

All-round strong performance; upgrade to BUY

BFSI - Banks ▶ Result Update ▶ January 26, 2024

TARGET PRICE (Rs): 125

PNB continued to report a strong beat on PAT at Rs22bn (Emkay est.: Rs19.2bn) mainly due to contained staff cost despite wage hike provision and lower provisions due to reversal of NPI provisions on one lumpy corporate. Amid margin pressure across banks, PNB once again reported a 4bps QoQ margin expansion to 3.15% due to better LDR and interest recognition on lumpy NPA recoveries. Asset quality continued to improve, with fresh slippage run-rate now at a decadal low of 0.9% and NNPA at ~1% of loans, which should lead to a sharp reduction in LLP. The bank still operates on the old-tax regime and migration to the new regime could boost profitability. Factoring in a better margin trajectory and asset-quality improvement and migration to the new tax regime over FY25-26, we raise our FY24E/FY25/FY26E earnings estimates by 15-40% and expect the bank to deliver 0.5-1% RoA/8-14% RoE. Thus, we revise our TP to Rs125/share (vs. Rs78), based on 1x its Dec-25E ABV and subsidiary's value at Rs11/share. We upgrade the stock to BUY from Reduce.

Punjab National Bank: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	34,570	25,072	76,373	135,825	178,357
Loan growth (%)	8.0	14.1	14.1	14.0	15.5
NII growth (%)	(6.1)	20.2	16.8	8.9	10.2
NIM (%)	2.5	2.7	2.9	2.8	2.8
PPOP growth (%)	(6.3)	8.5	10.8	6.1	16.8
Adj. EPS (Rs)	3.2	2.3	6.9	12.0	15.3
Adj. EPS growth (%)	37.0	(29.2)	204.6	72.6	27.6
Adj. BV (INR)	55.0	66.3	81.8	93.6	107.9
Adj. BVPS growth (%)	8.4	20.6	23.3	14.5	15.3
RoA (%)	0.3	0.2	0.5	0.8	1.0
RoE (%)	4.0	2.8	8.1	12.7	14.3
P/E (x)	29.2	41.3	13.5	7.8	6.2
P/ABV (x)	1.7	1.4	1.1	1.0	0.9

Source: Company, Emkay Research

Margins continue to ascend amid pressure seen across other banks

Credit growth remained healthy at 14.5% YoY/3% QoQ with continued focus on the RAM segment (which constitutes 56% of the total net advances), while deposit growth remained consciously low at 9% YoY/1% QoQ, leading to steady improvement in LDR to 69%. This coupled with interest recognition on recovered NPAs led to a 4bps QoQ increase in NIM to 3.15%, amid most other banks experiencing margin pressure. Going forward, the bank plans to further expand its LDR, which we believe should continue to support margins for the bank in the near-medium term.

Slippages at a decadal low and so also NNPA at ~1%

Fresh slippages continued to decelerate at Rs17.9bn/0.9% of loans, which coupled with higher recovery/write-offs, led to a 72bps QoQ dip in the GNPA ratio to 6.2%. Specific PCR further improved to 85%, which led to a 51bps reduction in NNPA to a decadal low of ~1%. The restructured pool also stands reduced to 1% of loans, which is relatively lower vs. some other PSBs. The bank recovered NPAs worth ~Rs29bn from NCLT during 9MFY24 and expects further recoveries of Rs12bn in Q4FY24. According to management's guidance, the bank is expected to reach exit RoA of 1% by 4QFY25, led by strong NII/other income and lower LLP.

Upgrade to BUY

Factoring in better margin trajectory, asset-quality improvement, and migration to the new tax regime in FY26, we raise our FY24E/FY25/FY26E earnings estimates by 15-40% and expect PNB to post 0.5-1% RoA/8-14% RoE. Thus, we revise our TP to Rs125/share (vs. Rs78), based on 1x its Dec-25E ABV and the subsidiary's value at Rs11/share. We upgrade the stock to BUY from Reduce. With CET-1 at 10.6%, including 9MFY24 profit, the bank plans to raise capital worth Rs70bn via QIP, which we have built into our FY25 estimates. **Key risks:** Macro deterioration derailing growth/asset-quality normalization.

