Punjab National Bank — Aug 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on PBT & Op. Profit; Accounting Miss on Net Profit (Tax Shift). **One-line:** PNB has structurally de-risked its balance sheet with a best-in-class NNPA of 0.38%, though it is currently sacrificing near-term margins and CASA share to transition into a higher-RoA tax regime.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Op. Beat / PAT Miss	Operating Profit (□7,081 Cr) is an all-time high; Net Profit missed due to a one-time □3,324 Cr tax hit.	□
Earnings Quality	High (Core Operating)	Growth driven by 7.6% YoY Op. Profit; PBT grew 28.3% YoY, stripping out the tax accounting noise.	□
Guidance Confidence	Strong	Management reaffirmed NIM (2.8-2.9%) and Credit Growth (11-12%) despite Q1 being below these levels.	□
Management Credibility	Strong	Decisive move to new tax regime (saving □700 Cr/qtr henceforth) shows long-term fundamental focus.	□
Business Quality Signal	Improving (Asset Quality)	Fresh underwriting (post-2020) now 63% of book with only 0.40% NPA; the "toxic legacy" is officially dead.	□
Key Q&A Exchange	Q2: Tax Regime Accretion	Mgmt confirmed the shift adds 16bps to RoA from Q2 onwards; offset for margin pressure.	□
The Street's Primary Anxiety	NIM & CASA Erosion	Analysts worried about 2.70% Global NIM and 36.99% CASA; Mgmt cited bulk deposit repricing lag.	□
Capital Cycle Stage	Harvesting	PCR at 96.88% means credit costs (0.14%) are at rock bottom; all recoveries now hit P&L directly.	□
Margin / Return Ratio Trajectory	Temporarily Compressed	Global NIM fell 11bps QoQ; RoA (0.37%) is distorted but would be ~1.1% on a normalized tax basis.	□
Pricing Power	Moderate	Immediate pass-through of repo cuts (100bps) pressured yields; Bank now shedding low-yield corporate loans.	□
FCF Conversion & Quality	N/A (Banking)	Tier-1 Capital at 14.62% provides significant growth cushion without immediate dilution.	□
Competitive Moat Signals	Stable	Physical network of 10,209 branches remains the primary source of low-cost retail deposits.	□
Balance Sheet Strength	Very Strong	CRAR at 17.50% and NNPA at 0.38%; essentially a "fortress" public sector balance sheet.	□
Working Capital Efficiency	Stable	CD Ratio at 71.09% is comfortable; management targeting 73% by year-end.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting NPA and Op. Profit targets; recovering CASA remains the only miss.	□
Key Vulnerability / Red Flag	PSLC Costs	Incurred □850 Cr in PSLC costs this quarter; highlights a structural gap in Priority Sector lending.	□
Management Tone	Bullish & Strategic	Focus was on the "net savings" of the new tax regime and the quality of the new loan book.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** PNB is now a "clean" bank. The new loan book (post-2020) has an NPA of just 0.40%, proving the underwriting overhaul. Operating Profit is at record highs (□7,081 Cr), and the shift to a 25% tax regime provides a permanent □2,800 Cr/year earnings tailwind from here on. * **Negatives:** Core margins are under pressure. Global NIM (2.70%) is below the 2.8% floor guided previously, and the CASA ratio (36.99%) has fallen below the 38% target. The □850 Cr PSLC hit is an expensive penalty for failing to meet Agri/Small-Farmer targets. * **The Street's Concern:** Analysts are hyper-focused on the NII stagnation (1% YoY) and whether NIMs can recover. Management's defense is that bulk deposits (□2.8L Cr) are repricing ~100bps lower in Q2/Q3, which will act as the primary margin lever. * **Forward Watchpoint:** Watch the recovery in CASA and the disbursement of the □1.29 Trillion corporate pipeline to see if credit growth can hit the 12% target.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Concall used for commentary.

