

Balance sheet robust; RoA to surpass 1.1% in FY27E

NIM to remain stable in 2Q and improve thereafter

We met with the top management of Punjab National Bank (PNB), represented by Shri. Ashok Chandra, MD & CEO, to discuss the bank's business outlook, profitability goals, and other key focus areas. The following are the key takeaways from the discussion:

Anchoring growth with a balanced portfolio

PNB reiterated its FY26 loan growth guidance at 11–12%, with management highlighting strong traction across the Retail and MSME segments (+18% YoY). MSME growth is supported by cash-flow-based lending and digital initiatives, where NPAs are contained at ~1%. The corporate sanction pipeline remains strong at ~INR1.3t, though disbursements remain tepid, and the bank is hopeful of improved corporate demand in 2Q as the GST rate cut revs up economic activity. Management remains cautious on aggressive corporate pricing while prioritizing high-yielding RAM, which is expected to rise to 57–59% of loans (vs. 56.6% currently). The IBPC rundown (down from INR627b in Dec'24 to INR400b now) will weigh on reported retail growth, though core retail growth momentum remains healthy. The CD ratio remains in control at ~71%, and the bank is expected to maintain this in a tight range. We estimate PNB to deliver a 12.8% CAGR in the loan book over FY25-28.

Punjab National Bank



Shri. Ashok Chandra, MD & CEO

Shri Chandra, the MD & CEO of PNB since Jan'25, is a veteran banker with over 33 years of experience. He previously served as the ED at Canara Bank, overseeing critical verticals including Digital Banking, MSME, and Retail Assets. He earlier held leadership roles at Union Bank. With a Master's in Economics and Certified Associate of IIB, he also completed the Banks Board Bureau–IIM Bangalore leadership program.

RAM remains the key growth driver; corporate sanction pipeline healthy at ~INR1.35t, though disbursement rate remains tepid

A decisive pivot towards RAM is underway, with RAM mix expected to rise to ~57–59% from 56.6% currently. Management is consciously rebalancing away from low-yield IBPCs, which had previously inflated the retail book but offered little yield, while on the funding side, the bank is consciously pruning down the mix of CDs. Core MSME growth remains a standout at ~19% YoY, aided by cash-flow-based lending and digital initiatives, with NPA in the digital MSME portfolio contained at ~1%. Retail traction remains strong with revamped CASA-backed products driving customer acquisition and cross-sell opportunities. Corporate sanctions including new proposals of INR1.35t provide a growth pipeline, though deployment will be selective given competitive pricing. Focus areas include renewable energy and data centers, which support yields without diluting credit quality. The shift towards granular, high-yielding segments enhances portfolio diversity and margin resilience, with PNB aiming to scale RAM profitably.

NIM to remain broadly stable in 2Q, while 3Q and 4Q likely to improve

PNB expects NIM to bottom out in 2QFY26, with recovery visible from 3Q onward and sharper improvement in 4Q. Global NIM stood at 2.70% in 1Q, with management guiding to sustain ~2.7% in 2Q before a sequential uptick to 2.8–2.9% in 3Q and >2.9% in 4Q. A key driver is the sharp reduction in CDs, which have fallen to ~INR400b currently from INR900b in Dec'24. This will be fully phased out over the coming year, thereby easing funding costs. Simultaneously, the rundown of low-yielding IBPCs will structurally improve blended yields, even though it temporarily suppresses reported retail growth. Management expects NIM to be ~2.8-2.9% in FY26E vs. the reported NIM of 2.93% as of FY25.

Scalable fee income growth to drive steady improvement in the C/I ratio towards ~50%

PNB's cost-to-income ratio, currently at ~55%, is expected to trend towards below 50% in the next five years, driven primarily by income acceleration rather than cost-cutting. Management emphasized that operating leverage will come through scaling fee-based streams, particularly CMS, supply chain finance, and the upcoming thrust on the credit card business. CMS has already contributed INR2b in 1QFY26, with a quarterly run-rate target of INR5b by 4QFY26, supported by mandatory CMS integration for NBFC partners. Supply chain finance, where the bank has scaled an outstanding book of INR35b, is being aggressively expanded, offering both yield and fee upside. The credit card franchise, with ~0.7m cards currently, will see a major launch in Nov'25 with differentiated products, including a metal card, aimed at improving penetration and cross-sell. Alongside steady loan growth and improved margins, these new income streams are expected to structurally lift operating income. As a result, PNB is confident of sustainably lowering the C/I ratio while maintaining the capacity to invest in growth. Sustained improvement in income levers can augment PNB's C/I ratio improvement towards 50% over the coming years.

