

August 3, 2021

Q1FY22 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		ACCUMULATE	
Target Price	50		47	
NII (Rs. m)	3,17,587	3,43,675	3,22,737	3,47,974
% Chng.	(1.6)	(1.2)		
Op. Profit (Rs. m)	2,39,690	2,57,875	2,34,479	2,43,516
% Chng.	2.2	5.9		
EPS (Rs.)	3.7	7.6	4.4	6.4
% Chng.	(16.1)	18.8		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
NII (Rs bn)	305	318	344	375
Op. Profit (Rs bn)	230	240	258	276
PAT (Rs bn)	20	40	84	100
EPS (Rs.)	2.3	3.7	7.6	9.1
Gr. (%)	296.2	58.8	104.0	19.0
DPS (Rs.)	-	-	0.8	1.0
Yield (%)	-	-	2.0	2.5
NIM (%)	3.1	2.7	2.8	2.8
RoAE (%)	2.6	4.3	8.3	9.2
RoAA (%)	0.2	0.3	0.6	0.7
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.7	0.6	0.5
PE (x)	17.1	10.8	5.3	4.4
CAR (%)	14.3	15.0	15.6	16.0

Key Data

PNBK.BO | PNB IN

52-W High / Low	Rs.46 / Rs.26
Sensex / Nifty	53,823 / 16,131
Market Cap	Rs.443bn / \$ 5,966m
Shares Outstanding	11,011m
3M Avg. Daily Value	Rs.11424.61m

Shareholding Pattern (%)

Promoter's	73.15
Foreign	2.38
Domestic Institution	11.40
Public & Others	13.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	5.0	22.3
Relative	(6.8)	(2.0)	(16.0)

Pritesh Bumb

priteshbumb@plindia.com | 91-22-66322232

Palak Shah

palakshah@plindia.com |

Gradually looking better; upgrade to BUY

Quick Pointers:

- Better operating performance with 15% YoY growth and controlled provisioning
- Banks expects several streams of cash recoveries in FY22 from retail/MSME & corporate

PNB earnings were higher than estimates at Rs10.2bn (PL: Rs6.1bn) on back of better set of operating internals i.e NII growth of 7% YoY & de-growth in opex by 8% YoY drove PPOP by 15% YoY/8% QoQ. Provisions still remain high with annualized rate of 2.5% of loans but given the context of COVID, it has done better than private peers and maintained PCR of 63% (80% incl. technical w.offs). Although, slippages of Rs82bn remain on higher side and scattered through retail/MSME & corporate and run-rate in near term could continue given stress in MSME. Asset quality of PNB should start trending better with a decent PCR of 63-65%, subsiding slippage rate, sustained recovery/upgrade pipeline and much better CET-I of 11.5%. ROEs could move towards to sub 10% by FY23/FY24 and even start paying dividend given profitability improvement. We upgrade to BUY with revised TP of Rs50 (from Rs47) based on Sep-23 ABV (rolled from Mar-23).

- Better NII although and control on opex:** NII grew by a decent 7% YoY/4% QoQ better than flat loan growth which mainly supported by lower cost of deposits. Other income was supported by strong treasury income but excluding the same fee growth held up flattish YoY/5% QoQ (led by processing fees/Fx). Tailwind on PPOP growth of 15% YoY/8% QoQ (core PPOP 25% YoY/7% QoQ) was from much lower opex which de-grew by 8% YoY/6% QoQ and should see some rebound ahead. NIMs improved by 5bps QoQ to 2.73%.
- Asset quality issues still not gone away:** Asset quality is improving on the margin with slippages rate stabilizing versus trends. In Q1FY22, bank reported Rs82.4bn of fresh slippages (6% of loans) but should see 3-4% of loans as slippages in FY22 & <300bps post FY22 and with legacy book covered with +60% PCR (and improving) incremental credit cost should be in range of 250-160bps over FY22-FY24E. Although, risks lie within MSME with high slippages & likely write-offs as GNPA's are at 23% in the segment and could derail asset quality improvement. Bank also has decent pipeline of recovery going ahead mainly from NCLT accounts and smaller value accounts which could add to asset quality improvement.
- Business to remain muted; delta play from improving asset quality:** PNB should continue consolidation with slower loan growth despite current CET-I being comfortable at 11.6% (will improve as earnings improve). Asset quality metrics could see change substantially by FY23/FY24 as break up of GNPA's suggest most segments have peaked on NPA accretion, PCR being better especially on bulky accounts and resultant lowering provisions. This could lead to better return ratios versus the gap of valuation as concerns on asset quality & capital were on forefront which are now looking much better.

