

Punjab National Bank (PUNBAN)

₹ 940

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 1050 to ₹ 970
 EPS (FY12E) Changed from ₹ 154.3 to ₹ 146.2
 EPS (FY13E) Changed from ₹ 189.1 to ₹ 182.1
 RATING Changed from Buy to Hold

Increased stress on asset quality seen...

Profits came below estimates at ₹ 1150 crore growing 5.5% YoY (I-direct estimate: ₹ 1306.7 crore) primarily due to higher provisions of ₹ 946 crore against ₹ 710 crore in Q2FY12.

Restructuring of telecom infra loans led to restructured assets increasing by ~₹ 2000 crore to ₹ 16888 crore (outstanding as on December 2011).

Besides these, business growth was strong at 21.4%. Deposits grew 23% YoY to ₹ 356516 crore while advances rose 18.7% YoY to ₹ 262605 crore with overseas advances surging 82% YoY. NII was in line with our expectation at ₹ 3536 crore (our estimate: ₹ 3535 crore), up 10.4% YoY. NIM declined 7 bps QoQ to 3.88% from 3.95%. Other income increased 11% YoY and 7% QoQ to ₹954 crore due to fee income and forex income.

■ NIM dips to 3.88%, bulk deposits form 24% of deposits...

NIM declined 7 bps QoQ to 3.8% from 3.95% with YoA increasing 5 bps QoQ to 11.97% and CoD inching up 22 bps QoQ to 6.74%. It was mainly due to 5.9% QoQ term deposits growth leading to CASA sliding to 36.2% from 37.1%. Share of bulk deposits rose to 24% from 23.7%. We expect pressure on NIM to remain and estimate NIM moderating to ~3.5% by FY13E.

■ Restructured assets, fresh NPA increase – telecom, aviation sector

There was fresh restructuring of ₹ 2000 crore in Q3FY12 with ~₹ 1000 crore from telecom infra. Slippages of 10.9% from restructured assets (RA) totalling ₹ 21526 crore (o/s - ₹ 16888 crore) has led to increased concern on asset quality. GNPA increased to ₹ 6442 crore (2.42% from 2.05%) with fresh slippages at ₹ 1683 crore mainly contributed by the aviation and media sector. NNPA grew by ₹ 900 crore to ₹ 2901 crore (1.11% from 0.84%). We expect slippages to continue from RA and raise our FY13 GNPA estimate to 2.2% from 1.9% earlier.

Valuation

Core business remained strong with margins consistently above 3.5% and RoA and RoE at 1.1% and ~20%, respectively. Expecting slippages from restructured assets to continue, we have built in higher credit costs for FY12E and FY13E and revise PAT by - 4% to grow at 14% CAGR over FY11-13E. We are revising our target price to ₹ 970 maintaining valuation multiple at 1.2x FY13E ABV and recommend a **HOLD** rating on the stock.

Exhibit 1: Financial Performance

₹ Crore	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr.(%)	QoQ Gr.(%)
NII	3536.6	3535.0	3203.3	3452.6	10.4	2.4
Other Income	954.1	888.4	857.2	888.9	11.3	7.3
PPP	2676.4	2640.2	2349.9	2527.8	13.9	5.9
PAT	1150.0	1306.7	1089.8	1205.0	5.5	-4.6

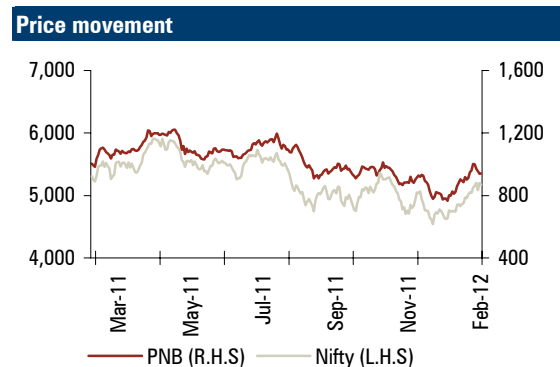
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 970
Target Period	: 12 months
Potential Upside	: 3%

