

Punjab National Bank (PNB IN)

Rating: HOLD | CMP: Rs35 | TP: Rs37

Stay cautious

Quick Pointers:

- Headline moratorium was at 29% but has come down to 21% in Jul'20 end.
- Fresh slippages were at Rs19.1bn, down 50% QoQ on back of moratorium

PNB earnings were in-line but remained modest despite support from better treasury gains & NII. Overall earnings picture post merger remains weak as large part of operating profits will be still utilized for higher provisions (i) for legacy accounts where PCR is at 65% and (ii) COVID impact provisions as moratorium remains high. CET-I at 9.4% may be on border levels, but any movement on non-core assets & better recoveries may help to sustain for time being. Steady asset quality has been the only breather with lower slippages and may continue as restructuring will like keep slippages on lower side. We adjust our numbers for merger with high credit cost ambiguity ahead, while bank had not yet adjusted its DTA to move to new tax regime which may reflect in earnings, we re-instate a HOLD (from BUY) rating with TP of Rs37 (0.6x Mar ABV).

- Merger providing lesser benefits at this juncture:** Bank NII on merged basis grew by 8% YoY, strong treasury gains provided cushion to one off wage provisions impact, while other opex grew by 6% YoY v/s expectation of de-growth. Interest cost (especially borrowings) have been on higher side, yield impact on wage has to completely ascertained, benefit of merger on opex and selling of non-core assets (real estate/insurance stakes) should take some time to reflect in earnings. Also, bank has not yet moved to new tax regime and hence we factor in higher DTA impact (~Rs50bn) in earnings in FY21.

- Moratorium now in range of peer banks:** Bank's moratorium book came down from 29% in Jun'20 end to 21% in Jul'20 end and is now in range of some peer banks. Moratorium was spread across equally with retail at 26%, agri 32%, MSME 37% and corporate 29%. Higher morat in SME & corporate worries and gives limited visibility on credit cost, while adding uncertainty on restructuring. Headline asset quality was better with slippages lower at ~Rs20bn, while higher write-offs helped lower GNPA/NNPA ratio by 10/40bps respectively and moved up PCR to 65% from 63%. The bank has negligible COVID related provisions (Rs6bn) and we expect higher COVID impact provisions with credit cost being in a range of 250-280bps over FY21/FY22E compared to guidance of 200-250bps in FY21.

- CET-I should hold up for now; better CASA & lower legacy issues:** Bank's CET-I ratio of 9.4% could hold up for now, although bank has taken approval to raise Rs70bn of capital which could add +100bps to CET but entail further dilution and gathering equity interest remains a challenge. Positive side has been strong CASA ratio of 43% keeping bank cost of funds quite competitive, while it has been relatively being able to complete provisioning on legacy NPAs with much higher PCR and should now focus on incremental stress which could arise from COVID impact. We re-instate Hold rating adjusting to merger.

August 25, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		BUY	
Target Price	37		40	
NII (Rs. m)	2,72,826	2,90,032	1,99,970	2,20,815
% Chng.	36.4	31.3		
Op. Profit (Rs. m)	2,01,693	2,04,477	1,57,471	1,67,900
% Chng.	28.1	21.8		
EPS (Rs.)	2.7	3.9	8.8	9.4
% Chng.	(69.3)	(59.2)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs bn)	174	269	273	290
Op. Profit (Rs bn)	147	191	202	204
PAT (Rs bn)	3	(30)	25	36
EPS (Rs.)	0.6	(3.7)	2.7	3.9
Gr. (%)	(102.2)	(720.0)	(173.3)	43.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
NIM (%)	2.3	2.8	2.3	2.3
RoAE (%)	0.6	(4.1)	3.0	4.2
RoAA (%)	0.0	(0.3)	0.2	0.3
P/BV (x)	0.4	0.4	0.4	0.4
P/ABV (x)	0.6	0.6	0.5	0.5
PE (x)	59.5	(9.6)	13.1	9.2
CAR (%)	14.2	11.1	11.2	11.3

Key Data

PNBK.BO | PNB IN

52-W High / Low	Rs.70 / Rs.26
Sensex / Nifty	38,799 / 11,466
Market Cap	Rs.332bn/ \$ 4,470m
Shares Outstanding	9,411m
3M Avg. Daily Value	Rs.2979.9m

