

## **PNB**

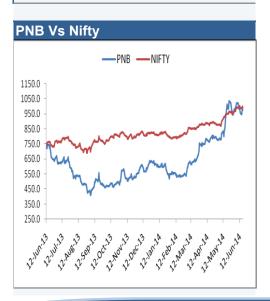
"BUY" 19h June 2014

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		



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 braches 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.

<b>Financials</b>					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)

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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
<b>Balance Sheet</b>	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 Berrowimgs	4.5	3.9	0.0	4.1	0.0
AND. COSE OF DOLLOWINGS	4.5	3.5	0.0	4.1	0.0
Valuation					
Book Value	820	924	991	1083	1237
Book Value CMP	820 926	924 759	991 925	1083 925	1237 925

Source : Eastwind/ Company