Punjab National Bank — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** PNB has structurally pivoted from an asset-recovery story to a high-return compounding machine, achieving its "1% RoA" goal two quarters ahead of schedule while maintaining fortress-level provisioning (PCR 96.7%).

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	RoA (1.02%) and Net NPA (0.46%) outperformed year-end targets; management revised FY25 guidance upwards across the board.	□
Earnings Quality	High (Core driven)	Growth driven by credit expansion (12.8%) and a collapse in credit costs (0.08% for Q2), despite a □2,057 Cr AS-15 employee provision hit.	□
Guidance Confidence	Strong	CEO suggested a "negative credit cost" scenario is possible due to excess provisioning and high recoveries.	□
Management Credibility	Strong	Consistently delivering on the "cleanup" promises; transparency on the □1.3L Cr SMA book and PSU telecom slippage was high.	□
Business Quality Signal	Improving	Transitioning to a RAM-led (55.8%) balance sheet with "new underwriting" (post-2020) showing a minuscule 0.29% NPA rate.	□
Key Q&A Exchange	Q1 & Q5: Credit Cost	Management revised credit cost guidance for the 2nd time this year to 0.25-0.30% (from 1% initially).	□
The Street's Primary Anxiety	OpEx & SMA Book	Concerns over volatile employee costs (AS-15) and total SMA levels; Mgmt clarified SMA-2 (high risk) is minimal.	□
Capital Cycle Stage	Harvesting	Massive PCR means incremental profits no longer disappear into provisions; QIP (□5k Cr) bolstered Tier-1 for growth.	□
Return Ratio Trajectory	Improving	RoE hit 19.91% for Q2; RoA (1.02%) is now tracking ahead of many private peers.	□
Pricing Power	Stable	Domestic NIM held >3% (3.06%) despite industry-wide deposit pricing pressure.	□
Balance Sheet Strength	Strong	CRAR at 16.36% (highest in 10+ years) and Net NPA <0.5% removes all legacy "tail risks."	□
Mgmt Guidance Track Record	Reliable	Hits or exceeds almost every operational metric; CASA is the only persistent miss.	□
Key Vulnerability	CASA Erosion	Domestic CASA share dropped to 39.31% (down 3.4% YoY), increasing reliance on term deposits.	□
Management Tone	Highly Confident	CEO termed this the "best number in 14 quarters" and "best in history" on absolute NII/Profits.	□

Key Takeaways: * **Positives:** Asset quality has reached a "clean slate" phase. GNPA below 4.5% and NNPA at 0.46% (approaching zero) allow management to shift focus to growth. The "new book" (loans sanctioned post-July 2020) accounts for ~60% of total advances and carries a negligible NPA of 0.29%, proving the structural shift in underwriting. ROA at 1.02% is a terminal goal achieved early, creating room for further valuation re-rating. * **Negatives:** The Bank is not immune to the sector-wide CASA struggle; CASA share is now well below the 42% target. Operating expenses are volatile due to AS-15 (actuarial) provisions for employee benefits, which fluctuate with G-Sec yields (□2,057 Cr hit this quarter). * **Street Concern:** Analysts were worried about the total SMA book (~□1.3L Cr). Management effectively neutralized this by showing that SMA-0 (least risk/payment delay) comprises the bulk (~₹1.02L Cr), while SMA-2 (high risk/90-day proximity) is only ₹2,125 Cr for accounts >₹5 Cr. * **Forward Watchpoint:** Management's hint at a "negative credit cost" year. If recoveries continue at current clips (₹4,891 Cr/qtr vs slippages of ₹2,181 Cr), the write-back of provisions could drive RoA significantly above the 1% mark in H2 FY25.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	6.0%	-	0.4%	→	NII growth at 6% YoY; absolute NII (₹10,517 Cr) is at a historic high.
NIM (Global %)	2.92%	↓ (3.11%)	↓ (3.07%)	↓	Impacted by overseas book and deposit repricing; domestic NIM remains higher at 3.06%.
Cost of Funds %	4.53%	↑ (4.32%)	↓ (4.54%)	↑	Marginal QoQ improvement globally; domestic cost stable at 4.49%.
Cost of Deposits %	5.16%	↑ (4.86%)	↑ (5.10%)	↓	Industry-wide trend; Mgmt believes deposit rates have peaked.
CASA Ratio (%)	39.31%	↓ (42.15%)	↓ (40.08%)	↓	Persistent challenge; focus on "Tap Banking" and Corporate Mobile App to recover.
Credit-Deposit Ratio %	72.82%	↑ (71.89%)	↓ (73.04%)	↑	PPT indicates 72.82%; well within comfortable liquidity limits.
Loans Growth (% YoY)	12.8%	-	3.2%	↑	Beating 11-12% guidance; driven by RAM growth of 12.0%.
Deposits Growth (%)	11.3%	-	3.4%	↑	Beating 9-10% guidance; primarily driven by term deposits (+16.8% YoY).
GNPA %	4.48%	↓ (6.96%)	↓ (4.98%)	↑	Target of 5.0% achieved early; now guiding toward 3.5%-3.75% for Mar-25.
NNPA %	0.46%	↓ (1.47%)	↓ (0.60%)	↑	Structural floor hit; virtually no net asset risk remaining on the book.
Slippage Ratio %	0.89%	↑ (0.85%)	↑ (0.72%)	↓	Marginal uptick due to one PSU telecom account (₹434 Cr); core slippage is <0.7%.
Credit Cost (%)	0.08%	↓ (1.31%)	↓ (0.32%)	↑	Massive beat; high recoveries and low slippages are driving this toward zero.
Capital Adequacy (%)	16.36%	↑ (15.09%)	↑ (15.79%)	↑	Boosted by ₹5,000 Cr QIP; CET-1 improved to 11.59%.
PAT (₹Cr)	4,303	↑ 145.0%	↑ 32.3%	↑	Highest ever quarterly profit; driven by provision write-backs and core NII.
Fee Income Growth %	15.0%	-	↓	↓	YoY growth healthy; QoQ dip in processing fees is seasonal (higher in Q1).

