

Investment idea

February 05, 2010

Corporation Bank

Corporation Bank is a mid-sized PSU bank with a total asset base of ~Rs870bn (end FY09). The bank was established in 1906 and currently operates 1,094 branches and 1,057 ATM's, ~75% of which are located in South & West India. Return ratios for the bank have remained attractive (RoE ~20% and RoA ~1.2%) on the back of steady rise in net profit and zero equity dilution. With loan growth running high at 26% yoy we expect the book to witness 20% CAGR over FY09-11E, translating into a 19% CAGR in net profit. Using our proprietary Bank 20 valuation model, we assign a multiple of 1.1x to Corporation Bank's FY11 adjusted BV and arrive at 1-year price target of Rs492. Comfortable asset quality coupled with improvement in margins and CASA ratio is likely to command premium valuation. Maintain BUY.

Rapid expansion in branch network; Loan book to grow ahead of system in FY10

Corporation bank has added over 113 branches and 100 ATM's since FY08 taking the total network to over 1,094 branches and ~1050ATM's. With rich presence in South and West India (~75% of total network), it plans to add over 800 new branches over next 5-years and implement Pan India presence. As against the system credit growth of ~14% yoy levels, the bank reported a healthy 26% yoy growth in its loan book during Q3 FY10. The bank has been witnessing growth across all segments and we expect loan book CAGR of 20% over FY09-11E.

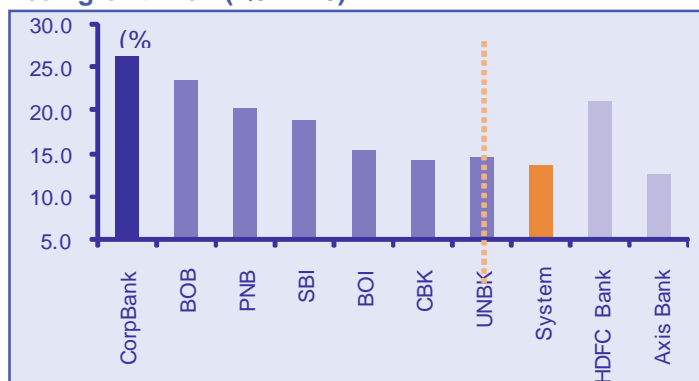
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NIM for the bank has remained in the narrow range of 2.3-2.5% levels for the past few quarters. This low level of margins has been on account of bank's heavy reliance on term deposits. Term deposits for the bank have grown by ~28%YTD as against 14% YTD growth in deposit book. CASA deposits, on other hand, have declined by ~16% YTD (CA deposits down ~43%YTD, SA deposits grew 19% YTD). As a result, CASA ratio for the bank has declined from 31% as at FY09 to current 23.3%. The bank management plans to increase the CASA ratio to 30% which would support NIM at 2.4-2.5% levels.

Valuation gap with large peers has widened significantly

After a decent run-up in valuations for large PSU banks, we expect the valuation gap between this banks and mid-cap banks too

Loan growth YoY (Q3 FY10)



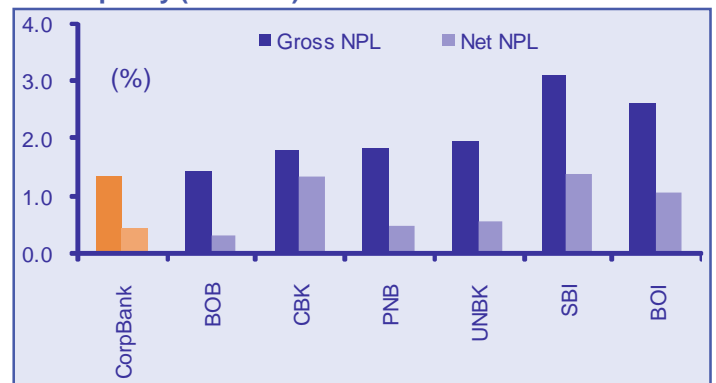
Source: Company, India Infoline Research

BUY
CMP Rs425

narrow down. Traditionally, Corporation bank has traded at a par with its larger peer Bank of Baroda. However, in recent past, this valuation gap has widened significantly. While Bank of Baroda currently trades at 1.4x 1-year forward book, Corporation bank trades at 0.9x 1-year forward book, implying a huge discount.

With prospectus for healthy 19% CAGR in balance sheet and net profit over FY09-11E, decent returns ratio (RoE ~20% levels, RoA at 1.2% levels), we expect re-rating from current levels. Maintain BUY.

