CORPORATION BANK

Playing catch up...

Q2 FY 2007 update

SUMMARY

- Corporation Bank posted a topline growth of 20% to Rs 9.4 bn for Q2FY07. This was driven by 29% rise in interest income to Rs 8.3 bn. However non interest income exhibited YoY decline of 18% to Rs 1.1 bn.
- Growth in topline was led by 45% YoY improvement in interest on advances to Rs 5.7 bn. While interest on balances with RBI and others declined by 16% to Rs 288 mn, interest on investments exhibited growth of 6% to Rs 2.3 bn.
- Total expenditure increased 36% to Rs 7 bn, as employee costs and interest expenses spiked by 3% and 49% to Rs 912 mn and Rs 4.7 bn respectively. Accordingly, OPM dipped 868 bps YoY to 24.92%, restricting the growth in o p. profit at Rs 2.3 bn.
- Total advances and deposits registered growth of 35% and 28 % respectively. While home loans at Rs 39 bn posted a 32% YoY growth, retail advances grew 21% YoY to Rs 69 bn and now constitutes 25% of its total advances. Increasing cost of funds in Q2FY07 due to surging cost of deposits and rapid increase in term deposits led to 36 bps QoQ decline in Net Interest Margin (NIM) to 3.2%.
- Provisions and contingencies declined 60% to Rs 387 mn, due to write backs of provisions. As a result, net profit grew by 20% to Rs 1.2 bn in Q2FY07.
- The bank has a strong balance sheet, consistent track record and is set to reap benefits of its alliance with two other banks. However, there is distinct margin pressure due to inability to garner low cost deposits and ramp up presence in retail. It is also lagging in strengthening its fee based income stream. *In view of the above, its valuation i.e. P/E 14x and P/BV of 1.7x, its FY07E numbers is not cheap as compared to its peers. Hence, we recommend a 'HOLD' and plan to revisit the same in case of changes on the aforementioned fronts.*

COMPANY DETAILS

Auditors	Shanthamurthy &Co / S Mohan & Co / B Thiagarajan & Co
CMD	Mr. B. Sambamurthy
Regd. Office	Mangaladevi Temple Road Mangalore - 575001 Karnataka
Website	www.corpbank.com

SCRIP DETAILS

Market Capitalisation	Rs. 59.7 bn.
Book Value per share	Rs. 235
Equity Shares O/S (F.V. Rs 10)	143.4 mn.
Med. Vol. (12 mths)	421,211 (BSE+NSE)
52 Week H/L	Rs. 445 / 205
BSE Scrip Code	532179
NSE Scrip Code	CORPBANK
Bloomberg Code	CRPBK@IN
Reuters Code	CRBK.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoter	57.2	57.2	57.17
MF & UTI	2.08	1.78	1.75
Banks/FIs	27.68	27.68	27.61
FIIs	10.07	10.16	10.88
PCB	0.25	0.27	0.22
NRIs/OCBs/Others	0.18	0.22	0.22
Indian Public	2.59	2.72	2.14
Eq. shares (mn nos.)	**143.4**	**143.4**	**143.4**

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2005	2006	2007E
Op. Income	*8,628*	*9,176*	*9,454*	*16,939*	*17,983*	*19,075*
YoY Gr (%)	*19.4*	*19.7*	*20.4*	*8.9*	*6.2*	*6.1*
Op profits	2,691	3,241	2,357	10,569	10,516	10,764
Op Marg (%)	*31.2*	*35.3*	*24.9*	*37.6*	*32.9*	*29.6*
Net profits	1,002	1,443	1,270	4,021	4,445	4,264
Eq Capital	1,434	1,434	1,434	1,434	1,434	1,434

KEY RATIOS

Year Ended (March)	EPS (Rs.)	B.V. (Rs.)	RONW (%)	P/E (x)	P/BV (x)
2005	28.0	213	13.2	14.9	2.0
2006	31.0	235	13.2	13.5	1.8
2007E	29.7	248	12.0	14.0	1.7