2B. SEGMENT BREAKDOWN

Segment	Advances (₹Cr)	YoY Growth	GNPA %	Trend	vs Co Avg	Key Development
Core Retail	1,85,400	19.0%	1.32%*	↑	Outperforming	Vehicle (+25.0%) and Home loans (+19.5%) leading growth.
Agriculture	1,62,829	11.1%	12.71%	→	In-line	Gold loan book reached ₹10,179 Cr; recovery robust.
MSME	1,51,071	8.9%	12.58%	↑	Lagging	Adjusted for corporate reclassification, growth is 14.3% YoY.
Corporate	4,47,316	11.4%	0.92%	↑	Recovering	Significant asset quality cleanup; GNPA now <1%.
Overseas	50,539	37.8%	0.00%	↑	Hyper-growth	Focused on buyer's credit/low-risk bank exposures; drags NIM but adds absolute NII.
Retail segment total NPA; Core Retail specific not explicitly split in GNPA table.						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Growth	11% - 12%	Currently 12.76%; easily on track.	Delivered	Low
Guidance	GNPA	3.5% - 3.75% (Revised from 4%)	Needs ~35bps reduction per quarter; highly feasible given recovery trend.	Ahead of Schedule	Low
Guidance	Net NPA	< 0.5%	Already at 0.46%; target effectively met.	Delivered	Low
Guidance	Credit Cost	0.25% - 0.30% (Revised from 0.5%)	HY1 is 0.20%; Q2 was 0.08%. Almost certain to hit unless macro shock occurs.	Beat	Low
Guidance	ROA	0.9% - 1.0% (Revised from 0.8%)	Q2 at 1.02%; H2 targets are now conservative.	Ahead of Schedule	Low
Strategy	RAM Mix	Reach 60% in 2-3 years	Currently 55.8%; shifting ~100-150bps per year.	Progressing	Low
Strategy	Capital Raise	Part of ₹7k Cr AT1 / ₹3k Cr Tier-2	Board approval in hand; will raise if "rates are of our choice."	New Target	Medium
Balance	Recoveries	₹18,000 Cr for FY25	HY1 at ₹8,140 Cr; needs ₹4,930 Cr run-rate. Historical Q4 is usually strong.	On Track	Medium

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	5.0	Nitin Agarwal, Motilal Oswal	Provisions	Financials	"Will we look to make contingent provisions for ECL transition?"	Management is maintaining a 96.7% PCR and argued that since post-2020 underwriting has only 0.29% NPA, existing buffers are sufficient. This suggests no massive "ECL shock" to earnings is expected on transition.	None	4.0	Clear stance
2	4.5	Nitin Agarwal, Motilal Oswal	CD Ratio	Financials	"Why are we not using the CD ratio lever (currently low) to expand margins?"	Management prioritizes "quality underwriting" over high margins and is willing to accept 2.9-3.0% global NIM to ensure absolute NII growth. This signals a focus on balance sheet stability over aggressive margin-chasing.	None	4.0	Specific strategy
3	4.0	Nitin Agarwal, Motilal Oswal	OpEx	Financials	"What driven the sharp rise in employee provisions (QoQ)?"	The □2,057 Cr provision is an AS-15 actuarial requirement caused by a 26bps drop in G-Sec yields (7.01% to 6.75%). This is a non-cash mark-to-market hit that should reverse or stabilize if yields rise.	None	5.0	Quantified
4	3.5	Piran Engineer, CLSA	Liquidity	Financials	"What is the LCR level we are comfortable with?"	Current LCR is 129%; management is comfortable with 115-120% even after the ~10% hit from proposed draft norms. This indicates a strong liquidity cushion	None	4.0	Directional evidence

