



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	✓	↔	✓

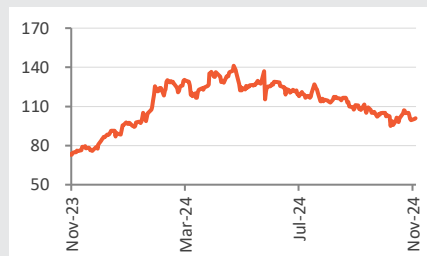
Company details

Market cap:	Rs. 1,15,975 cr
52-week high/low:	Rs. 143 / 76
NSE volume: (No of shares)	397.6 lakh
BSE code:	532461
NSE code:	PNB
Free float: (No of shares)	344.8 cr

Shareholding (%)

Promoters	70.1
FII	8.4
DII	11.7
Others	9.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	-12.2	-19.8	29.5
Relative to Sensex	2.5	-8.6	-24.8	11.3

Sharekhan Research, Bloomberg

Punjab National Bank

RoA hits ~1%

Bank	Sharekhan code: PNB		
Reco/View: Buy	↔	CMP: Rs. 101	Price Target: Rs. 125
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- PNB reported 145% y-o-y earnings growth aided by ~92% y-o-y decline in provisions and ~10% y-o-y growth in operating profit resulting in RoA/RoE at 1.0%/ 14.7%.
- Bad loan recoveries stayed strong leading to net slippages negative at Rs. 734 crore. Net NPL ratio touched ~0.46% (lowest in decadal) and better than its large peers.
- Business momentum was healthy. Advances/ deposits grew by 4% q-o-q/ 4% q-o-q. However, core PPOp was weak, declined by 11% y-o-y led by higher employee benefit provisions under IND AS-15 along with muted NII/ fee. NIMs fell by 15 bps q-o-q to 2.9%.
- Stock trades at 0.9x/ 0.8x its FY2025E/FY2026E ABV. We maintain Buy with a revised PT of Rs. 125, given bad loan recoveries to continue to drive profitability and support RoA trajectory as the overall bad loan pool is still quite large at ~Rs140,000 crore.

Strong asset quality trends continued to drive earnings and higher RoA for the bank although core operating performance was weak. NII at Rs. 10,517 crore (below estimates) grew by 6% y-o-y/flat q-o-q. NIMs declined by 15 bps q-o-q to ~2.92% by lower yields and a marginal increase in cost of funds. Core fee income grew by 15% y-o-y but declined by 24% q-o-q led by higher loan processing fee in the last quarter. Treasury gains were at Rs. 1,581 vs Rs. 648 crore q-o-q and Rs. 264 crore y-o-y. Other income (ex. treasury gains) stood at Rs. 1,410 crore versus Rs. 855 crore q-o-q and 1,389 crore y-o-y mainly comprising of recovery from written off account. Total operating expenses grew by 22% y-o-y/ 10% q-o-q mainly driven by higher employee benefit provisions under IND AS-15. Operating profit grew by 10% y-o-y/4% q-o-q. However, core PPOp (ex. treasury gains) declined by 11% y-o-y/ 11% q-o-q, was weak, led by higher employee benefit provisions and muted NII/ fee. Total provisions declined by 92% y-o-y/78% q-o-q. Core credit cost at 8 bps vs 32 bps q-o-q and 136 bps y-o-y. PAT at Rs. 4,303 crore (above estimates mainly led by lower credit cost) grew by 145% y-o-y/ 32% q-o-q. Net advances and deposits grew by 15% y-o-y/4% q-o-q and 11% y-o-y/4% q-o-q, respectively. Domestic CASA grew by 3% y-o-y/ 1% q-o-q. CASA ratio stood at 38.2% vs 39.0% of total deposits. Domestic term deposits grew by 17% y-o-y/ 4% q-o-q. Overseas deposits grew by 28% y-o-y/ 9% q-o-q. RAM advances grew by 12% y-o-y/ 3% q-o-q. Domestic corporate book grew by 11% y-o-y/ 2% q-o-q however, overseas book grew faster by 38% y-o-y/ 14% q-o-q but accounts for only ~4-5% of gross advances. Asset quality rose sharply with GNPA and NNPA ratios falling by 50 bps/14 bps q-o-q, respectively, to 4.48%/0.46%. PCR stood at ~90% versus 88% q-o-q. Net slippages were negative at Rs. 734 crore vs positive at Rs. 35 crore q-o-q. Total restructured book forms 0.8% of net advances vs 0.9% q-o-q. Total SMA1 & SMA2 book cumulatively stands at 2.8% of net advances.

