

Balance sheet continues to strengthen; NIMs to remain broadly stable

Guides for 1% RoA by FY25 end

We met with the top management of Punjab National, represented by Mr. Atul Kumar Goel, MD & CEO, and Mr. Deepak Singh, Deputy General Manager, to discuss the bank's business outlook, profitability goals and other key focus areas. Following are the key takeaways from the discussion:

Loan growth to remain healthy with increased focus on RAM

PNB reported a 13% CAGR in loans over FY22-24 to INR9.3t (12.5% YoY growth in FY24), with the share of its RAM segment rising to 55.2% in FY24. The management reiterates its focus on further increasing the mix of high-yielding RAM book and aims to increase the share to 60% in the next 2-3 years. On the corporate segment, the management suggested that capex recovery is visible in the private sector, with healthy demand from steel, cement, and roadway industries. With a current CD ratio of 68.2% and an excess SLR of INR1t, the bank has sufficient room to further boost loan growth and is eyeing an optimal CD ratio of ~73-75% over next few years. The bank anticipates credit growth of ~11-12% in FY25. It will review growth guidance as and when visibility improves.

Focus on increasing CASA mix; NIMs to remain broadly stable

PNB delivered a ~9% CAGR in deposits over FY22-24, with the CASA mix standing at 41.4% in FY24. The management remains focused on growing its CASA deposits even as it is favorably positioned amid the current liquidity environment. The bank has thus launched several initiatives to boost CASA deposits, while a controlled CD ratio should also support margins. PNB thus appears poised to sustain its NIMs within the targeted range of 2.9-3.0% in FY25. About 95% of the bank's deposits have already been repriced, while 35% of loan book is linked to MCLR and 10% to EBLR (other than repo), which will enable the bank to cushion margin impact from elevated deposit costs. The management thus expects to grow its deposit base by 9-10% in FY25 while maintaining the CASA mix at 42%. We thus estimate PNB to deliver a ~9% CAGR in NII over FY24-26.

Opex set to moderate; cost ratios to improve gradually

PNB's opex run rate has been elevated as the bank made additional provisions for a 17% wage hike settlement, resulting in a higher C/I ratio of ~53.4% in FY24. During FY24, PNB has allocated INR45.5b for AS-15 provisions (INR23.96b in 4QFY24) and estimates INR35-36b wage bill per quarter going forward. The increase in AS-15 is attributed to the new arrangements for leave encashment at increased salaries, the rise in pension obligations due to a decline in the discount rate and increased pension requirements. Looking ahead, the bank expects other operating expenses to grow by a modest 5-7%; therefore, we estimate consistent moderation in C/I ratio toward 50% by FY26. Also, discussions with tax consultants for transitioning toward the new tax regime are underway and the bank will take a call on this in the coming quarters. The rationalization of branches undertaken previously and prioritization of digital advancements are expected to bolster operational efficiencies, leading to a moderation in cost ratios and enhancing the bank's overall financial performance.

Punjab National Bank



Mr. Atul Kumar Goel, MD & CEO

Mr. Goel has almost three decades of banking experience in four banks viz. Allahabad Bank (now Indian Bank), Union Bank of India, UCO Bank and PNB. Mr. Goel assumed the charge as MD & CEO of PNB in Feb'22. Prior to this, he was holding the position of MD & CEO of UCO Bank. As a qualified Chartered Accountant, he has vast experience and expertise in all major areas of banking, including large corporate, treasury management, risk management and financial planning.

Asset quality remains steady; recoveries and upgrades will continue to outpace slippages

PNB's asset quality has improved steadily, supported by healthy underwriting and continued recovery from the TWO pool. The bank has reported healthy recoveries from the large written-off asset pool, which, along with controlled slippages, has enabled consistent improvements in asset quality ratios. GNPA/NNPA ratios moderated to 5.7%/0.7% in 4QFY24, while PCR stood at ~88% (95.4% including TWO). The size of TWO pool stands at ~INR900b and the bank expects healthy trend in recoveries to continue from this pool over the coming years. Going forward, the bank expects a recovery of ~INR35-36b from NCLT and total recovery of ~INR180b. Alongside, the bank expects fresh slippages to remain under control, thus anticipating recoveries at ~2x the slippage run rate. We believe that improvement in underwriting standards, negligible SMA book and steady recoveries should aid asset quality performance and will support earnings. The bank thus expects a credit cost of <1% for FY25E.

