Punjab National Bank — Oct 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on PAT & Asset Quality; Miss on NIM **One-line:** PNB has successfully completed its "Legacy Cleanup" phase, but is now facing a "Margin Defense" phase as high-cost liabilities linger longer than the immediate repricing of its Repo-linked loan book.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	PAT Beat / NIM Miss	PAT (□4,904 Cr) normalized after tax one-offs; Global NIM (2.60%) fell 10bps QoQ.	□
Earnings Quality	High (Conservative)	Upgraded IL&FS (□1,200 Cr) but did not release provisions to P&L; negative credit cost driven by 96.9% PCR.	□
Guidance Confidence	Mixed	Maintained 11-12% credit growth; NIM guidance of 2.8% looks highly ambitious given Q2 exit.	□
Management Credibility	Strong	Consistently delivering on NPA reduction (<3.5%) and slippage control (<1%).	□
Business Quality Signal	Improving (Liability Side)	CASA ratio bottomed and ticked up to 37.29% (vs 36.99% QoQ); Domestic deposits grew 10.4% YoY.	□
Key Q&A Exchange	Q2: Corporate Pipeline	Sanctioned but undisbursed pipeline grew from □1.29L Cr to □1.78L Cr.	□
The Street's Primary Anxiety	NIM Compression	Analysts focused on the 2.60% NIM; Mgmt expects 15bps cumulative expansion in H2 from bulk repricing.	□
Capital Cycle Stage	Harvesting Recovery	PCR at ~97% means almost all future recoveries will flow directly to the bottom line.	□
Margin / Return Ratio Trajectory	Bottoming Out	ROA recovered to 1.05% (post-tax-shift distortion); NIMs expected to bottom in Q2.	□
Pricing Power	Moderate	49% of book is Repo-linked (immediate yield drop), while 60-70% of term deposits are yet to reprice.	□
FCF Conversion & Quality	N/A (Banking)	Tier-1 at 14.41% provides ample growth capital without immediate dilution risk.	□
Competitive Moat Signals	Stable	Branch productivity (□263 Cr/branch) and business per employee (□27.6 Cr) improving.	□
Balance Sheet Strength	Very Strong	NNPA at 0.36% and CRAR at 17.19% are top-tier for a Public Sector Bank.	□
Working Capital Efficiency	Improving	CD Ratio at 72.33%; management remains comfortable up to 75%.	□
Mgmt Guidance Track Record	Reliable	Hits all asset quality and growth targets; margin timing remains the only volatility.	□
Key Vulnerability / Red Flag	NII Stagnation	NII was flat YoY (-0.5%), highlighting that volume growth isn't yet offsetting yield compression.	□
Management Tone	Confident & Operational	Focused on the □1.78L Cr pipeline and digital efficiency (95% digital share).	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The "Cleanup" is officially over. With NNPA at 0.36% and a 96.9% PCR, PNB is now a "clean" balance sheet. The corporate pipeline is massive (□1.78 Lakh Cr), suggesting credit growth will accelerate in H2. CASA has finally started to tick up (30bps QoQ), showing early success in the liability strategy. * **Negatives:** NIM compression is sharper than expected. The 2.60% Global NIM is a multi-quarter low, driven by the immediate hit to Repo-linked assets (49% of book) while bulk deposits (□2.8 Lakh Cr) reprice with a lag. NII growth is effectively zero, putting pressure on non-interest income to drive PAT. * **The Street's Concern:** Can PNB actually hit 2.8%+ NIMs? Management’s defense relies on 60-70% of the deposit book repricing lower in H2 and shedding low-yield corporate loans. * **Forward Watchpoint:** The Q3 gain of ~□900-950 Cr from the Canara HSBC Life IPO/dilution will provide a significant PAT buffer to offset any continued margin sluggishness.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures are primary. Concall used for commentary and granular details (e.g., bulk deposit repricing).

