March 10, 2025

Punjab & Sind Bank: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Certificates of deposit	15,000.00	15,000.00	[ICRA]A1+; reaffirmed
Total	**15,000.00**	**15,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to factor in Punjab & Sind Bank's (P&SB) strong capitalisation profile, the steady improvement in its solvency level, its established presence and branch network in North India, stable deposit base, and adequate liquidity. The liquidity position is reflected in the strong liquidity coverage ratio (LCR), supported by excess statutory liquidity ratio (SLR) holdings in relation to the average net demand and time liabilities (NDTL). The rating continues to factor in the sovereign ownership and capital support from the Government of India (GoI), if required, as demonstrated in the past. It also considers the gradual improvement in the asset quality indicators, though the same remain weaker than the broader banking sector average.

While the bank's asset quality improved steadily, its overall potential vulnerable book, comprising overdues and the restructured book, remains elevated in relation to the core capital. Additionally, P&SB's core operating profitability, though improving, remains weak because of the sizeable share of non-earning assets {zero-coupon bonds (ZCBs) for recapitalisation by GoI} in the overall assets and the relatively higher cost of funds vis-à-vis peers. This limits the ability to absorb credit provisions against the operating profit. While the bank has seen benign credit costs due to lower fresh slippages and healthy recoveries, the ability to maintain the same would be monitorable, especially in case of an unexpected rise in slippages. The ZCBs were marked down on a fair value basis in Q4 FY2022 for inclusion in the core capital. The discount on the face value of these bonds is likely to decline every year as they near maturity, which will aid the core capital even in a scenario of weak profitability.

Key rating drivers and their description

Credit strengths

Sovereign ownership with capital support from GoI, if required – P&SB has majority sovereign ownership with the GoI's equity stake in the bank at 98.25% as on December 31, 2024. The GoI infused Rs. 11,672 crore in the bank during FY2018-FY2022, which helped shore up the capital position significantly after several years of losses due to high slippages. Of the total capital infusion, Rs. 10,100 crore was in the form of ZCBs, which are redeemable at face value. Hence, the inclusion of the same in the bank's core capital is relatively lower and is done on a fair value basis.

P&SB's reported capital ratio remained strong with the CET I at 14.04% as on December 31, 2024 (after factoring in the fair valuation of the ZCBs) along with an overall improvement in the solvency[1] profile to 12.03% as on December 31, 2024 from 17.08% as on December 31, 2023. This was supported by the gradual moderation in the bank's net non-performing advances (NNPAs).

Established presence in North India – P&SB has a long and established presence in North India, depicted by its network of 1,584 branches as on December 31, 2024 (1,564 branches as on March 31, 2024). Branch expansion has remained limited over

[1] *(NNPAs + Net non-performing investments + Net security receipts) / Core capital*

the last few years as the bank has been focusing on improving its operating efficiency and generating more business from the existing infrastructure.

P&SB continues to witness steady growth in term deposits (10.2% year-on-year (YoY) as on December 31, 2024), though the growth rate of the low-cost current and savings account (CASA) deposits is slow (2.4% YoY as on December 31, 2024). The share of CASA deposits in total deposits stood at 31.2% as on December 31, 2024 (32.4% as on March 31, 2024 and 32.8% as on December 31, 2023), remaining below the public sector banks' (PSB) average of 36.3%, leading to a relatively higher cost of interest-bearing funds for P&SB. The bank's cost of interest-bearing funds stood at 5.61% compared to the PSBs' average of 5.18% in 9M FY2025, leading to a relatively lower net interest margin and operating profitability. Despite the low CASA deposit base, the granularity of deposits has improved, with the share of the top 20 deposits declining to 8.23% as of March 2024 from 12.30% as on March 31, 2023 and 18.33% as on March 31, 2022.

