

## PNB Ltd

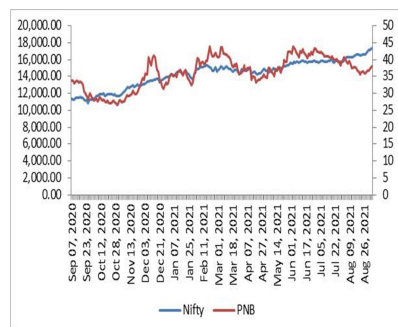
Analyst Recommendation: BUY

BSE Code: 532461 NSE: PNB Reuters Code: PNBK.NS Bloomberg Code: PNB:IN

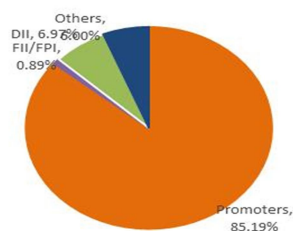
**CMP:** Rs 38.05  
**2 Year Target -** Rs 60.00

Face Value	2.0
Market Cap (Rs cr)	41,897
52 week high/low	46.35/26.3
Beta	1.08
Shares O/S (Cr)	1101
Book Value per Share (Rs)	80
Sensex	58,130
Nifty	17,324

### 1 yr. Price Chart of Stock and BSE



### Shareholding pattern as on 31<sup>st</sup> Mar 2021



### Investor's Rationale

#### ➤ Significant cost reduction support margins:

For Q1FY22, Interest Income dropped 8.3% YoY to Rs. 18,921cr as yield from advances and deposits declined to 6.91% and 5.61% respectively (against 7.64% and 6.21% in Q1FY21). Net interest income for this quarter improved by 6.6% YoY to Rs. 7,227cr from Rs. 6,782cr in Q1FY21 due to reduced cost of deposits (4.07% in Q1FY22 vs 4.92% in Q1FY21). Therefore, global NIM expanded 23bps to 2.73%, vs. 2.50% in Q1FY21, while Cost to Income ratio also improved significantly to 43.64% (vs. 49.41% in Q1FY21). Pre-provisioning profit increased by 15.5% to Rs. 6,099cr while net profit for Q1FY22 was reported at Rs. 1,023cr compared to Rs. 309cr profit in Q1FY21

#### ➤ MSME to remain under stress impacting asset quality

CASA ratio stood at 45.15% with deposits growing at 7.3% YoY to Rs. 487,136cr while savings deposits increased by 8.3% YoY in Q1FY22. Domestic gross advances remain flat with 0.8% growth to Rs. 708,082cr with Agriculture and MSME loans growing at 1.7% and 2.9% YoY respectively. Corporate credit seems to be muted for this quarter, however, it is set to improve with a pipeline of sanctions amounting to Rs. 50,000cr to be disbursed. MSME sector's asset quality remains to be under focus as GNPA stood at 23.23% (vs. 14.80% in Q1FY21). Global GNPA/NNPA ratios stood at 14.33%/5.84% (vs. 14.11%/5.39% in Q1FY21) respectively, while Credit cost further improved to 1.76% in this quarter. Capital position remain healthy with improvement in CRAR to 15.19% (from 12.63% in Q1FY21)

Based on our FY23E estimates, we arrive at a target price of INR 60 per share which is 0.57x FY23E Book Value a potential upside of 58%. Accordingly, we reiterate a "BUY" rating on the shares of PNB.

	FY20	FY21	FY22E	FY23E
Total Income (Rs.Cr)	63,074.00	93,562.00	1,09,888.00	1,16,172.00
PBT (Rs. cr)	739.00	3,479.00	7,285.00	11,702.00
Adj. profit (Rs.Cr)	336.00	2,021.00	4,371.00	7,021.00
Adj. EPS (Rs.)	0.0	0.0	0.0	0.0
P/E (x)	66.7	19.0	8.9	5.6
Price/Book Value (x)	0.3	0.4	0.4	0.4
CAR	14.1	14.3	14.0	13.7
NET NPA (%)	5.8	5.7	5.5	5.3

**Key Q1FY22 Concall Highlights****Business Operations**

- Cost/Income Ratio has been decreasing and stood at 43.6% for Q1FY22, this on account of Branch Rationalization expects to rationalize 1000 Branches by end of FY22.
- The bank has been doing reversal of Deferred Tax Assets on account of utilization of accumulated losses of merged entities.
- Fee income has been impacted due to lesser available avenues for Non-Fund Based Requirements, however with the pickup in activities in Steel Sector, Warehousing & Cold storage, Bank expects the same to improve in coming quarters.

