

Punjab National Bank

Performance Highlights

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
NII	4,322	4,102	5.4	4,151	4.1
Pre-prov. profit	2,939	3,132	(6.2)	2,876	2.2
PAT	621	721	(13.8)	575	7.9

Source: Company, Angel Research

Punjab National Bank (PNB) reported a mixed set of numbers for 2QFY2016 with subdued operating performance, while its asset quality improved marginally.

Loan growth remains modest; NIM improves qoq

During 2QFY2016, advances and deposits grew by 6.7% and 14.0% yoy, respectively, with the CD ratio at 70.6%. Domestic advances growth was sluggish at 6.3% yoy, while international advances saw a modest growth of 9.5% yoy. In domestic advances, the retail loan book grew by 23.0% yoy, aided by 27.6% yoy growth in housing segment. Industry loans growth was modest at 7.6% yoy as the bank was cautious lending to the large industry segment.

CASA deposits grew by 13.4% yoy with Current deposits growing by 25.0% yoy. The NIM improved by 7bp qoq to 2.97%, due to higher yields. Other income (excl. treasury) was weak witnessing a decline of 12.9% yoy due to a decline seen in both fee income and recoveries.

Asset quality improved for the second consecutive quarter as the Gross NPA ratio decreased by 11bp qoq to 6.36%, while the Net NPA also drifted downwards by 6bp qoq to 3.99%. The bank reported the second quarter of consecutive significant decline in slippages on a qoq basis to ₹2,613cr (annualized slippage ratio stood at 2.8%) as compared to ₹3,382cr in 1QFY2016. Out of the total slippages, fresh slippage for the quarter was to the tune of ₹2,388cr while fresh restructuring during the quarter was lower at ₹216cr as against ₹676cr in 1QFY2016. The outstanding restructured book stood at ₹38,261cr, 10.3% of the loan book.

Outlook and valuation: PNB has been witnessing improvement in asset quality since the past 2 quarters after severe asset quality pain over the previous several quarters. In our view, we expect asset quality pressure to ease from here on given the bank's seasoned loan book and conservative lending approach followed by the bank as compared to its peers. At the current market price, the stock trades at 0.6x FY2017E ABV. However, given the stress in certain sectors of the economy and with PNB having a meaningful exposure to these stressed sectors, we would follow a cautious stance in the near-term. **Hence, we recommend a Neutral rating on the stock.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII	16,146	16,556	17,101	19,343
% chg	8.7	2.5	3.3	13.1
Net profit	3,343	3,061	3,316	5,052
% chg	(29.6)	(8.4)	8.3	52.3
NIM (%)	3.2	2.9	2.8	2.8
EPS (₹)	18.5	16.5	17.9	27.2
P/E (x)	7.4	8.3	7.7	5.0
P/ABV (x)	0.8	0.8	0.8	0.6
RoA (%)	0.6	0.5	0.5	0.7
RoE (%)	10.2	8.5	8.5	12.0

Source: Company, Angel Research; Note: CMP as of November 10, 2015

NEUTRAL

CMP	₹134
Target Price	-

Investment Period	-
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Stock Info

Sector	Banking
Market Cap (₹ cr)	28,263
Beta	1.3
52 Week High / Low	232/123
Avg. Daily Volume	5,003,957
Face Value (₹)	2
BSE Sensex	25,743
Nifty	7,783
Reuters Code	PNBK.NS
Bloomberg Code	PNB@IN

Shareholding Pattern (%)

Promoters	62.1
MF / Banks / Indian FIs	19.7
FII / NRIs / OCBs	13.0
Indian Public / Others	5.3

