**Punjab National Bank — FY 2024 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | **PNB has successfully pivoted to a granular RAM-led (Retail, Agri, MSME) lending model, which now constitutes 55.2% of domestic advances, effectively reducing corporate concentration risk.** | Positive |
| 2 | **Interest income growth of 32% significantly outpaced loan book growth of 9%, suggesting aggressive revenue recognition or a sharp expansion in yields during the period.** | Neutral |
| 3 | ***Operating margins face pressure from legacy costs, specifically a massive  3,045.99 Cr actuarial loss on pension obligations that highlights ongoing liability volatility.*** | Negative |
| 4 | **Bottom-line performance saw a 172% surge in Net Profit to ₹9,157 Cr, though this was heavily supported by lower credit costs and a positive financing margin.** | Positive |
| 5 | **Regulatory capital (CRAR) is robust at 16.00%, providing a buffer for expansion, though CET-1 quality is diluted by a ₹9,268.29 Cr non-cash Amalgamation Reserve.** | Neutral |
| 6 | ***Cash flow from operations (CFO) deteriorated to -  27,939 Cr, reflecting a severe mismatch as credit growth (  1.16 Lakh Cr) significantly outstripped deposit mobilization.*** | Negative |
| 7 | ***Capital expenditure and dividends are being funded via debt/internal accruals despite negative Free Cash Flow, raising questions regarding long-term capital allocation sustainability.*** | Negative |
| 8 | ***Earnings quality is low, characterized by a CFO/PAT ratio of -3.05 and accounting profits inflated by non-cash reserves and one-time recoveries.*** | Negative |
| 9 | ***Governance remains a "work in progress" with only 33% board independence and the concerning consolidation of the UK subsidiary based on un-audited financials.*** | Negative |
| 10 | ***Liability risk is intensifying as CASA growth stagnated at 2.7%, indicating the bank is losing market share in the competitive "war for deposits."*** | Negative |
| 11 | **Asset quality has reached a decadal best with Net NPA dropping to 0.73% and a 95.4% Provision Coverage Ratio de-risking the balance sheet against future slippages.** | Positive |
| 12 | **Investment View: ACCUMULATE; the bank is a high-beta play on the credit cycle where structural asset quality gains are currently offset by weak cash conversion and liability franchise fragility.** | Positive |

## 1. Business overview

- **Strategic Pivot:** PNB has structurally shifted its balance sheet toward the **RAM (Retail, Agriculture, and MSME)** segment, which now accounts for 55.2% of domestic advances to de-risk from corporate slippages.
- **Revenue Drivers:** Primary driver is a massive deposit franchise with **Global Deposits at ₹13,69,713 Cr**. CASA ratio stands at 41.44%, providing a low-cost funding base supporting a Domestic NIM of 3.23%.
- **Segment Performance:** Retail credit grew at **12.6% YoY**, while MSME (adjusted for reclassification) grew at 12.0%, signaling a move toward higher-yield, granular assets.
- **Cost Drivers:** Historically high cost-to-income ratio is being addressed via **Project UDAAN**, an HR transformation initiative. Business per employee increased to ₹23.84 Cr (up 10.2% YoY).

- **Industry Position:** Reclaimed status as the **third-largest Public Sector Bank** by market cap, crossing the ₹1 Lakh Crore mark in Dec 2023.
- **Expansion Plans:** Targeting sustainable growth through **58+ MSME clusters** and leveraging the GeM (Government e-Marketplace) portal for supply chain finance.
- **Capacity & Digitalization:** Launched **100+ digital products** in two years; reduction in digital complaints by 20% indicates tech stack efficiency.
- **Geographical Presence:** Maintains a significant domestic footprint and international presence, though currently liquidating **JSC (Tengri Bank)** in Kazakhstan.

## 2. Management commentary & outlook

- Management tone has shifted from defensive (provisioning and recovery) to offensive (market share and digitalization), focusing on a "Digital-First" approach.
- The bank is signaling a "Clean Slate" narrative as **Net NPA dropped to 0.73%** and Provision Coverage Ratio (PCR) reached 95.4%.
- Strategic focus is now on "Customer Centricity" and "Ease of Banking" to shed the legacy image of a slow-moving PSB.
- Management is targeting the **GeM portal's 13.5 lakh vendors** as a massive untapped lending pool for supply chain finance.
- Plans to raise **₹7,500 Cr in Equity** and ₹10,000 Cr in Bonds in FY25 are underway to prepare for a significant credit expansion cycle.
- **Project UDAAN** is being utilized to institutionalize a performance-driven culture, training 900+ mid-managers in leadership.
- Management aims to maintain a regulatory shield while becoming more commercial, aligning strategic agendas with national policy objectives like "Viksit Bharat."
- The implementation of **Sajag 2.0** (early warning system) indicates a shift toward proactive risk management using analytics and AI.
- **Management Tone:** The management tone is **highly confident**, backed by the best financial metrics in a decade. There is a persistent "regulatory-speak" undertone, but the shift from discussing "Slippages" to "Analytics and AI" indicates a team looking through the windshield rather than the rearview mirror. (Disciplined Optimism).

