

Public

Q: Are PSU Banks on improving path and at right levels to enter for investment??

Sector

A: Current valuations of most PSBs justify lesser risk and multiple time returns once the asset quality clouds fade away.

Banks

Q: Which ones are good for now?

A: Go for the big & reliable names indeed.

Business Size of PSU Banks(Rs bn) (as of FY19)

Name of the Bank (As of FY19)	DEPOSITS (Rs bn)	ADVANCES(Rs bn)	Total Business (Rs bn)	Market Share of total business (% of overall banking sector)
Allahabad Bank	2,143	1,422	3,565	1.7%
Andhra Bank	2,198	1,588	3,786	1.8%
Bank Of Baroda	6,387	4,688	11,075	5.1%
Bank Of India	5,209	3,411	8,620	4.0%
Bank Of Maharashtra	1,407	827	2,234	1.0%
Canara Bank	5,990	4,277	10,267	4.8%
Central Bank Of India	2,999	1,465	4,464	2.1%
Corporation Bank	1,846	1,213	3,059	1.4%
IDBI Bank Ltd	2,274	1,486	3,760	1.7%
Indian Bank	2,421	1,813	4,234	2.0%
Indian Overseas Bank	2,225	1,326	3,551	1.6%
Oriental Bank Of Commerce	2,326	1,593	3,919	1.8%
Punjab & Sind Bank	986	692	1,678	0.8%
Punjab National Bank	6,760	4,582	11,342	5.3%
State Bank Of India	29,114	21,859	50,973	23.6%
Syndicate Bank	2,599	2,050	4,649	2.2%
UCO Bank	1,979	993	2,972	1.4%
Union Bank Of India	4,159	2,969	7,128	3.3%
United Bank of India	1,350	670	2,020	0.9%
Total PSBs	84,372	58,924	1,43,296	66.5%
Total Private Banks	38,345	33,993	72,338	33.5%
Total of all Scheduled Commercial Banks	1,22,717	92,917	2,15,634	100.0%

Valuation trend of PSU Banks

P/BV (fiscal year end)											
Primary PSU Banks	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Average (10 Yrs)
Allahabad Bank	0.91	1.26	0.87	0.55	0.41	0.44	0.23	0.37	0.38	1.22	0.67
Andhra Bank	1.18	1.29	0.89	0.63	0.43	0.51	0.34	0.37	0.49	0.66	0.68
Bank Of Baroda	1.48	1.73	1.14	0.86	0.84	0.88	0.88	0.93	0.81	0.68	1.02
Bank Of India	1.37	1.60	1.03	0.77	0.54	0.45	0.30	0.56	0.58	0.78	0.80
Bank Of Maharashtra	0.89	0.97	0.85	0.71	0.57	0.56	0.45	0.63	0.40	0.84	0.69
Canara Bank	1.31	1.52	1.00	0.74	0.49	0.65	0.38	0.62	0.64	0.70	0.80
Central Bank Of India	1.29	1.05	0.81	0.58	0.54	1.11	0.85	1.41	1.28	0.92	0.98
Corporation Bank	1.18	1.31	0.75	0.61	0.46	0.42	0.37	0.50	0.50	1.10	0.72
Indian Bank	1.11	1.23	1.10	0.71	0.46	0.65	0.37	0.91	0.89	0.80	0.82
Punjab National Bank	1.86	1.83	1.13	0.77	0.73	0.66	0.43	0.81	0.70	1.06	1.00
State Bank Of India	1.59	2.11	1.32	1.13	0.97	1.24	0.84	1.28	1.09	1.36	1.29
Syndicate Bank	0.86	1.05	0.83	0.61	0.50	0.50	0.39	0.46	0.52	0.65	0.64
Union Bank Of India	1.68	1.62	0.98	0.82	0.50	0.54	0.44	0.51	0.48	0.69	0.83
Average (per Year)	1.29	1.43	0.98	0.73	0.57	0.66	0.48	0.72	0.67	0.88	

(Valuation: As per FY19 book value)

