Corporation Bank – BUY

'Stable Outlook'

Sector: Banking

Sensex:	18,289
CMP (Rs):	511
Target price (Rs):	600
Upside (%):	17.4
52 Week h/l (Rs):	658 / 336
Market cap (Rscr) :	7,614
6m Avg vol ('000Nos):	84
No of o/s shares (mn):	148
FV (Rs):	10
Bloomberg code:	CRPBK IB
Reuters code:	CRBK.BO
BSE code:	532179
NSE code:	CORPBANK

Prices as on 17 Feb, 2012

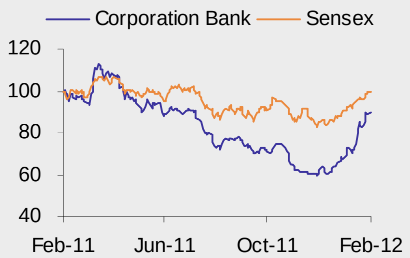
Shareholding pattern

December '11	(%)
Promoters	58.5
Institutions	35.0
Non promoter corp hold	2.1
Public & others	4.3

Performance rel. to sensex

(%)	1m	3m	1yr
Corp Bank	22.1	22.9	(8.1)
ALBK	28.1	21.4	(1.9)
CBOI	28	6	(19)
UBI	26.1	16.1	(19.0)

Share price trend



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Well-diversified loan book; firm credit growth to continue

Corporation Bank's advances have almost doubled over FY09-11 witnessing 34% CAGR. Despite growing at fast clip, the bank has not compromised on asset quality enjoying one of the lowest Net NPL/Networth ratios. Post credit de-growth of 6% in H1 FY12, loan book increased by robust 13.2% qoq in Q3 FY12 largely driven by corporate and agricultural lending. Agriculture & SME credit growth will remain elevated in Q4 FY12 owing to seasonality and requirement of meeting the PSL target. With bank targeting Rs980bn advances by Mar'12, we estimate credit growth at 13-14% in FY12. An improvement in industrial activity and cyclical decline in interest rate would drive 18% loan CAGR over FY12-14E.

Traditionally has reported lower GNPA; risk is comparatively lower

Corporation Bank has consistently reported GNPA ratio of <1.5% over FY08-FY11, lower than most PSU Banks. Bank has a track-record of robust recovery which has contained asset quality deterioration. Asset quality has weakened though over the past few quarters on account of migration to system-driven NPL recognition and few large corporate accounts turning bad. Restructuring activity has picked-up and is expected to remain high in Q4 FY12 due to significant Air India exposure. This along with low PCR is likely to drive elevated provisioning in the near term. With respect to power exposure, Corporation Bank is better-off than peers with majority exposure to healthy state generation companies. We expect bank's asset quality to hold-up well in the medium term.

NIM to gradually improve driven by accelerated CASA mobilization

Bank's deposit profile has weakened due to decline in CASA ratio and consistent higher share of bulk deposits. With substantial branch addition, Corporation Bank is confident of improving its CASA franchise in the medium term. NIM is expected to remain stable in Q4 FY12 notwithstanding improvement in C/D ratio as strong credit expansion would be mainly driven by lower yielding PSL book. Increased focus on higher yielding assets and improvement in deposit profile would support a gradual NIM expansion over FY12-14.

One of the better bets amongst mid-sized PSU Banks

Corporation Bank provides comfort on multiple fronts – reasonable valuation vis-à-vis healthy RoA delivery, lean operating structure, healthy capitalization, strong non-interest income growth and lower NPL risk. Despite factoring some stress in asset quality and resultant higher provisioning, we estimate the bank to deliver 17% earnings CAGR over FY11-14. In our view, Corporation Bank is one of the better bets amongst mid-sized PSU Banks to play the cyclical re-rating story. Initiate coverage with a BUY rating and 9-month price target of Rs600.

Financial summary

Y/e 31 Mar (Rs m)	FY11	FY12E	FY13E	FY14E
Total operating income	42,641	47,724	55,520	66,902
yoy growth (%)	25.5	11.9	16.3	20.5
Operating profit (pre-provisions)	26,224	29,222	33,872	41,575
Net profit	14,133	15,273	17,404	22,622
yoy growth (%)	20.2	8.1	14.0	30.0
EPS (Rs)	95.4	103.1	117.5	152.7
Adj.BVPS (Rs)	455.0	492.7	569.2	669.8
P/E (x)	5.4	5.0	4.3	3.3
P/BV (x)	1.1	1.0	0.9	0.8
ROE (%)	21.9	19.8	19.5	21.7
ROA (%)	1.1	1.0	1.0	1.1
CAR (%)	14.1	14.4	14.3	13.9

Source: Company, India Infoline Research

Loan book spread across 26 states and 3 UTs

Advances reported 34% CAGR over FY09-11

SME grew by 60% yoy

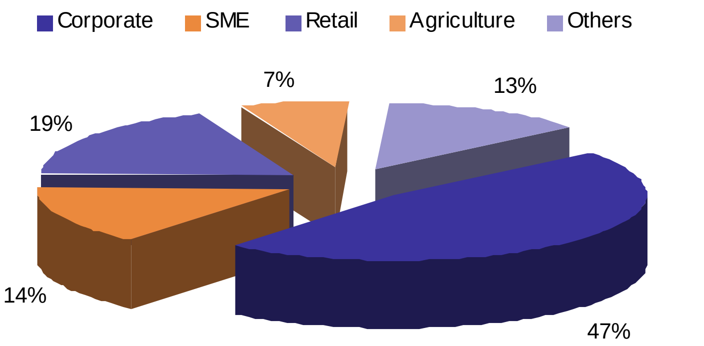
Agri & SME lending will remain elevated in Q4 FY12 to meet PSL target

We build in 18% CAGR in advances over FY11-14E

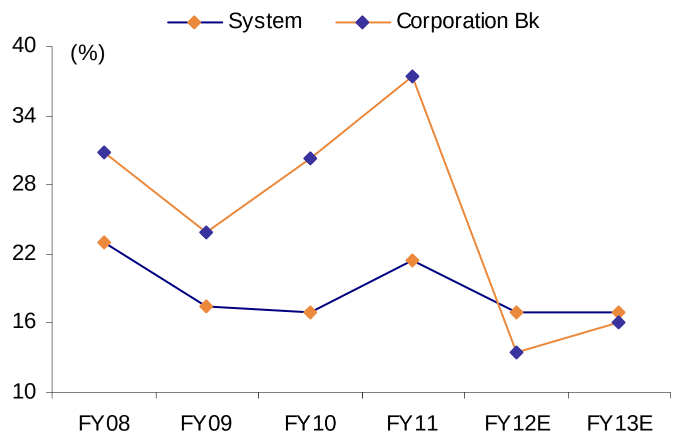
Well-diversified loan book; SME and Agricultural lending to drive growth in Q4 FY12