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	8478	11807	13314	15642
PPP	7326	9056	10092	11674
PAT	3905	4433	4631	5769

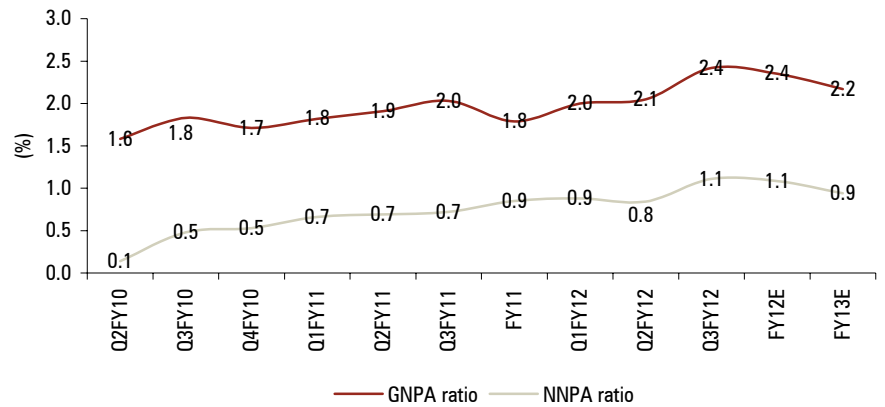
Valuation summary				
	FY10	FY11	FY12E	FY13E
Net Profit (₹ crore)	3905	4433	4631	5769
EPS (₹)	123.9	140.6	146.2	182.1
Growth (%)	26.3	0.8	17.1	24.6
P/E (x)	7.6	7.5	6.4	5.2
Price / Book (x)	1.8	1.5	1.2	1.0
ABV (₹)	483.6	568.1	655.2	807.6
Price / Adj Book (x)	1.9	1.7	1.4	1.2
GNPA (%)	1.7	1.8	2.4	2.2
NNPA (%)	0.5	0.8	1.1	0.9
RoNA (%)	1.4	1.3	1.1	1.2
RoE (%)	23.9	22.6	19.8	20.8

Stock data	
Market Capitalisation	₹ 29780 crore
GNPA (Q3FY12)	₹6442 crore
NNPA (Q3FY12)	₹ 2901 crore
NIM (Q3FY12)	3.88%
52 week H/L	1235/752
Equity capital	₹ 316.8 Crore
Face value	₹ 10
DII Holding (%)	17.8
FII Holding (%)	18.6



Analyst's name	
Kajal Gandhi	kajal.gandhi@icicisecurities.com
Jaymin Trivedi	jaymin.trivedi@icicisecurities.com

Exhibit 2: GNPA increases sharply, incremental slippages to continue

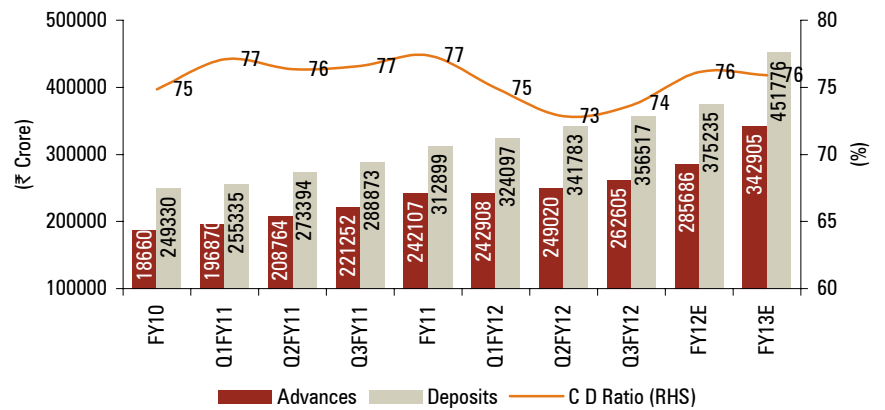


Source: Company Quarterly Presentation, ICICIdirect.com Research

The PCR declined to 70% from 75% QoQ due to increased slippages.

