

Punjab National Bank

BSE SENSEX 74,559 S&P CNX 23,380

CMP: INR103 TP: INR135 (+31%) Buy



Stock Info

Bloomberg	PNB IN
Equity Shares (m)	11493
M.Cap.(INRb)/(USD\$)	1181.2 / 12.4
52-Week Range (INR)	135 / 95
1, 6, 12 Rel. Per (%)	-5/-6/14
12M Avg Val (INR M)	2348
Free float (%)	29.9

Financials Snapshot (INR b)

Y/E March	FY26	FY27E	FY28E
NII	419.6	465.6	540.3
OP	292.9	333.6	396.4
NP	169.0	209.7	246.0
NIM (%)	2.3	2.4	2.5
EPS (INR)	14.7	18.2	21.4
EPS Gr. (%)	-0.5	24.1	17.3
BV/Sh. (INR)	120	133	150
ABV/Sh. (INR)	115	128	144

Ratios

RoA (%)	0.9	1.0	1.1
RoE (%)	13.3	14.8	15.5

Valuations

P/E(X)	7.0	5.6	4.8
P/BV (X)	0.9	0.8	0.7
P/ABV (X)	0.9	0.8	0.7

Shareholding pattern (%)

Sep-25	Mar-26	Dec-25	Mar-25
0.0	70.1	70.1	70.1
35.7	16.1	16.1	14.7
15.5	6.4	5.9	5.7
48.9	7.5	7.9	9.5

FII Includes depository receipts

Operating performance steady; RoA to sustain at >1%

Margin bias positive; ECL transition impact manageable

We met with the senior management team of Punjab National Bank (PNB), represented by Mr. Raman Grover (CGM & CFO), Mr. Santosh Kumar (GM - Treasury), and Mr. Virendra Bansal (Dy GM – Strategic management).

- PNB continues to pivot toward higher-yielding segments, with RAM loans growing at a faster pace and management targeting ~60% mix over the coming years. The bank is reducing its low-yield IBPC exposure, while a comfortable 71.6% CD ratio is expected to support sustainable 12-13% growth.
- After a downward trend in margins over the past few quarters, we expect the trajectory to reverse. The bank is guiding for FY27E margins of 2.6-2.7% vs 2.47% in 4QFY26. Improvement is expected through easing funding costs and a higher-yielding RAM-led loan mix.
- PNB is scaling fee-based businesses such as Credit Cards, CMS, and Supply Chain Finance to structurally improve operating efficiency, with the C/I ratio expected to improve to 46.4% by FY28 vs 51.8% in FY26 (54.6% in FY25). Strong MSME growth, healthy retail traction, and improving fee income streams are expected to support margin resilience and help sustain RoA above 1%.
- Asset quality continues to improve, with GNPA/NNPA declining to 2.95%/0.29% and PCR improving to 97.1%, while net recoveries remained strong at 2.4x net slippages in FY26. Management estimates ECL transition impact at ~INR90-100b, partly cushioned by INR20.5b floating provisions and ~INR8b usable general provisions, as well as strong PCR of 97.1%.
- At current valuations, PNB trades attractively at ~0.8x FY27E ABV. Re-rating catalysts include sustained double-digit loan growth, improving fee income, stable asset quality, and margin recovery.
- We reiterate our BUY rating with a TP of INR135 (premised on ~0.9x Sep-27E ABV).

Anchoring growth on improving RAM mix and yield discipline

PNB continues to focus on improving portfolio quality and yields through accelerated growth in RAM segments, which now constitute 56.6% of advances. Retail (ex-IBPC), MSME, and Agri loans grew 18.2%, 19.9%, and 10.7% YoY, respectively, driving overall advance growth of 13.7% YoY to INR12.3t. The bank remains focused on increasing the RAM mix with healthy MSME yields vs ~7.5% in the corporate portfolio. While corporate sanctions remain healthy at ~INR4t, the bank remains selective on pricing and incremental exposures. With CD ratio comfortable at 71.6%, PNB remains confident of sustaining 12-13% growth over FY27E.

