

July 29, 2010

ACCUMULATE

Price Rs 565	Target Price Rs600
Sensex	17,957

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	9	33	64
Rel. to Sensex	7	7	20	40

Source: Bloomberg

Stock Details

Sector	Banks
Reuters	CRBK.BO
Bloomberg	CRPBK@IN
Equity Capital (Rs mn)	1434
Face Value(Rs)	10
No of shares o/s (mn)	143
52 Week H/L	590/336
Market Cap (Rs bn/USD mn)	81/1,733
Daily Avg Volume (No of sh)	101741
Daily Avg Turnover (US\$m)	1.2

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	57.2	57.2	57.2
FII/NRI	4.3	4.5	4.2
Institutions	33.2	33.7	34.0
Private Corp	2.1	1.9	1.9
Public	3.2	2.8	2.7

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- CRPBK's Q1FY11 NII at Rs7.0bn tad better than expected driven by 36% yoy growth in advances and 12bps qoq expansion in NIMs to 2.6%. Profit in line estimates at Rs3.3bn
- Though slippages at 1.0% annualized (Rs1.7bn for Q1FY11) higher than 0.8% in FY10, still better than industry average.
- The reported provision cover slips to 62.1% driven by write back of provisions. However, the bank commendably provides 70% on incremental slippages. PCR as per RBI norms at 76%
- Valuations not unreasonable at 1.4x FY11E/1.1x FY12E ABV. Upgrade to ACCUMULATE TP of Rs600

Strong NII growth with NIM expansion...

CRPBK's NII for Q1FY11 has grown by 49.2% yoy to Rs7.0bn. The strong growth in NII was driven by 36% yoy growth in advances and 12bps qoq improvement in NIM's at 2.6% for the quarter.

In the coming quarter, ~Rs120bn of advances which were given at lower than base rate (7.75%) are coming for repricing. The management has guided that these advances are getting repriced at 8-8.5%. The upward repricing of large part of the loan book alongwith strong CDR will help CRPBK to retain NIMs at current level.

Yield analysis

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Yield on assets*	8.0	7.7	7.5	7.2	7.2	-76	1
Cost of funds*	5.8	5.5	5.1	4.8	4.7	-110	-7
NIM*	2.1	2.2	2.4	2.4	2.5	34	8
NIM#	2.3	2.3	2.5	2.5	2.6	36	12

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

Advances growth remain robust

The advances grew by a robust 36%yoy to Rs648bn during the quarter. However, on sequential basis, the growth was moderate at 2.5%. The strong growth during the quarter was driven by growth across the segments like agriculture, retail, SME and large corporate.

Advances mix

Rs mn	Q1FY11	Q4FY10	Q1FY10	YoY (%)	QoQ (%)
Agriculture	67,340	61,750	42,920	56.9	9.1
SME	66,760	64,350	52,840	26.3	3.7
Retail	133,630	116,960	92,010	45.2	14.3
Others	380,320	388,970	286,010	33.0	-2.2
Total	648,050	632,030	473,780	36.8	2.5

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	8.9	1.9
FY2010E	32,991	11,702	81.6	340.4	1.2	21.9	6.8	1.6
FY2011E	40,201	14,886	103.8	414.7	1.2	23.4	5.4	1.3
FY2012E	47,934	18,464	128.7	514.3	1.3	23.9	4.3	1.1

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Interest Income	4,675	5,035	5,994	6,398	6,976	49.2	9.0
Other Income	3,594	3,028	2,517	2,727	2,661	-26.0	-2.4
Fee Income	817	906	1,041	1,267	1,116	36.7	-11.9
Net Income	8,269	8,063	8,511	9,124	9,637	16.5	5.6
Total Operating Expenses	3,086	2,706	3,132	3,674	3,433	11.2	-6.6
As % Of Net Income	37.3	33.6	36.8	40.3	35.6		
Employee Expenses	1,690	1,153	1,448	2,026	1,708	1.1	-15.7
As % Of Net Income	20.4	14.3	17.0	22.2	17.7		
Other Expenses	1,397	1,553	1,684	1,648	1,725	23.5	4.7
As % Of Net Income	16.9	19.3	19.8	18.1	17.9		
Operating Profit	5,183	5,357	5,379	5,450	6,204	19.7	13.8
As % Of Net Income	62.7	66.4	63.2	59.7	64.4		
Provisions	1,020	940	1,134	1,651	1,266	24.1	-23.3
Prov for NPA	600	847	749	1,256	1,187	97.9	-5.5
PBT	4,163	4,417	4,246	3,799	4,938	18.6	30.0
Total Tax	1,550	1,500	1,195	676	1,600	3.2	136.9
Adjusted PAT	2,613	2,917	3,051	3,123	3,338	27.7	6.9
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	2,613	2,917	3,051	3,123	3,338	27.7	6.9
Reported EPS	18.2	20.3	21.3	21.8	23.3	27.7	6.9

Source: Company, Emkay Research

Deposit profile witnesses improvement

The CASA mix improved by 74bps to 24.1%yoy during the quarter as growth in CASA deposit outpaced growth in term deposits. Particularly, the 6.5% qoq growth in the saving account deposits was commendable.

