

# PUNJAB NATIONAL BANK | PSU Banks

# LKP

Our Investment Thesis is based on 1) Easing corporate stress with higher recovery, 2) Risk adjusted growth and 3) An “in-expensive” valuation. Bad loan recoveries and sale to NARCL may clean up the balance sheet with NPA normalization. Furthermore, steady credit growth along with lower credit cost are likely to boost the return ratios; which makes the stock rewarding at in-expensive valuation (0.35x standalone) with strong associates (PNB Housing, PNB Gilts).

**Recovery to accelerate further with ease in corporate stress:** Reported GNPA ratio is improving continuously since previous ten quarters with an exception of 1QFY22 as NPA recognition resumed. Slippages during the previous quarter were curtailed at ₹50bn (~3% v/s run-rate of 8% over last three quarters); this restricted GNPA/NNPA to 12.9%/4.9% (v/s 16.3%/7.2% ten quarters ago). The headline numbers clearly suggesting a steady improvement driven by higher recovery and write-offs. PNB plans to transfer bad loans of ₹20bn to the NARCL (bad bank) in tranche 1 and ₹60bn in tranche 2. These loans are 100% provided and management believes it may be transferred at 25%. NARCL will make payments using a combination of cash and security receipts (SRs). This may aid PNB’s equity capital position in the interim (CET1 currently at 10.7%). Management guidance is quite affirmative and it expects GNPA and NNPA ratio to be below 12% and 4.5% by end of FY22E with credit cost guidance of 1.5%. Under base case scenario, we estimate the NNPA to be at 4.1% as on FY23E with healthy PCR of more than 65%.

**Business momentum is on expected lines:** The bank is showing signs of stable risk –adjusted growth as sequential growth was multi-quarter high. RAM (Retail, Agriculture and MSME) boosted the growth, however, other segments are showing traction. The management alluded to a strong pipeline of sanctions and expects loan growth to be high. Conservatively, we estimate a credit CAGR of 7% – 8% in FY21-24. Moreover, we estimate the interest bearing liabilities to maintain the ratio of ~97.5% of interest earning assets. Factoring lower credit cost (decreasing provision expenses), we estimate FY23E ROA/ROE of 0.6% and 7.7%.

**Outlook and Valuation:** PNB has one of the lowest “Price to book” among the large public sector banks. It is currently trading at 0.3x of FY23E book value. We expect the bank’s loan book to fatten cautiously at CAGR of 7% - 8% over FY21-24E, led by retail book growth. In our opinion, the bank’s credit cost will normalise by FY23E and estimate return ratio ROA/ROE of 0.6% and 7.7% in FY23E. We value the standalone entity at 0.4x FY23E BVPS (₹99) and value of associates and subsidiaries at Rs5 to arrive at a target price of ₹45.

Key Financials (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
NII	1,74,378	3,04,770	3,27,441	3,53,646	3,82,612
PPOP	1,47,385	2,29,801	2,45,237	2,62,718	2,81,844
PAT	3,362	20,216	51,846	80,132	1,05,747
Loans	47,18,277	67,42,301	70,79,416	75,04,181	80,29,473
Deposits	70,38,463	1,10,63,325	1,16,16,491	1,23,13,480	1,31,75,424

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
NIMs	2.2	2.6	2.7	2.7	2.7
C/I Ratio	44.8	46.9	46.9	46.9	46.9
GNPA Ratio	14.2	14.1	12.8	11.5	10.5
NNPA Ratio	5.8	5.7	4.8	4.1	3.9
ROA	0.0	0.2	0.4	0.6	0.7
ROE	0.7	2.9	5.4	7.7	9.2

Rating	Buy
Current Market Price (₹)	32
12 M Price Target (₹)	45
Potential upside (%)	41

### Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	352
Free Float Market Cap (₹ bn) :	95
52-Week High / Low (₹) :	48 / 32
2-Year High / Low (₹) :	52 / 26
1 Year Avg. Dly Traded Volume (in lakh)	974
BSE Code / NSE Symbol	532461 / PNB
Bloomberg :	PNB IN

### Shareholding Pattern (%)

	Dec-21	Sep-21	Jun-21	Mar-21
GOI	73.15	73.15	73.15	76.87
FPIs	1.19	2.21	2.51	2.94
MFs	2.87	2.45	2.38	0.92
Insurance	8.70	8.70	8.82	8.08
Others	14.09	13.49	13.14	11.19

