Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Punjab National Bank

Strong Q3, net NPA below 1%

Bank	Sharekhan code: PNB
Reco/View: Buy ↔	CMP: **Rs. 105**
	Price Target: **Rs. 122** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

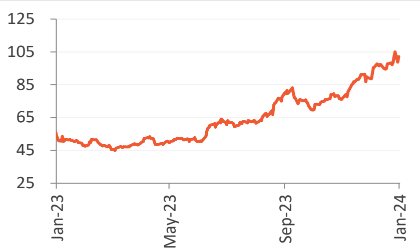
Company details

Market cap:	Rs. 1,15,186 cr
52-week high/low:	Rs. 108/44
NSE volume: (No of shares)	612.9 lakh
BSE code:	532461
NSE code:	PNB
Free float: (No of shares)	297.6 cr

Shareholding (%)

Promoters	73.2
FII	3.1
DII	13.7
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.0	50.0	72.1	94.4
Relative to Sensex	18.5	39.6	65.6	77.0

Sharekhan Research, Bloomberg

Summary

- PAT stood at Rs. 2,223 crore, beating estimates, led by stable NIMs and lower credit cost. Core credit cost stood at 1.3% vs 1.4% q-o-q.
- Asset quality improved sharply with GNPA and NNPA ratios falling by 72 bps/51 bps q-o-q to 6.24%/0.96%. PCR improved to ~85% vs. 80% q-o-q. Net slippages stayed negative at Rs. 1,253 crore for the fourth consecutive quarter.
- Bank has been guiding that quality of loans sanctioned in the past 3 years is far superior with very low delinquency. Thus, lower slippages trends is likely to sustain.
- RoA to improve sharply closer to ~1% in FY25E. At CMP, the stock trades at 1.0x/ 0.9x its FY2025E/FY2026E BV. We maintain Buy with a revised PT of Rs. 122.

Q3FY2024 numbers were strong. Net interest income (NII) grew by 12% y-o-y/4% q-o-q. NIM improved marginally by 4bps q-o-q to ~3.15% led by 30 bps q-o-q increase in yield on advances (led by repricing along with interest income recovery from W/O accounts) offsetting 10 bps increase in COF. The Bank is confident of maintaining NIMs over 3%. Core fee income declined by 2% y-o-y/5% q-o-q. The bank reported a treasury loss of Rs. 699 crore vs. gain of Rs. 264 crore q-o-q and Rs. 131 crore gain in Q3FY2023. There was a strong recovery from written off accounts amounting to Rs. 2,059 crore vs Rs. 1381 crore q-o-q and Rs. 1,868 crore y-o-y. Total operating expenses fell by 2% y-o-y/1% q-o-q. Opex included one off item amounting to Rs. 800 crore pertaining to wage revision provisions and Rs. 322 crore related to pension costs. Despite large one-offs in opex, opex growth remained muted as these provisions were provided in the last quarter as well in Q3FY23. Operating profit grew by 11% y-o-y/2% q-o-q. Core PPoP (exc. treasury income) grew by 26% y-o-y/18% q-o-q. Total provisions declined by 42% y-o-y/20% q-o-q led by lower NPA & investment-related provisions. Core credit costs stood at 1.3% annualised vs. 1.4% q-o-q. PBT reported at Rs. 3,592 crore grew by 258% y-o-y/30% q-o-q. Net advances and deposits grew by 14% y-o-y/3% q-o-q and 9% y-o-y/1% q-o-q, respectively. CASA deposits grew by 6% y-o-y/2% q-o-q. Retail advances (excluding agri and MSME) grew by 19% y-o-y/ down 2% q-o-q. The agri loan and MSME book grew by 12% and 15% y-o-y, respectively. Overseas book grew by 4% y-o-y/ 1% q-o-q, accounts for only ~4% of gross advances. Domestic corporate book growth picked up, grew 11% y-o-y/4% q-o-q. The bank's asset quality improved sharply with GNPA and NNPA ratios falling by 72 bps/51 bps q-o-q to 6.24%/0.96%. PCR stood at ~85% vs. 80% q-o-q. Net slippages remained negative at Rs. 1,253 crore, led by lower slippages and higher recoveries and upgrades along with contained write-offs. The total restructured book forms 1.1% of net advances.

