

July 28, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs515	Rs570
EPS change FY11E/12E (%)	-4.3/-8.2
Target Price change (%)	-3.5
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(16)	(7)	(9)
Rel. to Nifty	(1)	(11)	(5)	(10)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

	Banks
Sector	Banks
Bloomberg	CRPBK@IN
Equity Capital (Rs mn)	1481
Face Value(Rs)	10
No of shares o/s (mn)	148
52 Week H/L	815/497
Market Cap (Rs bn/USD mn)	76/1,723
Daily Avg Volume (No of sh)	20501
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	58.5	58.5	57.2
FII/NRI	5.0	4.8	4.8
Institutions	30.8	31.4	32.8
Private Corp	2.4	2.3	2.2
Public	3.3	3.0	3.0

Source: Capitaline

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- CRPBK's Q1FY12 NII below expectation at Rs7.1bn, however PAT at Rs3.5bn inline with market expectation led by lower tax and provisioning during the quarter
- The NII grew by just 1.4% yoy to Rs7.1bn, led by 9.1%qoq decline in advances and more than expected contraction of 42bps in NIM's. NIM's stood abysmally low at 2.1%
- Though gross NPA increased by 7.3%qoq to Rs8.5bn, fresh slippages remain under control at Rs~1.7bn for the quarter with slippage rate under <1% (annualised).
- Bank faces headwinds on NIMs due to its low CASA but valuations unreasonable at 1.0x/0.9x FY12E/FY13 ABV with 18% RoEs. Maintain ACCUMULATE with TP of Rs570

NII growth below expectations

CRPBK's NII for Q1FY12 grew by just 1.4% yoy to Rs7.1bn, below our expectation, led by 9.1%qoq decline in advances and more than expected contraction in NIM's. The NIM contracted by 42bps to 2.1% as cost of funds increased by a higher 104bps qoq against just 76bps increase in yield on assets.

Yield analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (bps)	QoQ (bps)
Yield on assets*	7.2	7.4	8.1	7.7	8.4	121	76
Cost of funds*	4.7	4.9	5.4	5.4	6.4	169	104
NIM*	2.5	2.5	2.8	2.3	2.0	-48	-28
NIM#	2.6	2.6	2.7	2.5	2.1	-52	-42

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

Triggers to NIMs are there but improvement may be limited

There are couple of triggers to CRPBK's NIMs going forward viz. (1) the bank has raised its lending rates by 50bps in Q1FY12 and 35bps in Jul-11 which will help advances yields (2) only 11% of CRPBK's deposits will mature in Q2FY12 compared with 22% in Q1FY12 and (3) CRPBK's CDR for Q1FY12 was at just 67% which has possibility to improve. However, with very low CASA and higher bulk deposits we believe that the improvement in NIMs may be not be too high.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	33,967	11,703	81.6	388.9	1.2	21.9	6.5	1.3
FY2011	42,644	14,136	95.4	457.0	1.1	21.9	5.4	1.1
FY2012E	48,887	14,151	95.5	514.2	0.9	18.4	5.4	1.0
FY2013E	56,222	15,922	107.5	580.7	0.9	18.0	4.8	0.9

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	6,976	7,152	8,423	7,616	7,076	1.4	-7.1
Other Income	2,661	2,261	2,645	4,904	2,897	8.9	-40.9
<i>Net Income</i>	<i>9,637</i>	<i>9,414</i>	<i>11,068</i>	<i>12,520</i>	<i>9,973</i>	<i>3.5</i>	<i>-20.3</i>
Total Operating Expenses	3,433	3,679	3,699	5,056	4,208	22.6	-16.8
<i>As % Of Net Income</i>	<i>35.6</i>	<i>39.1</i>	<i>33.4</i>	<i>40.4</i>	<i>42.2</i>		
Employee Expenses	1,708	1,866	1,830	2,996	2,151	26.0	-28.2
<i>As % Of Net Income</i>	<i>17.7</i>	<i>19.8</i>	<i>16.5</i>	<i>23.9</i>	<i>21.6</i>		
Other Expenses	1,725	1,813	1,869	2,060	2,057	19.2	-0.1
<i>As % Of Net Income</i>	<i>17.9</i>	<i>19.3</i>	<i>16.9</i>	<i>16.5</i>	<i>20.6</i>		
Operating Profit	6,204	5,735	7,369	7,465	5,764	-7.1	-22.8
<i>As % Of Net Income</i>	<i>64.4</i>	<i>60.9</i>	<i>66.6</i>	<i>59.6</i>	<i>57.8</i>		
Provisions	1,266	976	2,500	2,695	1,673	32.1	-37.9
PBT	4,938	4,759	4,868	4,770	4,092	-17.1	-14.2
Total Tax	1,600	1,241	1,045	1,318	577	-63.9	-56.2
Adjusted PAT	3,338	3,517	3,823	3,452	3,515	5.3	1.8
Extra Ordinary Items	0	0	0	0	1		
Reported PAT	3,338	3,517	3,823	3,452	3,516	5.3	1.8
Reported EPS	23.3	24.5	26.7	23.3	23.7	2.0	1.8

