

January 28, 2009

BUY

Price **Rs183** Target Price **Rs240**

Sensex **9,004**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(6)	(31)	(51)
Rel. to Sensex	0	(11)	6	(0)

Source: Capitaline

Stock Details

Sector	Banks
Reuters	CRBK.BO
Bloomberg	CRPBK @IN
Equity Capital (Rs mn)	1434
Face Value	10
52 Week H/L	370/155
Market Cap	Rs25bn/US\$511mn
Daily Avg Volume (No of shares)	123483
Daily Avg Turnover (US\$)	0.5mn

Shareholding Pattern (%)

	D'08	S'08	J'07
Promoters	57.2	57.2	57.2
FII/NRI	8.7	10.4	11.1
Institutions	30.8	29.5	28.8
Private Corp	0.8	0.4	0.5
Public	2.5	2.5	2.5

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Corporation Bank

Result
Update

Ahead of expectations

Corporation Bank's (Corp Bank) Q3FY09 results were ahead of our expectations driven by better NII growth and higher other income. The NII has grown by 43.2% yoy to Rs4.8bn driven by 30.4% yoy growth in advances and 37bps expansion in NIM's. The other income has shown a jump of 85%yoy mainly driven by higher treasury and Forex income.

The asset quality remains healthy as the gross NPA stood at 1.24% (1.71% in Q3FY08) and net NPA stood at 0.33% (0.33% in Q3FY08) during the quarter. The provision cover also increased to 73.2% from 70.7% in preceding quarter.

We believe that the valuations of the stock at 2.9x its FY10E EPS and 0.5x FY10E ABV look attractive. We maintain BUY rating on the stock with a price target of Rs240.

Robust NII Growth...

Corp Bank has reported NII growth of 43.2%yoy to Rs4.8bn driven by higher advance growth and expansion in NIM's.

Yield analysis

%	Q3FY09	Q3FY08	Q2FY09	yoy chg (bps)	qoq chg (bps)
Yield on advances	11.06	9.79	10.32	127	74
Yield on investments	7.13	6.67	7.17	45	-4
Yield on assets	8.82	7.42	8.47	141	35
Cost of funds	6.31	5.27	6.09	104	22
NIM	2.51	2.15	2.38	37	13
NIM-reported	2.43	2.85	2.56	-42	-13

Source: Company, Emkay Research

Quarterly numbers are calculated on average balances

... driven by robust advance growth and expansion in NIMs

The NII growth during the quarter was led by 30.4% yoy growth in advances and 37bps expansion in NIM's. The NIM's expansion during the quarter was led by:

- 127bps expansion in yield on advances to 11.06% and
- 45bps expansion in yield on investment to 7.13%.

Balance sheet grew at a healthy pace

The bank balance sheet grew at a fast pace during the quarter as the advances grew by 30.4%yoy to Rs449.4bn, while deposits grew by 25.9%yoy to Rs618.9bn during the period. As a result the CASA mix also deteriorated by 478bps yoy and 22bps qoq to 25.2%.

Deposit Mix

Rs bn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Current Account	63.531	64.064	60.167	-0.8	5.6
Savings Account	92.553	83.431	93.173	10.9	-0.7
CASA	156	147	153	5.8	1.8
Term deposits	463	344	449	34.5	3.0
Total deposits	619	492	603	25.9	2.7
CASA ratio (%)	25.2	30.0	25.4	-478bps	-22 bps
Cost of deposits (%)	6.91	6.42	6.78	49bps	13bps

Source: Company, Emkay Research

Treasury and Forex drive other income...

Non interest income has grown by a strong 85.0% yoy to Rs2.8bn during the quarter. The same was mainly driven by higher treasury and Forex income. The core fee income has grown by 12.6% yoy.

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Profit on sale	1,234	292	237	322.0	420.6
Fee income	659	585	680	12.6	-3.1
Forex	117	83	181	42.3	-35.0
Recovery	235	219	136	7.1	73.0
Dividend	2	13	5	-83.6	-57.7
Others	573	332	506	72.8	13.4
Total	2,820	1,524	1,744	85.0	61.7

Source: Company, Emkay Research

... Help offset higher operating expenses

During the quarter, the Opex increased by 39.2% yoy to Rs3.1bn driven by higher employee expenses. The employee expenses rose by 50.9%yoy to Rs1.7bn during the quarter.

Moderate provisions led by write back of investment depreciation

The provisioning during the quarter declined by 66.8% qoq to Rs185mn driven by write back of investment depreciation of Rs601mn.

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
NPA provisioning	540	60	410	800.0	31.7
As % of advances	0.1	0.0	0.1		
Investment Depreciation	-601	-15	-31	NA	NA
Standard assets	-	50	120	NA	NA
Others	246	2	58	NA	NA
Total	185	97	558	90.3	-66.8

Asset quality remains robust

The bank asset quality remains healthy as the gross NPA stood at 1.24% (1.71% in Q3FY08) and net NPA stood at 0.33% (0.33% in Q3FY08) during the quarter. The provision cover also increased to 73.2% from 70.7% in preceding quarter.

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
GNPA (Rs)	5,600	5,985	5,998	-6.4	-6.6
GNPA (%)	1.24	1.71	1.36		
NNPA (Rs)	1,498	1,123	1,760	33.5	-14.9
NNPA (%)	0.33	0.33	0.4		
Provision cover (%)	73.2	81.2	70.7		

Source: Company, Emkay Research

Valuations

The current valuations of the stock at 2.9x FY10E EPS and 0.5x FY10E ABV are attractive in the sector. We maintain BUY rating on the stock with a price target of Rs240.

Quarterly results

Rs mn	M9FY09	M9FY08	% yoy chg	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
NII	12,627	10,549	19.7	4,780	3,337	4,067	43.2	17.5
Other Income	6,140	4,598	33.5	2,820	1,524	1,744	85.0	61.7
<i>Fee income</i>	396	295	34.0	135	101	137	33.5	-1.4
Net Income	18,766	15,147	23.9	7,600	4,861	5,810	56.3	30.8
Operating expenses	7,548	6,817	10.7	3,106	2,231	2,295	39.2	35.3
Pre-provision profits	11,219	8,331	34.7	4,494	2,630	3,515	70.9	27.8
Provisions	1,751	838	108.9	185	97	558	90.3	-66.8
<i>NPA provisioning</i>	1,300	760	71.1	540	60	410	800.0	31.7
Profit before tax	7,952	6,599	20.5	3,075	2,240	2,957	37.2	4.0
Taxes	3,145	2,344	34.1	1,744	769	1,042	126.7	67.4
Net Profit	6,323	5,148	22.8	2,565	1,764	1,915	45.4	33.9

Valuation table

Y/E March 31	Net income (Rs mn)	Net profit (Rs mn)	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2007	19,025	5,361	37.4	252.6	1.2	15.0	6.1	0.9
FY2008	20,874	7,350	51.2	282.9	1.2	18.4	4.4	0.8
FY2009E	22,833	8,255	57.5	326.8	1.1	18.2	3.9	0.7
FY2010E	26,326	8,809	61.4	378.5	1.1	17.0	3.7	0.6

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