Shareholding Pattern (%)

Promoter's	85.59
Foreign	1.12
Domestic Institution	6.66
Public & Others	6.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.2	(29.9)	(44.5)
Relative	3.4	(27.1)	(47.5)

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Exhibit 1: Operationally stable but Provisions impact earnings

P&L (Rs m)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Interest Income	2,06,049	1,30,864	57.5	1,38,590	48.7
Interest Expense	1,38,565	89,451	54.9	91,814	50.9
Net Interest Income (NII)	67,484	41,414	63.0	46,775	44.3
- Treasury income	13,080	5,020	160.6	4,070	221.4
Other income	36,879	20,753	77.7	25,293	45.8
Total income	1,04,363	62,167	67.9	72,069	44.8
Operating expenses	51,563	27,352	88.5	32,746	57.5
-Staff expenses	33,072	16,817	96.7	18,538	78.4
-Other expenses	18,491	10,536	75.5	14,208	30.1
Operating profit	52,801	34,814	51.7	39,323	34.3
Core operating profit	39,721	29,794	33.3	39,323	1.0
Total provisions	46,859	20,233	131.6	49,013	(4.4)
Profit before tax	5,942	14,581	(59.3)	(9,690)	(161.3)
Tax	2,857	4,395	(35.0)	(2,718)	(205.1)
Profit after tax	3,084	10,186	(69.7)	(6,972)	(144.2)
Balance sheet (Rs m)					
Deposits	1,07,49,171	67,24,714	59.8	70,38,463	52.7
Advances	65,61,971	42,17,938	55.6	47,18,277	39.1
Profitability ratios					
NIM	2.6	2.4	23	2.6	(1)
RoaA	0.1	0.5	(41)	(0.3)	40
Asset Quality					
Gross NPA (Rs m)	10,18,493	7,72,673	31.8	7,34,788	38.6
Net NPA (Rs m)	3,53,030	3,01,797	17.0	2,72,189	29.7
Gross NPL ratio	14.1	16.5	(238)	14.2	(10)
Net NPL ratio	5.4	7.2	(178)	5.8	(39)
Coverage ratio	65.3	60.9	440	63.0	238
Business & Other Ratios					
Low-cost deposit mix	43.5	42.8	61	44.1	(60)
Cost-income ratio	49.4	44.0	541	45.4	397
Non int. inc / total income	35.3	33.4	195	35.1	24
Credit deposit ratio	61.0	62.7	(168)	67.0	(599)
CAR	12.6	9.8	286	14.1	(151)
Tier-I	10.3	7.6	261	11.9	(165)

Source: Company, PL; Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

NII growth was tepid at 8% YoY on a comparable basis

Other income was supported by trading profits though fee income took a hit de-growing

Opex shot up owing to higher employee expenses

Provisions remain high and contain ~Rs6bn Covid provisions

On a comparable basis, Advances growth was almost flattish at 1% YoY and Deposits book growth was also weak at 3% YoY

NIMs showed stability, supported by lower cost of funds

Asset Quality ratios showed improvement but PCR enhancement continues and credit costs remain high

CASA mix remains impressive at 43.5% supporting lower cost of funds

CET-1 ratio improved to 9.4% from 9.1% immediately post-merger

Key Q1FY21 Concall Highlights

Business outlook & growth

- **Assets** – Overall growth in FY21 is expected at 4%-6% though the same will be reviewed during 3Q21. Management states that MSMEs are expected to do well relatively as they will have opportunity from the ban on Chinese goods. Retail is also expected to perform well in the residual part of the current financial year at ~8% while w.r.t. corporates, credit demand it will depend on new investments undertaken. Bank's exposure under ECL is Rs23.3bn and GECL is Rs77.4bn
- **Liabilities** – Deposits continue to maintain stable levels with a healthy CASA ratio and support from both savings and current bucket. Growth is expected to be in the range of 6%-8% for FY21 with CASA mix going north of 45%.

