



# Punjab National Bank

BSE SENSEX	S&P CNX	CMP: INR940	TP: INR1,275	Buy						
17,194	5,199									
Bloomberg	PNB IN									
Equity Shares (m)	316.8									
52-Week Range (INR)	1,234/751									
1,6,12 Rel.Perf.(%)	9/-10/-9									
M.Cap. (INR b)	297.7									
M.Cap. (USD b)	6.0									
Year	Net Income	PAT	EPS	EPS	P/E	BV	P/BV	P/ABV	RoAA	RoAE
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(INR)	(X)	(X)	(%)	(%)
3/10A	120,882	39,054	123.9	26.4	-	515	-	-	1.4	26.6
3/11A	154,199	44,335	139.9	13.0	6.7	632	1.5	1.6	1.3	24.4
3/12E	178,624	49,211	155.3	11.0	6.0	761	1.2	1.3	1.2	22.3
3/13E	203,006	57,284	180.8	16.4	5.2	910	1.0	1.1	1.2	21.7

Punjab National Bank's (PNB) 3QFY12 PAT grew 6% YoY to INR11.5b (v/s est. of INR13.1b). While operating profit was 4% above estimates, higher-than-expected provision led to lower-than-estimated PAT.

- **Slippages of INR17b; traction in recoveries and upgradation slows down:** Gross slippages during the quarter stood at INR16.8b v/s INR9.9b in 2QFY12 which included one large account in aviation segment. The annualized slippage ratio for 3QFY12 was at 3% v/s 1.9% in 2QFY12. In 3QFY12, recoveries and upgradation stood at INR3.6b v/s INR7.2b in 2QFY12 and INR15.8b in FY11.
- **Restructured loans of INR19b:** PNB restructured loans of INR19b (70bp of loans) in 3QFY12, of which INR10b was due to one large account in telecom segment (on which NPV hit was INR1.5b). Outstanding standard restructured loans (net of repayments and NPAs) stood at INR155.5b.
- **Margins decline 7bp QoQ to 3.9%:** While yield on loans improved 5bp QoQ to ~12%, cost of deposits increased 22bp QoQ to 6.7% leading to margin contraction.
- **Traction in fee income growth remains impressive:** Core fee income grew 10% QoQ and 23% YoY to IN6.1b in 3QFY12. Strong growth was witnessed across different streams of fee income.
- **Loan growth remains healthy:** Loans grew 5.5% QoQ and ~19% YoY to INR2.6t, deposits grew ~4% QoQ and 23% YoY to INR3.6t. CASA growth moderated to ~12% YoY as a result of which CASA ratio declined 90bp to 36.2%.

**Valuation and view:** We expect RoA to remain strong at ~1.2% and RoE at ~22% over FY12/13. We expect PNB to report earnings CAGR of 14% over FY11-13. The stock trades at 1.2x FY12 BV and 1x FY13 BV. We maintain **Buy**.

## Punjab National Bank: Quarterly Performance

Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY11	FY12E
Interest Income	59,716	64,554	71,191	74,403	83,152	89,520	94,810	98,963	269,865	366,446
Interest Expense	33,733	34,787	39,158	44,113	52,000	54,994	59,444	62,169	151,791	228,607
Net Interest Income	25,983	29,767	32,033	30,290	31,153	34,526	35,366	36,794	118,073	137,839
% Change (YoY)	44.5	49.4	44.8	22.4	19.9	16.0	10.4	21.5	39.3	16.7
Other Income	8,917	7,183	8,572	11,454	10,837	8,889	9,541	11,519	36,126	40,785
Net Income	34,901	36,950	40,605	41,744	41,990	43,414	44,907	48,312	154,199	178,624
Operating Expenses	13,919	15,949	17,106	16,668	17,250	18,137	18,143	19,725	63,642	73,254
Operating Profit	20,982	21,001	23,499	25,075	24,739	25,278	26,764	28,588	90,557	105,369
% Change (YoY)	33.7	30.7	29.2	7.5	17.9	20.4	13.9	14.0	23.6	16.4
Other Provisions	5,341	5,160	7,139	7,279	8,935	7,103	9,461	6,421	24,920	31,920
Profit before Tax	15,640	15,841	16,360	17,796	15,804	18,175	17,303	22,167	65,637	73,449
Tax Provisions	4,958	5,095	5,463	5,787	4,753	6,124	5,803	7,558	21,302	24,238
Net Profit	10,683	10,746	10,898	12,009	11,051	12,050	11,501	14,609	44,335	49,211
% Change (YoY)	28.4	15.9	7.8	5.8	3.4	12.1	5.5	21.7	13.5	11.0
Deposit Growth (%)	16.6	18.4	23.5	25.5	26.9	25.0	23.4	22.0	25.5	22.0
Loan Growth (%)	24.6	27.6	29.8	29.7	23.4	19.3	18.7	18.0	29.7	18.0
CD Ratio (%)	77.1	76.4	76.6	77.4	74.9	72.9	73.7	74.8	77.4	74.8
Net Interest Margin (Reported)	3.9	4.1	4.1	3.9	3.8	4.0	3.9		4.0	
Net Interest Margin (Cal, %)	3.8	4.1	4.2	3.7	3.6	3.9	3.8	3.7	3.9	3.7
Tax Rate (%)	31.7	32.2	33.4	32.5	30.1	33.7	33.5	34.1	32.5	33.0
Gross NPA (%)	1.8	1.9	2.0	1.8	2.0	2.1	2.4	2.4	1.8	2.4

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com) + 91 22 3982 5415

Sohail Halai (Sohail.Halai@motilalosal.com)+ 9122 3982 5430

**Quarterly performance: Below est. (INR m)**

Y/E March	3QFY12A	3QFY12E	% Var.	Comments
<b>Net Interest Income</b>	<b>35,366</b>	<b>35,400</b>	<b>0</b>	Margin decline 7bp QoQ - in-line with est.
% Change (Y-o-Y)	10	11		
Other Income	9,541	9,822	-3	Healthy fee income growth; non-core income led to -ve surprise
<b>Net Income</b>	<b>44,907</b>	<b>45,222</b>	<b>-1</b>	
Operating Expenses	18,143	19,410	-7	
<b>Operating Profit</b>	<b>26,764</b>	<b>25,813</b>	<b>4</b>	Lower opex led to higher than est. operating profit
% Change (Y-o-Y)	14	10		
Other Provisions	9,461	6,600	43	Higher provisions towards NPA and restructured loan book leading to negative surprise
<b>Profit before Tax</b>	<b>17,303</b>	<b>19,213</b>	<b>-10</b>	
Tax Provisions	5,803	6,148	-6	
<b>Net Profit</b>	<b>11,501</b>	<b>13,065</b>	<b>-12</b>	While Op. Profits was above est. higher than expected provisions led to lower than est. PAT
% Change (Y-o-Y)	6	20		

Source: Company/MOSL

**Slippages of INR17b; traction in recoveries and upgradation slows down**

Gross slippages during the quarter stood at INR16.8b v/s INR9.9b in 2QFY12. Management mentioned that one large account in aviation segment contributed to significant increase in slippages sequentially. Further management also stated that it has also recognized one entertainment account into NPA (amount not quantified) which is likely to have been restructured by its peers. The annualized slippage ratio for 3QFY12 was at 3% v/s 1.9% in 2QFY12 and 2.3% for FY11.

