

Rating matrix		
Rating	:	Buy
Target	:	₹ 180
Target Period	:	12 months
Potential Upside	:	13%

What's changed?	
Target	Changed from ₹ 160 to ₹ 180
EPS FY18E	Changed from ₹ 14.8 to ₹ 14.4
EPS FY19E	Unchanged at ₹ 21.3
Rating	Changed from Hold to Buy

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
NII	3,855.1	3,699.0	4.2	3,683.5	4.7
Other Income	2,331.8	1,900.5	22.7	3,102.8	-24.8
PPP	3,217.3	2,820.0	14.1	6,231.7	(48.4)
PAT	343.4	306.4	NA	261.8	31.1

Key financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
NII	15,312	14,993	16,356	18,184
PPP	11,339	14,565	14,483	16,047
PAT	(3,974)	1,325	3,068	4,536

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	-7.9	25.5	11.0	7.5
Target P/E	(8.9)	28.9	12.5	8.4
ABV	-45.9	-194.2	50.0	79.3
Target P/ABV	(3.9)	(0.9)	3.6	2.3
RoA (%)	-0.6	0.2	0.4	0.5
RoE (%)	(10.3)	3.3	7.1	9.8

Stock data	
Particular	Amount
Market Capitalisation	₹ 33813 Crore
GNPA (Q1FY18)	₹ 57721 crore
NNPA (Q1FY18)	₹ 34573 crore
NIM (Q1FY18)	2.6%
52 week H/L	185 / 112
Net Worth	₹ 42521 Crore
Face value	₹ 2
DII Holding (%)	19.2
FII Holding (%)	10.4

Price performance				
	1M	3M	6M	12M
SBI	12.92	6.64	14.15	35.9
BOI	16.2	-13.1	34.0	47.8
PNB	14.7	-6.7	12.1	28.8

Research Analyst

Kajal Gandhi
 kajal.gandhi@icicisecurities.com

Vishal Namolia
 vishal.namolia@icicisecurities.com

Vasant Lohiya
 vasant.lohiya@icicisecurities.com

Punjab National Bank (PUNBAN) ₹ 159

Steady performance; gradual pick-up ahead...

- Asset quality pressure continued with fresh slippages at ~₹ 6018 crore, lower compared to previous quarters. Fall from corporate segment and ₹ 865 crore from RA book added to slippages. GNPA ratio rose ~113 bps QoQ to 13.66%. Led by slippages, restructured assets declined further to ₹ 11051 crore vs. ₹ 11932 crore in Q4FY17
- Other income (restated) saw robust growth at 22.7% YoY. There was healthy fee based income growth at 31% YoY. PPP was at ₹ 3217 crore, marginally below our estimate on lower-than-expected other income. Ageing of assets kept provision elevated at ₹ 2608 crore though lower QoQ. Credit cost was at 65 bps vs. 70 bps estimate
- NII increased 4.2% YoY to ₹ 3855 crore. Credit book grew 2.1% YoY to ₹ 399750 crore, led by 15% YoY growth in retail book. Domestic NIMs improved 5 bps QoQ to 2.56%

Third largest PSU bank, NPA to ease gradually

PNB is the third largest bank in terms of advances among PSU banks (₹ 399749 crore) with ~5% market share, declining from 5.45% in September 2010. It lost the No.2 position to BoB. PNB has an extensive branch network of >6946 branches, with 50% in rural and semi-urban areas giving it unparalleled advantage of domestic CASA of ~40% since FY07 and consequent lower CoF. The bank grew credit at 23-29% in FY06-11 and at ~12% CAGR in FY11-17. Loss of market share in deposit & loans happened due to a change in focus to manage rising NPAs (GNPA at 12.5% in FY17 from 1.9% in Q2FY10), significantly impacting profit.

Asset quality pressure surges in FY16-17; outlook remains positive

RA grew from ₹ 10000 crore to ₹ 35000 crore in FY10-Q3FY16 and fell to ₹ 11051 crore in Q1FY18. GNPA ratio in the past seven years rose from lows of 1.6% to 12.5% at ₹ 55370 crore with a surge in slippages in previous quarters, led by AQR and slippages from RA. The management guided for FY18E slippages to be lower than FY17 but uncertainty looms over the indicated watchlist and outstanding RA book. Accordingly, we factor in a gradual improvement in GNPA to 9.6% by FY19E.

Loan growth to pick up; NIMs to remain steady with upwards bias

PNB's credit book grew 2.1% YoY in Q1FY18 to ₹ 399750 crore (-4.7% QoQ). The domestic loan book is dominated by large corporate (32%) & MSME (20%) segment. **Deposits** saw 19% CAGR to ₹ 501379 crore in FY10-15 while FY17-Q1FY18 growth was ~12%, led by demonetisation. In FY18-19E, we expect deposit to grow at 10.3% CAGR in FY18-19E to ₹ 755933 crore. We expect credit to pick up and grow at 11.9% CAGR in FY18-19E to ₹ 524913 crore. We expect NII to grow at 10.1% CAGR to ₹ 18184 crore, after remaining muted in FY13-17. With moderation in slippages and, therefore, credit cost, we expect PAT to grow at 85% CAGR in FY18-19E to ₹ 4536 crore.

