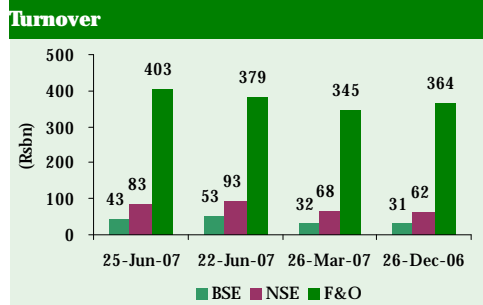




26 June 2007

Indices	%Change			
	25-Jun-07	1mth	3mth	6mth
Sensex	14,488	1.0	10.4	4.5
Nifty	4,259	0.3	11.5	7.2
CNX Midcap	5,827	4.4	20.3	1.4
Banking	7,831	4.9	17.1	10.6
Capital Goods	11,830	12.5	30.9	30.8
IT	4,812	(0.5)	(3.9)	(9.0)
Healthcare	3,794	1.3	6.6	(0.8)
NASDAQ	2,577	0.8	4.9	6.0
Dow Jones	13,352	(1.1)	7.1	6.7

Net Inflows				
Rsbn	22-Jun-07	21-Jun-07	MTD	YTD
FII	16	(1)	22.8	195.7
Mutual Fund	(0)	0	3.7	21.5
FII - F&O	(1)	12	(0.7)	107.0



Commodity & Currency	% Change			
	25-Jun-07	1mth	3mth	6mth
Crude (US\$/barrel)	69.1	6.0	9.9	14.5
Gold (US\$/Oz)	651.6	(0.7)	(2.6)	3.8
US\$	40.8	0.5	(5.9)	(8.1)
Euro	54.9	0.7	(4.7)	(6.0)

Debt				
%	25-Jun-07	1mth	3mth	6mth
RBI Repo	7.8	7.8	7.5	7.3
10 yr G-Sec yld	8.2	8.2	8.0	7.6
Spread 1 & 10 yr G-Sec	1.2	0.8	0.7	0.4
US 10 yr treasury	5.1	4.9	4.6	4.7
Surplus liquidity (Rsbn)	(30.0)	46.9	367.2	276.0

Punjab National Bank (Rs515) Out Performer Target Price: Rs601

Rakesh Kumar
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We re-iterate our Out Performer rating on the stock mainly due to robust net interest margin (NIM), further improvement in fee-based income, reduced interest rate risk and deferment of proposed equity dilution. We maintain our price target of Rs601 per share.

Strong Net interest margin: Moderate growth in credit and deposit base would expectedly improve asset quality and CASA share. We expect marginal increase in low-cost deposits' (LCDs) share to 47% in FY08 and increase in yield on advances would augment NIM at 3.75% in FY08 from 3.7% in FY07.

Improvement in non-interest income: We expect non-interest income to strengthen further due to strong growth in fee-based income caused by bank's aggressive approach towards third party distribution business and optimal utilization of its franchise in north India. We've factored in Rs4bn of shifting loss against 3.86bn previous year and Rs3.3bn of amortization loss compared to Rs3 bn previous year. Strong fee-income with foreign exchange income and recovery would boost up total other income.

Reduced interest rate risk: In first quarter FY08, the bank has shifted almost Rs.50 bn of SLR securities from AFS (available-for-sale) to HTM (Held-to-maturity) and incurred shifting loss provision of Rs.4 bn. After the shifting, AFS investment category has shrunk to 28% of bank's total investment book and with duration of around 3 years compared to 3.5 years as on March 2007. Mark-to-market (MTM) provisions would come down radically due to downsizing of AFS category and decrease in duration. Considering parallel shift in interest rate yield curves, 10 basis point upward shift in similar bond paper's yield would create Rs380 mn of MTM loss.

