

Aug 08, 2018

Punjab National Bank

Q1FY19 Result Update

Total assets down 4% QoQ; Advances down 4% QoQ

Total assets came at 7378bn dragged by 4% drop in net advances at 4154bn. Gross advances dropped 4% QoQ to 4539bn. Within gross advances, domestic credit de-grew 2% QoQ to 4221bn on the back of 3%/6%/2% drop in large industry loan, MSME and retail loan. Within retail loan, housing and education loans showed traction recording 2%/15% QoQ growth.

Interest income grew at a robust pace on back of higher yields

Interest income grew 15% QoQ to 131bn on the back of 147bps uptick in advance yield at 8.0% and 9bps uptick in investment yield at 7.4%, resulting in 103bps improvement in total yield on funds from 5.7% in Q4FY18 to 6.7%.

Noteworthy improvement in NIM

NIM improved from 1.9% in Q4FY18 to 2.9% in current quarter due to 103bps uptick in cumulative yields and meager 15bps uptick in cost of funds to 4.3%. Management expects to maintain NIM given transition to MCLR regime and healthy CASA. Currently CASA stands at 43%.

Extraordinary improvement in operational efficiency

Cost to income ratio came at 37% as oppose to past year's average of 46%. Employee expense plunged 63% QoQ and other operating expenses dropped 12% QoQ due to cost cutting measure undertaken by the company. During FY18, bank closed 35 branches, in current quarter, it closed 9 branches and 228 ATMs.

Marginally improvement in asset quality; Recoveries strong

GNPA came at 18.26% (v/s 18.38% in Q4FY18). NNPA came at 10.58% (v/s 11.24% in Q4FY18). PCR was 61.8% (v/s 58.4%). Bank recovered 8445cr in the quarter as oppose to 5617cr in full FY18. Additionally, bank has deployed 3000 people to expedite recovery process. Bank recovered 322cr from two NCLT accounts in the quarter.

Green shoots visible in capital adequacy

CRAR stood at 9.62% (v/s 9.2% in Q4). Tier I stood at 7.33% (v/s 7.12% in Q4). Risk weighted density improved from 65% by June'17 to 55% by June'18. While gross advances increased by 31500cr YoY, RWA reduced by 40350cr. Government infused 2816cr on 23rd July'18.

Sale of non-core assets to enhance capital supply

Bank expects 8600-8700cr by sale of non-core assets by following: a) stake sell in PNB housing finance; b) 4% stake sell in PNB MetLife in IPO listing (bank holds 30% stake); and c) few real estate assets.

Valuations

Bank reported loss of 940cr. We expect laser-focused approach on core operations while selling of non-core assets to augur well for the bank. Also, we expect NIM to be sticky while cost to income ratio to undergo expansion. Stock is trading at FY20E P/BV of 0.6x, we assign BUY rating and value stock at P/BV of 0.7x implying an upside potential of 14% and a target price of INR 95.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	15,311.8	14,993.2	14,922.4	18,837.4	19,967.7
Growth%	-8%	-2%	0%	26%	6%
Pre-provisioning profit	12,216.3	14,565.2	10,294.2	14,723.4	17,119.0
Growth%	2%	19%	-29%	43%	16%
Adjusted PAT	-3,974.4	1,324.8	-12,282.8	-5,349.7	-797.6
BVPS (INR)	195.1	196.7	148.8	129.4	126.5
P/B (x)	0.4	0.8	0.5	0.6	0.6

Source: NSPL Research

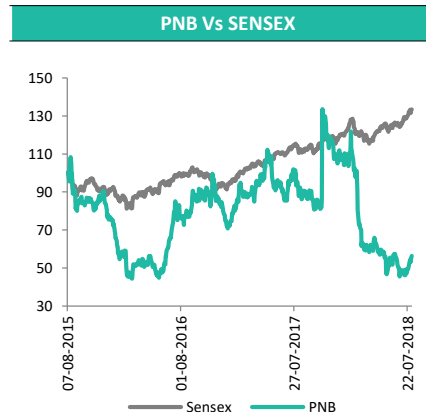
* Read last page for disclaimer & rating rationale