Pace of recoveries and up gradations slows down - a disappointment. During the quarter, recoveries and up gradation stood at INR3.6b v/s INR7.2b in 2QFY12 and INR15.8b in FY11. Write-offs were negligible during the quarter (INR310m v/s INR180m in 2QFY12 and INR1.9b in 3QFY11).

Overall GNPA in absolute terms increased 25% QoQ, whereas NNPA were up 39% QoQ. In percentage terms GNPA stood at 2.4% (+ 37bp QoQ) while NNPA was at 1.1% (vs 0.84% a quarter ago). PCR (cal) declined to 55% as against 59.4% a quarter ago. PCR including technical write-offs was at 70.1% (v/s 75.1% a quarter ago).

**Restructured INR19b (~70bp of overall loan book) during the quarter**

PNB restructured fresh loans worth INR19b (70bp of loans) during 3QFY12, of which INR10b was on account of one large account in telecom infrastructure segment (on which NPV hit was INR1.5b).

Outstanding standard restructured loans (net of repayments and NPA) stood at INR155.5b which forms 5.9% of the loans (100-150bp higher than large cap peers) however it includes one large account - TNSEB, which other Banks have not recognized so far. Adjusted for which outstanding RL will become 5.3% of the loan book (50-60bp higher than peers).

Management mentioned that it expects restructuring to increase further over next couple of quarters led by restructuring of SEB loans. It has already received application from Rajasthan SEB and expects Haryana and U.P to be restructured as well. PNBs exposure to SEB segment stood at INR72b (2.7% of overall loans) - however it includes some loans to generation segment as well.

### **Margins decline 7bp QoQ**

Margins declined 7bp QoQ to 3.9% as banks reliance on bulk deposit increased further (24% v/s 23.7% in 2QFY12 and 22.5% in 3QFY11) leading to increase in cost of deposits. While yield on loans improved 5bp QoQ to ~12%, cost of deposits increased by 22bp QoQ to 6.7% leading to margin contraction. Yield on investments improved by 8bp QoQ to 7.86%. Management maintained its guidance of 3.5% NIM for FY12. We model in margin decline of ~20bp for FY12 v/s reported of 4% for FY11.

### **Traction in fee income growth remains impressive**

Non-interest income was 3% below than estimates at INR9.5b due to lower dividend income from MF and trading gains. Traction in core fee income remains impressive with core fee income growing 10% QoQ and 23% YoY to IN6.1b in 3QFY12. Strong growth was witnessed across the different streams of fee income. Processing fees (+8% QoQ and 17% YoY), commission from LCs (+11% QoQ and 19% YoY), fees from remittances (+6% QoQ and 42% YoY) contributed to strong growth in fee income.

Trading profits stood at INR860m vs. INR770m a quarter ago and INR910m a year ago. Recoveries during the quarter were at INR920m vs INR680m in 2QFY12 and INR1.2b in 3QFY11. Forex income for the quarter was INR1.5b vs ~INR1.3b in 2QFY12 and INR1.2b in 3QFY11.

### **Operating profit 4% above est.; higher provisions impacts PAT**

Operating profit grew 14% YoY (4% above est.) to INR26.7b driven by healthy NII growth (in-line with est.) and lower opex (7% below est.) Provisions for the quarter stood at INR9.5b as against est. of INR6.6b leading to lower than estimated PAT. Bank provided INR5.8b towards NPA as against INR3.2b in 2QFY12 and INR5.5b in 3QFY11.

Bank also provided INR1.4b towards depreciation on investment as against INR1.6b in 2QFY12. While the provisioning requirement for MTM was INR2.4b proactively providing higher in 2QFY12 (INR1.6b as against requirement of INR510m) providing cushion. PNB provided INR1.2b (net of recoveries) on resturctured loans during the quarter.

### **Loan growth remains healthy; CASA ratio declines further**

Loans grew 5.5% QoQ and ~19% YoY to INR2.6t, deposits grew ~4% QoQ and 23% YoY to INR3.6t. As a result CD ratio increased 80bp QoQ to 73.7%. Overall loan grew 5.5% QoQ and 19% YoY to INR2.6t, whereas domestic loan growth stood at 4.5% QoQ and ~16% YoY. Incremental loan growth in domestic segment was driven by SME (+8% QoQ and 18% YoY) and agriculture segment (+9% QoQ and 13% YoY).

While loan growth to industrial segment was muted QoQ strong growth was seen in power (+28% QoQ and 46% YoY) and iron and steel (+16% QoQ and 37% YoY) segment. Power and iron and steel together contributed 42% of incremental loan growth. Management specified that strong growth in power segment was led by higher disbursement in private segment.

Overseas loan growth was strong at 20% QoQ and 83% YoY, partially led by currency depreciation during the quarter. Investments grew 6% QoQ and 32% YoY. CASA growth moderated to ~12% YoY and 2% QoQ to ~INR1.3t. CA deposit growth was largely flattish both on a sequential and on a YoY basis, whereas SA deposits grew 2% QoQ and 14% YoY to INR1.3t. Reported CASA ratio declined further by ~100bp QoQ to 36.2%. Proportion of bulk deposits was largely stable QoQ at 24% (v/s 22.4% a year ago).

### Valuation and view

While core operating performance has been strong, higher provisions led to lower than estimated PAT. Over the past two years, management has continuously surprised on the margins (despite higher slippages) demonstrating strong ALM and benefit of high CASA ratio. Management has reiterated its guidance on margins of 3.5%+. We model in NIM decline of ~20bp for FY12 and 15bp for FY13. NII CAGR is expected to be 15% over FY12/13.

While slippages increased to INR17b as against INR10b, it was driven led by one large account in aviation segment slipping into NPA. However disappointment came in from slowdown in recoveries and up-gradation (INR3.6b v/s INR7.2b in 2QFY12). In the current macro-economic environment, while slippages may remain at an elevated level, improvement in up-gradation and recoveries would be the key for asset quality. We have built in slippage ratio of 2.1% and 2.2% for FY12 and FY13 respectively and credit cost of 70bp and 80bp over FY12/13. High margins and improvement in fee income provides strong cushion in the balance sheet to provide for higher credit cost.

Outstanding standard restructured loans (net of repayments and NPA) stood at INR155.5b which is 5.9% of the loans (100-150bp higher than large cap peers) however it includes one of the large account, TNSEB, which others have not recognized so far (adj for which, RL will become 5.3% of the loan book (50-60bp higher than peers).

