

Punjab & Sind Bank

Issue highlights

- **Punjab & Sind Bank (PSB)** is a nationalized bank with **predominant exposure to North India**. PSB acts as the lead banker in 3 districts of Punjab i.e., **Ludhiana, Faridkot and Mogait**. PSB currently operates approx. **926 branches and has 63 owned ATM's** and access to more than 50,000 ATMs across the country for its customers.
- PSB's has significantly **improved its operational and efficiency metrics** over the last 5 years. For instance, bank successfully lowered its NPA levels from record high of 8.4% in FY 05 to 0.36% in FY 10. CAR stands healthy at **13.04%** whereas **business per employee** has improved from **Rs 4.67 cr in FY 08 to Rs 9.63 cr in FY 10**.
- PSB is planning to broaden its **product base and service offering to its clients**. For instance; PSB proposes to roll out internet banking systems, **mobile banking, install new ATMs**, provide clients **loan syndication**, and higher focus on **high margin agency and distribution agreements** amongst others. All these measures are expected to augment growth and profitability going forward.
- PSB has achieved stellar financial performance in previous fiscals. The bank has registered a **CAGR of 21.1% in net total income, 35.6% in operating income and 15.1% in net profit** over the period 2006-2010.
- CARE has graded **4/5 for the PSB IPO** indicating that the fundamentals are above average relative to other listed equity securities in India.

Objects of the issue

(Rs cr)

Objects	Amount
Augment capital base to meet the capital adequacy norms for future capital requirements and the growth in assets	[•]

Financial summary

Period ended	Net Interest Income (Rs Cr)	Net interest Margin (%)	Operating Income (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	Tier I Capital (%)	Total Capital Ratio (%)	ROE (%)	BV per share
FY 2008	785.8	3.5	517.6	389.6	5.24	8.25	11.79	28.83	21
FY 2009	1,011.8	3.2	728.1	434.4	7.15	8.36	14.27	29.10	78
FY 2010	1,184.0	2.7	868.0	501.1	26.70	7.61	13.02	29.41	105
1H FY 11	780.6	1.5*	491.4	260.6	15.10*	7.98	13.04	13.52	128^

Source: RHP; * Not annualized; ^ Post issue BV has been considered

Issue highlights

Issue size: Rs 452--480 cr
No. of shares : 4,00,00,000 shares

Issue summary

Price band: Rs 113--120 per share*

Issue opens: Dec 13, 2010

Issue closes: Dec 16, 2010

Bid Lot : 50 shares

Lead managers: ENAM Securities, SBI Capital, ICICI Securities

Registrar: Link Intime India Pvt. Ltd.

*Retail investors are entitled to 5% discount on issue price

Major Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Group	100%	82.07%
Public	[•]	17.93%

	Pre issue	Post issue
No of shares (in crs)	18.31	22.31

Issue break-up (Net of employee reservation)

Reservation for	Shares (in crs)	% of Issue
QIB	1.9	50
Non-Institutional	0.57	15
Retail	1.33	35

Company may allocate up to 30% of the QIB Portion, to Anchor Investors on a discretionary basis one day before Bid Opening Date.

