

Results inline; lower recoveries and LLP negative

February 2, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs427	Rs520
EPS change FY12E/13E (%)	9.8/6.0
Target Price change (%)	NA
Nifty	5,270
Sensex	17,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	(3)	(15)	(25)
Rel. to Nifty	7	(3)	(14)	(23)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	CRPBK@IN
Equity Capital (Rs mn)	1481
Face Value(Rs)	10
No of shares o/s (mn)	148
52 Week H/L	658/336
Market Cap (Rs bn/USD mn)	62/1,263
Daily Avg Volume (No of sh)	78337
Daily Avg Turnover (US\$m)	0.6

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	58.5	58.5	58.5
FII/NRI	4.9	5.4	5.0
Institutions	30.5	30.6	30.8
Private Corp	2.1	1.9	2.4
Public	4.0	3.6	3.3

Source: Capitaline

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- CRPBK's NII/PPoP at Rs8.6/8.3bn significantly ahead of est. Driven by higher provisions on NPLs and restr, the PAT at Rs4bn was inline
- Continues to suffer from sharp rise in costs as CoD went up by another 8bps on high of 7.5%. However expansion in CDR by 500bps to 73%, aided 23bps expansion in NIM's to 2.7%
- The GNPLs (1.4%) remained under check driven by write offs. Key -ves - sharp drop in reco+upgrades and lower LLPs at 50% of incremental net NPLs
- Sharp improvement in margins over last two quarters is positive, the sustainability of the same is under doubt given lower CASA levels. Maintain ACC with PT of Rs520

Strong balance sheet growth/ margin exp drive NII growth

CRPBK's Q3FY12 NII grew by 15.9%qoq to Rs8.6bn, ahead of our expectation led by strong 13.2%qoq growth in advances and 23bps expansion in NIM's to 2.7%. Aided by Rs1.1bn of trading gains and 27% yoy growth in fees, the PPoP grew by 18% qoq much ahead of estimates. The provision for the quarter was higher at Rs3bn led by Rs1.7bn NPA provision and Rs504mn/ Rs360mn provision for Investment depreciation and other provision respectively. However with strong operating performance and lower tax rate, net profit was inline with expectations.

The advances grew sharply 13% qoq with lower deposit growth at 5%qoq. A 500bps qoq increase in LDR, aided margin improvement during the quarter even as the costs continued to rise.

CRPBK reported slippages were at Rs3.7bn (including Rs1.6bn in aviation). Adjusted for aviation exposure, the regular slippages at Rs2.2bn were back to normalized levels.

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on assets*	8.2	7.7	8.4	8.8	9.1	97	35
Cost of funds*	5.4	5.4	6.4	6.7	6.8	141	12
NIM*	2.8	2.3	2.0	2.1	2.3	-45	23
Yield on advances #	10.1	10.1	11.2	11.8	11.9	179	16
Cost of deposits#	5.7	5.7	7.3	7.6	7.6	192	8
NIM #	3.0	2.8	2.4	2.4	2.7	-30	23

Source: Company, Emkay Research Note:* Calculated on basis of average quarterly balances # reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	33,967	11,703	81.6	388.9	1.2	21.9	5.3	1.1
FY2011	42,644	14,136	95.4	456.0	1.1	21.9	4.4	0.9
FY2012E	46,990	15,232	102.8	497.2	1.0	19.7	4.0	0.8
FY2013E	54,797	16,676	112.6	597.1	0.9	18.6	3.7	0.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	8,423	7,616	7,076	7,436	8,616	2.3	15.9	23,128	21,955	5.3
Other Income	2,645	4,904	2,897	3,987	4,417	67.0	10.8	11,301	8,164	38.4
<i>Fee Income</i>	1,646	2,699	1,863	1,989	2,103	27.7	5.7	5,955	4,895	21.7
Net Income	11,068	12,520	9,973	11,423	13,032	17.8	14.1	34,429	30,118	14.3
Total Operating Expenses	3,699	5,056	4,208	4,422	4,775	29.1	8.0	13,406	10,811	24.0
As % Of Net Income	33.4	40.4	42.2	38.7	36.6			38.9	35.9	
Employee Expenses	1,830	2,996	2,151	2,347	2,473	35.2	5.4	6,972	5,404	29.0
As % Of Net Income	16.5	23.9	21.6	20.5	19.0			20.2	17.9	
Other Expenses	1,869	2,060	2,057	2,075	2,302	23.2	11.0	6,434	5,407	19.0
As % Of Net Income	16.9	16.5	20.6	18.2	17.7			18.7	18.0	
Operating Profit	7,369	7,465	5,764	7,001	8,257	12.1	17.9	21,023	19,307	8.9
As % Of Net Income	66.6	59.6	57.8	61.3	63.4			61.1	64.1	
Provisions	2,500	2,695	1,673	2,048	3,015	20.6	47.2	6,735	4,743	42.0
<i>Prov for NPA</i>	1,534	1,873	901	1,727	1,769	15.3	2.4	4,397	3,604	22.0
PBT	4,868	4,770	4,092	4,954	5,242	7.7	5.8	14,288	14,565	-1.9
Total Tax	1,045	1,318	577	943	1,222	17.0	29.7	2,742	3,886	-29.4
Adjusted PAT	3,823	3,452	3,515	4,011	4,020	5.1	0.2	11,546	10,678	8.1
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	3,823	3,452	3,515	4,011	4,020	5.1	0.2	11,546	10,678	8.1
Reported EPS	26.7	23.3	23.7	27.1	27.1	1.8	0.2	78	74	4.7

