

India

ADD (no change)

Consensus ratings*: Buy 11 Hold 4 Sell 5

Current price: Rs94
 Target price: ▼ Rs107
 Previous target: Rs111
 Up/downside: 13.8%
 InCred Research / Consensus: -6.6%

Reuters: PNBK.NS
 Bloomberg: PNB IN
 Market cap: US\$12,769m
 Rs1,083,210m
 Average daily turnover: US\$32.7m
 Rs2774.4m
 Current shares o/s: 99.3m
 Free float: 29.9%

*Source: Bloomberg

Key changes in this note

- We revisit our estimates to build margin factoring in a ~50bp rate cut.
- We cut the risk-free rate by 25bp.
- We introduce FY28F estimates.

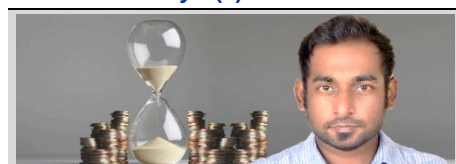


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.7)	(5.1)	(22.9)
Relative (%)	(8.7)	(8.5)	(29.9)

Major shareholders	% held
President of India	70.1
LIC	8.3
SBI	1.7

Research Analyst(s)



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Punjab National Bank

PAT beat led by non-core income

- The 4QFY25 PAT beat was because of a strong recovery from written-off accounts and low credit costs, while the core performance was weak.
- PNB has a few levers to offset margin compression over next few years. Also, its balance sheet is strong & has optionality by way of recovery from w/off pool.
- We trim our target price to Rs107 (14% upside), implying 0.75x target multiple. The stock appears attractive at 0.6x FY27F core BV. Maintain our ADD rating.

Weak core performance; PAT beat on strong recovery from w/off a/cs

Punjab National Bank (PNB) posted 4QFY25 PAT of Rs45.7bn (1% annualized RoA), beating street estimate, mainly led by a strong recovery from written-off accounts (Rs18bn vs. Rs8bn last quarter) and better-than-expected credit costs (20bp vs. negative 4bp). PNB also saw strong provision reversal on account of government-backed SRs (~Rs13bn), but this was netted off against mark-to-market (MTM) loss on investments (Rs11bn). Core PPOP missed estimate on lower NII (up 4% YoY; down 2% QoQ) & higher opex (+6% YoY; +11% QoQ) while core fee income growth was healthy (+13% YoY; +19% QoQ). Headline margin fell 12bp QoQ to 2.81%. Adjusted for income from tax refund in 3QFY25 (Rs3.5bn), the margin dip was 3bp QoQ at 2.81%. Avg. balance sheet grew by 2% QoQ (+15% YoY). Loan book grew by 15% YoY (+1% QoQ) & deposit growth was +14% YoY (+2% QoQ).

Uptick in gross slippage led by one-time elevated agri/SME loans

Gross slippage inched up QoQ (1.3% vs. 0.8% annualized) but was led by one-time elevated slippage in agri and SME segments. Management guided normalized levels from 1QFY26F (i.e. Rs15-17bn). Healthy recovery & upgrades (Rs22bn vs. Rs20bn) and write-offs (Rs21bn vs. Rs20bn) led to the decline in headline GNPA's (down 3% QoQ). Headline GNPA ratio moderated to 3.95%, from 4.09% last quarter. Credit costs inched up QoQ (20 bp vs. negative 4bp), which partly helped maintain the PCR at ~90% (broadly steady vs. last quarter). Management gave guidance of strong recovery/upgrades at Rs160bn during FY26F (of which Rs60bn will be recovery from w/off accounts i.e. Rs15bn per quarter). The bank indicated that strong recovery would contain credit costs by <50bp.