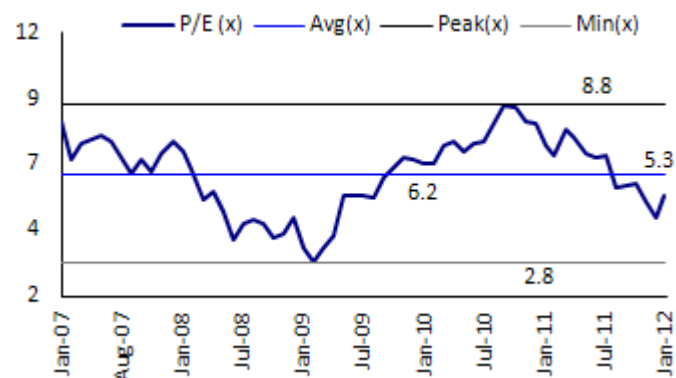
We expect RoA to remain strong at ~1.2% and RoE at ~22% over FY12/13. We expect PNB to report earnings CAGR of 14% over FY11-13. BV is expected to be INR761 in FY12 and INR910 in FY13. We have not factored in the recent announcement of INR12.9b capital infusion by GOI as we await the final modalities. Stock trades at 1.2x FY12 BV and 1x FY13 BV. Maintain **Buy** with target price of INR1,275 (1.4x FY13 BV).

**Marginal change in our earnings estimates (INR b)**

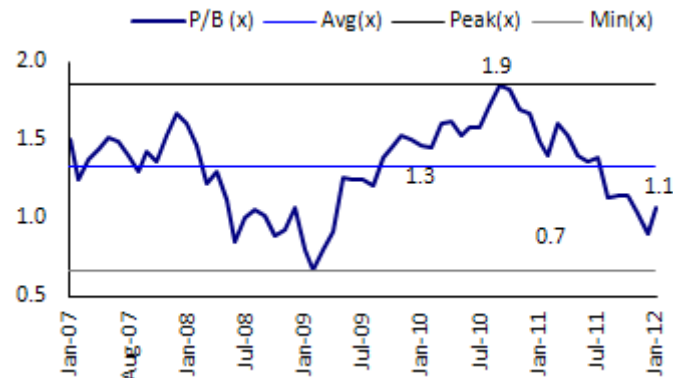
	Old Estimates		Rev. Estimates		Change (%)	
	FY12	FY13	FY12	FY13	FY12	FY13
Net Interest Income	137.3	154.7	137.8	156.5	0.4	1.2
Other Income	40.6	46.6	40.8	46.5	0.4	-0.3
<b>Total Income</b>	<b>177.9</b>	<b>201.3</b>	<b>178.6</b>	<b>203.0</b>	<b>0.4</b>	<b>0.8</b>
Operating Expenses	74.7	82.8	73.3	82.5	-1.9	-0.4
<b>Operating Profits</b>	<b>103.2</b>	<b>118.5</b>	<b>105.4</b>	<b>120.6</b>	<b>2.1</b>	<b>1.7</b>
Provisions	29.6	32.9	31.9	35.1	7.7	6.5
<b>PBT</b>	<b>73.6</b>	<b>85.6</b>	<b>73.4</b>	<b>85.5</b>	<b>-0.2</b>	<b>-0.1</b>
Tax	23.5	27.4	24.2	28.2	2.9	3.0
<b>PAT</b>	<b>50.0</b>	<b>58.2</b>	<b>49.2</b>	<b>57.3</b>	<b>-1.7</b>	<b>-1.6</b>
Margins (%)	3.7	3.5	3.7	3.5		
Credit Cost (%)	0.6	0.8	0.7	0.8		
<b>RoA (%)</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>		
<b>RoE (%)</b>	<b>22.7</b>	<b>22.0</b>	<b>22.3</b>	<b>21.7</b>		

Source: MOSL

**Punjab National Bank: One year forward P/E**

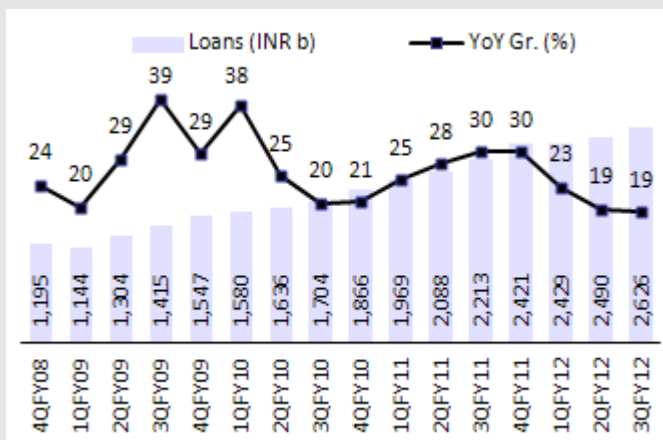


**Punjab National Bank: One year forward P/BV**



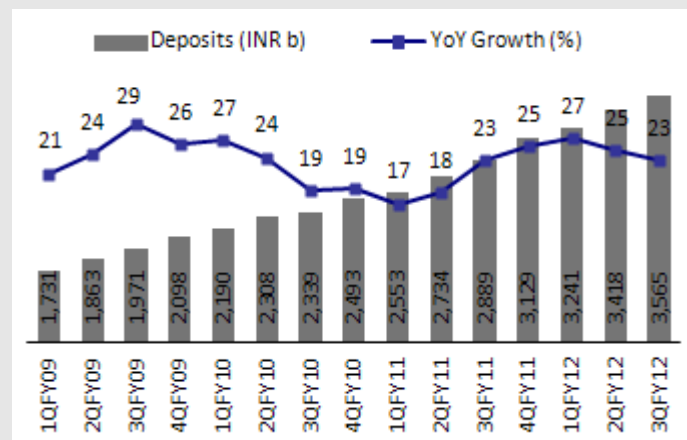
Quarterly trends

Loan growth remains healthy...



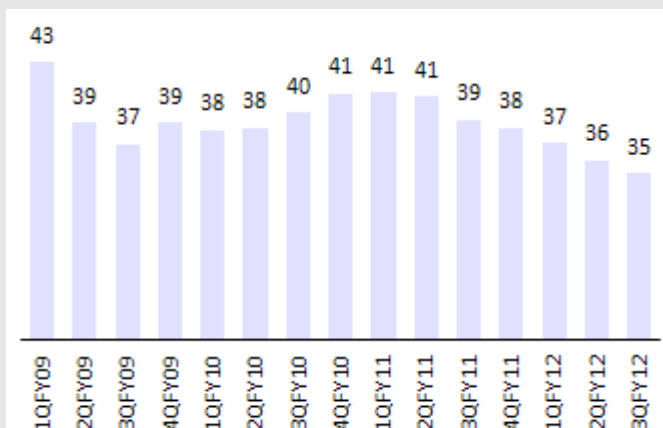
- Incremental loan growth was driven by SME (+8% QoQ and 18% YoY) and agriculture segment (+9% QoQ and 13% YoY)

