



IPO ANALYSIS

Punjab & Sind Bank

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IPO STATISTICS

Issue Open Date	13 th Dec 2010
Issue Close Date	16 th Dec 2010
Price Band	Rs 113-120* per Share
Face Value	Rs 10 per Share
Bid Lot	50 Equity Shares
Issue Size	4,00,00,000 Shares
Pre Issue Equity Capital	Rs 1830.56 Million
Post Issue Equity Capital	Rs 2230.56 Million

Note *: 5% discount to retail investor

SHAREHOLDING PATTERN (%)

	Pre Issue	Post Issue
Promoter (GOI)	100.00	---
Public	0.00	---

ISSUE STRUCTURE

QIB	1,90,00,000 Eq Shares
NON-INSTITUTIONAL	57,00,000 Eq Shares
RETAIL	1,33,00,000 Eq Shares
EMPLOYEE RESERVATION	20,00,000 Eq Shares

OTHER SPECIFICS

Lead Manager	SBI Capital Markets Ltd , Enam Securities Pvt Ltd
Registrar	Link Intime India Pvt Ltd

Bank Snapshot

Punjab & Sind Bank is a GoI undertaking, incorporated in June 1908 in Amritsar. Bank was one of the six banks nationalized by the GoI in April 1980, and today, it is one of 19 nationalized banks in India. In the annual Business Today-KPMG survey of Best Banks in India 2008, it was ranked number one on the list of 'Small Sized Best Banks in India' (i.e. banks with a then balance sheet size of less than ` 24,000 crore).

Objects of Issue

Augment bank's capital base to meet the capital adequacy norms for future capital requirements and the growth in its assets, primarily its loan and investment portfolio due to the growth of the Indian economy, and for other general corporate purposes

As bank is engaged in the business of banking, it is seeking to strengthen its capital base to support the future growth in its assets and comply with the capital adequacy requirements applicable to bank. Other general corporate purposes would include development of infrastructure to support its business growth and service its customers.

Achieve the benefits of listing on the Stock Exchanges

Bank believe that equity capital markets is an ideal source for meeting long term capital adequacy requirements of a growing bank like Punjab & Sind Bank. In addition, the listing of its Equity Shares will, among other things, enhance its visibility and brand name among its existing and potential customers. As a listed entity it would be able to attract high quality and talented personnel.

Business Details

In over 100 years of operation, bank have significantly grown its branch network with a presence predominantly in north India. As on October 31, 2010, bank's network comprised of 926 branches and 63 ATMs across India. It also sponsor one regional rural bank, Sulej Gramin Bank, in collaboration with the GoI and the state Government of Punjab. As on September 30, 2010, it had a total of 8,047 employees, serving over 0.66 crore customers. Bank's primary business is taking deposits, and making advances and investments, and is principally divided into retail banking, corporate banking, priority sector banking, treasury operations and other banking services such as agency functions for insurance, distribution of mutual funds and pension and tax collection services. Bank have various deposit products, such as current, savings and term deposits for its customers. In retail banking, it provide loans and advances for housing, trade, automobiles, consumer durables, education and personal loans. Bank provide commercial banking products and services to corporate customers, including mid-sized and small businesses and government entities. In corporate banking, its loan products include term loans to finance capital expenditure of assets across various industries as well as short-term loans, cash and export credit and other working capital financing and bill discounting facilities. Bank also provide credit substitutes, such as letters of credit and guarantee. Bank also engage in syndication of loans provided by other financial institutions and other fee-based services such as cash management and remittance services. In the priority sector, it offer direct financing to farmers for production, as well as indirect financing for infrastructure development and credit to suppliers of agricultural inputs. Bank also offer a wide range of general banking services to its customers including ATM cards, cash management, remittance services and collection services.

Industry Overview

We expect the banking industry to continue to record brisk PAT growth in the December 2010 quarter. The industry's net profit is expected to rise by 17.7 per cent during the quarter, after having grown by over 20 per cent in the previous two quarters. We expect interest income to rise by 16.8 per cent, aided by a 20 per cent rise in core interest income. Growth in interest cost will continue to lag income growth, aiding the healthy growth in PAT. Growth in income from advances will be mainly driven by a strong y-o-y growth in bank credit. Average lending rates are expected to be only marginally higher than the year-ago levels. Interest expenses will grow at a relatively slower pace, as deposit growth continues to lag credit growth. Besides, deposit rates had declined at a sharper pace compared to lending rates in the first half of 2009-10. Therefore, in spite of the recent hikes in deposit rates, average cost of deposit is expected to be lower than that a year ago

Investment Rationale

Wide Distribution Network

Bank deliver its products and services through a wide variety of channels ranging from bank branches and ATMs. It have branch presence across India, with a presence predominantly in north India, a region which bank believe is rich in resources and offer great opportunity for resource mobilization. As on October 31, 2010, bank's network comprised of 926 branches and 63 ATMs across India. Out of these 926 branches, bank have 49 specialized branches including specialised agriculture branches, personal banking branches and MSME branches and one locker branch to cater to its customers from varied sectors including its priority sector customers.