Abs. (%)	3m	1yr	3yr
Sensex	(8.4)	(7.6)	37.9
PNB	(16.0)	(27.5)	(13.4)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	12,345	12,035	2.6	11,462	7.7	46,315	43,223	7.2
- on Advances / Bills	9,064	8,908	1.7	8,654	4.7	34,794	32,393	7.4
- on investments	3,029	2,906	4.2	2,609	16.1	10,600	10,266	3.3
- on balance with RBI & others	218	169	29.0	137	58.9	632	362	74.5
- on others	35	52	(33.0)	61	(43.6)	289	202	42.9
Interest Expended	8,023	7,932	1.1	7,311	9.7	29,760	27,077	9.9
Net Interest Income	4,322	4,102	5.4	4,151	4.1	16,556	16,146	2.5
Other income	1,357	1,397	(2.9)	1,558	(12.9)	5,891	4,577	28.7
Other income excl. treasury	1,019	1,159	(12.1)	1,330	(23.4)	4,529	3,843	17.9
- Fee Income	784	721	9	591	32.7	2,526	2,380	6.1
- Treasury Income incl. MF Div.	338	238	42.0	228	48.2	1,362	734	85.6
- Recov. from written off a/cs	236	217	8.8	483	(51.1)	1,018	514	98.1
- Others	(1)	221	(100.5)	256	(100.4)	985	949	3.8
Operating income	5,679	5,500	3.3	5,710	(0.5)	22,446	20,723	8.3
Operating expenses	2,740	2,368	15.7	2,834	(3.3)	10,492	9,338	12.4
- Employee expenses	1,878	1,550	21.2	2,034	(7.7)	7,337	6,510	12.7
- Other Opex	863	818	5.5	799	7.9	3,155	2,828	11.6
Pre-provision Profit	2,939	3,132	(6.2)	2,876	2.2	11,955	11,384	5.0
Provisions & contingencies	1,882	1,811	3.9	1,768	6.5	7,998	6,694	19.5
- Provisions for NPAs	2,031	1,291	57.3	1,638	24.0	7,978	4,518	76.6
- Other Provisions	(149)	520	(128.6)	130	(214.6)	20	1,394	(98.6)
PBT	1,056	1,321	(20.0)	1,108	(4.7)	3,957	4,691	(15.6)
Provision for Tax	435	600	(27.4)	533	(18.3)	896	1,348	(33.6)
PAT	621	721	(13.8)	575	7.9	3,062	3,343	(8.4)
Effective Tax Rate (%)	41.2	45.4	(421)bp	48.1	(686)bp	22.6	28.7	(610)bp

Source: Company, Angel Research

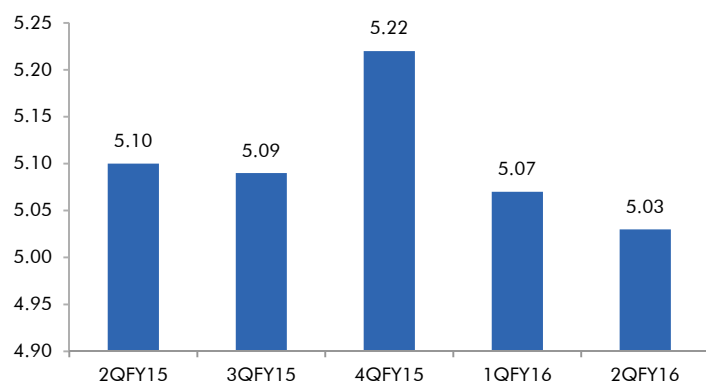
Exhibit 2: 2QFY2016 performance analysis

Particulars	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Advances (₹ cr)	3,80,958	3,80,880	0.0	3,57,093	6.7
Deposits (₹ cr)	5,39,924	5,17,733	4.3	4,73,511	14.0
Credit-to-Deposit Ratio (%)	70.6	73.6	(301)bp	75.4	(486)bp
Current deposits (₹ cr)	36,863	31,938	15.4	29,497	25.0
Saving deposits (₹ cr)	1,57,683	1,49,555	5.4	1,42,079	11.0
CASA deposits (₹ cr)	1,94,546	1,81,493	7.2	1,71,576	13.4
Reported CASA ratio (%)	40.2	38.9	129bp	39.9	34bp
CAR (%)	12.2	12.1	12bp	11.8	41bp
Tier 1 CAR (%)	9.4	9.2	18bp	8.7	66bp
Profitability Ratios (%)					
Cost of deposits	5.97	6.0	(2)bp	6.1	(17)bp
Yield on advances	9.66	9.56	10bp	9.9	(24)bp
Yield on investments	8.0	7.9	1bp	8.0	(4)bp
Yield on funds	7.68	7.69	(1)bp	8.0	(32)bp
Cost of funds	5.0	5.1	(4)bp	5.1	(7)bp
Reported NIM	2.97	2.9	7bp	3.2	(21)bp
Cost-to-income ratio	48.3	43.1	520bp	49.6	(137)bp
Asset quality					
Gross NPAs (₹ cr)	24,945	25,397	(1.8)	20,752	20.2
Gross NPAs (%)	6.36	6.47	(11)bp	5.7	71bp
Net NPAs (₹ cr)	15,187	15,394	(1.3)	11,618	30.7
Net NPAs (%)	3.99	4.1	(6)bp	3.3	73bp
Provision Coverage Ratio (%)	61.4	59.3	203bp	59.1	225bp
Slippage ratio (%)	2.7	3.9	(113)bp	4.1	(134)bp
Credit cost (%)	1.4	0.9	47bp	1.2	13bp