Prompt Corrective Action Framework: What it did and will do in future

Public Sector Banks	CMP	Book Value	P/BV	10 Years Average P/BV(fiscal year end)	Premium/ (Discount)
Banks in PCA Framework					
Central Bank	22.5	39.8	0.57	0.98	-42.5%
IDBI Bank	38.1	49.7	0.77	0.84	-8.5%
Indian Overseas Bank	10.7	17.9	0.60	0.67	-10.8%
UCO Bank	18.0	25.4	0.71	0.75	-5.4%
Banks out of PCA framework					
Allahabad Bank	23.9	44.8	0.53	0.67	-20.0%
Bank of India	77.4	133.0	0.58	0.80	-27.2%
United bank of India	9.2	15.5	0.59	0.59	0.4%
Corporation Bank	25.3	26.2	0.97	0.72	34.0%
Oriental Bank of Commerce	59.8	137.9	0.43	0.65	-33.7%
Bank of Maharashtra	12.7	16.4	0.77	0.69	12.7%

Dena Bank is no more listed and merged with Bank of Baroda

(Valuation: As per closing price of 28 Nov 2019)

- The RBI had at one time by the end of CY18, had put 11 commercial banks (all PSBs) operating under PCA framework.
- Most of the PSBs are trading at a discount to their 10 year average P/B apart from Corporation Bank, United Bank of India and Bank of Maharashtra.
- Some of the banks with good image among retail consumers, e.g., Allahabad Bank, Oriental Bank of Commerce, Bank of India, etc. have access to vibrant markets in semi-urban & rural markets and will bounce back strongly in some time.

Most Reliable names among PSBs

Other Large PSBs at discount	CMP	Book Value	P/BV	10 Years Average P/BV (fiscal year end)	Premium/ (Discount)
State Bank of India	349.30	269.52	1.30	1.29	0.2%
Bank of Baroda	106.40	190.12	0.56	1.02	-45.3%
Canara Bank	232.15	509.23	0.46	0.80	-43.3%

(Valuation: As per closing price of 28 Nov 2019)

Of all the large public sector banks, the above 3 are trading at a much discounted valuations against their historical average P/BV over last 10 years. With the government supposed to recapitalize these banks and breathe fresh life into them, we foresee the valuations of these PSBs to rise from hereon.

State Bank of India, being the largest bank of them all, is expected to achieve valuation levels between 1.7-1.8 with the way the NCLT cases are resolved and recoveries increase over time. Both Bank of Baroda and Canara Bank are already minting healthy profits and we expect the valuations for them to catch up as soon as the clouds over assets quality concerns are addressed.

Punjab National Bank is trading at P/BV of 0.68 (which is at a discount of 32% its last 10 years average P/BV of 1.0). However, the bank has gone through several fraudulent charges leading to a loss of popular image.