CASA Mix

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Current Deposits	64	68	76	135	80	26.3	-40.2
Saving Deposits	105	114	120	130	139	32.6	6.5
CASA	168	181	196	265	219	30.2	-17.2
Term deposits	553	628	648	663	691	25.0	4.3
Total Deposits	721	809	844	927	910	26.2	-1.8
CASA (%)	23.3	22.4	23.3	28.6	24.1	74	-448

Source: Company, Emkay Research

Fee income growth remains strong; recoveries contribute handsomely

The fee income grew by strong 37% yoy during the quarter driven by sharp growth in segments like LCs and guarantees. Including forex income, the growth was infact stronger at 43.3%. However, driven by sharp drop in trading gains, the total other income dipped by 26% yoy. The recoveries were strong at Rs593mn during the quarter accounting for 16% of the total written off accounts of Rs3.6bn. The management expects to recover another Rs1.0bn in Q2FY11 after which the contribution from recoveries will taper off.

Other income

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Fee/Commission income	817	906	1,041	1,267	1,116	36.7	-11.9
Trading gains/(losses)	1,854	747	368	119	135	-92.7	13.7
Forex gains/(losses)	118	380	200	235	224	89.3	-4.9
Recovery	272	270	225	208	593	117.7	184.9
Others	529	694	679	891	589	11.3	-33.9
Total	3,594	3,028	2,517	2,727	2,661	-26.0	-2.4

Source: Company, Emkay Research

Core operating profit grows by 82.3% yoy

Despite strong growth in NII, operating profit grew by a sedate 8.6%yoy to Rs6.2bn as there was huge treasury gain in the corresponding quarter last year. Adjusted for treasury gains, the core operating profit grew by a strong 82.3%yoy to Rs6.1bn.

Core operating profit

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Reported operating profit	5,183	5,357	5,379	5,450	6,204	19.7	13.8
Less: Treasury gains	1,854	747	368	119	135	-92.7	13.7
Add: Excess wage provisions				530			
Core operating profit	3,329	4,610	5,011	5,861	6,069	82.3	3.5

Source: Company, Emkay Research

Gratuity and pension not provided for

CRPBK is yet to provide for the gratuity expenses under the changed regulations. The management has not given any indicative amount for the same. The bank also has to provide for pension liabilities under new option given to employees. The indicative liability for the same can work out to Rs6bn.

Provisions remain high with higher slippages

The provisions remained high in Q1FY11 as the bank provided Rs1.2bn for the higher slippages incurred during the quarter.

Break up of provisions

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
On NPL	600	847	749	1,256	1,187	97.9	-5.5
As % of advances	0.13	0.16	0.13	0.20	0.18		
On Standard Assets	-	-	270	125	-	NA	NA
Investment Depreciation	288	82	190	59	76	-73.6	28.3
Others	132	10	-75	210	3	-97.9	-98.7
Total	1,020	940	1,134	1,651	1,266	24.1	-23.3

Source: Company, Emkay Research

Slippages 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%. Of the total slippages, Rs300mn came from the restructured accounts.

The provision cover also slipped to 62% on reported basis (76% including technical write offs) as there significant write backs during the quarter, **However, commendably the bank has provided at 70% on the incremental slippages.**

NPA profile

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	6,115	6,269	7,523	6,509	7,268	18.8	11.7
Net NPA (Rs bn)	1,506	1,540	2,579	1,972	2,758	83.1	39.8
Gross NPA (%)	1.3	1.2	1.3	1.0	1.1		
Net NPA (%)	0.3	0.3	0.5	0.3	0.4		
Net NPLs/Net worth (%)	2.9	2.8	4.5	3.4	4.5		
Provision cover (%)	75.4	75.4	65.7	69.7	62.1		

Source: Company, Emkay Research

Valuations and view

The stock is currently quoting at 1.4x FY11E ABV and 1.1x FY12E ABV. We believe that the valuations are not unreasonable looking at (1) 22% RoEs and (2) lower than industry slippage rate. We upgrade the stock to ACCUMULATE with price target of Rs600.

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

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.5	2.5	2.6	2.7
Non-ll/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	0.4	0.4

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

Valuations Table

(Year Ending Mar 31)	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)	8.9	6.8	5.4	4.3
FDEPS(Rs)	62.2	81.6	103.8	128.7
FDPER (x)	8.9	6.8	5.4	4.3
Book value (Rs)	308.2	354.1	436.8	542.2
P/BV (x)	1.8	1.6	1.3	1.0
Adj book value (Rs)	298.9	340.4	414.7	514.3
P/ABV (x)	1.9	1.6	1.3	1.1
P/PPP (x)	4.4	3.9	3.0	2.4
Dividend yield (%)	2.2	3.0	3.2	3.6

Recommendation History: Corporation Bank – CRPBK IN

Date	Reports	Reco	CMP	Target
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
31.07.2009	Corporation Bank Q1FY10 Result Update	Accumulate	345	360

Recent Research Reports

Date	Reports	Reco	CMP	Target
27.07.2010	Union Bank of India Q1FY11 Result Update	Reduce	321	300
23.07.2010	Allahabad Bank Q1FY11 Result Update	Accumulate	185	220
22.07.2010	Punjab National Bank Q1FY11 Result Update	Accumulate	1,056	1,100
22.07.2010	Yes Bank Q1FY11 Result Update	Reduce	298	260

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