

PUNJAB NATIONAL BANK | PSU Banks

..... Pandemic Year better than FY20

LKP

PNB emerged stronger during the Pandemic year FY21 compared to the previous financial year. The absolute GNPA declined 6% YoY to ₹1.0tn and absolute NNPA stood flat at ₹385bn. Provision coverage for bad loans improved to 80.1%. Moreover, the NII/NIM drag down in 4QFY21 is insignificant due to one time impact of interest reversal from pro-form slippages. Furthermore, Deposit growth was stable, with healthy CASA growth of 11% YoY, driven by strong growth in saving deposits (12% YoY) and CASA ratio improving to 45%. Additionally, improvement in CET-1 (10.6%) is likely to propel balance sheet growth and carries lower dilution risk. The major concerns of higher SMA 2 (5% of book) and restructured (~0.4% of book) are already in the price. The bank expects bulky resolution in FY22E. The asset quality concerns are likely to be absorbed by internal accruals and we estimate a maximum net-worth erosion of 20%. Inexpensive valuation of 0.5x PBVPS and strong associates (PNB Housing, PNB Gilts) makes PNB a contra play and we recommend a BUY.

Corporate Stress easing; FY22E may be a recovery year: Reported GNPA ratio improved to 14.1% from pro forma 14.7% in 3QFY21, driven by higher recovery and write-offs. However, elevated quarterly gross slippages of ~₹117bn (ex-pro forma) in 4QFY21, led by Retail (₹34bn) and MSME (₹93bn), was upsetting. SMA-2 pool too stands elevated at ~5%, led by Retail (1.3% of loans) and MSME (1.6% of loans). PNB has restructured ₹26bn (0.4% of loans) in FY21, while another ₹70bn (1% of loans) could be in the pipeline, mainly from corporates. Specific PCR (ex-TWO) stands flat at 63%. The management expects recovery from DHFL in H1FY22, with additional cash recovery of ₹11bn in NCLT to partly offset any increase in NPAs.

4QFY21 interest reversal (one-time) is immaterial: SME growth picked up at 7.5% YoY mainly driven by ₹110bn of loans disbursed under ECLGS. Overall domestic CASA ratio remains high and healthy at 45%, leading to lower cost of funds. However, NIM contracted 41bps QoQ to 2.7% due to the continuation of subdued growth/lower LDR, higher interest reversals on NPAs and interest waiver due to the Supreme Court order. The bank has guided for 8% credit growth in FY22 on the back of improved secured retail momentum and some back-end support from Corporates & SME.

NPA sales to NARCL (Bad bank) to provide interim relief: PNB plans to transfer bad loans of ₹80bn to the NARCL (bad bank). 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 10.6%)

Outlook and Valuation: Factoring near term stress from restructured book, we expect the bank's loan book to fatten cautiously at a CAGR of 10% 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 0.2% and 3% in FY23E. We value the standalone entity at 0.5x FY23E BVPS (₹90.5) and value of associates and subsidiaries at ₹5 to arrive at a target price of ₹50. We recommend a BUY on PNB with a potential upside of 20%.

Key Financials (₹ mn)	FY21	FY22E	FY23E	FY24E
Net worth	9,09,373	9,21,503	9,48,188	9,77,542
Deposits	1,10,63,325	1,22,80,290	1,36,31,122	1,51,30,546
Advances	67,42,301	74,12,889	81,59,095	89,94,147
CDR (%)	61	60	60	59

Key Ratios (%)	FY21	FY22E	FY23E	FY24E
RoA (calculated, annualized, %)	0.2	0.1	0.2	0.2
RoE (calculated, annualized, %)	2.2	1.3	2.8	3.0
BVPS	86.8	87.9	90.5	93.3
EPS (₹)	1.9	1.2	2.5	2.8

Rating	Buy
Buying Range (₹)	40 - 42
12 M Price Target (₹)	50
Potential upside (%)	20

Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	463
Free Float Market Cap (₹ bn) :	125
52-Week High / Low (₹) :	26 / 46
2-Year High / Low (₹) :	26 / 83
1 Year Avg. Dly Traded Volume (in lakh)	1,065
BSE Code / NSE Symbol	532461 / PNB
Bloomberg :	PNB IN

Shareholding Pattern (%)