Corporation Bank has a well-diversified loan book spread across multiple segments and various geographies. Advances have almost doubled over FY09-11 reporting 34% CAGR, much ahead of the system run-rate. Despite growing at fast clip, the bank has not compromised on asset quality and has enjoyed one of the lowest Net NPL/Networth ratios (in the range of 3-6%) among peers. Post credit de-growth of 6% in H1 FY12, loan book increased by robust 13.2% qoq and 28.4% yoy in Q3 FY12 largely driven by corporate (35.6% qoq) and agricultural (12.3% qoq) lending. The sharp jump in the corporate book was driven by substantial disbursement (~Rs50bn) of short-term loans (4-6 months) to a few PSUs. Therefore, the incremental growth is unlikely to cause asset quality deterioration in the medium term. The growth has also been robust (60% yoy) in the high-yielding SME segment. Agriculture & SME credit growth will remain elevated in Q4 FY12 owing to seasonality and requirement of meeting the PSL target. Given the subdued credit environment and management's target to attain loan book of Rs980bn by March'12, we estimate credit growth at 13-14% in FY12. Foreseeing an improvement in industrial activity and cyclical decline in interest rate, we build in 18% CAGR in advances over FY12-14E.

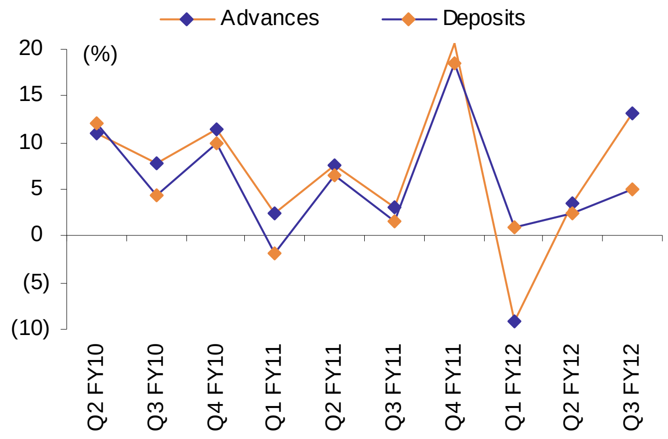
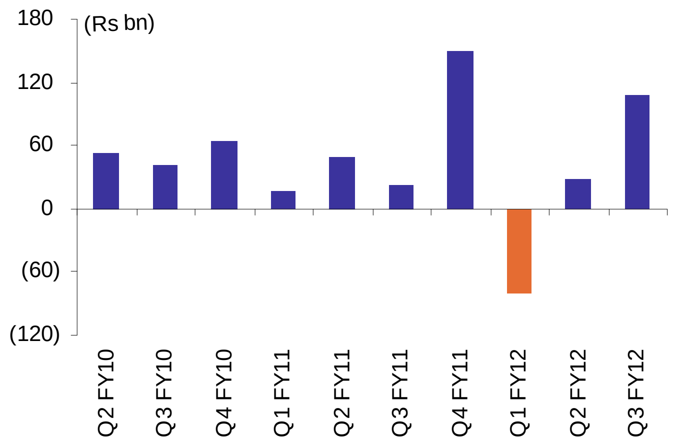
Well-diversified loan book mix



Credit growth to moderate after being higher-than-system in past three years



Source: Company, India Infoline Research

Advances growth picked up significantly in Q3 FY12	Change in loan book over past few quarters
	

Source: Company, India Infoline Research

Traditionally has reported lower GNPA; risk is comparatively lower

Owing to system migration, asset quality has weakened marginally

Reported a GNPA ratio of less than 1.5% over FY08-FY11

Recovery traction is expected to remain strong going forward

Stable asset quality in power book; exposure of Rs13bn to Air India

Bank's asset quality to hold well in the medium term

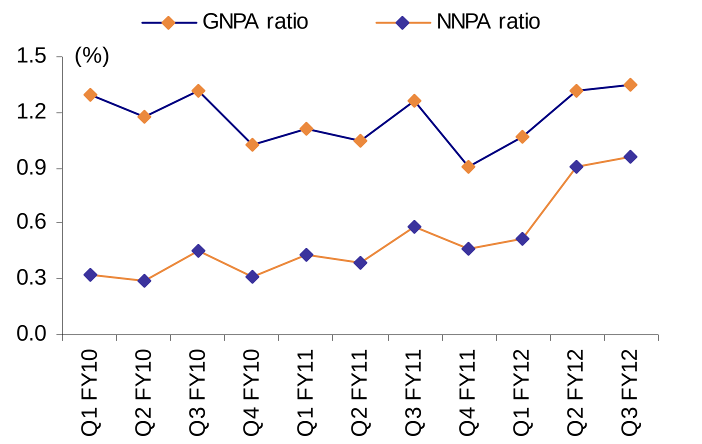
Due to migration to system recognition of NPLs by Sept'11 and few large corporate accounts turning bad, asset quality has weakened over the past few quarters. During Q3 FY12, Kingfisher account with an exposure of Rs1.6bn slipped into NPA. Bank has consistently reported a GNPA ratio of less than 1.5% over FY08-FY11, lower than most PSU Banks. With strong loan book expansion in Q4 FY12, this ratio is likely to improve in the near term. Corporation Bank has a track-record of robust recovery which has aided in containing asset quality risks. During 9M FY12, bank recovered Rs1.2bn and the recovery traction is expected to remain strong in the fourth quarter as well (already recovered Rs400mn so far). An area of concern is higher exposure to the infrastructure sector at Rs148bn (~16% of advances), of which, power is dominant ~Rs78bn (8.5% of book). However, the power book is significantly skewed towards generation assets (61% of exposure) offering some reassurance. During Q3 FY12, bank advanced ~Rs12bn to Karnataka Power Corporation resulting in 17% sequential growth in its power exposure. Out of the total generation exposure, Karnataka Power Corporation and Tamil Nadu Power Corporation are the two major accounts. Overall, the bank faces no challenges at the power front as payments are being received regularly. Also, the recent 2G license cancellation order by the Supreme Court is unlikely to have a major impact on Corporation Bank due to miniscule exposure of Rs1.5bn to Videocon Telecommunications Ltd. The bank has no exposure to other stressed Telecom accounts like Loop and Uninor. With lower perturbing exposures, we believe that bank's asset quality would hold well in the medium term.