IBPC mix to decline; asset mix shifting toward higher-yielding segments

PNB continues to pivot toward granular and higher-yielding RAM segments, with RAM share expected to improve to ~58% in FY27 and ~60% over the longer term. The bank aims to consciously reduce low-yield IBPC exposure by another INR180-200b in FY27. MSME remains the standout segment, supported by cash flow-based underwriting, digital sourcing initiatives, and healthy loan yields, while stress indicators remain benign. Retail momentum also remains healthy, aided by revamped liability products, credit card cross-sell, and gold loans. The calibrated shift toward granular RAM segments, alongside improving fee income, is expected to complement margin resilience and help sustain RoA above 1%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

NIMs to recover gradually; guided FY27 range of 2.6-2.7% (2.47% in 4QFY26)

PNB expects margin pressure to moderate gradually from 4QFY26 levels, with global NIMs at 2.47% and domestic NIM at 2.61% during 4QFY26. The bank has guided for FY27 global NIMs in the range of 2.6-2.7%, with sequential improvement expected as funding costs ease and the loan mix shifts toward higher-yielding RAM segments. The bank indicated that ~95% of high-cost special deposits have already been repriced, while incremental deposit costs have started declining modestly, with ~5bp reduction expected over the next two quarters, thus aiding NIMs gradually in FY27E.

Fee income scale-up to augment operating efficiency

PNB continues to focus on scaling fee-based businesses to drive a sustainable improvement in revenue growth and cost-income ratio, which improved to 48.4% in 4QFY26 and 51.8% for FY26 (54.6% in FY25). Operating leverage will increasingly come from higher fee income rather than cost rationalization, with key focus areas being credit cards, cash management services (CMS), and supply chain finance. The bank has materially strengthened its credit card franchise, with outstanding cards rising to ~0.9m and targeting ~1.3-1.4m cards over the near term through affluent and salaried customer acquisition. Supply chain finance and CMS are also witnessing steady traction and are expected to support both fee income and business growth. Alongside improving RAM mix, healthy recoveries, and digital-led operating leverage, these initiatives are expected to support a structurally lower C/I ratio and help sustain RoA above 1% over the medium term. We, thus, expect C/I ratio to sustain at ~48.4% in FY27.

Asset quality robust; ECL transition partly cushioned by provisioning buffers

PNB continues to witness steady improvement in asset quality, with GNPA/NNPA declining to 2.95%/0.29% in 4QFY26 from 3.95%/0.40% a year ago, while PCR (including TWO) improved to 97.14%. Slippages remained contained at 0.94%, despite seasonal stress in MSME and agri portfolios during 4Q (FY26 slippage rate at 0.6%), while recoveries remained healthy at 2.4x slippages during FY26. The bank also highlighted that the SMA 0/1/2 pool has declined to 3.3%, within which the SMA-2 pool stood at a mere 4bp of loans, indicating limited incremental stress formation. On ECL implementation, the bank earlier estimated a transitioning impact of ~INR90-100b. The bank remains comfortable, given its strong capital position (17.74% CAR), floating provisions of INR20.5b, and general provisions of ~INR16b, of which nearly 50% (~INR8b) can be utilized toward ECL transition requirements. These buffers are expected to support stable credit costs and help sustain RoA above 1% post ECL implementation.

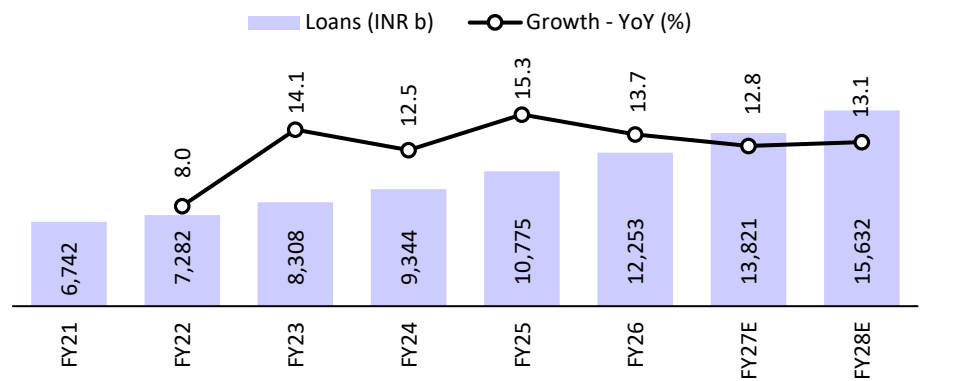
Valuations and view

- PNB has materially strengthened its balance sheet over the past few years, with GNPA/NNPA improving to 2.95%/0.29% in FY26, while PCR (including TWO) improved to 97.1%.
- Healthy net recoveries (2.4x net slippages), controlled SMA pool at 3.3% (4bp of SMA-2), and strong underwriting standards provide confidence in asset quality sustainability, even amid ECL transition.