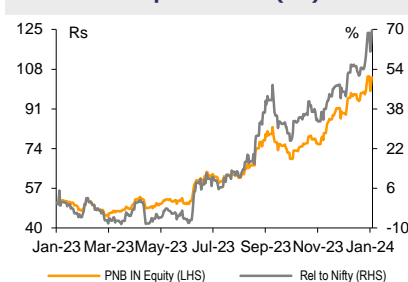
Target Price – 12M	Dec-24
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	REDUCE
Upside/(Downside) (%)	19.6
CMP (25-Jan-24) (Rs)	104.5

Stock Data	Ticker
52-week High (Rs)	108
52-week Low (Rs)	44
Shares outstanding (mn)	11,011.0
Market-cap (Rs bn)	1,151
Market-cap (USD mn)	13,844
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	59
ADTV-3M (Rs mn)	5,127.5
ADTV-3M (USD mn)	61.7
Free float (%)	27.0
Nifty-50	21,353
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	73.2
FPIs/MFs (%)	3.1/13.7

Price Performance

(%)	1M	3M	12M
Absolute	17.1	50.4	94.6
Rel. to Nifty	17.1	34.7	63.1

1-Year share price trend (Rs)



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Kunaal N

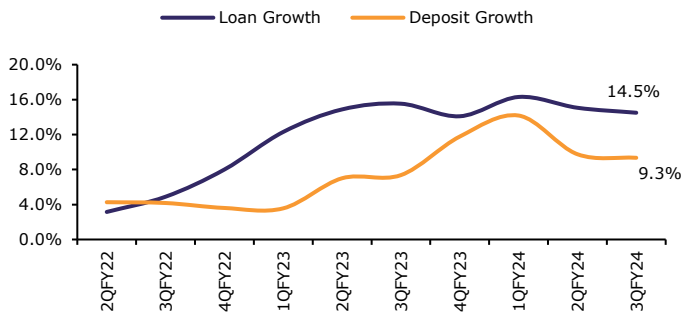
kunaal.n@emkayglobal.com
+91 22 6612 1275

Marazbaan Dastur

marazbaan.dastur@emkayglobal.com
+91 22 6612 1281

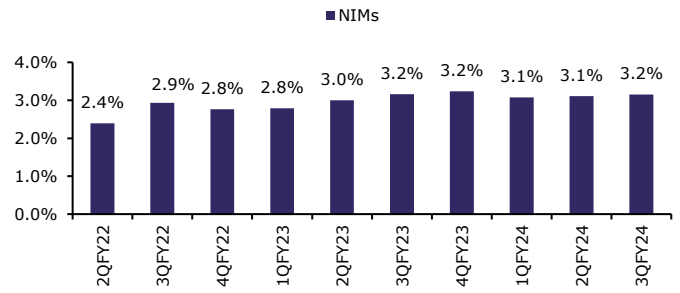
Story in Charts

Exhibit 1: Credit growth continues to outpace deposit growth



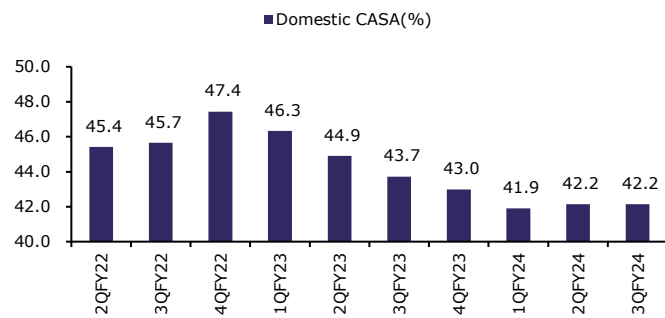
Source: Company, Emkay Research

Exhibit 2: NIMs improve due to better LDR and interest recognition on NPA recovery