Improvement in growth momentum, steady NPA – rating upgrade

After reporting highest RoA, RoE among PSU banks in FY08-10, profitability stayed under pressure due to higher slippages. Core earnings stayed weak led by higher slippage. Selective lending, focus on recovery is expected to lead to a gradual improvement in asset quality. Though elevated provision is seen keeping profitability under pressure in FY18E, healthy revival is expected in FY19E. Hence, we revise our target price upwards at ₹ 180, valuing standalone bank at 1.7x FY19E ABV & housing finance subsidiary at current market cap. We upgrade our rating from HOLD to BUY. Sale of non core asset and capital raising remain upside risk.

Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	Q4FY17	YoY (%)	QoQ (%)	Comments
NII	3,855	3,734	3,699	3,683	4.2	4.7	NII growth in positive territory led by credit growth
NIM (%)	2.4	2.5	2.5	2.4	-5 bps	2 bps	
Other Income	2,332	2,629	1,900	3,103	22.7	-24.8	Restated fee based income growth remained robust at 31% YoY
Net Total Income	6,187	6,362	5,599	6,786	10.5	-8.8	
Staff cost	1,937	1,864	1,900	-548	2.0	-453.3	Employee expense came to normalised level
Other Operating Expenses	1,032	1,081	880	1,103	17.4	-6.4	
PPP	3,217	3,417	2,820	6,232	14.1	-48.4	
Provision	2,609	2,878	2,284	5,754	14.2	-54.7	Credit cost continue to remain elevated at ~65 bps of advances, though lower QoQ
PBT	609	539	536	478	13.5	27.3	
Tax Outgo	265	162	230	216	15.4	22.6	
PAT	343	377	306	262	12.1	31.1	
Key Metrics							
GNPA	57,721	55,270	56,654	55,370	1.9	4.2	Gross slippages remained higher at ₹ 6018 crore, led by corporate segment. Slippage from RA book at ₹ 765 crore
NNPA	34,573	32,602	35,729	32,702	-3.2	5.7	NNPA ratio increased ~86 bps to 8.67%
Total Restructured assets	11,051	11,912	18,909	11,932	-41.6	-7.4	Decline in RA led by slippage of ₹ 765 crore
Advances	399,750	411,103	391,574	419,493	2.1	-4.7	Retail segment growth healthy at 15.9% YoY
Deposits	625,616	622,326	553,952	621,704	12.9	0.6	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	15,951	16,356	2.5	17,915	18,184	1.5
Pre Provision Profit	14,473	14,483	0.1	16,025	16,047	0.1
NIM(%) (calculated)	2.3	2.3	7 bps	2.3	2.4	7 bps
PAT	3,143	3,068	-2.4	4,531	4,536	0.1
ABV per share (₹)	63	50	-20.6	87	79	-8.9

Source: Company, ICICIdirect.com Research

Assumptions

	Current			Earlier		
	FY16	FY17E	FY18E	FY19E	FY18E	FY19E
Credit growth (%)	8.4	1.7	10.4	13.3	11.0	13.9
Deposit growth (%)	10.3	12.4	9.4	11.1	9.5	11.2
CASA ratio - calculated (%)	37.2	41.8	42.1	42.3	42.1	42.3
NIM calculated (%)	2.5	2.3	2.3	2.4	2.3	2.3
Cost to income ratio (%)	46.8	39.2	42.5	41.8	41.9	41.3
GNPA (₹ crore)	55,818	55,370	53,611	51,532	53,634	52,427
NNPA (₹ crore)	44,478	79,411	30,020	27,674	29,699	28,457
Slippage ratio (%)	11.1	5.4	5.5	4.8	2.9	2.6
Credit cost (%)	4.5	3.1	2.1	1.7	2.1	1.7

Source: Company, ICICIdirect.com Research

Company Analysis

NPA concerns moderating; performance improves relatively...

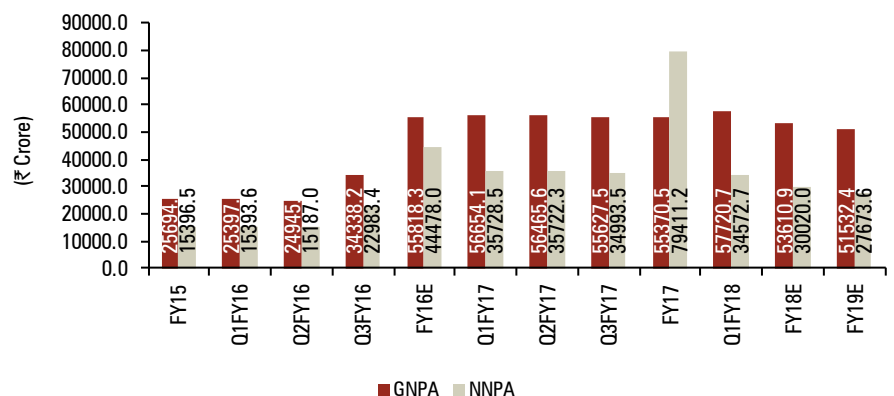
Asset quality pressure continued in Q1FY18 with fresh slippages at ~₹ 6018 crore, lower compared to previous quarters. Fall from corporate segment and ₹ 865 crore from RA book added to slippages. GNPA accretion came in at ₹ 2350 crore, post a marginal decline in GNPA accretion in the last three quarters. Absolute GNPA and NNPA increased QoQ to ₹ 57721 crore (GNPA ratio increased ~113 bps QoQ to 13.66%) and ₹ 34573 crore (NNPA ratio increased ~86 bps to 8.67%), respectively. Led by slippages, restructured assets declined further to ₹ 11051 crore vs. ₹ 11932 crore in Q4FY17.