Superior asset quality and industry-best PCR provide stability in RoA

PNB's asset quality metrics remain robust, providing a strong foundation for sustainable profitability. Management guided slippages of ~INR80b in FY26, offset by recoveries of ~INR40b, keeping net stress under control. Management has anticipated a recovery of INR 9b from one account, which has already materialized. Importantly, the bank carries one of the highest PCRs in the industry at 97% (tangible PCR: ~90%), which limits incremental provisioning needs. Credit costs are guided at just 20–30 bps, among the lowest in the system, and management does not anticipate additional buffers over the next three years. ECL implementation, slated for FY28E, is expected to have a limited impact, reflecting the inherent strength of the book. We expect the asset quality ratio to improve, with GNPA estimated to decline to 3.1% in FY26 and NNPA to 0.3%. GNPA is likely to trend further down at 2.5% and NNPA at 0.2% with best-in-class PCR at ~93% in FY28E.

Tax rate to be reduced to 25% from 2QFY26E; aiming for a 1.1%+ RoA in FY27E

Management guided an RoA of 0.9% in FY26E as PNB transitioned to a lower tax regime and took higher tax absorption in 1QFY26. In 1QFY26, its reported RoA thus stood at 0.37%, though underlying profitability was strong. During 1Q, operating profit was also weighed down by elevated opex linked to PSLC purchases (INR8.5b), which PNB is working upon and aims to minimize the PSLC drag in the coming years. With credit costs tracking below guidance (14bp vs. 0.5% guided), the earnings trajectory remains intact. Management reiterated its RoA target of 1.1-1.25% by FY27E, underpinned by portfolio mix change, asset-quality stability, and cost-rationalization efforts.

Other highlights

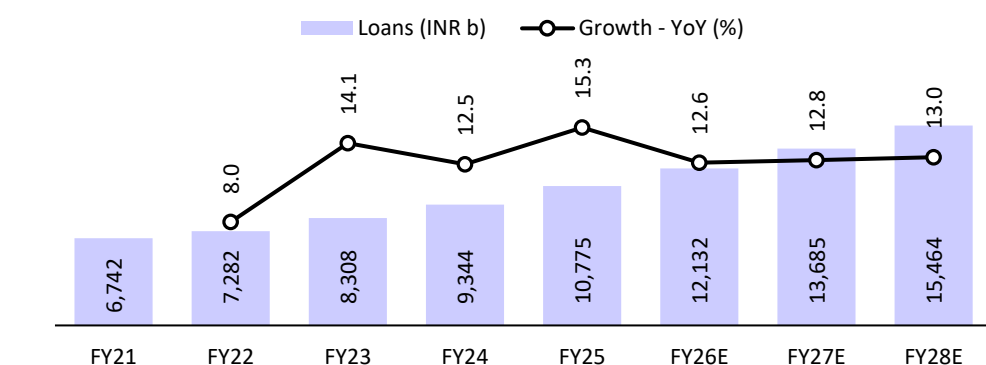
- PNB holds a 23% stake in Canara HSBC Life and plans to divest around 10% of this holding, which is expected to generate gains of INR9-10b.
- Between Sep and Dec'25, PNB will benefit from INR 150b of additional liquidity due to CRR cuts.
- PNB has only a minimal exposure of INR 8.8b to the SMEs exposed to the US market/tariffs.

Valuation and view: Reiterate BUY with a TP of INR130

- PNB has transitioned from a legacy-stressed balance sheet to a fundamentally stronger franchise, with asset-quality concerns decisively addressed. The steady reduction in GNPA (3.78%) and NNPA (0.38%), coupled with robust PCR (90.3%), underpins earnings predictability. With credit costs at just 14bp and RAM expansion driving yields, the medium-term RoA trajectory towards >1% by FY27 appears credible.
- The bank's near-term profitability is weighed down by elevated opex and one-offs, but structural earnings drivers remain intact. At current valuations, PNB trades at a discount to both private peers and select PSBs, offering a margin of safety.
- Re-rating catalysts include consistent delivery on double-digit loan growth, progress on reducing cost ratios, and sustained asset-quality leadership. We retain our constructive stance and currently estimate PNB to deliver a consistent RoA of 1% in FY27/28. We **reiterate our BUY rating** with a TP of INR130 (premised on 1.0x FY27E BV).

