ICRA

April 26, 2017

Punjab National Bank

	Amount (Rs crore)	Rating Action
Infrastructure Bonds Programme	3,000	[ICRA]AA+ (Stable) outstanding
Lower Tier II Bonds	2,149	[ICRA]AA+ (Stable) outstanding
Basel III compliant Tier II Bonds	1,000	[ICRA]AA+ (hyb) (Stable) outstanding
Certification of Deposits Programme	60,000	[ICRA]A1+ outstanding
Fixed Deposit Programme	-	MAAA (Stable) outstanding

ICRA has outstanding rating for Lower Tier II bonds programme of Rs 2,149 crore and Infrastructure bonds programme of Rs 3,000 crore of Punjab National Bank (PNB) at [ICRA]AA+ (pronounced ICRA double A plus) [†]. ICRA also has rating outstanding for PNB's Basel III compliant Tier II Bonds at [ICRA]AA+ (hyb). The letters "hyb" in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à-vis conventional debt instruments. The rated Tier-II bonds are expected to absorb losses once "Point of Non Viability" (PONV) trigger is invoked. The outlook on long term ratings is stable.

ICRA also has outstanding rating of MAAA (pronounced M triple A) for Fixed Deposits programme and [ICRA]A1+ (pronounced ICRA A one plus) rating for Certificate of Deposit Programme of Rs 60,000 crore of PNB.

The ratings continue to draw comfort from PNB's majority sovereign ownership (65.01% equity shares are held by Government of India or GoI as on December 31, 2016), PNB's strong franchise imparting healthy and stable deposits base, comfortable liquidity profile, adequate current capitalisation (Tier I capital of 8.84% as on December 2016) and relatively better core operating profitability, vs. other public sector banks or PSBs, which provides cushion to absorb higher credit provisioning to some extent.

Post RBI's 'asset quality review' exercise, there has been steep deterioration in the asset quality indicators of the banks with PNB's Gross NPA % increasing from 8.47% as on December 2015 to 13.7% as on December 2016. Additionally, sizeable Net NPAs (9.09% as on December 31, 2016) and other weak assets (standard restructured advances of ~4.5%) are likely to keep credit costs elevated over next 1-2 years, leading to pressure on earnings and therefore internal capital generation. Furthermore, requirement to increase provisioning cover for some restructured advances could elevate credit cost further in FY2018. While PNB's core operating profitability[1] at around 1.8% in 9M, FY2017 is better vs. most PSBs, its high credit cost (credit provisions in relation to ATA[2] of around 1.6% in 9M, FY2017) leading to weak net profitability (PAT/ATA of 0.2% in 9M, FY2017). PNB's profitability is expected to remain under pressure over next 1-2 years as credit cost is expected to remain at elevated levels.

PNB's Tier I capital and CRAR was 8.84% and 11.62% respectively as on December 31, 2016 as against regulatory minimum requirement of 8.25% and 10.25% respectively as on March 31, 2017[3].

† "For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications"
1 Operating profit before credit provisions and profit on sale of investments in relation to ATA
2 Average Total Assets
3 Including capital conservation buffer of 1.25%

Further, PNB's Net NPAs in relation to Net worth have increased to 87.7% as on December 2016 from 54.5% as on December 2015, weakening the ability of the bank to withstand unexpected losses.

As for minimum regulatory requirement, while current capitalization level is adequate as of now, the bank would need to raise sizeable capital to meet increasing regulatory minimum requirements as well as for growth. As for capital raising in current fiscal, GoI infused equity capital of Rs 2,112 crore in PNB in current fiscal.

Bank Profile

PNB was incorporated as Punjab National Bank limited in 1894 and commenced operations from Lahore in April 1895. Upon nationalization in 1969, PNB Limited was renamed PNB. As on December 31st, 2016 GoI had 65.01% ownership in the bank. PNB had 6,889 domestic branches and 9,997 ATMs as on December 31, 2016. The bank has strong presence in rural and semi urban areas where around 63% of its branches are located.

During FY16 the bank reported loss of Rs.3, 974 crore on total asset base of Rs.665,818[4] crore as on March 31, 2016 against profit after tax of Rs.3,062 crore on total asset base of Rs.603,334 crore as on March 31, 2015. During 9M, FY17 PNB reported PAT of Rs 1,063 crore vs. PAT of Rs 1,393 crore during 9M, FY16. PNB's Gross NPA % and Net NPA % were 13.70% and 9.09% as on December 31, 2016. The bank reported Tier I capital of 8.84% and CRAR of 11.62% as on December 31, 2016.

[4] Total assets excluding impact of revaluation reserve

Rating History

Name of Instrument	Current Rating			Chronology of Rating History for the past 4 years				
	Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating for FY2017	Month-year & Rating for FY2016		Month-year & Rating for FY2015	Month-year & Rating for FY2014
			FY2018	**FY2017**	**FY2016**		**FY2015**	**FY2014**
Lower Tier II Bonds	LT	2,149	**April 2017**		**Feb 2016**	**August 2015**	**Mar 2015**	**Jan 2014**
			[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
Infrastructure Bonds	LT	3,000	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
Basel III compliant Tier II Bonds	LT	1,000	[ICRA]AA+ (hyb) (Stable)	[ICRA]AA+ (hyb) (Stable)	[ICRA]AA+ (hyb) (Stable)	[ICRA]AAA (hyb) (Stable)	[ICRA]AAA (hyb) (Stable)	[ICRA]AAA (hyb) (Stable)
Certificate of Deposits	ST	60000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Fixed Deposits Programme		-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

Annexure-1

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Basel III compliant Tier II bonds	February 24, 2014	9.65 %	February 24, 2024	1000.00	[ICRA]AA+ (hyb) (Stable)
Infrastructure Bonds	March 24, 2015	8.80 %	March 24, 2025	1800.00	[ICRA]AA+ (Stable)
Lower Tier – II Bonds	Redeemed#			2149.00	[ICRA]AA+(Stable)
Total				4,949.00	

Source: - Bank, ICRA

#awaiting confirmation from the bank

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