

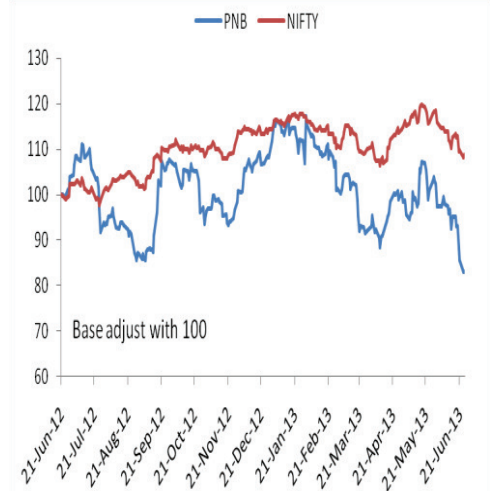
Result update	NEUTRAL
CMP	647
Target Price	675
Previous Target Price	-
Upside	4
Change from Previous	0

Market Data	
BSE Code	532461
NSE Symbol	PNB
52wk Range H/L	922/622
Mkt Capital (Rs Cr)	22867
Average Daily Volume	883613
Nifty	5609

Stock Performance	1M	1yr	YTD
Absolute	-19.3	-17.0	-3.4
Rel.to Nifty	-11.6	-25.6	-10.1

Share Holding Pattern-%	Current	4QFY13	3QFY1
Promoters	57.9	57.9	56.1
FII	18.0	18.0	17.4
DII	19.0	16.4	20.6
Others	5.2	7.8	5.9

PNB Vs Nifty



Post analyzing the annual report of PNB, we are not impressed with overall business growth and operating metrics. However bank is trading at below of five years average price to book, despite this we have neutral view on the stock with price target of Rs.675. We have lower our valuation multiple to 0.7 times from 0.8 times of one year forward book on account of bank's deteriorating asset quality and muted operating performance.

We have seen some pressure in earnings of the bank, operating expenses shooting up, higher provision against NPA, muted loan-deposits growth along with deteriorating asset quality. PNB has failed to perform in almost all parameters. In most challenging economy environment, we believe PNB may face some stiff time. PNB may continue to trade at lower side of valuation band and accordingly we lower our valuation multiple.

Lower growth in NII and other income- During the year, PNB reported total income growth of 8.3% to Rs.19072 cr over the previous year of Rs.17617 cr. NII grew by 10.8% to Rs.14857 cr and other income grew by 0.3% to Rs.4216 cr. Muted NII growth was due to lower interest income growth which constitute 70% of total income. Interest earned from advances grew by 12% to Rs.31855 cr as against interest expenses in deposits rose to 17.2% YoY to Rs.27037 cr. Interest on investment grew by 23% to Rs.9530 cr. Moreover due to cut in repo rate by RBI, bank has further pressure to reduce interest rate on advances. This will further hurt in interest income in our view.

Operating Expenses Shooting Up-Operating expenses increased by 16.6 YoY to Rs.8165 cr over the previous year of which employee expenses increased to 20% due to increased to employee provision and other operating expenses increased to 9.3%. During the year bank has opened 204 new branches taking total branch network to 5874 branches spread across India.

Valuation and View-At the current price of Rs.647 stock is trading at 0.6 times of one year forward book and 4.7 times of one year forward earning. Due to higher impairment of asset, muted operating performance and lower return ratio, bank is trading at lower side of valuation. We model 15% and 16% of deposits and loan growth for FY14E and FY15E in line with management guidance of 16-17% of loan and deposits growth for FY14. We expect PNB return ratio would by 13-14% and ROA of 1% in FY14. We have lower our valuation multiple to 0.7 from earlier of 0.8 on account challenging environment in general and muted bank performance in particular. We have neutral view on the stock with price target of Rs.675.

Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	11807	13414	14857	16531	18349
Total Income	15420	17617	19072	20747	22565
PPP	9056	10614	10907	11826	12862
Net Profit	4433	4884	4748	4724	4943
EPS	139.9	144.0	140.0	139.3	145.7

(Source: Company/Eastwind)

Banks' yield ratio showed mixed trend with yield on advances improved to 10.3% from 9.7% in FY12 and investment yield improved to 7.4% from 6.4% over the previous year, taking yield on fund to 9% from 8.2% in previous year. Cost of deposits increased to 6.5% from 5.6% in a year ago and cost of borrowing reduce to 3.9% from 4.5% in last year taking total cost of fund rose from 5.5% to 6.3% in FY13. Consequently margin improved to 3.3% in FY13 from 3% in FY12.

Yield and Spread Calculation	2007	2008	2009	2010	2011	2012	2013
Yield on Advances	7.9	8.7	9.5	8.9	8.7	9.7	10.3
Yield on Investments	7.9	6.7	7.0	5.9	6.0	6.4	7.4
Yield on Funds	7.3	7.4	8.1	7.4	7.4	8.2	9.0
Cost of deposits	4.0	5.0	5.5	4.8	4.4	5.6	6.5
Cost of Borrowings	20.8	8.6	16.7	5.1	4.4	4.5	3.9
Cost of fund	4.2	5.1	5.7	4.8	4.4	5.5	6.3

Source: Eastwind/Company

Operating expenses increased by 16.6 YoY to Rs.8165 cr over the previous year of which employee expenses increased to 20% due to increased to employee provision and other operating expenses increased to 9.3%. During the year bank has opened 204 new branches taking total branch network to 5874 branches spread across India. During the year bank has made total loan loss provision of Rs.4386 cr as against Rs.3577 cr in last year. Bank has increased NPA provision to Rs.3336 cr versus Rs.2403 cr in last year. Restructure asset provision declined to Rs.392 cr against Rs.510 cr in FY12 and standard asset provision declined to Rs.104 cr from Rs.235 cr in previous year.

Provision Details(Rs Cr)	2012	2013	Growth(%)
Provision towards standard assets	510	392	-23.1
Provision for depreciation in value of investments	235	104	-55.9
Provision for non-performing assets	2403	3336	38.8
Total Provision excl tax	3148	3832	21.7
Tax Provision	2153	1774	-17.6
Other Provision	429	554	28.9

Source: Eastwind/Company

Net profit of the bank declined by 2.8% to Rs.4748 cr over the previous year was largely due to lower operating performance in all front and higher loan as well as higher employee provision. Consequently return on asset declined to 1% from 1.1% in last year and return on equity declined to 14.5% from 17.63%. During year bank has distributed Rs.27 as a dividend versus Rs.21 in FY12, therefore dividend payout increased to 3.6% from 2.6% in FY12.

Bank's total business (loan +deposits) grew by 4% to Rs.700285 cr over the previous year. Balance sheet size increased to 4.8 lakhs cr in FY13 from 4.6 lakhs cr in FY12. Total deposits of the bank grew by 3.2% Rs.391560 cr in FY13. Saving account deposits grew by 16.9% YoY to Rs.123470 cr and current account deposits increased by 4.9% to Rs. 29874 cr. Share of saving account in overall deposits improved to 31.5% from 27.8% in FY12 whereas share of current account deposits decreased from 8.6% to 7.5%. Term deposits decreased by 3% to Rs.238216 cr as compare to previous year and share of term deposits to overall deposits declined to 60.8% in FY13 from 64.7% in FY12. Consequently CASA ratio decreased from 38.5% to 35.3% in FY13.

	2008	2009	2010	2011	2012	2013	CAGR
Total Deposits(Rs Cr)	166457	209760	249330	312899	379588	391560	6.2
Demand Deposits(Rs Cr)	17791	18814	23717	26838	28472	29874	-7.4
Savings Bank Deposits(Rs Cr)	53770	62646	78133	93487	105657	123470	5.3
Term Deposits(Rs Cr)	94896	128301	147480	192574	245459	238216	8.6
Demand deposits as a % of Total Deposits	10.7	9.0	9.5	8.6	7.5	7.6	
Saving deposits as a % of Total Deposits	32.3	29.9	31.3	29.9	27.8	31.5	
Term deposits as a % of Total Deposits	57.0	61.2	59.2	61.5	64.7	60.8	

Source: Eastwind/Company

On asset quality front, bank reported deterioration in asset quality with GNPA increased by 54% to Rs.13466 cr against Rs.8720 cr in FY12. In percentage term GNPA stood at 4.4% of advances versus 3% in last year. Fresh slippage ratio increased to 2.8% of loan from 2.3% in FY12 while recovery as a percentage of opening reduction of gross NPA declined to 26.7% against 29.5% in FY12. Therefore poor recovery led NPA ratio to 2.3% from 1.5% in previous year. We model GNPA of 5.3% and 6% of total advance in FY14E and FY15E due to lower share of priority share credit continuous deterioration in asset quality.

