

July 28, 2011

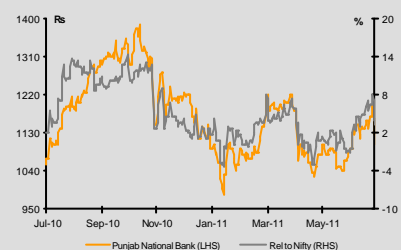
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs1,103	Rs1,270
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(10)	(1)	4
Rel. to Nifty	4	(4)	1	2

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	PNB@IN
Equity Capital (Rs mn)	3168
Face Value(Rs)	10
No of shares o/s (mn)	317
52 Week H/L	1,395/971
Market Cap (Rs bn/USD mn)	349/7,911
Daily Avg Volume (No of sh)	50565
Daily Avg Turnover (US\$m)	1.3

Shareholding Pattern (%)

	J'11	M'11	D'10
Promoters	58.0	58.0	57.8
FII/NRI	19.3	19.4	19.5
Institutions	17.4	17.5	17.7
Private Corp	1.3	1.2	1.1
Public	4.0	4.0	4.0

Source: Capitaline

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- PNB reports excellent results with NII of Rs31.2bn (19% yoy), core OP of Rs29bn (31% yoy) and slippages at Rs11.8bn (vs Rs12.5bn in Q4FY11). Still net NPAs commendably remain flat
- NIMs maintained at 3.84%, down just 7bps qoq. CASA maintained at 37%, down 100bps qoq. Overall fees grew by 19% yoy (6% qoq).
- Slippages lower at Rs11.8bn driven by lower slippages from restr. assets. Total slippages from restr. assets at 12.6%. Strong profits used for raising PCR to 74.3% (73% in Q4FY11)
- With NPAs coming under control, strong topline growth to also reflected in bottomline growth. Valns not unreasonable at 1.5x FY12E/1.2x FY13E ABV with average RoAs of 1.3%

NII and PAT growth in line, NIMs surprise positively

PNB's NII at Rs31.2bn (19% yoy) was in line with our estimates (Rs30bn). However, the NIMs surprised us positively at 3.84%. The advances were almost flat on qoq basis at Rs2.4tn.

The operating performance was robust with growth of 31% in core operating profits. However, PNB has used the strong performance to provide for NPAs and as a result despite Rs11.8bn of slippages, PCR improved by 110bps to 74.3%.

NIMs surprise positively; CDR gets comfortable at 75%

PNB's NIMs at 3.84% (down just 7bps qoq) surprised us positively. Even as the cost of deposits has gone up by 64bps qoq, a 55bps expansion each in investment/advances yields has helped PNB to restrict the contraction in NIMs. The NIMs remained stable despite the CD ratio declining to 75%, down 250bps qoq. PNB will be considering an increase in its base rate/BPLR in its upcoming ALCO meeting which will further help maintain NIMs.

Yield analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (bps)	QoQ (bps)
Yield on advances*	9.8	9.9	10.2	10.2	10.8	105	65
Yield on investments*	6.4	6.7	6.8	6.4	6.9	44	46
Yield on assets*	7.9	8.1	8.5	8.2	8.7	81	46
Cost of funds*	4.4	4.4	4.7	4.9	5.4	100	56
NIM*	3.5	3.7	3.8	3.4	3.3	-19	-9
Yield on Fund#	8.0	8.2	8.3	8.3	8.7	70	42
Yield on advances#	10.3	10.6	10.6	10.8	11.4	113	55
Cost of Fund#	4.5	4.4	4.5	4.9	5.4	94	53
NIMs#	3.9	4.1	4.1	3.9	3.8	-10	-7

Source: Company, Emkay Research Note: * Calculated on basis of average quarterly balances # reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	120,882	39,054	123.9	489.8	1.4	24.1	8.9	2.3
FY2011	154,199	44,335	139.9	568.1	1.3	22.6	7.9	1.9
FY2012E	177,021	53,069	167.5	723.7	1.3	22.4	6.6	1.5
FY2013E	208,588	65,800	207.7	892.2	1.3	22.9	5.3	1.2

