

Corporation Bank

 Relative to sector: **Outperformer**

 Lead Analyst: **Punit Srivastava**
 Email: punit@enam.com
 Tel: 9122 6754 7609

 Analyst: **Siddharth Teli**
 Email: siddharth.teli@enam.com
 Tel: 9122 6754 7603

 Associate: **Neha Sanghai**
 Email: neha@enam.com
 Tel: 9122 6754 7526

ATTRACTIVE VALUATIONS - UPGRADE TO OP

We had downgraded the stock to Neutral post Q2FY07 results, driven by margin pressure and slow progression in RoE. However, the stock has corrected sharply since then and trades at 1.1x FY08E book value of Rs298. While we maintain our target price and believe that short term margin concerns still prevail, current valuations offer a material upside (23%) and the correction in stock price is overdone.

Margin pressure could continue in short term

Corporation Bank's margins fell to 3.2% in Q2FY07 (down 22 bps sequentially). The fall was caused by an aggressive credit growth of 38% even though CASA failed to keep pace, falling from ~33% to 29.8%. While we believe that margin pressure will prevail in the short term, credit growth will moderate in H2FY07, which will help the bank improve its CASA and hold its margins going forward.

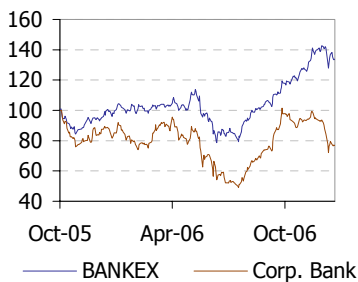
Asset quality improvement on track

Asset quality continues to remain robust with Gross NPAs and Net NPAs at 2.16% and 0.48% respectively as on Sep 06. We expect Net NPAs to fall to 0.3% by FY08. The bank's asset quality level has been among the best in the sector, which has been reflected in the premium valuations that the bank commanded in the past.

Upgrading to Sector Outperformer

While concerns on margins and slower progression in RoE do persist, we believe that the recent correction in its stock price already factor this. While Corporation Bank used to trade at a premium to its peers, the premium has significantly reduced in the last few years. At Rs324, the stock trades at 1.1x FY08E book value and 7.8x FY08E earnings, providing a good entry point. We upgrade the stock to sector **Outperformer** with a target price of Rs400.

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 143mn
 Market cap : Rs.46.7bn
 52 week high/low : Rs.445/ Rs.205
 Avg. daily vol. (6mth) : 181,600 shares
 Bloomberg code : CRPBK IN
 Reuters code : CRBK.BO

Shareholding (%) Sep-06 QoQ chg

Promoters (Govt.)	: 57.2	0.0
FII's	: 10.9	0.7
MFs / UTI	: 1.8	0.0
Banks / FIs	: 27.6	(0.1)
Others	: 2.5	(0.6)

Financial summary

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	BV (Rs.)	P/BV (x)	P/Adj.BV (x)	NPAs (%)	RoE (%)	RoA (%)
FY05	4,022	28.0	(20.2)	11.6	213	1.5	1.6	1.1	13.8	1.3
FY06	4,445	31.0	10.5	10.5	235	1.4	1.4	0.6	13.8	1.2
FY07E	5,243	36.6	18.0	8.9	265	1.2	1.3	0.4	14.6	1.2
FY08E	5,928	41.3	13.1	7.8	298	1.1	1.1	0.3	14.7	1.1

Source: Company, ENAM Research

Amongst the highest RoA, though RoE lags

Corporation Bank's RoA, remains amongst the best in PSU Banks within our coverage (1.2% for FY07E). However, RoE remains low at 14.6% for FY07E on account of lower leverage at 12.4x. While RoA would face some pressure in short term due to margin concerns, we believe that RoE could improve on the back of rising leverage.

Corporation Bank: Decomposition of RoE

% of total assets	FY04	FY05	FY06	FY07E	FY08E
Interest earned	7.9	7.1	7.1	7.6	7.9
Interest expended	4.5	3.6	3.8	4.5	4.9
Gross Interest Spread	3.5	3.6	3.3	3.0	3.0
Provision	0.5	1.4	1.0	0.7	0.6
Net Interest Spread	3.0	2.1	2.3	2.4	2.3
Operating cost	2.1	2.0	2.0	1.9	1.8
Lending spread	0.9	0.1	0.3	0.5	0.6
Fee-based income	0.9	0.9	1.0	0.9	0.8
Operating spread	1.8	1.1	1.3	1.4	1.4
Tax	1.0	0.6	0.6	0.6	0.5
Treasury	0.8	0.6	0.4	0.2	0.2
Recoveries	0.2	0.2	0.2	0.2	0.1
ROA	1.8	1.3	1.2	1.2	1.1
Leverage	10.8	10.8	11.6	12.4	13.2
ROE	19.6	13.8	13.8	14.6	14.7