PSU Bank's in the charts

Exhibit 1: Loan book growth was moderated sharply over FY15-18

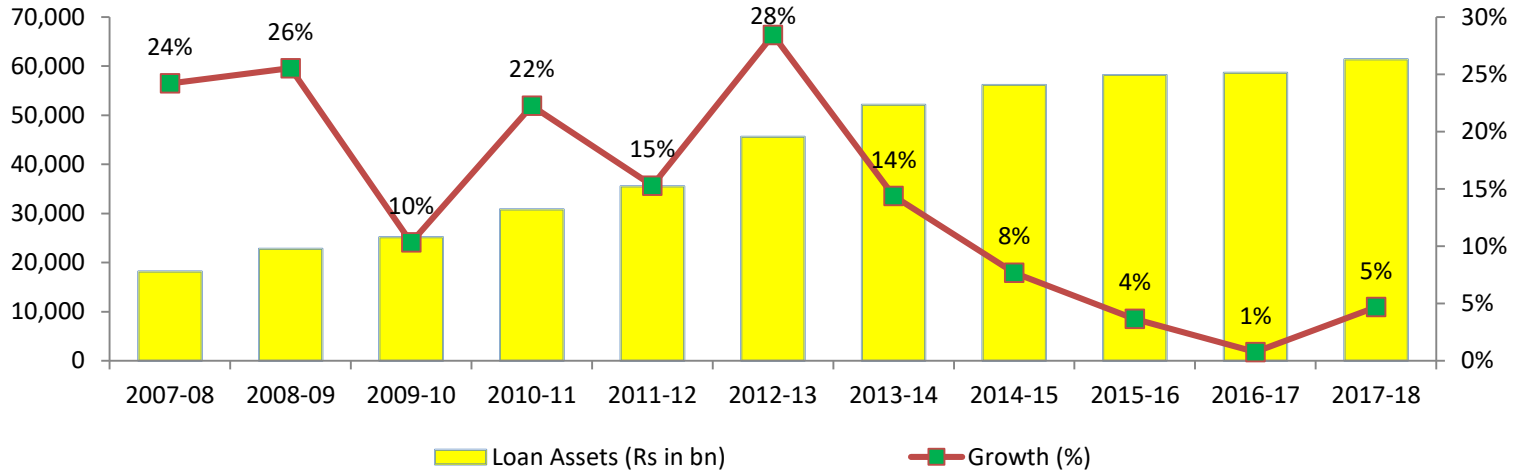
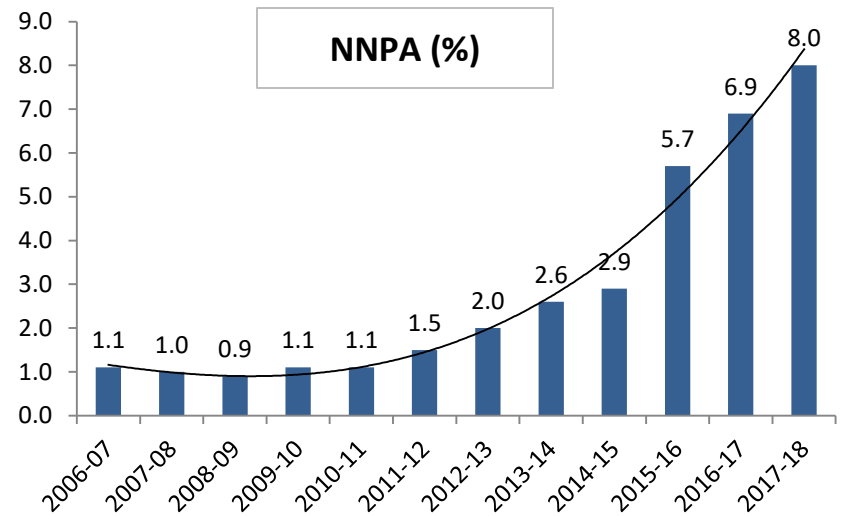
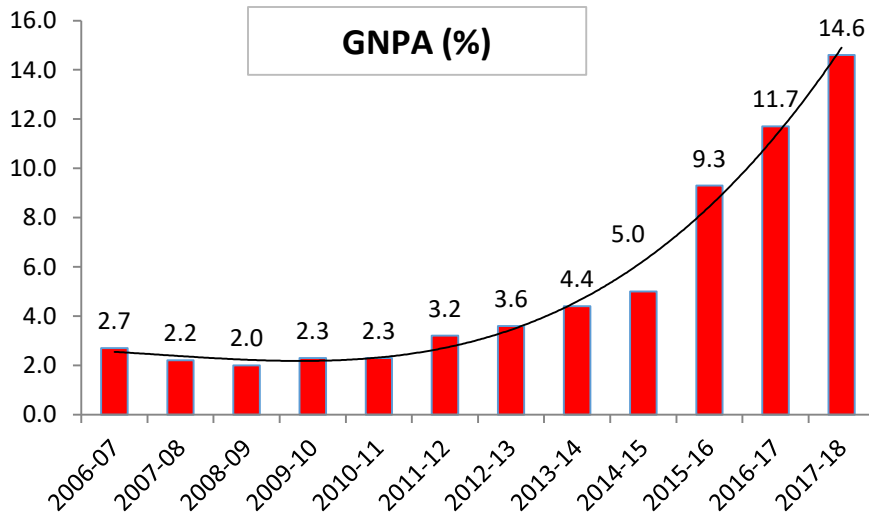


Exhibit 2: Asset quality of the banks deteriorated sharply with sharp rise seen in GNPA and NNPA



