

IPO Note

Punjab & Sind Bank Ltd.

Recommendation	Subscribe	
Price Band	Rs. 113-120	
Bidding Date	13th Dec – 16th Dec	
Book Running Lead Manager	SBI Cap, ENAM, ICICI	
Sector	Banking	
Retail Application- Detail At Cut off Price		
Number of Shares	1650	
Application Money	198000	
Amount Payable	198000	
Discount to retail	5%	
Financials (Rs in Crs)	FY10	H1FY11
Total Income (NII+ OI)	1576	997
Operating Profit	868	513
PAT	501	277
Valuations	Lower Band	Upper Band
EPS*	24.1	24.1
Book Value*	111.2	112.4
P/E ratio*	4.68x	4.97x
P/BV*	1.01x	1.07x
*calculated on diluted equity		
Post Issue Shareholding Pattern		
Promoters and Promoters Group	82.07%	
Institutions	8.51%	
Public	9.46%	
Others	0.00%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50.00%	
HNI	15.00%	
Retail	35.00%	
Post issue Equity (Rs. in crore)	223	
Issue Size (Rs. in crore)	452-480	
Face Value (Rs.)	10	
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Background

Punjab & Sind Bank is a Government of India (GoI) owned nationalized bank. Like any other bank it has principally divided into retail banking, corporate banking, priority sector banking, treasury operations and other banking services such as agency functions for insurance, distribution of mutual funds and pension and tax collection services. In the annual Business Today-KPMG survey of Best Banks in India 2008, the bank was ranked number one on the list of 'Small Sized Best Banks in India' (i.e. banks with a then balance sheet size of less than Rs. 24,000 crore).

The bank has significantly grown their branch network with a presence predominantly in north India. As on September 30, 2010, their network comprised of 926 branches, 63 ATMs, 8047 employees and 6.6 million customers across India. The bank also sponsors one regional rural bank, Sulej Gramin Bank, in collaboration with the GoI and the state Government of Punjab. As on September 30, 2010, the net worth of the company is Rs. 2382 crore, the business size of Rs. 88841 crore, and its advances and deposits has grown at a compounded annual growth rate of 36% and 28% respectively in last 5 years. The capital adequacy ratio of the bank is 13.04% with Tier-I of 7.98%.

Objects of the Issue

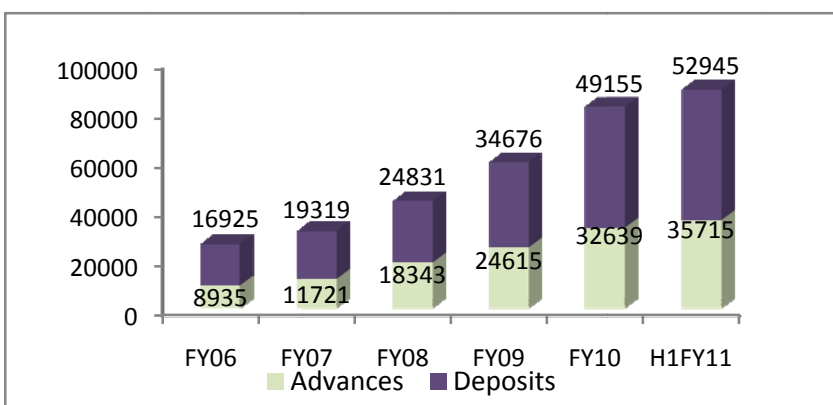
The objects of the Issue are to augment its capital base to meet its future capital requirements arising out of the growth in their assets due to the growth in the Indian Economy and also to reap the benefits of listing on the stock exchanges.

Post issue the government holding in the bank would fall from 100% to 82.07%. Issue has been offered at a discount of 5% to retail investors.

Investment Rationale

✓ Strong growth in business with a diversified loan growth

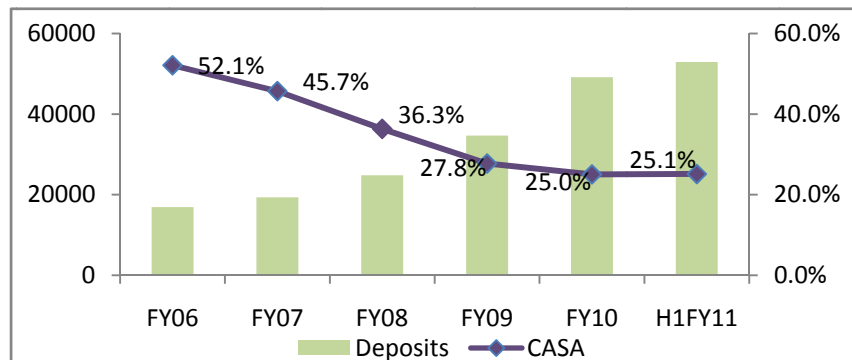
The loan book has continuously increased with a CAGR of 36% and deposits too with a CAGR of 28% in last 5 years. The business size of the bank has reached to Rs. 88841 cr. The advances growth was well ahead of industry growth of around 20%. The growth is further likely to be ahead of industry.