Exhibit 1: NII/Opex help beat PPOP; although higher provisions continued

NII growth was muted at 4% QoQ with credit growth still muted

Opex continues to improve due to branch rationalization post-merger

Provisions remain high as slippage remain high

Business consolidation has continued in line of COVID and cautiousness on lending

NIMs steady as funding cost helping

Asset Quality ratios remains steady QoQ, PCR comes down marginally

CASA mix remains above 45%, supported by SA growth

Tier-1 ratio improved to 12.5%.

P&L (Rs m)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
Interest Income	1,89,209	2,06,049	(8.2)	1,87,895	0.7
Interest Expense	1,16,943	1,38,565	(15.6)	1,18,520	(1.3)
Net Interest Income (NII)	72,266	67,484	7.1	69,376	4.2
- Treasury income	11,180	13,080	(14.5)	9,750	14.7
Other income	35,941	36,879	(2.5)	37,422	(4.0)
Total income	1,08,207	1,04,363	3.7	1,06,798	1.3
Operating expenses	47,220	51,563	(8.4)	50,454	(6.4)
-Staff expenses	29,557	33,072	(10.6)	26,998	9.5
-Other expenses	17,663	18,491	(4.5)	23,457	(24.7)
Operating profit	60,987	52,801	15.5	56,343	8.2
Core operating profit	49,807	39,721	25.4	46,593	6.9
Total provisions	46,781	46,859	(0.2)	46,860	(0.2)
Profit before tax	14,206	5,942	139.1	9,483	49.8
Tax	3,971	2,857	39.0	3,619	9.7
Profit after tax	10,235	3,084	231.8	5,863	74.6
Balance sheet (Rs m)					
Deposits	1,09,76,489	1,07,49,171	2.1	1,10,63,325	(0.8)
Advances	66,12,886	65,61,971	0.8	67,42,301	(1.9)
Profitability ratios					
NIM	2.8	2.6	21	2.8	2
RoaA	0.3	0.1	21	0.2	12
Asset Quality					
Gross NPA (Rs m)	10,40,756	10,18,493	2.2	10,44,234	(0.3)
Net NPA (Rs m)	3,85,806	3,53,030	9.3	3,85,757	0.0
Gross NPL ratio	14.3	14.1	22	14.3	1
Net NPL ratio	5.8	5.4	45	5.7	11
Coverage ratio	62.9	65.3	(241)	63.1	(13)
Business & Other Ratios					
Low-cost deposit mix	45.2	43.5	170	45.5	(35)
Cost-income ratio	43.6	49.4	(577)	47.2	(360)
Non int. inc / total income	33.2	35.3	(212)	35.0	(183)
Credit deposit ratio	60.2	61.0	(80)	60.9	(70)
CAR	15.2	12.6	256	14.3	87
Tier-I	12.5	10.3	222	11.5	98

Source: Company, PL

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.
- ECLGS disbursements are Rs.135bn.

Asset quality

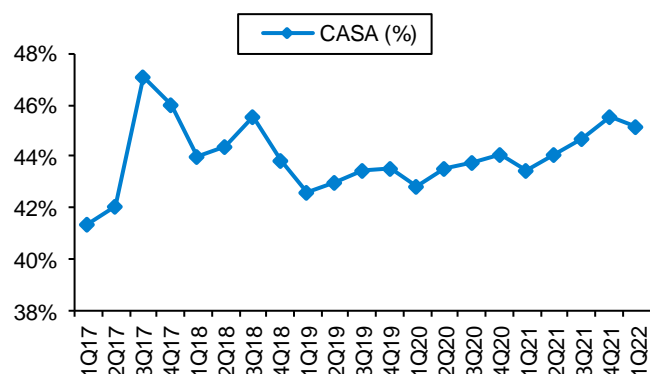
- Slippages are expected to moderate in coming quarters, with overall Slippages in the range of Rs. 180bn -200bn for FY22 (Including Q1FY22 Slippages of Rs.82.41bn)
- In Q1FY22, Slippages break-up was, Retail – Rs.15.48bn, Agri –Rs.21.49bn, MSME – Rs.31.22bn, Other – 14.22bn. Credit Cost for the quarter 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.

