

ACCUMULATE

| | |
|-------------------|-----------|
| Price | Rs705 |
| Target Price | Rs783 |
| Investment Period | 12 months |

Stock Info

| | |
|--------------------|-----------|
| Sector | Banking |
| Market Cap (Rs cr) | 22,222 |
| Beta | 0.8 |
| 52 WK High / Low | 752 / 286 |
| Avg Daily Volume | 258535 |
| Face Value (Rs) | 10 |
| BSE Sensex | 15,388 |
| Nifty | 4,571 |
| BSE Code | 532461 |
| NSE Code | PNB |
| Reuters Code | PNBK.BO |
| Bloomberg Code | PNB@IN |

Shareholding Pattern (%)

| | |
|---------------------|------|
| Promoters | 57.8 |
| MF/Banks/Indian FIs | 19.8 |
| FII/ NRIs/ OCBs | 18.0 |
| Indian Public | 4.4 |

| Abs. | 3m | 1yr | 3yr |
|------------|------|------|------|
| Sensex (%) | 34.9 | 7.7 | 44.1 |
| PNB (%) | 47.4 | 51.1 | 91.1 |

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Performance Highlights

- Relatively strong performance on the NII front:** While the bank's deposit growth was reasonably robust at 4.4% sequentially and 26.5% yoy, unlike its peers, the growth in advances also remained strong at 38% yoy, leading to a high CD ratio of 72% and a healthy yoy growth in the Net Interest Income of 29%. The yoy growth in CASA deposits was also relatively healthy at 17%, notwithstanding a 50bp sequential decline in the CASA ratio to 38. In spite of being at the forefront of PLR cuts, the bank's yield on advances was marginally higher at 10.8% yoy, with the management indicating that the bank had brought down sub-PLR lending from 60% of advances to 30% of advances. Sequentially, the aggressive PLR cuts led to a 50bp contraction in the yield on advances, though the high CD ratio and falling cost of deposits restricted the fall in NIMs (calculated) to 30bp.
- Strong treasury gains; robust Fee income growth as well:** Other Income surged 113% yoy, driven by strong treasury gains of Rs355cr, during the quarter, in line with industry trends, even as the growth in Fee income was also robust at 45% yoy, on the back of strong balance sheet growth.
- Opex, Asset quality and Capital adequacy:** Operating expenses were higher than expected, on account of Rs150cr of provisions for imminent wage hikes. Gross slippages at 1.4% (annualised) remained at similar levels as in the past few quarters. Gross and Net NPA ratios remained stable sequentially at 1.8% and 0.2%, with the bank not adopting the guidelines of treating floating provisions as part of Tier-2 capital, instead of adjusting against NPAs on express permission from the RBI. Otherwise, the bank's Provision coverage would have come down from 90% to 52%. The bank's cumulative restructuring increased to Rs9,000cr, amounting to 6% of advances and 72% of Net Worth. Capital Adequacy remained comfortable at 14.5%, of which Tier-1 capital was 9.1% (Basel 2).
- Net Profits grow 62%:** The Bank reported a Net Profit growth of 62% yoy to Rs832cr (Rs512cr), substantially ahead of expectations, on account of large treasury gains as well as a healthy operating performance.

Key Financials

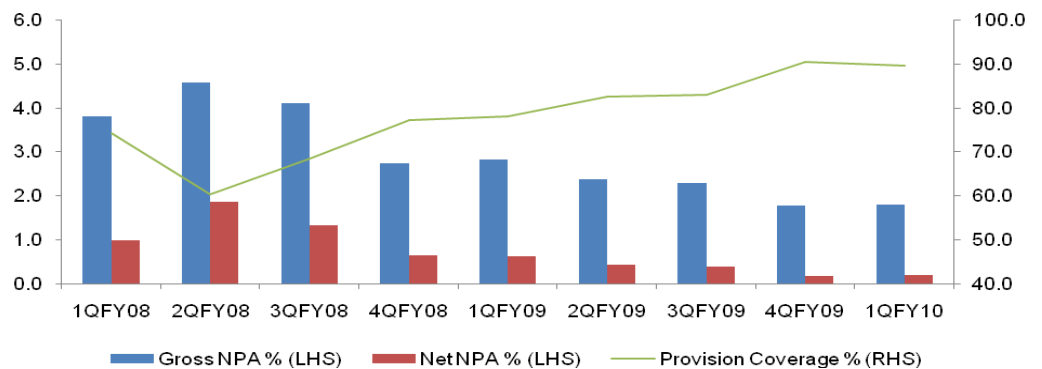
| Y/E March (Rs cr) | FY2008 | FY2009 | FY2010E | FY2011E |
|-------------------|--------------|--------------|--------------|--------------|
| NII | 5,534 | 7,031 | 8,395 | 9,629 |
| % chg | 0.4 | 27.0 | 19.4 | 14.7 |
| Net Profit | 2,049 | 3,091 | 3,551 | 3,959 |
| % chg | 33.0 | 50.9 | 14.9 | 11.5 |
| NIM (%) | 3.2 | 3.3 | 3.2 | 3.0 |
| EPS (Rs) | 65.0 | 98.0 | 112.6 | 125.6 |
| P/E (x) | 10.8 | 7.1 | 6.2 | 5.6 |
| P/BV (x) | 2.0 | 1.7 | 1.4 | 1.2 |
| P/ABV (x) | 2.0 | 1.7 | 1.4 | 1.2 |
| RoAA (%) | 1.1 | 1.4 | 1.3 | 1.2 |
| RoANW (%) | 19.6 | 25.8 | 24.4 | 22.6 |

