

IPO Note

Issue Opens	13 th December'10
Issue Closes (QIBs)	15 th December'10
Issue Closes (Retail)	16 th December'10
Equity Shares Offered (In Mn)	40
Face Value (INR)	10
Price Band (INR)	113-120
Discount to Retail (%)	5%
Issue Size (In INR Bn)	4.52-4.80
Lot Size	50 Equity shares
Issue Type	Book Building
Listing	BSE & NSE
IPO Grading	CARE 4/5
Fundamentals	Above average
BRLMs	SBI Cap, Enam Securities, ICICI Securities
Registrar	Link Intime

Company background

Punjab & Sind Bank is a major bank in Northern India. Of its almost 926 branches and offices spread throughout India, almost 402 are in Punjab state, though the bank's corporate headquarters is in New Delhi. In 1908, leading figures such as Bhai Vir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh founded Punjab & Sind Bank to help the weaker section of the society in their economic endeavors to raise their standard of life. In 1980 Punjab & Sind Bank was among six banks that the Government of India nationalized in the second wave of nationalizations. (The first wave had been in 1969 when the government nationalized the top 14 banks.) At some point in the 1970s Punjab & Sind Bank established a branch in London. In 1991 Bank of Baroda acquired Punjab & Sind Bank's London branch.

Objectives of the Issue

Punjab & Sind Bank plans to augment its capital base to meet the future capital requirements arising out of the growth in its assets due to the growth of the Indian economy and for other general corporate purposes including meeting the expenses of the Issue. However, the company will not receive any proceeds from the Offer for Sale. A summary of P&S's objectives to utilize the funds from issue is as follows:

- Augment the Capital Base
- Meeting future Capital Requirements
- Meeting Fresh Issue Related Expenses

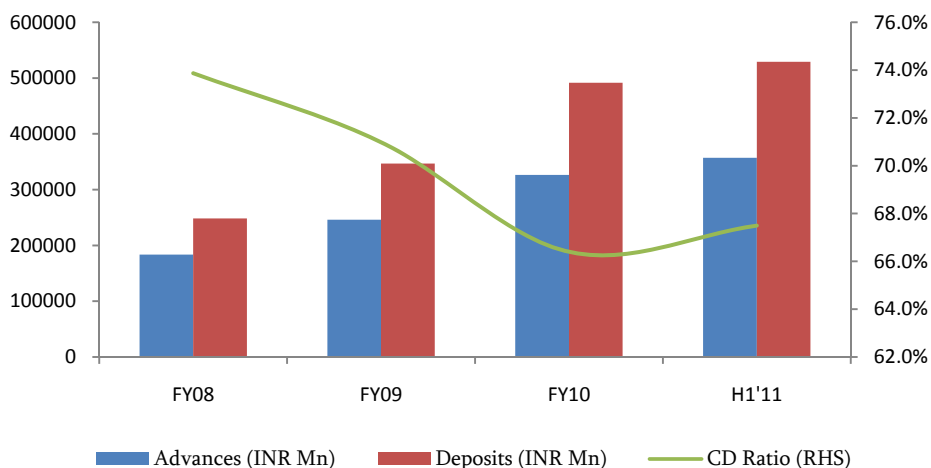
Issue Structure

(In Shares Mn)

Issue Size	40	
Fresh Issue	40	
Offer for Sale	0	
Net Issue	40	
Face Value	10	
Break up of Net Issue		
QIBs (upto)	19	
Non-Institutional Bidders (Minimum)	5.7	
Retail Individual Bidders (upto)	15.3	
Lower Price Band	113.00	
Upper Price Band	120.00	
Diluted BVPS 2010*	118.2	
P/BV Lower PB	0.96	
P/BV Upper PB	1.02	
Shareholders	Pre Issue (%)	Post Issue (%)
Promoters	100	82.07
Public & Employees	0	17.93

Key highlights

Credit Growth: The bank's loan book has grown at a CAGR of 38.2% over the last 5 years, which is way above the industry growth rate. Even in H1FY11 the bank's advances have grown at 24% despite subdued performance by the rest of the industry. The bank's CD ratio has improved from 53.4% in FY06 to 67.5% in H1FY11. The management is confident of maintaining this above average growth rate for the next year or two.



