

Stock Update

Steadily improving outlook

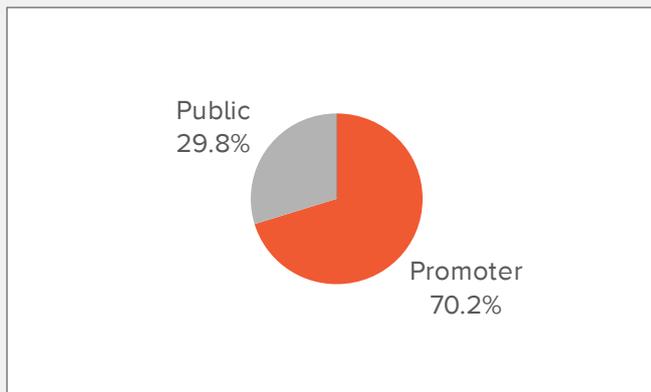
Punjab National Bank

Reco: Buy | CMP: Rs94

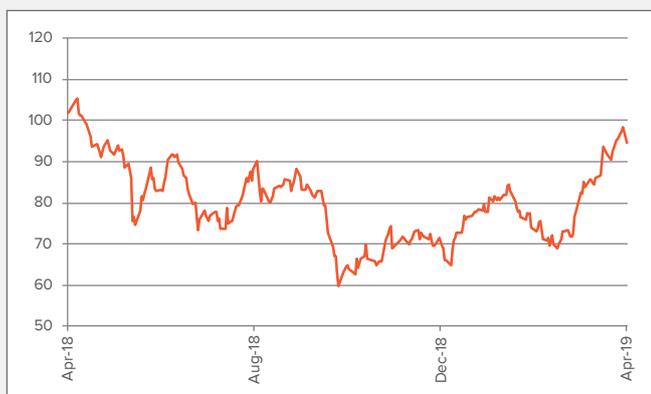
Company details

Price target:	Rs110
Market cap:	Rs35,587 cr
52-week high/low:	Rs107 / 59
NSE volume: (No of shares)	258.9 lakh
BSE code:	532641
NSE code:	PNB
Sharekhan code:	PNB
Free float: (No of shares)	113.24 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.2	21.3	46.1	-1.0
Relative to Sensex	13.7	11.3	36.0	-16.8

Key points

- ◆ **Non-core assets monetization to aid performance:** Punjab National Bank (PNB) has recently offloaded its ~13% stake in Punjab National Housing Finance Limited (PNBHF), its housing finance subsidiary, to strategic/financial investors for ~Rs. 926 crore (calculated; approximately 20 BPS of RWA), which should boost Q4FY2019E earnings and/or add to capital adequacy/PCR, depending on the accounting treatment by the bank of the one-off amount. However, irrespective of the accounting treatment, we believe the development is positive for the bank. Post the stake sale in PNBHF, PNB will continue to hold ~20% in PNBHF.

As part of the bank's strategy, PNB plans to further monetise its other non-core assets, which will be positive for the bank in terms of availability of capital. Since PNB is near its comfort levels (Tier -1 at 8.25%; CET-1 at 6.93%) of the regulatory minimum capital requirement, we believe sale of non-core assets will be necessary for bank such as PNB, which will not only unlock capital, but will also help it recover its profitability.

- ◆ **Outlook:** PNB had come close to being placed under the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework, but its recent recovery and controlled slippages along with the stake sale benefits would have helped it in avoiding the fate.

Following the fraud, PNB has done significant amount of business and process enhancement/upgradation to mitigate operational and credit risk, which we believe is a positive. Underwriting standards as well as risk management are much needed to improve in most PSU banks, and PNB improving on those parameters is a positive. Going forward, considering the capital position and asset-quality scenario, we opine it would be safe to assume a decent growth outlook for the bank, with more focus on growth opportunities than before.

We believe further resolution/recovery in NCLT exposures as well as other corporate/infrastructure exposures may likely be positive triggers for the banking industry as a whole, including PNB. However, we expect margins to remain in a range-bound fashion.

While, on one side, reducing stress asset and MCLR hikes would help, we believe risks of chunky slippages/haircuts have notably waned. Moreover, further progress on non-core divestment will be keenly monitored for PNB.

