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Investor's Delight – Punjab National Bank Ltd. (PNB): "Accumulate"

March.18, 2019

1) Punjab National Bank Ltd. (PNB) -

CMP: Rs. 86, Face value: Rs. 2, Target price: Rs. 100, Upside: 16%



Price chart source: Moneycontrol

Investment Rationale

Before talking about Q3FY19 result, we would like to highlight Bank's inherent strengths like PAN India presence with 7,000 branches with ~70,000 employees, Total Business around Rs. 11,00,000 crores, High Casa ratio, Low cost of deposits, Resilient business model. The bank continues to attract deposits which show confidence of the people on the bank. Domestic Deposits of the Bank shown an increase of Rs.42,619 crore from Rs. 5,88,027 crore as on December'17 to Rs. 6,30,646 crore as on December'18. Savings Bank Deposits grew by 3.3% YoY from Rs. 2,23,832 crore as on December'17 to Rs. 2,31,116 crore as on December'18. More than 33 lakh new accounts added in Saving Deposits during 9M FY19. Domestic CASA ratio stood at 43.42% as on Dec. 2018. Domestic NIM Increased to 2.64% in Dec.2018 up by 22 bps over Mar. 2018. Gross Domestic Advances stood at Rs. 4,58,641 crores, yoy growth of 6.7 percent. C/D ratio stood at 66.79 percent in Q3FY19.

It was heartening to see the management honouring its words given to its stakeholders after Nirav Modi mayhem which brought the bank to the walls. The event which was a shocker to the Bank, gave a wakeup call to the bank's management to relook at its processes. In fact, the bank has done well to restructure its processes and make use of technology at its best to avoid people risk in future. The bank has integrated CBS and has formed centralized back office for trade credit/finance. All the transactions are validated at trade finance centers. The Bank has classified Rs. 50 crores plus accounts shifted to large corporate centres/branches. The Bank has adopted algorithm based decision making for MSME loans for accounts in the range of Rs. 1 lakh to Rs. 1 crore. Today, the Bank is at the 2nd position amongst PSBs for maximum in-principle approval of MSME customers through the portal www.psbloansin59minutes.com. Loan accounts in the range of Rs. 50 lakhs – Rs. 50 cores are taken care by centralized loan processing centre with specialized manpower.

According to the management, the bank has fully provided for Nirav Modi account. Full provision of Rs. 14,000 crores done till date with Rs. ~2000 crores provision done in Q3FY19. The bank expects to recover atleast Rs. 3,000- Rs 4000 (after discounting the brand value of designer jewellery). With regards to much talked IL&FS exposure, the bank has exposure to 9 accounts but is not huge. The Bank has made provisions towards these 9 assets. Whatever is left over are self-cash generating accounts. As far as Reliance Communication account is concerned, it is a NPA account



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but the Bank has fully provided for it, The Bank's management does not foresee any risk in DHFL account and Essel group account is a standard account and the bank does not have major exposure to it. The Bank has done a robust recovery of Rs. 16,600 crores in 9MFY19.

Domestic Credit exposure of the Bank increased by Rs. 15,308 crore over Dec'17, while Domestic credit RWA declined by Rs. 51,199 crore. Further, to tackle NPAs, the Bank created SAMV vertical; SARFAESI, OTS & DRT Portals to access real time progress. GNPA declined by Rs. 8,887 crore over March'18 to reach at Rs. 77,733 crore in Dec. 2018. NNPA declined by Rs. 13,009 crore over Mar. 2018 to reach Rs. 35,675 crore in December'18. Net NPA Reduced by 302 bps over Mar'18 to 8.22%.

Overall stressed assets reduced by 265 bps over March'18. According to the management, ageing provisions is a continuous process. As the GNPA figure goes down, provisioning comes down even there is ageing provisioning. Overall stressed assets reduced by 265 bps over Mar'18. Slippages too were low at Rs. 3,324 crores as against Rs. 30, 377 crores in March 2018.

Provision Coverage Ratio improved by 1043 bps over Mar'18 to 68.85%. Provision coverage under NCLT accounts stands at 75.1%.

With regards to Capital Adequacy Ratio, overall CAR stood at 10.52% increased by 132 bps over March'18. CET 1 stood at 6.93%; Tier 1 at 8.25%

In Q3FY19, Domestic Advances registered a growth of 6.7% on yoy basis from Rs. 429,755 crore as on Dec. 2017 to Rs. 4,58,641 crore as on December' 18. Retail Advances grew by 15% YoY from Rs. 74,582 crore as on December' 17 to Rs. 85,766 crore as on December' 18. Share of Small Ticket Advances stood at 54.4% as on December'18. Fresh Sanctions with external rating A and above increased by 5.7% on YoY basis to reach 84.0%.

Operating profit for 9MFY'19 stood at Rs. 10134 crore. Net profit grew by 7.1% from Rs.230 crores in Q3FY18 to Rs. 247 crore in Q3FY'19. Net Interest Margin (Domestic) increased from 2.59% as on 9MFY'18 to 2.64% as on Q3FY'19. Cost to Income Ratio declined from 50.04% in Q2FY19 to 49.26% in Q3FY19. The bank efforts are on to reduce Cost/Income ratio but in absolute terms cost would increase.

We would like to see the Bank's Q4FY19 performance to further reinforce our confidence on the Bank. The MD & CEO Mr Sunil Mehta's words to media after Nirav Modi debacle, *when the going gets tough, the tough gets going* has been proved by the Bank's management in 9MFY19 performance. According to us it's a good & safe stock to invest at current levels from medium to long run. We would recommend to "Accumulate".

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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended



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