

Sector: Banks & Finance

Result Update

	Change
Reco: Hold	↔
CMP: Rs. 36	
Price Target: Rs. 45	↓
↑ Upgrade	↔ No change
↓ Downgrade	

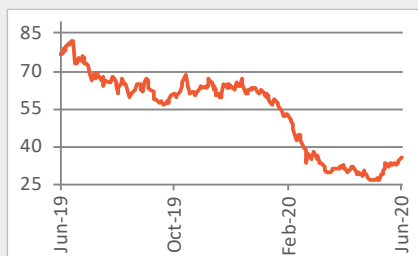
Company details

Market cap:	Rs. 33,690 cr
52-week high/low:	Rs. 83/26
NSE volume: (No of shares)	276.6 lakh
BSE code:	532461
NSE code:	PNB
Sharekhan code:	PNB
Free float: (No of shares)	113.2 cr

Shareholding (%)

Promoters	83.2
FII	2.2
DII	5.6
Others	9.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	34.3	1.1	-41.3	-53.4
Relative to Sensex	20.5	-33.2	-26.2	-42.5

Sharekhan Research, Bloomberg

Punjab National Bank (PNB) posted a mixed set of results, where on one hand, operational performance lagged expectations but asset quality improved q-o-q, helped by the Moratorium benefit. However, business growth has been tepid, and high GNPA are dampeners. Net interest income (NII) came in at Rs. 4,677 crore up by 11.4% y-o-y basis up by 7.4% on q-o-q basis on account of lower interest expenses. Lower interest expense was largely due to fall in cost of deposit & cost of Funds by 19 bps and 18 bps y-o-y, respectively. Yield on advances increased by 45 bps y-o-y to 7.9%. Net interest margins (NIMs), at 2.6%, were up by 15 bps y-o-y on account of yield benefits and lower cost of funds. Also, lower slippages compared to y-o-y and sequential basis was mainly due to moratorium benefit. Asset quality improved with as GNPA fell by 200 bps q-o-q to 14.2% whereas NNPA dropped by 140 bps q-o-q to 5.78%. Notably, there were lower fresh slippages (Rs. 3,850 crore) and they fell by more than 50% q-o-q & y-o-y mainly due to the moratorium benefit extended to borrowers. However, going forward, the outlook on asset quality is still murky, and the end of September will present better clarity. The bank has extended moratorium to SMA/overdue categories of loans, and presently 22% of loans are under the Moratorium. The proportion of loans under moratorium is lower as compared to peers, which is a positive. However, we believe there is still significant uncertainty on the asset quality outlook, while profitability can be hit if the economic recovery is not as per expectations or is delayed. The NCLT-related resolution prospects appear bleak and recovery pace may also be tepid. The impending merger and stress on the overall book may keep the asset quality volatile during H1FY2021E. We have therefore cut our FY21E & FY2022E earnings estimates and target multiple considering the present scenario. We maintain our Hold rating with a revised price target (PT) of Rs. 45.

Key positives

- The bank has extended moratorium to SMA/overdue categories of loans, and presently 22% of loans are under the standstill. The proportion under moratorium is on the lower side, compared to peers, which is a positive.
- Fresh slippages were relatively lower at Rs. 3850 crore down by more than 50% q-o-q and y-o-y

Key negatives

- Certain categories like SMA-2 etc accounts which were vulnerable (such amount was Rs 5,600 crore) would have turned NPAs if moratorium had not been given.
- Overhang of prior-period provisions, as well as higher slippages (post September) dampen outlook.

Our Call

Valuation - PNB currently trades at <0.5x its FY2022E book value, which reflects its weak asset-quality outlook and sluggish loan growth prospects. The NCLT-related resolution prospects at present appear bleak. The impending merger and stress on the overall book may keep the asset quality volatile during H1FY2021E. We have therefore cut our FY21E & FY2022E estimates and the target multiple considering the present scenario. We maintain our Hold rating with a revised price target (PT) of Rs. 45.

Key Risks

An elongated or prolonged economic recovery or further stress due to the pandemic, may result in spike in NPA and may affect profitability.

Valuation	Rs cr			
Particulars	FY19	FY20	FY21E	FY22E
Net interest income (Rs cr)	17,156	17,438	15,994	17,686
Net profit (Rs cr)	-9,975	336	977	1,198
EPS (Rs)	-29.7	0.5	1.5	1.8
PE (x)	NA	71.7	24.7	20.1
Book value (Rs/share)	89.5	87.7	88.8	90.3
P/BV (x)	0.4	0.4	0.4	0.4
RoE (%)	-23.2	0.6	1.6	1.9
RoA (%)	-1.3	0.0	0.1	0.1

