

**RESULTS REVIEW**
**Share Data**

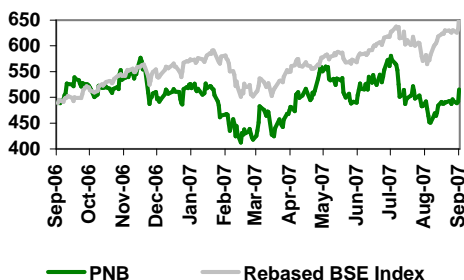
Market Cap	Rs. 162.6 bn
Price	Rs. 515.65
BSE Sensex	16,322.75
Reuters	PNBK.BO
Bloomberg	PNB IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 593.95 / 400
Shares Outstanding	315.3 mn

**Valuation Ratios**

Year to 31 March	2008E	2009E
EPS (Rs.)	56.5	64.7
+/- (%)	15.6%	14.7%
PER (x)	9.1x	8.0x
P / PPP (x)	4.3x	3.4x
P / ABV (x)	1.4x	1.2x

**Shareholding Pattern (%)**

Promoter	58
FII's	20
Institutions	16
Public & Others	6

**Relative Performance**

**Punjab National Bank**
**Buy**
**High CASA ratio coupled with wide branch network to drive growth**

Punjab National Bank (PNB) reported 15.7% yoy increase in net profit to Rs. 4.3 bn for the quarter ended June 2007. Net interest income increased only 7.4% yoy to Rs. 13.8 bn primarily due to high cost term deposits. This was reflected in NIM which decreased 27bps yoy and sequentially to 3.8%. Total net income, excluding the loss incurred on transfer of securities to HTM portfolio, increased 47.5% yoy to Rs. 4.3 bn primarily on account of increase in trading profits. During the quarter, the Bank booked a one time loss of Rs. 5 bn by transfer of securities from AFS to HTM and hence mitigated interest rate risk. The Bank advances and deposits grew by 23.3% and 21.7% yoy respectively. In July 2007, the Bank raised Rs. 5 bn through the issue of Tier-1 perpetual bonds.

Despite soft numbers in 1Q'08, we recommend a Buy with a FY09E target price of Rs. 664 based on strong fundamentals, high CASA ratio, wide branch network, and stable NIM.

**Result Highlights**

Net interest income registered a growth of 7.4% yoy to Rs. 13.8 bn primarily on account of increase in return on advances by 147bps. However, this increase in return has been mitigated by rise in cost of funds by 108bps to 5.46%. This was reflected in NIM which decreased 27bps yoy to 3.8%. However, we expect the margins to improve going

**Key Figures (Standalone)**

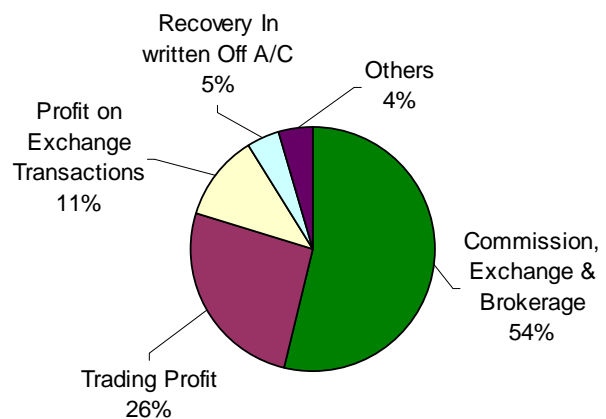
Year to March	1Q'07	1Q'08	YoY %	FY06	FY07	YoY %
(Figures in Rs mn, except per share data)						
Net Interest Income	12,829	13,782	7.4%	46,668	55,146	18.2%
Total Net Income	11,888	13,124	10.4%	59,403	65,569	10.4%
Pre-Prov Operating Profit	4,920	4,354	-11.5%	29,171	32,306	10.7%
<b>Net Profit</b>	<b>3,675</b>	<b>4,251</b>	<b>15.7%</b>	<b>14,393</b>	<b>15,401</b>	<b>7.0%</b>
Cost / Net Interest Income (%)	58.6%	66.8%	-	50.9%	50.7%	-
Net Interest Margin	4.07%	3.80%	-	4.00%	4.07%	-
NPA ratio	0.35%	0.98%	-	0.29%	0.76%	-
<b>Per Share Data (Rs.)</b>						
PPP per share	15.6	13.8	-11.5%	92.5	102.5	10.7%
EPS	11.7	13.5	15.7%	45.6	48.8	7.0%
Adj. Book value per share	309.0	344.4	11.5%	287.8	321.6	11.8%
PER (x)	-	-	-	11.3x	10.6x	-
P/ABV (x)	-	-	-	1.8x	1.6x	-