BUY*



Stock Details	
Industry	BFSI
Sensex	37887
Nifty	11450
Bloomberg Code	PNB:IN
Eq. Cap. (Rs. Cr)	552
Face Value (Rs.)	2
52-w L/H	71/231
Market Cap (Cr)	22,085

	Data		
	FY18A	FY19E	FY20E
NIM	2.1%	2.5%	2.5%
Book value	149	129	127



	Shareholding Pattern		
	Jun'18	Mar'18	Jun'17
Promoters	62.3	62.3	65.0
FIIs	8.5	9.1	10.4
MF	6.7	8.2	5.8
Retail	6.2	4.8	4.5
Others	16.4	15.6	14.3
	100.0	100.0	100.0

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Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest on Advances/Bills	9208	8145	7411	13%	24%
Interest on Investment	3405	3404	3470	0%	-2%
Interest on bal. with RBI & Others	447	551	457	-19%	-2%
Other Interest	53	37	47	44%	11%
INTEREST EARNED	13113	12136	11385	8%	15%
Net-Interest Income (NII)	4692	3855	3063	22%	53%
Other Income	1959	2332	1561	-16%	26%
Total Income	6651	6187	4624	8%	44%
Operating Expenses	2456	2970	5072	-17%	-52%
Pre-Provisional Profits	4195	3217	-447	30%	-1038%
Provisions & Contingencies	5758	2609	20353	121%	-72%
PBT	-1563	609	-20800	-357%	-92%
Provision for Taxes	-623	265	-7384	-335%	-92%
Adjusted Net Profit	-940	343	-13417	-374%	-93%

Source: Company, NSPL Research

- Bank's total operating income grew 8% YoY from 6187cr in Q1FY18 & 44% QoQ from 4624cr in Q4FY18 to 6651cr in this quarter on the back of 22% YoY growth in net interest income founded on 4% YoY growth in advances.
- Bank's Net Interest Income grew 22% YoY from 3855cr in Q1FY18 & 53% QoQ from 3063cr in Q4FY18 to 4692cr in this quarter. Yield on advances expanded from 7.9% in Q1FY18 to 8.0% in Q1FY19, yield on investments marginally contracted from 7.5% in Q1FY18 to 7.4% in Q1FY19 and cost of funds contracted from 4.4% in Q1FY18 to 4.3% in Q1FY19, resulting in 34bps NIM improvement to 2.9%.
- Bank's quarterly cost to income ratio contracted by 11% YoY to 36.9% due to 26% reduction in employee cost.
- Bank's quarterly pre-provisioning profit grew 30% YoY from 3217cr in Q1FY18 to 4195cr as oppose to loss of 447cr in previous quarter.
- Bank's reported loss of 940cr in this quarter as oppose to gain of 343cr in Q1FY18 and loss of 13417 in Q4FY18.
- Gross NPA ratio came at 18.3% (v/s 13.6% in Q1FY18) and NNPA came at 10.6% (v/s 8.7% in Q1FY18). Provision coverage ratio stood at 61.8% (v/s 58.2% in Q1FY18).

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q	Comment
Deposits	630,311	625,616	642,226	1%	-2%	CASA deposits grew 1.7% YoY to 255879cr, term deposits grew 0.1% YoY to 374432. CASA came at 43%.
Borrowings	43,318	40,439	60,851	7%	-29%	-
Investments	193,891	202,548	200,306	-4%	-3%	
Advances	415,339	399,750	433,735	4%	-4%	Domestic book constitutes 93% of total advance book. It grew 11% YoY led by 10% YoY growth in retail loans, 7% growth in large industrial loans. Retail book was driven by 14%/12% growth in housing/education loan.
Total Assets	737,894	725,207	765,830	2%	-4%	