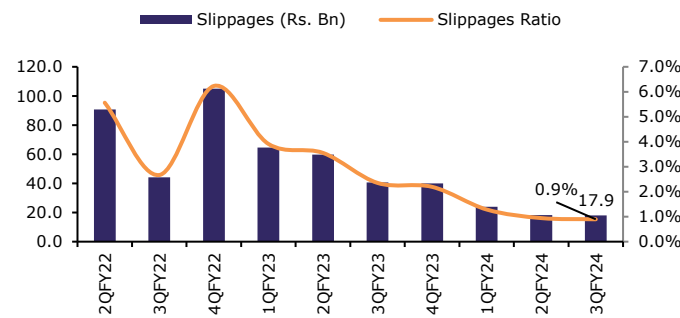
Source: Company, Emkay Research

Exhibit 3: Domestic CASA remains healthy at 42%



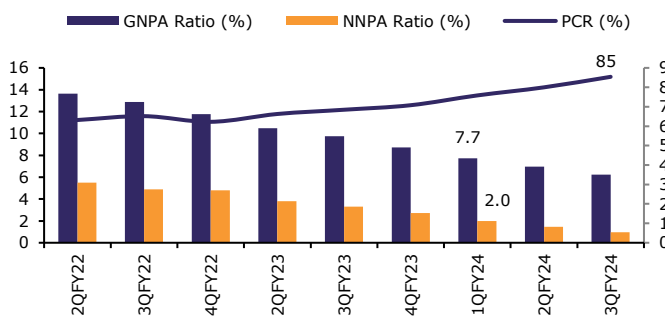
Source: Company, Emkay Research

Exhibit 4: Slippages were contained at 0.9% of loans, one of the lowest in the decade