NPV hit and provision on fresh standard restructured assets amount to ₹ 150 crore mainly from telecom infra account. We expect the GNPA ratio at 2.2% and NNPA ratio at 0.9% by FY13E

Exhibit 3: Business growth trend...

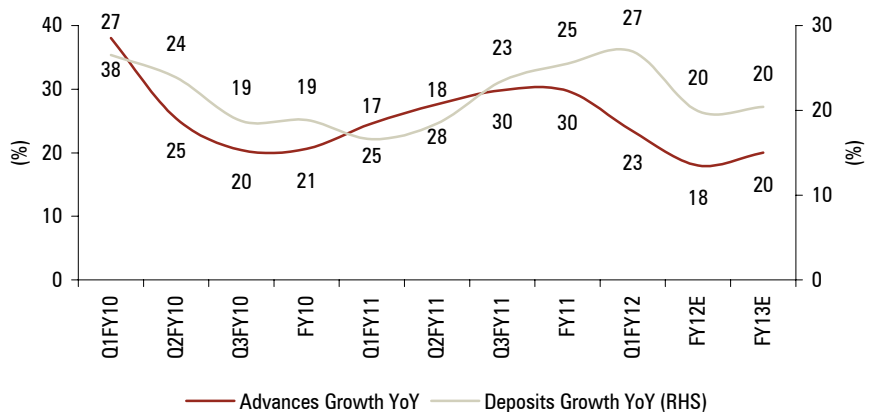


Source: Company Quarterly Presentation, ICICIdirect.com Research

PNB reported 18.7% YoY growth in Q3FY12 to ₹ 262605 crore. As initial signs of a slowdown were witnessed and the base effect creeps in, we expect credit growth to moderate to 18% by FY12E

We expect deposit growth of 20% YoY to ₹ 375234.7 crore by FY12E

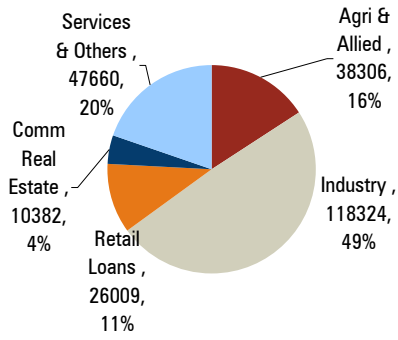
Exhibit 4: Pace of domestic credit growth declines to 15.4% in Q3FY12...



Source: Company Quarterly Presentation, ICICIdirect.com Research

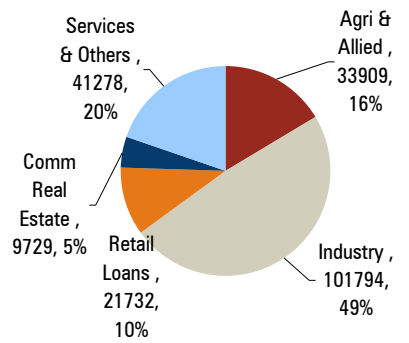
The international loan book increased 20% QoQ to ₹ 19778 crore in Q3FY12

