

October 22, 2010

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs735	Rs860
EPS change FY11E/12E (%)	NA
Target Price change (%)	13
Nifty	6,102
Sensex	20,261

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	28	47	62
Rel. to Nifty	4	14	27	34

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	CRPBK@IN
Equity Capital (Rs mn)	1,434
Face Value(Rs)	10
No of shares o/s (mn)	143
52 Week H/L	747/402
Market Cap (Rs bn/USD mn)	105/2,367
Daily Avg Volume (No of sh)	137,688
Daily Avg Turnover (US\$m)	2.0

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	57.2	57.2	57.2
FII/NRI	4.6	4.3	4.5
Institutions	33.0	33.2	33.7
Private Corp	2.0	2.1	1.9
Public	3.3	3.2	2.8

Source: Capitaline

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- **CRPBK's Q2FY11 NII/PAT at Rs7.2bn/Rs3.5bn better than expected driven by 33% yoy growth in advances and 38bps yoy expansion in NIMs to 2.6%.**
- **Though slippages at 1.0% annualized higher than 0.8% in FY10, still better than industry average.**
- **The reported provision cover improved by 150bps to 63.6%, PCR as per RBI norms at 79%**
- **Valuations not unreasonable at 1.4x FY12E ABV. With maintain our BUY recommendation on stock with TP of Rs860 (1.6x FY12E ABV)**

Strong NII growth with NIM expansion...

CRPBK's NII for Q2FY11 has grown by 42.1% yoy to Rs7.2bn. The strong growth in NII was driven by 32% yoy growth in advances and 38bps yoy improvement in NIM's at 2.6% for the quarter. However, on sequential basis, the NII has grown by just 2.5% despite 6% balance sheet growth and stable NIMs. We believe that this could be because of the rear ended balance sheet growth in the quarter.

Yield analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on assets*	7.7	7.5	7.2	7.2	7.4	-26	19
Cost of funds*	5.5	5.1	4.8	4.7	4.9	-53	21
NIM*	2.2	2.4	2.4	2.5	2.5	27	-3
NIM#	2.3	2.3	2.5	2.6	2.6	38	2

Source: Company, Emkay Research Note:* Calculated on basis of average quarterly balances # reported

Advances growth remain robust

The advances grew by a robust 32.7%yoy to Rs6bn during the quarter. The strong growth during the quarter was driven by growth in corporate and SME segments.

Advances mix

Rs mn	Q2FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Agriculture	45,820	61,750	67,340	68,830	50.2	2.2
SME	58,010	64,350	66,760	81,300	40.1	21.8
Retail	98,990	116,960	133,630	125,160	26.4	-6.3
Others	322,860	388,970	380,320	422,510	30.9	11.1
Total	525,680	632,030	648,050	697,800	32.7	7.7

Source: Company, Emkay Research

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	27,982	8,928	62.2	298.9	1.2	19.6	11.5	2.4
FY2010E	32,991	11,702	81.6	340.4	1.2	21.9	8.8	2.1
FY2011E	40,201	14,886	103.8	421.5	1.2	23.4	6.9	1.7
FY2012E	47,934	18,464	128.7	528.0	1.3	23.9	5.6	1.4

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	5,035	5,994	6,398	6,976	7,152	42.1	2.5	14,128	9,711	45.5
Other Income	3,028	2,517	2,727	2,661	2,261	-25.3	-15.0	4,922	6,622	-25.7
Fee Income	906	1,041	1,267	1,116	975	7.6	-12.7	2,091	1,722	21.4
Net Income	8,063	8,511	9,124	9,637	9,414	16.7	-2.3	19,051	16,333	16.6
Total Operating Expenses	2,706	3,132	3,674	3,433	3,679	35.9	7.2	7,112	5,793	22.8
As % Of Net Income	33.6	36.8	40.3	35.6	39.1			37.3	35.5	
Employee Expenses	1,153	1,448	2,026	1,708	1,866	61.8	9.3	3,574	2,843	25.7
As % Of Net Income	14.3	17.0	22.2	17.7	19.8			18.8	17.4	
Other Expenses	1,553	1,684	1,648	1,725	1,813	16.7	5.1	3,538	2,950	19.9
As % Of Net Income	19.3	19.8	18.1	17.9	19.3			18.6	18.1	
Operating Profit	5,357	5,379	5,450	6,204	5,735	7.1	-7.6	11,939	10,540	13.3
As % Of Net Income	66.4	63.2	59.7	64.4	60.9			62.7	64.5	
Provisions	940	1,134	1,651	1,266	976	3.9	-22.9	2,242	1,960	14.4
Prov for NPA	847	749	1,256	1,187	884	4.3	-25.6	2,071	1,447	43.1
PBT	4,417	4,246	3,799	4,938	4,759	7.7	-3.6	9,696	8,580	13.0
Total Tax	1,500	1,195	676	1,600	1,241	-17.3	-22.4	2,841	3,050	-6.8
Adjusted PAT	2,917	3,051	3,123	3,338	3,517	20.6	5.4	6,855	5,530	24.0
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	2,917	3,051	3,123	3,338	3,517	20.6	5.4	6,855	5,530	24.0
Reported EPS	20.3	21.3	21.8	23.3	24.5	20.6	5.4	47.8	38.6	24.0

