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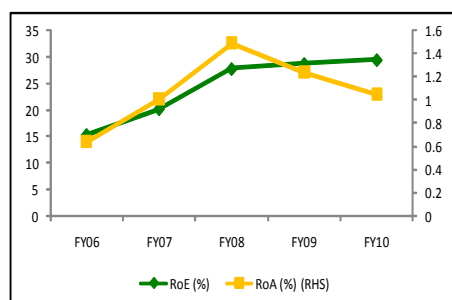
ISSUE DETAILS

Issue Opens	Dec 13, 2010
Issues Closes	Dec 17, 2010
Issue Size (Rs Millions)	4800
Market Lot	1
Price Band (Rs)	113-120
Share Offered (No. of Millions)	40
Of which	
QIB Portion	19
Non-Institutional Portion	0.6
Retail Portion	13.3
Face Value (Rs)	10
IPO Grading (CARE)	4/5
Listing	NSE / BSE

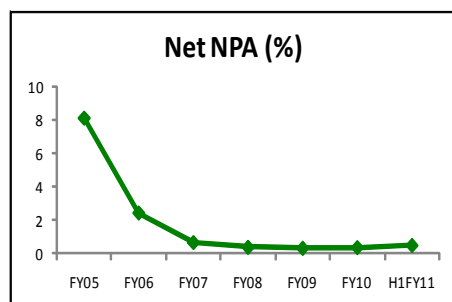
SHAREHOLDING PATTERN

	Pre Issue	Post Issue
Government of India	100%	82%
Others	-	18%

Source: RHP, IndiaNivesh Research



Source: Cline; IndiaNivesh Research



Source: Cline; IndiaNivesh Research

Bank's Background

P&S Bank is small sized state-owned (PSU) bank with 100% Government of India (GoI) holding and balance sheet size of Rs. 582 bn as on September 30, 2010. The bank was established in 1908 and nationalized in 1980. The bank has pan India presence with well concentrated branch network in northern India. The bank has 920 branches of which 623 branches are located in north India.

Capital History

- At FY1980, the bank's initial capital stood at Rs.890 mn and then the GoI kept contributed capital in various tranches. In FY06, the GoI strengthened the bank's Tier I capitalisation by pumping Rs. 5 bn. Furthermore, in FY09, the GoI approved capital restructuring of the bank to enable the bank to raise equity capital. Hence, the bank's paid up capital reduced from Rs. 7.43 bn to 1.83 bn at FY09.
- Now, the GoI approved public issue of 40 mn equity shares with face value of Rs.10 to strengthen the bank's capital base and fuel credit growth.
- At present, the GoI holding 100% stake in the bank with the equity capital of Rs. 1.8bn. With this public issue the bank will derive additional equity capital Rs. 400 mn, which will result into dilution of government's stake to 82%, post IPO.
- Hence, please note that this IPO is not disinvestment of the government's stake. It is dilution of the government's stake in the bank.

Objects of the issue

- P&S Bank is banking on the India growth story with GDP growth of more than 8% and fast growing middle class in India. Hence, the bank expects the rising demand for credit offtake from corporate and retail segments and high yielding investment opportunities.
- With the capital raised from this public issue, the bank will deploy funds in the growth of loan book and investment portfolio. Furthermore, increasing exposure in advances and investment book will lead to capital requirement to maintain mandatory capital adequacy. The bank will utilise the fund for the same.
- Moreover, the bank will also benefited with better visibility of its brand to masses at large, which in turn, will help the bank to grow its business.

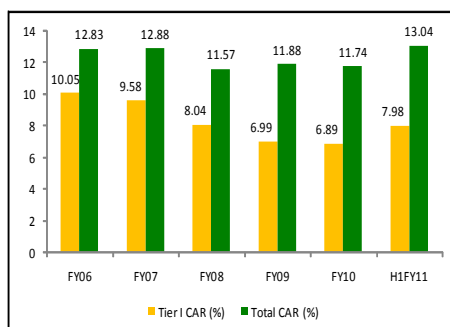
Financial Highlights

PROFITABILITY

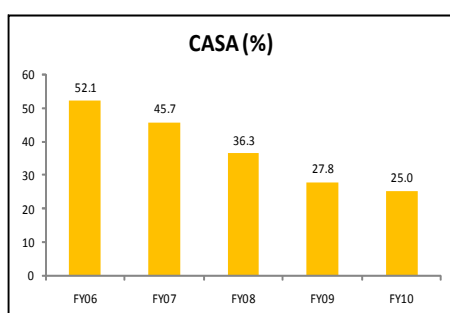
- The bank has maintained healthy profitability matrix with RoA above 1% and RoE above 20% in last four financial years.
- Post IPO, the bank is likely to post improved profitability matrix from the current level.

