Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 40.46

Updated Aug 08, 2023

Severe Risk

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

Source: Morningstar

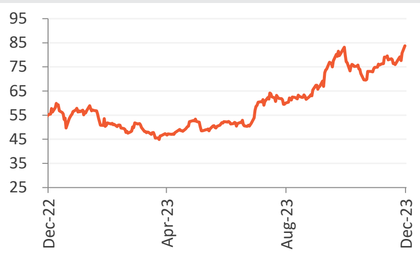
Company details

Market cap:	Rs. 93,627 cr
52-week high/low:	Rs. 86/44
NSE volume: (No of shares)	599.8 lakh
BSE code:	532461
NSE code:	PNB
Free float: (No of shares)	297.5 cr

Shareholding (%)

Promoters	73.2
FII	2.7
DII	13.8
Others	10.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.3	26.9	63.5	54.5
Relative to Sensex	6.9	21.8	53.3	44.5

Sharekhan Research, Bloomberg

Punjab National Bank

Return ratios on comeback path

Banks	Sharekhan code: PNB	
Reco/View: Buy ↔	CMP: **Rs. 85**	Price Target: **Rs. 105** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on PNB with a revised PT of Rs. 105; return ratios are set to improve sharply (RoA closer to ~1%) in FY25E.
- Improvement in asset quality and a strong outlook are likely to help in faster normalization of credit cost thereby improving the visibility for improvement in return ratios.
- The bank has been guiding that quality of loans sanctioned/disbursed in post-COVID times is far superior with very low delinquency. Thus, lower slippages trends is likely to sustain and narrow the perceived gap in underwriting with respect to peers.
- We have rolled forward our valuation to FY26E. At the CMP, the stock trades at 0.8x/ 0.7x its FY2025E/FY2026E BV.

PNB`s return ratios have been still depressed vs peers due to higher provisions and high operational costs but is likely to improve from hereon. Provisions are largely related to back book (Net NPAs at 1.5% & restructured book at 1.1%). The bank has been guiding for NNPL <1% and run down of most of the restructured book by the end of FY24E. Moreover, lower retirement-related provisions are likely to improve the cost ratios also. The bank is eyeing ~12-14% loan growth going forward, and its CET-1 ratio was comfortable at ~10.2% (minimum requirement of ~8.0%) excluding H1FY24 profits. Recently, increase in the risk weights in unsecured loans and loans to NBFCs would have a 30-40 bps impact the capital buffer. The bank's excess liquidity profile (CD ratio ~68%, LCR ~150%) in an environment of deposit growth challenges, places it well to grow the book without worrying about deposit growth. We believe the bank is likely to deliver higher growth as balance sheet strength improves further going ahead. Healthy loan growth, stable margins and lower opex growth is expected to lead strong PPoP growth. Overall, asset quality outlook remains stable to positive. Lower slippages formation and healthy recoveries are likely to boost asset quality further and will help in faster normalisation of credit costs. Healthy PPoP growth and normalisation of credit costs should drive a strong improvement in return ratios in FY25E. We expect RoA/RoE to be at 0.9/12% in FY25E.

- **Asset quality:** The management is guiding for sustained lower slippages and higher recoveries led by resolution of some of the accounts under NCLT and NARCL. Total slippages are expected to be at ~1.3% and in turn credit cost at ~1.5-1.8% bps as % of Avg. advances largely related to the back book in FY24. A benign credit cycle along with the fact that trailing loan growth in corporate segment has been muted in the past few years should keep low fresh NPA formation. Provision coverage ratio stands at ~80%. The bank is expected to further increase the coverage in H2FY24. Provisions are largely related to the back book (net NPAs are at 1.5% & the restructured book 1.1%). Thus, credit cost is expected to normalise in FY25E. The Bank has been guiding that the quality of loans sanctioned/ disbursed post covid times is far superior with very low delinquency. Thus, lower slippages trends is likely to sustain and narrow the perceived gap in underwriting with respect to peers. Overall, asset quality outlook remains stable to positive.
- **Loan growth expected to be healthy:** The bank is guiding for a 12-14% loan growth in FY24. Excess liquidity profile (CD ratio ~68%, LCR ~150%) in an environment of deposit growth challenges, places it well to grow the book without worrying about deposit growth. However, the bank is likely to deliver higher growth in FY24E as balance sheet becomes stronger going ahead. The Retail, agri & MSME segments are expected to grow faster.
- **NIM & opex outlook:** The bank is guiding ~2.9-3.0% NIMs in FY24. Operating expense growth is currently higher mainly on account of increased employee benefit expenses led by wage revision provisions and pension cost. Opex cost is expected to fall led by lower pension-related provisions going forward.

