

July 26, 2007

BUY

Price **Rs525** Target Price **Rs594**

Sensex **15,776**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	3	2	51
Rel. to Sensex	(8)	(7)	(8)	2

Source: Capitaline

Stock Details

Sector	Banks
Reuters	PNBK.BO
Bloomberg	PNB@IN
Equity Capital (Rs mn)	3153
Face Value	10
52 Week H/L	594/340
Market Cap	Rs165.5 bn/\$4.1bn
Daily Avg Volume (No of shares)	871,578
Daily Avg Turnover (US\$)	11.5mn

Shareholding Pattern (%)

(30th Jun.'07)

Promoters	57.8
FII	20.1
Institutions	16.2
Private Corp.	1.0
Public	5.0

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Punjab National Bank

Result
Update

Disappointing quarter

Punjab National (PNB) has reported disappointing numbers for Q1FY08. The NII has grown by sedate 6.6% yoy to Rs13.8bn driven by drop in NIM. That coupled with steep rise in the employee expenses has resulted in an unexciting 6.4% yoy growth in operating profit to Rs9.3bn. The core operating profit has however, declined by 3.3% yoy to Rs8.0bn.

The asset quality remains robust with GNPA having declined to 3.8% compared with 4% in Q1FY07. However, with deliberate policy of lower provisioning, provisioning cover has come down to (but still a strong) 75%.

At the current market price of Rs525, the stock is quoting at 6.4x FY09E EPS and 1.2x FY09E ABV. We maintain BUY recommendation with price target of Rs594.

Unexciting NII with drop in NIMs

PNB's NII for Q1FY08 has grown by sedate 6.6% yoy to Rs13.8bn driven by a 17bps yoy drop in NIM. The drop in NIM was partly attributable to higher cost of funds and partly to lower investment yields which came down by ~90bps.

Yield analysis

%	Q1FY08	Q1FY07	Q4FY07	Change in bps	
				yoy	qoq
Yield on advances	10.03	8.91	9.45	112	58
Yield on investments	7.60	8.50	7.86	-90	-26
Yield on resources	8.50	7.46	8.51	104	-1
Cost of funds	5.02	3.81	4.72	121	30
NIM	3.48	3.65	3.63	-17	-15

Note: calculated on basis of average quarterly balances

Adjusted for one-time interest on CRR balances

Source: Company, Emkay Research

Strong growth in business

The advances for the quarter have grown by healthy 22.5% yoy to Rs956bn. The deposits have grown by 21.7% yoy to Rs1,426bn. Commendably; the bank has been able to maintain the CASA level at 46%.

Detail of loan book

Rs bn	Q1FY08	Q1FY07	Q4FY07	% y-o-y chg	% q-o-q chg
Advances	956	775	966	23.3	-1.0
- Retail	220	182	214	21.3	3.2
- Housing	94	80	92	18.0	2.2
Agriculture	187	153	186	22.5	0.9

Source: Company, Emkay Research

Deposit Mix

Rs bn	Q1FY08	Q1FY07	Q4FY07	% y-o-y chg	% q-o-q chg
Deposits	1426	1172	1399	21.7	2.0
CASA	656	574	646	14.3	1.6
CASA%	46	49	46		

Source: Company, Emkay Research

Higher treasury gains drive other income

The other income for the quarter grew by 53.6% yoy to Rs4.3bn driven primarily by treasury gains on equity portfolio. The fee income growth was at slightly lower at 13.1% but primarily due to high base effect.

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
CEB	2,750	2,431	2,960	13.1	-7.1
Treasury	1,320	490	1,000	169.4	32.0
Amortisation	-770	-710	-1,100	8.5	-30.0
Others	1,019	601	2,324	69.6	-56.2
Total	4,319	2,812	5,184	53.6	-16.7

Source: Company, Emkay Research

Higher expenses hurt core profits even more

The Opex during the quarter has gone up by 26% yoy primarily driven by higher employee expenses. The bank seems to have provided for higher retirement liabilities during this quarter. However, it is not quite clear whether the same pertains to AS-15 liabilities or is existing shortfall.

Core profitability declines

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Reported operating profit	9,331	8,774	9,567	6.4	-2.5
Less: Treasury gains	1,320	490	1,694		
Core operating profit	8,011	8,284	7,873	-3.3	1.8

Source: Company, Emkay Research

Transfer losses increase provisions

During the quarter under review, PNB has transferred government securities from AFS to HTM book to insulate the profitability from interest rate risk and has booked one-time losses of Rs5.0bn on the same. The one-time losses have been offset by write back of investment depreciation of Rs3.3bn.

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
NPA	1,379	380	1,677	262.9	-17.8
As % of advances	0.14	0.05	0.17		
Investment depreciation	-3,284	-610	4,450	438.4	-173.8
One-time	4,970	3,868	-	28.5	
Total	3,065	3,638	6,127	-15.8	-50.0

Asset quality remains strong

The asset quality remained robust with GNPA having declined to 3.8% compared with 4% in Q1FY07. However, with deliberate policy of lower provisioning, provisioning cover has come down to (but still a strong) 75%.

We expect the provisioning to remain lower over coming quarters as the bank will now have to start providing for AS-15 liabilities also. We expect the bank to deliberately keep the NPA provisioning low even as the provision cover remains strong.

Valuations and view

Albeit the bank has taken a hit on NIMs during the quarter and one-time provisions have also hit the profits, we believe that the profitability will bounce back in coming quarters as the NIMs bounce back driven by repricing of the old deposits and helped by better CASA mix. At the current market price of Rs525, the stock is quoting at 6.4x FY09E EPS and 1.2x FY09E ABV. We maintain BUY recommendation with price target of Rs594.

Quarterly results

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Net interest income	13,782	12,929	14,230	6.6	-3.1
Other Income	4,319	2,813	5,184	53.5	-16.7
<i>Fee income</i>	2,750	2,431	2,960	13.1	-7.1
<i>Others</i>	1,569	382	2,224	310.7	-29.5
Net income	18,101	15,742	19,414	15.0	-6.8
Operating expenses	8,770	6,968	10,591	25.9	-17.2
Pre-provision profit	9,331	8,774	8,824	6.4	5.8
Provisions & Contingencies	3,065	3,638	6,127	-15.8	-50.0
<i>NPA</i>	1,379	380	1,677	262.9	-17.8
Profit before tax	6,267	5,136	2,697	22.0	132.4
Taxes	2,009	1,460	320	37.6	528.4
Net Profit	4,258	3,676	2,377	15.9	79.1

Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2006	61,450	14,393	45.6	281.1	1.1	16.4	11.5	1.9
FY2007	68,582	15,401	48.8	315.4	1.0	15.5	10.7	1.7
FY2008E	79,701	17,328	55.0	356.3	1.0	15.6	9.6	1.5
FY2009E	92,315	25,684	81.5	424.7	1.3	20.0	6.4	1.2

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