	May-21	Mar-21	Dec-20	Sep-20
GOI	73.15	76.87	76.87	85.59
FPIs	4.97	2.94	3.81	0.89
MFs	0.83	0.92	0.60	1.40
Insurance	8.79	8.08	8.28	4.61
Others	12.26	11.19	10.44	7.51

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
PNB	19.9	1.4	4.0	28.4
Nifty 50	6.4	4.1	16.9	59.6

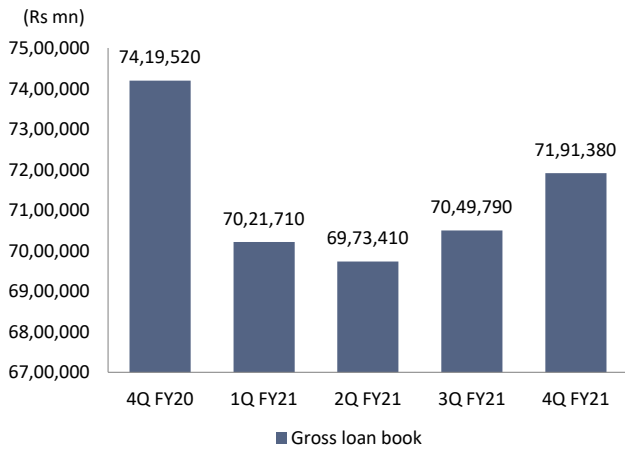
* To date / current date : June 11, 2021