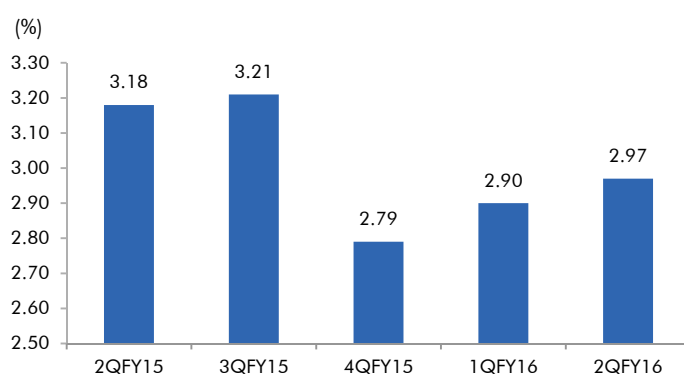
Source: Company, Angel Research

Loan book grows at modest pace; NIM improves qoq

During 2QFY2016, advances and deposits grew by 6.7% and 14.0% yoy, respectively, with the CD ratio at 70.6%. Domestic advances growth was sluggish at 6.3% yoy, while international advances saw a modest growth of 9.5% yoy. The share of overseas advances to total advances constituted 14.1% as against 13.8% in 2QFY2015. In domestic advances, the retail loan book grew by 23.0% yoy, aided by 27.6% yoy growth in the housing segment. Growth in industry loans was modest at 7.6% yoy yoy as the bank was cautious lending to the large industry segment. CASA deposits grew by 13.4% yoy with Current deposits growing by 25.0% yoy. The Domestic CASA ratio jumped by 129bp qoq to 40.2%, due to the spurt seen in term deposits. The NIM improved by 7bp qoq to 2.97%, due to higher yields.

Exhibit 3: Cost of funds down by 4bp qoq; 7bp yoy


Source: Company, Angel Research

Exhibit 4: NIM increases by 7bp qoq; dips 21bp yoy


Source: Company, Angel Research

Weak Non-interest income (excluding treasury)

Other income (excl. treasury) was weak witnessing a decline of 12.8% yoy due to a decline seen in both fee income and recoveries. Treasury income surged by 33.7% yoy which provided a cushion to the other income to an extent.

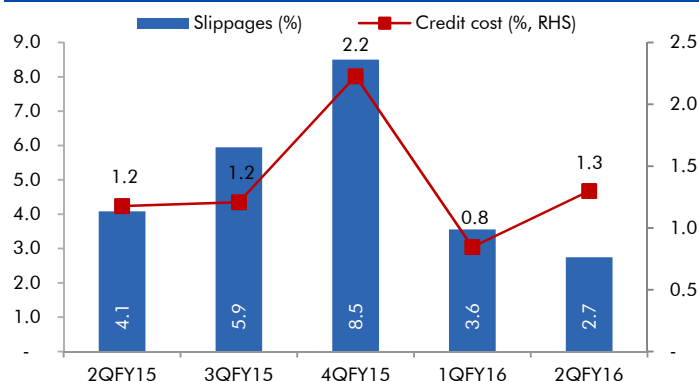
Exhibit 5: Treasury aid non-interest income performance to an extent

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Fee based Income	784	943	(16.9)	822	(4.6)
Treasury	337	237	42.2	252	33.7
Recoveries	236	217	8.8	483	(51.1)
Other income	1,357	1,397	(2.9)	1,557	(12.8)
Other income excl. treasury	1,020	1,160	(12.1)	1,305	(21.8)