Other highlights:

- **RBI guidelines related:** 1) PNB will have INR50b of accretion in the AFS reserve due to the new investment guidelines, and will witness slight accretion in CET-1 in Apr'24. 2) While the bank is awaiting final words from the RBI in respect to project financing exposure, it expects a limited P&L impact given its robust balance sheet and sufficient provisioning.
- The bank is maintaining its market share in the current account segment, boosted by the launch of a corporate mobile app. It opened 0.27m current accounts in FY24 compared to 0.2m accounts in FY23.
- PNB is not in immediate need of capital; however, the bank has board approval for capital raise through QIP of up to INR75b. The bank currently has CAR/CET-1 of ~16%/11%.
- The bank guided FY25 slippage run rate to be <1%. NNPA ratio is expected to improve further in the coming quarters.

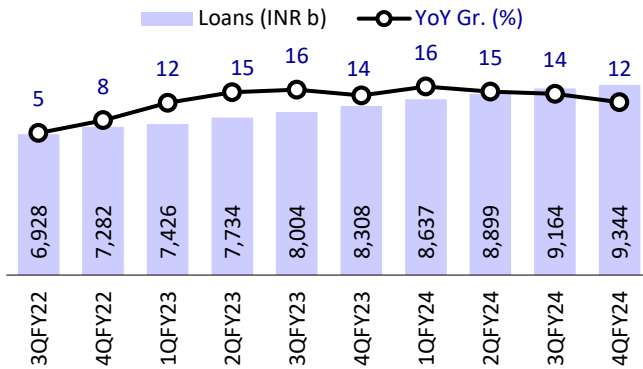
Valuation and view: Reiterate Neutral with a TP of INR130

PNB has been reporting a healthy performance, with earnings driven by steady revenue growth and controlled provisions. With a comfortable CD ratio, the bank is well positioned to grow its loan book with continued focus on high-yielding RAM segments. MCLR repricing and effective CD ratio management are expected to cushion margins against elevated funding costs. Asset quality continues to see a sharp improvement as recoveries and w-off continue to be healthy. PCR has thus improved to 88% and we estimate the net NPA ratio to improve further. SMA overdue (with loans over INR50m) remains under control at 0.15% of domestic loans, while the bank continues to guide for robust recoveries at ~2x of slippages. PNB expects the credit cost and slippages to be contained at <1% and projects RoA of 1% by FY25 end. With a strategic focus on strengthening its balance sheet and targeting a further reduction in the NNPA ratio to 0.5%, PNB is poised to sustain profitability and we estimate a 44% CAGR in earnings over FY24-26.

We reiterate our Neutral rating with a TP of INR130 (premised on 1.1x FY26E ABV).

