

# Punjab National Bank

**BUY**

Sector: Banking

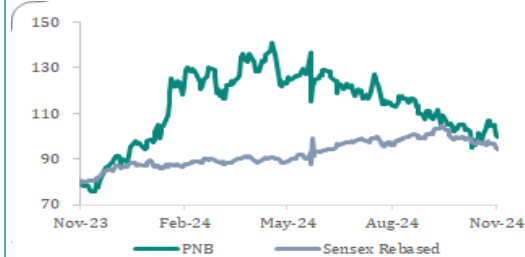
20<sup>th</sup> November 2024

<b>Key Changes</b>	<b>Target</b> ▼	<b>Rating</b> ▲	<b>Earnings</b> ▲	<b>Target</b>	<b>Rs.111</b>
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Large Cap	PNB:IN	77,578	PNB	532461	12 Months
				<b>CMP</b>	<b>Rs.101</b>
				<b>Return</b>	<b>+10%</b>

Data as of: 19-11-2024

Company Data			
Market Cap (Rs. cr)	115,975		
52 Week High — Low (Rs.)	143–76		
Outstanding Shares (Rs cr)	1,149.3		
Free Float (%)	30.0		
Dividend Yield (%)	1.5		
6m average volume (cr)	4.2		
Beta	1.6		
Face value (Rs.)	2.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	73.2	73.2	70.1
FII's	4.8	5.5	8.4
MFs/Institutions	12.4	10.8	11.7
Public	9.1	9.6	9.1
Others	0.5	0.9	0.7
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-12.4%	-20.9%	25.7%
Absolute Sensex	-1.9%	6.1%	19.5%
Relative Return	-10.5%	-27.0%	6.3%

\*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Net Interest Income	40,083	43,406	48,248
Growth (%)	16.2	8.3	11.2
NIM (%)	2.9	2.9	2.9
Pre-Provision Profit	24,931	29,155	33,274
Net Profit	8,245	15,743	16,894
Growth (%)	228.8	91.0	7.3
Adj. EPS	7.5	13.7	14.7
Growth (%)	228.8	82.9	7.3
BVPS	96.7	108.8	121.6
P/E	16.6	7.3	6.8
P/B	1.3	0.9	0.8
RoE (%)	8.0	13.6	12.8
RoA (%)	0.5	1.0	0.9

## Robust Quarter, asset quality improved

Punjab National Bank is a leading Indian public sector bank providing corporate and personal banking services. Currently, the bank has 10,159 branches and 12,040 ATMs.

- In Q2FY25, PNB's standalone interest income rose 13.4% YoY to Rs. 29,875cr, fuelled by strong growth in interest on advances (+14.7% YoY), bank funds (+14.8% YoY) and investment income (+8.8% YoY).
- Interest expenses surged 17.8% YoY to Rs.19,358cr, primarily due to rise in the cost of deposits. As a result, net interest income (NII) grew 6.0% YoY to Rs. 10,517cr. However, the net interest margin (NIM) contracted by 19bps YoY to 2.9% during Q2FY25.
- Cost to income ratio increased to 54.6% (vs 52.0% in Q2FY24), largely attributed to elevated deposit costs. Moreover, staff cost to income ratio increased to 38.1% , due to creation of AS 15 wage related provisions.
- Profit after tax (PAT) soared 145.1% YoY to Rs. 4,303cr, driven by higher other income (+51.0% YoY) and substantial decrease in provisions (-91.6% YoY).

## Valuation

PNB delivered a strong quarter, marked by significant asset quality improvements and a healthy loan book expansion. Going forward, the increasing share of retail, agriculture, and MSME segments in the loan portfolio is expected to sustain margins. Improving asset quality ratios, potential decline in cost-to income ratio, declining credit costs, and enhanced recoveries position expected to drive future growth. Additionally, the company plans to increase the proportion of RAM portfolio, enhancing overall profitability. Therefore, **we upgrade our BUY rating on the stock, based on 0.9x FY26E BVPS, with a revised target price of Rs. 111.**

## Quarterly Financials Standalone

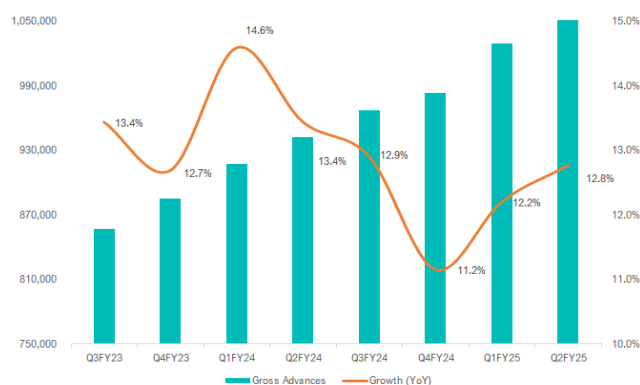
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Net Interest Income	10,517	9,923	6.0	10,476	0.4	20,993	19,427	8.1
Total Income	34,447	29,383	17.2	32,166	7.1	66,613	57,962	14.9
Total Expenditure	27,594	23,167	19.1	25,585	7.9	53,179	45,778	16.2
Pre-Provision Profit	6,853	6,216	10.2	6,581	4.1	13,434	12,184	10.3
<b>PBT</b>	<b>6,565</b>	<b>2,772</b>	<b>136.8</b>	<b>5,269</b>	<b>24.6</b>	<b>11,834</b>	<b>4,775</b>	<b>147.8</b>
Rep. PAT	4,303	1,756	145.1	3,162	36.1	7,465	3,012	147.9
<b>Adj PAT</b>	<b>4,303</b>	<b>1,756</b>	<b>145.1</b>	<b>3,162</b>	<b>36.1</b>	<b>7,465</b>	<b>3,012</b>	<b>147.9</b>
EPS (Rs.)	3.9	1.6	145.3	3.0	32.2	6.9	2.7	150.9