Exhibit 5: Advances break-up: Q3FY12



Source: Company Quarterly Presentation, ICICIdirect.com Research

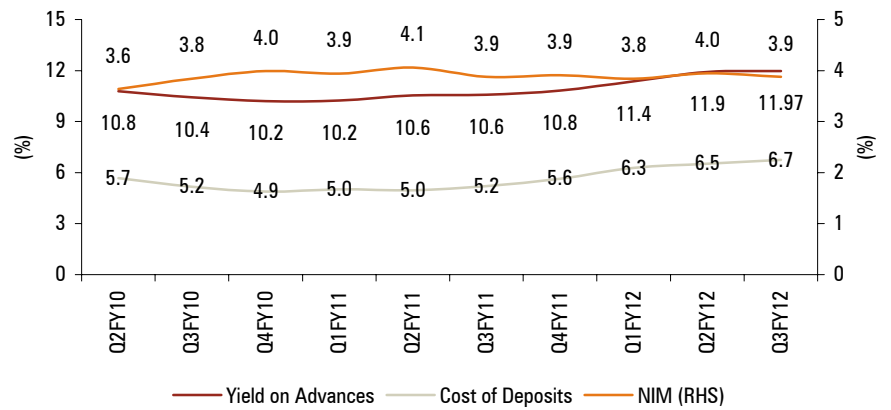
Exhibit 6: Advances break-up: Q3FY11



Source: Company Quarterly Presentation, ICICIdirect.com Research

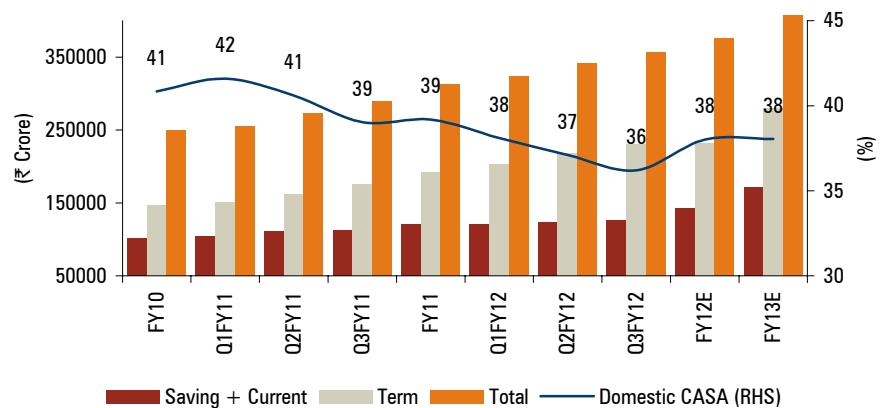
Infrastructure share went up to 34.7% from 31% sequentially while iron & steel and textile sectors have a share of 9.7% and 6% in industry segment. Both these sectors have seen large restructuring

Exhibit 7: NIM to stabilise around 3.5%



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 8: CASA dips to 36.2%, bulk deposits share at 24%...

