Stock Idea Note - Punjab National Bank

Company Overview

Punjab National Bank (PNB) started its operations on April 12, 1895, from Lahore, with an authorized capital of Rs. 2 lakh and working capital of Rs. 20,000. Today, it is the second largest Public Sector Bank (PSB) in India, headquartered in New Delhi, having a global gross business of Rs. 27,19,276 crores. PNB offers a wide range of services, including retail banking, corporate banking, international banking, and treasury operations. It continues to maintain strength in low-cost CASA deposits, reinforcing its strong retail base. The bank has successfully diversified its offerings through various subsidiaries such as PNB Gilts Ltd., PNB Investment Services Limited (PNBISL) and PNB Cards and Services Limited (PNBCSL). On the international front, PNB operates two branches in Gift City, Ahmedabad and Dubai, two overseas subsidiaries - PNB International Ltd., London, and Druk PNB Bank Ltd., Bhutan and one joint venture in Nepal under the name Everest Bank Ltd. It also has representative offices in Myanmar and Bangladesh. With a strategic focus on qualitative growth, strong recovery, and proactive measures to reduce fresh slippages, PNB is steadily strengthening its financial position and operational strength. To drive digital transformation, the bank is onboarding a system integrator for full-scale Gen AI implementation and is preparing for a major upgrade of its IBS and mobile banking platforms.

Investment Rationale

Strong business growth with improved asset quality driving financial performance

PNB demonstrated strong business growth in Q1FY26, with total business rising 11.6% annually, driven by both credit and deposit expansion in key segments like MSME and retail. Despite the impact of a new tax regime on net profits, the bank delivered a record operating profit of Rs. 7,081 crores, underscoring its focus on profitable lending and disciplined deposit mobilization. Asset quality improved notably, with NPA standing at just 0.38% and provision coverage crossing 90%, reflecting robust risk management and underwriting standards. Slippages were kept well under control in Q1FY26, lower than guidance and previous quarters, while recoveries were particularly strong, totaling Rs. 3,350 crores and outpacing new slippages. The bank's strategic focus on stressed asset recovery is supported by dedicated asset recovery branches and planned sales of Rs. 4,000-5,000 crore NPAs to asset reconstruction companies in FY26, targeting Rs. 16,000 crores in total recoveries for the year. Additional growth drivers include aggressive CASA expansion through new account schemes, financial inclusion products, and value-added offers (insurance and subscription add-ons), supporting stable net interest margins and lower cost of funds. These trends highlight PNB's commitment to sustainable, profitable growth, with ongoing improvements in asset quality and effective recovery strategies supporting its outlook for the coming quarters.

Digital lending and AI-led capabilities driving future growth

PNB has undertaken several digital initiatives and digital penetration, demonstrating strong progress in digital transformation. The bank is steadily expanding its digital base and focusing on building digital capabilities under the domain of AI/ML and analytics-based business generation, which is delivering strong results for PNB. The bank's digital transformation is a major accelerant, with over 95% of transactions now happening digitally, supported by advancements in AI, analytics, mobile applications, WhatsApp banking, and Central Bank Digital Currency (CBDC) integration. Digital lending has become a key growth driver, with sanctions crossing Rs. 27,900 crores, and one in every five loans now being sanctioned through digital channels. Recent initiatives include the launch of Gen AI Chatbot "PIHU" on its website, IBS, and PNB One, along with new upgrades to the PNB One business mobile app. The bank is further promoting financial inclusion through schemes such as Digi MSME Loan, e-Mudra Loan, PM Vishwakarma, and Digi Surya Ghar Yojana. Together, these measures highlight PNB's focused execution on digital adoption, customer engagement, and organizational efficiency.

Stock Rating

BUY	HOLD	SELL
■		
> 15%	-5% to 15%	< -5%

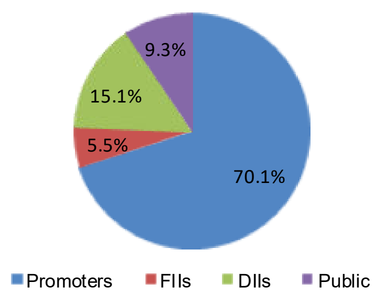
Sector Outlook	Positive

Stock	
CMP (INR)	114
Target Price (INR)	132
NSE Symbol	PNB
BSE Code	532461
Bloomberg	PNB IN
Reuters	PNBK.BO