Source: Company, Emkay Research

Deposit profile witnesses improvement

The CASA mix improved by 96bps qoq to 25.0% yoy during the quarter as growth in CASA deposit outpaced growth in term deposits. The management has guided to improve it further by 100 bps by March 2011 and 30% over the next couple of years. Corp Bank has launched few new products to mobilize CASA deposits and has also appointed a special general manager who will specifically focus on CASA growth.

CASA Mix

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Current Deposits	68	76	135	80	94	39.5	17.1
Saving Deposits	114	120	130	139	149	30.6	7.0
CASA	181	196	265	219	243	33.9	10.7
Term deposits	628	648	663	691	727	15.8	5.1
Total Deposits	809	844	927	910	969	19.8	6.5
CASA (%)	22.4	23.3	28.6	24.1	25.0	263	96

Source: Company, Emkay Research

Lower treasury hurts other income

The other income declined by 25.3%yoy to Rs2.3bn, much sharper than what we have expected. The decline was attributable to negligible trading gains and moderate growth in fee income.

Other income

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	1,516	1,630	2,058	1,621	1,628	7.4	0.4	3,249	2,771	17.3
Trading gains/(losses)	747	368	119	135	45	-94.0	-67.0	180	2,601	-93.1
Forex gains/(losses)	380	200	235	224	171	-54.8	-23.4	395	498	-20.6
Dividend income	31	3	8	5	32	1.3	587.0	36	35	4.6
Recovery	270	225	208	593	306	13.3	-48.3	899	543	65.7
Others	73	99	100	84	80	9.0	-5.0	164	164	0.0
Total	3,018	2,526	2,728	2,661	2,261	-25.1	-15.0	4,922	6,611	-25.5

Source: Company, Emkay Research

Core operating profit declines by 14% qoq

As the NII and other income growth was moderate on sequential basis with sharp just in operating costs, the core operating profit has declined by 14% qoq.

The operating expenditure increased by 36% to Rs3.7bn led by 62%yoy increase in employee expenses and 16.7%yoy growth in other expenses. The rise came on account of three factors 1) Wage inflation 2) Gratuity provision 3) Expansion of branch network

Core operating profit

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	5,357	5,379	5,450	6,204	5,735	7.1	-7.6	11,939	10,540	13.3
Less: Treasury gains	747	368	119	135	45	-94.0	-67.0	180	2,601	-93.1
Add: Excess wage provisions				530				530	0	#DIV/0!
Core operating profit	4,610	5,011	5,331	6,599	5,690	23.4	-13.8	12,289	7,939	54.8

Source: Company, Emkay Research

Pension not yet provided for

The bank has yet to provide for pension liabilities under new option given to employees. The management indicated a rough estimate of around Rs6bn for the same.

Provisions remain moderate in line with slippages

The provisions continued to remain moderate in line with moderate slippage as the provisions stood at 65bps (annualised) of advances for the quarter. We expect the provisions expenses to remain moderate in coming quarters too driven by lower slippage profile of the bank.

Break up of provisions

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
On NPL	847	749	1,256	1,187	884	4.3	-25.6	2,071	1,447	43.1
As % of advances	0.16	0.13	0.20	0.18	0.13			0.3	0.3	
On Standard Assets	-	270	125	-	-	NA	NA	0	0	-
Investment Depreciation	82	190	59	76	89	9.0	17.2	166	370	-55.3
Others	10	-75	210	3	3	-68.3	17.9	6	142	-95.7
Total	940	1,134	1,651	1,266	976	3.9	-22.9	2,242	1,960	14.4

Source: Company, Emkay Research

Slippages marginally higher but still better than the industry

During the quarter, the slippages stood at Rs1.7bn, an annualized rate of 1%. The slippage rate, though higher than 0.8% for FY10, was still better than the industry average of 1.2-1.5%. The management indicated that two accounts of Rs500mn slipped during the quarter, resulting in higher slippage. However the bank has fully provided for those NPA's. The provision cover increased by 150bps to 63.6% during the quarter.

