

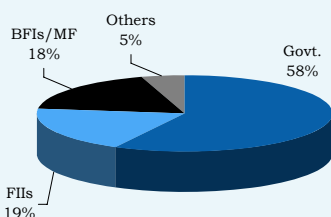
Key points

- Business mix improves
- Leaders margins continues
- NPA coverage dips led by aggressive loan write offs.

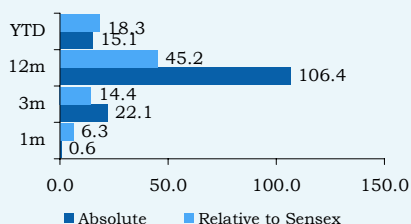
CMP **Rs1,044**

Reuters code	PNBK.BO
Bloomberg code	PNB IB
Shares o/s (mn)	315
Mkt Cap	Rs329bn/US\$7.2bn
52 wk high / Low	Rs1058/504
Avg daily trad vol	0.32(mn shs)
BSE Sensex	16,988
Nifty	5,091

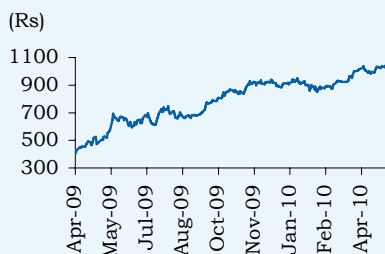
Shareholding pattern



Performance



Share price movement



Right geared on business momentum

Outlook

Revenue	NII is expected to expand by 23% CAGR FY09 – FY12E
Margin	Margins are expected to be at 3.5% for FY11E
Asset quality	We maintain our slippage estimate to 1.1% for FY11E.

The core income of Punjab National Bank (PNB) for Q4FY10 came at 31% yoy and 7% qoq – inline with expectation. The reported NIM expanded by 66bps yoy and 15bps qoq to 3.99% - amongst the highest in the state owned banks. Other income came in strong due to a) Trading gains of Rs 1.38 bn and b) Profit from part of the stake sale of UTI MF at Rs 814mn. Operating cost to income fell by 832bps qoq to 35.6% largely on account of fall in employee expenses. Despite stable gross NPA and higher NPA provisioning, the NPA coverage fell by 500 bps qoq on account of aggressive loan write offs (1.1% of the average advances). With leaders margins and well capitalized the bank is well placed to continue its business momentum. We maintain accumulate rating with price target of Rs1,117.

Business mix improves : Leaders margins continues

The business of PNB for Q4FY10 has expanded by 19% yoy and 6% qoq to Rs 4.3trn. The CD ratio improved by 200bps qoq to 75% led by 10% qoq expansion in advances compared to 7% qoq expansion in deposits. The proportion of the CASA deposits improved by 200bps yoy and 50bps qoq to 40.8% of the total deposits. The proportion of the bulk deposit to total deposit has declined to 19% in FY10 compared to 22% in FY09. The retail advances to grew by 7.5% qoq to 10.3% of the total advances. The exposure to the rate sensitive commercial real estate sector rose by 49% yoy to 8.2% of the total advances. With economy well placed on the growth trajectory we expect the advances growth of 19% CAGR for FY09 – FY12E. The reported NIM at 3.99% expanded by 66bps yoy and 15bps qoq – amongst highest in state owned banks. This rise in NIM was aided by relatively higher decline in cost of deposits (28bps qoq) compared to yield on advances (decline by 20 bps qoq). However the cost of funds for bank is likely to firm faster up hereon due to a) change in accounting of interest on savings deposits and b) prevailing rising interest rate scenario. We expect the margins at 3.5% for FY11E.

Other income boosted by one offs : Operating cost dips

Other income for Q4FY10 was up by 9.2% yoy and 28% yoy to 27% of the net income. This was largely on account of a) Trading gains of Rs 1.38 bn and b) Profit from part of the stake sale of UTI MF at Rs 814mn. Operating cost declined by 6% yoy and 11% qoq with employee cost declining by 18.5% yoy and 21.6% qoq. In line with strong income and muted operating costs, the cost to net income stood at 32% and the operating cost to net income stood at 36% - one of the lowest in the industry. We believe part of decline in the employee cost was on account of lower provisions under AS15 and no provisions pertaining to wage hike. We wait for further details on the same.