... So as deposit growth



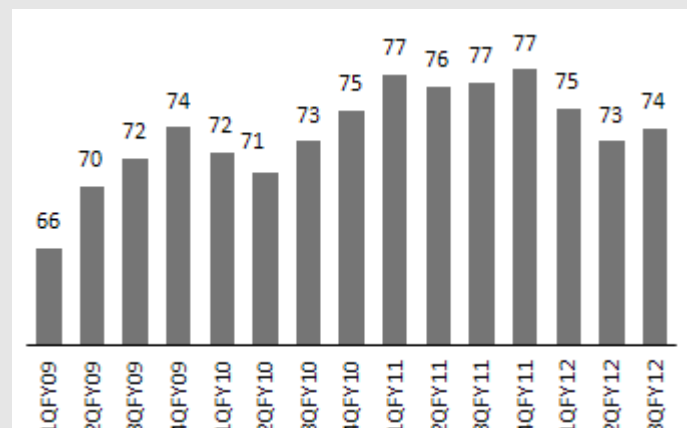
- Deposits grew ~4% QoQ and 23% YoY to INR3.6t

CASA ratio (cal) declines QoQ (%)



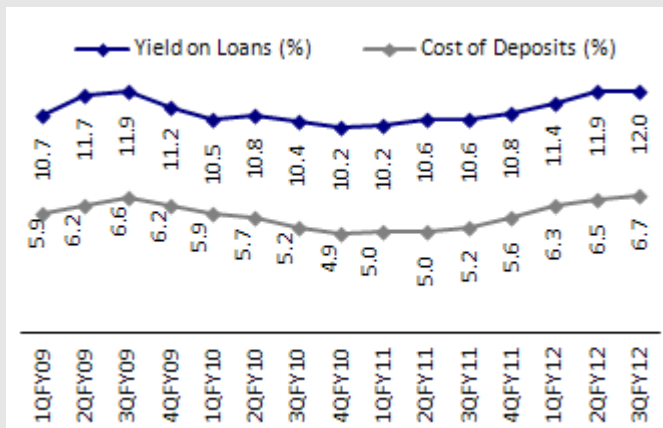
- While traction in savings deposits remains healthy at 14% QoQ, flattish CA deposits growth led to moderation in CASA growth

CD ratio improves marginally QoQ (%)



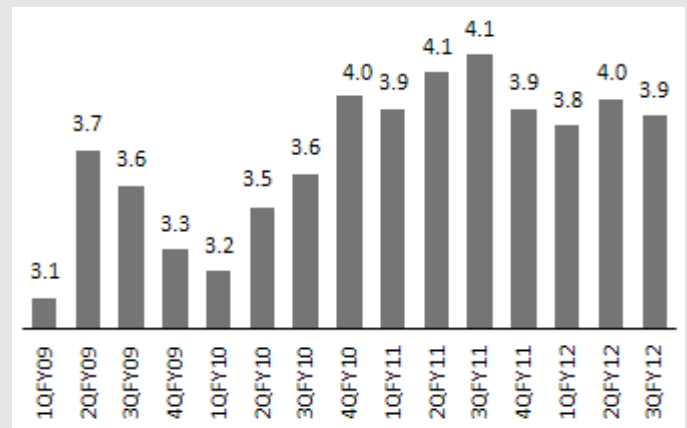
- CD ratio remains at an optimal level

CoD up 22bp QoQ; led by strong gr. in term deposits



- Yield on loans improved 5bp QoQ to ~12%

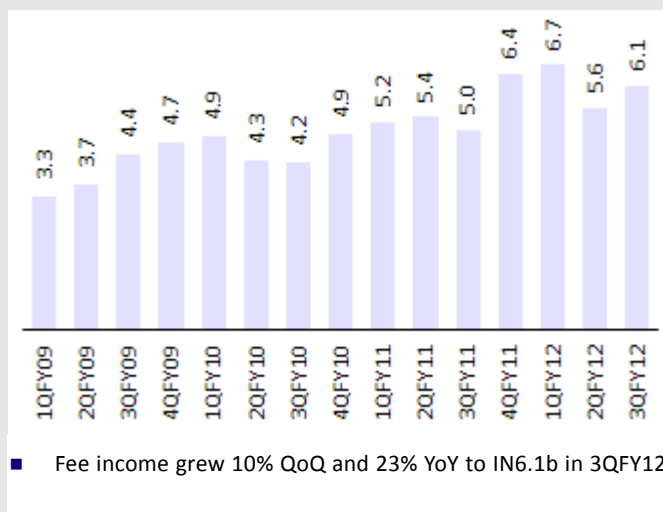
NIM decline 7bp QoQ - in line with est. (%)



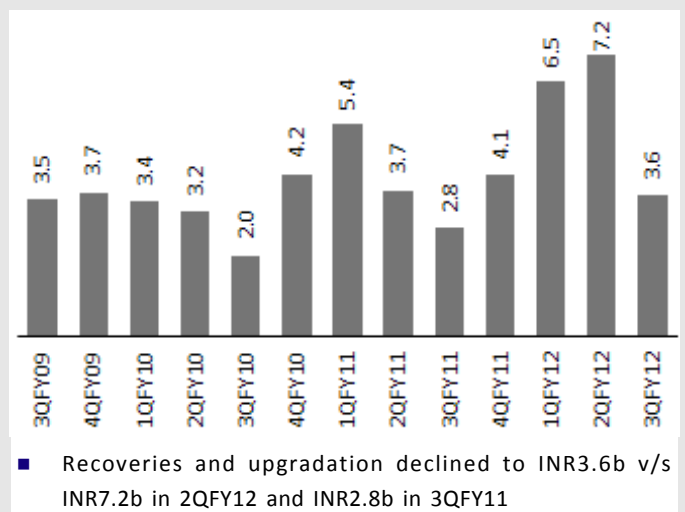
- Increased reliance on bulk deposit (leading to higher pressure on CoD) led to margins decline of 7bp QoQ to 3.9%

Quarterly trends (continued)

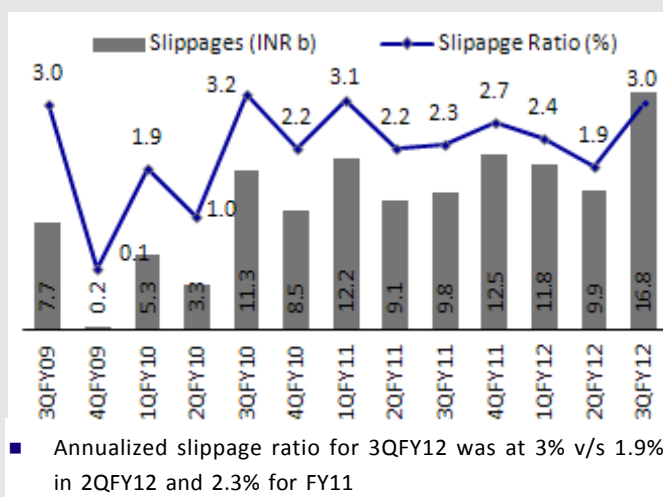
Fee income growth remains impressive (INR b)