forward on account of initiatives taken by the Bank to reduce high cost of deposits.

Other income, excluding the impact of one time transfer of security loss, has increased by 47.5% yoy to Rs. 4.3 bn primarily on account of increase in treasury profits. During the quarter, the Bank booked a loss of Rs. 5 bn on account of transfer of securities from AFS to HTM and hence mitigated the interest rate risk.

*Non interest income is expected to increase going forward*

### Break up of other income



Source: Company data, indiabulls research

\*Excluding amortization and the loss incurred on Transfer of securities to HTM portfolio

Operating expense increased 25.8% yoy to Rs. 8.8 bn on account of rise in provisions made during the quarter for pension and gratuity in accordance with revised Accounting Standard -15. As a result, the Bank's net profit increased by 15.7% to Rs. 4.3 bn.

*One of the highest CASA ratio in the industry*

PNB reported a robust growth of 22.4% in total business with advances growing by 23.3% yoy to Rs. 956.4 bn. The Bank's credit mix remains healthy with retail contributing 23%, agriculture 19%, and SME 16%. On the liability side deposits grew by 21.7% yoy to Rs. 1,426.1 bn. The Bank's CASA ratio at 44.2% is amongst the highest in the industry. We expect CASA ratio to improve going forward on account of the management's renewed focus to increase CASA.

PNB is facing pressure in its asset quality with net NPA ratio increasing 63bps yoy and 22bps sequentially to 0.98%. However, with expectation of stronger recoveries in the future we expect asset quality to improve.

### Key Events

#### *Technology initiatives*

PNB has taken number of initiatives during the quarter. It has added 60 branches taking the total number to 4,178. The Bank has 2,557 branches under CBS covering 83% the Bank's business and it became first public sector bank to offer RTGS through internet banking.

#### *Increasing international presence*

PNB is focusing to increase its international presence. Recently, the Bank has converted its London office into a wholly owned subsidiary and is planning to open offices at Singapore (Offshore Banking Unit), Hong Kong (Branch) and Canada (Subsidiary). The opening of these overseas offices will provide significant opportunities to finance cross-border trade activities, in addition to remittance and other business from the NRI community.

### Outlook

PNB is the second largest state owned bank in India, with a wide network of branches. We expect the Bank to improve its operating performance on the back of high CASA ratio and huge branch network. Wide presence in rural areas and implementation of CBS would facilitate the Bank to further improve business and earnings. PNB is expanding its international presence by opening new branches outside India. The Bank is all set to comply with AS-15 requirements and has mitigated interest rate risk by transferring investments to HTM category.

At the current price of Rs. 515.65, PNB is trading at a forward P/AB of 1.4x FY08E and 1.2x FY09E.

Based on a target P/BV multiple of 1.5x for FY09E, we value the Bank at Rs. 664 per share. Therefore, we recommend a Buy rating on the stock.

Key risks to our rating are increasing NPA ratio and decreasing NIM.

