



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	■	✓
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↑	■

ESG Disclosure Score **NEW**

**ESG RISK RATING**  
Updated Oct 08, 2022 **51.06**

**Severe Risk**

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 49,495 cr
52-week high/low:	Rs. 46 / 28
NSE volume: (No of shares)	465.6 lakh
BSE code:	532461
NSE code:	PNB
Free float: (No of shares)	297.3 cr

Shareholding (%)

Promoters	73.2
FII	1.2
DII	12.3
Others	13.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.6	36.4	32.4	4.7
Relative to Sensex	16.5	31.6	22.7	3.0

Sharekhan Research, Bloomberg

<b>Banks</b>	<b>Sharekhan code: PNB</b>		
<b>Reco/View: Hold</b>	↔	<b>CMP: Rs. 45</b>	<b>Price Target: Rs. 52</b> ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ◆ PNB reported strong growth in PPOP (up 38% y-o-y/3% q-o-q), driven by sharp improvement in NIMs (up 21 bps q-o-q/61 bps y-o-y) and healthy loan growth (15% y-o-y/4% q-o-q).
- ◆ However, total credit cost was higher reported at 2.6% (annualized of average advances) led by higher provisions on investments. Thus, PBT was down 13% y-o-y at Rs. 661 crore with ROA (post tax) just at 12 bps annualized.
- ◆ Slippages were down by 8% q-o-q at 3.6% (annualized) vs. 3.9% q-o-q coupled with higher recoveries and upgrades and contained write-offs. Asset quality saw sharp improvement with GNPA and NNPA ratios falling by 79 bps/48 bps q-o-q to 10.48%/3.80%. PCR stood at 66% vs. 65% q-o-q.
- ◆ The stock currently trades at 0.6x/0.6x its FY2023E/FY2024E ABV, which reflects weak business franchise and below-par return profile. We believe higher stress in books compared with peers and lower core operating profitability would keep return ratio below par. We maintain our Hold rating with a revised PT of Rs. 52.

Punjab National Bank (PNB) reported strong operational performance in Q2FY2023. Net interest income (NII) grew strongly by 30% y-o-y/10% q-o-q, driven by sharp margin improvement and healthy loan growth. Net interest margin (NIM) improved by 21 bps q-o-q/61 bps y-o-y to 3%. Core fee income grew by 12% y-o-y/but was down 25% q-o-q. The bank reported treasury profit of Rs. 2 crore vs. loss of Rs. 836 crore in the last quarter. Total operating expenses were down 1% y-o-y but were higher by 18% q-o-q. Operating profit grew by 38% y-o-y/3% q-o-q. Provisions were higher by 50% y-o-y/2% q-o-q. Total credit cost stood at 2.6% of average advances for the quarter, driven by higher provisions on investments. PBT declined by 13% y-o-y but grew by 12% q-o-q. Net advances and deposits grew by 15% y-o-y/7% y-o-y and 4% q-o-q/5% q-o-q, respectively. CASA grew by 5% y-o-y, with overall CASA ratio at ~45% versus 46% in the last quarter. Retail (excluding agri and MSME), agri, and MSME book grew by 17% y-o-y, 5% y-o-y, and 5% y-o-y, respectively. Wholesale domestic corporate book grew by 14% y-o-y. The bank's asset quality improved, with GNPA and NNPA ratios declining by 79 bps q-o-q and 48 bps q-o-q, respectively, to 10.48% and 3.80%. PCR stood at 66% versus 65% q-o-q. SMA 2 book stood at 0.27% of advances and was flat qoq. Total restructured book stood at Rs. 13,940 crore and forms 1.8% of book versus 2.0% q-o-q.

Key positives

- ◆ Healthy advances growth along with sharp margin improvement.
- ◆ Asset quality matrix improved, led by higher cash recoveries and upgrades.
- ◆ Sharp reduction in restructured book sequentially.

Key negatives

- ◆ Weak CASA mobilisation
- ◆ Total credit cost higher, led by increased provisions on investment book
- ◆ Weak return profile (ROA ~11 bps in H1FY2023)

Management Commentary

- ◆ The bank expects credit cost at ~2.0% for H2FY23. NIMs are expected to be at 2.9-3.0% for FY2023E. In terms of asset quality matrix, it expects GNPA to fall below ~10% and NNPA below ~3.0% at the end of FY2023.
- ◆ The bank has guided for loan growth of 12-13% for FY2023E versus earlier guidance of ~10%.

