

Punjab National Bank — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Net Profit; Mixed on Core Metrics **One-line:** PNB has transitioned from a balance sheet "cleanup" to a "compounding" story, but Q4 reveals the limits of its margin defense as the bank battles high slippages in Agri/MSME and a structural decline in CASA.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat (PAT) / Miss (NII/Recovery)	PAT (₹4,567 Cr) beat estimates; Recovery (₹14,336 Cr) missed the ₹18,000 Cr FY25 target.	□
Earnings Quality	Moderate (Provision-heavy)	Net profit driven by massive provision reversals (₹1,228 Cr) and treasury, rather than core NII (which fell 2.5% QoQ).	□
Guidance Confidence	Strong	Management initiated FY26 RoA guidance of >1.0% and GNPA <3.0%, signaling continued cleanup.	□
Management Credibility	Neutral	Successfully delivered on GNPA/NNPA targets but missed the recovery target by ₹3,664 Cr.	□
Business Quality Signal	Improving (Credit Quality)	GNPA at 3.95% and PCR at 96.82% provide a "fortress" balance sheet; CASA erosion is the main risk.	□
Key Q&A Exchange	Q4 & Q11: Margin Pressure	Analysts flagged the 12bps jump in deposit costs and NII dip; Mgmt cited policy rate cut impacts on asset yields.	□
The Street's Primary Anxiety	Agri Slippages & NIMs	Q4 slippages spiked to ₹3,001 Cr (1.07% annualized); NIM (Global) fell to 2.81%.	□
Capital Cycle Stage	Harvesting	PCR at ~97% means almost all future recoveries will flow directly to the P&L.	□
Margin / Return Ratio Trajectory	Stabilizing at High Returns	RoA sustained at ~1% (1.02% Q4) and RoE at 19.23%; best-in-class for PSBs currently.	□
Pricing Power	Stable to Weak	Repo-linked and MCLR books (~75%) protect against inflation but expose margins to immediate policy cuts.	□
FCF Conversion & Quality	Distorted (Banking)	CFO/PAT analysis not standard for banks; Tier-1 capital at 14.05% provides 2-3 years of growth runway.	□
Competitive Moat Signals	Stable	Massive physical network (10,189 branches) protects the liability base despite digital disruption.	□
Balance Sheet Strength	Very Strong	NNPA at 0.40% is essentially zero net risk; CRAR improved to 17.01%.	□
Working Capital Efficiency	Stable	CD Ratio at 71.28% is comfortable, leaving room for credit-led growth.	□
Mgmt Guidance Track Record	Reliable on Assets / Missed on Rec.	Exceeded credit/deposit/NPA targets; fell short on recovery and CASA share.	□
Key Vulnerability / Red Flag	CASA Erosion	Domestic CASA share crashed to 37.95% (down 349bps YoY), the lowest in recent history.	□
Management Tone	Confident & Defensive	MD focused on the "reservoir" of technical write-offs (₹90,887 Cr) as a future profit driver.	□

Sentiment: □Positive (Overall direction is healthy)

Key Takeaways: * **Positives:** PNB has reached the elusive 1% RoA target for FY25 (annualized 0.97%). Asset quality is no longer a concern, with NNPA at 0.40% and a legacy "profit reservoir" of ₹90k Cr in written-off accounts that acts as a structural earnings tailwind. * **Negatives:** Core NII performance is under pressure, falling 2.5% QoQ as high-cost bulk deposits reprice while asset yields feel the pinch of policy shifts. The CASA ratio deterioration to <38% is a structural negative for long-term NIM sustainability. * **The Street's Concern:** Analysts are focused on the spike in slippages (₹3,001 Cr in Q4 vs ₹1,774 Cr in Q3). Management's defense is that these were "outlier" legacy restructured Agri/MSME accounts <₹10 Lakhs and will not recur. * **Forward Watchpoint:** The bank's ability to migrate to the new tax regime in FY26 (expected Q1/Q2) will be a 10-15bps RoA tailwind, likely offsetting NIM compression.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary; Concall for commentary.

