Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Punjab National Bank

## Mixed bag Q4, RoA on track to rise

| Banks | Sharekhan code: PNB |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 122 |
| | Price Target: Rs. 140 ↔ |

↑ 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 | Positive | ↔ | Positive |
| RQ | Neutral | ↔ | Neutral |
| RV | Positive | ↔ | Positive |

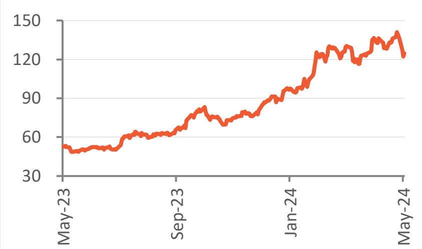
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,34,390 cr |
| 52-week high/low: | Rs. 143 / 48 |
| NSE volume: (No of shares) | 597.8 lakh |
| BSE code: | 532461 |
| NSE code: | PNB |
| Free float: (No of shares) | 297.3 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 73.2 |
| FII | 4.8 |
| DII | 12.4 |
| Others | 9.7 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -8.3 | -1.6 | 60.5 | 134.6 |
| Relative to Sensex | -5.7 | -3.5 | 48.5 | 116.8 |

*Sharekhan Research, Bloomberg*


### Summary

- Earnings were marginally above estimates in Q4FY24 mainly led by lower provisions. Core credit cost stood at 0.85% annualised versus 1.3% q-o-q.
- However, core operating profits (below estimates) fell by 8% y-o-y/ 16% q-o-q led by higher staff costs driven by higher retiral benefit provisions under AS-15 and weak NII. Advances growth was also muted.
- Asset quality trends continued to improve and net slippages stayed negative for the fifth consecutive quarter in a row. Credit cost is expected to be below ~1% of average advances in FY25 (vs c.1.4% in FY24) which should lead to improvement in RoA in FY25.
- Stock trades at 1.2x/ 1.0x its FY2025E/FY2026E ABV. We maintain Buy with an unchanged PT of Rs. 140.


**Q4FY24 numbers were a mixed bag. Net interest income at Rs. 10,363 crore (marginally below estimates) grew by 9% y-o-y/1% q-o-q. NIMs declined marginally by 5 bps q-o-q to ~3.1% led by increase in cost of funds. Core fee income grew strongly by 32% y-o-y/23% q-o-q. The bank reported a treasury gain of Rs. 974 crore vs. loss of Rs. 700 crore q-o-q and Rs. 34 crore loss in Q4FY2023. Recovery from written-off accounts amounted to Rs. 1,639 crore versus Rs. 2,059 crore q-o-q and Rs. 2,216 crore y-o-y. Total operating expenses grew by 16% y-o-y/23% q-o-q. Staff cost was up 23% y-o-y/ 35% q-o-q led by higher retiral benefit provisions under AS 15 (Rs. 2396 crore vs Rs 332 crore q-o-q and Rs. 1,245 crore y-o-y). Other overheads growth remained muted. Thus, Operating profit grew by 9% y-o-y/1% q-o-q. Core PPoP (exc. treasury income) declined by 8% y-o-y/16% q-o-q. Total provisions declined by 59% y-o-y/42% q-o-q, led by lower NPA provisions and reversal of provisions on restructured book. Core credit costs stood at 0.85% annualised versus 1.3% q-o-q. The bank also created floating provisions of Rs. 150 crore during the quarter. PBT grew by 137% y-o-y/ 34% q-o-q mainly led by lower provisions. PAT at Rs. 3,010 crore grew by 160% y-o-y/ 35% q-o-q. Net advances and deposits grew by 12% y-o-y/2% q-o-q and 7% y-o-y/3% q-o-q, respectively. Domestic CASA grew by 3% y-o-y/1% q-o-q. Domestic term deposits grew by 10% y-o-y/ 5.3% q-o-q. Overseas deposits grew by 23% y-o-y/ 6% q-o-q. Retail advances (excluding agri and MSME) grew by 13% y-o-y/ 4% q-o-q. The agri and MSME loan books grew by 11% and 7% y-o-y, respectively. Overseas book grew by 17% y-o-y/ 11% q-o-q, accounts for only ~4% of gross advances. The domestic corporate book grew 11% y-o-y/1% q-o-q. The bank's asset quality improved sharply with GNPA and NNPA ratios falling by 51 bps/23 bps q-o-q, respectively, to 5.73%/0.73%. PCR stood at ~88% vs. 85% q-o-q. Net slippages remained negative at Rs. 581 crore, led by lower slippages and higher recoveries and upgrades. The total restructured book forms 1.0% of net advances.**

### Key positives

- Core credit continued to trend lower (at 85 bps annualised vs 130 bps q-o-q).
- Net slippages remained negative.

