Punjab & Sind Bank Ltd.

Price Band	**: Rs 113-120 per share**	**December 10, 2010**
IPO open during	**: December 13 - 16, 2010 (for QIBs issue closes on Dec. 15, 2010)**	
Book Running Lead Manager	**: SBI Capital, Enam, ICICI Securities**	
To list on	**: NSE & BSE**	
IPO Grading	**: 4 / 5 (CARE)**	
PE	**: 4.23x (based on base price)***	
	: 4.49x (based on cap price)*	
Market Cap post-listing	**: Rs2,676Cr or $592mn (based on the cap price)**	
Market Cap of Free Float	**: Rs480Cr or $106mn (based on the cap price)**	

* Based on FY10 EPS

IPO of 40mn equity shares of Rs10 each, aggregating to Rs480Cr or $106mn (at the cap price)

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	18,30,56,000	100%	18,30,56,000	82%
QIBs excl. Mutual Funds	0	0%	4,00,00,000	18%
Mutual Funds				
Non-Institutional Investors				
Public				
Total	**18,30,56,000**	**100%**	**22,30,56,000**	**100%**

Executive Summary

- Punjab & Sind Bank Ltd. was incorporated in June 1908 and was one of the six banks which were nationalized in April 1980.
- Punjab & Sind Bank Ltd., a Govt. of India undertaking, has over 100 years of operation and has significantly grown its branch network with a presence predominantly in north India. As on 31st October, 2010, the bank has network comprised of 926 branches and 63 ATMs across India.
- Pursuant to the RBI's Report titled 'A Profile of Banks 2009-2010', Punjab & Sind Bank has outperformed the group average of the public sector banks as well as all banks' average for fiscal 2010 on several financial and risk management parameters despite currently being much smaller in size than many of the public sector and other banks with which the bank compete.
- The bank delivers its products and services through a wide variety of channels ranging from bank branches and ATMs. It has branch presence across India, with a presence predominantly in north India, a region which is rich in resources and offer great opportunity for resource mobilization.

Company Background

Punjab & Sind Bank Ltd. was incorporated in June 1908 and was one of the six banks which were nationalized in April 1980. The bank is amongst one of 19 nationalized banks in India. The bank also sponsors one regional rural bank, Sutlej Gramin Bank, in collaboration with the GoI and the state Government of Punjab.

Promoters and Management

The Promoter of the bank is the President of India acting through the Ministry of Finance, Govt. of India. The promoter currently holds 100% of its pre-Issue paid up share capital.

The former Chairman & Managing Director, Mr. G.S. Vedi, of the bank reached his superannuation on June 30, 2010 and the Ministry of Finance, Govt. of India is yet to appoint a new Chairman & Managing Director for the bank. As per the instruction by the Ministry of Finance, Govt. of India, in the absence of a Chairman & Managing Director, Mr. P.K. Anand, as the Executive Director of the bank, will co-ordinate the day to day affairs of the bank until further orders and that the financial and administrative powers of the Chairman & Managing Director shall be exercised by the Board/Management Committee of the bank until the appointment of a Chairman & Managing Director.

Mr. P. K. Anand is the Executive Director of the bank since December 2009. He has more than 33 years of experience in the banking and finance sector. He has previously worked with Allahabad Bank as a General Manager.

Industry Overview

The RBI, the central banking and monetary authority of India, is the central regulatory and supervisory authority for the Indian financial system. A variety of financial intermediaries in the public and private sectors participate in India's financial sector, including the following:

- Commercial banks;
- Non-bank finance companies, including housing finance companies;
- Long-term lending institutions;
- Other specialised financial institutions and state-level financial institutions;
- Insurance companies; and
- Mutual funds.

Until the early 1990s, the Indian financial system was strictly controlled. The GoI's economic reform program, which began in 1991, encompassed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, the Narasimham Committee I. The second phase of the reform process began in 1999.

In the recent past, RBI undertakes various measures to combat rising inflationary pressures. However, the protracted global slowdown and its effects, combined with a tight monetary policy, resulted in a severe contraction of liquidity in domestic markets in October 2008. From September 2008 to October 2009, the RBI adopted various measures to improve the liquidity position of the monetary system and ensure credit availability to revive the economy.