Nov 14, 2006	Sensex : 13426	Nifty : 3866	CMP : Rs 417	Recomm : HOLD

Analyst - Chandana Jha

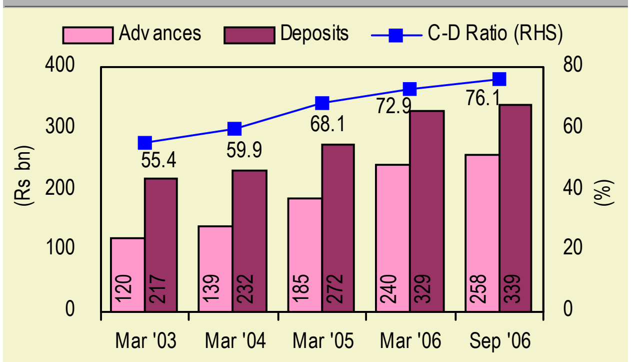
Business growth

The banks balance sheet size has exhibited growth of 25% YoY and stands at Rs 463 bn as on Sep '06. It recorded a 32% YoY growth in total business to Rs 660 bn and has maintained a fine balance between credit offtake & deposit mobilization by posting growth of 35% and 28% to Rs 280 bn and Rs 380 bn resp. This is a marked divergence as compared to its peers where the credit offtake growth has outpaced deposit growth.

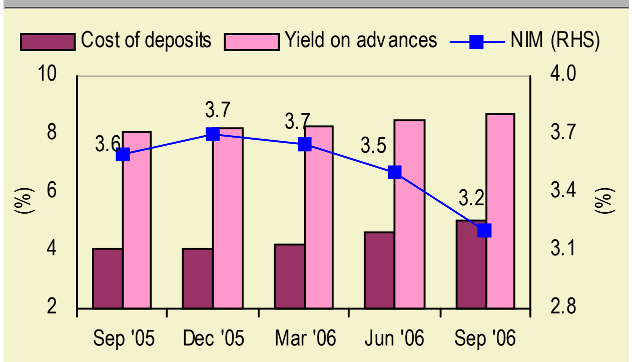
deposit. The bank maintains that these were garnered to cater to the maturity of some big ticket low yielding advances in Q3FY07. However, term deposits maturing in the coming two months would be replaced by low cost, high yielding deposits , thereby relieving pressure on its margins.

We expect the share of demand deposits in total deposits to be ~34% and NIM to be ~3% by the end of FY07.

Yrly core business trend



Qrtly Net Interest Margin trend



Advances growth has been largely driven by corporate loans which posted a 45% YoY growth and constituted 75% of its total advance portfolio in H1FY07.

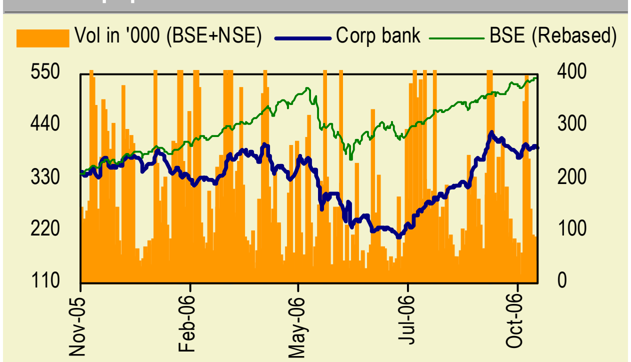
Retail and housing loans disbursements were up 21% and 32% to Rs 70 bn and Rs 39 bn respectively. Its lending to agri sector has also grown satisfactorily by 38% to Rs 24 bn. This growth has resulted in credit-deposit ratio currently being 74%, as against 68% in the corresponding quarter last year.

On the deposit front, the share of demand deposits in total deposits has declined 333 bps to 29.8% , resulting in incremental credit being funded by high cost term

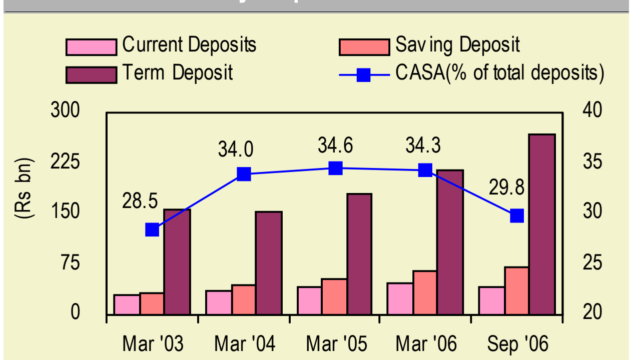
With strong growth in the balance sheet size, Corporation bank has witnessed a 3.3% YoY growth in Net Interest Income to Rs 3.1 bn in Q2FY07. However, the impact of its inability to push growth in fee income over consecutive quarters is being visible.