Metric	Current Qtr (Q1FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	1.0%	--	-1.7%	↓	Impacted by 100bps repo cut pass-through to assets.
NIM (Global %)	2.70%	↓ (3.07%)	↓ (2.81%)	↓	Guidance of 2.8-2.9% remains; recovery expected Q3.
Cost of Funds %	4.70%	↑ (4.54%)	↓ (4.76%)	↑	Reached peak in Q4; now trending down as bulk deposits reprice.
Cost of Deposits %	4.70%	↑ (4.49%)	↓ (4.75%)	↑	Bulk deposit rates down 100bps from 7.8% to 6.7%.
CASA Ratio (period end %)	36.99%	↓ (40.40%)	↓ (37.95%)	↓	Industry-wide term deposit shift; 26.3L new accounts added.
Credit-Deposit Ratio %	71.09%	↓ (71.79%)	↓ (71.28%)	→	Comfortable; headroom to grow to 73% by FY26 end.
Loans Growth (% YoY)	9.84%	--	1.19%	→	Slight lag vs 11-12% guide; □1.29 Trillion pipeline pending.
Deposits Growth (% YoY)	12.86%	--	1.45%	↑	Beating 9-10% guidance; stable individual growth.
GNPA %	3.78%	↑ (4.98%)	↑ (3.95%)	↑	On track for <3.0% FY26 target; legacy cleanup done.
NNPA %	0.38%	↑ (0.60%)	↑ (0.38%)	→	Met guidance of 0.35-0.40%; floor reached.
Slippage Ratio %	0.71%	↑ (0.76%)	↑ (1.14%)	↑	Annualized; well within <1% guidance.
Credit Cost %	0.14%	↑ (1.31%)	↑ (0.19%)	↑	Negligible due to high PCR and low fresh slippages.
Capital Adequacy %	17.50%	↑ (15.79%)	↑ (17.01%)	↑	CET-1 at 12.95%; very strong capital cushion.
PAT (□Cr)	1,675	↓ 48.5%	↓ 63.3%	↓	One-time tax hit of □3,324 Cr for new regime shift.
Fee Income Growth %	8.3%	--	25.1%	↑	Recovery in processing fees and non-fund income.

2B. SEGMENT BREAKDOWN

Segment	Advances (₹ Cr)	YoY Growth	GNPA %	Trend	vs Avg	Key Development
Core Retail	2,04,817	17.7%	1.03%	↑	High	Home loans (16.6%) & Vehicle (25.3%) lead.
MSME	1,69,426	18.6%	11.31%	↑	High	Dig-sanctions >₹27,900 Cr; 1/5th loans now digital.
Agriculture	1,78,885	6.2%	10.77%	→	Low	Focus shifting to food processing to avoid PSLC hit.
Corporate	4,68,550	6.9%	0.30%	→	Low	Shedding ₹21,000 Cr low-yield loans to protect NIM.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Growth	11% - 12%	Needs ~₹1.3L Cr disbursals; Pipeline is ₹1.29L Cr. Feasible.	Beat (FY25)	Low
Guidance	NIM	2.8% - 2.9%	Needs 15-20bps lift from Q1. High risk if CASA continues to slide.	Miss (2.7%)	High
Guidance	GNPA	Below 3.0%	Needs reduction of 78bps. Highly feasible via recoveries.	Beat	Low
Guidance	Recovery	₹16,000 Cr (FY26)	Needs ₹4,215 Cr/qtr for next 3 qtrs. Q1 was ₹3,356 Cr.	Miss (Q1)	Medium
Strategy	Tax Saving	₹700 Cr / Quarter	Direct flow to PAT from Q2 onwards. Mathematically certain.	New	Low
Strategy	PSLC Exit	3-Year Roadmap	Aiming to save ₹300 Cr next year via Agri-leads.	New	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Akshit Agarwal, SMIFS	Recoveries	Financials	"Recoveries were weaker this quarter; how do you see the rest of the year?"	Management explained that Q1 is seasonally muted due to staff transfers but July numbers for Q2 already look strong. This maintains the ₹16,000 Cr recovery thesis as back-ended for the year.	None	4.0	Realistic
2	4.5	Akshit Agarwal, SMIFS	OPEX	Financials	"Why was other OPEX up 22% YoY? Is this elevated level here to stay?"	The spike was due to ₹850 Cr in PSLC purchases, which will not recur in future quarters, bringing OPEX back to the ₹8,000-8,200 Cr range. Lower OPEX will support RoA expansion in H2.	None	5.0	Quantified
3	5.0	Ashok Ajmera, Ajcon	Tax Regime	Financials	"What is the exact tax saving impact under the new regime for FY26?"	Shifting to 25% (vs 35% earlier) will save ₹700 Cr in absolute tax outgo every single quarter. This is a massive permanent earnings buffer that offsets NIM compression risk.	None	5.0	Precise