In line with the policy initiatives undertaken by the Reserve Bank, the growth in credit by SCBs exhibited some moderation during 2008-2009 (Source: RBI Report on Trend and Progress of Banking in India 2008-2009). It is noteworthy that contrary to the trend in some advanced countries, the leverage ratio (Tier I capital to total assets ratio) in India has remained high reflecting the strength of the Indian banking system.

However, the Indian banking sector was not completely insulated from the effects of the slowdown of the India economy. The consolidated balance sheets of SCBs expanded by 21.2% as of March 31, 2009 as compared with 25.0% in the previous year. In 2009-10, the growth in the consolidated balance sheet of SCBs showed signs of slowdown contributed by a decline in the growth of deposits and bank credit similar to the trend noted during 2008-09. The growth in bank credit decelerated on a year-on-year basis reflecting the economic slowdown in the aftermath of the crisis. However, on an intra-year basis, bank credit showed signs of recovery after November 2009, as there was a pick-up in growth momentum in the real economy. An important development with regard to bank deposits was the rise in the percentage of CASA in 2009- 10.

The growth rate of loans and advances of SCBs, which was as high as 33.2% as of March 31, 2005 has been witnessing a slowdown since then. In continuation of the trend, the growth rate of aggregate loans and advances of SCBs decelerated to 21.2% as of March 31, 2009 from 25.0% in the previous year which further reached to 16.6% as of March 31, 2010. Apart from cyclical factors which have lead to slowdown in growth after a period of high credit growth, the deceleration was accentuated in 2008-2009 due to the overall slowdown in the economy in the aftermath of global financial turmoil. As deposits are the most important source of funds for banks, a slowdown in the growth of deposits was expected to translate itself into a slowdown in bank credit growth. However, on an intra-year basis, there were signs of a pick-up in bank credit after November 2009, as economic recovery became more broad-based.

Business Operations

Punjab & Sind Bank Ltd., a Govt. of India undertaking, has over 100 years of operation and has significantly grown its branch network with a presence predominantly in north India. As on 31st October, 2010, the bank has network comprised of 926 branches and 63 ATMs across India.

The primary business of the bank is taking deposits and making advances and investments and the bank is 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. The bank has various deposit products, such as current, savings and term deposits for its customers.

In retail banking, the bank provides loans and advances for housing, trade, automobiles, consumer durables, education and personal loans. Whereas in commercial banking it provides products and services to corporate customers, including mid-sized and small businesses and government entities. In corporate banking, its loan products include term loans to finance capital expenditure of assets across various industries as well as short-term loans, cash and export credit and other working capital financing and bill discounting facilities.

The bank provides credit substitutes, such as letters of credit and guarantee. It also engage in syndication of loans provided by other financial institutions and other fee-based services such as cash management and remittance services. In the priority sector, the bank offer direct financing to farmers for production, as well as indirect financing for infrastructure development and credit to suppliers of agricultural inputs. It also offer a wide range of general banking services to its customers including ATM cards, cash management, remittance services and collection services.

Certain other key growth and efficiency parameters achieved by the bank in the last three fiscals and the half year ended September 30, 2010 are set forth below.

	As of March 31, 2008	As of March 31, 2009	As of March 31, 2010	As of Sept. 30, 2010
CAR (%)	N/A (Basel II)	14.27 (Basel II)	13.02 (Basel II)	13.04 (Basel II)
	11.79 (Basel I)	11.81 (Basel I)	11.67 (Basel I)	11.82 (Basel I)
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 per employee (Rs Cr)	4.67	6.56	9.63	10.46
NIM 3.54 3.24 2.67 1.50*	3.54	3.24	2.67	1.50*
RoA (%) 1.52 1.25 1.05 0.49*	1.52	1.25	1.05	0.49*
RoE (%) 28.83 29.10 29.41 13.52	28.83	29.1	29.41	13.52*

* Not annualised.