Metric	Current Qtr (Q4)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	3.8%	--	-2.5%	↓	Impacted by immediate policy rate cut on asset side yields.
NIM (Global %)	2.81%	↓ (3.10%)	↓ (2.93%)	↓	Margin compression driven by rising deposit costs and yield softening.
Cost of Funds %	4.75%	↑ (4.47%)	↑ (4.59%)	↓	Reached peak; expected to moderate as bulk deposits are shed.
Cost of Deposits %	5.36%	↑ (5.09%)	↑ (5.24%)	↓	Driven by special 400-day deposit schemes (since withdrawn).
CASA Ratio (period end %)	37.95%	↓ (41.44%)	↓ (38.12%)	↓	Industry-wide shift to Term Deposits; missing 42% target.
Credit-Deposit Ratio %	71.28%	↓ (71.79%)	↓ (72.58%)	→	Lower than Q3; bank prioritizing deposit growth to fund loan book.
Loans Growth (% YoY)	13.6%	--	0.6%	→	FY25 beat (11-12% guide); Q4 was seasonally slower.
Deposits Growth (% YoY)	14.4%	--	2.4%	↑	Outperforming 9-10% guidance; driven by TD growth (+21.5%).
GNPA %	3.95%	↑ (5.73%)	↑ (4.09%)	↑	Delivered on revised guidance; now targeting <3% in FY26.
NNPA %	0.40%	↑ (0.73%)	↑ (0.41%)	↑	Met guidance of <0.5%; nearing "zero risk" status.
Slippage Ratio %	1.07% (Q4)	↓ (0.72% FY24)	↓ (0.65% Q3)	↓	Spike in Q4 due to Agri/MSME <₹10L segment.
Credit Cost %	0.19% (FY25)	↑ (1.31% FY24)	→ (0.18% 9M)	↑	Exceptional delivery; driven by higher write-backs.
Capital Adequacy %	17.01%	↑ (15.97%)	↑ (15.41%)	↑	Bolstered by QIP and internal accruals; RWA optimized.
PAT (₹Cr)	4,567	↑ 51.7%	↑ 1.3%	↑	All-time high annual profit (₹16,630 Cr).
Fee Income Growth %	11.5%	--	14.7%	↑	Recovery in fee-based income; processing fees up 36% YoY.
RoA %	1.02%	↑ (0.77%)	↓ (1.03%)	→	Consistently at 1.0% corridor; FY26 guide is >1.0%.

2B. SEGMENT BREAKDOWN

Segment	Advances (₹ Cr)	YoY Growth	GNPA %	Trend	vs Avg	Key Development
Core Retail	1,99,889	18.2%	1.28%	↑	High	Home loans (+18.3%) and Vehicle loans (+25.5%) lead.
Agriculture	1,80,625	14.2%	10.97%	→	Avg	Gold loans (Agri+Retail) reached ₹13,777 Cr.
MSME	1,62,693	16.8%	11.65%	↑	High	Digital journeys (₹23,100 Cr sanctioned) driving growth.
Corporate	4,63,367	9.7%	0.39%	→	Low	Repricing low-yield loans; pipeline of ₹1.35L Cr.
Overseas	50,589	23.6%	0.00%	↑	High	High-growth, low-risk book but yield-dilutive.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Growth	11% - 12% (FY26)	Feasible; ₹1.35L Cr corporate pipeline exists.	Beat (13.6% vs 12%)	Low
Guidance	NIM	2.8% - 2.9% (FY26)	Likely; depends on deposit repricing lag.	Delivered (2.93%)	Medium
Guidance	GNPA	Below 3.0% (Mar-26)	Needs ~100bps reduction; feasible via recoveries.	Beat (3.95% vs 4%)	Low
Guidance	RoA	Above 1.0%	Supported by lower credit costs and new tax regime.	Delivered (0.97%)	Low
Strategy	Recoveries	₹16,000 Cr (FY26)	Needs ₹4,000 Cr/quarter; historical Q4 was ₹4,733 Cr.	Miss (₹14.3k vs ₹18k)	Medium
Strategy	CASA Share	Above 38%	Requires major retail shift; current trend is down.	Missed (37.9%)	High
Strategy	Credit Cost	Below 0.5%	Very likely given PCR levels.	Beat (0.19% vs 0.3%)	Low
Balance	Capital	₹8,000 Cr Raise Plan	₹4k Cr AT-1 + ₹4k Cr Tier-2 planned for FY26.	Delivered (QIP/ T2)	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Mahrukh Adajania, Nuvama	Slippages	Asset Quality	"Slippage is higher than seen since Q1 FY24; is this the normalized rate?"	Management clarified these were legacy outlier accounts in Agri/MSME (<₹10L) and guided for a ₹1,500-1,700 Cr quarterly run-rate. Lower slippage ratios in FY26 will drive RoA expansion.	None	4.0	Reassuring
2	4.5	Mahrukh Adajania, Nuvama	NARCL	Financials	"How did the big NARCL transfer affect the book?"	A recovery of ₹458 Cr was booked in Q4 via technical write-offs, neutralizing treasury MTM losses. High quality recovery income supports the non-interest income line.	None	5.0	Precise
4	4.5	Mahrukh Adajania, Nuvama	NIM	Financials	"What explains the rise in deposit cost?"	Management cited a special 400-day deposit scheme (now withdrawn) as the peak contributor to costs. NIM should bottom in Q1/ Q2 and improve as this high-cost TD book matures.	None	4.5	Logical
7	4.0	Ashok Ajmera, Ajcon	Recoveries	Financials	"What is the recovery outlook for	With a ₹91k Cr pool, mgmt expects	None	4.0	Detailed