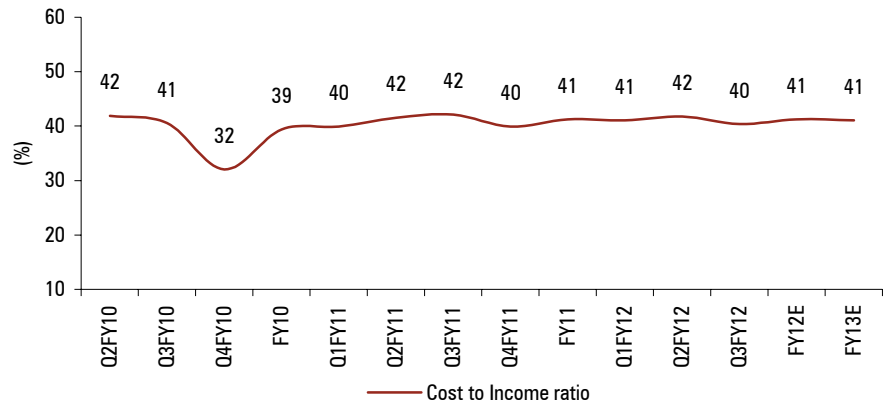


Source: Company Quarterly Presentation, ICICIdirect.com Research

CASA has been declining steadily from 42% in Q1FY11 to 36.2% in Q3FY12

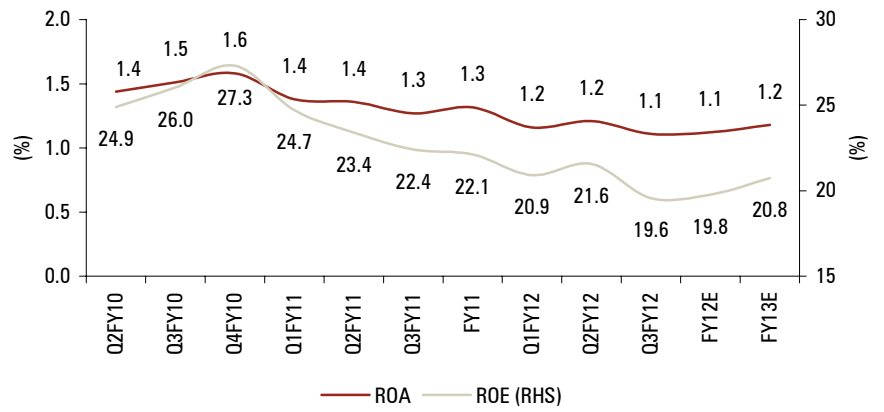
Exhibit 9: Cost to income ratio improves

Opex remained constant leading to the cost to income ratio declining from 41.8% to 40.4%



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 10: Strong returns matrix



Source: Company Quarterly Presentation, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	21422.1	26986.5	33628.7	40115.4
Interest Expended	12944.0	15179.1	20314.1	24473.2
Net Interest Income	8478.1	11807.3	13314.5	15642.2
growth (%)	24.1	0.0	12.8	17.5
Non Interest Income	3610.1	3612.6	3869.3	4173.3
Fees and advisory	1682.2	2045.2	2270.2	2519.9
Treasury Income	803.3	299.2	314.1	320.4
Other income	1124.6	1268.2	1285.0	1333.0
Net Income	12088.2	15419.9	17183.8	19815.4
Staff cost	3121.1	4461.1	4899.0	5527.0
Other operating Expense	1640.8	1903.1	2193.0	2614.6
Operating Profit	7326.3	9055.7	10091.9	11673.8
Provisions	1421.5	2492.0	3180.6	3063.2
PBT	5904.8	6563.7	6911.3	8610.6
Taxes	1999.4	2130.2	2280.7	2841.5
Net Profit	3905.4	4433.5	4630.6	5769.1
growth (%)	26.4	13.5	4.4	24.6
EPS (₹)	123.9	124.9	146.2	182.1

Source: Company, ICICIdirect.com Research

Key Ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Valuation				
No. of Equity Shares	315.3	316.8	316.8	316.8
EPS (Rs.)	123.9	124.9	146.2	182.1
BV (Rs.)	514.8	632.5	753.0	909.3
ABV (Rs.)	483.6	568.1	655.2	807.6
P/E	7.6	7.5	6.4	5.2
P/BV	1.8	1.5	1.2	1.0
P/ABV	1.9	1.7	1.4	1.2
Yields & Margins				
Net Interest Margins	3.3	3.6	3.4	3.3
Yield on assets	8.2	8.3	8.5	8.5
Avg. cost on funds	5.3	5.0	5.4	5.5
Yield on average advances	9.8	9.8	10.0	10.0
Avg. Cost of Deposits	5.2	4.9	5.4	5.5
Quality and Efficiency				
Cost to income ratio	39.4	41.3	41.3	41.1
Credit/Deposit ratio	74.8	77.4	76.1	75.9
GNPA	1.7	1.8	2.4	2.2
NNPA	0.5	0.8	1.1	0.9
ROE	23.9	22.6	19.8	20.8
ROA	1.4	1.3	1.1	1.2

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	315.3	316.8	316.8	316.8
Reserves and Surplus	17407.6	21191.7	25009.0	29962.6
Networth	17722.9	21508.6	25325.8	30279.4
Deposits	249329.8	312898.7	375234.7	451775.8
Borrowings	19262.4	31589.7	33597.8	33994.9
Other Liabilities & Provisions	10317.7	12328.3	13271.7	13808.5
Total	296632.8	378325.2	447430.0	529858.6
Application of Funds				
Fixed Assets	2513.5	3105.6	3189.5	3358.6
Investments	77238.8	94652.8	112352.8	132614.9
Advances	186601.2	242106.7	285685.9	342904.9
Other Assets	6320.1	8259.4	11689.0	11825.8
Cash with RBI & call money	23473.6	29691.2	34512.8	39154.3
Total	296147.1	377815.7	447430.0	529858.6