Source: Company, Emkay Research

Costs continue to remain high

CRPBK's cost of deposits at 7.64% continues to remain by far the highest cost amongst the PSU banks (next only to Andhra Bank) and kept pressure on the margins. Despite, a sharp 500bps qoq expansion in CDR and 16bps expansion in advances yields, the NIMs moved up by just 23bps.

Strong loan growth driven by infrastructure, refining and chemicals

As expected, the advance grew by a sharp 13.2%qoq to Rs923.8bn. CRPBK's advances had declined by 6% till H1FY12 making it imperative to grow fast in this quarter.

The growth was largely restricted to large corporate group wherein the key growth industries were infrastructure (15.5% qoq), refining (70% qoq) and chemicals (29.5% qoq).

Loan mix – Remains broad based

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Retail	139.9	156.7	151.9	160.7	171.4	22.5	6.7	18.6
Agriculture	55.9	55.1	59.6	57.8	64.9	16.1	12.3	7.0
SME	82.9	116.2	119.3	127.9	132.8	60.1	3.8	14.4
Others	440.6	540.5	458.3	469.9	554.7	25.9	18.0	60.0
Total	719.3	868.5	789.0	816.3	923.8	28.4	13.2	100.0

Source: Company, Emkay Research

....Resultantly CASA share falls

As large part of the advance growth was funded by term deposit, the banks CASA mix fell by 68bps qoq to 21.1%. Term deposit grew by 5.9%qoq as against just 1.7%qoq growth in CASA deposit.

Deposit profile

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	86	141	86	97	96	11.8	-0.2
Saving Deposits	154	162	162	166	171	11.5	2.8
CASA	240	303	247	263	268	11.6	1.7
Term deposits	746	865	930	943	999	33.9	5.9
Total Deposits	985	1,167	1,178	1,206	1,266	28.5	5.0
CASA (%)	24.3	26.0	21.0	21.8	21.1	-320	-68

Source: Company, Emkay Research

Robust fee income/ trading gains keep other income growth strong

Tracking sharp qoq expansion in loans, fees also grew by 6% qoq drive by processing fees and LC//BG commissions. More than doubling of trading gains helped further as the total other income grew by 11% qoq.

Other income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Fee/Commission income	1,646	2,699	1,863	1,989	2,103	27.7	5.7	5,955	4,895	21.7
Trading gains/(losses)	500	819	212	293	1,115	122.9	280.6	1,620	1,276	27.0
Forex gains/(losses)	322	359	343	1,233	561	73.9	-54.5	2,136	718	197.7
Dividend income	27	10	8	63	52	92.6	-17.5	123	63	94.6
Recovery	243	928	389	330	546	125.1	65.6	1,266	1,141	10.9
Others	-94	90	82	79	40	-142.5	-49.8	201	70	185.5
Total	2,645	4,904	2,897	3,987	4,417	67.0	10.8	11,301	8,164	38.4

Source: Company, Emkay Research

Prov on GTL/ investment depreciation results in higher prov

The provisioning for the quarter was higher at Rs3.0bn led by higher NPA provisioning at Rs1.8bn, along with investment depreciation of Rs504mn. The bank also provided Rs490mn towards NPV loss on GTL account

Provisions break up

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
On NPL	1,534	1,873	901	1,727	1,769	15.3	2.4	4,397	3,604	22.0
As % of advances	0.21	0.22	0.11	0.21	0.19			0.5	0.5	
On Standard Assets	260	465	-	-	383	NA	NA	383	260	46.9
Investment Depreciation	86	545	706	192	504	484.5	162.4	1,403	252	457.0
Others	620	-189	65	129	360	-42.0	179.3	553	626	-11.6
Total	2,500	2,695	1,673	2,048	3,015	20.6	47.2	6,735	4,743	42.0

Normalised slippages/ Restructuring remain at comfortable levels

Though the banks GNPA/ NNPA increased by a higher 15.7%/ 18.8% qoq, however that was primarily driven by one big account in aviation sector which slipped during the quarter. Adjusted for the same the normal slippages(adj for KFA Rs1.6bn) were just Rs2.2bn for the quarter. Moreover restructuring during the quarter adjusted for GTL exposure (Rs4.3bn), was also comfortable at Rs3.1bn, 0.3% of advances. The outstanding restructured book stands at Rs45.4bn, 4.9% of advances.