Our Call

Maintain Buy on PNB with a revised PT of Rs. 105: Asset quality trend is quite encouraging and will help in faster normalisation of credit cost for the bank. Lower slippages trends are likely to narrow the perceived gap in underwriting with respect to peers. Provisions are largely related to the back book (Net NPL and restructured book), which would be accounted for in FY2024E. Thus, credit cost is expected to fall significantly in FY2025E, as net NPA declines steadily in FY2024E to below ~1% along with the rundown of the restructured book, which should significantly boost the return ratios. The bank has guided for the exit RoA in FY2025E closer to ~1%. At CMP, the stock trades at 0.8x/ 0.7x its FY2025E/FY2026E BV.

Key Risks

Higher-than-anticipated credit cost and lower-than-expected margins.

Valuation (Standalone) Rs cr

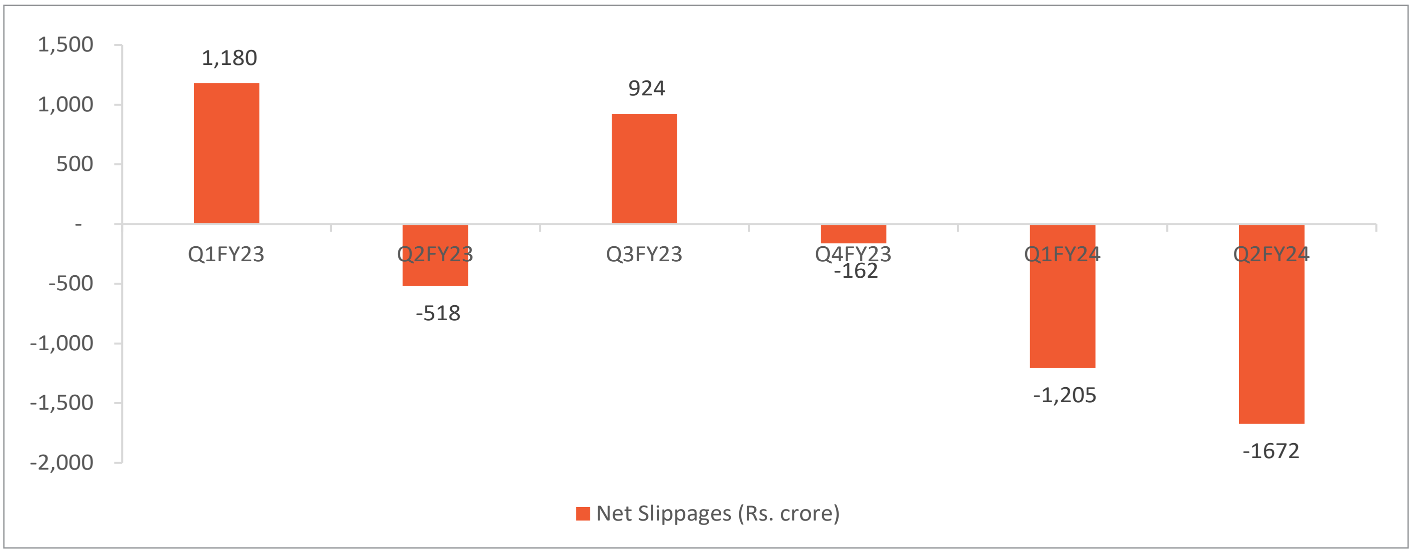
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	28,694	34,492	39,874	45,541	52,556
Net profit	3,458	2,507	6,991	13,974	17,168
EPS (Rs.)	3.2	2.3	6.3	12.7	15.6
P/E (x)	26.9	37.3	13.4	6.7	5.5
P/BV (x)	1.4	1.1	0.9	0.8	0.7
RoE	3.7	2.6	6.8	12.3	13.3
RoA	0.3	0.2	0.5	0.9	1.0