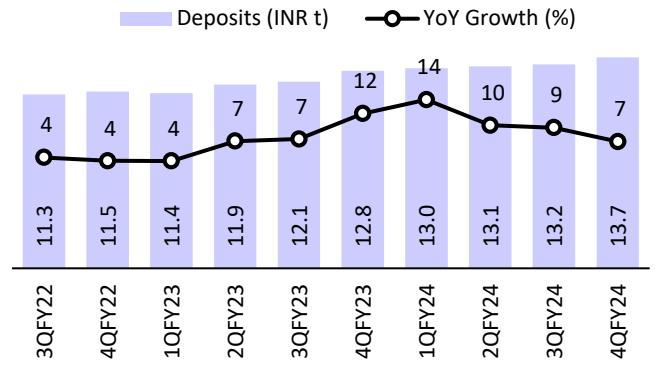
STORY IN CHARTS

Exhibit 1: Loan book grew 12% YoY in 4QFY24



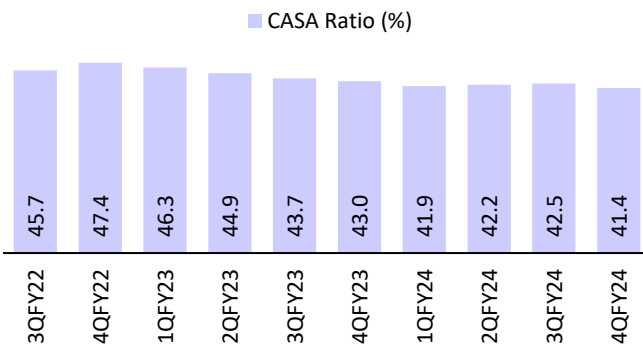
Source: MOFSL, Company

Exhibit 2: Deposits grew 7% YoY (3.5% QoQ)



