

**RESULTS REVIEW**
**Share Data**

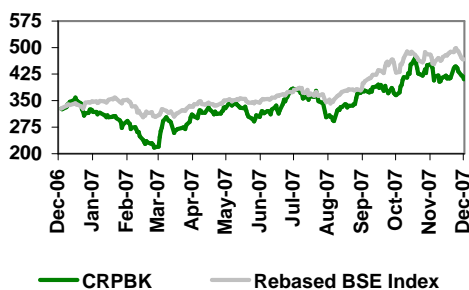
Market Cap	Rs. 58.9 bn
Price	Rs. 410.35
BSE Sensex	19,091.96
Reuters	CRBK.BO
Bloomberg	CRPBK IN
Avg. Volume (52 Week)	31,293.2
52-Week High/Low	Rs. 490 / 211.7
Shares Outstanding	143.4 mn

**Valuation Ratios**

Year to 31 March	2008E	2009E
EPS (Rs.)	47.4	56.1
+/- (%)	26.8%	18.3%
PER (x)	8.7x	7.3x
P / PPP (x)	4.5x	3.7x
P / ABV (x)	1.4x	1.2x

**Shareholding Pattern (%)**

Promoter	57
FII's	10
Institutions	30
Public & Others	3

**Relative Performance**

**Corporation Bank**
**Buy**
**Growth story continues**

Corporation Bank's Q2'08 numbers were above our expectations. Net profit registered a robust growth of 27.1% yoy to Rs. 1.6 bn, driven primarily by a sharp rise of 62% in the non interest income to Rs. 1.8 bn. NII increased 17.5% yoy to Rs. 3.5 bn as the Bank has reduced rates on term deposits. The aggregate business witnessed an yearly increase of 18.8% to Rs. 784.1 bn, as advances and deposits increased 16.6% and 20.3% yoy, respectively. The asset quality improved further, as the net NPA ratio witnessed a sharp fall of 13 bps yoy to 0.35%.

During the quarter, the Bank has taken many new initiatives to enter the fast growing financial services space, providing financial products and services such as mutual funds, insurance, brokerage etc.

We maintain our positive outlook on the Bank based on its high asset quality, stabilizing margins, and rising proportion of non interest income. Hence, we maintain our Buy rating on the stock.

**Result Highlights**

Net interest income increased 17.5% yoy to Rs. 3.5 bn, owing to a cut in deposit rates, which also prevented NIM from falling further. This helped the Bank to counter the rising cost of funds, which went up 136 bps yoy to 6.38% (half yearly basis).

**Key Figures (Standalone)**

Quarterly Data	2Q'07	1Q'08	2Q'08	YoY %	QoQ%	1H'07	1H'08	YoY %
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(Figures in Rs mn, except per share data)

Net Interest Income	3,018	3,722	3,546	17.5%	(4.7)%	6,041	7,071	17.0%
Total Net Income	4,148	4,909	5,377	29.6%	9.5%	9,047	10,286	13.7%
Pre-Prov Profit	2,208	2,756	2,945	33.4%	6.9%	5,223	5,701	9.1%

<b>Net Profit</b>	1,270	1,771	1,614	27.1%	(8.9)%	2,713	3,385	24.8%
Cost/Total Income(%)	46.8%	43.9%	45.2%	-	-	42.3%	44.6%	-
NPA ratio	0.48%	0.46%	0.35%	-	-	0.48%	0.35%	-

**Per Share Data (Rs.)**

PPP per share	15.4	19.2	20.5	33.5%	6.9%	36.4	39.7	9.2%
EPS	8.9	12.4	11.3	27.1%	(8.9)%	18.9	23.6	24.8%
ABVPS	254.2	274.9	286.1	12.6%	4.1%	254.2	286.1	12.6%

Non interest income (14.7% of total income) witnessed a whopping 62% yoy rise to Rs. 1.8 bn owing to an upswing in treasury and fee income. Further, we expect fee income to rise on account of recently announced initiatives by the Bank in the distribution business.

*New accounting standards increased employee costs*

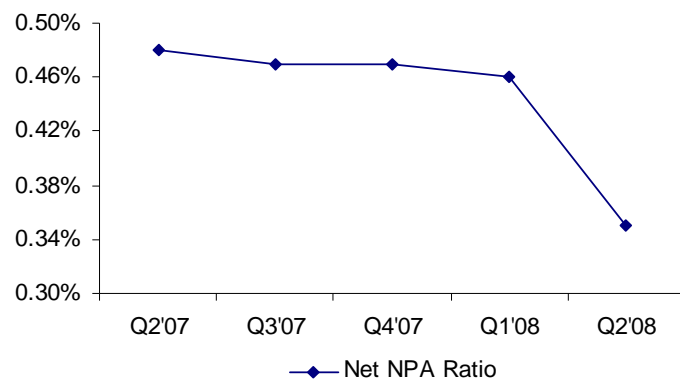
Total operating expenses increased 25.3% yoy to Rs. 2.4 bn, primarily due to a 39.1% rise in employee expenditure to Rs. 1.3 bn. This, in turn, was attributed to the provisions worth Rs. 730 mn made under the revised AS-15. However, a steep rise in other income enabled the Bank to offset the high manpower cost and register a 27.1% yoy growth in net profit.

*A healthy trend – asset quality improving along with growth in business*

Total business witnessed a robust growth of 18.8% yoy on account of increase in advances and deposits by 16.6% and 20.3% to Rs. 326.7 bn and Rs. 457.4 bn, respectively. While retail advances accounted for 25% of the total advances, advances to SMEs contributed 11.1%. The average CASA ratio has fallen by 233 bps to 28.7%. The Bank's asset quality remains one of the best in the industry, with net NPA ratio falling 13 bps yoy to 0.35%.