^ 20 lakh shares reserved for employees

BACKGROUND

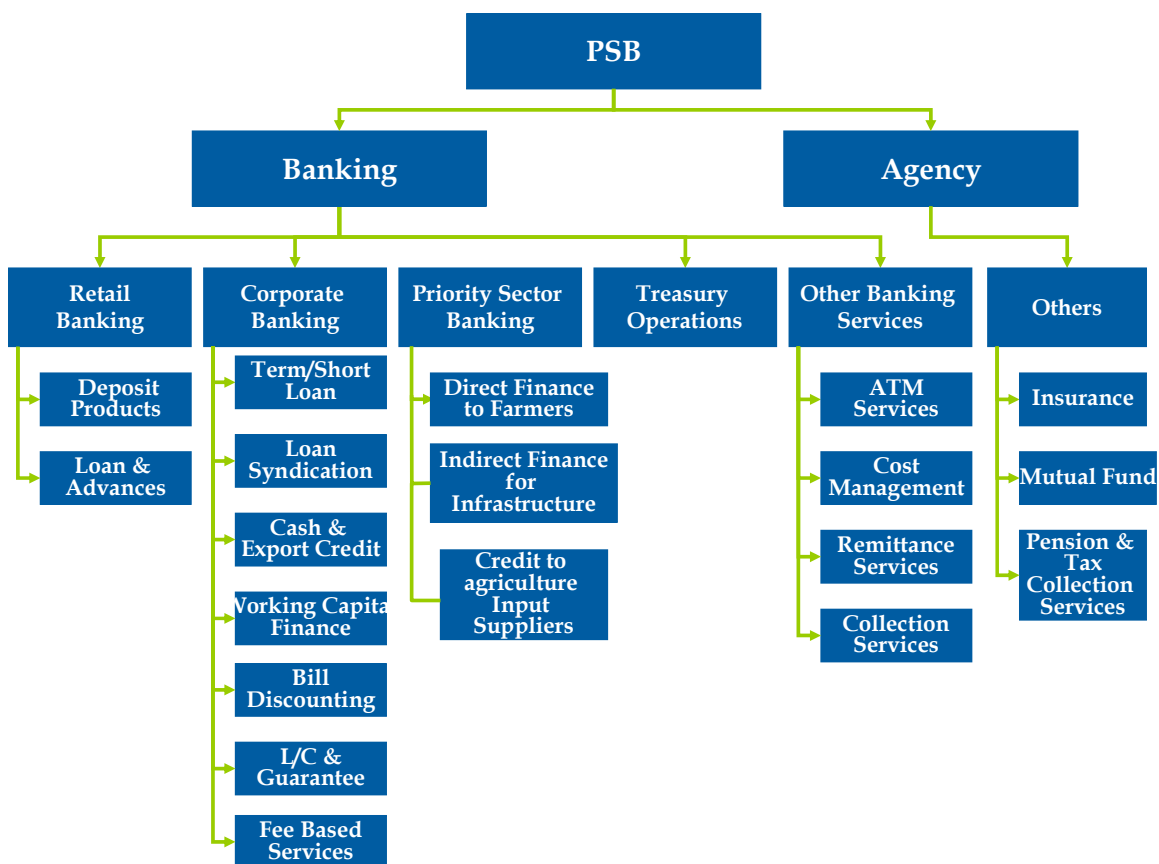
Company and promoters

Incorporated in June 1908; Punjab & Sind Bank (PSB) is one of the 6 banks nationalized by the GoI in 1980. PSB's network comprises of **926 branches and 63 ATM's** with an employee base of approx. 8,116. **PSB's total capital ratio as on FY 10 was 13.1% and its Tier 1 capital ratio was 8.0%.**

PSB being a public sector enterprise will continue to be under administrative control of GoI even post issue of equity shares. Backed by the GoI; investors get a sense of security and assurance in terms of long term sustainability of the company.

BUSINESS OVERVIEW

PSB's business revolves around banking operations and agency functions;



Retail Banking:

PSB offers a full range of current, savings and term deposits to its retail customers with a **total deposit base of Rs 52,945 cr on Sept 2010.**

PSB has identified the growth of loans and advances to the retail sector as a priority initiative in the past few years. **As of March 2010, total outstanding retail loans were Rs 5,487 cr which represented 15.3% of total outstanding loans and advances.**

The Bank offers **housing finance for loans up to Rs 1.5 cr against mortgage of property** to individuals for construction, acquisition, purchase, renovation or repairing of houses.

PSB has also formulated a **Reverse Mortgage Scheme** which allows the senior citizens to make a residential property earn while they continue to live in it. This scheme gives a **regular fixed amount based on the value of the property** which helps the senior citizens to supplement their income and sustain their lifestyle.

PSB also offer personal vehicle loans for purchase of new or pre-owned cars and other vehicles including 2 wheelers. The Bank has signed MoU with **Tata Motors Ltd. on Feb 2010 and with Maruti Suzuki India Ltd on Feb 2009**, for financing commercial vehicles.

PSB also provides for **education loans, personal loans and other services** (for instance recently received approval of the RBI for import of gold and silver under the Foreign Trade Policy 2009-14).

Corporate Banking:

PSB offers a wide array of products and services to corporate clientele which includes;

PSB offers **term loans which are typically secured by the project assets** (which are financed by loan) and personal property, as well as by other assets of the borrower wherever required. Bank also offers **revolving credit facilities secured by working capital assets**, overdrafts, working capital demand loans, working capital term loans and bill discounting facilities. Company also provides loan facilities in foreign currencies to its customers.

