

28<sup>th</sup> March 2024

## Punjab National Bank – BUY

**CMP** : Rs. 124.0  
**Target Price** : Rs. 153.0  
**Upside** : 23%+  
**Stop Loss** : Rs. 106.0 (Closing basis)

### Investment Thesis

- In Q3FY24 Punjab national bank (PNB) has demonstrated 3 Year CAGR business growth of 8.18%, with a year-on-year (YoY) growth of 10.82%, reaching total business Rs. 22,90,742 crores. There has been a notable YoY growth in both deposits 9.35% and advances 12.90%, reflecting a healthy financial position.
- PNB's strategy for deposit growth focuses on quality rather than quantity as PNB is focused on maintaining CASA ratio. While deposit growth may not be as high as in previous quarters, PNB is not heavily reliant on bulk deposits. PNB emphasis is on maintaining a healthy credit to deposit ratio (CD ratio) and utilizing excess SLR for liquidity purposes.
- The excess liquidity profile of PNB (CD ratio 69%, LCR 140-150%) in an environment where deposit growth is challenge, places it well to grow the advances without worrying about deposit growth. These factors will protect margins as they don't have to go for expensive deposits in upcoming quarters.
- PNB is eyeing 12-14% advance growth going forward. A healthy advance growth outlook, ability to manage NIMs and lower Opex growth is expected to lead strong operating profit growth. Significant improvements in key profitability indicators such as YoY growth in net interest income by 12.14%, operating profit 10.77% increase, and net profit 253.39% increase signify robust financial performance. PNB has guided on maintaining net interest margins (NIM) around 3% despite market fluctuations in interest rates. Additionally, PNB aims for a 1% Return on Assets (ROA) by the end of the FY25.
- PNB has demonstrated strong asset quality performance, coupled with robust recovery efforts which have positively impacted net interest income. PNB has shown reduction in gross and net NPAs by 675 bps/307bps in last 3 years and an increase in the provision coverage ratio (PCR of 94%). With continues focus on reducing NPAs through proactive measures such as recovery efforts and prudent underwriting practices. The credit cost for the upcoming fiscal year is expected to remain low, likely below 1% which further contribute to improvement in financial performance.

### Financials

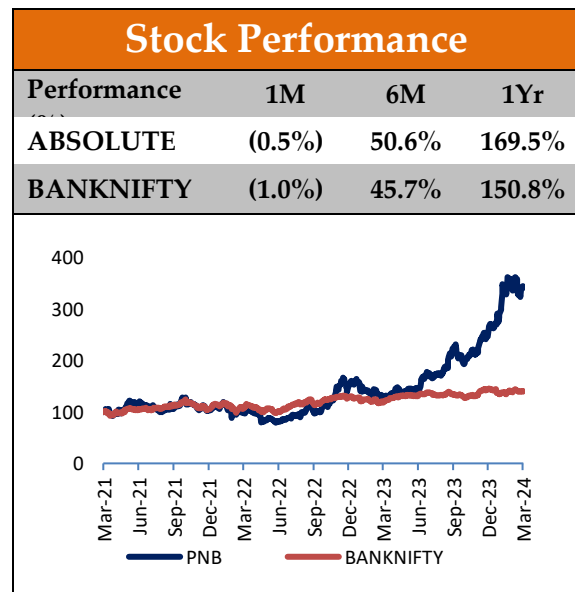
- In Q3FY24 PNB reported 12.13% YoY growth in net interest income and 253% YoY growth in net profitability on the back of improved operating efficiency and asset quality they were able to deliver profitability.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net interest income (Rs. Crs)	28,694.5	34,491.6	40,594.4	45,032.7	51,729.9
PPOP (Rs. Crs)	20,761.8	22,528.8	25,427.5	28,517.0	33,797.9
Net profit (Rs. Crs)	3,457.0	2,507.2	8,125.0	14,292.5	18,962.7
BVPS (Rs.)	80.2	83.0	102.9	115.8	133.1
PBV (x)	1.5	1.5	1.2	1.1	0.9

Stock Data	
Market Cap (Rs. Crs)	1,36,592
Market Cap (\$ Mn)	16,384
Shares O/S (in Cr)	1,101
Avg. Volume (3 month)	7,35,56,555
52-Week Range (Rs.)	133/44.6

Shareholding Pattern	
Promoter	73.15%
FII's	3.10%
Institutions	13.74%
Public	10.00%

Key Ratios	
Div Yield (%)	0.53
TTM PE (x)	17.9
ROE (%)	3.34
TTM EPS (Rs.)	6.93/-



- PNB reported NIMs of 3.15% which is maintained on YoY basis and improved by 40bps on QoQ basis. Where most banks are reporting stressed NIMs, PNB reported maintain NIM because of good availability of funds and ability to transfer increasing cost to consumers PNB was able to maintain NIMs.
- In Q3FY24 PNB reported improved GNPA/NNPA by 352bps /176bps on YoY basis which was the result of improved collection efficiency.