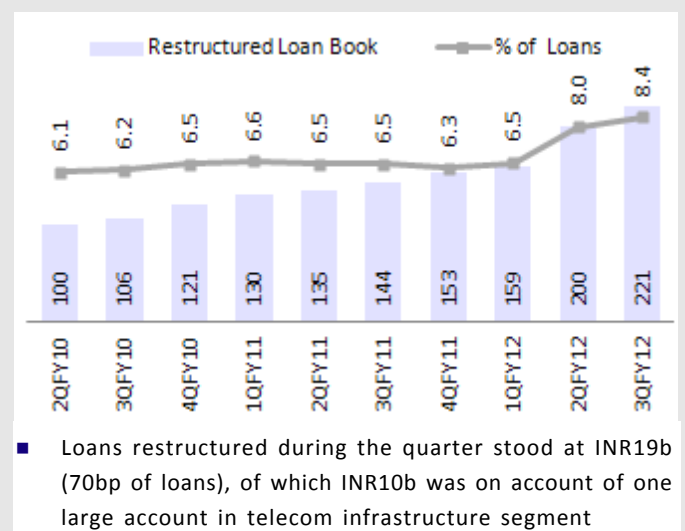
Pace of recoveries and up gradations slows down (INR b)



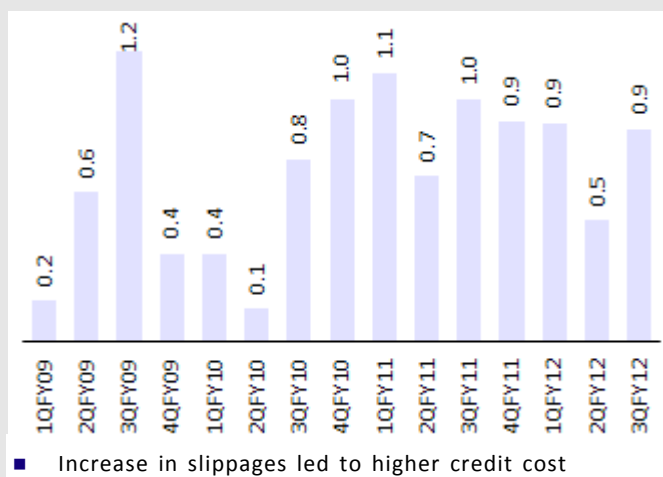
Slippages rise QoQ; led by one large corporate account



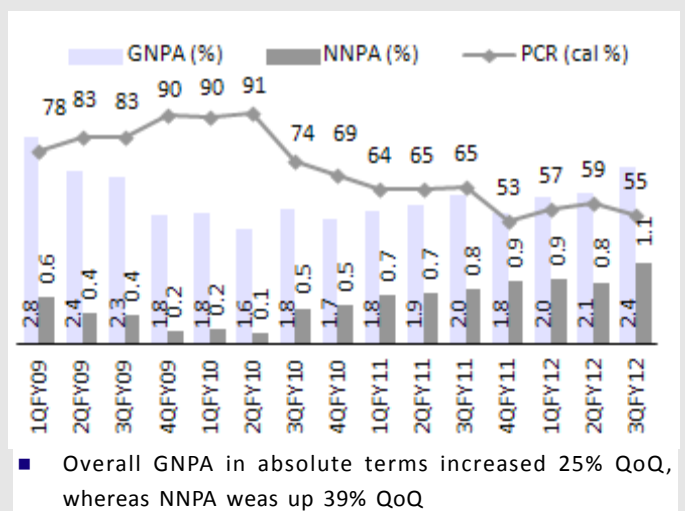
Net restructured loan book at INR155b (INR b)



Credit cost increases QoQ (%)



Asset quality deteriorates QoQ



## Quarterly Snapshot

	FY11				FY12			Variation (%)		Cumulative Numbers		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	QoQ	YoY	9M FY11	9M FY12	YoY Gr (%)
<b>Profit and Loss (INR m)</b>												
<b>Net Interest Income</b>	<b>25,983</b>	<b>29,767</b>	<b>32,033</b>	<b>30,290</b>	<b>31,153</b>	<b>34,526</b>	<b>35,366</b>	<b>2</b>	<b>10</b>	<b>87,783</b>	<b>101,045</b>	<b>15</b>
<b>Other Income</b>	<b>8,917</b>	<b>7,183</b>	<b>8,572</b>	<b>11,454</b>	<b>10,837</b>	<b>8,889</b>	<b>9,541</b>	<b>7</b>	<b>11</b>	<b>24,672</b>	<b>29,266</b>	<b>19</b>
Trading profits	1,210	380	910	530	480	770	860	12	-5	2,500	2,110	-16
Forex Income	1,130	310	1,250	1,090	1,310	1,330	1,540	16	23	2,690	4,180	55
Recoveries	760	920	1,230	2,210	1,090	680	920	35	-25	2,910	2,690	-8
Div. from Liquid MF	580	220	170	1,200	1,260	520	80	-85	-53	970	1,860	92
Core Fees	5,237	5,353	5,012	6,424	6,697	5,589	6,141	10	23	15,602	18,426	18
<b>Total Income</b>	<b>34,901</b>	<b>36,950</b>	<b>40,605</b>	<b>41,744</b>	<b>41,990</b>	<b>43,414</b>	<b>44,907</b>	<b>3</b>	<b>11</b>	<b>112,456</b>	<b>130,311</b>	<b>16</b>
<b>Operating Expenses</b>	<b>13,919</b>	<b>15,949</b>	<b>17,106</b>	<b>16,668</b>	<b>17,250</b>	<b>18,137</b>	<b>18,143</b>	<b>0</b>	<b>6</b>	<b>46,974</b>	<b>53,530</b>	<b>14</b>
Employee	9,952	11,131	12,235	11,293	12,126	12,404	12,636	2	3	33,319	37,167	12
Others	3,967	4,818	4,871	5,376	5,124	5,732	5,507	-4	13	13,655	16,363	20
<b>Operating Profits</b>	<b>20,982</b>	<b>21,001</b>	<b>23,499</b>	<b>25,075</b>	<b>24,739</b>	<b>25,278</b>	<b>26,764</b>	<b>6</b>	<b>14</b>	<b>65,482</b>	<b>76,781</b>	<b>17</b>
<b>Provisions</b>	<b>5,341</b>	<b>5,160</b>	<b>7,139</b>	<b>7,279</b>	<b>8,935</b>	<b>7,103</b>	<b>9,461</b>	<b>33</b>	<b>33</b>	<b>17,641</b>	<b>25,499</b>	<b>45</b>
NPA provisions	5,480	3,590	5,550	5,440	5,660	3,190	5,790	82	4	14,620	14,640	0
Provisions on Invst.	140	670	440	470	1,340	1,610	1,430	-11	225	1,250	4,380	250
Others	-279	900	1,149	1,369	1,935	2,303	2,241	-3	95	1,771	6,479	266
<b>PBT</b>	<b>15,640</b>	<b>15,841</b>	<b>16,360</b>	<b>17,796</b>	<b>15,804</b>	<b>18,175</b>	<b>17,303</b>	<b>-5</b>	<b>6</b>	<b>47,841</b>	<b>51,282</b>	<b>7</b>
Taxes	4,958	5,095	5,463	5,787	4,753	6,124	5,803	-5	6	15,515	16,680	8
<b>PAT</b>	<b>10,683</b>	<b>10,746</b>	<b>10,898</b>	<b>12,009</b>	<b>11,051</b>	<b>12,050</b>	<b>11,501</b>	<b>-5</b>	<b>6</b>	<b>32,326</b>	<b>34,602</b>	<b>7</b>
<b>Ratios (%)</b>												
Fees to Total Income	15.0	14.5	12.3	15.4	15.9	12.9	13.7			13.9	14.1	
Cost to Core Income	44.6	45.4	46.2	45.4	45.6	45.2	43.7			45.4	44.8	
Tax Rate	31.7	32.2	33.4	32.5	30.1	33.7	33.5			32.4	32.5	
CASA (Cal)	40.9	40.6	39.1	38.5	37.4	36.3	35.3					
Loan/Deposit	77.1	76.4	76.6	77.4	74.9	72.9	73.7					
CAR	14.4	13.6	13.3	12.4	12.4	12.2	11.5					
Tier I	9.3	9.0	9.0	8.4	8.5	8.4	7.9					
<b>Margins - Quarterly (%)</b>												
Yield on loans	10.2	10.6	10.6	10.8	11.4	11.9	12.0	5	138			
Yield On Investments	7.3	7.3	6.8	7.1	7.7	7.8	7.9	8	104			
Yield on Funds	8.0	8.2	8.3	8.3	8.7	9.0	9.2	17	93			
Cost of Deposits	5.0	5.0	5.2	5.6	6.3	6.5	6.7	22	154			
Cost of Funds	4.5	4.4	4.5	4.9	5.4	5.5	5.8	22	122			
Spreads	3.5	3.8	3.7	3.4	3.3	3.5	3.4	-5	-29			
Margins	3.9	4.1	4.1	3.9	3.8	4.0	3.9	-7	-25			
<b>Margins - Cumulative (%)</b>												
Yield on loans	10.2	10.4	10.5	10.6	11.4	11.7	11.8	12	129			
Yield On Investments	7.3	7.3	6.6	7.1	7.7	7.7	7.7	3	116			
Yield on Funds	8.0	7.9	8.1	8.1	8.7	8.9	8.9	8	88			
Cost of Deposits	5.0	5.0	5.1	5.2	6.3	6.4	6.5	12	142			
Cost of Funds	4.5	4.4	4.4	4.6	5.4	5.5	5.6	7	112			
Spreads	3.5	3.6	3.6	3.6	3.3	3.4	3.4	1	-24			
Margins	3.9	4.0	4.0	4.0	3.8	3.9	3.9	-3	-14			
<b>Franchise</b>												
Branches	5,020	5,000	5,017	5,161	5,286	5,315	5,393	78	376			
ATM	3,715	4,000	4,400	5,050	5,375	5,619	5,793	174	1,393			

