June 08, 2022

Punjab National Bank: Migration of the rating outstanding on the medium-term rating scale to the long-term rating scale

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposits	-	-	[ICRA]AA+ (Stable); migrated from MAAA (Stable)
Basel III Tier-I Bonds	4,000.00	4,000.00	[ICRA]AA (Stable); outstanding
Infrastructure Bonds	3,000.00	3,000.00	[ICRA]AA+ (Stable); outstanding
Basel II Lower Tier II Bonds	1,200.00	1,200.00	[ICRA]AA+ (Stable); outstanding
Basel III Tier II Bonds	3,000.00	3,000.00	[ICRA]AA+ (Stable); outstanding
Certificates of Deposit	60,000.00	60,000.00	[ICRA]A1+; outstanding
Total	**71,200.00**	**71,200.00**	

**Instrument details are provided in Annexure-1*

Rationale

In compliance with the circular [SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594] issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 and the subsequent circular (SEBI/HO/MIRSD/MIRSD_CRADT /P/CIR/2022/43) of April 1, 2022, for standardising the rating scales used by credit rating agencies, ICRA has discontinued the medium-term rating scale which was being used to assign ratings to the fixed deposit programmes of entities.

Accordingly, ICRA has migrated the rating currently outstanding for the fixed deposits programme of Punjab National Bank (PNB) from the medium-term rating scale to the long-term rating scale. The medium-term rating scale of ICRA was a 14-point scale, while the long-term rating scale is a 20-point scale. The migration of the rating has resulted in a change in the rating symbol; however, this is to be construed only as a recalibration of the rating from one scale to another and not as a reflection of a change in the credit risk of the fixed deposit programme.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities and key financial indicators: Click here

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings factor in PNB's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions, if required.
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of PNB. However, in line with ICRA's limited consolidation approach, the capital requirement of the PNB Group's key subsidiaries/associates/joint ventures, going forward, has been factored in.

About the company

Incorporated in 1894, Punjab National Bank merged with erstwhile United Bank of India (e-UB) and erstwhile Oriental Bank of Commerce (e-OBC) on April 1, 2020 to form the second largest public sector bank (PSB) and the third largest bank in the Indian banking system with a total asset base of Rs. 13.1 lakh crore as on March 31, 2022. The bank had a market share of 6.4% and 7.4% in net advances and total deposits, respectively, as on December 31, 2021, with the Government of India (GoI) holding a majority stake (73.15% as on March 31, 2022). It had a network of 10,098 branches and 13,350 ATMs as on March 31, 2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
			(Rs. crore)	(Rs. crore)	June-08-2022	Nov-26-2021	Nov-03-2021	Nov-20-2020	Aug-14-2020	Sep-19-2019
1	Certificates of Deposit Programme	ST	60,000.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fixed Deposits Programme	LT	-	-	**[ICRA]AA+ (Stable)**	MAAA (Stable)	MAAA (Stable)	MAA+ (Stable)	MAA (Stable)	MAA %
3	Infrastructure Bonds Programme	LT	3,000.00	1,800.00^	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- %
4	Basel II Lower Tier II Bonds Programme	LT	1,200.00	1,025.00^	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-
5	Basel III Tier II Bonds Programme	LT	3,000.00	3,000.00	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA(hyb) (Stable)	[ICRA]AA- (hyb) (Stable)	[ICRA]AA- (hyb) %
6	Basel III Tier-I Bonds	LT	4,000.00	2,000.00^	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	-	-	-	-

^Balance yet to be placed;

% Rating watch with positive implications

LT – Long term; ST – Short term

Removal of (hyb) suffix from Basel III instruments

In compliance with the circular issued by SEBI on July 16, 2021 for standardising the rating scales used by credit rating agencies, ICRA has discontinued its practice of affixing the (hyb) suffix alongside the rating symbols for hybrid instruments. Accordingly, ICRA has removed the (hyb) suffix that was earlier being placed alongside the rating symbol for the hybrid instruments issued by PNB. The earlier and revised denotation of the rating for various instruments can be seen in the table above. This rating action only involves the removal of the (hyb) suffix and should not be construed as a change in the credit rating.