**Assets/Liabilities**

- Bank expects Credit Growth to be 8% for FY22 with revival ins sectors like Road, Steel, Cold Storage, Warehousing, Gas, Oil Refineries amongst others. Management expects the Credit/Deposit Ratio to be 69% by March'22.
- In the retail segment, ~95% of the customers are salaried & pensioners belonging from Government & IT Sector. The collection efficiency was impacted due to holding back of funds for unforeseen circumstances, hence bank expects recovery from the same in coming quarters.

**Asset quality**

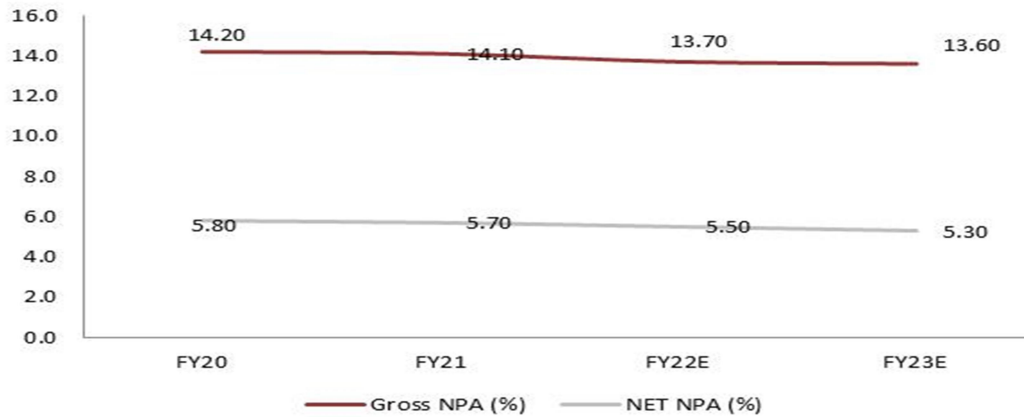
- Slippages are expected to moderate in coming quarters, with overall Slippages in the range of Rs. 180bn -200bn for FY22 (Including Q1FY22 Slippages of Rs.82.41bn)
- In Q1FY22, Slippages break-up was, Retail – Rs.15.48bn, Agri –Rs.21.49bn, MSME – Rs.31.22bn, Other – 14.22bn. Credit Cost for the quarter was 1.74% which is expected to hover around 1.50% for FY22. Bank expects recoveries from Retail in Q2&Q3, however MSME to take time upto Q4FY22 to recover.
- Upgrades & recoveries amounted to Rs. 82.70bn for Q1FY22, of which two major accounts amounted Rs.11bn.
- Management guides to bring NNPA below 5% by March'22.
- Bank has SMA above 0 of Rs.267bn, of which Rs.40bn is guaranteed by government and expects recovery from NCLT of Rs.52bn. Bank expects recoveries of Rs.30bn every quarter.

