

Retail Equity Research

Punjab National Bank

Banking

BSE CODE: 532461

NSE CODE: PNB

Bloomberg CODE: PNB:IN

SENSEX: 39,113

HOLD

12M Investment period

Rating as per Large cap

CMP Rs. 35

TARGET Rs. 38

RETURN 6%

(Closing: 27-08-20)

KEY CHANGES:

TARGET ↔

RATING ↔

EARNINGS ↔

Strong quarter; Outlook uncertain

Punjab National Bank is a leading Indian public sector bank providing corporate and personal banking services. At present, the bank has 10,930 branches and 13,856 ATMs.

- With amalgamation of Oriental Bank of Commerce and United Bank of India on course, gross loans and advances rose 55.6% YoY and deposits increased 59.8% YoY during the quarter.
- Net interest income was up 63.0% YoY to Rs. 6,748cr on expansion in yields of investments and advances.
- GNPA/NNPA improved to 14.1%/5.4% vs. 15.5%/5.5% in Q1FY20.
- Short-term uncertainty in the economy may lead to higher NPAs and continue to put pressure on PNB's performance in the near-term. We assign a HOLD rating with a target price of Rs. 38 at 0.46x FY22E BVPS.

Corporate restructuring aids topline growth

In Q1FY21, PNB reported interest income of Rs. 20,605cr, a rise of 57.5% YoY on account of expansion of 64bps and 180bps on yields of investments and advances, respectively. Net interest income rose by 63.0% YoY to Rs. 6,748cr with NIM expanding 3bps YoY to 2.5%. Non-interest income rose 77.7% to Rs. 3,688cr. The cost to income ratio contracted 273 bps to 49.4%. Pre-provisioning profit rose 51.7% YoY to Rs. 5,280cr. Net profit declined to Rs. 308cr compared to Rs. 1,019cr in Q1FY21 due to increase in provisions for loan losses by 131.6% YoY to Rs. 4,686cr.

Strong asset quality with improved NPA

Gross loans and advances (post amalgamation) grew 55.6% YoY to Rs. 656,197cr in Q1FY21. Additionally, deposits went up 59.8% YoY to Rs. 1,074,917cr with CASA deposits growing 10.2% YoY to Rs. 453,816cr, while CASA ratio improving to 43.5% (vs. 40.6% in Q1FY20). GNPA/NNPA ratio stood at 14.1%/5.4% (vs. 15.5%/7.0% in 1QFY20), with new slippages going down to Rs. 1,917cr as against Rs. 6,400cr in prior year period. The CRAR ratio stood at 12.6% (Tier I-10.2% and Tier II- 2.4%) against 9.8% (Tier1-7.6% and Tier2-2.1%) in Q1FY20.

Key highlights

- Bank's credit costs and Provision Coverage Ratio rose to 2.5% (+67bps YoY) and 80.8% (+1,038bps YoY) resp. Leverage ratio stood at 5.0x (vs. 4.3x in Q1FY21).
- In total, 29.4% accounts out of 6,852,427 availed moratorium during lockdown for loans amounting to Rs. 168,787cr (29.2% of total outstanding loan amount).
- Digital transactions improved with 76.0% YoY growth seen in UPI transactions, and 17.8% YoY growth in installations of PoS. During the quarter, Bank issued 355,209 credit cards, while internet banking users crossed 233lac.
- Amalgamation of OBC and UBI into PNB has increased customer base to 18cr+, with deposits of Rs. 10.8lac cr and advances of Rs. 7.2 lac cr, w/e from April 1st.
- Effective July 1, 2020, the new verticalised organization structure went live; to help improve operational efficiency and aid growth opportunities.

Outlook & Valuation

Vertical integration should help improve efficiencies and aid growth over the longer term. However, uncertainties posed by COVID may translate to higher NPAs, impacting performance in the coming quarters. With a cautious view, we value the bank at 0.46x FY22E BVPS, with a target price of Rs. 38 and assign a HOLD rating on the stock.

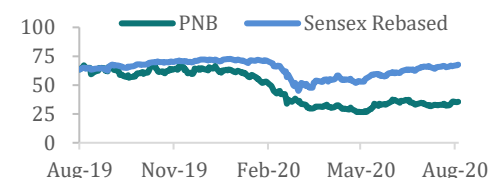
Company Data

Market Cap (cr)	Rs. 33,314
Outstanding Shares (cr)	934.7
Free Float	17.0%
Dividend Yield	0.0%
52 week high	Rs. 70
52 week low	Rs. 26
6m average volume (cr)	0.2
Beta	1.0
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	83.2	83.5	85.6
FIIIs	2.4	2.2	1.0
MFs/Insti	8.3	7.9	6.8
Public	5.3	5.3	5.6
Others	0.8	1.1	1.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	32.6%	-28.0%	-46.2%
Absolute Sensex	27.7%	-2.3%	3.9%
Relative Return*	4.9%	-25.6%	-50.1%

*over- or underperformance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	17,438	21,921	24,425
Growth (%)	1.6	25.7	11.4
NIM (%)	2.4	2.4	2.2
Pre-provision Profit	14,739	17,781	20,086
Net Profit	336	(669)	2,196
Growth (%)	(103.4)	n.m.	n.m.
Adj. EPS	0.6	(0.7)	2.3
Growth (%)	n.m.	n.m.	n.m.
BVPS	115.0	80.6	81.7
P/E	52.2	n.m.	15.1
P/B	0.3	0.4	0.4
P/ABV	0.3	0.4	0.4
ROE (%)	0.6	n.m.	2.9
ROA (%)	0.0	(0.1)	0.2