Key positives

- NIMs improved marginally q-o-q vs. expectations of a marginal decline.
- Net slippages continued to remain negative.
- Core credit cost was lower and stood at 1.3% vs. 1.4% q-o-q.

Key negatives

- Weak deposit growth (1% q-o-q); however, the bank continues to maintain an excess liquidity buffer in terms of excess SLR & LCR and is operating at lower credit-deposit (CD) ratio.
- Core fee income was weak.

Management Commentary

- Bank maintained its guidance on RoA closer to ~1% in FY2025E driven by lower credit cost.
- The bank is confident of maintaining NIMs over 3% and credit cost is expected to fall below 1% of advances in FY2025E.
- Credit RWA increased by Rs 30,592 crore q-o-q out of which Rs. 27,618 crore was on account increase in risk weights in Consumer Credit & Bank Credit to NBFCs.

Our Call

Valuation – Maintain Buy on PNB with a revised PT of Rs. 122: Asset quality trend is quite encouraging and is helping in faster normalisation of credit cost. The bank has been guiding that quality of loans sanctioned 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. Credit cost is expected to fall below 1% in FY25E which should support RoA closer to 1% in FY25E. At CMP, the stock trades at 1.0x/ 0.9x 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	7,430	13,974	17,168
EPS (Rs.)	3.2	2.3	6.7	12.7	15.6
P/E (x)	33.2	46.1	15.6	8.3	6.7
P/BV (x)	1.7	1.4	1.1	1.0	0.9
RoE	3.7	2.6	7.2	12.2	13.2
RoA	0.3	0.2	0.5	0.9	1.0

Source: Company; Sharekhan estimates

Key result highlights

NIM outlook: Net interest income (NII) grew by 12% y-o-y/4% q-o-q. Net interest margin (NIM) improved marginally by 4 bps q-o-q to ~3.15% led by 30 bps q-o-q increase in yield on advances (led by repricing along with interest income recovery from W/O accounts) offsetting a 10 bps increase in cost of funds. The bank is confident of maintaining NIMs over 3% as ~95% of deposits have already been repriced.

Credit cost to keep declining: Total provisions declined by 42% y-o-y/20% q-o-q led by lower NPA & investment-related provisions. Core credit costs stood at 1.3% annualised vs. 1.4% q-o-q. Provisions are largely related to the back book (Net NPL and restructured book). The bank expects credit cost to fall steadily on a q-o-q basis.

Loan growth driven by corporate loans: Net advances grew by 14% y-o-y/3% q-o-q. Retail advances (excluding agri and MSME book) grew by 19% y-o-y/ down 2% q-o-q. The agri loan and MSME book grew by 12% and 15% y-o-y, respectively. Overseas book grew by 4% y-o-y/ 1% q-o-q, accounts for only ~4% of gross advances. The domestic corporate book growth picked up, grew 4% q-o-q vs 1% in the last quarter. The bank is eyeing ~12-13% loan growth in FY24E with strong focus to grow the RAM segment faster.

Deposits growth lower: Total deposits grew by 9% y-o-y/1% q-o-q. CASA deposits grew by 6% y-o-y/2% q-o-q, with overall CASA ratio stable q-o-q at ~41%. Domestic term deposits grew by 12% y-o-y/flat q-o-q. The bank need not worry about lower deposit growth, as it has higher liquidity in the form of higher SLR, LCR, and lower CD ratio.

Asset quality shines: The bank's asset quality improved sharply with GNPA and NNPA ratios falling by 72 bps/51 bps q-o-q to 6.24%/0.96%. PCR stood at ~85% vs. 80% q-o-q. Net slippages continued to remain negative at Rs. 1,253 crore, led by lower slippages and higher recoveries and upgrades along with contained write-offs. Total restructured book forms 1.1% of net advances. Overall asset-quality outlook remains stable to positive, thus slippages and credit cost are expected to see a declining trend going forward. The bank is on track to achieve the targeted recoveries in FY24E.

