

Punjab National Bank

Refer to important disclosures at the end of this report

Weak growth; managing asset quality to be a tall task

CMP: Rs 35
as of (August 24, 2020)

TP: Rs 29 (■)
12 months

Rating: SELL (■)

Upside: (17.8) %

- PNB declared merged Q1 financials (PNB+ Oriental+ United) with a PAT of Rs3bn, aided by high treasury gains and contained opex/provisions. Total Covid-19 provisions remain low at Rs10bn (16bps of loans), while PNB improved specific PCR by 180bps qoq to 65%.
- The GNPA ratio expanded 30bps qoq to 14.1% despite write-off and moderate slippages, due to a decline in the loan book by 6% qoq. For FY21, PNB has guided for slippages of Rs80-100bn, mainly from SMA-2 pool, and credit cost of 2-2.5%, which looks difficult to manage in the wake of elevated stress amid Covid-19.
- Nearly 29% of loans are under the moratorium as of June 30, however, PNB indicated that the moratorium rate has declined to 21% by July 31. The bank expects to restructure 5-6% of loans, where retail loans could be given the moratorium on principal.
- We retain our Sell rating and UW in EAP, with a TP of Rs29 due to its traditionally weak asset quality and subdued return ratios. With CET 1 at a moderate level of 9.4%, we believe that PNB will have to raise capital soon as the onslaught on asset quality begins.

Growth remains anemic as bank focuses on integration: Total loans of the merged bank were up 2% YoY/down 6% qoq to Rs6.6trn due to Covid-19-led disruption and run-down in corporate loans. Deposit growth was also muted, up 3.6% yoy to Rs10.7tn, with the CASA ratio at a healthy level of 42%. Domestic NIM improved 10bps qoq to 2.5% due to better LDR and lower interest reversals on NPAs. The bank has optimistically guided for deposit growth of 6-8%, advance growth of 4-6%, CASA ratio of 45% and NIM of 2.5% for FY21.

Managing asset quality to be challenging: Despite moderate slippages of Rs19bn (1.5% of loans) vs. Rs61bn in Q4 and write-off of Rs41bn, the GNPA ratio increased by 31bps qoq to 14.1% due to a 6% qoq decline in loans. The moratorium rate rose to 29% of customers by value as of June 30 from 21-22% in Phase 1, mainly due to the increased moratorium rate in MSME and corporate loans. However, the moratorium rate has improved to 21% by July 31, mainly due to improvement in retail loans (18% in July vs. 26% in June). SMA 2 book now declined to Rs106bn (1.6% of loans vs. 2.3% in Q4). PNB holds a total Covid-19 contingent provision of Rs10bn (16bps of loans), in line with PSB peers (13bps SBI, BOB 25bps). The bank has guided for 2-2.5% of credit cost for FY21 and expects restructuring of 5-6% of loans.

Outlook and valuations: We believe that subdued credit growth, low fees and elevated credit cost to keep RoAs in the negative zone for FY21E (first year post merger), but to gradually recover to 10/20bps in FY22/23E. We retain Sell/UW in EAP, with a TP of Rs29 (valuing core bank at 0.5x FY22ABV + Subs value of Rs4 per share). Key risks to our call: Better-than-expected experience on NPA formation and lumpy one-off gains from PNB Housing/insurance subsidiaries (PNB MetLife/Canara HSBC Life).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	245,337	267,118	420,149	431,858	452,373
Net profit	(99,755)	3,362	(17,882)	13,884	31,582
EPS (Rs)	(21.7)	0.5	(2.2)	1.5	3.4
ABV (Rs)	46.4	55.1	45.8	46.5	49.3
RoA (%)	(1.3)	0.0	(0.2)	0.1	0.2
RoE (%)	(25.4)	0.7	(2.7)	1.8	4.0
PE (x)	(1.6)	70.8	(15.9)	23.9	10.5
P/ABV	0.8	0.6	0.8	0.8	0.7

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	2 / 2
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(2.2)	1.5
Consensus	(0.5)	3.6
Mean Consensus TP (12M)	Rs 30	