High Experience

With banking experience of over 100 years including over 30 years as a public sector bank, it have built strong relationships with the central and state governments as well as public sector enterprises, which has been one of the drivers of its growth .

Negative Cash Flows

Concerns

Bank has incurred negative cash flows from operating activities for fiscal 2006, fiscal 2009 and for the half year ended September 30, 2010, amounting to ` 0.91 crore, ` 376.63 crore and ` 187.09 crore, respectively. Further, bank have incurred negative cash flow from its investing activities for fiscal 2006, 2007, 2008, 2009, 2010 and for the half year ended September 30, 2010, amounting to ` 5.90 crore, ` 4.26 crore, ` 11.74 crore, ` 21.51 crore, ` 13.75 crore and ` 10.01 crore, respectively. Bank had also incurred negative cash flow from the financing activities for fiscal 2008 and for the half year ended September 30, 2010, amounting to ` 30.75 crore and ` 71.49 crore, respectively.

Priority Sector Lending

Bank have substantial exposure to the priority sector and its business could be materially and adversely affected by market and other factors that impact the priority sector. In addition, regulations relating to priority sector lending could have a material adverse impact on bank's financial condition and results of operations. As of September 30, 2010, priority sector credit constituted 31.57% of its adjusted net bank credit. Further, loans to agricultural and micro and small enterprises borrowers constituted 12.48% and 12.28%, respectively, of its adjusted net bank credit, as of September 30, 2010. Bank is required to extend at least 18% of the adjusted net bank credit to the agriculture sector.

Annual Financial Matrix

Rs Cr

Particulars	FY08	FY09	FY10	H1FY11
Net Interest Income	785.79	1011.86	1183.94	780.60
Growth%	---	28.77	17.01	---
Other Income	309.14	383.54	392.13	216.33
Net Income	1094.93	1395.40	1576.07	996.93
Growth%	----	27.44	12.95	----
Operating Expenditure	577.30	667.31	708.07	484.35
Pre Provision profit	517.63	728.09	868.00	512.58
Growth%	----	40.66	19.22	----
Provisions	79.74	82.88	211.10	112.91
PBT	437.89	645.21	656.90	399.67
Tax	48.32	210.80	156.46	123.29
Adjusted PAT	389.57	434.41	500.44	276.38
Growth%	---	11.51	15.20	---
E/O Items	0.00	0.00	0.69	0.00
Reported PAT	389.57	434.41	501.13	276.38
Equity Capital	743.06	183.06	183.06	183.06
Net Worth	1546.05	1417.15	1906.58	2182.07

Yield Analysis

Ratios (%)	FY08	FY09	FY10	H1FY11*
Yield on Advances	8.31	10.07	8.41	9.20
Yield on Invst	6.99	5.45	6.12	7.28
Yield on Assets	7.30	7.96	7.01	7.91

* : Figures has been annualized

Cost Ratios

Ratios (%)	FY08	FY09	FY10	H1FY11*
Cost of Deposits	5.77	6.45	5.60	5.76
Cost of Funds	4.72	5.48	4.90	5.23
Cost to Income Ratio	52.72	47.82	44.93	48.58

* : Figures has been annualized

Return ratios

Ratios (%)	FY08	FY09	FY10	H1FY11*
NIM	2.59	2.48	2.11	2.68
Return on Equity	25.20	30.65	26.25	20.76
Return on Assets	1.28	1.07	0.89	0.95

* : Figures has been annualized

Investment ratios

Ratios	FY08	FY09	FY10	H1FY11
EPS	5.24	23.73	27.34	15.10
Book Value	20.81	77.41	104.15	119.20

Other Ratios

Ratios	FY08	FY09	FY10	H1FY11
NNPA%	0.37	0.32	0.36	0.44
GNPA%	0.74	0.65	0.63	0.92
CD Ratio	74.14	71.23	66.60	67.80
CASA Ratio	36.34	27.76	25.04	25.14
CRAR %	11.79	11.81	11.67	11.82
Tier I	8.25	6.92	6.82	7.23
Tier II	3.53	4.89	4.85	4.59

Valuation

The bank is bringing the issue at price band of Rs 112-120 at p/e multiple of 4.56-4.84 on post issue eps of Rs 24.78 (Basis Annualized PAT for H1FY'11).

The bank has shown strong performance in its financials. Also, bank outperformed its group average of the public sector banks as well as all banks' average for fiscal 2010 on several financial and risk management parameters like return on advances as adjusted to cost of funds, (ii) return on assets, (iii) net NPA ratio and (iv) business per employee, despite currently being much smaller in size than many of the public sector and other banks with which it compete. Therefore, looking at the valuations and all above , we find issue a very attractive destination to deploy the funds. Hence we recommend investor to "Subscribe" the issue.

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