Source: Company; Sharekhan estimates

Key Concall Highlights

- ◆ **COVID-19 impact:** Certain categories like SMA-2 accounts (amount was Rs 5600 crore), etc, which were vulnerable would have turned NPAs, if moratorium had not been not given. Such loans could turn into NPAs by September the moratorium is not extended. Majority of credit in segments such as Retail, MSME and Agri, NBFCs, infrastructure, etc, have been impacted
- ◆ **Moratorium benefit:** Total of Rs. 51,000 crore, was SMA 0, 1& 2, etc were stressed as of February-end. Due to moratorium, this amount has not increased, but some recovery would have reduced it.
- ◆ **Total Moratorium:** Initially, the share of moratorium in the book was at ~30%, but has come down to around 22%. The rest of the borrowers have continued to repay. Stress will be there but quantifying it seems difficult and this can be assessed only at September-end. The moratorium proportion is low because PNB mostly has salaried customers and has little stress seen so far.
- ◆ **Total moratorium for combined entity:** Total loans under moratorium of combined entity is at Rs. 151,000 crores, (which comprises of agriculture loans – Rs. 42,000 crore, retail Rs. 31,000 crore, MSME Rs 28,000 crore and corporate loans- Rs. 47,000 crore) who have availed the moratorium. Total exposure for agri segment was at Rs. 131,466 crore, retail segment - Rs. 1,32,016 crore, corporate segment was at Rs. 47,460 crore and on the combined entity around 26% would have taken the moratorium benefit.
- ◆ **Stressed exposure:** The NBFC exposure is at Rs. 94,660 crore (of the combined entity), of which 'BBB and below' assets form Rs. 7,030 crore. Most of the bad assets has already been recognised. Air India is still standard, while Jet Airways is already an NPA. The Rattan India loan has been resolved and the money has been recovered.
- ◆ **Asset quality:** Fraud-related provision of Rs. 776 crore requires to be provided for in subsequent quarters.
- ◆ **Guidance:** Credit Growth guidance of 6% FY21E has curtailed due to COVID-19 impact. Growth to come mainly from Retail, MSME and Agriculture.
- ◆ **Fraud recovery:** Around Rs 1,084 crore of dues have been cleared by the court and are in pipeline. So far there has not been any significant recovery on the same.
- ◆ **Combined entity:** For the combined entity, the provision coverage ratio will be 63.56%, CRAR at 12.7%, CASA at 42%, CET-1 at 9.5%, GNPA at 13.8% and NNPA at 5.5% as per the management's estimates. Also, risk-weighted assets (RWA) of the combined entity is Rs 619,567 crore. The MSE Book is Rs 117,695 crore and corporate book will be at Rs. 374621 crores. The book value of the combined entity will be approximately around Rs 52.6 per share.
- ◆ **PNB Housing:** The arm will be coming out with a rights issue. PNB Housing currently holds a 32.6% stake, already undertaken that stake will not go down below 26%. The company has sufficient capital to run the business for next 6-9 months.
- ◆ **Fund raising:** The management will discuss the capital raising after the March results in coming few weeks.
- ◆ **Staff expenses:** The bank has currently taken provision that was required to be done in June itself.
- ◆ **Upgraded accounts in Q4:** There have been some chunky upgrades in corporate exposures.

Results					Rs cr
Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Interest income	13,859.0	12,835.7	8.0	13,562.7	2.2
Interest expense	9,181.4	8,635.4	6.3	9,207.6	-0.3
Net interest income	4,677.5	4,200.3	11.4	4,355.1	7.4
Non-interest income	2,529.3	1,889.4	33.9	2,404.8	5.2
Net total income	7,206.9	6,089.7	18.3	6,759.9	6.6
Operating expenses	3,274.6	3,228.5	1.4	2,997.0	9.3
- Employee cost	1,853.8	1,989.9	-6.8	1,751.5	5.8
- Other Costs	1,420.8	1,238.6	14.7	1,245.5	14.1
Pre-provisioning profit	3,932.3	2,861.2	37.4	3,762.9	4.5
Provisions	4,901.0	10,071.1	-51.3	4,146.0	18.2
Profit before tax	-968.7	-7,209.9	NA	-383.1	NA
Tax	-271.8	-2,460.3	NA	109.4	NA
Profit after tax	-696.9	-4,749.6	NA	-492.5	NA