(Source: Company & Nirmal Bang Research)

✓ Scope of improvement in CASA

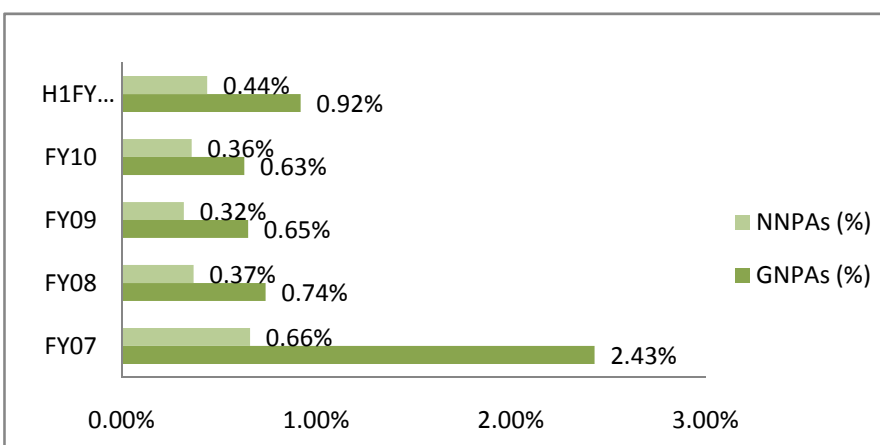
The aggressive expansion of balance sheet in last five years has brought down the CASA from 52.1% in FY06 to 25.1% in half year ended 30th September 2010. This had an impact on NIM (Net Interest Margin) as well which also came down from 4.34% in FY06 to 2.67% in FY10 but improved to 3% in H1FY11. Bank has planned for aggressive branch expansion which will help it to improve CASA in coming period.



(Source: Company & Nirmal Bang Research)

✓ **High asset quality and robust financial growth**

In FY2005, the net NPA (Non Performing Asset) ratio of Punjab & Sind Bank was at 8.11%, highest among the public sector banks. The government then restructured the bank. Thereafter bank concentrated heavily on NPA collection and risk management system which helped it to bring down its Gross & Net NPA to one of the best level in industry at 0.92% & 0.44% respectively at the end of H1FY11.



(Source: Company & Nirmal Bang Research)

Banks exposure to real estate sector seems to be higher at 16.30% but the exposure to commercial real estate is only 4.47% at the end of H1FY11.

Category		30.09.10	31.03.10
1	Direct Exposure	Rs. In crs	Rs. In crs
	a Residential Mortgages	2564.06	2379.06
	b Commercial Real Estate	1955.48	1978.93
2	Indirect Exposure (Fund based and non-fund based exposures on National Housing bank (NHB) and Housing Finance Companies (HFCs)	2606.32	2372.33
Total Exposure to Real Estate Sector		7125.86	6730.62

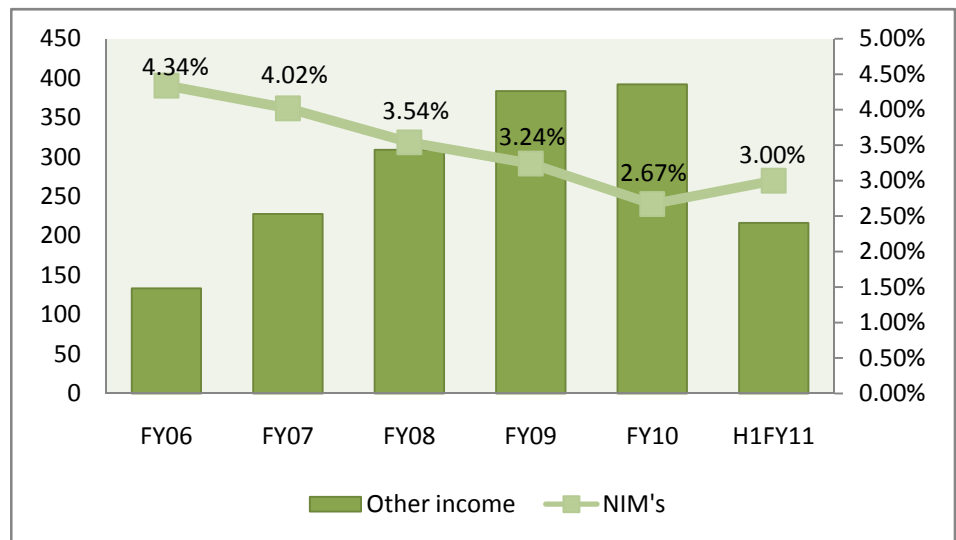
(Source: Company & Nirmal Bang Research)