Bank restructured accounts worth Rs7.5bn in Q3 FY12

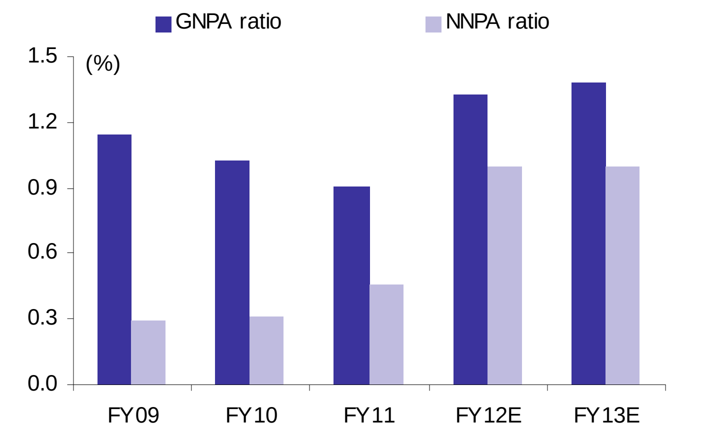
PCR of 63% in Q3 FY12

Restructuring activity has picked-up for Corporation Bank, as seen with other banks, and is expected to remain high in Q4 FY12. During Q3 FY12, bank restructured accounts worth Rs7.5bn fully providing for the resultant NPV loss of ~Rs500mn. Bank's exposure to Air India (to be restructured by Mar'12) is significant Rs13bn. Based on the ongoing restructuring negotiations, we expect a minimum NPV loss of 5% (Rs650mn) on the exposure which will have to be provided in current quarter itself. Therefore, provisions would remain elevated. Further, there has been a steep decline in provision coverage ratio from 75% in FY11 to 63% in Q3 FY12, demanding an increase in LLP run-rate. However, this could be partially offset by lower investment depreciation provision due to reversal of interest rate cycle.

