

13th December 2010

Punjab and Sind Bank Ltd

Recommendation: **Subscribe**

Issue Summary		
Price Band (Rs)	113	120
Bid Lot	50 shares	
Face Value	Rs.10	
Opens on	13 th Dec'10	
Closes on	16 th Dec'10	
Total no of shares to be raised	4 cr	

Pre-issue share capital	Rs. 183.06 crs	
Post-issue share capital	Rs223.06 crs	
Issue Size	Rs 452 crs	Rs 480 crs
Post Issue Market Cap	Rs 2521 cr	Rs 2677 Cr
P/E on FY11 (Annualized)	3.7	4.0

Net Issue	No. of Shares	%
QIB's	<= 190 lacs	47.5%
Non Institutional	>=57 lacs	14.3%
Retail	>= 133 lacs	33.3%
Employees	20 lacs	5%
Total	400 lacs	100%

Book Running Lead Managers:

- SBI Capital Markets Limited
- Enam Securities Pvt Ltd
- ICICI Securities Ltd

Company & Business Profile

Punjab & Sind Bank (P&S) is a GoI undertaking, incorporated in June 1908 in Amritsar. One of 19 nationalized banks in India; it's the only one which remains unlisted. As on October 31, 2010, its network comprised of 926 branches and 63 ATMs across India with a presence predominantly in north India (67% of branches). 45% of its branches are located in rural and semi-urban areas. As on September 30, 2010, it had a total of 8,047 employees, serving over 0.66 crore customers.

Over the last five fiscals the bank has grown its advances at a CAGR of 36.24% deposits at a CAGR of 28.24% and currently has a business of more than Rs 88,000 cr. Banks total deposit base was Rs 52,945 cr as of September 30, 2010 with Advances at Rs 35,896 cr. Banks loan book is tilted more towards corporate which forms nearly 57% of its total advances. 22.4% of its loan book is unsecured in nature.

Bank celebrated its centenary year in 2008 and in a KPMG survey of Best Banks in India 2008, they were ranked number one Small Sized Bank in India (balance sheet size of less than 24,000 crore). In the same year Bank underwent capital restructuring which brought its bulky equity of Rs 743 cr down to Rs 183 cr. Equity of Rs 160 cr was converted to IPDI (*Innovative Perpetual Debt Instrument*), Rs 200 cr into PNCPS and Rs 200 cr into PCPS (*Perpetual Cumulative Preference Shares*).

Bank will raise Rs 452 crore to Rs 480 crore through this issue. Government presently holds 100% in the bank which post the issue will come down to around 82%.

The bank plans to focus on increasing branches, increasing CASA, improve fee based income, focus on technology and tackle the aging workforce.

Objects of the Issue

- Augment capital base to meet the capital adequacy norms for future growth
- Other general corporate purposes
- To enhance visibility and brand name among existing and potential clients

Investment Positives:

- Healthy Asset Quality** - Bank has been able to post a significant improvement in asset quality over past five years. Its net NPA which was as high as 8.11% in FY05 has been brought down to 0.36% in FY10. This was mainly due the mortgaged land security available with the bank which it was able to encash. As on September 30, 2010, it was marginally up at 0.44% mainly due to Agri debt relief package.
- Presence in Rich Belt** - The bank has strong presence in North which is rich in resources and offer great opportunity for resource mobilization and scope of further growth. This opportunity will be better explored once the bank is 100% on CBS. P&S is the lead bank in three districts of Punjab i.e., Ludhiana, Faridkot and Meerut and 28.01% of its loan portfolio consisted of loans to public sector

▪ **Healthy and Consistent Performance post Restructuring –**

	FY08	FY09	FY10	H1FY11
CAR (%)	11.79 (Basel I)	14.27 (Basel II)	13.02 (Basel II)	13.04 (Basel II)
NNPAs (%)	0.37	0.32	0.36	0.44
GNPAs (%)	0.74	0.65	0.63	0.92
NNPAs as a % of Net Assets	0.22	0.19	0.21	0.26
Business/Emp (Rs in Cr)	4.67	6.56	9.63	10.46
NIM	3.54	3.24	2.67	1.50*
RoA (%)	1.52	1.25	1.05	0.49*
RoE (%)	28.83	29.10	29.41	13.52
* Not annualised.				

- P&S comparatively is above average in number of parameters. Business and profit per employee is one of the highest in PSU banks.

