

PUNJAB NATIONAL BANK | PSU Banking

ROA recovery in process; Undervaluation is the key

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Punjab National Bank (PNB) has consistently been reporting robust earnings since many quarters. The wholesale book has cleaned up significantly and further recoveries are expected in FY24E. Additionally, the bank's credit growth was robust in FY23 and expected to be in same trajectory for FY24E. We expect the bank's NIMs to stay intact as MCLR book (35%) re-pricing in underway. Our investment thesis is based on 1) Easing corporate stress with higher recovery, 2) Risk adjusted growth and 3) An "in-expensive" valuation. A bad loan recovery and sell off to NARCL may clean up the balance sheet with NPA normalization. Furthermore, steady credit growth along with lower credit cost is likely to boost the return ratios; which makes the stock rewarding at in-expensive valuation (0.7x standalone) with strong associates (PNB Housing, PNB Gilts).

Recovery to accelerate further with ease in corporate stress: Reported GNPA ratio is improving continuously since previous 14 quarters with an exception of 1QFY22 as NPA recognition resumed. Slippages during the previous quarter were curtailed at ₹40bn (~3% v/s run-rate of 8% over last four quarters); this restricted GNPA/NNPA to 8.7%/2.7% (v/s 16.3%/7.2% fourteen quarters ago). The headline numbers clearly suggesting a steady improvement driven by higher recovery and write-offs. In FY23, PNB plans to transfer bad loans of ₹20bn to the NARCL (Bad Bank) in tranche 1 and ₹60bn in tranche 2. These loans are 100% provided for and management believes it may be transferred at 25%. NARCL will make payments using a combination of cash and Security Receipts (SRs). A further recovery of ₹5bn and ₹13bn in 1QFY24 and 2QFY24 respectively. This may aid PNB's equity capital position in the interim (CET1 currently at 12.7%). Management guidance is quite affirmative and it expects GNPA and NNPA ratio to reduce further in FY24E with credit cost guidance of 1.5%. Under base case scenario, we estimate the NNPA to be at 2.6% as on FY24E with healthy PCR of more than 73%.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	304,770	286,945	344,916	436,652	489,221
PPOP	229,801	207,618	225,288	272,537	301,013
PAT	20,216	34,570	25,072	63,362	89,609
Networth	909,373	954,869	998,557	1,061,919	1,151,528
Loans	6,742,301	7,281,857	8,308,340	9,305,341	10,328,928
Deposits	11,063,325	11,462,184	12,811,631	14,092,794	15,502,074

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIMs	2.6	2.3	2.5	2.7	2.7
C/I Ratio	46.9	49.4	51.7	51.7	51.7
GNPA Ratio	14.1	11.8	8.7	8.5	8.2
NNPA Ratio	5.7	4.8	2.7	2.6	2.4
ROA	0.2	0.3	0.2	0.4	0.5
ROE	2.9	4.0	2.8	6.0	7.8

Rating	BUY
Current Market Price (₹)	60
12 M Price Target (₹)	80
Potential upside (%)	33

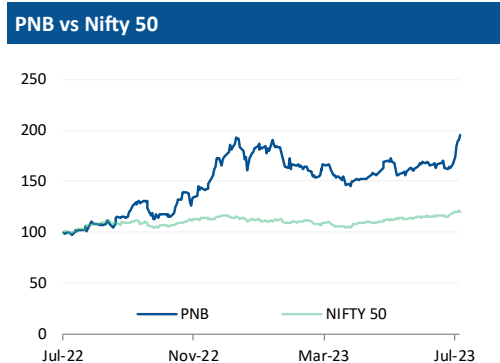
Stock Data	
FV (₹) :	2
Total Market Cap (₹ bn) :	666
Free Float Market Cap (₹ bn) :	180
52-Week High / Low (₹)	62 / 30
1 Year Avg. Dly Traded Volume (in lakh)	707
BSE Code / NSE Symbol	532461 / PNB
Bloomberg :	PNB:IN

Shareholding Pattern				
(%)	Mar-23	Dec-22	Sep-22	Jun-22
GOI	73.15	73.15	73.15	73.15
FPIs	1.71	1.71	1.22	0.99
MFs	4.61	4.05	3.56	2.73
Insurance	8.87	8.87	8.69	8.69
Others	11.66	12.22	13.38	14.44