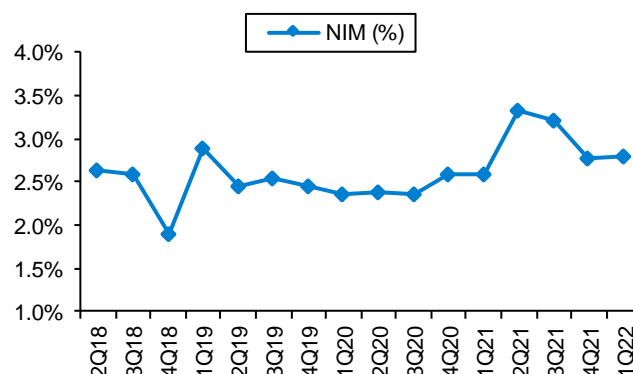
- **Digitization:** ~60% of the transactions are done digitally. Bank has been scaling up its tech initiatives. As a part of the pilot project, Bank has set up 3 digital branches where Customer Acquisition and Pre-Approved Personal loans are being done. Bank expects to setup 200 digital branches by March'22.
- **PNB Housing stake dilution–** Order of SAT is yet to be received and is reserved, further course of action shall depend on the outcome.

Exhibit 2: CASA ratio dips marginally



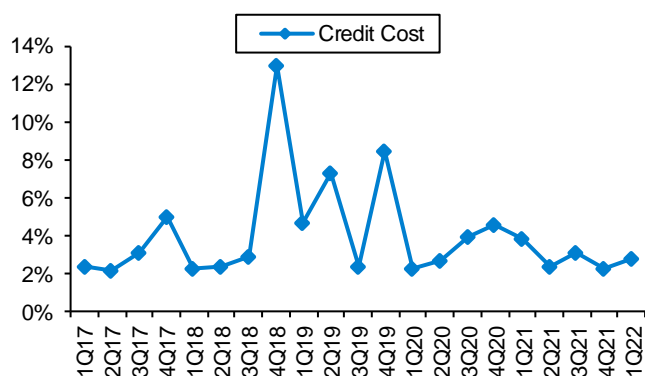
Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 3: Margins remain steady aided by Cost of Funds



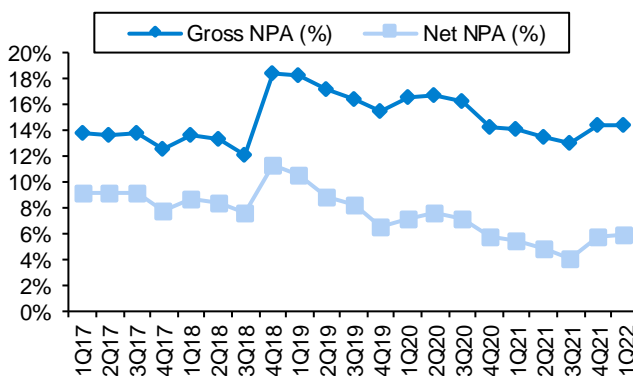
Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 4: Credit costs increases due to higher slippages, expected to moderate



Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 5: Asset quality remains steady as Covid 2.0 leads to higher slippages



Source: Company, PL Note: Due to amalgamation 1Q21 onwards, numbers aren't comparable

