

HOLD Punjab National Bank

Your success is our success

Better margins, lower opex/LLP drive strong earnings beat

BFSI - Banks ▶ Result Update ▶ October 27, 2023

TARGET PRICE (Rs): 78

PNB reported a beat on PAT, at Rs17.6bn (vs Emkay: Rs14.6bn), mainly owing to higher NII, lower staff expense and contained provisions, and partially offset by the higher tax expense. Bank's credit growth trajectory improved to 15% YoY/3% QoQ which, coupled with better loan/investment, led to a 3bps QoQ improvement in NIM to 3.1%, while most banks saw a correction. Asset quality continues to enhance, with GNPA ratio down by 77bps QoQ to 7%, aided by lower slippages and higher recoveries/upgrades. Going ahead, PNB expects growth to remain robust, albeit NIMs to slightly soften amid rising CoF. However, better treasury gains, recovery from written-off accounts and contained LLP should support profitability. We expect the bank to note a gradual improvement in RoA/RoE to 0.7%/11% by FY26E, from a low of 0.2% in FY23. We retain HOLD on PNB, with new TP of Rs78/sh (earlier Rs65), rolling forward on Sep-25E ABV and subs value at Rs5/sh. Management clarified the bank is not looking to divest stake in subsidiaries, incl. its insurance business, for now.

Punjab National Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	34,570	25,072	66,337	97,372	1,23,014
Loan growth (%)	8.0	14.1	13.3	13.5	14.2
NII growth (%)	(6.1)	20.2	14.0	8.4	9.8
NIM (%)	2.5	2.7	2.8	2.7	2.7
PPOP growth (%)	(6.3)	8.5	7.1	0.0	10.0
Adj. EPS (Rs)	3.2	2.3	6.0	8.8	11.2
Adj. EPS growth (%)	37.0	(29.2)	164.6	46.8	26.3
Adj. BV (INR)	56.3	67.7	79.2	86.1	94.3
Adj. BVPS growth (%)	8.2	20.1	17.1	8.7	9.5
RoA (%)	0.3	0.2	0.4	0.6	0.7
RoE (%)	4.0	2.8	7.1	9.7	11.2
P/E (x)	20.2	28.6	10.8	7.4	5.8
P/ABV (x)	1.2	1.0	0.8	0.8	0.7

Source: Company, Emkay Research

Growth improves, as do margins

Credit growth improved to 15% YoY/3% QoQ, backed by continued growth in the RAM segment (which constitutes 56% of the total loan book), while Corporate growth was muted at 1% QoQ. Total deposits grew 10% YoY/1% QoQ, with CASA remaining stable at 41%. Despite the increase in CoF to 4.3% (due to repricing of deposits), NIMs saw a slight improvement of 3bps QoQ to 3.1%, owing to better yield on loans/investments. The bank conservatively guides for 12-13% credit growth in FY24 with upward bias and NIM of 2.9-3%, as it envisages further increase in CoF due to repricing of deposits.

Lower slippages lead to sharp improvement in asset quality

Lower fresh slippages at Rs18.3bn/0.9% of loans, coupled with higher recovery/upgrades, led to a 77bps QoQ decline in the GNPA ratio to 7%. Specific PCR further improved to 80%; the bank plans to maintain this high level and thus bring down the NNPA from its current 1.5% levels. The restructured pool also declined, by 7bps QoQ to 1.1% of loans, and stands at Rs101bn. The bank recovered NPAs to the tune of ~Rs11bn from NCLT in H1FY24, and expects more recoveries, of Rs25bn in H2FY24. The bank guides for credit cost of 1.5-1.75% for FY24 vs 2.1% in FY23.

We retain HOLD on the stock

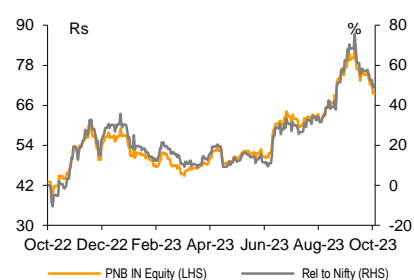
We expect the bank to report gradual improvement in its RoA/RoE to 0.7%/11% by FY26E, from a low of 0.2% in FY23. We retain HOLD on the stock, with revised target price of Rs78/share (earlier Rs65/share), rolling forward on Sep-25E ABV and subsidiaries' value at Rs5/share. Management has clarified that the bank is not looking to divest stake in its subsidiaries, including its insurance business, for now. **Key risks:** Macro deterioration derailing growth/asset-quality normalization.