STORY IN CHARTS

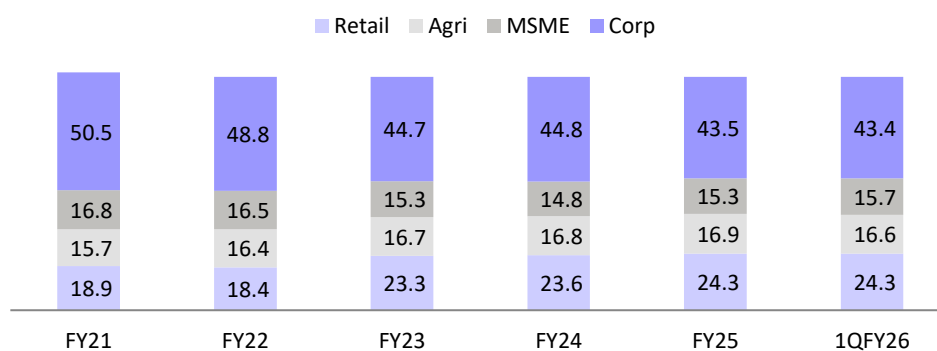
Exhibit 1: Estimate a healthy ~13% loan CAGR over FY25-28



Source: MOFSL, Company

Exhibit 2: Share of loan mix over the years

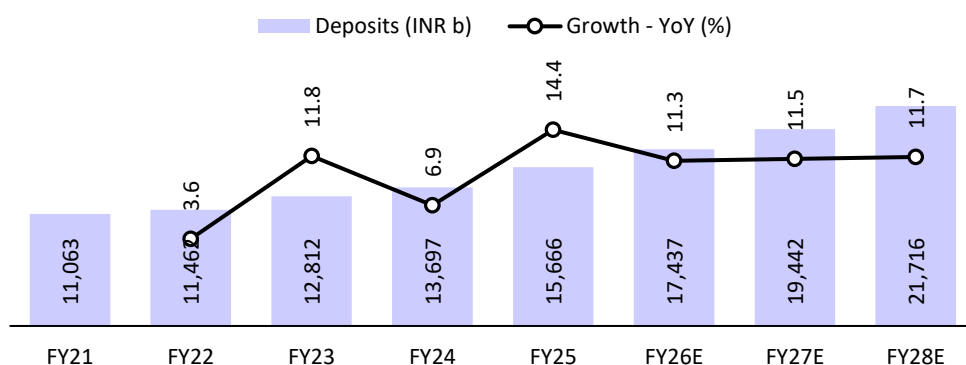
Corporate mix has declined to 43% from 51% in FY21, while the share of RAM mix has increased



Source: MOFSL, Company

Exhibit 3: Deposit CAGR to remain steady at ~11.5%

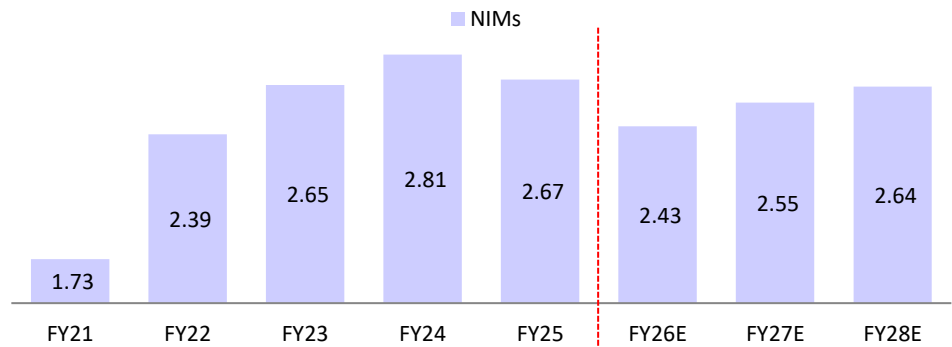
Estimate deposits to clock ~11.5% CAGR over FY25-28