Source: Company, Emkay Research

Average advance growth higher at 33.2% compared with reported 21.8%

The advances during the quarter grew by 21.8%yoy (9.1%qoq) to Rs789mn, however average advances growth was higher at 33.2%yoy. The strong growth during the quarter was driven by strong growth in SME advances which grew by 78.6%yoy and 2.6%qoq to Rs119.3bn.

Core operations under pressure

The fee income grew by a modest 14.9%yoy to Rs1.9bn, though sequentially down by 31%. With low NII and modest growth in free income, CRPBK's core operating profit adjusted for treasury gains and pension liabilities declined by 6.1%yoy and 28.3%qoq to Rs5.7bn.

Other income

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Fee/Commission income	1,621	1,628	1,646	2,699	1,863	14.9	-31.0
Trading gains/(losses)	135	45	324	819	343	153.9	-58.1
Others	905	589	675	1,387	692	-23.6	-50.1
Total	2,661	2,261	2,645	4,904	2,897	8.9	-40.9

Source: Company, Emkay Research

Core operating profit

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Reported operating profit	6,204	5,735	7,369	7,465	5,764	-7.1	-22.8
Less: Treasury gains	135	45	324	819	343	153.9	-58.1
Add: Pension provisions	0	0	553	1,296	276		
Adj core operating profit	6,069	5,690	7,597	7,941	5,698	-6.1	-28.3

Source: Company, Emkay Research

Provisioning inline with lower slippages

During the quarter, bank's overall provisioning declined by 37.9% to Rs1.7bn inline with lower slippage rate.

Write back of excess tax provision helps net profit growth

The bank wrote back excess tax provision of Rs633.2mn during the quarter, as result of which net tax liability stood lower at Rs577mn (14.1% tax rate). Consequently net profit grew by a higher 5.3% to Rs3.5bn. However adjusted for the same, net profit would have declined by 13.7% to Rs2.9bn.

Slippages remain controlled at <1%

Though gross NPA increased by 7.3%qoq to Rs8.5bn, fresh slippages remain under control at Rs~1.7bn for the quarter with slippage rate under <1% (annualised). The recovery during the quarter remain comparatively lower at Rs1.2bn as against ~Rs3.0bn in preceding quarter, as a result of which the increase in GNPA looks little higher.

The PCR (including tech w/off) also remained stable at 74.9%.

Slippages

	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Cumulative (Rs mn)	4,768	2,187	3,461	6,316	7,972	1700
Quarterly (Rs mn)	975	2,187	1,274	2,855	1,656	1700
Cumulative (%)	0.8	0.3	0.5	0.9	0.9	0.2
Quarterly (%)	0.2	0.3	0.2	0.4	0.2	0.2

NPA profile

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	7,268	7,403	9,138	7,902	8,482	16.7	7.3
Net NPA (Rs bn)	2,758	2,696	4,135	3,977	4,115	49.2	3.5
Gross NPA (%)	1.1	1.1	1.3	0.9	1.1		
Net NPA (%)	0.4	0.4	0.6	0.5	0.5		
Net NPLs/Net worth (%)	4.5	4.2	6.0	5.6	5.5		
Provision cover (%)	62.1	63.6	54.7	49.7	51.5		
Provision cover incl tech w/off (%)	76.7	78.5	72.8	74.7	74.9		

Source: Company, Emkay Research

Valuations and view

We believe lower NIM's continues to remain a worry for the bank, though the bank has done well in maintaining slippages at less than 1%. However we expect the NIM's to improve going forward as the bank increased its base rate by 85bps over last three months. We believe that the valuations at 1.0x/0.9x FY12E/FY13E ABV are not unreasonable looking at ~18% RoEs.