PSB also is equipped to offer **export credit, import finance, letter of credit and guarantees** to its clients who are involved in the business of export and import.

As of Sept 2010, total outstanding corporate loans were Rs 20,328 cr which represented 56.6% of total outstanding loans and advances.

Priority Sector Banking:

In consonance with national policies and priorities, as reflected in the guidelines issued by the RBI, PSB is required to lend **at least 40% of its adjusted net bank credit** or credit equivalent to off-balance sheet exposure, whichever is higher to the priority sector, including **at least 18% to the agricultural sector.**

As a measure of commitment to **priority sector lending, over 45% of PSB's branches are located in rural and semi-urban areas.**

Treasury Operations

PSB's treasury department manages its treasury operations on a day-to-day basis subject to supervision. Through treasury operations, **bank manages its funds, invest in debt and equity products and maintain required regulatory reserves.** Company also runs a **proprietary trading book in debt, equity and foreign exchange within the framework of treasury policy.** Treasury operations also include a range of products and services for

corporate customers, such as forward contracts, currency swaps and foreign exchange products and services.

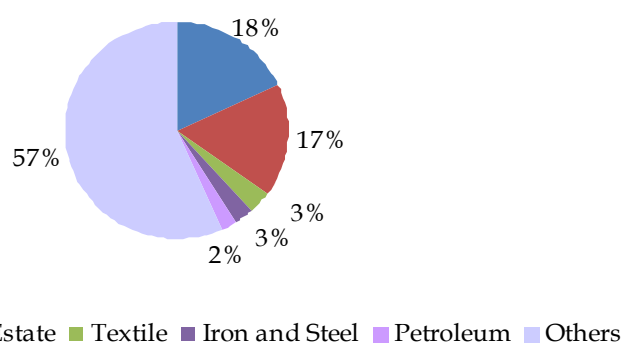
Other Banking Services

PSB has entered into contract agency agreements for distribution of non-life insurance products with **Bajaj Allianz in 2003**, and for distribution of life insurance products with **Aviva LIC India Pvt. Ltd. on Sept 2004**.

Bank has also entered into a distribution agreement in 2005 with **UTI AMC for distribution of mutual fund products**.

Segregation of loans and advances suggest loan diversification across varied industries

FY 10



Key growth and efficiency parameters:

Y/E - March	FY2010	FY2009	FY2008	FY2007	FY2006
Per Share					
EPS	27	24	5	3	1
BV	105	78	21	16	13
Margins (%)					
Cost of Deposit	5.2	6.0	5.4	4.7	3.8
Net Interest Margin	2.7	3.2	3.5		
Asset Quality (%)					
Gross NPAs	0.6	0.7	0.7	2.5	10.3
Net NPAs	0.4	0.3	0.4	0.7	2.4
Provisional Coverage Ratio	89.6	92.8			
Efficiency (%)					
ROA	1.1	1.2	1.5	1.0	0.6
ROE	29	29	28	20	15
Credit/Deposit	68	72	68	58	50
Growth (%)					
Net Interest Income	17	29	2	22	10
Advances	33	34	56	29	44
Deposits	42	40	29	14	19