Source: BSE

Price Performance				
(%)	1M	3M	6M	1YR
PNB	17.6	28.0	7.1	94.8
Nifty 50	3.2	9.8	8.2	19.8

* To date / current date : July 7, 2023



Business momentum is on expected lines: PNB is showing signs of stable risk –adjusted growth as sequential growth was at multi-quarter high. RAM (Retail, Agriculture and MSME) boosted the growth, however, other segments are showing traction. The management alluded to a strong pipeline of sanctions and expects loan growth to be high. Conservatively, we estimate a credit CAGR of 12% in FY23-25. Moreover, we estimate the interest bearing liabilities to maintain the ratio of ~97.5% of interest earning assets. Factoring lower credit cost (decreasing provision expenses), we estimate FY25E ROA/ROE of 0.5% and 7.8%.

Undervaluation is the Key: PNB has one of the lowest “Price to book” among the large public sector banks. It is currently trading at 0.58x of FY25E book value. With an estimated FY25E ROA/ROE of 0.5%/7.8%; the valuation seems lucrative. We expect a re-rating with surge in valuation.

Outlook and Valuation

We expect the PNB’s loan book to fatten cautiously at CAGR of 11% - 12% over FY23-25E, led by retail book growth. In our opinion, the bank’s credit cost will normalise further by FY24E and estimate return ratio ROA/ROE of 0.5% and 7.8% in FY25E. We value the standalone entity at 0.7x FY23E BVPS (₹105) and value of associates and subsidiaries at ₹7 to arrive at a target price of ₹80. We recommend BUY with a potential upside of 33%.

Financial Performance at a glance

Exhibit 1: Income Statement

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23
Interest Earned	479,958	513,102	538,000	807,498	748,795	851,441
Interest Expended	330,734	341,539	363,622	502,728	461,851	506,525
Net Interest Income	149,224	171,563	174,378	304,770	286,945	344,916
Other Income	88,809	73,774	92,741	128,119	123,200	121,425
Operating Revenue	238,033	245,337	267,119	432,888	410,144	466,342
Operating Expenses	135,091	115,385	119,734	203,087	202,526	241,054
Employee Expenses	91,688	69,632	69,617	121,757	118,410	148,100
Other Opex.	43,403	45,753	50,117	81,330	84,116	92,954
PPOP	102,942	129,952	147,385	229,801	207,618	225,288
Provisions and Contingencies	298,693	283,410	139,996	195,007	164,454	182,405
Profit Before Tax	-195,751	-153,458	7,390	34,794	43,164	42,883
Taxes	-72,923	-53,703	4,028	14,578	8,594	17,811
Profit After Tax	-122,828	-99,755	3,362	20,216	34,570	25,072
EPS	-44.5	-21.7	0.5	1.9	3.2	2.3

Source: Company, LKP Research

Exhibit 2: Balance Sheet

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23
Share Capital	5,521	9,208	13,475	20,955	22,022	22,022
Total Reserves	405,222	438,663	610,100	888,418	932,847	976,535
Networth	410,743	447,871	623,575	909,373	954,869	998,557
Deposits	6,422,262	6,760,301	7,038,463	11,063,325	11,462,184	12,811,631
YoY (%)	3.3	5.3	4.1	57.2	3.6	11.8
CASA (%)	41.0	42.2	43.0	44.5	46.6	42.0
Borrowings	608,507	393,259	502,254	428,403	456,814	512,917
Other Liabilities & Provisions	216,789	148,063	142,367	205,225	274,183	295,209
Total Liabilities	7,658,301	7,749,495	8,306,659	12,606,326	13,148,050	14,618,314
Cash and Balance with RBI	287,890	321,291	383,979	439,588	857,361	781,766
Balances with banks and money at call	666,730	431,589	375,952	673,909	469,107	769,322
Investments	2,003,060	2,021,282	2,404,656	3,929,833	3,721,678	3,959,967
Advances	4,337,347	4,582,492	4,718,277	6,742,301	7,281,857	8,308,340
YoY (%)	3.4	5.7	3.0	42.9	8.0	14.1
Net Block	63,493	62,248	72,391	110,209	106,736	120,511
Other Assets	299,781	330,591	351,404	710,487	711,312	678,408
Total Assets	7,658,301	7,749,495	8,306,659	12,606,326	13,148,050	14,618,314