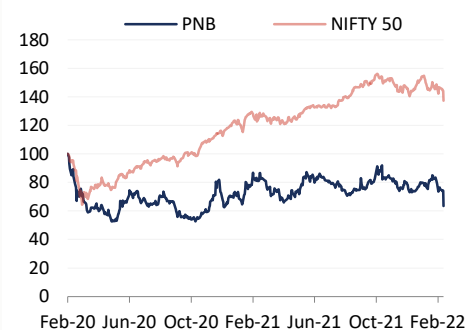
Source: BSE

### Price Performance (%)

(%)	1M	3M	6M	1YR
PNB	-13.5	-21.0	-12.1	-23.4
Nifty 50	-5.3	-6.7	-2.3	8.5

\* To date / current date : February 24, 2022

### PNB vs Nifty 50



## Quarterly story

## Exhibit 1 : Profit &amp; Loss

(₹ mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Interest Earned	1,35,627	1,38,590	2,06,380	2,10,076	2,03,574	1,87,895	1,89,209	1,79,804	1,93,254
Interest Expended	92,076	91,814	1,38,565	1,25,526	1,20,117	1,18,520	1,16,943	1,16,276	1,15,222
<b>Net Interest Income</b>	<b>43,551</b>	<b>46,775</b>	<b>67,816</b>	<b>84,550</b>	<b>83,458</b>	<b>69,376</b>	<b>72,266</b>	<b>63,528</b>	<b>78,032</b>
Other Income	24,048	25,293	36,548	22,722	26,845	37,422	35,941	32,820	27,006
Net Operating Revenue	67,599	72,069	1,04,363	1,07,272	1,10,302	1,06,798	1,08,207	96,348	1,05,038
Operating Expenses	29,970	32,746	51,563	52,110	48,960	50,454	47,220	56,136	54,275
Employee Expenses	17,515	18,538	33,072	32,413	29,275	26,998	29,557	34,166	33,107
Other Opex.	12,455	14,208	18,491	19,698	19,685	23,457	17,663	21,970	21,168
<b>PPOP</b>	<b>37,629</b>	<b>39,323</b>	<b>52,801</b>	<b>55,161</b>	<b>61,342</b>	<b>56,343</b>	<b>60,987</b>	<b>40,211</b>	<b>50,763</b>
Provisions and Contingencies	41,460	49,013	46,859	45,374	51,760	46,860	46,781	32,614	33,536
PBT	-3,831	-9,690	5,942	9,788	9,582	9,483	14,206	7,598	17,228
Tax	1,091	-2,718	2,857	3,580	4,522	3,619	3,971	-3,454	5,960
<b>Profit After Tax</b>	<b>-4,923</b>	<b>-6,972</b>	<b>3,085</b>	<b>6,208</b>	<b>5,060</b>	<b>5,863</b>	<b>10,235</b>	<b>11,052</b>	<b>11,268</b>

Source: Company, LKP Research

## Exhibit 2 : Balance Sheet

(₹ mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Share Capital	13,475	13,475	18,821	18,821	20,955	20,955	22,022	22,022	22,022
Reserves and Surplus	6,24,270	6,10,100	8,44,075	8,50,750	8,91,365	8,88,418	9,21,727	9,34,976	9,48,146
Networth	6,37,745	6,23,575	8,62,896	8,69,571	9,12,321	9,09,373	9,43,749	9,56,998	9,70,168
Deposits	70,85,444	70,38,463	1,07,49,171	1,06,97,471	1,08,21,557	1,10,63,325	1,09,76,489	1,11,53,731	1,12,73,169
Borrowings	3,41,500	5,02,254	4,44,706	4,57,312	5,25,957	4,28,403	3,56,468	3,36,226	5,42,567
Other Liabilities & Provisions	1,43,111	1,42,367	2,67,232	2,46,904	2,89,506	2,05,225	2,08,620	2,12,116	2,62,585
<b>Total Liabilities</b>	<b>82,07,800</b>	<b>83,06,659</b>	<b>1,23,24,006</b>	<b>1,22,71,257</b>	<b>1,25,49,340</b>	<b>1,26,06,326</b>	<b>1,24,85,325</b>	<b>1,26,59,071</b>	<b>1,30,48,490</b>
Cash and balance with Reserve Bank of India	3,22,623	3,83,979	3,61,737	6,85,928	7,17,961	4,39,588	4,70,298	5,12,979	5,53,929
Balances with banks and money at call and short notice	8,06,444	3,75,952	7,17,219	3,52,046	4,46,075	6,73,909	7,46,291	9,58,866	9,32,519
Investments	23,73,082	24,04,656	38,97,536	39,17,542	39,43,383	39,29,833	38,18,621	36,36,262	37,97,617
Advances	42,55,045	47,18,277	65,61,971	65,26,627	66,04,860	67,42,301	66,12,886	67,32,258	69,28,075
Net Block	72,743	72,391	1,09,871	1,08,529	1,07,991	1,10,209	1,08,875	1,08,268	1,07,002
Other Assets	3,77,864	3,51,405	6,75,672	6,80,585	7,29,070	7,10,487	7,28,354	7,10,439	7,29,349
<b>Total Assets</b>	<b>82,07,800</b>	<b>83,06,659</b>	<b>1,23,24,006</b>	<b>1,22,71,257</b>	<b>1,25,49,340</b>	<b>1,26,06,326</b>	<b>1,24,85,325</b>	<b>1,26,59,071</b>	<b>1,30,48,490</b>