Our Call

**Valuation** – PNB currently trades at 0.6x/0.6x its FY2023E/FY2024E ABV, which reflects weak business franchise and below-par return profile. Although higher slippages and credit cost are expected to normalize compared with FY2022, we believe its return profile would be below par compared with peers. We expect weak trends in operating profitability (vs. peers) and higher credit cost (vs. peers) would likely keep earnings under pressure going ahead. We prefer top PSU banks that have superior core profitability, a better return profile, and a strong balance sheet to withstand any unanticipated risk in future. Hence, we maintain our Hold rating with a revised price target (PT) of Rs. 52.

Key Risks

Economic slowdown due to higher-than-anticipated credit cost especially from the corporate book and SME portfolio could affect earnings.

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	30,477	28,694	30,448	31,991
Net profit	2,022	3,458	3,413	3,734
EPS (Rs.)	2.1	3.2	3.1	3.4
P/E (x)	21.6	14.2	14.5	13.3
P/BV (x)	0.8	0.7	0.6	0.6
RoE	2.2	3.7	3.5	3.7
RoA	0.2	0.3	0.3	0.3

Source: Company; Sharekhan estimates

## Key Result highlights

### Strong NII growth led by sharp improvement in NIMs

NII grew strongly by 30% y-o-y/10% q-o-q, driven by sharp margin improvement and healthy loan growth. NIM improved by 21 bps q-o-q/61 bps y-o-y to 3.0%. NIM guidance for FY2023E stands at 2.9-3.0%.

### Higher advances growth likely to sustain, led by robust demand in retail as well as corporate

Net advances grew by 15% y-o-y during the quarter. Retail advances rose by 17% y-o-y and 6% q-o-q. Retail book growth was primarily aided by strong growth in the vehicle book (increased by 35% y-o-y) and personal loans (up by 36% y-o-y). As far as the corporate book is concerned, it grew by 14% y-o-y, led by robust demand across sectors. There was strong credit demand across the NBFC, road, and infra projects sectors. Management has guided for overall credit growth of 12-13% in FY2023E.

### Asset quality and credit-cost scenario guidance

GNPA ratio and NNPA ratio improved by 79 bps q-o-q and 48 bps q-o-q to 10.48% and 3.80%, respectively, in Q2FY2023. Slippages for the quarter stood at Rs. 5,979 crore versus Rs. 6,468 crore in the past quarter. Total recoveries and upgrades stood at Rs. 6,497 crore versus Rs. 5,288 crore in the past quarter. Write-offs stood at Rs. 2,614 crore versus Rs. 3,461 crore in Q1FY2023. Management intends to bring down GNPA ratio to less than 10% and NNPA ratio below 3.0% at the end of FY2023. The bank expects its credit cost at ~2.0% in H2FY2023. With respect to slippages going ahead, the bank targets to have more recoveries than additions and does not see slippages from large accounts. Management said that no big account is left for recognition in stressed assets. The current ECLGS book stood at Rs. 12,866 crore in Q2FY2023, of which NPAs are Rs. 840 crore. The fraud amounting to Rs. 650 crore has been fully amortised in Q2FY2023.

Results	Rs cr				
Particulars	Q2FY23	Q1FY23	Q2FY22	y-o-y	q-o-q
Interest Income	20,154	18,757	17,980	12%	7%
Interest Expenses	11,883	11,214	11,628	2%	6%
<b>Net Interest Income</b>	<b>8,271</b>	<b>7,543</b>	<b>6,353</b>	<b>30%</b>	<b>10%</b>
NIM (%)	3.00	2.79	2.39		
Core fee Income	1,307	1,751	1,162	12%	-25%
Other Income	1,540	786	2,120	-27%	96%
<b>Net Operating Revenue</b>	<b>11,118</b>	<b>10,080</b>	<b>9,635</b>	<b>15%</b>	<b>10%</b>
Employee Expenses	3,233	2,547	3,417	-5%	27%
Other Opex	2,318	2,154	2,197	6%	8%
Total Opex	5,551	4,701	5,614	-1%	18%
<b>Cost to Income Ratio (%)</b>	<b>49.9%</b>	<b>46.6%</b>	<b>58.3%</b>		
<b>Pre Provision Profits</b>	<b>5,567</b>	<b>5,379</b>	<b>4,021</b>	<b>38%</b>	<b>3%</b>
Provisions & Contingencies - Total	4,906	4,790	3,261	50%	2%
<b>Profit Before Tax</b>	<b>661</b>	<b>589</b>	<b>760</b>	<b>-13%</b>	<b>12%</b>
Tax	250	281	-345	-172%	-11%
Effective Tax Rate (%)	37.8	47.6	-45.5		
<b>Reported Profits</b>	<b>411</b>	<b>308</b>	<b>1,105</b>	<b>-63%</b>	<b>33%</b>
Basic EPS	0.4	0.3	1.0	-61%	32%
Diluted EPS	0.4	0.3	1.0		
RoA (%)	0.1	0.1	0.3		
Advances	7,73,403	7,42,643	6,73,226	15%	4%
Deposits	11,93,501	11,36,747	11,15,373	7%	5%
Gross NPA	87,035	90,167	1,00,291	-13%	-3%
Gross NPA Ratio (%)	10.5	11.3	13.6		
PCR - (%)	66.3	64.8	5.5		
Net NPA	29,348	31,744	36,934	-21%	-8%
Net NPAs Ratio (%)	3.8	4.3	5.5		