Asset quality (Q3 FY10)



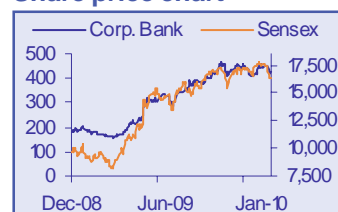
Source: Company, India Infoline Research

Financials

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Total oper income	27,982	33,815	39,698	46,173
yoy growth (%)	30.6	20.8	17.4	16.3
Op profit (pre-prov)	17,966	22,235	26,135	30,112
Net profit	8,928	10,749	12,700	14,877
yoy growth (%)	21.5	20.4	18.1	17.1
EPS (Rs)	62.2	74.9	88.5	103.7
BVPS (Rs)	341.4	403.4	477.9	567.6
P/E (x)	6.8	5.7	4.8	4.1
P/BV (x)	1.2	1.1	0.9	0.8
ROE (%)	19.6	20.1	20.1	19.8
ROA (%)	1.2	1.1	1.1	1.1
Dividend yield (%)	2.9	2.5	2.7	2.7
CAR (%)	13.6	13.9	13.7	12.7

Source: Company, India Infoline Research

Share price chart



Source: Company, India Infoline Research

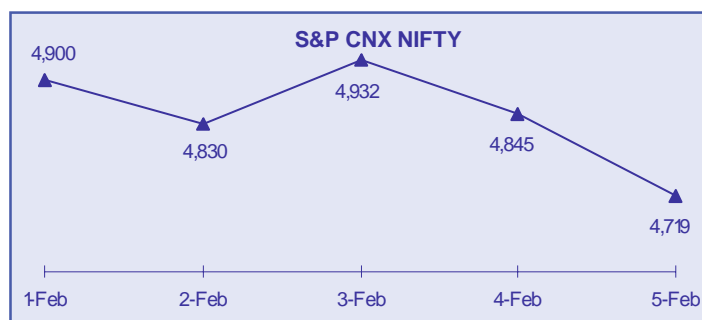
Shareholding pattern

December '09	(%)
Promoters	57.2
FII & MF	38.0
Non promoter corp hold	1.9
Public & others	3.0

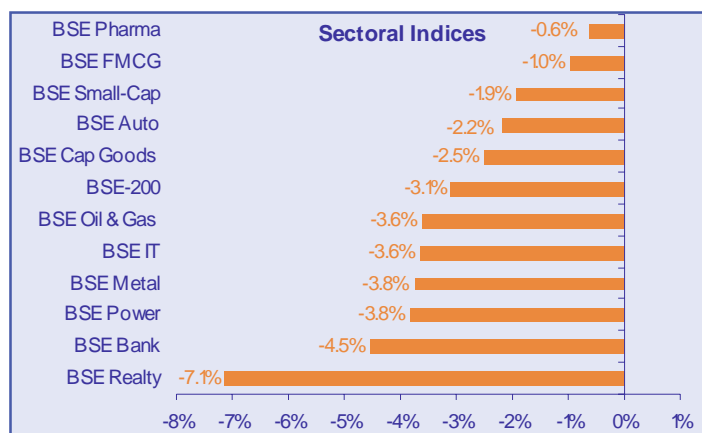
India Infoline Weekly Wrap

Market review

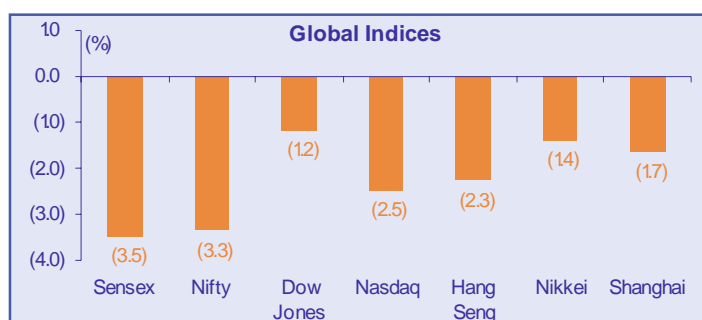
The markets continue to display weakness during the course of the week. Risk aversion has risen of late amid a spate of fresh worries from China's tightening, to new restrictions for US banks to sovereign debt concerns in Europe. Back home concern remains in the form of inflation and its ramifications on the stimulus-fueled recovery. Finally, the BSE Sensex closed lower by 3.5% and NSE Nifty closed lower by 3.3%.



With anxiety of hike in interest rates, intense selling was seen across all realty and auto stocks. Banking stocks continue to reel under pressure following hike in CRR and on back of further accretion in NPA levels.