Non interest income declined 18% YoY to Rs 1.1 bn in Q2FY07. This was due to decline in trading profit by Rs 70 mn and profit on exchange transactions dipping to Rs 156 mn. The share of non interest income to total income currently stands at 16.13%. Fee income constituted a mere 7 % of total income in Q2FY07 and has remained major concern for the bank.

Scrip performance vis-a-vis BSE Sensex



Yrly deposit trend



Cost - Income Matrix

Interest expenditure of the bank increased 51% to Rs 5.2 bn in Q2FY07, on the back of cost of funds rising 61 bps to 4.59 % for H1FY07. Further, cost of deposits have inched up to 5.02%, rising 48 bps YoY. However, salaries and other expenses, together posted a sedate growth of 12% YoY to Rs 1.9 bn in H1FY07. Therefore, despite promising upside in revenues from multiple avenues, cost - income ratio of the bank stands at 40.59% for H1FY07. While this has moved up from 39.56% on a YoY basis, we expect cost-income ratio of Corporation bank to hover around 43% for FY07E.

Asset quality & provisioning requirements

The Gross and Net NPA declined to 2.16% and 0.48% from 3.33% and 0.98% last year. With cash recovery and upgradations being Rs 1.3 bn as against Rs 930 mn in the previous year , provision coverage currently stands at 78.20%. Asset quality has shown improvement with rate of delinquency declining to 0.90% as on Sep '06 from 1.63 % in Sep '05. Write off during Q2FY07 has been Rs 32 mn as against Rs 346 mn in Q2FY06. The initiative to set up centralized credit appraisal cells should result in improved retail asset quality.

Corporation bank is well capitalised with capital adequacy ratio (CAR) being 13.32% as at the end of Q2FY07. This has been achieved despite considerable growth in risk weighted assets of the bank. However it declined by 60 bps from Q1FY07.

Concerns & future prospects

The NPAs in the retail book and mortgage loans stands at 3.1% and 3.8% respectively. This is higher than the industry average and remains one of the concern for the bank .

Corporation bank has an impressive track record and clean balance sheet among its peers. Currently it has 782 branches with 504 branches under core banking solution. This constitutes around 83% of its business. They have about 814 AMTs spread across cities in different geographical areas. It has entered into agreement with LIC for offering cash management services and Oriental bank of commerce and Karnataka bank for ATM sharing.

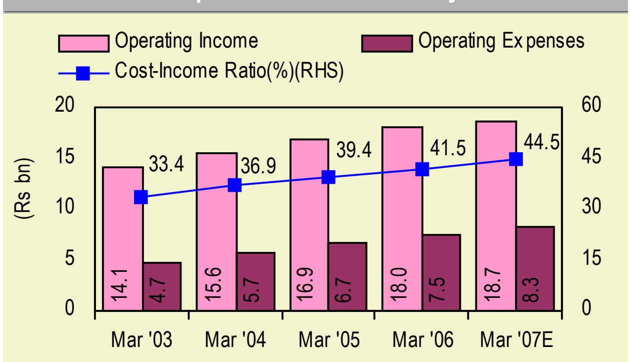
Corporation bank entered into strategic alliance with OBC and Indian bank in Q2FY07. This should enable it to leverage delivery channel of the two banks and get access to their customers in the northern region. It also would give the much needed impetus to the fee income of the bank. However, the impact will be visible only after 2-3 quarters and get reflected in FY08.

Considering the current trend in operations, the bank is likely to witness an OPM contraction of ~302 bps in the near term to 29.6% on the back of rising operating expenses in the previous two quarters. Thus operating profits would be able to eke a meagre YoY growth of 2.4% to Rs 10.8 bn. Accordingly, net profits should be Rs 4.3 bn, translating into an EPS of Rs 30 in FY07.

