CORPORATION BANK

Edelweiss
Ideas create, values protect

Best-in-class RoAs to sustain; aggressive targets for CASA improvement

We met Mr. Ramnath Pradeep, the new CMD of Corporation Bank w.e.f. September 1, 2010. Before this, he was Executive Director, Central Bank, for almost 20 months. The primary purpose of our meeting was to understand the focus areas/objectives of Corporation Bank under the new CMD and also to get the latest business updates. The new management indicated a clear focus on increasing the share of low-cost deposits (currently at 24%). It aims to sustain best-in-class ROAs at or above 1.2% and bring down gross NPLs below 1%.

- ### Targeting 30% plus advance growth

  Corporation Bank grew its loan book by 27% CAGR over FY06-10 and 37% Y-O-Y in Q1FY11. Though infrastructure has been the key driver of credit growth for the industry and for Corporation Bank as well, the new management will be conservative in lending to infrastructure (particularly, greenfield power projects) and commercial real estate. It is now targeting to grow its advances by 30% plus in FY11 (coming off from the level of growth reported in Q1FY11); the focus segments will, however, be retail and manufacturing. It is also planning to raise the proportion of business from Karnataka to 25% (from 18% currently), besides increasing the presence in North and West.

- ### Aggressive target to improve average CASA ratio to 30%

  The bank has set an aggressive target of improving relatively lower CASA ratio of 24% currently to more than 30% in the next 15-18 months. Incrementally, it will replace bulk deposits (equivalent to 22% of deposits), to an extent possible, with low cost deposits. It will open 150-200 branches in next 12-15 months, majority of which will help the bank incrementally improve its presence in rural and semi-urban areas where there is better scope of CASA mobilisation. Management indicated that CASA is currently lower mainly because of dominance in hugely competitive urban areas and metros (two-third of branches). It will also tap non-retail clients where it believes scope of CASA mobilisation is high.

- ### Outlook and valuations: RoAs to sustain

  The bank has been delivering relatively strong operating metrics, with NIMs hovering in a narrow range of 2.2%-2.5% (despite volatile interest rate cycle) over the past eight quarters, gross NPLs curtailed below 1.5%, and RoAs at 1.2%. The new management aims at sustaining RoAs at the best-in-class levels of 1.2% by addressing the structural issue of lower CASA, targeting NIMs above 2.5% and bringing down gross NPLs below 1%. The stock is trading at 1.2x FY12 book, generating 20% plus RoE, and is not under our coverage.

Financials

Year to March	FY07	FY08	FY09	FY10
Revenues (INR mn)	20,177	21,567	27,990	33,990
Rev growth (%)	12.2	6.9	29.8	21.4
Net interesrt income (INR mn)	13,778	14,433	16,910	22,103
Net profit (INR mn)	5,361	7,350	8,928	11,703
EPS (INR)	37.4	51.2	62.2	81.6
EPS growth (%)	20.6	36.9	21.5	31.1
PE (x)	18.9	13.8	11.4	8.7
Price to book (x)	2.7	2.4	2.1	1.8
ROE (%)	15.0	18.4	19.6	21.9

September 20, 2010

Reuters : CRBK.BO *Bloomberg : CRPBK IN*

EDELWEISS RATINGS

Absolute Rating	NOT RATED

MARKET DATA

CMP	:	INR 705
52-week range (INR)	:	724 / 372
Share in issue (mn)	:	143.4
M cap (INR bn/USD mn)	:	101 / 2,217
Avg. Daily Vol. BSE/NSE ('000)	:	91.6

SHARE HOLDING PATTERN (%)

Promoters*	:	57.2
MFs, FIs & Banks	:	33.2
FIIs	:	4.1
Others	:	5.5
* *Promoters pledged shares (% of share in issue)*	:	*Nil*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	8.2	13.0	4.8
3 months	11.4	31.1	19.7
12 months	17.9	76.2	58.3

