


IIFL

INDIA PRIVATE CLIENTS

Weekly Wrap

March 11, 2011

Investment idea

Punjab National Bank

Loan growth to decelerate yet remains strong; deposit mobilization improving

With YTD credit expansion at 18.6%, PNB has witnessed higher than system loan growth. The yoy credit growth for the bank in Q3 FY11 was at a robust 30%. The growth momentum is expected to decelerate to 25% in Q4 FY11 mainly due to the higher base (advances grew by significant 9.5% qoq in Q4 FY10). PNB expects system credit growth to moderate to 20-21% by the end of the year. In FY12, the bank plans to grow at least 2-3% above the system. The bank has witnessed improvement in core term deposits mobilization in recent months aided by the material rate hikes implemented. PNB expects significant increase in institutional deposits in the current month. Resultantly, the C/D ratio is expected to correct to 75% over the next 3-6 months.

NIM resilient in Q4 FY11; could witness modest correction in the medium term

PNB does not see its NIM being materially impacted in the near term and expects a rather modest correction of 10-15bps over the next two quarters from current level of 4% (post adjusting for one-time interest income in Q3 FY11). Over the longer term, bank expects NIM to settle in the range of 3.5-3.7%. We believe this margin outlook is conservative given bank's superior CASA and higher proportion of floating advances. Traditionally, PNB's margin management has been much better than other PSBs.

Asset quality to stabilize; credit cost to decline

PNB has witnessed material deterioration in its asset quality over the past three quarters with its GNPL increasing from 1.7% to 2%. The key driving segments were agriculture and SME. The bank also witnessed significant slippages (Rs7.6bn) from the restructured book over the past 12 months. Presently, restructured assets stand at ~Rs144bn, 6.5% of net advances (probably the highest amongst PSBs), and till date slippages have been 8.7%. PNB expects GNPL to stabilize around current levels of 2% in the medium-term with lower slippages from restructured book (have been declining over the past two quarters).

In line with rising GNPLs, PNB has seen a substantial increase in loan-loss provisioning (LLP) and credit cost over the past four quarters. Over Q4 FY10-Q3 FY11, bank has made LLP worth Rs19.3bn increasing the credit cost from 0.7% to 1.3%. Overall provisioning was also boosted by the need to provide 70% on all categories of NPLs so as to sustain PCR above 70%. Including technical write-offs, PCR stood at 78% at the end of Q3 FY11. With asset quality likely to stabilize in FY12, the credit cost is expected to decline to 1-1.1%.

RoA to remain at impressive 1.3-1.4%; in-line with some high quality private banks

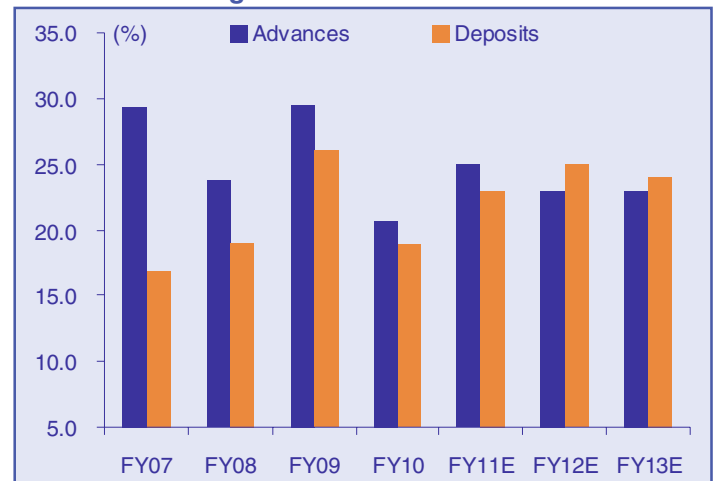
PNB's RoA at 1.3% is the best amongst PSBs. Superior RoA has been driven by robust business growth, handsome NIMs and better operating efficiency. The current RoA fully reflects the headwinds of higher pension and loan-loss provisioning. Even as margins are expected to come-off, we believe RoA would be sustained above 1.3% in the medium term aided by moderation in opex growth and reduction in credit charge. RoE, on the other hand, is

likely to be sustained in the range of 23-25%. PNB's RoA and RoE profile is in-line with some of the high quality private banks.