- The bank is now pivoting toward a structurally stronger earnings profile through higher-yielding RAM growth, reduction in low-yield IBPC exposure, improving fee-income streams, and rising operating leverage.
- While NIMs have been on a declining trend, management expects the trajectory to recover, aided by improving RAM mix and deposit repricing. With the RAM mix targeted toward ~58-60% and RoA sustaining above 1% in recent quarters, earnings visibility continues to improve.
- **At current valuations, PNB trades attractively at ~0.8x FY27E ABV. Re-rating catalysts include sustained double-digit loan growth, improving fee income, stable asset quality, and margin recovery. We reiterate our BUY rating with a TP of INR135 (premised on ~0.9x Sep'27E ABV).**

STORY IN CHARTS: PNB

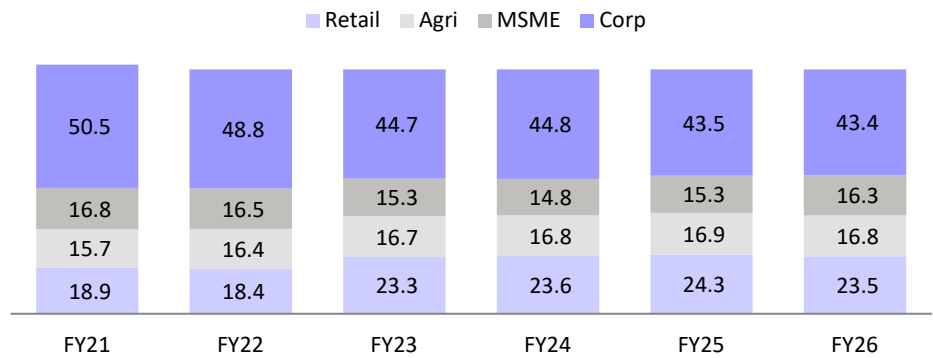
Exhibit 1: Estimate a healthy ~13% loan CAGR over FY26-28



Source: MOFSL, Company

Exhibit 2: Share of loan mix over the years

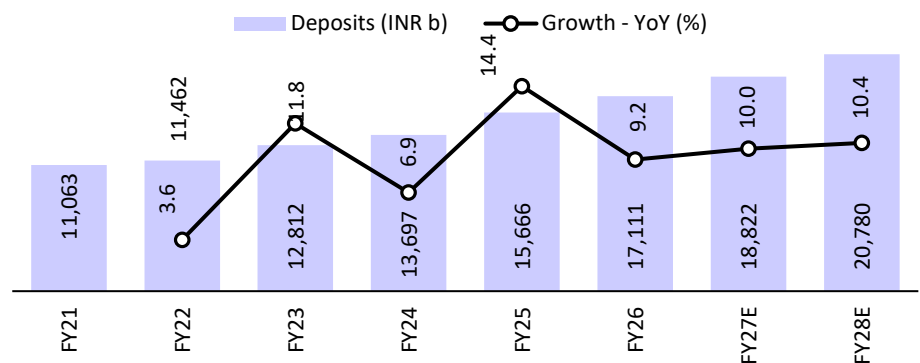
The corporate mix has declined to 43% from 51% in FY21, while the share of RAM mix has increased to 56.6% vs 51.4% in FY21.