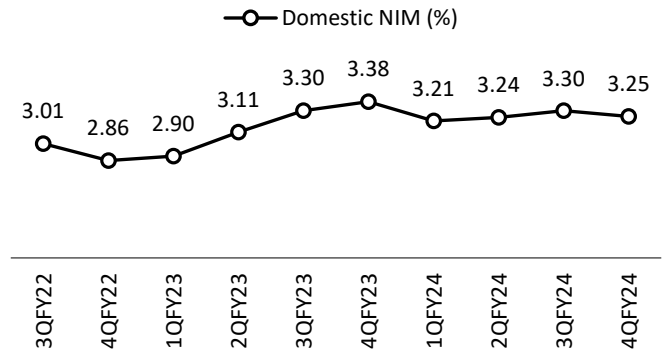
Source: MOFSL, Company

Exhibit 3: CASA ratio moderated 103bp QoQ to 41.4%



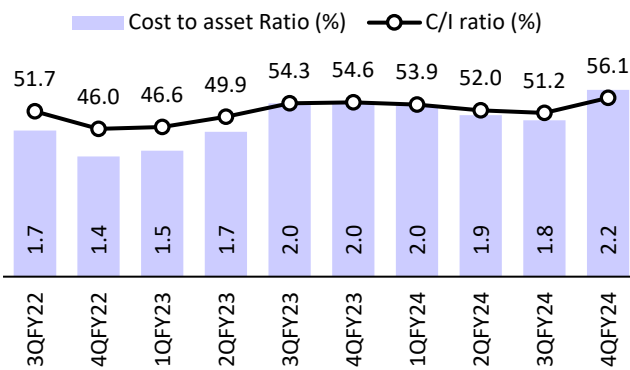
Source: MOFSL, Company

Exhibit 4: Domestic NIM moderated 5bp QoQ to 3.25%



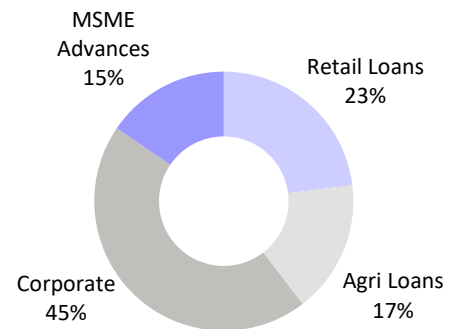
Source: MOFSL, Company

Exhibit 5: C/I ratio stood at 56% in 4QFY24



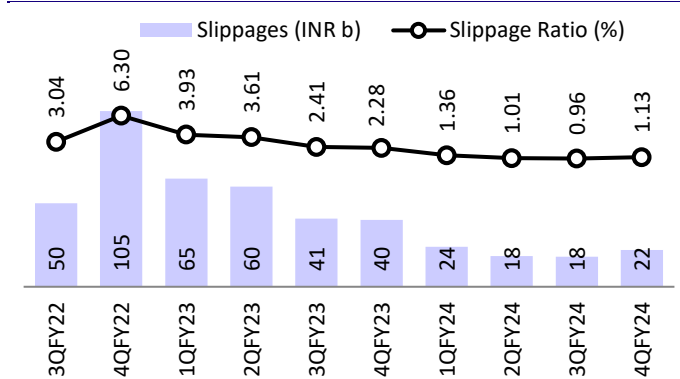
Source: MOFSL, Company

Exhibit 6: O/s loan mix: RAM constitutes 55% of total loans



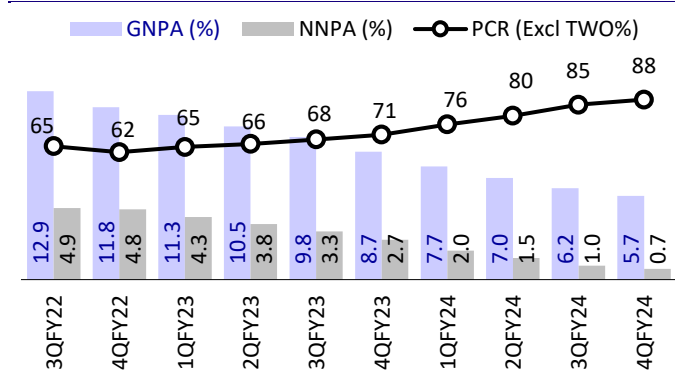
Source: MOFSL, Company

Exhibit 7: Slippages stood at (INR22b) in 4QFY24



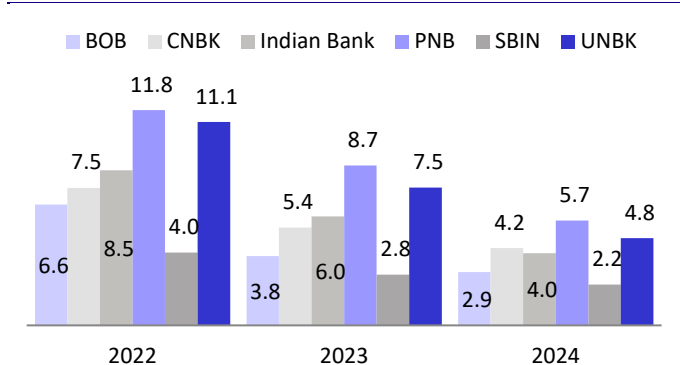
Source: MOFSL, Company

Exhibit 8: GNPA/NNPA ratios improved 51bp/23bp QoQ to 5.7%/0.7% in 4QFY24



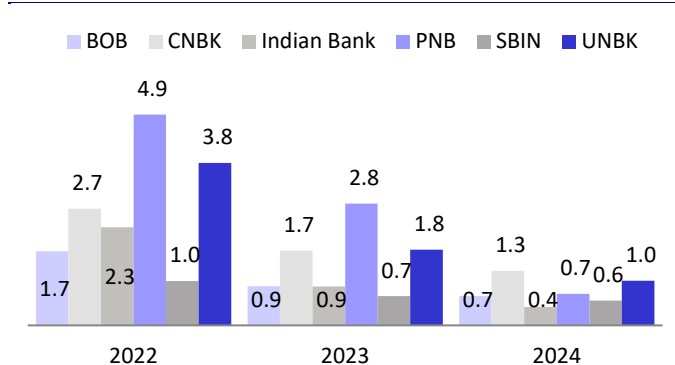
Source: MOFSL, Company

Exhibit 9: PNB's GNPA ratio has improved to 5.7% vs 11.8% in FY22



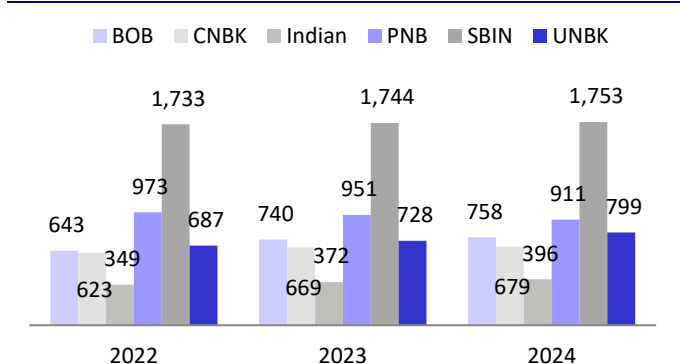
Source: MOFSL, Company

Exhibit 10: NNPA ratio across PSBs has improved with PNB showing the sharpest improvement



