

November 03, 2018

## Punjab National Bank

### Q2FY19 Result Update

**Total assets up 3% QoQ; Advances up 4% QoQ**

Total assets came at 7.62 trillion and advances came at 4.3 trillion. Investments reported healthy growth of 9% QoQ at 2.1 trillion. On the liability side, deposits recorded growth of 2% YoY & 3% QoQ to 6.5 trillion, whereas borrowings grew at a aggressive pace of 52% YoY & 28% QoQ to 55404cr. CASA ratio remained intact at 43%.

### Robust growth in retail loans backed by housing portfolio

Retail loans grew 14% YoY & 9% QoQ to 81198cr. Within retail, housing book reported growth of 14% YoY & 5.3% QoQ to 44232cr, education loan book grew 10% YoY & 3% QoQ to 5904cr.

### Contraction in NIM due to fall in yields

Yield on advances came at 7.5% as oppose to 7.9% in Q2FY18 and 8.0% in Q1FY19. Yield on investments came at 7.41% as oppose to 7.40% in Q2FY18 and 7.36% in Q1FY19. Cost of funds came at 4.2% as oppose to 4.4% in Q2FY18 and 4.3% in Q1FY19. Consequently, NIM came at 2.46% as oppose to 2.64% in Q2FY18 and 2.90% in Q1FY19.

### Provisions wiped core operating profits; Increase in write off

Provisions grew 300% YoY & 69% QoQ to 9758cr. GNPA /NNPA came at 17.2% /8.9% (v/s 18.3%/10.6% in previous quarter). Fresh slippages were curtailed at 4476cr (v/s 5250cr QoQ), although recoveries were modest. Cash recovery of 2321cr (v/s 5519cr QoQ), upgradation of 1418cr (v/s 2926cr QoQ) and write off came at 3543cr (v/s 2648cr QoQ). Exposure to NCLT accounts stood at 29381cr, bank has provided provision of 71% on these accounts. Within RBI list 1, exposure stands at 8102cr and provision of 68%. In RBI list 2, exposure stands at 4678cr with provision coverage of 79%.

### Lower processing fees dented non-interest income growth

Processing fees de-grew 55% YoY & 81% QoQ to 60cr. Contribution of processing fees in non-interest income dropped from 26% in Q1FY19 to 6% in Q2FY19. Also, bank witnessed mild drop in bills & remittance income (-10% YoY, -6% QoQ), and LC/LG income (-9% YoY, -3% QoQ).

### Valuations

Bank reported loss of 4532cr. 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 fall below 2.4%, while cost to income ratio to undergo expansion. Stock is trading at FY20E P/BV of 0.7x, we assign sell rating and value stock at P/BV of 0.6x at a target price of INR 64.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	15,311.8	14,993.2	14,922.4	17,238.9	18,445.7
<b>Growth%</b>	<b>-8%</b>	<b>-2%</b>	<b>0%</b>	<b>16%</b>	<b>7%</b>
Pre-provisioning profit	12,216.3	14,565.2	10,294.2	14,369.6	16,279.4
<b>Growth%</b>	<b>2%</b>	<b>19%</b>	<b>-29%</b>	<b>40%</b>	<b>13%</b>
Adjusted PAT	-3,974.4	1,324.8	-12,282.8	-6,920.0	-4,016.4
BVPS (INR)	195.1	196.7	148.8	111.1	98.1
P/B (x)	0.4	0.8	0.5	0.6	0.7

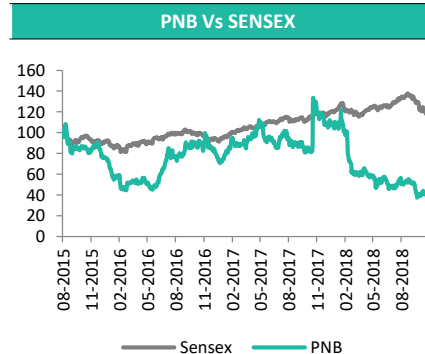
Source: NSPL Research

# SELL\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	69	64	
		-8% ▼	

Market Data	
Industry	BFSI
Sensex	35011
Nifty	10553
Bloomberg Code	PNB:IN
Eq. Cap. (INR Crores)	615
Face Value (INR)	2
52-w L/H	58/213
Market Cap (INR Crores)	21223