Source: Company, LKP Research

**Exhibit 3: Asset Quality**

(₹ mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GNPA amount	7,68,092	7,34,788	10,18,493	9,63,139	9,44,793	10,44,234	10,40,756	10,02,909	9,72,587
NNPA amount	3,05,189	2,72,189	3,53,030	3,09,198	2,65,981	3,85,757	3,85,806	3,69,342	3,38,786
NNPA (%)	7.2	5.8	5.4	4.8	4.0	5.7	5.8	5.5	4.9
GNPA (%)	16.3	14.2	14.1	13.4	13.0	14.1	14.3	13.6	12.9
PCR (% , Inc. TWO)	75.3	77.8	80.8	83.0	85.2	80.1	80.3	80.8	81.9
PCR (% , calculated)	60.3	63.0	65.3	67.9	71.8	63.1	62.9	63.2	65.2

Source: Company, LKP Research

**Exhibit 4: Important Ratios**

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
CASA%	42	42	44	44	45	46	45	45	46
NIM %	2.6	2.7	2.6	3.3	3.2	2.8	2.8	2.5	2.6
ROA (%)	-0.2	0.3	0.1	0.2	0.2	0.2	0.3	0.3	0.3
ROE (%)	-3.1	-4.5	1.4	2.9	2.2	2.6	4.3	4.6	4.6
BVPS (₹)	95	93	92	92	87	87	86	87	88

Source: Company, LKP Research

## Annual Projection

## Exhibit 5: Balance Sheet

(₹ mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	4,256	5,521	9,208	13,475	20,955	20,955	20,955	20,955
Total Reserves	4,16,719	4,05,222	4,38,663	6,10,100	8,88,418	9,40,263	10,20,395	11,26,142
Networth	4,20,975	4,10,743	4,47,871	6,23,575	9,09,373	9,61,219	10,41,350	11,47,097
Deposits	62,17,040	64,22,262	67,60,301	70,38,463	1,10,63,325	1,16,16,491	1,23,13,480	1,31,75,424
YoY (%)	12.4	3.3	5.3	4.1	57.2	5.0	6.0	7.0
CASA (%)	41.8	41.0	42.2	43.0	44.5	44.5	44.5	44.5
Borrowings	4,07,633	6,08,507	3,93,259	5,02,254	4,28,403	4,49,823	4,76,813	5,10,190
Other Liabilities & Provisions	1,57,657	2,16,789	1,48,063	1,42,367	2,05,225	6,26,105	5,99,768	5,58,667
<b>Total Liabilities</b>	<b>72,03,305</b>	<b>76,58,301</b>	<b>77,49,495</b>	<b>83,06,659</b>	<b>1,26,06,326</b>	<b>1,32,03,815</b>	<b>1,39,54,598</b>	<b>1,48,81,189</b>
Cash and balance with Reserve Bank of India	2,52,100	2,87,890	3,21,291	3,83,979	4,39,588	4,61,568	4,89,262	5,23,510
Balances with banks and money at call	6,31,217	6,66,730	4,31,589	3,75,952	6,73,909	7,07,604	7,50,060	8,02,565
Investments	18,67,254	20,03,060	20,21,282	24,04,656	39,29,833	41,26,324	43,73,904	46,80,077
Advances	41,94,931	43,37,347	45,82,492	47,18,277	67,42,301	70,79,416	75,04,181	80,29,473
YoY (%)	1.7	3.4	5.7	3.0	42.9	5.0	6.0	7.0
Net Block	62,732	63,493	62,248	72,391	1,10,209	1,11,311	1,12,424	1,13,548
Other Assets	1,95,071	2,99,781	3,30,591	3,51,404	7,10,487	7,17,592	7,24,768	7,32,015
<b>Total Assets</b>	<b>72,03,305</b>	<b>76,58,301</b>	<b>77,49,495</b>	<b>83,06,659</b>	<b>1,26,06,326</b>	<b>1,32,03,815</b>	<b>1,39,54,598</b>	<b>1,48,81,189</b>