Source: RHP, Capitaline

Strategy

- **PSB is a mid-sized bank with predominant presence in North India.** Company seeks to **leverage its strong brand recall**, especially in North India, to expand its presence across other geographies in India, including through increasing branch network and distribution infrastructure across India and **cross-selling products at competitive costs, to gain a larger market share in terms of advances as well as deposits.**
- PSB seeks to **increase CASA deposits in order to reduce cost of funds and improve core capital.** In order to attract retail customers and increase CASA deposits, through marketing campaigns and upgrading branch offices company intends to increase its brand recognition. Company also intends to formulate certain incentive schemes to encourage customers to deposit money in current and savings accounts. They have also formed a special cell exclusively for performance review and monitoring of CASA growth. Moreover convenient retail banking services such as the proposed **roll out of CBS, internet banking systems, mobile banking and installation of new ATMs** and the recently completed linking to NFS will attract retail customers.
- In order to **expand corporate banking services, PSB has recently forayed into syndication of loans.** Company believes that with the successful completion of the Issue, company will be able to increase capital funds which will increase exposure limits and attract high quality corporate clients. Company also plans to open **specialized industrial finance branches to focus on project appraisal.** As part of this strategy, PSB will maintain and enhance its franchise in the MSME sector.
- **PSB is focusing on increasing high margin fee-based income** by expanding third party product offerings and by **increasing fee-based services.** Company has entered into several mutual agreements such one with **UTI AMC** for the distribution of mutual fund products; one with **Aviva Life Insurance Co.** to market and sell the life insurance products of and one with **Bajaj Allianz** for general insurance products. Company has also launched in July, 2005 **Western Union Money Transfer service.**
- The key objectives behind IT strategy continue to include building a **cost-efficient distribution network** to accelerate the development of **retail and rural franchise**, enhancing **cross-selling and client segmenting capability** by using analytical tools and efficient data storage and retrieval systems, improving credit and market risk management, improving product and client profitability, and leveraging technology competencies and cost efficiencies.

ISSUE PROFILE

Positives

- **Superior asset quality; stringent risk management & stellar financial performance:**

PSB has experienced robust financial growth over last 5 years. During the last five fiscals, bank has been able to achieve a **CAGR of 36.2% in net advances**. This superior growth was achieved along with a **reduction in net NPA ratio from 8.11% in FY 2005 to 0.36% in FY 2010**. Thus the bank has been able to significantly increase its business operations, while at the same **time improving asset quality**.

RBI's Report titled 'A Profile of Banks 2009-2010'

Particulars	PSB	Group Average of PSU banks	All Bank's average
Return on advances as adjusted to cost of funds (%)	3.85	3.81	4.10
Return on assets (%)	1.05	1.00	1.05
Net NPA ratio (%)	0.36	0.91	1.12
Business per employee (Rs in crs	9.63	9.47	8.73

It is evident from the table above that PSB has outperformed group average of the public sector banks as well as all banks' average for FY 2010 on **several financial and risk management parameters despite currently being much smaller in size than many of the public sector and other banks**. Thus, PSB's turnaround performance and stringent risk management technique is expected to bolster company's financials going forward.

- **Product and service diversification coupled with improved infrastructure to augment growth:**

Although PSB has been present across various business segments; with its aim to geographically diversify and compete aggressively with dominant players; PSB is planning to **broaden its product base and service offering to its clients**. The following are a few of the steps taken;

- 1) PSB proposes to roll out **internet banking systems, mobile banking and install new ATMs**.
- 2) PSB has recently forayed into **syndication of loans**.
- 3) Open **specialized industrial finance branches to focus on project appraisal**.

- 4) **PSB has entered into a MoU dated Sept 2010 with the Unique Identification Authority of India to provide assistance in the implementation of project.**
- 5) Higher focus on agency and distribution agreements and by promoting certain products and services including the **issuance of letters of credit and guarantees and depositary services.**
- 6) From a **total of 17 branches on the CBS platform; PSB seeks to bring up to 500 branches on the CBS platform by Nov 2012.**

Thus, PSB within the periphery of banking business is venturing and offering newer products and services which will augment growth and aid in client acquisition.

- **PSB with its strong branch network and leading banker in North India has huge opportunity to replicate its success pan-India in long term:**

PSB currently operates **approx. 926 branches and 63 ATM's** with a predominant presence in North India. Considering its ATM network isn't currently strong; Management has recently joined the NFS which will allow **access to more than 50,000 ATMs across the country** to its customers. PSB with its **sheer size and wide branch network** can replicate its success in broadening its horizon across regions in India and effectively compete with regional and national players. Moreover, considering its existence is over 100 years; and is the lead banker in 3 districts of Punjab i.e., **Ludhiana, Faridkot and Mogait**. Thus PSB has successfully created a **niche brand** which it can leverage to develop new ties, explore new regions and generate business.

- **Stellar financial performance in previous fiscals**

PSB has achieved stellar financial performance in previous fiscals. The bank has registered a **CAGR of 21.1% in net total income, 35.6% in operating income and 15.1% in net profit** over the period 2006-2010.