FY10	Punjab and Sind Bank	PSU Bank Average	All Banks Average
Return on Advances adjusted to cost of funds %	3.87	3.83	4.19
Return on Assets %	1.05	1.00	1.05
NNPA%	0.36	0.91	1.12
Business per employee (Rs in Cr)	9.63	9.47	8.73

Concerns

- **Yet not CBS** -Major drawback for the bank is that only 30% of its business is currently under CBS. But the bank is hopeful that the process will go faster and by the end of this fiscal 60% business could be covered. Bank got delayed in the implementation of CBS due to its earlier tie up with Satyam which went down. Bank then finally tied up with Wipro in February 2010. Not being on CBS has effected the bank in multiple ways like low CASA, low fee income, low share of corporate/PSU buinsess etc.
- **Low CASA resulting in presure on Margin** – Bank’s CASA ratio went lower from 36% in FY07 to 25% at present. Apart from not being CBS, another reason for this is faster growth in advances than CASA which neccessiated the bank to rely on bulk deposits (presently at around Rs 16500 cr). This in turn led to lower margins. In the current rising rate scenario this can put pressure on the NIM’s. However the bank is confident of maintaining the same going forward as it has repriced a chunk of assets by shifting them from sub BPLR to base rate.
- **Regional bank** - Out of 926 branches, 627 branches are located in northern India, including 402 branches in Punjab alone, constituting 67.7% of total network. Our branches in northern India and Punjab received deposits of ` 28,481.98 crore and ` 12,673.04 crore, respectively, as on September 30, 2010, which constituted 53.79% and 23.93% of our total deposits as at September 30, 2010.
- **Dividend** – Bank has not declared dividends on equity Shares in any of the last five fiscal years. Before any dividend on equity bank is required to pay the dividend due on the PNCPS and unsecured Tier II subordinated Bonds.

Not being on CBS has hurt the bank in more than ways like limiting growth of CASA and fee income and hence profits. Once on CBS, however the system recognition of NPA might show some negative surprise.

- **Low fee income** – The fee income of the bank has been low at less than 5% of the total income.
- **Aging Workforce** – The bank will see a significant number of retirements in next one year. Also it has no Chairman since past more than a year and is being headed by an ED. However the bank is looking to introduce more than 1000 employees before FY11. At the same time it is looking to train the existing staff.
- **Burden Of Second Option Pension Plan** - No provision has yet made for second option pension plan of 3500 existing employees and around 700 VRS and retired employees. Bank has not given any indication on the likely impact.
- Priority sector advances which was nearly 50% of its net bank advances in FY08, has now fallen below 40% at 37.6% as at end of September 2010 with agriculture at 12.5% as against required 18%.

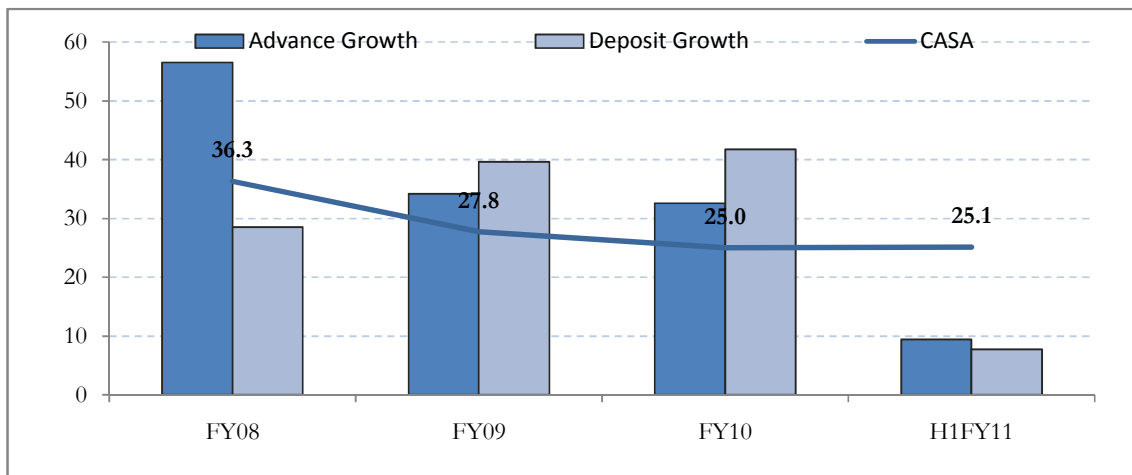
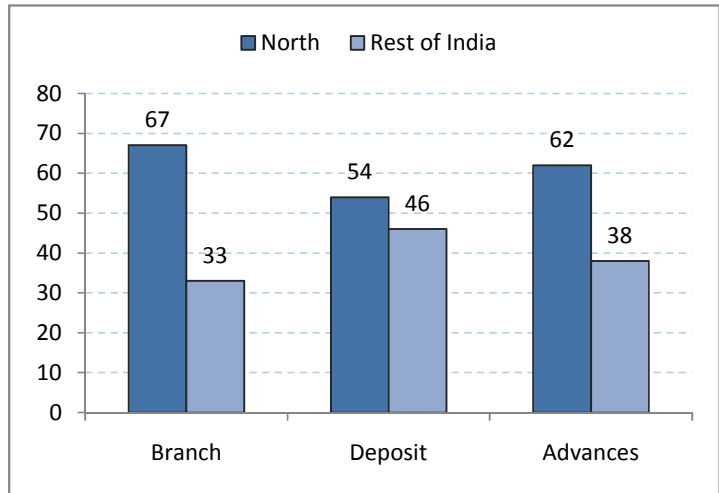
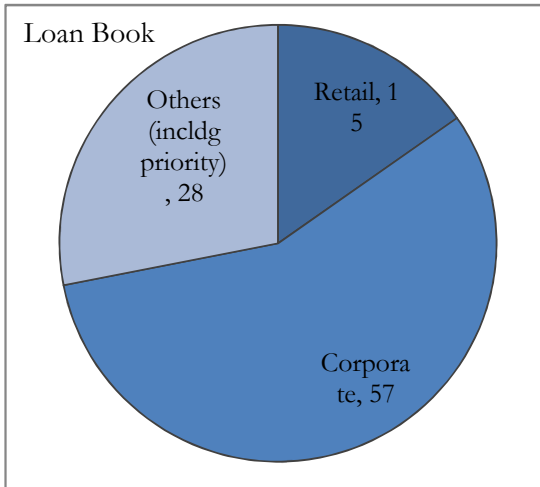
Profit and Loss (Rs in Cr)