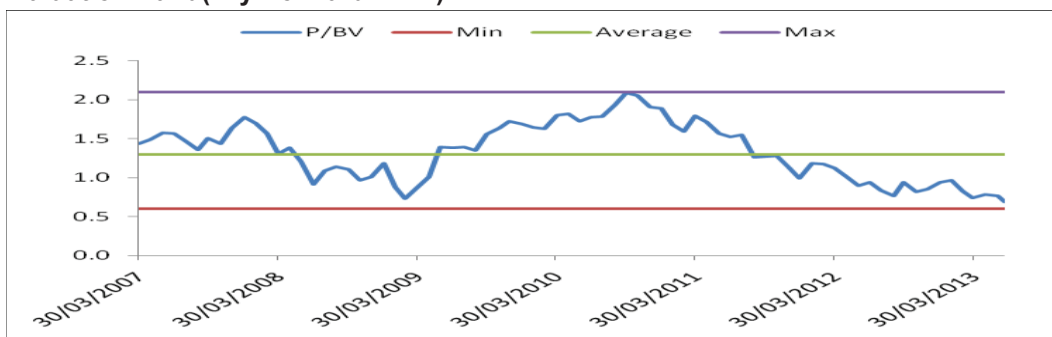
ASSETS QUALITY	2012	2013	2014E	2015E
Slippage as a % of Advance	2.3	2.8	2.8	2.8
Reductions as a % of opening Gross NPA	53.2	44.7	34.6	28.7
Reductions as a % of Advances	0.8	1.3	1.3	1.3
Provision made during the yr as a % of Advances	1.4	2.0	2.0	2.0
Recovery as a % of Reduction	29.5	26.7	27.0	27.0
Provision Coverage Ratio(Without technical write-off)	48.0	45.3	38.0	33.1
GNPA as % of Advance	3.0	4.4	5.3	6.0
NNPA as % of Advance	1.5	2.3	2.3	2.3
Provisions as % to advances	1.4	2.0	2.0	2.0

Source: Eastwind/Company

PNB loan grew by 5.1% to Rs.308725 cr in FY13 as against Rs.293775 cr in FY12. Priority sector advance stood at Rs.91427 cr and ratio with adjusted net advance stood at 33.2% as against regulatory requirement of 40%. We believe bank will provide more credit to priority sector to meet regulatory requirement which will be the result of low yielding investment and higher slippage. We have model loan yield of 10.2% and 10.1% in FY14E and FY15E against loan yield (Calculated) of 10.3% in FY13. Credit deposits ratio of the bank stood at 78.8% from 77.4% in last year. We model loan and deposits growth of 16% and 15% for FY14E and FY15E in line with management guidance of 16% to 17% in FY14.