ASSET QUALITY

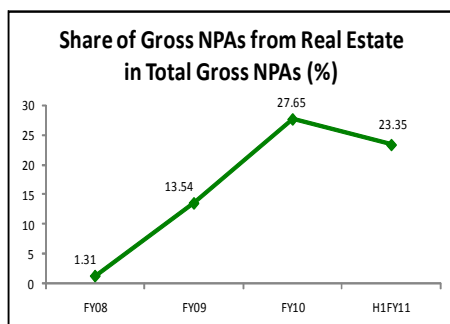
- The bank has history of exceptionally high NPAs. However, the bank has revamped asset quality and now the bank has maintained superior asset quality with Net NPA below 0.50% since past three financial years. At FY05, the bank's Net NPA ratio was as high as 8.11% which has now declined to 0.49% at H1FY11.



Source: Cline; IndiaNivesh Research



Source: Cline; IndiaNivesh Research



Source: Cline; IndiaNivesh Research

- The bank's provision coverage ratio stood at 89.62% at FY10, which far above the regulatory requirement of 70% for the Indian banks.
- The bank's total restructured assets stood at Rs. 6.36 bn, accounting for 1.94% of total advances at FY10.
- Going forward, the bank's asset quality may come under pressure.

CAPITALISATION

- The bank has maintained healthy capitalization, on the back of capital infusion by GoI at various times.
- Post IPO, with an increase in Tier I capital, the bank will be able to raise Tier II capital. Going forward, the bank's capitalisation is likely to remain healthy.

TOTAL BUSINESS

- The bank's advances grew by 36% CAGR in last five years.
- The bank's deposit base grew by 28% CAGR in last five years.
- The bank's CASA base stood at 25% at FY10. However, we note that the bank's CASA base has exhibited declining trend.
- Post IPO, with expanding branch network and implementation of Core Business Solution (CBS), the bank's CASA base is likely to improve from the current level.

Future Strategy

- **Expanding Presence:**
The bank will focus on expanding its presence in other parts of the country along with Northern India where it has well-established presence.
- **Focus on new business verticals:**
The bank's management state that along with core business with major exposure to SMEs, PSUs and retail segments, the bank will increase its focus on the corporate banking business, loan syndication, industrial finance and other fees based activities.
- **Improving CASA Base:**
In the rising interest scenario, the bank's priority will be raising low cost deposits (CASA) base.

Risk

- The biggest challenge to the bank will be align its business profile to its peers in terms of geographical presence, scale of operations, technological orientation, etc.

Internal Risk Factors:

- **High Contingent Liabilities:**
The bank is involved in various legal proceedings. The bank is facing contingent liability amounting to Rs. 8.63 bn pertaining to these cases.
- **Heavy Exposure to Risky Sectors:**
The bank has significant exposure of 21% of total advances to real estate sector and 16% of total advances to infrastructure sector, which are considered as risky sectors.

As per the bank's RHP, as on September 30, 2010, 23% of gross NPA belong to real estate and it has increased significantly in last two years.

■ Low Technology Orientation:

The bank still has to implement Core Banking Solution (CBS) to the extent of 100%. The bank's management states that so far, only 21% of the bank's business has been covered under CBS. We believe that implementation of CBS is a lengthy process. Till that time, the bank's efficiency of operations will remain low.

External Risk Factors:

As we know that the banking sector per se is highly leveraged, interest rate sensitive sector and directly related to state of economy. During upturn phase of the economy the bank will derive favorable output. However, during the downturn phase of the economy and in rising interest rate scenario, the bank's core business will be adversely affected with high cost of funds, shrinking margins, deteriorating asset quality and wiping out the capitalisation.

Peer Comparison

Bank	P/ABV (x)	FY12E
Dena Bank		1.0
Bank of Maharashtra		1.2
Vijaya Bank		1.1
United Bank of India		1.3
Andhra Bank		1.0

Source: IndiaNivesh Research

Valuation

- The stock is available within the price band of Rs. 113-120. Considering the ceiling price of Rs.120, the stock is valued at a P/ABV of 1.1x FY10 and 0.8x FY12E, which we consider cheaper, compared to its peers.
- We recommend "SUBSCRIBE" this issue.



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