

RESULTS REVIEW

Share Data

| | |
|-----------------------|-------------------|
| Market Cap | Rs. 39.8 bn |
| Price | Rs. 277.50 |
| BSE Sensex | 15,212.13 |
| Reuters | CRBK.BO |
| Bloomberg | CRPBK IN |
| Avg. Volume (52 Week) | 0.02 mn |
| 52-Week High/Low | Rs. 490 / Rs. 230 |
| Shares Outstanding | 143.4 mn |

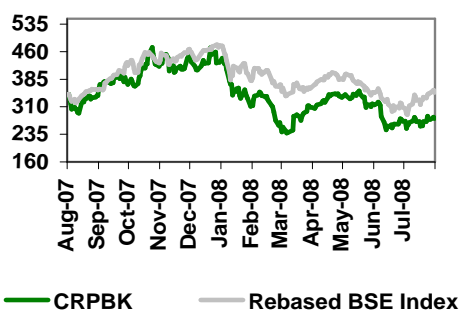
Valuation Ratios

| Year to 31 March | 2009E | 2010E |
|------------------|-------|-------|
| EPS (Rs.) | 58.4 | 73.5 |
| +/- (%) | 14.0% | 25.8% |
| PER (x) | 4.8x | 3.8x |
| P / PPP (x) | 2.6x | 2.1x |
| P / ABV (x) | 0.8x | 0.7x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoter | 57 |
| FII's | 10 |
| Institutions | 29 |
| Public & Others | 3 |

Relative Performance



Corporation Bank

Buy

Good operating performance; positive long-term outlook

- Robust operating performance:** Corporation Bank's operating profit grew by a healthy 16.5% yoy in Q1'09. However, net profit grew by merely 4.1%, primarily due to MTM losses suffered during the quarter. While growth in the NII was impacted adversely due to the compression in the NIM, other income, which grew at 14%, supported the growth in the operating profit. An increase in business productivity reduced the operating expenses, further improving profitability.
- Pressure on the NIM likely to ease:** NIM fell from 2.71% to 2.43% qoq as the Bank reduced its BPLR by 25 basis points despite a tightening monetary policy stance. However, pressure on the NIM is likely to ease in the next few quarters as the Bank increased its BPLR by 50 bps in August. Moreover, the CASA ratio has been improving consistently on the back of an aggressive increase in the number of branches. This should help maintain, if not increase, the NIM.
- Consistent improvement in asset quality:** There has been a continual reduction in the net and gross NPAs sequentially. Year-over-year, the gross and net NPA ratios declined from 2.07% to 1.46% and from 0.46% to 0.36%, respectively. The Bank is likely to maintain its asset quality, given that it is not aggressively focused on the priority sector.
- Valuation:** We have valued the standalone Bank by using the three-stage DECF model. Our target price of Rs. 335 is 21% more than the current market price. Thus, we reaffirm our BUY rating.

Key Figures (Standalone)

