Punjab National Bank — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** PNB has successfully transitioned from a "cleanup" story to a high-return compounder, sustaining a 1% RoA for the second consecutive quarter despite a CEO transition and sector-wide CASA pressures.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Net Profit (□4,508 Cr) doubled YoY; GNPA at 4.09% is ahead of the revised 4% target.	□
Earnings Quality	Neutral (One-off supported)	Core NII was aided by a □350 Cr IT refund interest; TWO recovery was lower than usual (□823 Cr vs □1,404 Cr QoQ).	□
Guidance Confidence	Strong	Management further tightened GNPA guidance to 3.50%-3.75% and RoA to 0.9%-1.0%.	□
Management Credibility	Strong	New MD Ashok Chandra signaled continuity of strategy while focusing on repricing low-yield corporate loans.	□
Business Quality Signal	Improving	Structural shift to RAM (56.3% of mix) and PCR of 96.77% removes legacy balance sheet risks.	□
Key Q&A Exchange	Q1 & Q5: NIM & Repricing	Management is actively exiting/repricing <7% yield corporate loans to protect margins against rate cuts.	□
The Street's Primary Anxiety	Margin Compression & SMA-0	Analysts pressed on NIM sustainability without one-offs; Mgmt highlighted corporate repricing and SMA-0 technicality.	□
Capital Cycle Stage	Harvesting	Massive PCR (96.77%) means recoveries now flow directly to the bottom line rather than filling provision holes.	□
Margin / Return Ratio Trajectory	Stable / High	Sustained RoA >1% (1.03%) and RoE >19% (19.22%) places PNB in the top-tier of PSU banks.	□
Pricing Power	Stable	Repo-linked and MCLR books (~73% combined) provide protection, though T-bill linked corporate loans increased.	□
FCF Conversion & Quality	Strong	Provision write-backs in standard/restructured accounts (□447 Cr) boosted PAT quality.	□
Competitive Moat Signals	Stable	2nd largest CASA base in India (□5.62L Cr) provides a structural cost-of-funds advantage.	□
Balance Sheet Strength	Strong	Net NPA at 0.41% is near-zero; CRAR at 15.41% provides sufficient growth runway.	□
Working Capital Efficiency	Stable	CD Ratio at 72.58% is comfortable, though slightly down YoY.	□
Mgmt Guidance Track Record	Reliable	Consistently revising targets upwards (RoA, Asset Quality, Credit Cost) throughout FY25.	□
Key Vulnerability / Red Flag	CASA Erosion	Domestic CASA share dropped to 38.12% (down 332bps YoY), tracking below the 42% target.	□
Management Tone	Confident & Systematic	The new CEO emphasized "tweaking" for profitability rather than aggressive structural shifts.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways: * **Positives:** PNB has reached a "clean slate" phase where asset quality is no longer a drag. NNPA of 0.41% and a PCR of 96.77% are fortress-like. The "compounding" phase is in full swing, with RoA (1.03%) and RoE (19.22%) now rivaling top-tier private banks. Credit growth (14.8%) and Deposit growth (15.6%) are both significantly outperforming the industry and initial FY25 guidance. * **Negatives:** CASA erosion remains the primary structural headache. The drop to 38.12% indicates PNB is losing the battle for low-cost savings to term deposits and market alternatives. Earnings this quarter were slightly "noisy" due to a ₹350 Cr IT refund interest and lower-than-usual technical write-off (TWO) recoveries. * **Street Concern:** Analysts were concerned about NIM compression as the overseas book grows and rate cuts loom. Management’s response was proactive: they are walking away from ultra-low-yield corporate accounts (some as low as 0.25% spread) to defend the 2.9%-3.0% global NIM. * **Forward Watchpoint:** Watch the recovery run-rate in Q4. Management has guided for a massive ₹5,000-₹6,000 Cr recovery in Q4 to hit their ₹18,000 Cr annual target. If this materializes, it could drive a significant one-time profit spike.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q3)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	7.18%	-	4.90%	→	Driven by credit growth; includes □350 Cr interest on IT refund.
NIM (Global %)	2.93%	↓ (3.15%)	↑ (2.92%)	→	Global NIM stable; Domestic NIM at 3.09%. Focus on repricing corporate loans.
Cost of Funds %	4.63%	↑ (4.42%)	↑ (4.57%)	↓	Rising due to TD repricing. Global CoF at 4.63%, Domestic at 4.59%.
Cost of Deposits %	5.24%	↑ (4.96%)	↑ (5.18%)	↓	Industry-wide trend; management believes rates have likely peaked.
CASA Ratio (period end %)	38.12%	↓ (42.47%)	↓ (39.31%)	↓	Erosion due to mix shift to term deposits; management targeting "Tap Banking" to recover.
Credit-Deposit Ratio %	72.58%	↓ (73.08%)	↓ (72.82%)	→	Very comfortable liquidity; management sees this as a growth lever.
Loans Growth (% YoY)	14.80%	-	4.56%	↑	Outperforming 11-12% guidance; driven by RAM (16.4%) and Overseas (35.7%).
Deposits Growth (% YoY)	15.58%	-	4.89%	↑	Strong growth in Term Deposits (+24.7% YoY) supporting overall balance sheet.
GNPA %	4.09%	↓ (6.24%)	↓ (4.48%)	↑	Consistent reduction; now guiding toward 3.50%-3.75% by Mar-25.
NNPA %	0.41%	↓ (0.96%)	↓ (0.46%)	↑	Structural floor; effectively zero net risk on the book.
Slippage Ratio % (Annualized)	0.69%	↑ (0.75% 9M)	↓ (0.89% Q2)	↑	Fresh slippages stable at □1,774 Cr (vs □2,181 Cr in Q2). Core slippage remains <0.7%.
Credit Cost (%)	0.12%	↓ (1.31% Q2)	↑ (0.08% Q2)	→	Near-zero credit cost due to high recoveries (□3,412 Cr) relative to additions.
Capital Adequacy / CET1 %	15.41% / 10.65%	↑ (14.6% CRAR)	↓ (16.36%)	□	Q3 CRAR impacted by RWA growth (+□63k Cr QoQ) despite Tier-2 bond raise (□3k Cr).
PAT (□Cr)	4,508	↑ 102.8%	↑ 4.8%	↑	Highest quarterly profit in history; driven by lower provisions and NII.
Fee Income Growth %	19.6%	-	↓ (0.8% QoQ)	→	Fee-based income at □1,568 Cr; recovery in written-off accounts was a drag.
RoA %	1.03%	↑ (0.58%)	↑ (1.02%)	↑	Sustained >1% goal. Mgmt revised FY25 guidance to 0.9%-1.0%.
RoE %	19.22%	↑ (12.45%)	↓ (19.91%)	→	Strong returns on equity; tangential BVPS at □82.75.