Source: MOFSL, Company

Exhibit 4: NIM to bottom out in FY26E; recover thereafter by ~20bp over FY26-28E

NIM is likely to remain stable in 2QFY26 and improve thereafter

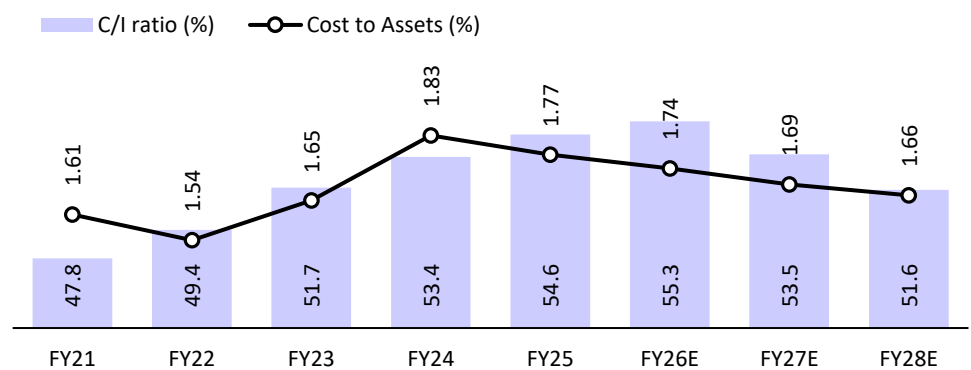


FY26,27 are on a calculated basis

Source: MOFSL, Company

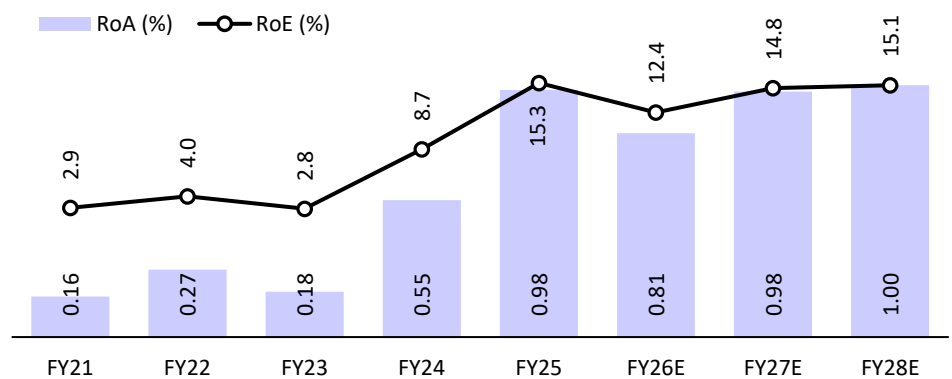
Exhibit 5: Estimate C/I ratio to moderate to 51.6% by FY28

With continued investment in business, technology, and employees, we expect the C/I ratio to decline at a calibrated pace to 51.6% by FY28



Source: MOFSL, Company

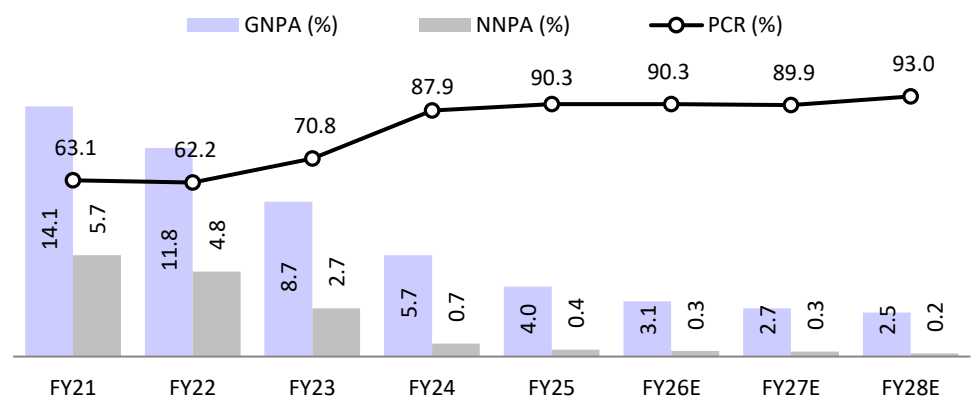
Exhibit 6: Estimate RoA to improve to ~1% in FY27 with possible upside risk



Source: MOFSL, Company

Exhibit 7: Estimate GNPA/NNPA ratios at 2.5%/0.2% by FY28

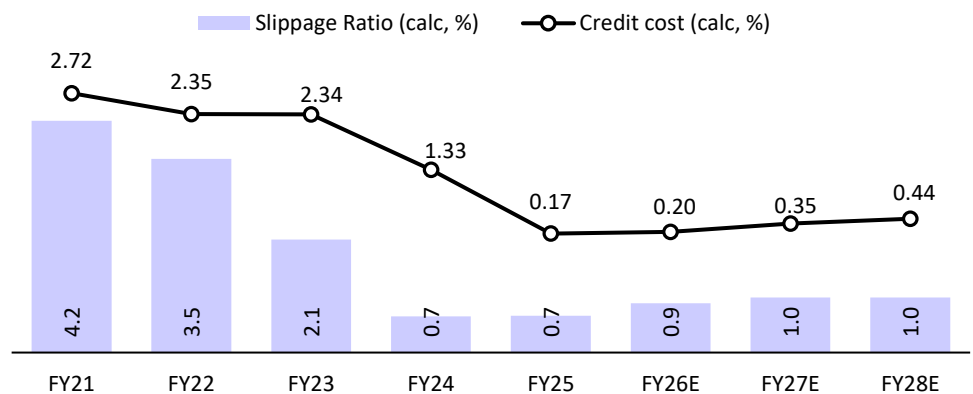
Asset quality ratios saw a continuous improvement over the years, and the GNPA ratio is estimated to further dip to 2.5% over the next few years