Punjab National Bank		(Rs mn)		FY2006	FY2007	FY2008E	FY2009E
Bloomberg/Reuters Code	PNB IN/PNBK.BO	Total Net Income		59,403	65,569	76,961	91,398
Market Cap	Rsbn	Profit before provisions		29,171	32,306	40,420	51,363
Market Cap	US\$m	3,961 NIM (%)		3.55	3.70	3.75	3.75
52-week ran	Rs	585/300 Net Profit		14,393	15,401	19,936	26,500
Shares in iss	mn	315 EPS (Rs)		45.6	48.8	63.2	84.0
FII limit	%	20 EPS Growth (%)		2.1	7.0	29.5	32.9
		P/E (x)		11.3	10.5	8.1	6.1
		Price/Book Value (x)		1.8	1.6	1.4	1.2
Major Shareholder (%)		Price/Adjusted Book Value (x)		1.9	1.8	1.5	1.3
Promoters		57.8 Dividend Yield (%)		2.43	2.82	3.50	3.88
Banks/FIs/MFs		15.9 Cost-to-income (%)		50.9	50.7	47.5	43.8
Pvt. Corp. Bodies		1.0 ROA (%)		1.06	1.00	1.14	1.30
Public		5.3 ROE (%)		17.0	16.0	18.5	21.6
FIs/NRIs/OCBs		20.1 Tier-1 Capital (%)		10.1	8.9	8.3	8.2

Source: Company and Karvy Estimates

Deferment in follow-on public offer of equity shares: The new chairman Mr. Chakravarthi has recently stated that the bank would not be going for FPO in FY2008; the issue could have played a spoilsport. We expect end-March 2008, tier I capital would be 8.3%; therefore the bank does not need to go for equity dilution at this juncture.

Valuation

We expect the bank's net profit would grow by 29% to Rs.19.9 bn in FY08 and by 33% to Rs26.5bn in FY09. Estimated book value and adjusted book value for FY08 would be Rs360 and Rs335 respectively. The bank is expected to report RoAE of 18.5% and 21.6% respectively. We determine the bank's intrinsic worth to be Rs601. We rate the stock as an **Out Performer** with a target price of Rs601.

Profit & loss statement

	2006	2007	2008E	2009E
Net Interest Income	46,668	55,146	63,651	74,123
Fees	7,526	9,700	11,950	14,850
Profits on sale of investments	4,580	(139)	450	1,510
Profits on foreign exchange	1,221	1,767	1,875	2,025
Other operating income	(592)	(905)	(965)	(1,110)
Total other income	12,735	10,423	13,310	17,275
Total Net Income	59,403	65,569	76,961	91,398
VRS	-	-	-	-
Salaries	21,150	23,524	26,150	28,900
Other operating costs	9,082	9,738	10,391	11,135
Total Overheads	30,231	33,262	36,541	40,035
Profit before provisions	29,171	32,306	40,420	51,363
Bad Debt Provisions	616	5,998	8,500	9,980
Prudential Provision	273	1,519	1,833	1,833
Investment Provisions	8,900	2,881	1,600	1,750
Other provision	(966)	217	200	300
Total provisions	8,823	10,615	12,133	13,863
Profit before tax	20,348	21,691	28,286	37,500
Tax	5,956	6,291	8,350	11,000
Reported Net profit	14,393	15,401	19,936	26,500
DPS (Rs)	13	15	18	20
EPS (Rs)	46	49	63	84
EPS Growth (%)	2	7	29	33
Payout (%)	27	30	28	24
Net interest margin (%)	3.6	3.7	3.7	3.8
Cost-to-income (%)	51	51	47	44

RoA

	2006	2007	2008E	2009E
Net Interest Income	3.44	3.58	3.63	3.64
Other Income	0.94	0.68	0.76	0.85
Less Overheads	(2.2)	(2.2)	(2.1)	(2.0)
Less Provisions	(0.6)	(0.7)	(0.7)	(0.7)
Less Tax	(0.4)	(0.4)	(0.5)	(0.5)
ROA	1.06	1.00	1.14	1.30
ROE	17.0	16.0	18.5	21.6

Asset Quality

	2006	2007	2008E	2009E
Gross NPLs	31,383	33,907	30,872	28,852
Restructured standard Loans	6,153	5,652	5,000	4,500
Gross Impaired Loans	37,536	39,560	35,872	33,352
Accumulated Provisions	29,281	26,651	24,316	23,046
Net impaired Loans	8,255	12,909	11,556	10,306
Provision to gross impaired loans (%)	78.0	67.4	67.8	69.1
Gross NPLs (%)	4.0	3.4	2.6	2.1
Net NPLs (%)	0.3	0.8	0.6	0.4