Risk factors

- As of July 31, 2010, branches which are located in Punjab constituted 67.72% of total branch network. PSB's concentration in the northern region and specifically in Punjab exposes them to any adverse geological, ecological, economic and/or political circumstances in that region as compared to other public and private sector banks that have more diversified national presence. Any disruption, disturbance or sustained downturn in the economy of Punjab and other north-Indian states could adversely affect business, financial condition and results of operations.
- As at March 31, 2010, housing finance loans, including NRI housing finance loans, represented 10.97% of PSB's total loans outstanding in retail business segment. As of March 31, 2010 the % of NPAs in real estate industry portfolio was 27.65%. PSB's exposure to the real estate segment has witnessed substantial increase in the last 3 fiscal years. Further, pursuant to the Annual Financial Inspection Report by the RBI for FY 2009, company's monitoring of real estate accounts was found to be deficient. Any significant downturn in the real estate sector may lead to an increase in non-performing loans, which may materially and adversely affect PSB's results of operations and financial condition.

INCOME STATEMENT

Y/E - March Fig in Rs Cr	Yearly					
	H1FY11	FY2010	FY2009	FY2008	FY2007	FY2006
Interest income	2306.62	3934.18	3247.17	2219.29	1691.67	1268.57
Interest expended	1526.02	2750.23	2235.31	1433.49	959.86	668.99
Net interest income	780.60	1183.95	1011.86	785.80	731.81	599.58
NII as a % of Net income	78%	75%	73%	72%	76%	82%
Non-Interest Income	224.95	392.13	383.54	309.14	227.71	133.36
Total income	2531.57	4326.31	3630.71	2528.43	1919.38	1401.93
Net total income (3+4)	1005.55	1576.08	1395.40	1094.94	959.52	732.94
Operating expenses	514.13	708.07	667.31	577.30	497.17	475.96
Personnel exp	403.67	538.15	518.86	445.61	380.1	362.63
Other exp	110.46	169.92	148.45	131.69	117.07	113.33
Operating Profit	491.42	868.01	728.09	517.64	462.35	256.98
Provisions & contingencies	112.91	211.10	82.88	79.74	73.36	(15.72)
PBT	378.51	656.91	645.21	437.90	388.99	272.70
Tax	117.91	156.46	210.80	48.32	5.01	(4.18)
Profit after tax	260.60	500.45	434.41	389.58	383.98	276.88
Extra ordinary Item	--	0.69	--	--	6.29	8.8
Reported PAT	260.60	501.14	434.41	389.58	390.27	285.68
NII/ Operating expenses	1.52	1.67	1.52	1.36	1.47	1.26

Source: RHP

BALANCE SHEET

Y/E – March (Fig in Rs Cr)	FY2010	FY2009	FY2008	FY2007	FY2006
Assets					
Cash & Balances with RBI	3,788	1,957	1,955	1,074	834
Investments	17,887	12,627	8,474	6,693	6,956
Advances	32,639	24,615	18,343	11,738	9,107
Fixed Assets	539	556	569	253	284
Other Assets	879	744	623	632	549
Total Assets	56,699	41,382	30,949	21,963	19,043
Liabilities					
Equity Capital	183	183	743	743	743
Reserves & Surplus	2,233	1,757	1,350	663	479
Networth	2,416	1,940	2,093	1,406	1,222
Borrowings	3,701	3,606	2,977	205	0
Deposits	49,155	34,676	24,831	19,319	16,925
<i>Other Liabilities & Provisions</i>	1,227	960	1,048	1,034	896
Total Liabilities	56,699	41,382	30,949	21,963	19,043

Source: RHP

COMPARATIVE ANALYSIS

Company	Total Income	Op. Income	Op. Margin	Net Income	BV (Rs)	P/BV	CMP*
Punjab & Sind Bank ^	4,326.3	868.0	20%	501	116	0.97/1.03	113/120
Andhra Bank	3,159.9	1,046.1	33%	1,050	91	1.60	146.0
Bank of Maharashtra	1,888.3	439.5	23%	440	56	1.13	63.3
Dena Bank	1,663.0	687.3	41%	511	91	1.32	120.0
United Bank of India	5,248.9	410.3	8%	322	106	1.00	106.3

Source: RHP, Capitaline; All figs pertain to FY 10

^ We have considered post issue Book Value per share for comparability

* CMP as on 08 Dec 2010

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