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposits	Very Simple
Infrastructure Bonds	Very Simple
Basel II Lower Tier II Bonds	Simple
Basel III Tier II Bonds	Highly Complex
Basel III Tier-I Bonds	Highly Complex
Certificates of Deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE160A08019	Basel III Tier II Bonds	Feb-24-2014	9.65%	Feb-24-2024	1,000.00	[ICRA]AA+ (Stable)
INE141A08019	Basel III Tier II Bonds	Oct-27-2014	9.20%	Oct-27-2024	1,000.00	[ICRA]AA+ (Stable)
INE141A08035	Basel III Tier II Bonds	Oct-26-2015	8.34%	Oct-26-2025	1,000.00	[ICRA]AA+ (Stable)
INE160A08209	Basel III Tier-I Bonds	Dec-09-2021	8.40%	Perpetual^	2,000.00	[ICRA]AA (Stable)
Unplaced	Basel III Tier-I Bonds	-	-	-	2,000.00	[ICRA]AA (Stable)
INE141A09132	Basel II Lower Tier II Bonds	Nov-30-2012	8.93%	Nov-30-2022	1,025.00	[ICRA]AA+ (Stable)
Unplaced	Basel II Lower Tier II Bonds	-	-	-	175.00	[ICRA]AA+ (Stable)
INE160A08084	Infrastructure Bonds	Mar-24-2015	8.35%	Mar-24-2025	1,800.00	[ICRA]AA+ (Stable)
Unplaced	Infrastructure Bonds	-	-	-	1,200.00	[ICRA]AA+ (Stable)
-	Fixed Deposits	-	-	-	-	[ICRA]AA+ (Stable)
Unplaced	Certificates of Deposit	NIL	-	7-365 days	60,000.00	[ICRA]A1+

Source: *Punjab National Bank; ^- Call option due on December 09, 2026*

Key features of rated debt instruments

The servicing of the Basel III Tier II bonds, infrastructure bonds and certificates of deposit is not subject to any capital ratios and profitability. However, the Basel III Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked.

The rated Basel III Compliant Tier I Bonds (Additional Tier I or AT-I bonds) have the following loss-absorption features that make them riskier:

- Coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel coupon payments. Cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year’s profits. However, if the current year’s profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses created through the appropriation of profits (including statutory reserves). The coupon payment is subject to the bank meeting the minimum regulatory requirements for CET-I, Tier I and total capital ratios (including capital conservation buffer, CCB) at all times as prescribed by the Reserve Bank of India (RBI) under Basel III regulations.

These Tier I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank’s (CET-I) ratio as prescribed by the RBI, i.e. 6.125% of the total risk-weighted assets (RWAs; w.e.f. October 1, 2021) of the bank or when the PONV trigger is breached in the RBI’s opinion.

Given the above distinguishing features of the AT-I bonds, ICRA has assigned a one notch lower rating on these than the rating on the Tier II instruments. The distributable reserves (DRs) that can be used for servicing the coupon in a situation of inadequate profit or a loss during the year, stood at a comfortable 4.9% of RWAs as on September 30, 2021. The rating on the Tier I bonds continues to be supported by the bank's capital profile (CET-I: 11.58%, Tier I: 12.50% and CRAR: 15.20% as on September 30, 2021), which is likely to remain comfortable, given the outlook on PNB's profitability and its healthy capital-raising ability.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PNB Cards & Services Ltd.	100.00%	Limited Consolidation
PNB Investment Services Ltd.	100.00%	Limited Consolidation
PNB International Ltd.	100.00%	Limited Consolidation
PNB Insurance Broking Pvt. Ltd.	81.00%	Limited Consolidation
PNB Gilts Ltd.	74.07%	Limited Consolidation
Druk PNB Bank Ltd.	51.00%	Limited Consolidation
JSC Tengri Bank	41.64%	Limited Consolidation
Dakshin Bihar Gramin Bank, Patna	35.00%	Limited Consolidation
Sarva Haryana Gramin Bank, Rohtak	35.00%	Limited Consolidation
Himachal Pradesh Gramin Bank, Mandi	35.00%	Limited Consolidation
Punjab Gramin Bank, Kapurthala	35.00%	Limited Consolidation
Prathama UP Gramin Bank, Moradabad	35.00%	Limited Consolidation
Assam Gramin Vikas Bank, Guwahati	35.00%	Limited Consolidation
Bangiya Gramin Vikash Bank, Murshidabad	35.00%	Limited Consolidation
Manipur Rural Bank, Imphal	35.00%	Limited Consolidation
Tripura Gramin Bank, Agartala	35.00%	Limited Consolidation
PNB Housing Finance Ltd.	32.64%	Limited Consolidation
PNB Metlife India Insurance Ltd.	30.00%	Limited Consolidation
Canara HSBC OBC Life Insurance Ltd.	23.00%	Limited Consolidation
India SME ARC Ltd. (ISARC)	20.90%	Limited Consolidation
Everest Bank Ltd.	20.03%	Limited Consolidation

Source: *PNB, ICRA Research*

ANALYST CONTACTS

Mr. Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Mr. Aayush Behal
+91 124 4545 386
aayush.behal@icraindia.com

Mr. Aashay Choksey
+91 22 6114 3430
aashay.choksey@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches