



## ANNEXURE I



### Annexure I Grading Rationale Punjab & Sind Bank

#### Grading Assigned

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	4 crore shares of face value Rs.10 each	<b>'CARE IPO Grade 4'</b> <b>[Four]</b>	Assigned

CARE has assigned 'CARE IPO Grade 4' to the proposed IPO of Punjab & Sind Bank (PSB). CARE IPO Grade 4 indicates 'above average fundamentals'. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. CARE's IPO grading assigned to any individual issue represents a relative assessment of the fundamentals of the issuer.

*PSB proposes an initial public offering of 4,00,00,000 equity shares of face value of Rs.10 through 100% book building process*

#### Grading Rationale

*The grading derives strength from 100% GoI ownership (post IPO -82.07%) of the bank, PSB's long track record of operations of over 10 decades, its established position in northern India and expanding network of branches & ATMs. The grading also factors in the bank's healthy asset quality, strong growth in asset base. Improving corporate governance with formation of various committees in accordance with clause 49 of listing agreement also support the grading. The grading is however constrained by PSB's relatively small size, regional concentration, low technology orientation and declining proportion of low cost deposits.*

#### Background

The New Delhi-based PSB is one of India's smaller public sector banks, with a total asset size of Rs.58,421 crore as on September 30, 2010. It was established in 1908, nationalized in 1980 and is wholly owned by the GOI. In the past, GoI has

<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE.



demonstrated support to PSB through pumping in Rs.500 crore Tier I Capital in PSB in the form of recapitalization bonds in FY06 to strengthen its capital adequacy and financial position. Also, GoI approved capital restructuring proposal of PSB wherein paid up capital of bank was reduced to Rs.183.06 crore in FY08 as compared to Rs.743 crore earlier. The primary purpose of restructuring of the capital was to enable the bank to raise fresh equity capital from the market. PSB has a network of 920 branches and 63 ATMs (as on July 31, 2010) spread all over India with 623 branches located in northern India.

Further, GoI approved public issue of up to 4,00,00,000 equity shares of Rs.10 each to augment capital base to meet the capital adequacy norms for future capital requirements and the growth in assets.

#### **Management**

PSB is currently managed by a nine member Board of Directors having rich and varied experience with Mr. P.K. Anand as Executive Director (ED). The directors are assisted by 9 General Managers, 1 Chief General Manager and 1 Chief Vigilance Officer. Most of the senior executives of the bank are professionals with varied experience in banking.

#### **Corporate Governance**

PSB Board of Directors comprises Executive director, 6 independent directors, one nominee of GoI and one nominee of RBI. Mr. G.S. Vedi, former Chairman and Managing Director retired on June 30, 2010 and new Chairman and Managing Director is yet to be appointed. However, PSB is in compliance with the requirement of clause 49 of the Listing Agreement in relation to composition of its Board. PSB has formed different committees of Board (like Audit Committee, shareholders'/investors' Grievance committee, management committee, remuneration committee, risk management committee, Special committee of the Board for monitoring large value frauds, customer service committee, vigilance committee, committee of the Board on Appellate/ reviewing authority).

#### **Compliance & Litigation history**

As on August 30, 2010, PSB and regional rural Bank (RRB) i.e. Sutlej Gramin Bank a



defendant/plaintiff in various legal proceedings. As per disclosures in DRHP, there were no legal or regulatory proceedings or investigations pending against any of directors on August 30, 2010. PSB has disclosed the legal cases in DRHP and summary of these cases and financial impact is as follows:

Particulars	Total No. of cases	Amount (Rs. in Crore)
<b>Under Tax Laws</b>		
Cases filed against the Bank	24	257.07
Cases filed against the RRB	-	-
<b>Under Civil Suits</b>		
Cases filed against the Bank	55	6.15
Cases filed by the Bank	7	Not ascertainable
Cases involving the RRB	126	2.16
<b>Under Consumer Litigation</b>		
Cases filed against the bank	30	1.37
<b>Under labour and Employment related claims</b>		
Cases filed against the Bank	235	Not Ascertainable
<b>Under Right to Information</b>		
Cases filed against the bank	80	Not Ascertainable
<b>Under Banking Ombudsman</b>		
Cases filed against the bank	1	2.50
<b>Under Debt Recovery Proceedings</b>		
Cases filed by the bank	8040	1077.16

### Operations

#### **Asset Profile**

Total assets of PSB increased by about 37% to Rs.56,179 crore as on March 31, 2010 as compared to previous year mainly buoyed by growth in advances by over 33% in FY10. Credit deposit ratio declined from 70.99% as on March 31, 2009 to 66.40% as on March 31, 2010. Share of investments in total assets marginally increased from 31% in FY09 to 32% in FY10 primarily due to increase in investments in Bonds and Certificates of deposits whereas share of advances to total assets remained in the range of 58% - 60% (58% as on March 31, 2010).