Improved capitalisation and solvency – The bank's core equity capital (CET I)/Tier I capital stood at 14.04% (excluding 9M FY2025 profit) as on December 31, 2024 (13.75% as on December 31, 2023). P&SB witnessed a gradual improvement in its profitability, aided by recoveries and treasury gains, during FY2024-9M FY2025, supporting its capital ratios despite the growth in assets. The reported capital metrics, as on December 31, 2024, also factor in the fair valuation gains of the ZCBs for 9M FY2025 upon the decline in bond yields during this period. While these bonds do not carry any coupon and will therefore remain a drag on the bank's reported interest income and hence operating profit, the discount on the face value will keep declining each year as the bonds approach maturity and would be capital accretive. P&SB remains well positioned on the capitalisation front to meet its near-to-medium-term growth requirements, although a meaningful improvement in core internal capital generation is yet to be seen. ICRA also notes that P&SB had to fair value the recapitalisation bonds from April 1, 2024, as per the revised investment valuation guidelines, leading to a decline in its net worth in Q1 FY2025. Nevertheless, since these bonds were already considered at fair value while computing the capital ratios, the decline in the net worth has not impacted its capital ratios.

The Reserve Bank of India (RBI) had issued a discussion paper for transitioning to the expected loss framework for credit exposures. As highlighted by ICRA, banks with a high share of overdue/restructured loans could see a one-time impact on their capital position upon transitioning. While the RBI has proposed that these provisions should be spread over a five-year period for the computation of the regulatory capital ratios, the impact on the capital position (without taking regulatory forbearance) will remain monitorable.

Credit challenges

Asset quality remains monitorable – The annualised fresh NPA generation rate moderated to 1.38% of standard advances in 9M FY2025 from 1.83% in 9M FY2024. Apart from this, the bank's gross NPAs (GNPAs) declined to 3.83% as on December 31, 2024 from 5.70% as on December 31, 2023 on account of the moderation in the fresh NPA generation rate. NNPAs stood at 1.25% as on December 31, 2024 (1.80% as on December 31, 2023).

As on December 31, 2024, the bank's standard restructured book declined to 1.62% of standard advances (2.55% as on December 31, 2023), though the total SMA-1 and SMA-2[2] remain elevated at 3.64% of standard advances because of two state government accounts. The performance of the potential vulnerable pool[3], which stood at 54% of the core equity capital as on December 31, 2024, will be a key monitorable where the asset quality is concerned.

Earnings profile likely to remain suboptimal – P&SB's core operating profit (excluding gains on bond portfolio) improved to 0.90% of the average total assets (ATA) in 9M FY2025 from 0.76% in 9M FY2024 because of higher net interest income (NII) on account of growth in advances and increase in gross interest spreads to 2.14% from 1.77% during this period. However, its operating profitability of 0.90% (annualised) remained weaker than the PSBs' average of 1.69% in 9M FY2025. This was

[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days. The SMA-level data is for the entire bank including exposures below Rs. 5 crore

[3] Includes SMA book and restructured book

attributable to the relatively high cost of interest-bearing funds, lower non-interest income vis-à-vis the sector average, and the high level of non-earning assets (ZCBs). While higher trading gains supported the profitability in 9M FY2025, the same was moderated by higher provisions. In FY2024, it was supported by strong recoveries from written-off accounts and limited incremental provisioning on the stock of NNPAs. Accordingly, P&SB reported a return on assets of 0.62% in 9M FY2025 (0.42% in FY2024). Going forward, the ability to keep slippages and credit costs at lower levels will also remain key for ensuring a sustained improvement in the return metrics, especially with the expected rise in slippages in the retail unsecured segment.

Environmental and social risks

While banks like P&SB do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for P&SB as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure. P&SB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. P&SB has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Adequate

P&SB's liquidity profile is supported by its excess SLR holdings of 7-9% of total deposits during March 2024-January 2025. Additionally, the bank reported a strong LCR of 133.99% for Q3 FY2025 (daily average) against the regulatory requirement of 100%. Its net stable funding ratio (NSFR) stood at 128.23% in Q3 FY2025 against the regulatory requirement of 100%. Despite the strong LCR, the liquidity profile is adequate because of negative cumulative mismatches in certain buckets, as per the structural liquidity statement as on December 26, 2024. P&SB can also avail liquidity support from the RBI (through repo against excess SLR investments and marginal standing facility mechanism) in case of urgent liquidity needs.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership of the bank. ICRA could downgrade the rating if there is a sustained breach in the regulatory capital ratios with the capital-to-risk weighted assets ratio (CRAR) declining below 9.0%.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
Parent/Group support	The rating factors in P&SB's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support P&SB with capital infusions, if required.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of P&SB. P&SB does not have any subsidiaries.