✓ **Growth in the Industry**

It's a thumb rule that credit grows 3 times the growth of GDP in an economy. In India, the GDP is expected to grow around 8% to 9% for the next 3 to 5 years resulting in growth in credit of around 25% in same period. Looking from this perspective and Punjab & Sind Banks recent history, the bank has a lot of potential to grow in the future.

✓ **Possibility of Improvement in NIM & other income**

The aggressive Advances growth has forced bank to rely more on wholesale deposit and its CASA ratio came down. Likewise growth in other income also trailed behind on account of higher focus on balance sheet growth and lagging behind in IT infrastructure. Bank has planned to correct this anomaly and will concentrate on improving CASA, NIM & other income in coming period.



(Source: Company & Nirmal Bang Research)

✓ **CARE Rating**

CARE has assigned a "CARE IPO Grade 4" out of 5, to the proposed IPO of PSB. CARE IPO Grade 4 indicates 'above average fundamentals'.

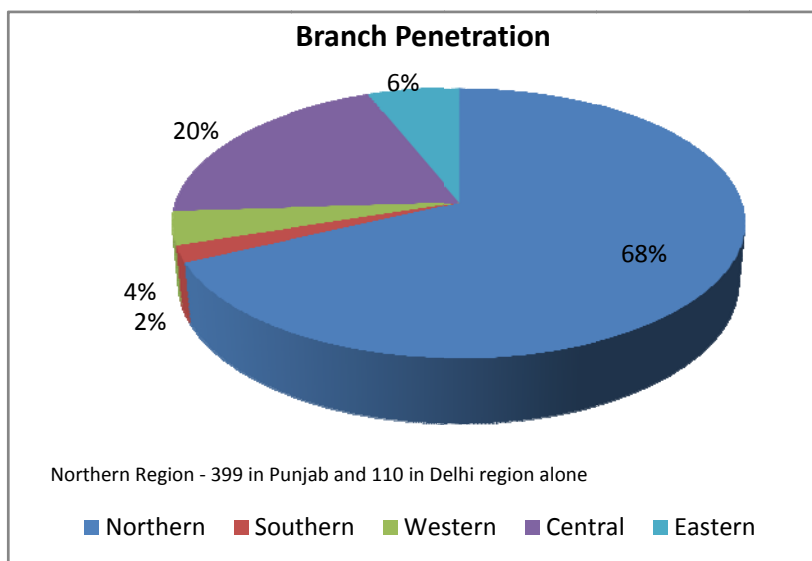
Key Concerns

✓ **IT infrastructure implementation trailing behind**

Punjab & Sind Bank is among the few banks whose operations are not completely on core banking solutions (CBS). This is partly because Satyam was the IT partner and after Satyam went down, the project came to a standstill. The bank has now appointed Wipro and Infosys for its CBS. 21 branches are on the CBS fold wherein about 30% of the business is covered. The first CBS branch of PSB was rolled out on June 24, 2010, when many of its competitors are working on 100% CBS branches. This backwardness in the field of IT infrastructure can impact its growth prospects and the brand value.

✓ **Penetration and concentration in specific regions**

Punjab and Sind Bank has 924 branches all throughout the country out of which 627 branches are located in the Northern region, constituting 67.72% of the total branch network. Hence any uncertain adverse economic condition developing in this particular region can then hamper the operations and growth prospects of the bank.