Valuation Data	FY18A	FY19E	FY20E
NIM	2.1%	2.3%	2.3%
Book value	149	111	98



Shareholding Pattern			
	Sept'18	Jun'18	Sept'17
Promoters	66.1	62.3	65.0
FIs	3.7	8.5	10.4
MF	7.5	6.7	5.8
Retail	7.1	6.2	4.5
Others	15.6	16.4	14.3
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Read last page for disclaimer &amp; rating rationale



## Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest on Advances/Bills	8148.7	8058.2	9208.4	1%	-12%
Interest on Investment	3541.6	3527.0	3404.9	0%	4%
Interest on bal. with RBI & Others	586.7	622.5	447.4	-6%	31%
Other Interest	49.2	91.6	52.5	-46%	-6%
<b>INTEREST EARNED</b>	<b>12326.3</b>	<b>12299.3</b>	<b>13113.2</b>	<b>0%</b>	<b>-6%</b>
<b>Net-Interest Income (NII)</b>	<b>3974.1</b>	<b>4015.2</b>	<b>4691.9</b>	<b>-1%</b>	<b>-15%</b>
Other Income	1709.6	1906.0	1959.2	-10%	-13%
<b>Total Income</b>	<b>5683.7</b>	<b>5921.2</b>	<b>6651.1</b>	<b>-4%</b>	<b>-15%</b>
Operating Expenses	2844.2	2642.1	2456.4	8%	16%
<b>Pre-Provisional Profits</b>	<b>2839.5</b>	<b>3279.1</b>	<b>4194.7</b>	<b>-13%</b>	<b>-32%</b>
Provisions & Contingencies	9757.9	2440.8	5758.2	300%	69%
<b>PBT</b>	<b>-6918.4</b>	<b>838.3</b>	<b>-1563.5</b>		
Provision for Taxes	-2386.1	277.7	-623.5		
<b>Adjusted Net Profit</b>	<b>-4532.4</b>	<b>560.6</b>	<b>-940.0</b>		

Source: Company, NSPL Research

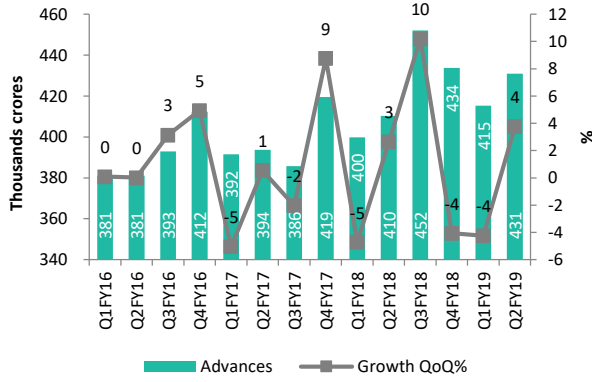
- Bank's total operating income de-grew 4% YoY & 15% QoQ to 5683cr in this quarter. Advances reported growth of 5% YoY & 4% QoQ.
- Bank's Net Interest Income de-grew 1% YoY & 15% QoQ to 3974cr in this quarter. Yield on advances contracted from 7.9% in Q2FY18 to 7.5% in Q2FY19, yield on investments remained flat at 7.4% in Q2FY19 and cost of funds contracted from 4.4% in Q2FY18 to 4.2% in Q2FY19.
- Bank's quarterly cost to income ratio came at 50% (v/s 45% YoY, 37% QoQ).
- Bank's quarterly pre-provisioning profit reported de-growth of 13% YoY & 32% QoQ to 2839cr.
- Bank's reported loss of 4532cr in this quarter as oppose to gain of 561cr in Q2FY18 and loss of 940cr in Q1FY19.
- Gross NPA ratio came at 17.2% (v/s 13.3% in Q2FY18) and NNPA came at 8.9% (v/s 8.4% in Q2FY18). Provision coverage ratio stood at 66.9% (v/s 40% in Q2FY18).