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4	4.5	Mahrukh Adajania, Nuvama	NIM	Financials	"Will margins fall further in Q2 given the full impact of repo cuts?"	Management expects NIMs to hold at 2.7% in Q2 and improve thereafter as □2.8L Cr of bulk deposits reprice 100bps lower. Margin bottoming out is the key re-rating trigger.	None	4.0	Directional
5	4.0	Piran Engineer, CLSA	MSME Stress	Financials	"MSME slippages are on an increasing trend; what is happening on the ground?"	Slippages are concentrated in the <□10 Lakh (Mudra) category, which are 75% guaranteed; >□10 Lakh book is fully behaving well. Portfolio risk is lower than the headline slippage suggests.	None	4.0	Reassuring
6	4.5	Jai, ICICI Securities	Overseas Margins	Financials	"Overseas NIM is creating a 15bps drag; what is the strategy here?"	Mgmt admitted overseas NIM is thin (0.45-0.50%) and is actively revisiting the strategy for the small □50,000 Cr book. Rationalizing this book could provide a marginal lift to global NIMs.	Strategy detail	3.0	Hedged
7	4.0			Management			None	4.0	Clear plan

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Nitin Agarwal, Motilal Oswal	PSLC Strategy		"Why is PNB missing out on PSLC income and incurring shortfall costs?"	Bank has a 3-year roadmap to exit PSLC purchases by focusing on SHG onboarding (₹4,000 Cr added YoY) and food processing. Eliminating this ₹800 Cr/year leak is a key efficiency lever.			

PATTERN FLAGS & SENTIMENT * **The "Tax Bath" Strategy:** Analysts initially reacted to the 48% PAT drop, but management successfully pivoted the narrative to the "₹700 Cr/quarter savings" story. The credible quantification of these savings settled the ROA debate. * **Margin Bottoming:** The persistent theme was NIM compression. Management's confidence rests entirely on "Bulk Deposit Repricing." If bulk rates don't fall as expected, the 2.8% NIM guidance is at risk. * **Analyst Sentiment Verdict:** Analysts were **Skeptical on Margins** but **Convinced on Asset Quality**. The focus has moved from "Will PNB survive?" to "How much can PNB earn?" Management's credibility on hitting the <3% GNPA target is now unquestioned, but they remain on a "monitoring watch" for CASA growth.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY25)	This Quarter (Q1FY26)	Direction
Tax Regime	Old Regime (35%)	New Regime (25%)	↑ Improving (Long-term)
Operating Profit	₹6,776 Cr	₹7,081 Cr	↑ Improving (All-time high)
Global NIM	2.81%	2.70%	↓ Deteriorating
NNPA	0.38%	0.38%	→ Stable (Met guide)
CASA Share	37.95%	36.99%	↓ Deteriorating
Slippage (Qtrly)	₹3,001 Cr	₹1,886 Cr	↑ Improving
Other OPEX	₹2,904 Cr	₹3,600 Cr	↓ Deteriorating (PSLC hit)
Bulk Deposit Rates	7.85%	6.78%	↑ Improving (Cost-wise)

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