Risk-reward ratio appears attractive with valuation at 0.6x FY27F BV

We believe PNB has a strong balance sheet, few levers to partly offset margin compression (expect tax rate cut to 25% during 1HFY26F), and optionality from the written-off pool. We expect RoA to moderate to 0.8% in FY26F-27F, from 1% in FY25F. RoE to decline to 11-12% in FY26-27F, from 14.5% in FY25. The risk-reward ratio appears attractive, with stock trading at 0.6x FY27F BV for RoE of ~12% in FY27F. We have maintained our ADD rating on the stock with a lower target price of Rs107 (Rs111 earlier). This adjustment reflects our lowered sustainable RoE expectation following an unexpected margin weakness, although this is partially counteracted by a decreased risk-free rate. Downside risks: Lower-than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, & higher-than-expected growth in costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	400,831	427,837	452,172	521,149	611,127
Total Non-Interest Income (Rsm)	133,835	166,594	154,711	155,690	140,116
Operating Revenue (Rsm)	534,666	594,431	606,883	676,839	751,243
Total Provision Charges (Rsm)	(117,366)	(16,746)	(56,599)	(76,446)	(86,450)
Net Profit (Rsm)	82,446	169,818	145,743	166,058	190,115
Core EPS (Rs)	7.49	14.78	12.68	14.45	16.54
Core EPS Growth	229%	97%	(14%)	14%	14%
FD Core P/E (x)	12.59	6.38	7.43	6.52	5.70
DPS (Rs)	1.50	2.90	2.54	2.89	3.31
Dividend Yield	1.59%	3.08%	2.69%	3.07%	3.51%
BVPS (Rs)	96.7	110.8	120.6	132.5	146.2
P/BV (x)	0.97	0.85	0.78	0.71	0.64
ROE	8.0%	14.5%	11.0%	11.4%	11.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	103,631	110,323	107,570	4%	-2%
Other Income	42,476	34,119	47,159	11%	38%
--Core Fee	17,300	16,420	19,610	13%	19%
--Treasury Income	6,020	9,470	7,330	22%	-23%
--Misc. Income	19,156	8,229	20,219	6%	146%
-----o/w Recovery From w/off Accounts	16,390	8,230	18,290	12%	122%
Total income	146,107	144,441	154,729	6%	7%
--Core Revenue	120,931	126,743	127,180	5%	0%
Operating Expenses	81,950	78,236	86,972	6%	11%
--Staff Expenses	56,300	52,638	57,927	3%	10%
--Other Operating Expenses	25,650	25,598	29,045	13%	13%
Operating Profit	64,157	66,206	67,757	6%	2%
--Core PPoP	38,981	48,507	40,208	3%	-17%
Provisions	15,881	-2,854	3,597	-77%	-226%
PBT	48,276	69,060	64,160	33%	-7%
Tax	18,174	23,977	18,490	2%	-23%
PAT	30,103	45,082	45,670	52%	1%
EPS	3	4	4		
Advances	9,344,306	10,699,568	10,774,746	15%	1%
Deposits	13,697,128	15,296,989	15,666,233	14%	2%
LD Ratio	68%	70%	69%		
CASA Ratio	40%	37%	37%		
Margins (%)	3.10	2.93	2.81	-0.29	-0.12
Calc. Margins (%)	2.84	2.69	2.54	-0.30	-0.16
Overall provisions (in bp)	69	-11	13		
---Credit cost (in bps)	70	-4	20		
-----NPA provisions	85	12	22		
GNPA	563,431	454,140	440,816	-22%	-3%
GNPA Ratio (%)	5.73%	4.09%	3.95%		
NNPA	67,988	44,374	42,906	-37%	-3%
NNPA Ratio (%)	0.73	0.41	0.40		
PCR	495,443	409,766	397,911	-20%	-3%
PCR Ratio (%)	88%	90%	90%		
Slippage	22,060	17,740	30,010	36%	69%
--% of trailing loans	1.1%	0.8%	1.3%		
CET-1 Ratio (%)	11.0%	12.1%	12.3%		
RoA	0.8%	1.0%	1.0%		
RoE	16.5%	19.2%	19.2%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates			Old Estimates			Change	
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY26F	FY27F
Net Interest Income	428	452	521	611	451	520	0%	0%
--Growth YoY	7%	6%	15%	17%	6%	15%		
Non-Interest Income	167	155	156	140	132	133	18%	17%
--Growth YoY	24%	-7%	1%	-10%	-19%	1%		
Total Income	594	607	677	751	583	653	4%	4%
--Growth YoY	11%	2%	12%	11%	-1%	12%		
Opex	323	349	378	411	341	364	2%	4%
--Growth YoY	13%	8%	8%	9%	8%	6%		
PPOP	272	258	298	341	241	289	7%	3%
--Growth YoY	9%	-5%	16%	14%	-11%	20%		
Provision	17	57	76	86	57	77	-1%	-1%
--as a % of avg. loans	17	50	59	59	50	59		
PBT	255	201	222	254	184	212	9%	5%
Tax	85	56	56	64	54	53	-3%	-5%
PAT	170	146	166	190	130	159	12%	5%
--Growth YoY	106%	-14%	14%	14%	-18%	22%		
Advances	10,775	12,067	13,646	15,432	12,223	13,822	-1%	-1%
--Growth YoY	15%	12%	13%	13%	12%	13%		
Deposits	15,666	16,572	18,395	18,395	16,572	18,395	0%	0%
--Growth YoY	14%	6%	11%	0%	10%	11%		
Book Value	111	121	133	146	119	131	2%	1%
--Growth YoY	15%	9%	10%	10%	8%	10%		
EPS	15	13	14	17	12	14	7%	0%
--Growth YoY	101%	-16%	14%	14%	-18%	22%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Financial summary