Stock Details

Bloomberg Code	PNB IN
Face Value (Rs)	2
Shares outstanding (mn)	9,411
52 Week H/L	70 / 26
M Cap (Rs bn/USD bn)	332 / 4.47
Daily Avg Volume (nos.)	45,639,230
Daily Avg Turnover (US\$ mn)	20.6

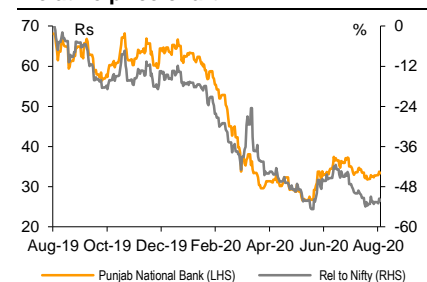
Shareholding Pattern Jun '20

Promoters	85.6%
FII	1.0%
DII	6.8%
Public and Others	6.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	32	(30)	(44)
Rel. to Nifty	3	4	(28)	(48)

Relative price chart



Source: Bloomberg

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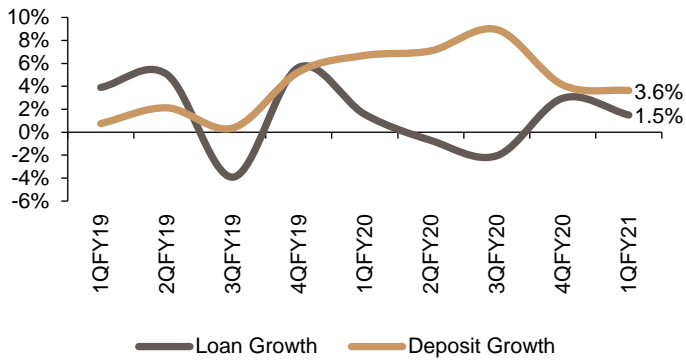
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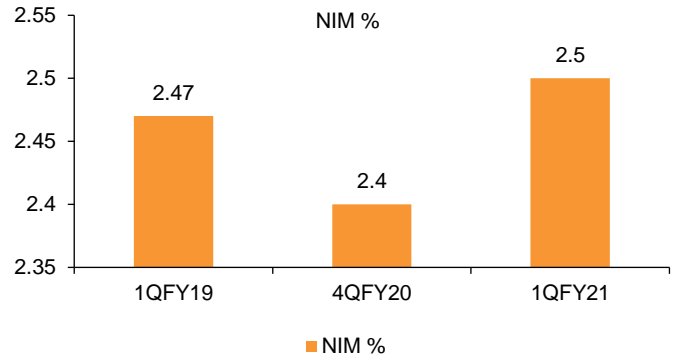
Story in Charts

Exhibit 1: Loan growth slowed down due to run-down in corporate loans while deposit growth was lower due to TDs



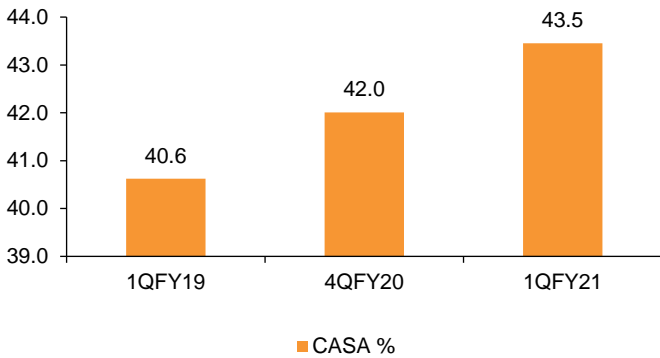
Source: Company, Emkay Research

Exhibit 2: Global NIM improved qoq due to better LDR and lower interest reversal on slippages