NPA profile

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	6,269	7,523	6,509	7,268	7,403	18.1	1.9
Net NPA (Rs bn)	1,540	2,579	1,972	2,758	2,696	75.1	-2.3
Gross NPA (%)	1.2	1.3	1.0	1.1	1.1		
Net NPA (%)	0.3	0.5	0.3	0.4	0.4		
Net NPLs/Net worth (%)	2.8	4.5	3.4	4.5	4.2		
Provision cover (%)	75.4	65.7	69.7	62.1	63.6		

Source: Company, Emkay Research

Valuations and view

The stock is currently quoting at 1.4x FY12E ABV. We believe that the valuations are not unreasonable looking at (1) 24% RoEs and (2) lower than industry slippage rate. We maintain our BUY recommendation on the stock with price target of Rs860 (1.6x FY12E ABV).

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	16,910	22,103	28,692	35,212
Other income	11,072	10,889	11,509	12,722
Net income	27,982	32,991	40,201	47,934
Operating expenses	10,016	12,600	13,375	15,163
Pre provision profit	17,966	20,392	26,825	32,772
PPP excl treasury	22,391	23,480	29,325	35,272
Provisions	4,104	3,769	4,271	4,796
Profit before tax	13,862	16,622	22,554	27,975
Tax	4,935	4,920	7,668	9,512
<i>Tax rate</i>	36%	30%	34%	34%
Profit after tax	8,928	11,702	14,886	18,464

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	1,434	1,434	1,434	1,434
Reserves	47,531	56,314	68,179	83,287
Net worth	48,965	57,749	69,614	84,721
Deposits	739,839	927,337	1,090,279	1,265,390
Borrowings	78,044	131,838	144,431	159,075
Total liabilities	866,848	1,116,923	1,304,324	1,509,186
Assets				
Cash and bank	105,397	107,919	98,748	114,608
Investments	238,186	332,562	376,226	423,151
Customer assets	496,313	644,690	805,363	945,563
Others	29,162	31,752	23,987	25,864
Total assets	866,848	1,116,923	1,304,324	1,509,186

Key Ratios (%)

Key Ratios (%)	FY09	FY10	FY11E	FY12E
NIM	2.5	2.5	2.6	2.7
Non-Il/avg assets	1.4	1.1	1.0	0.9
Fee income/avg assets	0.3	0.3	0.3	0.3
Opex/avg assets	1.3	1.3	1.1	1.1
Provisions/avg assets	0.4	0.6	0.4	0.4
PBT/avg assets	1.6	1.5	1.7	1.9
Tax/avg assets	0.6	0.4	0.6	0.6
RoA	1.2	1.2	1.2	1.3
RoAE	19.6	21.9	23.4	23.9
GNPA (%)	1.3	1.2	1.1	1.0
NNPA (%)	0.3	0.3	0.3	0.2
NIM	2.5	2.5	2.6	2.7

Valuations Table

Valuations Table	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	8,928	11,702	14,886	18,464
Shares in issue (mn)	143	143	143	143
EPS (Rs)	62.2	81.6	103.8	128.7
PER (x)	11.8	9.0	7.1	5.7
FDEPS(Rs)	62.2	81.6	103.8	128.7
FDPER (x)	11.8	9.0	7.1	5.7
Book value (Rs)	308.2	354.1	436.8	542.2
P/BV (x)	2.4	2.1	1.7	1.4
Adj book value (Rs)	298.9	340.4	421.5	528.0
P/ABV (x)	2.5	2.2	1.7	1.4
P/PPP (x)	5.9	5.2	3.9	3.2
Dividend yield (%)	1.7	2.2	2.4	2.7

Recommendation History: Corporation Bank – CRPBK IN

Date	Reports	Reco	CMP	Target
29/07/2010	Corporation Bank Q1FY11 Result Update	Accumulate	565	600
26/04/2010	Corporation Bank Q4FY10 Result Update	Hold	499	530
25/01/2010	Corporation Bank Q3FY10 Result Update	Hold	450	430
30/10/2009	Corporation Bank Q2FY10 Result Update	Accumulate	420	430

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2010	South Indian Bank Q2FY11 Result Update	Accumulate	28	30
20/10/2010	Yes Bank Q2FY11 Result Update	Reduce	352	300
19/10/2010	CRISIL Q3CY10 Result Update	Accumulate	6,118	7,000
19/10/2010	HDFC Bank Q2FY11 Result Update	Reduce	2,366	2,100

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