Source: ENAM Research

Comparative Valuation

Bank	Price (Rs.)	Mcap (USD bn)	BV (Rs.)	P/BV (x)	RoE (%)	RoA (%)	CASA (%)	NIM (%)
SBI	1,214	14.3	880	1.4	14	0.7	42.6	3.3
BOI	190	2.1	132	1.4	18	0.8	40.4	3.0
PNB	495	3.5	387	1.3	18	1.1	48.7	4.2
Canara	266	2.4	230	1.2	19	1.0	34.5	3.1
Corporation Bank	325	1.0	298	1.1	15	1.1	29.8	3.2
BOB	233	1.9	262	0.9	13	0.8	41.8	3.1
OBC	219	1.2	235	0.9	19	1.4	30.4	2.5

Source: ENAM Research

COMPANY FINANCIALS

P&L Statement

(Rs. mn)	FY04	FY05	FY06	FY07E	FY08E
Interest Earned	22,012	22,498	26,265	33,697	41,905
Interest Expended	13,143	12,372	11,204	13,997	20,118
Net Interest Income	9,639	11,294	12,268	13,580	15,714
Non-Interest Income	5,167	5,646	5,715	5,665	5,795
- Sale of Inv estments	2,238	2,000	1,358	1,000	800
Net Income	14,806	16,940	17,983	19,245	21,509
Operating Expenses	5,737	6,370	7,468	8,364	9,367
- Employees expenses	2,844	2,829	3,635	4,072	4,723
- Other operating expenses	2,892	3,541	3,832	4,292	4,644
Operating Profit	9,070	10,570	10,515	10,882	12,141
Provisions	1,355	4,524	3,761	3,057	3,294
PBT	7,714	6,046	6,754	7,825	8,848
Tax	2,674	2,024	2,310	2,582	2,920
PAT	5,041	4,022	4,445	5,243	5,928

Source: Company,, ENAM Research

Balance Sheet

(Rs mn)	FY04	FY05	FY06	FY07E	FY08E
Capital	1,434	1,434	1,434	1,434	1,434
Reserves and Surplus	26,252	29,115	32,315	36,509	41,251
Networth	27,686	30,549	33,749	37,943	42,685
Deposits	231,909	272,332	328,765	402,737	484,896
Borrowings	9,341	12,979	16,601	20,489	23,477
Other Liabilities & Provisions	22,600	23,379	25,951	25,232	25,946
Total Liabilities	291,537	339,239	405,066	486,402	577,004
Assets					
Cash with RBI and Call Money	28,362	35,806	40,887	51,000	61,922
Investments	106,850	102,611	106,520	117,935	132,253
Advances	138,897	185,464	239,624	299,530	365,427
Fixed Assets	2,494	2,562	2,559	2,759	2,959
Other Assets	14,933	12,795	15,477	15,179	14,444
Total Assets	291,537	339,239	405,066	486,402	577,004
Growth (%)					
Growth in NII	22	17	9	11	16
Growth in Net profit	22	(20)	11	18	13
Growth in deposits	7	17	21	23	20
Growth in advances	15	34	29	25	22
Growth in investment	0	(4)	4	11	12

Source: Company, ENAM Research

Key Ratios

(%)	FY04	FY05	FY06	FY07E	FY08E
Valuations					
EPS (Rs.)	35	28	31	37	41
ROA	1.8	1.3	1.2	1.2	1.1
ROE	20	14	14	15	15
BV (Rs.)	193	213	235	265	298
Adj. BV (Rs.)	180	202	227	258	292
Yields & Margins					
Average Yield on Investment	9.3	8.6	7.9	7.2	7.2
Average Yield on Advances	9.0	8.4	8.3	8.9	9.3
Average Cost of Deposits	5.5	4.5	4.6	5.4	5.9
NIM	3.8	3.9	3.6	3.2	3.1
Asset Quality					
Gross NPAs (%)	5.0	3.4	2.6	2.2	2.2
Net NPAs (%)	1.8	1.1	0.6	0.4	0.3
Provisioning Coverage (%)	65.4	68.0	75.4	82.2	86.6
Capital					
Tier-I CAR	16.5	13.6	12.4	10.2	8.9
Tier-II CAR	3.6	2.7	1.5	1.5	1.5
CAR	20.1	16.2	13.9	11.7	10.4
Others					
Operating Cost as % of Net Income	39	38	42	43	44
% of current deposits	15	15	14	11	11
% of savings deposits	19	20	20	21	21
% of Low cost deposits	34	35	34	32	32
Dividend Per Share (Rs.)	6.0	5.0	6.5	7.0	7.5
Leverage (x)	11	11	12	12	13

Source: Company, ENAM Research

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