PSU BANKS

SECTOR UPDATE

PSU banks provide positive guidance

PSU banks are guiding for healthy loan growth and a moderate decline in NIM. Asset quality is likely to remain healthy. BoB has guided for a strong QoQ loan growth of ~4% or more while PNB, Canara and Indian Bank are all guiding for ~2.5% QoQ growth. Union will likely grow slower than the sector. As for margins, PNB expects flat NIM QoQ. BoB too expects flat reported NIM and a fall of 7bp in core NIM. Indian will likely post under 10bp decline while Union shall report a fall of 6bp. Canara will likely report higher-than-sector pressure on NIM due to its lower CASA. SBI will post ~3% QoQ loan growth and ~5bp NIM decline.

BoB, SBI and PNB shall report relatively strong RoA and remain our preferred picks.

Growth healthy for most PSU banks

Most PSU banks are likely to report strong loan growth driven by RAM (retail, agri and MSME). While corporate loan growth has been disintermediated by mutual funds and capital markets, select AAA pockets reported corporate growth. Overall, BoB has guided for ~4% QoQ growth, PNB, Canara, Indian Bank for 2.5% QoQ while Union will likely post below-sector-growth. SBI will likely post ~3% QoQ loan growth.

Moderate decrease in NIM

PNB has guided for stable QoQ NIM. BoB has also guided for stable reported NIM, but core NIM shall likely decline 7bp. For Union Bank, NIM shall fall ~6bp while for Indian Bank it shall decline under 10bp. For Canara, NIM could decline more than peers due to lower CASA. For SBI, NIM will decline ~5bp. It should be noted that NII for the entire sector has been under pressure due to lower rates and slower growth. State-owned banks reported flat to negative YoY growth in NII in Q1FY26; for even private banks, NII remained subdued with private banks other than HDFC Bank and ICICI Bank posting low single-digit NII growth.

Asset quality likely to remain stable

Asset quality for state banks is likely to remain healthy with no lumpy slippage. Slippage would decrease for SBI, BoB and Indian Bank and remain flattish for others.

RoA of 1%-plus achievable

Whether PSU banks would be able to sustain RoA 1% has been a key investor concern. SBI and BoB shall be able to maintain 1%-plus RoA driven more by core income. PNB's RoA shall expand driven by a lower tax rate. The share of written-off recoveries to PBT is higher for Union and Canara Bank relative to other state banks. Key PSU banks are likely to maintain 1%-plus RoA and report healthy loan growth. The PSU Bank Index has outperformed the private bank index by 15% over the last six months driven by better loan growth and asset quality. BoB, SBI and PNB remain our preferred picks. Most PSU banks have been providing towards ECL, but we do not see any visibility of ECL being implemented for banks any time soon. There is no inclination on part of the government for more PSU bank mergers right now.

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Exhibit 1: PSU banks' guidance for loan growth and NIM for Q2FY26E

	QoQ loan growth	QoQ NIM decline
	%	bp
BoB	~4%	7
Canara	2.50%	<10bp
Indian	2.50%	<10bp
PNB	2.50%	0bp
SBI	~3%	5bp
Union	<2%	6bp

Source: Company, Nuvama Research

Exhibit 2: PSU banks' valuations

Bank	FY26		FY27	
	P/E	P/B	P/E	P/B
Bank of Baroda	7.09	0.89	6.44	0.80
Bank of India	6.53	0.68	5.79	0.62
Canara Bank	6.30	1.00	5.76	0.88
Indian Bank	8.39	1.29	7.61	1.13
Punjab National Bank	8.52	0.96	7.35	0.87
State Bank of India	11.08	1.36	10.10	1.19
Union Bank of India	6.36	0.88	5.97	0.79

Source: Company, Nuvama Research

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request.

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