Strengths

High asset quality and robust financial growth

Pursuant to the RBI's Report titled 'A Profile of Banks 2009-2010', Punjab & Sind Bank has outperformed the group average of the public sector banks as well as all banks' average for fiscal 2010 on several financial and risk management parameters despite currently being much smaller in size than many of the public sector and other banks with which the bank compete. These financial and risk management parameters include (i) return on advances as adjusted to cost of funds, (ii) return on assets, (iii) net NPA ratio and (iv) business per employee.

In fiscal 2005, the net NPA ratio of the bank was 8.11%, which was highest amongst the public sector banks. However, in fiscal 2010, its net NPA ratio has come down to 0.36% but increased marginally to 0.44% as on September 30, 2010. The RoA of the bank for fiscal 2010 was 1.05% and NIM for fiscal 2010 were 2.67%. Similarly, its RoA for the half year ended September 30, 2010 was 0.49% (not annualised) and NIM for the same period was 1.50% (not annualised). Further, the bank has been able to significantly increase its business operations, while at the same time improving its asset quality. During the last five fiscals, the bank has been able to achieve a CAGR of 36.24% in its net advances in spite of a reduction in its net NPA ratio from 8.11% in fiscal 2005 to 0.36% in fiscal 2010.

Wide distribution network and infrastructure

The bank delivers its products and services through a wide variety of channels ranging from bank branches and ATMs. It has branch presence across India, with a presence predominantly in north India, a region which is rich in resources and offer great opportunity for resource mobilization. As on October 31, 2010, its network comprised of 926 branches and 63 ATMs across India. Out of these 926 branches, it has 49 specialised branches including specialised agriculture branches, personal banking branches and MSME branches and one locker branch to cater to its customers from varied sectors including its priority sector customers.

Over 100 years of banking experience and established relationships with customers, including the Central and state governments and public sector enterprises

With banking experience of over 100 years including over 30 years as a public sector bank, Punjab & Sind Bank has built strong relationships with the central and state governments as well as public sector enterprises, which has been one of the drivers of its growth. The RBI has designated the bank one of the 21 banks for the purpose of collection of contribution to the PMNRF. It is also the lead bank in three districts of Punjab i.e., Ludhiana, Faridkot and Moga. As on September 30, 2010, 28.01% of its loan portfolio consisted of loans to public sector enterprises and public sector undertakings. The bank also offer personal clean loan facilities to officials of Government and public sector undertakings, local bodies, reorganised universities and schools run by Government or local bodies, as well as pensioners who have retired from the central or state government, for purchase of consumer durables or vehicles or for any consumption or personal use.

Streamlined risk management controls, policies and procedures

Punjab & Sind Bank has became BASEL II compliant as on March 31, 2009 and it has performed a comprehensive self-assessment across market risk, credit risk and operational risk areas. The bank has a separate Risk Management Department to formulate and implement credit risk evaluation and management policies, procedures and methodologies appropriate to the businesses within each division, and to ensure that the business conducted within each division is consistent with its risk appetite, with a focus on enhancing asset quality. The bank continuously monitors its portfolios through its internal control system, which includes macro level portfolio analysis, migration of credit rating analysis and stress testing analysis. It specifically seeks to control credit risk in the retail loan portfolio and the agricultural financing portfolio through carefully designed approval criteria and credit controls and efficient collection systems.

Stringent provisioning coverage ratio for advances

Pursuant to the RBI's second quarter review of monetary policy for fiscal 2010 dated Dec. 1, 2009, all scheduled banks are required to provide for a total provisioning coverage ratio of minimum of 70% for NPAs including floating provisions by September 30, 2010. Punjab & Sind Bank is maintaining provisioning coverage ratio of 86.83% as on September 30, 2010. It has also technically written off accounts of the value of Rs2.75Cr as on September 30, 2010, which have been fully provided for and are considered in the calculation of provisioning coverage ratio as per the guidelines issued by the RBI, dated December 1, 2009. As a result of its conservative provisioning coverage ratio, the bank often recover a significant amount out of its technically written off accounts which directly contributes to its profits.