Punjab National Bank

Profit and Loss Statement

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	1,217,607	1,244,537	1,413,943	1,610,810
Interest Expense	789,770	792,366	892,794	999,683
Net Interest Income	427,837	452,172	521,149	611,127
--Fee Income	23,423	14,981	7,774	1,985
--Forex Income	3,880	2,481	1,288	329
--Capital Gains	39,240	30,000	30,000	8,000
--Miscellaneous Inc.	127,354	124,711	125,690	132,116
Total Non Interest Income	166,594	154,711	155,690	140,116
Total Operating Income	594,431	606,883	676,839	751,243
--Employee Exp	213,577	227,086	241,316	256,421
--Other Expenses	109,032	121,923	137,163	154,308
Total Operating Expenses	322,609	349,008	378,479	410,730
Operating Profit	271,822	257,875	298,360	340,513
--Prov. For Investment Dep.	-120	0	0	0
--Loan Loss Provisions	18,968	56,599	76,446	86,450
--Other Provisions	-2,102	0	0	0
Total provisions	16,746	56,599	76,446	86,450
Profit Before Tax	255,076	201,276	221,914	254,063
Provision for Tax	85,259	55,532	55,856	63,948
Net Profit	169,818	145,743	166,058	190,115
Core Operating profit	132,532	120,625	151,732	202,711

Balance Sheet Data

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	1,273,623	1,386,036	1,522,946	1,679,849
Deposits	15,666,233	17,389,518	19,476,261	21,813,412
Borrowings	455,370	505,461	566,116	634,050
Other Liabilities & Prov.	786,482	872,995	969,024	1,075,617
Total Liabilities	18,181,707	20,154,011	22,534,347	25,202,928
Cash & Balances with RBI	643,046	1,128,140	1,262,992	1,413,969
Balances with Banks	844,152	937,009	1,040,080	1,154,489
Investments	4,973,113	4,989,619	5,450,082	5,953,685
Advances	10,774,746	12,067,064	13,646,231	15,432,056
Fixed Assets	130,534	134,450	138,483	142,638
Other Assets	816,117	897,728	996,479	1,106,091
Total Assets	18,181,707	20,154,011	22,534,347	25,202,928
Earning Assets	17,235,057	19,121,832	21,399,385	23,954,199
Asset Quality				
Credit Costs / Advances (bps)	17	50	59	59
Gross NPL	440,828	445,286	529,355	649,574
Net NPL	42,905	42,653	78,979	145,094
Reserve Coverage	397,923	402,634	450,376	504,481
Gross NPL Ratio	3.9%	3.6%	3.8%	4.1%
Net NPL Ratio	0.4%	0.4%	0.6%	0.9%
Coverage Ratio (excl. tech w/offs)	90%	90%	85%	78%

Per Share Data and Valuations

Year-end March	FY25	FY26F	FY27F	FY28F
Per Share Data (in Rs)				
EPS	15.1	12.7	14.4	16.5
Book Value	110.8	120.6	132.5	146.2
Core Op. Profit	15.6	15.9	19.8	25.4
DPS	2.9	2.5	2.9	3.3
Valuations				
P/E (Core)	5.7	6.8	6.0	5.2
Price to Book (Core)	0.8	0.7	0.7	0.6
Price to Core Op. Profit (Core)	5.5	5.4	4.4	3.4
Dividend Yield	3.1%	2.7%	3.1%	3.5%

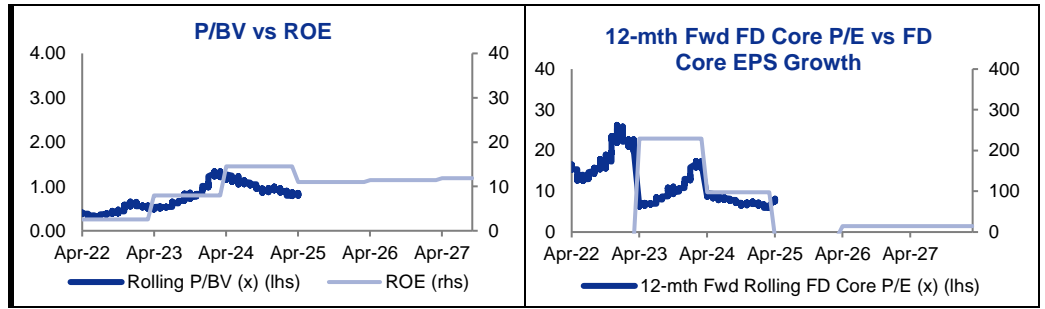
Ratio Analysis

Year-end March	FY25	FY26F	FY27F	FY28F
Spread Analysis				
Average yield on assets	7.6%	6.8%	7.0%	7.1%
Cost of earning assets	4.9%	4.4%	4.4%	4.4%
Net Interest Margin (NIM)	2.9%	2.8%	2.9%	3.0%
Growth Ratios				
Net Interest Income	6.7%	5.7%	15.3%	17.3%
Non Interest Income	24.5%	-7.1%	0.6%	-10.0%
Operating expenses	13.1%	8.2%	8.4%	8.5%
Core Operating Profit	-0.9%	1.9%	24.9%	28.1%
Net Profit	106.0%	-14.2%	13.9%	14.5%
EPS	101.5%	-16.0%	13.9%	14.5%
Deposits	14.4%	11.0%	12.0%	12.0%
Advances	15.3%	12.0%	13.1%	13.1%
Total Assets	16.4%	10.8%	11.8%	11.8%
Profitability Ratios				
Return On Equity	14.5%	11.0%	11.4%	11.9%
Return on Assets	1.0%	0.8%	0.8%	0.8%
Efficiency Ratios				
Cost Income Ratio	54.3%	57.5%	55.9%	54.7%
Expenses/Avg Assets	1.9%	1.8%	1.8%	1.7%
Capital Ratios				
CET 1 Ratio	12.3%	12.2%	12.2%	12.2%
Tier 1 Ratio	12.3%	12.2%	12.2%	12.2%
Capital Adequacy Ratio	15.1%	15.0%	15.0%	15.0%

Source: Company Data, InCred Research
E=InCred Research Estimates

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	400,831	427,837	452,172	521,149	611,127
Total Non-Interest Income	133,835	166,594	154,711	155,690	140,116
Operating Revenue	534,666	594,431	606,883	676,839	751,243
Total Non-Interest Expenses	(285,358)	(322,609)	(349,008)	(378,479)	(410,730)
Pre-provision Operating Profit	249,308	271,822	257,875	298,360	340,513
Total Provision Charges	(117,366)	(16,746)	(56,599)	(76,446)	(86,450)
Operating Profit After Provisions	131,942	255,076	201,276	221,914	254,063
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	131,942	255,076	201,276	221,914	254,063
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	131,942	255,076	201,276	221,914	254,063
Exceptional Items					
Pre-tax Profit	131,942	255,076	201,276	221,914	254,063
Taxation	(49,496)	(85,259)	(55,532)	(55,856)	(63,948)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	82,446	169,818	145,743	166,058	190,115
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	82,446	169,818	145,743	166,058	190,115
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	66.6%	68.5%	70.9%	73.5%	79.0%
Avg Liquid Assets/Avg Assets	94.8%	94.9%	94.8%	94.9%	95.0%
Avg Liquid Assets/Avg IEAs	111.0%	109.5%	110.8%	112.1%	112.0%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.33%	0.17%	0.50%	0.59%	0.59%
Provision Charge/Avg Assets	0.78%	0.10%	0.30%	0.36%	0.36%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	9,344,306	10,774,746	12,067,064	13,646,231	15,432,056
Liquid Assets & Invst. (Current)	4,203,182	4,973,113	4,989,619	5,450,082	5,953,685
Other Int. Earning Assets					
Total Gross Int. Earning Assets	13,547,488	15,747,858	17,056,682	19,096,312	21,385,742
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	13,547,488	15,747,858	17,056,682	19,096,312	21,385,742
Intangible Assets					
Other Non-Interest Earning Assets	656,629	816,117	897,729	996,479	1,106,091
Total Non-Interest Earning Assets	779,816	946,651	1,032,178	1,134,962	1,248,729
Cash And Marketable Securities	1,291,046	1,487,198	2,065,149	2,303,072	2,568,458
Long-term Investments					
Total Assets	15,618,350	18,181,708	20,154,010	22,534,346	25,202,928
Customer Interest-Bearing Liabilities	13,697,128	15,666,233	16,572,155	18,395,092	18,395,092
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	13,850,604	16,121,603	17,077,616	18,961,208	19,029,142
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	702,981	786,482	872,995	969,024	1,075,617
Total Liabilities	14,553,584	16,908,084	17,950,612	19,930,232	20,104,760
Shareholders Equity	1,064,766	1,273,623	1,386,036	1,522,946	1,679,850
Minority Interests					
Total Equity	1,064,766	1,273,623	1,386,036	1,522,946	1,679,850

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	17.4%	6.7%	5.7%	15.3%	17.3%
Operating Profit Growth	10.7%	9.0%	(5.1%)	15.7%	14.1%
Pretax Profit Growth	208%	93%	(21%)	10%	14%
Net Interest To Total Income	75.0%	72.0%	74.5%	77.0%	81.3%
Cost Of Funds	4.98%	5.27%	4.77%	4.95%	5.26%
Return On Interest Earning Assets	8.3%	8.3%	7.6%	7.8%	8.0%
Net Interest Spread	3.31%	3.04%	2.81%	2.87%	2.70%
Net Interest Margin (Avg Deposits)	3.02%	2.91%	2.81%	2.98%	3.32%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	47%	6%	22%	26%	25%
Interest Return On Average Assets	2.65%	2.53%	2.36%	2.44%	2.56%
Effective Tax Rate	37.5%	33.4%	27.6%	25.2%	25.2%
Net Dividend Payout Ratio	20.0%	19.6%	20.0%	20.0%	20.0%
Return On Average Assets	0.55%	1.00%	0.76%	0.78%	0.80%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.