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	26,189	29,767	32,041	30,290	31,152	19.0	2.8
Other Income	8,715	7,183	8,573	11,454	10,837	24.3	-5.4
Fee Income	4,960	4,740	3,940	4,710	5,630	13.5	19.5
Net Income	34,904	36,950	40,614	41,744	41,989	20.3	0.6
Total Operating Expenses	13,919	15,949	17,106	16,668	17,250	23.9	3.5
As % Of Net Income	39.9	43.2	42.1	39.9	41.1		
Employee Expenses	9,952	11,131	12,235	11,293	12,126	21.8	7.4
As % Of Net Income	28.5	30.1	30.1	27.1	28.9		
Other Expenses	3,967	4,818	4,871	5,376	5,124	29.2	-4.7
As % Of Net Income	11.4	13.0	12.0	12.9	12.2		
Operating Profit	20,984	21,001	23,508	25,076	24,739	17.9	-1.3
As % Of Net Income	60.1	56.8	57.9	60.1	58.9		
Provisions	5,341	5,160	7,140	7,279	8,935	67.3	22.7
Prov for NPA	5,500	3,590	5,550	5,440	5,660	2.9	4.0
PBT	15,643	15,841	16,368	17,796	15,804	1.0	-11.2
Total Tax	4,958	5,095	5,463	5,787	4,753	-4.1	-17.9
Adjusted PAT	10,686	10,746	10,906	12,009	11,050	3.4	-8.0
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	10,686	10,746	10,906	12,009	11,050	3.4	-8.0
Reported EPS	33.9	34.1	34.6	37.9	34.9	2.9	-8.0

Source: Company, Emkay Research

Advances remain flat; SME and retail have modest growth

The advances for the quarter remained almost flat qoq at Rs2.5tn. The retail and SME saw some modest growth at 2.3% and 3.1% respectively. Within industry, sharp growth came from loans to power (5.3% qoq), roads (5.9% qoq) and metals (8.5% qoq) sector.

Advances mix

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Retail	194	217	192	236	242	24.2	2.3
Agriculture	302	323	302	355	342	12.9	-3.7
SME	370	403	441	453	467	26.2	3.1
Others	1,102	1,145	1,277	1,377	1,379	25.2	0.1
Total	1,969	2,088	2,213	2,421	2,429	23.4	0.3

Source: Company, Emkay Research

CASA remains stable qoq; share of CD rises

Driven by modest balance sheet growth the CASA remained stable at 37%, down 100bps qoq. However, PNB is witnessing some cannibalization of SB deposits as the same grew by 1.5% qoq compared with 5.3%qoq growth in term deposits. Large part of growth in the term deposits was driven by bulk deposits as their share rose by 200bps qoq to 24%.

CASA Mix

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Current Deposits	225	237	229	268	264	17.1	-1.7
Savings Deposits	818	873	899	935	949	15.9	1.5
CASA	1,044	1,110	1,128	1,203	1,213	16.2	0.8
Term deposits	1,510	1,624	1,761	1,926	2,028	34.4	5.3
Total Deposits	2,553	2,734	2,889	3,129	3,241	26.9	3.6
Demand/Total	40.9	40.6	39.1	38.5	37.4	-347	-104

Source: Company, Emkay Research

Strong fee income along with dividends...

A strong growth of 6.6% qoq in the total fee income surprised us positively. The growth was driven by robust momentum in the processing fees and exchange profits. The dividend on the mutual funds of Rs1.1bn, helped the overall other income to grow by 24% yoy.

The bancassurance income has seen a decline during the quarter. PNB is acquiring 30% stake in Met Life India Insurance for an undisclosed amount and intends to leverage ~5,300 branches to improve the bancassurance income.