2B. SEGMENT BREAKDOWN

Segment	Advances (₹ Cr)	YoY Growth	GNPA %	Trend	vs Company Avg	Key Development
Core Retail	1,91,126	17.3%	1.27%*	↑	Outperforming	Home loans (+17.3%) and Vehicle loans (+26.8%) leading core growth.
Agriculture	1,74,472	13.2%	11.74%	→	In-line	Gold loan book (Agri+Retail) reached ₹11,600 Cr; YoY growth is high.
MSME	1,59,383	10.7%	11.92%	↑	Lagging	Adjusted for reclassification, growth is 16.6% YoY. Focus on digital journeys.
Corporate	4,63,723	10.9%	0.50%	↑	Recovering	GNPA now exceptionally low. Repricing low-yield loans is the current priority.
Overseas	50,087	35.7%	0.00%	↑	Hyper-growth	High volume/low risk book. Zero NPA. Drag on NIM but aids absolute NII.
**Retail segment total NPA.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Growth	11% - 12% for FY25	Currently 14.8%; will easily beat the target.	Consistently Beating	Low
Guidance	NIM	2.9% - 3.0% (Global)	Currently 2.97% (9M); high feasibility despite rate cuts.	Delivered	Low
Guidance	GNPA	3.50% - 3.75% (Revised from 4%)	Currently 4.09%; needs ~35bps reduction in Q4. Highly feasible.	Ahead of Schedule	Low
Guidance	Credit Cost	0.25% - 0.30% (Revised from 0.5%)	9M is 0.18%; Q3 was 0.12%. Almost certain to hit.	Consistently Beating	Low
Guidance	RoA	0.9% - 1.0% (Revised from 0.8%)	9M is 0.96%; Q3 was 1.03%. On track to hit top end.	Ahead of Schedule	Low
Strategy	Recoveries	₹18,000 Cr for FY25	9M is ₹11,552 Cr; needs ₹6,448 Cr in Q4. Mgmt aiming for ₹5k-6k Cr in Q4.	High (Needs ₹2k Cr/mo)	Medium
Strategy	Repricing Loans	Exit/Reprice corporate loans below 7% yield	Mgmt confirmed ₹10,000 Cr already repriced/modified.	New Initiative	Low
Balance	CASA Share	"Around 42%"	Currently 38.12%; mathematically impossible for FY25.	Consistently Missing	High
Capital	Capital Allocation	RoE >18%	Currently 18.87% (9M); target effectively met.	Delivered	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	5.0	Mahrukh Adajania, Nuvama	Strategy	Mgmt Outlook	"With a change in CEO, do we see a change in the stable growth/ recovery strategy?"	Management confirmed the 129-year legacy system will continue the momentum, but with a new focus on "tweaking" cost of deposits and exiting low-yield advances. This signals continuity with a sharper focus on marginal profitability.	None	4.5	Reassuring continuity
2	4.5	Mahrukh Adajania, Nuvama	NIM	Financials	"NIM has held steady versus other PSUs; what is the outlook given strong deposit growth?"	Management cited the □1.3L Cr sanctioned corporate pipeline and the massive technical written-off (TWO) recovery engine as NIM buffers. Repricing the corporate book is the primary lever to defend margins.	None	4.0	Strategy-backed
3	4.0	Ashok Ajmera, Ajcon Global	Other Income	Financials	"Other income/ TWO recovery is down significantly QoQ; is this a new trend?"	Management explained the TWO recovery (□823 Cr) was muted due to timing of resolutions, but guided for a □1,500-1,600 Cr run-rate in	None	4.0	Specific Q4 guide