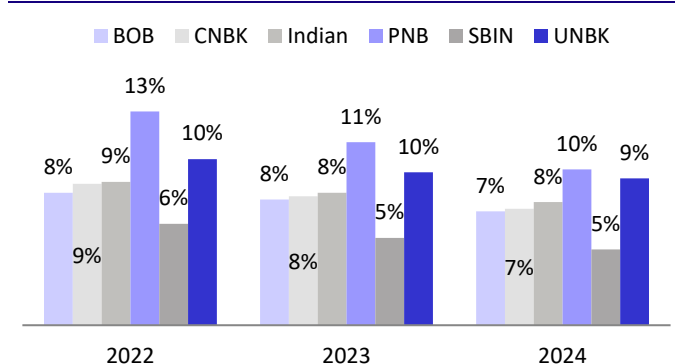
Source: MOFSL, Company

Exhibit 11: TWO pool of PNB stands at INR911b in FY24



Source: MOFSL, Company

Exhibit 12: PNB's TWO as a % of advances declined to 10%



Source: MOFSL, Company

Exhibit 13: DuPont Analysis

| Annual DuPont | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|-------------------------------|----------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Interest Income | 6.66 | 6.70 | 7.73 | 5.81 | 6.13 | 7.07 | 7.26 | 7.17 |
| Interest Expense | 4.43 | 4.53 | 4.81 | 3.59 | 3.65 | 4.42 | 4.64 | 4.52 |
| Net Interest Income | 2.23 | 2.17 | 2.92 | 2.23 | 2.48 | 2.65 | 2.62 | 2.65 |
| Other Income | 0.96 | 1.16 | 1.14 | 0.96 | 0.87 | 0.89 | 0.92 | 0.94 |
| Total Income | 3.18 | 3.33 | 4.06 | 3.19 | 3.36 | 3.54 | 3.54 | 3.59 |
| Operating Expenses | 1.50 | 1.49 | 1.94 | 1.57 | 1.74 | 1.89 | 1.80 | 1.78 |
| Employees | 0.90 | 0.87 | 1.16 | 0.92 | 1.07 | 1.22 | 1.09 | 1.08 |
| Others | 0.59 | 0.62 | 0.78 | 0.65 | 0.67 | 0.66 | 0.71 | 0.70 |
| Operating Profits | 1.69 | 1.84 | 2.12 | 1.61 | 1.62 | 1.65 | 1.75 | 1.81 |
| Core operating Profits | 1.55 | 1.63 | 1.78 | 1.38 | 1.70 | 1.60 | 1.69 | 1.75 |
| Provisions | 3.68 | 1.74 | 1.79 | 1.28 | 1.31 | 0.78 | 0.59 | 0.51 |
| PBT | (1.99) | 0.09 | 0.33 | 0.34 | 0.31 | 0.87 | 1.16 | 1.30 |
| Tax | (0.70) | 0.05 | 0.14 | 0.07 | 0.13 | 0.33 | 0.35 | 0.33 |
| RoA | (1.29) | 0.04 | 0.19 | 0.27 | 0.18 | 0.55 | 0.81 | 0.97 |
| Leverage (x) | 18.73 | 16.25 | 14.80 | 14.96 | 15.44 | 15.95 | 15.65 | 15.06 |
| RoE | (24.25) | 0.68 | 2.86 | 4.02 | 2.79 | 8.70 | 12.71 | 14.55 |