Source: Company; Sharekhan estimates

Stock Update

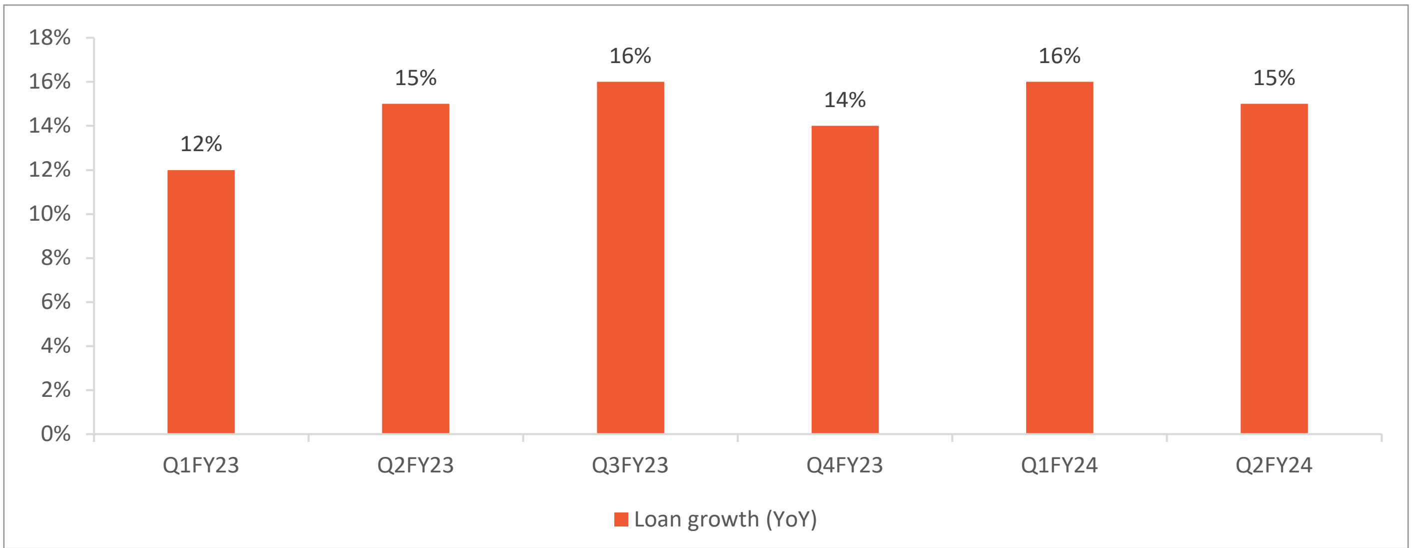
Company Update

Trend in net slippages



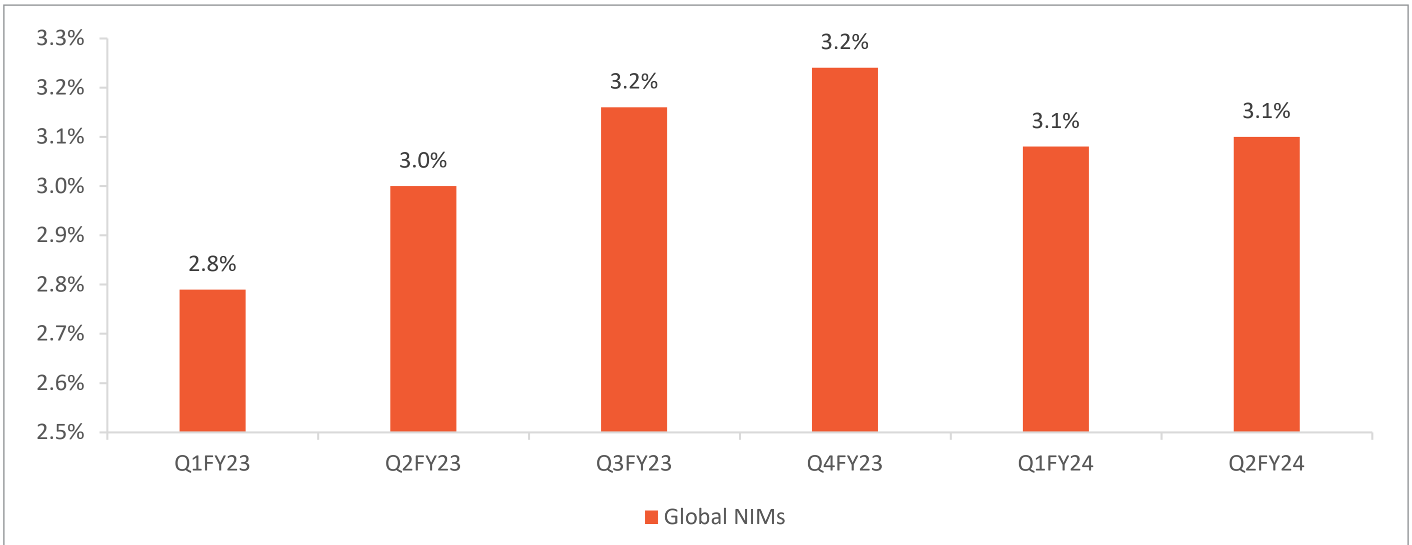
Source: Company, Sharekhan Research

Trend in loan growth



Source: Company, Sharekhan Research

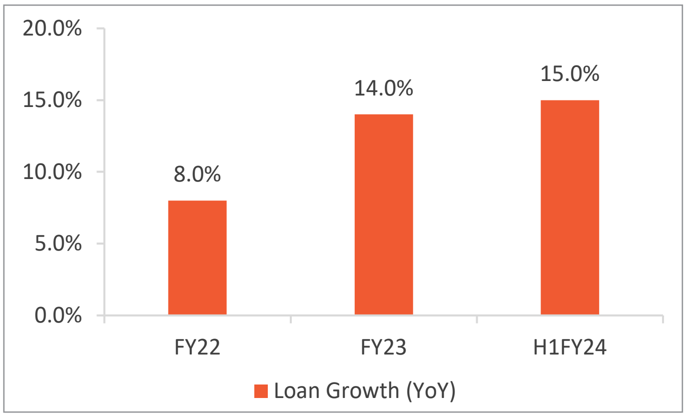
Trend in NIMs



Source: Company, Sharekhan Research

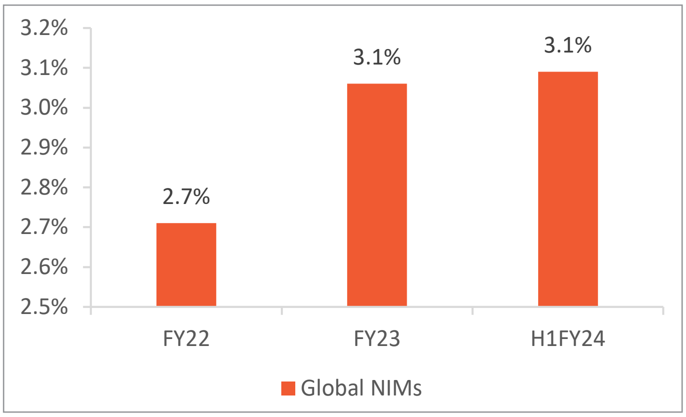
Financials in charts

Trend in Loan growth



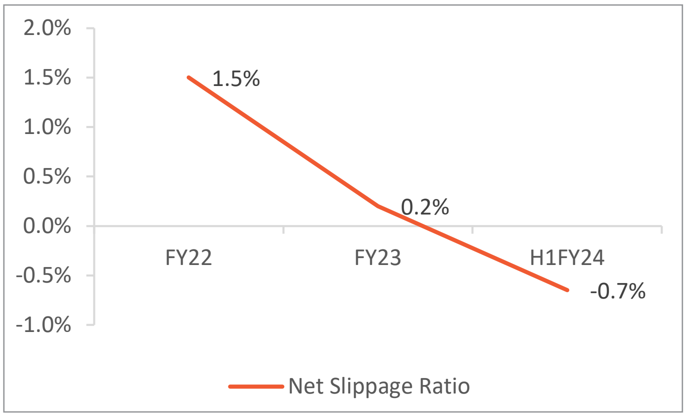
Source: Company, Sharekhan Research

Trend in NIMs



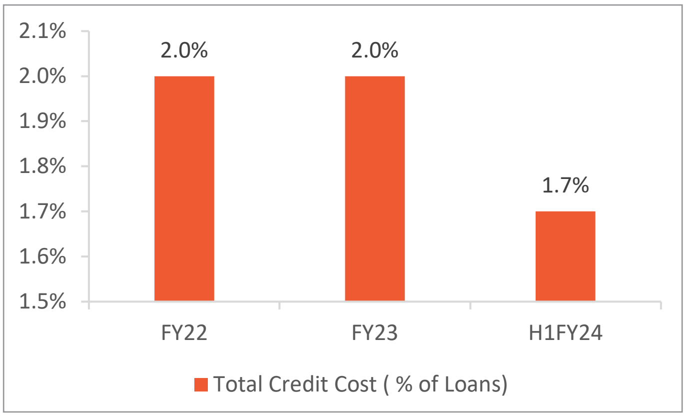
Source: Company, Sharekhan Research

Trend in Net Slippage Ratio



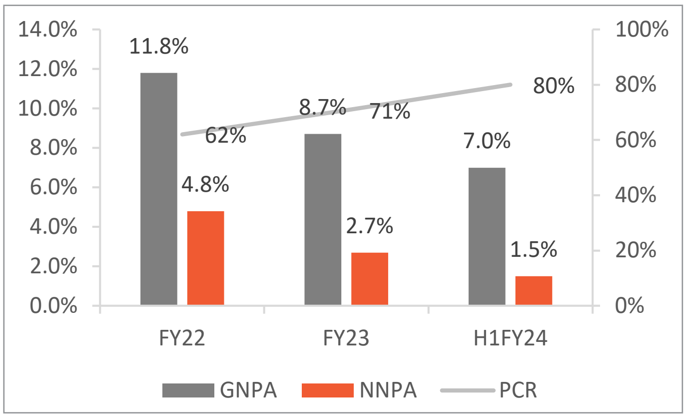
Source: Company, Sharekhan Research

Trend in Credit Cost



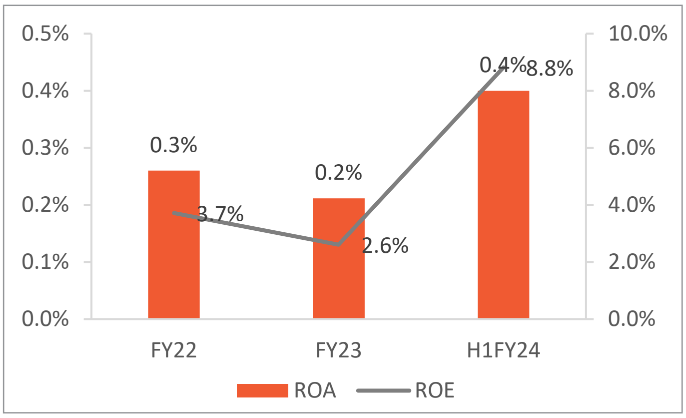
Source: Company, Sharekhan Research

Trend in Asset Quality



Source: Company, Sharekhan Research

Trend in Return Ratios



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~20.6% y-o-y in the fortnight ending November 17, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13.6%. The gap between advances and deposits growth is wide. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA deposits. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. The overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

■ Company outlook - Benefiting from sectoral tailwinds

Improving asset-quality trend led by lower slippages and strong recoveries is likely to augur well for the earnings trajectory, driven by lower credit costs. Higher net accretion to the tier-I capital is also a key positive, which has a low probability of capital dilution in the near term. Once provisions are absorbed on account of the back book, we should see improvement in return ratios.