NPA coverage dips : Maintain accumulate

The gross NPA has expanded by 16% yoy and 1.9% qoq to 1.8% of gross advances. The gross NPA has marginally risen as bank has also classified agricultural advances of Rs 3.3bn eligible under Government's debt waiver scheme as sub standard. Despite higher NPA provisioning (1% of advances) the NPA coverage has fallen by 480bps qoq to 70%. This is on account of aggressive loan write off (1.1% of advances) in Q4FY10. Net NPA have expanded by 272% yoy and 21% qoq to 0.53% of advances. Despite this sharp rise in net NPA the net NPA ratio continues to be one of the lowest in the industry. The restructured asset to the total asset for FY10 stood at 6.48% of advances. We maintain the slippage for the bank at 1.2% for FY11E. We maintain **Accumulate** rating on the scrip with target price of Rs 1,117.

Financial summary

Year end march (Rs.mn)	FY09	FY10	FY11E	FY12E
Net interest income	70,309	87,838	106,071	129,577
Pre Provisioning profits	57,443	73,263	80,173	95,991
Profit after tax	30,908	39,053	42,015	50,577
EPS	98	124	133	160
Adj. BVPS	408	516	606	761
ROAE	25.8	26.5	23.5	23.3
ROAA	1.4	1.4	1.3	1.3
P/ E	10.7	8.4	7.8	6.5
P / Adj BV	2.6	2.0	1.7	1.4

