Punjab National Bank

February 19, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Compliant Tier II Bonds	1,000.00	1,000.00	[ICRA]AA+(hyb)@
Infrastructure Bonds Programme	3,000.00	3,000.00	[ICRA]AA+@
Fixed deposit programme	-	-	MAAA @
Certificate of deposits	60,000.00	60,000.00	[ICRA]A1+; Outstanding
Total	64,000.00	64,000.00	

@ Under Rating Watch with Negative Implications

Rating action

ICRA has placed the rating of [ICRA]AA+(hyb) (pronounced as ICRA Double A Plus hybrid) for the Rs. 1,000.00 crore Basel III Compliant Tier II Bonds and the rating of [ICRA]AA+ (pronounced as ICRA double A plus) for the Rs. 3,000 crore Infrastructure Bonds Programme and MAAA (pronounced as M triple A) for the Fixed Deposit Programme of Punjab National Bank (PNB) on Rating Watch with Negative Implications. ICRA also has a rating of [ICRA]A1+ (ICRA A one plus) outstanding for the Rs. 60,000 crore Certificate of Deposits programme. In an event, there is a change in long-term or medium term rating of PNB; ICRA believes that the short-term ratings are likely to remain at current level of [ICRA]A1+, and hence short-term ratings have not been placed RWN.

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 the point of non-viability (PONV) trigger is invoked.

Rationale

ICRA has placed the ratings on the long-term debt programme and fixed deposit programme on Rating Watch with Negative Implications (RWN). The RWN is subsequent to the PNB's disclosure to the stock exchanges whereby it has detected fraudulent transactions amounting to USD 1.77 billion (~Rs. 11,300 crore).

As per our discussion with the management, a large part of liability continues to remain contingent and bank has already initiated steps towards recovery against the said fraud. In ICRA's view, given the size of the amount involved in the fraud, in case these liabilities are to devolve on PNB without a commensurate recovery; the profitability, capital ratio and solvency levels of the bank will be adversely impacted. ICRA will resolve the rating watch once clarity emerges on the amount of final liabilities devolved on PNB, recoveries made and the other steps undertaken by the management, such as capital raising, divestment of non-core assets etc. to reduce the impact of the loss on the capital ratios and solvency of the bank.

The ratings continue to derive comfort from PNB's majority sovereign ownership with 57% shareholding as on December 31, 2017, which is likely to increase further to ~62% subsequent to the capital infusion of Rs 5,473 crore allocated to PNB under the public sector bank recapitalisation programme of Government of India announced in January 2018.

Key rating drivers

For key rating drivers, please click here for previous rating rationale.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

ICRA Rating Methodology for Banks

ICRA Rating Methodology for Basel III Compliant Non-Equity Capital Instruments

About the Bank:

Punjab National Bank (PNB) was incorporated as Punjab National Bank Limited in 1894 and commenced operations from Lahore in April 1895. Upon nationalisation in 1969, the bank was renamed as Punjab National Bank. As on December 31, 2017, GoI held 57.04% equity in the bank. PNB operated 6,957 domestic branches and 9,598 ATMs as on December 31, 2017. The bank has a strong presence in rural and semi-urban areas, where around 62% of its branches were located as on December 31, 2017. During FY2017, the bank reported a net profit of Rs. 1,325 crore on a total asset base of Rs. 7.16 lakh crore as on March 31, 2017 as against a loss of Rs. 3,974 crore on a total asset base of Rs. 6.64 lakh crore as on March 31, 2016. PNB's gross and net NPAs stood at 12.5% and 7.8% as on March 31, 2017. The bank reported Tier I capital of 8.9% and CRAR of 11.7% as on March 31, 2017. For 9MFY2018, PNB reported a net profit of Rs. 1,134 crore on total assets of Rs. 7.67 lakh crore and a regulatory capital adequacy of 11.6% (Tier I of 9.2% and CET I of 8.1%) as on December 31, 2017. The bank reported gross NPAs of 12.1% and net NPAs of 7.5% as on December 31, 2017.

Key financial indicators (audited) (standalone)

	FY2016	FY2017	9MFY2017	9MFY2018
Net interest income	15,312	14,993	11,310	11,859
Profit before tax	-5,739	2,011	1,533	1,225
Profit after tax	-3,974	1,325	1,063	1,134
Net advances	412,326	419,493	385,727	452,110
Total assets	664,546	716,580	710,207	767,574
% CET	7.9%	7.9%	8.3%	8.1%
% Tier 1	8.4%	8.9%	8.8%	9.2%
% CRAR	11.3%	11.7%	11.6%	11.6%
% Net interest margin / Average total assets	2.4%	2.2%	2.2%	2.1%
% Net profit / Average total assets	-0.6%	0.2%	0.2%	0.2%
% Return on net worth	-10.6%	3.7%	3.8%	3.9%
% Gross NPAs	12.9%	12.5%	13.7%	12.1%
% Net NPAs	8.6%	7.8%	9.1%	7.5%
% Provision coverage excl. technical write offs	36.5%	40.9%	37.1%	40.7%
% Net NPA/ Net worth	99.9%	85.8%	90.6%	86.7%

Amount is Rs. crore

Source: PNB; ICRA research

All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years						
		Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. Crore)	Feb 2018	FY2018 June 2017	FY2018 April 2017	FY2016 Feb 2016	FY2016 August 2015	FY2015 March 2015	FY2014 Jan 2014	FY2014 Nov 2013
1	Basel III Compliant Tier II Bonds Programme	Long Term	1,000	1,000	[ICRA]AA+ (hyb)@	[ICRA]AA+ (hyb) (stable)	[ICRA]AA+ (hyb) (stable)	[ICRA]AA+ (hyb) (stable) Downgraded	[ICRA]AAA (hyb) (stable)	[ICRA]AAA (hyb) (stable)	[ICRA]AAA (hyb) (stable) Assigned	-
2	Infrastructure Bonds Programme	Long Term	3,000	1,800^	[ICRA]AA+@	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable) Downgraded	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Certificate of Deposits Programme	Short Term	60,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Term Deposits Programme	Medium Term	NA	NA	MAAA@	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)

^Rs 1200 crore of bonds yet to be placed

@ Rating placed on watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE160A08019	Basel III Compliant Tier II Bonds Programme	February 24, 2014	9.65%	February 24, 2024	1,000.00	[ICRA]AA+ (Hyb) @
INE160A08084	Infrastructure Bonds Programme	March 24, 2025	8.35%	March 24, 2025	1,800.00	[ICRA]AA @
NA	Certificate of Deposits Programme	-	-	7-365 days	50,000	[ICRA]A1+
NA	Term Deposits Programme	-	-	-	-	MAAA@

@ Ratings on watch with Negative implications

Source: PNB

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About ICRA Limited:

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