

**Accumulate**
**CMP: 496**

BSE Code	532461
NSE Code	PNB

**Key Data**

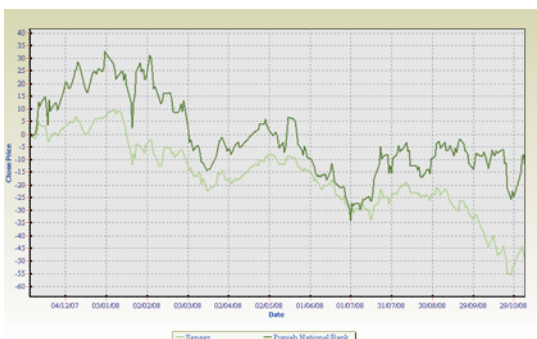
Sensex	9964
52 week H/L (Rs)	721/332
Oct month H/L (Rs)	524/374
Market Cap (Rs Cr)	14825
Avg. daily vol. (6m)	195417
Face Value (Rs)	10

Source: Capitaline

**Shareholding Pattern (%)**

Promoters	57.8
Institution	17.81
Foreign holding	18.59
Non-promoter corp. holding	1.18
Public & Others	4.62

Source: Capitaline

**One-Year Performance (Rel. to Sensex)**


Source: Capitaline

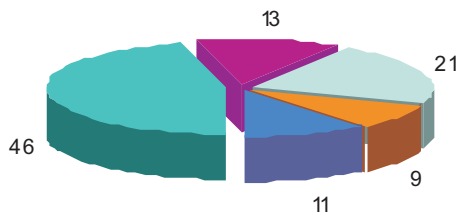
**High Provisions Slashed Net Profit**

On the back of 33% NII growth and 42% non interest income growth, operating profit jumped 60% yoy at Rs 1368 Cr, but the higher provisions lowered the net profit growth to 31% yoy at Rs 707 Cr while 38% on sequential basis. NIM improved 51 bps qoq at 3.78%. Net NPA sharply declined to 0.42% from 1.86% of the same quarter of last year. Cost to Income ratio has drastically come down to 42% from 51% of last year. CAR stood at a comfortable level of 13.64%. CASA level in its total deposit declined to 38.84% from 41.31% of last quarter.

**Q2FY09 Result Updates**
**Robust Growth in Operating Profit**

Operating profit reported a robust growth of 60% yoy at Rs 1368 Cr from Rs 855 Cr of last year driven by 35% rise in the total income and sharp decline in cost to income ratio. Higher interest rate and improved C/D ratio boosted NII up by 33% yoy at Rs 1712 Cr vs Rs 1291 cr of last year. This resulted into improved NIM by 51 bps on sequential basis and 30 bps on yoy basis at 3.78%. Furthermore Cost to income ratio provided the momentum to operating profit by coming down to 42.41% from 51% of last year. But high provisions kept net profit growth lower to 31% yoy at Rs 707 Cr.

Other Income Breakup % wise



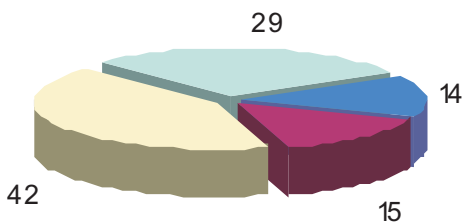
Trading CEB Forex Recovery Misc

### Rising Other Income

Non Interest Income, one of the drivers of bank's growth in Q2FY09 grew 42% yoy and 45% qoq at Rs 663 Cr. CEB (Commission, Exchange, Brokerage) income that constitutes 46% of the total non interest income went up 16% yoy at Rs 307 Cr. Forex income showed drastic upward at Rs 83.5 Cr as compared to Rs 42 Cr of corresponding quarter of last year, registered 99% growth.

Other Income	Sep-08 Rs Cr	Sep-07 Rs Cr	Jun-08 Rs Cr	YOY Gr %	QOQ Gr %
Trading Income	72.3	106	12.9	-32	460
CEB	306.9	265.6	316.4	16	-3
Forex Income	83.5	42	59	99	42
Recovery	140	NA	43.6	NA	221
Misc Income	60	54.2	24.3	11	147
<b>Total</b>	<b>662.8</b>	<b>467.8</b>	<b>456.1</b>	<b>42</b>	<b>45</b>

Advance Classification % wise



Retail Agri Corporate Others

### Healthy Business Growth

The business of the bank grew 26% yoy and 10% qoq at Rs 316747 Cr in Q2FY09. Advances jumped 29% yoy at Rs 130432 Cr from Rs 101494 Cr of last year of which retail advances having 14% proportion in total advances grew at a slower pace of 1.5% qoq at Rs 19200 Cr. Yield on advances improved to 11.26% vs 10.20% of last year.