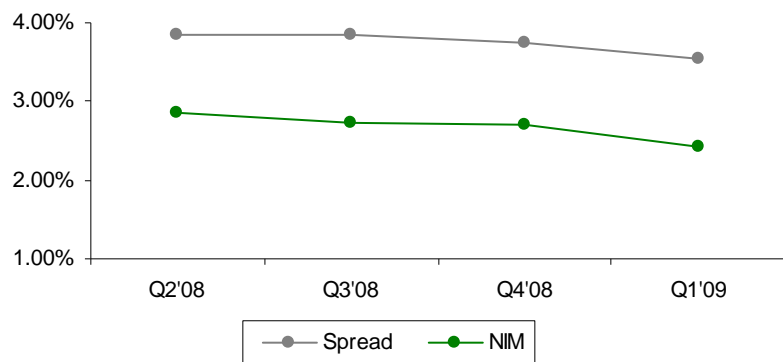
| Quarterly Data | Q1'08 | Q4'08 | Q1'09 | YoY % | QoQ% | FY07 | FY08 | YoY % |
|---|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| (Figures in Rs mn, except per share data) | | | | | | | | |
| Net Interest Income | 3,525 | 4,026 | 3,780 | 7.2% | (6.1)% | 13,081 | 14,433 | 10.3% |
| Net Operating Income | 5,649 | 6,138 | 5,356 | (5.2)% | (12.7)% | 19,436 | 21,431 | 10.3% |
| Pre-Prov Profit | 2,756 | 3,210 | 3,210 | 16.5% | 0.0% | 11,401 | 12,512 | 9.7% |
| Net Profit | 1,771 | 1,231 | 1,843 | 4.1% | 49.7% | 5,361 | 7,350 | 37.1% |
| Cost/Net Income(%) | 38.1% | 34.3% | 40.1% | - | - | 41.3% | 41.6% | - |
| NPA ratio | 0.46% | 0.32% | 0.36% | - | - | 0.47% | 0.32% | - |
| Per Share Data (Rs.) | | | | | | | | |
| PPP per share | 19.2 | 37.4 | 22.4 | 16.5% | (40.1)% | 79.5 | 87.2 | 9.7% |
| EPS | 12.4 | 14.3 | 12.9 | 4.0% | (10.3)% | 37.4 | 51.2 | 37.1% |
| ABVPS | 245.3 | 294.8 | 307.7 | 25.4% | 4.4% | 262.5 | 294.8 | 12.3% |

Result Highlights

Corporation Bank's advances and deposits recorded a healthy yoy growth of 28.34% and 26.62%, respectively. The credit deposit ratio increased to 71.16% as against 70.70% in Q4'08. Retail advances contributed 23.5% to the net bank credit as against 22.47% in Q4'08. Priority sector advances stood at 36.45% of the adjusted net bank credit in this quarter.

In spite of a healthy growth in advances, the NII increased by merely 7.2% yoy on account of contraction in the Bank's interest rate spread. This quarter, cost of funds stood at 6.43% and the yield on advances was 9.97% (down from 10.2% in the previous quarter). This reduction in the yield was because the Bank reduced its BPLR by 25 basis points despite a hike in the rates by RBI. This compressed the bank's NIM. Moreover, the Bank reversed the interest on the agricultural debt that was written off on account of the agricultural debt waiver and debt relief scheme, adding to the pressure on the NIM.

Movement in NIM



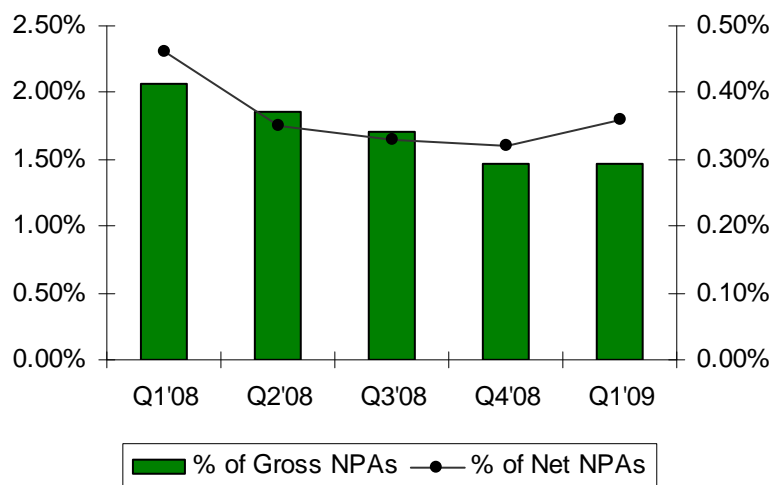
Source: Company data, Indiabulls research

Other income increased by 13.8% yoy. Core non-interest income, constituting 58% of other income, grew by 22%. The operating expenses of the Bank fell by 0.34% yoy due to an increase in productivity. This was reflected in the improved business-per-employee ratio of the Bank, which stood at Rs. 82.8 mn for Q1'09 as against Rs. 65.5 mn in June 2007.