We have lowered our FY12E/FY13E estimates by 4.3%/8.2% to take into account lower advances growth and lower NIMs. We maintain our ACCUMULATE rating on the stock with price target of Rs570.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	19,033	29,397	32,833	37,979
Other income	14,934	13,247	16,054	18,244
Net income	33,967	42,644	48,887	56,222
Operating expenses	12,600	16,417	19,878	24,470
Pre provision profit	21,368	26,227	29,009	31,752
PPP excl treasury	27,525	28,322	31,104	34,347
Provisions	4,744	6,888	8,794	9,006
Profit before tax	16,623	19,340	20,215	22,746
Tax	4,921	5,204	6,065	6,824
<i>Tax rate</i>	30%	27%	30%	30%
Profit after tax	11,703	14,136	14,151	15,922
			14,909	17,146
			-5.1	-7.1

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	1,434	1,481	1,481	1,481
Reserves	56,314	69,897	80,581	93,037
Net worth	57,749	71,378	82,063	94,519
Deposits	927,337	1,167,475	1,412,858	1,680,692
Borrowings	131,838	196,570	211,931	227,762
Total liabilities	1,116,923	1,435,423	1,706,852	2,002,973
Assets				
Cash and bank	107,919	103,924	101,024	154,982
Investments	332,562	421,398	507,633	568,866
Customer assets	644,690	881,633	1,072,704	1,252,832
Others	31,752	28,468	25,491	26,293
Total assets	1,116,923	1,435,423	1,706,852	2,002,973

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	1.9	2.3	2.1	2.0
Non-ll/avg assets	1.5	1.0	1.0	1.0
Fee income/avg assets	0.3	0.3	0.3	0.3
Opex/avg assets	1.3	1.3	1.3	1.3
Provisions/avg assets	0.6	0.7	0.7	0.7
PBT/avg assets	1.5	1.3	1.2	1.1
Tax/avg assets	0.4	0.4	0.4	0.3
RoA	1.2	1.1	0.9	0.9
RoAE	21.9	21.9	18.4	18.0
GNPA (%)	1.2	1.0	1.0	1.0
NNPA (%)	0.3	0.4	0.6	0.7

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	11,703	14,136	14,151	15,922
Shares in issue (mn)	143	148	148	148
EPS (Rs)	81.6	95.4	95.5	107.5
PER (x)	6.3	5.4	5.4	4.8
FDEPS(Rs)	79.0	95.4	95.5	107.5
FDPER (x)	6.5	5.4	5.4	4.8
Book value (Rs)	402.6	481.9	554.0	638.1
P/BV (x)	1.3	1.1	0.9	0.8
Adj book value (Rs)	388.9	457.0	514.2	580.7
P/ABV (x)	1.3	1.1	1.0	0.9
P/PPP (x)	3.5	2.9	2.6	2.4
Dividend yield (%)	3.2	3.9	3.9	3.9

Recommendation History: Corporation Bank – CRPBK IN

Date	Reports	Reco	CMP	Target
02/05/2011	Corporation Bank Q4FY11 Result Update	Accumulate	583	700
27/01/2011	Corporation Bank Q3FY11 Result Update	Buy	564	700
22/10/2010	Corporation Bank Q2FY11 Result Update	Buy	735	860
29/07/2010	Corporation Bank Q1FY11 Result Update	Accumulate	565	600

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/07/2011	Bank of Baroda Q1FY12 Result Update	Hold	875	950
27/07/2011	Canara Bank Q1FY12 Result Update	Hold	496	535
25/07/2011	Bank of India Q1FY12 Result Update	Hold	404	420
22/07/2011	Union Bank of India Q1FY12 Result Update	Hold	309	330

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