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Deposits	649,726.1	636,208.4	630,311.4	2%	3%
Borrowings	55,404.2	36,349.6	43,317.8	52%	28%
Investments	211,581.3	210,570.5	193,890.7	0%	9%
Advances	430,967.9	410,265.6	415,339.5	5%	4%
Total Assets	762,949.8	732,115.5	737,893.6	4%	3%

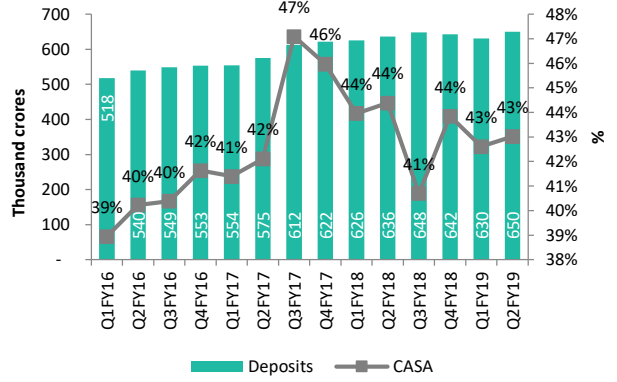
Source: Company, NSPL Research



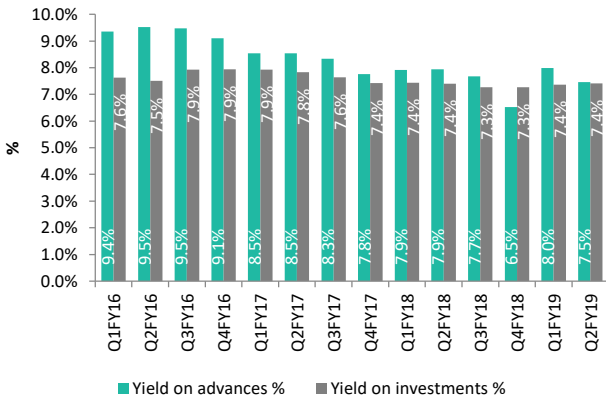
### Advances Profile



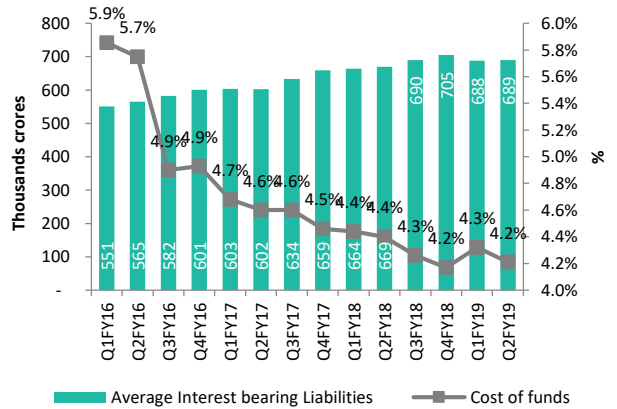
### Deposits Profile



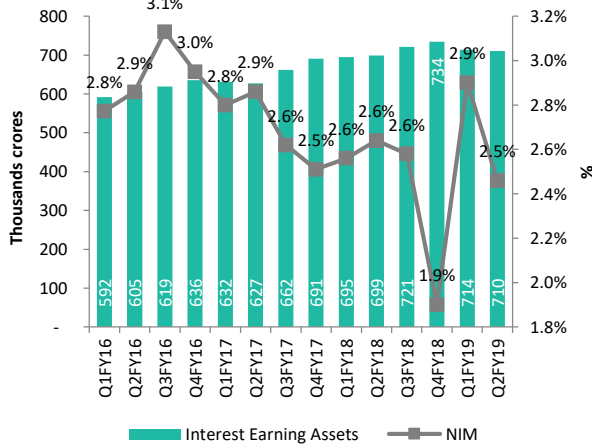
### Yield Profile



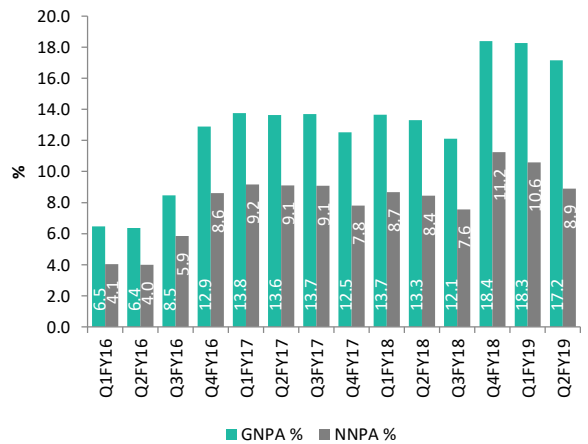
### Interest Bearing Liabilities



### Interest Earning Assets



### Asset Quality



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	47,424.3	47,276.0	47,995.8	52,895.5	56,598.2
Interest expended	32,112.6	32,282.8	33,073.4	35,656.5	38,152.5
<b>Net interest income</b>	<b>15,311.8</b>	<b>14,993.2</b>	<b>14,922.4</b>	<b>17,238.9</b>	<b>18,445.7</b>
Non-interest income	6,877.0	8,951.4	8,880.9	7,970.8	8,686.7
<b>Total income</b>	<b>22,188.8</b>	<b>23,944.5</b>	<b>23,803.3</b>	<b>25,209.8</b>	<b>27,132.4</b>
Operating expenses	9,972.5	9,379.4	13,509.1	10,840.2	10,853.0
<b>Pre-provisioning profit</b>	<b>12,216.3</b>	<b>14,565.2</b>	<b>10,294.2</b>	<b>14,369.6</b>	<b>16,279.4</b>
Provisions	17,954.2	12,553.6	29,869.3	24,697.9	22,274.1
<b>Profit before tax (PBT)</b>	<b>-5,737.9</b>	<b>2,011.5</b>	<b>-19,575.1</b>	<b>-10,328.3</b>	<b>-5,994.6</b>
Tax expense	-1,763.5	686.7	-7,292.3	-3,408.3	-1,978.2
<b>Adjusted PAT</b>	<b>-3,974.4</b>	<b>1,324.8</b>	<b>-12,282.8</b>	<b>-6,920.0</b>	<b>-4,016.4</b>

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	392.7	425.6	552.1	614.7	614.7
<b>Shareholder's Fund</b>	<b>38,310.1</b>	<b>41,847.0</b>	<b>41,074.3</b>	<b>34,216.9</b>	<b>30,200.5</b>