Concerns about the bank's asset quality are generally raised owing to its exposure to stressed sectors (16% to domestic credit) and troubled corporates. Power alone (included in infra) forms a major proportion of the loan book. The GNPA ratio in the past seven years has grown from 1.6% to >12.8%, with a spurt seen in last two fiscals. Further, calculated provision coverage ratio (PCR) had dropped to ~45% from 89% earlier and now brought up to 58.23%.

With a fall in exposure to stressed assets, the management has indicated at recognition of majority of asset quality issues and guided for FY18E slippages to be lower than seen in FY17. Indicated watchlist was at ₹ 5000 crore. Going ahead, we expect a gradual improvement in asset quality. Hence, we factor in GNPA ratio at 9.6% in FY19E from current 13.66% and NNPA ratio at 5.3% from 8.9% during the same period.

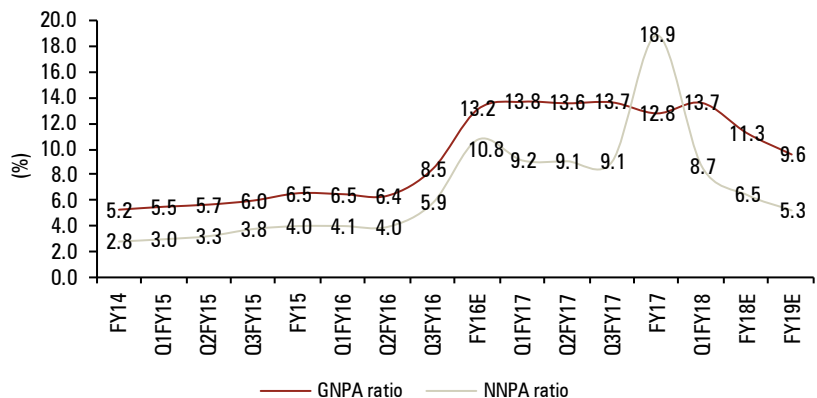
The GNPA ratio is expected at 9.6% and NNPA at 5.3% by FY19E

Exhibit 1: Sequential decline in slippages



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 2: NNPA rises from bottom of 0.2% in FY09 to 8.9% in Q1FY18



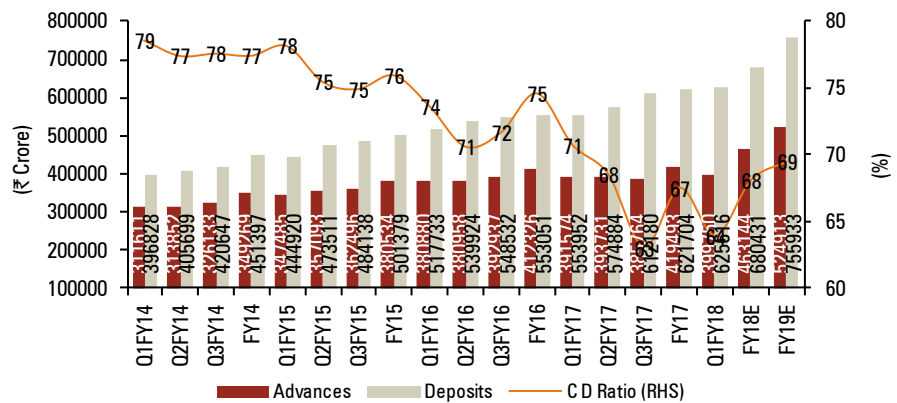
Source: Company, ICICIdirect.com Research

Small ticket loans including retail to remain in focus now...

The bank's loan book is largely skewed towards the large corporate segment, which comprises ~30% of the total loan book. With a shift in focus towards retail & SME segments, their share has been inching northwards. Since then, the retail loans proportion has risen to 15% as on FY17 from 9.9% in FY12.