PSU Bank's in the charts

Exhibit 3: NIM trend of the bank

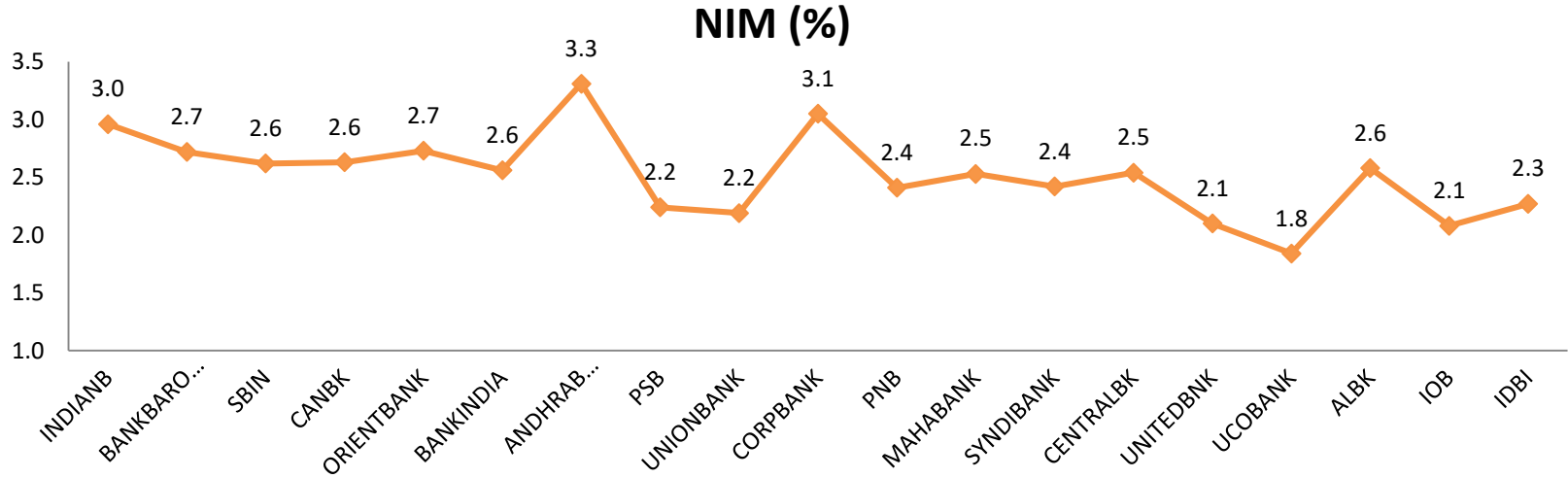


