

December 12, 2022

Management Meet Update

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21	FY22
NII (Rs bn)	172	174	305	287
Op. Profit (Rs bn)	130	147	230	208
PAT (Rs bn)	(100)	3	20	35
EPS (Rs.)	(27.1)	0.6	2.3	3.2
Gr. (%)	(46.1)	(102.2)	296.2	37.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
NIM (%)	2.3	2.3	3.1	2.4
RoAE (%)	(23.2)	0.6	2.6	3.7
RoAA (%)	(1.3)	0.0	0.2	0.3
P/BV (x)	0.6	0.7	0.7	0.7
P/ABV (x)	1.3	1.0	1.1	1.1
PE (x)	(2.1)	98.0	24.7	18.1
CAR (%)	9.7	14.2	14.3	14.6

Key Data

PNBK.BO | PNB IN

52-W High / Low	Rs.59 / Rs.28
Sensex / Nifty	62,131 / 18,497
Market Cap	Rs.640bn/ \$ 7,751m
Shares Outstanding	11,011m
3M Avg. Daily Value	Rs.4731.9m

Shareholding Pattern (%)

Promoter's	73.15
Foreign	2.21
Domestic Institution	11.21
Public & Others	13.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	29.8	88.0	42.6
Relative	29.1	64.3	34.9

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Punjab National Bank (PNB IN)

Rating: Under Review | CMP: Rs58 | TP: NA

Focus on a stronger balance sheet

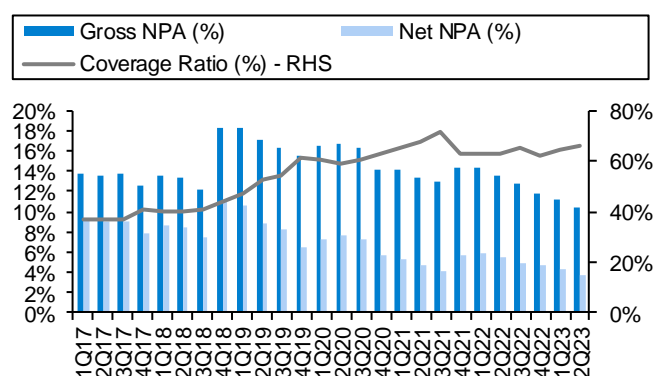
Our recent interaction with MD & CEO of PNB suggests that the bank is on the mend with better visibility on stress reduction led by sustained recoveries while underwriting has become tighter. To avoid further asset quality lapses, most underwriting is now done centrally and branches would only mobilize proposals. Hence fresh assets acquired since July'20, have seen significantly low stress levels with NNPA in agri at 0.25%, retail 0.38% and corporate 0.1%. Guidance is to bring down GNPA to 9.0-9.5% by Mar'23 and increase PCR to 70% from 66% currently. While system loan growth is strong at 16-17%, PNB would remain conservative and prioritize strengthening balance sheet which should result in credit growth between 12-14%. Basis Sep'22 BV, PNB is trading at a valuation of 0.7x compared to 1.0x for BoB and 1.4x for SBI.