Source: Alchemy, Company, Bloomberg

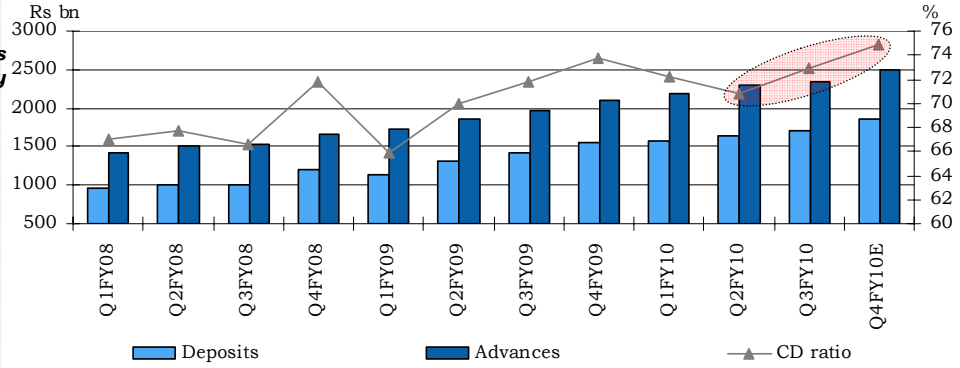
Exhibit 1 - Quarterly financials

Particulars (Rs in mln)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Interest on Advance	40,009	40,258	41,518	41,937	43,300
Income on Investment	12,216	11,323	11,936	12,841	12,277
Interest on Balances	93	452	501	231	308
Others Interests	107	41	117	46	192
Interest Earnings	52,426	52,074	54,072	55,055	56,076
Interest Expanded	33,360	33,456	33,123	31,764	31,097
NII	19,065	18,618	20,949	23,291	24,980
<i>YoY growth</i>	26	29	22	18	31
<i>QoQ growth</i>	(3)	(2)	13	11	7
Other Income	8,556	9,702	6,686	7,310	9,346
Net Income	27,621	28,320	27,636	30,601	34,326
<i>YoY growth</i>	34	49	16	5	24
<i>QoQ growth</i>	(5)	3	(2)	11	12
Payment/Provisions for Employees	8,014	9,076	7,276	8,327	6,532
Other Operating Expenses	3,726	3,550	4,297	4,092	4,469
Operating Expenses	11,740	12,626	11,573	12,419	11,001
<i>YoY growth</i>	42	37	15	12	(6)
<i>QoQ growth</i>	6	8	(8)	7	(11)
PPP	15,882	15,693	16,063	18,182	23,325
<i>YoY growth</i>	29	60	17	1	47
<i>QoQ growth</i>	(12)	(1)	2	13	28
Provisions and Contingencies	2,678	3,018	2,160	2,819	6,219
Profit before Tax	13,203	12,676	13,903	15,363	17,106
<i>YoY growth</i>	25	64	32	(5)	30
<i>QoQ growth</i>	(19)	(4)	10	10	11
Tax	4,548	4,355	4,634	5,250	5,756
Profit after Tax	8,656	8,321	9,269	10,113	11,350
<i>YoY growth</i>	59	62	31	1	31
<i>QoQ growth</i>	(14)	(4)	11	9	12
Advances	1,547,030	1,579,794	1,635,590	1,704,270	1,866,010
<i>YoY growth</i>	29	38	25	20	21
<i>QoQ growth</i>	9	2	4	4	9
Investments	647,668	652,987	704,750	748,140	770,827
<i>YoY growth</i>	20	16	22	25	19
<i>QoQ growth</i>	8	1	8	6	3
Deposits	2,097,600	2,189,597	2,308,230	2,339,460	2,493,300
<i>YoY growth</i>	26	26	24	19	19
<i>QoQ growth</i>	6	4	5	1	7
Low cost deposits	39	39	38	40	41
CD ratio	73.8	72.1	70.9	72.8	74.8
Gross NPA	27,675	28,647	26,186	31,556	32,144
<i>YoY growth</i>	(17)	(12)	(16)	(3)	16
<i>QoQ growth</i>	(15)	4	(9)	21	2
Net NPA	2,639	2,972	2,327	8,119	9,817
<i>YoY growth</i>	(65)	(58)	(57)	47	272
<i>QoQ growth</i>	(52)	13	(22)	249	21
Coverage ratio	90	90	91	74	69
Cost to income	43	51	44	43	34

Source: Bank, Alchemy Research

CD ratio improves significantly

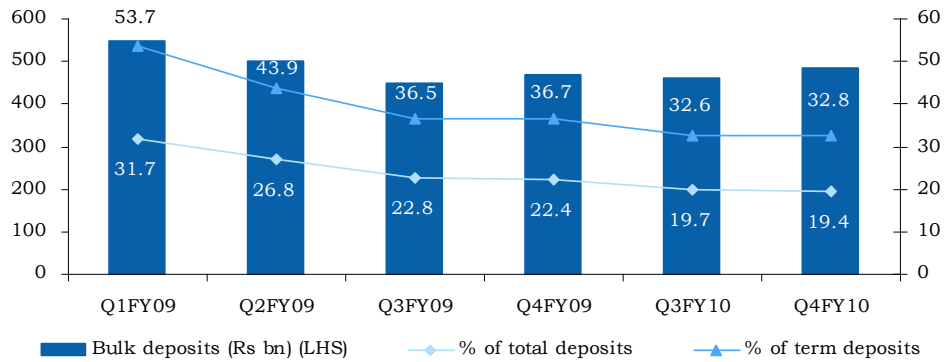
Exhibit 2 - Business mix



Source: Bank, Alchemy Research

Proportion of bulk deposits flat sequentially and dips yoy.