For %age change QoQ and YoY is bp

Source: Company/MOSL

## Quarterly Snapshot (Continued)

INR b	FY10				FY11				FY12			Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	QoQ	YoY
<b>Balance Sheet (INR b)</b>													
Loans	1,580	1,636	1,704	1,866	1,969	2,088	2,213	2,421	2,429	2,490	2,626	5	19
Investments	653	701	740	781	810	866	884	955	1,010	1,110	1,175	6	33
Deposits	2,190	2,308	2,339	2,493	2,553	2,734	2,889	3,129	3,241	3,418	3,565	4	23
<b>Deposits Break Up</b>													
Core Deposits	1,748	1,762	1,804	1,923	2,075	2,178	2,241	2,415	2,463	2,607	2,709	4	21
% to total Deposits	80	76	77	77	81	80	78	77	76	76	76	-27	-158
Other Deposits	442	546	536	570	478	556	648	714	778	811	856	6	32
% to total Deposits	20	24	23	23	19	20	22	23	24	24	24	27	158
<b>Deposits Break Up</b>													
CASA Deposits	839	888	925	1,019	1,044	1,110	1,128	1,203	1,213	1,240	1,260	2	12
% to total Deposits	38	38	40	41	41	41	39	38	37	36	35	-95	-372
Savings	648	698	726	781	818	873	899	935	949	1,005	1,027	2	14
% to total Deposits	30	30	31	31	32	32	31	30	29	29	29	-59	-230
Current	192	191	199	237	225	237	229	268	264	235	233	-1	1
% to total Deposits	9	8	8	10	9	9	8	9	8	7	7	-36	-142
Term Deposits	1,350	1,420	1,415	1,475	1,510	1,624	1,761	1,926	2,028	2,178	2,306	6	31
% to total Deposits	62	62	60	59	59	59	61	62	63	64	65	95	372
<b>Loan Break Up</b>													
Agriculture	236	250	272	302	302	323	339	355	342	351	383	9	13
SME Loans	147	310	195	207	201	235	252	268	273	276	299	8	18
Retail Loans	166	170	179	192	194	206	217	236	242	247	260	5	20
Other loans	1,031	905	1,059	1,165	1,271	1,324	1,404	1,562	1,573	1,616	1,684	4	20
<b>Asset Quality</b>													
<b>Movement of NPA -Quarterly</b>													
Opening	25.1	26.1	26.2	31.6	32.1	36.1	40.2	45.4	43.8	48.9	51.5		
Additions	5.3	3.3	11.3	8.5	12.2	9.1	9.8	12.5	11.8	9.9	16.8	69	72
Deductions	4.3	3.2	5.9	7.9	8.2	5.0	4.6	14.1	6.6	7.4	3.9	-47	-15
Cash Recovery	1.6	2.4	1.9	3.5	4.1	3.1	2.4	2.3	4.2	5.1	3.3	-35	39
Upgradation	1.8	0.7	0.1	0.7	1.3	0.7	0.3	1.8	2.3	2.1	0.3	-88	-26
Write offs	0.9	0.0	3.9	3.7	2.8	1.3	1.9	10.0	0.1	0.2	0.3	72	-83
Closing	26.1	26.1	31.5	32.2	36.1	40.2	45.4	43.8	48.9	51.5	64.4		
Slippage Ratio (%)	1.9	1.0	3.2	2.2	3.1	2.2	2.3	2.7	2.4	1.9	3.0	114	75
Credit cost (%)	0.4	0.1	0.8	1.0	1.1	0.7	1.0	0.9	0.9	0.5	0.9	39	-13