Owing to the slower pace of corporate credit demand and focus on recovery and cleaning up the balance sheet, credit growth remained moderate in Q1FY18 at 2.1% YoY. However, going ahead, we expect credit growth to inch up, though the pace is anticipated to remain gradual. With focus on retail loans, the book grew at a healthy pace in Q1FY17 at 15% YoY. On the other hand, the corporate book growth remained muted at 0.9% YoY. The management had indicated credit growth to be good for small ticket loans including retail, agri and MSME in FY18-19E. Hence, we have factored in increase in credit growth at 11.9% CAGR in FY18-19E to ₹ 524913 crore.

Exhibit 3: Gradual pick up in credit growth expected ahead

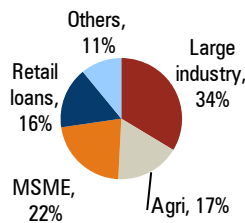


Credit book grew 2.1% YoY to ₹ 399750 crore led by retail book, which increased 15% YoY. Deposit traction was healthy at 12.9% YoY. Domestic CASA ratio stayed strong at 44%

Large corporate loans muted at 0.9% YoY ₹ 121391 crore

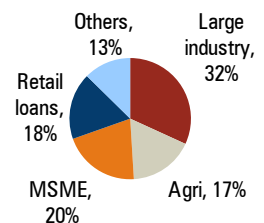
Retail loans grew 15% YoY to ₹ 67867 crore and agri grew 6.9% with MSME at 0.1%. Retail loan growth was led by housing segment whose proportion in retail loans has increased 40 bps YoY in Q1FY18 at 48%.

Exhibit 4: Domestic credit: Q1FY17



Source: Company Quarterly Presentation, ICICIdirect.com Research

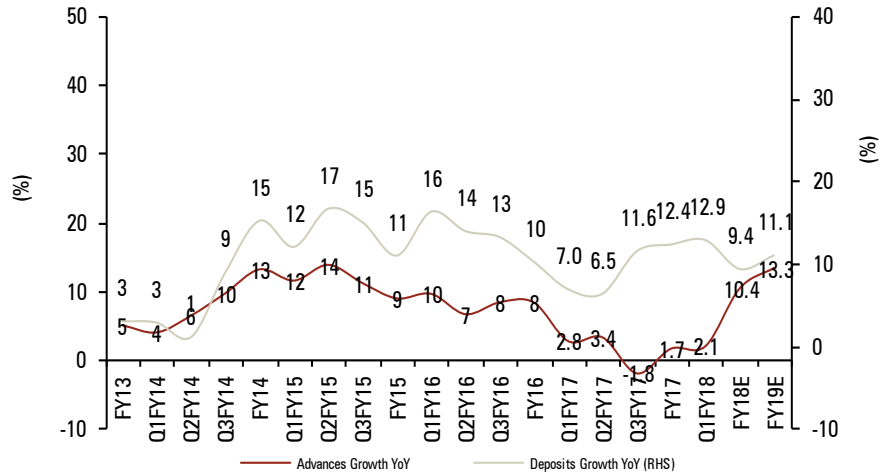
Exhibit 5: Domestic credit: Q1FY18



Source: Company Quarterly Presentation, ICICIdirect.com Research

Relatively better deposit franchise, CASA surges on demonetisation

Exhibit 6: Growth tapers with slowing economy, demonetisation helps deposits



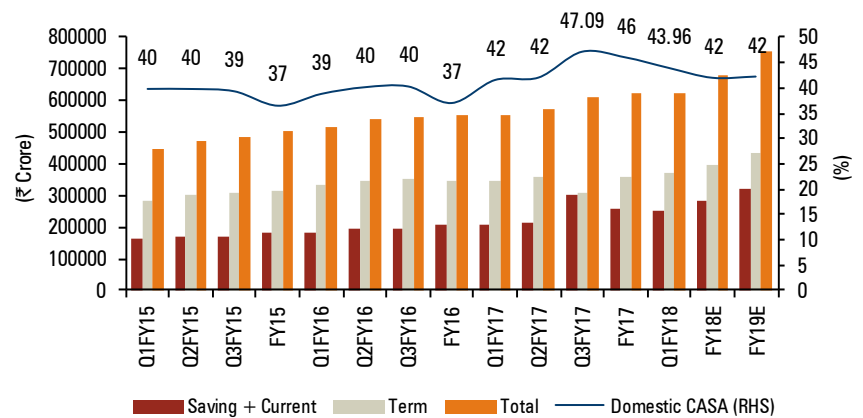
Source: Company, ICICIdirect.com Research

Deposits grew 10.3% YoY to ₹ 553051 crore in FY16. However, H1FY17 saw slower deposits pace with demonetisation pushing up savings growth in H2FY17.

Outstanding bulk deposits declined from ₹ 88297 crore in FY12 to ₹ 12123 crore in FY15 and further to ₹ 403 crore (0.06% of deposit) in FY17. This has helped manage the cost of funds in FY17.

