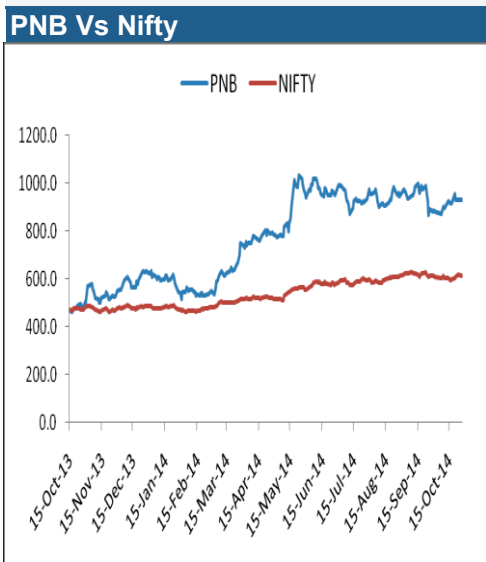


Result update	NEUTRAL
CMP	930
Target Price	900
Previous Target Price	1140
Upside	-3
Change from Previous	-21

Market Data	
BSE Code	532461
NSE Symbol	PNB
52wk Range H/L	1068/473
Mkt Capital (Rs Cr)	32890
Average Daily Volume	7.93 cr
Nifty	7991

Stock Performance	1M	1yr	YTD
Absolute	5.2	98.2	98.2
Rel.to Nifty	4.8	66.9	66.9

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 reported very disappointed set of numbers with earnings growth was 14% due to muted growth in NII and higher provisions and contingencies which was led by deteriorated asset quality. Fresh impaired assets were higher at 14.6% of loan while PCR was still lower at 44%. NIM is likely to remain under pressure as bank's exposure to low yielding asset has increased. Loan growth guidance was in line with industry average and muted growth in CASA has compelled us to reduce bank's target price to Rs.900/share from earlier of Rs.1140/share.

Muted set of earnings on the back of higher provisions and sluggish revenue growth

PNB reported very disappointed set of numbers on the back of muted NII growth and higher provisions. Earnings grew by 14% YoY but declined by 59% sequentially to Rs.575 cr due to sluggish revenue growth (NII + Other income) at 16% YoY and very low base. Asset quality was deteriorated largely with fresh slippages were high at 7.4% of net advances and restructure accounts of Rs.368 bn (10.3% of net advance). Sequentially provisions (gross) was up by 91% but PCR still declined by 261 bps due to the highest ever delinquencies reported.

Muted growth in NII despite of 14% growth in loans

NII reported 3% YoY growth to Rs.4151 cr despite of 14% growth in loan, this was due to loan deployment in low yielding asset. As per management, loan growth was driven by foreign currency loan which was required by oil marketing companies for their currency exchange requirement. As the result NIM was declined from 3.42% to 3.19% sequentially. Cost of fund was remained flat, other income grew by 74% YoY that had boosted revenue growth at 16% YoY to Rs.5710 cr. Other factors like CD ratio was also declined by almost 300 bps at quarter on quarter basis.

Higher provisions on the wake of deteriorated asset quality

Provisions and contingencies were up by 91% at sequential basis due to the highest ever delinquencies reported by bank. Provisions for bad loan were up by 24% QoQ due to large chunk of slippages reported by bank. During quarter bank reported fresh slippages of Rs.6574 cr which was 7.4% of net advances. Further outstanding restructure book accounts 10.3% of loan and total delinquencies for the quarter stood at 14.6%. Gross NPA in absolute basis was up by 6% while provisions for loan loss was remained flat as the result net NPA was up by 11% in absolute basis. In percentage term gross NPA worsen by 17 bps to 5.67% from 5.5% while net NPA deteriorated by 24 bps to 3.25% from 3% sequentially. Provisions coverage ratio without technical write off was declined by to 261 bps to 44% from 46.6% in previous quarter.

Financials

	Rs, Cr				
	2011	2012	2013	2014	2015E
NII	11807	13414	14857	16146	17337
Total Income	15420	17617	19072	20723	23586
PPP	9056	10614	10907	11384	12177
Net Profit	4433	4884	4748	3343	3533
EPS	140.6	144.0	134.3	92.3	97.6

(Source: Company/Eastwind)

Punjab National Bank

Margin declined sequentially due to higher exposure in low yielding assets

Margin for the quarter stood at 3.19% from 3.42% in 1QFY15 at our calculated basis, this was largely due to asset deployment of loan yielding assets. During quarter loan grew by 14% and was driven by foreign currency loan (57% YoY) which was required by oil marketing companies for their currency exchange requirement. Loan yield was declined from 9.7% to 10.2% while cost of fund was remained flat at 6.5%. Investment yield too declined by 30 bps at quarter on quarter basis. NIM is likely to remain under pressure as bank has now higher share of international loan and higher credit cost.

Loan growth healthy at 14% YoY but guided industry average loan growth for this fiscal

Overall loan grew by 14% YoY and 3% QoQ but was driven by mainly growth in foreign currency loans (57%) as the management guided most of loan are deployment to oil marketing companies for their funding requirement for forex exchange requirement. Retail loan grew by 20% YoY, SME 24% YoY and agriculture 23% YoY while corporate loan de-grew by 3% YoY. The Contribution of international loan has been increasing continuously from 2.5% in FY09 to 14.2% in 2QFY15. According to the management, loan growth will be in line with industry average for this fiscal. Deposits growth was also remained muted and in CASA growth term saving accounts growth was mere 9% YoY while current accounts growth was 13% YoY. Therefore we do not see much growth in that front also.

