

Punjab National Bank — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on PAT; Miss on NII and NIM. **One-line:** PNB has transitioned into a "fortress balance sheet" with near-perfect asset quality, but core earnings quality this quarter is low, as the PAT beat was heavily subsidized by a one-off ₹2,121 Cr staff cost reversal.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	PAT Beat / NIM Miss	PAT (₹5,225 Cr) beat expectations; Global NIM (2.47%) fell below Q3's 2.52%.	☐
Earnings Quality	Low (Accounting driven)	PAT was supported by a ₹2,121 Cr AS-15 staff cost reversal offsetting treasury pain.	☐
Guidance Confidence	Strong (Asset Quality)	Met/exceeded FY26 targets for GNPA (2.95%) and credit growth (12.7%).	☐
Management Credibility	Neutral	Successfully cleaned the book, but NIM guidance was effectively lowered for FY27 (2.6-2.7%).	☐
Business Quality Signal	Improving (Assets)	NNPA at 0.29% and PCR at 97.14% indicate credit risk is effectively eliminated.	☐
Key Q&A Exchange	Q2: ECL Readiness	Mgmt believes ₹2,045 Cr floating provision + 97% PCR makes ECL transition "no challenge."	☐
The Street's Primary Anxiety	NIM Compression	Analysts focused on the 2.47% Global NIM; Mgmt expects a 5bps cost-of-deposit relief in Q1.	☐
Capital Cycle Stage	Growth Pivot	No capital raising planned for FY27; growth to be funded via internal accruals/RWA optimization.	☐
Margin / Return Ratio Trajectory	Deteriorating	Global NIM hit 2.47% (vs 2.52% QoQ); FY26 RoA (0.89%) missed 1% target due to Q1 tax hit.	☐
Pricing Power	Eroding	Yield on Advances (7.51%) fell 18bps QoQ as repo-linked loans repriced instantly.	☐
FCF Conversion & Quality	N/A (Banking)	CRAR at 17.74% provides a massive 73bps cushion improvement YoY.	☐
Competitive Moat Signals	Stable	Digital transaction share at 95%+; WhatsApp banking users grew 77% YoY to 1.09 Cr.	☐
Balance Sheet Strength	Very Strong	CET-1 at 13.62% is well above regulatory 8% and last year's 12.33%.	☐
Working Capital Efficiency	Improving	CD Ratio reached 73.6%; RAM share target increased to 60% for long-term yield support.	☐
Mgmt Guidance Track Record	Reliable	Consistent delivery on recovery (₹15,501 Cr) and credit growth (12.7%).	☐
Key Vulnerability / Red Flag	NII Sensitivity	Core NII shrank 1.9% for the full year despite double-digit book growth.	☐
Management Tone	Confident & Prudent	Focused on "consistency" and "fortifying" rather than chasing high-yield risky growth.	☐

Sentiment: ☐Positive (Long-term) / ☐Neutral (Short-term)

Key Takeaways: * **Positives:** PNB is now a "clean" bank. With NNPA at 0.29% and a PCR of 97.1%, the legacy credit cycle is dead. Corporate underwriting is high-grade: 85% of rated advances are 'A' or better, and the fresh book (since 2020) has an NPA ratio of just 0.40%. Capital levels (17.74% CRAR) are at multi-year highs despite no capital raising, creating a massive buffer for the 2027 ECL transition. * **Negatives:** Earnings quality in Q4 was distorted. A ₹2,121 Cr reversal in staff costs (due to yield hardening affecting actuarial liabilities) masked a weak NII performance. Global NIM compressed further to 2.47% as the bank passed on rate cuts while deposit costs remained "sticky." Core NII growth is struggling to keep pace with balance sheet expansion. * **The Street's Concern:** Margin recovery timing. Management has deferred the NIM recovery story to Q1/Q2 FY27, citing that 95% of high-cost "special" deposits have finally repriced. * **Forward Watchpoint:** RAM (Retail, Agri, MSME) growth. Management is aggressively targeting a 60% RAM mix to structurally protect NIMs from corporate yield pressure.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-3.5%	--	-1.5%	↓	Yield compression and immediate pass-through of cuts.
NIM (Global %)	2.47%	↓ (2.81%)	↓ (2.52%)	↓	Impacted by full quarter of Dec rate cut and sticky deposits.
Cost of Funds %	4.41%	↓ (4.75%)	↓ (4.50%)	↑	Repricing benefit starting to show but slowly.
Cost of Deposits %	5.16% (FY)	↓ (5.23% FY25)	↓ (5.20% 9M)	→	95% of high-cost special deposits repriced by Mar-end.
CASA Ratio (%)	37.0%	↓ (38.4%)	↓ (37.1%)	↓	Stabilized at 37% for 4 quarters; SB individual grew 9.1%.
Credit-Deposit Ratio %	73.6%	↑ (71.3%)	↓ (74.2%)	→	Lower QoQ as deposits grew faster than advances in Q4.
Loans Growth (% YoY)	12.7%	--	+2.2%	↑	Ex-IBPC growth is ~15%. MSME (+19.9%) is the leader.
Deposits Growth (% YoY)	9.2%	--	+3.1%	↑	Focus on individual core SB and retail term deposits.
GNPA %	2.95%	↑ (3.95%)	↑ (3.19%)	↑	Guidance met; lowest in years.
NNPA %	0.29%	↑ (0.40%)	↑ (0.32%)	↑	Approaching zero-risk status.
Slippage Ratio %	0.94%	↑ (1.14%)	↓ (0.67%)	↓	Seasonal uptick in Q4 due to Agri/MSME reviews.
Credit Cost %	0.18% (FY)	--	↓ (0.46%)	↑	FY26 actual at 0.18% vs guidance of <0.5%.
Capital Adequacy %	17.74%	↑ (17.01%)	↑ (16.77%)	↑	No capital raise needed; internal accruals sufficient.
PAT (₹Cr)	5,225	↑ 14.4%	↑ 2.5%	↑	Supported by ₹2,121 Cr staff cost reversal.
Fee Income Growth %	8.8%	--	+14.3%	↑	Volume driven: Processing fees (+22.7%) led the growth.

