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PNB Q2 slippages to moderate, while credit costs stay high

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Facing same predicament like most public sector lenders, Punjab National Bank's credit costs might stay elevated for the second quarter ended September 2017. Credit cost is the amount set aside for bad loans. However, the pace of slippages, advances becoming bad loans, is expected to moderate.

While operating profits will see traction or improvement, the tepid demand for credit will be a drag on interest income, a key component in revenues, said an analyst.

PNB's operating profit was about ₹3,312 crore in July-September 2016 (Q2 FY17) and ₹3,217 crore in the first quarter of current fiscal (Q1 FY18). Its net profit in Q2 FY17 was ₹549 crore and ₹343 crore in the quarter ended June 2017 (Q1 FY18). For the past the five quarters, its Net Interest Income has stayed in the range of ₹3,683 crore to ₹3,879 crore. The other income, comprising treasury revenue, fee and commissions, was ₹2,387 crore in Q2 FY17 and ₹2,331 crore in Q1 FY18.

Reliance Securities in preview for PNB results said increase in bond yield is likely to negatively impact the performance. Bond yields have bearing on treasury revenues, a part of the other income. The provisions and contingencies, reflecting credit costs, stood at ₹2,533 crore in Q2 FY17 and ₹2,608 crore in Q1 FY18. The provisions for ageing gross non-performing assets will form a substantial part of credit costs.

HDFC Securities in a research note said performance of state-owned banks will be impacted by elevated provisions basically to increase Provision Coverage Ratio and keeping aside money towards cases in the National Company Law Tribunal exposures, relatively subdued loan growth and lower treasury gains.