

Industry : Banking

CMP : Rs.492.15

Price Target : Rs.564

Accumulate

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Current

Recommendation	ACCU
CMP (INR)	492.15
Target Price (INR)	564.00

Key Data

Bloomberg	<u>PNB@IN</u>
Reuters Code	PNBK.BO
BSE Code	532461
NSE Code	PNB
Face Value	10.00
Market Cap. (INR bn)	155.17
52 Week High (INR)	584.90
52 Week Low (INR)	300.00

Scrip Scan

Equity Rs.mn	3,153.00
FY07E EPS	54.40
FY08E EPS	63.10
FY07E Adj BV	327.80
FY08E Adj BV	381.70

Shareholding (31.12.06) (%)

Promoters	57.80
FIIs	20.06
FIs	14.03
Public	8.11
Grand Total	100.00

Highlights for the quarter

- PNB's business growth for the quarter was marginally better than expectations at 26% y-o-y, contributed by a stronger deposit growth of 23% y-o-y and advances of 30.5% y-o-y. The outstandings on the retail lending portfolio remained stable sequentially while priority and SSI lending observed an impressive growth.
- NII growth for Q3FY07 stood at Rs.14458.6mn, 6.1% q-o-q growth and 19.7% y-o-y growth. NIMs improved by 19bps to 4.21% as cost of deposits rose by 8bps and yield on advances improved by 73bps. CASA mix marginally declined to 47.3% from 48.6% in the previous year.
- Cost/Income ratio has remained stable sequentially at 45.9%. Fee income at Rs.2130mn has been declining on a q-o-q basis and adding to the concerns of the bank. Operating expenses, particularly employee expenses have risen by 13.8% q-o-q.
- Net profit grew by 16% y-o-y and declined by 14.9% q-o-q, mainly because of higher provisioning. The bank provided Rs.2241.7mn for NPAs.
- A notable concern has been the sharp absolute increase in gross NPAs from Rs.30911mn to Rs.32680mn. Gross NPA levels for Q3FY07 were 3.65%.

Valuation:

The quarter observed a few concerning factors on the NPA and fee income front. However, PNB stands strong fundamentally against its industry peers. At the CMP of Rs.492.15, the bank is trading at a P/Adj BV of 1.5x FY07E and 1.3x FY08E. **We maintain "ACCUMULATE" with a one-year price target of Rs.564.**

Quarterly Performance
(Rs.mn)

	Q3FY07	Q3FY06	Q2FY07	9mFY07	9mFY06
Interest Earned	29,482.9	24,547.5	27,643.0	83,530.9	71,152.4
% change	20.1			17.4	
Other Income	3,230.7	2,445.2	2,840.2	8,883.9	8,096.6
Total Income	32,713.6	26,992.7	30,483.2	92,414.8	79,249.0
Interest Expense	15,024.3	12,473.5	14,015.1	42,515.4	36,286.7
% change	20.4			17.2	
Operating expenses	8,122.7	9,035.6	7,580.1	22,671.6	24,197.3
Total expenses	23,147.0	21,509.1	21,595.2	65,187.0	60,484.0
Profit prior provisioning	9,566.6	5,483.6	8,888.0	27,227.8	18,765.0
Provisions & Contingencies	3,576.9	1,032.2	1,018.2	8,233.1	2,288.0
Provision for Taxes	1,691.0	747.0	2,819.9	5,970.9	4,970.6
Net Profit	4,298.7	3,704.4	5,049.9	13,023.8	11,506.4
% change	16.0			13.2	
EPS	13.6	11.7	16.0	41.3	36.5
Equity	3,153.0	3,153.0	3,153.0	3,153.0	3,153.0
NII	14,458.6	12,074.0	13,627.9	41,015.5	34,865.7
% change	19.7				
Deposits	1,302,250.0	1,057,490.0	1,284,150.0	1,302,250.0	1,057,490.0
% change	23.1			23.1	
Advances	876,490.0	671,903.0	823,400.0	876,490.0	671,903.0
% change	30.4			30.4	

Income Statement

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
Interest Earned	84,598.4	95,841.5	111,066.7	121,860.5
% Ch. YoY	8.7	13.3	15.9	9.7
Interest Expended	44,531.1	49,173.9	56,791.1	65,698.0
% Ch. YoY	7.2	10.4	15.5	15.7
% to Interest Earned	52.6	51.3	51.1	53.9
NII	40,067.3	46,667.6	54,275.7	56,162.5
% Ch. YoY	10.5	16.5	16.3	3.5
Other Income	16,756.8	15,087.1	11,918.9	13,439.9
% Ch. YoY	(10.2)	(10.0)	(21.0)	12.8
Total	56,824.1	61,754.7	66,194.6	69,602.4
Operating Expenses	29,752.1	27,568.3	31,362.4	32,655.5
% Ch. YoY	25.5	(7.3)	13.8	4.1
Operating Profit before Provisions	27,072.0	34,186.4	34,832.2	36,946.8
% Ch. YoY	(13.3)	26.3	1.9	6.1
% to Total Income	26.7	30.8	28.3	27.3
Provisions & Contingencies	8,016.0	13,847.7	9,000.0	7,000.0
Provision for Tax	4,954.9	5,945.6	8,679.6	10,062.1
Provisions & Contingencies	12,970.9	19,793.3	17,679.6	17,062.1
% Ch. YoY	(35.5)	52.6	(10.7)	(3.5)
Net Profit for the year	14,101.1	14,393.1	17,152.6	19,884.7
% Ch. YoY	27.2	2.1	19.2	15.9