About the company

Established in 1908, P&SB is a public sector bank (PSB) with the GoI holding an equity stake of 98.25% as on December 31, 2024. As on December 31, 2024, the bank had a well-established network of 1,584 branches.

P&SB reported a profit after tax of Rs. 703 crore in 9M FY2025 and Rs. 595 crore in FY2024. Its asset quality indicators, i.e. GNPA and NNPA, stood at 3.83% and 1.25%, respectively, as on December 31, 2024 compared to 5.43% and 1.63%, respectively, as on March 31, 2024. The capitalisation metrics, i.e. Tier I and CRAR, stood at 14.04% and 15.95%, respectively, as on December 31, 2024 compared to 14.74% and 17.16%, respectively, as on March 31, 2024.

Key financial indicators (standalone)

Punjab & Sind Bank	FY2023	FY2024	9M FY2025
Total income#	3,899	4,050	3,303
Profit after tax	1,313	595	703
Total assets$	1,35,542	1,46,590	1,54,708
CET I	14.32%	14.74%	14.04%*
CRAR	17.10%	17.16%	15.95%*
PAT/ATA	1.03%	0.42%	0.62%^
Gross NPA	6.97%	5.43%	3.83%
Net NPA	1.84%	1.63%	1.25%

Source: P&SB, ICRA Research; Amount in crore; All calculations as per ICRA Research
#Total income includes net interest income and non-interest income excluding trading gains
$Total assets exclude revaluation reserves; Amount in Rs. crore
*^ Annualised; *Excluding interim profits and including fair valuation of ZCBs*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 10, 2025	Date	Rating	Date	Rating	Date	Rating
Certificates of deposit	Short term	15,000	[ICRA]A1+	Feb-23-2024	[ICRA]A1+	Feb-23-2023	[ICRA]A1+	May-21-2021	[ICRA]A1+
				Mar-11-2024	[ICRA]A1+			Feb-28-2022	[ICRA]A1+
Basel III Tier I bonds	Long term	-				Feb-23-2023	[ICRA]A (Stable); withdrawn	May-21-2021	[ICRA]A-(hyb) (Negative)
								Feb-28-2022	[ICRA]A- (Negative)
Basel II lower Tier II bonds	Long term	-						May-21-2021	[ICRA]AA- (Negative)
								Feb-28-2022	[ICRA]AA- (Negative); withdrawn

In compliance with the circular issued by the Securities and Exchange Board of India (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

Complexity level of the rated instrument

Instrument	Complexity indicator
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: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
INE608A16QP4	Certificates of deposit	March 14, 2024	7.80%	March 13, 2025	750	[ICRA]A1+
INE608A16QQ2	Certificates of deposit	March 19, 2024	7.80%	March 18, 2025	750	[ICRA]A1+
INE608A16RG1	Certificates of deposit	September 19, 2024	7.60%	March 19, 2025	500	[ICRA]A1+
INE608A16RL1	Certificates of deposit	January 03, 2025	7.55%	April 02, 2025	1,500	[ICRA]A1+
INE608A16RN7	Certificates of deposit	January 22, 2025	7.67%	April 23, 2025	800	[ICRA]A1+
INE608A16RO5	Certificates of deposit	February 03, 2025	7.57%	May 05, 2025	1,000	[ICRA]A1+
	Certificates of deposit	February 04, 2025	7.57%	May 05, 2025	750	[ICRA]A1+
INE608A16RQ0	Certificates of deposit	February 06, 2025	7.57%	May 08, 2025	500	[ICRA]A1+
INE608A16RR8	Certificates of deposit	March 05, 2025	7.63%	June 04, 2025	450	[ICRA]A1+
INE608A16RS6	Certificates of deposit	March 06, 2025	7.63%	June 05, 2025	300	[ICRA]A1+
INE608A16RM9	Certificates of deposit	January 23, 2025	7.74%	January 23, 2026	800	[ICRA]A1+
INE608A16RP2	Certificates of deposit	February 03, 2025	7.71%	February 03, 2026	150	[ICRA]A1+
	Certificates of deposit	February 06, 2025	7.71%	February 03, 2026	100	[ICRA]A1+
Unplaced	Certificates of deposit*	-	-	-	6,650	[ICRA]A1+