Fees/Margins/Opex

- NIMs (global) are expected to remain around 2.1% for the year.
- Bank plans to be profitable in each of three remaining quarters though subject to how Covid-19 impact would play out in the next few quarters
- Bank expects C/I ratios to remain in the range of 42%-45% for FY21
- On account of the amalgamation, Bank has identified common assets worth Rs5bn for monetization through sale

Asset quality

- As on 31.07.20, 21% of the Bank's book falls under Moratorium having extended moratorium to every customer except NBFCs, down from 29% as on 30.06.20. Sensitive sectors remain tourism, hospitality and aviation, or any labor intensive sector, all of which are expected to take longer time to recover or get back on track due to the pandemic. However, it is expected that a majority of the economic sectors will return to normalcy by October'20.
- Around 5%-6% of its loan book is expected to go under RBI's recently announced restructuring scheme during FY21. MSME would not be a major contributor to fresh restructuring but more than half of restructuring could be from large corporate loans, he said.
- Slippages for FY21 are expected at Rs80bn-Rs100bn with a quarterly run-rate of ~Rs20bn and credit costs to remain around 2.0%-2.5% (includes the requirement of 10% provisioning on restructuring).
- Provision for fraud remains more than 50%-60% with Rs12bn provisioning still pending. Quarterly run-rate for ageing provisions in FY21 is expected at RsRs15bn-Rs20bn while the same for 1Q21 were Rs28bn.
- Bank has more than 92% provision for NCLT cases with Rs60bn-Rs80bn recoveries expected.

Others:

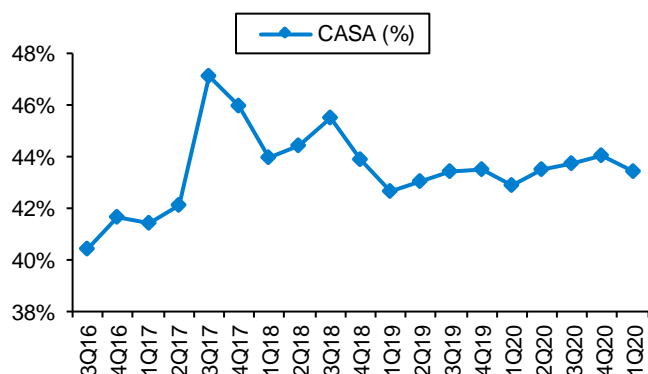
- **Capital:** During 3Q21, Bank plans to raise funds through the market under QIP route and has no plans as of now to approach the Government for capital infusion. For FY21, CRAR is expected to be more than 12.5%.

Exhibit 2: Movement in Moratorium levels

Moratorium share (%)	30.06.20	31.07.20
Retail	26.1%	18%
Agri	32.9%	32%
MSME	37.9%	35%-37%
Corp & Others	25.9%	25%
Total	29%	21%

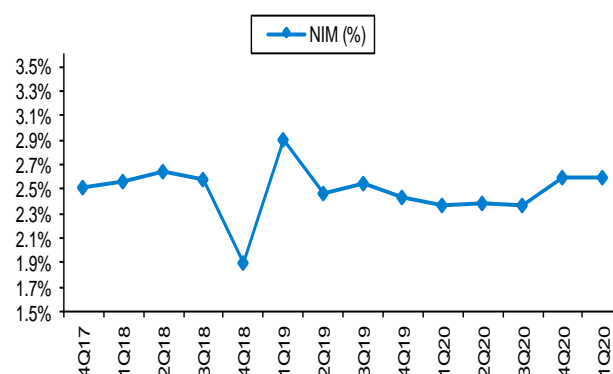
Source: Company, PL

Exhibit 3: CASA ratio remains more or less steady on a comparable basis



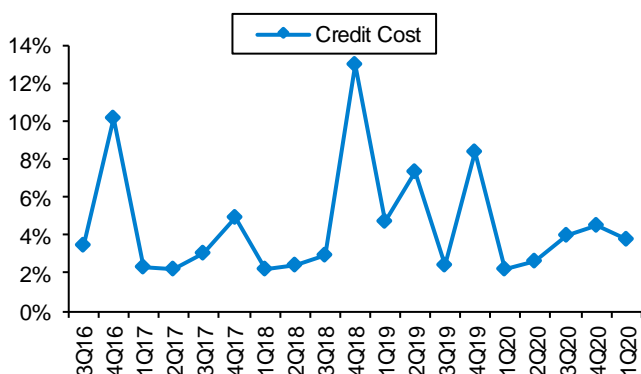
Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 4: Margins stable supported by cheaper funds due to better CASA



