

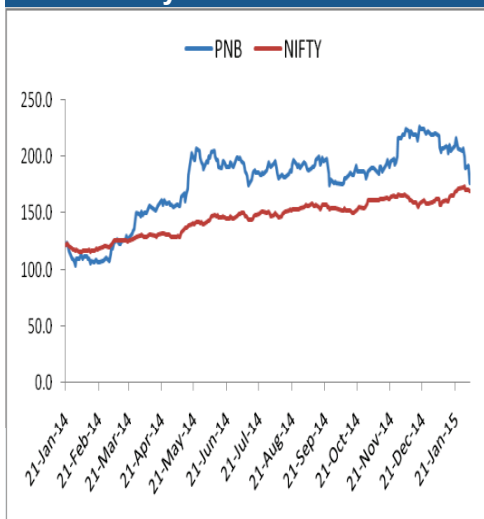
Result update	ADD
CMP	177
Target Price	190
Previous Target Price	228
Upside	7
Change from Previous	-17

Market Data	
BSE Code	532461
NSE Symbol	PNB
52wk Range H/L	231/105
Mkt Capital (Rs Cr)	13166
Average Daily Volume	231 LAKHS
Nifty	8765

Stock Performance			
	1M	1yr	YTD
Absolute	-19.5	44.7	44.7
Rel.to Nifty	-23.8	6.0	6.0

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	58.9	58.9	58.9
FII	17.4	17.4	17.2
DII	19.6	19.5	18.7
Others	4.1	4.3	5.3

PNB Vs Nifty



Bank's profitability was grown by 2.5% YoY on the back of muted operating performance and deteriorated asset quality. NII was flat due to margin compression by 40 bps YoY while CD ratio was shrieked from 78% to 75%. Operating cost increased by 260 bps YoY led by higher employee cost. Sequentially asset quality was deteriorated hugely as the fresh slippages were escalating to 12.3% much higher than its previous trend. Credit cost increased to 50 bps as against 33 bps in last quarter and 49 bps in preceding quarter. Total impaired assets (Gross NPA + Outstanding Restructure Assets) constitute about 14.2% of gross advances, although this has come down from 14.6% in preceding quarter but itself it is high because bank has to meet 100% of liability from 86% of assets. We have lower our book value assumption from Rs.241 to Rs.235 in FY16E and accordingly target price lower from Rs. 228/share to Rs.190/share.

Profit growth was muted due to flat NII growth and higher operating cost

PNB reported very muted set of numbers in its quarterly result with net profit grew by 2.5% YoY to Rs.75 cr on the back of sluggish growth in operating as well as financial performance. NII reported flat growth on the back of shrinking margin whereas operating cost (Cost Income ratio) increased by 260 bps YoY. Sequentially asset quality was deteriorated hugely as the fresh slippages were escalating to 12.3% much higher than its previous trend. Credit cost increased to 50 bps as against 33 bps in last quarter and 49 bps in preceding quarter. Despite of this bank's provisions and contingencies were declined by 8% YoY on the back of write back of investment depreciation to the tune of Rs. 445 cr.

Flat growth in NII was due to margin compression and shrinking CD ratio

During quarter bank saw very muted operating performance in its quarterly result as NII was flat at Rs.4233 cr as against Rs.4221 cr in last quarter due to margin compression and compressing CD ratio. Margin was declined from 3.57% in 3.21% on the back of shrinking loan yield while lower CD ratio was on account of lower loan growth as compare to deposits growth. Non-interest income was however healthy at 38% YoY due to treasury gain at Rs.211 cr versus Rs. 24 cr in last quarter while fee income posted growth of 15% YoY. Compressing margin was one of key de-growth parameters that we have observed during the quarter and we believe that margin of the bank is likely to remain sluggish in net few quarters. Although we assume loan and deposits growth of 17% and 16% respectively for FY15E.

Financials

	Rs, Cr				
	2011	2012	2013	2014	2015E
NII	11807	13414	14857	16146	17175
Total Income	15420	17617	19072	20723	22716
PPP	9056	10614	10907	11384	11673
Net Profit	4433	4884	4748	3343	3656
EPS	28.1	28.8	26.9	18.5	20.2

(Source: Company/Eastwind)

