

# Punjab National Bank

CMP: ₹ 1,035

Target Price: ₹ 1,205

Accumulate

BSE Sensex	17,919
NSE Nifty	5,464

## Scrip Details

Equity	₹ 3168mn
Face Value	₹ 10/-
Market Cap	₹ 327.9bn
	USD 6.6bn
52 week High / Low	₹ 1234 / 751
Avg. Volume (no)	252,372
BSE Code	532461
NSE Symbol	PNB
Bloomberg Code	PNB IN
Reuters Code	PNBK.BO

## Shareholding Pattern as on Dec'11 (%)

Promoter	58.0
MF/Banks/FIs	17.8
FII	18.6
Public / Others	5.5

Followings are the key takeaways of a meeting with Punjab National Bank's management.

- On CASA deposit front, the bank's management faces difficulty in maintaining high level of 35% CASA due to interest rate gaps in deposits and stiff competition.
- On credit book expansion plan, PNB's management indicated credit growth of 100-200bps higher growth than the industry; the bank awaits clarity on monetary policy and Union Budget before finalizing internal target for credit growth in FY13.
- The bank's management expects NIM of 3.75%-3.8% in FY12; in 9MFY12, the bank recorded NIM of 3.85%. In FY13, margin is expected to moderate slightly. We also factor in 11bps decline in margin in FY13 due to faster drift in yield on assets in declining interest rate scenario. Though, cut in CRR would aid margin slightly.
- On NPA front, PNB's management expects GNPA ratio to inch up in next 2 quarters mainly due to high slippages and lesser credit growth. As on end-December'11, the bank had GNPA ratio of 2.42%.
- On Air-India loan restructuring front, banking sector total working capital loans of ₹ 225 bn is going for restructuring before end-March'12. Part of loans (of ₹ 85bn) would be converted into bonds with non-SLR status but with central government backing; the bond paper would carry coupon rate of 9.25% and with zero risk-weight. Of the total exposure, banks would take NPV losses of 10-12% (of almost ₹ 23bn). PNB exposure to Air-India is Rs 21bn and the bank management expects to take NPV hit of ₹ 500-1000mn in Q4FY12 itself. Banks would be better off with replacement of loans with such bond paper. The NPV hit of 10-12% would not have any significant impact on the banks' profitability.
- In power sector, the bank's management indicated that some of the newly commissioned power generation companies might not be in a position to fully pass-on their incremental higher cost of production in accordance with agreements they have entered into with power purchasers. This would reflect into adverse impact on their profitability.

On core operation front, the bank's performance would remain robust and the bank would accrue benefits of declining interest rate in form of capital gains and MTM write-backs. We maintain our positive stance on the stock.

## Financials

Year	NII	PPP	NP	NIM (%)	BV (₹)	ABV (₹)	RoAA (%)	ROAE	P/B (x)	P/ABV (x)	P/E(x)
FY10	84,781	73,263	39,054	3.2	515	494	1.4	26.6	2.0	2.1	8.4
FY11	118,073	90,557	44,335	3.6	632	589	1.3	24.4	1.6	1.8	7.4
FY12E	138,158	108,096	47,926	3.4	773	705	1.1	20.5	1.3	1.5	7.5
FY13E	159,685	122,684	55,030	3.3	899	804	1.1	19.1	1.2	1.3	6.5