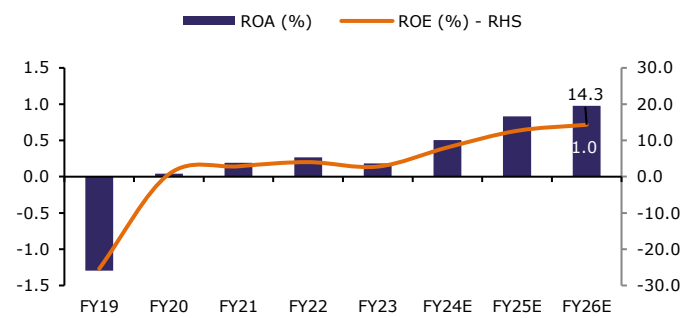
Source: Company, Emkay Research

Exhibit 5: NNPA improved to a decadal low of ~1%



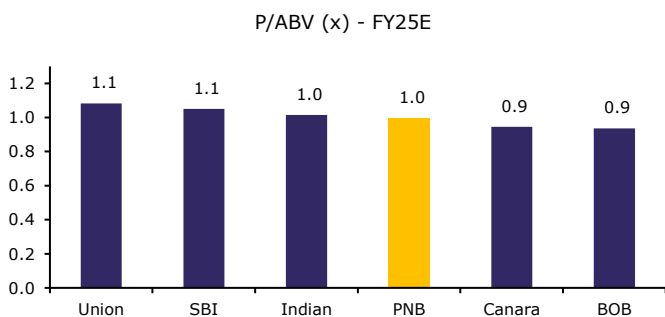
Source: Company, Emkay Research

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



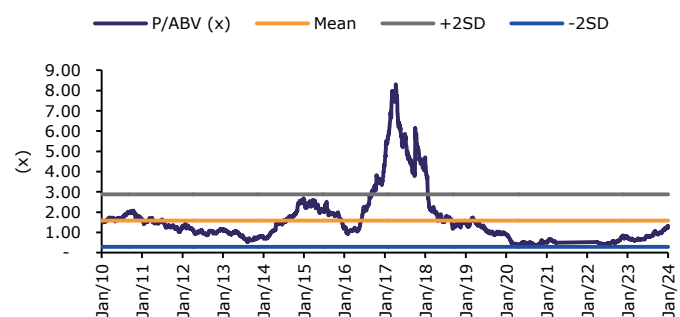
Source: Company, Emkay Research

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 (Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	129,666	134,409	124,459	-4%	4%	Lower other income led to a miss
PPOP	63,307	61,991	62,017	2%	2%	Lower staff and operating expenses led to a beat
PAT	22,228	19,169	16,195	16%	37%	Higher PPOP and contained provisions led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	223,844	238,486	251,455	263,549	272,878	22	4	851,441	1,072,026	26
Interest Exp.	132,051	143,499	156,412	164,320	169,950	29	3	506,525	669,000	32
Net Interest Income	91,794	94,988	95,043	99,229	102,928	12	4	344,916	403,026	17
Global NIM (reported)	3.16	3.24	3.08	3.11	3.15	-1bps	4bps	2.70	2.85	15bps
Non-interest Income	33,380	34,203	34,338	30,283	26,738	-20	-12	121,425	118,945	-2
Operating Expenses	68,014	70,527	69,701	67,348	66,359	-2	-1	241,054	272,453	13
Pre-Provisioning Profit	57,159	58,664	59,680	62,164	63,307	11	2	225,288	249,519	11
Provision and Contingencies	47,133	38,306	39,653	34,442	27,391	-42	-20	182,405	128,291	-30
PBT	10,026	20,359	20,027	27,723	35,916	258	30	42,883	121,228	183
Income Tax Expense (Gain)	3,737	8,772	7,473	10,161	13,688	266	35	17,811	44,854	152
Net Profit/(Loss)	6,289	11,586	12,554	17,561	22,228	253	27	25,072	76,373	205
Gross NPA (%)	9.76	8.73	7.73	6.96	6.24	-352bps	-72bps	8.73	5.74	-300bps
Net NPA (%)	3.29	2.72	1.98	1.47	0.96	-233bps	-51bps	2.72	0.90	-181bps
Deposits (Rs bn)	12,104	12,812	12,979	13,099	13,235	9	1	12,812	13,742	7
Net Advances (Rs bn)	8,004	8,308	8,637	8,899	9,164	14	3	8,308	9,477	14

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	524,852	521,972	-0.5%	551,388	561,952	1.9%	601,937	630,678	4.8%
PPOP	241,332	249,519	3.4%	241,307	264,852	9.8%	265,406	309,329	16.5%
PAT	66,337	76,373	15.1%	97,372	135,825	39.5%	123,014	178,357	45.0%
EPS (Rs)	6.0	6.9	15.1%	8.8	12.0	35.4%	11.2	15.3	36.7%
BV (Rs)	87.8	88.9	1.3%	94.9	100.0	5.4%	103.8	113.3	9.1%

Source: Emkay Research

Exhibit 12: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	14.1	14.1	14.0	15.5
Deposit Growth	11.8	7.3	9.1	11.7
NIM	2.7	2.9	2.8	2.8
GNPA	8.7	5.7	3.9	2.5
Credit Cost	2.1	1.5	0.6	0.7

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans (Rs bn)	7,562	7,857	8,011	8,311	8,568	8,856	9,175	9,417	9,673
Growth % (YoY)	4.0	6.3	10.3	12.8	13.3	12.7	14.5	13.3	12.9
Growth % (QoQ)	2.7	3.9	2.0	3.7	3.1	3.4	3.6	2.6	2.7
Liability Profile									
Deposits (Rs bn)	11,273	11,462	11,367	11,935	12,104	12,812	12,979	13,099	13,235
growth (YoY)	4.2	3.6	3.6	7.0	7.4	11.8	14.2	9.8	9.3
growth (QoQ)	1.1	1.7	(0.8)	5.0	1.4	5.8	1.3	0.9	1.0
Asset Quality and Capital									
GNPA (%)	12.9	11.8	11.3	10.5	9.8	8.7	7.7	7.0	6.2
NNPA (%)	4.5	4.4	4.0	3.5	3.1	2.6	1.9	1.4	0.9
PCR (%)	65.2	62.2	64.8	66.3	68.5	70.8	75.8	80.0	85.4
Slippages (Rs mn)	44,070	105,060	64,680	59,790	40,720	39,960	23,900	18,260	17,930
Slippages (%)	2.4	5.7	3.6	3.2	2.2	2.0	1.2	0.9	0.8
CAR (%)	14.9	14.5	14.8	14.7	15.2	15.5	15.5	15.1	14.6
Tier I (%)	12.2	11.7	12.1	12.2	12.2	12.7	12.3	12.0	11.7
ROE Decomposition (on total assets; %)									
NII	2.4	2.2	2.3	2.5	2.6	2.7	2.6	2.7	2.7
Other Income (Ex. Treasury)	0.6	0.6	0.6	0.8	0.9	0.9	0.8	0.8	0.6
Treasury	0.2	0.1	0.2	0.0	0.0	0.1	0.1	0.0	0.1
Opex	1.7	1.4	1.4	1.6	2.0	2.0	1.9	1.8	1.8
PPOP	1.6	1.6	1.6	1.7	1.6	1.6	1.6	1.7	1.7
Provisioning Cost	1.0	1.5	1.5	1.5	1.4	1.1	1.1	0.9	0.7
PBT	0.5	0.1	0.2	0.2	0.3	0.6	0.5	0.7	1.0
Tax	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4
ROA	0.4	0.1	0.1	0.1	0.2	0.3	0.3	0.5	0.6
ROE	4.7	0.8	1.3	1.7	2.5	4.7	5.0	6.9	8.5

