Punjab National Bank — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** PNB has successfully transitioned from a "cleanup" story to a "compounding" story, with asset quality now matching top-tier private peers (Net NPA <1%) and a fortress-like PCR providing high earnings visibility.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Credit cost (0.32%) and GNPA (4.98%) significantly bettered original FY25 guidance.	□
Earnings Quality	High (Core driven)	PAT growth (+159% YoY) driven by NII growth and massive reduction in provisions.	□
Guidance Confidence	Strong	Management revised FY25 GNPA guidance downwards from 5% to 4% and Credit Cost from 1% to 0.5%.	□
Management Credibility	Strong	Achieved <5% GNPA target ahead of schedule; transparency on SMA-0/1/2 book breakdown was high.	□
Business Quality Signal	Improving	ROA is marching toward 1% (0.82% currently) as legacy asset drags are eliminated.	□
Key Q&A Exchange	Q7: SMA Book	Analysts questioned the □1,01,883 Cr SMA book; Mgmt clarified 76% is SMA-0 (least risk).	□
The Street's Primary Anxiety	LDR & LCR Norms	Fear of high Credit-Deposit ratio and draft LCR impact; Mgmt cited 125% current LCR and high excess SLR.	□
Capital Cycle Stage	Harvesting	Massive PCR (95.9%) means bank no longer needs to provision heavily; profits flow to bottom line.	□
Return Ratio Trajectory	Improving	ROE expanded to 16.82% (annualized) from 3.94% in FY23.	□
Pricing Power	Stable	Global NIM held at 3.07% despite deposit cost pressures.	□
FCF Conversion & Quality	N/A (Bank)	Strong Tier-1 (13.04%) and capital generation reduces the need for aggressive equity dilution.	□
Competitive Moat Signals	Stable	2nd largest domestic branch network (10,150) remains the primary CASA engine.	→
Balance Sheet Strength	Strong	PCR (Incl. TWO) at 95.9% is among the highest in the Indian banking system.	□
Working Capital Efficiency	N/A (Bank)	Business per employee improved to □24.80 Cr (+14.5% YoY).	□
Mgmt Guidance Track Record	Reliable	Consistently hitting or exceeding credit growth and recovery targets over last 4 quarters.	□
Key Vulnerability	Deposit Growth	Domestic deposit growth (8.5%) lags credit growth (12.2%), creating potential LDR pressure.	□
Management Tone	Confident	CEO described the result as a "trailer" with the "picture yet to come."	□

Key Takeaways: * **Positives:** Asset quality has hit a structural inflection point; GNPA is below 5% for the first time in years, and Net NPA at 0.60% removes the "tail risk" from the thesis. The bank is now generating enough capital internally to reduce its planned Tier-1 raise from □7,500 Cr to □5,000 Cr. Recovery remains robust (□3,249

