

January 22, 2008

**ACCUMULATE**

Price Target Price  
**Rs43 Rs45**

Sensex **17,605**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(4)	27	31	50
Rel. to Sensex	4	27	17	21

Source: Capitaline

**Stock Details**

Sector	Banking
Reuters	CENB.BO
Bloomberg	CBOP@IN
Equity Capital (Rs mn)	1,872
Face Value	1
52 Week H/L	75/30
Market Cap	Rs80bn/USD2.0bn
Daily Avg Volume (No of shares)	14.3mn
Daily Avg Turnover (US\$)	22.3mn

**Shareholding Pattern (%)**(31<sup>st</sup> Dec.'07)

Promoters	-
FII	38.2
Institutions	4.6
Private Corp.	41.8
Public	15.5

\* Price as on October 30, 2007

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**Centurion Bank of Punjab**Result  
Update**Earnings in line**

Centurion Bank of Punjab (CBOP) has reported Rs483mn of net profit (consolidated for Lord Krishna Bank (LKB)). The NII (net of amortisation) has grown by 38.1% yoy to Rs1.9bn driven 55% growth in assets and NIMs of 3.6% as expected.

The deteriorating asset quality continues to worry as the gross NPA stood at 3.66% of advances and the net NPA stood at 1.69% of advances.

We have reduced our estimates for FY08-10E in range of 37% to take into account further slippages in the assets. At the current market price of Rs43, the stock is quoting at 20.7x its FY10E FDEPS and 3.1x FY10E ABV with likely RoE of 15.4% in FY10E. We maintain our ACCUMULATE recommendation on the stock with price target of Rs45.

**NII grows 38.1% - in line with expectations**

CBOP's NII (net of amortisation expenses) grew by 38.1% yoy to Rs1.9 driven by 55% growth in advances and a 10bps expansion in the reported NIMs.

**Adjusted NII**

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Reported NII	1,900	1,376	1,704	38.1	11.5
Add: HTM Amortisation	115	89	115	29.2	0.3
Adjusted NII	2,015	1,465	1,819	37.5	10.8

Source: Company, Emkay Research

**Yield analysis (%)**

	Q3FY08	Q3FY07	Q2FY08	yoy chg (bps)	qoq chg (bps)
Yield on advances	12.6	11.7	13.4	85	-78
Yield on assets	9.3	8.7	9.9	63	-62
Cost of funds	6.2	5.0	6.8	123	-57
NIM	3.1	3.7	3.2	-59	-5
NIM (Reported)	3.6	4.7	3.5	-110	10
NIM (Gross of amort)	3.3	3.9	3.4	-64	-7

Source: Company, Emkay Research

\* Calculated on basis of average quarterly balances

Note: adjusted for HTM amortisation

**Advances growth driven by SME advances**

CBOP's advances have grown by 60% yoy driven mainly by SME portfolio which has grown 1.5x over last year. The large corporates and others have grown by 86% yoy and retail portfolio has grown by 39% yoy.

**Advances book**

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy change	% yoy change
Total advances	150,835	94,276	139,849	60.0	7.9
SME	28,117	11,690	23,050	140.5	22.0
Corp/Others	32,490	17,589	28,423	84.7	14.3
Retail	90,228	64,997	88,376	38.8	2.1
Personal	18,046	10,400	18,925	73.5	-4.6
Mortgages	28,739	15,599	25,306	84.2	13.6
2-W/ CV/CE	27,971	28,599	29,164	-2.2	-4.1

Source: Company, Emkay Research

### Fee income continues to grow strong

Fee income has continued to be forte of the bank as the same has grown by 57% yoy and 2% qoq to Rs1.6bn. The fee income/net income stood at 47% for the quarter compared with 41% in the same quarter last year.

### Opex ratio continues to improve

The Opex ratio has continued to improve as it is now at 3.6% of the assets compared with 4.8% in Q3FY07 and 4.3% in Q2FY08. The Opex grew by 25% to Rs2.2bn, much slower than the balance sheet growth of 70% yoy. Driven by slower growth in Opex, the operating profit has almost doubled to Rs 1.28bn.

### Slippages continue to worry

Albeit, CBOP continues to perform strongly on earnings, the higher instances of slippages in the 2-wheeler and the personal loans portfolio are worrisome. The gross slippages as % of advances have risen to 1.6% compared with 1.5% for the whole of FY07. Resultantly, the gross NPA have risen to 3.66% of gross advances are still higher than 2.8% reported for FY07. The net NPAs are at 1.7% of advances vis-à-vis as on March 2007.

### Capital adequacy remains comfortable post QIP

The tier I Capital adequacy of the bank was at comfortable 10.0% as the bank has raised Rs5bn through QIP issue in Q2FY08.

### LKB merger adds muscle in southern area

CBOP has received the RBI's approval for LKB's merger with itself from August 29, 2007. With the merger of LKB with itself, CBOP has now added 124 more branches to its network with dominant presence in southern India. The process of integration of LKB branches with CBOP is on and is likely to be completed by FY09.

### Valuations and view

We have reduced our estimates for FY08-10E in range of 3-7% to take into account further slippages in the assets. At the current market price of Rs43, the stock is quoting at 20.7x its FY10E FDEPS and 3.1x FY10E ABV with likely RoE of 15.4% in FY10E. We maintain our ACCUMULATE recommendation on the stock with price target of Rs45.

## Quarterly results

	M9FY08	M9FY07	% yoy chg	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Net interest income	4,997	3,783	32.1	1,900	1,376	1,704	38.1	11.5
Other Income	4,718	2,849	65.6	1,600	1,018	1,571	57.2	1.9
Net income	9,715	6,632	46.5	3,500	2,394	3,275	46.2	6.9
Total operating expenses	6,641	4,973	33.6	2,219	1,778	2,324	24.8	-4.5
Pre-provision profit	3,074	1,659	85.3	1,281	616	951	108.1	34.8
Provisions	1,248	293	325.6	543	73	321	649.0	69.1
Profit before tax	1,826	1,366	33.7	738	543	629	35.9	17.3
Provision for Taxes	658	432	52.4	255	208	231	22.8	10.5
Net Profit	1,167	934	25.0	483	335	398	44.0	21.2

## Valuation table

Y/E March 31	Net income Rs mn	Net profit Rs mn	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	10,102	1,207	0.8	7.9	0.8	10.6	5.5	67.8
FY2008E	14,106	1,789	1.0	10.2	0.8	10.2	4.2	45.7
FY2009E	19,533	2,845	1.5	11.6	1.0	12.7	3.7	28.7
FY2010E	24,933	3,948	2.1	13.7	1.0	15.4	3.1	20.7

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