*83% of the Bank's business is carried on CBS*

*Expanding globally*

*Trading at the forward P/BV of 1.2x for FY09E*

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	95,842	115,375	139,855	178,871	<b>Per share data (Rs.)</b>				
Interest Expense	49,174	60,229	81,959	109,750	Shares outstanding (mn)	315.3	315.3	315.3	315.3
<b>Net Interest Income</b>	<b>46,668</b>	<b>55,146</b>	<b>57,895</b>	<b>69,121</b>	Basic EPS	45.6	48.8	56.5	64.7
YoY Growth (%)	16.5%	18.2%	5.0%	19.4%	Diluted EPS	45.6	48.8	56.5	64.7
Other Income	12,735	10,423	15,635	23,452	Book value per share	297.4	331.0	387.4	452.2
<b>Total Net Income</b>	<b>59,403</b>	<b>65,569</b>	<b>73,530</b>	<b>92,573</b>	Adj. book value per share	287.8	321.6	378.1	442.8
YoY Growth (%)	4.5%	10.4%	12.1%	25.9%	<b>Valuation ratios (x)</b>				
Operating Expense	30,232	33,262	36,030	44,898	P/PPP	5.6x	5.0x	4.3x	3.4x
<b>Pre-Provisioning Profit</b>	<b>29,171</b>	<b>32,306</b>	<b>37,500</b>	<b>47,675</b>	P/E	11.3x	10.6x	9.1x	8.0x
Provisions and Contingencies	8,823	10,615	12,430	18,517	P/B	1.7x	1.6x	1.3x	1.1x
<b>Profit Before Tax</b>	<b>20,348</b>	<b>21,691</b>	<b>25,071</b>	<b>29,158</b>	P/ABV	1.8x	1.6x	1.4x	1.2x
Tax	5,955	6,291	7,271	8,748	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>14,393</b>	<b>15,401</b>	<b>17,800</b>	<b>20,411</b>	Return on avg. assets	1.1%	1.0%	1.0%	0.9%
YoY Growth (%)	2.1%	7.0%	15.6%	14.7%	Return on avg. net worth	16.4%	15.5%	15.7%	15.4%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to deposits	62.4%	69.1%	68.0%	65.3%
Cash and balances with RBI	247,917	156,455	304,961	360,097	Borrowings to advances	8.9%	2.0%	2.3%	2.5%
Investments	410,553	451,898	468,250	655,550	Investments to assets	28.3%	27.8%	23.4%	26.2%
YoY Growth (%)	-19.0%	10.1%	3.6%	40.0%	Investments to deposits	34.3%	32.3%	27.0%	30.0%
Advances	746,274	965,965	1,178,478	1,425,958	Net Worth to assets	6.5%	6.4%	6.1%	5.7%
YoY Growth (%)	23.5%	29.4%	22.0%	21.0%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	10,302	10,098	10,108	9,933	Opt. expense per employee	0.5	0.6	0.6	0.7
Other Assets	37,628	39,808	43,356	48,074	Net profit per employee	0.2	0.3	0.3	0.3
<b>Total Assets</b>	<b>1,452,674</b>	<b>1,624,225</b>	<b>2,005,153</b>	<b>2,499,611</b>	Asset per employee	25.0	28.3	34.0	41.5
Deposits	1,196,849	1,398,597	1,734,260	2,185,168	<b>Operating ratios (%)</b>				
YoY Growth (%)	16.0%	16.9%	24.0%	26.0%	Operating cost to net income	50.9%	50.7%	49.0%	48.5%
Borrowings	66,649	19,489	27,105	35,649	Operating cost to avg. assets	2.2%	2.2%	2.0%	2.0%
YoY Growth (%)	145.2%	-70.8%	39.1%	31.5%					
Other Liabilities & Provisions	95,412	101,785	121,633	136,229					
<b>Total Liabilities</b>	<b>1,358,910</b>	<b>1,519,870</b>	<b>1,882,998</b>	<b>2,357,046</b>					
Share Capital	3,153	3,153	3,153	3,153					
Reserves & Surplus	90,611	101,202	119,002	139,413					
<b>Total Equity &amp; Liabilities</b>	<b>1,452,674</b>	<b>1,624,225</b>	<b>2,005,153</b>	<b>2,499,611</b>					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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