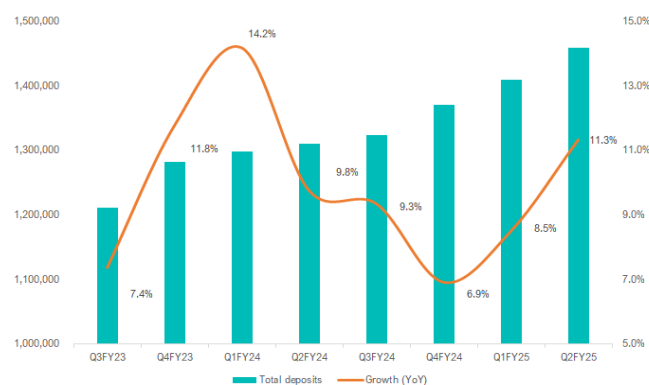
## Key Highlights

- PNB's advances rose 3.2% QoQ to Rs. 1,061,904cr, fuelled by broad-based growth across domestic advances (+2.7% QoQ), retail (+6.6% QoQ) and MSME segments (+5.7% QoQ).
- Deposits showed a 3.6% QoQ growth to Rs. 1,458,342cr, primarily driven by growth in domestic (+3.4% QoQ) and term deposits (+4.9% QoQ). This resulted in slight decrease in CASA ratio to 39.3% (vs 40.1% in Q1FY25).
- On the asset quality front, slippages witnessed a 19.4% YoY increase to Rs. 2,181cr. However, driven by robust recoveries and upgrades, the bank's asset quality showed significant improvement. The gross non-performing assets (NPAs) ratio declined to 4.5% from 7.0% in Q2FY24, while the net NPAs ratio dropped to 0.5% from 1.5% in Q2FY24. Additionally, the provision coverage ratio strengthened to 90.2%.
- The FY25 guidance for Gross NPA has been reduced to below ~4% from 5% earlier.
- The bank has lowered its credit cost guidance to below 0.5% from 1% earlier for FY25.
- PNB aims to deliver robust NII growth every quarter, with FY25 NIM guidance at 2.9% to 3.0%.

## Gross Advances



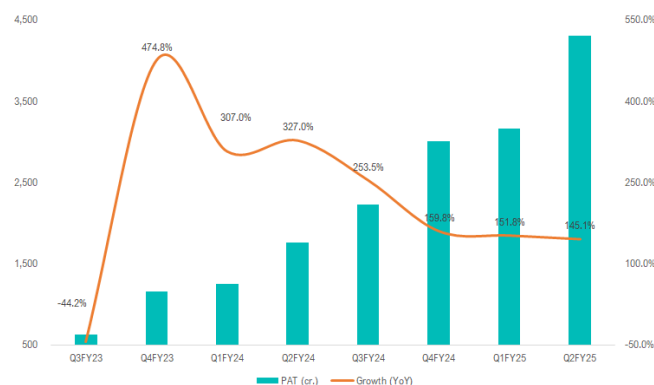
## Total deposits



## Net Interest Income



## PAT



## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income	47,332	54,215	43,406	48,248	-8.3	-11.0
Net Interest Margin	3.1	3.2	2.9	2.9	-20bps	-30bps
Pre-Provision Profit	32,335	38,045	29,155	33,274	-9.8	-12.5
Net Profit	11,982	15,259	15,743	16,894	31.4	10.7
EPS	10.9	13.9	13.7	14.7	25.7	5.7