GNPA ratio below 1.5%, one of the best among its peer group

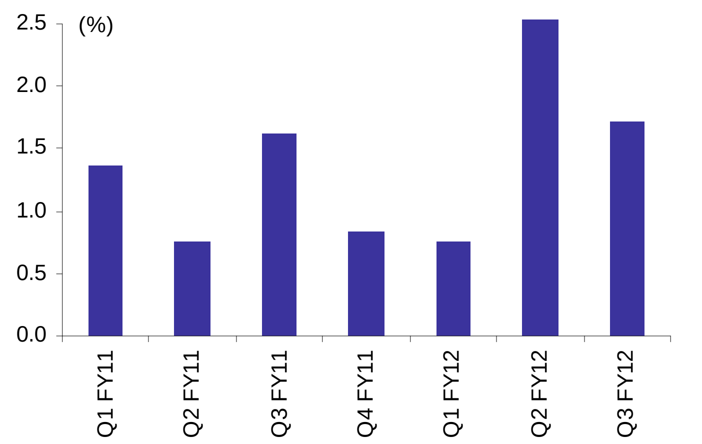


Asset quality to stabilize

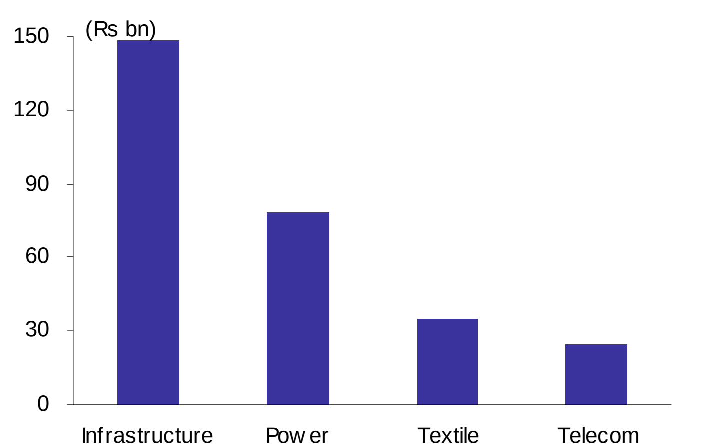


Source: Company, India Infoline Research

Slippage ratio spiked mainly on account of system NPL recognition

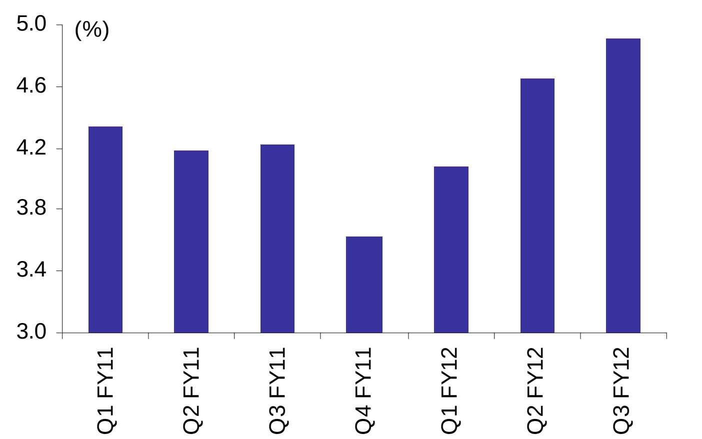


Exposure to sensitive sectors

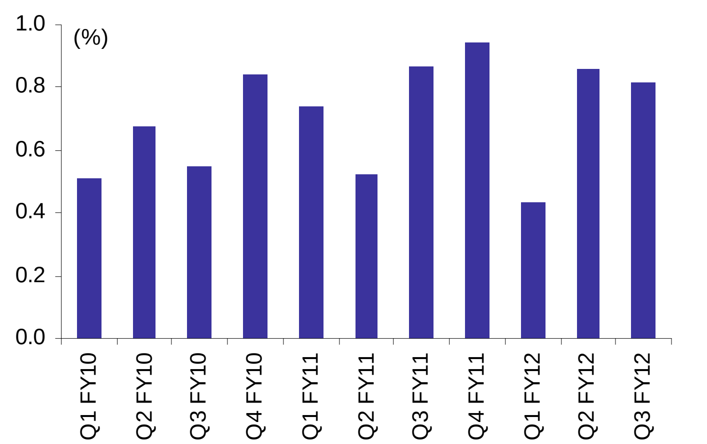


Source: Company, India Infoline Research

Restructuring activity has picked-up

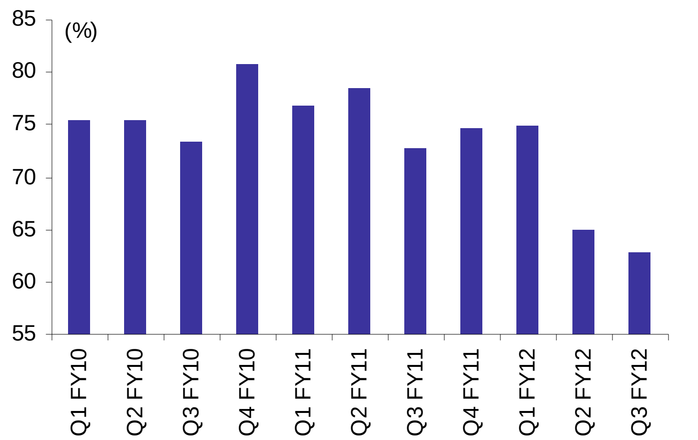


Sharp increase in credit cost since Q1 FY12

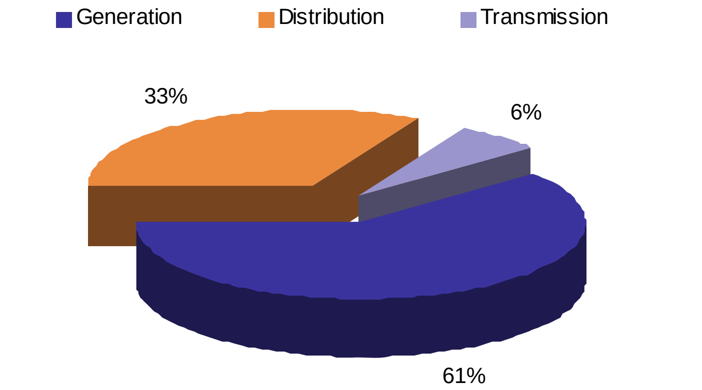


Source: Company, India Infoline Research

PCR has declined over past few quarters indicating aggressive provisioning



Resilient power book with majority generation exposure



Source: Company, India Infoline Research

Robust non-interest income growth; lean operating structure

Fee income grew by healthy 22% yoy in Q3 FY12

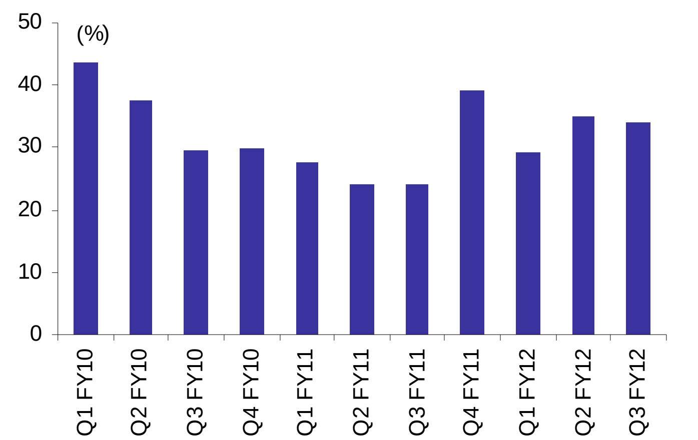
We build in 18% CAGR over FY11-14E

Other income contributes significantly to the bank's total income. Even during 9M FY12 wherein most PSU banks witnessed sluggish growth in fee income, Corporation Bank witnessed a strong growth of 22% yoy. We believe it would be robust in Q4 FY12 as well, on account of seasonality. High growth in other income is also attributable to strong recovery in written-off accounts. Over past four years, other income has witnessed a brisk CAGR of 23.7%. We build in 18% CAGR over FY11-FY14E as we believe that recovery and growth in fee income will continue to remain healthy.

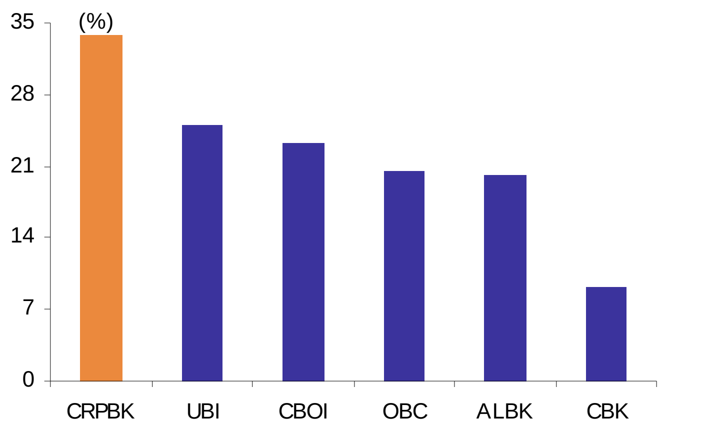
C/I ratio to remain in the range of 38-40%

Corporation Bank enjoys lean operating structure underpinning an impressive Cost/Income ratio in the range of 30-40%; making it one of the operationally efficient banks. Of the targeted branch addition of 200 in FY12, the bank has opened 70 branches in 9M FY12. Strive towards achieving the target in Q4 FY12 is likely to increase the C/I ratio over the next two quarters. In the longer term, we believe that the bank will be able to maintain the C/I ratio in the range of 38-40% driven by operating leverage and CASA improvement.