Retain BUY on PNB with 9-month target of Rs1,370

Over FY10-13, we estimate PNB to witness robust 24% balance sheet CAGR, 27% NII CAGR and 20% PAT CAGR. Bank's current valuation of 1.2x FY13 P/adj.BV is attractive given its superior return profile. Any sign of stabilization in the bank's asset quality is likely to result in a significant re-rating of the stock. Using our proprietary valuation model for banks, Bank 20, we assign FY13 P/adj.BV multiple of 1.5x to PNB and arrive at 9-month price target of Rs1,370. Retain BUY.

Robust business growth over FY10-13



Source: Company, India Infoline Research

Valuation summary

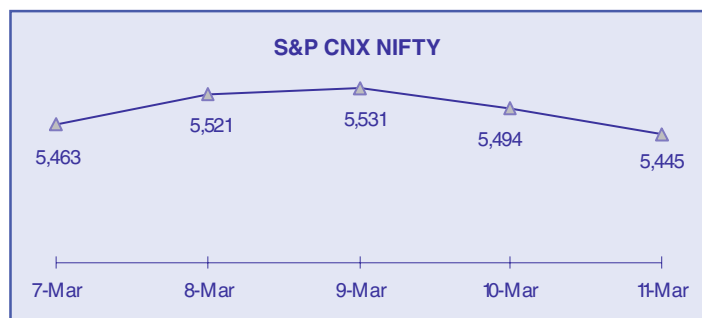
Y/e 31 Mar (Rs m)	FY10	FY11E	FY12E	FY13E
Total operating income	119,351	156,469	187,246	226,705
Yoy growth (%)	19.9	31.1	19.7	21.1
Operating profit	71,732	90,754	112,331	133,062
Net profit	39,052	43,694	55,194	65,869
yoy growth (%)	26.3	11.9	26.3	19.3
EPS (Rs)	123.9	138.6	175.1	208.9
BVPS (Rs)	516.4	627.4	766.5	939.6
P/E (x)	8.7	7.8	6.2	5.2
P/BV (x)	2.1	1.7	1.4	1.1
ROE (%)	25.5	24.2	25.1	24.5
ROA (%)	1.4	1.3	1.4	1.3
CAR (%)	14.2	13.8	13.2	12.7

Source: Company, India Infoline Research

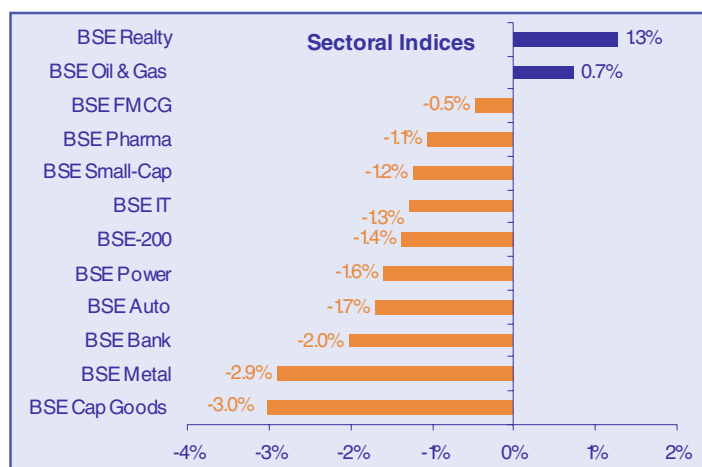
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Market review

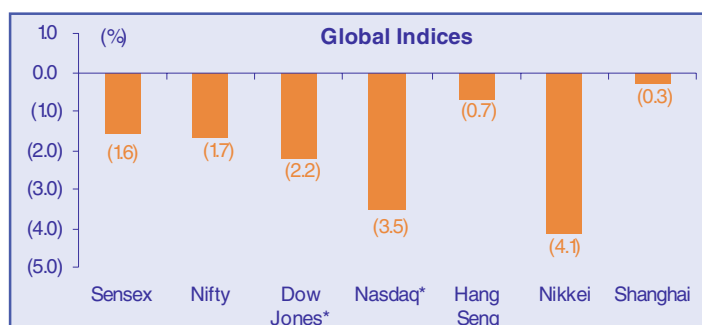
The Indian markets had to grapple with a slew of headwinds in the form of the DMK-Congress standoff and a string of disappointing global economic data. If all these were not enough, the world was hit by news about a huge earthquake in Japan that led to a massive Tsunami. For India though there was some good news as exports surged in February, IIP grew better than expected and food inflation fell under 10%. Finally, the NSE Nifty closed the week lower by 1.7%.



