

| Result update | BUY |
|-----------------------|------|
| CMP | 925 |
| Target Price | 1200 |
| Previous Target Price | 1000 |
| Upside | 30 |
| Change from Previous | 20.0 |

| Market Data | |
|----------------------|----------|
| BSE Code | 532461 |
| NSE Symbol | PNB |
| 52wk Range H/L | 1068/402 |
| Mkt Capital (Rs Cr) | 34541 |
| Average Daily Volume | 13.56 cr |
| Nifty | 7558 |

| Stock Performance | | | |
|-------------------|------|------|------|
| | 1M | 1yr | YTD |
| Absolute | -3.6 | 29.6 | 31.4 |
| Rel.to Nifty | -7.7 | -1.6 | 0.2 |

| Share Holding Pattern-% | | | |
|-------------------------|---------|--------|-------|
| | Current | 4QFY13 | 3QFY1 |
| Promoters | 58.9 | 57.9 | 57.9 |
| FII | 17.5 | 17.9 | 18.0 |
| DII | 18.5 | 18.4 | 19.1 |
| Others | 5.1 | 5.9 | 5.1 |

PNB Vs Nifty



We have raised our price target to Rs.1200/share which would be 1.1 times of revised book value for FY15E. Bank's management guided 19% business growth (loan + deposits) for FY14-15 in which loan growth could be in the range of 15-18%. We revised our loan growth assumption to 17% from earlier of 12% and deposits growth of 16% from 10% previously. Accordingly our book value assumption increased to Rs. 1083 from earlier of Rs.1077. Further management reiterated branch expansion of 500 across India as against 341 branches added in FY14. On margin front bank expects 3.25%+ in FY15 and in asset quality it emphasis on recovery and would bring it down under 5% level from current of 5.25%.

Margin is likely to remain at current level in FY15

In last quarter bank's operating performance was weak with NII grew by 6% YoY as net interest margin was declined to 3.2% from 3.57% in 3QFY14 which was led by reversal of interest income to the tune of Rs.209 and rationalization of high rate borrowings fund. This had caused yield on advances down to 9.64% and thereby NIM impacted. But for the full year NIM of the bank was 3.44% and bank has strong believed that it should not come down to 3.25% in FY15. Our margin calculation has come to 3.35% slightly higher than guidance due to non consideration of reversal of interest income which escalated loan yield to 9.5% as against 9.3% in FY14.

Target to keep focus on recover of bad loan, no plan to sell assets to ARCs

On asset quality front, bank is expected to report better numbers in term of fresh slippage when compare to previous quarter. Management expects slippages should tamper down from current level and it should come down every quarter from previous one. In 4QFY14 PNB reported deterioration in headline number (GNPA of 5.27% vs 4.97% in 3QFY14) due to bank has not sold any assets to assets restructuring company. Thus bank has one way available to reduce NPAs but bank would keep stress assets in its book and keep focus on recovery. Bank did very well in term of cash recovery as Rs.2611 cr was recovered during the quarter versus Rs.2107 cr in december quarter. Bank is targeting for keeping up recovery and would bring it down under 5% from current of 5.25% level.

Financials

| | Rs, Cr | | | | |
|--------------|--------|-------|-------|-------|-------|
| | 2011 | 2012 | 2013 | 2014 | 2015E |
| NII | 11807 | 13414 | 14857 | 16146 | 20177 |
| Total Income | 15420 | 17617 | 19072 | 20723 | 25491 |
| PPP | 9056 | 10614 | 10907 | 11384 | 14020 |
| Net Profit | 4433 | 4884 | 4748 | 3343 | 4664 |
| EPS | 140.6 | 144.0 | 134.3 | 134.3 | 128.8 |

(Source: Company/Eastwind)

Financial & Assuption

| Income Statement | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------|-------------|-------------|-------------|--------------|--------------|
| Interest Income | 36476 | 41893 | 43223 | 51533 | 59166 |
| Interest Expense | 23062 | 27037 | 27077 | 31356 | 36288 |
| NII | 13414 | 14857 | 16146 | 20177 | 22878 |
| Change (%) | 13.6 | 10.8 | 8.7 | 25.0 | 13.4 |
| Non Interest Income | 4203 | 4216 | 4577 | 5313 | 6084 |
| Total Income | 17617 | 19072 | 20723 | 25491 | 28962 |
| Change (%) | 14.2 | 8.3 | 8.7 | 23.0 | 13.6 |
| Operating Expenses | 7003 | 8165 | 9338 | 11471 | 13033 |
| Pre Provision Profits | 10614 | 10907 | 11384 | 14020 | 15929 |
| Change (%) | 17.2 | 2.8 | 4.4 | 23.1 | 13.6 |
| Provisions | 3577 | 4386 | 6694 | 7357 | 7956 |
| PBT | 7037 | 6522 | 4691 | 6663 | 7973 |
| PAT | 4884 | 4748 | 3343 | 4664 | 5581 |
| Change (%) | 10.2 | -2.8 | -29.6 | 39.5 | 19.7 |

| Balance Sheet | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Capital | 339 | 353 | 362 | 362 | 362 |
| Reserve & Surplus | 27476 | 32323 | 35533 | 38858 | 44439 |
| Net Worth | 27815 | 32677 | 35895 | 39220 | 44801 |
| Deposits(Rs Cr) | 379588 | 391560 | 451397 | 522600 | 604800 |
| Borrowings(Rs Cr) | 37264 | 39621 | 48034 | 54859 | 63487 |
| Other liabilities and provisic | 13524 | 15019 | 15093 | 25315 | 24900 |
| Total Liability | 458192 | 478877 | 550420 | 641993 | 737988 |
| Cash in hand | 17058 | 17886 | 22246 | 25986 | 30073 |
| Money with RBI | 10335 | 9249 | 22973 | 25986 | 30073 |
| Investments(Rs Cr) | 122703 | 129896 | 143786 | 167463 | 193803 |
| Loans(Rs Cr) | 293775 | 308725 | 349269 | 408700 | 468000 |
| Fixed Assets | 3169 | 3358 | 3420 | 4042 | 4678 |
| Others Assets | 5020 | 9763 | 8727 | 9817 | 11361 |
| Total Assets | 452060 | 478877 | 550420 | 641993 | 737988 |

| Ratio | | | | | |
|---------------------------|-----|------|-----|-----|-----|
| Avg. Yield on loans | 9.7 | 10.3 | 9.3 | 9.5 | 9.5 |
| Avg. Yield on Investments | 6.4 | 7.4 | 7.1 | 7.2 | 7.2 |
| Avg. Cost of Deposit | 5.6 | 6.5 | 6.0 | 6.0 | 6.0 |
| Avg. Cost of Borrowimngs | 4.5 | 3.9 | 0.0 | 4.1 | 0.0 |

| Valuation | | | | | |
|------------------|-----|-----|-----|------|------|
| Book Value | 820 | 924 | 991 | 1083 | 1237 |
| CMP | 926 | 759 | 925 | 925 | 925 |
| P/BV | 1.1 | 0.8 | 0.9 | 0.9 | 0.7 |

Source : Eastwind/ Company