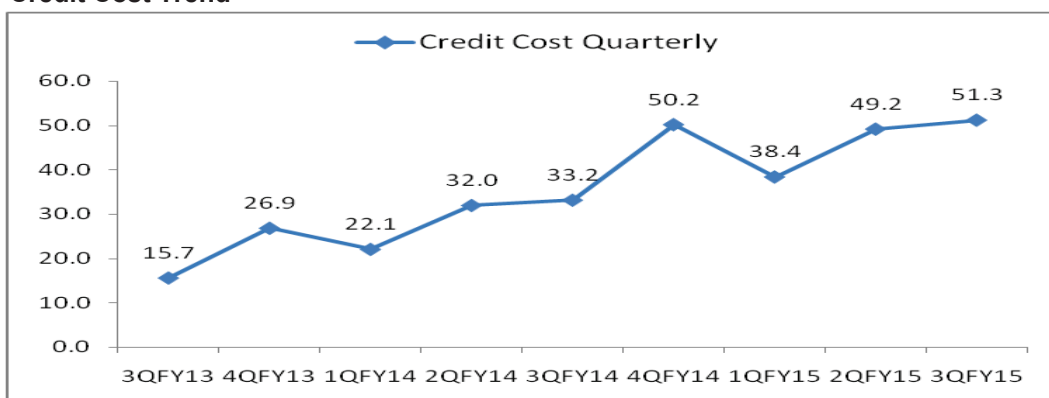
Punjab National Bank

Deteriorated asset quality was due to fresh slippages

Bank saw further deterioration in asset quality during the quarter as gross NPA increased by 7% sequentially while cumulative provisions for bad loans declined by 8% as the result net NPA was increased by 19% in absolute basis. Higher delinquencies were come from fresh slippages as bank posted 70% increased in slippages in absolute basis. In percentage term slippages ratio was high at 12.3% versus 7.4% in previous quarter and 1.4% in last quarter. Gross NPA and net NPA stood at 5.99% and 3.8% as against 5.67% and 3.25% respectively. Provisions coverage ratio was declined to 38% from 44% in our calculated basis while bank reported PCR at 57%. But provisions and contingencies were declined by 17% QoQ on accounts of write back of investment depreciation to the tune of Rs. 445 cr against Rs.26 cr. Credit cost was high at 51 bps versus 49 bps in previous quarter and 33 bps in last quarter on quarterly basis. We assume similar kind of credit cost in FY16E as well.

Asset quality Trend	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Slippage as a % of Advance	4.7	3.0	1.4	4.2	3.4	7.4	12.3
GNPA as % of Advance	4.9	5.2	5.0	5.3	5.5	5.7	6.0
NNPA as % of Advance	3.0	3.1	2.8	2.8	3.0	3.3	3.8
Provision made during the yr as a % of Advances	2.0	2.2	2.3	2.6	2.6	2.6	2.3
Provision Coverage Ratio	40.0	41.9	45.3	47.5	46.6	44.0	37.9

Credit Cost Trend



Restructure loan remain high, 65% of of restructure loan slip into NPA category

The outstanding restructure was Rs.34333 cr (9.5% of loan versus 10.3% of loan in preceding quarter) in which industrial sector constituted 88% of total amount. Out of total restructure, Rs.22211 cr slip into NPA category (65% of restructure slip into NPA), this has given us indication that bank is likely to report higher delinquencies in quarters to come. Total impaired assets (Gross NPA + Outstanding Restructure Assets) constitute about 14.2% of gross advances, although this has come down from 14.6% in preceding quarter but itself it is high because bank has to meet 100% of liability from 86% of assets.

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Loan growth lower than deposits growth, Industrial sector reported muted growth

Loan growth was lower than deposits growth during due to muted growth in domestic advances to 8% while overseas advances were at healthy 40%. Industrial sector saw 3% YoY growth (38% of total loan) while retail loan grew by 28% YoY. Deposits growth of 15% YoY was led by 20% growth in term deposits and its share in overall deposits increased from 62% to 64% while CASA growth remained sluggish at 8% in absolute basis. CASA in percentage term declined from 38.3% in 3QFY14 to 35.8% in quarter but cost of fund was surprisingly come down from 6.4% to 6.1%. However bank has reduced its dependency on external fund (Borrowings as a percentage of NDTL) from 10.5% to 6.6%.

View & Valuation

Bank's profitability was grown by 2.5% YoY on the back of muted operating performance and deteriorated asset quality. NII was flat due to margin compression by 40 bps YoY while CD ratio was shrieked from 78% to 75%. Operating cost increased by 260 bps YoY led by higher employee cost. Sequentially asset quality was deteriorated hugely as the fresh slippages were escalating to 12.3% much higher than its previous trend. Credit cost increased to 50 bps as against 33 bps in last quarter and 49 bps in preceding quarter. Total impaired assets (Gross NPA + Outstanding Restructure Assets) constitute about 14.2% of gross advances, although this has come down from 14.6% in preceding quarter but itself it is high because bank has to meet 100% of liability from 86% of assets. We have lower our book value assumption from Rs.241 to Rs.235 in FY16E and accordingly target price lower from Rs. 228/share to Rs.190/share.