Source: RHP, Microsec Research

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S. No:	Industrial Sector	Amount Outstanding as of September 30, 2010 (₹ in crore)	% to total funded exposure
1.	Infrastructure	7,525.37	20.96
2.	Real estate	5,852.29	16.30
3.	Textile	1,122.33	3.13
4.	Iron & Steel	1,019.89	2.84
5.	Petroleum	118.44	0.33
	Total	15,638.32	43.56

P&SB's credit rose 1.5-1.75 times industry growth. Now the management is expected to grow the loan book by 1.2-1.25 times. Much of the credit growth will be funded by low-cost deposits. The moderation of credit growth aims at improving the quality of the loan book.

(₹ in Crore)

	As of March 31, 2008		As of March 31, 2009		As of March 31, 2010		As of September 30, 2010	
	Amount	%	Amount	%	Amount	%	Amount	%
Retail	3,709.80	20.15	3,744.36	15.16	4,974.86	15.20	5,487.46	15.29
Corporate	9,313.24	50.59	13,319.51	53.93	16,843.47	51.45	20,327.62	56.63
Others (including priority sector)	5,385.97	29.26	7,634.23	30.91	10,920.34	33.36	10,080.89	28.08
Total	18,409.01	100.00	24,698.10	100.00	32,738.67	100.00	35,895.97	100.00

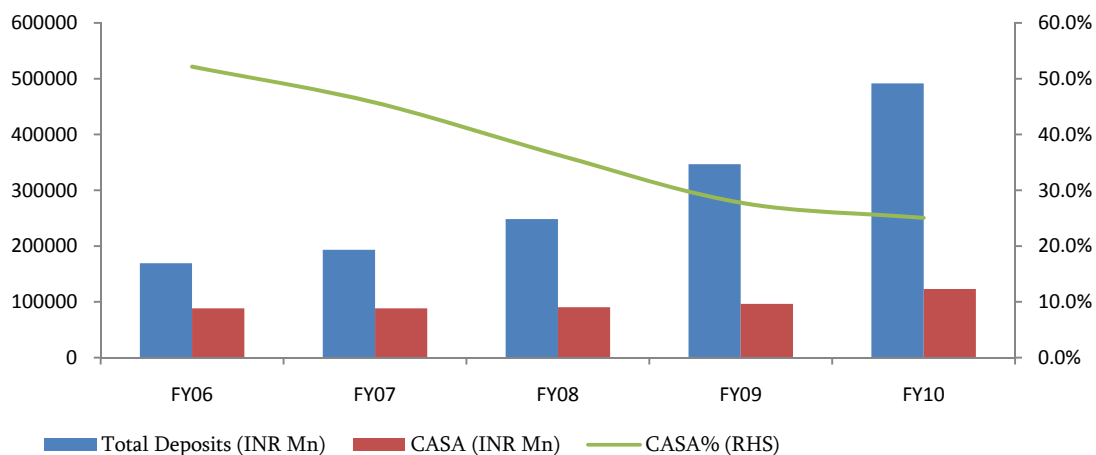
(₹ in crore)

Schemes	As of March 31, 2008		As of March 31, 2009		As of March 31, 2010		As of September, 2010	
	Amount outstanding in ₹ crore	% of total outstanding	Amount outstanding in ₹ crore	% of total outstanding	Amount outstanding in ₹ crore	% of total outstanding	Amount outstanding in ₹ crore	% of total outstanding
Retail Loan								
Housing finance	2,205.18	59.44	2,448.60	65.39	3,591.52	72.19	3,892.78	70.94
Vehicle loans	376.88	10.16	313.92	8.38	278.53	5.60	235.90	4.30
Personal loans	979.72	26.41	802.69	21.44	900.81	18.11	1,144.31	20.85
Education loans	148.02	3.99	179.15	4.78	204.00	4.10	214.47	3.91
Total	3,709.80	100.00	3,744.36	100.00	4,974.86	100.00	5,487.46	100.00

Source: RHP

Deposit mix has deteriorated, however more focus on CASA growth encouraging

The bank's deposits have also grown at a steady rate, 30.5%, but most of the growth has been led by term deposits. The CASA ratio has come down over the years quite significantly hurting the bank's NIMs. The CASA ratio has come from 52.1% in FY06 to 25% in FY10. The NIM has come down from 3.54% in FY08 to 2.67% in FY10. The bank plans to expand its presence across the country, open specialized branches for high net worth individuals and set up off-site ATMs which may boost the NIMs going forward.



Source: RHP, Microsec Research

The bank plans to open 100 branches this fiscal out of which only 10 have been opened till now. By March 2011, 90 more branches in Tier II to Tier VI cities will be opened.

