

February 03, 2010

BUY

MEDIUM RISK

PRICE Rs.435

TARGET Rs.630

BFSI

EARLIER RECO

BUY

Price	Rs.244
Target	Rs.500
Date	May 18, 2009

SHARE HOLDING (%)

Promoters	57.2
FII	4.2
FI / MF	34.0
Body Corporates	1.9
Public & Others	2.7

STOCK DATA

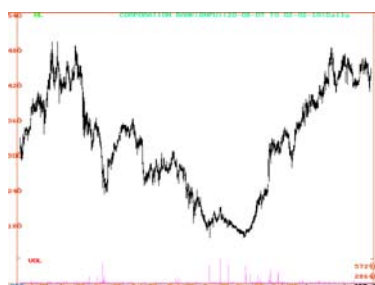
Reuters Code	CRBK.BO
Bloomberg Code	CRPBK@IN
BSE Code	532179
NSE Symbol	CORPBANK
Market Capitalization*	Rs. 62.4 bn US\$ 1.4 bn
Shares Outstanding*	143.4 mn
52 Weeks (H/L)	Rs. 480/ 155
Avg. Daily Volume (6m)	13,604 Shares

Price Performance (%)

1M	2M	3M
2	1	23

200 Days EMA: Rs. 377

*On fully diluted equity shares

Part of  Bonanza

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Robust Core Result

Corporation Bank (Corp bk) reported Rs. 3 bn net profit in Q3FY10, registering a growth of 19% YoY (beats our estimates) led by robust core result. Advances grew by 26% YoY whereas Deposits grew by 36%. Net Interest Income reported growth of 26% YoY and 19% QoQ mainly due to strong Advance growth and maintained margins (QoQ). Operating expenses de-grew by 4% due to higher AS15 provisions made in FY09. Its non-interest income grew 11% despite of lower treasury gains mainly due to better than expected growth in forex & fee income. This resulted in strong PPP (Pre-provisioning Profit) growth of 23%. Excluding treasury, the bank reported a healthy PPP growth of 58% YoY. Cost to Income ratio improved to 35% in 3QFY10, (among the best in the Industry). Bank is well capitalized with CAR of 17.2% & Tier-1 of 10.4%, which will ensure business growth without dilution concerns for 18-24 months.

Margins Improving Sequentially

NIMs during Q3FY10 decreased to 2.54% from 2.7% YoY led by sharp decrease in Credit-Deposit ratio (to 67% vs 73% in 3QFY09) and decrease in share of CASA deposit by 194 bps YoY to 23%. However, the bank has reported a sequential improvement in margins by 24 bps led by sequential improvement in CASA by 87 bps, re-pricing of bulk deposits and improvement in Credit - deposit ratio by 220 bps. We expect this trend to continue for next few quarters, which will further result in margin improvement QoQ. Going forward, as the demand for credit start picking up, we will see bank diluting non-SLR investments, which are low yielding and expose the bank to higher investment and money market risk. Currently, the bank is sitting on Rs 42 bn of MF investment (vs 0.9 bn in Mar'09) which we expect to be replaced with high yielding advances in next few quarters, hence improving the margins.

One of the concerns for the bank is lower percentage of low cost deposits (CASA). Although CASA share seems to have increased QoQ to 23.3% in Q3FY10 but this is still much lower than other comparable PSU banks. Going forward, the management expects to increase its CASA share substantially towards the 30% mark and have started taking steps to achieve the same.

Increased Delinquencies but Asset Quality Healthy

Gross NPAs ratio increased by 14 bps QoQ to 1.3%, while the Net NPA ratio increased by 16 bps to 0.45% due to higher slippages. Incremental slippage ratio (annualized) has increased to 1.35% during Q3FY10 as against 0.71% for H1FY10. But still, it is much lower than industry average and was largely witnessed in agri portfolio under Debt Waiver Scheme. NPA coverage ratio (excluding write-offs) declined to 66% from 75% in Q2FY10 but including written off accounts, coverage ratio is very healthy at about 74%. Bank has restructured loans to the tune of Rs.25 bn, which is 4.4% of advances & SME share in restructured advance is at Rs 1.44 bn. As current NPA levels are low and coverage ratio is healthy, we don't foresee any major concern in asset quality.