Valuation & View

PNB reported very disappointed set of numbers with earnings growth was 14% due to muted growth in NII and higher provisions and contingencies which was led by deteriorated asset quality. Fresh impaired assets were higher at 14.6% of loan while PCR was still lower at 44%. NIM is likely to remain under pressure as bank's exposure to low yielding asset has increased. Loan growth guidance was in line with industry average and muted growth in CASA has compelled us to reduce bank's target price to Rs.900/share from earlier of Rs.1140/share.

Punjab National Bank

Quarterly Performance

Quarterly Result

	2QFY15	1QFY15	2QFY14	% YoY Gr	% QoQ Gr	2QFY15E	Variation(%)
Interest/discount on advances / bills	8654	8836	8023	7.9	-2.1	9355	-7.5
Income on investments	2609	2599	2568	1.6	0.4	2782	-6.2
Interest on balances with Reserve Bank of India	137	93	101	36.1	48.4	131	5.1
Others	61	62	41	48.0	-0.8	0	
Total Interest Income	11462	11589	10734	6.8	-1.1	12267	-6.6
Others Income	1558	1236	899	73.3	26.0	1309	19.0
Total Income	13020	12825	9834	32.4	1.5	13576	-4.1
Interest on deposits	6867	6603	6335	8.4	4.0	0	
Interest on RBI/Inter bank borrowings	136	295	116	17.2	-53.9	0	
Others	308	311	267	15.4	-1.0	0	
Interest Expended	7311	7209	6718	8.8	1.4	7629	-4.2
NII	4151	4380	4016	3.4	-5.2	4638	-10.5
Other Income	1558	1236	899	73.3	26.0	1309	19.0
Total Income	5710	5616	4915	16.2	1.7	5947	-4.0
Employee	2034	1767	1659	22.6	15.1	1715	18.6
Other Expenses	799	723	721	10.8	10.5	923	-13.4
Operating Expenses	2834	2491	2380	19.1	13.8	2638	7.4
PPP(Rs Cr)	2876	3125	2535	13.5	-8.0	3310	-13.1
Provisions	1768	928	1899	-6.9	90.6	1839	-3.9
PBT	1108	2198	636	74.2	-49.6	1470	-24.6
Tax	533	793	131	307.9	-32.8	441	20.8
Net Profit	575	1405	505	13.8	-59.1	1029	-44.1

Balance Sheet Date

Equity Capital	362	362	362
Reserve & Surplus	37501	36934	34972
Deposits	473511	444920	420647
Borrowings	37997	46881	49163
Investment	144577	138256	143368
Advance	357093	347485	326133

Asset Quality

GNPA	20752	19603	16526
NPA	11618	10464	9609
GNPA(%)	5.67	5.50	5.15
NPA(%)	3.25	3.01	3.06
PCR(%) Without technical write off	44.0	46.6	41.9

Source: Eastwind/ Company

Punjab National Bank

Financials

Income Statement	2013	2014	2015E	2016E
Interest Income	41893	43223	48394	59166
Interest Expense	27037	27077	31057	36288
NII	14857	16146	17337	22878
Change (%)	10.8	8.7	7.4	32.0
Non Interest Income	4216	4577	6249	6084
Total Income	19072	20723	23586	28962
Change (%)	8.3	8.7	13.8	22.8
Operating Expenses	8165	9338	11409	13033
Pre Provision Profits	10907	11384	12177	15929
Change (%)	2.8	4.4	7.0	30.8
Provisions	4386	6694	6654	7956
PBT	6522	4691	5524	7973
PAT	4748	3343	3533	5581
Change (%)	-2.8	-29.6	5.7	58.0

Balance Sheet	2013	2014	2015	2016
Equity Capital	353	362	362	362
Reserve & Surplus	32323	35533	37722	43303
Net Worth	32677	35895	38084	43665
Deposits(Rs Cr)	391560	451397	522600	604800
Borrowings(Rs Cr)	39621	48034	54859	63487
Other liabilities and provisic	15019	15093	28489	26036
Total Liability	478877	550420	644032	737988
Cash in hand	17886	22246	25986	30073
Money with RBI	9249	22973	25986	30073
Investments(Rs Cr)	129896	143786	167463	193803
Loans(Rs Cr)	308725	349269	408700	468000
Fixed Assets	3358	3420	3839	4678
Others Assets	9763	8727	12059	11361
Total Assets	478877	550420	644032	737988

Ratio				
Avg. Yield on loans	10.3	9.3	9.0	9.5
Avg. Yield on Investments	7.4	7.1	6.6	7.2
Avg. Cost of Deposit	6.5	6.0	6.0	6.0
Avg. Cost of Borrowings	3.9	0.0	4.1	0.0

Valuation				
Book Value	924	991	1052	1206
CMP	759	925	990	990
P/BV	0.8	0.9	0.9	0.8

Source: Eastwind/ Company