### Key negatives

- Loan growth was weak at 2% q-o-q below system growth.
- Core operating performance was weak (down 8% y-o-y/ 16% q-o-q).

### Management Commentary

- Bank guided for an 11-12% loan growth in FY25 and maintained its guidance on exit RoA closer to ~1% in FY2025E driven by lower credit cost. Credit cost to fall below 1% of advances in FY2025E.
- The bank is confident of maintaining NIMs at 2.9-3.0%.
- It do not envisage immediate equity capital raising but have enabling resolution to raise equity capital.

### Our Call

**Valuation – Maintain Buy on PNB with an unchanged PT of Rs. 140:** Asset quality trends are quite encouraging and outlook continues to remain strong. 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. Additionally, improvement in operating performance led by fee income and opex is expected to support earnings. At CMP, the stock trades at 1.2x/ 1.0x its FY2025E/FY2026E BV.

### Key Risks

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

**Valuation (Standalone)** Rs cr

| Particulars | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| Net Interest Income | 28,694 | 34,492 | 40,083 | 41,564 | 49,349 |
| Net profit | 3,458 | 2,507 | 8,245 | 14,021 | 16,963 |
| EPS (Rs.) | 3.2 | 2.3 | 7.5 | 12.7 | 15.4 |
| P/E (x) | 38.6 | 53.5 | 16.3 | 9.6 | 7.9 |
| P/BV (x) | 2.2 | 1.7 | 1.3 | 1.2 | 1.0 |
| RoE | 3.7 | 2.6 | 8.0 | 12.4 | 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 grew by 9% y-o-y/1% q-o-q. NIMs declined marginally by 5bps q-o-q to ~3.1% led by increase in cost of funds. The bank is confident of maintaining NIMs at 2.9-3.0% as deposits have largely been repriced.
- **Credit cost to be lower:** Total provisions fell by 59% y-o-y/42% q-o-q led by lower NPA provisions and reversal of provisions on restructured book. Core credit costs stood at 0.85% on an annualised basis vs. 1.3% q-o-q. The bank also created floating provisions of Rs. 150 crore during the quarter. The bank expects credit cost to fall below 1% of advances in FY25.
- **Loan growth outlook:** Net advances grew by 12% y-o-y/2% q-o-q. Retail advances (excluding agri and MSME books) grew by 13% y-o-y/ 4% q-o-q. The agri loan and MSME book grew by 11% and 7% y-o-y, respectively. Overseas loan book grew by 17% y-o-y/ 11% q-o-q, accounts for only ~4% of gross advances. Domestic corporate book grew 11% y-o-y/1% q-o-q. The bank is eyeing ~11-12% loan growth in FY25E with strong focus to grow the RAM segment faster. The guidance appears to bit conservative, despite strong demand and a lower CD ratio.
- **Deposit growth:** Total deposits grew by 7% y-o-y/3% q-o-q. Domestic CASA grew by 3% y-o-y/1% q-o-q with CASA ratio at 40%. Domestic term deposits grew by 10% y-o-y/ 5.3% q-o-q. Overseas deposits grew by 23% y-o-y/ 6% 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 a lower CD ratio.
- **Asset quality shines:** The bank's asset quality improved sharply with GNPA and NNPA ratios falling by 51 bps/23 bps q-o-q to 5.73%/0.73%. PCR stood at ~88% vs. 85% q-o-q. Net slippages remained negative at Rs. 581 crore, led by lower slippages and higher recoveries and upgrades. The total restructured book forms 1.0% of net advances. Overall asset quality outlook remains stable, thus slippages and credit cost are expected to see a declining trend going forward. The bank guided that it is targeting a Rs. 18,000 crore recovery in FY25.
- **Return ratios:** The bank maintained its guidance on exit RoA closer to ~1% in FY2025E driven by lower credit costs.