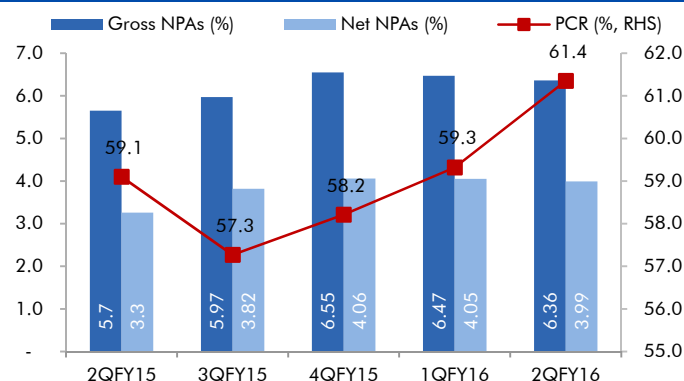
Source: Company, Angel Research

Asset quality improves for second consecutive quarter

Asset quality improved consecutively for the second quarter as the Gross NPA ratio decreased by 11bp to 6.36%, while the Net NPA also drifted downwards by 6bp to 3.99%. The bank reported a second consecutive quarter of significant decline in slippages on a qoq basis to ₹2,613cr (annualized slippage ratio stood at 2.8%) as compared to ₹3,382cr in 1QFY2016. Out of the total slippages, fresh slippage for the quarter was to the tune of ₹2,388cr while fresh restructuring during the quarter was lower at ₹216cr as against ₹676cr in 1QFY2016. The outstanding restructured book stood at ₹38,261cr, 10.3% of the loan book.

Exhibit 6: Slippages ratio falls sharply qoq


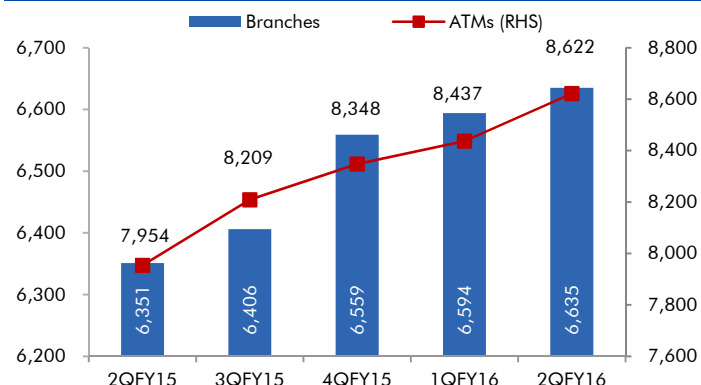
Source: Company, Angel Research

Exhibit 7: ...resulting in lower Gross NPA ratio qoq


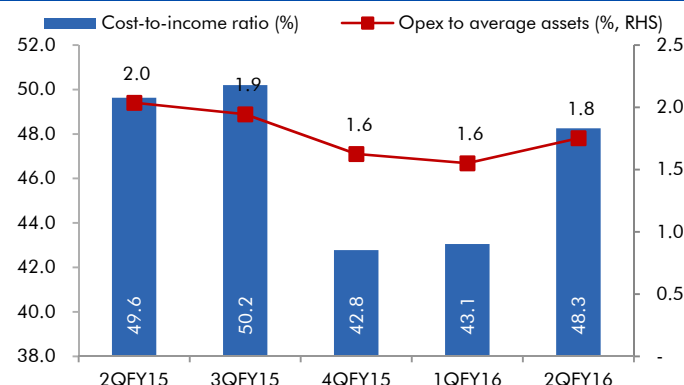
Source: Company, Angel Research;

Cost-to-income ratio improves

Operating expense was under control which declined 3.3% yoy marked by a 7.7% yoy decline in staff expenses. A lower opex and an improvement in NIM of 7bp enabled the bank to reduce cost/income ratio by 137bp yoy to 48.3% given the fact that the bank also opened 41 new branches during the quarter.