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					technical write-offs?"	₹1,500 Cr per quarter from TWA, totaling ₹16,000 Cr for the year. Direct flow-through to operating profit from these zero-value assets is a key earnings driver.			
9	4.0	Jay Mundra, ICICI Sec	NIM Sensitivity	Financials	"How will 100bps rate cuts affect loan yields?"	Management admitted EBLR/RLLR books will reprice immediately but hinted at revisiting strategic discounts. Repricing lag on deposits will be the primary margin headwind for 2 quarters.	Quantified impact	3.0	Hedged
11	4.5	Kunal Shah, Citigroup	SR Revaluation	Financials	"Clarify the profit on SR revaluation."	Revaluation of government-guaranteed SRs provided ₹1,326 Cr gain, which was mostly used to offset other MTM losses. This cleanup of the SR portfolio removes a future earnings volatility risk.	None	5.0	Transparent
14	3.5		MCLR Repricing	Financials	"When do you expect	Bank already cut MCLR by	None	4.0	Direct

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Ashlesh Sonjay, Kotak			MCLR to decline?"	10bps effective May 1st. Early cuts suggest mgmt is prioritizing volume/ market share as the cleanup ends.			
15	4.5	Ashlesh Sonjay, Kotak	Tax Regime	Financials	"When do you anticipate shift to the new tax regime?"	Management plans the shift in Q1 or Q2 of FY26. This will lower the effective tax rate from ~30% to 25%, a direct RoA boost.	Exact date	4.0	Positive Signal
16	4.0	Rakesh Kumar, Valentis	Deposit Cost	Financials	"Why did deposit cost jump 12bps despite flat credit?"	The impact of bulk deposits and CDs mobilized in Q3 hit the P&L in Q4. This reflects the high cost of the liquidity scramble earlier in the year.	None	4.0	Fair
18	4.0	Gaurav Kochar, Mirae	RoA Bridge	Management Outlook	"What drives RoA to >1% if NIMS fall?"	Key levers: ₹6,000 Cr TWA recovery, stronger treasury income from OMOs, and high tangible PCR (>90%). Operating leverage from recoveries is the primary	None	4.5	Strategy-led

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						thesis-anchor.			

PATTERN FLAGS & SENTIMENT * **The "Agri-MSME" Anxiety:** Multiple analysts pressed on the Q4 slippage spike. Management was defensive but firm that these were legacy restructured accounts being "flipped" to allow for recovery. This concern is likely to resurface next quarter unless slippages drop below ₹2,000 Cr. * **Margin Transition:** The focus has shifted from "provisions" to "yield sensitivity." Management appears well-prepared for a lower-rate environment by exits from thin-spread corporate loans, but the CASA leakage remains the unaddressed "elephant in the room." * **Analyst Sentiment Verdict:** Analysts are largely convinced of the asset quality story (PCR/NNPA) but skeptical of the CASA trajectory. Management's credibility on hitting the 1% RoA target is high, though skepticism remains on whether they can do it through core NII rather than just recoveries.

5. WHAT CHANGED vs PRIOR QUARTER

vs prior context (Q3 FY25)

What Changed	Prior Quarter (Q3)	This Quarter (Q4)	Direction
RoA (Quarterly)	1.03%	1.02%	→ Stable
Domestic CASA Share	38.12%	37.95%	↓ Deteriorating
Global NIM	2.93%	2.81%	↓ Compression
Slippage (Amount)	₹1,774 Cr	₹3,001 Cr	↓ Deteriorating
GNPA Guidance	Around 4.0%	Below 3.0% (FY26)	↑ Improving Target
Cost of Deposits	5.24%	5.36%	↓ Deteriorating
Recovery Strategy	Aiming for ₹18k Cr	Target cut to ₹16k Cr	↓ Realism Shift
Tax Strategy	Old Regime	Planned Shift to New	↑ Positive Catalyst
Technical Write-off Pool	--	Quantified at ₹91k Cr	↑ Disclosure
Dividend	₹1.50 (FY24)	₹2.90 (FY25)	↑ Improving

STOP HERE.