Operating profit increased by 16.5% yoy. Provisions increased by 405%, primarily on account of the marked-to-market losses that the Bank incurred on its investment portfolio. Tax provision declined by 54.3% yoy due to the reversal of a tax provision of Rs. 245 mn. Thus, net profit grew by 4.1% yoy.

Non-performing assets of the Bank have been falling consistently on a year-over-year as well as on a sequential basis. The gross NPA ratio fell from 2.07% to 1.46% and the net NPA ratio fell from 0.46% to 0.36% on a yoy basis.

Gross and Net NPAs



Source: Company data, Indiabulls research

The Bank is maintaining a healthy total capital adequacy ratio of 12.43% and a Tier I capital adequacy ratio of 10.13%.

Outlook

In a tightening monetary policy stance and a rising interest rate scenario, growth in advances is likely to slow down for the next few quarters but should pick up thereafter. This implies pressure on the NIM; however, we expect this pressure to ease off because the Bank increased its BPLR by

50 basis points in August 2008. Also, the CASA as well as the credit-deposit ratio have shown improving trends and are likely to be maintained due to the Bank's aggressive focus on opening new branches.

Increasing the number of branches will likely strengthen the Bank's core non-interest income as well. Thus, we expect Corporation Bank to show stronger operating numbers in the medium term.

A rising interest rate scenario also means increasing scope for delinquencies. Although numbers suggest that the Bank has been careful in its risk management, a slight qoq increase in the percentage of net NPAs suggests a slight deterioration despite a write-off on account of the agricultural debt waiver scheme. Therefore, the Bank will have to focus more on risk management to maintain the quality of its assets.

Valuation

We have valued the standalone Bank by using a three-Stage Discounted Equity Cash Flow model. Based on our assumption of a 15% cost of equity and a 11.7% terminal growth rate, we have arrived at a target price of Rs. 335, which implies a potential upside of 21% over the current market price of Rs. 277.5. Thus, we reiterate our Buy rating.

Sensitivity Analysis of the Fair Value Estimate:

| | | Sensitivity Analysis | | | | |
|-----------------|--------|----------------------|--------|------------|--------|--------|
| | | Cost of equity | | | | |
| Terminal growth | | 13.00% | 14.00% | 15.00% | 16.00% | 17.00% |
| | 10.70% | 538 | 368 | 278 | 224 | 188 |
| | 11.20% | 660 | 417 | 303 | 238 | 196 |
| | 11.70% | 877 | 487 | 335 | 256 | 207 |
| | 12.20% | 1,366 | 596 | 379 | 278 | 220 |
| | 12.70% | 3,481 | 790 | 442 | 307 | 235 |