Return ratios: The bank maintained its guidance on RoA closer to ~1% in FY2025E driven by lower credit cost.

Results (Standalone) Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	y-o-y %	q-o-q %
Interest Income	27,288	22,384	26,355	22%	4%
Interest Expenses	16,995	13,205	16,432	29%	3%
Net Interest Income	**10,293**	**9,179**	**9,923**	**12%**	**4%**
NIM (%)	3.15	3.16	3.11		
Core fee Income	1,311	1,331	1,375	-2%	-5%
Other Income	1,363	2,007	1,653	-32%	-18%
Net Operating Revenue	**12,967**	**12,517**	**12,951**	**4%**	**0%**
Employee Expenses	4,169	4,460	4,200	-7%	-1%
Other Opex	2,467	2,341	2,535	5%	-3%
Total Opex	**6,636**	**6,801**	**6,735**	**-2%**	**-1%**
Cost to Income Ratio (%)	**51.2%**	**54.3%**	**52.0%**		
Pre Provision Profits	6,331	5,716	6,216	11%	2%
Provisions & Contingencies - Total	2,739	4,713	3,444	-42%	-20%
Profit Before Tax	**3,592**	**1,003**	**2,772**	**258%**	**30%**
Tax	1,369	374	1,016	266%	35%
Effective Tax Rate (%)	38.1	37.3	36.7		
Reported Profits	**2,223**	**629**	**1,756**	**253%**	**27%**
Basic EPS	2.0	0.6	1.6	254%	27%
Diluted EPS	2.0	0.6	1.6		
RoA (%)	0.6	0.2	0.5		
Advances	9,16,445	8,00,412	8,89,920	14%	3%
Deposits	13,23,486	12,10,359	13,09,910	9%	1%
Gross NPA	60,371	83,584	65,563	-28%	-8%
Gross NPA Ratio (%)	6.2	9.8	7.0		
PCR (%)	85.4	68.5	80.0		
Net NPA	8,816	26,363	13,114	-67%	-33%
Net NPAs Ratio (%)	1.0	3.3	1.5		

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 ~20% y-o-y in the fortnight ending December 29, 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 ~13%. The gap between advances and deposits growth has again widened. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. Overall, the 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, strong recoveries and net NPLs below 1% is likely to augur well for the earnings trajectory, driven by lower credit costs. Credit cost is expected to fall below ~1% in FY2025E, which should support the return ratios.

■ Valuation - Maintain Buy on PNB with a revised PT of Rs. 122

Asset quality trend is quite encouraging and is helping in faster normalisation of credit cost. The bank has been guiding that quality of loans sanctioned 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. Credit cost is expected to fall below 1% in FY25E which should support RoA closer to 1% in FY25E. At CMP, the stock trades at 1.0x/ 0.9x its FY2025E/FY2026E BV.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Punjab National Bank	105	1,15,186	8.3	6.7	1.0	0.9	12.2	13.2	0.9	1.0
Bank of India	132	59,868	6.4	6.0	0.8	0.7	12.4	11.6	1.0	1.0

Source: Company; Sharekhan Research

About company

PNB is a government-owned bank with a network of over 10,108 domestic branches, more than 12,445 ATMs, and 29,768 business correspondents. Around 63% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 13,23,486 crore and global advances stood at Rs. 9,67,256 crore as of December 2023. Capital adequacy ratio (CAR) stands at 14.63%.

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.

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.	1.07
4	QUANT MONEY MANAGERS LTD.	0.98
5	VANGUARD GROUP INC.	0.77
6	KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD.	0.61
7	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	0.48
8	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO. LTD.	0.28
9	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	0.23
10	UTI Asset Management Co Ltd	0.16

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

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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.

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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