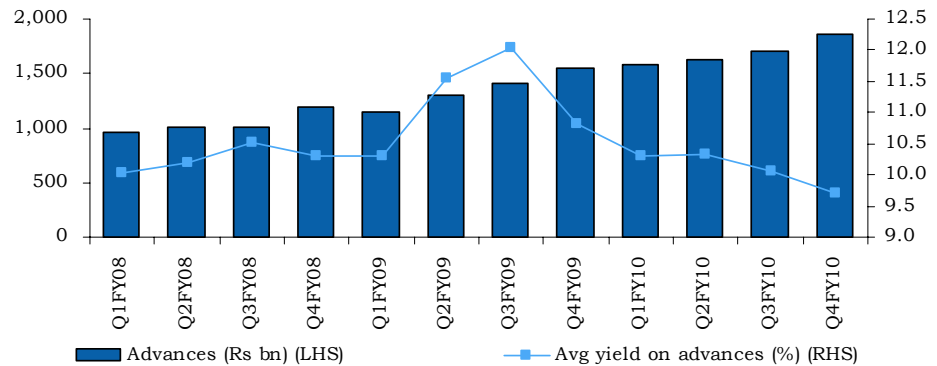
Exhibit 3 - Bulk deposits to total deposits



Source: Bank, Alchemy Research

Yield on advances continues to decline.

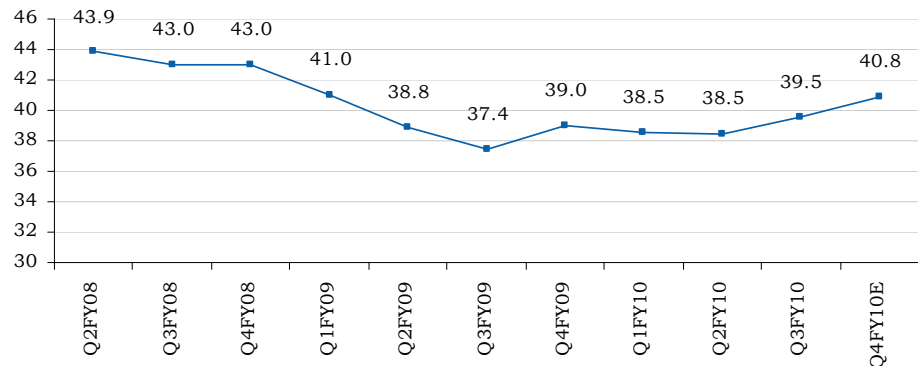
Exhibit 4 - Advances and yield on advances



Source: Bank, Alchemy Research

CASA proportion continues to improve, aiding cost and

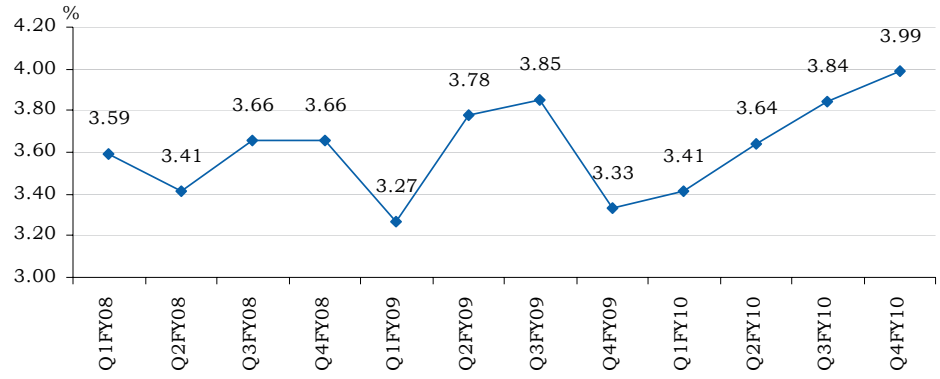
Exhibit 5 - CASA proportion of total deposits