Metric	Current Qtr (Q2FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-0.5%	--	-1.0%	↓	Impacted by yield compression on Repo-linked loans.
NIM (Global %)	2.60%	↓ (2.92%)	↓ (2.70%)	↓	2.60% is viewed as the bottom; 15bps expansion guided for H2.
Cost of Funds %	4.53%	↓ (4.57%)	↓ (4.70%)	↑	Repricing of high-cost bulk deposits has begun.
Cost of Deposits %	5.25% (HY)	↑ (5.14%)	→ (5.21%)	→	60% of TD already repriced; 40% to reprice in Q3/Q4.
CASA Ratio (period end %)	37.29%	↓ (39.31%)	↑ (36.99%)	↑	First QoQ uptick in 4 quarters; 27.7L new accounts in H1.
Credit-Deposit Ratio %	72.33%	↓ (74.96%)	↑ (71.09%)	↑	Moving toward 75% target; liquidity is ample.
Loans Growth (% YoY)	10.1%	--	3.5%	→	Lagging 11-12% target; H2 expected to catch up via pipeline.
Deposits Growth (% YoY)	10.9%	--	1.7%	↑	Beating 9-10% guidance; driven by retail term deposits.
GNPA %	3.45%	↑ (4.48%)	↑ (3.78%)	↑	On track for <3.0% by Mar-26. Legacy accounts resolving.
NNPA %	0.36%	↑ (0.46%)	↑ (0.38%)	↑	Floor reached; bank is effectively "net zero" risk.
Slippage Ratio %	0.71%	↑ (0.89%)	→ (0.71%)	→	Well within <1% guidance; mostly Mudra/ Small Agri.
Credit Cost %	Negative	--	--	↑	Reversal of provisions on recoveries/ upgrades.
Capital Adequacy %	17.19%	↑ (16.36%)	↓ (17.50%)	→	CET-1 at 12.75%; 80bps ECL impact manageable over 5 yrs.
PAT (□Cr)	4,904	↑ 14.0%	↑ 192.8%	↑	Q1 was distorted by tax regime shift; Q2 is normalized.
Fee Income Growth %	6.6%	--	↓ 25.1%	↓	Seasonality in processing fees; Q1 is usually the peak.

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	GNPA %	Trend	vs Avg	Key Development
Retail (Excl IBPC)	2,33,532	18.1%	1.00%	↑	High	Vehicle loans (+30.9%) and Home loans (+12.9%) lead.
MSME	1,79,220	18.6%	10.24%	↑	High	Digital sanctions reached □2,976 Cr in Q2.
Agriculture	1,83,987	13.0%	10.30%	→	Avg	Gold loan portfolio grew 49% YoY to □13,667 Cr.
Corporate	4,82,468	7.9%	0.06%	→	Low	No corporate book in SMA-0; □1.78L Cr pipeline pending.

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 ~₹80,000 Cr in H2; Pipeline is ₹1,78,000 Cr. Highly Feasible.	Consistent	Low
Guidance	NIM (Global)	2.8% - 2.9%	Needs ~25bps lift from Q2 levels. Very difficult; depends on 40% TD repricing.	Miss (Q2)	High
Guidance	GNPA %	Below 3.0%	Needs reduction of 45bps. Feasible via ₹16k Cr recovery target.	Beat	Low
Guidance	Recovery	₹16,000 Cr (FY26)	Needs ₹9,200 Cr in H2. (H1 was ₹6,806 Cr). Feasible.	Consistent	Medium
Strategy	Digital Mix	95% Transactions	Current 94.97%. On track. 1/5th loans already digital.	Beat	Low
Strategy	NIM Recovery	15bps in H2	5bps in Q3 and 10bps in Q4 from deposit repricing.	New	Medium
Strategy	Asset Sale	Canara HSBC Life	Dilution of 10% stake in Q3 for ~₹900-950 Cr profit.	New	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Ashok Ajmera, Ajcon	Credit Growth	Financials	"Credit growth is only 10% YoY; you need ₹80,000 Cr in 6 months to hit 12% target."	Management confirmed the sanctioned pipeline has jumped to ₹1.78 Lakh Cr (up from ₹1.36L Cr), with 40% being project loans. This provides high visibility for H2 credit growth exceeding the 12% guidance.	None	5.0	Clear visibility
2	4.5	Mahrukh Adajania, Nuvama	NIM Outlook	Financials	"Global NIM fell 10bps QoQ; how can it improve in H2 with MCLR repricing?"	Management admitted Q1/Q2 were the bottom but expects 15bps cumulative expansion in H2 as 40% of term deposits reprice and bulk rates drop 100bps. This is the primary re-rating trigger for the stock.	None	4.0	Directional
3	4.0	Mahrukh Adajania, Nuvama	IL&FS Upgrade	Financials	"Did you upgrade the IL&FS account and take it to the P&L?"	Management confirmed the upgrade but stated provisions were shifted to "Other Provisions" rather than released to P&L. This creates a hidden buffer of ~₹1,200 Cr that can be used to smooth	None	5.0	Conservative