OUTLOOK & VALUATION

Corporation Bank – established in 1906 – is one of the leading south based bank with a business size of above Rs. 1 trillion. It is a PSU bank with Government holding of 57.2% with the other major shareholder being LIC holding 26.3% stake. It has an excellent track-record of earning profit since its inception. It has a countrywide presence with over +2100 outlets in India (1096 branches and 1057 ATMs) with high focus in Tamil Nadu, Kerala, Goa, Karnataka, AP and Maharashtra. All its branches are under CBS. The Bank currently trades at an attractive valuation of 0.9x FY11E ABV and 5x FY11E Earnings. Maintain Buy rating with increased price target of Rs. 630 (at 1.4x of its FY11E ABV). Well-capitalized with high government holding (57%), higher than industry growth, sustainable ROE of 20%, well-managed asset quality, improving CDR, strong franchise value and high dividend yields are the key factors which make the Bank an attractive buy.

KEY FINANCIALS

Y/E Mar.	EPS (Rs.)	EPS (% Chg)	ROE (%)	NIM (%)	NET NPA (%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div Yield (%)
FY09	62.8	20.0	19.5	2.3	0.3	31.5	13.7	1.3	7.0	2.8
FY10E	78.3	24.7	20.9	2.3	0.5	31.2	15.1	1.1	5.6	3.4
FY11E	91.9	17.4	20.9	2.3	0.4	31.5	14.3	1.0	4.8	4.1

Please refer to important disclosures at the end of the report

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COMPANY DESCRIPTION

Corporation Bank – established in 1906 – is one of the leading south based bank with a business size of above Rs. 1.4 trillion. It is a PSU bank with Government holding of 57.2% with the other major shareholder being LIC holding 26.3% stake. It has an excellent track-record of earning profit since its inception. It has a countrywide presence with over +2100 outlets in India (1096 branches and 1057 ATMs) with high focus in Tamil Nadu, Kerala, Goa, Karnataka, AP and Maharashtra. All its branches are under CBS.

OUTLOOK & VALUATION

We expect business growth at 20-21% in FY10-11E & Net Interest Income at 21-23%. We have made higher NPA provisions for FY11 and expect lower treasury gains, hence we target Net Profit growth of 17% for FY11E.

The Bank currently trades at an attractive valuation of 0.9x FY11E ABV and 5x FY11E Earnings. Maintain Buy rating with increased price target of Rs. 630 (at 1.4x of its FY11E ABV). Well-capitalized with high government holding (57%), higher than industry growth, sustainable ROE of 20%, well-managed asset quality, improving CDR, strong franchise value and high dividend yields are the key factors which make the Bank an attractive buy.

ANALYSIS OF SENSITIVE ASSETS

LOAN BOOK	Q3FY10	Q3FY09	2QFY10	% chg YoY	% chg QoQ	% of Total Advances
Agriculture	47,650	41,170	45,820	15.7	4.0	8.4
SME	60,140	46,580	58,010	29.1	3.7	10.6
Large Industries	213,940	137,430	182,890	55.7	17.0	37.7
Retail	108,700	89,300	98,990	21.7	9.8	19.2
Wholesale Trade	7,020	5,500	6,260	27.6	12.1	1.2
Food Credit	9,570	11,210	8,760	-14.6	9.2	1.7
Others	120,080	118,180	124,950	1.6	-3.9	21.2
Total	567,100	449,370	525,680	26.2	7.9	
SECTORIAL BREAKDOWN	Q3FY10	Q3FY09	2QFY10	% chg YoY	% chg QoQ	% of Total Advances
Infrastructure	78,800	39,820	64,100	97.9	22.9	13.9
Chemicals, Dyes, Paints	15,130	9,550	12,700	58.4	19.1	2.7
Engineering	18,020	12,470	13,390	44.5	34.6	3.2
Gems & Jewellery	10,110	8,490	10,420	19.1	-3.0	1.8
Textiles	21,940	21,690	21,680	1.2	1.2	3.9
Iron & Steel	16,000	10,290	14,800	55.5	8.1	2.8
Metals & Metal Products	9,940	12,140	10,450	-18.1	-4.9	1.8
Petroleum	26,320	29,090	33,140	-9.5	-20.6	4.6