Source: Company; Sharekhan Research

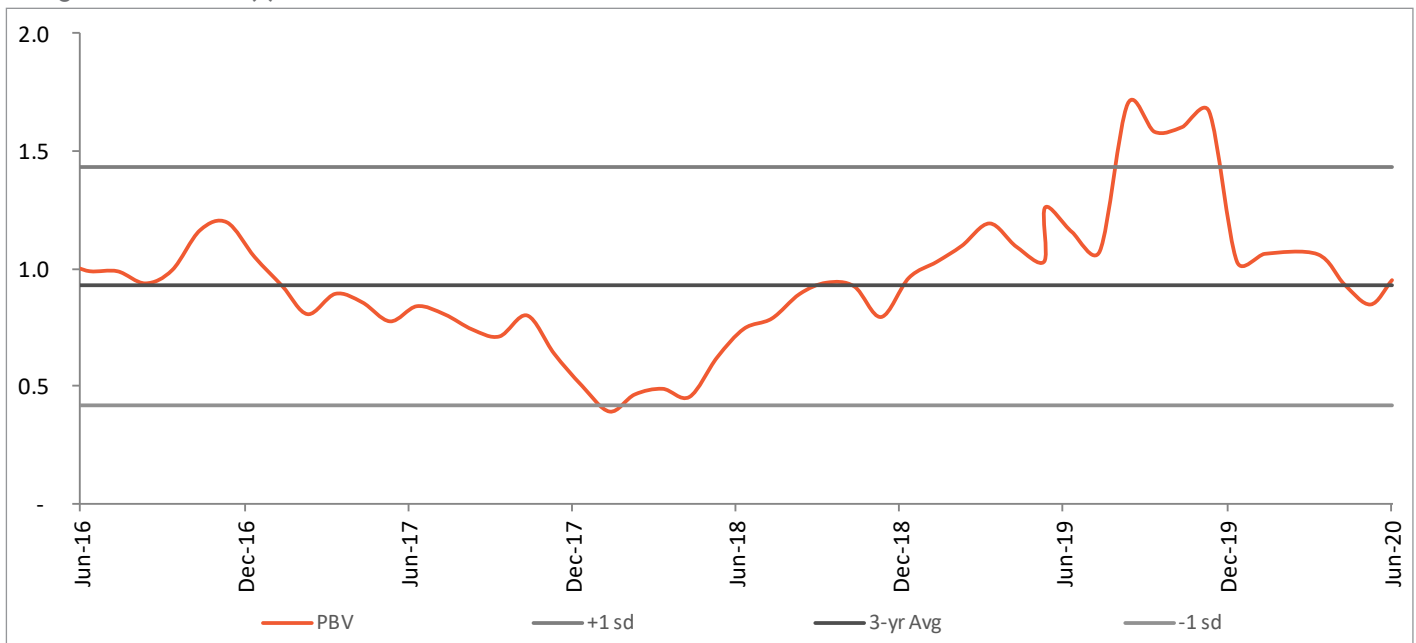
Outlook

While Q4 saw fewer NPA additions, this was largely due to the moratorium benefit extended to borrowers. Also, the management has indicated that overall stress levels could increase post H1 which is an overhang on the stock and hence in the interim there is a lot of uncertainty with regards to results. Credit cost is likely to depend on an economic recovery and resolutions of NCLT cases appear bleak for now. We believe that due to weak credit demand, and merger-related activities, credit growth will remain tepid for FY21E. We expect credit growth and business expansion/reorganisation may take a back-seat due to the impending merger which may throw up further integration and harmonisation issues, which will impact growth and profitability.

Valuation

PNB currently trades at <0.5x its FY2022E book value, which reflects its weak asset-quality outlook and sluggish loan growth prospects. The NCLT-related resolution prospects at present appear bleak. The impending merger and stress on the overall book may keep the asset quality volatile during H1FY2021E. We have therefore cut our FY21E & FY2022E estimates and the target multiple considering the present scenario. We maintain our Hold rating with a revised price target (PT) of Rs. 45.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Punjab National Bank	36	0.4	0.4	23.9	19.9	0.1	0.1	1.6	1.9
State Bank of India	187	0.7	0.6	9.6	6.2	0.3	0.5	4.9	8.3
Bank of India	52	0.4	0.4	10.8	7.3	0.2	0.3	3.1	4.5

Source: Company, Sharekhan research

About company

Punjab National Bank is an Govt. owned bank with a network of ~6560+ branches, 9100+ ATM's and 7500+ business correspondents. Its majority presence is in the states of Punjab, Haryana, Uttar Pradesh, Madhya Pradesh and Bihar. More than 60% of its branches are in rural and semi- urban areas. Its gross advances are at Rs 4718 bn. The Bank has been rationalizing its overseas operations which have resulted into shrinking of overseas business. Domestic CASA ratio for the bank stands at 44% as on March 2020.

Investment theme

Punjab National Bank has worked upon in bringing significant improvement in the internal systems and processes post the discovery of frauds in one of its branches in 2018. It has restructured its processes, with a focus on recovery and resolution, hence taking stapes like creating a Stressed Asset Management vertical with dedicated team of over 2700 employee, along with creating dedicated branches to focus on SME, Retail etc disbursements. It has seen results of them, in terms of improved recovery. The IBC amendment is a positive development which will aid recovery and resolution of the stressed assets. However, the impact of COVID-19 and the resultant lockdown impact poses risks to borrowers' cash flows and, therefore, may result in higher credit cost in the near to medium term and slower growth. Also, the NCLT process has been put on hold, which has further impacted recovery prospects.

Key Risks

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Additional Data

Key management personnel

Mr. S.S Mallikarjuna Rao	MD & CEO
Ms. Ekta Pasricha	Company Secretary
Mr Agyey Kumar Azad	Executive director
Mr Sunil Mehta	Non-Executive Chairman

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.6
2	HDFC Asset Management Co Ltd	1.3
3	Vanguard Group Inc/The	0.4
4	Dimensional Fund Advisors LP	0.2
5	SBI Funds Management Pvt Ltd	0.2
6	Kotak Mahindra Asset Management Co	0.1
7	Reliance Capital Trustee Co Ltd	0.1
8	Pzena Investment Management LLC	0.1
9	FIL Ltd	0.1
10	FundRock Management Co SA	0.1

Source: Bloomberg

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