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						future earnings.			
4	4.0	Ashlesh Sonje, Kotak	ECL Impact	Financials	"What is your assessment of the transition impact of ECL?"	Management estimated a 75-80 bps impact on CRAR, which they intend to spread over 5 years. Given current 17%+ CRAR, the bank is comfortably placed to absorb this without equity dilution.	None	4.0	Reassuring
5	3.5	Sushil Choksey, Indus	M&A Financing	Strategy	"RBI recently allowed M&A finance; how is PNB positioning here?"	Management identified a □1.2 Lakh Cr market opportunity in M&A debt and is working with IBA/Big-4 banks to form a consortium policy. This represents a high-yield new growth vertical for the corporate book.	Strategy details	3.0	New Vertical
6	4.0	Shreejit Nair, B&K	Treasury Income	Financials	"Can you sustain the □1,800 Cr treasury income run-rate?"	Management expects a minimum run-rate of □1,500 Cr per quarter, backed by a □5 Trillion treasury book. This provides a stable non-interest income floor	None	4.0	Stable floor

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						while NII recovers.			
7	4.5	Piran Engineer, CLSA	NIM Sensitivity	Financials	"How many bps of NIM expansion can we realistically see in Q3 and Q4?"	Management specifically guided for 5bps in Q3 and 10bps in Q4. This provides a quantitative yardstick to measure management credibility over the next two quarters.	None	5.0	Specific Guide

PATTERN FLAGS & SENTIMENT * **The NIM Anxiety:** Analysts were hyper-focused on the NIM drop to 2.60%. Management's defense was quantitative: "40% of deposits reprice in H2" and "Repo-hit is already in the numbers." The sentiment was cautious optimism—analysts are waiting for the Q3 print to confirm the bottom. * **The Corporate "Ghost" Pipeline:** Analysts questioned the gap between sanctioned amounts and actual credit growth. Management's reveal of the pipeline growing to ₹1.78L Cr successfully pivoted the narrative from "growth miss" to "impending acceleration." * **Analyst Sentiment Verdict:** Skeptical on NII, Bullish on Assets. The consensus is that PNB is now "safe," but its ability to generate "high ROAs" depends entirely on deposit repricing speed. Management's credibility improved due to conservative accounting on IL&FS.

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% | 2.60% (Current) | 20-30bps gap; H2 needs perfect execution to hit the lower end. | High | | **Credit Growth**| 11% - 12% | 10.1% (Current) | Needs ₹80k Cr disbursal in H2 vs ₹30k Cr in H1. | Medium |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY26)	This Quarter (Q2FY26)	Direction
Global NIM	2.70%	2.60%	↓ Deteriorating
CASA Ratio	36.99%	37.29%	↑ Improving (Bottomed)
GNPA	3.78%	3.45%	↑ Improving
Corporate Pipeline	₹1.29 Lakh Cr	₹1.78 Lakh Cr	↑ Improving (Future Growth)
Credit Cost	0.14%	Negative	↑ Improving (Quality)
PAT	₹1,675 Cr (Tax Hit)	₹4,904 Cr (Normal)	↑ Improving
Asset Upgrade	N/A	IL&FS Upgraded (₹1,200 Cr)	↑ Improving (Earnings Quality)
Stake Sale	N/A	Canara HSBC Life IPO profit expected in Q3	↑ Improving (Buffer)

CFO-to-PAT Divergence Note: N/A for Banks. However, the shift of IL&FS provisions from NPA to Standard Assets (□1,200 Cr) is a key earnings quality lever that prevents "false" profit bloating this quarter, setting up a smoother H2.