Source: Company, LKP Research

Exhibit 3: Asset Quality

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23
GNPA (%)	18.38	15.50	14.21	14.12	11.8	8.7
NNPA (%)	11.24	6.56	5.78	5.73	4.8	2.7
GNPA Amount	866,201	784,727	734,788	1,044,234	924,480	773,277
NNPA Amount	486,843	300,377	272,189	385,757	349,087	225,850
PCR (calculated, %)	43.8	61.7	63.0	63.1	62.2	70.8
Movement of GNPA						
Opening Balance	553,705	866,201	784,727	734,788	1,044,234	924,480
Additions during the year	442,743	199,041	207,513	606,262	247,437	160,289
Reductions during the year	130,247	280,515	257,452	296,816	367,191	311,493
Closing balance	866,201	784,727	734,788	1,044,234	924,480	773,277
Movement of NNPA						
Opening Balance	327,021	486,843	300,377	272,189	385,757	349,087
Additions during the year	300,529	151,862	153,863	327,786	175,805	108,524
Reductions during the year	140,707	338,328	182,050	214,218	212,475	231,760
Closing balance	486,843	300,377	272,189	385,757	349,087	225,850

Source: Company, LKP Research

Exhibit 4: Capital Adequacy

Yr/end	FY18	FY19	FY20	FY21	FY22	FY23
Total CRAR (%)	9.2	9.7	14.1	14.3	14.5	15.5
Tier 1 (%)	7.1	7.5	11.9	11.5	11.7	12.7
Tier 2 (%)	2.1	2.2	2.2	2.8	2.8	2.8

Source: Company, LKP Research

Exhibit 5: Ratios

Yr/end	FY18	FY19	FY20	FY21	FY22	FY23
Margins						
YOA (%)	11.1	11.2	11.4	12.0	10.3	10.2
YOI (%)	8.6	7.5	7.1	7.4	7.2	6.6
COB (%)	4.7	4.8	4.8	4.4	3.9	3.8
NIM (%)	2.0	2.3	2.2	2.6	2.3	2.5
Interest Spread (%)	6.4	6.4	6.6	7.6	6.4	6.4
Profitability						
ROA (%)	-1.7	-1.3	0.0	0.2	0.3	0.2
ROE (%)	-32.4	-25.4	0.7	2.9	4.0	2.8
C/I (%)	56.8	47.0	44.8	46.9	49.4	51.7
Per Share data						
EPS (Rs)	-44.5	-21.7	0.5	1.9	3.1	2.3
BVPS (Rs)	148.8	97.3	92.6	86.8	86.7	90.7

Source: Company, LKP Research

Quarterly Story

Exhibit 6: Profit & Loss (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Interest Earned	189,209	179,804	193,254	186,451	187,570	201,540	223,844	238,486
Interest Expended	116,943	116,276	115,222	113,410	112,142	118,833	132,051	143,499
Net Interest Income	72,266	63,528	78,032	73,041	75,428	82,707	91,794	94,988
Other Income	35,941	32,820	27,006	24,501	25,370	28,472	33,380	34,203
Net Operating Revenue	108,207	96,348	105,038	97,542	100,798	111,179	125,173	129,191
Operating Expenses	47,220	56,136	54,275	44,894	47,006	55,507	68,014	70,527
Employee Expenses	29,557	34,166	33,107	21,581	25,468	32,325	44,600	45,707
Other Opex.	17,663	21,970	21,168	23,314	21,539	23,182	23,414	24,819
PPOP	60,987	40,211	50,763	52,648	53,792	55,672	57,159	58,664
Provisions and Contingencies	46,781	32,614	33,536	48,515	47,902	49,064	47,133	38,306
PBT	14,206	7,598	17,228	4,133	5,890	6,608	10,026	20,359
Tax	3,971	-3,454	5,960	2,117	2,806	2,496	3,737	8,772
Profit After Tax	10,235	11,052	11,268	2,016	3,084	4,113	6,289	11,586