Presence predominantly in Punjab and other north Indian states

Punjab & Sind Bank has a presence predominantly in Punjab and other north Indian states with 627 branch offices in north-India out of which 402 branches are in the state of Punjab. Specifically, Punjab has a strong agricultural background which can enable the bank to enhance its return from its advances. Additionally, the bank have a wide distribution of 260 branches in the rural areas of north Indian states which provide the bank an edge in its priority sector banking due to its rich agricultural resources and a large catchment area for low cost deposits.

Objects of the Issue

The objects of the Issue are to augment capital base of the bank to meet the future capital requirements arising out of the growth in the bank's assets due to the growth of the Indian economy and for other general corporate purposes including meeting the expenses of the Issue.

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

The operations of Punjab & Sind Bank significantly depend on its net interest income. Any volatility in interest rates and other market conditions may materially and adversely impact the business, financial condition and results of operations of the bank.

Non-compliance with RBI inspection/observations may have a material adverse effect on the bank's business, financial condition or results of operation if the bank is unable to meet the requirements suggested by RBI.

Punjab & Sind Bank had negative cash flows from its operating, investing and financing activities in last five fiscals. Any such negative cash flow from operating, investing or financing activities may impact its financial condition and results of operations.

The bank has substantial exposure to the priority sector and its business could be materially and adversely affected by market and other factors that impact the priority sector. In addition, regulations relating to priority sector lending could have a material adverse impact on its financial condition and results of operations.

The bank has significant exposure to the Indian real estate sector. Any deterioration in the performance of this sector or any increase in its NPAs in the real estate sector may adversely impact its business.

Restated Profit & Loss Statements (RsCr)

For period ended	31.3.06	31.3.07	31.3.08	31.3.09	31.3.10	30.9.10
Total Income	**1401.93**	**1919.38**	**2528.43**	**3630.71**	**4326.30**	**2522.95**
Expenditure						
Interest Expended	**668.99**	**959.86**	**1433.50**	**2235.31**	**2750.23**	**1526.02**
Interest on Deposits	635.97	904.04	1334.60	2091.00	2567.69	1403.53
Interest on RBI/Inter Bank borrowings	2.16	24.23	61.44	69.12	51.94	42.35
Others	30.86	31.59	37.46	75.19	130.60	80.14
Operating Expenses	**475.96**	**497.17**	**577.30**	**667.31**	**708.07**	**484.35**
Payment to & provision for employees	362.63	380.10	445.61	518.86	538.15	382.51
Rent, Tax & Lighting	28.47	30.69	32.00	34.21	37.49	21.02
Printing & Stationery	5.45	6.00	6.10	6.95	6.85	3.63
Advertisement & Publicity	0.35	0.34	0.34	0.38	0.54	0.37
Depreciation on Banks Properties	8.08	8.15	7.20	10.63	12.05	6.40
Director's fees, allowances and expenses	0.04	0.07	0.08	0.14	0.22	0.16
Auditor's Fees & Expenses	4.85	3.22	5.94	5.49	5.86	3.32
Law Charges	4.45	3.87	4.22	4.39	7.87	4.16
Postage, Telegrams, Telephones etc.	5.73	5.36	5.97	6.41	6.12	3.11
Repairs & Maintenance	7.15	7.71	8.40	8.56	8.87	4.83
Insurance	14.59	16.42	19.65	27.22	36.95	24.08
Other Expenditure	34.17	35.24	41.79	44.07	47.10	30.76
Total Expenditure	**1144.95**	**1457.03**	**2010.80**	**2902.62**	**3458.30**	**2010.37**
Operating Profit	**256.98**	**462.35**	**517.63**	**728.09**	**868.00**	**512.58**
Extra Ordinary Items net of taxes	8.80	6.29	0.00	0.00	0.69	0.00
Provisions & Contingencies	-15.72	73.36	79.74	82.88	211.10	112.91
Profit Before Tax	**281.50**	**395.28**	**437.89**	**645.21**	**657.59**	**399.67**
Provision for Tax	-4.18	5.01	48.32	210.80	156.46	123.29
Net Profit after tax	**285.68**	**390.27**	**389.57**	**434.41**	**501.13**	**276.38**
Weighted average number of Shares	**49.31**	**74.31**	**74.31**	**60.31**	**18.31**	**18.3**
EPS (Rs)	**5.62**	**5.17**	**5.24**	**7.15**	**26.70**	**15.10**
Book Value	**15.55**	**15.56**	**20.81**	**26.81**	**115.05**	**130.17**