PNB vs Nifty 50

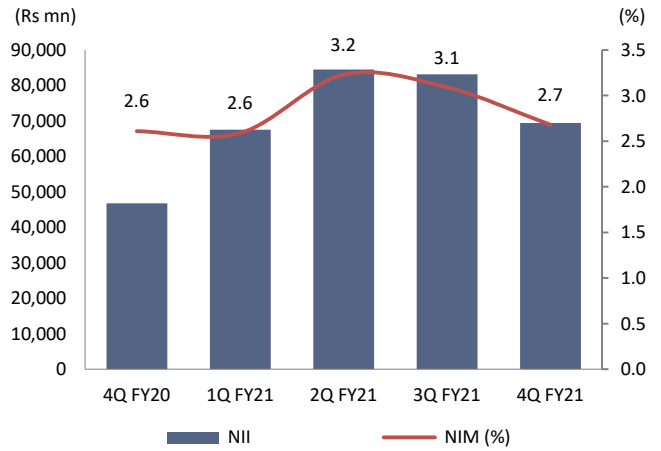


Quarterly story in charts

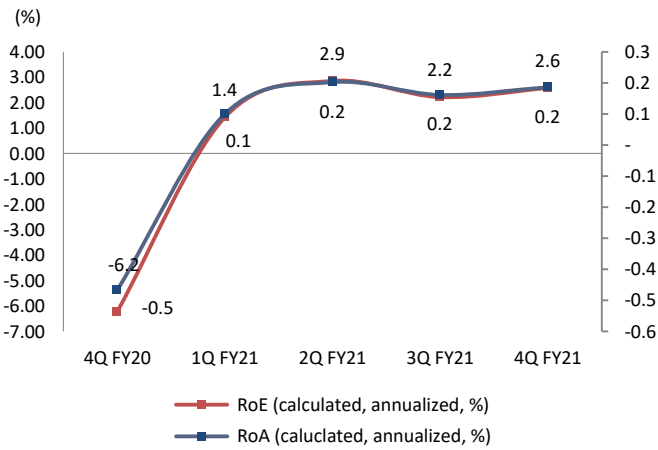
Loan Book Trend



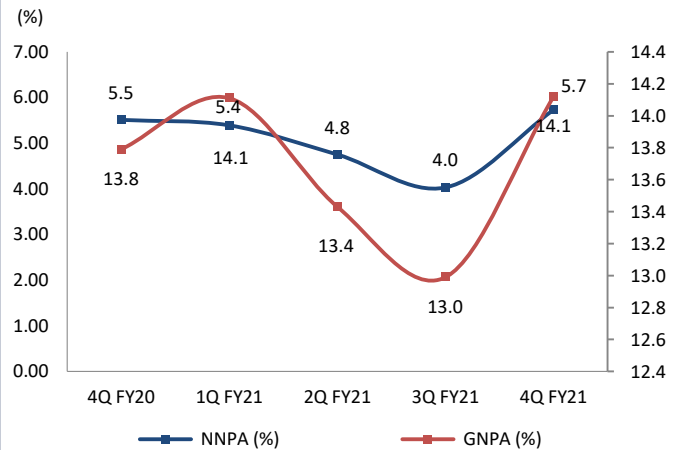
NII and NIM Trend



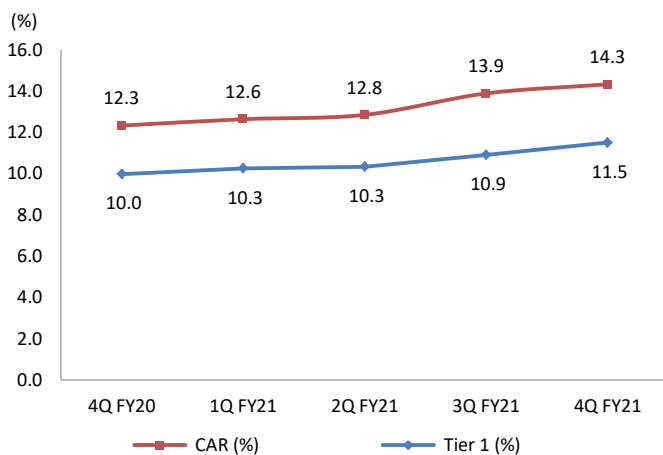
Return Ratio Trend



Asset Quality Trend



Capital Adequacy Trend



Yield & Cost

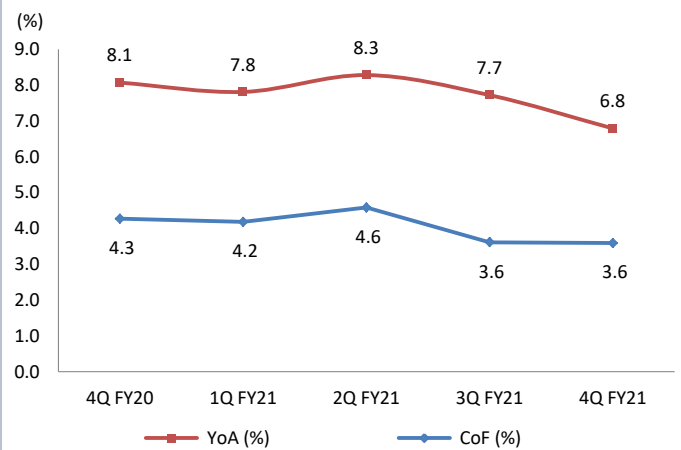


Exhibit 1 : Quarterly Balance Sheet

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Share capital	13,475	18,821	18,821	20,955	20,955	55.5	-
Reserves & Surplus	6,10,100	8,44,075	8,50,750	8,91,365	8,88,418	45.6	(0.3)
Net worth	6,23,575	8,62,896	8,69,571	9,12,321	9,09,373	45.8	(0.3)
Deposits	70,38,463	1,07,49,171	1,06,97,471	1,08,21,557	1,10,63,325	57.2	2.2
Borrowings	5,02,254	4,44,706	4,57,312	5,25,957	4,28,403	(14.7)	(18.5)
Other liabilities & Provisions	1,42,367	2,67,232	2,46,904	2,89,506	2,05,225	44.2	(29.1)
Total Liabilities	83,06,659	1,23,24,006	1,22,71,257	1,25,49,340	1,26,06,326	51.8	0.5
Cash & Balances with RBI	3,83,979	3,61,737	6,85,928	7,17,961	4,39,588	14.5	(38.8)
Balance with Banks & Money at call	3,75,952	7,17,219	3,52,046	4,46,075	6,73,909	79.3	51.1
Investments	24,04,656	38,97,536	39,17,542	39,43,383	39,29,833	63.4	(0.3)
Advances	47,18,277	65,61,971	65,26,627	66,04,860	67,42,301	42.9	2.1
Fixed Assets	72,391	1,09,871	1,08,529	1,07,991	1,10,209	52.2	2.1
Other Assets	3,51,405	6,75,672	6,80,585	7,29,070	7,10,487	102.2	(2.5)
Total Assets	83,06,659	1,23,24,006	1,22,71,257	1,25,49,340	1,26,06,326	51.8	0.5