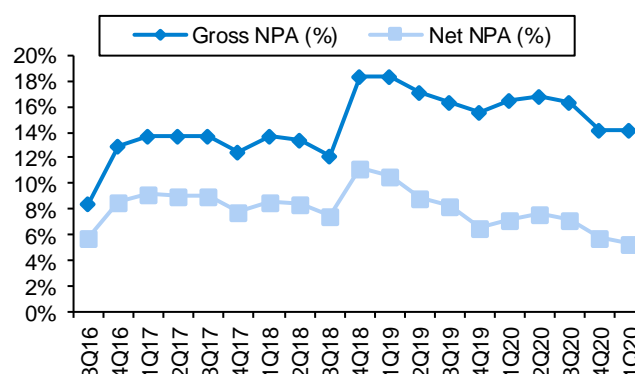
Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 5: Credit costs remain at elevated levels, though...



Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 6: ...Asset quality ratios improve with High PCRs



Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 7: Return ratios decomposition tree

RoAE decomposition	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest income	8.03	7.46	6.81	6.46	6.66	6.70	7.76	6.49
Interest expenses	5.16	5.05	4.65	4.45	4.43	4.53	5.17	4.34
Net interest income	2.87	2.41	2.16	2.01	2.23	2.17	2.59	2.15
Treasury income	0.18	0.11	0.38	0.44	0.14	0.20	0.24	0.12
Other Inc. from operations	0.84	0.97	0.91	0.76	0.82	0.95	1.05	0.96
Total income	3.89	3.49	3.45	3.20	3.18	3.33	3.89	3.23
Employee expenses	1.27	1.01	0.78	1.23	0.90	0.87	1.24	1.08
Other operating expenses	0.55	0.56	0.57	0.58	0.59	0.62	0.81	0.55
Operating profit	2.07	1.92	2.10	1.39	1.69	1.84	1.84	1.59
Tax	0.16	(0.28)	0.10	(0.98)	(0.70)	0.05	0.59	0.07
Loan loss provisions	1.39	2.83	1.81	4.02	3.68	1.74	1.53	1.32
RoAA	0.53	(0.63)	0.19	(1.65)	(1.29)	0.04	(0.29)	0.20
RoE	8.48	(10.87)	3.60	NA	NA	0.7	(4.4)	3.2

Source: Company, PL

Exhibit 8: We revise our TP to Rs37 (from Rs40) based on 0.6x Mar'22 ABV

PT calculation and upside	
Market risk premium	7.3%
Risk-free rate	6.5%
Adjusted beta	1.1
Terminal Growth	5.0%
Cost of equity	14.5%
Fair price - P/ABV	37
Target P/ABV	0.6
Target P/E	13.7
Current price, Rs	35
Upside (%)	4%
Dividend yield (%)	1%
Total return (%)	6%

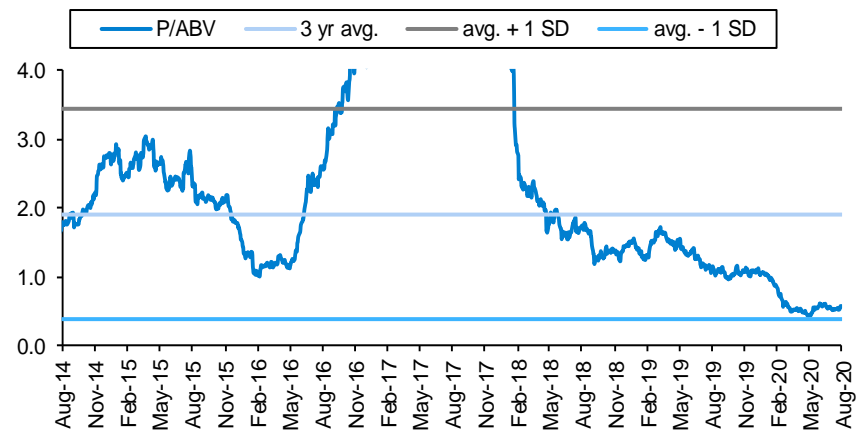
Source: Company Data, PL PL

Exhibit 9: Change in earnings estimates – We adjust for merged numbers but slightly higher on credit cost, lower opex, higher treasury gains