Source: Bank, Alchemy Research

Exhibit 6 - NIM movement

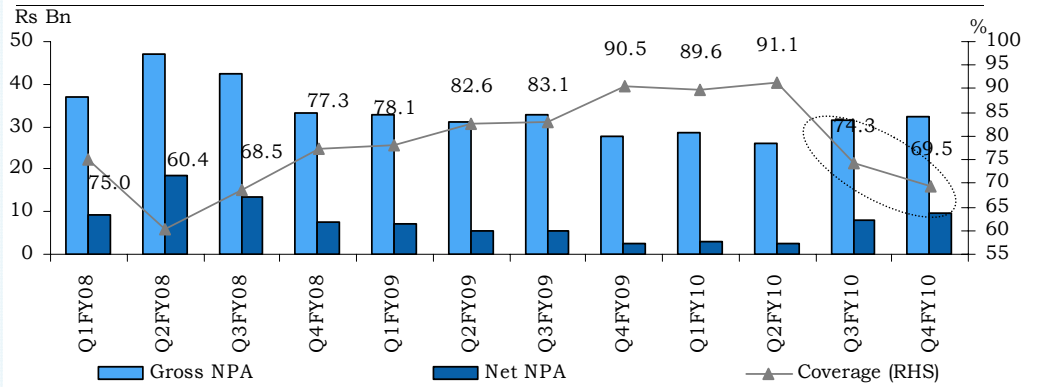
..... margins



Source: Bank, Alchemy Research

Exhibit 7 - Gross and net NPA

Coverage dips led by aggressive write offs.



Source: Bank, Alchemy Research

Income Statement (Rs mn)

Year	FY09	FY10	FY11E	FY12E
Interest Earned	193,261.6	217,278.1	262,266.2	325,983.9
Interest expended	122,953.0	129,440.2	156,195.4	196,407.3
NII	70,308.6	87,837.9	106,070.8	129,576.6
Other Income	29,196.5	33,044.0	28,019.7	31,008.4
Total Income Earned	99,505.1	120,881.9	134,090.6	160,585.0
Employee expense	29,243.8	31,211.4	33,692.3	39,267.6
Operating Expenses & Administrative Expenses	12,818.2	16,407.8	20,225.1	25,326.6
Total op exp	42,062.0	47,619.2	53,917.4	64,594.1
Pre Provisioning Profit	57,443.1	73,262.7	80,173.2	95,990.9
Provisions & Contingencies	9,774.2	14,215.0	17,458.4	20,491.4
PBT	47,668.9	59,047.7	62,714.7	75,499.5
Provision for Tax	16,760.4	19,994.3	20,699.5	24,922.1
PAT	30,908.5	39,053.4	42,015.2	50,577.4

Balance Sheet (Rs mn)

Year	FY09	FY10	FY11E	FY12E
Liabilities				
Share Capital	3,153.0	3,153.0	3,153.0	3,153.0
Reserves Total	143,383.2	174,649.9	205,938.1	249,488.6
Total Deposits	2,097,605.0	2,493,300.0	2,982,817.1	3,526,843.3
Demand deposit to total deposit	38.8	40.8	40.1	39.1
Total borrowings and Other	225,044.9	259,312.8	294,397.0	312,132.7
Total Liabilities	2,469,186.1	2,930,415.7	3,486,305.3	4,091,617.6
Assets				
Total cash balances	214,131.4	162,411.2	210,190.4	236,368.4
Investments	633,851.8	770,826.7	904,633.5	1,048,422.8
Advances	1,547,029.9	1,866,010.0	2,221,668.0	2,639,759.0
Total fixed and other assets	74,173.0	131,167.8	149,813.4	167,067.4
Total Assets	2,469,186.2	2,930,415.7	3,486,305.3	4,091,617.6