Source: MOFSL, Company

Exhibit 3: Deposit CAGR to remain steady at ~10%

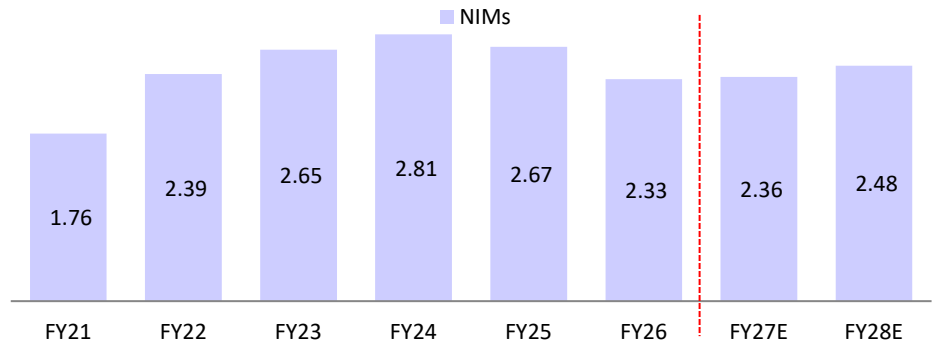
Estimate deposits to clock ~10% CAGR over FY26-28.



Source: MOFSL, Company

Exhibit 4: NIMs expected to recover gradually over the next two years at 2.3-2.5%

NIMs outlook likely to remain stable at 2.3-2.5%.

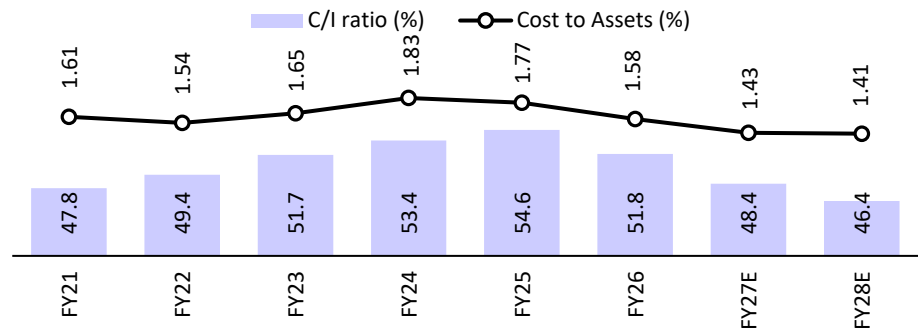


FY27, 28 are on a calculated basis

Source: MOFSL, Company

Exhibit 5: Estimate C/I ratio to moderate to 46.4% by FY28

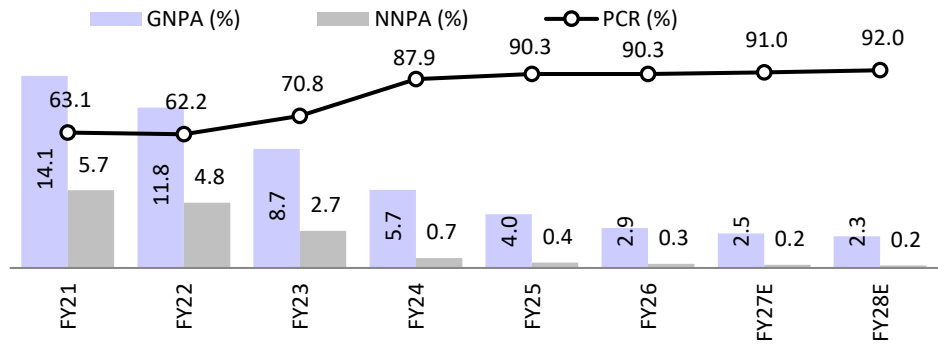
With improved revenue growth and controlled opex, we expect the C/I ratio to improve at a calibrated pace to 46.4% by FY28.



Source: MOFSL, Company

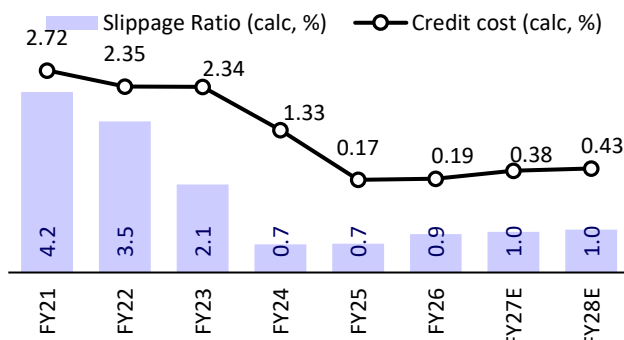
Exhibit 6: Estimate GNPA/NNPA ratios at 2.3%/0.2% by FY28

Asset quality ratios saw a continuous improvement over the years, and the GNPA ratio is estimated to further dip to 2.3% over the next few years.