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2024 | Mar 2023 |
|---|---|---|
| Revenue | 109,065 | 86,845 |
| Sales Growth % | 25.58 | 13.91 |
| Interest | 68,534 | 51,817 |
| Expenses | 39,623 | 41,502 |
| Manufacturing Cost % | 0.74 | 0.91 |
| Employee Cost % | 17.10 | 17.21 |
| Other Cost % | 18.49 | 29.67 |
| Financing Profit | 908 | -6,473 |
| Financing Margin % | 1 | -7 |
| Other Income | 14,158 | 12,529 |
| Exceptional items | 7 | 3 |
| Other income normal | 14,151 | 12,526 |
| Depreciation | 906 | 905 |
| Profit before tax | 14,160 | 5,151 |
| Tax % | 35 | 35 |
| Net Profit | 9,157 | 3,359 |
| Profit from Associates | 0 | 0 |
| Minority share | -50 | -10 |
| Exceptional items AT | 4 | 2 |
| Profit excl Excep | 9,153 | 3,357 |
| Profit for PE | 9,103 | 3,347 |
| Profit for EPS | 9,107 | 3,348 |
| Profit Growth % | 172 | -13 |
| EPS (□) | 8.27 | 3.04 |
| Dividend Payout % | 18 | 21 |

## Balance sheet (□Cr)

| Line item | Mar 2024 | Mar 2023 |
|---|---|---|
| Equity Capital | 2,202 | 2,202 |
| Reserves | 108,185 | 100,678 |
| Deposits | 1,379,225 | 1,290,347 |
| Borrowing | 72,586 | 70,149 |
| Other Liabilities | 36,438 | 30,273 |
| Non controlling int | 561 | 459 |
| Trade Payables | 3,361 | 3,719 |
| Other liability items | 32,516 | 26,095 |
| Total Liabilities | 1,598,636 | 1,493,649 |
| Fixed Assets | 12,348 | 12,084 |
| Building | 12,220.64 | 12,093.05 |
| Computers | 1,395.18 | 1,287.72 |
| Furniture n fittings | 0 | 0 |
| Other fixed assets | 10,828.07 | 9,892.56 |
| Gross Block | 24,443.89 | 23,273.33 |
| Accumulated Depreciation | 12,096.05 | 11,189.37 |
| CWIP | 0 | 0 |
| Investments | 446,421 | 416,914 |
| Other Assets | 1,139,867 | 1,064,651 |
| Cash Equivalents | 61,772 | 74,478 |
| Loans n Advances | 11,062 | 13,172 |
| Other asset items | 1,067,033 | 977,001 |
| Total Assets | 1,598,636 | 1,493,649 |

### Cash flow statement (□Cr)

| Line item | Mar 2024 | Mar 2023 |
|---|---|---|
| Cash from Operating Activity | -27,939 | 22,592 |
| Profit from operations | 29,560 | 28,086 |
| Loans Advances | -116,625 | -118,493 |
| Operating investments | -27,599 | -29,448 |
| Operating borrowings | -4,665 | 6,315 |
| Operating Deposits | 88,878 | 136,113 |
| Other WC items | 4,387 | 1,224 |
| Working capital changes | -55,625 | -4,289 |
| Direct taxes | -1,875 | -1,204 |
| Other operating items | 0 | 0 |
| Cash from Investing Activity | -1,506 | -732 |
| Fixed assets purchased | -1,175 | -552 |
| Fixed assets sold | 31 | 0 |
| Investments sold | 0 | 0 |
| Investment income | 0 | 0 |
| Dividends received | 0 | 0 |
| Invest in subsidiaries | -363 | -180 |
| Redemp n Canc of Shares | 0 | 0 |
| Acquisition of companies | 0 | 0 |
| Cash from Financing Activity | 3,518 | 1,275 |
| Proceeds from shares | 0 | 0 |
| Proceeds from debentures | 7,102 | 4,462 |
| Redemption of debentures | 0 | 0 |
| Interest paid fin | -2,970 | -2,468 |
| Dividends paid | -716 | -705 |
| Other financing items | 101 | -14 |
| Net Cash Flow | -25,928 | 23,135 |
| Free Cash Flow | -29,083 | 22,040 |
| CFO/OP | -38 | 52 |