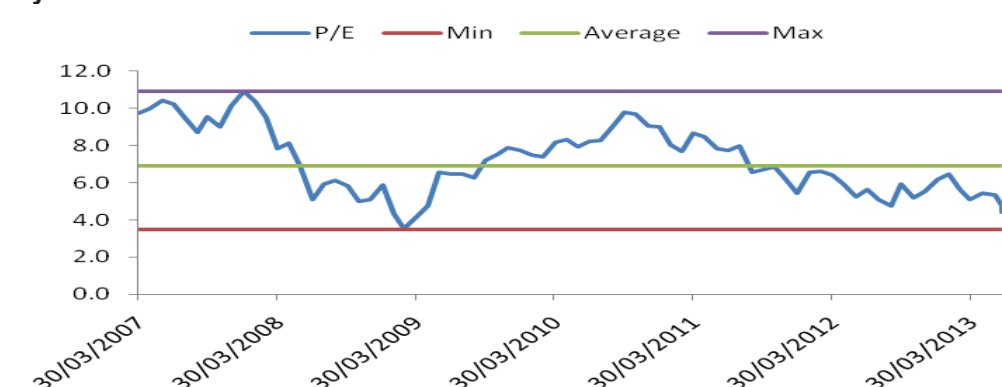
Valuation-At the current price of Rs.647 stock is trading at 0.6 times of one year forward book and 4.7 times of one year forward earning. Due to higher impairment of asset, muted operating performance and lower return ratio, bank is trading at lower side of valuation. We model 15% and 16% of deposits and loan growth for FY14E and FY15E in line with management guidance of 16-17% of loan and deposits growth for FY14. We expect PNB return ratio would be by 13-14% and ROA of 1% in FY14. We have lower our valuation multiple to 0.7 from earlier of 0.8 on account challenging environment in general and muted bank performance in particular. We have neutral view on the stock with price target of Rs.675.

Valuation Band(1 yr forward P/BV)

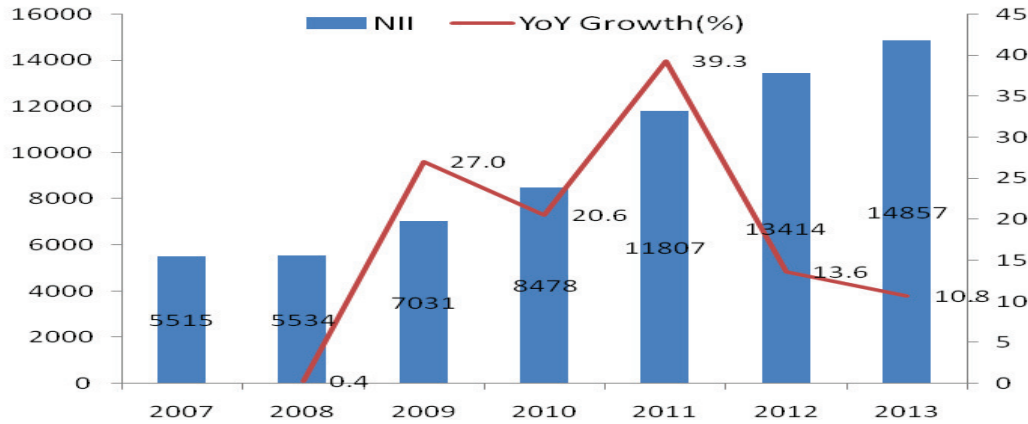


Trading at lower side of valuation band due to muted operating performance and deteriorating asset quality