Source: Company, Emkay Research

Punjab National Bank: Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	748,795	851,441	1,072,026	1,150,247	1,242,019
Interest Expense	461,851	506,525	669,000	711,193	758,246
Net interest income	286,945	344,916	403,026	439,054	483,773
NII growth (%)	(6.1)	20.2	16.8	8.9	10.2
Other income	123,200	121,425	118,945	122,897	146,905
Total Income	410,144	466,342	521,972	561,952	630,678
Operating expenses	202,526	241,054	272,453	297,100	321,349
PPOP	207,618	225,288	249,519	264,852	309,329
PPOP growth (%)	(6.3)	8.5	10.8	6.1	16.8
Core PPOP	178,267	236,659	243,238	247,895	275,416
Provisions & contingencies	164,454	182,405	128,291	62,128	71,520
PBT	43,164	42,883	121,228	202,724	237,809
Extraordinary items	0	0	0	0	0
Tax expense	8,594	17,811	44,854	66,899	59,452
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	34,570	25,072	76,373	135,825	178,357
PAT growth (%)	71.0	(27.5)	204.6	77.8	31.3
Adjusted PAT	34,570	25,072	76,373	135,825	178,357
Diluted EPS (Rs)	3.2	2.2	6.8	11.8	15.0
Diluted EPS growth (%)	51.9	(29.2)	204.6	72.7	27.6
DPS (Rs)	0.7	0.7	1.0	1.5	2.0
Dividend payout (%)	20.4	28.5	14.4	12.9	13.1
Effective tax rate (%)	19.9	41.5	37.0	33.0	25.0
Net interest margins (%)	2.5	2.7	2.9	2.8	2.8
Cost-income ratio (%)	49.4	51.7	52.2	52.9	51.0
Shares outstanding (mn)	11,011.0	11,011.0	11,011.0	11,677.7	11,677.7