**Others:**

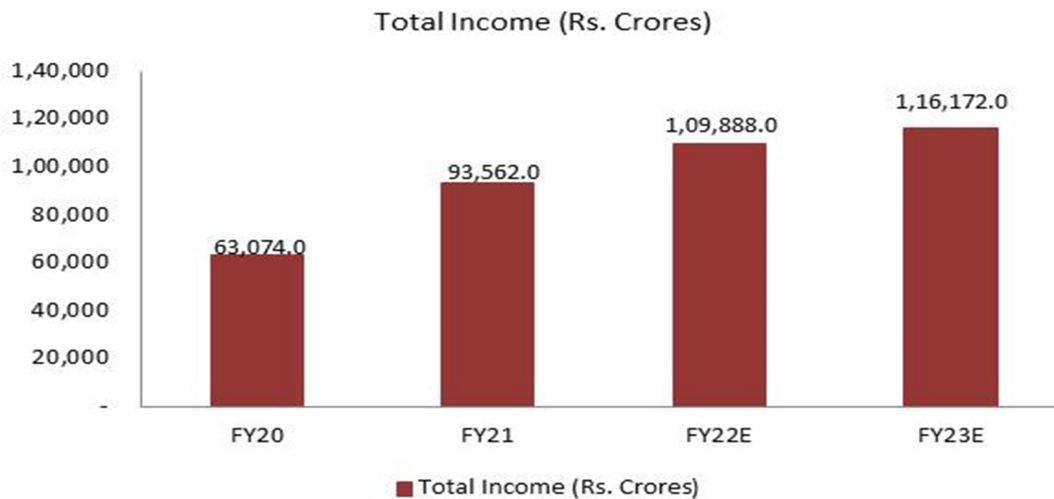
- Capital: Management guided on taking enabling provisions for capital raising, however not approach the market as current capitalization levels are sufficient to support growth requirements. Punjab National Bank August 3, 2021 4
- Digitization: ~60% of the transactions are done digitally. Bank has been scaling up its tech initiatives. As a part of the pilot project, Bank has set up 3 digital branches where Customer Acquisition and Pre-Approved Personal loans are being done. Bank expects to setup 200 digital branches by March'22.
- PNB Housing stake dilution– Order of SAT is yet to be received and is reserved, further course of action shall depend on the outcome.

## Gross NPA and NET NPA ratio will show improvement

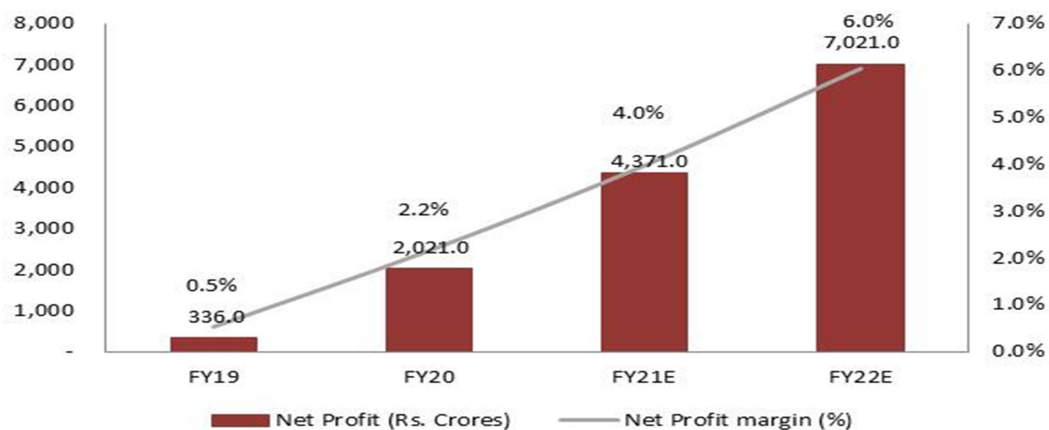
We anticipate Gross NPA and Net NPA to improve over next couple of years/. The same has been displayed in charts below.



## Revenue growth to be steady



## Profitability will improve from FY22



**Outlook and Valuation**

Based on our FY23E estimates, we arrive at a target price of INR 60 per share which is 0.57x FY23E Book Value a potential upside of 58%. Accordingly, we reiterate a "BUY" rating on the shares of PNB.

**PNB Ltd - Company Overview**

Punjab National Bank, abbreviated as PNB, is an Indian nationalised bank. Its headquarters are in New Delhi, India. It is under the ownership of Ministry of Finance, Government of India. The bank was founded in May 1894 and is the second largest government-owned bank in India, both in terms of its business volumes and its network. The bank has over 180 million customers, 12,248 branches, and 13,000+ ATMs.

