



ENAM Securities
India Research

Rs 854

Target Price: Rs 910
Potential Upside: 7%
Sector avg. upside: 0% to 10%
(mkt cap wtd)

Punjab National Bank

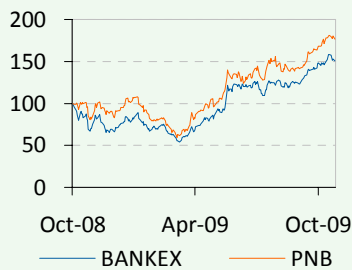
Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 315 mn
Market cap : Rs 269.3 bn
52 week high/low : Rs 899/ Rs 286
Avg. daily vol. (6mth) : 1.0 mn shares
Bloomberg code : PNB IB
Reuters code : PNBK. BO

Shareholding (%) Sep-09 QoQ chg

Promoters	: 57.8	0.0
FIs	: 19.1	1.1
MFs / UTI	: 3.4	(0.6)
Banks / FIs	: 14.7	0.0
Others	: 5.0	(0.5)

Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs mn)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2008	20,488	65	33	13.1	342	327	2.5	2.6	19.6	1.1	0.6
2009	30,909	98	51	8.7	417	411	2.0	2.1	25.8	1.4	0.2
2010E	36,668	116	19	7.3	507	501	1.7	1.7	25.2	1.4	0.2
2011E	43,470	138	19	6.2	618	611	1.4	1.4	24.5	1.4	0.2

Source: Company, ENAM estimates.

STRONG CORE PERFORMANCE

Punjab National Bank's (PNB) PAT grew 31% YoY to Rs 9.27 bn driven by 22% growth in NII and lower provisioning expenses. A 25% rise in loan book primarily led to the NII growth as margins declined 14 bps YoY. A 30 bps QoQ decline in cost of deposits led to 23 bps improvement in NIM to 3.6%. Incremental slippages during Q2 at ~Rs 3.3 bn were lower compared with Rs 5.3 bn in Q1. Asset quality improved sequentially both in % and absolute terms with gross and net NPAs of 1.58% and 0.14% respectively. PNB maintained one of the highest provisioning coverage in the industry at 91%. Restructured loans increased by Rs 8 bn to Rs 100 bn constituting 6.1% of the loan book.

Loan book growth

Corporate and SME loan which together constitute ~45% of the loan book were the primary drivers for the loan book growth. Corporate and SME book grew 26% and 64% respectively. Retail loan growth was sluggish at 7% YoY with growth witnessed in mortgage and education loans. The growth in corporate loans was mainly due to the expansion in infrastructure loans which comprised 13% of the total loan book and grew 51% YoY. Telecom sector constitutes 4% of total loans and grew 18 fold YoY.

Valuations

PNB is among the few banks which delivered high margins, healthy return ratios and healthy asset quality. The management's focus is to maintain high CASA, margins and deliver high return ratios. We expect PNB's balance sheet to grow at CAGR of 17% over FY10E-FY11E with RoA of 1.4%. We are raising our earnings estimates marginally by 6% in FY10E and expect PNB to deliver an average RoE of 24.8% over the next two years. Revising our target price upwards to Rs 910 (1.5x FY11E ABV and 6.6x FY11E earnings). We believe that current valuations do not provide sufficient scope for upside and our target upside falls with our sector average range. Hence, downgrading the stock to sector **Neutral**.

Result Update

(Rs mn)	Quarter ended					12 months ended		
	Sep-09	Sep-08	% Chg	Jun-09	% Chg	Mar-10E	Mar-09	% Chg
Interest Income	54,072	46,504	16	52,074	4	221,222	193,261	14
Interest Expended	33,122	29,382	13	33,456	(1)	141,571	122,953	15
Net Interest Income	20,950	17,122	22	18,618	13	79,651	70,308	13
Non-Interest Income	6,686	6,628	1	9,702	(31)	34,408	29,197	18
Net Income	27,636	23,750	16	28,320	(2)	114,059	99,505	15
Operating Expenses	11,573	10,072	15	12,626	(8)	48,164	42,062	15
Operating profit	16,064	13,678	17	15,693	2	65,895	57,444	15
Provision & Contingencies	2,160	3,177	(32)	3,018	(28)	11,166	9,774	14
PBT	13,904	10,501	32	12,676	10	54,728	47,670	15
Tax	4,634	3,430	35	4,355	6	18,060	16,760	8
Net Profit	9,270	7,071	31	8,321	11	36,668	30,909	19
No. of shares (mn)	315	315	-	315	-	315	315	-
Rep. EPS - non-annualized (Rs.)	29	22	31	26	11	116	98	19
Yields & Margins (%)								
Yield on advances	10.8	11.7	(0.95)	10.8	(0.01)	10.0	10.7	(0.7)
Yield on investment	6.4	7.1	(0.70)	6.7	(0.31)	7.2	7.5	(0.4)
Cost of deposit	5.6	6.2	(0.60)	5.9	(0.30)	5.8	6.1	(0.3)
Net interest margin	3.6	3.8	(0.14)	3.4	0.23	3.1	3.3	(0.2)
Asset quality								
Gross NPAs (Rs mn)	26,186	31,246	(16.2)	28,647	(8.6)	31,070	27,675	12.3
Gross NPAs (%)	1.58	2.37	(0.8)	1.80	(0.2)	1.65	1.76	(0.1)
Net NPAs (Rs mn)	2,327	5,447	(57.3)	2,972	(21.7)	3,107	2,639	17.8
Net NPAs (%)	0.14	0.42	(0.3)	0.19	(0.1)	0.17	0.17	(0.0)
Provisioning coverage (%)	91.1	82.6	8.5	89.6	1.5	90.0	90.5	(0.5)
Capital (%)								
Tier-I	9.4	9.2	0.2	9.1	0.3	9.1	9.0	0.1
CAR	14.7	13.6	1.1	14.5	0.3	13.0	14.0	(1.0)
Balance sheet (Rs. Bn)								
Advances	1,636	1,304	25	1,580	4	1,859	1,547	20
Deposits	2,308	1,863	24	2,190	5	2,508	2,098	20
CASA (%)	38	39	(0)	38	0	39	39	(0)

Source: Company, ENAM Research. Note: Full year numbers and ratios are on calculated basis.

- While treasury income jumped 108% YoY to Rs 1.5 bn, core fee income grew 12% YoY.
- CASA deposits have grown in line with the overall deposit growth. PNB has been able to consistently maintain CASA proportion of 38%.
- PNB plans its first overseas acquisition through a 63.6% stake purchase in Kazakhstan's Dana Bank at ~ USD 24 mn.
- PNB is also venturing into new businesses and has set up a merchant banking subsidiary (PNB Investment Services Ltd) for carrying out the merchant banking advisory services.
- It also expects to complete 26% stake sale in its wholly-owned housing finance subsidiary by December this year.
- Steps are also underway to merge PNB Gilts with the bank.

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