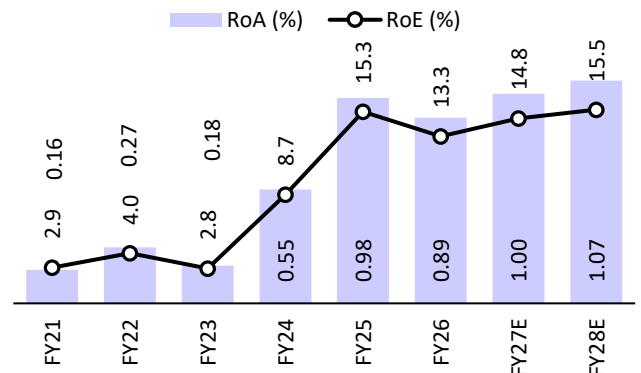
Source: MOFSL, Company

Exhibit 7: Estimate credit costs to remain in the band of ~40bp over FY27-28



Source: MOFSL, Company

Exhibit 8: Estimate RoA to remain steady at ~1.07% in FY28



Source: MOFSL, Company

Exhibit 9: Loan book grew 13.7% YoY (2.4% QoQ) to INR12.3t

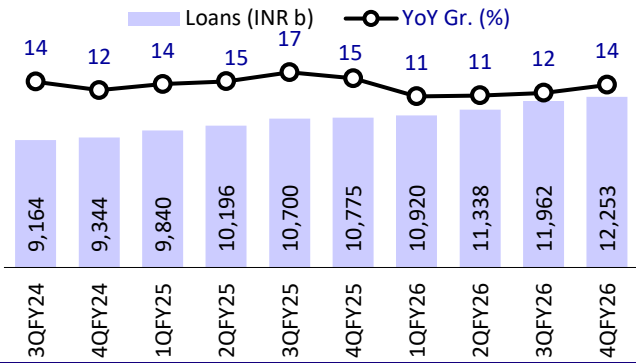


Exhibit 10: Deposits grew 9.2% YoY (up 3.1% QoQ)

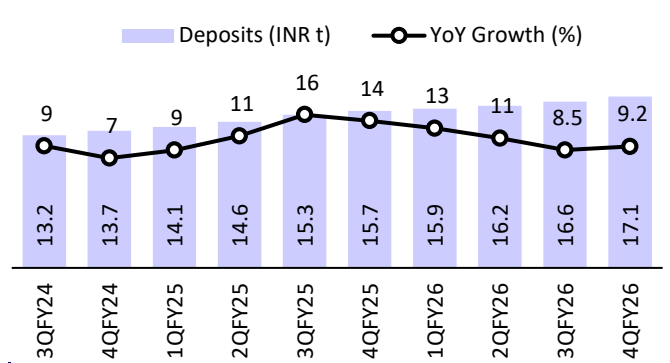


Exhibit 11: Domestic NIM moderated 4bp QoQ to 2.61%

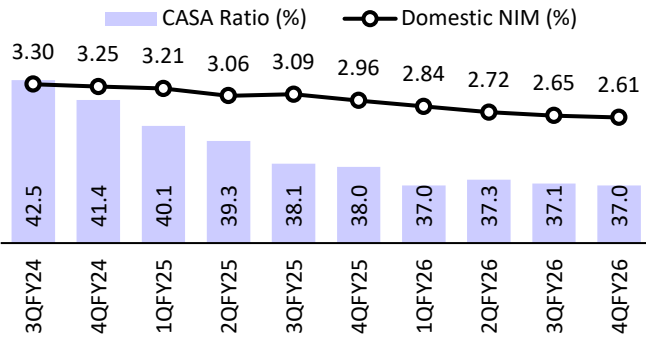


Exhibit 12: Yields declined 18bp QoQ; CoD down 4bp QoQ

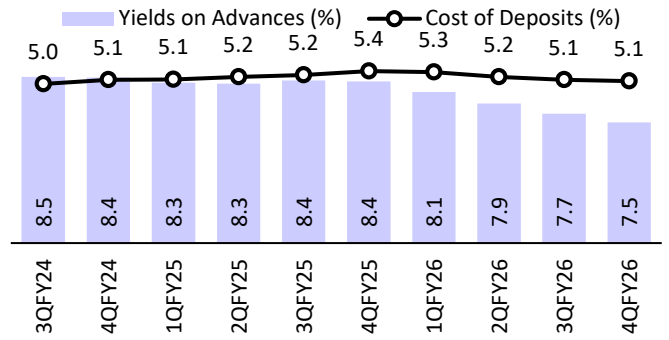


Exhibit 13: C/I ratio moderated to 48.4% in 4QFY26

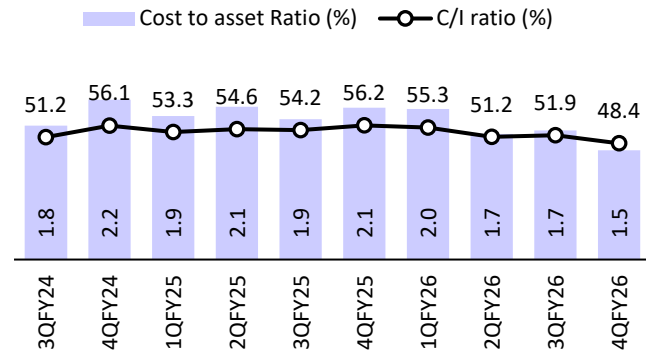


Exhibit 14: Loan mix: RAM constituted ~57% of total loans

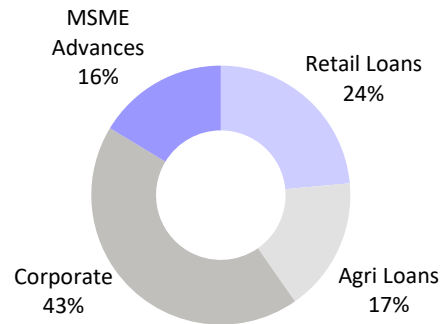


Exhibit 15: Slippage ratio rose to 1.1% due to seasonality

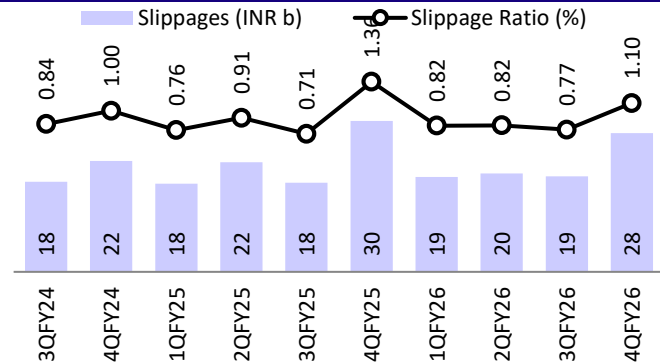
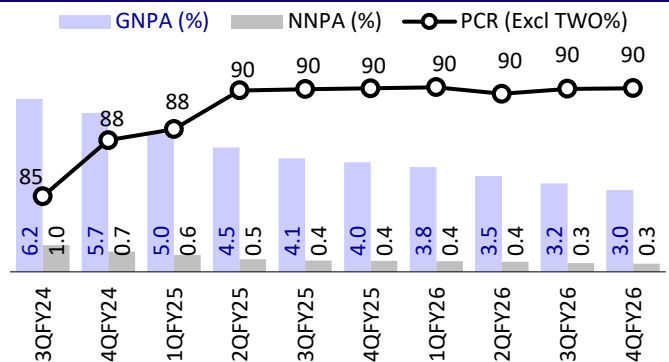


Exhibit 16: GNPA/NNPA ratios improved 24bp/3bp QoQ



Source: MOFSL, Company

Source: MOFSL, Company

Valuations and view

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Exhibit 17: DuPont Analysis: Estimate return ratios to remain steady, with RoA at 1.07% by FY28

