

Issue details	
Issue opens	13-Dec-10
Issue closes	16-Dec-10
Price band (Rs)	113-120
Face value (Rs)	10
Issue size ('mn nos)	40
Issue size (Rs bn)*	4.29-4.56
Mcap @ lower-Upper (Rs bn)	25.2-26.8
Issue type	100% Book building
Minimum bid	50
IPO grading – Care	4/5
Industry	Banking

*Considering 5% discount to retail and employees

Shareholding pattern (%)		
	Pre IPO	Post IPO
Promoters & promoters group	100	82.1
Public	-	17.9

Share reservation (%)	
QIB	50
Non institutional	15
Employees*	5
Retail*	30

*Retail and employees will be given a 5% discount on final price

Company management	
Mr. P.K.Anand	Exec. Director
Mr. H.P.Singh	Gen. Manager
Mr. Gurchara Singh	Gen. Manager

Issue manager	
Lead manger	SBI Cap, Enam & ICICI Securities
Registrar	Link Intime India Pvt Ltd
Listing	NSE, BSE

Objective of issues	(Rs)
Augment capital base to meet the capital adequacy norms for future capital requirements and the growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy, and for the other general corporate purposes	(x)
Total	(X)

Punjab & Sind Bank (PSB), with 926 branches is predominantly present in North and Central India. Its key strengths are: a) amongst the lowest NPAs in the PSU space (GNPA <1%), b) adequate capital (CAR at 13%), c) strong GoI holding (82% post dilution) and d) healthy returns ratio (avg RoE/RoA at 22%/1.0%). The geographical concentration (~78% of loans and deposits both) in North India including Punjab however has capped its loan-deposit ratio. With 9% YTD growth in its loan book, the bank is focusing on increasing the share of Retail and MSME portfolios. The capital restructuring done in late 2008 has enhanced book value of the bank to Rs111, translating into a valuation of 1.0x-1.1x trailing P/BV at the IPO price band.

Strong presence in agri-rich Punjab

PSB has established a rich presence in the agri-dominated state of Punjab. A lead bank in three districts of Punjab (Ludhiana, Faridkot and Moga), PSB operates through 402 branches. Cumulatively, Punjab accounts for ~16% of PSB's total loans and ~24% of total deposits. Strong agricultural business and penetration in rural areas of North India has helped bank improve its priority sector exposure.

Minimal concerns on asset quality; PCR comfortable

Stringent provisioning norms and various recovery mechanisms (OTS, out of court settlement and SARFAESI Act) has enabled PSB to significantly reduce its GNPA from high of 8.4% in FY05 to 0.63% as at end FY10. GNPA from the real estate sector however remained high at 23%. With restructured loan portfolio at 2.8%, the bank's PCR remains significantly higher at 87%.

Adequately capitalised; attractive valuations. SUBSCRIBE.

With CAR at 13%, PSB is well poised for a brisk balance sheet growth. Further, tie-ups with Aviva (for life insurance), Bajaj Allianz (for general insurance) and UTI MF (distribution of mutual fund product) should shore up its fee based income. While uncertainties over fresh pension liability remains; strong GoI parentage, dominant presence in North India, particularly in Punjab, and healthy returns ratio are the key positives. SUBSCRIBE.

Valuation summary

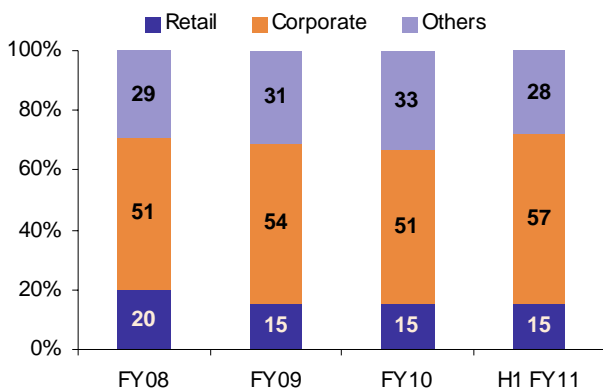
Y/e 31 Mar (Rs m)	FY08	FY09	FY10	H1FY11
Total operating income	10,949	13,954	15,761	9,969
yoy growth (%)	14.1	27.4	12.9	-
Operating profit (pre-provisions)	5,176	7,281	8,680	5,126
Net profit	3,896	4,344	5,011	2,764
yoy growth (%)	(0.2)	11.5	15.4	-
EPS (Rs)	5.2	23.7	27.4	15.1
Adj. BVPS (Rs)	19.9	73.1	97.8	110.7
P/E (x) (Lower price band)	21.6	4.8	4.1	7.5
P/E (x) (Upper price band)	22.9	5.1	4.4	7.9
P/BV (x) (Lower price band)	5.7	1.5	1.2	1.0
P/BV (x) (Upper price band)	6.0	1.6	1.2	1.1
ROE (%)	22.6	21.7	23.2	13.5
CAR (%)	11.8	14.3	13.0	13.0
Tier I (%)	8.3	8.4	7.6	8.0