Balance sheet

	2006	2007	2008E	2009E
Cash with RBI	233,946	123,720	128,870	133,580
Cash at call	13,971	32,735	39,250	44,450
Total Cash	247,917	156,455	168,120	178,030
Govt. securities	334,193	366,310	406,417	481,832
Other investments	76,360	85,589	89,213	98,688
Total Investments	410,553	451,898	495,630	580,520
Bills discounted	37,405	46,314	52,162	61,551
Cash credit	380,939	431,610	515,825	601,832
Term loans	327,931	488,041	591,171	704,417
Total Credit	746,274	965,965	1,159,158	1,367,800
Gross Fixed Assets	21,581	23,192	25,220	27,240
Accumulated Depreciation	11,279	13,094	15,060	17,000
Net Fixed Assets	10,302	10,098	10,160	10,240
Capital work in progress	-	-	-	-
Other Assets	37,628	39,808	48,772	51,711
Total Assets	1,452,674	1,624,225	1,881,840	2,188,301
Demand Deposits	167,238	164,657	193,854	225,152
Savings Deposits	419,082	480,886	565,408	656,694
Term Deposits	610,529	753,053	856,189	994,422
Total Deposits	1,196,849	1,398,597	1,615,450	1,876,268
Upper Tier II Capital	-	5,000	9,000	12,500
Subordinate Debt	19,350	31,948	39,048	46,048
Other Borrowings	66,649	19,489	34,641	40,412
Total Borrowings	85,999	56,437	82,689	98,960
Other liabilities	76,062	64,837	67,250	78,500
Equity	3,153	3,153	3,153	3,153
Reserves	90,611	101,202	113,298	131,420
Total Equity				
Total Liab & Equity	1,452,674	1,624,225	1,881,840	2,188,301

Capital adequacy

	2006	2007	2008E	2009E
Tier I Capital	89,239	96,066	107,307	124,457
Tier II Capital	16,817	36,145	44,958	56,096
Total Capital	106,056	132,211	152,265	180,554
Risk-Weighted Assets	887,230	1,075,762	1,285,576	1,525,534
Tier I Capital (%)	10.1	8.9	8.3	8.2
Tier II Capital (%)	1.9	3.4	3.5	3.7
Capital Adequacy	12.0	12.3	11.8	11.8

Adjusted book value

	2006	2007	2008E	2009E
Book Value (Rs)	288	322	360	418
Equity	93,764	104,355	116,451	134,573
Net Impaired Loans	8,255	12,909	11,556	10,306
Adjusted Equity	87,925	95,189	108,306	127,290
Adjusted Equity to RWAs	9.9	8.8	8.4	8.3
Adjusted BV (Rs)	269	293	335	395

BULK DEALS ON NSE - 25 June 2007

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
EDUCOMP	Educomp Solutions Limited	P R B SECURITIES PRIVATE LTD	BUY	96167	2,329
GDL	Gateway Distriparks Limit	PRISM INTERNATIONAL PVT LTD	BUY	2090000	200
GENUSOVERE	Genus Overseas Electronic	LUCKY SECURITIES PVT LTD	BUY	67701	262
GLODY	Glory Polyfilms Limited	VSF INVESTMENTS PVT LTD	BUY	116000	53
ICRA	ICRA Limited	PRASHANTJAYANTILAL PATEL	BUY	115637	928
NIITLTD	NIIT Limited	CITIGROUP GLOBAL MARKETS MAURITIUS PRIVATE LIMITED	BUY	1572031	951
PAVCI	Panasonic AVC Networks In	SPANK MANAGEMENT SERVICES PVT LTD	BUY	269496	19
POCHIRAJU	Pochiraju Industries Limi	PRASHANTJAYANTILAL PATEL	BUY	670948	28
SADBHAV	Sadbhav Engineering Limit	THE MASTER TRUST BANK OF JAPAN LTD	BUY	200000	575
VAKRANSOFT	Vakrangee Softwares Limit	GOLDMAN SACH INVESTMENT (MAURITIUS)1 LTD	BUY	310664	174
EDUCOMP	Educomp Solutions Limited	P R B SECURITIES PRIVATE LTD	SELL	97067	2,331
GDL	Gateway Distriparks Limit	WINDMILL INTERNATIONAL PTE LIMITED	SELL	1974850	200
GLODY	Glory Polyfilms Limited	VSF INVESTMENTS PVT LTD	SELL	76000	53
ICRA	ICRA Limited	PRASHANTJAYANTILAL PATEL	SELL	114737	926
NIITLTD	NIIT Limited	INTEL CAPITAL(CAYMAN)CORPORATION FDI ACCOUNT	SELL	1603530	951
PAVCI	Panasonic AVC Networks In	SPANK MANAGEMENT SERVICES PVT LTD	SELL	896	19
POCHIRAJU	Pochiraju Industries Limi	PRASHANTJAYANTILAL PATEL	SELL	670948	28
SADBHAV	Sadbhav Engineering Limit	INDRU BHAGWANDAS HINGORANI	SELL	212788	575

