

31 October 2007

**ACCUMULATE**

Price **Rs43** Target Price **Rs45**

Sensex **19,784**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(5)	11	6	68
Rel. to Sensex	(17)	(14)	(26)	11

Source: Capitaline

**Stock Details**

Sector	Banking
Reuters	CENB.BO
Bloomberg	CBOP@IN
Equity Capital (Rs mn)	1822
Face Value	1
52 Week H/L	47/25
Market Cap	Rs77.7bn/USD2.0bn
Daily Avg Volume (No of shares)	4.4mn
Daily Avg Turnover (US\$)	4.8mn

**Shareholding Pattern (%)**

(30 <sup>th</sup> Sep.'07)	
Promoters	-
FII	36.6
Institutions	5.9
Private Corp.	41.5
Public	16.0

\* Price as on October 30, 2007

**Kashyap Jhaveri**[Kashyap.jhaveri@emkayshare.com](mailto:Kashyap.jhaveri@emkayshare.com)

+91 22 6612 1249

**Centurion Bank of Punjab**Result  
Update**Ahead of expectations**

Centurion Bank of Punjab (CBOP) has reported Rs398mn of net profit (consolidated for Lord Krishna Bank (LKB)). Adjusted of losses of LKB, the net profit would have been higher at Rs439mn, which is far ahead of expectations. The NII (gross of amort) has grown by 34.7% yoy to Rs1.8bn driven by 70% growth in assets and better than expected NIMs.

All the required formalities for LKB merger are over including the RBI approval. CBOP has taken over 124 branches of LKB which will help it to strengthen its position in Kerala and Tamil Nadu.

The deteriorating asset quality continues to worry as the gross NPA stood at 3.5% of advances. However, with prudent provisioning, the net NPA have been arrested at 1.6% of advances.

Though we are enthused with superior performance of the bank, our full year numbers already factor the same. At the current market price of Rs43, the stock is quoting at 18.4x its FY10E FDEPS and 3.0x FY10E ABV with likely RoE of 17.0% in FY10E. We maintain our ACCUMULATE recommendation on the stock with price target of Rs45.

**NII grows 34.7% helped by better than expected NIM...**

CBOP's NII (gross of amortisation expenses) grew by 34.7% yoy to Rs1.9 driven by 70% growth in advances and much lower than expected contraction in NIMs. Adjusted for LKB merger, the NII has grown by 33% yoy.

**Adjusted NII**

Rs mn	Q2FY08	Q2FY07	Q1FY08	% yoy chg	% qoq chg
Reported NII	1,704	1,262	1,394	35	22
Add: HTM Amortisation	115	89	113	29	1
Adjusted NII	1,819	1,351	1,507	35	21

Source: Company, Emkay Research

The better than expected growth in NII was driven, much lower contraction in the NIMs. The NIMs (adjusted for amortisation expenses) have contracted by 70bps (vis-à-vis our expectations of 100bps). In fact on the sequential basis, the margins have expanded by 20bps. Also without the LKB merger, the standalone NIMs would have been higher by 50bps qoq.

**Yield analysis (%)**

	Q2FY08	Q2FY07	Q1FY08	yoy chg (bps)	qoq chg (bps)
Yield on advances	13.3	11.3	13.2	210	12
Yield on assets	9.9	8.4	10.0	150	-8
Cost of funds	6.8	4.6	7.1	218	-31
NIM	3.4	4.1	3.2	-74	20
NIM – reported	3.7	4.7	3.6	-100	10
NIM – reported (ex LKB)	4.1	4.7	3.6	-60	50

Source: Company, Emkay Research

\* Calculated on basis of average quarterly balances

Note: adjusted for HTM amortisation

While the cost of funds has gone up by 218bps yoy for Q2FY08, the same has been fairly compensated by expansion in advances yield thereby helping the bank to arrest the contraction in NIMs.

## Advances growth driven by SME advances

CBOP's advances have grown n by 67% yoy driven mainly by MSE portfolio which has grown 1.5x over last year. The large corporates and others have grown by 65% yoy and retail portfolio has grown by 55% yoy.