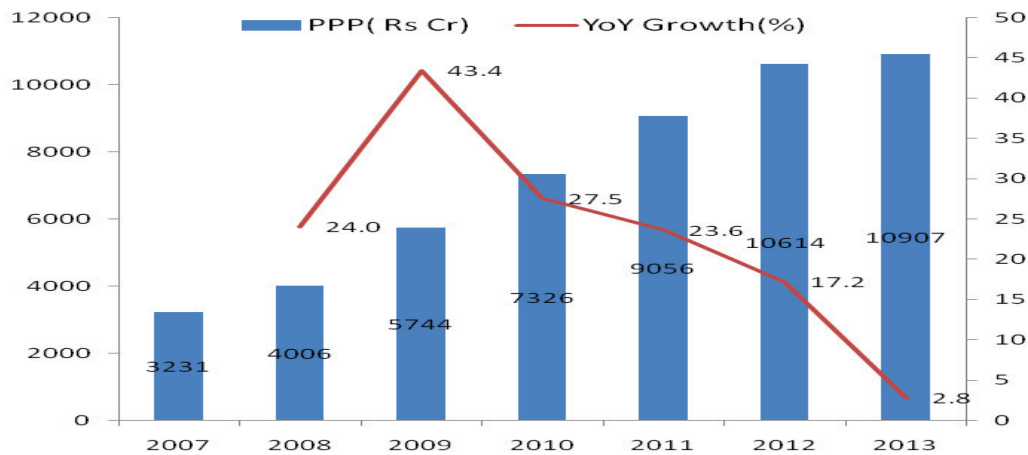
1 yr Forward P/E



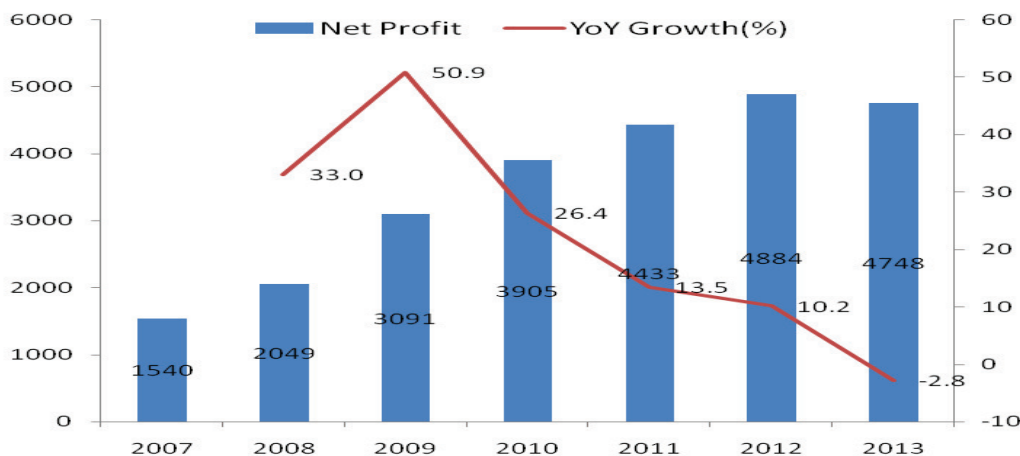
FUNDAMENTAL THROUGH GRAPH



Low NII growth was attributed by lower yield on advance growth as compare to cost of deposits and lower other income



Higher employee cost led operating expenses up and resulted of lower pre providing growth



Net profit was declined due to higher provision and higher operating expenses

FINANCIALS & ASSUPTION

Income Statement	2010	2011	2012	2013	2014E	2015E
Interest Income	21422	26986	36476	41893	47874	54758
Interest Expense	12944	15179	23062	27037	31343	36409
NII	8478	11807	13414	14857	16531	18349
Change (%)	20.6	39.3	13.6	10.8	11.3	11.0
Non Interest Income	3610	3613	4203	4216	4216	4216
Total Income	12088	15420	17617	19072	20747	22565
Change (%)	21.5	27.6	14.2	8.3	8.8	8.8
Operating Expenses	4762	6364	7003	8165	8921	9703
Pre Provision Profits	7326	9056	10614	10907	11826	12862
Change (%)	27.5	23.6	17.2	2.8	8.4	8.8
Provisions	3421	4622	3577	4386	5077	5800
PBT	3905	4433	7037	6522	6748	7062
PAT	3905	4433	4884	4748	4724	4943
Change (%)	26.4	13.5	10.2	-2.8	-0.5	4.6

Balance Sheet

Deposits(Rs Cr)	249330	312899	379588	391560	450294	517838
Change (%)	19	25	21	3	15	15
of which CASA Dep	101850	120325	134129	153344	177866	204546
Change (%)	25	18	11	14	16	15
Borrowings(Rs Cr)	19262	31590	37264	39621	44535	51215
Investments(Rs Cr)	77724	95162	122703	129896	148449	170716
Loans(Rs Cr)	186601	242107	293775	308725	358121	415421
Change (%)	21	30	21	5	16	16

Ratio

Avg. Yield on loans	8.9	8.7	9.7	10.3	10.2	10.1
Avg. Yield on Investments	5.9	6.0	6.4	7.4	7.3	7.2
Avg. Cost of Deposit	4.8	4.4	5.6	6.5	6.6	6.6
Avg. Cost of Borrowings	5.1	4.4	4.5	3.9	4.0	4.1

Book Value	562	679	820	963	1071	1179
CMP	1013	1220	926	759	655	655
P/BV	1.8	1.8	1.1	0.8	0.6	0.6

Source: Eastwind/Company