Source: NSE

BULK DEALS ON BSE - 25 June 2007

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
526921	21CEN MAN SE	MANMOHAN DAMANI	S	55328.0	37
523269	ADVANI HOT R	FASTTRACK IMPEX PVT LTD	B	50000.0	247
531686	ADVIKLABORT	BETA STOCK BROKERS	B	61047.0	9
532380	BABA ARTS	SANDEEP PATEL	B	100483.0	73
531591	BAMPSL SECUR	MEENAKSHI KRISHNAMURTHY	B	500000.0	1
531591	BAMPSL SECUR	LILAC FARMS PRIVATE LTD	B	1544805.0	1
531591	BAMPSL SECUR	N C JAIN	B	416615.0	1
531591	BAMPSL SECUR	JMP SECURITIES PVT. LTD.	B	478501.0	1
531591	BAMPSL SECUR	PUNEET GARG	B	435000.0	1
531591	BAMPSL SECUR	LILAC FARMS PRIVATE LTD	S	1544805.0	1
531591	BAMPSL SECUR	N C JAIN	S	416615.0	1
531591	BAMPSL SECUR	JMP SECURITIES PVT. LTD.	S	478501.0	1
531591	BAMPSL SECUR	SUNIL KUMAR	S	325000.0	1
531591	BAMPSL SECUR	HEMANT GUPTA	S	399900.0	1
531591	BAMPSL SECUR	POONAM KHANDELWAL	S	1600100.0	1
531591	BAMPSL SECUR	HEMANT KUMAR KHANDELWAL	S	900000.0	1
531719	BHAGIR CHE I	H N DOSHI	B	49226.0	107
531719	BHAGIR CHE I	H N DOSHI	S	51082.0	105
530095	BHAGWAND MET	VISHAL AGARWAL	B	18609.0	6
532845	BHAGWATI BAN	SANDEEP PATEL	B	150000.0	39
590059	BIHARTUBES	ANIL SHARMA	B	32497.0	122
590059	BIHARTUBES	ANIL SHARMA	S	23347.0	125
530843	CUPID LTD	YOGESH S AMBERKAR	S	77699.0	61
530959	DIANA TEA CO	BANGA BROTHERS PVT LTD	B	210000.0	18
530959	DIANA TEA CO	SREI INFRASTRUCTURE FINANCE LIMITED	S	300000.0	18
532022	FILAT FASH	NAMDEO H MORE	S	123300.0	12
513579	FOUNDRY FUEL	M P VORA SHARE AND SECURITIES P LTD	B	35021.0	7
513579	FOUNDRY FUEL	MUKUND INTERNATIONAL PVT LTD	S	65100.0	7
532767	GAYATRI PROJ	CITIGROUP GLOBAL MARKET MAURITIUS PVT LTD	S	150000.0	305
531137	GEMSTONE INV	ARCADIA SHARE AND STOCK BROKERS P L	B	22000.0	27
531137	GEMSTONE INV	ARCADIA SHARE AND STOCK BROKERS P L	S	22000.0	27
530343	GENUS OVER E	LAND T CAPITAL COMPANY LIMITED	S	98547.0	263
532857	GLORY POLY	SEJAL GOPAL BHAI SHAH	B	185000.0	53
532857	GLORY POLY	SATYANARAYAN AGARWAL	S	183783.0	53
531439	GOLDSTONTEC	VIBRANT CAPITAL AND FIN LTD	B	100000.0	85
531439	GOLDSTONTEC	TIRUPATI TRUST	B	100000.0	86
532414	IKFTECHNO	BHARATSIH GANGASIH VAGHELA	B	3462272.0	8
532414	IKFTECHNO	BHARATSIH GANGASIH VAGHELA	S	3484665.0	8
532414	IKFTECHNO	LOTUS GLOBAL INVESTMENTS LTD AC GDR	S	4500000.0	8