Non-interest income has contributed significantly to total income

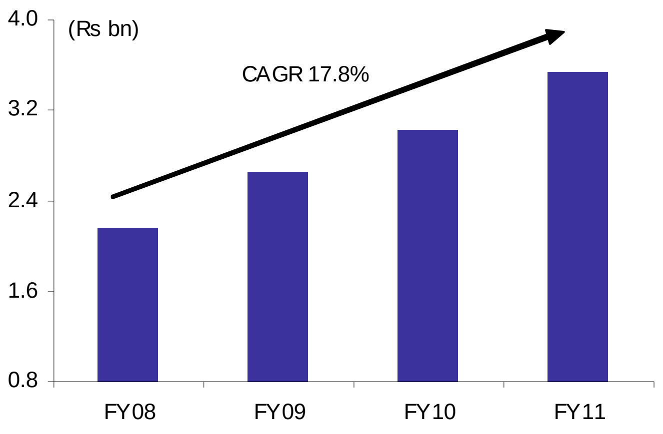


Non-interest income/Total income of various banks

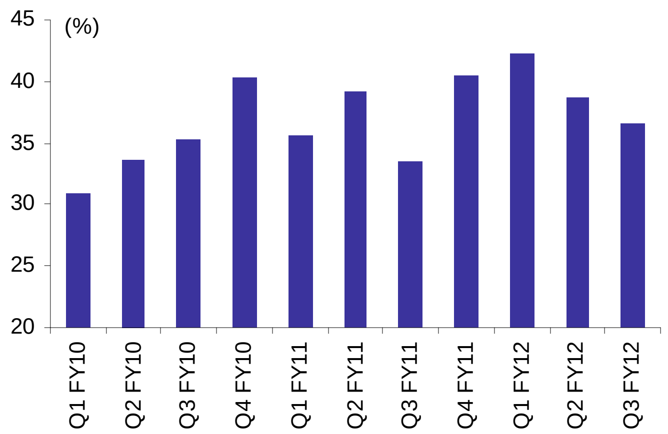


Source: Company, India Infoline Research

Strong growth in Core fee income

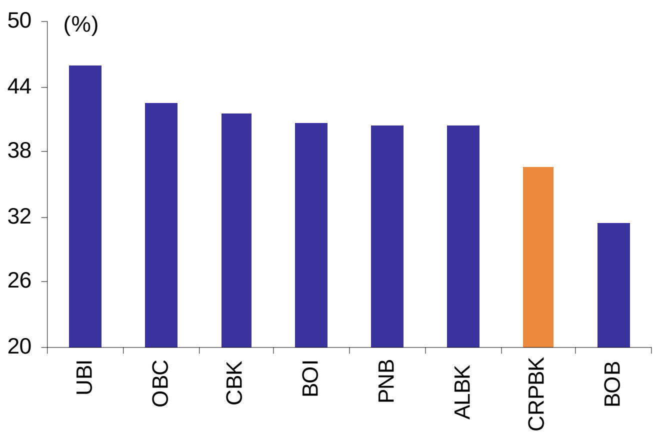


C/I ratio has seen an improvement in past two quarters

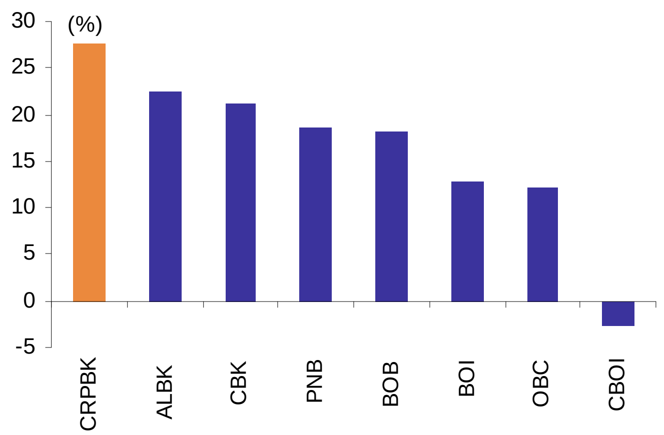


Source: Company, India Infoline Research

C/I to remain at industry best level (lower than 40%)



Reported highest growth in core fee income (yoy) among various banks



Source: Company, India Infoline Research

Branch addition to drive CASA accretion; NIM to remain stable in near term

Weaker deposit profile with low CASA ratio of 21.1%

Corporation Bank's deposit profile is relatively weaker with low CASA ratio (has declined from 26% in FY11 to 21.1% in Q3 FY12) and elevated share of bulk deposits (28.4% of total deposits). However, significant portion of bulk deposits is not high-cost i.e. raised at above card rates. Since the bulk deposits are short term, their re-pricing and availability could become challenging if the liquidity tightens further. With substantial branch addition, bank is confident of increasing its CASA ratio to 26% by Mar'12. Even if the bank were to achieve the targeted improvement, its impact on deposits cost would be trivial in Q4 FY12. However, it would have a favourable impact in ensuing quarters.

Target to set up 200 branches in FY12 to improve CASA

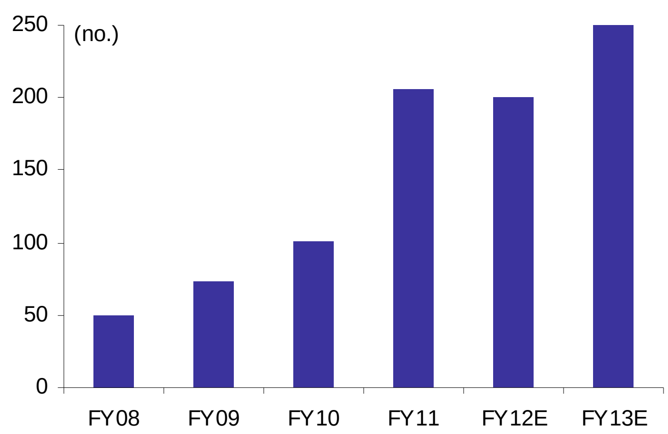
Loan yield improved by ~140bps over the past three quarters

92% of the bank's loan book is floating

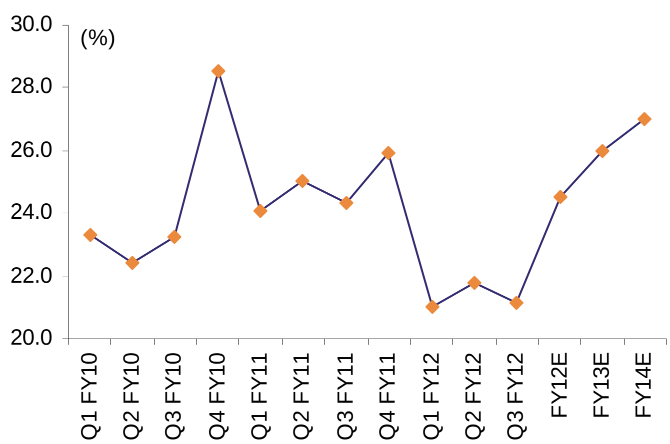
We believe that NIM will witness marginal expansion in FY13E and FY14E

Aided by timely and commensurate lending rate hikes, loan yield has improved significantly by ~140bps over the past three quarters. We expect another 8-10bps increase in Q4 FY12, based on our expectation of 6.6% sequential growth in loan book and the impact of past rate hikes kicking in. Cost of deposits is also expected to increase by 8-10bps on re-pricing of retail and bulk term deposits. Although C/D ratio is likely to improve with loan book (6.6% qoq) growing faster than deposits (3.9% qoq), NIM will remain stable. A large part of the incremental growth in Q4 FY12 would be driven by lower yielding PSL book thereby restricting any significant improvement in the loan yield. Going forward as RBI starts cutting interest rates, Corporation bank will be impacted significantly as 92% of its loan book is floating. But given the increasing focus of the bank on higher yielding assets and improvement in deposit profile, we believe that NIM will witness marginal expansion in FY13E and FY14E.