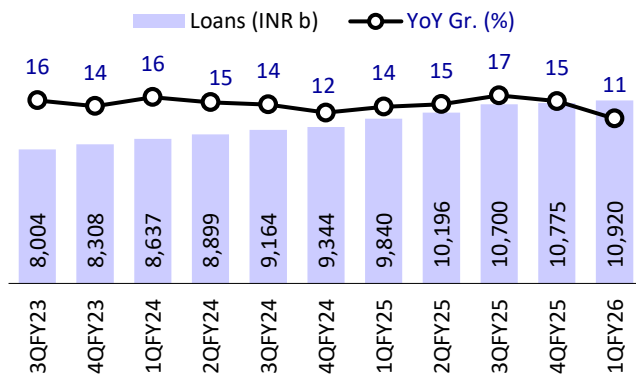
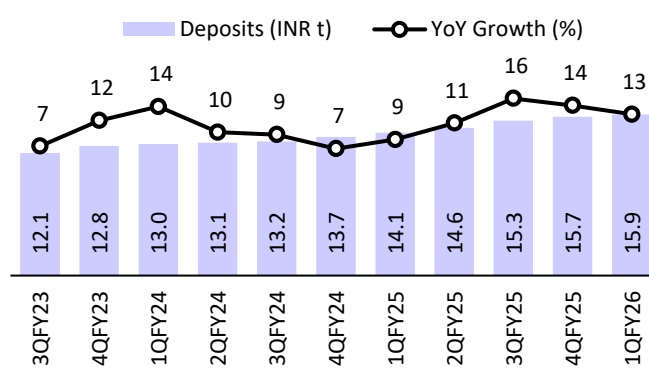
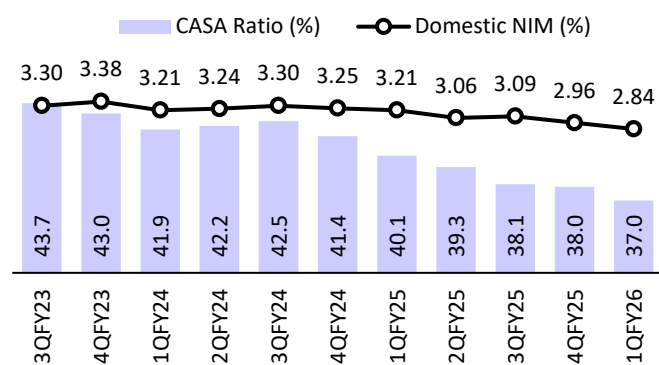
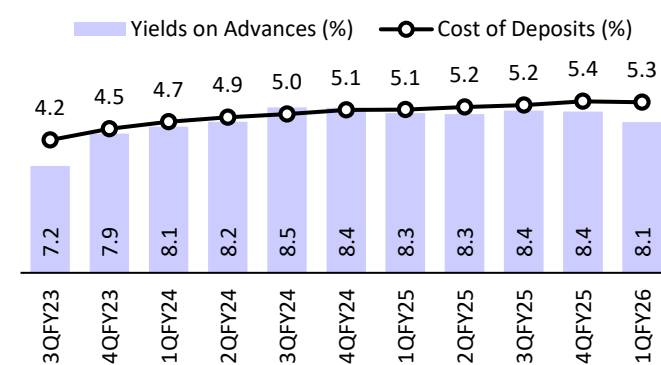
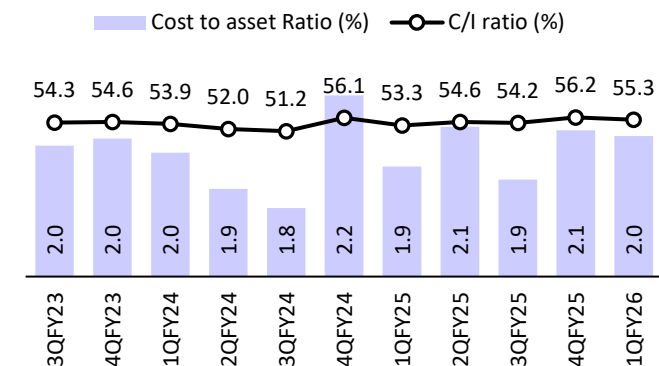
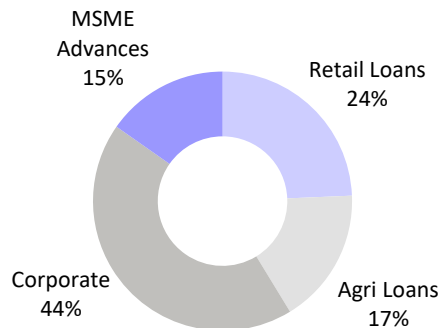
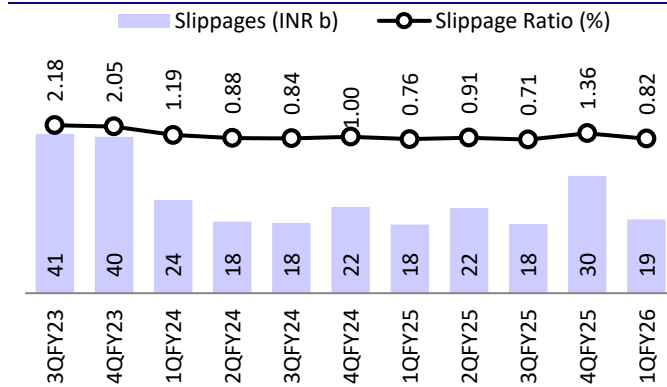
Source: MOFSL, Company