Figure in ₹ mn

<b>INCOME STATEMENT</b>					<b>IMPORTANT RATIOS</b>				
	<b>₹ mn</b>								
<b>Particulars</b>	<b>Mar10</b>	<b>Mar11</b>	<b>Mar12E</b>	<b>Mar13E</b>	<b>Particulars</b>	<b>Mar10</b>	<b>Mar11</b>	<b>Mar12E</b>	<b>Mar13E</b>
Net Interest Income	84,781	118,073	138,158	159,685	DPS (₹)	22.0	22.0	25.0	30.0
CXB	16,822	20,452	26,360	31,810	Book Value (₹)	514.8	632.5	773.5	898.9
Profits on sale of investments	8,033	2,992	2,525	2,000	Adjusted Book Value (₹)	494.2	589.0	705.0	804.5
Profits on foreign exchange	3,377	3,787	4,570	5,055	EPS (₹)	123.9	139.9	138.7	159.3
Other operating income	7,869	8,895	8,981	9,425	EPS Growth (%)	26.4	13.0	(0.9)	14.8
Total other income	36,101	36,126	42,436	48,290	Payout (%)	17.8	15.7	18.0	18.8
Total Income	120,882	154,199	180,594	207,975	Net interest margin (%)	3.2	3.6	3.4	3.3
Salaries	31,211	44,611	50,153	58,570	Spread (%)	2.7	3.2	2.8	2.7
Other operating costs	16,408	19,031	22,345	26,721	Cost-to-income (%)	39.4	41.3	40.1	41.0
Total Overheads	47,619	63,642	72,498	85,291					
Profit before provisions	73,263	90,557	108,096	122,684	<b>ROAA</b>				
Bad Debt Provisions	9,943	20,037	22,080	30,885	Net Interest Income	3.1	3.5	3.3	3.2
Std. Asset Provision	593	2,592	5,960	5,303	Other Income	1.3	1.1	1.0	1.0
Investment Provisions	684	1,475	4,665	3,300	Less Overheads	(1.8)	(1.9)	(1.7)	(1.7)
Other provision	2,995	816	2,935	1,100	Less Provisions	(0.5)	(0.7)	(0.9)	(0.8)
Total provisions	14,215	24,920	35,640	40,588	Less Tax	(0.7)	(0.6)	(0.6)	(0.5)
Profit before tax	59,048	65,637	72,456	82,096	ROAA	1.4	1.3	1.1	1.1
Tax	19,994	21,302	24,530	27,066	ROAE	26.6	24.4	20.5	19.1
Reported Net profit	39,054	44,335	47,926	55,030					
					<b>Valuation</b>				
<b>BALANCE SHEET</b>					Price Earnings (x)	8.4	7.4	7.5	6.5
<b>Particulars</b>	<b>Mar10</b>	<b>Mar11</b>	<b>Mar12E</b>	<b>Mar13E</b>	Price to Book Value (x)	2.0	1.6	1.3	1.2
Cash with RBI	183,276	237,769	265,581	315,945	Price to Adjusted BV (x)	2.1	1.8	1.5	1.3
Cash at call	51,460	59,143	82,361	68,883	Dividend Yield (%)	2.1	2.1	2.4	2.9
Total Cash	234,736	296,912	347,942	384,828					
Govt. securities	659,704	795,017	1,060,975	1,203,392	<b>Asset Quality</b>				
Other investments	117,540	156,606	202,090	229,218	Gross NPLs	32,144	43,794	70,961	98,815
Total Investments	777,245	951,623	1,263,065	1,432,610	Restructured standard Loans	120,960	109,580	120,550	120,550
Bills discounted	44,588	69,400	128,699	154,697	Gross Impaired Loans	153,104	153,374	191,511	219,365
Cash credit	822,071	1,144,911	1,358,486	1,632,913	Net NPLs	9,817	20,386	35,793	48,643
Term loans	999,354	1,206,756	1,372,786	1,650,101	Provision coverage ratio (%)	69.5	53.4	49.6	50.8
Total Credit	1,866,012	2,421,067	2,859,970	3,437,711	Gross NPLs (%)	1.7	1.8	2.5	2.8
Gross Fixed Assets	43,378	51,243	56,610	62,548	Net NPLs (%)	0.5	0.8	1.3	1.4
Accumulated Depreciation	18,243	20,187	20,553	22,734					
Net Fixed Assets	25,135	31,056	36,057	39,814	<b>Assumptions</b>				
Other Assets	63,201	82,594	67,315	115,549	Yield on Advances (%)	9.8	9.8	11.0	11.2
<b>Total Assets</b>	<b>2,966,328</b>	<b>3,783,252</b>	<b>4,574,349</b>	<b>5,410,512</b>	Yield on Investment (%)	6.5	6.5	7.0	7.0
Demand Deposits	237,172	268,376	316,202	364,828	Cost of Deposits (%)	5.2	4.9	6.2	6.5
Savings Deposits	781,328	934,874	1,149,825	1,322,503	Interest Inc. on Cash (%)	0.7	0.3	0.6	0.5
Term Deposits	1,474,798	1,925,737	2,366,723	2,873,024	CRAR (%)	14.2	12.4	12.9	12.3
Total Deposits	2,493,298	3,128,987	3,832,750	4,560,355	Growth in credit book (%)	20.6	29.7	18.1	20.2
Perpetual Debts (IPDI)	20,205	20,205	24,205	29,705	Growth in Deposits (%)	18.9	25.5	22.5	19.0
Upper Tier II Capital	61,100	66,100	71,600	78,600	Growth in Investments (%)	22.6	22.4	32.7	13.4
Subordinate Debt	25,598	25,598	30,698	35,848	Gross slippages ratio (%)	1.6	2.0	2.0	2.2
Other Borrowings	85,721	203,994	150,820	185,883	Credit Cost (%)	0.6	0.9	0.8	1.0
Total Borrowings	192,624	315,897	277,323	330,036					
Other liabilities	103,177	123,283	182,620	195,560	<b>E-estimates</b>				
Equity	3,153	3,168	3,455	3,455					
Reserves	174,076	211,917	278,202	321,106					
Total Equity	177,229	215,086	281,656	324,561					
<b>Total Liab &amp; Equity</b>	<b>2,966,328</b>	<b>3,783,252</b>	<b>4,574,349</b>	<b>5,410,512</b>					
E-estimates									