#### **Advances Profile**

The advances have shown a healthy growth over the years indicating improved market position of the bank. For FY10, PSB recorded y-o-y growth of over 32.6% to Rs. 32,639 crore as on March 31, 2010. Over the last four years, the composition of total advances has changed with share of term loans increasing from 59% at the end of FY07 to 72% at the end of FY10 with majority of term loans in the form of short-term loans. PSB's major exposure is to infrastructure sector. Priority sector lending



accounted for 43.54% of net bank credit as on March 31, 2010 against the stipulated norm of 40% by RBI. Loans to agricultural sector and weaker sections were 16.59% and 8.67% as against prescribed limit of 18% and 10% respectively and the bank is taking steps to address it. As on March 31, 2010, total exposure to real estate sector was high at Rs.6730.62 crore. Of this, Commercial real estate lending was Rs.1978.93 crore as on March 31, 2010. Exposure to capital market was Rs.123.79 crore (5.6% of tangible network) as on same date.

#### **Asset Quality**

Asset quality has improved over the years with proportion of standard assets as a part of total assets increasing from 99.35% as on March 31, 2009 to 99.37% as on March 31, 2010. Gross NPA ratio and Net NPA ratios have decreased and stood at 0.63% and 0.36% as on March 31, 2010. Net NPA to networth ratio stood at 5.33% as on March 31, 2010. As on March 31, 2010, concentration of NPAs was mostly in textiles, 7.80%, food processing, 2.07%, rubber and rubber products, 0.07%, metal and metal products, 1.40% and vegetable oils, 2.96%. Total restructured assets increased from Rs.532.89 crore as on March 31, 2009 to Rs.636.13 crore as on March 31, 2010 and formed 1.94% of gross advances and 29% of tangible network as on March 31, 2010. PSB's reported provision coverage (including technical write-offs) stood at 89.62% as on March 31, 2010.

#### **Investment Profile**

Investments increased by around 42% from Rs.12,656 crore as on March 31, 2009 to Rs.17,987 crore as on Mar 31, 2010. As of March 31, 2010, PSB had 34.55% in the AFS category and 65.45% in the HTM category. The modified duration of the AFS portfolio was relatively higher at 3.25 years as on Mar.31, 2010. As of July 30, 2010, 26.70% of demand and time liabilities were in Government and other approved securities.

#### **Liability Profile**

PSB's total resources have increased at a CAGR of 37% during FY07-10 period. Like its peers, deposits have consistently formed major portion of total resources available to the bank for asset creation and they have always been above 80%. PSB's deposit base has grown at a CAGR of 37% between FY07-FY10, driven by term deposits



which in turn grew at a CAGR of 52% over the same period and formed 75% of the total deposit base at end FY10. As a result, proportion of low cost deposits decreased during last three years from 46% at the end of FY07 to 25.04% at the end of FY10. However, PSB seeks to increase its CASA deposits to reduce its cost of funds and improve core capital. Proposed roll out of CBS, internet banking systems, mobile banking and installation of new ATMs will enable bank to increase retail customer base. PSB recently joined National Financial Switch (NFS) network to link ATM of PSB with ATMs of other banks. Also, overall cost of deposit of the bank has increased over the last three years from 4.99% in FY07 to 6.13% in FY10 in line with overall banking industry phenomenon. As on March 31, 2010, around 53.91% of total deposits were from northern region followed by 26% from western region.

#### **Risk Management**

As per RBI guidelines, the bank has put in place a comprehensive Risk Management policy, ALM policy, prudential exposures in respect of forex transactions and country wise exposure norms that are amended at periodic intervals.

#### **Credit Risk**

PSB has an internal risk rating mechanism wherein all advances larger than Rs.2 lakh are put through a rating model. As on March 31, 2010, about 96% of the total portfolio was rated.

#### **Technology**

The bank had a total of 125 fully computerized branches and 794 partly computerized branches as on July 31, 2010. However, the bank is still in the process of implementing Core Banking Solution (CBS) in all its branches. First CBS branch was opened on June 24, 2010 and PSB proposes to bring it upto 500 branches on CBS platform by November 2012.