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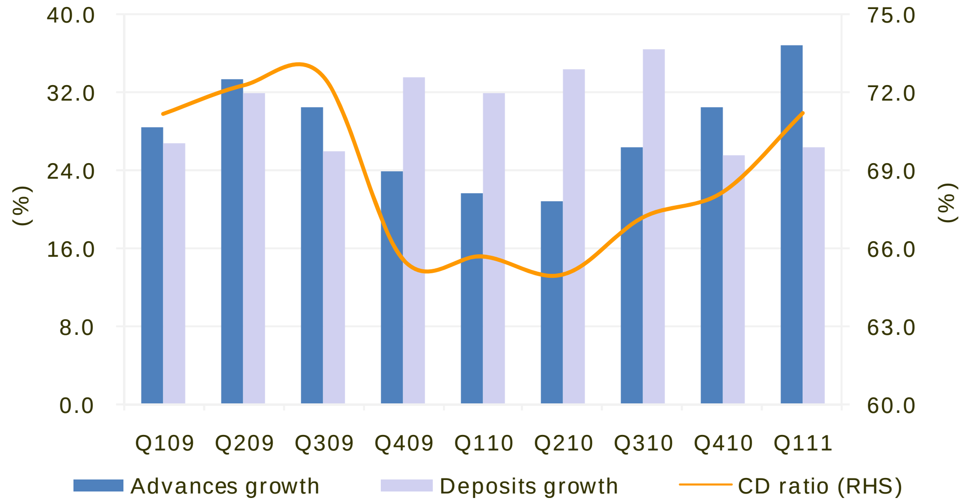
Chart 1: Credit growth higher than industry average



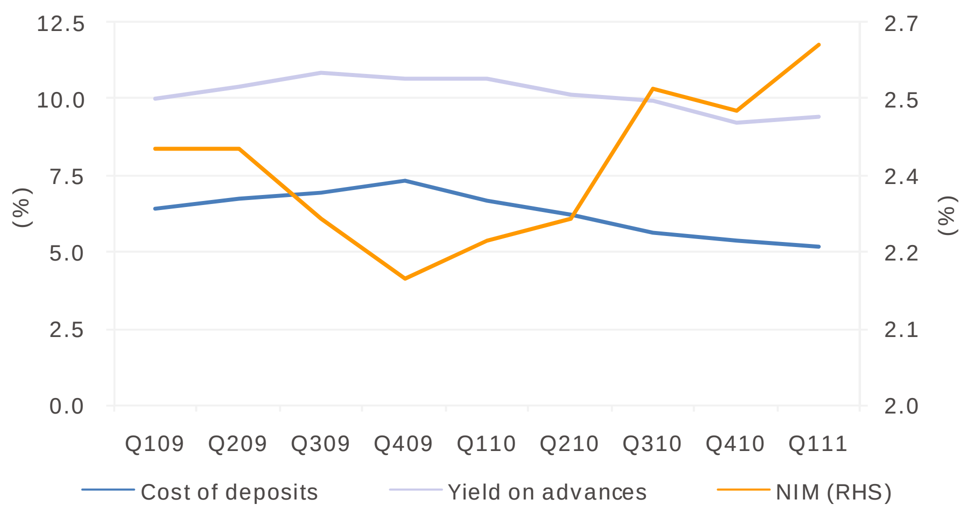
Source: Company

- **NIMs to sustain above 2.5%**

NIMs for Corporation Bank have hovered in a very narrow range (2.2%-2.5%) over the past eight quarters, despite a volatile interest rate cycle. The management indicated the following rationales that will help the bank sustain margins above 2.5%:

- Improving CASA ratio to more than 30% in the next 15-18 months.
- Though the bank is targeting 30% plus credit growth, it is not planning to achieve it via compromise on pricing. In fact, it sounded confident of earmarking all the loan proposals at or above 8%; even in infrastructure projects, it is planning to maintain its lending rates above 11%.
- Repricing bulk deposits at lower cost as it will be incrementally replaced by CDs or low-cost deposits.
- The bank is witnessing positive impact on margins due to migration of lending to base rate from PLR.

Chart 2: NIMs to sustain above 2.5%



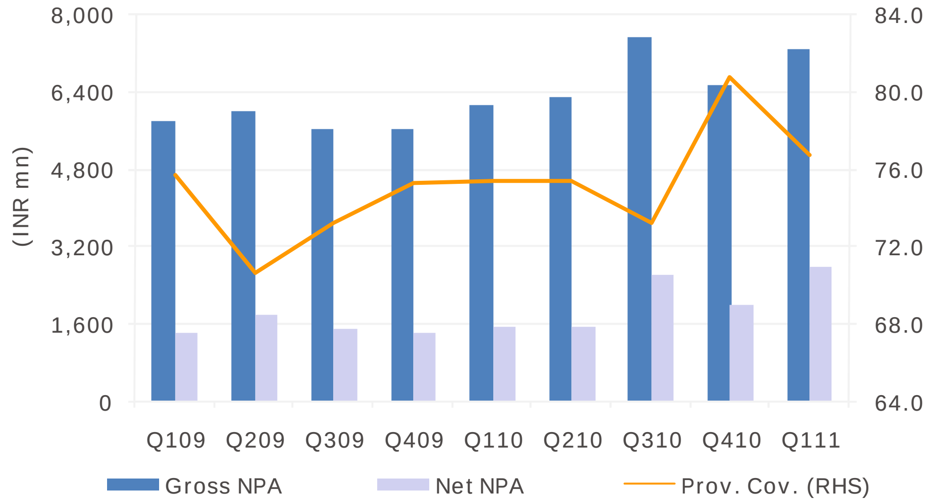
Source: Company

Curtail gross NPLs below 1%

The bank enjoys best-in-class asset quality, with gross NPLs being pegged at 1.1% and slippages during FY10 curtailed below 1% (against 2% average for its peers). Provision coverage is comfortable at 77% with no pressure on loan loss provisioning to meet RBI's diktat. Stressed asset pool (gross NPLs plus restructured assets) is lowest amongst peers, at 5.5%.