Source: Company, LKP Research

Exhibit 7: Balance Sheet (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Share Capital	22,022	22,022	22,022	22,022	22,022	22,022	22,022	22,022
Reserves and Surplus	921,727	934,976	948,146	932,847	952,820	965,546	972,135	976,535
Networth	943,749	956,998	970,168	954,869	974,842	987,568	994,157	998,557
Deposits	10,976,489	11,153,731	11,273,169	11,462,185	11,367,465	11,935,007	12,103,589	12,811,631
Borrowings	356,468	336,226	542,567	456,814	635,242	586,597	654,695	512,917
Other Liabilities & Provisions	208,620	212,116	262,585	274,183	233,213	253,408	265,526	295,209
Total Liabilities	12,485,325	12,659,071	13,048,490	13,148,050	13,210,762	13,762,579	14,017,967	14,618,314
Cash and Balance with RBI	470,298	512,979	553,929	857,361	652,333	735,175	852,569	781,766
Balances with banks and money at call and short notice	746,291	958,866	932,519	469,107	493,777	495,134	425,308	769,322
Investments	3,818,621	3,636,262	3,797,617	3,721,678	3,783,827	3,939,248	3,900,349	3,959,967
Advances	6,612,886	6,732,258	6,928,075	7,281,857	7,426,433	7,734,028	8,004,121	8,308,340
Net Block	108,875	108,268	107,002	106,736	117,712	122,081	121,712	120,511
Other Assets	728,354	710,439	729,349	711,312	736,679	736,912	713,909	678,408
Total Assets	12,485,325	12,659,071	13,048,490	13,148,050	13,210,762	13,762,579	14,017,967	14,618,314

Source: Company, LKP Research

Exhibit 8: Asset Quality (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
GNPA Amount	1,040,756	1,002,909	972,587	924,480	901,671	870,348	835,839	773,277
NNPA Amount	385,806	369,342	338,786	349,087	317,443	293,482	263,631	225,850
NNPA (%)	5.8	5.5	4.9	4.8	4.3	3.8	3.3	2.7
GNPA (%)	14.3	13.6	12.9	11.8	11.3	10.5	9.8	8.7
PCR (% Inc TWO)	80.3	80.8	81.9	81.6	83.0	84.0	85.2	86.9
PCR (% calculated)	62.9	63.2	65.2	62.2	64.8	66.3	68.5	70.8

Source: Company, LKP Research

Exhibit 9: Important Ratios (Qtr)

(₹ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
CASA%	45	45	46	47	46	45	44	43
NIM %	2.8	2.5	2.6	2.9	2.9	3.1	3.3	3.4
ROA (%)	0.3	0.3	0.3	0.1	0.1	0.1	0.2	0.3
ROE (%)	4.3	4.6	4.6	0.8	1.3	1.7	2.5	4.6
Book Value	86	87	88	80	80	81	82	82

Source: Company, LKP Research

Annual Projections

Exhibit 10: Income Statement

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Earned	479,958	513,102	538,000	807,498	748,795	851,441	1,000,946	1,109,945
Interest Expended	330,734	341,539	363,622	502,728	461,851	506,525	564,295	620,724
Net Interest Income	149,224	171,563	174,378	304,770	286,945	344,916	436,652	489,221
Other Income	88,809	73,774	92,741	128,119	123,200	121,425	127,497	133,871
Operating Revenue	238,033	245,337	267,119	432,888	410,144	466,342	564,148	623,092
Operating Expenses	135,091	115,385	119,734	203,087	202,526	241,054	291,611	322,079
Employee Expenses	91,688	69,632	69,617	121,757	118,410	148,100	179,161	197,881
Other Opex.	43,403	45,753	50,117	81,330	84,116	92,954	112,449	124,198
PPOP	102,942	129,952	147,385	229,801	207,618	225,288	272,537	301,013
Provisions and Contingencies	298,693	283,410	139,996	195,007	164,454	182,405	164,164	147,748
Profit Before Tax	-195,751	-153,458	7,390	34,794	43,164	42,883	108,373	153,265
Taxes	-72,923	-53,703	4,028	14,578	8,594	17,811	45,011	63,656
Profit After Tax	-122,828	-99,755	3,362	20,216	34,570	25,072	63,362	89,609
Earnings Per Share	-44	-22	0.5	1.9	3.2	2.3	5.8	8.1