Target Price – 12M	Sep-24
Change in TP (%)	20.0
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	11.7
CMP (26-Oct-23) (Rs)	69.9

Stock Data	Ticker
52-week High (Rs)	84
52-week Low (Rs)	39
Shares outstanding (mn)	11,011.0
Market-cap (Rs bn)	769
Market-cap (USD mn)	9,241
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	73
ADTV-3M (Rs mn)	5,152.7
ADTV-3M (USD mn)	61.9
Free float (%)	27.0
Nifty-50	18,857
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	73.2
FPIs/MFs (%)	2.7/13.8

Price Performance

(%)	1M	3M	12M
Absolute	(12.0)	10.6	61.3
Rel. to Nifty	(8.2)	16.0	51.0

1-Year share price trend (Rs)**Anand Dama**

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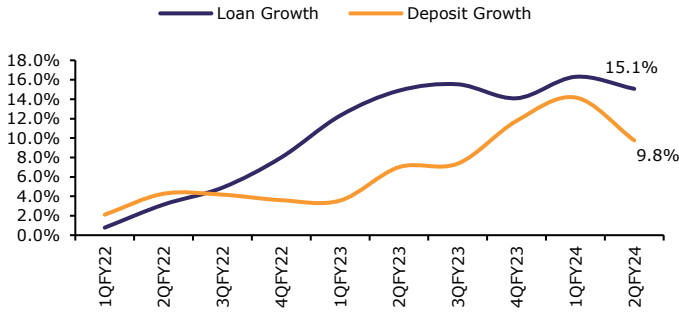
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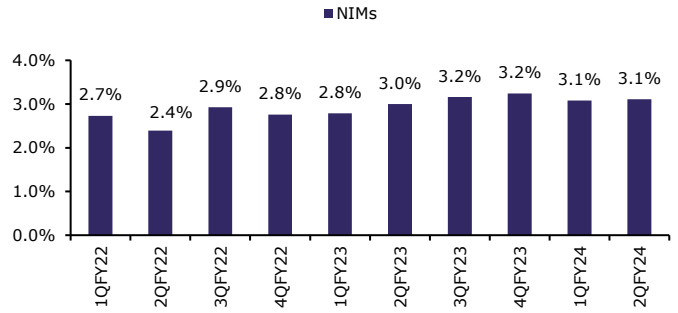
Story in Charts