Exhibit 6: Return ratios decomposition tree

RoAE decomposition	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest income	7.46	6.81	6.46	6.66	6.70	7.72	6.28	6.45	6.56
Interest expenses	5.05	4.65	4.45	4.43	4.53	4.81	3.80	3.88	3.93
Net interest income	2.41	2.16	2.01	2.23	2.17	2.91	2.48	2.57	2.64
Treasury income	0.11	0.38	0.44	0.14	0.20	0.42	0.12	0.11	0.11
Other Inc. from operations	0.97	0.91	0.76	0.82	0.95	0.81	0.79	0.92	0.91
Total income	3.49	3.45	3.20	3.18	3.33	4.14	3.44	3.61	3.65
Employee expenses	1.01	0.78	1.23	0.90	0.87	1.16	1.07	0.99	1.01
Other operating expenses	0.56	0.57	0.58	0.59	0.62	0.78	0.59	0.68	0.70
Operating profit	1.92	2.10	1.39	1.69	1.84	2.20	1.79	1.93	1.94
Tax	(0.28)	0.10	(0.98)	(0.70)	0.05	0.14	0.15	0.32	0.36
Loan loss provisions	2.83	1.81	4.02	3.68	1.74	1.86	1.22	0.98	0.88
RoAA	(0.63)	0.19	(1.65)	(1.29)	0.04	0.19	0.31	0.63	0.70
RoE	(10.87)	3.60	NA	NA	0.7	2.9	4.6	9.0	9.8

Source: Company, PL

Exhibit 7: We revise our TP to Rs.50 (from Rs47) based on 0.7x Sep'23 ABV (Rolled over from Mar'23 ABV)

PT calculation and upside	
Market risk premium	7.0%
Risk-free rate	6.25%
Adjusted beta	1.12
Terminal Growth	5.0%
Cost of equity	14.1%
Fair price - P/ABV	50
Target P/ABV	0.7
Target P/E	5.9
Current price, Rs	40
Upside (%)	23%
Dividend yield (%)	1%
Total return (%)	25%

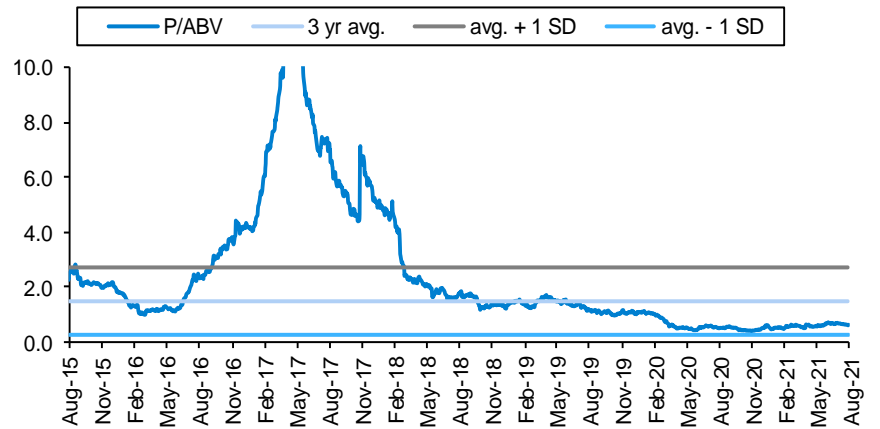
Source: Company Data, PL

Exhibit 8: We adjust loan growth and credit cost estimates

Earnings Estimate Changes (Rs mn)	Old			Revised			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E
Net interest income	3,22,737	3,47,974	-	3,17,587	3,43,675	3,74,572	(1.6)	(1.2)	-
Operating profit	2,34,479	2,43,516	-	2,39,690	2,57,875	2,76,123	2.2	5.9	-
Net profit	47,743	70,483	-	40,061	83,735	99,668	(16.1)	18.8	-
Loan Growth (%)	4.3	6.1	-	2.3	4.2	6.2	(2.0)	(1.9)	-
Credit Cost (bps)	220.0	180.0	-	250.0	180.0	160.0	30.0	-	-
EPS (Rs)	4.4	6.4	-	3.7	7.6	9.1	(15.3)	18.8	-
ABVPS (Rs)	62.7	72.0	-	59.0	69.4	81.3	(5.9)	(3.6)	-
Price target (Rs)	47			50			5.4		
Recommendation	ACCUMULATE			BUY					