**Results (Standalone)** Rs cr

| Particulars | Q4FY24 | Q4FY23 | Q3FY24 | Y-o-Y (%) | Q-o-Q (%) |
|---|---|---|---|---|---|
| Interest Income | 28,113 | 23,849 | 27,288 | 18 | 3 |
| Interest Expenses | 17,750 | 14,350 | 16,995 | 24 | 4 |
| Net Interest Income | 10,363 | 9,499 | 10,293 | 9 | 1 |
| NIM (%) | 3.10 | 3.24 | 3.15 | | |
| Core fee Income | 1,613 | 1,222 | 1,311 | 32 | 23 |
| Other Income | 2,635 | 2,198 | 1,363 | 20 | 93 |
| Net Operating Revenue | 14,611 | 12,919 | 12,967 | 13 | 13 |
| Employee Expenses | 5,630 | 4,571 | 4,169 | 23 | 35 |
| Other Opex | 2,565 | 2,482 | 2,467 | 3 | 4 |
| Total Opex | 8,195 | 7,053 | 6,636 | 16 | 23 |
| Cost to Income Ratio (%) | 56.1% | 54.6% | 51.2% | | |
| Pre Provision Profits | 6,416 | 5,866 | 6,331 | 9 | 1 |
| Provisions & Contingencies - Total | 1,588 | 3,831 | 2,739 | -59 | -42 |
| Profit Before Tax | 4,828 | 2,036 | 3,592 | 137 | 34 |
| Tax | 1,817 | 877 | 1,369 | 107 | 33 |
| Effective Tax Rate (%) | 37.6 | 43.1 | 38.1 | | |
| Reported Profits | 3,010 | 1,159 | 2,223 | 160 | 35 |
| Basic EPS | 2.7 | 1.1 | 2.0 | 160 | 35 |
| Diluted EPS | 2.7 | 1.1 | 2.0 | | |
| RoA (%) | 0.8 | 0.3 | 0.6 | | |
| Advances | 9,34,431 | 8,30,834 | 9,16,445 | 12 | 2 |
| Deposits | 13,69,713 | 12,81,163 | 13,23,486 | 7 | 3 |
| Gross NPA | 56,343 | 77,328 | 60,371 | -27 | -7 |
| Gross NPA Ratio (%) | 5.7 | 8.7 | 6.2 | | |
| PCR (%) | 87.9 | 70.8 | 85.4 | | |
| Net NPA | 6,799 | 22,585 | 8,816 | -70 | -23 |
| Net NPAs Ratio (%) | 0.7 | 2.7 | 1.0 | | |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### ■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake (Ex. HDFC Ltd) grew by ~16% y-o-y in the fortnight ending March 22, 2024, indicating loan growth has been strong and sustaining given distinct signs of improved macros, revival of private capex, and healthy demand. On the other hand, deposits rose by ~13%. The gap between advances and deposits growth has started to narrow. We are seeing strong traction in loan growth and overall deposit growth is also picking up. Margins are expected to remain under pressure due to lower CASA, higher deposits rates and inability to pass on rates on asset book. Overall asset quality outlook is stable to positive for the sector. We believe that banks with a robust capital base and strong retail deposit franchises are well-placed to capture growth opportunities.

### ■ Company Outlook – Strong asset quality outlook to drive earnings

As asset-quality trends improve with each passing quarter, a strong asset quality outlook is likely to drive strong earnings growth. Credit cost is expected to fall below ~1% of average advances in FY2025E, which should lead to improvement in the return ratios.

### ■ Valuation – Maintain Buy on PNB with an unchanged PT of Rs. 140

Asset quality trends are quite encouraging and outlook continues to remain strong. 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. Additionally, improvement in operating performance led by fee income and opex is expected to support earnings. At CMP, the stock trades at 1.2x/ 1.0x its FY2025E/FY2026E BV.

**Peer valuation**

| Particulars | 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 | 122 | 1,34,390 | 9.6 | 7.9 | 1.2 | 1.0 | 12.4 | 13.2 | 0.9 | 1.0 |
| Bank of India | 139 | 63,350 | 6.8 | 6.5 | 0.9 | 0.7 | 12.4 | 11.6 | 1.0 | 1.0 |

*Source: Company, Sharekhan estimates*

## About company

PNB is a government-owned bank with a network of over 10,136 domestic branches, more than 12,131 ATMs, and 33,614 business correspondents. Around 63% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 13,69,713 crore and global advances stood at Rs. 9,83,325 crore as of March 2024. Capital adequacy ratio (CAR) stands at 15.97%.

## 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 Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | REPUBLIC OF INDIA | 73.15 |
| 2 | LIFE INSURANCE CORP OF INDIA | 8.34 |
| 3 | QUANT MONEY MANAGERS LTD. | 1.05 |
| 4 | VANGUARD GROUP INC. | 0.81 |
| 5 | BlackRock Inc | 0.66 |
| 6 | NIPPON LIFE INDIA ASSET MANAGEMENT LTD. | 0.46 |
| 7 | SBI FUNDS MANAGEMENT LTD. | 0.40 |
| 8 | KOTAK MAHINDRA ASSET MANAGEMENT CO. LTD. | 0.40 |
| 9 | UTI Asset Management Co Ltd | 0.17 |
| 10 | ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD. | 0.17 |

*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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