Source: Company, NSPL Research



Conference Call Highlights

1. Loans between 50lac to 50cr are disbursed after monitoring through committee.
2. Bank has employed additional 3000 people to hasten recovery.
3. Bank focusing on domestic business and shrinking overseas business. Also bank is looking to monetize non-core assets and close unviable branches.
4. 90% of disbursements in last one year are rated A and above.
5. Generally, June quarter is weak in the banking industry. Gross domestic credit grew 10.7% YoY while it slipped 1.9% QoQ.
6. Bank expects to maintain CASA around 43% going forward.
7. Bank's strategy is multi-pronged, tranche into a) enhanced recovery; b) cashing non-core assets; c) cost control and d) conservation of capital.
8. Enhanced recovery: Total recovery made in FY18 was 5617cr while recoveries made in Q1FY19 stood at 8445cr.
9. Cashing non-core assets: bank has monetized 167cr till date. Going forward, bank is expecting 8600-8700cr by sale of non-core assets. This bank expects to achieve by a) stake sell in PNB housing finance; b) 4% stake sell in PNB MetLife in IPO listing (bank holds 30% stake in same); and c) few real estate assets.
10. Cost control: Bank closed 8 branches and 228 ATMs. Also, bank closed representative offices in Sydney, Shanghai, Dubai and Dhaka. During FY18, bank notably closed 35 branches.
11. Conservation of Capital: Risk weighted asset density improved from 64% in June'17 to 55% by June'18. In absolute terms, RWA reduced by 40350cr when gross advances had increased by 31500cr.
12. Bank also has received 2816cr of capital infusion from the government.
13. Guidance: A) Bank guided on maintaining domestic credit growth of 10% + YoY in FY19. B) NIM came at 2.90%. Bank expects to maintain margins due to i)MCLR regime ii) lower cost of funds because of increasing CASA. C) RWA is expected to witness reduction of 26000cr in FY19 as oppose to 40,000cr in FY18.
14. Duration of HTM portfolio is between 3 to 4 years.
15. Bank has provided provisions of 63% on secured and non-secured account concerned with fraud (which surfaced in Jan'18).
16. Total restructured portfolio stood ~ 4000cr. Total watchful accounts including restructured accounts stood between 8,000-10,000cr.
17. Resolution of two accounts in NCLT yielded 322cr during the quarter.

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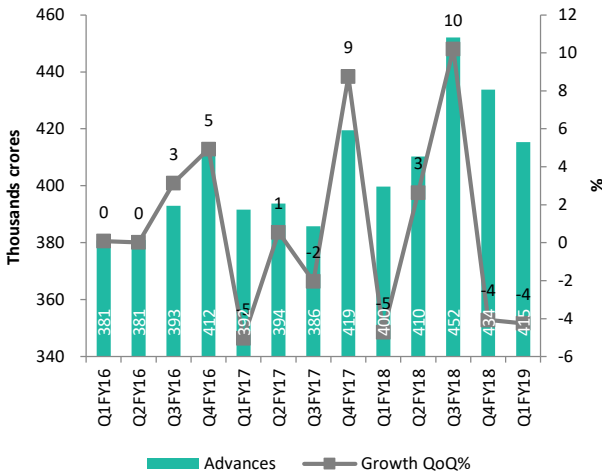
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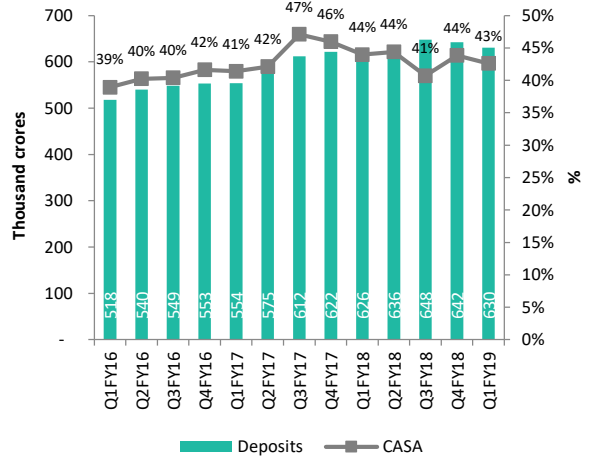
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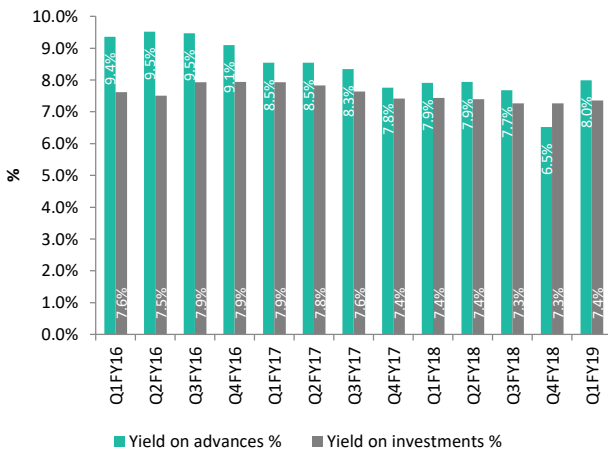
Advances Profile