Key positives

- Core credit continued to trend lower (at 8 bps annualised vs 32 bps q-o-q and 136 y-o-y) led by strong recoveries.
- RoA improved by 20 bps q-o-q to 1.02%.
- Domestic term deposits grew by 17% y-o-y/ 4% q-o-q.

Key negatives

- Core PPOp declined by 11% y-o-y/ 11% q-o-q, was weak led by higher employee benefit provisions under IND AS-15 along with muted NII.

Management Commentary

- The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% as the overall bad loan pool is still quite large at ~Rs. 140,000 crore.
- Credit cost for FY25E would be in the range 25-30 bps of avg advances.
- The bank maintained its conservative guidance on loan growth at ~11-12% in FY25 with a faster growth in RAM advances and has also maintained its guidance on NIMs at 2.9-3.0 until rate cuts starts.

Our Call

Valuation – Maintain Buy on PNB with a revised PT of Rs. 125: Sustained improvement in asset quality is encouraging and outlook remains strong led by strong recoveries from bad loan pools. The net NPL ratio is below the large PSU banks. The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% as the overall bad loan pool is still quite large at ~Rs. 140,000 crore. Also the bank has been guiding that quality of loans sanctioned in post-COVID times is far superior with very low delinquency. Business momentum is expected to remain healthy. At CMP, the stock trades at 0.9x/ 0.8x its FY2025E/FY2026E BV. We maintain Buy on PNB with a revised PT of Rs. 125 given risk reward is favourable given the recent underperformance and also it can now create buffers for the additional ECL provisioning requirement if any within the guided credit cost range and still report RoA at ~1%.

Key Risks

Economic slowdown, lower recoveries than anticipated, higher slippages, lower margins.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	28,694	34,492	40,083	42,764	49,289
Net profit	3,458	2,507	8,245	16,103	18,220
EPS (Rs.)	3.2	2.3	7.5	14.0	15.9
P/E (x)	32.0	44.3	13.5	7.2	6.4
P/BV (x)	1.8	1.4	1.1	0.9	0.8
RoE	3.7	2.6	8.0	13.6	13.0
RoA	0.3	0.2	0.5	1.0	1.0

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **NII growth muted:** Net interest income at Rs. 10,517 crore (below estimates) grew by 6% y-o-y/flat q-o-q. NIMs declined by 15 bps q-o-q to ~2.92% by lower yields and marginal increase in cost of funds. The bank is confident of maintaining NIMs at 2.9-3.0% until the rate cut starts.
- ♦ **Negligible credit cost reported:** Total provisions declined by 92% y-o-y/78% q-o-q. Core credit cost at 8 bps vs 32 bps q-o-q and 136 bps y-o-y. The bank expects credit cost to fall to 0.25-0.30% of advances versus earlier guidance of 0.5% in FY25E.
- ♦ **Loan growth:** Net advances grew by 15% y-o-y/4% q-o-q. Retail advances (excluding agri and MSME books) grew by 15% y-o-y/ 7% q-o-q. The agri loan and MSME book grew by 11% and 9% y-o-y, respectively. Overseas loan book grew by 38% y-o-y/ 14% q-o-q, accounts for only ~4-5% of gross advances. Domestic corporate book grew 11% y-o-y/2% q-o-q. The bank is eyeing ~11-12% loan growth in FY25E with a strong focus to grow the RAM segment faster. The guidance is bit conservative.
- ♦ **Deposit growth:** Total deposits grew by 11% y-o-y/4% q-o-q. Domestic CASA grew by 3% y-o-y/ 1% q-o-q. CASA ratio stood at 38.2% versus 39.0% of total deposits. Domestic term deposits grew by 17% y-o-y/ 4% q-o-q. Overseas deposits grew by 28% y-o-y/ 9% q-o-q. Avg. LCR stood at 129% versus 125% q-o-q. CD ratio was stable at 70% q-o-q.
- ♦ **Asset quality continue to shine:** The bank's asset quality improved sharply with GNPA and NNPA ratios falling by 50 bps/14 bps q-o-q, respectively, to 4.48%/0.46%. PCR stood at ~90% vs 88% q-o-q. Net slippages were negative at Rs. 734 crore vs positive at Rs. 35 crore q-o-q led by higher recoveries. Total restructured book forms 0.8% of net advances vs 0.9% q-o-q. Total SMA1 & SMA2 book cumulatively stands at 2.8% of net advances. The bank maintained its recovery target of Rs. 18,000 crore in FY25. The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% as the overall bad loan pool is still quite large at ~Rs140,000 crore.