Exhibit 8: Steady branch expansion continues


Source: Company, Angel Research

Exhibit 9: Cost to income ratio decreases yoy


Source: Company, Angel Research

Outlook and valuation

PNB has been witnessing improvement in asset quality since the past 2 quarters after severe asset quality pain over the previous several quarters. In our view, we expect asset quality pressure to ease from here on given the bank's seasoned loan book and conservative lending approach followed by the bank as compared to its peers. At the current market price, the stock trades at 0.6x FY2017E ABV. However, given the stress in certain sectors of the economy and with PNB having a meaningful exposure to these stressed sectors, we would follow a cautious stance in the near-term. **Hence, we recommend a Neutral rating on the stock.**

Exhibit 10: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Buy	1,054	1,262	19.7	3.2	3.8	17.3	22.4	1.9	19.7
ICICIBk*	Buy	262	348	32.5	1.8	2.0	10.4	15.3	1.6	15.2
YesBk	Buy	740	914	23.5	1.9	2.4	10.7	20.2	1.6	19.6
AxisBk	Buy	469	630	34.4	1.9	2.6	10.8	18.4	1.8	18.9
SBI*	Buy	241	283	17.3	1.2	1.2	9.9	17.8	0.7	12.8
FedBk	Neutral	54	-	-	1.0	1.0	8.6	3.1	1.0	11.9
SIB	Neutral	20	-	-	0.7	0.8	6.2	21.6	0.7	11.6
BOB	Neutral	173	-	-	0.9	0.9	8.2	17.5	0.6	10.6
PNB	Neutral	134	-	-	0.6	0.6	4.9	28.5	0.7	12.0
BOI	Neutral	132	-	-	0.3	0.8	4.0	14.0	0.3	7.6
IndBk	Neutral	127	-	-	0.4	0.4	4.2	19.4	0.7	9.3
Vijaya Bank	Neutral	34	-	-	0.5	0.5	5.1	14.1	0.4	8.8
OBC	Neutral	148	-	-	0.3	0.5	3.3	65.5	0.5	9.4
Allahabad Bank	Neutral	77	-	-	0.3	0.3	3.0	53.5	0.6	10.9
UnionBk	Neutral	161	-	-	0.5	0.4	4.1	18.1	0.6	11.4
CanBk	Neutral	273	-	-	0.4	0.3	4.0	9.8	0.5	10.7
IDBI#	Neutral	77	-	-	0.3	0.4	3.0	53.5	0.6	10.9
DenaBk	Neutral	88	-	-	0.6	0.6	6.2	61.6	0.6	9.3

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

Punjab National Bank is the country's third-largest PSU bank, with a balance sheet size of around ₹6.34lakh cr and a pan-India network of around 6,635 branches. The bank's network is primarily spread across north India, ie in Punjab, Haryana and Uttar Pradesh. Almost 64% of its branches are based in rural and semi-urban hinterland, which results in a large legacy of low-cost CASA deposits.

Income statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Interest Income	13,414	14,857	16,146	16,556	17,101	19,343
- YoY Growth (%)	13.6	10.8	8.7	2.5	3.3	13.1
Other Income	4,203	4,216	4,577	5,891	6,537	7,213
- YoY Growth (%)	16.3	0.3	8.6	28.7	11.0	10.3
Operating Income	17,617	19,073	20,723	22,446	23,638	26,557
- YoY Growth (%)	14.2	8.3	8.7	8.3	5.3	12.3
Operating Expenses	7,003	8,165	9,338	10,492	10,544	11,598
- YoY Growth (%)	10.0	16.6	14.4	12.3	0.5	10.0
Pre - Provision Profit	10,614	10,908	11,384	11,955	13,094	14,958
- YoY Growth (%)	17.2	2.8	4.4	5.0	9.5	14.2
Prov. & Cont.	3,577	4,386	6,694	7,998	8,217	7,529
- YoY Growth (%)	43.6	22.6	52.6	19.5	2.7	(8.4)
Profit Before Tax	7,037	6,522	4,691	3,957	4,877	7,430
- YoY Growth (%)	7.2	(7.3)	(28.1)	(15.6)	23.3	52.3
Prov. for Taxation	2,153	1,774	1,348	895	1,561	2,378
- as a % of PBT	30.6	27.2	28.7	22.6	32.0	32.0
PAT	4,884	4,748	3,343	3,061	3,316	5,052
- YoY Growth (%)	10.2	(2.8)	(29.6)	(8.4)	8.3	52.3