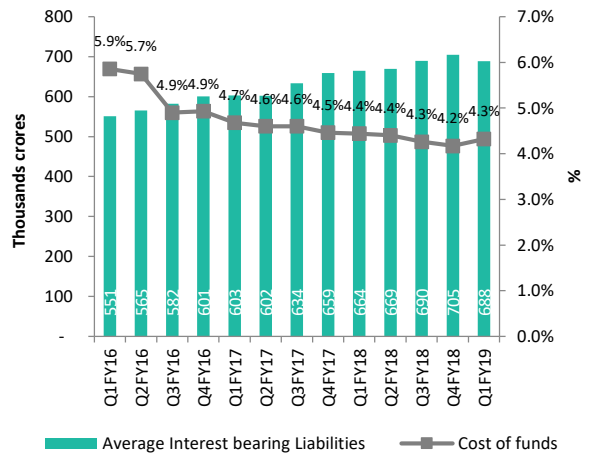
Deposits Profile



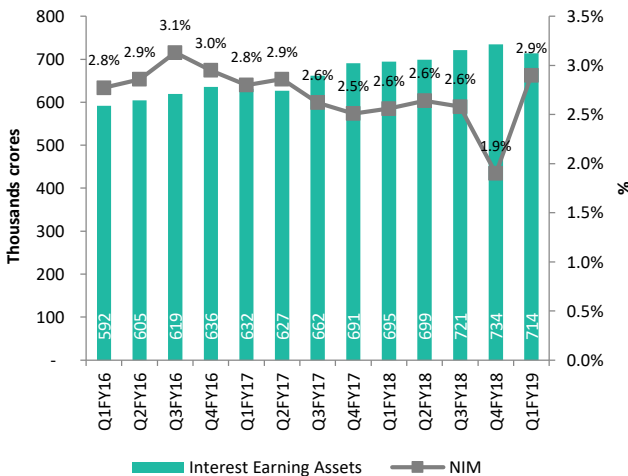
Yield Profile



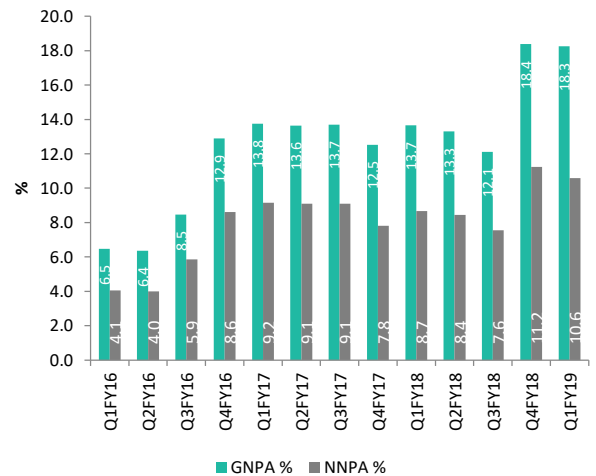
Interest Bearing Liabilities



Interest Earning Assets



Asset Quality



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	47,424.3	47,276.0	47,995.8	55,045.9	58,348.6
Interest expended	32,112.6	32,282.8	33,073.4	36,208.5	38,381.0
Net interest income	15,311.8	14,993.2	14,922.4	18,837.4	19,967.7
Non-interest income	6,877.0	8,951.4	8,880.9	7,932.3	8,564.0
Total income	22,188.8	23,944.5	23,803.3	26,769.7	28,531.6
Operating expenses	9,972.5	9,379.4	13,509.1	12,046.4	11,412.7
Pre-provisioning profit	12,216.3	14,565.2	10,294.2	14,723.4	17,119.0
Provisions	17,954.2	12,553.6	29,869.3	22,707.9	18,309.4
Profit before tax (PBT)	-5,737.9	2,011.5	-19,575.1	-7,984.6	-1,190.4
Tax expense	-1,763.5	686.7	-7,292.3	-2,634.9	-392.8
Adjusted PAT	-3,974.4	1,324.8	-12,282.8	-5,349.7	-797.6

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	392.7	425.6	552.1	552.1	552.1
Shareholder's Fund	38,310.1	41,847.0	41,074.3	35,724.6	34,927.1
Deposits	553,051.1	621,704.0	642,226.2	680,759.8	721,605.3
Borrowings	59,755.2	40,763.3	60,850.8	64,501.8	68,371.9
Cash & Balances with RBI	75,623.1	88,331.6	95,462.0	101,189.7	107,261.1
Investments	157,845.9	186,725.4	200,306.0	212,324.3	225,063.8
Advances	412,325.8	419,493.1	433,734.7	459,758.8	487,344.3