Financials and valuations

Income Statement

| | (INR b) | | | | | | | |
|------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Interest Income | 513.1 | 538.0 | 808.2 | 748.8 | 851.4 | 1,069.0 | 1,183.5 | 1,276.1 |
| Interest Expense | 341.5 | 363.6 | 502.7 | 461.9 | 506.5 | 668.2 | 755.9 | 804.3 |
| Net Interest Income | 171.6 | 174.4 | 305.5 | 286.9 | 344.9 | 400.8 | 427.6 | 471.8 |
| Growth (%) | 15.0 | 1.6 | 75.2 | -6.1 | 20.2 | 16.2 | 6.7 | 10.3 |
| Non Interest Income | 73.8 | 92.7 | 119.2 | 123.2 | 121.4 | 133.8 | 149.9 | 166.4 |
| Total Income | 245.3 | 267.1 | 424.7 | 410.1 | 466.3 | 534.7 | 577.5 | 638.2 |
| Growth (%) | 3.1 | 8.9 | 59.0 | -3.4 | 13.7 | 14.7 | 8.0 | 10.5 |
| Operating Expenses | 115.4 | 119.7 | 203.1 | 202.5 | 241.1 | 285.4 | 293.1 | 316.8 |
| Pre Provision Profits | 130.0 | 147.4 | 221.6 | 207.6 | 225.3 | 249.3 | 284.4 | 321.4 |
| Growth (%) | 26.2 | 13.4 | 50.3 | -6.3 | 8.5 | 10.7 | 14.1 | 13.0 |
| Core PPop | 119.0 | 131.1 | 186.3 | 178.3 | 236.7 | 242.4 | 276.1 | 311.4 |
| Growth (%) | 69.1 | 10.1 | 42.1 | -4.3 | 32.8 | 2.4 | 13.9 | 12.8 |
| Provisions (excl tax) | 283.4 | 140.0 | 186.8 | 164.5 | 182.4 | 117.4 | 95.4 | 90.7 |
| PBT | -153.5 | 7.4 | 34.8 | 43.2 | 42.9 | 131.9 | 189.0 | 230.7 |
| Tax | -53.7 | 4.0 | 14.6 | 8.6 | 17.8 | 49.5 | 56.7 | 58.8 |
| Tax Rate (%) | 35.0 | 54.5 | 41.9 | 19.9 | 41.5 | 37.5 | 30.0 | 25.5 |
| PAT | -99.8 | 3.4 | 20.2 | 34.6 | 25.1 | 82.4 | 132.3 | 171.9 |
| Growth (%) | -18.8 | -103.4 | 501.3 | 71.0 | -27.5 | 228.8 | 60.5 | 29.9 |

Balance Sheet

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Share Capital | 9 | 13 | 21 | 22 | 22 | 22 | 22 | 22 |
| Equity Share Capital | 9.2 | 13.5 | 21.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 438.7 | 610.1 | 888.4 | 932.8 | 976.5 | 1,042.7 | 1,161.7 | 1,322.6 |
| Net Worth | 447.9 | 623.6 | 909.4 | 954.9 | 998.6 | 1,064.8 | 1,183.7 | 1,344.6 |
| Deposits | 6,760.3 | 7,038.5 | 11,063.3 | 11,462.2 | 12,811.6 | 13,697.1 | 14,861.4 | 16,243.5 |
| Growth (%) | 5.3 | 4.1 | 57.2 | 3.6 | 11.8 | 6.9 | 8.5 | 9.3 |
| of which CASA Dep | 2,850.4 | 3,024.7 | 4,927.8 | 5,336.5 | 5,380.2 | 5,525.0 | 6,093.2 | 6,806.0 |
| Growth (%) | 8.3 | 6.1 | 62.9 | 8.3 | 0.8 | 2.7 | 10.3 | 11.7 |
| Borrowings | 393.3 | 502.3 | 428.4 | 456.8 | 512.9 | 504.3 | 524.0 | 546.3 |
| Other Liabilities & Prov. | 148.1 | 142.4 | 205.2 | 274.2 | 295.2 | 352.2 | 405.0 | 465.7 |
| Total Liabilities | 7,749.5 | 8,306.7 | 12,606.3 | 13,148.1 | 14,618.3 | 15,618.4 | 16,974.1 | 18,600.1 |
| Current Assets | 752.9 | 759.9 | 1,113.5 | 1,326.5 | 1,551.1 | 1,291.0 | 1,277.0 | 1,309.6 |
| Investments | 2,021.3 | 2,404.7 | 3,929.8 | 3,721.7 | 3,960.0 | 4,203.2 | 4,480.6 | 4,807.7 |
| Growth (%) | 0.9 | 19.0 | 63.4 | -5.3 | 6.4 | 6.1 | 6.6 | 7.3 |
| Loans | 4,582.5 | 4,718.3 | 6,742.3 | 7,281.9 | 8,308.3 | 9,344.3 | 10,484.3 | 11,711.0 |
| Growth (%) | 5.7 | 3.0 | 42.9 | 8.0 | 14.1 | 12.5 | 12.2 | 11.7 |
| Fixed Assets | 62.2 | 72.4 | 110.2 | 106.7 | 120.5 | 123.2 | 133.0 | 141.0 |
| Other Assets | 330.6 | 351.4 | 710.5 | 711.3 | 678.4 | 656.6 | 599.2 | 630.8 |
| Total Assets | 7,749.5 | 8,306.7 | 12,606.3 | 13,148.1 | 14,618.3 | 15,618.4 | 16,974.1 | 18,600.1 |