Rs (mn)	Old		Revised		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	194,372	199,970	268,769	272,826	38.3	36.4
Operating profit	161,318	157,471	190,859	201,693	18.3	28.1
Net profit	(6,008)	59,140	(29,678)	25,347	394.0	(57.1)
Loan Growth (%)	1.4	4.6	40.1	4.1	38.8	(0.5)
Credit Cost (bps)	210.0	160.0	285.0	250.0	75.0	90.0
EPS, Rs.	(0.9)	8.8	(3.7)	2.7	312.2	(69.3)
ABVPS, Rs.	60.6	73.6	60.4	65.1	(0.3)	(11.6)
Price target, Rs.	40		37		(8.8)	
Recommendation	BUY		HOLD		-	

Source: Company, PL

Exhibit 10: P/ABV one year forward chart



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Earned from Adv.	3,58,150	5,46,919	5,15,097	5,41,823
Int. Earned from invt.	1,53,326	2,30,813	2,78,712	2,91,776
Others	1,422	2,037	2,775	2,896
Total Interest Income	5,38,000	8,05,101	8,24,534	8,66,065
Interest Expenses	3,63,622	5,36,332	5,51,708	5,76,033
Net Interest Income	1,74,378	2,68,769	2,72,826	2,90,032
Growth(%)	8.9	51.0	1.7	4.9
Non Interest Income	92,741	1,34,475	1,37,164	1,39,908
Net Total Income	2,67,119	4,03,244	4,09,990	4,29,940
Growth(%)	7.5	49.0	2.4	4.6
Employee Expenses	69,617	1,28,791	1,37,806	1,48,831
Other Expenses	44,040	57,252	62,119	67,399
Operating Expenses	1,19,734	2,12,385	2,08,297	2,25,463
Operating Profit	1,47,385	1,90,859	2,01,693	2,04,477
Growth(%)	13.4	29.5	5.7	1.4
NPA Provision	1,44,641	1,60,693	1,67,239	1,53,808
Total Provisions	1,39,996	1,59,226	1,67,441	1,55,464
PBT	7,390	31,633	34,252	49,013
Tax Provision	4,028	61,310	8,906	12,743
Effective tax rate (%)	54.5	193.8	26.0	26.0
PAT	3,362	(29,678)	25,347	36,270
Growth(%)	(103.4)	(982.7)	(185.4)	43.1

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Face value	2	2	2	2
No. of equity shares	6,738	9,411	9,411	9,411
Equity	13,475	18,821	18,821	18,821
Networth	6,23,575	8,22,004	8,42,645	8,72,327
Growth(%)	39.2	31.8	2.5	3.5
Adj. Networth to NNPA's	2,72,189	2,94,654	2,60,285	2,16,416
Deposits	70,38,463	1,09,09,618	1,13,46,003	1,19,13,303
Growth(%)	4.1	55.0	4.0	5.0
CASA Deposits	30,24,746	47,34,774	49,46,857	51,94,200
% of total deposits	43.0	43.4	43.6	43.6
Total Liabilities	83,06,659	1,24,48,290	1,29,61,805	1,36,19,577
Net Advances	47,18,277	65,58,405	68,20,742	71,61,779
Growth(%)	3.0	39.0	4.0	5.0
Investments	24,04,656	39,92,410	42,32,370	45,03,609
Total Assets	83,06,659	1,24,48,290	1,29,61,805	1,36,19,577
Growth (%)	7.2	49.9	4.1	5.1

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs (Rs m)	7,34,791	9,82,279	8,74,480	7,69,451
Net NPAs (Rs m)	2,72,189	2,94,654	2,60,285	2,16,416
Gr. NPAs to Gross Adv.(%)	14.2	13.6	11.8	10.0
Net NPAs to Net Adv. (%)	5.8	4.5	3.8	3.0
NPA Coverage %	63.0	70.0	70.2	71.9