Source: Company, LKP Research

Exhibit 2 : Quarterly Performance trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Interest Income	1,38,590	2,06,049	2,09,976	2,03,247	1,87,895	35.6	(7.6)
Interest Expenses	91,814	1,38,565	1,25,526	1,20,117	1,18,520	29.1	(1.3)
NII	46,775	67,484	84,449	83,130	69,376	48.3	(16.5)
NIM (%)	2.6	2.6	3.2	3.1	2.7	2.7	(13.3)
Other Income	25,293	36,879	24,410	29,739	37,422	48.0	25.8
PPOP	39,323	52,801	56,749	63,908	56,343	43.3	(11.8)
Provisions	49,013	46,859	46,962	54,326	46,860	(4.4)	(13.7)
PAT	-9,690	3,085	6,208	5,060	5,863	(160.5)	15.9
RoA (calculated, annualized, %)	-0.5	0.1	0.2	0.2	0.2	(139.9)	15.3
RoE (calculated, annualized, %)	-6.2	1.4	2.9	2.2	2.6	(141.5)	16.2
Deposits	70,38,463	1,07,49,171	1,06,97,471	1,08,21,557	1,10,63,325	57.2	2.2
Gross loan book	74,19,520	70,21,710.0	69,73,410.0	70,49,790.0	71,91,380.0	(3.1)	2.0

Source: Company, LKP Research

Exhibit 3 : Quarterly Asset quality trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
GNPA (%)	13.8	14.1	13.4	13.0	14.1	2.4	8.7
NNPA (%)	5.5	5.4	4.8	4.0	5.7	4.0	42.2
PCR (calculated, %)	63.6	65.3	67.9	71.8	63.1	(0.8)	(12.2)
PCR (Reported, including tec write off %)	79.4	80.8	83.0	85.2	80.1	0.9	(5.9)
GNPA - Opening Balance	10,99,000	10,51,650	10,18,490	9,63,140	9,44,800	(14.0)	(1.9)
Slippages	70,930	24,760	22,710	11,500	2,41,720	240.8	2,001.9
Reduction	1,18,280	57,920	78,070	29,840	1,42,280	20.3	376.8
GNPA - Closing Balance	10,51,650	10,18,490	9,63,130	9,44,800	10,44,240	(0.7)	10.5
Accumulated Provision	6,68,450	6,65,460	6,53,930	6,78,820	6,58,480	(1.5)	(3.0)
NNPA	3,83,200	3,53,030	3,09,200	2,65,980	3,85,760	0.7	45.0

Source: Company, LKP Research

Exhibit 4 : Quarterly Loan book Trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Retail Loans	13,20,160	12,99,100	13,01,580	13,01,570	13,61,370	3.12	4.59
Agri & Allied Loans	11,68,370	12,62,190	12,43,500	11,04,930	11,32,020	-3.11	2.45
MSME	11,73,480	11,76,920	12,19,690	12,46,430	12,60,980	7.46	1.17
Corporate	37,57,510	32,83,500	32,08,640	33,96,860	34,37,010	-8.5	1.2
Gross loan book	74,19,520	70,21,710	69,73,410	70,49,790	71,91,380	(3.1)	2.0
Loan book share (%)							
Retail Loans %	17.8	18.5	18.7	18.5	18.9	6.4	2.5
Agri & Allied Loans %	15.7	18.0	17.8	15.7	15.7	(0.0)	0.4
MSME %	15.8	16.8	17.5	17.7	17.5	10.9	(0.8)
Corporate %	50.6	46.8	46.0	48.2	47.8	(5.6)	(0.8)
Gross loan book %	100.0	100.0	100.0	100.0	100.0	-	-

Source: Company, LKP Research

Exhibit 5 : Capital Adequacy

Qtr/Yr	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
CET1 (%)	9.2	9.4	9.5	10.1	10.6
AT1 (%)	0.8	0.8	0.8	0.8	0.9
Tier 1 (%)	10.0	10.3	10.3	10.9	11.5
Tier 2 (%)	2.4	2.4	2.5	3.0	2.8
CAR (%)	12.3	12.6	12.8	13.9	14.3
RWA	62,62,780.0	62,19,810.0	62,07,550.0	63,14,880.0	60,65,850.0
RWA to total assets	75.4	50.5	50.6	50.3	48.1

