



Weekly Pick

Advisory Group

04 June 2010

HSBC  InvestDirect

Central Bank of India

Closing Price: Rs 149.55

Central Bank with a network of 3,559 branches is the 10th largest in terms of assets. The bank has seen a robust performance since 2006, increasing from Rs. 4,980 million to Rs. 10,582.3 million for FY10. The RoE has improved from 9.1% to 24.20% from FY06 to FY10, where as, the RoA has improved from 0.4% to 0.66% in the same period. However, the NIM has fallen from 3.5% to 1.8% primarily on account of higher cost of funding and a fall in investment yields. The total CAR (Basel II) for FY10, stood at 12.24% and the Tier 1 ratio stood at 6.83%. The bank is currently looking at raising Rs. 10 billion through a bond issue coupled with recapitalization money which it expects to receive from the Central Government under the recapitalization plan.

The bank has witnessed an improvement in it's asset quality with net NPA ratio falling from 2.6% to 0.69%. Apart from this the bank has also witnessed an improvement in RoE and RoA. Going forward, the bank is expected to improve it's NIM's moderately along with a continued focus on CASA deposits. Also, the share of non-interest income has been on a rise, increasing from 18% in FY06 to 26% in FY08 to 32% in FY09. Overall we expect the bank to continue with it's improving financial performance.

Central Bank of India Technical View



Source: HISL Advisory, FALCON

The prices of this mid-cap public sector bank after rallying from the low of 30 to a high of 179 are contained in a broad sideways range from 140 to 165 for last six months or so. Prior to this range consolidation the prices have completed an excellent accumulation in the form of classical rounding bottom and hence the stock appears a good bet for the long term. The momentum readings in weekly time frame are pretty strong and at the closing price of 149.55 the stock offers a good opportunity for medium term investors to take long positions. Traders should keep a stop of 135 on long positions for an upside potential of ten percent around 170 while for investors likely targets are 190 and then 240.

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