

RESULTS

REVIEW

# Punjab National Bank

Valuation attractive despite concerns

BUY

Analyst

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Nifty: 5,697; Sensex: 19,008

CMP	Rs1,115
Target Price	Rs1,525
Potential Upside/Downside	+37%

## Key Stock Data

Sector	Banking
Bloomberg / Reuters	PNB IN / PNBK.BO
Shares o/s (mn)	315.3
Market cap. (Rs mn)	351,562
Market cap. (US\$ mn)	7,693
3-m daily average vol.	51,717

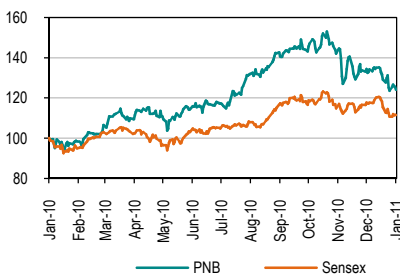
## Price Performance

52-week high/low	Rs1,395/842
	-1m -3m -12m
Absolute (%)	(8) (15) 23
Rel to Sensex (%)	(3) (9) 12

## Shareholding Pattern (%)

Promoters	57.8
FII/IRIs/OCBs/GDR	19.4
MFs/Banks/FIs	17.7
Non Promoter Corporate	1.1
Public & Others	4.0

## Relative to Sensex



Source: Capitaline

## Summary

Punjab National Bank (PNB) reported net profit of Rs10.9 bn - up 8% YoY and 1.4% sequentially - lower than our estimates of Rs11.9 bn due to higher than anticipated provision expenses. However, Net interest income again saw strong growth of 44.8% YoY (8% QoQ) to Rs32 bn. Strong performance in NII was driven by expansion of margins and robust loan growth of 30% YoY. Delinquency ratio remained flat at 1.8% in the quarter, same as Q2FY11. However, lower recoveries have led increase in GNPA ratio (up 12 bps sequentially). RoE and RoA remain amongst the top quartile banks at 22.4% and 1.3% respectively.

Further, bank has increased NPAs provision in the quarter to the tune of Rs5.5 bn as against Rs3.6 bn in Q2FY11 and also provided for pension and gratuity amounting to Rs3.6 bn, due to which profit growth came below our estimation. We cut our EPS estimate for FY11/FY12 by 7%/5% factoring in amortization of pension liability as indicated by the management and 10bps reduction in FY12E NIMs. Further, we also believe that slippages may be higher in coming quarters, but the management is expecting better recoveries and up gradation in the coming quarters, which could arrest GNPA ratio increase. However, PNB's return ratio will continue amongst the top quartile and margin will sustain at 3.7%–3.8% due to its sticky CASA balance. We value the stock at 2x its revised FY12E book value of Rs762 translating to a target price to Rs1,525. Maintain **BUY**.

## Key Highlights

### Strong advances growth

Advances grew 30% YoY (6% QoQ) to Rs2, 212 bn. Loan growth was led by SME portfolio (up 30% YoY) followed by agriculture (25%) and retail (22%). We are estimating 23% loan growth in FY11E.

### Robust NII growth

The bank reported NII of Rs32 bn; up 44.8% YoY and 7.6% sequentially led by expansion in margins coupled with strong credit off take. Margins improved 49bps YoY and 7bps sequentially to 4.13% led by 400bps YoY expansion in CD Ratio. In current rising rate scenario, margins are likely to be under pressure for the entire sector. We are now factoring in 10bps decline in FY12E NIMs to 3.8% from 3.9% in FY11E.

### GNPA ratio hiked by 12bps

Delinquency ratio remained flat sequentially at 1.8%. However, lower recoveries of Rs4.6 bn led to increase in GNPA Ratio at 2.0% as against 1.9% of last quarter. Provision coverage ratio has remained healthy at 77% (including tech. w/off).

### Valuation – Maintain BUY

Based on the aforesaid changes, our revised book value for FY11E/FY12E stands at Rs621/762 (down 1.3%/2%). The stock is currently trading at 1.8x/1.5x on revised FY11E/FY12E Book value. We maintain that due to its robust margin profile and high return ratios, PNB will trade at a premium to other large PSB peers. We value the bank at 2.0x its FY12E book value of Rs762 and revise our target price to Rs1,525. Reiterate **BUY** with an upside of 37%.