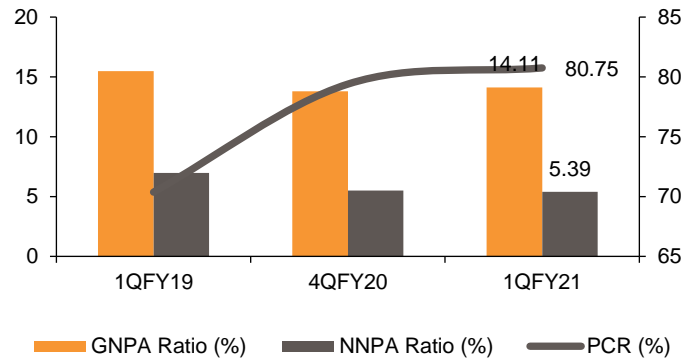
Source: Company, Emkay Research

Exhibit 3: CASA ratio improved by 90 bps qoq



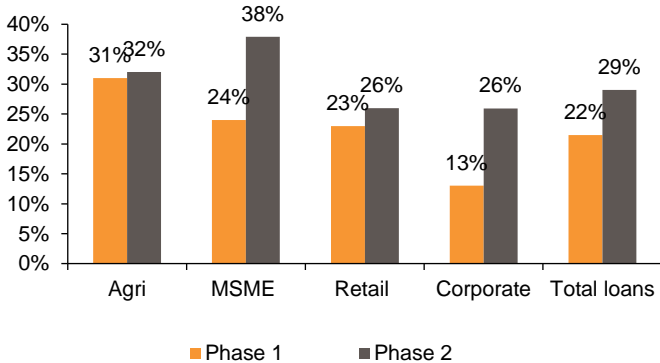
Source: Company, Emkay Research

Exhibit 4: Fall in advances led GNPA ratio increase by 30bps qoq



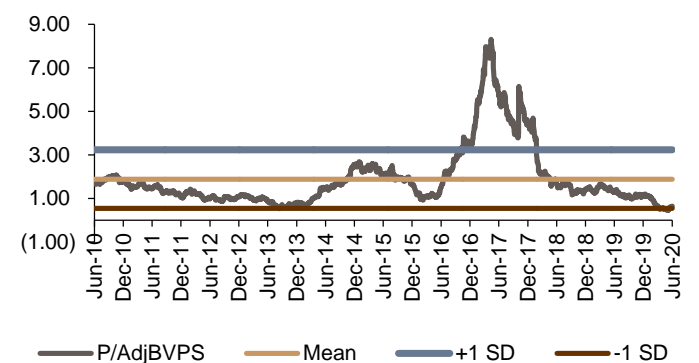
Source: Company, Emkay Research

Exhibit 5: Moratorium rate of merged bank increased in Phase 2 due to increase in MSME and corporate moratorium



Source: Company, Emkay Research

Exhibit 6: The stocks trades at 0.6x-1 Year forward ABV adjusted for subsidiaries valuation



Source: Company, Emkay Research

Exhibit 7: Actuals vs. Estimates -1QFY21

Rs mn	Actuals	Estimates		% Variation		
		Emkay	Consensus	Emkay	Consensus	
Net income	104,362	96,695	95,389	8%	9%	Treasury gains and betters margins led to beat
PPOP	52,799	49,143	NA	7%		Higher income and lower opex led to beat
PAT	3,083	-8,331	3,850	NA	-20%	Higher PPOP and contained provisions led to beat

Source: Company, Emkay Research

: Company, Emkay Research, Q1FY20, Q4FY20 and, Q1FY21 are merged figures

Exhibit 8: Quarterly summary

Rs (mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	203,800	132,919	135,627	210,290	206,048	1	-2	538,000	835,365	55
Interest Exp	141,400	90,281	92,076	142,180	138,565	-2	-3	363,623	556,587	53
Net Interest Income	62,400	42,638	43,550	68,110	67,483	8	-1	174,377	278,778	60
Global NIMs (reported)	2.47	2.39	2.27	2.40	2.50	3bps	10bps	2.38	2.91	53bps
Non-interest Income	34,190	22,647	24,048	40,350	36,879	8	-9	92,741	141,371	52
Operating Expenses	45,100	29,666	29,970	89,720	51,563	14	-43	119,733	207,736	73
Pre Provisioning Profit	51,490	35,620	37,629	18,740	52,799	3	182	147,385	212,413	44
Provision & Contingencies	34,310	29,289	41,460	124,350	46,859	37	-62	139,996	236,319	69
PBT	17,180	6,330	-3,831	-105,610	5,940	-65	-106	7,389	-23,906	NM
Income Tax Expense (Gain)	5,090	1,260	1,091	-4,300	2,857	-44	-166	4,028	-6,024	NM
Net Profit/(Loss)	12,090	5,070	-4,922	-101,310	3,083	-74	-103	3,362	-17,882	NM
Gross NPA (%)	15.49	16.76	16.30	13.79	14.10	-139bps	31bps	14.19	15.71	153bps
Net NPA (%)	6.97	7.65	7.18	5.51	5.39	-158bps	-12bps	5.79	6.13	34bps
Deposits (Rs in bn)	10,372	6,958	7,085	10,716	10,749	4	0	7,038	11,274	60
Net Advances (Rs in bn)	6,465	4,279	4,255	6,959	6,562	1	-6	4,718	7,255	54