Exhibit 4: Yield on advances trend

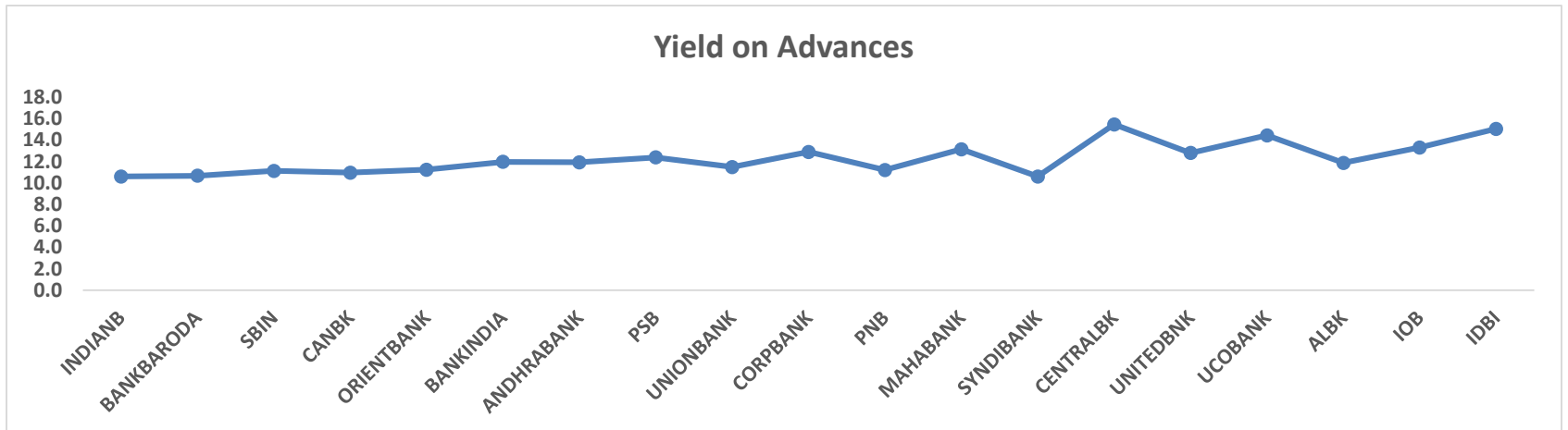


Exhibit 5: Asset quality