Rs Mn	Dec'09		Dec'08		% chg YoY
Gross NPA	Rs mn	% NPA	Rs mn	% NPA	
Agriculture	1,545	3.2	709	2.0	118
Sme	1,334	2.8	607	1.9	120
Other priority	2,277	3.3	2,245	3.5	1
Priority	5,156	3.1	3,561	2.7	45
Large industry	317	0.1	451	0.3	(30)
Wholesale trade	95	1.4	75	1.4	27
Others	1,956	1.6	1,514	1.2	29
Non- priority	2,368	0.6	2,039	0.7	16
TOTAL	7,523	1.3	5,600	1.2	34
Fresh Delinquencies (YTD)	Rs mn	% Delinquency	Rs mn	% Delinquency	
Agriculture	1,106	2.3	300	0.8	268
SME	524	1.1	208	0.6	152
Other priority	836	1.2	528	0.8	58
Priority	2,466	1.5	1,036	0.8	138
Large industry	256	0.1	400	0.3	(36)
Wholesale trade	58	0.3	24	0.4	144
Others	1,014	0.8	494	0.4	106
Non- priority	1,328	0.3	917	0.3	45
TOTAL	3,793	0.7	1,953	0.4	94

QUARTERLY RESULTS STATEMENT

(Rs.mn)

Y/E March	Q3FY10	Q3FY09	YoY growth	Q2FY10	QoQ growth
Interest earned	18,606	16,235	14.6%	17,695	5.1%
- on Advances / Bills	12,541	12,237	2.5%	12,121	3.5%
- Income on investments	5,446	3,783	44.0%	5,072	7.4%
- on bal with RBI and other banks	14	218	-93.5%	3	409.7%
Interest Expended	12,612	11,455	10.1%	12,660	-0.4%
Net Interest Income	5,994	4,780	25.4%	5,035	19.1%
Other income	2,517	2,820	-10.8%	3,028	-16.9%
- Treasury Income	368	1,234	-70.2%	747	-50.7%
Operating income	8,511	7,600	12.0%	8,063	5.6%
Employee expenses	1,310	1,737	-24.6%	1,153	13.6%
Other Operating expenses	1,684	1,369	23.1%	1,553	8.4%
Total Operating expenses	2,995	3,106	-3.6%	2,707	10.6%
Operating profit	5,516	4,494	22.7%	5,357	3.0%
Provisions and contingencies	1,271	185	586.5%	940	35.3%
- NPL provisions	749	540	38.7%	847	-11.6%
- Investment provisions	190	-601	-131.5%	82	131.4%
PBT	4,245	4,309	-1.5%	4,417	-3.9%
Provision for Tax	1,195	1,744	-31.5%	1,500	-20.3%
PAT	3,050	2,565	18.9%	2,917	4.6%
PPP (ex treasury)	5,148	3,260	57.9%	4,609	11.7%
EPS	21.3	17.9	18.9%	20.3	4.6%
Business					
Advances	567,100	449,370	26.2%	525,680	7.9%
- Retail Credit	108,700	89,300	21.7%	98,990	9.8%
Deposits	844,110	618,945	36.4%	808,884	4.4%
- CASA deposits	196,452	156,085	25.9%	181,209	8.4%
Ratio (%)	Q3FY10	Q3FY09	YoY chg (bps)	Q2FY10	QoQ chg (bps)
Gross NPAs	1.3	1.2	8	1.2	14
Net NPAs	0.5	0.3	12	0.3	16
Coverage	65.7	73.2	(753)	75.4	(972)
ROA Annualised	1.3	1.5	(16)	1.3	(3)
C/I Ratio	35.2	40.9	(568)	33.6	162
Capital Adequacy Ratio	15.5	12.8	272	15.6	(8)
- Tier I	9.3	9.7	(36)	9.2	12
Yield on Advances	9.9	11.7	(176)	10.1	(21)
Cost of Deposits	5.7	7.2	(151)	6.2	(57)
NIM	2.5	2.7	(17)	2.3	24
CASA Ratio	23.3	25.2	(194)	22.4	87
Retail Credit as a % of Total credit	19.2	19.9	(70)	18.8	34
C-D ratio	67.2	72.6	(542)	65.0	219

Source: Company, Sushil Finance Research Estimate

PROFIT & LOSS STATEMENT

(Rs.mn)

Y/E March	FY08	FY09	FY10E	FY11E
Interest income	45,166	60,674	73,752	85,862
Interest expense	30,631	43,710	52,874	60,650
Net interest income	14,535	16,963	20,878	25,212
NII Growth %	10.7%	16.7%	23.1%	20.8%
Other income	5,720	10,200	11,318	11,591
- Treasury profits	1,357	4,442	3,776	3,398
Total income	20,255	27,163	32,196	36,803
Operating expenses	8,923	10,019	10,936	12,080
Pre-provision Profit	11,332	17,144	21,259	24,723
Total Provisions	556	3,190	4,373	5,046
Provision - NPL	575	876	2,804	3,085
Provision - Investments	(132)	1,545	800	1,000
PBT	10,776	13,954	16,886	19,677
Tax	3,272	4,951	5,657	6,494
PAT	7,505	9,003	11,229	13,184
PAT Growth %	45.4%	20.0%	24.7%	17.4%
PPP (Ex Treasury)	9,976	12,702	17,483	21,325
PPP Growth %	9.8%	27.3%	37.6%	22.0%