Source: Company, LKP Research

Exhibit 6 : Ratio Analysis

Qtr/Yr	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
Operating Ratios					
YoA (%)	8.1	7.8	8.3	7.7	6.8
CoF (%)	4.3	4.2	4.6	3.6	3.6
Spread (%)	3.8	3.6	3.7	4.1	3.2
NIM (%)	2.6	2.6	3.2	3.1	2.7
Cost to Income ratio (%)	83.8	49.4	47.9	43.4	47.2
Credit cost (calculated, annualized %)	4.2	2.9	2.9	3.3	2.8
Balance sheet ratios					
Debt to Equity Ratio	0.8	0.5	0.5	0.6	0.5
Equity to loan Ratio	0.1	0.1	0.1	0.1	0.1
CDR (%)	67.0	61.0	61.0	61.0	60.9
WA/WL	1.0	1.0	1.0	1.0	1.0
RoA (calculated, annualized, %)	-0.5	0.1	0.2	0.2	0.2
RoE (calculated, annualized, %)	-6.2	1.4	2.9	2.2	2.6
BVPS	92.6	91.7	92.4	87.1	86.8

Source: Company, LKP Research

Annual Projections

Exhibit 7 : Balance Sheet Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	13,475	20,955	20,955	20,955	20,955
Reserves & Surplus	6,10,100	8,88,418	9,00,547	9,27,233	9,56,587
Net worth	6,23,575	9,09,373	9,21,503	9,48,188	9,77,542
Deposits	70,38,463	1,10,63,325	1,22,80,290	1,36,31,122	1,51,30,546
Borrowings	5,02,254	4,28,403	4,36,971	4,45,711	4,54,625
Other liabilities & Provisions	1,42,367	2,05,225	2,25,748	2,48,323	2,73,155
Total Liabilities	83,06,659	1,26,06,326	1,38,64,512	1,52,73,344	1,68,35,868
Cash & Balances with RBI	3,83,979	4,39,588	4,76,932	5,24,942	5,78,668
Balance with Banks & Money at call	3,75,952	6,73,909	7,35,838	8,09,910	8,92,801
Investments	24,04,656	39,29,833	43,19,643	47,54,472	52,41,075
Advances	47,18,277	67,42,301	74,12,889	81,59,095	89,94,147
Fixed Assets	72,391	1,10,209	1,37,674	1,65,236	1,83,519
Other Assets	3,51,405	7,10,487	7,81,535	8,59,689	9,45,658
Total Assets	83,06,659	1,26,06,326	1,38,64,512	1,52,73,344	1,68,35,868

Source: Company, LKP Research

Exhibit 8 : Income Statement Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	5,38,000	8,07,167	8,86,753	9,83,141	10,75,908
Interest Expenses	3,63,622	5,02,728	5,46,842	5,77,150	6,54,577
NII	1,74,378	3,04,439	3,39,911	4,05,991	4,21,331
Other Income	92,741	1,28,450	1,41,295	1,55,424	1,70,966
PPOP	1,47,386	2,29,801	2,52,781	2,78,059	3,05,865
Provisions	1,39,996	1,95,007	2,14,507	1,28,704	1,15,834
<i>Credit cost (calculated, annualized %)</i>	<i>11.9</i>	<i>11.6</i>	<i>2.9</i>	<i>1.6</i>	<i>1.3</i>
PAT	7,390	20,216	12,130	26,685	29,354
<i>RoA (calculated, annualized, %)</i>	<i>0.1</i>	<i>0.2</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>
<i>RoE (calculated, annualized, %)</i>	<i>1.2</i>	<i>2.2</i>	<i>1.3</i>	<i>2.8</i>	<i>3.0</i>

Source: Company, LKP Research

Exhibit 9 :Ratios

Qtr/Yr	FY20	FY21	FY22E	FY23E	FY24E
<i>Credit cost (calculated, annualized %)</i>	11.9	11.6	2.9	1.6	1.3
<i>Debt to Equity Ratio</i>	0.8	0.5	0.5	0.5	0.5
<i>Equity to loan Ratio</i>	0.1	0.1	0.1	0.1	0.1
<i>CDR (%)</i>	67.0	60.9	60.4	59.9	59.4
<i>RoA (calculated, annualized, %)</i>	0.1	0.2	0.1	0.2	0.2
<i>RoE (calculated, annualized, %)</i>	1.2	2.2	1.3	2.8	3.0
<i>BVPS</i>	92.6	86.8	87.9	90.5	93.3
<i>EPS (₹)</i>	1.1	1.9	1.2	2.5	2.8
<i>GNPA (%)</i>	13.8	14.1	12.1	10.4	9.6
<i>NNPA (%)</i>	5.5	5.7	5.6	5.0	4.5

Source: Company, LKP Research

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