Source: Company, Emkay Research

Asset Quality and Other Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	924,479.7	773,276.0	571,530.6	437,631.4	312,971.3
Net NPLs	352,761.6	225,850.2	85,729.6	78,773.7	62,594.3
GNPA ratio (%)	11.8	8.7	5.7	3.9	2.5
NNPA ratio (%)	4.8	2.7	0.9	0.7	0.5
Provision coverage (%)	61.8	70.8	85.0	82.0	80.0
Gross slippages	247,436.7	160,289.2	89,664.6	133,899.2	178,085.9
Gross slippage ratio (%)	3.2	1.8	0.9	1.2	1.4
LLP ratio (%)	2.1	2.1	1.5	0.6	0.7
NNPA to net worth (%)	37.7	23.1	8.2	6.3	4.4
Capital adequacy					
Total CAR (%)	14.5	15.5	14.7	15.5	15.2
Tier-1 (%)	11.7	12.7	12.0	13.0	12.9
CET-1 (%)	10.6	11.4	10.9	12.0	12.0
RWA-to-Total Assets (%)	45.7	45.1	48.0	49.0	50.0
Miscellaneous					
Total income growth (%)	(6.0)	11.6	22.4	6.9	9.1
Opex growth (%)	(0.3)	19.0	13.0	9.0	8.2
Core PPOP growth (%)	(4.3)	32.8	2.8	1.9	11.1
PPOP margin (%)	1.6	1.6	1.7	20.8	22.3
PAT/PPOP (%)	16.7	11.1	30.6	51.3	57.7
LLP-to-Core PPOP (%)	92.3	77.1	52.7	25.1	26.0
Yield on advances (%)	7.3	7.6	8.7	8.4	8.1
Cost of funds (%)	3.9	4.0	4.8	4.7	4.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	22,022	22,022	22,022	23,355	23,355
Reserves & surplus	932,847	976,535	1,041,509	1,228,137	1,382,738
Net worth	954,869	998,557	1,063,531	1,251,492	1,406,093
Deposits	11,462,184	12,811,631	13,742,067	14,996,776	16,748,238
Borrowings	456,814	512,917	606,459	670,775	745,955
Interest bearing liab.	11,918,999	13,324,548	14,348,526	15,667,551	17,494,193
Other liabilities & prov.	274,183	295,209	169,700	229,803	435,983
Total liabilities & equity	13,148,050	14,618,314	15,581,757	17,148,846	19,336,269
Net advances	7,281,857	8,308,340	9,476,935	10,799,407	12,470,045
Investments	3,721,678	3,959,967	4,214,554	4,310,393	4,623,863
Cash, other balances	1,326,468	1,551,088	1,074,397	1,166,729	1,294,594
Interest earning assets	12,330,002	13,819,395	14,765,886	16,276,528	18,388,501
Fixed assets	106,736	120,511	129,208	142,129	156,342
Other assets	711,312	678,408	686,663	730,189	791,426
Total assets	13,148,050	14,618,314	15,581,757	17,148,846	19,336,269
BVPS (Rs)	80.3	83.0	88.9	100.0	113.3
Adj. BVPS (Rs)	56.3	67.7	83.1	94.9	109.3
Gross advances	7,853,575	8,855,766	9,962,736	11,158,265	12,720,422
Credit to deposit (%)	63.5	64.8	69.0	72.0	74.5
CASA ratio (%)	46.6	42.0	41.1	41.1	42.0
Cost of deposits (%)	3.8	3.9	4.7	4.6	4.4
Loans-to-Assets (%)	55.4	56.8	60.8	63.0	64.5
Net advances growth (%)	8.0	14.1	14.1	14.0	15.5
Deposit growth (%)	3.6	11.8	7.3	9.1	11.7
Book value growth (%)	0.5	3.3	7.2	12.4	13.3

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	29.2	41.3	13.5	7.8	6.2
P/B (x)	1.2	1.1	1.1	0.9	0.8
P/ABV (x)	1.7	1.4	1.1	1.0	0.9
P/PPOP (x)	5.5	5.1	4.6	4.6	3.9
Dividend yield (%)	0.6	0.6	1.0	1.5	1.9
DuPont-RoE split (%)					
NII/avg assets	2.2	2.5	2.7	2.7	2.7
Other income	1.0	0.9	0.8	0.8	0.8
Fee income	0.5	0.5	0.4	0.5	0.5
Opex	1.6	1.7	1.8	1.8	1.8
PPOP	1.6	1.6	1.7	1.6	1.7
Core PPOP	1.4	1.7	1.6	1.5	1.5
Provisions	1.3	1.3	0.8	0.4	0.4
Tax expense	0.1	0.1	0.3	0.4	0.3
RoA (%)	0.3	0.2	0.5	0.8	1.0
Leverage ratio (x)	15.0	15.4	16.0	15.2	14.7
RoE (%)	4.0	2.8	8.1	12.7	14.3

Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	91,794	94,988	95,043	99,229	102,928
NIM (%)	3.2	3.2	3.1	3.1	3.2
PPOP	57,159	58,664	59,680	62,164	63,307
PAT	6,289	11,586	12,554	17,561	22,228
EPS (Rs)	0.57	1.05	1.14	1.59	2.02

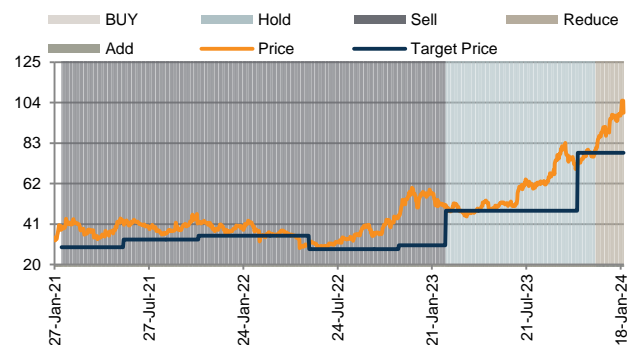
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	78	78	Reduce	Anand Dama
27-Oct-23	73	78	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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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