US stock indices closed at the lowest level in three months, as fears about the fallout from a growing debt crisis in Europe dragged on Wall Street. Also, an unexpected jump in claims for unemployment benefits overshadowed encouraging news from the retail sector. European shares also were under the bear attack as nervousness about debt levels in Greece, Spain and Portugal weighed on sentiment.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
28-Jan	(2,164)	1,113
29-Jan	198	636
01-Feb	(49)	33
02-Feb	11	(247)
03-Feb	486	6
Total 2010	(688)	(1,520)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Dr Reddy's	1,151	2.8	Titan Inds	1,686	12.5
Hero Honda	1,585	1.7	Lupin	1,535	8.1
HDFC	2,390	0.2	Bajaj Finserv	346	7.5
-	-	-	Mundra Port	637	7.2
-	-	-	Dabur India	169	5.8

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Ranbaxy Labs	404	(11.1)	Jai Corp	259	(13.6)
JP Assoc	125	(9.4)	GMR Infra	52	(12.7)
SBI	1,898	(7.7)	Karnataka Bank	116	(11.4)
DLF	309	(7.5)	Renuka Sug	181	(11.4)
Hindalco	138	(6.2)	Century Textile	455	(11.3)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
1-Feb	Credit Suisse	Bharati Ship	B	2.3	315
1-Feb	Deutsche Sec	ICSA India	S	3.2	158
1-Feb	Credit Suisse	Subex	S	4.6	67
1-Feb	Reliance Cap	Fame India	B	4.4	45
4-Feb	Morgan Stanley	Subex	S	3.0	65

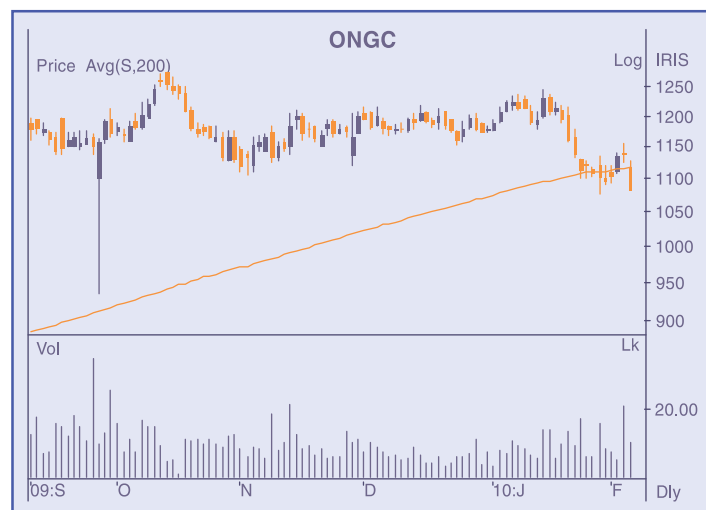
Book closures and record dates

Company	Date	Purpose
Havells India	9-Feb-10	Dividend
CCCL	10-Feb-10	Stock Split
KRPL	10-Feb-10	Stock Split

India Infoline Weekly Wrap

Technical idea

ONGC **SELL**
CMP Rs1,088



ONGC on Friday violated and closed convincingly below its 200-DMA after hovering around the important long-term average for an entire week. The last time, when ONGC moved below its 200-DMA was in October 2008. It resulted into a correction of ~93% and lasted for three weeks. This time we need to see how long it will remain below the 200-DMA.

The way the stock has been damaged in last few weeks, it is likely to face supply pressure at every pullback. In our view, in the short-term the stock will not be able to make any strong gains.

The above pattern is bearish in nature and suggests more weakness in the coming trading sessions. The daily oscillators are also indicating building up of the momentum on the downside. We recommend traders to sell the stock at current levels and on rallies to the levels of Rs1,100 for an initial target of Rs1,010 and Rs990. It is advisable to maintain a stop loss of Rs1,125 on all the short positions.