Source: Company, Emkay Research 1QFY21,4QFY20 and 1QFY20 are merged

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	405,816	420,149	3.5%	423,212	431,858	2.0%	443,955	452,373	1.9%
PPOP	208,639	212,413	1.8%	217,720	215,177	-1.2%	223,647	219,927	-1.7%
PAT	-44,620	-17,882	-59.9%	13,884	13,884	0.0%	31,582	31,582	0.0%
EPS (Rs)	-5.5	-2.2	-59.9%	1.5	1.5	0.0%	3.4	3.4	0.0%
BV (Rs)	79.6	81.1	2.0%	81.0	82.6	1.9%	84.2	85.9	2.0%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	3.0	53.8	7.0	10.4
Deposit Growth %	4.1	60.2	5.2	6.7
NIM %	2.4	2.9	2.4	2.4
GNPA %	14.2	15.7	15.4	14.7
Credit Cost %	2.9	3.7	2.2	1.9

Source: Company, Emkay Research

Exhibit 11: Key ratios and trends

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Loans (Rs bn)	4,544	4,739	4,760	5,062	7,118	4,741	4,714	7,627	7,217
<i>growth (YoY)</i>	7.4	9.4	0.1	7.3	5.0	0.7	-1.0	-5.0	1.4
<i>growth (QoQ)</i>	-3.7	4.3	0.4	6.3	-6.0	1.5	-0.6	0.0	-5.4
Liability Profile									
Deposits (Rs bn)	6,303	6,497	6,504	6,760	10,372	6,958	7,085	10,716	10,749
<i>growth (YoY)</i>	0.8	2.1	0.4	5.3	8.0	7.0	8.9	3.0	3.6
<i>growth (QoQ)</i>	(1.9)	3.1	0.1	3.9	(1.0)	3.5	1.8	-	0.3
Asset Quality and Capital									
GNPA (%)	18.2	17.1	16.3	15.5	15.5	16.8	16.3	13.8	14.1
NNPA (%)	9.7	8.1	7.5	5.9	6.3	6.9	6.5	5.0	4.9
PCR (%)	47.1	52.9	54.1	61.7	59.2	58.9	60.3	63.6	65.3
Slippages (Rs mn)	73,630	56,440	39,880	73,020	72,300	81,190	73,980	70,930	24,760
Slippages (%)	7.0	5.2	3.4	6.2	6.4	6.9	6.2	5.6	1.4
CAR (%)	9.6	10.1	10.5	9.7	9.8	14.1	14.0	14.1	12.6
Tier I (%)	7.3	7.8	8.3	7.5	7.6	12.2	11.9	11.9	10.3
ROE Decomposition % (on total assets)									
NII	2.5	2.1	2.3	2.2	2.9	1.9	2.1	2.9	2.4
Other Income (Ex Treasury)	0.9	0.8	0.7	0.9	1.1	0.8	1.1	1.4	0.8
Treasury	0.1	0.1	0.2	0.1	0.5	0.2	0.1	0.4	0.5
Opex	1.3	1.5	1.6	1.7	2.1	1.4	1.5	3.8	1.8
PPOP	2.2	1.5	1.6	1.5	2.4	1.6	1.9	0.8	1.8
Provisioning Cost	3.1	5.2	1.5	5.3	1.6	1.3	2.0	5.3	1.6
PBT	-0.8	-3.7	0.2	-3.8	0.8	0.3	-0.2	-4.5	0.2
Tax	-0.3	-1.3	0.1	-1.3	0.2	0.1	0.1	-0.2	0.1
ROA	-0.5	-2.4	0.1	-2.5	0.6	0.2	-0.2	-4.3	0.1
ROE	-9.3	-43.2	2.2	-42.5	10.6	3.7	-3.1	-64.3	1.7