Valuation Ratios

Year	FY09	FY10	FY11E	FY12E
Valuation Ratios				
EPS	98.0	123.9	133.3	160.4
Pre Prov Profit / Share	182.2	232.4	254.3	304.4
Book Value	464.7	563.9	663.1	801.3
Adj BV	408.4	515.9	606.4	761.4
Dividend Yield	1.9	1.9	2.7	1.7
P/E	10.7	8.4	7.8	6.5
P/PPP	5.7	4.5	4.1	3.4
P/Adj BV	2.6	2.0	1.7	1.4
Balance Sheet Structure Ratios				
Loans / deposits	73.8	74.8	74.5	74.8
Loans / total assets	62.7	63.7	63.7	64.5
Loan growth	29.5	20.6	19.1	18.8
Growth in deposits	26.0	18.9	19.6	18.2
Growth in total assets	24.0	18.7	19.0	17.4
Profitability Ratios				
Net interest margin	3.3	3.4	3.5	3.6
Gross interest spread	2.9	3.0	3.1	3.2
Return on average assets	1.4	1.4	1.3	1.3
Return on average equity	25.8	26.5	23.5	23.3
Non-int inc as % of total	13.1	13.2	9.7	8.7
Efficiency Ratios				
Cost to income ratio	42.3	39.4	40.2	40.2
Op costs / avg earning assets	1.9	1.8	1.8	1.8
Salaries as % of Operating Exp	69.5	65.5	62.5	60.8
Capital Adequacy Ratios				
Equity to total assets	5.9	6.1	6.0	6.2
Tier I ratio	9.0	9.2	8.3	7.5
Credit Quality Ratios				
Gross NPA / Gross Adv (%)	1.8	1.7	2.3	2.4
Gross NPA	27,674.6	32,144.1	50,484.5	63,531.1
% Coverage	90.5	98.7	93.0	102.2
Coverage	25,036.1	31,739.4	46,932.5	64,901.4
Net NPA	2,638.5	404.7	3,552.0	(1,370.2)
Net NPA / Net Adv (%)	0.2	0.0	0.2	(0.1)
RoAA - Decomposition - (%)				
Interest Earned	8.7	8.0	8.2	8.6
Interest expended	5.5	4.8	4.9	5.2
NII	3.2	3.3	3.3	3.4
- NIM	3.3	3.4	3.5	3.6
Other Income	1.3	1.2	0.9	0.8
Total Income Earned	4.5	4.5	4.2	4.2
Employee expense	1.3	1.2	1.1	1.0
Operating Expenses & Administrative Expenses	0.6	0.6	0.6	0.7
Total op exp	1.9	1.8	1.7	1.7
Pre Provisioning Profit	2.6	2.7	2.5	2.5
Provisions & Contingencies	0.4	0.5	0.5	0.5
PBT	2.1	2.2	2.0	2.0
Provision for Tax	0.8	0.7	0.6	0.7
PAT	1.4	1.4	1.3	1.3

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9125

91-22-6639 9126

91-22-6639 9178

Trade Execution

91-22-6639 9121

91-22-6639 9134

91-22-6639 9167

Disclaimer

This report is not a solicitation or offer to buy or sell any securities or related financial products. The information and commentaries are also not meant to be endorsements or offerings of any securities, options, stocks or other investment vehicles. The report is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The securities discussed in this report may not be suitable for all investors. The appropriateness of any particular investment or strategy whether opined on or referred to in this report or otherwise will depend on an investor's circumstances and objectives and should be independently evaluated and confirmed by such investor, and advice should be sought from a financial adviser concerning the suitability of the investment or strategy, taking into account the specific investment objectives, financial situation or particular needs of the investor, before the investor makes a commitment to deal in an investment or implement a strategy.

Investment ideas and/or corporations discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realised. Those losses may equal the original investment. Some investments may not be readily realisable and it may be difficult to sell or realise those investments. Similarly, it may prove difficult to obtain reliable information about the value and risks to which such an investment is exposed. Neither us nor any of our affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained in this report.

Past performance is not necessarily indicative of future results and there can be no assurance that any investment will achieve comparable results or its investment objectives. Investors may not get back the full amount invested and the net asset value of the investment will fluctuate. Exchange rate fluctuations may affect the return to investors.

Alchemy Share and Stock Broker Pvt. Ltd., their respective affiliate companies, associates, directors and/or employees may have investments in securities or derivatives of securities of companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

ALCHEMY SHARE & STOCK BROKERS PVT. LTD.

Navsari Building, 4th Floor, 240 Dr D. N. Road, Fort, Mumbai: 400 001. India

(Tel): 91-22-6639 9100

(Fax): 91-22-2203 3575