positioning of PSU banks

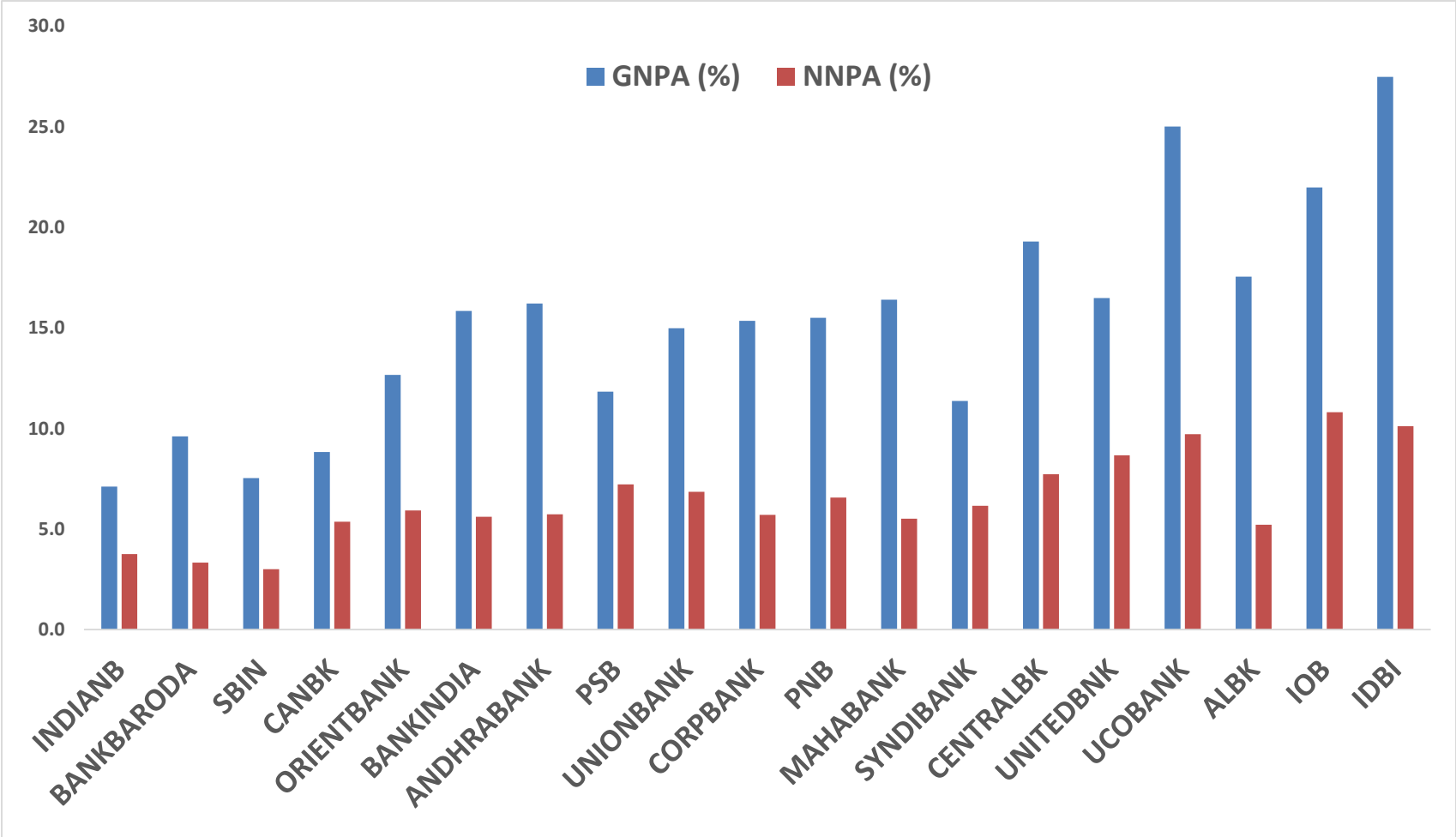
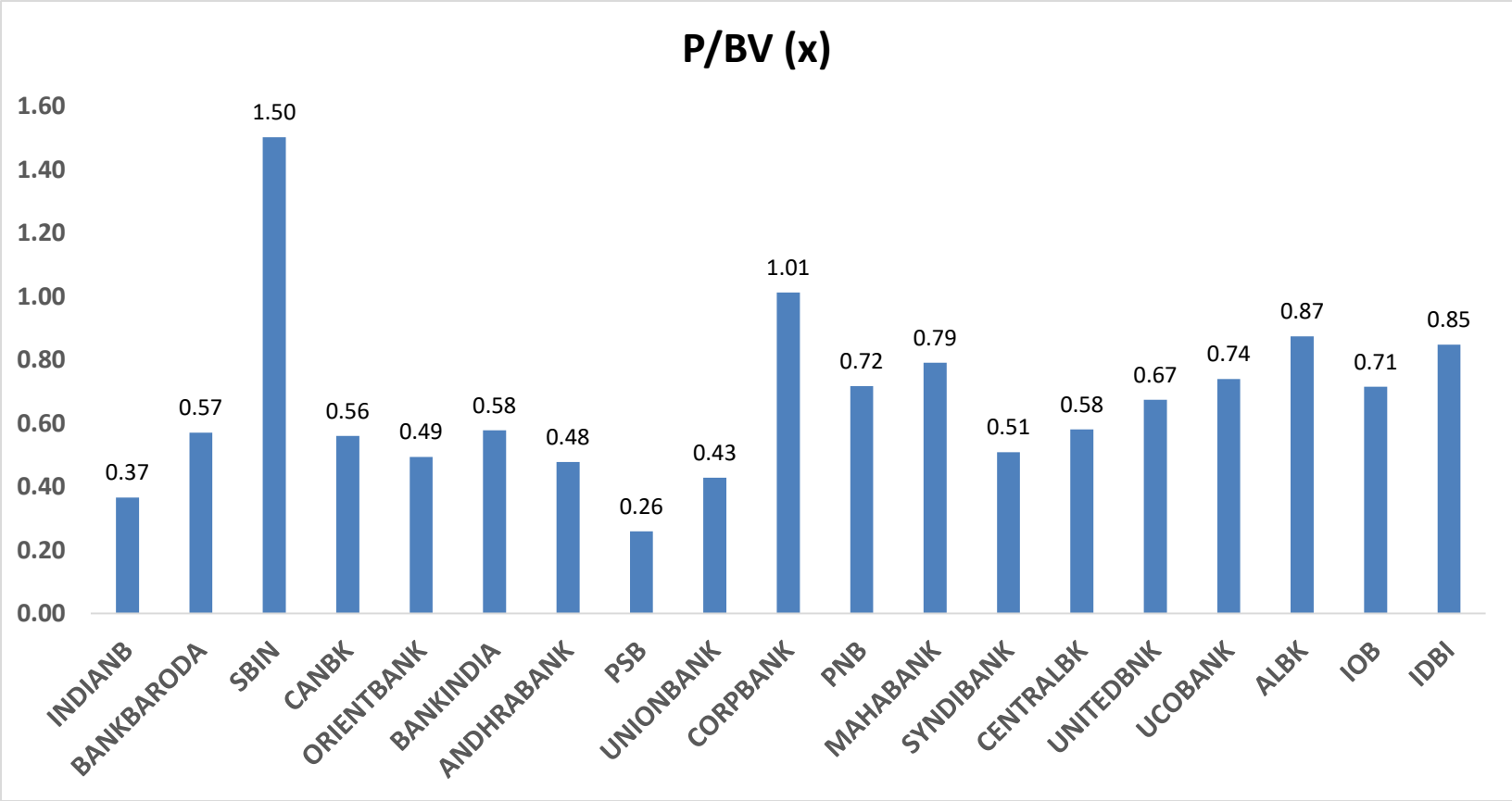