Exhibit 1: Credit growth improves, but deposit growth remains moderate



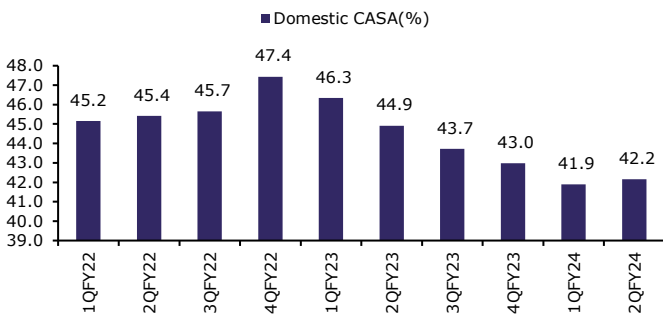
Source: Company, Emkay Research

Exhibit 2: NIMs stay stable owing to better yield on loans/investments



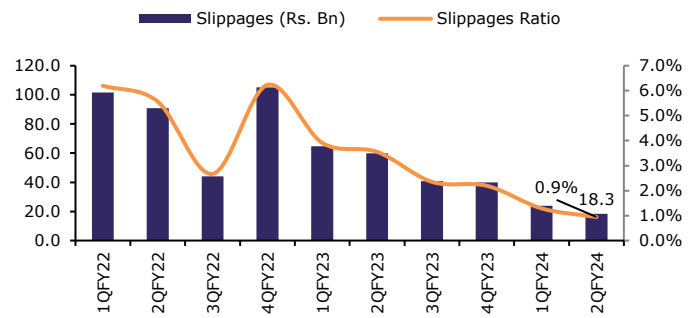
Source: Company, Emkay Research

Exhibit 3: Domestic CASA was unwavering at 42%



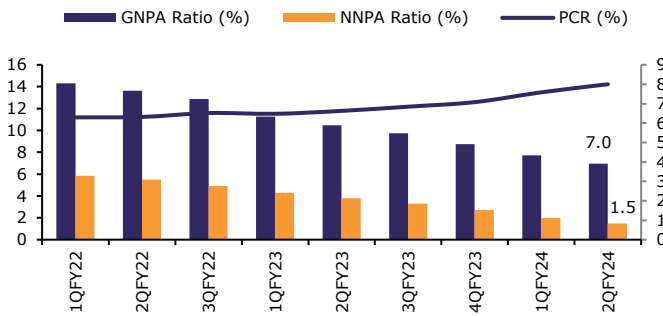
Source: Company, Emkay Research

Exhibit 4: Slippages were contained at 0.9% of loans



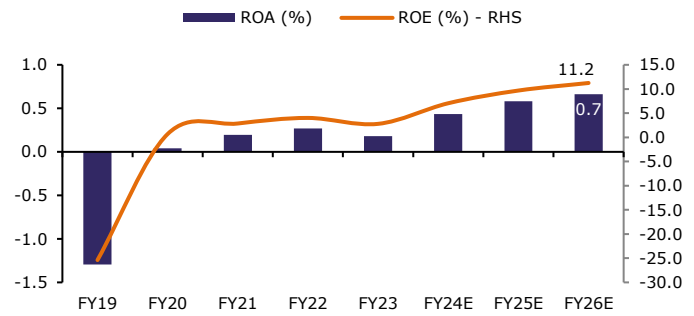
Source: Company, Emkay Research

Exhibit 5: Lower slippages along with better recovery/upgrade led to improvement in asset quality



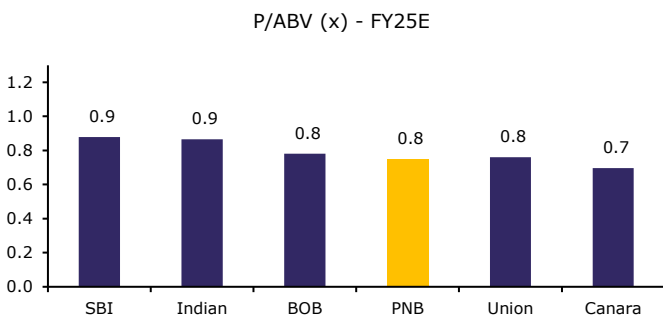
Source: Company, Emkay Research

Exhibit 6: We expect the bank to report gradual improvement in return ratios, going forward