Balance sheet

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Share Capital	339	354	362	371	371	371
Reserve & Surplus	27,476	32,323	35,533	38,707	41,286	45,231
Deposits	3,79,588	3,91,560	4,51,397	5,01,379	5,56,530	6,28,879
- Growth (%)	21.3	3.2	15.3	11.1	11.0	13.0
Borrowings	26,074	28,726	36,404	34,331	36,570	41,128
Tier 2 Capital	11,190	10,895	11,630	11,340	11,056	10,780
Other Liab. & Prov.	13,524	15,019	15,093	17,206	19,098	21,387
Total Liabilities	4,58,192	4,78,877	5,50,420	6,03,334	6,64,911	7,47,775
Cash Balances	18,493	17,886	22,246	24,225	27,827	31,444
Bank Balances	10,335	9,249	22,973	31,709	34,945	39,301
Investments	1,22,703	1,29,896	1,43,786	1,51,282	1,70,301	1,89,274
Advances	2,93,775	3,08,725	3,49,269	3,80,534	4,14,782	4,68,704
- Growth (%)	21.3	5.1	13.1	9.0	9.0	13.0
Fixed Assets	3,169	3,358	3,420	3,552	3,797	4,142
Other Assets	9,718	9,763	8,727	12,031	13,259	14,912
Total Assets	4,58,192	4,78,877	5,50,420	6,03,334	6,64,911	7,47,775
- Growth (%)	21.1	4.5	14.9	9.6	10.2	12.5

Ratio analysis

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)						
NIMs	3.3	3.3	3.2	2.9	2.8	2.8
Cost to Income Ratio	39.8	42.8	45.1	46.7	44.6	43.7
RoA	1.2	1.0	0.6	0.5	0.5	0.7
RoE	21.1	16.5	10.2	8.5	8.5	12.0
B/S ratios (%)						
CASA Ratio	35.3	39.2	38.3	36.7	37.0	37.3
Credit/Deposit Ratio	77.4	78.8	77.4	75.9	74.5	74.5
CAR	12.6	12.3	12.1	11.9	11.3	10.9
- Tier I	9.3	9.4	9.3	9.3	9.0	8.8
Asset Quality (%)						
Gross NPAs	2.9	4.3	5.3	6.6	8.5	8.4
Net NPAs	1.5	2.3	2.8	4.0	4.5	3.5
Slippages	2.7	2.9	3.4	5.3	4.9	3.7
Loan Loss Prov. /Avg. Assets	0.6	0.7	0.9	1.4	1.3	1.0
Provision Coverage	62.7	58.8	59.1	57.5	60.0	67.5
Per Share Data (₹)						
EPS	28.8	26.9	18.5	16.5	17.9	27.2
ABVPS (75% cover.)	146.7	160.4	168.7	168.9	179.6	218.0
DPS	22.0	27.0	10.0	17.3	17.0	25.5
Valuation Ratios						
PER (x)	4.8	5.1	7.4	8.3	7.7	5.0
P/ABVPS (x)	0.9	0.9	0.8	0.8	0.8	0.6
Dividend Yield	16.0	19.7	7.3	12.6	12.4	18.6
DuPont Analysis						
NII	3.2	3.2	3.1	2.9	2.7	2.7
(-) Prov. Exp.	0.9	0.9	1.3	1.4	1.3	1.1
Adj. NII	2.4	2.2	1.8	1.5	1.4	1.7
Treasury	0.1	0.1	0.1	0.2	0.2	0.2
Int. Sens. Inc.	2.4	2.3	1.9	1.6	1.6	1.9
Other Inc.	0.9	0.8	0.8	0.9	0.8	0.8
Op. Inc.	3.4	3.1	2.7	2.5	2.4	2.7
Opex	1.7	1.7	1.8	1.8	1.7	1.6
PBT	1.7	1.4	0.9	0.7	0.8	1.1
Taxes	0.5	0.4	0.3	0.2	0.2	0.3
RoA	1.2	1.0	0.6	0.5	0.5	0.7
Leverage	18.0	16.3	15.7	16.0	16.3	16.7
RoE	21.1	16.5	10.2	8.5	8.5	12.0

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Disclosure of Interest Statement

	Punjab National Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

 Accumulate (5% to 15%)
 Reduce (-5% to -15%)

 Neutral (-5 to 5%)
 Sell (< -15%)