The bank expects its capital adequacy ratio (CAR) to increase to over 15 per cent after raising INR 480 crore through its initial public offer (IPO).

Asset Quality

The bank, which was saddled with bad loans of 8.11% of its loan assets and ran up losses of close to INR 1000 Mn in 2005, was under RBI vigilance and restricted from opening new branches due to its poor performance. After a steady turnaround, the bank has now reported a net profit of INR 5060 Mn and has seen its NPA dip to 0.36% for March 2010.

The bank is maintaining provisioning coverage ratio of 86.83% as on September 30, 2010 which is well above of RBI's guidelines of 70%. It has also technically written off accounts of the value of 2.75 crore as on September 30, 2010. The bank's high coverage level lend strength to its P&L in FY12.

Fee based Income

The bank is looking to increase its high margin fee-based income by expanding the third party product offerings and by increasing fee-based services. It has entered into an agreement with UTI AMC for the distribution of mutual fund products. The bank also markets and sells the life insurance products of Aviva Life Insurance Company India Private Limited and general insurance products of Bajaj Allianz in conjunction with certain of its savings account and term deposit products.

Technology adoption for building a cost efficient distribution network

P&S Bank is among the few banks whose operations are not completely focused on core banking solutions (CBS). This is partly because Satyam was the IT partner and after Satyam went down, the project came to a standstill. The bank has now appointed Wipro and Infosys for its CBS and 17 branches are on the CBS fold. It seeks to bring up to 500 branches on the CBS platform by November 2012. It also recently joined the NFS in order to link ATMs with the ATMs of other banks. However aggressive roll out may increase the cost for the bank in near term which may impact the net profit margin.

Risks

Exposure to Real Estate & Mortgage market above average

P&S Bank has exposure to real estate and mortgage market to the tune of 17% & 11% of its total advances respectively as on Sep'10. With RBI becoming stringent on housing loan where it had said in the last policy meet that for all loans above INR 75 lakhs, the risk weightage has been increased to 125 bps from the present 100 bps. This mean higher capital requirement for the banks. RBI had also said that the provision for the teaser loans would go up sharply from a mere 0.4% currently to 2% post this policy. This would mean more provisioning on the bank's part. However the bank has very limited exposure to commercial real estate and micro-finance sector, which is a relief.

Volatility in the investment book

The duration of the trading book is high, hence we expect, volatility in the investment book. Government bond yields are expected to move up in the coming weeks on fears of inflation, supply and liquidity. Yields rose 10-15 basis points last week, despite a successful auction of FII debt limits. 10-year benchmark yields closed the week at two-year highs of 8.16%. However recent govt held auctioning makes the bond yields cool down a bit, but near term volatility to persist.

Securities	As of March 31, 2008		As of March 31, 2009		As of March 31, 2010		As of September 30, 2010	
	Amount in ₹ crore	%	Amount in ₹ crore	%	Amount in ₹ crore	%	Amount in ₹ crore	%
Held to Maturity (HTM)	6,071.39	71.22	8,654.99	68.38	11,771.49	65.45	12,442.18	72.07
Available for Sale (AFS)	2,453.53	28.78	3,976.10	31.42	6,215.17	34.55	4,791.97	27.76
Held for Trading (HFT)	-	-	25.34	0.20	-	-	29.89	0.17
Total	8,524.92	100.00	12,656.43	100.00	17,986.66	100.00	17,264.04	100.00
Yield	7.37	--	7.40	--	6.88	--	6.83	--
Modified Duration HFT	-	-	5.30	--	-	-	6.46	-
Modified Duration HTM	6.55	--	6.18	--	7.00	--	6.84	--
Modified Duration AFS	2.66	--	3.35	--	3.25	--	3.11	--

Source: RHP

Increased provisions for 2nd pension liability

Meanwhile, the bank has not made any provision for second pension liability, which is expected to be in the range of Rs 600-700 crore, which if made will make bank's bottomline's growth subdued. However recently RBI has asked ICAI for giving its suggestions with respect to amortization of total liability of second option pension upto March'2013.

Valuation & Recommendation

The last PSU Bank to listed before this issue was Central Bank of India & United Bank of India, which was issued at P/BV of 1 in FY08 and 1.07 in FY10 respectively, when the equity markets were still running strong.

Given P&S Bank's attractive discount to peers, we recommend a **SUBSCRIBE** to this issue. While we do not expect similar kind of listing gains for P&S Bank like Central Bank, we anticipate marginal listing gains and a longer term appreciation in the stock price as the bank improves its NIMs and return ratios. We feel that the bank is on the right track to improve its Pan India coverage and size, but we are waiting for clarity on the management's strategy and plans for the bank.