Source: Company, Emkay Research 1QFY21. 1QFY20 and 4QFY20 are merged

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	171,563	174,377	278,778	283,987	301,305
Other income	73,774	92,741	141,371	147,871	151,067
Fee income	28,057	28,170	39,438	41,410	44,309
Net income	245,337	267,118	420,149	431,858	452,373
Operating expenses	115,385	119,733	207,736	216,681	232,446
Pre provision profit	129,952	147,385	212,413	215,177	219,927
PPP excl treasury	119,026	131,069	183,860	185,196	189,947
Provisions	283,410	139,996	236,319	196,616	177,705
Profit before tax	(153,458)	7,389	(23,906)	18,561	42,222
Tax	(53,703)	4,028	(6,024)	4,677	10,640
Tax rate	35	55	25	25	25
Profit after tax	(99,755)	3,362	(17,882)	13,884	31,582

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	9,208	13,475	18,814	18,814	18,814
Reserves	438,663	610,100	804,176	817,860	848,301
Net worth	447,871	623,575	822,990	836,674	867,115
Deposits	6,760,301	7,038,463	11,273,601	11,855,884	12,644,512
Borrowings	230,759	351,754	298,991	269,092	296,001
Total liabilities	7,749,495	8,306,658	12,799,474	13,395,027	14,376,883
Cash and bank	321,291	383,979	403,177	423,336	444,503
Investments	2,021,282	2,404,655	3,694,690	3,746,529	3,812,721
Loans	4,582,492	4,718,277	7,255,200	7,765,344	8,576,794
Others	330,591	351,405	687,500	730,575	822,928
Total assets	7,749,495	8,306,658	12,799,474	13,395,027	14,376,883

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.5	2.4	2.9	2.4	2.4
Non-ll/avg assets	1.0	1.2	1.3	1.1	1.1
Fee income/avg assets	0.4	0.4	0.4	0.3	0.3
Opex/avg assets	1.5	1.5	2.0	1.7	1.7
Provisions/avg assets	3.7	1.7	2.2	1.5	1.3
PBT/avg assets	(2.0)	0.1	(0.2)	0.1	0.3
Tax/avg assets	(0.7)	0.1	(0.1)	0.0	0.1
RoA	(1.3)	0.0	(0.2)	0.1	0.2
RoAE	(25.4)	0.7	(2.7)	1.8	4.0
GNPA (%)	15.5	14.2	15.7	15.4	14.7
NNPA (%)	6.6	5.8	6.1	5.8	5.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(21.7)	0.5	(2.2)	1.5	3.4
BVPS	89.5	85.5	81.1	82.6	85.9
ABVPS	46.4	55.1	45.8	46.5	49.3
DPS	0.0	0.0	0.0	0.0	0.1

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(1.6)	70.8	(15.9)	23.9	10.5
P/BV	0.8	0.6	0.8	0.8	0.7
P/ABV	0.8	0.6	0.8	0.8	0.7
P/PPOP	1.2	1.6	1.6	1.5	1.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.3

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	15.0	1.6	59.9	1.9	6.1
PPOP	26.2	13.4	44.1	1.3	2.2
PAT	(18.8)	(103.4)	(632.0)	(177.6)	127.5
Loans	5.7	3.0	53.8	7.0	10.4

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	62,400	42,638	43,550	68,110	67,483
NIM(%)	2.5	2.4	2.3	2.4	2.5
PPOP	51,490	35,620	37,629	18,740	52,799
PAT	12,090	5,070	(4,922)	(101,310)	3,083
EPS (Rs)	2.63	1.10	(0.73)	(15.04)	0.33

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20
Promoters	75.4	83.2	83.2	83.2	85.6
FIIIs	3.5	2.4	2.4	2.2	1.0
DIIIs	12.2	8.3	8.3	7.8	6.8
Public and Others	8.9	6.1	6.1	6.8	6.6