For %age change QoQ and YoY is bp

Source: Company/MOSL

## Stock Info

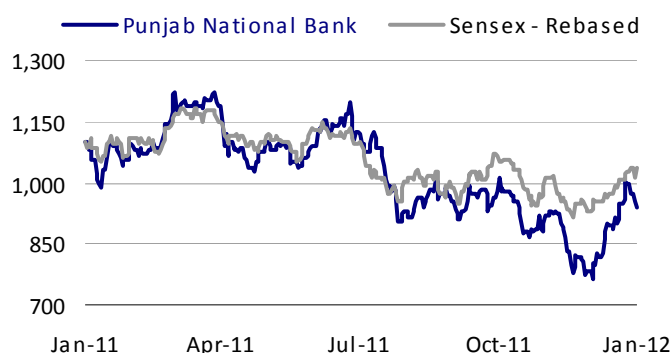
### EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	155.3	153.3	1.3
FY13	180.8	180.1	0.4

### Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	58.0	58.0	57.8
Domestic Inst	17.9	17.8	17.7
Foreign	18.6	18.8	19.5
Others	5.5	5.4	5.1

### 1-year Sensex rebased



### Financials: Valuation Matrix

	Rating	CMP (INR)	Mkt. Cap (USDb)	EPS (INR)		P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
ICICIBC*	Buy	902	20.8	55	62	12.3	10.6	1.7	1.5	1.5	1.4	13.8	14.3
HDFCB	Neutral	491	22.8	22	28	22.2	17.6	3.9	3.3	1.7	1.7	18.9	20.5
AXSB	Buy	1,074	8.8	97	112	11.1	9.6	2.0	1.7	1.5	1.5	19.9	19.5
KMB	Neutral	498	3.7	24	28	19.8	16.8	2.8	2.4	1.8	1.6	14.9	14.6
YES	Buy	330	2.3	28	33	11.7	10.1	2.5	2.0	1.5	1.3	23.3	22.3
IIB	Buy	292	2.7	17	21	17.0	13.9	3.1	2.6	1.6	1.5	19.3	20.1
VYSB	Buy	335	0.8	30	34	11.2	10.0	1.3	1.2	1.0	1.0	14.0	12.3
FB	Buy	400	1.4	43	50	9.2	7.9	1.2	1.1	1.3	1.3	13.8	14.5
JKBk	Buy	830	0.8	151	168	5.5	5.0	1.0	0.9	1.3	1.2	19.4	18.7
SIB	Buy	23	0.5	3	4	6.7	5.9	1.3	1.1	1.1	1.0	21.1	20.3
<b>Private Aggregate</b>			<b>65</b>			<b>15.9</b>	<b>13.5</b>	<b>2.3</b>	<b>2.0</b>				
SBIN (cons)*	Buy	2,061	26.2	211	240	9.3	8.2	1.3	1.2	0.8	0.8	15.6	16.1
PNB	Buy	940	6.0	155	181	6.1	5.2	1.2	1.0	1.2	1.2	22.3	21.7
BOI	Neutral	344	3.8	45	59	7.6	5.9	1.1	0.9	0.7	0.8	14.6	16.7
BOB	Neutral	753	5.9	122	133	6.2	5.7	1.2	1.1	1.1	1.1	20.4	20.2
CBK	Buy	471	4.2	73	89	6.5	5.3	1.0	0.9	0.9	0.9	16.7	17.7
UNBK	Buy	229	2.4	27	45	8.4	5.0	1.0	0.9	0.8	0.8	17.6	18.2
IOB	Neutral	88	1.1	22	18	4.0	4.8	0.6	0.6	0.7	0.5	15.6	12.0
OBC	Buy	256	1.5	42	50	6.1	5.2	0.7	0.6	0.7	0.7	11.4	12.4
INBK	Buy	221	1.9	44	48	5.0	4.6	1.0	0.9	1.4	1.3	21.6	20.0
CRPBK	Neutral	414	1.2	98	104	4.2	4.0	0.7	0.7	0.9	0.8	18.8	17.4
ANDB	Buy	102	1.1	23	26	4.4	4.0	0.8	0.7	1.1	1.0	18.7	18.0
IDBI *	Neutral	101	2.0	20	21	3.9	3.6	0.5	0.5	0.7	0.7	14.5	14.1
DNB	Buy	68	0.5	22	25	3.1	2.7	0.6	0.5	0.9	0.9	17.9	18.4
<b>Public Aggregate</b>			<b>58</b>			<b>7.7</b>	<b>6.6</b>	<b>1.2</b>	<b>1.0</b>				
HDFC*	Neutral	697	20.4	27	31	18.5	15.5	5.1	4.6	2.8	2.9	26.6	28.8
LICHF	Buy	250	2.4	19	28	12.9	9.1	2.4	2.0	1.6	1.8	20.3	24.3
DEWH	Buy	235	0.5	30	39	7.9	6.0	1.3	1.1	1.3	1.4	18.7	19.5
IDFC	Buy	133	3.9	10	11	12.9	12.3	1.5	1.3	3.1	2.7	13.7	12.6
RECL	Buy	190	3.8	28	35	6.7	5.4	1.3	1.1	3.0	3.1	20.6	22.5
POWF	Buy	170	3.9	18	29	9.5	5.9	1.1	1.0	2.1	2.8	13.2	17.7
SHTF	Buy	584	2.6	58	63	10.1	9.3	2.2	1.8	3.0	2.9	23.9	21.6
MMFS	Neutral	707	1.4	55	70	12.9	10.1	2.5	2.1	3.8	3.8	20.8	22.4
<b>NBFC Aggregate</b>			<b>39</b>			<b>14.1</b>	<b>11.1</b>	<b>3.2</b>	<b>2.7</b>				

\* Multiples adj. for value of key ventures/Investments; For ICICI Bank, HDFC Ltd BV is adjusted for investments in subsidiaries

## Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2008	2009	2010	2011	2012E	2013E
Interest Income	142,650	191,272	214,221	269,865	366,446	428,196
Interest Expense	87,309	122,953	129,440	151,791	228,607	271,692
<b>Net Interest Income</b>	<b>55,342</b>	<b>68,319</b>	<b>84,781</b>	<b>118,073</b>	<b>137,839</b>	<b>156,504</b>
Change (%)	6.2	23.4	24.1	39.3	16.7	13.5
Non Interest Income	19,976	30,647	36,101	36,126	40,785	46,502
<b>Net Income</b>	<b>75,317</b>	<b>98,966</b>	<b>120,882</b>	<b>154,199</b>	<b>178,624</b>	<b>203,006</b>
Change (%)	8.5	31.4	22.1	27.6	15.8	13.7
Operating Expenses	35,255	42,062	47,619	63,642	73,254	82,453
<b>Pre Provision Profits</b>	<b>40,062</b>	<b>56,904</b>	<b>73,263</b>	<b>90,557</b>	<b>105,369</b>	<b>120,553</b>
Change (%)	10.7	42.0	28.7	23.6	16.4	14.4
Provisions (excl tax)	7,103	9,235	14,215	24,920	31,920	35,054
<b>PBT</b>	<b>32,959</b>	<b>47,669</b>	<b>59,048</b>	<b>65,637</b>	<b>73,449</b>	<b>85,499</b>
Tax	12,472	16,760	19,994	21,302	24,238	28,215
Tax Rate (%)	37.8	35.2	33.9	32.5	33.0	33.0
<b>PAT</b>	<b>20,488</b>	<b>30,909</b>	<b>39,054</b>	<b>44,335</b>	<b>49,211</b>	<b>57,284</b>
Change (%)	33.0	50.9	26.4	13.5	11.0	16.4
<b>Equity Dividend (Incl tax)</b>	<b>4,796</b>	<b>7,378</b>	<b>8,101</b>	<b>8,101</b>	<b>8,637</b>	<b>10,053</b>
<b>Core PPP*</b>	<b>33,843</b>	<b>46,957</b>	<b>62,069</b>	<b>82,432</b>	<b>98,769</b>	<b>113,093</b>
Change (%)	10.1	38.7	32.2	32.8	19.8	14.5