2B. SEGMENT BREAKDOWN

Segment	Advances (₹ Cr)	YoY Growth	GNPA %	Trend	vs Avg	Key Development
Retail (Excl IBPC)	2,51,729	18.2%	0.73%	↑	High	Vehicle loans (+35.1%) and Home loans (+11.6%).
MSME	1,95,027	19.9%	8.46%	↑	High	Yield at 9% vs 7.55% for Corporate.
Agriculture	1,99,919	10.7%	9.07%	→	Avg	Gold loans grew 75.95% YoY.
Corporate & Others	5,17,225	11.6%	0.08%	→	Low	High-quality mix; 52.5% of large book is AAA rated.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Growth	12% - 13% (FY27)	Current 12.7%. Pipeline of ₹1.18L Cr pending disbursement. Feasible.	Delivered	Low
Guidance	NIM (Global)	2.60% - 2.70% (FY27)	Needs 13-23bps expansion from Q4. Dependent on RAM mix shift.	Missed (FY26)	High
Guidance	GNPA %	Below 2.50% (FY27)	Needs 45bps reduction. Run-rate of recovery (1.5x slippage) makes it likely.	Delivered	Low
Guidance	RoA %	Above 1.0%	Q4 was 1.06%. If NIM recovers, this is the floor.	Missed (FY26)	Medium
Strategy	RAM Share	60% (Long-term)	Currently 56.6%. Requires MSME/Retail to grow >1.5x of Corporate.	Consistent	Low
Strategy	Capital Raise	None in FY27	Maturity of ₹5,890 Cr bonds will be paid via internal accruals.	New	Medium
Strategy	Digital Sanctions	33% of all loans	Currently 1 in 3 loans are digital; ₹20,873 Cr in Q4.	Beat	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Ashok Ajmera, Ajcon	Slippages	Financials	"Slippages in this quarter have gone up by ₹800 Cr; does this mean SMA-2 accounts have slipped?"	Management explained that Q4 always sees elevated slippages (₹2,674 Cr) due to Agri/ MSME review cycles, but the total slippage ratio (0.60%) remains well within guidance. Asset quality remains robust as recovery is 1.5x slippages.	None	5.0	Seasonal trend
2	5.0	Ashok Ajmera, Ajcon	ECL Prep	Financials	"How are we prepared for ECL provisions given the new guidelines?"	Management confirmed a total floating provision of ₹2,045 Cr is already in place to buffer the ₹9,000-10,000 Cr estimated transition impact. Robust capital (17.7% CRAR) and high PCR (97%) minimize the threat to the balance sheet.	None	4.0	Fully covered
3	5.0	Ashok Ajmera, Ajcon	Staff Costs	Financials	"Why did employee costs drop by ₹1,342 Cr this quarter? Profitability would have been	Management admitted that yield hardening resulted in a ₹2,121 Cr positive impact on actuarial liabilities	None	5.0	Accounting boost