■ Valuation - Maintain Buy on PNB with a revised PT of Rs. 105

Asset quality trend is quite encouraging and will help in faster normalisation of credit cost for the bank. Lower slippages trends are likely to narrow the perceived gap in underwriting with respect to peers. Provisions are largely related to the back book (Net NPL and restructured book), which would be accounted for in FY2024E. Thus, credit cost is expected to fall significantly in FY2025E, as net NPA declines steadily in FY2024E to below ~1% along with the rundown of the restructured book, which should significantly boost the return ratios. The bank has guided for the exit RoA in FY2025E closer to ~1%. At CMP, the stock trades at 0.8x/ 0.7x its FY2025E/FY2026E BV.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Punjab National Bank	85	93,627	13.4	6.7	0.9	0.8	6.8	12.3	0.5	0.9
Bank of India	110	45,201	7.5	7.0	0.9	0.8	11.9	11.3	0.9	0.9

Source: Company; Sharekhan Research

About company

PNB is a government-owned bank with a network of over 10,092 domestic branches, more than 12,645 ATMs, and 20,447 business correspondents. Around 63% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 13,09,910 crore and global advances stood at Rs. 9,41,721 crore as of September 2023. Capital adequacy ratio (CAR) stands at 15.09%.

Investment theme

Benefiting from sectoral tailwinds, improving asset-quality trend led by lower slippages and strong recoveries is likely to augur well for the earnings trajectory, driven by lower credit cost. Once the provisions are absorbed on the back book, we should see improvement in the return ratio profile

Key Risks

Higher-than-anticipated credit cost and lower-than-expected margins.

Additional Data

Key management personnel

Arun Kumar Goel	Managing Director and CEO
Kalyan Kumar	Executive Director
Binod Kumar	Executive Director
M. Paramasivam	Executive Director
Bibhu Prasad	Executive Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	REPUBLIC OF INDIA	73.15
2	LIFE INSURANCE CORP OF INDIA	8.34
3	SBI FUNDS MANAGEMENT LTD.	1.20
4	QUANT MONEY MANAGERS LTD.	0.98
5	VANGUARD GROUP INC.	0.76
6	KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD.	0.48
7	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	0.47
8	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO. LTD.	0.39
9	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	0.22
10	DIMENSIONAL FUND ADVISORS LP	0.18

Source: Bloomberg

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 detoriating 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

DISCLAIMER

This information/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 information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/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 information/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 recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 might have dealt or traded directly or indirectly in securities of the company and that all 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 either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might 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. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has 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 Ltd 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.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600