Restated Balance Sheets

(RsCr)

As at	31.3.06	31.3.07	31.3.08	31.3.09	31.3.10	30.9.10
Assets						
Cash in Hand	83.88	89.45	102.99	93.91	91.31	110.27
Balance with RBI	749.80	984.95	1852.10	1863.16	3696.95	4063.61
Balance with Banks						
In India	876.79	933.73	873.51	584.84	670.73	91.50
Outside India	436.60	470.24	111.29	298.53	196.33	221.35
Money at Call & Short Notice	-	169.28	-	-	100.00	0.00
Net Investment	6955.60	6693.08	8473.63	12627.43	17886.84	17220.79
Advances	8935.03	11721.22	18343.31	24615.35	32639.11	35714.75
Fixed Assets	284.22	253.01	568.96	555.76	538.91	533.92
Less: Revaluation Reserve	-249.79	-217.75	-529.02	-504.87	-486.24	-477.61
Net Fixed Assets	34.43	35.26	39.94	50.89	52.67	56.31
Other Assets	505.06	608.42	602.22	645.61	766.78	866.47
Less: Deferred Revenue & Issue Expenditures	-0.49	-0.94	-1.04	-1.14	-1.14	-2.03
Net Other Assets	504.57	607.48	601.18	644.47	765.64	864.44
Total Assets	**18576.70**	**21704.69**	**30397.95**	**40778.58**	**56099.58**	**58343.02**
Liabilities						
Demand Deposit - From Banks	23.02	19.70	38.84	31.36	52.74	28.75
Demand Deposit - From Others	2757.85	2108.88	2035.66	2116.96	3103.96	3301.87
Saving Deposits	6042.55	6703.28	6950.11	7477.36	9151.34	9981.37
Term Deposits from Banks	248.45	605.97	1122.17	2306.64	2319.69	4632.23
Term Deposits from others	7852.71	9880.92	14684.63	22743.33	34527.35	35000.87
Borrowings - In India	0.19	205.07	2816.24	2511.48	2186.15	424.96
Borrowings - Outside India	-	-	160.48	-	44.90	112.34
Innovative Perpetual Debt Instruments	-	-	-	160.00	160.00	160.00
Perpetual Cumulative Preference Shares	-	-	-	200.00	200.00	200.00
Subordinate Debts(Tier-II Bonds)	315.00	385.00	380.00	735.00	1110.00	1110.00
Other Liabilities & Provisions	570.18	639.29	663.77	879.30	1136.87	1008.56
Total (B)	**17809.95**	**20548.11**	**28851.90**	**39161.43**	**53993.00**	**55960.95**
Share Capital						
Equity Share Capital	743.06	743.06	743.06	183.06	183.06	183.06
Perpetual Non cumulative Pref. Shares	0	0	0	200	200	200
Reserves & Surplus						
Statutory Reserve	80.94	135.94	235.94	345.94	495.94	561.94
Capital Reserve	47.75	57.78	64.56	181.34	231.6	244.75
Revaluation Reserve	249.79	217.75	529.02	504.87	486.24	477.61
Revenue & Other Reserve	90.2	120.09	120.8	128.04	140.97	145.37
Balance of Profit & Loss Account	-	100.65	382.73	579.91	856.15	1048.98
Total	**468.68**	**632.21**	**1333.05**	**1740.1**	**2210.9**	**2478.65**
Less: Revaluation Reserve	-249.79	-217.75	-529.02	-504.87	-486.24	-477.61
Expenditure	-0.49	-0.94	-1.04	-1.14	-1.14	-2.03
Less: Profit & Loss (Dr.)	-194.71	-	-	-	-	-
Total	23.69	413.52	802.99	1234.09	1723.52	1999.01
Net Worth	**766.75**	**1156.58**	**1546.05**	**1617.15**	**2106.58**	**2382.07**
Total Liabilities	**18576.70**	**21704.69**	**30397.95**	**40778.58**	**56099.58**	**58343.02**

Keynote Capitals Ltd.

Member

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