Profitability (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	2.3	2.8	2.3	2.3
RoAA	0.0	(0.3)	0.2	0.3
RoAE	0.6	(4.1)	3.0	4.2
Tier I	11.9	9.9	10.0	10.2
CRAR	14.2	11.1	11.2	11.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Interest Income	1,32,919	1,35,627	1,38,590	2,06,049
Interest Expenses	90,281	92,076	91,814	1,38,565
Net Interest Income	42,638	43,551	46,775	67,484
YoY growth (%)	7.3	1.5	11.4	63.0
CEB	9,270	9,800	10,730	16,530
Treasury	-	-	-	-
Non Interest Income	22,647	24,048	25,293	36,879
Total Income	1,55,566	1,59,675	1,63,883	2,42,928
Employee Expenses	16,748	17,515	18,538	33,072
Other expenses	12,918	12,455	14,208	18,491
Operating Expenses	29,666	29,970	32,746	51,563
Operating Profit	35,620	37,629	39,323	52,801
YoY growth (%)	25.4	21.4	37.4	51.7
Core Operating Profits	30,430	35,599	39,323	39,721
NPA Provision	32,533	44,450	46,180	48,364
Others Provisions	29,289	41,460	49,013	46,859
Total Provisions	29,289	41,460	49,013	46,859
Profit Before Tax	6,331	(3,831)	(9,690)	5,942
Tax	1,260	1,091	(2,718)	2,857
PAT	5,071	(4,923)	(6,972)	3,084
YoY growth (%)	(111.2)	(299.7)	(85.3)	(69.7)
Deposits	69,57,821	70,85,444	70,38,463	1,07,49,171
YoY growth (%)	7.1	8.9	4.1	59.8
Advances	42,79,029	42,55,045	47,18,277	65,61,971
YoY growth (%)	(0.7)	(2.0)	3.0	55.6

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	35	35	35	35
EPS (Rs)	0.6	(3.7)	2.7	3.9
Book Value (Rs)	85	82	84	88
Adj. BV (70%)(Rs)	57	60	65	72
P/E (x)	59.5	(9.6)	13.1	9.2
P/BV (x)	0.4	0.4	0.4	0.4
P/ABV (x)	0.6	0.6	0.5	0.5
DPS (Rs)	-	-	-	-
Dividend Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	-	-	-	-

Efficiency

Y/e Mar	FY20	FY21E	FY22E	FY23E
Cost-Income Ratio (%)	44.8	52.7	50.8	52.4
C-D Ratio (%)	67.0	60.1	60.1	60.1
Business per Emp. (Rs m)	171	254	264	277
Profit per Emp. (Rs lacs)	0	(4)	4	5
Business per Branch (Rs m)	1,670	2,481	2,580	2,709
Profit per Branch (Rs m)	0	(4)	4	5

Du-Pont

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	2.29	2.75	2.29	2.33
Total Income	3.51	4.13	3.45	3.46
Operating Expenses	1.57	2.17	1.75	1.81
PPoP	1.93	1.95	1.70	1.64
Total provisions	1.84	1.63	1.41	1.25
RoAA	0.04	(0.30)	0.21	0.29
RoAE	0.68	(4.40)	3.23	4.48

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	40	37
2	14-Apr-20	BUY	40	31
3	03-Jan-20	Reduce	57	65
4	06-Nov-19	Reduce	57	64
5	03-Oct-19	Reduce	51	59

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	446
2	Bank of Baroda	BUY	65	49
3	Federal Bank	BUY	67	50
4	HDFC Bank	BUY	1,265	1,098
5	HDFC Life Insurance Company	Reduce	522	627
6	ICICI Bank	BUY	462	383
7	ICICI Prudential Life Insurance Company	Reduce	402	443
8	IDFC First Bank	Sell	21	28
9	IndusInd Bank	BUY	680	527
10	Kotak Mahindra Bank	Accumulate	1,389	1,323
11	Max Financial Services	Hold	545	563
12	Punjab National Bank	BUY	40	37
13	SBI Life Insurance Company	Hold	880	888
14	South Indian Bank	BUY	11	8
15	State Bank of India	BUY	276	191

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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