## 3.2 Financial analysis summary

- **Revenue** grew by 25.58% YoY to □109,065.00 Cr, primarily driven by a sharp rise in interest earned to □68,534.00 Cr, while Net Profit surged 172% to □9,157.00 Cr as the Financing Margin turned positive at 1.00% from -7.00% in the previous year.

- The profitability leap is supported by **Other Income** of ₹14,158.00 Cr, which includes PSLC sale fees and recoveries from technically written-off accounts credited directly to the P&L; however, earnings quality is tempered by a massive ₹3,045.99 Cr actuarial loss on pension obligations.
- The **Balance Sheet** expanded to ₹1,598,636.00 Cr, with Deposits growing to ₹1,379,225.00 Cr, while Total Assets are dominated by Loans and Advances of ₹1,067,033.00 Cr (reported under Other Assets).
- **Net Worth** improved to ₹110,387.00 Cr, but this includes a non-cash Amalgamation Reserve of ₹9,268.29 Cr; excluding this "paper" strength would reduce the CET-1 ratio by approximately 123 basis points.
- **Cash from Operating Activity (CFO)** deteriorated sharply to negative ₹27,939.00 Cr from a positive ₹22,592.00 Cr, resulting in a CFO/PAT ratio of -3.05.
- **Working Capital** changes of negative ₹55,625.00 Cr, specifically a ₹116,625.00 Cr outflow in Loans Advances which outpaced the ₹88,878.00 Cr inflow from Operating Deposits, signals that credit growth is currently consuming more cash than deposit mobilization provides.
- **Total Debt** (Borrowings) increased slightly to ₹72,586.00 Cr, with a strategic shift toward Tier 1 Perpetual Debt, which rose 42.6% to ₹6,012.00 Cr to bolster regulatory capital.
- **Finance Cost** (Interest Paid) of ₹2,970.00 Cr maintains a Debt/Equity ratio of 0.66, while the Interest Coverage remains thin at 1.21.
- **Fixed Assets** remained stable at ₹12,348.00 Cr, with Depreciation flat at ₹906.00 Cr; however, a 31.2% drop in software amortization suggests a slowdown in new technology capitalization.
- **Return metrics** showed significant improvement with ROE rising to 8.30% from 3.26%, although ROA remains low at 0.57%.
- **Free Cash Flow (FCF)** turned deeply negative at ₹29,083.00 Cr, indicating the bank is currently dependent on external financing and deposit growth to fund its lending expansion.
- **Dividend Payout** of 18.00% (₹716.00 Cr) is being paid out of accounting profits despite the negative CFO, which may not be sustainable if the cash burn from loan growth continues.
- **Other Liabilities** include general provisions for standard assets which are not netted from advances, thereby inflating Total Assets; additionally, the pension fund faces a deficit of ₹1,114.12 Cr, representing a looming liability.
- **Other Expenses** are impacted by pension interest costs of ₹3,544.18 Cr, which is nearly 9x the current service cost, indicating a heavy legacy cost burden sensitive to discount rate fluctuations.
- The dominant financial theme of the year is a **record accounting profit recovery and regulatory capital strengthening (CRAR 16.00%) that is starkly decoupled from a deep negative operating cash flow, driven by aggressive credit expansion and significant legacy employee benefit costs.**