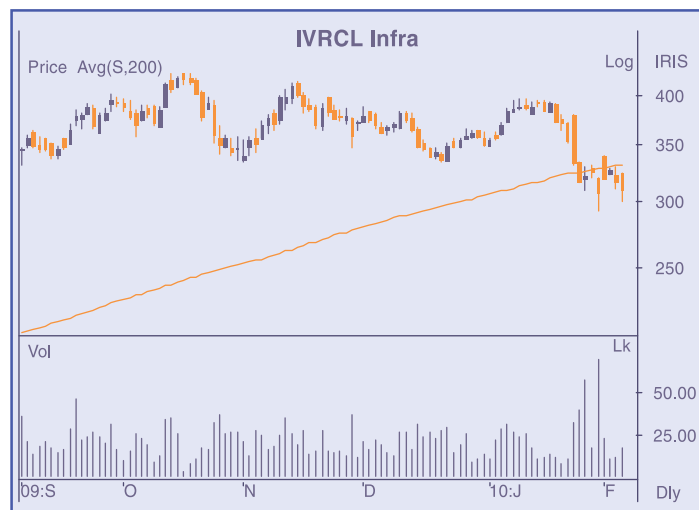
Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Dabur	0.1	24.8	9.9
Tata Power	0.4	4.0	(19.9)
Lupin	0.6	3.1	189.9
Ambuja Cem	0.1	1.6	60.5
OFSS	0.4	1.6	(34.0)

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Asian Paints	1,936	1,840	2.2	0.5
Lupin	1,536	1,472	4.0	3.3
IGL	209	200	9.1	6.3
Gail	416	403	38.7	20.9
GSK Pharma	1,560	1,536	0.8	0.2

IVRCL Infrastructure **SELL**
CMP Rs311



Since the last two weeks, IVRCL Infra has been moving in a range between Rs334-300. It has consistently been struggling to close above its 200-DMA. In order to move higher the stock will have to close above its 200-DMA as shown in the chart.

The stock traded sideways after a sharp drop in price from the recent peak of Rs394. In our opinion has again begun its downward direction after giving a close around the lower-end of consolidation range. Other momentum oscillators also suggest a negative set-up in the price formation which further strengthen our negative view on the stock

We recommend traders to sell the stock at current levels and on rallies to the levels of Rs317 with a stop loss of Rs325 for an initial target of Rs290 and Rs285.

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Oriental Bank	(2.9)	2.1	(31.7)
Wipro	(1.7)	1.9	67.7
Bhushan Steel	(4.6)	1.9	(9.4)
Union Bank	(3.7)	1.8	24.0
KS Oil	(2.2)	1.8	8.9

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bharti Airtel	300	315	45.4	60.2
LIC Hous Fin	741	777	4.9	8.8
Vijaya Bank	48	50	22.1	38.4
Patni Comp	448	470	1.8	2.1
Petronet LNG	74	77	29.1	38.7

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on February 04, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla Sun Life Midcap Fund -A (G)	1,142	100.5	0.1	(6.2)	6.8	20.8	134.6	1.9	46.9	223.5
DSP-BR Top 100 Equity - RP (G)	2,407	86.2	(0.2)	(6.9)	2.7	7.9	73.4	5.5	43.9	221.6
HDFC Top 200 Fund (G)	6,066	172.2	0.2	(5.8)	2.1	9.3	101.2	11.7	50.2	237.3
ICICI Prudential Tax Plan (G)	1,011	118.5	(0.3)	(4.1)	11.0	23.1	125.3	6.2	25.8	160.6
Reliance MIP (G)	2,468	19.9	0.1	(0.6)	2.7	7.6	28.0	34.9	42.4	89.0

Fund this week: ICICI Prudential Tax Plan

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	91.6
Latest NAV	Rs118.5	Debt	0.0
NAV 52 high/low	Rs124/48	Cash/call	8.4
Latest AUM (cr)	Rs1,011	Top 5 holdings (%)	
Type	Open-ended	Cadila Healthcare Ltd.	5.4
Class	Equity - diversified	Infosys Technologies Ltd.	5.0
Options	Growth & dividend	Bharti Airtel Ltd.	4.8
Min investment	Rs500	Zuari Industries Ltd.	4.5
Entry load	Nil	Reliance Industries Ltd.	4.2
Exit load	Nil	Top 3 sectors (%)	
Benchmark	S&P Nifty	IT - Software	12.2
No. of stocks	59	Pharmaceuticals	10.4
Expense ratio	2.0%	Bank - Private	7.5

NFO update

Fund Name	Close	Type	Class
IDFC MIP Fund	9-Feb	OE	Hybrid - MIP
Fortis FTP - Sr 16 - Plan C	9-Feb	CE	Debt
Bharti AXA Focused Infra	15-Feb	OE	Equity n̄ them

Dividend update

Mutual Fund	Dividend %	Record date	Class
HDFC Qrtly Interval n̄ PI C	100.0	8-Feb	Debt - Invnt
ICICI Pru Qrtly Intvl - II PI B	100.0	8-Feb	Debt - Invnt
UTI Qrtly Interval Fund Sr V	100.0	10-Feb	Debt - Invnt

Commodity, debt and currency graphs



* As per previous close

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