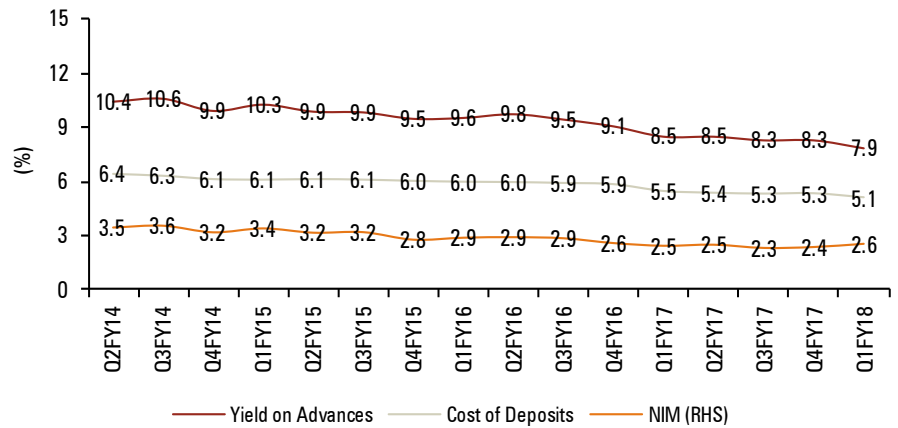
CASA ratio remained strong but moderated further in the last few years. However, excess deposits flowing to savings bank due to demonetisation boosted CASA ratio to 46% in FY17 from 42% in Q2FY17 and ~40% in FY16. We expect the same to stay around ~42-43% in the next couple of years.

Exhibit 7: CASA ratio to remain at ~42-43% in FY18-19E...



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 8: Margin remains moderate at 2.3%, excess liquidity, low growth impacting NIM



Source: Company Quarterly Presentation, ICICIdirect.com Research

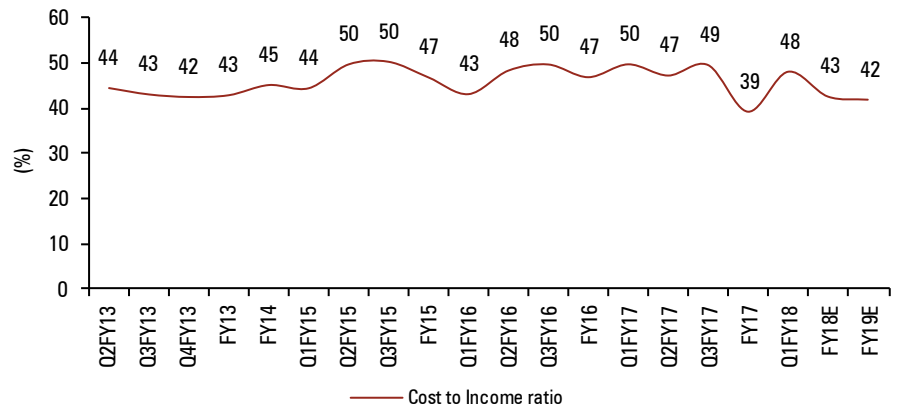
Non-interest income consistently adding to bottomline

Exhibit 9: Non interest income remains healthy

	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Trading Income	189	149	125	211	538	163	217	233	114	601	654	516	0	802
Commission, exchange and brokerage	850	925	822	888	850	943	784	823	920	1022	900	1055	1112	1340
Recovery	274	91	483	109	335	217	236	519	1326	727	800	937	0	190
Dividend from liquid MF	72	70	103	77	85	74	111	75	91	0	0	0	0	0
Total	1397	1236	1558	1291	1805	1397	1357	1671	2452	1900	2388	2513	3103	2332

Source: Company, ICICIdirect.com Research

Exhibit 10: Cost to income ratio to witnesses steady improvement ahead



Source: Company, ICICIdirect.com Research

Exhibit 11: DuPont Analysis (%)

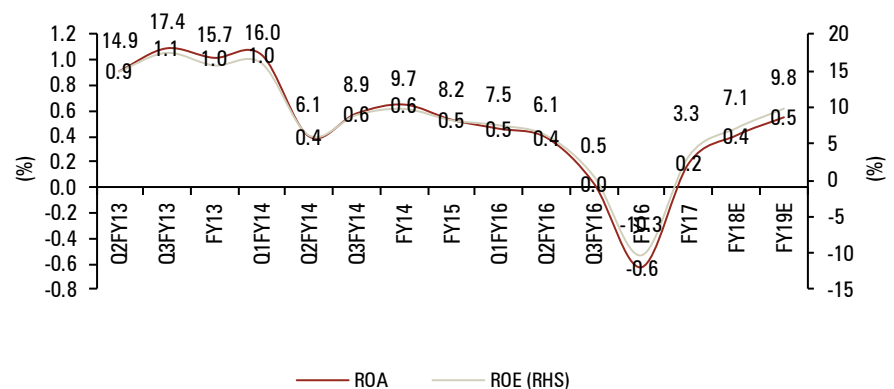
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net interest income/ avg. total avg. total assets	3.1	3.1	3.5	3.2	3.2	3.1	2.9	2.4	2.2	2.2	2.2
Non-interest income/ avg. total assets	1.4	1.3	1.1	1.0	0.9	0.9	1.0	0.9	1.3	1.2	1.1
Non-operating profit/ avg. total assets	4.4	4.5	4.6	4.2	4.1	4.0	3.9	3.4	3.5	3.3	3.3
Operating expenses/ avg. total assets	1.9	1.8	1.9	1.7	1.7	1.8	1.8	1.6	1.4	1.4	1.4
Operating profit/ avg. total assets	2.6	2.7	2.7	2.5	2.3	2.2	2.1	1.8	2.1	1.9	1.9
Provisions/ Avg. total assets	0.4	0.5	0.7	0.9	0.9	1.3	1.4	2.7	1.8	1.3	1.1
Return on avg. total assets	1.4	1.4	1.3	1.2	1.0	0.6	0.5	-0.6	0.2	0.4	0.5
Leverage (x)	16.2	16.6	17.2	16.9	15.5	15.0	15.4	16.5	17.3	17.4	17.8
Return on equity	22.4	23.9	22.6	19.8	15.7	9.7	8.2	-10.3	3.3	7.1	9.8