### 3.3 Contingent liabilities & commitments

- **Litigation:** Recognized if probable; "remote" possibilities are explicitly excluded from disclosures, which is a high-judgment area.
- **Tax Disputes:** Interest on Income Tax refunds is recognized only when the order is passed to prevent aggressive accrual.
- **Guarantees & Acceptances:** Translated at FEDAI spot rates.
- **Capital Commitments:** The bank maintains significant off-balance sheet risk profiles through guarantees and letters of credit.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — earnings overstate cash; □55,625 Cr working capital outflow drags CFO to negative □27,939 Cr. | — | CFO/OP ratio is -38.00, indicating poor conversion of accounting profits to cash. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑ — aggressive accrual; interest income grew 32% while the loan book grew only 9.2%. | — | Note 3.2: Mode of appropriation in NCLT settlements can lead to lumpy interest recognition. |
| 3 | Revenue timing | Profit ↑ — realization basis; NPA income recognized only on cash receipt prevents aggressive interest accruals. | — | Note 3.7: Interest on Income Tax refunds recognized only upon receipt of order. |
| 4 | Revenue from related parties % | Neutral — low concentration; core banking revenue is primarily external despite 20 group entities. | — | Note 1 & 2: Group structure is complex but revenue is largely third-party. |
| 5 | Inventory vs revenue growth | Neutral — banking model; investment growth of 7% significantly lags the 25.6% revenue growth. | — | Banking sector does not carry traditional inventory; investments are the primary liquid asset. |
| 6 | Inventory valuation method change | Profit ↑ — conservative cushion; ignoring net appreciation in AFS/HFT categories creates a hidden valuation reserve. | — | Policy follows "lower of cost or market" but ignores appreciation, providing a safety buffer. |
| 7 | Exceptional items in operating profit | Profit ↑ — negligible impact; exceptional items of □7 Cr are immaterial to the □14,160 Cr PBT. | — | P&L shows exceptional items are less than 0.05% of total revenue. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — amortization slowdown; 31.2% drop in software amortization suggests older assets are fully depreciated. | — | Note 4.3: Total depreciation flat at □905 Cr despite increase in premises depreciation. |
| 9 | Provision reversals boosting PAT | Profit ↑ — non-recurring gains; recoveries from technically written-off accounts are credited directly to P&L. | — | These gains smooth earnings but do not represent sustainable core operational interest income. |
| 10 | Tax rate consistency + cash tax vs P&L tax | Profit ↑ — tax deferral; cash tax of □1,875 Cr is significantly lower than 35% P&L provision. | — | Significant divergence between statutory tax rate and actual cash tax outflow in CFO. |
| 11 | CWIP age and stalling projects | Neutral — no capitalization risk; zero CWIP balance indicates no risk of stalling capital projects. | — | Balance sheet shows no capital work-in-progress for the current or previous year. |
| 12 | Deferred tax asset recognition adequacy | Profit ↑ — judgment risk; DTA recognition relies on "virtual certainty" of future taxable profits. | — | Given historical volatility, the "virtual certainty" assessment is a key driver of net profit. |
| 13 | RPT quantum and trend | Neutral — governance gap; consolidation of UK subsidiary based on un-audited financials poses integrity risks. | — | PNB International Ltd UK was consolidated without audited figures, a material governance weakness. |
| 14 | Dividend paid vs FCF adequacy | Profit ↓ — liquidity strain; dividends of □716 Cr paid despite negative free cash flow of □29,083 Cr. | — | Note 4.5: Pension fund deficit of □1,114 Cr represents a looming cash liability. |
| 15 | Capital Quality (Amalgamation Reserve) | Profit ↑ — paper strength; inclusion of non-cash reserve in CET-1 capital. | — | Excluding this would drop CET-1 by 123 bps, signaling weaker organic capital generation. |
| 16 | Actuarial Pension Loss | Profit ↓ — legacy cost; massive actuarial loss charged to P&L. | — | |

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| | | | | Heavy legacy cost burden dragging down earnings quality and future cash flows. |
| 17 | Subsidiary Data Integrity | Neutral — data risk; reliance on management certified data for subsidiaries. | — | Introduces risk of retrospective adjustments in Net Profit or Net Worth. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit opinion type:** Unqualified. * **Identification of NPAs:** Auditor concern regarding the accuracy of automated NPA tagging and the risk of manual overrides. Management responded with "Sajag 2.0." * **Valuation of Investments:** Significant judgment required for unquoted equity and illiquid bonds. Auditors verified valuation models and RBI compliance. * **IT Systems & Controls:** Reliance on complex legacy systems for interest calculation; auditors tested General IT Controls (GITC). * **Other Matter: Punjab National Bank (International) Ltd. UK** was consolidated based on Un-Audited Financials, representing a material data integrity risk. * **CAG Audit:** PNB Gilts, PNB Investment Services, and PNB Cards are subject to "Supplementary Audit" by the CAG; adverse findings could lead to retrospective adjustments.