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						for future credit growth.			
5	4.5	Gao Zhixuan, Schonfeld	Asset Quality	Financials	"What's the rough quantum of the PSU telecom slippage?"	One large PSU telecom account slipped, contributing ₹434 Cr (nearly 20% of the quarter's slippage). This "cleans out" a known systemic worry from PNB's standard book.	None	5.0	Specific, quantified
6	4.0	Rakesh Kumar, B&K Securities	Yields	Financials	"Why is yield on fund coming down despite stable advance yields?"	The drop (7.23% to 7.13%) is due to the hyper-growth in the overseas loan book and high short-term CD investments (lower yields). While NIM-dilutive, these provide safe deployment for excess liquidity.	None	4.0	Explains mix shift
7	4.0	Ashok Ajmera, Ajcon Global	Taxes	Financials	"When will the tax rate (currently 36%) come down?"	PNB remains in the old tax regime to exhaust MAT/DTA benefits; a shift to the new regime is "a matter of time" and will boost RoA by ~10bps. This is a latent earnings lever for FY26.	Timeline	3.0	Consistent but vague
8	4.5	Marsal (Indiv.)	Recoveries	Financials	"Can the ₹1,369 Cr recovery in other income continue?"	PNB has a ₹92,584 Cr "TWO" (Technical Written-Off) book which they view as a "gold mine" for consistent ₹1,000-1,500 Cr quarterly recoveries. This provides a structural tailwind to the P&L	None	5.0	Verified by book size

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						regardless of credit cycles.			
9	4.0	Jai Mundra, ICICI Securities	SMA Book	Financials	"What is the total SMA-1 and 2 including below 5 Cr accounts?"	Total SMA-1 is □14,688 Cr and SMA-2 is □13,509 Cr across the whole book. High SMA-0 (□1.02L Cr) was clarified as being mostly technical/lazy payments rather than distress.	None	4.0	Full disclosure
10	3.5	Kunal Shah, Citi	Governance	Management Outlook	"Stance on holding in PNB Housing Finance given draft circulars?"	Management is reviewing the draft guidelines with the Board and has "no plan as of date" to divest. Divestment of this stake remains a potential capital-unlocking event for the future.	None	2.0	Hedged

PATTERN FLAGS & SENTIMENT * **Asset Quality Pivot:** Analysts have largely stopped asking about legacy NPAs and are now hyper-focused on the SMA (Special Mention Account) buckets. Management's defensive posture on the □1.02L Cr SMA-0 book suggests they view it as a reporting artifact of their massive customer base (24Cr customers) rather than a credit warning. * **OpEx Volatility:** Questions regarding the employee cost spike were met with a highly technical explanation of AS-15 actuarial norms. Analysts seem to have accepted that this is a yield-cycle issue, though it makes quarterly RoA forecasting difficult. * **Analyst Sentiment Verdict:** Analysts are increasingly bullish, reflected in the lack of hostile questioning compared to prior years. The primary friction point was the "Overseas Book" growth, which some see as diluting margins. Management's credibility is at a multi-year high, bolstered by achieving the 1% RoA target and revision of all key guidance parameters upwards.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
RoA (Quarterly)	0.82%	1.02%	↑ Improving
GNPA Target (FY25)	5.0%	3.5% - 3.75%	↑ Improving (Revised)
Credit Cost (Qtrly)	0.32%	0.08%	↑ Improving
Capital (CET-1)	10.95%	11.59%	↑ Improving (Post QIP)
CASA Share (Dom.)	40.08%	39.31%	↓ Deteriorating
Net NPA	0.60%	0.46%	↑ Improving
Employee Prov.	₹742 Cr	₹2,057 Cr	↓ Volatile (Higher hit)
Recovery Strategy	₹18,000 Cr goal	High focus on ₹92k Cr TWO "Gold Mine"	↑ Reinforced
SMA-2 (>₹5 Cr)	₹1,604 Cr	₹2,125 Cr	↓ Slight uptick