Source: Company, ICICIdirect.com Research

Valuation

PNB had highest RoA, RoE among PSU banks in FY08-10. However, the bank took a huge knock as deteriorating asset quality led to elevated provisioning, loss of net interest income. Despite gradual growth in business, core earnings stayed weak led by higher slippage. Selective lending and focus on recovery is expected to lead to gradual improvement in asset quality. Though elevated provision is seen keeping profitability under pressure in FY18E, a healthy revival is anticipated in FY19E. Hence, we revise our target price upwards to ₹ 180, valuing the standalone bank at 1.7x FY19E ABV and housing finance subsidiary at current market cap. We upgrade our rating from HOLD to **BUY**. Sale of non core asset and capital raising remain upside risks.

Exhibit 12: Return ratios expected to improve gradually over FY18-19E



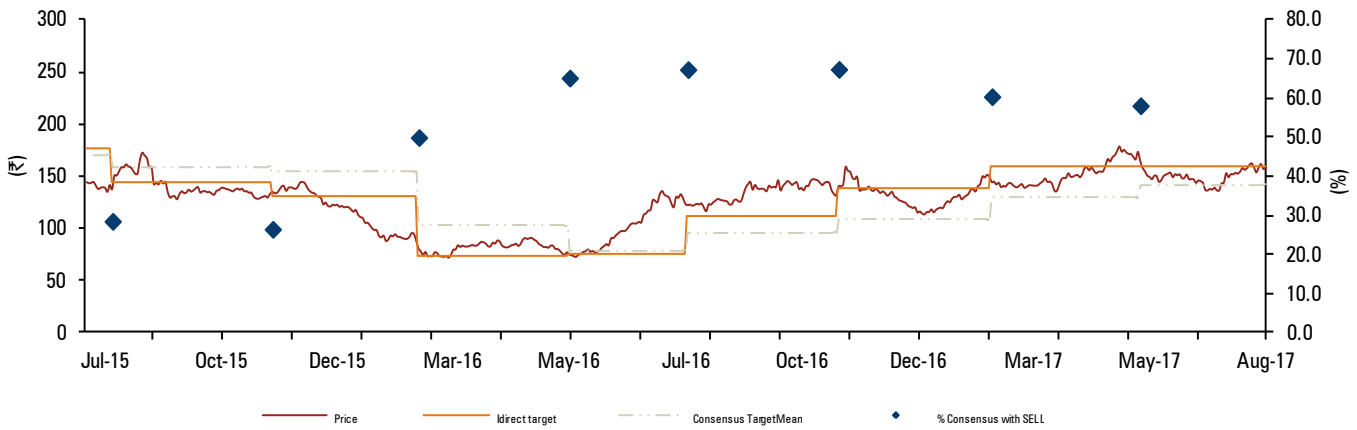
Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 13: Valuations

	FY11	FY12	FY13	FY14E	FY15	FY16	FY17	FY18E	FY19E
P/E (x)	1.3	1.3	5.9	8.6	9.6	-7.9	25.5	11.0	7.5
Price / Book (x)	1.3	1.0	0.9	0.8	0.8	0.9	0.9	0.8	0.8
ABV (₹)	113.6	129.2	135.9	135.7	118.8	-45.9	-194.2	50.0	79.3
Price / Adj Book (x)	1.4	1.2	1.2	1.2	1.3	-3.5	-0.8	3.2	2.0
GNPA (%)	1.8	3.0	4.4	5.2	6.5	13.2	12.8	11.3	9.6
NNPA (%)	0.8	1.5	2.3	2.8	4.0	10.8	18.9	6.5	5.3
RoNA (%)	1.3	1.2	1.0	0.6	0.5	-0.6	0.2	0.4	0.5
RoE (%)	22.6	19.8	15.7	9.7	8.2	-10.3	3.3	7.1	9.8

Source: Company, ICICIdirect.com Research, From FY16 FV of equity is reduced to ₹2 from ₹10 per share