	FY07	FY08	FY09	FY10	H1FY11
Interest Earned	1692	2219	3247	3934	2307
Interest expended	960	1434	2235	2750	1526
Net Interest Income	732	786	1012	1184	781
<i>YoY growth</i>	22.2	7.4	28.8	17.0	
Other Income	228	309	384	392	216
-Fee Income in above	102	129	146	170	78
Operating Income	960	1095	1395	1576	997
Expenditure	497	577	667	708	484
-Employees Exp	380	446	519	538	383
-Other Expenses	117	132	148	170	102
Operating Profit	462	518	728	868	513
Extraordinary Items	-6	0	0	-1	0
Provisions & Contingencies	73	80	83	211	113
PBT	395	438	645	658	400
Tax	5	48	211	156	123
PAT	390	390	434	501	276
<i>YoY growth</i>	36.6	-0.2	11.5	15.4	
EPS before dilution	5.3	5.2	23.7	27.4	15.1
EPS post dilution	4.98	4.97	19.48	22.47	12.39

Peer Comparison

Rs in Cr	Business	CAR %	Tier I %	RoA %	Business/Emp	Profit/ Emp	NNPA %	RONW (%)
Pun. & Sind Bank	36,340	11.7	6.9	1.05	9.6	0.06	0.36	23.8
Bank of Maha	43,112	11.3	5.7	0.7	7.6	0.03	1.64	21.4
Dena Bank	37,024	10.7	6.8	1.01	8.3	0.05	1.21	23.6
United Bank (I)	43,245	12.8	8.2	0.45	7.1	0.02	1.84	12.3
Vijaya Bank	43,460	11.8	7.3	0.76	8.4	0.05	1.4	21.4

Rs in Cr	BV	EPS	P/BV	P/E	CMP (Rs)
Pun. & Sind Bank	104.2	26.7	1.2	4.5	120 (Higher Band)
Bank of Maha	49.1	10.2	1.3	6.1	62
Dena Bank	84.4	17.8	1.4	6.4	115
United Bank (I)	91.7	9.3	1.1	10.9	102
Vijaya Bank	61.4	11.7	1.5	8.0	94



Valuations

Overall P&S Bank has a good network and despite being regional and not on CBS, the bank has delivered good return ratios and good growth while maintaining healthy asset quality. We feel that P&S stock has been attractively priced. The book value as at end of September 2010 is ~ Rs 119 and the issue is priced close to it. Even if assume a conservative 20% growth for FY11 and FY12, the issue is priced at near about 0.8 times the FY12 book value. Despite the current weakness in the banking sector we feel that the issue can be subscribed for good long term gains. For retail investors there is a 5% discount.

CONTACT | For IPO: 0731-4217350
or Your Nearest Arihant Investment Center
CLICK | www.arihantcapital.com
EMAIL | For research queries:
research@arihantcapital.com
For General and other queries:
contactus@arihantcapital.com

ARIHANT capital markets Ltd

67, Nehru Road 3rd Floor, Krishna Bhavan, Vile Parle (E), Mumbai - 400057.

Tel: +91.22.42254800, Fax: +91.22.42254880

Rgd Office: E-5 Ratlam Kothi, Indore – 452001.

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