Source: Company, LKP Research

## Exhibit 6: Income Statement

(₹ mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	4,72,760	4,79,958	5,13,102	5,38,000	8,07,498	7,91,994	8,46,073	9,09,509
Interest Expended	3,22,828	3,30,734	3,41,539	3,63,622	5,02,728	4,64,553	4,92,426	5,26,896
<b>Net Interest Income</b>	<b>1,49,932</b>	<b>1,49,224</b>	<b>1,71,563</b>	<b>1,74,378</b>	<b>3,04,770</b>	<b>3,27,441</b>	<b>3,53,646</b>	<b>3,82,612</b>
Other Income	89,514	88,809	73,774	92,741	1,28,119	1,34,524	1,41,251	1,48,313
Operating Revenue	2,39,445	2,38,033	2,45,337	2,67,119	4,32,888	4,61,966	4,94,897	5,30,926
<b>Operating Expenses</b>	<b>93,794</b>	<b>1,35,091</b>	<b>1,15,385</b>	<b>1,19,734</b>	<b>2,03,087</b>	<b>2,16,729</b>	<b>2,32,179</b>	<b>2,49,081</b>
Employee Expenses	54,207	91,688	69,632	69,617	1,21,757	1,29,936	1,39,198	1,49,332
Other Opex.	39,587	43,403	45,753	50,117	81,330	86,793	92,980	99,749
<b>PPOP</b>	<b>1,45,652</b>	<b>1,02,942</b>	<b>1,29,952</b>	<b>1,47,385</b>	<b>2,29,801</b>	<b>2,45,237</b>	<b>2,62,718</b>	<b>2,81,844</b>
Provisions and Contingencies	1,25,536	2,98,693	2,83,410	1,39,996	1,95,007	1,56,005	1,24,804	99,843
Profit Before Tax	20,115	-1,95,751	-1,53,458	7,390	34,794	89,231	1,37,914	1,82,001
Taxes	6,867	-72,923	-53,703	4,028	14,578	37,386	57,783	76,254
<b>Profit After Tax</b>	<b>13,248</b>	<b>-1,22,828</b>	<b>-99,755</b>	<b>3,362</b>	<b>20,216</b>	<b>51,846</b>	<b>80,132</b>	<b>1,05,747</b>
Earnings Per Share (₹)	6	-44	-22	0	2	4.9	7.6	10.1

Source: Company, LKP Research

## Exhibit 7: Asset Quality

(₹ mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
GNPA (%)	12.53	18.38	15.50	14.21	14.12	12.8	11.5	10.5
NNPA (%)	7.81	11.24	6.56	5.78	5.73	4.8	4.1	3.9
GNPA Amount	5,53,705	8,66,201	7,84,727	7,34,788	10,44,234	9,76,959	9,38,023	9,23,389
NNPA Amount	3,27,021	4,86,843	3,00,377	2,72,189	3,85,757	3,39,812	3,07,671	3,13,149
PCR (calculated, %)	40.9	43.8	61.7	63.0	63.1	65.2	67.2	66.1
<b>Movement of GNPA</b>								
Opening Balance	5,58,183	5,53,705	8,66,201	7,84,727	7,34,788	10,44,234	9,76,959	9,38,023
Additions during the year	2,24,146	4,42,743	1,99,041	2,07,513	6,06,262	5,34,505	5,07,780	4,82,391
Reductions during the year	2,28,625	1,30,247	2,80,515	2,57,452	2,96,816	6,01,780	5,46,717	4,97,024
Closing balance	5,53,705	8,66,201	7,84,727	7,34,788	10,44,234	9,76,959	9,38,023	9,23,389
<b>Movement of NNPA</b>								
Opening Balance	3,54,226	3,27,021	4,86,843	3,00,377	2,72,189	3,85,757	3,39,812	3,07,671
Additions during the year	1,61,064	3,00,529	1,51,862	1,53,863	3,27,786	2,62,229	2,09,783	1,67,826
Reductions during the year	1,88,268	1,40,707	3,38,328	1,82,050	2,14,218	3,08,174	2,26,915	1,77,357
Closing balance	3,27,021	4,86,843	3,00,377	2,72,189	3,85,757	3,39,812	3,07,671	3,13,149

Source: Company, LKP Research

## Exhibit 8: Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Margins</b>								
Yield on Advances (%)	11.3	11.1	11.2	11.4	12.0	11.4	11.5	11.6
Yield on Investments (%)	8.2	8.6	7.5	7.1	7.4	6.9	7.0	7.1
Cost of Liabilities (%)	4.9	4.7	4.8	4.8	4.4	3.8	3.9	3.9
NIM(%)	2.2	2.0	2.3	2.2	2.6	2.7	2.7	2.7
Interest Spread (%)	6.4	6.4	6.4	6.6	7.6	7.6	7.6	7.7
<b>Profitability</b>								
ROA (%)	0.2	-1.7	-1.3	0.0	0.2	0.4	0.6	0.7
ROE (%)	3.6	-32.4	-25.4	0.7	2.9	5.4	7.7	9.2
Cost Income Ratio (%)	39.2	56.8	47.0	44.8	46.9	46.9	46.9	46.9
<b>Per Share date</b>								
EPS (₹)	6	-44	-22	0	2	5	8	10
BVPS (₹)	198	149	97	93	87	92	99	109

Source: Company, LKP Research

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