



# Corporation Bank

 Relative to sector: **Outperformer**
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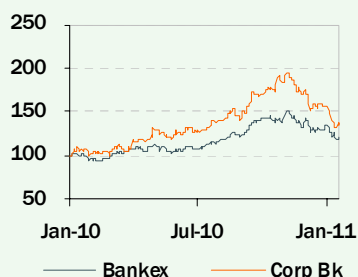
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

No. of shares	: 143 mn
Market cap	: Rs 83.2 bn
52 week high/low	: Rs 815/ Rs 405
Avg. daily vol. (6mth)	: 117,800 shares
Bloomberg code	: CRPBK IB
Reuters code	: CRBK.BO

**Shareholding (%) Dec-10 QoQ chg**

Promoters	: 57.2	0.0
FIs	: 4.6	0.2
MFs / UTI	: 5.1	(0.3)
Banks / FIs	: 27.7	0.1
Others	: 5.5	(0.0)

**Financial Summary**

Y/E Mar	PAT (Rs mn)	EPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs.)	Adj. BV (Rs.)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	8,928	62	21	9.3	341	335	1.7	1.7	19.6	1.2	0.3
2010	11,703	82	31	7.1	403	393	1.4	1.5	21.9	1.2	0.3
2011E	14,377	100	23	5.8	483	464	1.2	1.2	22.6	1.2	0.5
2012E	16,477	103	3	5.6	578	563	1.0	1.0	20.4	1.1	0.4

Source: Company, ENAM Estimates

**ASSET QUALITY DETERIORATES; GROWTH INTACT**

Corporation Bank reported a 25% YoY growth in net profit which is marginally above our estimates. Profit growth was driven by a strong net interest income which rose 41% YoY, owing to skewed biz growth and expansion in margins (up 17bps YoY). Non-interest income growth remained muted at 5% YoY due to lower treasury profits. Operating expenses rose 24% YoY largely led by rise in staff cost which grew 40% YoY. Higher provision for pension liability (out of ~Rs 5.4 bn) contributed to the rise in staff expenses.

**Key highlights**

- ❑ **Asset quality deteriorates:** Gross NPAs increased by 23.4% QoQ mainly due to a slippage of Rs 1.2 bn from crop loan (fresh slippages of Rs 2.8 bn). Mgt expects significant recovery from these accounts. However, in 4QFY11 the bank also foresees a fresh slippage of ~Rs 1.3 bn which will further deteriorate its asset quality.
- ❑ **Skewed biz growth:** Deposit grew 16.4%, lagging behind credit growth of 26.8% YoY. Higher advances growth supported NII growth (41% YoY) and led to improvement in margins (up 17 bps QoQ). Credit-deposit ratio stands at 73.2% (up 603 bps YoY).
- ❑ **High provision expenses:** Significant rise in NPAs led to an increase in provisioning expenses by 97% YoY. Currently, the bank maintains 72% provision coverage ratio (including technical write-offs).

**Valuations**

Deterioration in asset quality (mainly due to single large account) is the only weak factor in this quarter's result. However, we expect this as a one-off event and anticipate incremental slippages to be lower in FY12E. Going forward, Corporation Bank is focusing on increasing its branches (to add 100 branches in 4Q) which would help in augmenting its CASA ratio. We have a **Buy rating** on the stock with a TP of Rs 735 (1.3x FY12E ABV and 7.1x FY12E earnings) – 27% upside from CMP of Rs 580.

## Result Update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	24,713	18,606	33	21,581	15	92,929	72,946	27
Interest Expended	16,289	12,612	29	14,428	13	62,252	50,843	22
<b>Net Interest Income</b>	<b>8,424</b>	<b>5,994</b>	<b>41</b>	<b>7,153</b>	<b>18</b>	<b>30,677</b>	<b>22,103</b>	<b>39</b>
Non-Interest Income	2,645	2,517	5	2,261	17	10,243	11,864	(14)
<b>Net Income</b>	<b>11,069</b>	<b>8,511</b>	<b>30</b>	<b>9,414</b>	<b>18</b>	<b>40,920</b>	<b>33,967</b>	<b>20</b>
Operating Expenses	3,699	2,995	24	3,678	1	14,686	12,599	17
<b>Operating profit</b>	<b>7,369</b>	<b>5,516</b>	<b>34</b>	<b>5,736</b>	<b>28</b>	<b>26,235</b>	<b>21,368</b>	<b>23</b>
Provision & Contingencies	2,500	1,271	97	976	156	6,806	4,744	43
<b>PBT</b>	<b>4,869</b>	<b>4,245</b>	<b>15</b>	<b>4,760</b>	<b>2</b>	<b>19,429</b>	<b>16,623</b>	<b>17</b>
Tax	1,045	1,195	(13)	1,241	(16)	5,052	4,921	3
<b>Net Profit</b>	<b>3,824</b>	<b>3,050</b>	<b>25</b>	<b>3,519</b>	<b>9</b>	<b>14,377</b>	<b>11,703</b>	<b>23</b>
No. of shares (mn)	143	143	-	143	-	143	143	-
<b>Rep. EPS - non-annualized (Rs.)</b>	<b>27</b>	<b>21</b>	<b>25</b>	<b>25</b>	<b>9</b>	<b>100</b>	<b>82</b>	<b>23</b>
<b>Yields &amp; Margins (%)</b>								
Yield on advances	10.98*	10.22	76 bps	9.82	116 bps	9.10	8.94	16 bps
Cost of deposits	6.12*	6.16	(4) bps	5.60	52 bps	5.61	5.46	15 bps
Net interest margin	2.71	2.54	17 bps	2.64	7 bps	2.59	2.30	29 bps
Cost to income ratio	33.42	35.19	(176) bps	39.07	(565) bps	35.89	37.09	(120) bps
<b>Asset quality</b>								
Gross NPAs (Rs bn)	9.14	7.52	21.5	7.40	23.4	9.47	6.51	45.5
Gross NPAs (%)	1.26	1.32	(6) bps	1.05	21 bps	1.20	1.02	18 bps
Net NPAs (Rs bn)	4.14	2.58	60.3	2.70	53.4	3.98	1.97	101.6
Net NPAs (%)	0.58	0.45	13 bps	0.39	19 bps	0.51	0.31	20 bps
Provisioning coverage (%)	54.7	65.7	(1,097) bps	63.6	(885) bps	58.00	69.70	(1,170) bps
<b>Capital (%)</b>								
Tier-I	8.13	10.38	(225) bps	8.27	(14) bps	9.11	9.25	(14) bps
CAR	13.12	17.24	(412) bps	14.48	(136) bps	14.25	15.37	(112) bps
<b>Balance sheet (Rs. Bn)</b>								
Advances	719	567	26.8	698	3.1	784	632	24.0
Deposits	983	844	16.4	969	1.4	1,099	927	18.6
CASA (%)	24.3	23.3	105 bps	25.0	(71) bps	25.9	28.6	(267) bps

Source: Company, ENAM Research; Note: Full year ratios are on calculated basis. \*Calculated

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