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Strong credit offtake and benign credit cost; Top private banks and top PSUs placed better

System-level credit offtake grew by ~17.95% y-o-y in the fortnight ending October 21, 2022, indicating loan growth has been sustaining, given distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.5% but are trailing advanced growth. We should see loan growth acceleration sustaining. Margins are likely to improve in a higher interest-rate cycle. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks with a strong capital base and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

### ■ Company outlook – Long road to normalcy

PNB would continue to post below-par earnings and returns ratios going ahead due to its lower core operating profitability vs. its top PSU peers. Higher slippages and in turn higher credit cost from the restructured book, which is higher than peers, would keep earnings under pressure going ahead. We believe improvement in operating profitability per se along with better return ratios is yet to be seen. We believe the road to normalcy is still a long one for PNB.

### ■ Valuation – Maintain Hold with revised PT of Rs. 52

PNB currently trades at 0.6x/0.6x its FY2023E/FY2024E ABV, which reflects weak business franchise and below-par return profile. Although higher slippages and credit cost are expected to normalize compared with FY2022, we believe its return profile would be below par compared with peers. We expect weak trends in operating profitability (vs. peers) and higher credit cost (vs. peers) would likely keep earnings under pressure going ahead. We prefer top PSU banks that have superior core profitability, a better return profile, and a strong balance sheet to withstand any unanticipated risk in future. Hence, we maintain our Hold rating with a revised PT of Rs. 52.

#### Peer Comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Punjab National Bank	45	49,495	14.5	13.3	0.6	0.6	3.5	3.7	0.3	0.3
Bank of India	77	31,597	8.6	6.1	0.6	0.6	6.6	8.7	0.5	0.6

Source: Company, Sharekhan research

## About the company

PNB is a government-owned bank with a network of 10,038+ branches, 12,966+ ATMs, and 20,447 business correspondents. The bank is majorly present in Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, and Bihar. More than 60% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 11,93,501 crore and global credit stood at Rs. 8,30,212 crore as of September 2022.

## Investment theme

PNB has been working upon bringing significant improvement in its internal systems and processes over the last few years. The bank has restructured its processes, with a focus on recovery and resolution. Hence, it is taking steps such as creating a stressed asset-management vertical with a dedicated team of over 2,700 employees, along with creating dedicated branches to focus on SME and retail disbursements. However, we believe improvement in operating performance and asset-quality matrix with higher return ratios are yet to be seen.

## Key Risks

Economic slowdown due to which higher-than-anticipated credit cost especially from the corporate book and SME portfolio could affect earnings.

## Additional Data

### Key management personnel

Mr. Arun Kumar Goel	Managing Director and CEO
Ms. Sanjay Kumar	Executive Director
Mr. Vijay Dube	Executive Director
Mr. Swarup Kumar Saha	Executive Director
Mr. Kalyan Kumar	Executive Director

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	REPUBLIC OF INDIA	73.2
2	LIFE INSURANCE CORP OF INDIA	8.3
3	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	0.7
4	NIPPON LIFE INDIA ASSET MANAGEMENT LTD	0.6
5	SBI FUNDS MANAGEMENT LTD	0.5
6	VANGUARD GROUP INC	0.4
7	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	0.3
8	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO LTD	0.3
9	EDELWEISS ASSET MANAGEMENT LTD	0.2
10	UTI ASSET MANAGEMENT CO LTD	0.2

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

---

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com).

---

**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.