*Source: Punjab & Sind Bank; * As on March 06, 2025*

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
Not applicable	-	-

Source: Punjab & Sind Bank, ICRA Research

Key features of the rated debt instrument:

The servicing of the rated certificate of deposits is not contingent on the capital ratios or the bank's profitability.

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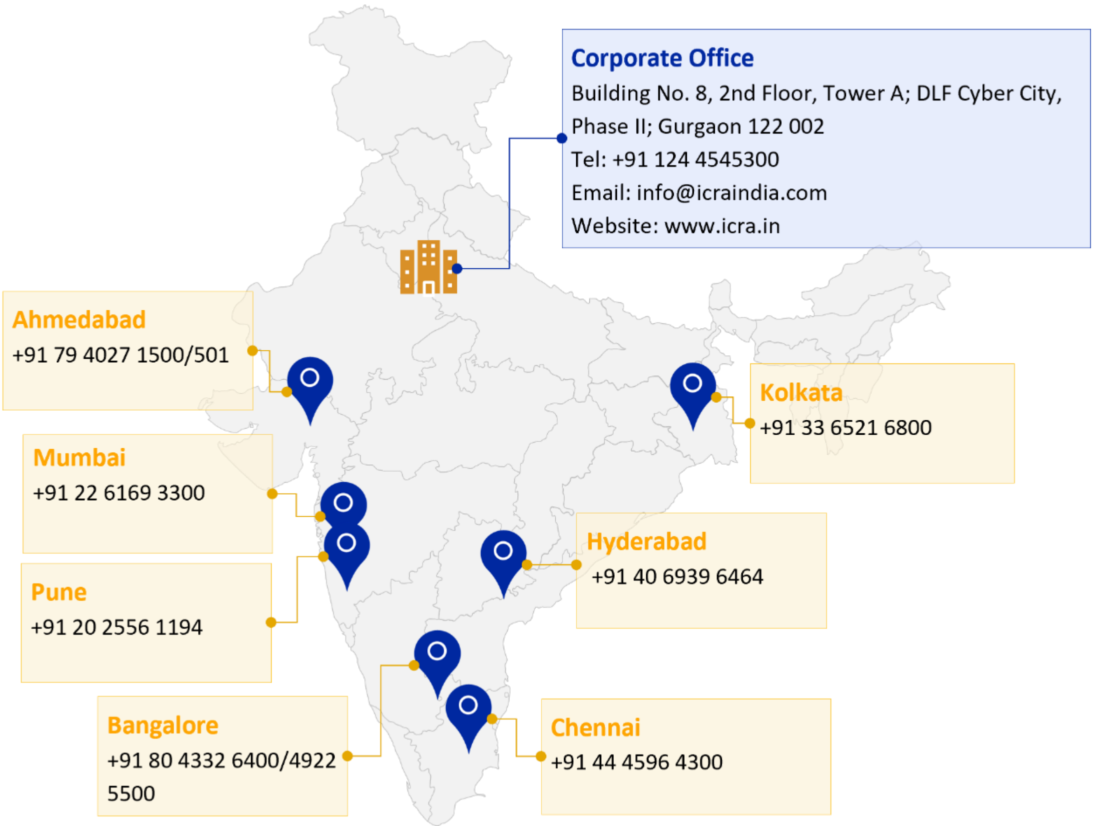

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