- The bank has migrated to system-based NPL recognition for its top 200 branches in June 2010 itself (business-wise constitutes major chunk) and will implement the same in a phased manner across all other branches by the end of this fiscal.
- The bank has already provided for agri debt relief.
- There are 2-3 accounts that have been referred to CDR post Q1FY11 and will be reflected in their restructured asset pool in Q2FY11.
- Slippages from restructured asset pool till date have been 4% and the management indicated this restructured pool is performing well, and does not expect significant slippages going forward.

Chart 3: Asset quality amongst the best with gross NPLs at 1.1%



Source: Company

Financial Statements

Income statement (INR mn)

Year to March	FY06	FY07	FY08	FY09	FY10
Interest income	26,265	34,302	45,166	60,674	72,946
Interest expenses	13,997	20,524	30,732	43,764	50,844
Net interest income	12,268	13,778	14,433	16,910	22,103
Non interest income	5,715	6,399	7,133	11,080	11,887
- Fee & forex income	*1,897*	*3,484*	*4,005*	*4,347*	*4,932*
- Misc. income	*2,460*	*1,650*	*1,772*	*2,309*	*3,867*
- Investment profits	*1,358*	*1,265*	*1,357*	*4,425*	*3,088*
Net revenues	17,983	20,177	21,567	27,990	33,990
Operating expense	7,468	8,036	8,920	10,016	12,599
- Employee exp	3,635	3,783	4,279	4,680	6,317
- Other opex	3,832	4,253	4,641	5,336	6,282
Preprovision profit	10,515	12,141	12,647	17,975	21,391
Provisions	3,771	3,975	1,993	4,112	4,768
- Loan loss provisions	1,870	1,863	1,230	1,700	3,453
- Investment depreciation	1,422	285	0	1,545	619
- Other provisions	478	1,827	763	868	696
PBT	6,745	8,166	10,654	13,862	16,623
Taxes	2,300	2,805	3,304	4,934	4,920
PAT	4,444	5,361	7,350	8,928	11,703
EPS (INR)	31.0	37.4	51.2	62.2	81.6
DPS (INR)	7.0	9.0	10.5	12.5	16.0
Payout ratio (%)	25.8	27.9	24.0	23.5	23.7

Growth ratios (%)

Year to March	FY06	FY07	FY08	FY09	FY10
NII growth	8.6	12.3	4.8	17.2	30.7
Fees growth	(3.2)	83.6	15.0	8.5	13.5
Opex growth	12.0	7.6	11.0	12.3	25.8
PPOP growth	6.9	18.8	3.8	20.0	35.1
PPP growth	(2.4)	15.5	4.2	42.1	19.0
Provisions growth	(10.7)	5.4	(49.9)	106.4	15.9
PAT growth	10.5	20.6	37.1	21.5	31.1

Operating ratios (%)

Year to March	FY06	FY07	FY08	FY09	FY10
Yield on advances	7.8	8.8	9.3	10.0	8.9
Yield on investments	8.5	7.5	7.3	7.5	7.4
Yield on assets	7.4	7.6	7.8	8.2	7.6
Net interest margins	3.5	3.1	2.5	2.3	2.3
Cost of funds	4.1	4.8	5.5	6.1	5.4
Cost of deposits	4.3	5.0	5.9	6.3	5.5
Cost of borrowings	6.8	6.5	5.9	7.8	7.4
Spread	3.3	2.9	2.3	2.1	2.2
Cost-income	41.5	39.8	41.4	35.8	37.1
Tax rate	34.1	34.3	31.0	35.6	29.6

Balance sheet (INR mn)

