

PNB Q2 results: A long road to recovery

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November 5, 2016:

After a dismal performance in recent quarters, Punjab National Bank's September quarter results, at first glance appears marginally better. For one, this is the second quarter when fresh slippages into bad loans have moved lower, after a sharp spike in the second half of last fiscal. Gross non-performing assets (GNPA) as a per cent of loans have hence moved marginally lower in the September quarter from the June quarter. Restructured loans that have fallen sharply over the last two to three quarters, continued to decline in the September quarter. Earnings too have inched up in the last two quarters, after the bank reported a steep loss in the March quarter.

But that's not to say that the worst is over. The bank's still abysmal returns, existing large bad loan book, virtually eroded net worth (adjusted for stressed assets) does not lend much comfort. The state-owned lender has a long way to go before delivering a consistent and substantial recovery in earnings.

Consistency will be key

The bank's bad loans as a per cent of total loans have moved up sharply over the past year. In the December and March quarter of last fiscal, the bank witnessed slippages to the tune of around ₹ 13200 crore and ₹ 26000 crore respectively (due to AQR) which led to a steep rise in GNPA's. In the latest September quarter slippages are down to ₹ 5089 crore. Nonetheless, at 13.63 per cent of loans, PNB's GNPA is currently among the highest in the system.

The bank's restructured loans as of September 2016 stood at around 4.3 per cent of loans. This is a sharp fall from the 9-odd per cent levels seen in the same quarter last year. But this is only because a majority of the slippages into bad loans have been from restructured assets in the last two to three quarter. Further slippages from these accounts continue to pose risk in the coming quarters.

To its credit though, the management has been focussing on bad loan recovery which has yielded results to some extent. Cash recovery and upgradation has been moving up in the last two quarters. It stood at ₹ 4772 crore in the September quarter compared to ₹ 1879 crore in the same quarter last year. It needs to be seen if the management can continue to deliver on this front.

Weak core performance

PNB's core performance has been weak in the last couple of quarters. Muted credit growth on the back of the bank consciously de-leveraging its large accounts and reversal of income due to rise in bad loans have impacted the bank's core net interest income. In the September quarter, net interest income fell by 10 per cent, compared to the same quarter last year. Costs of deposits for the bank have fallen to 5.36 per cent in the September quarter from 5.9 per cent last year. However muted loan growth has impacted yields on advances and hence margins. Net interest margin is down to 2.5 per cent from 2.97 per cent last year.

In the September quarter, net advances grew by just 3.4 per cent year on year. Over the last four to five quarters, in view of the growing risk in large accounts, the bank has been de-risking its loan portfolio, focusing instead on small ticket business such as retail, MSME and agriculture. Share of small ticket advances has gone up from 56 per cent in September last year to 58.6 per cent as of September 2016 quarter.

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PNB's return on asset is a dismal 0.32 per cent currently, far lower than the 1.6-2 per cent that private banks deliver. Efforts to de-leverage large accounts paying off and consistency in recovery and upgradation of bad loans will determine the earnings trajectory of the bank in the coming quarters.

Eroding net worth

With the steep correction in stock price the valuation of the bank too has fallen sharply over the last two years. The stock trades at about 0.6 times one year forward book value. But valuations based on banks' book value can be misleading. Accounting for non performing assets (net) and restructured book (30 per cent) that have gone up significantly in the past year for PNB, the bank's adjusted book is almost negligible.

(This article was published on November 5, 2016)

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