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Mar-06	Credit growth takes off for all banks as economy booms, and for PNB it was in 23-29% range for FY06-08
Mar-09	Higher business leads to strong NII and profit with return ratios
Dec-10	Most PSU banks, including PNB make new peak in stock, profit grew 50% in FY09 and 26% in FY10
Apr-11	For Kingfisher restructuring, the consortium including State Bank of India, IDBI Bank, Bank of Baroda and Punjab National Bank was allotted shares at conversion rate
May-11	Pension provisions and rising NPAs start impacting bank
Jul-11	Announces acquisition of 30% stake on MetLife Insurance
Mar-12	High power and infra exposure lead to increase in restricted assets, with a spurt in March, 2012 quarter adding >₹ 8601 crore taking total to ₹ 29826 crore forming 10% of advances
May-13	G-Sec yields spike post Fed announcement on May 22 of its intention to taper QE and tight liquidity measures by RBI of MSF rate hike etc, impacting PSU banks on treasury and wholesale funded banks on cost of funds
Oct-13	Completes acquisition of 30% stake on MetLife Insurance for undisclosed sum, now named PNB Metlife
Oct-13	Post liquidity tightening measures like MSF reversed by RBI, stock saw respite
Jan-14	Asset quality sees marginal improvement
May-14	NPA addition again surges with slippage of ₹ 4450 crore in a single quarter
Sep-15	Government of India infuses ₹1732 crore of capital @ ₹158.84 per share
Sep-16	Government of India infuses ₹2112 crore of capital @ ₹128.49 per share

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	31-Mar-2017	65.0%	1,383.46M	0
2	LIC Mutual Fund Asset Management Company Ltd.	31-Mar-2017	12.5%	266.51M	0
3	Lazard Asset Management, L.L.C.	30-Jun-2017	3.87%	82.39M	+0.05M
4	HDFC Asset Management Co., Ltd.	31-Mar-2017	3.08%	65.57M	+6.13M
5	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-2017	0.68%	14.50M	0
6	The Vanguard Group, Inc.	30-Jun-2017	0.55%	11.70M	+1.66M
7	ICICI Prudential Asset Management Co. Ltd.	30-Jun-2017	0.32%	6.80M	+3.11M
8	Dimensional Fund Advisors, L.P.	30-Jun-2017	0.28%	5.91M	-0.05M
9	DSP BlackRock Investment Managers Pvt. Ltd.	31-May-2017	0.22%	4.78M	-5.18M
10	Sundaram Asset Management Company Limited	31-May-2017	0.21%	4.49M	-0.42M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	62.08	65.01	65.01	65.03	65.01
FII	10.4	11.1	10.4	10.0	10.4
DII	21.0	18.2	18.3	19.5	19.2
Others	6.6	5.7	6.3	5.5	5.4

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
HDFC Asset Management Co., Ltd.	+14.16M	+6.13M	DSP BlackRock Investment Managers Pvt. Ltd.	-12.09M	-5.18M
ICICI Prudential Asset Management Co. Ltd.	+6.61M	+3.11M	Birla Sun Life Asset Management Company Ltd.	-6.25M	-2.94M
City of London Investment Management Co. Ltd.	+4.27M	+2.51M	Canara Robeco Asset Management Company Ltd.	-5.22M	-2.46M
The Vanguard Group, Inc.	+3.53M	+1.66M	AllianceBernstein Hong Kong Ltd.	-1.48M	-0.64M
Kotak Mahindra (UK) Ltd	+1.37M	+0.81M	Sundaram Asset Management Company Limited	-0.98M	-0.42M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Interest Earned	47424.3	47276.0	50566.9	55109.0	
Interest Expended	32112.6	32282.8	34210.9	36924.7	
Net Interest Income	15311.8	14993.2	16356.0	18184.2	
growth (%)	-7.5	-2.1	9.1	11.2	
Non Interest Income	6000.1	8951.4	8839.6	9401.5	
Fees and advisory	2787.4	3227.9	3873.4	4531.9	
Treasury Income	999.3	2654.3	1327.2	929.0	
Other income	2213.4	3069.2	3639.0	3940.6	
Net Income	21311.8	23944.5	25195.6	27585.8	
Staff cost	6425.9	5420.7	6240.6	6828.4	
Other operating Expense	3546.5	3958.7	4472.3	4710.3	
Operating Profit	11339.4	14565.2	14482.7	16047.0	
Provisions	17079.4	12556.4	10036.3	9276.3	
PBT	-5740.1	2008.8	4446.4	6770.7	
Taxes	-1765.6	684.0	1378.4	2234.3	
Net Profit	-3974.4	1324.8	3068.0	4536.4	
growth (%)	-229.8	NA	131.6	47.9	
EPS (₹)	-20.2	6.2	14.4	21.3	