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total assets	19.9	27.6	18.4	18.4
Advances	20.6	29.7	18.0	20.0
Deposit	18.9	25.5	19.9	20.4
Total Income	12.8	22.2	22.5	18.1
Net interest income	24.1	39.3	12.8	17.5
Operating expenses	13.2	33.6	11.4	14.8
Operating profit	29.8	34.2	11.7	16.1
Net profit	26.4	13.5	4.4	24.6
Net worth	20.8	23.5	19.1	20.8
EPS	26.3	0.8	17.1	24.6

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Public Sector Banks

Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	339	FY11	2488.7	45.5	7.5	1.3	0.8	15.8
		Target	331	FY12E	2364.1	43.2	7.9	1.3	0.6	13.0
Mcap (₹ Cr)	17849	Upside (%)	-2.5	FY13E	3440.9	62.9	5.4	1.2	0.8	17.3

Bank of Baroda

Idirect Code	BANBAR	CMP	750	FY11	4241.7	108.0	6.9	1.6	1.3	23.5
		Target	954	FY12E	4776.2	121.6	6.2	1.3	1.2	20.8
Mcap (₹ Cr)	27396	Upside (%)	27.3	FY13E	5681.3	144.6	5.2	1.1	1.2	20.7

Dena Bank

Idirect Code	DENBAN	CMP	67	FY11	611.6	21.3	3.2	0.8	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.7	0.7	0.9	18.6
Mcap (₹ Cr)	2240	Upside (%)	25.0	FY13E	847.3	29.5	2.3	0.6	0.9	18.7

Indian Overseas Bank

Idirect Code	INDOVE	CMP	86	FY11	1072.5	17.3	5.0	0.8	0.7	14.8
		Target	94	FY12E	818.9	11.7	7.3	0.8	0.4	9.2
Mcap (₹ Cr)	4685	Upside (%)	9.3	FY13E	1101.7	15.8	5.5	0.7	0.5	11.1

IDBI Bank

Idirect Code	IDBI	CMP	98	FY11	1650.3	18.4	5.3	1.1	0.7	15.8
		Target	UR	FY12E	1817.0	18.5	5.3	1.0	0.7	13.6
Mcap (₹ Cr)	9629	Upside (%)	-	FY13E	2021.4	20.5	4.8	0.9	0.7	13.6

OBC

Idirect Code	ORIBAN	CMP	257	FY11	1502.9	45.3	5.7	0.8	0.9	14.5
		Target	322	FY12E	1111.5	51.5	5.0	0.8	1.0	17.9
Mcap (₹ Cr)	7488	Upside (%)	25.5	FY13E	1506.5	38.1	6.7	0.7	0.6	9.7

Punjab National Bank

Idirect Code	PUNBAN	CMP	940	FY11	4433.5	124.9	7.5	1.7	1.3	22.6
		Target	970	FY12E	4886.9	154.3	6.1	1.4	1.2	20.8
Mcap (₹ Cr)	29780	Upside (%)	3.2	FY13E	5991.5	189.1	5.0	1.1	1.2	21.3

SBI

Idirect Code	STABAN	CMP	2046	FY11	82.7	130.2	15.7	2.5	0.7	12.6
		Target	2200	FY12E	96.2	144.6	14.1	2.2	0.7	13.5
Mcap (₹ Bn)	129889	Upside (%)	7.6	FY13E	129.4	187.6	10.9	1.8	0.8	15.1

Syndicate Bank

Idirect Code	SYNBAN	CMP	95	FY11	1047.9	18.3	5.2	1.0	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.3	0.9	0.8	17.0
Mcap (₹ Cr)	5454	Upside (%)	16.7	FY13E	1612.3	28.1	3.4	0.8	0.8	19.3