(Source: Company & Nirmal Bang Research)

Valuation and Peer Comparison

Condensed Income Statement (H1FY10)	Punjab & Sind Bank	Dena Bank	United Bank of India
CMP	120*	116	103
EPS* (half yearly)	24.15	20.88	13.75
Adjusted Book Value	112.4	70.00	74.95
NIM	3.00%	3.52%	3.04%
Cost -income ratio	48.58%	44.00%	48.00%
CASA	25.10%	39.11%	39.70%
Gross NPA	0.92%	2.26%	3.12%
Net NPA	0.44%	1.49%	1.58%
Loan -deposit ratio	67.80%	67.68%	67.02%
RONW	23.90%	23.50%	14.0%
P/E	4.97	5.56	7.49
P/ABV	1.07	1.66	1.37

(Source: Company & Nirmal Bang Research)

(* upper band)

We have compared Punjab & Sind Bank with Dena bank & United Bank of India. Punjab & Sind bank seems to be offered at comparatively lower valuations as compared to its peers both on price to adjusted book and price earning comparison.

Punjab & Sind Bank had consistently enjoyed higher return on equity. Looking at its attractive valuations, high growth in past and good quality of assets, we recommend to **“Subscribe”** the issue.

Income Statement

Rs. In crs., unless specified	FY 2006A	FY 2007A	FY 2008A	FY 2009A	FY 2010A	H1FY11A
Interest income	1,269	1,692	2,219	3,247	3,934	2,307
Interest expense	669	960	1,434	2,235	2,750	1526
Net interest income	600	732	786	1,012	1,184	781
Other income	133	228	309	384	392	216
Total income	733	960	1,095	1,395	1,576	997
Operating expense	476	497	558	667	708	484
Staff costs	363	380	427	518	538	383
Other operating expense	113	117	132	149	170	101
Operating profit	266	468	537	728	868	513
Provisions	-16	73	80	83	211	113
Profit before tax	282	395	457	645	657	400
Taxes	-4	5	55	210	156	123
Net profit	286	390	402	435	501	277

(Source: Company & Nirmal Bang Research)

Balance Sheet

Rs. In crs., unless specified	FY 2006A	FY 2007A	FY 2008A	FY 2009A	FY 2010A	H1FY11A
Total cash and bank balances	2147	2648	2940	2840	4755	4487
Investments	6956	6693	8474	12627	17887	17221
Advances	8935	11721	18343	24615	32639	35715
Fixed assets	34	35	40	51	53	56
Other assets	505	607	601	644	766	864
Total assets	18577	21705	30398	40779	56100	58343
Deposits	16925	19319	24831	34676	49155	52944
Borrowings	315	590	3357	3606	3701	2008
Other liabilities and provisions	570	639	651	871	1123	1009
Total liabilities	17810	20548	28839	39153	53979	55961
Equity capital	743	743	743	383	383	383
Reserve	24	414	816	1242	1738	1999
Total liabilities and equity	18577	21705	30398	40779	56100	58343

(Source: Company & Nirmal Bang Research)

Ratio Analysis
Financial Highlights

Valuation Ratios	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	H1FY11
Earnings per share	5.62	5.17	5.24	7.15	26.7	24.1
Book value per share	10.3	15.6	21.0	88.8	115.8	119.3
Adjusted book value per share	9.8	14.8	19.9	72.9	95.1	112.4
Return on equity	37.26%	33.74%	25.80%	26.47%	23.90%	10.92*

Yield Ratios	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	H1FY11
Yield on advances	10.06%	9.93%	11.20%	9.70%	10.40%	9.70%
Yield on investments	7.99%	8.01%	6.99%	5.45%	6.12%	3.60%
Cost of deposits	4.37%	4.91%	6.16%	7.00%	6.24%	5.78%
Net interest margin (NIM)	4.34%	4.02%	3.54%	3.24%	2.67%	3.00%

Balance Sheet Ratio	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	H1FY11
Gross NPA	9.61%	2.43%	0.74%	0.65%	0.63%	0.92%
Net NPA	2.42%	0.66%	0.37%	0.32%	0.36%	0.44%
CASA	52.13%	45.71%	36.34%	27.76%	25.04%	25.14%
Loan -deposit ratio	57.90%	61.85%	74.14%	71.23%	66.60%	67.80%

Profitability Ratio	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	H1FY11
Cost -income ratio	64.94%	51.81%	52.72%	47.82%	44.93%	48.58%
Net Profit Per Employee	0.03	0.04	0.04	0.05	0.06	0.06
Net Profit Per Branch	0.35	0.46	0.45	0.48	0.55	0.60

(Source: Company & Nirmal Bang) Research
 (* not annualized)

NOTE

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