| Income Statement | | | | | Key Ratios | | | | |
|---------------------------------------|----------------|----------------|----------------|------------------|------------------------------------|-------|-------|-------|-------|
| (Rs mn, Yr. ending March 31) | FY07 | FY08 | FY09E | FY10E | | FY07 | FY08 | FY09E | FY10E |
| Interest Income | 33,605 | 45,166 | 60,259 | 76,230 | Per share data (Rs.) | | | | |
| Interest Expense | 20,524 | 30,732 | 42,947 | 54,885 | Shares outstanding (mn) | 143.4 | 143.4 | 143.4 | 143.4 |
| Net Interest Income | 13,081 | 14,433 | 17,313 | 21,345 | Basic EPS | 37.4 | 51.2 | 58.4 | 73.5 |
| YoY Growth (%) | 6.6% | 10.3% | 19.9% | 23.3% | Diluted EPS | 37.4 | 51.2 | 58.4 | 73.5 |
| Other Income | 6,355 | 6,998 | 8,205 | 9,657 | Book value per share | 262.5 | 294.8 | 353.2 | 426.7 |
| Net Operating Income | 19,436 | 21,431 | 25,517 | 31,002 | Adj. book value per share | 262.5 | 294.8 | 353.2 | 426.7 |
| YoY Growth (%) | 14.3% | 10.3% | 19.1% | 21.5% | Valuation ratios (x) | | | | |
| Operating Expense | 8,036 | 8,920 | 10,207 | 12,246 | P/PPP | 3.6x | 3.2x | 2.6x | 2.1x |
| Pre-Provisioning Profit | 11,400 | 12,511 | 15,310 | 18,756 | P/E | 7.7x | 5.5x | 4.8x | 3.8x |
| Provisions and Contingencies | 3,235 | 1,857 | 3,168 | 3,478 | P/B | 1.1x | 1.0x | 0.8x | 0.7x |
| Profit Before Tax | 8,166 | 10,654 | 12,142 | 15,278 | P/ABV | 1.1x | 1.0x | 0.8x | 0.7x |
| Tax | 2,805 | 3,304 | 3,764 | 4,736 | Performance ratio (%) | | | | |
| Net Profit | 5,361 | 7,350 | 8,378 | 10,542 | Return on avg. assets | 1.2% | 1.2% | 1.1% | 1.1% |
| YoY Growth (%) | 20.6% | 37.1% | 14.0% | 25.8% | Return on avg. net worth | 15.0% | 18.4% | 18.0% | 18.8% |
| Balance Sheet | | | | | Balance Sheet ratios (%) | | | | |
| (Rs mn, as on March 31) | FY07 | FY08 | FY09E | FY10E | Advances to deposits | 70.7% | 70.7% | 69.0% | 69.5% |
| Cash and balances with RBI | 67,189 | 89,159 | 153,501 | 191,203 | Borrowings to advances | 10.1% | 5.5% | 5.7% | 5.3% |
| Investments | 144,175 | 165,124 | 173,201 | 228,626 | Investments to assets | 27.3% | 24.8% | 20.9% | 21.1% |
| YoY Growth (%) | 35.4% | 14.5% | 4.9% | 32.0% | Investments to deposits | 34.0% | 29.8% | 25.0% | 25.0% |
| Advances | 299,497 | 391,856 | 478,036 | 635,580 | Net Worth to assets | 7.1% | 6.3% | 6.1% | 5.6% |
| YoY Growth (%) | 25.0% | 30.8% | 22.0% | 33.0% | Productivity ratio (Rs. mn) | | | | |
| Fixed Assets (Net) | 2,810 | 2,718 | 2,338 | 2,003 | Opt. expense per employee | 0.7 | 0.7 | 0.8 | 0.9 |
| Other Assets | 13,536 | 17,121 | 21,544 | 28,227 | Net profit per employee | 0.5 | 0.6 | 0.6 | 0.8 |
| Total Assets | 527,206 | 665,977 | 828,619 | 1,085,637 | Asset per employee | 44.4 | 53.4 | 61.4 | 80.4 |
| Deposits | 423,569 | 554,244 | 692,805 | 914,503 | Operating ratios (%) | | | | |
| YoY Growth (%) | 28.8% | 30.9% | 25.0% | 32.0% | Operating cost to net income | 41.3% | 41.6% | 40.0% | 39.5% |
| Borrowings | 30,210 | 21,376 | 27,148 | 33,934 | Operating cost to avg. assets | 1.7% | 1.5% | 1.4% | 1.3% |
| YoY Growth (%) | 82.0% | -29.2% | 27.0% | 25.0% | | | | | |
| Other Liabilities & Provisions | 35,773 | 48,071 | 58,003 | 75,995 | | | | | |
| Total Liabilities | 489,552 | 623,692 | 777,956 | 1,024,432 | | | | | |
| Share Capital | 1,434 | 1,434 | 1,434 | 1,434 | | | | | |
| Reserves & Surplus | 36,220 | 40,851 | 49,229 | 59,771 | | | | | |
| Total Equity & Liabilities | 527,206 | 665,977 | 828,619 | 1,085,637 | | | | | |

Source: Bank data, Indiabulls research

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

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.