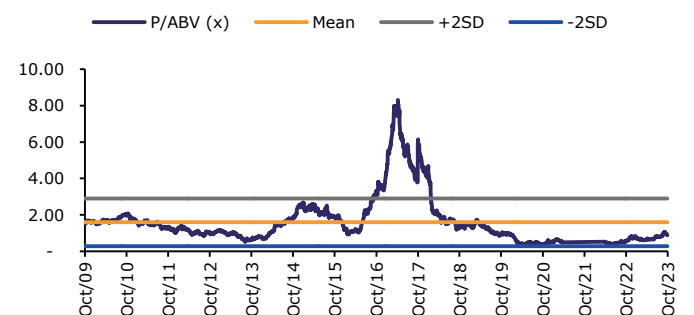
Source: Company, Emkay Research

Exhibit 7: PNB is reasonably valued vs peers



Source: Bloomberg, Emkay Research

Exhibit 8: The stock currently trades at 0.8x its 1-year forward ABV



Source: Company, Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,29,512	1,26,258	1,24,459	3%	4%	Higher NII led to a beat on Net income
PPOP	62,164	55,966	62,017	11%	0%	Higher net income and lower staff expenses led to a beat
PAT	17,561	14,626	16,195	20%	8%	Higher PPOP and contained provisions led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	2,01,540	2,23,844	2,38,486	2,51,455	2,63,549	31	5	8,51,441	10,73,486	26
Interest Exp	1,18,833	1,32,051	1,43,499	1,56,412	1,64,320	38	5	5,06,525	6,80,124	34
Net Interest Income	82,707	91,794	94,988	95,043	99,229	20	4	3,44,916	3,93,362	14
Global NIMs (reported)	3.00	3.16	3.24	3.08	3.11	11bps	3bps	2.70	2.75	6bps
Non-interest Income	28,472	33,380	34,203	34,338	30,283	6	-12	1,21,425	1,31,489	8
Operating Expenses	55,507	68,014	70,527	69,701	67,348	21	-3	2,41,054	2,83,519	18
Pre Provisioning Profit	55,672	57,159	58,664	59,680	62,164	12	4	2,25,288	2,41,332	7
Provision & Contingencies	49,064	47,133	38,306	39,653	34,442	-30	-13	1,82,405	1,39,275	-24
PBT	6,608	10,026	20,359	20,027	27,723	320	38	42,883	1,02,057	138
Income Tax Expense (Gain)	2,496	3,737	8,772	7,473	10,161	307	36	17,811	35,720	101
Net Profit/(Loss)	4,113	6,289	11,586	12,554	17,561	327	40	25,072	66,337	165
Gross NPA (%)	10.47	9.75	8.73	7.73	6.96	-351bps	-77bps	8.73	6.40	-233bps
Net NPA (%)	3.79	3.29	2.72	1.98	1.47	-232bps	-51bps	2.72	1.35	-137bps
Deposits (Rs bn)	11,935	12,104	12,812	12,979	13,099	10	1	12,812	13,972	9
Net Advances (Rs bn)	7,734	8,004	8,308	8,637	8,899	15	3	8,308	9,411	13

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	5,07,476	5,24,852	3.4%	5,42,765	5,51,388	1.6%	5,97,207	6,01,937	0.8%
PPOP	2,20,259	2,41,332	9.6%	2,25,355	2,41,307	7.1%	2,48,440	2,65,406	6.8%
PAT	60,743	66,337	9.2%	98,044	97,372	-0.7%	1,19,481	1,23,014	3.0%
EPS (Rs)	5.5	6.0	9.2%	8.9	8.8	-0.7%	10.9	11.2	3.0%
BV (Rs)	87.4	87.8	0.5%	94.6	94.9	0.3%	103.6	103.8	0.3%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	14.1	13.3	13.5	14.2
Deposit Growth (%)	11.8	9.1	10.9	11.6
NIM (%)	2.7	2.8	2.7	2.7
GNPA (%)	8.7	6.4	5.0	4.0
Credit Cost (%)	2.1	1.5	1.0	0.9

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs bn)	7,366	7,562	7,857	8,011	8,311	8,576	8,856	9,175	9,424
growth (YoY)	2.7	4.0	6.3	10.3	12.8	13.4	12.7	14.5	13.4
growth (QoQ)	1.5	2.7	3.9	2.0	3.7	3.2	3.3	3.6	2.7
Liability Profile									
Deposits (Rs bn)	11,154	11,273	11,462	11,367	11,935	12,104	12,812	12,979	13,099
growth (YoY)	4.3	4.2	3.6	3.6	7.0	7.4	11.8	14.2	9.8
growth (QoQ)	1.6	1.1	1.7	(0.8)	5.0	1.4	5.8	1.3	0.9
Asset Quality and Capital									
GNPA (%)	13.6	12.9	11.8	11.3	10.5	9.7	8.7	7.7	7.0
NNPA (%)	5.0	4.5	4.4	4.0	3.5	3.1	2.6	1.9	1.4
PCR (%)	63.2	65.2	62.2	64.8	66.3	68.5	70.8	75.8	80.0
Slippages (Rs mn)	90,770	44,070	1,05,060	64,680	59,790	40,720	39,960	23,900	18,260
Slippages (%)	5.1	2.4	5.7	3.6	3.2	2.2	2.0	1.2	0.9
CAR (%)	15.2	14.9	14.5	14.8	14.7	15.2	15.5	15.5	15.1
Tier I (%)	12.5	12.2	11.7	12.1	12.2	12.2	12.7	12.3	12.0
ROE Decomposition (on total assets; %)									
NII	2.0	2.4	2.2	2.3	2.5	2.6	2.7	2.6	2.7
Other Income (Ex Treasury)	0.7	0.6	0.6	0.6	0.8	0.9	0.9	0.8	0.8
Treasury	0.3	0.2	0.1	0.2	0.0	0.0	0.1	0.1	0.0
Opex	1.8	1.7	1.4	1.4	1.6	2.0	2.0	1.9	1.8
PPOP	1.3	1.6	1.6	1.6	1.7	1.6	1.6	1.6	1.7
Provisioning Cost	1.0	1.0	1.5	1.5	1.5	1.4	1.1	1.1	0.9
PBT	0.2	0.5	0.1	0.2	0.2	0.3	0.6	0.5	0.7
Tax	-0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3
ROA	0.4	0.4	0.1	0.1	0.1	0.2	0.3	0.3	0.5
ROE	4.7	4.7	0.8	1.3	1.7	2.5	4.7	5.0	6.9

