

INITIATING COVERAGE

Share Data

Market Cap	Rs. 54.46 bn
Price	Rs. 379.7
BSE Sensex	15,311.22
Reuters	CRBK.BO
Bloomberg	CRPBK IN
Avg. Volume (52 Week)	0.04 mn
52-Week High/Low	Rs. 430.55/207.8
Shares Outstanding	143.44 mn

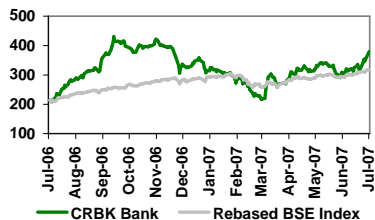
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	43.3	46.8
+/- (%)	15.8%	8.1%
PER (x)	8.8x	8.1x
P/PPP	4.1x	3.7x
P / BV (x)	1.3x	1.2x

Shareholding Pattern (%)

Promoter	57
FII's	10
Institutions	30
Public & Others	3

Relative Performance



Corporation Bank

Buy

Improving asset quality

Corporation Bank is a public sector bank and enjoys a wide presence in Southern India. The bank has a network of 901 branches and 929 ATM's and plans to increase the number of branches beyond 1,000 by the end of FY08. The bank enjoyed a strong growth in advances of 25% y-o-y in FY07 and plans to leverage its existing branch and ATM network to increase its non-interest income. Improvement in asset quality due to declining NPA's and expansion in rural areas would further boost the growth for the bank. For FY08E, we expect the bank's EPS to increase to Rs. 43.3 supported by growth in advances and fee based income.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Interest Income	11,294	12,268	13,778	15,662	16,428	9.2%
Total Income	28,144	31,000	39,960	52,104	68,078	30.5%
Pre-Prov Operating Profit	10,270	9,536	11,400	13,247	14,623	13.3%
Net Profit	4,022	4,445	5,361	6,210	6,710	11.9%
Interest Expense/Interest Income (%)	49.8%	53.3%	59.8%	65.4%	72.6%	
Cost/Income Ratio (%)	39.4%	43.9%	41.3%	41.0%	40.5%	
Per Share Data (Rs.)						
EPS	28.0	31.0	37.4	43.3	46.8	11.9%
PER (x)	13.5x	12.3x	10.2x	8.8x	8.1x	
PPP per share	71.6	66.5	79.5	92.3	101.9	
Book value per share	213.0	235.3	262.5	293.7	327.5	

- We expect Corporation Bank's net profit to grow at a CAGR of 11.9% for FY07-09E driven by strong growth in advances, growing fee based income, and a strong branch network.
- At the current price of Rs. 379.7 the stock is trading at a forward P/BV of 1.3x FY08E and 1.2x FY09E.
- Our target price of Rs. 440.6 is based on a forward P/BV of 1.5x and BVS FY08E of Rs. 293.7, which represents an upside of 16% from current levels. We initiate coverage with a Buy with a one year perspective.

Rationale

Strong presence in Southern India

Expanding network presence

Corporation Bank has a wide network of 901 branches with specialized branches for industrial finance, housing finance and foreign exchange service. The bank is planning to expand its network to more than 1,000 branches by the end of the year. In addition, Corporation Bank has an extensive network of over 929 owned ATMs and gives its customers with access to over 16,000 ATM's. The bank has a wide presence in rural Southern India and is planning to expand especially to rural parts of Northern and Central India. We expect this to set off the decline in CASA ratio and subsequently reduce the cost of funds.

Comfortable Capital Adequacy Ratio

As on March 31, 2007, the bank's Capital Adequacy Ratio (CAR) stood at 12.76% with 11.3% under Tier-I Capital and the remaining under Tier-II Capital. The bank is well positioned to meet its fund requirements during the growth phase. It is estimated that even after Basel II norms, the Tier-I capital would be sufficient.

CBS will reduce the operating costs and increase the fee based income

Move towards technology driven platform

In order to provide better customer services, improve efficiency and reduce operating expenses, the bank has implemented Core Banking Solution (CBS) across all its branches. Also, the bank has introduced internet banking services, Real Time Gross Settlement System (RTGS) and National Electronic Fund Transfer (NEFT) to ensure seamless and quick remittance of funds. Various IT initiatives have helped reduce the operating expense from 43.9% in 2006 to 41.3% in 2007.