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

Analyst	Sector/Industry/Coverage	E-mail	Tel.+91-2-4096 9700
Amit Khurana, CFA	Director - Research	amit@dolatcapital.com	91-22-40969745
Amit Purohit	FMCG & Media	amitp@dolatcapital.com	91-22-40969724
Bhavin Shah	Pharma & Agro Chem	bhavin@dolatcapital.com	91-22-40969731
Mayur Milak	Auto & Auto Ancillary	mayurm@dolatcapital.com	91-22-40969749
Priyank Chandra	Oil & Gas	priyank@dolatcapital.com	91-22-40969737
Rahul Jain	IT Services	rahul@dolatcapital.com	91-22-40969754
Rakesh Kumar	Financials	rakesh@dolatcapital.com	91-22-40969750
Ram Modi	Metals & Mining	ram@dolatcapital.com	91-22-40969756
Sameer Panke	Construction & Infrastructure	sameer@dolatcapital.com	91-22-40969757
Nehal Shah	Midcaps	nehals@dolatcapital.com	91-22-40969753
Prachi Save	Derivative Analyst	prachi@dolatcapital.com	91-22-40969733

Associates	Sector/Industry/Coverage	E-mail	Tel.+91-22-4096 9700
Dhaval S. Shah	Engineering & Capital Goods	dhaval@dolatcapital.com	91-22-40969726
Hardick Bora	Pharma & Agro Chem	hardickb@dolatcapital.com	91-22-40969748
Hetal Shah	Financials	hetals@dolatcapital.com	91-22-40969725
Mahvash Ariyanfar	Economy & Midcaps	mahvash@dolatcapital.com	91-22-40969736
Praveen Kumar	IT Services	praveen@dolatcapital.com	91-22-40969723
Pranav Joshi	Financials	pranavj@dolatcapital.com	91-22-40969706
Rohit Natarajan	Construction & Infrastructure	rohit@dolatcapital.com	91-22-40969751

Equity Sales/Dealing	Designation	E-mail	Tel.+91-22-4096 9797
Purvag Shah	Principal	purvag@dolatcapital.com	91-22-40969747
Janakiram Karra	Director - Institutional Sales	janakiram@dolatcapital.com	91-22-40969712
Vikram Babulkar	Director - Institutional Sales	vikram@dolatcapital.com	91-22-40969746
Kapil Yadav	AVP - Institutional Sales	kapil@dolatcapital.com	91-22-40969735
Aadil R. Sethna	Head of Derivatives	aadil@dolatcapital.com	91-22-40969708
Chirag Makati	Asst. Vice President - Derivatives	chiragm@dolatcapital.com	91-22-40969702
P. Sridhar	Head Dealing - Equities	sridhar@dolatcapital.com	91-22-40969728
Parthiv Dalal	Senior Sales Trader	parthiv@dolatcapital.com	91-22-40969705
Mihir Thaker	Senior Sales Trader	mihir@dolatcapital.com	91-22-40969727

### **Dolat Capital Market Pvt. Ltd.**

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

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