531777	INTELLVIS SO	MONEYCARE FINANCE AND LEASING PRIVATE LIMITED	S	75000.0	139
532745	JRG SECUR	MANISH HARISH THAKKAR	B	86640.0	38
532686	KERNEX MICRO	UTI BANK LTD	S	73279.0	229
532860	NETFL FINCO	HDFC TRUST LTD HDFC EQ FU	S	85000.0	38
500304	NIIT LTD	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. S.V.	B	568460.0	951
500304	NIIT LTD	INTEL CAPITAL CAYMAN CORP FDI AC	S	584470.0	951
532854	NITIN FIRE	MBL AND COMPANY LIMITED	B	76919.0	430
532854	NITIN FIRE	MBL AND COMPANY LIMITED	S	76919.0	430
512481	POLYTEX(P)	SADHANA P. KARIYA	B	10000.0	6
512481	POLYTEX(P)	CHANDNI NIRMAL MALHOTRA	S	10000.0	6
530069	PROTO INFOSY	S S PAWAR	B	175000.0	4
530069	PROTO INFOSY	KAILASH PRASAD	S	275000.0	4
532710	SADBHAV ENGG	THE MASTER TRUST BANK OF JAPAN LIMITED	B	150000.0	575
532710	SADBHAV ENGG	INTIME SPECTRUM SECURITIES LTD.	S	90000.0	575
532710	SADBHAV ENGG	PEGASUS STOCK AND SHARES PVT LTD	S	108629.0	575
526137	SHETRON LIM	SUN INVESTMENT AND TRADING PVT LTD	S	32540.0	61
532323	SHIVA CEMENT	VISHWAS SECURITIES LTD	B	596948.0	9
532323	SHIVA CEMENT	VISHWAS SECURITIES	S	629527.0	9
512048	SPLASH MEDIA	POONAM CHOPRA	S	11500.0	110
532738	TANTIA CONS	PRISM IMPEX PVT LTD	B	140000.0	113
532738	TANTIA CONS	PRISM IMPEX PVT LTD	S	186141.0	113
531774	TRIPEX OVER	ANKIT NARENDRA BAHUVA	B	44281.0	24
531774	TRIPEX OVER	SHIVKUMAR AGARWAL	B	46735.0	24
531774	TRIPEX OVER	SHAHRA SECURITIES PVT. LTD.	S	50000.0	24
531774	TRIPEX OVER	ANKIT NARENDRA BAHUVA	B	44281.0	24
531774	TRIPEX OVER	SHIVKUMAR AGARWAL	S	100000.0	24
511431	VAKRAN SOFTW	JMP SECURITIES PVT. LTD.	B	102144.0	171
511431	VAKRAN SOFTW	GOLDMAN SACHS INV MAU 1 LTD	B	407272.0	174
511431	VAKRAN SOFTW	JMP SECURITIES PVT. LTD.	S	174198.0	172
511431	VAKRAN SOFTW	NEWTREE TRADING CO PVT LTD	S	100000.0	176
523628	WEAROLOGY LT	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. S.V.	B	296847.0	250
523628	WEAROLOGY LT	PODDAR INFRASTRUCTURE LTD	S	300000.0	250

Source: BSE

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Stock Ratings		Absolute Returns		Stock Ratings		Absolute Returns
Buy	:	> 25%		Market Performer	:	0 - 15%
Out Performer	:	16 - 25%		Under Performer	:	< 0%

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