Source: Company, ICICIdirect.com Research

Key Ratios		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Valuation					
No. of Equity Shares	196.4	212.8	212.8	212.8	
EPS (Rs.)	-20.2	6.2	14.4	21.3	
BV (Rs.)	180.6	179.0	191.1	209.4	
ABV (Rs.)	0.2	25.3	50.0	79.3	
P/E (x)	-7.9	25.5	11.0	7.5	
P/BV (x)	0.9	0.9	0.8	0.8	
P/ABV (x)	729.2	6.3	3.2	2.0	
Yields & Margins (%)					
Net Interest Margins	2.5	2.3	2.3	2.4	
Yield on assets	7.8	7.2	7.2	7.3	
Avg. cost on funds	5.6	5.1	5.0	4.9	
Yield on average advances	8.7	7.9	8.1	8.0	
Avg. Cost of Deposits	5.7	5.1	5.0	4.9	
Quality and Efficiency (%)					
Cost to income ratio	46.8	39.2	42.5	41.8	
Credit/Deposit ratio	74.6	67.5	68.1	69.4	
GNPA	13.2	12.8	11.3	9.6	
NNPA	8.6	7.8	6.5	5.3	
ROE	-10.3	3.3	7.1	9.8	
ROA	-0.6	0.2	0.4	0.5	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Sources of Funds					
Capital	392.7	425.6	425.6	425.6	
Reserves and Surplus	37917.4	41421.4	43991.5	47880.3	
Networth	38310.1	41847.0	44417.1	48305.9	
Deposits	553051.1	621704.0	680431.0	755933.4	
Borrowings	59755.2	40763.3	41547.5	42830.6	
Other Liabilities & Provisions	16273.9	16016.2	17694.2	19550.0	
Total	667390.5	720330.5	784089.8	866619.9	
Application of Funds					
Fixed Assets	5222.8	6273.2	6732.6	7282.6	
Investments	157845.9	186725.4	200852.4	213497.3	
Advances	412325.8	419493.1	463143.8	524912.9	
Other Assets	16372.9	19507.1	33146.6	36637.8	
Cash with RBI & call money	75623.1	88331.6	80214.4	84289.3	
Total	667390.5	720330.5	784089.8	866619.9	

Source: Company, ICICIdirect.com Research

Growth ratios		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total assets	10.7	7.9	8.9	10.5	
Advances	8.4	1.7	10.4	13.3	
Deposit	10.3	12.4	9.4	11.1	
Total Income	2.3	5.2	5.7	8.6	
Net interest income	-7.5	-2.1	9.1	11.2	
Operating expenses	-4.9	-5.9	14.2	7.7	
Operating profit	-5.4	15.2	10.5	14.9	
Net profit	-229.8	-133.3	131.6	47.9	
Net worth	-5.3	7.4	6.7	9.6	
EPS	NA	NA	131.6	47.9	

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Bank of Baroda (BANBAR)	163	200	Buy	37,626	6	10	19	27.3	16.1	8.6	1.6	1.4	1.1	0.2	0.3	0.5	3	5	10
Punjab National Bank (PUNBAN)	159	180	Buy	33,474	6	14	21	25.5	11.0	7.5	-0.8	3.2	2.0	0.2	0.4	0.5	3	7	10
State Bank of India (STABAN)	308	340	Buy	266,398	13	18	26	23.4	17.0	11.8	1.9	1.7	1.5	0.4	0.5	0.7	6	8	10
Indian Bank (INDIBA)	312	380	Buy	14,705	29	34	45	10.6	9.1	6.9	1.4	1.2	1.1	0.7	0.8	1.0	8	10	12
Axis Bank (AXIBAN)	517	585	Buy	123,674	15	23	40	33.6	22.2	12.9	2.6	2.4	2.0	0.7	0.9	1.3	7	10	15
City Union Bank (CITUNI)	171	170	Buy	11,553	8	9	11	22.5	19.7	16.3	3.7	3.1	2.7	1.5	1.5	1.6	15	15	16
DCB Bank (DCB)	199	200	Hold	6,141	7	9	11	28.3	22.9	18.3	3.1	2.5	2.2	0.9	1.0	1.1	11	12	12
Federal Bank (FEDBAN)	115	140	Buy	22,366	5	6	8	23.7	19.9	14.7	2.5	1.9	1.7	0.8	0.9	1.0	10	11	12
HDFC Bank (HDFBAN)	1,792	1,840	Hold	464,256	57	68	84	31.6	26.2	21.2	5.2	4.7	4.2	1.9	1.9	2.0	18	19	20
IndusInd Bank (INDBA)	1,659	1,650	Hold	99,588	48	59	75	34.6	28.3	22.2	4.9	4.3	3.8	1.8	1.8	1.9	15	16	18
Jammu & Kashmir Bk(JAMKAS)	82	105	Buy	4,641	-31	8	12	-2.6	10.6	6.9	1.3	1.2	1.1	-2.0	0.5	0.7	-27	7	10
Kotak Mahindra Bank (KOTMAH)	1,011	970	Hold	266,398	19	23	30	54.5	43.2	34.1	7.2	6.2	5.4	1.7	1.8	2.0	13	14	16
Yes Bank (YESBAN)	1,829	1,800	Hold	83,526	73	98	128	25.1	18.7	14.3	3.9	3.3	2.8	1.8	1.9	2.0	19	19	20

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.