| Asset Quality | FY18 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------|-------|-------|---------|-------|-------|-------|-------|-------|
| GNPA | 784.7 | 734.8 | 1,044.2 | 924.5 | 773.3 | 563.4 | 454.1 | 417.2 |
| NNPA | 300.4 | 272.2 | 385.8 | 349.1 | 225.9 | 68.0 | 56.6 | 64.8 |
| Slippages | | | 289.4 | 247.4 | 160.3 | 58.3 | 99.1 | 122.1 |
| GNPA Ratio | 15.5 | 14.2 | 14.1 | 11.8 | 8.7 | 5.7 | 4.2 | 3.5 |
| NNPA Ratio | 6.6 | 5.8 | 5.7 | 4.8 | 2.7 | 0.7 | 0.5 | 0.6 |
| Slippage Ratio | 4.5 | 4.5 | 4.2 | 3.5 | 2.1 | 2.1 | 1.0 | 1.1 |
| Credit Cost | 6.35 | 3.01 | 2.72 | 2.35 | 2.34 | 1.33 | 0.90 | 0.77 |
| PCR (Excl Tech. write off) | 61.7 | 63.0 | 63.1 | 62.2 | 70.8 | 87.9 | 87.5 | 84.5 |

E: MOFSL Estimates

Financials and valuations

Ratios

| Y/E March | FY18 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Yield and Cost Ratios (%) | | | | | | | | |
| Avg. Yield- on Earning Assets | 7.0 | 7.1 | 6.9 | 6.2 | 6.5 | 7.5 | 7.6 | 7.5 |
| Avg. Yield on loans | 7.9 | 7.7 | 7.8 | 6.9 | 7.4 | 8.6 | 8.6 | 8.4 |
| Avg. Yield on Investments | 7.3 | 7.1 | 6.6 | 6.3 | 6.7 | 6.9 | 6.9 | 6.9 |
| Avg. Cost of Int. Bear. Liab. | 4.8 | 4.9 | 4.4 | 3.9 | 4.0 | 4.9 | 5.1 | 5.0 |
| Avg. Cost of Deposits | 4.9 | 5.0 | 4.3 | 3.8 | 3.9 | 4.7 | 5.0 | 4.9 |
| Interest Spread | 2.2 | 2.1 | 2.5 | 2.3 | 2.5 | 2.6 | 2.5 | 2.5 |
| Net Interest Margin | 2.4 | 2.3 | 2.6 | 2.4 | 2.6 | 2.8 | 2.8 | 2.8 |

Capitalisation Ratios (%)

| | | | | | | | | |
|---------|------|------|------|------|------|------|------|------|
| CAR | 10.1 | 14.1 | 14.3 | 14.5 | 15.5 | 16.0 | 15.7 | 14.9 |
| CET-1 | | | 10.6 | 10.6 | 11.2 | 11.0 | | |
| Tier I | 7.9 | 11.9 | 11.5 | 11.7 | 12.7 | 13.2 | 13.6 | 13.0 |
| Tier II | 2.3 | 2.2 | 2.8 | 2.8 | 2.8 | 2.8 | 2.2 | 1.9 |