Robust branch addition to continue

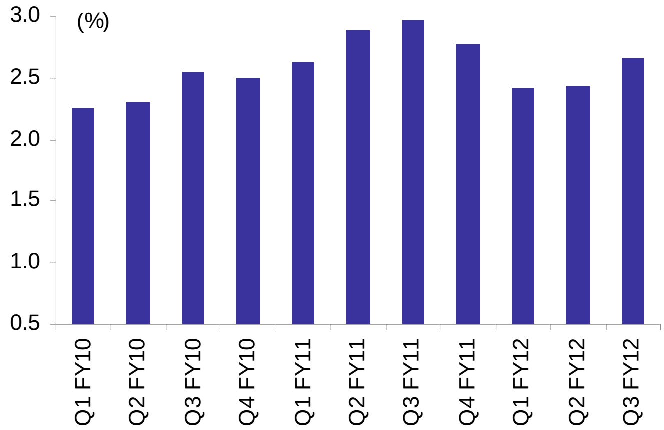


Branch addition to drive CASA growth

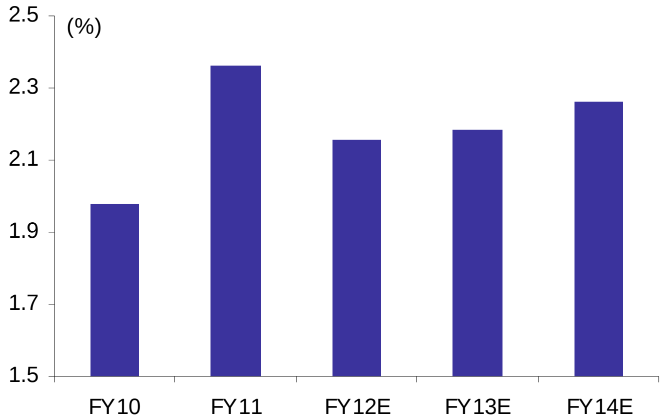


Source: Company, India Infoline Research

NIM declined in H1 FY12 due to migration to system-driven NPL recognition

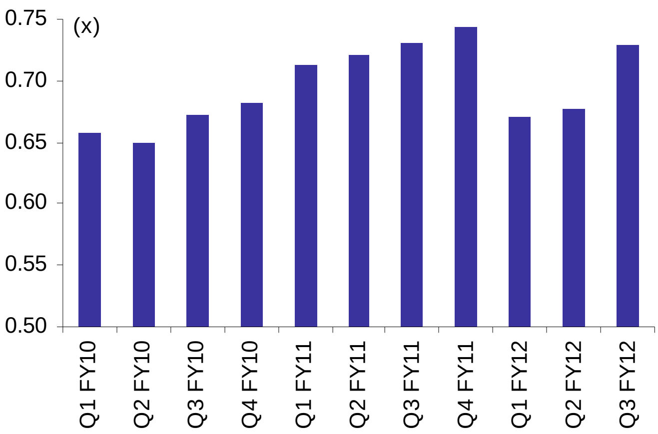


NIM (calculated) to gradually improve over FY12-14

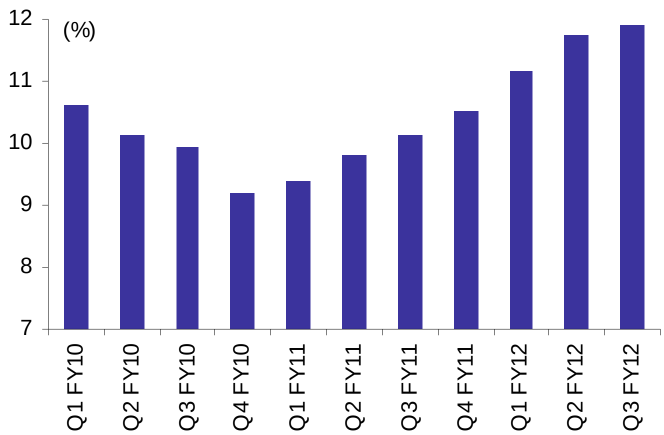


Source: Company, India Infoline Research

With advances growing ahead of deposits, C/D ratio improved in Q3 FY12

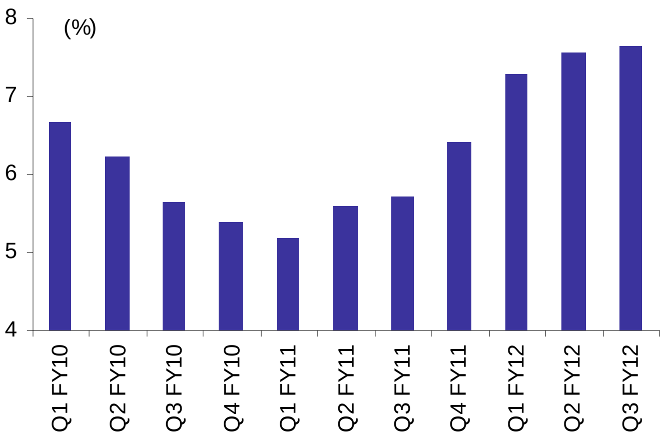


YoA improved by ~140bps over the past three quarters

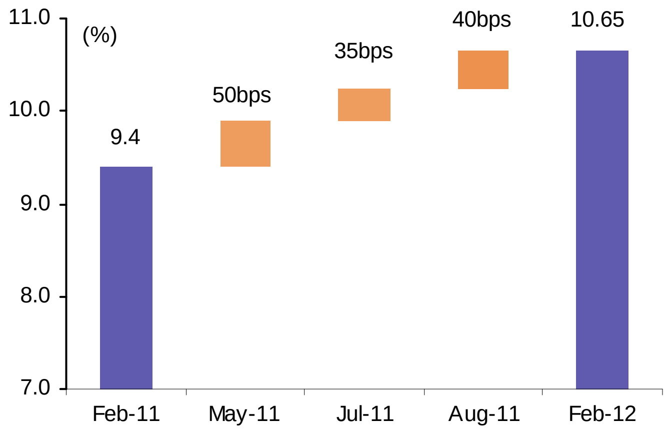


Source: Company, India Infoline Research

CoD increased on account of deposit rate hikes



Base rate hiked by 125bps since Feb'2011



Source: Company, India Infoline Research

Tier-1 ratio at 8.9% after reckoning 9M FY12 profits

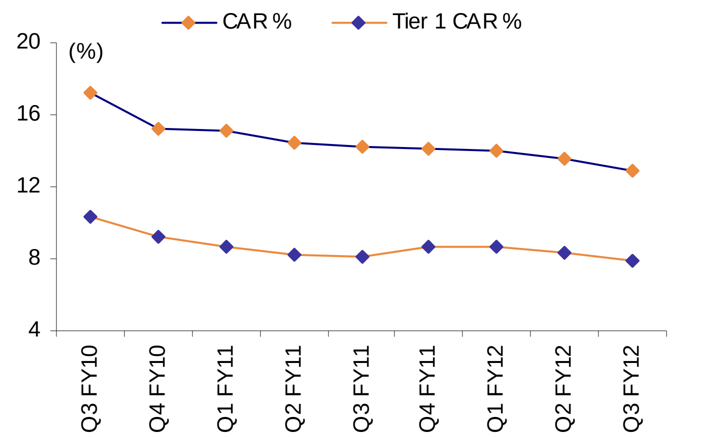
RoA to sustain around 1% in FY12 & FY13

RoE to remain 19%+

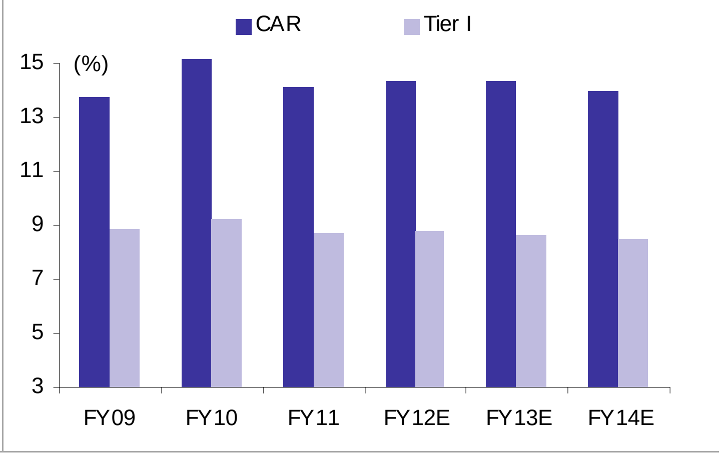