Advances	Sep-08 Rs Cr	Sep-07 Rs Cr	Jun-08 Rs Cr	YOY Gr %	QOQ Gr %
Retail	19200	16100	18900	19	2
Agri	23000	16600	19000	39	21
Others	88300	68900	76500	28	15
<b>Total</b>	<b>130400</b>	<b>101600</b>	<b>114400</b>	<b>28</b>	<b>14</b>

### CASA at 39% of its deposits

High volume of wholesale deposits have taken the total deposit up by 24% yoy and 8% qoq at Rs 186315 Cr but dampened the CASA ratio to 39% as compared to 41% of last quarter, still at a very comfortable level. In absolute terms it showed a marginal increase at Rs 72365 Cr. Due to elevated interest rate scenario, cost of deposit has gone up to 6.20% vs 5.60% of the last year.

Credit to Deposit ratio sharply moved up by 389 bps qoq at 70% from 66.12% of last quarter.

**Net NPA at 0.42%****Improved provision coverage ratio to 82.57%****Asset Quality Improving**

In this quarter the bank successfully brought down the Net NPA at 0.42% from 1.86% of last year and 0.63% of last quarter. In absolute terms it has declined 71% yoy at Rs 545 Cr from Rs 1866 Cr.

**High Provisions for NPA**

The bank wrote MTM provision for Rs 12.7 Cr following the decline in the G-Sec yield. To be on safer side, the bank has enlarged provision coverage ratio to 82.57% from 78.10% of the last quarter. In absolute terms the provisions for NPA has increased 30% yoy and 547% qoq at Rs 308 Cr. Total provisions excluding tax provisions went up by 308% yoy and 51% qoq at Rs 318 Cr.

**Well Built Capital Base**

Capital Adequacy ratio of the bank stood at 13.64% against the RBI's requirement of 9% consisting of 9.21% of tier 1 capital.

**View & Valuation**

Though the banking sector is impaired by the global crisis, PNB able to report strong operational and financial performance. Consistent level of NIM above 3%, second highest CASA proportion among PSUs, sound capital base and healthy asset sliappge level would continuously provide sanguines to the financials of the bank. At CMP of Rs 496, the stock is trading at 1.45xP/BV , we recommend '**Accumulate**' rating on this stock.

**Comparison with its Peers**

Bank	Net NPA %	CASA %	CAR %	Price	BV	P/BV
Axis	0.43	40	12.2	581	244	2.38
BOI	0.48	32	12.3	272	168	1.62
HDFC Bank	0.60	44	11.4	1089	272	4.00
ICICI Bank	1.91	30	14.0	431	417	1.03
<b>PNB</b>	<b>0.42</b>	<b>39</b>	<b>13.6</b>	<b>496</b>	<b>342</b>	<b>1.45</b>
SBI	1.34	40	12.1	1249	772	1.62

<b>Growth</b>	<b>Q2FY09</b>	<b>Q2FY08</b>	<b>YOY Gr</b>	<b>Q1FY09</b>	<b>QOQ Gr</b>
	<b>Rs Cr</b>	<b>Rs Cr</b>	<b>%</b>	<b>Rs Cr</b>	<b>%</b>
Deposits	186315	149980	24.23	173074	7.65
Advances	130432	101494	28.51	114430	13.98
Business	316747	251474	25.96	287504	10.17
Interest Income	4650	3463.06	34.27	4138.49	12.36
Interest Expenses	2938	2172	35.29	2694	9.07
NII	1712	1291	32.56	1445	18.50
Non int income	662.78	467.83	41.67	456.13	45.31
Operating Exp	1007.18	904.30	11.38	918.45	9.66
Operating Profit	1367.83	854.98	59.98	982.43	39.23
Provision	317.74	77.86	308.09	210.53	50.92
PAT	707.00	538.48	31.30	512.40	37.98
Diluted EPS Rs	22.43	17.08		16.25	
<b>Yield/margins %</b>					
Yield on Advance	11.26	10.20		10.74	
Cost of Deposit	6.20	5.60		5.88	
NIM	3.78	3.48		3.27	
ROA	1.33	1.23		1.00	
Cost to Income Ratio	42.41	51		48.32	
C/D Ratio	70.01	67.67		66.12	
<b>Asset Quality</b>					
Gross NPA Rs Cr	3124.57	4716.57		3264.74	
Net NPA Rs Cr	544.73	1866.26		714.82	
Provision Coverage %	82.57	60.43		78.10	
Gross NPA %	2.37	4.57		2.82	
Net NPA %	0.42	1.86		0.63	
<b>Capital Adequacy %</b>					
CAR Basel II	13.64	NA		12.96	
CAR Basel I	12.44	12.58		12.29	

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**RATING INTERPRETATION**

**Buy** Expected to appreciate more than 20% over a 12-month period

**Accumulate** Expected to appreciate up to 20% over a 12-month period

**Hold** Expected to remain in a narrow range

**Avoid** Expected to depreciate up to 10% over a 12-month period

**Exit** Expected to depreciate more than 10% over a 12-month period