Other income

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Fee/Commission income	4,960	4,740	3,940	4,710	5,630	13.5	19.5
Trading gains/(losses)	1,215	380	870	530	480	-60.5	-9.4
Forex gains/(losses)	950	310	1,250	1,090	1,670	75.8	53.2
Dividend income	760	890	1,230	2,210	1,090	43.4	-50.7
Other non int income	830	863	1,283	1,714	707	-14.9	-58.8
Total	8,715	7,183	8,573	11,454	10,837	24.3	-5.4
Total fee income	6,740	5,913	6,473	7,514	8,007	18.8	6.6

Source: Company, Emkay Research

... Help core operating performance

Driven by strong growth in core operating income, the core operating profit for the quarter has grown by 31% yoy and 2.4% qoq.

Strong core operating profit

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Reported operating profit	20,984	21,001	23,508	25,076	24,739	17.9	-1.3
Less: Treasury gains	1,215	380	870	530	480	-60.5	-9.4
Pension/gratuity	2,500	2,500	3,600	4,080	5,040		23.5
Core operating profit	22,270	23,121	26,238	28,626	29,299	31.6	2.4

Source: Company, Emkay Research

Provisions remain high with one-offs

During the quarter, PNB has provided Rs2.4bn for NPAs and Rs1.5bn for restructured standard assets in line with RBI's norms. These alongwith Rs1.6bn of investment depreciation resulted in 23% qoq jump in provisions.

We like the fact that PNB has still provided Rs3.3bn for normal NPAs as keeping the provision cover stable at 73.2% (same as last quarter) would have saved Rs1.9bn for PNB on provisions.

Break up of provisions

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
On NPL	5,500	3,590	5,550	5,440	5,660	2.9	4.0
As % of advances	0.28	0.17	0.25	0.22	0.23		
On Standard Assets	171	780	1,090	1,000	1,590	NA	59.0
Investment Depreciation	140	650	440	470	0	-100.0	-100.0
Others	-470	140	60	369	1,685	NA	356.3
Total	5,341	5,160	7,140	7,279	8,935	67.3	22.7

Source: Company, Emkay Research

Slippages remain under control; PCR improves

The slippages for the quarter stood at Rs11.8bn (Rs2.8bn from restructured assets), lower than Rs12.5bn for Q4FY11. However, with recoveries remaining lower at Rs6.6bn, the gross NPAs were up 11.7% qoq. The NPAs recognition for loans upto Rs1mn is being done

by system. We believe that the proportion of that portfolio as % of PNB's loans could be between 10-15%.

However, we like the fact that PNB has written back only small part of provisions on these loans and as a result the net NPAs have still remained flat. In fact, the provision cover improved by 110bps qoq to 74.3%.

NPA profile

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	36,138	40,248	45,411	43,794	48,936	35.4	11.7
Net NPA (Rs bn)	12,833	14,255	15,751	20,387	20,908	62.9	2.6
Gross NPA (%)	1.8	1.9	2.0	1.8	2.0		
Net NPA (%)	0.7	0.7	0.7	0.9	0.9		
Net NPLs/Net worth (%)	6.8	7.2	7.5	9.5	9.2		
Provision cover (%)	64.5	64.6	65.3	53.4	57.3		
Provision cover incl tech write off (%)	77.6	77.1	77.2	73.2	74.3		

Source: Company, Emkay Research

Slippages

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	12,160	21,270	31,040	43,530	11,770	-3.2	NA
Quarterly (Rs mn)	12,160	9,110	9,770	12,490	11,770	-3.2	-5.8
Cumulative (%)	0.6	1.0	1.4	1.8	0.5		
Quarterly (%)	0.6	0.4	0.4	0.5	0.5		

Source: Company, Emkay Research

Capital adequacy remains comfortable

The capital adequacy remained comfortable at 12.4% with tier I at 8.51%. Factoring in the Q1FY12 profits, the tier I CAR would have been higher at 9%.

Valuations and view

In our previous note on the PNB dated May 4, 2011 (*"Profits protected; slippages rise"*) we had mentioned that a lower slippage ratio will be key driver for profits and stock performance in FY12E. We believe that with slippages coming down, the strong topline performance for PNB should reflect in its bottom line. Over FY10-11, PNB's net income grew by 27% with net profit growing by much lower 13.5% due to provisions. We expect PNB's net income to grow by 16.4% over FY11-13E with profit growth of 21.6% over the same period. Having already built 90bps credit costs in our numbers, we believe that the risks to our earnings are low.