Balance Sheet

	(Rs.bn)			
	FY05	FY06	FY07E	FY08E
CAPITAL AND LIABILITIES				
Equity Capital	3,153.0	3,153.0	3,153.0	3,153.0
Reserves and Surplus	78,459.9	90,610.6	105,146.5	122,055.0
Networth	81,612.9	93,763.6	108,299.5	125,208.0
<i>Demand Deposits</i>	124,665.7	167,237.7	209,047.1	240,404.2
<i>Saving Deposits</i>	353,411.3	419,082.2	479,849.1	556,625.0
<i>Term & Other Deposits</i>	553,591.9	610,529.3	683,792.8	776,104.8
Deposits	1,031,668.9	1,196,849.2	1,372,689.1	1,573,134.0
Borrowings	27,182.9	66,871.8	28,200.5	33,200.5
Other Liabilities & Provisions	121,948.0	96,013.3	107,747.3	116,129.8
	1,262,412.7	1,453,497.9	1,616,936.4	1,847,672.4
ASSETS				
Cash & Balances with RBI	94,602.0	233,945.5	225,079.6	267,317.0
Balances with Banks & money at Call & Short Notice	16,288.3	13,971.4	18,585.5	21,717.8
Investments	506,728.3	410,553.1	431,902.2	467,224.4
Advances	604,127.5	746,273.7	888,065.7	1,030,156.2
Fixed Assets	9,652.3	10,302.3	12,183.4	13,196.3
Other Assets	31,014.3	38,451.9	41,120.0	48,060.7
	1,262,412.7	1,453,497.9	1,616,936.4	1,847,672.4
	1,262.4	1,453.5	1,616.4	1,852.9

Ratios

	FY05	FY06	FY07E	FY08E
Valuation				
EPS (Rs.)	44.7	45.6	54.4	63.1
BVPS (Rs)	248.9	297.4	343.5	397.1
Adj BVPS (Rs.)	245.1	281.1	327.8	381.7
PER (x)	11.0	10.8	9.0	7.8
PEG (x)	1.6	5.2	0.5	0.5
P/Adj BV (x)	2.0	1.8	1.5	1.3
Dividend Yield (%)	1.1	1.2	1.4	1.6
Growth (%)				
NII	10.5	16.5	16.3	3.5
Advances	27.9	23.5	19.0	16.0
Deposits	17.3	16.0	14.7	14.6
Investments	20.3	(19.0)	5.2	8.2
Borrowings	110.9	146.0	(57.8)	17.7
Operating Profit	(13.3)	26.3	1.9	6.1
Net Profit	27.2	2.1	19.2	15.9
EPS	7.0	2.1	19.2	15.9
Total Funds	21.0	18.8	16.3	15.2
Profitability				
Operating Profit Margin (%)	26.7	30.8	28.3	27.3
Net Profit Margin (%)	13.9	13.0	13.9	14.7
Cost/Income (%)	52.4	44.6	47.4	46.9
Tax/PBT (%)	26.0	29.2	33.6	33.6
RoE (%)	17.3	15.4	15.8	15.9
RoA (%)	1.1	1.1	1.2	1.2
Other Parameters				
Net NPA/Net Advances (%)	0.2	0.3	0.2	0.2
Business per employee (Rs mn)	28.0	33.3	38.8	44.6
Profit per employee (Rs mn)	0.2	0.2	0.3	0.3
Credit-Deposit(%)	58.6	62.4	64.7	65.5
Investment / Deposit (%)	49.1	34.3	31.5	29.7
Gross Non-Performing Assets (Rs.mn)	37,413.4	31,382.9	26,382.9	22,882.9
Net Non Performing Assets (Rs.mn)	1,194.4	2,101.7	2,022.9	2,022.9
Gross NPA/Gross Advances (%)	5.9	4.1	2.9	2.2
Provision Coverage (%)	84.2	80.8	81.0	80.2
Basic Data				
Sh. Price	492.2	492.2	492.2	492.2
Market Capitalisation (Rs.mn)	155,174.9	155,174.9	155,174.9	155,174.9

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