Capital Goods stocks were the major losers amid broad concern about investment slowdown. In addition, the IIP data for January showed that capital goods output fell 18.6%. Metal stocks were down on the back of weakness in the global metal prices. Metal prices have corrected over the last two weeks on expectations of a slower than expected demand from countries like China.



China's CPI remained elevated at 4.9% in February. China also reported the worst trade deficit in 7 years – it's first in 12 months. Japan's GDP for Q4 CY10 was lowered. South Korea hiked rates again. Spain's debt rating was downgraded. US weekly jobless claims increased while US trade deficit worsened. The Bank of England left interest rates and bond purchase programme unchanged.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
03-Mar	281	47
04-Mar	626	(4)
07-Mar	3	(243)
08-Mar	368	53
09-Mar	207	181
Total 2011	(8,134)	2,471

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ONGC	281	4.7	Bhushan Steel	432	8.4
RCOM	96	3.2	Essar Oil	119	8.0
Wipro	449	1.7	Tech M	730	7.0
DLF	225	1.2	Nestle India	3,868	6.0
RIL	992	1.0	Reliance Cap.	512	5.9

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Steel	582	(5.8)	Educomp	416	(10.6)
BHEL	1,975	(5.3)	India Infoline	71	(10.1)
TCS	1,076	(5.1)	Pharma	271	(9.6)
SBI	2,572	(4.8)	PFC	243	(8.9)
Maruti Suzuki	1,253	(4.6)	Patel Eng.	138	(6.9)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
7-Mar	Marc Faber	Kirloskar Indus	B	1.9	369.8
9-Mar	JM Equity Fund	Voltamp Trans	S	0.6	586.0
10-Mar	Fidelity Multitrade	GHCL Limited	S	22.0	45.7

Book closures and record dates

Company	Date	Purpose
Glaxosmithkl Phar	14-Mar-2011	Dividend
Nalco	15-Mar-2011	Bonus, Stock Split
Shree Nath Comm	16-Mar-2011	Bonus

Insider Trades

Company	Name	B/S	Qty ('000)
Ratnamani Metals	Prakash M. Sanghvi	B	288.1
Guj Apollo	Asit Patel	B	40.0
NB Venture	P. Shruthi	B	2.0

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Technical ideas

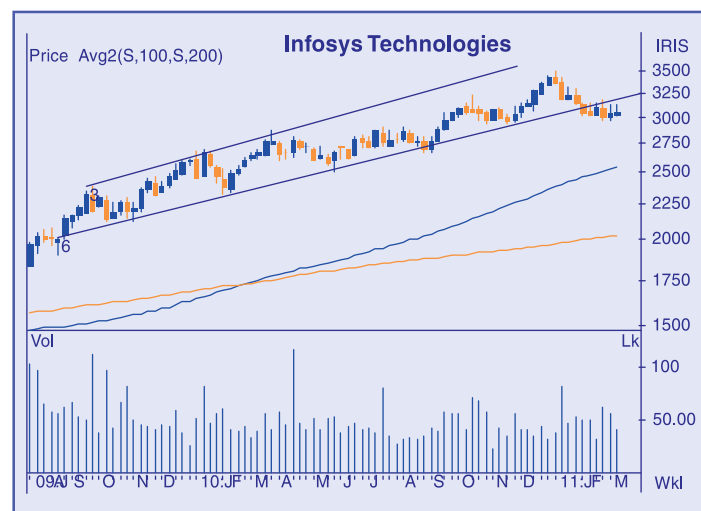
Sesa Goa SELL CMP Rs270



The stock has been on a downtrend since its peak of Rs488 witnessed during the second week of April 2010. However, the stock on repeated occasion found support at its long term trendline (as shown in the chart). This week, we saw the stock breaking below its long term trendline.