BALANCE SHEET STATEMENT

(Rs.mn)

As on 31 st March	FY08	FY09	FY10E	FY11E
Cash balances	81,032	105,397	92,629	100,919
Advances	391,856	485,122	595,948	720,445
Investments	172,631	249,147	309,280	358,535
- Govt. Securities	141,341	175,994	228,792	269,975
Fixed assets	2,736	3,006	3,410	3,410
Current assets	17,167	26,255	27,568	28,946
Total assets	665,421	868,926	1,028,835	1,212,256
Equity Capital	1,434	1,434	1,434	1,434
Reserves and Surplus	41,398	47,988	56,700	66,863
Shareholders' funds	42,832	49,423	58,135	68,298
Deposits	553,105	739,266	883,475	1,048,011
- Demand deposits	194,050	232,632	275,514	330,617
- Term deposits	359,055	506,634	607,961	717,394
Borrowings	21,458	20,724	21,760	23,936
Subordinated debt	8,000	12,000	13,200	14,520
Current liabilities	40,025	47,514	52,265	57,491
Total liabilities	665,420	868,926	1,028,835	1,212,256

FINANCIAL RATIO STATEMENT

Y/E March	FY08	FY09	FY10E	FY11E
Profitability Ratios				
EPS (Rs)	52.3	62.8	78.3	91.9
Earnings growth (%)	45.4%	20.0%	24.7%	17.4%
CEPS (Rs)	51.4	73.5	83.9	98.9
PPP / Share (Rs)	79.0	119.5	148.2	172.4
ROAA (%)	1.3%	1.2%	1.2%	1.2%
ROAE (%)	18.6%	19.5%	20.9%	20.9%
Divid per share (Rs)	10.5	12.5	15.0	18.0
Divid. Payout (%)	20.1%	19.9%	19.2%	19.6%
Efficiency Ratios (%)				
Int.Income / Int. exp.	67.8%	72.0%	71.7%	70.6%
Cost/Inc Ratio(Ex Tr)	47.2%	44.1%	38.5%	36.2%
Other Inc (Ex tr.) /Total Inc. (Ex tr.)	23.1%	25.3%	26.5%	24.5%
Cost Asset Ratio	1.3%	1.2%	1.06%	1.00%
CASA	35.1%	31.5%	31.2%	31.5%
Tax Rates	30.4%	35.5%	33.5%	33.0%
Asset Quality Ratios				
Gross NPLs	1.5%	1.1%	1.3%	1.3%
Net NPLs	0.3%	0.3%	0.5%	0.4%
Coverage	78.3%	75.3%	66.2%	70.4%
Provision/ Loans	0.1%	0.2%	0.5%	0.4%

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIO STATEMENT

Y/E March	FY08	FY09	FY10E	FY11E
Asset-Liability Profile				
Total CAR	12.1%	13.7%	15.1%	14.3%
- Tier I CAR	9.6%	8.9%	9.1%	8.9%
C/D ratio	70.8%	65.6%	67.5%	68.7%
Loan Growth	30.8%	23.8%	22.8%	20.9%
Deposit Growth	31.0%	33.7%	19.5%	18.6%
Balance Sheet Growth	26.4%	30.6%	18.4%	17.8%
Equity / Assets	6.4%	5.7%	5.7%	5.6%
Equity / Loans	10.9%	10.2%	9.8%	9.5%
Spreads Analysis (%)				
Yield on Advances	9.3%	10.0%	9.5%	9.1%
Yield on Investments	6.8%	7.1%	7.4%	7.2%
Cost of funds	6.0%	6.6%	6.4%	6.1%
NIM (Calculated)	2.5%	2.3%	2.3%	2.3%
Valuation				
BV/share (Rs)	298.6	344.6	405.3	476.1
Adj. BV / Share (Rs)	289.8	334.9	386.4	456.9
Dividend Yield (%)	2.4%	2.8%	3.4%	4.1%
P/E (x)	8.4	7.0	5.6	4.8
P/PPP (x)	5.6	3.7	3.0	2.6
P/ABV (x)	1.5	1.3	1.1	1.0

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).

** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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