Union Bank of India

Idirect Code	UNIBAN	CMP	225	FY11	2081.9	39.7	5.7	1.3	1.0	20.9
		Target	213	FY12E	1617.5	30.8	7.3	1.3	0.6	13.8
Mcap (₹ Cr)	11779	Upside (%)	-5.2	FY13E	2158.7	41.2	5.5	1.1	0.7	16.4

Private Sector Banks

Axis Bank

Idirect Code	UTIBAN	CMP	1058	FY11	3388.5	83.0	12.8	2.3	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.7	2.0	1.5	19.5
Mcap (₹ Cr)	43436	Upside (%)	20.4	FY13E	5092.8	124.0	8.5	1.7	1.6	20.7

City Union Bank

Idirect Code	CITUNI	CMP	44	FY11	215.1	5.3	8.2	1.8	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.5	1.4	1.7	24.2
Mcap (₹ Cr)	1748	Upside (%)	19.0	FY13E	361.3	8.5	5.1	1.1	1.8	23.8

Dhanlaxmi Bank

Idirect Code	DHABAN	CMP	58	FY11	26.0	3.3	17.6	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	23.3	0.6	0.2	3.0
Mcap (₹ Cr)	496	Upside (%)	-	FY13E	48.9	4.1	14.3	0.6	0.2	4.1

DCB

Idirect Code	DCB	CMP	43	FY11	21.4	1.1	40.1	1.6	0.3	3.9
		Target	60	FY12E	51.1	2.6	16.8	1.5	0.6	8.7
Mcap (₹ Cr)	859	Upside (%)	39.9	FY13E	63.6	2.6	16.2	1.2	0.7	8.2

Federal Bank

Idirect Code	FEDBAN	CMP	402	FY11	587.1	34.3	11.7	1.4	1.5	13.5
		Target	472	FY12E	741.8	43.4	9.3	1.4	1.3	14.2
Mcap (₹ Cr)	6864	Upside (%)	17.6	FY13E	832.9	48.7	8.2	1.3	1.2	15.1

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
HDFC Bank										
Idirect Code	HDFBAN	CMP	485	FY11	3926.4	16.9	28.7	4.5	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.2	4.0	1.7	18.7
Mcap (₹ Cr)	112605	Upside (%)	9.8	FY13E	6560.0	28.2	17.2	3.5	1.8	21.2
Kotak Bank										
Idirect Code	KOTMAH	CMP	506	FY11	818.3	11.1	43.8	5.4	1.9	14.5
		Target	436	FY12E	1037.8	14.1	34.5	4.8	1.9	14.3
Mcap (₹ Cr)	37264	Upside (%)	-13.8	FY13E	1315.9	17.9	27.2	4.2	2.0	15.8
South Indian Bank										
Idirect Code	SOUINO	CMP	23	FY11	292.6	2.6	8.9	1.6	1.0	18.5
		Target	26	FY12E	381.2	3.4	6.8	1.3	1.0	20.6
Mcap (₹ Cr)	2593	Upside (%)	13.3	FY13E	468.9	3.2	7.2	1.0	1.0	17.6
Yes Bank										
Idirect Code	YESBAN	CMP	326	FY11	727.1	20.9	15.6	3.0	1.5	21.1
		Target	369	FY12E	970.5	26.6	12.2	2.3	1.5	21.6
Mcap (₹ Cr)	11320	Upside (%)	13.2	FY13E	1281.7	33.5	9.7	1.8	1.6	21.1

*UR: Under Review

Exhibit 11: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 12: Recent Releases

Date	Event	CMP	Target Price	Rating
23-Sep-11	Banking Industry Vol VI	955	1050	Buy
5-Oct-11	Q2FY12 Result Preview	924	1050	Buy
2-Nov-11	Q2FY12 Result Update	980	1050	Hold
9-Dec-11	Management meet update	910	1050	Buy
16-Dec-11	Banking Industry Vol VII	869	1050	Buy
6-Jan-12	Q3FY12 Result Preview	827	1050	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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