Exhibit 6: Valuation trend of PSU Banks



The valuations are closing prices on 1st Nov 2019

Q2FY20 Result Snapshot

Public Sector Banks (INR Cr)	NII		Operating Profit		PAT		GNPA		NNPA	
	Q2FY20	YoY	Q2FY20	YoY	Q2FY20	YoY	Q2FY20	YoY	Q2FY20	YoY
Allahabad Bank	1276	11%	633	19%	-2114	NA	19.1	152 bps	6.0	-198 bps
Andhra Bank	1694	-2%	1386	7%	70	NA	16.9	56 bps	6.0	-154 bps
Bank Of Baroda	7028	56%	5336	73%	737	73%	10.3	-153 bps	3.9	-95 bps
Bank Of India	3860	32%	2460	49%	266	NA	16.3	-6 bps	5.9	-177 bps
Bank Of Maharashtra	1073	7%	752	-5%	115	325%	16.9	-178 bps	5.5	-513 bps
Canara Bank	3130	-5%	2545	9%	365	22%	8.7	-188 bps	5.2	-139 bps
Central Bank Of India	1891	13%	1026	102%	134	NA	19.9	-159 bps	7.9	-246 bps
Corporation Bank	1334	-8%	1016	13%	130	26%	15.4	-203 bps	5.6	-606 bps
IDBI Bank Ltd.	1631	25%	1009	19%	-3459	NA	29.4	-235 bps	6.0	-1133 bps
Indian Bank	1863	8%	1502	26%	359	139%	7.2	4 bps	3.5	-69 bps
Indian Overseas Bank	1204	0%	746	-43%	-2254	363%	20.0	-473 bps	9.8	-450 bps
Oriental Bank Of Commerce	1456	15%	1176	21%	126	24%	12.5	-471 bps	5.9	-413 bps
Punjab & Sind Bank	509	-16%	251	-28%	-469	329%	13.6	362 bps	7.1	182 bps
Punjab National Bank	4264	7%	3562	25%	507	NA	16.8	-40 bps	7.7	-125 bps
State Bank Of India	24600	18%	14714	19%	3012	219%	7.2	-276 bps	2.8	-205 bps
Syndicate Bank	1739	11%	956	68%	251	NA	11.5	-153 bps	6.0	-85 bps
UCO Bank	1266	31%	1207	138%	-892	NA	21.9	-350 bps	7.3	-465 bps
Union Bank Of India	2906	17%	2241	22%	-1194	NA	15.2	-50 bps	7.0	-144 bps
United Bank of India	773	75%	599	190%	124	NA	15.5	-718 bps	7.9	-648 bps

Comment on PSU Banks Q2FY20 result:

- ❑ Among public sector banks, SBI has reported lower than expected slippages to almost half on a sequential basis. There are significant amount of recoveries collected by the bank in FY19 (around INR 34,000 Cr). It also saw a 22bps QoQ jump in domestic NIMs to 3.22% despite loan growth being sluggish.
- ❑ Most of the public sector banks headline' asset quality shown an improvement on quarter-on-quarter basis.
- ❑ Advances growth for all PSU banks had moderated while private banks growing at a faster pace ~12-17% growth on YoY basis.
- ❑ On the back of healthy treasury gains & good traction in fee income, PSU banks have reported good growth in other income.
- ❑ Delay in resolution of big ticket corporate accounts remains a near term deterrent for asset quality. However, NCLT accounts recovery offsetting pressure up to some extent. However, provisions are expected to remain higher.
- ❑ In a mega move towards consolidation, the GoI has announced the merger of 10 PSUs into 4 entities. Thus the total number of PSUs would come down to 12 from 27. The four set of banks are to be created out of Canara Bank and Syndicate Bank merger, Indian Bank and Allahabad Bank merger, Union Bank, Andhra Bank and Corporation Bank merger and merger of PNB, OBC and United Bank.

Stock Rating Scale			
		Absolute Return	
	BUY	>20%	
	ACCUMULATE	12% to 20%	
	HOLD	5% to 12%	
	NEUTRAL	-5% to 5%	
	REDUCE	<-5%	
	Contact	Website	Email Id
Research Analyst Registration No- INH000002764			
	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com
Arihant Research Desk			
Email: research@arihantcapital.com			
Tel. : 022-42254800			
Head Office		Registered Office	
#1011, Solitaire Corporate Park , Building No. 10, 1 st Floor, Andheri Ghatkopar Link Road Chakala, Andheri (E). Mumbai – 400093 Tel: (91-22) 42254800; Fax: (91-22) 42254880		Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199	

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. 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. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.