Source: Company, India Infoline Research

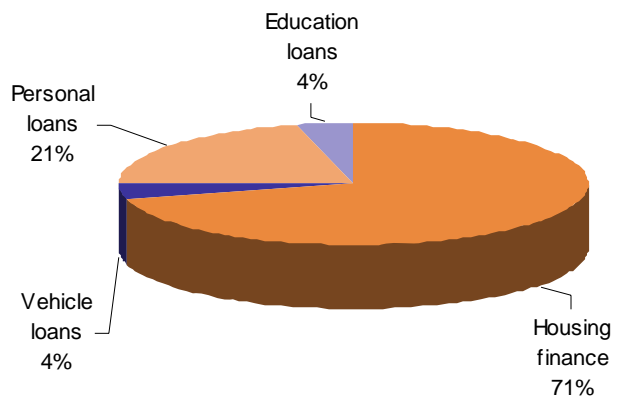
Healthy loan CAGR; mix skewed towards corporates

PSB has outpaced the system loan growth, with loan book witnessing healthy 41% CAGR over FY07-10. This growth in loan book was led by sturdy rise in corporate loans which constituted >50% of book. Amongst corporate loans – Infra (18%), Real estate (17%), Textile (3%) and Iron & steel (3%) have the highest fund based exposure. In Retail (15% of book), >70% of exposure is towards home loans. With a view to increase its presence in Retail and MSME segments, the bank has set up 49 branches, catering primarily to the need of agricultural, personal and MSME segments.

Loan book breakdown – exposure primarily towards corporate segment



>70% of retail book towards home loans (H1 FY11)



Source: Company RHP, India Infoline Research

Excess reliance on term deposits; LDR at <70% levels

Healthy loan growth in the past and geographical concentration in North and Central India resulted in increasing reliance on term deposits. With 52% CAGR in term deposits over FY07-10 (37% CAGR in total deposits), CASA ratio for the bank declined to 25%. Also LDR has remained in the narrow range of 65-74% for the past few years. While <2% of the existing branch network is on a CBS platform, the bank plans to extend the same to 53% of network by end-2012.

>85% of branches are in North and Central India

PSB is predominantly present in North and Central India, with rich presence in Punjab. Of the 926 branches as at end H1 FY11, 627 branches (68%) are in North India and accounted for 54% of total deposits and 62% of advances, respectively for the bank. LDR during H1FY11 remained high at 78%. With 402 branches in Punjab (43% of total branch network), deposits/loans from these branches constituted 24%/16% of total business. LDR, however, remained low at 44%. Going forward, the bank plans to expand its reach in North India. (30% of incremental branches)

Capital restructuring boosts book value

PSB undertook a capital restructuring exercise during FY09. Accordingly, the equity base of the bank was dividend into Equity capital (Rs1.83bn), innovative perpetual debt instrument (Rs1.6bn) and perpetual cumulative preference share (Rs2bn) eligible as Tier I capital and Rs2bn of Perpetual non-cumulative preference shares (as Tier II) carrying a annual floating coupon rate benchmarked to the RBI repo rate.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY07	FY08	FY09	FY10
Interest inc	16,917	22,193	32,472	39,342
Interest exp.	(9,599)	(14,335)	(22,353)	(27,502)
Net interest inc.	7,318	7,858	10,119	11,839
Non-interest inc.	2,277	3,091	3,835	3,921
Total op inc.	9,595	10,949	13,954	15,761
Total op exp.	(4,972)	(5,773)	(6,673)	(7,081)
Op profit (pre-prov)	4,624	5,176	7,281	8,680
Total prov.	(671)	(797)	(829)	(2,104)
Profit before tax	3,953	4,379	6,452	6,576
Taxes	(50)	(483)	(2,108)	(1,565)
Net profit	3,903	3,896	4,344	5,011

Balance sheet

Y/e 31 Mar (Rs m)	FY07	FY08	FY09	FY10
Total cash & equ.	26,477	29,399	28,404	47,553
Investments	66,931	84,736	126,274	178,868
Advances	117,212	183,433	246,154	326,391
Total int-earn. Ass.	210,620	297,568	400,832	552,813
Fixed assets	353	399	509	527
Other assets	6,075	6,012	6,445	7,656
Total assets	217,047	303,980	407,786	560,996
Net worth	11,566	15,461	16,172	21,066
Deposits	193,188	248,314	346,757	491,551
Borrowings	5,901	33,567	36,065	37,011
Total int-bear. liabs	199,088	281,881	382,821	528,561
Other non-int-bea. liabs	6,393	6,638	8,793	11,369
Total liabilities	205,481	288,519	391,614	539,930
Equity + Total liab.	217,047	303,980	407,786	560,996

Key ratios

Y/e 31 Mar	FY07	FY08	FY09	FY10
Growth matrix (%)				
Net interest income	22.1	7.4	28.8	17.0
Total op income	30.9	14.1	27.4	12.9
Op profit (pre-provision)	79.9	12.0	40.7	19.2
Net profit	36.6	(0.2)	11.5	15.4
Advances	31.2	56.5	34.2	32.6
Deposits	14.1	28.5	39.6	41.8
Total assets	16.8	40.1	34.1	37.6

Profitability Ratios (%)

NIM	3.7	3.1	2.9	2.5
Non-int inc/Total inc	23.7	28.2	27.5	24.9
Return on Avg Equity	32.6	22.6	21.7	23.2
Return on Avg Assets	1.9	1.5	1.2	1.0

Per share ratios (Rs)

EPS	5.3	5.2	23.7	27.4
Adj. BVPS	14.5	19.9	73.1	97.8

Other key ratios (%)

Credit/Deposits	60.7	73.9	71.0	66.4
Cost/Income	51.8	52.7	47.8	44.9
CASA	45.7	36.3	27.8	25.0
Tax rate	1.3	11.0	32.7	35.0

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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