The stock is currently quoting at 1.5x FY12E ABV and 1.2x FY13E ABV with attractive RoEs of 21-23%. We find the valuations reasonable looking at strong returns profile. We maintain our ACCUMULATE rating on the stock with price target of Rs1270.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	85,229	118,073	138,144	164,008
Other income	35,653	36,126	38,877	44,580
Net income	120,882	154,199	177,021	208,588
Operating expenses	47,619	63,642	67,274	77,803
Pre provision profit	73,263	90,557	109,746	130,785
PPP excl treasury	81,296	93,549	113,042	134,080
Provisions	14,237	24,920	30,539	32,576
Profit before tax	59,026	65,637	79,207	98,209
Tax	19,973	21,302	26,138	32,409
<i>Tax rate</i>	34%	32%	33%	33%
Profit after tax	39,054	44,335	53,069	65,800

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	3,153	3,168	3,168	3,168
Reserves	174,076	211,918	256,150	312,376
Net worth	177,229	215,086	259,318	315,544
Deposits	2,493,298	3,128,987	3,807,432	4,630,522
Borrowings	296,052	439,180	504,694	570,416
Total liabilities	2,966,579	3,783,253	4,571,444	5,516,482
Assets				
Cash and bank	234,736	296,912	361,290	490,785
Investments	746,918	902,995	1,076,185	1,354,480
Customer assets	1,896,339	2,469,696	3,003,795	3,535,724
Others	88,587	113,650	130,077	135,378
Total assets	2,966,579	3,783,253	4,571,444	5,516,482

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	3.2	3.6	3.4	3.3
Non-ll/avg assets	1.3	1.1	0.9	0.9
Fee income/avg assets	0.6	0.6	0.6	0.6
Opex/avg assets	1.8	1.9	1.6	1.5
Provisions/avg assets	0.5	0.8	0.9	0.9
PBT/avg assets	2.0	1.7	1.7	1.8
Tax/avg assets	0.7	0.6	0.6	0.6
RoA	1.4	1.3	1.3	1.3
RoAE	24.1	22.6	22.4	22.9
GNPA (%)	1.9	2.0	2.1	2.0
NNPA (%)	0.4	0.8	0.5	0.5

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	39,054	44,335	53,069	65,800
Shares in issue (mn)	315	317	317	317
EPS (Rs)	123.9	139.9	167.5	207.7
PER (x)	8.5	7.6	6.3	5.1
FDEPS(Rs)	123.9	139.9	167.5	207.7
FDPER (x)	8.5	7.6	6.3	5.1
Book value (Rs)	514.8	632.5	772.1	949.6
P/BV (x)	2.1	1.7	1.4	1.1
Adj book value (Rs)	489.8	568.1	723.7	892.2
P/ABV (x)	2.2	1.9	1.5	1.2
P/PPP (x)	4.6	3.7	3.1	2.6
Dividend yield (%)	2.1	2.1	2.3	2.5

Recommendation History: Punjab National Bank – PNB IN

Date	Reports	Reco	CMP	Target
04/05/2011	Punjab National Bank Q4FY11 Result Update	Accumulate	1,129	1,300
21/01/2011	Punjab National Bank Q3FY11 Result Update	Buy	1,123	1,500
28/10/2010	Punjab National Bank Q2FY11 Result Update	Buy	1,310	1,500
22/07/2010	Punjab National Bank Q1FY11 Result Update	Accumulate	1,056	1,100

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/07/2011	Bank of Baroda Q1FY12 Result Update	Hold	875	950
27/07/2011	Canara Bank Q1FY12 Result Update	Hold	496	535
25/07/2011	Bank of India Q1FY12 Result Update	Hold	404	420
22/07/2011	Union Bank of India Q1FY12 Result Update	Hold	309	330

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