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						Q4. This implies a significant "catch-up" profit in the coming quarter.			
4	4.5	Jay Mundra, I-Sec	One-offs	Financials	"Does other interest income include any IT refund or one-offs?"	Management confirmed a ₹350 Cr interest on IT refund is included in the current quarter's NII. Investors should strip this out for a "core" NIM assessment which shows slight underlying compression.	None	5.0	Quantified
5	4.0	Jay Mundra, I-Sec	Asset Quality	Financials	"What is the total SMA-0, 1, and 2 book including below 5 Cr tickets?"	Total SMA (0+1+2) is ~7%; SMA-0 is ₹49,522 Cr, SMA-1 is ₹15,000 Cr, and SMA-2 is ₹13,000 Cr. Management views the high SMA-0 as a technical artifact of their massive customer base rather than a credit warning.	None	4.0	Detailed Disclosure
6	4.0	Rakesh Kumar, B&K Securities	Cost of Deposits	Financials	"Deposit growth was 4.9% QoQ, yet TD cost was flat. How?"	Management attributed this to high retail mobilization in the 7.25% special bucket and a slight (2.7%) growth in the massive	None	4.5	Operational edge

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						CASA base despite industry trends. This proves PNB's superior liquidity sourcing power in North India.			
7	4.5	Rakesh Kumar, B&K Securities	OpEx/ AS-15	Financials	"Have we changed the discount rate for AS-15 employee provisions?"	Management moved the discount rate from 7.2% to 6.75% this quarter, requiring a 1,400 Cr provision. This "front-loads" the impact of falling yields, making future quarterly RoA more predictable.	None	5.0	High transparency
8	3.5	Aditi Nawal (Indiv.)	Recoveries	Financials	"Math shows a shortfall for the 18,000 Cr recovery target; can we hit it?"	Management acknowledged the gap but cited bigger corporate resolutions maturing in February/ March to bridge the deficit. This sets up Q4 as a "high-stakes" recovery quarter for the P&L.	None	3.0	Target-heavy
9	4.0	Sarvesh Mutha, AGFR	Taxes	Financials	"When will we move to the new 25% tax regime?"	Management plans to migrate in FY26 depending on the MAT/DTA position; this	Exact quarter	3.0	Consistent but vague

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						remains a latent 10-15bps RoA expansion lever.			
10	4.5	Parag Thakkar, Fort Capital	NIM/Rate Cuts	Financials	"Will rate cuts and repricing lags compress margins?"	Management admitted a 1-2 quarter lag impact but argued that the 72% CD ratio and corporate repricing will offset the headwind. This implies PNB is better positioned than "stretched" private peers to absorb rate cuts.	None	4.0	Logical defense

PATTERN FLAGS & SENTIMENT * **Asset Quality Exhaustion:** Analysts have pivoted from asking about "Gross NPA" to asking about "SMA-0" and "TWO Recovery." This is a major shift—the market now treats PNB's balance sheet as clean and is focused on the *speed* of recovery income rather than the *risk* of new losses. Management’s posture is highly confident, treating the □91,000 Cr TWO book as a "profit reservoir." * **NIM Defense:** There is visible anxiety about the impact of falling interest rates on a bank with a high Repo/MCLR mix. Management is proactively shifting away from thin-spread corporate lending (some as low as 0.25-0.70% spreads) to focus on capital efficiency. This "quality over volume" stance is a new, positive characteristic of the current leadership. * **Analyst Sentiment Verdict:** Analysts are convinced that the 1% RoA is sustainable. The friction point has moved from "Is this bank safe?" to "How much of this earnings beat is one-off?" Management’s transparency regarding the IT refund (□350 Cr) and AS-15 rates (6.75%) successfully neutralized skepticism. The primary unresolved issue is the **CASA leakage**, which analysts still view as the main threat to long-term valuation re-rating.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Leadership	Atul Kumar Goel (MD & CEO)	Ashok Chandra (New MD & CEO)	→ Continuity
RoA (Quarterly)	1.02%	1.03%	↑ Improving
GNPA Target (FY25)	3.50% - 3.75%	Further Tightened (3.5%-3.75% confirmed)	→ Stable High
CASA Share (Dom.)	39.31%	38.12%	↓ Deteriorating
TWO Recovery	□1,404 Cr	□823 Cr	↓ Low Quality (Temporary)
Credit Growth (YoY)	12.8%	14.8%	↑ Improving
Deposit Growth (YoY)	11.3%	15.6%	↑ Improving
Slippage Ratio	0.89%	0.69%	↑ Improving
AS-15 Prov. Hit	□2,057 Cr	□1,400 Cr	↑ Better (Lower hit)
Income Tax One-off	Minimal	□350 Cr (Interest on Refund)	↓ Quality of NII
Corporate Strategy	Growth focus	"Tweaking" / Exiting low-yield loans	↑ Profitability focus