Source: Company Data, PL

Exhibit 9: P/ABV one year forward chart



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Int. Earned from Adv.	5,33,512	5,17,539	5,40,131	5,78,294
Int. Earned from invt.	2,45,658	2,57,745	2,93,248	3,23,207
Others	9,341	7,592	5,017	4,674
Total Interest Income	8,07,498	8,04,902	8,63,078	9,32,042
Interest Expenses	5,02,728	4,87,315	5,19,403	5,57,470
Net Interest Income	3,04,770	3,17,587	3,43,675	3,74,572
Growth(%)	62.1	3.8	7.3	7.6
Non Interest Income	1,28,119	1,31,962	1,38,560	1,44,103
Net Total Income	4,32,888	4,49,549	4,82,235	5,18,675
Growth(%)	48.3	0.1	6.9	7.4
Employee Expenses	1,21,757	1,25,410	1,32,935	1,43,569
Other Expenses	71,581	74,444	80,400	86,832
Operating Expenses	2,03,087	2,09,859	2,24,361	2,42,553
Operating Profit	2,29,801	2,39,690	2,57,875	2,76,123
Growth(%)	55.9	4.3	7.6	7.1
NPA Provision	1,70,595	1,70,243	1,26,264	1,17,869
Total Provisions	1,95,007	1,78,992	1,31,003	1,25,110
PBT	34,794	60,698	1,26,871	1,51,012
Tax Provision	14,578	20,637	43,136	51,344
Effective tax rate (%)	41.9	34.0	34.0	34.0
PAT	20,216	40,061	83,735	99,668
Growth(%)	501.3	98.2	109.0	19.0

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Face value	2	2	2	2
No. of equity shares	10,478	11,011	11,011	11,011
Equity	20,955	22,022	22,022	22,022
Networth	9,09,373	9,69,433	10,44,359	11,33,017
Growth(%)	45.8	6.6	7.7	8.5
Adj. Networth to NNPA's	3,85,757	3,54,067	2,96,949	2,37,332
Deposits	1,10,63,325	1,13,95,224	1,19,64,986	1,28,02,535
Growth(%)	57.2	3.0	5.0	7.0
CASA Deposits	49,27,830	49,68,318	52,16,734	55,81,905
% of total deposits	44.5	43.6	43.6	43.6
Total Liabilities	1,26,06,326	1,30,29,890	1,37,15,229	1,46,84,885
Net Advances	67,42,301	68,77,147	71,52,233	75,81,367
Growth(%)	42.9	2.0	4.0	6.0
Investments	39,29,833	42,88,020	46,43,152	50,55,695
Total Assets	1,26,06,326	1,30,29,890	1,37,15,229	1,46,84,885
Growth (%)	51.8	3.4	5.3	7.1

Asset Quality

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross NPAs (Rs m)	10,44,238	9,80,205	8,61,511	7,50,393
Net NPAs (Rs m)	3,85,757	3,54,067	2,96,949	2,37,332
Gr. NPAs to Gross Adv.(%)	14.1	13.1	11.2	9.3
Net NPAs to Net Adv. (%)	5.7	5.1	4.2	3.1
NPA Coverage %	63.1	63.9	65.5	68.4

Profitability (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
NIM	3.1	2.7	2.8	2.8
RoAA	0.2	0.3	0.6	0.7
RoAE	2.6	4.3	8.3	9.2
Tier I	11.5	12.3	13.0	13.5
CRAR	14.3	15.0	15.6	16.0

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Interest Income	2,09,458	2,03,247	1,87,895	1,89,209
Interest Expenses	1,25,526	1,20,117	1,18,520	1,16,943
Net Interest Income	83,932	83,130	69,376	72,266
YoY growth (%)	96.8	90.9	48.3	7.1
CEB	13,500	13,200	15,510	16,350
Treasury	-	-	-	-
Non Interest Income	24,927	29,739	37,422	35,941
Total Income	2,34,386	2,32,985	2,25,317	2,25,150
Employee Expenses	32,413	29,275	26,998	29,557
Other expenses	19,698	19,685	23,457	17,663
Operating Expenses	52,110	48,960	50,454	47,220
Operating Profit	56,749	63,908	56,343	60,987
YoY growth (%)	59.3	69.8	43.3	15.5
Core Operating Profits	48,749	51,478	46,593	49,807
NPA Provision	38,112	31,180	52,939	32,480
Others Provisions	46,962	54,326	46,860	46,781
Total Provisions	46,962	54,326	46,860	46,781
Profit Before Tax	9,788	9,582	9,483	14,206
Tax	3,580	4,522	3,619	3,971
PAT	6,208	5,060	5,863	10,235
YoY growth (%)	22.4	(202.8)	(184.1)	231.8
Deposits	1,06,97,471	1,08,21,557	1,10,63,325	1,09,76,489
YoY growth (%)	53.7	52.7	57.2	2.1
Advances	65,26,627	66,04,860	67,42,301	66,12,886
YoY growth (%)	52.5	55.2	42.9	0.8

Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
CMP (Rs)	40	40	40	40
EPS (Rs)	2.3	3.7	7.6	9.1
Book Value (Rs)	80	82	88	96
Adj. BV (70%)(Rs)	54	59	69	81
P/E (x)	17.1	10.8	5.3	4.4
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.7	0.6	0.5
DPS (Rs)	-	-	0.8	1.0
Dividend Payout Ratio (%)	-	-	10.5	11.0
Dividend Yield (%)	-	-	2.0	2.5

Efficiency

Y/e Mar	FY21	FY22E	FY23E	FY24E
Cost-Income Ratio (%)	46.9	46.7	46.5	46.8
C-D Ratio (%)	60.9	60.4	59.8	59.2
Business per Emp. (Rs m)	175	179	188	200
Profit per Emp. (Rs lacs)	2	4	8	10
Business per Branch (Rs m)	1,653	1,697	1,775	1,893
Profit per Branch (Rs m)	2	4	8	9

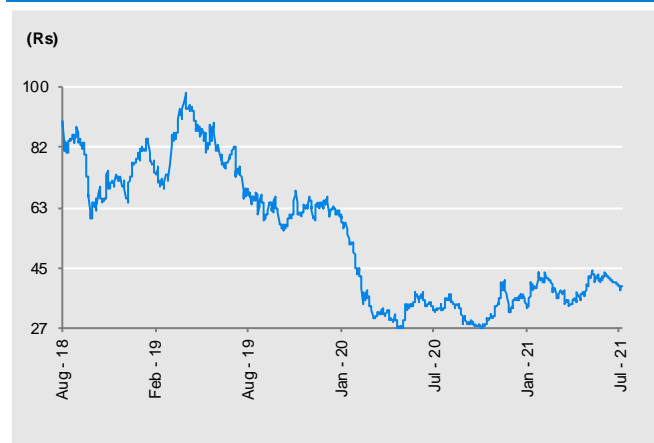
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Y/e Mar	FY21	FY22E	FY23E	FY24E
NII	3.10	2.65	2.75	2.83
Total Income	4.40	3.75	3.86	3.91
Operating Expenses	2.07	1.75	1.80	1.83
PPoP	2.34	2.00	2.07	2.08
Total provisions	1.98	1.49	1.05	0.94
RoAA	0.21	0.33	0.67	0.75
RoAE	2.86	4.62	8.96	9.80

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	Accumulate	47	42
2	06-Apr-21	Accumulate	43	37
3	09-Feb-21	Accumulate	43	38
4	11-Jan-21	Hold	37	35
5	04-Nov-20	Hold	30	28
6	09-Oct-20	BUY	40	29
7	25-Aug-20	Hold	37	35

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	860	756
2	Bank of Baroda	BUY	100	86
3	Federal Bank	Accumulate	97	85
4	HDFC Bank	BUY	1,870	1,522
5	HDFC Life Insurance Company	Hold	725	679
6	ICICI Bank	BUY	815	677
7	ICICI Prudential Life Insurance Company	Accumulate	670	605
8	IDFC First Bank	Reduce	45	52
9	IndusInd Bank	BUY	1,280	976
10	Kotak Mahindra Bank	Accumulate	1,960	1,741
11	Max Financial Services	Accumulate	1,120	1,051
12	Punjab National Bank	Accumulate	47	42
13	SBI Life Insurance Company	BUY	1,250	1,077
14	South Indian Bank	Hold	11	11
15	State Bank of India	BUY	480	430

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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(Indian Clients)

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