Capital adequacy comfortable; RoA to sustain around 1%

Corporation Bank's capital adequacy with Tier-1 ratio at 8.9% after reckoning 9M FY12 profits is better than many other PSU Banks. High Tier-1 ratio and strong RoA should enable the bank to achieve the projected balance sheet growth without capital infusion. Corporation Bank's relatively lesser need for government recapitalization is a positive given the strained fiscal situation. Aided by gradual improvement in margin, we expect Corporation Bank to sustain RoA around 1% in FY12 and FY13 notwithstanding elevated credit cost. RoE is estimated to remain around 20%.

Capital adequacy has been comfortable so far

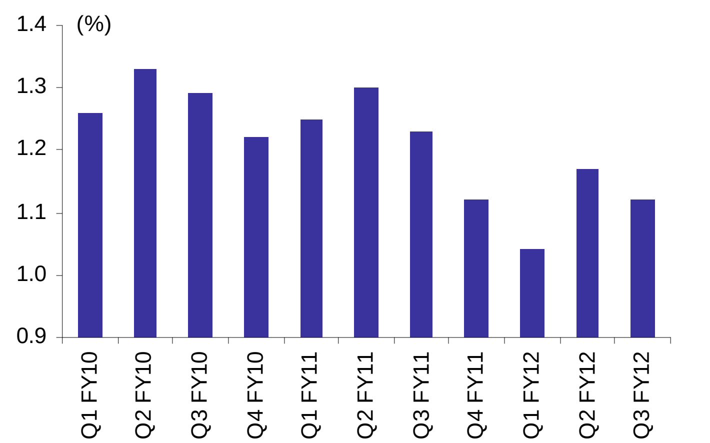


Current capitalization sufficient to support growth over the next two years

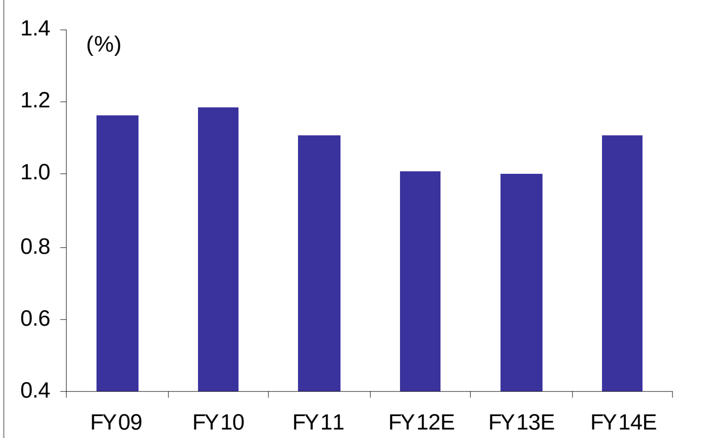


Source: Company, India Infoline Research

RoA has always been above 1%



... to sustain near 1% in FY12-13 as well



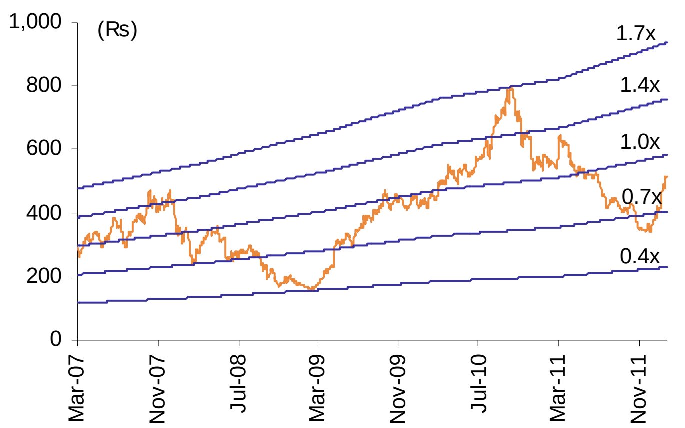
Source: Company, India Infoline Research