Source: Company, Emkay Research

Punjab National Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	7,48,795	8,51,441	10,73,486	11,57,408	12,41,302
Interest Expense	4,61,851	5,06,525	6,80,124	7,30,863	7,73,134
Net interest income	2,86,945	3,44,916	3,93,362	4,26,545	4,68,168
NII growth (%)	(6.1)	20.2	14.0	8.4	9.8
Other income	1,23,200	1,21,425	1,31,489	1,24,843	1,33,769
Total Income	4,10,144	4,66,342	5,24,852	5,51,388	6,01,937
Operating expenses	2,02,526	2,41,054	2,83,519	3,10,081	3,36,531
PPOP	2,07,618	2,25,288	2,41,332	2,41,307	2,65,406
PPOP growth (%)	(6.3)	8.5	7.1	0.0	10.0
Core PPOP	1,78,267	2,36,659	2,22,492	2,17,756	2,37,144
Provisions & contingencies	1,64,454	1,82,405	1,39,275	95,976	1,01,387
PBT	43,164	42,883	1,02,057	1,45,331	1,64,019
Extraordinary items	0	0	0	0	0
Tax expense	8,594	17,811	35,720	47,959	41,005
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	34,570	25,072	66,337	97,372	1,23,014
PAT growth (%)	71.0	(27.5)	164.6	46.8	26.3
Adjusted PAT	34,570	25,072	66,337	97,372	1,23,014
Diluted EPS (Rs)	3.2	2.2	5.9	8.7	11.0
Diluted EPS growth (%)	51.9	(29.2)	164.6	46.8	26.3
DPS (Rs)	0.7	0.7	1.2	1.8	2.2
Dividend payout (%)	20.4	28.5	19.9	20.4	19.7
Effective tax rate (%)	19.9	41.5	35.0	33.0	25.0
Net interest margins (%)	2.5	2.7	2.8	2.7	2.7
Cost-income ratio (%)	49.4	51.7	54.0	56.2	55.9
Shares outstanding (mn)	11,011.0	11,011.0	11,011.0	11,011.0	11,011.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	9,24,479.7	7,73,276.0	6,34,913.5	5,59,374.5	5,02,886.9
Net NPLs	3,52,761.6	2,25,850.2	1,26,982.7	1,28,656.1	1,40,808.3
GNPA ratio (%)	11.8	8.7	6.4	5.0	4.0
NNPA ratio (%)	4.8	2.7	1.3	1.2	1.2
Provision coverage (%)	61.8	70.8	80.0	77.0	72.0
Gross slippages	2,47,436.7	1,60,289.2	1,53,736.1	1,88,847.4	2,25,950.4
Gross slippage ratio (%)	3.2	1.8	1.6	1.7	1.8
LLP ratio (%)	2.1	2.1	1.5	1.0	0.9
NNPA to networth (%)	37.7	23.1	12.2	11.5	11.5
Capital adequacy					
Total CAR (%)	14.5	15.5	14.7	14.4	14.2
Tier-1 (%)	11.7	12.7	12.4	12.2	12.1
CET-1 (%)	10.6	11.4	11.2	11.1	11.1
RWA-to-Total Assets (%)	45.7	45.1	45.1	45.1	45.1
Miscellaneous					
Total income growth (%)	(6.0)	11.6	23.9	6.4	7.2
Opex growth (%)	(0.3)	19.0	17.6	9.4	8.5
Core PPOP growth (%)	(4.3)	32.8	(6.0)	(2.1)	8.9
PPOP margin (%)	1.6	1.6	1.6	18.8	19.3
PAT/PPOP (%)	16.7	11.1	27.5	40.4	46.3
LLP-to-Core PPOP (%)	92.3	77.1	62.6	44.1	42.8
Yield on advances (%)	7.3	7.6	8.7	8.4	8.1
Cost of funds (%)	3.9	4.0	4.9	4.8	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	22,022	22,022	22,022	22,022	22,022
Reserves & surplus	9,32,847	9,76,535	10,29,271	11,06,475	12,04,865
Net worth	9,54,869	9,98,557	10,51,293	11,28,497	12,26,887
Deposits	114,62,184	128,11,631	139,72,414	154,97,256	172,99,795
Borrowings	4,56,814	5,12,917	5,45,300	5,79,921	6,17,004
Interest bearing liab.	119,18,999	133,24,548	145,17,714	160,77,177	179,16,799
Other liabilities & prov.	2,74,183	2,95,209	3,57,516	3,91,245	4,42,109
Total liabilities & equity	131,48,050	146,18,314	159,26,523	175,96,919	195,85,796
Net advances	72,81,857	83,08,340	94,10,527	106,77,954	121,90,721
Investments	37,21,678	39,59,967	43,21,185	45,91,182	49,09,675
Cash, other balances	13,26,468	15,51,088	13,76,594	14,36,560	15,03,344
Interest earning assets	123,30,002	138,19,395	151,08,306	167,05,696	186,03,740
Fixed assets	1,06,736	1,20,511	1,29,208	1,42,129	1,56,342
Other assets	7,11,312	6,78,408	6,89,009	7,49,094	8,25,714
Total assets	131,48,050	146,18,314	159,26,523	175,96,919	195,85,796
BVPS (Rs)	80.3	83.0	87.8	94.9	103.8
Adj. BVPS (INR)	56.3	67.7	79.2	86.1	94.3
Gross advances	78,53,575	88,55,766	99,18,457	111,08,672	125,52,800
Credit to deposit (%)	63.5	64.8	67.4	68.9	70.5
CASA ratio (%)	46.6	42.0	40.4	39.8	39.6
Cost of deposits (%)	3.8	3.9	4.8	4.7	4.5
Loans-to-Assets (%)	55.4	56.8	59.1	60.7	62.2
Net advances growth (%)	8.0	14.1	13.3	13.5	14.2
Deposit growth (%)	3.6	11.8	9.1	10.9	11.6
Book value growth (%)	0.5	3.3	5.8	8.0	9.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	20.2	28.6	10.8	7.4	5.8
P/B (x)	1.2	1.0	0.9	0.8	0.7
P/ABV (x)	1.2	1.0	0.8	0.8	0.7
P/PPOP (x)	3.7	3.4	3.2	3.2	2.9
Dividend yield (%)	0.9	0.9	1.7	2.6	3.1
DuPont-RoE split (%)					
NII/avg assets	2.2	2.5	2.6	2.5	2.5
Other income	1.0	0.9	0.9	0.7	0.7
Fee income	0.3	0.3	0.3	0.3	0.3
Opex	1.6	1.7	1.9	1.8	1.8
PPOP	1.6	1.6	1.6	1.4	1.4
Core PPOP	1.4	1.7	1.5	1.3	1.3
Provisions	1.3	1.3	0.9	0.6	0.5
Tax expense	0.1	0.1	0.2	0.3	0.2
RoA (%)	0.3	0.2	0.4	0.6	0.7
Leverage ratio (x)	15.0	15.4	16.2	16.7	17.0
RoE (%)	4.0	2.8	7.1	9.7	11.2

Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	82,707	91,794	94,988	95,043	99,229
NIM (%)	3.0	3.2	3.2	3.1	3.1
PPOP	55,672	57,159	58,664	59,680	62,164
PAT	4,113	6,289	11,586	12,554	17,561
EPS (Rs)	0.37	0.57	1.05	1.14	1.59

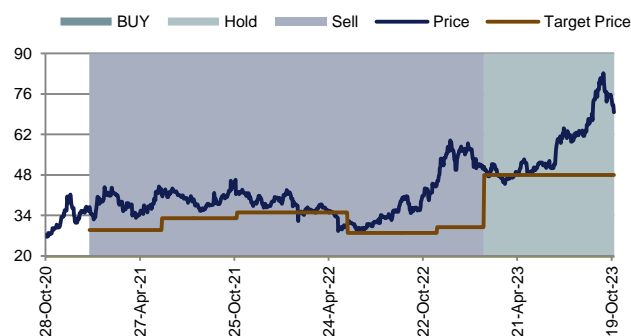
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
07-Oct-23	77	65	Hold	Anand Dama
09-Mar-23	51	48	Hold	Anand Dama
16-Feb-23	51	48	Hold	Anand Dama
18-Nov-22	46	30	Sell	Anand Dama
30-May-22	32	28	Sell	Anand Dama
30-Oct-21	42	35	Sell	Anand Dama
04-Aug-21	39	33	Sell	Anand Dama
08-Jun-21	41	33	Sell	Anand Dama
09-Feb-21	39	29	Sell	Anand Dama
20-Jan-21	37	29	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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