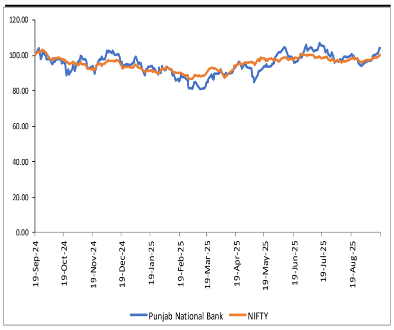
Key Data	
Nifty	25,327
52 Week H/L (INR)	85 /116
O/s Shares (mn)	11,490
Market Cap (INR bn)	1,309.9
Face Value (INR)	2

Average volume	
3 months	11,42,341
6 months	28.38,130
1 year	72,14,183

Share Holding Pattern (%)



Relative Price Chart



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Valuation and Outlook

PNB has built a diversified and substantial corporate loan pipeline, with a focus on project financing across sectors such as renewable energy, smart metering, infrastructure, and real estate, which are expected to see significant disbursements in the near future. The bank is also harnessing digital transformation and AI-driven solutions to improve customer engagement and enhance operational efficiency, promising corporate loan sanctioning within 15 days. Its RAM portfolio covering Retail, Agriculture, and MSME segments currently forms over 56% of domestic advances, highlighting the PNB commitment to high-yield granular credit growth. PNB aims to maintain asset quality by keeping slippage ratios below 1% and targeting recoveries of Rs. 16,000 crores in FY26, including selling NPAs worth approximately Rs. 4,000-5,000 crores to asset reconstruction companies, supporting both profitability and capital adequacy. The bank plans credit growth of 11-12% and deposit growth of 9-10%, driven by a disciplined strategy that includes shedding low-yielding corporate loans and bulk deposits to improve operating profits. PNB is focused on expanding the RAM portfolio, improving operational efficiency through digital transformation, and disciplined management of corporate lending by shedding low-yielding advances and prioritizing profitable segments. Overall, PNB's outlook reflects a balanced yet aggressive approach encompassing focused business growth, risk management, digital efficiency, and capital strength, positioning it for sustainable profitability and competitive advantage as we advance. **Thus, based on the above factors, we give the stock a "Buy" rating, with a target price of Rs. 132 (which is 16% upside from current levels). At CMP, PNB is trading at a (P/BV) multiple of 1.03 times the estimated FY26 book value. This recommendation comes with a 12-month investment horizon.**

Key Financials						
YE March (INR. Crores)	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Net Interest Income	**28,694**	**34,491**	**40,083**	**42,782**	**43,607**	**50,415**
NII Growth (Y-o-Y)	*(5.9%)*	*20.2%*	*16.2%*	*6.7%*	*1.9%*	*15.6%*
Pre-Provision operating profit	**20,761**	**22,538**	**24,913**	**26,831**	**30,042**	**35,086**
PPOP Growth (Y-o-Y)	*(9.7%)*	*8.6%*	*10.5%*	*7.7%*	*12.0%*	*16.8%*
Net Profit	**3,457**	**2,507**	**8,245**	**16,630**	**14,859**	**19,240**
Net Profit Growth (Y-o-Y)	*71.1%*	*(27.5%)*	*228.9%*	*101.7%*	*(10.6%)*	*29.5%*
EPS	**3.5**	**3.0**	**8.3**	**14.5**	**14.0**	**16.5**
Diluted EPS Growth (Y-o-Y)	*(78.4%)*	*(14.3%)*	*176.7%*	*74.7%*	*(3.4%)*	*17.9%*
Key Ratios						
NIM(%)	**2.3%**	**2.5%**	**2.8%**	**2.7%**	**2.5%**	**2.6%**
RoA (%)	0.3%	0.2%	0.5%	1.0%	1.0%	0.9%
RoE (%)	**4.2%**	**3.2%**	**8.4%**	**15.3%**	**14.8%**	**14.0%**
BV per share (INR)	82	85	93	104	113	127
Valuation Ratios						
P/E (x)	**32.6x**	**38.0x**	**13.7x**	**7.9x**	**8.1x**	**6.9x**
P/BV (x)	**1.4x**	**1.3x**	**1.2x**	**1.1x**	**1.0x**	**0.9x**

Source: Bloomberg, BP Equities Research

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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