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					affected otherwise."	(AS-15 reversal), which offset the treasury income hit. This confirms that Q4 PAT was heavily supported by non-operating accounting adjustments.			
4	4.0	Mahrukh Adajania, Tara	Write-backs	Financials	"Have we accounted for write-backs from Sterling Biotech and IL&FS?"	Management confirmed Sterling Biotech was factored into operating profit as it was a technical write-off, but IL&FS provisions remain in the standard pool. This provides a future earnings lever when IL&FS is eventually reversed.	None	4.0	Hidden buffer
5	4.5	Jayant Kharote, Axis	NIM vs Credit	Financials	"Why guide for only 7% NII growth when credit growth is 12-13% and NIM is expanding?"	Management is being conservative, watching the sticky deposit rates and the 46% corporate loan mix. Until the RAM share hits 60%, they prefer to be cautious on NII forecasting despite the NIM floor.	None	3.5	Conservative

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
6	4.0	Jai Mundhra, ICICI	SMA Levels	Financials	"What is the absolute amount for SMA-0, 1, and 2?"	Management disclosed SMA-0 at ₹24,643 Cr, SMA-1 at ₹13,970 Cr, and SMA-2 at ₹2,922 Cr. Total SMA (3.3%) is at its lowest ever, signaling a very low probability of a spike in future NPAs.	None	5.0	Data-rich
7	3.5	Param, Investec	RoA & ECL	Financials	"Can you deliver 1% RoA during the ECL transition years?"	Management stated that with 97% PCR, stage 3 releases will happen when ECL is implemented, and the 5-year transition window isn't even fully needed. They expect to hit 1% RoA consistently from FY27 onwards.	None	3.0	Confident
8	4.0	Ashlesh Sonje, Kotak	Yield Gap	Financials	"What is the yield on Corporate vs RAM book?"	Management disclosed Corporate yields at 7.55% vs MSME at 9%. This 145bps gap confirms that the mix shift toward MSME is the primary lever for NIM expansion.	None	5.0	Clear pricing

PATTERN FLAGS & SENTIMENT * The NIM/Yield Dilemma: Analysts are clearly frustrated by the continued NIM compression (2.47%). Management successfully pivoted the narrative by showing that the "bad" deposits

(high-cost specials) are finally gone, and the "good" yield (MSME/Retail) is growing at 20%. The sentiment is one of "cautious optimism" for a NIM bottoming in Q1FY27. * **Earnings Quality Defense:** Management was transparent about the ₹2.1k Cr staff cost gain, framing it as a natural hedge against treasury losses. Analysts accepted this but noted that core operating profit (excluding this gain) would have been flatter. * **Analyst Sentiment Verdict:** Analysts are convinced about the **Asset Quality** (skepticism has vanished) but remain skeptical about **Core Income Momentum**. Management's credibility is high on risk management but still being tested on margin forecasting. The greatest risk to the thesis is a delay in deposit cost reduction.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | **Global NIM** | 2.8% - 2.9% | 2.47% (Actual Q4) | Cut FY27 guidance to 2.6%-2.7%. | High | | **RoA** | Above 1% | 0.89% (FY26 Actual) | Q1 tax one-off killed the full-year target. | Low | | **Capital** | Approved ₹8k Cr raise | Zero raised in FY26 | Will not raise capital in FY27 either; highly self-sufficient. | None |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY26)	This Quarter (Q4FY26)	Direction
Global NIM	2.52%	2.47%	↓ Compression
GNPA	3.19%	2.95%	↑ Improving
NNPA	0.32%	0.29%	↑ Improving
Capital Adequacy (CRAR)	16.77%	17.74%	↑ Improving
Floating Provision	₹1,775 Cr	₹2,045 Cr	↑ Improving (Buffer)
Employee Expenses	₹5,089 Cr	₹3,747 Cr	↑ Lower (AS-15 gain)
Treasury Income	₹1,337 Cr	(₹825 Cr)	↓ Deteriorating (Loss)
Slippage Ratio	0.67%	0.94%	↓ Deteriorating (Seasonal)
NIM Guidance	2.8% - 2.9%	2.6% - 2.7%	↓ Revision
RAM Mix Target	56.7%	60% (Long-term)	↑ Strategic Pivot

Earnings Quality Note: The divergence between PAT growth and core NII is driven by a ₹2,121 Cr non-cash reversal of employee provisions (AS-15). This was necessitated by the rise in government security yields which reduced the present value of future pension liabilities. While a legitimate accounting gain, it is a one-off and masks the fact that core NII fell 1.5% QoQ. PNB's "fortress" status is now confirmed, but its "earnings engine" is still shifting gears.