Total Assets	667,390.5	720,330.5	765,830.1	811,779.9	860,486.7

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	8.4%	1.7%	3.4%	6.0%	6.0%
Deposits (%)	10.3%	12.4%	3.3%	6.0%	6.0%
Total assets (%)	10.6%	7.9%	6.3%	6.0%	6.0%
NII (%)	-7.5%	-2.1%	-0.5%	26.2%	6.0%
Pre-provisioning profit (%)	2.2%	19.2%	-29.3%	43.0%	16.3%

Balance sheet ratios	FY16	FY17	FY18	FY19E	FY20E
Credit/Deposit (%)	74.6%	67.5%	67.5%	67.5%	67.5%
CASA (%)	61.8%	58.2%	56.6%	56.6%	56.6%
Advances/Total assets (%)	16.4x	17.3x	17.9x	20.5x	23.7x

Operating efficiency	FY16	FY17	FY18	FY19E	FY20E
Cost/income (%)	44.9%	39.2%	56.8%	45.0%	40.0%
Opex/total assets (%)	1.5%	1.3%	1.8%	1.5%	1.3%
Opex/total interest earning assets (%)	1.5%	1.4%	1.9%	1.6%	1.4%

Profitability	FY16	FY17	FY18	FY19E	FY20E
NIM (%)	2.5%	2.2%	2.1%	2.5%	2.5%
RoA (%)	NA	0.2%	NA	NA	NA
RoE (%)	NA	3.3%	NA	NA	NA

Asset quality	FY16	FY17	FY18	FY19E	FY20E
Gross NPA (%)	13.3%	13.1%	18.4%	21.1%	23.5%
Net NPA (%)	8.9%	8.1%	11.2%	12.4%	14.4%
PCR (%)	33.4%	38.3%	38.9%	47.0%	45.0%
Slippage (%)	8.5%	0.2%	7.4%	5.5%	5.0%

Per share data / Valuation	FY16	FY17	FY18	FY19E	FY20E
BV (Rs.)	195.1	196.7	148.8	129.4	126.5
P/BV (x)	0.4x	0.8x	0.5x	0.6x	0.6x

Source: Company, NSPL Research



Punjab National Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 08, 2018	80	91	Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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