- **Asset quality set to improve with sharper focus on recoveries:** Issues are being addressed in RAM segment, which is the major contributor to stress, by tighter underwriting. To avoid further asset quality lapses, bank has changed the strategy whereby branches only mobilize proposals while underwriting is done centrally. Hence, fresh assets acquired since July'20, have seen significantly low stress levels with NNPA in agri at 0.25%, retail 0.38% and corporate 0.1%. Total bad assets comprising of GNPA and TWO pool is Rs1.6trn and focus is to reduce this pool by shoring up recoveries. Going forward, recovery would exceed gross NPA additions and existing trend of strong recoveries would sustain. Guidance is to bring down GNPA to 9.0-9.5% by Mar'23 and increase PCR to 70% from 66% currently.
- **Loan growth guidance of 12-14%:** While systemic loan growth is strong at 16-17%, PNB would target a credit growth in the range of 12-14%. However, once balance sheet is stronger, bank would focus on higher growth in FY24 and FY25. Corporates have become risk averse with regards to leverage which would control slippage. Currently, there is high demand from segments from like roads, chemicals, gas and NBFCs. Bank has entered into co-lending arrangements; however, system integration needs to be done for a successful partnership. CASA is strong at 45% while there is balance sheet cushion in the form of excess SLR to the tune of Rs500-600bn which can fund growth.
- **Profitability to enhance led by better NII and lower provisions:** For FY23, bank expects NII & PPOP to grow by 10% YoY. NIM is expected to improve in H2FY23 albeit at a slower rate. Bank would resort to SA rate hike only if other PSUs banks increase rates. Ageing related provisioning would be done in H2FY23 to strengthen the balance sheet and boost PCR although intensity of overall provisions in H2FY23 would be lower compared to H1FY23. Hence, compared to FY22, PAT for FY23 could be much better.
- **Digital initiatives:** PNB is targeting a better customer experience and hence it would not shy away from spending on technology. Bank has been investing in building digital journeys to grow the retail segment and has already started pre-approved (unsecured) loans at a yield of 10-11% through its mobile app since July'22 (based on 5 clicks) and Rs10bn has already been disbursed so far. There are no slippages in this portfolio and target customer segment is

both private and salaried central government employees. Bank has also launched pre-approved credit card against FD and set up a subsidiary for credit card acquisition. Maximum limit on this card is from Rs0.8-Rs2mn for government employees while the entire pool has a potential to generate fee income of Rs500-600mn.

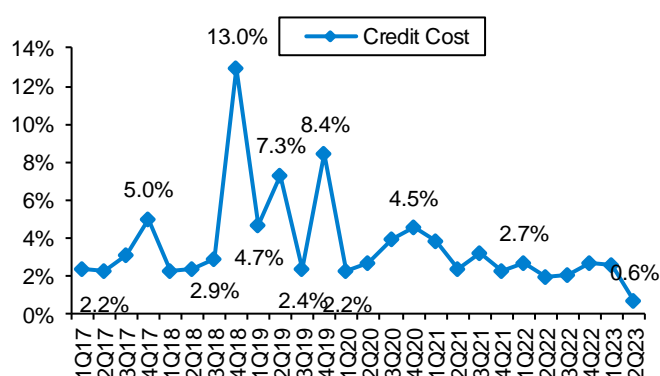
- Capital would be raised at an appropriate time but without dilution:** Recently bank raised Tier-2 of Rs40bn and AT-1 bonds of Rs26bn while additional Rs10bn could be raised in Dec'23 if rate permits. However, no equity dilution would be done. The company has received approval for stake sale in UTI AMC although it would be finalized in some time. Stake in PNB Housing stake would be diluted from 32.57% currently to below 30% by participating in right issue to the tune of Rs5bn, remaining rights would be renounced.

Exhibit 1: Steady improvement in asset quality...