Cr in Q1), frequently exceeding fresh slippages (1.8x coverage). * **Negatives:** Operating expenses were inflated by a one-off □558 Cr PSLC (Priority Sector Lending Certificate) purchase. CASA remains a industry-wide challenge, though PNB's saving bank growth was positive YoY. * **The Street's Concern:** Analysts are focused on the "SMA-0/1/2" pool totaling over □1 trillion. Management mitigated this by showing that SMA-2 (high risk) accounts >□5 Cr are a minuscule □1,604 Cr. * **Forward Watchpoint:** Transition to the new tax regime and the impact of the final LCR (Liquidity Coverage Ratio) norms in April 2025.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	10.2%	-	-	→	Core NII growth driven by 12.2% advance growth and stable NIMs.
NIM (Global %)	3.07%	↓ (3.08%)	↓ (3.09%)	→	Global NIM slightly down but within the guided range of 2.9%–3.0%.
Cost of Funds %	4.54%	↑ (3.61%)	↑ (4.36%)	↓	Industry-wide trend of rising funding costs as deposits reprice.
Cost of Deposits %	5.10%	↑ (4.10%)	↑ (4.91%)	↓	Global cost of deposits rose 100bps YoY; domestic at 5.08%.
CASA Ratio (period end %)	40.08%	↓ (42.0%)	↓ (41.4%)	↓	CASA under pressure; however, Savings Deposits grew □20,390 Cr YoY.
Credit-Deposit Ratio %	73.1%	↑ (69.1%)	↑ (71.8%)	↓	Creeping up as loan growth (12.2%) outpaces deposit growth (8.5%).
Loans Growth (% YoY)	12.2%	-	4.6% QoQ	↑	Driven by RAM (Retail, Agri, MSME) growth of 13% +.
Deposits Growth (% YoY)	8.5%	-	2.8% QoQ	↓	Lags loan growth; Mgmt avoiding high-cost bulk deposits.
GNPA %	4.98%	↓ (7.73%)	↓ (5.73%)	↑	First time sub-5% post-merger; beat original year-end target.
NNPA %	0.60%	↓ (1.98%)	↓ (0.73%)	↑	Approaching "zero" net NPA territory due to high provisioning.
Slippage Ratio %	0.76%	↓ (1.10%)	↓ (0.87%)	↑	Annualized slippages well within 1% guidance; lowest in 12 quarters.
Credit Cost %	0.32%	↓ (1.99%)	↓ (0.81%)	↑	Major driver of profit; guidance revised to 0.5% for FY25.
Capital Adequacy %	15.79%	↑ (15.50%)	↓ (15.97%)	→	CET1 at 10.95%. Capital computation excludes Q1 PAT.
PAT (□Cr)	3,252	↑ 159.1%	↑ 8.0%	↑	Highest quarterly profit in bank's history post-merger.
Fee Income Growth %	16.3%	-	-	↑	Processing fees (+12.3%) and LC/LG income (+26.2%) were strong.

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	GNPA %	Trend	vs Co Avg	Key Development
Retail	2,34,564	18.6%	1.42%	↑	Outperforming	Vehicle (+26.9%) and Home (+14.7%) loans leading.
Agriculture	1,68,503	18.6%	12.64%	↑	Underperforming	Gold loan book hit □7,767 Cr (Agri only).
MSME	1,42,886	9.8%	13.65%	↑	Stable	Focus on small/micro; GNPA down from 18.9% YoY.
Corporate	4,38,454	15.5%	1.25%	↑	Improving	Massive improvement in GNPA from 5.03% YoY.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	11%–12% for FY25	Currently at 12.2%; easily achievable.	Delivered	Low
Guidance	GNPA	<4.0% by Mar-25 (Revised from 5%)	Currently 4.98%; needs ~25bps reduction/qtr.	Ahead of Schedule	Low
Guidance	Credit Cost	0.50% for FY25 (Revised from 1.0%)	Currently 0.32%; highly feasible given PCR.	Delivered	Low
Guidance	ROA	1.0% exit rate for FY25	Currently 0.82%; requires tax regime shift or fee uptick.	On Track	Medium
Strategy	Capital Raise	□5,000 Cr Tier-1 (Revised from 7,500)	Board approved; market conditions supportive.	New Target	Low
Strategy	RAM Mix	Reach 60% (from 55.46%)	Growing at 13%+; taking 100-150bps per year.	Progressing	Low
Macro	LCR Impact	~10% hit to LCR from draft norms	Current 125% would drop to 115% (Threshold is 100%).	N/A (Draft)	Medium
Balance	Recoveries	□18,000 Cr for FY25	Q1 at □3,249 Cr; needs □4,917 Cr run-rate per quarter.	Historical Beat	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Mahrukh Adajania, Nuvama	Financials	"Do you think there are enough deposits in the system to support higher credit growth?"	Management is not foreseeing challenges as they have 10,000 branches and excess SLR of □78,000 Cr to fund growth. This implies PNB can outpace the industry in credit growth without immediate deposit pressure, a key margin protector.	None	4.0	Specific and quantified
2	4.0	Mahrukh Adajania, Nuvama	Management Outlook	"Rough impact of the new LCR draft norms?"	Management calculated a ~10% impact, which would bring their LCR from 125% down to 115%. This suggests a comfortable cushion above the 100% regulatory minimum even under tighter rules.	None	4.0	Directional evidence
3	3.5	Mahrukh Adajania, Nuvama	Financials	"What was the improvement in yield on investment because of new norms?"	Mgmt stated □2,099 Cr (net of tax) was added to general reserves and yield increased to 7.06% from 6.82%. This confirms the balance sheet strength gain from accounting changes without distorting core P&L.	None	5.0	Specific, quantified
4	3.0	Ashok Ajmera, Ajcon Global	Capex and Allocation	"Is the modified duration of the treasury book (4.76) too high?"	Mgmt argued that in a declining interest rate scenario, higher duration	None	3.0	Vague but consistent