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. Cr.	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	20,605	13,086	57.5	13,859	48.7
Interest Expense	13,856	8,945	54.9	9,181	50.9
Net Interest Income (NII)	6,748	4,141	63.0	4,678	44.3
Non-Interest Income	3,688	2,075	77.7	2,529	45.8
Total Net Income	10,436	6,217	67.9	7,207	44.8
Total Income	24,293	15,162	60.2	16,388	48.2
Operating Expenses	5,156	2,735	88.5	3,275	57.5
Total Expenditure	19,013	11,680	62.8	12,456	52.6
Pre-Provision profit	5,280	3,481	51.7	3,932	34.3
Provisions	4,686	2,023	131.6	4,901	(4.4)
Profit Before Tax	594	1,458	(59.3)	(969)	n.m.
Tax	286	439	(35.0)	(272)	n.m.
Net Profit	308	1,019	(69.7)	(697)	n.m.
EPS - Diluted (Rs.)	0.3	2.2	(85.1)	(1.0)	n.m.

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	-	-	21,921	24,425	-	-
Net Interest Margin (%)	-	-	2.4	2.2	-	-
Pre-Provision Profit	-	-	17,781	20,086	-	-
Net Profit	-	-	(669)	2,196	-	-
EPS (Rs.)	-	-	(0.7)	2.3	-	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	47,996	51,310	53,800	71,940	82,247
Interest Expense	33,073	34,154	36,362	50,019	57,821
Net Int. Income	14,922	17,156	17,438	21,921	24,425
% Change	-0.5	15.0	1.6	25.7	11.4
Non-Int. Income	8,881	7,377	9,274	9,831	10,814
Net Income	23,803	24,534	26,712	31,752	35,239
Total Income	56,877	58,688	63,074	81,771	93,060
Operating Exp.	13,509	11,538	11,973	13,971	15,153
Total Exp.	46,582	45,692	48,336	63,990	72,974
Pre-Prov. Profit	10,294	12,995	14,739	17,781	20,086
Provisions	29,869	28,341	14,000	19,251	16,949
PBT	(19,575)	(15,346)	739	(1,469)	3,138
Tax	(7,292)	(5,370)	403	(801)	941
Tax Rate (%)	37.3	35.0	54.5	54.5	30.0
Net Profit	(12,283)	(9,975)	336	(669)	2,196
% Change	n.m.	n.m.	n.m.	n.m.	n.m.
No. of Shares (cr)	222	322	542	935	935
Adj. EPS (Rs.)	(55.4)	(30.9)	0.6	(0.7)	2.3
% Change	n.m.	n.m.	n.m.	n.m.	n.m.
DPS (Rs.)	0.0	0.0	0.0	0.3	1.2

BALANCE SHEET

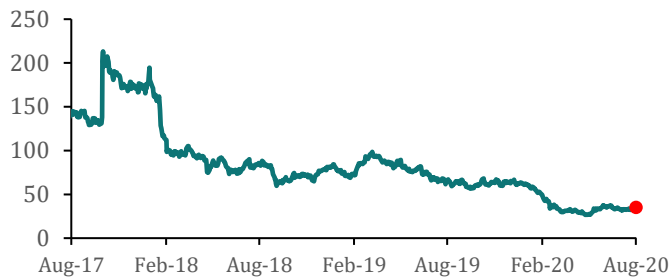
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	95,462	75,288	75,993	74,073	74,438
Investments	2,00,306	2,02,128	2,40,466	3,36,652	3,43,385
Advances	4,33,735	4,58,249	4,71,828	7,31,333	7,75,213
Fixed Assets	6,349	6,225	7,239	7,529	7,830
Other Assets	29,978	33,059	35,140	36,546	38,008
Total Assets	7,65,830	7,74,949	8,30,666	11,86,133	12,38,873
Capital	552	921	1,348	2,132	2,132
Reserves & Surplus	40,522	43,866	61,010	73,169	74,243
Deposits	6,42,226	6,76,030	7,03,846	9,64,269	10,31,768
Borrowings	60,851	39,326	50,225	52,234	54,324
Other Liabilities	21,679	14,806	14,237	94,328	76,406
Total Liabilities	7,65,830	7,74,949	8,30,666	11,86,133	12,38,873
BVPS (Rs.)	185.2	138.9	115.0	80.6	81.7
% Change	(9.1)	(25.0)	(17.2)	(29.9)	1.4

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	n.m.	n.m.	52.2	n.m.	15.1
P/BV (x)	0.5	0.7	0.3	0.4	0.4
Div. Yield (%)	0.0	0.0	0.0	0.8	3.4
Profitability & Return (%)					
Yield on Advances	7.5	7.9	7.7	8.0	7.3
Cost of Deposits	4.8	4.8	4.9	5.7	5.5
Spread	2.6	3.1	2.8	2.4	1.8
NIM	2.3	2.5	2.4	2.4	2.2
ROE	n.m.	n.m.	0.6	n.m.	2.9
ROA	(1.7)	(1.3)	0.0	(0.1)	0.2
Capital Adequacy (%)					
CAR	9.2	9.7	14.1	13.8	13.5
Tier I	7.1	7.5	11.9	11.8	11.7
Tier II	2.1	2.2	2.2	2.0	1.8
Asset Quality (%)					
GNPA	18.4	15.5	14.2	10.1	10.5
NNPA	11.2	6.6	5.8	4.1	4.3
Operating Ratios (%)					
Credit/ Deposit	67.5	67.8	67.0	75.8	75.1
Cost/ Income	56.8	47.0	44.8	44.0	43.0
CASA	43.9	43.5	44.1	43.6	43.1



Recommendation Summary



Dates	Rating	Target
28-Aug-20	HOLD	38

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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