B. Related Party Transactions

| Party | Relationship | Nature | Amount (□ Cr) | Concern |
|---|---|---|---|---|
| PNB Gilts Limited | Subsidiary | Securities/Money Market | > 1,000.00 Cr | High volume; potential for regulatory ratio window-dressing. |
| PNB Housing Finance | Associate | Loans and Advances | > 1,000.00 Cr | Significant credit exposure to a single associate entity. |
| Regional Rural Banks | Associates | IBPC Transactions | > 1,000.00 Cr | High liquidity risk; used for meeting PSL targets. |
| PNB Gilts/Housing | Sub/Assoc | Current Account Deposits | > 1,000.00 Cr | Reliance on group entities for deposit mobilization. |
| Druk PNB/Everest Bank | Sub/JV | Nostro Account Trans. | > 1,000.00 Cr | Cross-border counterparty risk with related entities. |

- **Note:** Aggregate RPT approvals (> □5,000 Cr) represent **> 4.58%** of Revenue. RPT volume is highly concerning given the Negative CFO of -27,939.00 Cr.

C. Shareholding | Quarter | Mar 2023 | Jun 2023 | Sep 2023 | Dec 2023 | Mar 2024 | | :--- | ---: | ---: | ---: | ---: | ---: | | Promoters | 73.15% | 73.15% | 73.15% | 73.15% | 73.15% | | FIIs | 1.71% | 1.81% | 2.45% | 3.09% | 4.82% | | DIIs | 13.58% | 13.70% | 13.75% | 13.88% | 14.00% | | Public | 11.56% | 11.34% | 10.65% | 9.88% | 8.03% |

- **Promoter Pledge:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 12 | **Independent %:** 33.33% | **Women Directors:** 2. * **KMP Compensation:** Governed by GOI norms; individual pay not explicitly disclosed. * **Aggregate Employee Cost %:** Stable at **17.10%** of revenue. * **Correlation:** Low correlation between KMP pay and the **172%** jump in Net Profit, as the bottom-line surge was driven by lower provisioning.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | -------- | ------------------- | ----------------- | ---------- | | Dividends Paid | 716.00 Cr | 705.00 Cr | **Positive** | | Capex (Fixed Assets) | 1,175.00 Cr

| 552.00 Cr | ***Concern*** | | Proceeds from Debentures | 7,102.00 Cr | 4,462.00 Cr | **Strength** | | Interest Paid (Financing) | 2,970.00 Cr | 2,468.00 Cr | ***Concern*** |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex**: **-23.78x**. CFO is insufficient to fund capex; gap bridged by bond issuances.
  - **Nature of Capex**: Primarily maintenance and technology; **33.33% depreciation on computers** ensures no tech-debt buildup.
  - **Deployment Efficiency**: Fixed assets grew 2.18% while Interest Income grew 32.26%, indicating high efficiency in sweating existing infrastructure.
  - **Key Takeaways**: **The 112% spike in Capex (to 1,175.00 Cr) is largely technology-driven to support "UDAAN," but funding relies entirely on external capital due to negative operating cash flows.**

H. Risks * ***Pension Liability:*** **□3,045.99 Cr actuarial loss**; fund deficit of □1,114.12 Cr requires future cash infusion. (High) * ***Capital Quality:*** **□9,268.29 Cr Amalgamation Reserve** is a non-cash "paper" strength; excluding it drops CET-1 by 123 bps. (High) * ***Subsidiary Audit:*** Unaudited consolidation of UK subsidiary lacks independent verification of foreign assets. (Medium) * ***NPA Tagging:*** Risk of manual override in automated systems; auditor concern on system integrity. (Medium) * ***Geopolitical:*** Liquidation of Tengri Bank (Kazakhstan) results in total loss of investment. (Low)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 4 | ↑ | RAM segment 55.2%; 12.6% Retail growth | Successful pivot to granular, higher-yield assets and digital scale. |
| Financial health | 2 | ↓ | CFO -□27,939 Cr; D/E 0.66x | Strong regulatory capital (16% CRAR) but severe operating cash burn. |
| Earnings quality | 2 | ↓ | CFO < PAT; □3,045 Cr Pension loss | Accounting profits inflated by non-cash reserves and one-time recoveries. |
| Management & governance | 3 | → | 33% Independent Board; Unaudited UK Sub | Strong operational execution on NPAs offset by transparency gaps. |
| Capital allocation & earnings visibility | 3 | → | ROCE 8.3%; Negative FCF | Dividends paid despite negative FCF; capex funded by debt. |

**Business positives (for this company this year)** * **Asset Quality Improvement:** Net NPA dropped significantly to **0.73%** from 2.72% YoY. * **Provisioning Buffer:** Provision Coverage Ratio (PCR) reached a robust **95.4%**, de-risking future earnings. * **Profitability Surge:** Net Profit grew by **172%** to □9,157 Cr, driven by a positive financing margin. * **Capital Adequacy:** CRAR improved to **16.00%**, providing a strong regulatory buffer for expansion. * **Digital Traction:** Launched **100+ digital products** and saw a 20% reduction in digital complaints.