## Table: Financial snapshot

Year-end	NII	PAT	EPS	P/E	Div yield	BV	P/BV	ROA	ROE	CAR	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(x)	(%)	(Rs)	(x)	(%)	(%)	(%)	(%)	(%)
FY09	68.3	30.9	98.0	11.4	1.8	413.2	2.7	1.3	22.9	14.0	1.8	0.4
FY10	85.2	39.1	123.9	9.0	1.1	511.4	2.2	1.3	24.1	14.2	1.7	0.6
FY11E	119.9	45.1	142.9	7.8	2.6	620.7	1.8	1.3	23.2	13.4	2.1	0.7
FY12E	139.5	58.2	184.7	6.0	3.3	762.0	1.5	1.3	24.9	12.5	2.0	0.6

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs bn)

Year-end: March	Q3FY11	3QFY10	YoY (%)	Q2FY11	QoQ (%)
<b>Interest Earned</b>	<b>71.2</b>	<b>53.9</b>	<b>32.1</b>	<b>64.6</b>	<b>10.3</b>
- Interest/Discount on Advance/Bills	54.9	41.9	30.9	50.4	9.0
- Income on Investments	14.9	12.8	16.2	14.0	6.8
- Int on RBI bal	0.3	0.2	10.5	0.2	24.8
- Other Interest	1.1	0.0	2,326.7	0.0	4,177.0
Interest Expense	39.2	31.8	23.3	34.8	12.6
<b>Net Interest income</b>	<b>32.0</b>	<b>22.1</b>	<b>44.8</b>	<b>29.8</b>	<b>7.6</b>
Other Income	8.6	8.5	1.1	7.2	19.3
- Fee and Other Income	6.5	6.1	5.4	5.2	25.1
- Trading Income	0.9	1.6	-44.6	0.3	180.6
<b>Net Operating Income (NOI)</b>	<b>40.6</b>	<b>30.6</b>	<b>32.7</b>	<b>36.9</b>	<b>9.9</b>
Operating Expenses	17.1	12.4	37.7	15.9	7.3
- Employee cost	12.2	8.3	46.9	11.1	9.9
- Other Costs	4.9	4.1	19.0	4.8	1.1
<b>Operating Profit</b>	<b>23.5</b>	<b>18.2</b>	<b>29.2</b>	<b>21.0</b>	<b>11.9</b>
Prov for Contingencies	7.1	2.8	153.3	5.2	38.3
- For NPAs	6.6	2.5	161.4	4.4	50.9
<b>PBT</b>	<b>16.4</b>	<b>15.4</b>	<b>6.5</b>	<b>15.8</b>	<b>3.3</b>
TAX	5.5	5.2	4.0	5.1	7.2
<b>PAT</b>	<b>10.9</b>	<b>10.1</b>	<b>7.7</b>	<b>10.7</b>	<b>1.4</b>
Equity	3.2	3.2		3.2	
<b>EPS (Rs)</b>	<b>34.6</b>	<b>32.1</b>		<b>34.1</b>	
CAR	11.9	14.6		14.7	

Source: Company; IDBI Capital Research

Table: Balance sheet

(Rs bn)

Year-end: March	Q3FY11	3QFY10	YoY (%)	Q2FY11	QoQ (%)
Advances	2,212.5	1,704.3	30	2,087.6	6.0
Deposit	2,888.7	2,339.5	23	2,733.9	5.7
CASA (%)	39.1	39.5		40.6	
CD Ratio (%)	77	73		76	
ID Ratio (%)	31	32		32	

Source: Company; IDBI Capital Research

Table: Ratios

(%)

Year-end: March	Q3FY11	3QFY10	YoY (%)	Q2FY11	QoQ (%)
NIMs	4.1	3.6	-	4.1	-
Int. exp/Int earned	55.0	58.9	-	53.9	-
Cost/income ratio	42.1	40.6	-	43.2	-
Gross NPA	2.0	1.8	-	1.9	-
Net NPA	0.7	0.5	-	0.7	-
Provision Coverage	77.2	82.0	-	77.1	-

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY09	FY10	FY11E	FY12E
Interest earned	191.3	214.7	268.6	333.6
Interest expended	123.0	129.4	148.8	194.0
<b>NII</b>	<b>68.3</b>	<b>85.2</b>	<b>119.9</b>	<b>139.5</b>
<b>Other Income</b>	<b>30.6</b>	<b>35.7</b>	<b>35.1</b>	<b>42.6</b>
Fee Based	13.8	16.8	21.9	28.0
Trading & Froex	2.9	3.1	3.8	4.5
Treasury Profit	6.6	8.0	5.3	5.5
<b>Net Opt. Inc. (NOI)</b>	<b>99.0</b>	<b>120.9</b>	<b>155.0</b>	<b>182.1</b>
Employee Cost	29.2	31.2	43.1	46.6
Opt. Expenses	12.8	16.4	19.2	23.0
<b>Opt. Profit</b>	<b>56.9</b>	<b>73.3</b>	<b>92.6</b>	<b>112.5</b>
Provisions	9.2	14.2	24.5	26.8
Profit before tax	47.7	59.0	68.2	85.6
<b>Net Profit</b>	<b>30.9</b>	<b>39.1</b>	<b>45.1</b>	<b>58.2</b>

### Balance Sheet

(Rs bn)

Year-end: March	FY09	FY10	FY11E	FY12E
Capital	3.2	3.2	3.2	3.2
Net Worth	146.5	177.2	211.7	256.3
<b>Deposit</b>	<b>2,097.6</b>	<b>2,493.3</b>	<b>3,067.8</b>	<b>3,894.1</b>
<b>Total Liab. &amp; Equity</b>	<b>2,469.2</b>	<b>2,966.3</b>	<b>3,551.0</b>	<b>4,450.9</b>
Investments	633.9	777.2	982.8	1,215.2
Advances	1,547.0	1,866.0	2,300.9	2,803.7
<b>Total Assets</b>	<b>2,469.1</b>	<b>2,966.3</b>	<b>3,551.0</b>	<b>4,450.9</b>