Estimate 17% earnings CAGR over FY11-14

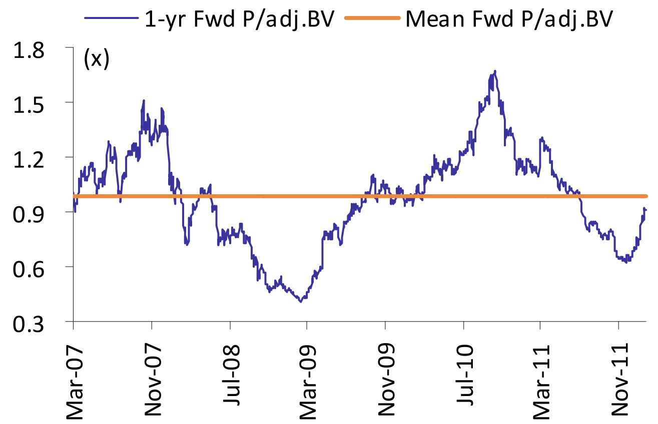
One of the better bets amongst mid-sized PSU Banks

Corporation Bank provides comfort on multiple fronts – reasonable valuation vis-à-vis strong RoA delivery, lean operating structure, healthy capitalization, strong non-interest income growth and lower NPL risk. Despite factoring some stress in asset quality and resultant higher provisioning, we estimate the bank to deliver 17% earnings CAGR over FY11-14. Initiate coverage with a BUY rating and 9-month price target of Rs600 implying 17.4% upside from current levels. In our view, Corporation Bank is one of the better bets amongst mid-sized PSU Banks to play the cyclical re-rating story.

1-yr rolling fwd P/adj.BV at 0.9x; reasonably attractive



Current valuation below historical mean; ample room for cyclical re-rating



Source: Bloomberg, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY11	FY12E	FY13E	FY14E
Interest income	91,352	129,835	143,148	160,790
Interest expense	(61,955)	(97,739)	(106,069)	(115,648)
Net int income	**29,397**	**32,097**	**37,079**	**45,142**
Non-int income	13,244	15,628	18,441	21,760
Total op income	**42,641**	**47,724**	**55,520**	**66,902**
Total op expenses	(16,417)	(18,502)	(21,647)	(25,327)
Op profit	**26,224**	**29,222**	**33,872**	**41,575**
Loan-loss Prov	(5,478)	(6,487)	(8,509)	(8,757)
Other provisions	(1,410)	(2,900)	(500)	(500)
Profit before tax	**19,336**	**19,835**	**24,863**	**32,318**
Taxes	(5,204)	(4,562)	(7,459)	(9,695)
Net profit	**14,133**	**15,273**	**17,404**	**22,622**

Balance sheet

Y/e 31 Mar (Rs m)	FY11	FY12E	FY13E	FY14E
Total cash & equiva	103,925	104,443	130,527	151,582
Investments	434,527	477,980	554,457	654,259
Advances	868,504	984,884	1,142,465	1,359,533
Total int-earning assets	**1,406,957**	**1,567,307**	**1,827,449**	**2,165,375**
Fixed assets	3,310	3,906	4,882	5,957
Other assets	24,819	29,287	35,144	42,876
Total assets	**1,435,086**	**1,600,499**	**1,867,475**	**2,214,207**
Net worth	**71,378**	**82,838**	**95,736**	**112,813**
Deposits	1,167,475	1,314,577	1,551,201	1,861,441
Borrowings	159,654	162,847	175,875	190,824
Total int-bear liab	**1,327,129**	**1,477,424**	**1,727,075**	**2,052,265**
Non-int-bearing liab	36,579	40,237	44,663	49,129
Total liabilities	**1,363,708**	**1,517,661**	**1,771,738**	**2,101,394**
Equity + Total liabilities	**1,435,086**	**1,600,499**	**1,867,475**	**2,214,207**

Key ratios

Y/e 31 Mar	FY11	FY12E	FY13E	FY14E
Growth matrix (%)				
Net interest income	54.5	9.2	15.5	21.7
Total op income	25.5	11.9	16.3	20.5
Op profit (pre-prov)	22.7	11.4	15.9	22.7
Net profit	20.2	8.1	14.0	30.0
Advances	37.4	13.4	16.0	19.0
Deposits	25.9	12.6	18.0	20.0
Total assets	28.5	11.5	16.7	18.6
Profitability Ratios (%)				
NIM	2.4	2.2	2.2	2.3
Non-int inc/Total inc	31.1	32.7	33.2	32.5
Return on Avg Equity	21.9	19.8	19.5	21.7
Return on Avg Assets	1.1	1.0	1.0	1.1
Per share ratios (Rs)				
EPS	95.4	103.1	117.5	152.7
Adj.BVPS	455.0	492.7	569.2	669.8
DPS	20.0	22.0	26.0	32.0
Other key ratios (%)				
Credit/Deposits	74.4	74.9	73.7	73.0
Cost/Income	38.5	38.8	39.0	37.9
CASA	26.0	24.5	26.0	27.0
CAR	14.1	14.4	14.3	13.9
Tier-I capital	8.7	8.8	8.7	8.5
Gross NPLs/Loans	0.9	1.3	1.4	1.4
Credit Cost	0.9	1.0	0.8	0.7
Net NPLs/Net loans	0.5	1.0	1.0	1.0
Tax rate	26.9	23.0	30.0	30.0
Dividend yield	3.9	4.3	5.1	6.3

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

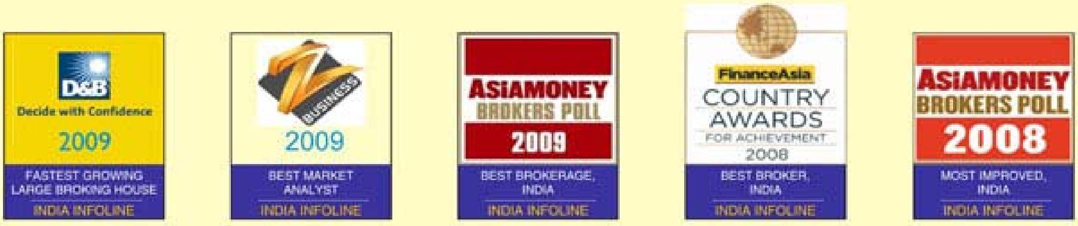
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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