*Asset quality – consistent improvement*

### **Sharp rise in the asset quality**



Source: Company data, Indiabulls research

*Widening horizon – from banking to other financial services*

*New initiatives indicate a bright future*

### Key Events

#### *New ventures*

With an eye on the growing financial services business, the Bank has entered into joint ventures with various other banks and NBFCs for distribution of services like credit cards, insurance etc. Prominent among them are: brokerage services with Reliance Money and Mutual funds distribution with HSBC.

### Outlook

Corporation Bank is continuously improving its operating performance by improving its asset quality and stabilizing its NIM. Its recent initiatives in providing non-banking products, such as mutual funds, brokerage etc. coupled with growth in advances, will enable it to improve margins via increasing non interest income. The management's focus on improving the CASA ratio from the present level of around 30% to 40% by 2010 will also add to the margins. Further, the Bank is planning to increase its total number of branches to more than 1,000 by the end of FY08.

At the current price of Rs. 410.35, the stock is trading at a forward P/AB of 1.4x FY08E and 1.2x FY09E. Based on a target P/BV multiple of 1.5x for FY08, we value Corporation Bank at Rs. 447 and maintain our Buy rating on the stock.

<b>Income Statement</b>					<b>Key Ratios</b>				
<i>(Rs mn, Yr. ending March 31)</i>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>		<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Interest Income	26,264	34,302	42,458	51,852	<b>Per share data (Rs.)</b>				
Interest Expense	13,997	20,524	27,215	33,690	Shares outstanding (mn)	143.4	143.4	143.4	143.4
<b>Net Interest Income</b>	<b>12,268</b>	<b>13,778</b>	<b>15,243</b>	<b>18,162</b>	Basic EPS	31.0	37.4	47.4	56.1
<i>YoY Growth (%)</i>	8.6%	12.3%	10.6%	19.2%	Diluted EPS	31.0	37.4	47.4	56.1
Other Income	4,736	5,658	6,790	8,623	Book value per share	235.3	262.5	299.5	343.8
<b>Total Net Income</b>	<b>17,003</b>	<b>19,436</b>	<b>22,033</b>	<b>26,785</b>	Adj. book value per share	235.3	262.5	299.5	343.8
<i>YoY Growth (%)</i>	0.4%	14.3%	13.4%	21.6%	<b>Valuation ratios (x)</b>				
Operating Expense	7,468	8,036	9,033	10,714	P/PPP	6.2x	5.2x	4.5x	3.7x
<b>Pre-Provisioning Profit</b>	<b>9,536</b>	<b>11,400</b>	<b>12,999</b>	<b>16,071</b>	P/E	13.2x	11.0x	8.7x	7.3x
Provisions and Contingencies	2,791	3,234	2,849	4,064	P/B	1.7x	1.6x	1.4x	1.2x
<b>Profit Before Tax</b>	<b>6,745</b>	<b>8,166</b>	<b>10,150</b>	<b>12,007</b>	P/ABV	1.7x	1.6x	1.4x	1.2x
Tax	2,300	2,805	3,350	3,962	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>4,444</b>	<b>5,361</b>	<b>6,801</b>	<b>8,045</b>	Return on avg. assets	1.2%	1.2%	1.1%	1.1%
<i>YoY Growth (%)</i>	10.5%	20.6%	26.8%	18.3%	Return on avg. net worth	13.8%	15.0%	16.9%	17.4%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
<i>(Rs mn, as on March 31)</i>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	Advances to deposits	72.9%	70.7%	67.9%	66.3%
Cash and balances with RBI	40,887	67,189	119,297	159,963	Borrowings to advances	6.9%	10.1%	10.0%	10.5%
Investments	106,520	144,175	160,109	204,286	Investments to assets	26.3%	27.3%	24.2%	24.6%
<i>YoY Growth (%)</i>	3.8%	35.4%	11.1%	27.6%	Investments to deposits	32.4%	34.0%	30.0%	30.5%
Advances	239,624	299,497	362,391	443,929	Net Worth to assets	8.3%	7.1%	6.5%	5.9%
<i>YoY Growth (%)</i>	29.2%	25.0%	21.0%	22.5%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	2,559	2,810	3,023	3,259	Opt. expense per employee	0.7	0.7	0.7	0.8
Other Assets	15,477	13,536	16,011	18,754	Net profit per employee	0.4	0.5	0.5	0.6
<b>Total Assets</b>	<b>405,066</b>	<b>527,206</b>	<b>660,831</b>	<b>830,190</b>	Asset per employee	35.8	44.4	53.0	63.4
Deposits	328,765	423,569	533,697	669,790	<b>Operating ratios (%)</b>				
<i>YoY Growth (%)</i>	20.7%	28.8%	26.0%	25.5%	Operating cost to net income	43.9%	41.3%	41.0%	40.0%
Borrowings	16,601	30,210	36,239	46,613	Operating cost to avg. assets	2.0%	1.7%	1.5%	1.4%
<i>YoY Growth (%)</i>	27.9%	82.0%	20.0%	28.6%					
Other Liabilities & Provisions	25,951	35,773	47,936	64,473					
<b>Total Liabilities</b>	<b>371,317</b>	<b>489,552</b>	<b>617,872</b>	<b>780,876</b>					
Share Capital	1,434	1,434	1,434	1,434					
Reserves & Surplus	32,315	36,220	41,525	47,880					
<b>Total Equity &amp; Liabilities</b>	<b>405,066</b>	<b>527,206</b>	<b>660,831</b>	<b>830,190</b>					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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