Exhibit 8: Estimate credit costs to remain in a narrow band of 20-45bp over FY25-28

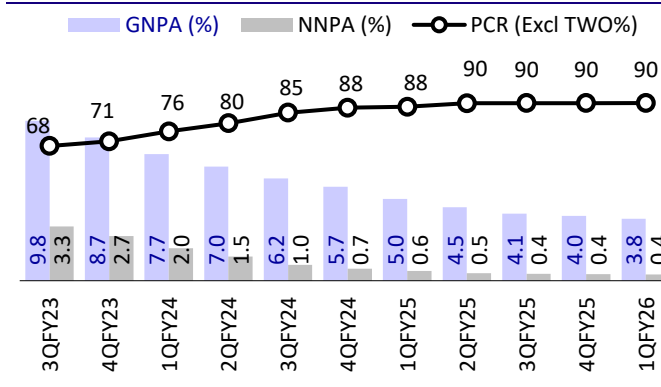
We estimate credit costs to remain stable at 20-45bp over FY25-28



Source: MOFSL, Company

Exhibit 9: Loan book grew 11% YoY (1.3% QoQ) to INR10.9t

Exhibit 10: Deposits grew 12.9% YoY (up 1.5% QoQ)

Exhibit 11: Domestic NIM moderated 12bp QoQ to 2.84%

Exhibit 12: Yields declined 22bp QoQ; CoD declined 3bp QoQ

Exhibit 13: C/I ratio moderated to 55.3% in 1QFY26

Exhibit 14: O/s loan mix: RAM constituted 57% of total loans

Exhibit 15: Slippages ratio moderated to 0.82% in 1QFY26


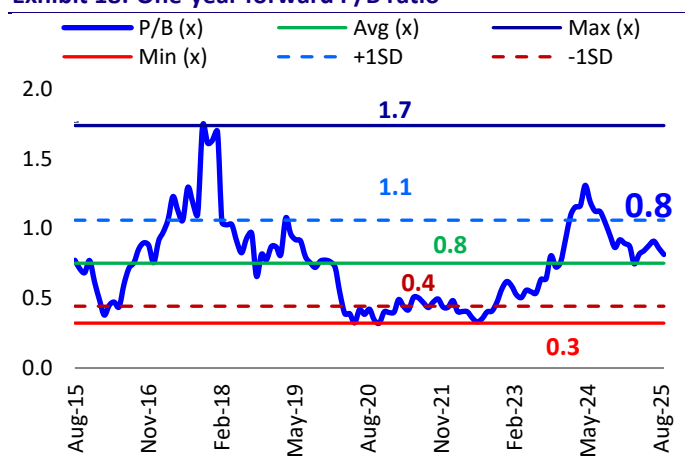
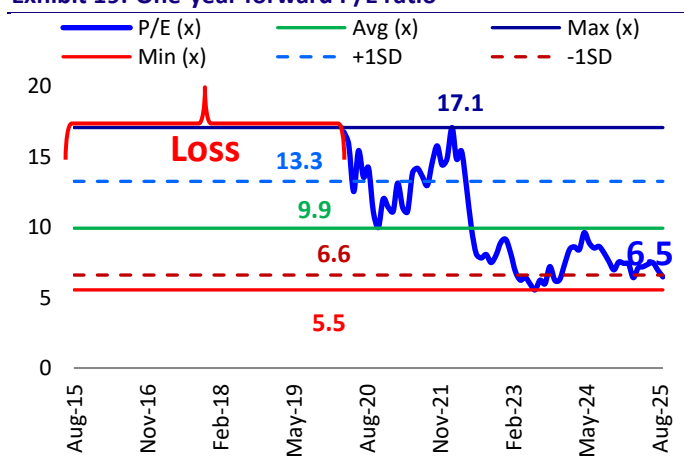
Source: MOFSL, Company