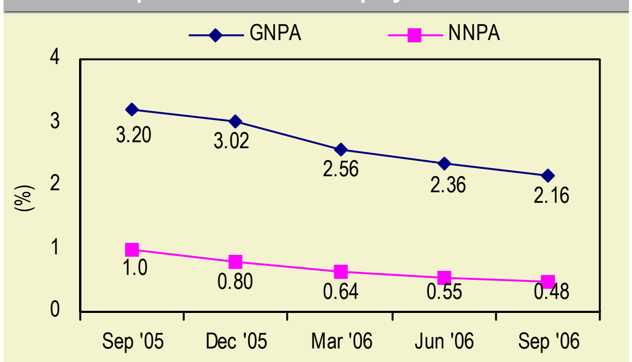
The bank has a strong balance sheet, consistent track record and is now set to reap benefits of alliance with two other banks. However, there is a distinct margin pressure due to inability to garner low cost deposits and ramp up presence in retail. It is also lagging in strengthening its fee based income stream.

At the CMP of 417, the stock is trading at a P/E 14x and P/BV of 1.7x, discounting its FY07E numbers. The valuations are on a higher side, when compared to its peers. Hence, we recommend a 'HOLD' and plan to revisit the same in case of material changes on the aforementioned fronts.

Operational efficiency



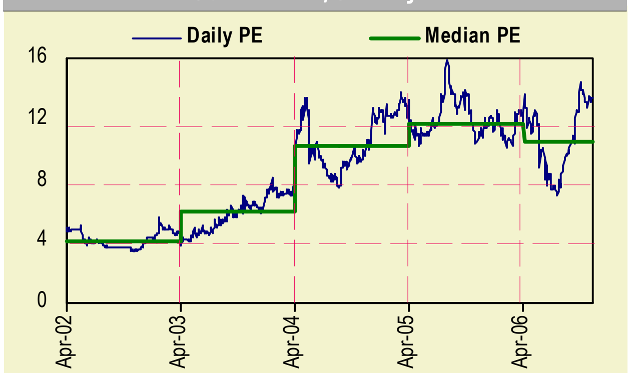
Corporation Bank's qrtly NPA trend



Financial results for the quarter and half year ended Sep'30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Interest on Advances	5,736	3,955	45.0	10,798	7,621	41.7	16,491
Interest on Investments	2,301	2,173	5.9	4,288	4,235	1.2	8,535
Interest on balances/others	288	345	(16.4)	539	584	(7.7)	1,239
Interest Income	**8,325**	**6,473**	**28.6**	**15,625**	**12,440**	**25.6**	**26,265**
Other Income	1,131	1,380	(18.1)	3,005	3,076	(2.3)	5,715
Operating Income	**9,455**	**7,853**	**20.4**	**18,630**	**15,516**	**20.1**	**31,980**
Interest expended	5,158	3,407	51.4	9,211	6,566	40.3	13,997
Employee cost	912	887	2.9	1,810	1,726	4.8	3,635
Other operating expense	1,028	920	11.8	2,013	1,815	10.9	3,832
Expenditure	**7,099**	**5,214**	**36.2**	**13,034**	**10,107**	**29.0**	**21,464**
Operating profit	**2,357**	**2,639**	**(10.7)**	**5,596**	**5,409**	**3.5**	**10,516**
Provisions and contingencies	387	960	(59.7)	1,449	1,774	(18.3)	3,770
PBT	**1,970**	**1,679**	**17.4**	**4,147**	**3,635**	**14.1**	**6,746**
Provision for current tax	700	623	12.4	1,435	1,344	6.8	2,300
Net Profit	**1,270**	**1,056**	**20.3**	**2,712**	**2,291**	**18.4**	**4,445**
Equity capital	1,434	1,434		1,434	1,434		1,434
EPS for the period(Rs)	**8.9**	**7.4**		**18.9**	**16.0**		**31.0**
OPM (%)	**24.92**	**33.60**		**30.04**	**34.86**		**32.9**
NPM (%)	13.43	13.44		14.56	14.77		13.9
NIM	**2.90**	**3.40**		**3.02**	**3.50**		**3.01**

Median PE v/s Daily PE



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