\*Core PPP is (NII+Fee income-Opex)

Balance Sheet		(INR Million)				
Y/E March	2008	2009	2010	2011	2012E	2013E
Equity Share Capital	3,153	3,153	3,153	3,168	3,168	3,168
Reserves & Surplus	120,030	143,383	174,076	211,917	252,274	299,293
<b>Net Worth</b>	<b>123,183</b>	<b>146,536</b>	<b>177,229</b>	<b>215,086</b>	<b>255,442</b>	<b>302,461</b>
<b>Deposits</b>	<b>1,664,572</b>	<b>2,097,605</b>	<b>2,493,298</b>	<b>3,128,987</b>	<b>3,817,364</b>	<b>4,580,837</b>
Change (%)	19.0	26.0	18.9	25.5	22.0	20.0
<b>of which CASA Dep</b>	<b>715,609</b>	<b>814,599</b>	<b>1,018,500</b>	<b>1,203,250</b>	<b>1,313,400</b>	<b>1,497,327</b>
Change (%)	10.9	13.8	25.0	18.1	9.2	14.0
Borrowings	116,114	124,597	192,624	315,897	272,152	290,427
Other Liabilities & Prov.	86,335	100,448	103,177	123,283	152,971	185,403
<b>Total Liabilities</b>	<b>1,990,204</b>	<b>2,469,186</b>	<b>2,966,328</b>	<b>3,783,252</b>	<b>4,497,930</b>	<b>5,359,129</b>
Current Assets	188,307	214,131	234,736	296,912	305,182	384,854
<b>Investments</b>	<b>539,917</b>	<b>633,852</b>	<b>777,245</b>	<b>951,623</b>	<b>1,180,013</b>	<b>1,416,016</b>
Change (%)	19.5	17.4	22.6	22.4	24.0	20.0
<b>Loans</b>	<b>1,195,016</b>	<b>1,547,030</b>	<b>1,866,012</b>	<b>2,421,067</b>	<b>2,856,859</b>	<b>3,371,093</b>
Change (%)	23.7	29.5	20.6	29.7	18.0	18.0
Fixed Assets	23,155	23,971	25,135	31,056	31,986	32,302
Other Assets	43,808	50,202	63,201	82,594	123,891	154,864
<b>Total Assets</b>	<b>1,990,204</b>	<b>2,469,186</b>	<b>2,966,328</b>	<b>3,783,252</b>	<b>4,497,930</b>	<b>5,359,129</b>

Asset Quality		(%)				
GNPA (INR m)	33,193	25,069	32,144	43,794	70,145	96,430
NNPA (INR m)	7,538	2,639	9,817	20,386	30,204	36,578
GNPA Ratio	2.44	1.58	1.67	1.77	2.41	2.80
NNPA Ratio	0.63	0.17	0.53	0.84	1.06	1.09
PCR (Excl Tech. write off)	74.6	89.4	69.0	53.0	57.3	62.4
PCR (Incl Tech. Write off)			81.2	73.2	70.5	71.6

E: MOSL Estimates

## Financials and Valuation

<b>Ratios</b>						
Y/E March	2008	2009	2010	2011	2012E	2013E
<b>Spreads Analysis (%)</b>						
Avg. Yield-Earning Assets	8.9	9.6	8.7	8.8	9.7	9.5
Avg. Yield on loans	9.7	10.6	9.8	9.8	10.8	10.6
Avg. Yield on Investments	7.3	7.3	6.5	6.5	7.2	7.3
Avg. Cost-Int. Bear. Liab.	5.4	6.1	5.3	5.0	6.1	6.1
Avg. Cost of Deposits	5.4	6.1	5.2	4.9	6.2	6.1
Interest Spread	3.5	3.4	3.4	3.9	3.6	3.5
Net Interest Margin	3.4	3.4	3.4	3.85	3.7	3.5
<b>Profitability Ratios (%)</b>						
RoE	19.6	25.8	26.6	24.4	22.3	21.7
RoA	1.1	1.4	1.4	1.3	1.2	1.2
Int. Expense/Int. Income	61.2	64.3	60.4	56.2	62.4	63.5
Fee Income/Net Income	18.2	17.4	17.9	16.7	17.7	17.8
Non Int. Inc./Net Income	26.5	31.0	29.9	23.4	22.8	22.9
<b>Efficiency Ratios (%)</b>						
Cost/Income*	49.7	45.6	42.2	42.1	41.7	41.3
Empl. Cost/Op. Exps.	69.8	69.5	65.5	70.1	68.8	66.8
Busi. per Empl. (Rs m)	44.0	55.9	70.3	86.9	103.4	120.4
NP per Empl. (Rs lac)	3.5	5.3	6.9	7.8	8.3	9.4
* ex treasury						
<b>Asset-Liability Profile (%)</b>						
Loans/Deposit Ratio	71.8	73.8	74.8	77.4	74.8	73.6
CASA Ratio	43.0	38.8	40.8	38.5	34.4	32.7
Investment/Deposit Ratio	32.4	30.2	31.2	30.4	30.9	30.9
G-Sec/Investment Ratio	83.4	87.1	85.5	83.9	84.1	84.1
CAR	13.5	14.0	14.2	12.4	12.8	12.1
Tier 1	9.0	9.0	9.1	8.4	9.1	9.0
<b>Valuation</b>						
Book Value (INR)	342.0	416.7	514.8	632.5	760.6	909.6
Change (%)	6.3	21.9	23.5	22.9	20.2	19.6
Price-BV (x)	2.7	2.3	1.8	1.5	1.2	1.0
Adjusted BV (INR)	326.4	411.3	494.5	590.7	698.6	834.6
Price-ABV (x)	2.9	2.3	1.9	1.6	1.3	1.1
EPS (INR)	65.0	98.0	123.9	139.9	155.3	180.8
Change (%)	33.0	50.9	26.4	13.0	11.0	16.4
Price-Earnings (x)	14.5	9.6	7.6	6.7	6.0	5.2
Dividend Per Share (INR)	13.0	20.0	22.0	22.0	23.3	27.1
Dividend Yield (%)	1.4	2.1	2.3	2.3	2.5	2.9

E: MOSL Estimates

**N O T E S**

## Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

### Disclosure of Interest Statement

### Punjab National Bank

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

## Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

## Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

## For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

## For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



## Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021  
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com