (%)	0.42	1.02
CET-1 (%)	14.74	14.32
CAR (%)	17.16	17.10
Source: PSB, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook
Infrastructure bonds	Long-term	INR30.0	IND AA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
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 AND POLICIES

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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