### Advances book

Rs mn	Q2FY08	Q2FY07	% yoy change
Total advances	139,849	83,847	66.8
SME	23,050	9,570	140.9
Corp/Others	28,423	17,260	64.7
Retail	88,376	57,017	55.0
Personal	18,925	7,982	137.1
Mortgages	25,306	12,544	101.7
2-W/CV/CE	29,164	27,368	6.6

Source: Company, Emkay Research

### Fee income continues to grow strong

Fee income has continued to be forte of the bank as the same has grown by 83.4% yoy and 9.8% qoq to Rs1.6bn. The fee income/net income stood at 48% for the quarter compared with 40% in the same quarter last year.

### Opex ratio continues to improve

The Opex ratio has continued to improve as it is now at 4.3% of the assets compared with 4.9% in Q2FY07 and 4.4% in Q1FY08 as it has grown by 44.5% to Rs2.3bn, much slower than the balance sheet growth of 70% yoy. Driven by slower growth in Opex, the operating profit grew by 78% yoy to Rs951mn.

### Prudent provisioning keeps NPA stable at net level

The gross NPA at 3.52% of gross advances are still higher than 2.8% reported for FY07. However, the bank has used robust profit of Q2FY08 to make higher provisions for NPA thereby arresting the net NPA at 1.6%, stable compared with Q1FY08. The provisioning during the current quarter is also higher at the bank has started providing for NPAs of LKB.

### Capital adequacy remains comfortable post QIP

The tier I Capital adequacy of the bank was at comfortable 12.0% as the bank has raised Rs5bn through QIP issue in Q2FY08.

### LKB merger adds muscle in southern area

CBOP has received the RBI's approval for LKB's merger with itself from August 29, 2007. With the merger of LKB with itself, CBOP has now added 124 more branches to its network with dominant presence in southern India.

### Valuations and view

Though we are enthused with superior performance of the bank, our full year numbers already factor the same. At the current market price of Rs43, the stock is quoting at 18.4x its FY10E FDEPS and 3.0x FY10E ABV with likely RoE of 17.0% in FY10E. We maintain our ACCUMULATE recommendation on the stock with price target of Rs45.

## Quarterly results

	H1FY08	H1FY07	% yoy chg	Q2FY08	Q2FY07	Q1FY08	% yoy chg	% qoq chg
Net interest income	3,098	2,407	28.7	1,704	1,262	1,394	35.1	22.3
Other Income	3,118	1,831	70.3	1,571	881	1,547	78.4	1.5
<i>Fee income</i>	3,003	1,817	65.3	1,572	857	1,431	83.4	9.8
Net income	6,215	4,238	46.7	3,275	2,142	2,941	52.9	11.4
Operating expenses	4,423	3,195	38.4	2,324	1,609	2,099	44.5	10.7
Pre-provision profit	1,793	1,043	71.8	951	534	842	78.0	12.9
Provisions & Contingencies	705	221	219.4	321	28	384	1,055.4	-16.4
Profit before tax	1,088	822	32.2	629	506	458	24.4	37.4
Provision for Taxes	403	224	80.0	231	195	172	18.6	34.6
Net Profit	685	599	14.4	398	311	286	27.9	39.1
Exceptional item	179	-	-	179	-	-	-	-
Reported net profit	703	599	17.4	416	311	286	33.8	45.5

## Valuation table

Y/E March 31	Net income Rs mn	Net profit Rs mn	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	10,102	1,207	0.8	7.9	0.8	10.6	5.5	67.8
FY2008E	13,315	1,846	1.0	10.6	0.8	10.6	4.0	44.3
FY2009E	18,152	3,088	1.6	12.1	1.1	13.6	3.5	26.5
FY2010E	23,510	4,448	2.3	14.4	1.2	17.0	3.0	18.4

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as his report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

**Emkay Share and Stock Brokers Ltd.,**

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299