Results (Standalone)				Rs cr	
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Interest Income	29,875	26,355	28,556	13%	5%
Interest Expenses	19,358	16,432	18,080	18%	7%
Net Interest Income	10,517	9,923	10,476	6%	0%
NIM (%)	2.9	3.1	3.1		
Core fee Income	1,581	1,375	2,077	15%	-24%
Other Income	2,991	1,653	1,533	81%	95%
Net Operating Revenue	15,089	12,951	14,086	17%	7%
Employee Expenses	5,750	4,200	4,551	37%	26%
Other Opex	2,485	2,535	2,954	-2%	-16%
Total Opex	8,235	6,735	7,505	22%	10%
Cost to Income Ratio (%)	54.6%	52.0%	53.3%		
Pre Provision Profits	6,853	6,216	6,581	10%	4%
Provisions & Contingencies - Total	288	3,444	1,312	-92%	-78%
Profit Before Tax	6,565	2,772	5,269	137%	25%
Tax	2,262	1,016	2,017	123%	12%
Effective Tax Rate (%)	34.5	36.7	38.3		
Reported Profits	4,303	1,756	3,252	145%	32%
Basic EPS	3.9	1.6	3.0	145%	32%
Diluted EPS	3.9	1.6	3.0		
RoA (%)	1.0	0.5	0.8		
Advances	10,19,595	8,89,920	9,83,998	15%	4%
Deposits	14,58,342	13,09,910	14,08,247	11%	4%
Gross NPA	47,582	65,563	51,263	-27%	-7%
Gross NPA Ratio (%)	4.5	7.0	5.0		
PCR - (%)	90.2	80.0	88.4		
Net NPA	4,674	13,114	5,930	-64%	-21%
Net NPAs Ratio (%)	0.5	1.5	0.6		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation continues to remain in focus; banks with a superior liability franchise placed better:

System credit growth is slowing and has declined to ~11.5% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high credit-deposit ratio. Deposit growth at 11.8% has started to outpace loan growth marginally. However, deposit growth continues to remain range bound at 11-13% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, the asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Strong bad loan recoveries continue to boost return ratios

Overall asset quality trends are improving and this is the seventh consecutive quarter. Bad loan recoveries are expected to stay strong. Credit cost is expected to be 25-30 bps of average advances in FY2025E, which should help to sustain RoA at ~1%.

■ Valuation – Maintain Buy on PNB with a revised PT of Rs. 125

Sustained improvement in asset quality is encouraging and outlook remains strong led by strong recoveries from bad loan pools. The net NPL ratio is below the large PSU banks. The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% as the overall bad loan pool is still quite large at ~Rs. 140,000 crore. Also the bank has been guiding that quality of loans sanctioned in post-COVID times is far superior with very low delinquency. Business momentum is expected to remain healthy. At CMP, the stock trades at 0.9x/ 0.8x its FY2025E/FY2026E BV. We maintain Buy on PNB with a revised PT of Rs. 125 given risk reward is favourable given the recent underperformance and also it can now create buffers for the additional ECL provisioning requirement if any within the guided credit cost range and still report RoA at ~1%.

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	101	1,15,975	7.2	6.4	0.9	0.8	13.6	13.0	1.0	1.0
Bank of India	105	47,598	5.5	5.0	0.7	0.6	11.8	11.7	0.9	0.9

Source: Company, Sharekhan estimates

About company

PNB is a government-owned bank with a network of over 10,159 domestic branches, more than 12,040 ATMs, and 33,010 business correspondents. Around 63% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 1,458,342 crore and global advances stood at Rs. 10,61,904 crore as of Sep 2024. Capital adequacy ratio (CAR) stands at 16.36%.

Investment theme

Sustained improvement in 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

Economic slowdown, lower recoveries than anticipated, higher slippages, lower 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	70.08
2	Life Insurance Corp of India	7.91
3	Citigroup Global Markets Mauritius	1.15
4	SBI Funds Management Ltd	0.87
5	Vanguard Group Inc/The	0.78
6	Blackrock Inc	0.78
7	Nippon Life India Asset Management	0.43
8	Kotak Mahindra Asset Management Co	0.31
9	ICICI Prudential Asset Management	0.27
10	UTI Asset Management Co Ltd	0.26

Source: Bloomberg

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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

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