Business and Efficiency Ratios (%)

| | | | | | | | | |
|-------------------------------|------|------|---------|---------|---------|---------|---------|---------|
| Loans/Deposit Ratio | 67.8 | 67.0 | 60.9 | 63.5 | 64.8 | 68.2 | 70.5 | 72.1 |
| CASA Ratio | 42.2 | 43.0 | 44.5 | 46.6 | 42.0 | 40.3 | 41.0 | 41.9 |
| Cost/Assets | 1.5 | 1.4 | 1.6 | 1.5 | 1.6 | 1.8 | 1.7 | 1.7 |
| Cost/Total Income | 47.0 | 44.8 | 47.8 | 49.4 | 51.7 | 53.4 | 50.8 | 49.6 |
| Cost/Core income | 49.2 | 47.7 | 52.2 | 53.2 | 2.0 | -4.5 | -3.8 | -3.4 |
| Int. Expense/Int.Income | 66.6 | 67.6 | 62.2 | 61.7 | 59.5 | 62.5 | 63.9 | 63.0 |
| Fee Income/Total Income | 25.6 | 28.6 | 19.8 | 22.9 | 28.5 | 23.7 | 24.5 | 24.5 |
| Non Int. Inc./Total Income | 30.1 | 34.7 | 28.1 | 30.0 | 26.0 | 25.0 | 26.0 | 26.1 |
| Empl. Cost/Total Expense | 60.3 | 58.1 | 60.0 | 58.5 | 61.4 | 64.8 | 60.6 | 60.5 |
| CASA per branch (INR m) | | | 457.6 | 528.5 | 534.0 | 545.1 | 589.4 | 645.4 |
| Deposits per branch (INR m) | | | 1,027.3 | 1,135.1 | 1,271.5 | 1,351.3 | 1,437.4 | 1,540.3 |
| Business per Employee (INR m) | 0.0 | 0.0 | 174.9 | 181.7 | 202.8 | 225.1 | 242.8 | 262.5 |
| Profit per Employee (INR m) | 0.0 | 0.0 | 0.2 | 0.3 | 0.2 | 0.8 | 1.3 | 1.6 |

Valuation ratios

| | | | | | | | | |
|---------------------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|------------|
| RoE | -25.4 | 0.7 | 2.9 | 4.0 | 2.8 | 8.7 | 12.7 | 14.6 |
| RoA | -1.3 | 0.0 | 0.2 | 0.3 | 0.2 | 0.5 | 0.8 | 1.0 |
| RoRWA | -2.3 | 0.1 | 0.4 | 0.6 | 0.4 | 1.2 | 1.7 | 2.1 |
| Book Value (INR) | 93 | 89 | 83 | 83 | 86 | 93 | 103 | 118 |
| Growth (%) | -34.3 | -4.7 | -6.4 | 0.2 | 3.9 | 7.0 | 11.7 | 14.1 |
| Price-BV (x) | 1.3 | 1.4 | 1.5 | 1.5 | 1.4 | 1.3 | 1.2 | 1.0 |
| Adjusted BV (INR) | 41 | 56 | 54 | 58 | 68 | 84 | 95 | 109 |
| Price-ABV (x) | 3.0 | 2.2 | 2.3 | 2.1 | 1.8 | 1.5 | 1.3 | 1.1 |
| EPS (INR) | -27.1 | 0.6 | 1.9 | 3.2 | 2.3 | 7.5 | 12.0 | 15.6 |
| Price-Earnings (x) | -4.5 | 205.8 | 63.2 | 37.9 | 53.6 | 16.3 | 10.2 | 7.8 |
| Dividend Per Share (INR) | 0.0 | 0.0 | 0.0 | 0.6 | 0.7 | 1.5 | 2.4 | 3.1 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.5 | 0.5 | 1.2 | 1.9 | 2.4 |

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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