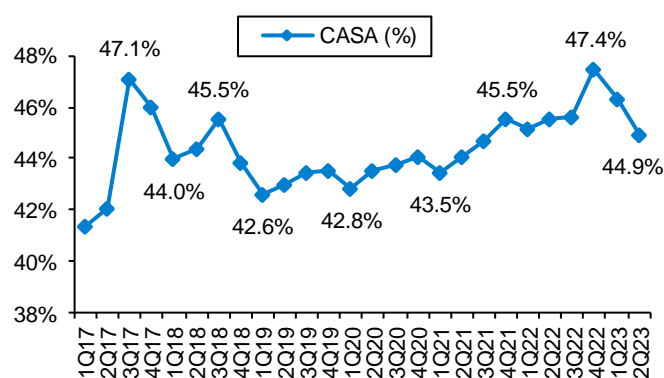
Source: Company, PL

Exhibit 2: ...resulting in declining credit costs



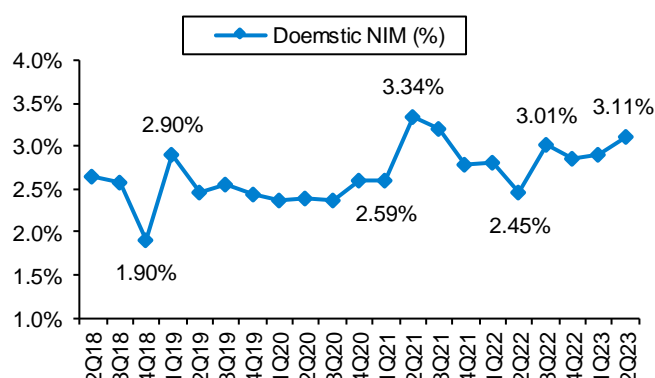
Source: Company, PL

Exhibit 3: CASA healthy at 45-46%

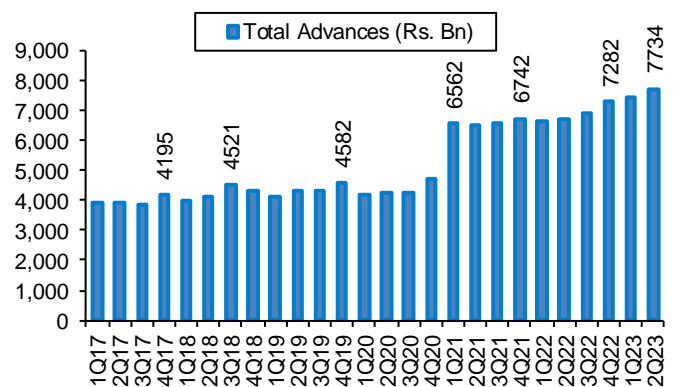


Source: Company, PL

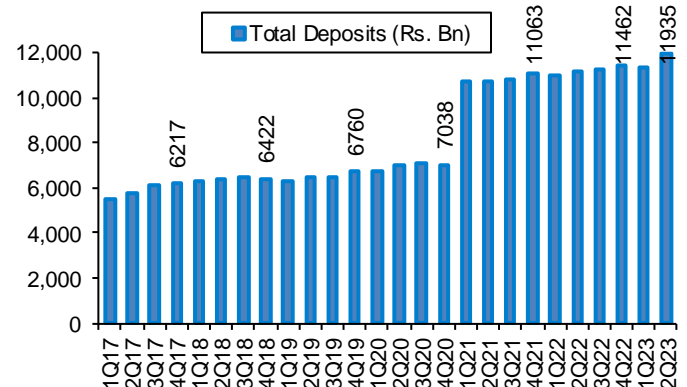
Exhibit 4: NIM trajectory improving since Q2FY22



Source: Company, PL

Exhibit 5: Loan growth rising at ~15% YoY in H1FY23


Source: Company, PL

Exhibit 6: Deposit growth at 7% YoY in H1FY23


Source: Company, PL

Exhibit 7: GNPA movement suggests a stronger recovery trends, while slippages trending downwards

Rs mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Opening GNPA	7,84,730	7,72,670	7,94,580	7,68,090	10,51,650	10,18,490	7,84,730	7,84,730	10,44,234	10,40,756	10,02,909	9,72,587	9,24,480	9,01,671
Additions	54,120	81,190	73,980	50,200	24,760	22,710	11,500	2,41,720	1,01,680	90,770	49,830	1,05,060	64,680	59,790
Fresh slippages	47,110	74,620	67,830	38,500	19,170	7,030	700	2,31,850	82,410	76,200	34,310	95,750	58,900	53,010
Reductions	66,170	59,280	1,00,470	83,510	57,920	78,070	29,840	1,42,270	1,05,170	1,28,620	80,150	1,53,170	87,490	91,110
Recoveries	23,050	18,910	50,430	29,220	10,690	22,810	25,580	59,670	39,540	57,640	32,110	30,450	26,810	39,890
Upgradation	15,540	11,410	16,010	11,210	6,030	9,710	4,530	10,320	43,160	33,620	19,950	17,240	26,070	25,080
PWO & Wo	27,580	28,960	34,030	43,080	41,200	45,550	(270)	72,280	22,470	37,360	28,090	1,05,480	34,610	26,140
Closing GNPA	7,72,680	7,94,580	7,68,090	7,34,780	10,18,490	9,63,130	7,66,390	8,84,180	10,40,744	10,02,906	9,72,589	9,24,477	9,01,670	8,70,351

Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY19	FY20	FY21	FY22
Int. Earned from Adv.	3,50,862	3,58,150	5,33,512	4,84,983
Int. Earned from invt.	1,41,060	1,53,326	2,45,658	2,34,872
Others	2,267	1,422	9,341	6,085
Total Interest Income	5,13,102	5,38,000	8,07,498	7,48,795
Interest Expenses	3,41,539	3,63,622	5,02,728	4,61,851
Net Interest Income	1,71,563	1,74,378	3,04,770	2,86,945
Growth(%)	3.1	8.9	62.1	(5.3)
Non Interest Income	73,774	92,741	1,28,119	1,23,200
Net Total Income	2,45,337	2,67,119	4,32,888	4,10,144
Growth(%)	3.2	7.5	48.3	(6.8)
Employee Expenses	69,632	69,617	1,21,757	1,18,410
Other Expenses	39,973	44,040	71,581	75,230
Operating Expenses	1,15,385	1,19,734	2,03,087	2,02,526
Operating Profit	1,29,952	1,47,385	2,29,801	2,07,618
Growth(%)	26.2	13.4	55.9	(9.7)
NPA Provision	2,44,346	1,44,641	1,70,595	1,41,586
Total Provisions	2,83,410	1,39,996	1,95,007	1,64,454
PBT	(1,53,458)	7,390	34,794	43,164
Tax Provision	(53,703)	4,028	14,578	8,594
Effective tax rate (%)	35.0	54.5	41.9	19.9
PAT	(99,755)	3,362	20,216	34,570
Growth(%)	(18.8)	(103.4)	501.3	71.0

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20	FY21	FY22
Face value	2	2	2	2
No. of equity shares	4,604	6,738	10,478	11,011
Equity	9,208	13,475	20,955	22,022
Networth	4,47,871	6,23,575	9,09,373	9,54,869
Growth(%)	9.0	39.2	45.8	5.0
Adj. Networth to NNPA's	3,00,377	2,72,189	3,85,757	3,49,087
Deposits	67,60,301	70,38,463	1,10,63,325	1,14,62,184
Growth(%)	5.3	4.1	57.2	3.6
CASA Deposits	28,50,405	30,24,746	49,27,830	53,36,542
% of total deposits	42.2	43.0	44.5	46.6
Total Liabilities	77,52,103	83,06,659	1,26,06,326	1,31,48,050
Net Advances	45,82,492	47,18,277	67,42,301	72,81,857
Growth(%)	5.7	3.0	42.9	8.0
Investments	20,21,282	24,04,656	39,29,833	37,21,678
Total Assets	77,52,102	83,06,659	1,26,06,326	1,31,48,050
Growth (%)	1.2	7.2	51.8	4.3

Asset Quality

Y/e Mar	FY19	FY20	FY21	FY22
Gross NPAs (Rs m)	7,84,731	7,34,791	10,44,238	9,24,484
Net NPAs (Rs m)	3,00,377	2,72,189	3,85,757	3,49,087
Gr. NPAs to Gross Adv.(%)	15.5	14.2	14.1	11.8
Net NPAs to Net Adv. (%)	6.6	5.8	5.7	4.8
NPA Coverage %	61.7	63.0	63.1	62.2

Profitability (%)

Y/e Mar	FY19	FY20	FY21	FY22
NIM	2.3	2.3	3.1	2.4
RoAA	(1.3)	0.0	0.2	0.3
RoAE	(23.2)	0.6	2.6	3.7
Tier I	7.5	11.9	11.5	11.8
CRAR	9.7	14.2	14.3	14.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Interest Income	1,93,254	1,86,451	1,87,570	2,01,540
Interest Expenses	1,15,222	1,13,410	1,12,142	1,18,833
Net Interest Income	78,032	73,041	75,428	82,707
YoY growth (%)	(6.1)	5.3	4.4	30.2
CEB	14,200	15,320	17,510	13,070
Treasury	-	-	-	-
Non Interest Income	27,006	24,501	25,370	28,472
Total Income	2,20,260	2,10,952	2,12,940	2,30,013
Employee Expenses	33,107	21,581	25,468	32,325
Other expenses	21,168	23,314	21,539	23,182
Operating Expenses	54,275	44,894	47,006	55,507
Operating Profit	50,763	52,648	53,792	55,672
YoY growth (%)	(20.6)	(6.6)	(11.8)	38.4
Core Operating Profits	44,623	52,648	53,792	54,072
NPA Provision	36,543	45,636	48,140	35,560
Others Provisions	33,536	48,515	47,902	49,064
Total Provisions	33,536	48,515	47,902	49,064
Profit Before Tax	17,228	4,133	5,890	6,608
Tax	5,960	2,117	2,806	2,496
PAT	11,268	2,016	3,084	4,113
YoY growth (%)	122.7	(65.6)	(69.9)	(62.8)
Deposits	1,12,73,169	1,14,62,185	1,13,67,465	1,19,35,007
YoY growth (%)	4.2	3.6	3.6	7.0
Advances	69,28,075	72,81,857	74,26,433	77,34,028
YoY growth (%)	4.9	8.0	12.3	14.9