## Standalone Financials

### Profit & Loss

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	74,880	85,144	106,902	117,901	130,063
Interest Expense	46,185	50,652	66,819	74,494	81,815
<b>Net Interest Income</b>	<b>28,694</b>	<b>34,492</b>	<b>40,083</b>	<b>43,406</b>	<b>48,248</b>
% Change	-6.1	20.2	16.2	8.3	11.2
Non-Interest Income	12,320	12,143	13,384	15,793	18,635
Net Income	41,014	46,634	53,467	59,199	66,883
<b>Total Income</b>	<b>87,199</b>	<b>97,287</b>	<b>120,285</b>	<b>133,693</b>	<b>148,698</b>
Operating Expenses	20,253	24,105	28,536	30,043	33,609
<b>Total Expenditure</b>	<b>66,438</b>	<b>74,758</b>	<b>95,354</b>	<b>104,538</b>	<b>115,423</b>
Pre-Provisioning Profit	20,762	22,529	24,931	29,155	33,274
Provisions	16,445	18,240	11,737	4,556	6,878
<b>Profit Before Tax</b>	<b>4,316</b>	<b>4,288</b>	<b>13,194</b>	24,599	26,396
Tax	859	1,781	4,950	8,856	9,503
<b>Tax Rate (%)</b>	<b>19.9</b>	<b>41.5</b>	<b>37.5</b>	<b>36.0</b>	<b>36.0</b>
Minority Interests	0	0	0	0	0
<b>Net Profit</b>	<b>3,457</b>	<b>2,507</b>	<b>8,245</b>	<b>15,743</b>	<b>16,894</b>
% Change	71.0	-27.5	228.8	91.0	7.3
Adj.	0	0	0	-	-
<b>Adj. Net Profit</b>	<b>3,457</b>	<b>2,507</b>	<b>8,245</b>	<b>15,743</b>	<b>16,894</b>
No. of Shares (cr)	1,101	1,101	1,101	1,149	1,149
<b>Adj. EPS (Rs.)</b>	<b>3.1</b>	<b>2.3</b>	<b>7.5</b>	<b>13.7</b>	<b>14.7</b>
% Change	62.7	-27.5	228.8	82.9	7.3
DPS	0.6	0.7	1.5	1.7	1.8

### Ratio

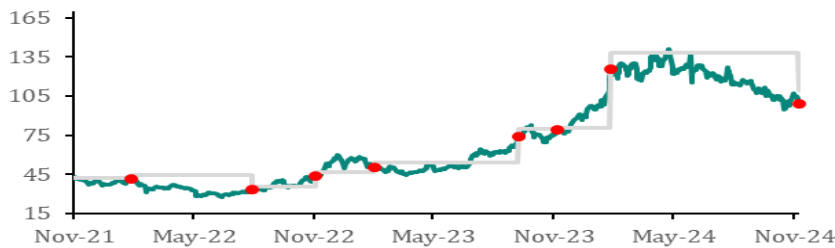
Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Valuation</b>					
P/E (x)	10.9	20.3	16.6	7.3	6.8
P/BV (x)	0.4	0.5	1.3	0.9	0.8
Div. Yield (%)	1.9	1.4	1.2	1.7	1.8
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	6.9	7.4	8.6	8.5	8.4
Cost of Deposits	3.9	4.0	4.9	5.0	5.0
Spread	3.0	3.3	3.7	3.5	3.4
NIM (calculated)	2.5	2.8	2.9	2.9	2.9
ROE	3.7	2.6	8.0	13.6	12.8
ROA	0.3	0.2	0.5	1.0	0.9
<b>Capital Adequacy (%)</b>					
CAR	14.5	15.5	16.0	15.6	15.4
Tier I	11.7	12.7	13.2	12.9	12.8
Tier II	2.8	2.8	2.8	2.7	2.6
<b>Asset Quality (%)</b>					
GNPA	11.8	8.7	8.7	6.9	5.8
NNPA	4.8	2.7	2.7	1.9	1.4
<b>Operating Ratios (%)</b>					
Credit/Deposit	63.5	64.8	68.2	69.5	70.7
Cost/Income	49.4	51.7	53.4	50.8	50.3
CASA	47.4	43.0	41.4	41.7	41.9

### Balance Sheet

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash & Balances	132,647	155,109	129,105	135,608	142,761
Investments	372,168	395,997	420,318	451,842	484,601
Advances	728,186	830,834	934,431	1,046,562	1,172,150
Fixed Assets	10,674	12,051	12,319	12,592	12,872
Other Assets	71,131	67,841	65,663	63,555	61,515
<b>Total Assets</b>	<b>1,314,805</b>	<b>1,461,831</b>	<b>1,561,835</b>	<b>1,710,159</b>	<b>1,873,899</b>
Capital	2,202	2,202	2,202	2,299	2,299
Reserves & Surplus	93,285	97,653	104,274	122,716	137,496
Deposits	1,146,218	1,281,163	1,369,713	1,506,684	1,657,353
Borrowings	45,681	51,292	50,430	52,951	55,599
Other Liabilities	27,418	29,521	35,216	25,509	21,152
<b>Total Liabilities</b>	<b>1,314,805</b>	<b>1,461,831</b>	<b>1,561,835</b>	<b>1,710,159</b>	<b>1,873,899</b>
<b>BVPS</b>	<b>86.7</b>	<b>90.7</b>	<b>96.7</b>	<b>108.8</b>	<b>121.6</b>
Adj. BVPS	55.0	70.2	73.6	91.1	107.5
% Change	-0.1	4.6	6.6	12.5	11.8



## Recommendation Summary (last 3 years)



Dates	Rating	Target
1-Feb-22	HOLD	44
5-Aug-22	HOLD	36
10-Nov-22	HOLD	47
7-Feb-23	HOLD	54
14-Sep-23	HOLD	80
13-Nov-23	HOLD	81
2-Feb-24	HOLD	138
20-Nov-24	BUY	111

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10%-15%	Upside is between 10%-20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

#### Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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