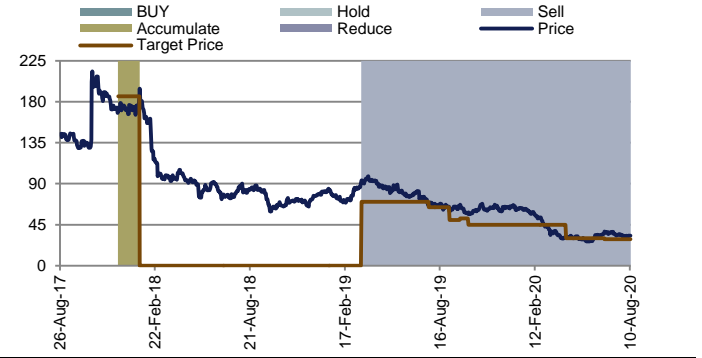
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Jun-20	37	29	12m	Sell	Anand Dama
11-Apr-20	31	30	12m	Sell	Anand Dama
4-Feb-20	57	45	12m	Sell	Anand Dama
5-Nov-19	65	45	12m	Sell	Anand Dama
9-Oct-19	58	45	12m	Sell	Anand Dama
23-Sep-19	67	52	12m	Sell	Anand Dama
3-Sep-19	59	50	12m	Sell	Anand Dama
26-Jul-19	68	64	12m	Sell	Anand Dama
28-May-19	86	70	12m	Sell	Anand Dama
20-Mar-19	94	70	12m	Sell	Anand Dama
24-Jan-18	195	-	12m	UR	Ravikant Bhat
24-Jan-18	195	186	12m	Accumulate	Ravikant Bhat
14-Dec-17	170	186	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.60	18.60	0.0%	0	100.00
Axis Bank	1.87	1.87	0%	0	10.03
AU Small Finance Bank	0.07	0.02	-75%	-5	0.09
Bandhan Bank	0.34	0.14	-59%	-20	0.75
Bank of Baroda	0.10	0.00	-100%	-10	0.00
Canara Bank	0.05	0.00	-100%	-5	0.00
City Union Bank	0.15	0.16	3%	0	0.84
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.18	3%	0	0.99
HDFC Bank	7.42	7.76	5%	35	41.74
ICICI Bank	3.84	4.13	8%	30	22.21
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.50	0.60	20%	10	3.21
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.65	2.27	-14%	-38	12.20
Punjab National Bank	0.09	0.00	-100%	-9	0.00
RBL Bank	0.12	0.21	75%	9	1.15
State Bank of India	1.20	1.26	5%	6	6.79
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

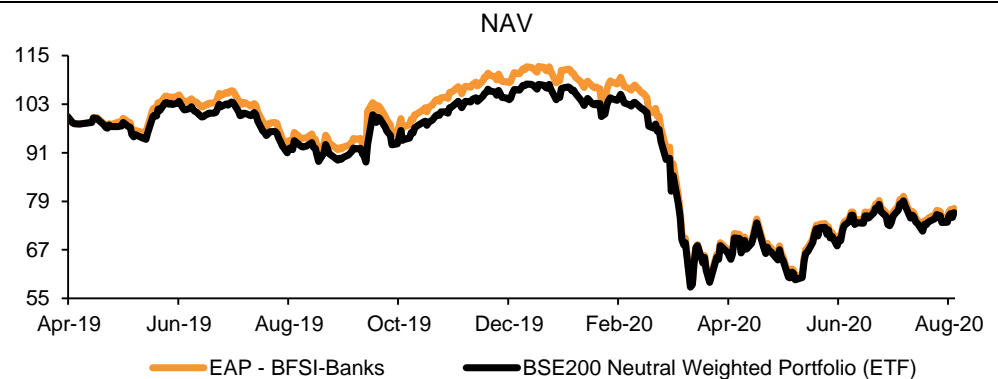
Sector portfolio NAV

	Base					Latest
	1-Apr-19	19-Nov-19	20-Feb-20	22-May-20	22-Jul-20	21-Aug-20
EAP - BFSI-Banks	100.0	107.8	107.7	60.3	79.5	77.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.2	103.5	59.6	78.3	76.2

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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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Sources for all charts and tables are Emkay Research unless otherwise specified.

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