- ♦ **Valuation:** PNB trades at reasonable valuations of <1x its FY2021E book value, as valuations reflect market concerns over growth and asset performance. We introduce our estimates for FY2021E and rollover the price target (PT). We believe the asset quality and, therefore, the earnings outlook have improved for the bank. Hence, we maintain our Buy rating on the stock with a revised PT of Rs. 110.
- ♦ **Recoveries and upgrades are now outpacing slippages:** After the much-publicised gems and jewellery scam came out, and even before that, PNB had already taken several operational and organisational restructuring measures such as creation of separate vertical for stressed asset

management, portals for SARFAESI, OTS and DRT for better monitoring the process etc. for recovery in NPA accounts, which are strong positives and already bearing fruits.

Already showing results, the bank has recovered by ~Rs. 16,600 crore during 9MFY2019 as against the set target of recoveries of Rs. 10,000 crore for FY2019. During Q3FY2019 as well, the strong recovery traction has helped PNB to offset the elevated provisioning requirements. Notably, the past trend of slippages, being more than recoveries and upgrades, has reversed for now. Hence, a new trend of steady recoveries now outpacing incremental slippages indicate that the worst of NPL recognition phase is over. Further, resolution/recoveries in NCLT exposures (~75% PCR) as well as other corporate/infra exposure can be a positive trigger for PNB, which we believe will result in provision write-backs and improve profitability.

Profit and loss statement

Particulars	Rs cr				
	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	14,993	14,768	17,213	19,671	24,174
Non-interest income	8,951	8,881	8,989	10,550	11,251
Net total income	23,945	23,649	26,202	30,221	35,424
Operating expenses	9,379	13,509	12,027	12,895	13,872
Pre-provisioning profit	14,565	10,140	14,175	17,325	21,553
Provisions	12,554	29,869	21,433	12,787	13,356
Profit before tax	2,012	-19,729	-7,257	4,538	8,196
Tax	687	-7,349	-2,417	1,511	2,729
Profit after tax	1,325	-12,380	-4,841	3,027	5,467

Balance sheet

Particulars	Rs cr				
	FY17	FY18	FY19E	FY20E	FY21E
Liabilities					
Networth	41,847	41,074	27,864	30,322	34,761
Deposits	621,704	642,226	752,262	842,533	943,637
Borrowings	40,763	60,851	74,872	86,021	97,728
Other liabilities & provisions	16,016	21,679	43,728	48,761	54,354
Total liabilities	720,331	765,830	898,726	1,007,637	1,130,480
Assets					
Cash & balances with RBI	25,210	28,789	33,852	37,914	42,464
Balances with banks & money at call	63,122	66,673	69,592	73,071	76,725
Investments	186,725	200,306	232,531	259,848	290,441
Advances	419,493	433,735	495,673	570,024	655,528
Fixed assets	6,273	6,349	7,591	8,350	9,185
Other assets	19,507	29,978	59,487	58,430	56,138
Total assets	720,331	765,830	898,726	1,007,637	1,130,480

Key ratios					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Per share Data (Rs)					
Earnings	6.2	-44.8	-22.7	14.2	25.7
Book value	181.2	136.9	115.5	127.1	147.9
Adj. book value	24.6	-53.8	-19.1	54.7	141.0
Dividend	1.0	-7.2	-3.6	2.3	4.1
Spreads (%)					
Yield on Advances	7.9	6.9	7.1	7.5	7.7
Cost of Deposits	5.1	4.9	4.5	4.5	4.5
Net interest margins	2.3	2.0	2.2	2.2	2.4
Operating ratios (%)					
Credit to Deposit	67.5	68.7	65.9	67.7	69.5
Cost to income	39.2	57.1	45.9	42.7	39.2
CASA	46.0	45.9	46.6	46.5	46.3
Non interest income / Total income	37.4	37.6	34.3	34.9	31.8
Assets/Equity (x)	17.3	17.9	24.1	32.8	32.9
Return ratios (%)					
RoE	3.3	-29.9	-14.0	10.4	16.8
RoA	0.2	-1.7	-0.6	0.3	0.5
Asset Quality ratios (%)					
Gross NPA	12.5	18.3	15.3	12.8	10.7
Net NPA	7.9	11.2	5.8	2.7	0.2
Growth Ratios (%)					
Net interest income	-2.1	-1.5	16.6	14.3	22.9
Pre-provisioning profit	19.2	-30.4	39.8	22.2	24.4
Profit after tax	-133.3	-1,034.5	-60.9	-162.5	80.6
Advances	1.7	3.4	14.3	15.0	15.0
Deposits	12.4	3.3	17.1	12.0	12.0
Valuation ratios (%)					
P/E	13.8	-1.9	-3.8	6.0	3.3
P/BV	0.5	0.6	0.7	0.7	0.6

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.