#### **Financials**

Total income of the bank has grown at a CAGR of 31% over the last four years (FY07- FY10). During FY10, PSB's total income grew by 19% mainly driven by over 21% growth in total interest income. Growth in Net Interest Income (NII) was somewhat subdued at 17% in FY10 due to pressure on interest spreads due to dual effect of increase in high cost deposits and decline in yield in advances. Also, Net Interest Margin (NIM) declined to 2.70% during FY10 led partly by PSB's focus



towards wholesale banking during FY10 which led to lower interest margins. For FY10, PAT has grown by only 16% due to significant increase in interest expenses and higher provisions. ROTA declined marginally to 1.05% in FY10 from 1.23% in FY09.

#### **Capital Adequacy**

Particulars as on March 31,	2008	2009	2010
Capital Adequacy (%)	11.57	11.88	13.10
Tier I Capital Adequacy (%)	8.04	6.98	7.68

PSB has adequate capitalisation with Capital Adequacy of 13.10% as on March 31, 2010 is well above regulatory requirement of 9%.

#### **Half Yearly Performance**

Growth in interest and discount on advances and bills by 25.61% mainly led to increase in total income by 23% to Rs.2531.6 crore in H1FY11 over corresponding period previous year. Interest expenses increased by 13.7% to Rs.1526.07 crore in H1FY11. This along with rise in operating expenses by 44% and increase in provisions resulted in growth in profit by 10.87% to Rs.260.6 crore in H1FY11. ROTA declined from 1.03% in H1FY10 to 0.93% in H1FY11. Asset quality improved with Gross NPA and Net NPA ratios declining from 1.01% and 0.49% as on September 30, 2009 to 0.92% and 0.44% as on September 30, 2010. Capital Adequacy Ratio (CAR) stood at 13.04% (Tier I CAR- 7.98%) as on September 30, 2010.

#### **IPO Details**

PSB is proposing to come out with an IPO of 4,00,00,000 equity shares of face value of Rs.10 each. The issue comprises a net issue to the public of 3,80,00,000 equity shares and a reservation of 20,00,000 equity shares for subscription by eligible employees (employee reservation portion), at the issue price. The price band for the issue is yet to be decided.

The object of the issue is to augment capital base to meet the capital adequacy norms for future capital requirements arising from growth of assets and for other general corporate purposes.



### ***Terms of the issue***

Out of 3,80,00,000 shares, upto 1,90,00,000 shares (being 50% of the Net Issue) will be allocated on a proportionate basis to Qualified Institutional Buyers (QIBs) provided that PSB allocates up to 30% of the QIB Portion to Anchor Investors on a discretionary basis. Further, 5% of the QIB Portion (excluding the Anchor Investor Portion) shall be available for allocation on a proportionate basis to Mutual Funds only.

Atleast 57,00,000 shares (being 15% of the Net Issue) will be available for allocation on a proportionate basis to Non- Institutional Bidders and atleast 1,33,00,000 shares (35% of the Net Issue) will be available for allocation on a proportionate basis to Retail Individual Bidders.

Under subscription, if any in any category would be allowed to be met with spill-over from any other category or combination of categories at the discretion of the Bank in consultation with the book running lead manager and the Designated Stock Exchange.

### **Financial Performance**

(Rs. Crore)

<b>Year Ended March 31,</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b><u>Working Results</u></b>			
Interest Income	2249	3247	3934
Total income	2537	3655	4346
Operating Expenses (including depreciation)	561	692	718
Interest Expenses	1433	2235	2750
NII	816	1012	1184
PAT	382	437	509
<b><u>Financial Position</u></b>			
Deposits	24831	34676	49155
Advances	18343	24615	32639
Equity	743	383	383
Net Worth	1564	1694	2187
Investments	8474	12627	17887
Total Assets	30420	40859	56179
<b><u>Key Ratios (%)</u></b>			
Interest income/Avg. interest earning assets (a)	8.88	9.33	8.27
Interest expense/ Avg. interest bearing liability (b)	5.96	6.73	6.04
Interest Spread (a) – (b)	2.92	2.60	2.23
Net Interest Margin	3.13	3.16	2.70
Yield on Advances	10.17	11.57	9.62
Cost of Deposits	6.05	7.03	6.13



Year Ended March 31,	2008	2009	2010
<b>Working Results</b>			
Core Spread	4.12	4.55	3.49
Profit on sale of Investments/PBT	3.92	18.44	16.37
ROTA	1.47	1.23	1.05
RONW	27.79	26.81	26.22
Credit Deposit Ratio	0.74	0.71	0.66
Gross NPA to Gross Advances (%)	0.74	0.65	0.63
Net NPAs/ Net Advances (%)	0.37	0.32	0.36
Net NPAs/Net Worth (%)	4.28	4.61	5.33

*The figures in rationale are based on past audited annual reports.*

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarification*

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