**Key Risks**

- Extreme Slowdown in economic recovery
- Any Fresh Default Accounts not anticipated by management
- Slowdown in the economy

## Balance sheet (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Paid up capital	1348	2096	2096	2096
Reserves and Surplus	61010	89137	93508	100528
<b>Net worth</b>	<b>62358</b>	<b>91233</b>	<b>95604</b>	<b>102624</b>
Deposits	703846	1082156	1157907	1215802
Borrowings	50225	52596	54699	56887
Other non- current liabilities	14237	28951	16915	52184
<b>Total Liabilities</b>	<b>830666</b>	<b>1254936</b>	<b>1325125</b>	<b>1427497</b>
<b>Assets</b>				
Total fixed assets	7239	10799	16199	24298
Advances	471828	660486	713325	756124
Cash and Bank Balances	75,993.00	1,16,404.00	1,17,122.00	1,20,747.00
Investments	240466	394338	398282	438110
Other non- current assets	35,140.00	72,909.00	80,197.00	88,218.00
<b>Total Assets</b>	<b>830666</b>	<b>1254936</b>	<b>1325125</b>	<b>1427497</b>

## Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
Net Interest Income	17438	30477	33115	35556
Non Interest Income	9274	12812	13709	13846
Other Income	36362	50273	63064	66770
<b>Total Income</b>	<b>63074</b>	<b>93562</b>	<b>109888</b>	<b>116172</b>
Operating expenses	11973	20309	22710	24108
Total Expenses	48336	70582	85774	90878
<b>Pre-Provision Oper. Profit</b>	<b>14739</b>	<b>22980</b>	<b>24114</b>	<b>25294</b>
Provisions	14000	19501	16829	13592
<b>Profit before tax</b>	<b>739</b>	<b>3479</b>	<b>7285</b>	<b>11702</b>
Tax	403	1458	2914	4681
<b>Adjusted PAT</b>	<b>336</b>	<b>2021</b>	<b>4371</b>	<b>7021</b>

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
<b>Operating Ratios (in %)</b>				
CASA	44.1	45.5	45.0	44.5
Credit/Deposit Ratio	67	61	62	62
Cost-Income Ratio	45	47	49	49
<b>Asset Quality</b>				
Gross NPA (%)	14.2	14.1	13.7	13.6
NET NPA (%)	5.8	5.7	5.5	5.3
<b>Capital Adequacy (%)</b>				
CAR	14.1	14.3	14.0	13.7
Tier I	11.9	11.5	11.4	11.3
Tier II	2.2	2.8	2.6	2.3

Y.E March	FY19	FY20P	FY21E	FY22E
<b>Per share data (Rs.)</b>				
EPS	0.60	2.10	4.50	7.20
Book Value Per Share	115.0	93.9	98.4	105.6
<b>Profitable and Return (%)</b>				
Yield on Advances	7.70	9.40	9.40	9.40
Cost of Deposits	4.9	5.3	5.4	5.4
Spread	2.8	4.1	4.1	4.1
NIM	2.4	3.2	2.9	2.9
ROE	0.6	2.6	4.7	7.1
ROA	0.0	0.2	0.3	0.5
<b>Valuation(x)</b>				
P/E	66.7	19.0	8.9	5.6
Price/Book	0.3	0.4	0.4	0.4

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

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



**Member: BSE, NSE, MCX, MCX-SX, CDSL**

**Reg. office:** PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai - 400001, Maharashtra, India

**Corp Office:** 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai - 400001, Maharashtra India

**Tel:** 91-22-67378001 **Fax:** 91-22-22646410

**Dealing:** 91-22-67378011 **Institutional Dealing:** 91-22-6737833

**Email:** research@mjpgdirect.com **Website:** www.mjpgdirect.com

**Registration Number:** SEBI- INZ000218338

#### Disclaimer:

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.