### Growth

(%)

Year-end: March	FY09	FY10	FY11E	FY12E
Deposits	26.0	18.9	23.0	26.9
Advances	29.5	20.6	23.3	21.9
<b>Total Assets</b>	<b>24.1</b>	<b>20.1</b>	<b>19.7</b>	<b>25.3</b>
NII	23.4	24.8	40.6	16.4
Other Income	53.4	16.3	-1.6	21.3
<b>Net Profit</b>	<b>50.9</b>	<b>26.4</b>	<b>15.4</b>	<b>29.3</b>

### Productivity

Year-end: March	FY09	FY10	FY11E	FY12E
Bus./Employee (mn)	66.5	76.6	92.6	111.6
Profit/Employee ('000)	564.2	686.0	776.9	970.7
Bus./Branch (mn)	781.3	880.5	1,013.0	1,196.0
NP/Branch (mn)	6.6	7.9	8.5	10.4
CASA Per Branch	174.6	205.7	240.2	284.6

### Opt. Ratio

(%)

Year-end: March	FY09	FY10	FY11E	FY12E
Int Exp/Int Earned	64.3	60.3	55.4	58.2
Cost/NOI	42.5	39.4	40.2	38.2
Cost/NOI (Ex. treasury inc.)	45.6	42.2	41.6	39.4
Other Income/NOI	31.0	29.5	22.6	23.4
Ot. Inc. (ex. treasury)/NOI	24.3	22.8	19.2	20.4
<b>NPM</b>	<b>31.2</b>	<b>32.3</b>	<b>29.1</b>	<b>32.0</b>

### Spreads

(%)

Year-end: March	FY09	FY10	FY11E	FY12E
NII/Avg Total Assets	3.1	3.1	3.7	3.5
NII/Avg Int Earning Assets	3.4	3.5	4.0	3.8
<b>NIMs</b>	<b>3.4</b>	<b>3.5</b>	<b>3.9</b>	<b>3.7</b>
<b>CASA</b>	<b>38.8</b>	<b>40.8</b>	<b>41.5</b>	<b>40.9</b>
Avg Int earnings assets	1,997.5	2,459.6	3,016.2	3,706.8
Avg Int bearing liabilities	2,001.4	2,454.1	2,966.6	3,686.3

### Solvency

(%)

Year-end: March	FY09	FY10	FY11E	FY12E
<b>Credit-Deposit Ratio</b>	<b>73.8</b>	<b>74.8</b>	<b>75.0</b>	<b>72.0</b>
Incremental CD Ratio	81.3	80.6	75.7	60.9
Investment/Deposit Ratio	30.2	31.2	32.0	31.2
<b>GNPA Ratio</b>	<b>1.8</b>	<b>1.71</b>	<b>2.13</b>	<b>2.04</b>
<b>Prov. Cover</b>	<b>79.0</b>	<b>67.8</b>	<b>68.5</b>	<b>71.6</b>
NNPA Ratio	0.4	0.55	0.68	0.58
<b>CAR</b>	<b>14.0</b>	<b>14.2</b>	<b>13.4</b>	<b>12.5</b>
Tier 1	9.0	9.1	9.1	8.6
Tier 2	5.1	5.1	4.4	4.0

### Return

Year-end: March	FY09	FY10	FY11E	FY12E
ATA (Avg. Total Assets)	2,229.7	2,717.7	3,258.6	4,000.9
Total Busi. (Dep+Adv)	3,644.6	4,359.3	5,368.7	6,697.8
Interest Income / ATA (%)	8.6	7.9	8.2	8.3
PBT / ATA (%)	2.1	2.2	2.1	2.1
PAT / ATA (%)	1.4	1.4	1.4	1.5
<b>ROA (%)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>ROE (%)</b>	<b>22.9</b>	<b>24.1</b>	<b>23.2</b>	<b>24.9</b>
Assets / Equity	16.5	16.8	16.8	17.1

### Valuation

Year-end: March	FY09	FY10	FY11E	FY12E
<b>P/E (x)</b>	<b>11.4</b>	<b>9.0</b>	<b>7.8</b>	<b>6.0</b>
<b>P/BV (x)</b>	<b>2.7</b>	<b>2.2</b>	<b>1.8</b>	<b>1.5</b>
<b>Price / Adj Bk Value (x)</b>	<b>2.8</b>	<b>2.3</b>	<b>2.0</b>	<b>1.6</b>
<b>Book Value/share (Rs)</b>	<b>413</b>	<b>511</b>	<b>621</b>	<b>762</b>
<b>EPS (Rs)</b>	<b>98.0</b>	<b>123.9</b>	<b>142.9</b>	<b>184.7</b>



# Notes

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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