Exhibit 16: GNPA/NNPA ratios improved 17bp/2bp QoQ


Source: MOFSL, Company

Exhibit 17: DuPont analysis

Annual DuPont	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	5.81	6.13	7.07	7.20	6.92	6.84	6.80
Interest Expense	3.59	3.65	4.42	4.67	4.62	4.43	4.31
Net Interest Income	2.23	2.48	2.65	2.53	2.30	2.42	2.49
Other Income	0.96	0.87	0.89	0.97	1.00	0.92	0.91
Total Income	3.19	3.36	3.54	3.50	3.29	3.33	3.40
Operating Expenses	1.57	1.74	1.89	1.91	1.82	1.78	1.75
Employees	0.92	1.07	1.22	1.26	1.21	1.19	1.16
Others	0.65	0.67	0.66	0.65	0.62	0.60	0.59
Operating Profits	1.61	1.62	1.65	1.59	1.47	1.55	1.65
Core operating Profits	1.38	1.70	1.60	1.36	1.42	1.49	1.59
Provisions	1.28	1.31	0.78	0.10	0.14	0.24	0.30
PBT	0.34	0.31	0.87	1.49	1.33	1.31	1.35
Tax	0.07	0.13	0.33	0.50	0.52	0.33	0.34
RoA	0.27	0.18	0.55	0.98	0.81	0.98	1.00
Leverage (x)	14.96	15.44	15.95	15.56	15.24	15.14	15.03
RoE	4.02	2.79	8.70	15.31	12.39	14.81	15.09

Exhibit 18: One-year forward P/B ratio

Exhibit 19: One-year forward P/E ratio


Financials and valuations

Income Statement

(INR b)

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	748.8	851.4	1,069.0	1,217.6	1,322.6	1,449.8	1,605.9
Interest Expense	461.9	506.5	668.2	789.8	883.5	938.1	1,017.3
Net Interest Income	286.9	344.9	400.8	427.8	439.1	511.7	588.6
- Growth (%)	-6.1	20.2	16.2	6.7	2.6	16.5	15.0
Non-Interest Income	123.2	121.4	133.8	163.1	190.8	194.6	214.1
Total Income	410.1	466.3	534.7	590.9	629.9	706.3	802.7
- Growth (%)	-3.4	13.7	14.7	10.5	6.6	12.1	13.6
Operating Expenses	202.5	241.1	285.4	322.6	348.4	377.9	413.9
Pre Provision Profits	207.6	225.3	249.3	268.3	281.5	328.4	388.8
- Growth (%)	-6.3	8.5	10.7	7.6	4.9	16.6	18.4
Core PPop	178.3	236.7	242.4	229.1	271.7	316.6	374.6
- Growth (%)	-4.3	32.8	2.4	-5.5	18.6	16.5	18.3
Provisions (excl tax)	164.5	182.4	117.4	16.7	26.9	50.7	71.3
PBT	43.2	42.9	131.9	251.6	254.7	277.7	317.5
Tax	8.6	17.8	49.5	85.3	99.3	70.5	80.6
Tax Rate (%)	19.9	41.5	37.5	33.9	39.0	25.4	25.4
PAT	34.6	25.1	82.4	166.3	155.3	207.2	236.9
- Growth (%)	71.0	-27.5	228.8	101.7	-6.6	33.4	14.3

Balance Sheet

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	22	22	22	23	23	23	23
Equity Share Capital	22.0	22.0	22.0	23.0	23.0	23.0	23.0
Reserves & Surplus	932.8	976.5	1,042.7	1,250.6	1,377.6	1,540.3	1,719.3
Net Worth	954.9	998.6	1,064.8	1,273.6	1,400.6	1,563.3	1,742.3
Deposits	11,462.2	12,811.6	13,697.1	15,666.2	17,436.5	19,441.7	21,716.4
- Growth (%)	3.6	11.8	6.9	14.4	11.3	11.5	11.7
of which CASA Dep	5,336.5	5,380.2	5,525.0	5,735.4	6,346.9	7,387.9	8,643.1
- Growth (%)	8.3	0.8	2.7	3.8	10.7	16.4	17.0
Borrowings	456.8	512.9	504.3	837.8	751.2	778.8	809.0
Other Liabilities & Prov.	274.2	295.2	352.2	404.1	464.7	534.4	614.6
Total Liabilities	13,148.1	14,618.3	15,618.4	18,181.7	20,053.0	22,318.2	24,882.3
Current Assets	1,326.5	1,551.1	1,291.0	1,487.2	1,455.0	1,617.6	1,802.0
Investments	3,721.7	3,960.0	4,203.2	4,973.1	5,420.7	5,854.3	6,322.7
- Growth (%)	-5.3	6.4	6.1	18.3	9.0	8.0	8.0
Loans	7,281.9	8,308.3	9,344.3	10,774.7	12,132.4	13,685.3	15,464.4
- Growth (%)	8.0	14.1	12.5	15.3	12.6	12.8	13.0
Fixed Assets	106.7	120.5	123.2	130.5	138.4	146.7	155.5
Other Assets	711.3	678.4	656.6	816.1	906.5	1,014.3	1,137.7
Total Assets	13,148.1	14,618.3	15,618.4	18,181.7	20,053.0	22,318.2	24,882.3