Slippages

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Cumulative (Rs mn)	6,316	8,129	1,548	6,655	10,395
Quarterly (Rs mn)	2,854	1,814	1,548	5,108	3,740
Cumulative (%)	1.2	0.9	0.8	1.6	1.5
Quarterly (%)	1.6	0.8	0.8	2.5	1.6

NPA profile

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPA	9,138	7,902	8,482	10,800	12,492	36.7	15.7
Net NPA	4,135	3,977	4,115	7,450	8,852	114.1	18.8
Gross NPA (%)	1.3	0.9	1.1	1.3	1.4		
Net NPA (%)	0.6	0.5	0.5	0.9	1.0		
Net NPLs/Net worth (%)	6.0	5.6	5.5	9.4	10.7		
Provision cover (%)	54.7	49.7	51.5	31.0	29.1	-25.6	-1.9
Provision cover incl tech w/off (%)	72.8	74.7	74.9	64.7	62.9	-9.9	-1.9

Source: Company, Emkay Research

But dwindling recoveries and low LLPs are worrying

Although, the slippages have come back to normalized levels, the lower recoveries and upgradations remain worrisome. For M9FY12, the recoveries and upgrades as % of opening GNPA's remained at just 25%. However, sharply higher write offs helped CRPBK to control the GNPA's.

Also, the LLPs for M9FY12 were at 0.5% compared with net slippage rate of 1.3% implying LLPs of just 50% of net incremental slippages.

Valuations and view

Lower CASA proportion and margins has for long have been an area of concern for the bank. CRPBK's cost of funds by far remains highest amongst the PSU banks. While the bank has been able to show sharp improvement in margins over last two quarters, CASA still remain at just ~21%, one of the lowest among peers. Low recoveries and LLPs are additional concerns. However, at 0.8x FY12 and 0.7x FY13 ABV valuations continue to remain attractive. We maintain our Accumulate rating with price target of Rs520.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	19,033	29,397	31,054	36,698
Other income	14,934	13,247	15,936	18,100
Net income	33,967	42,644	46,990	54,797
Operating expenses	12,600	16,417	18,463	22,966
Pre provision profit	21,368	26,227	28,527	31,832
PPP excl treasury	27,525	28,322	30,027	33,832
Provisions	4,744	6,888	9,487	8,988
Profit before tax	16,623	19,340	19,039	22,844
Tax	4,921	5,204	3,808	6,168
<i>Tax rate</i>	30%	27%	20%	27%
Profit after tax	11,703	14,136	15,232	16,676

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	1,434	1,481	1,481	1,481
Reserves	56,314	69,897	81,662	94,872
Net worth	57,749	71,378	83,144	96,353
Deposits	927,337	1,167,475	1,345,839	1,602,321
Borrowings	131,838	196,570	210,368	225,524
Total liabilities	1,116,923	1,435,423	1,639,350	1,924,198
Assets				
Cash and bank	107,919	103,924	96,249	147,752
Investments	332,562	421,398	490,208	548,881
Customer assets	644,690	881,633	1,030,441	1,203,384
Others	31,752	28,468	22,997	25,382
Total assets	1,116,923	1,435,423	1,639,350	1,924,198

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	1.9	2.3	2.0	2.1
Non-ll/avg assets	1.5	1.0	1.0	1.0
Fee income/avg assets	0.3	0.3	0.3	0.3
Opex/avg assets	1.3	1.3	1.2	1.3
Provisions/avg assets	0.6	0.7	0.7	0.7
PBT/avg assets	1.5	1.3	1.2	1.2
Tax/avg assets	0.4	0.4	0.2	0.3
RoA	1.2	1.1	1.0	0.9
RoAE	21.9	21.9	19.7	18.6
GNPA (%)	1.2	1.1	1.5	1.4
NNPA (%)	0.3	0.4	0.9	0.7

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	11,703	14,136	15,232	16,676
Shares in issue (mn)	143	148	148	148
EPS (Rs)	81.6	95.4	102.8	112.6
PER (x)	5.1	4.4	4.0	3.7
FDEPS(Rs)	79.0	95.4	102.8	112.6
FDPER (x)	5.3	4.4	4.0	3.7
Book value (Rs)	402.6	481.9	561.3	650.5
P/BV (x)	1.0	0.9	0.7	0.6
Adj book value (Rs)	388.9	456.0	497.2	597.1
P/ABV (x)	1.1	0.9	0.8	0.7
P/PPP (x)	2.8	2.3	2.2	1.9
Dividend yield (%)	4.0	4.8	4.8	4.8

Recommendation History: Corporation Bank – CRPBK IN

Date	Reports	Reco	CMP	Target
31/10/2011	Corporation Bank Q2FY12 Result Update	Accumulate	427	520
28/07/2011	Corporation Bank Q1FY12 Result Update	Accumulate	515	570
02/05/2011	Corporation Bank Q4FY11 Result Update	Accumulate	583	700
27/01/2011	Corporation Bank Q3FY11 Result Update	Buy	564	700

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/01/2012	United Bank of India Q3FY12 Result Update	Accumulate	70	80
31/01/2012	ICICI Bank Q3FY12 Result Update	Accumulate	902	1,200
31/01/2012	Punjab National Bank Q3FY12 Result Update	Accumulate	940	1,200
30/01/2012	Allahabad Bank Q3FY12 Result Update	Accumulate	156	200

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