Deposits	553,051.1	621,704.0	642,226.2	687,182.0	735,284.8
Borrowings	59,755.2	40,763.3	60,850.8	65,110.3	69,668.0
Cash & Balances with RBI	75,623.1	88,331.6	95,462.0	102,144.3	109,294.4
Investments	157,845.9	186,725.4	200,306.0	214,327.4	229,330.3
Advances	412,325.8	419,493.1	433,734.7	464,096.2	496,582.9
<b>Total Assets</b>	<b>667,390.5</b>	<b>720,330.5</b>	<b>765,830.1</b>	<b>819,438.2</b>	<b>876,798.9</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Growth rates</b>					
Advances (%)	8.4%	1.7%	3.4%	7.0%	7.0%
Deposits (%)	10.3%	12.4%	3.3%	7.0%	7.0%
Total assets (%)	10.6%	7.9%	6.3%	7.0%	7.0%
NII (%)	-7.5%	-2.1%	-0.5%	15.5%	7.0%
Pre-provisioning profit (%)	2.2%	19.2%	-29.3%	39.6%	13.3%

<b>Balance sheet ratios</b>					
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	21.1x	26.3x

<b>Operating efficiency</b>					
Cost/income (%)	44.9%	39.2%	56.8%	43.0%	40.0%
Opex/total assets (%)	1.5%	1.3%	1.8%	1.3%	1.2%
Opex/total interest earning assets (%)	1.5%	1.4%	1.9%	1.4%	1.3%

<b>Profitability</b>					
NIM (%)	2.5%	2.2%	2.1%	2.3%	2.3%
RoA (%)	NA	0.2%	NA	NA	NA
RoE (%)	NA	3.3%	NA	NA	NA

<b>Asset quality</b>					
Gross NPA (%)	13.3%	13.1%	18.4%	20.9%	23.1%
Net NPA (%)	8.9%	8.1%	11.2%	12.3%	14.2%
PCR (%)	33.4%	38.3%	38.9%	47.0%	45.0%
Slippage (%)	8.5%	0.2%	7.4%	5.5%	5.0%

<b>Per share data / Valuation</b>					
BV (Rs.)	195.1	196.7	148.8	111.3	98.3
P/BV (x)	0.4x	0.8x	0.5x	0.6x	0.7x

Source: Company, NSPL Research

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Punjab National Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 03, 2018	69	64	Sell	Buy	5% - 15%
August 08, 2018	80	91	Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Other disclosures	NO

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