## Key Business Highlights

- PNB is India's first Swadeshi Bank. PNB is a Banking and Financial service bank owned by the Government of India with its headquarters is in New Delhi, India. It is the second largest PSU after SBI in India with 10,108 domestic branches and 12,455 ATMs.
- PNB anticipates sustained growth in retail loans, particularly in vehicle loans, personal loans, and housing loans. The growth rate is expected to mirror the current performance, driven by robust demand in the retail segment. Similarly, corporate loan growth may see a moderate increase due to some uptick in demand for working capital and infrastructure financing, although significant acceleration is not immediately anticipated.
- Despite a slight reduction in total capital adequacy (from 15.09% to 14.63%), the bank has undertaken measures to raise additional capital to maintain regulatory requirements and support growth initiatives.

## Valuation

The outlook for PNB remains positive because. Despite a slight increase in the cost of deposits, effective management of costs is evident from the decline in the cost-to-income ratio by 316bps in Q3FY24 on YoY basis, coupled with improvements in yield on advances. PNB does not envisage any further increase in deposit rates but believes that rates may remain elevated for a longer period. CASA ratio for PNB is higher than most of the PSU bank peers which would partly help to manage NIMs. Operating cost is expected to fall led by lower pension-related provisions/ wage settlement arrears going forward.

**We recommend PNB with a BUY rating which is currently trading at attractive P/BV of 1.29x which is Similar to the industrial P/BV of 1.29x and connoting a Target Price of Rs. 153 (1.15x P/BV multiple on FY26E BVPS) and a potential upside of 23%.**

## Risk & Concern

- Delay in rate cut can impact the cost of funds and advance growth adversely.
- Growth in restriction by RBI can impact availability of funds, which can stress margins.

## Graphs & Charts

Figure 1: Advance (Cr.) & YoY Growth

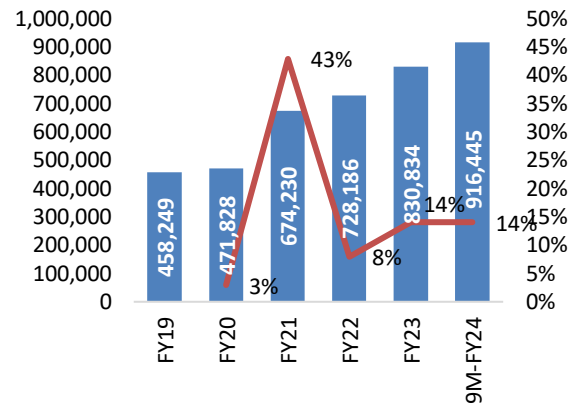


Figure 2: Deposit (Cr.) & CD Ratio

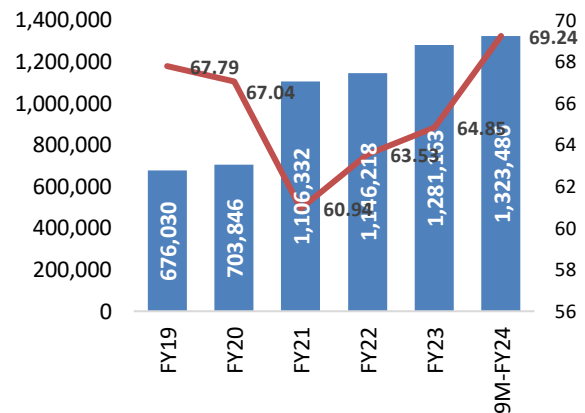


Figure 3: Cost to Income Ratio

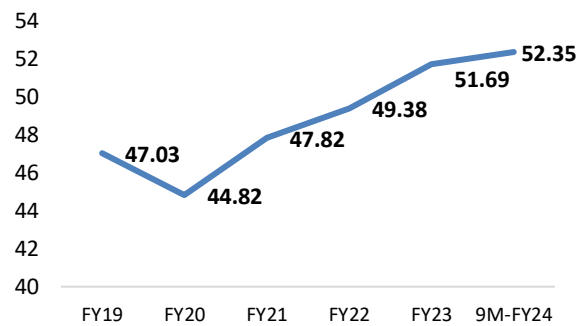
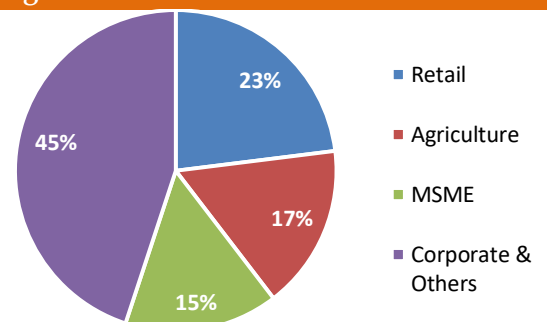


Figure 4: Classification of Domestic Advances



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