Press Release

VIS Reaffirms Entity Ratings of Sindh Bank Limited

Karachi, June 28, 2022: VIS Credit Rating Company Ltd. (VIS) has reaffirmed the entity ratings of Sindh Bank Limited (SNDB) at 'A+/A-1' (Single A Plus/A-One). Outlook on the assigned ratings is 'Stable'. Long term rating of 'A+' signifies good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. Short term rating of 'A-1' signifies high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. Previous rating action was announced on June 30, 2021.

Assigned ratings continue to take into account the sub-sovereign sponsorship (wholly owned entity of Government of Sindh), with support demonstrated through sizeable capital injections totaling Rs. 19.5b over the last three years, allowing the Bank to meet regulatory capital requirements. The Bank's ability to post strong growth in deposits through an aggressive deposit mobilisation drive, resulting in volumetric increase in earning assets, is factored into the ratings reaffirmation. Ratings further take note of management's concerted efforts to strengthen IT infrastructure, governance, and risk management framework.

Given SBP's restriction on fresh corporate lending, SNDB's financing portfolio has depicted a declining trend since 2018. Corporate segment continues to constitute more than four-fifth of loan portfolio, while overall client and sectoral concentration remains high. Management plans to initiate/revive house, salary and auto loans in the consumer segment while building up SME portfolio is the primary focus area. Quality of underwriting will be crucial as credit risk is higher in these segments. Asset quality indicators have deteroraited over the years and compare adversely to peers, as reflected by highest gross infection in the industry. Though provisioning coverage has improved slightly, it remains on the lower side.

Deposit base grew by ~17% (in line with industry growth), while funding costs remained consistent with peers. Room for improvement exists in terms of deposit granularity. Akin to industry, liquidity generated was directed towards sovereign securities, which in total constitute ~98% of investment portfolio, thus limited credit risk. In addition, with ~90% exposure in T-Bills and floating rate PIBs, market risk is on the lower side. Liquidity buffers have improved as reflected from the increase in liquid assets in relation to deposits and borrowings (adjusted for repo) and sizeable cushion over regulatory requirement for LCR and NSFR.

While recouping to 2018 levels, net markup income has grown significantly over the last two years, owing primarily to volumetric growth in investments. However, due to high credit provisions, bottom line remains negative. Capitalization buffers will remain under pressure due to low internal capital generation and projected provisioning against NPLs for the next 3 years while quantum of the same will also depend on recovery. Net-NPLs in relation to Tier-1 equity are currently the highest in the industry. Continued support of the sponsor to meet capital requirement and restoration of corporate lending will remain the key rating driver.

For further information on this rating announcement, please contact Mr. Muhammad Tabish (Ext: 203) or the undersigned (Ext: 201) at (021) 35311861-70 or email at info@vis.com.pk

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Applicable rating criterion: Commercial Banks Methodology – June 2020
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf