


**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✗	✗
+ Positive    = Neutral    - Negative			

**What has changed in 3R MATRIX**

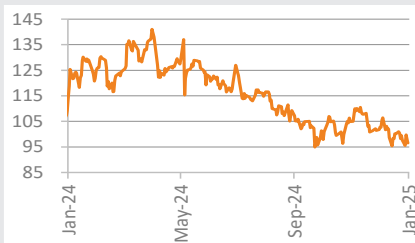
	Old		New
RS	✓	↔	✓
RQ	✗	↔	✗
RV	✓	↔	✓

**Company details**

Market cap:	Rs. 1,16,251 cr
52-week high/low:	Rs. 143/ 92
NSE volume: (No of shares)	331.4 lakh
BSE code:	532461
NSE code:	PNB
Free float: (No of shares)	344.8 cr

**Shareholding (%)**

Promoters	70.1
FII	5.7
DII	14.3
Others	9.9

**Price chart**


Source: NSE India, Mirae Asset Sharekhan Research

**Price performance**

(%)	1m	3m	6m	12m
Absolute	-1.9	3.1	-18.5	-11.4
Relative to Sensex	-1.1	5.4	-13.4	-19.4

Source: Mirae Asset Sharekhan Research, Bloomberg

# Punjab National Bank

## Provision write-back drives Q3

Bank	Sharekhan code: PNB		
<b>Reco/View: Buy</b>	↔	CMP: Rs. 101	Price Target: Rs. 125 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- PAT at Rs. 4,508 crore beat estimates, up 103% y-o-y mainly aided by write-back of provisions resulting in steady state RoA at 1.0%. Asset quality continued to improve.
- However, operating profit growth was muted (up 5% y-o-y) led by lower recoveries from NPA pool and AS-15 related provisions despite strong loan growth (~17% y-o-y). NIMs were stable q-o-q at 2.93%.
- The bank guided that NPA recoveries would drive earnings/ return ratios over the next few quarters as the overall written off pool is quite large at ~Rs. 91,000 crore.
- Stock trades at 0.9x/ 0.8x/ 0.7x its FY2025E/FY2026E/FY2027E ABV. We maintain Buy with an unchanged PT of Rs. 125.

**Strong asset quality trends continued to drive earnings and RoA although operating performance was muted.** NII at Rs. 11,032 crore (above estimates) grew by 7% y-o-y/5% q-o-q. NIMs were broadly stable, improved by 1 bps q-o-q to ~2.93%. Interest on IT refund & interest income from NPA recoveries, largely supported margins besides spreads also improved marginally by 2 bps q-o-q. Core fee income grew by 20% y-o-y but declined by 1% q-o-q. Treasury gains were at Rs. 1,007 vs Rs. 1,581 crore q-o-q and Rs. 699 crore loss y-o-y. Other income (ex. treasury gains) stood lower at Rs. 837 crore versus Rs. 1,410 crore q-o-q and Rs. 2,062 crore y-o-y mainly due to lower recoveries from written off account. Total operating expenses grew by 18% y-o-y/ but was down by 5% q-o-q. Operating profit grew by 5% y-o-y but declined by 3% q-o-q. Core PPOP (ex. treasury gains & other income) declined by 4% y-o-y. Total provisions were negative at Rs. 285 crore led by write backs. Core credit cost at 12bps vs 8 bps q-o-q and 131 bps y-o-y. The bank has also made floating provision of Rs. 250 crore during the quarter. Total floating provision stands at Rs.750 crore. PAT at Rs. 4,508 crore (above estimates mainly led by lower credit cost) grew by 103% y-o-y/ 5% q-o-q. Net advances and deposits grew by 17% y-o-y/5% q-o-q and 16% y-o-y/5% q-o-q, respectively. Domestic CASA grew by 3% y-o-y/ 1% q-o-q. CASA ratio stood at 36.7% vs 41.4% y-o-y. Domestic term deposits grew by 25% y-o-y/ 7% q-o-q. Overseas deposits grew by 61% y-o-y/ 31% q-o-q. RAM advances grew by 16% y-o-y/ 6% q-o-q. Domestic corporate book grew by 11% y-o-y/ 4% q-o-q. Overseas book grew by 36% y-o-y/ down 1% q-o-q and accounted for only ~4.5% of gross advances. Asset quality trends improved with GNPA and NNPA ratios falling by 39 bps/5 bps q-o-q, respectively, to 4.09%/0.41%. PCR stood at ~90% stable q-o-q. Net Slippages remained negative at Rs. 199 crore vs Rs. 734 crore negative in last quarter. Total restructured book forms 0.7% of net advances vs 0.8% q-o-q. Total SMA book cumulatively stands at ~7% of net advances however SMA-1 & -2 book stood at 2.62% of net advances.

**Key positives**

- Net slippages were negative at Rs. 199 crore during the quarter. Net NPL ratio touched ~0.4% (lowest in decadal) and better than its large peers.
- Core credit remained lower at 12 bps resulting in steady state RoA of 1%.
- Loan growth was strong at 17% y-o-y.

**Key negatives**

- Operating profit growth was muted (up 5% y-o-y) led by lower recoveries from NPA pool (affected by seasonality) and AS-15 related provisions despite strong loan growth.
- CASA accretion was weak y-o-y as well q-o-q.

**Management Commentary**

- The bank is reasonably confident that bad loan recoveries would drive earnings and support RoA trajectory of ~1% over the next couple of quarters as the overall bad loan pool is still quite large at ~Rs. 91,000 crore.
- Lower credit cost trend will continue over the few quarters. Total recoveries expected in Q4FY25 is expected at Rs. 5000-6000 crore.
- The bank maintained conservative guidance on loan growth at ~12-14% in FY25E with a faster growth in RAM advances and has healthy corporate loans pipeline.
- Although bank has maintained its guidance on NIMs at 2.9-3.0 for FY25 but overall outlook remains negative on NIMs as rate cuts would likely impact NIMs. Repricing MCLR marginally upwards along with higher treasury gains will partially support net income growth.

**Our Call**

**Valuation – Maintain Buy with an unchanged PT of Rs. 125:** Sustained improvement in asset quality is encouraging and outlook remains strong led by healthy recovery from bad loan pools. The net NPL ratio is below that of large PSU banks. The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% over the next couple of quarters as the overall written off pool is still quite large at ~Rs. 91,000 crore however we acknowledge that lower core operating profitability is a challenge that would need to be addressed over the medium term. At CMP, the stock trades at 0.9x/ 0.8x/0.7x its FY2025E/FY2026E/FY2027E ABV. We maintain Buy on PNB with an unchanged PT of Rs. 125. Risk-reward is favourable given the recent underperformance.

**Key Risks**

Economic slowdown, lower recoveries than anticipated, higher slippages, lower margins.

**Valuation (Standalone)**

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	34,492	40,083	43,275	47,289	52,560
Net profit	2,507	8,245	16,668	17,602	19,112
EPS (Rs.)	2.3	7.5	14.5	15.3	16.6
P/E (x)	44.3	13.5	7.0	6.6	6.1
P/BV (x)	1.4	1.1	0.9	0.8	0.7
RoE	2.6	8.0	14.0	12.6	12.1
RoA	0.2	0.5	1.0	1.0	0.9

Source: Company; Mirae Asset Sharekhan estimates

## Result Table (Standalone)

Particulars	Q3FY25	Q3FY24	Q2FY25	y-o-y	Rs cr q-o-q
Interest Income	31,340	27,288	29,875	15%	5%
Interest Expenses	20,308	16,995	19,358	19%	5%
<b>Net Interest Income</b>	<b>11,032</b>	<b>10,293</b>	<b>10,517</b>	<b>7%</b>	<b>5%</b>
NIM (%)	2.9	3.2	2.9		
Core fee Income	1,568	1,311	1,581	20%	-1%
Other Income	1,844	1,363	2,991	35%	-38%
<b>Net Operating Revenue</b>	<b>14,444</b>	<b>12,967</b>	<b>15,089</b>	<b>11%</b>	<b>-4%</b>
Employee Expenses	5,264	4,169	5,750	26%	-8%
Other Opex	2,560	2,467	2,485	4%	3%
<b>Total Opex</b>	<b>7,824</b>	<b>6,636</b>	<b>8,235</b>	<b>18%</b>	<b>-5%</b>
<b>Cost to Income Ratio (%)</b>	<b>54.2%</b>	<b>51.2%</b>	<b>54.6%</b>		
<b>Pre Provision Profits</b>	<b>6,621</b>	<b>6,331</b>	<b>6,853</b>	<b>5%</b>	<b>-3%</b>
Provisions & Contingencies - Total	-285	2,739	288	-110%	-199%
<b>Profit Before Tax</b>	<b>6,906</b>	<b>3,592</b>	<b>6,565</b>	<b>92%</b>	<b>5%</b>
Tax	2,398	1,369	2,262	75%	6%
Effective Tax Rate (%)	34.7	38.1	34.5		
<b>Reported Profits</b>	<b>4,508</b>	<b>2,223</b>	<b>4,303</b>	<b>103%</b>	<b>5%</b>
Basic EPS	3.9	2.0	3.9	94%	1%
Diluted EPS	3.9	2.0	3.9		
RoA (%)	1.0	0.6	1.0		
Advances	10,69,957	9,16,445	10,19,595	17%	5%
Deposits	15,29,699	13,23,486	14,58,342	16%	5%
Gross NPA	45,414	60,371	47,582	-25%	-5%
Gross NPA Ratio (%)	4.1	6.2	4.5		
PCR - (%)	90.2	85.4	90.2		
Net NPA	4,437	8,816	4,674	-50%	-5%
Net NPAs Ratio (%)	0.4	1.0	0.5		

Source: Company; Mirae Asset Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.5% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slowdown in unsecured retail segment and a high credit-deposit ratio. Deposit growth at 10.8% has again started to lag loan growth. However, deposit growth remains rangebound at 10-12% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to higher cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe that banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

### ■ Company Outlook – Strong NPA recoveries continue to boost returns

Sustained improvement in asset-quality trends led by lower slippages and strong recoveries is likely to augur well for the earnings trajectory, which should help to sustain RoA at ~1%.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 125

Sustained improvement in asset quality is encouraging and outlook remains strong led by healthy recovery from bad loan pools. The net NPL ratio is below that of large PSU banks. The bank is reasonably confident that bad loan recoveries would continue to drive profitability and support RoA trajectory of ~1% over the next couple of quarters as the overall written off pool is still quite large at ~Rs. 91,000 crore however we acknowledge that lower core operating profitability is a challenge that would need to be addressed over the medium term. At CMP, the stock trades at 0.9x/ 0.8x/0.7x its FY2025E/FY2026E/ FY2027E ABV. We maintain Buy on PNB with an unchanged PT of Rs. 125. Risk-reward is favourable given the recent underperformance.

#### Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Punjab National Bank	101	1,16,251	7.0	6.6	0.9	0.8	14.0	12.6	1.0	1.0
Bank of India	113	51,218	5.7	5.1	0.7	0.6	12.3	12.1	0.9	0.9

Source: Company; Mirae Asset Sharekhan Research

## About the company

PNB is a government-owned bank with a network of over 10,168 domestic branches, more than 12,034 ATMs, and 32,139 business correspondents. Around 63% of its branches are in rural and semi-urban areas. PNB's global deposit stood at Rs. 15,29,699 crore and global advances stood at Rs. 11,10,292 crore as of Dec 2024. Capital adequacy ratio (CAR) stands at 15.41%.

## Investment theme

Sustained improvement in asset-quality trend led by lower slippages and strong recoveries is likely to augur well for the earnings trajectory.

## Key Risks

Economic slowdown, lower recoveries than anticipated, higher slippages, lower margins.

## Additional Data

### Key management personnel

Ashok Chandra	Managing Director and CEO
Kalyan Kumar	Executive Director
M. Paramasivam	Executive Director
Bibhu Prasad	Executive Director

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	70.08
2	Life Insurance Corp of India	8.32
3	SBI Funds Management Ltd	1.70
4	Vanguard Group Inc/The	0.80
5	Blackrock Inc	0.74
6	Nippon Life India Asset Management	0.60
7	Kotak Mahindra Asset Management Co	0.56
8	ICICI Prudential Asset Management	0.33
9	HDFC Asset Management Co Ltd	0.27
10	UTI Asset Management Co Ltd	0.27

Source: Bloomberg

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## Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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