At the upper price band of Rs. 120, fresh issue is being made at book value, which stood at INR. 119.20 as of 30-09-10. Considering expected EPS of around INR 23.4 (Post Issue) for FY11, the PE multiple works out to 5.13 times, again very attractive.

Now if we give the average book value multiple (FY11 expected earnings) of its peers i.e. 1.2x to its FY'11 Adjusted book value of INR 119, the price target on the basis of relative valuation comes at INR 143 (time horizon 6 months).

In a market scenario like the current one, investors looking for quicker profits are likely to focus on outperforming PSBs, if they are willing now to bet on this sector at all. Still, on attractive valuations, the downsides in Punjab & Sind Bank IPO is almost nil, even though upsides might take its own course as the dust settles down and management delivers on their promises.

Peer Analysis

Company Name	Earnings	Adjusted	Cost					Current		P/E (FY12 e)						
	Per Share FY10(Rs)	Book Value FY10(Rs.)	NIM(%)	ROA(%)	ROE(%)	Income Ratio	Total CAR (Basel II)	Credit/De posits(%)	CASA (%)		Net NPAs (%)	Price / Book Value(x) (FY11 e)	P/BV (FY12 e)	Current P/E(FY11 e)		
Oriental Bank Of Commerce	45.3	328.8	2.12	0.91	16.48	41.05	12.54	69.43	24.97	0.87	1.18	1.15	1.1	8.54	7.43	6.46
Punjab & Sind Bank	27.65	104.2	2.67	1.05	29.4	45.01	13.02	66.4	25.04	0.36	1.02 *	NA	NA	5.13 *	NA	NA
Syndicate Bank	15.6	81.6	1.97	0.6	16.57	52.05	12.7	77.25	31.23	1.07	1.5	1.34	1.25	8.01	6.97	6.06
UCO Bank	18.4	73.9	1.69	0.81	31.6	48.16	13.21	67.4	24.65	1.17	1.7	1.43	1.3	6.85	5.95	5.18
United Bank of India	10.4	106	1.81	0.47	11.43	55.08	12.8	62.09	38.11	1.84	1.03	0.95	0.87	10.5	9.11	7.92

Prices as on 8th September'10

* @ 120 per share on FY11's annualized earnings

Source: RHP, Microsec Research

Income Statement				
in Mn	FY08	FY09	FY10	H1'11
Interest earned	22193	32471	39341	23066
Interest expense	14335	22351	27502	15260.2
NII	7858	10120	11839	7805.8
Growth%		28.8%	17.0%	
Other Income	3091	3835	3921	2249.5
Total Income	10949	13955	15760	10055.3
Growth%		27.5%	12.9%	
Operational expense	5583	6737	6996	5141.3
Gross Profit (ppp- Pre Provision Profit)	5366	7218	8764	4914
Provisions	797	828	2111	1129
PBT	4569	6390	6653	3785
Tax	548	2086	1593	1179
PAT	4021	4304	5060	2606
Growth%		7.0%	17.6%	
EPS	21.97	23.52	27.65	14.24 *
RoE%	28.8	29.1	29.4	13.52 *
RoA%	1.52	1.25	1.05	0.49 *
CAR%	14	14.2	13.02	13.04
NIM%	3.54	3.24	2.67	1.5 *
GNPA%	0.74	0.65	0.63	0.92
NNPA%	0.37	0.32	0.36	0.44
Business per employee	46.7	65.6	96.3	104.6
Growth%		40.5%	46.8%	
Balance Sheet				
in Mn	FY08	FY09	FY10	H1'11
Liabilities				
Equity Capital	7431	3830.6	3830.6	3830.6
Reserve & Surplus	13502	17573	22325	24786
Networth	20933	21403.6	26155.6	28616.6
Deposits	248314	346756	491551	529140
Borrowings	29767	25115	22,310	20,060
Other Liabilities	10478	20363	26631	10085
Total	309492	413637.6	566647.6	587901.6
Assets				
Fixed Asset	5689	5557	5389	5339
Cash & balances with RBI	19551	19571	37883	40636
Balances with banks & Call money	9848	8834	9671	4220
Investments	84736	126274	176686	172208
Advances	183433	246153	326391	357147
Other Assets	6234	7248	8447	8647
Total	309491	413637	564467	587901.6
Book Value	20.8	23.5	104.2	119.2

* Not annualized Source: RHP

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