Strong advances growth

Corporation Bank registered a strong growth in advances of 25% y-o-y in FY07, which was driven by 35% growth in corporate lending and 2.9% growth in retail lending. Advances growth has led to 12% increase in the bank's net interest income. Corporation Bank's advances growth is expected to be around 23% for FY08 and 21% for FY09.

*Non interest income grew
19.5% y-o-y*

Increase in non-interest income

Corporation Bank's non-interest income grew 19.5% y-o-y during FY07 primarily due to increase in core fee based income. With the wide branch network and introduction of CBS, we expect the fee based income to remain strong during FY07-09E. The bank has also entered into a Memorandum of Understanding with Oriental Bank of Commerce and Indian Bank to jointly foray into the capital market and other financial ventures. The will further give a boost to non interest income.

*NPA's decreased 17 bps
to 0.47%*

Asset quality improvement

During the year, the bank recorded an improvement in the quality of assets, with Non Performing Assets (NPA) reducing to 0.47% from 0.64% and cash recovery under NPA's increasing by Rs. 188 mn to Rs. 1,900 mn. The level of standard assets was 97.95% of gross loan assets attributable to bank's effective credit risk management and collection efforts, which in future also are expected to keep the NPA's under check.

Key Risks

*CASA ratio has been declining
marginally*

Declining CASA

Corporation Bank's CASA ratio reduced marginally by 30 bps to 34% driven by growth in term deposits which more than offset the growth in demand and savings deposit. CASA ratio of the bank has shown a declining trend in the past and will continue to fall in future; the decline would be a result of high interest rates in term deposits. Decline in the ratio has put pressure on cost of funds, as the bank has to resort to high cost borrowings.

NIM reduced 52 bps to 4.6%

Reducing NIM

Increase in costs of deposits more than offset the rising yield on advances, thus resulting in reduced NIM by 52 bps to 4.6%. Bank's NIM has been continuously declining in the past and NIM is expected to decline in future as well due to pressure on loan spreads and lower investment spreads.

Retail lending grew at only 2.9%

Slow growth in retail lending

During the year, Corporation Bank established 18 retail hubs to facilitate retail lending. In spite of the bank's continued efforts retail lending grew at a slow pace of 2.9%. Slow growth in retail lending can negatively affect the rating.

Wide network of branches and ATMs, with CBS across all the branches

Outlook

The bank would continue to improve its operating performance by encashing on strong credit growth. Extensive branch network and implementation of CBS would facilitate the bank to further improve business and earnings. To further enhance its pan India presence, the bank is planning to increase the total number of branches to more than 1,000 by the end of FY'08. Improvement in asset quality, depicted by well managed NPA's, would further strengthen the bottom line growth for the bank. Corporation Bank is rapidly expanding its rural presence which will help in the bank's advances growth. We expect the bank to reach EPS of Rs. 43.3 for FY08E driven by advances growth and growth in fee based income.

However, factors like continuous decline in CASA and NIM ratios, and slow retail growth can limit the upside in company's valuation.

At the current price of Rs. 379.7 the stock is trading at a forward P/BV of 1.3x FY08E and 1.2x FY09E.

Based on a target P/BV multiple of 1.5x for FY08 and BVS FY08 of Rs. 293.7, we value Corporation Bank at Rs. 440.6. It provides an upside of 16% from the existing level of Rs. 379.7. We initiate the coverage with a Buy for the bank.

Company Background

Corporation Bank has a network of 901 branches and 929 ATMs

Corporation Bank was founded as Canara Banking Corporation (Udupi) Ltd. in 1906. Later in 1972, the name of the bank was changed to Corporation Bank Limited and finally, the bank was nationalized in 1980. The bank is a public sector unit with 57.17% of share capital held by the Government of India. Corporation Bank has a network of 901 branches and 929 ATM's along with a team of 11,880 employees.

Corporation Bank offers a range of services which include retail and corporate banking, industrial and agricultural finance, trade finance and international banking. The bank's subsidiaries include Corp Bank Securities Ltd. and Corp Bank Homes Ltd. Through its subsidiaries the bank deals in Indian government securities and provides housing finance. However in 2006, the bank's home loan subsidiary was merged with the bank.

Internationally, Corporation Bank has representative office in Dubai and plans to open additional representative offices at Hong Kong, London and New York. As on March 31, 2007, bank's Capital Adequacy Ratio stood at 12.76% with 11.3% under Tier-I Capital and the remaining under Tier-II Capital.

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