Moreover, every recovery attempt by the stock has faced stiff resistance at its long term trendline, indicating that levels which acted as a support during the peak of April 2010 have turned into resistance. The daily RSI is already in sell mode suggesting build-up of momentum on the downside. **Based on above events, we recommend traders to sell Sesa Goa March Futures below Rs270 for target of Rs256. A stop loss of Rs276 is recommended on all short positions.**

Infosys Technologies SELL CMP Rs3,055



Infosys Technologies in the near has been moving with formation of lower tops and lower bottom with prices trading well below the 50 DMA. As such pattern continues the near term trend is likely to remain with negative bias. Any pullback towards Rs3,130 should be used for initiating short position as this has been steady supply zone for the counter.

On the weekly chart, it has been forming a 'rising wedge' which is bearish pattern and move below Rs3,020 could aggravate selling pressure towards Rs2,900 in the medium term. **We advise going short on Infosys Mar Futures in the range of Rs3,065-3,075 with stop loss of Rs3,120 for Target of Rs2,970. (Duration 7 days).**

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Petronet	1.2	9.5	444.4
Grasim	1.2	5.1	437.1
BPCL	0.6	4.1	44.2
Patni	0.1	3.7	791.3
Cummins Ind	0.7	3.2	181.5

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Voltas	(3.9)	11.2	278.6
Jindal Steel	(1.2)	6.3	(15.7)
NALCO	(1.4)	6.3	4.4
Uni Phos	(3.8)	5.3	123.9
Sterlite	(2.8)	4.7	82.6

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Shree Cement	1,790	1,729	0.6	0.2
MRF	6,097	5,891	0.2	0.1
Petronet	117	114	44.3	16.4
Grasim	2,352	2,285	2.1	0.7
Britannia	356	347	0.6	0.3

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Indian Hotels	80	81	17.1	9.7
Cipla	295	303	20.6	18.3
Dabur	97	100	8.8	8.4
Rolta	140	144	9.9	5.3
Andhra Bank	135	139	12.5	11.4

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on March 11, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
ICICI Prudential Dynamic - (G)	2,785	104.6	(0.1)	2.2	(4.4)	(1.9)	11.9	134.5	40.0	107.1
Reliance Equity Opportunities – (G)	2,861	33.5	(0.4)	1.5	(9.1)	(12.7)	12.7	183.9	40.6	92.9
HDFC Top 200 (G)	9,482	203.1	(0.4)	2.7	(7.7)	(6.7)	12.7	153.1	48.7	119.3
Fidelity Tax Advantage (G)	1,296	21.3	(0.2)	3.7	(6.7)	(7.1)	15.3	144.1	40.6	107.8
HDFC Prudence Fund (G)	5,761	204.4	0.1	2.1	(5.2)	(6.0)	13.7	150.0	53.0	119.4

Fund this week: ICICI Prudential Dynamic Plan

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	80.7
Latest NAV	Rs104.6	Debt	0.0
NAV 52 high/low	Rs113/87	Cash/call	19.3
Latest AUM (cr)	Rs2,785	Top 5 holdings (%)	
Type	Open-ended	Reliance Industries Ltd.	8.3
Class	Equity - Diversified	Infosys Technologies Ltd.	7.1
Options	Growth & dividend	Bharat Heavy Electricals Ltd.	4.2
Min investment	Rs5000	HDFC Bank Ltd.	3.9
Benchmark	S&P CNX Nifty	Bharti Airtel Ltd.	3.9
No. of stocks	59	Top 3 sectors (%)	
No. of sectors	30	Energy	17.5
Expense ratio	1.8%	Financial	12.9
Exit load	1% before 1 year	Technology	11.3

NFO update

Fund Name	Close	Type	Class
Birla SL Fixed Term Plan-Sr CU	16-Mar	CE	Debt – FMP
UTI FMP- Yrly Sr - Mar'11	17-Mar	CE	Debt – FMP
ICICI Pru Sr 55 - 6 Months Plan C	18-Mar	CE	Debt – FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
Canara Rob Dynamic Bond	1.7	15-Mar	Debt
BSL Short Term Opportunities	1.3	15-Mar	Debt
Kotak Qtrly Interval Plan Sr 1	100.0	16-Mar	Debt - Invnt

Commodity, debt and currency graphs



* As per previous close

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