

Corporation Bank

Relative to sector: **Outperformer**

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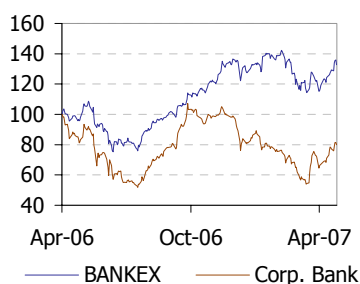
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 143mn
Market cap	: Rs 45.3bn
52 week high/low	: Rs 445/ Rs 205
Avg. daily vol. (6mth)	: 241,700 shares
Bloomberg code	: CRPBK IN
Reuters code	: CRBK.BO

Shareholding (%) Mar-07 QoQ chg

Promoters (Govt.)	: 57.2	0.0
FIIIs	: 9.9	0.8
MFs / UTI	: 2.3	(1.3)
Banks / FIs	: 27.6	0.0
Others	: 3.0	0.4

Financial summary

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	BV (Rs)	P/BV (x)	P/Adj.BV (x)	NPAs (%)	RoE (%)	RoA (%)
FY06	4,445	31.0	10.5	10.2	235	1.3	1.4	0.6	13.8	1.2
FY07	5,361	37.4	20.6	8.5	262	1.2	1.2	0.4	15.0	1.1
FY08E	6,415	44.7	19.7	7.1	298	1.1	1.1	0.4	16.0	1.1
FY09E	7,435	51.8	15.9	6.1	340	0.9	0.9	0.3	16.2	1.1

Source: Company, ENAM Research

STRONG NII GROWTH, PERFORMANCE IN LINE

Corporation Bank's Q4FY07 NII growth of ~30% YoY was much above our expectations, which led to an 18.2% YoY rise in PAT to Rs.1.2bn. Meanwhile, growth in other income stood at 2.8% YoY to Rs.1.6bn. The high growth in NII was largely on account of sequential expansion in NIM, which improved 9bps to 3.24%.

Result highlights

- The bank had grown its loan book at a rapid pace of 30% till 9MFY07, while deposits grew by ~34% during the same period. However, with a moderation of loan growth to 25%, the bank has been able to slow down deposit growth to 29% and push its CASA proportion from ~30% in Dec-06 to 34% by Mar-07.
- Expansion of NIM on a QoQ basis (9 bps) was on account of a moderate rise in costs of deposits (up only 7 bps QoQ), whereas yield on advances rose 14 bps during this period to 9.05%.
- Growth in net profit at 18.2% YoY, even after higher NII growth was largely due to increased provisioning in the quarter which stood at Rs.1.5bn vs. Rs.1.1bn in Q4FY06, an increase of ~39% YoY.
- The higher provisioning was on account of a rise in provisions for standard assets (SA), which stood at Rs.800m in Q4FY07 vs. Rs.470m Q4FY06. Provisioning for NPAs was also higher at Rs.600m vs. Rs.340m in Q4FY06. While the increase in SA provisioning was account of the RBI's revised guidelines on provisioning for SA, the higher NPA provisioning was largely due to the amalgamation of the bank's subsidiary CorpBank Homes Ltd., which required an additional NPA provisioning of ~Rs.153m.

The bank has been able to steer through a tough funding environment over the last quarter to improve its NIM and simultaneously grown its balance sheet at a healthy pace, which augurs well for its ROE in the future. At CMP of Rs.316, the stock trades at 1.1x FY08E BV and 7.1x FY08E earnings. Reiterating sector **Outperformer** rating on the stock.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07	Mar-06	% Chg
Interest Income	9,808	7,054	39.0	8,868	10.6	34,302	26,265	30.6
Interest Expended	5,777	3,945	46.4	5,536	4.4	20,524	13,997	46.6
Net Interest Income	4,030	3,109	29.6	3,333	20.9	13,778	12,268	12.3
Non-Interest Income	1,619	1,574	2.8	1,593	1.7	5,658	5,715	(1.0)
- Sale of investments	132.5	123	7.9	400.4	(66.9)	1,264	1,358	(6.9)
- Others incl. Fee based income	1,487	1,451	2.4	1,192	24.7	4,394	4,357	0.9
Net Income	5,649	4,683	20.6	4,926	14.7	19,436	17,983	8.1
Operating Expenses	2,217	1,992	11.3	1,995	11.1	8,036	7,468	7.6
% of Net Income	39	43	-	41	-	41	42	-
- Staff costs	1,037	929	11.7	936	10.8	3,783	3,635	4.1
Operating Income	3,432	2,692	27.5	2,931	17.1	11,400	10,515	8.4
Provision & Contingencies	1,513	1,089	38.9	832	81.9	3,235	3,770	(14.2)
PBT	1,919	1,602	19.8	2,099	(8.6)	8,166	6,745	21.1
Tax	735	600	22.5	635	15.8	2,804	2,300	21.9
Net Profit	1,185	1,003	18.2	1,464	(19.1)	5,361	4,445	20.6
EPS (Rs.)	8	7	18.2	10	(19.1)	37	31	20.6
NIM (%)	3.24	3.56	-	3.15	-	3.24	3.56	-
Yield on Advances	9.05	8.26	-	8.91	-	9.05	8.26	-
Yield on Investments	7.73	7.94	-	7.70	-	7.73	7.94	-
Cost of Deposits	5.30	4.55	-	5.23	-	5.30	4.55	-
Advances (Rs.bn)	299	240	25.0	289	3.8	299	240	25.0
Investments (Rs.bn)	144	107	35.3	118	22.1	144	107	35.3
Deposits (Rs.bn)	424	328	29.1	396	6.8	424	328	29.1
Gross NPAs (Rs.bn)	6.25	6.32	-	6.25	-	6.25	6.32	-
Gross NPAs (%)	2.05	2.56	-	2.13	-	2.05	2.60	-
Net NPAs (Rs.bn)	1.42	1.50	-	1.36	-	1.42	1.50	-
Net NPAs (%)	0.47	0.60	-	0.47	-	0.47	0.60	-
CAR (%)	12.76	13.92	-	13.70	-	12.76	13.92	-

Source: Company

- Operating expenses for the year increased by a mere 8.1% to Rs.19bn largely on account of the subdued growth of 4.1% in staff costs to Rs.3.7bn. The management believes that the rise in staff costs is relatively muted due to the fact that a younger and relatively inexpensive workforce is replacing retiring employees.
- Provisions for NPAs fell 3.2% YoY from Rs.1.9bn in FY06 to Rs.1.8bn in FY07 due to higher recoveries and upgradations to the tune of Rs.1.1bn in FY07 vs. Rs.734mn in FY06. Adjusting for this, NPA provisions increased by ~14% YoY.
- Asset quality remains stable with gross NPAs falling 8bps sequentially to 2.05% while net NPAs remained at 0.47%.
- 100% of bank's business is now on CBS.

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