Source: Eastwind/ Company

Punjab National Bank

Quarterly Result

Quarterly Result	3QFY15	2QFY15	3QFY14	% YoY Gr	% QoQ Gr	2QFY15E	Variation(%)
Interest/discount on advances / bills	8736	8654	8246	5.9	0.9	9280	-5.9
Income on investments	2612	2609	2599	0.5	0.1	2783	-6.2
Interest on balances with Reserve Bank of India	211	137	95	122.7	54.0	153	38.0
Others	55	61	44	26.3	-10.0	0	
Total Interest Income	11614	11462	10984	5.7	1.3	12216	-4.9
Others Income	1291	1558	938	37.5	-17.2	1671	-22.8
Total Income	12905	13020	10045	28.5	-0.9	13887	-7.1
Interest on deposits	6990	6867	6315	10.7	1.8	7268	
Interest on RBI/Inter bank borrowings	55	136	178	-69.1	-59.6	472	
Others	336	308	270	24.4	9.1	0	
Interest Expended	7381	7311	6763	9.1	1.0	8070	-8.5
NII	4233	4151	4221	0.3	2.0	4146	2.1
Other Income	1291	1558	938	37.5	-17.2	1671	-22.8
Total Income	5524	5710	5160	7.1	-3.3	5817	-5.0
Employee	2029	2034	1758	15.4	-0.3	1876	8.1
Other Expenses	745	799	699	6.5	-6.9	1010	-26.3
Operating Expenses	2773	2834	2457	12.9	-2.1	2887	-3.9
PPP(Rs Cr)	2751	2876	2702	1.8	-4.4	2930	-6.1
Provisions	1468	1768	1590	-7.7	-17.0	1914	-23.3
PBT	1283	1108	1112	15.3	15.8	1016	26.3
Tax	508	533	357	42.4	-4.6	305	66.9
Net Profit	775	575	755	2.5	34.6	711	9.0
Balance Sheet Date							
Equity Capital	362	362	362				
Reserve & Surplus	38276	37501	34972				
Deposits	484138	473511	420647				
Borrowings	34228	37997	49163				
Investment	143191	144577	143368				
Advance	362496	357093	326133				
Asset Quality							
GNPA	22211	20752	16595				
NPA	13788	11618	9084				
GNPA(%)	5.99	5.67	4.97				
NPA(%)	3.80	3.25	2.79				
PCR(%) Without technical write off	37.9	44.0	45.3				

Source: Eastwind/ Company

Punjab National Bank

Financials

Income Statement	2013	2014	2015E	2016E
Interest Income	41893	43223	47043	55941
Interest Expense	27037	27077	29868	35002
NII	14857	16146	17175	20939
Change (%)	10.8	8.7	6.4	21.9
Non Interest Income	4216	4577	5541	6349
Total Income	19072	20723	22716	27288
Change (%)	8.3	8.7	9.6	20.1
Operating Expenses	8165	9338	11043	13699
Pre Provision Profits	10907	11384	11673	13589
Change (%)	2.8	4.4	2.5	16.4
Provisions	4386	6694	5798	7132
PBT	6522	4691	5875	6457
PAT	4748	3343	3656	4520
Change (%)	-2.8	-29.6	9.4	23.6
Balance Sheet	2013	2014	2015	2016
Equity Capital	353	362	362	362
Reserve & Surplus	32323	35533	39184	42256
Net Worth	32677	35895	39546	42618
Deposits(Rs Cr)	391560	451397	522600	604800
Borrowings(Rs Cr)	39621	48034	39335	45523
Other liabilities and provisic	15019	15093	42432	47270
Total Liability	478877	550420	643913	740210
Cash in hand	17886	22246	25287	29265
Money with RBI	9249	22973	36526	42271
Investments(Rs Cr)	129896	143786	157342	182090
Loans(Rs Cr)	308725	349269	408700	468000
Fixed Assets	3358	3420	3750	4340
Others Assets	9763	8727	12309	14245
Total Assets	478877	550420	643913	740210
Ratio				
Avg. Yield on loans	10.3	9.3	9.4	9.7
Avg. Yield on Investments	7.4	7.3	7.0	7.1
Avg. Cost of Deposit	6.5	6.0	6.0	6.0
Avg. Cost of Borrowings	3.9	3.9	4.1	0.0
Valuation				
Book Value	185	198	218	235
CMP	151.8	185	180	180
P/BV	0.8	0.9	0.8	0.8

Source: Eastwind/ Company