Source: Company, Angel Research

Exhibit 1: Composition of Non-Interest Income

| Particulars (Rs cr) | 1QFY2010 | 1QFY2009 | yoy growth (%) | 4QFY2009 | qoq growth (%) |
|----------------------------------|------------|------------|----------------|------------|----------------|
| Commission, Exchange & Brokerage | 459 | 316 | 45 | 417 | 10 |
| Treasury Gains | 358 | 13 | 2,657 | 239 | 50 |
| Forex-related profits | 61 | 59 | 3 | 41 | 49 |
| Other | 92 | 68 | 35 | 158 | (42) |
| Total Non-Interest Income | 970 | 456 | 113 | 855 | 13 |

Source: Company, Angel Research

Exhibit 2: Asset-quality trends


Source: Company, Angel Research

Outlook and Valuation

We believe that PNB is among the more profitable and competitive PSBs, with a relatively strong Earnings growth and RoE prospects. We have a positive medium-term outlook on the Bank, due to its superior CASA ratio and its high core-income component in Earnings. We believe that the bank's core competitiveness in retail deposits is underpinned by the relatively high concentration of its business in rural areas, especially in North India, that are relatively underpenetrated by other banks, and we have a positive outlook on its aggressive medium-term growth thrust in these areas.

That said, in our view, the bank's high growth in advances in the past few quarters, at relatively high yields, could contribute to a relatively higher asset-quality deterioration for the bank, going forward. Moreover, the management has not yet clarified whether the disclosed restructuring is based on borrower-wise or facility-wise classification, and in case the latter has been adopted then, on a like-to-like comparison, the bank's cumulative restructuring as a % of net worth could inch-up above industry averages, exacerbating asset-quality concerns. At the CMP, the stock is trading at 5.6x FY2011E EPS of Rs125.6 and 1.2x FY2011E Adjusted Book Value of Rs602.3. **We downgrade the stock to Accumulate, with a 12-month Target Price of Rs783, implying an upside of 11%.**

Exhibit 3: 1QFY2010 Performance

| Y/E March (Rs cr) | 1QFY2010 | 1QFY2009 | % chg | FY2009 | FY2008 | % chg |
|----------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Interest Earned | 5,207 | 4,138 | 25.8 | 19,326 | 14,342 | 34.8 |
| Interest Expenses | 3,346 | 2,694 | 24.2 | 12,295 | 8,731 | 40.8 |
| Net Interest Income | 1,862 | 1,445 | 28.9 | 7,031 | 5,611 | 25.3 |
| Non-Interest Income | 970 | 456 | 112.7 | 2,920 | 1,920 | 52.0 |
| Total Income | 2,832 | 1,901 | 49.0 | 9,951 | 7,532 | 32.1 |
| Operating Expenses | 1,263 | 918 | 37.5 | 4,206 | 3,525 | 19.3 |
| Pre-Prov. Profit | 1,569 | 982 | 59.7 | 5,744 | 4,006 | 43.4 |
| Provisions & Cont. | 302 | 211 | 43.3 | 977 | 710 | 37.6 |
| PBT | 1,268 | 772 | 64.2 | 4,767 | 3,296 | 44.6 |
| Prov. for Taxes | 436 | 260 | 67.8 | 1,676 | 1,247 | 34.4 |
| PAT | 832 | 512 | 62.4 | 3,091 | 2,049 | 50.9 |
| EPS (Rs) | 26.4 | 16.3 | 62.4 | 98.0 | 65.0 | 50.9 |
| Cost to Income (%) | 44.6 | 48.3 | | 42.3 | 46.8 | |
| Effective Tax Rate (%) | 34.4 | 33.6 | | 35.2 | 37.8 | |
| Net NPA | 0.2 | 0.6 | | | | |

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)