As on 31st March	FY06	FY07	FY08	FY09	FY10
Liabilities					
Equity capital	1,434	1,434	1,434	1,434	1,434
Reserves	32,315	36,220	40,851	47,531	56,314
Net worth	33,749	37,655	42,285	48,965	57,749
Sub bonds/pref cap	3,000	3,000	8,000	25,000	40,500
Deposits	328,765	423,569	554,244	739,839	927,337
Borrowings	16,601	30,210	13,376	23,099	50,275
Other liabilities	22,951	32,773	48,071	32,155	40,812
Total	**405,066**	**527,207**	**665,977**	**869,058**	**1,116,673**
Assets					
Loans	239,624	299,497	391,856	485,122	632,026
Investments					
Gilts	*90,182*	*116,917*	*142,460*	*176,417*	*248,501*
Others	*16,338*	*27,258*	*30,791*	*72,961*	*96,725*
Cash & equi	40,887	67,189	81,031	105,397	107,919
Fixed assets	2,559	2,810	2,718	2,989	2,893
Other assets	15,477	13,536	17,121	26,173	28,609
Total	**405,066**	**527,207**	**665,977**	**869,058**	**1,116,673**
Balance sheet ratios (%)					
Credit growth	26.5	22.8	28.7	25.0	29.9
Deposit growth	20.7	28.8	30.9	33.5	25.3
EA growth	19.5	32.0	26.5	30.0	29.2
SLR ratio	26.1	25.8	24.7	23.2	26.0
C-D ratio	76.8	72.8	71.6	67.1	69.6
Low-cost deposits	34.3	34.1	35.0	31.4	28.6
Gross NPA ratio	2.6	2.1	1.5	1.1	1.0
Net NPA ratio	0.6	0.5	0.3	0.3	0.3
Provision coverage	75.4	77.3	78.3	75.3	69.7
Incremental slippage	1.1	1.1	0.6	0.6	1.0
Net NPA / Equity	4.6	3.8	3.0	2.8	3.4
Capital adequacy	13.9	12.8	12.1	13.7	15.0
- Tier 1	12.4	11.3	9.6	8.9	9.0
Book value (INR)	235	263	295	341	403

ROA decomposition (%)

Year to March	FY06	FY07	FY08	FY09	FY10
Net interest income/Assets	3.5	3.1	2.5	2.3	2.3
Fees/Assets	1.2	1.1	1.0	0.9	0.9
Investment profits/Assets	0.4	0.3	0.2	0.6	0.3
Net revenues/Assets	5.1	4.5	3.7	3.8	3.5
Operating expense/Assets	(2.1)	(1.8)	(1.5)	(1.3)	(1.3)
Provisions/Assets	(1.1)	(0.9)	(0.3)	(0.6)	(0.5)
Taxes/Assets	(0.6)	(0.6)	(0.6)	(0.7)	(0.5)
Total costs/Assets	(3.8)	(3.3)	(2.5)	(2.6)	(2.3)
ROA	1.3	1.2	1.3	1.2	1.2
Equity/Assets	9.0	8.0	6.9	6.1	5.5
ROAE	13.8	15.0	18.4	19.6	21.9

Valuation metrics

Year to March	FY06	FY07	FY08	FY09	FY10
EPS (INR)	31.0	37.4	51.2	62.2	81.6
EPS growth (%)	*10.5*	*20.6*	*36.9*	*21.5*	*31.1*
Book value per share (INR)	235.3	262.5	294.8	341.4	402.6
Adjusted book value/share (INR)	227.8	255.6	288.6	334.6	393.0
Price/Earnings (x)	22.9	18.9	13.8	11.4	8.7
Price/ BV (x)	3.0	2.7	2.4	2.1	1.8
Price/ ABV (x)	3.1	2.8	2.5	2.1	1.8
Dividend yield (%)	1.0	1.3	1.5	1.8	2.3
Price to income (x)	12.4	10.8	9.7	8.5	6.7
Price to PPOP (x)	11.1	9.3	9.0	7.5	5.5

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

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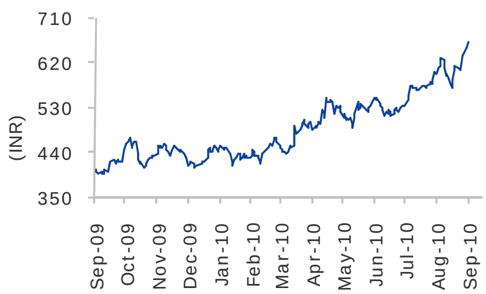
Corporation Bank



Recent Research

Date	Company	Title	Price (INR)	Recos
14-Sep-10	**Banking**	Basel III: Tightens norms; generous timelines; *Sector Update*		
13-Sep-10	**Union Bank**	Asset quality concerns to recede; *Visit Note*	370	Buy
12-Aug-10	**State Bank of India**	Strong core operating performance; *Result Update*	2,784	Buy
11-Aug-10	**Banking**	RBI issues discussion paper for new private banking licenses; *Sector Update*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176

*3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	110	53	13

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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