Annual DuPont	FY23	FY24	FY25	FY26	FY27E	FY28E
Interest Income	6.13	7.07	7.20	6.74	6.71	6.78
Interest Expense	3.65	4.42	4.67	4.54	4.49	4.44
Net Interest Income	2.48	2.65	2.53	2.21	2.23	2.34
Other Income	0.87	0.89	0.97	0.99	0.86	0.86
Total Income	3.36	3.54	3.50	3.19	3.09	3.20
Operating Expenses	1.74	1.89	1.91	1.65	1.50	1.48
Employees	1.07	1.22	1.26	1.06	0.93	0.93
Others	0.67	0.66	0.65	0.60	0.56	0.56
Operating Profits	1.62	1.65	1.59	1.54	1.60	1.72
Core operating Profits	1.70	1.60	1.36	1.49	1.54	1.66
Provisions	1.31	0.78	0.10	0.13	0.26	0.29
PBT	0.31	0.87	1.49	1.41	1.34	1.42
Tax	0.13	0.33	0.50	0.52	0.34	0.36
RoA	0.18	0.55	0.98	0.89	1.00	1.07
Leverage (x)	15.44	15.95	15.56	15.01	14.71	14.50
RoE	2.79	8.70	15.31	13.34	14.77	15.47

Financials and valuations

Income Statement						(INR b)
Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
Interest Income	851.4	1,069.0	1,217.6	1,282.2	1,402.5	1,563.7
Interest Expense	506.5	668.2	789.8	862.6	936.9	1,023.4
Net Interest Income	344.9	400.8	427.8	419.6	465.6	540.3
- Growth (%)	20.2	16.2	6.7	-1.9	11.0	16.0
Non Interest Income	121.4	133.8	163.1	187.9	180.4	198.5
Total Income	466.3	534.7	590.9	607.5	646.0	738.8
- Growth (%)	13.7	14.7	10.5	2.8	6.3	14.4
Operating Expenses	241.1	285.4	322.6	314.6	312.5	342.4
Pre Provision Profits	225.3	249.3	268.3	292.9	333.6	396.4
- Growth (%)	8.5	10.7	7.6	9.2	13.9	18.8
Core PPOp	236.7	242.4	229.1	283.1	321.8	382.2
- Growth (%)	32.8	2.4	-5.5	23.6	13.7	18.8
Provisions (excl tax)	182.4	117.4	16.7	25.4	53.5	67.9
PBT	42.9	131.9	251.6	267.5	280.0	328.5
Tax	17.8	49.5	85.3	98.5	70.3	82.5
Tax Rate (%)	41.5	37.5	33.9	36.8	25.1	25.1
PAT	25.1	82.4	166.3	169.0	209.7	246.0
- Growth (%)	-27.5	228.8	101.7	1.6	24.1	17.3
Balance Sheet						
Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
Share Capital	22	22	23	23	23	23
Equity Share Capital	22.0	22.0	23.0	23.0	23.0	23.0
Reserves & Surplus	976.5	1,042.7	1,250.6	1,403.5	1,556.6	1,744.8
Net Worth	998.6	1,064.8	1,273.6	1,426.5	1,579.6	1,767.8
Deposits	12,811.6	13,697.1	15,666.2	17,111.3	18,822.4	20,779.9
- Growth (%)	11.8	6.9	14.4	9.2	10.0	10.4
of which CASA Dep	5,380.2	5,525.0	5,735.4	6,228.5	7,152.5	8,270.4
- Growth (%)	0.8	2.7	3.8	8.6	14.8	15.6
Borrowings	512.9	504.3	837.8	823.1	942.3	1,004.6
Other Liabilities & Prov.	295.2	352.2	404.1	498.0	572.7	658.6
Total Liabilities	14,618.3	15,618.4	18,181.7	19,858.9	21,917.0	24,210.9
Current Assets	1,551.1	1,291.0	1,487.2	1,619.5	1,608.8	1,590.3
Investments	3,960.0	4,203.2	4,973.1	4,941.1	5,306.8	5,747.2
- Growth (%)	6.4	6.1	18.3	-0.6	7.4	8.3
Loans	8,308.3	9,344.3	10,774.7	12,252.9	13,821.3	15,631.9
- Growth (%)	14.1	12.5	15.3	13.7	12.8	13.1
Fixed Assets	120.5	123.2	130.5	155.8	168.2	180.0
Other Assets	678.4	656.6	816.1	889.6	1,011.9	1,061.5
Total Assets	14,618.3	15,618.4	18,181.7	19,858.9	21,917.0	24,210.9
Asset Quality						
Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
GNPA	773.3	563.4	440.8	371.2	357.7	372.6
NNPA	225.9	68.0	42.9	36.1	32.1	29.7
Slippages	160.3	58.3	67.6	85.0	123.9	147.3
GNPA Ratio	8.7	5.7	4.0	2.9	2.5	2.3
NNPA Ratio	2.7	0.7	0.4	0.3	0.2	0.2
Slippage Ratio	2.1	0.7	0.7	0.9	1.0	1.0
Credit Cost	2.34	1.33	0.17	0.19	0.38	0.43
PCR (Excl Tech. write off)	70.8	87.9	90.3	90.3	91.0	92.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
Yield and Cost Ratios (%)						
Avg. Yield- on Earning Assets	6.5	7.5	7.6	7.1	7.1	7.2
Avg. Yield on loans	7.4	8.6	8.6	7.7	8.0	8.0
Avg. Yield on Investments	6.7	6.9	6.8	6.8	6.6	6.7
Avg. Cost of Int. Bear. Liab.	4.0	4.9	5.1	5.0	5.0	4.9
Avg. Cost of Deposits	3.9	4.7	5.0	5.0	4.8	4.8
Interest Spread	2.5	2.6	2.4	2.1	2.1	2.2
Net Interest Margin	2.6	2.8	2.7	2.3	2.4	2.5