Key Ratios

Y/e Mar	FY19	FY20	FY21	FY22
CMP (Rs)	58	58	58	58
EPS (Rs)	(27.1)	0.6	2.3	3.2
Book Value (Rs)	89	85	80	80
Adj. BV (70%)(Rs)	44	57	54	55
P/E (x)	(2.1)	98.0	24.7	18.1
P/BV (x)	0.6	0.7	0.7	0.7
P/ABV (x)	1.3	1.0	1.1	1.1
DPS (Rs)	-	-	-	-
Dividend Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	-	-	-	-

Efficiency

Y/e Mar	FY19	FY20	FY21	FY22
Cost-Income Ratio (%)	47.0	44.8	46.9	49.4
C-D Ratio (%)	67.8	67.0	60.9	63.5
Business per Emp. (Rs m)	160	171	175	184
Profit per Emp. (Rs lacs)	(14)	0	2	3
Business per Branch (Rs m)	1,623	1,670	1,653	1,741
Profit per Branch (Rs m)	(14)	0	2	3

Du-Pont

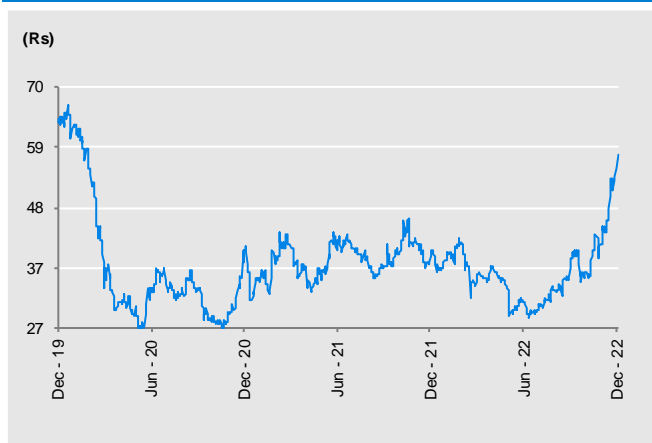
Y/e Mar	FY19	FY20	FY21	FY22
NII	2.34	2.29	3.10	2.38
Total Income	3.35	3.51	4.40	3.40
Operating Expenses	1.58	1.57	2.07	1.68
PPoP	1.77	1.93	2.34	1.72
Total provisions	3.87	1.84	1.98	1.36
RoAA	(1.36)	0.04	0.21	0.29
RoAE	(25.38)	0.68	2.86	4.02

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-22	UR	-	36
2	08-Jul-22	BUY	50	31
3	09-Apr-22	BUY	50	38
4	12-Jan-22	BUY	40	50

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,990
2	Axis Bank	BUY	1,100	888
3	Bank of Baroda	BUY	190	145
4	Can Fin Homes	BUY	700	524
5	City Union Bank	BUY	220	190
6	DCB Bank	BUY	150	120
7	Federal Bank	BUY	165	130
8	HDFC	BUY	3,000	2,489
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	1,090	931
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,450	1,218
13	Kotak Mahindra Bank	Accumulate	2,100	1,903
14	LIC Housing Finance	Accumulate	410	367
15	Punjab National Bank	BUY	50	36
16	State Bank of India	BUY	700	594

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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