**Business negatives / concerns (for this company this year)** * **Cash Flow Divergence:** CFO is deeply negative at **-□27,939 Cr** vs PAT of □9,157 Cr. * **Legacy Cost Burden:** Recognized a massive **□3,045.99 Cr actuarial loss** on pension obligations. * **Capital Quality:** CET-1 includes a **□9,268.29 Cr non-cash Amalgamation Reserve**, a "paper" strength. * **Governance Gap:** Consolidation of the UK subsidiary was based on **Un-Audited Financials**. * **Liability Risk:** CASA growth was a modest **2.7%**, suggesting the bank is losing the "war for deposits."

**Overall scorecard summary** PNB has successfully transitioned from a "repair" phase to an "expansion" phase, evidenced by stellar improvements in asset quality (NNPA < 1%) and accounting profitability. However, the financial strength is bifurcated: while regulatory capital ratios are high, the bank is experiencing a severe operating cash burn (Negative CFO) due to credit growth outstripping deposit mobilization. Governance remains a "work in progress" with concerns regarding non-cash reserves and unaudited subsidiary data, placing the bank on a stable but high-diligence trajectory.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 8/10 — Governance Rating: 3"

## Part c: investor verdict

Thesis: PNB is a high-beta play on the Indian credit cycle, having cleaned its balance sheet (NNPA 0.73%) but remains burdened by legacy pension costs and weak cash conversion.

## Overall stance: ACCUMULATE

Rationale: Structural improvement in asset quality and high PCR (95%) provide a safety floor, while digital initiatives (UDAAN) offer margin expansion potential. Re-evaluate when: Cost-to-Income ratio exceeds 55% or NNPA crosses 1.5%. BULL CASE: Successful CASA mobilization (>45%) and UDAAN 2.0 driving fee income growth of >20%. BEAR CASE: Fresh slippages in the MSME portfolio and further actuarial pension losses exceeding □2,000 Cr. Key monitorable: CFO/PAT Ratio: -3.05 → watch for move toward positive territory.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Operating Cash Flow (CFO) | Positive ₹22,592 Cr | Negative ₹27,939 Cr | Accounting profits have starkly decoupled from actual cash generation as credit expansion now outstrips deposit mobilization. |
| Financing Margin | -7.00% (Negative) | +1.00% (Positive) | The core lending business has structurally pivoted to profitability, driven by a higher-yield RAM segment mix. |
| Management Tone | Defensive & Recovery-focused | Offensive & Digital-First | Leadership has shifted from a "repair and provision" narrative to an aggressive growth stance labeled as "Disciplined Optimism." |
| Capital Allocation (Capex) | ₹552 Cr (Maintenance) | ₹1,175 Cr (112% Spike) | The bank is aggressively funding technology-led transformation (Project UDAAN) using external debt rather than internal accruals. |
| Asset Quality (Net NPA) | 2.72% (Legacy Stress) | 0.73% (Decadal Low) | The bank has successfully achieved a "clean slate" balance sheet, significantly reducing the sensitivity of the bottom line to fresh slippages. |
| Revenue Recognition | 13.9% Growth | 25.6% Growth | Interest income growth (32%) significantly outpaced loan book growth (9%), suggesting aggressive recognition or lumpy NCLT recoveries. |

### 7.2 Persistent patterns

- **The bank continues to rely on non-cash "paper" strength, specifically the ₹9,268 Cr Amalgamation Reserve, to bolster its CET-1 capital ratios.**
- **Legacy employee benefit volatility remains a major drag on earnings quality, evidenced by recurring spikes in employee provisions and massive actuarial pension losses.**
- **Auditors consistently flag the risk of manual overrides in automated NPA identification systems, indicating persistent concerns over the integrity of asset tagging.**
- **High-volume Related Party Transactions (RPTs) remain a core strategy for managing regulatory ratios and meeting Priority Sector Lending (PSL) targets.**
- **A significant divergence persists between P&L tax provisions and actual cash tax paid, suggesting ongoing utilization of deferred tax assets to smooth net profit.**
- **The bank maintains an aggressive depreciation policy for technology assets (33.33%), ensuring a continuous and expensive IT refresh cycle.**
- **Dividend payouts continue to be maintained based on accounting profits despite underlying strains in free cash flow and operating liquidity.**