Asset Quality	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
GNPA	924.5	773.3	563.4	440.8	389.6	382.3	394.3
NNPA	349.1	225.9	68.0	42.9	37.7	38.6	27.5
Slippages	247.4	160.3	58.3	67.6	103.1	129.1	145.7
GNPA Ratio	11.8	8.7	5.7	4.0	3.1	2.7	2.5
NNPA Ratio	4.8	2.7	0.7	0.4	0.3	0.3	0.2
Slippage Ratio	3.5	2.1	0.7	0.7	0.9	1.0	1.0
Credit Cost	2.35	2.34	1.33	0.17	0.20	0.35	0.44
PCR (Excl Tech. write off)	62.2	70.8	87.9	90.3	90.3	89.9	93.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Yield and Cost Ratios (%)							
Avg. Yield- on Earning Assets	6.2	6.5	7.5	7.6	7.3	7.2	7.2
Avg. Yield on loans	6.9	7.4	8.6	8.6	8.3	8.1	8.1
Avg. Yield on Investments	6.3	6.7	6.9	6.8	6.8	6.7	6.6
Avg. Cost of Int. Bear. Liab.	3.9	4.0	4.9	5.1	5.1	4.9	4.8
Avg. Cost of Deposits	3.8	3.9	4.7	5.0	4.9	4.7	4.6
Interest Spread	2.3	2.5	2.6	2.4	2.2	2.3	2.4
Net Interest Margin	2.4	2.6	2.8	2.7	2.4	2.6	2.6

Capitalisation Ratios (%)

CAR	14.5	15.5	16.0	17.1	16.0	14.7	13.6
Tier I	11.7	12.7	13.2	14.1	13.0	12.1	11.2
CET-1	10.6	11.2	11.1	12.4	10.8	10.1	9.3
Tier II	2.8	2.8	2.8	3.0	3.0	2.6	2.4

Business Ratios (%)

Loans/Deposit Ratio	63.5	64.8	68.2	68.8	69.6	70.4	71.2
CASA Ratio	46.6	42.0	40.3	36.6	36.4	38.0	39.8
Cost/Assets	1.5	1.6	1.8	1.8	1.7	1.7	1.7
Cost/Total Income	49.4	51.7	53.4	54.6	55.3	53.5	51.6
Cost/Core income	53.2	2.0	-4.5	-0.8	-3.8	-3.4	-3.1
Int. Expense/Int. Income	61.7	59.5	62.5	64.9	66.8	64.7	63.3
Fee Income/Total Income	22.9	28.5	23.7	21.0	28.7	25.9	24.9
Non Int. Inc./Total Income	30.0	26.0	25.0	27.6	30.3	27.6	26.7
Empl. Cost/Total Expense	58.5	61.4	64.8	66.2	66.2	66.5	66.2

Efficiency Ratios (INRm)

Employee per branch (in nos)	10.2	10.3	10.1	10.1	10.1	10.1	10.1
Staff cost per employee	1.1	1.4	1.8	2.1	2.2	2.3	2.5
CASA per branch	528.5	534.0	545.1	562.9	602.4	687.5	788.5
Deposits per branch	1,135.1	1,271.5	1,351.3	1,537.6	1,655.0	1,809.2	1,981.2
Business per Employee	181.7	202.8	225.1	257.3	277.8	305.1	335.7
Profit per Employee	0.3	0.2	0.8	1.6	1.5	1.9	2.1

Valuation ratios

RoE	4.0	2.8	8.7	15.3	12.4	14.8	15.1
RoA	0.3	0.2	0.5	1.0	0.8	1.0	1.0
RoRWA	0.6	0.4	1.2	2.1	1.7	2.1	2.1
Book Value (INR)	83	86	93	107	118	132	148
- Growth (%)	0.2	3.9	7.0	15.4	10.3	12.0	11.8
Price-BV (x)	1.3	1.3	1.2	1.0	1.0	0.8	0.8
Adjusted BV (INR)	58	68	84	101	112	126	142
Price-ABV (x)	1.9	1.6	1.3	1.1	1.0	0.9	0.8
EPS (INR)	3.2	2.3	7.5	14.8	13.5	18.0	20.6
Price-Earnings (x)	34.8	49.2	15.0	7.6	8.3	6.2	5.4
Dividend Per Share (INR)	0.6	0.7	1.5	2.9	3.0	3.9	5.1
Dividend Yield (%)	0.6	0.6	1.4	2.7	2.8	3.6	4.7

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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