Exhibit 11: Balance Sheet

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	5,521	9,208	13,475	20,955	22,022	22,022	22,022	22,022
Total Reserves	405,222	438,663	610,100	888,418	932,847	976,535	1,039,897	1,129,506
Networth	410,743	447,871	623,575	909,373	954,869	998,557	1,061,919	1,151,528
Deposits	6,422,262	6,760,301	7,038,463	11,063,325	11,462,184	12,811,631	14,092,794	15,502,074
YoY (%)	3.3	5.3	4.1	57.2	3.6	11.8	10.0	10.0
CASA (%)	41.0	42.2	43.0	44.5	46.6	42.0	42.0	42.0
Borrowings	608,507	393,259	502,254	428,403	456,814	512,917	564,209	620,630
Other Liabilities & Provisions	216,789	148,063	142,367	205,225	274,183	295,209	1,092,118	1,276,529
Total Liabilities	7,658,301	7,749,495	8,306,659	12,606,326	13,148,050	14,618,314	16,246,831	17,930,130
Cash and Balance with RBI	287,890	321,291	383,979	439,588	857,361	781,766	859,942	945,937
Balances with banks and money at call	666,730	431,589	375,952	673,909	469,107	769,322	846,255	930,880
Investments	2,003,060	2,021,282	2,404,656	3,929,833	3,721,678	3,959,967	4,435,163	4,923,031
Advances	4,337,347	4,582,492	4,718,277	6,742,301	7,281,857	8,308,340	9,305,341	10,328,928
YoY (%)	3.4	5.7	3.0	42.9	8.0	14.1	12.0	11.0
Net Block	63,493	62,248	72,391	110,209	106,736	120,511	121,716	122,933
Other Assets	299,781	330,591	351,404	710,487	711,312	678,408	678,415	678,421
Total Assets	7,658,301	7,749,495	8,306,659	12,606,326	13,148,050	14,618,314	16,246,831	17,930,130

Exhibit 12: Asset Quality

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA (%)	18.38	15.50	14.21	14.12	11.78	8.74	8.5	8.2
NNPA (%)	11.24	6.56	5.78	5.73	4.80	2.72	2.6	2.4
GNPA Amount	866,201	784,727	734,788	1,044,234	924,480	773,277	884,007	950,261
NNPA Amount	486,843	300,377	272,189	385,757	349,087	225,850	241,939	247,894
PCR (calculated, %)	43.8	61.7	63.0	63.1	62.2	70.8	72.6	73.9
Movement of GNPA								
Opening Balance	553,705	866,201	784,727	734,788	1,044,234	924,480	773,277	884,007
Additions during the year	442,743	199,041	207,513	606,262	247,437	160,289	152,275	144,661
Reductions during the year	130,247	280,515	257,452	296,816	367,191	311,493	497,024	497,025
Closing balance	866,201	784,727	734,788	1,044,234	924,480	773,277	884,007	950,261
Movement of NNPA								
Opening Balance	327,021	486,843	300,377	272,189	385,757	349,087	225,850	241,939
Additions during the year	300,529	151,862	153,863	327,786	175,805	108,524	86,819	69,455
Reductions during the year	140,707	338,328	182,050	214,218	212,475	231,760	177,357	177,358
Closing balance	486,843	300,377	272,189	385,757	349,087	225,850	241,939	247,894

Exhibit 13: Ratios

(₹ mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Margins								
Yield on Advances (%)	11.1	11.2	11.4	12.0	10.3	10.2	11.6	11.6
Yield on Investments (%)	8.6	7.5	7.1	7.4	7.2	6.6	7.1	7.1
Cost of Liabilities (%)	4.7	4.8	4.8	4.4	3.9	3.8	3.9	3.9
NIM(%)	2.0	2.3	2.2	2.6	2.3	2.5	2.7	2.7
Interest Spread (%)	6.4	6.4	6.6	7.6	6.4	6.4	7.7	7.7
Profitability								
ROA (%)	-1.7	-1.3	0.0	0.2	0.3	0.2	0.4	0.5
ROE (%)	-32.4	-25.4	0.7	2.9	4.0	2.8	6.0	7.8
Cost Income Ratio (%)	56.8	47.0	44.8	46.9	49.4	51.7	51.7	51.7
Per Share data								
EPS (₹)	-44.5	-21.7	0.5	1.9	3.1	2.3	5.8	8.1
BVPS (₹)	148.8	97.3	92.6	86.8	86.7	90.7	96.4	104.6

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