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					is preferable, though they are keeping AFS/ HFT duration at 3.61. This indicates a bullish stance on rate cuts to drive treasury gains.			
5	4.0	Nitin Aggarwal, Motilal Oswal	Financials	"OPEX looks high; was there a one-off in other OPEX?"	Mgmt confirmed a one-off ₹558 Cr expenditure for the purchase of PSLCs (Priority Sector Lending Certificates). Stripping this out, core OPEX is much leaner, suggesting better operating leverage in Q2.	None	5.0	Specific, quantified
6	4.0	Nitin Aggarwal, Motilal Oswal	Financials	"When can we expect the tax rate to come down to 25%?"	Mgmt is currently in the old tax regime and will switch once they exhaust current benefits, which will immediately boost ROA >1%. This is a significant "latent" earnings trigger for the next 12 months.	None	3.0	Vague timeline
7	5.0	Jai Mundra, ICICI Securities	Financials	"Breakdown of SMA-0, 1, and 2 book (₹1.01 lakh Cr)?"	Management clarified that SMA-0 is ₹77,952 Cr, SMA-1 is ₹11,432 Cr, and SMA-2 is ₹12,499 Cr. High SMA-0 is often just "lazy" payments rather than stress; the low SMA-2 (>₹5Cr) at ₹1,604 Cr is the real safety signal.	None	4.0	Specific breakdown

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
8	3.5	Jai Mundra, ICICI Securities	Financials	"Any thought process on contingent provisions for ECL transition?"	Mgmt stated that with 96% PCR and strong new underwriting (0.3% NPA in last 4 years), ECL impact is likely manageable. They expressed willingness to build buffers if recoveries continue to surprise on the upside.	Specific ECL estimates	2.0	Hedged
9	3.0	Rakesh Kumar, B&K Securities	Financials	"Which subsidiary caused the □390 Cr investment depreciation?"	Management declined to name the specific subsidiary, noting it was due to revaluation under new guidelines for an entity with accumulated losses. This is a minor one-off that doesn't impact core banking operations.	Subsidiary Name	2.0	Deflected

PATTERN FLAGS & SENTIMENT * **Asset Quality Anxiety:** Multiple analysts pressed on the high SMA (Special Mention Account) pool. Management's defensive but data-heavy response (breaking down SMA-0 vs SMA-2) successfully reframed the concern from "stress" to "liquidity management" by borrowers. This concern is likely to fade as slippages remain <1%. * **Liquidity/Regulatory Worry:** Questions on LDR (Loan-Deposit Ratio) and new LCR norms were persistent. Management appeared confident, citing their massive branch network and excess SLR as a "liquidity moat." This will remain a live topic until deposit growth accelerates.

Analyst Sentiment Verdict: Analysts were largely impressed, specifically by the 0.32% credit cost and the sub-5% GNPA. The friction point was exclusively on the SMA book and LDR ratios, but management's transparency on the "new underwriting" (0.3% NPA on loans since 2022) significantly bolstered credibility.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.