Capitalisation Ratios (%)

CAR	15.5	16.0	17.1	16.2	16.1	16.2
Tier I	12.7	13.2	14.1	13.1	13.4	13.7
CET-1	11.2	11.1	12.4	10.9	11.2	11.4
Tier II	2.8	2.8	3.0	3.1	2.7	2.5

Business Ratios (%)

Loans/Deposit Ratio	64.8	68.2	68.8	71.6	73.4	75.2
CASA Ratio	42.0	40.3	36.6	36.4	38.0	39.8
Cost/Assets	1.6	1.8	1.8	1.6	1.4	1.4
Cost/Total Income	51.7	53.4	54.6	51.8	48.4	46.4
Cost/Core income	2.0	-4.5	-0.8	-3.4	-2.8	-2.6
Int. Expense/Int.Income	59.5	62.5	64.9	67.3	66.8	65.4
Fee Income/Total Income	28.5	23.7	21.0	29.3	26.1	25.0
Non Int. Inc./Total Income	26.0	25.0	27.6	30.9	27.9	26.9
Empl. Cost/Total Expense	61.4	64.8	66.2	63.8	62.3	62.6

Efficiency Ratios (INRm)

Employee per branch (in nos)	10.3	10.1	10.1	10.1	10.1	10.1
Staff cost per employee	1.4	1.8	2.1	1.9	1.8	1.9
CASA per branch	534.0	545.1	562.9	591.2	665.6	754.5
Deposits per branch	1,271.5	1,351.3	1,537.6	1,624.2	1,751.5	1,895.8
Business per Employee	202.8	225.1	257.3	275.9	300.7	328.8
Profit per Employee	0.2	0.8	1.6	1.6	1.9	2.2

Valuation ratios

RoE	2.8	8.7	15.3	13.3	14.8	15.5
RoA	0.2	0.5	1.0	0.9	1.0	1.1
RoRWA	0.4	1.2	2.1	1.9	2.1	2.3
Book Value (INR)	86	93	107	120	133	150
- Growth (%)	3.9	7.0	15.4	12.4	11.1	12.3
Price-BV (x)	1.2	1.1	1.0	0.9	0.8	0.7
Adjusted BV (INR)	68	84	101	115	128	144
Price-ABV (x)	1.5	1.2	1.0	0.9	0.8	0.7
EPS (INR)	2.3	7.5	14.8	14.7	18.2	21.4
Price-Earnings (x)	45.2	13.8	7.0	7.0	5.6	4.8
Dividend Per Share (INR)	0.7	1.5	2.9	3.0	3.9	5.1
Dividend Yield (%)	0.6	1.5	2.8	2.9	3.8	4.9

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

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