

## Banking

## Corporation Bank

## Buy

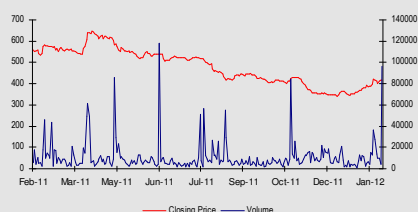
*(Higher NIMs; sharp rise in other income maintains bottomline)*

<b>CMP</b>	<b>Rs 416</b>
<b>Target Price</b>	<b>Rs 540</b>

## Key Data

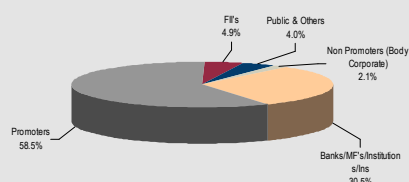
Face Value	10
Market Cap (Rs in mn)	61622
Total O/s Shares in (in mn)	148.1
Free Float	41.48%
52 Week High / Low	658/335
Avg. Monthly Volume (BSE)	13468
Avg. Monthly Volume (NSE)	69427
BSE Code	532179
NSE Code	CORPBANK
Bloomberg Code	CRPBK IN
Beta	0.6
Date of Incorporation	1906
Last Dividend Declared	200%
Six month return	-15.6%
Indices	A/ BSE500

## One Year Price Chart



Source: Capitaline

## Share Holding Pattern 31.12.2011



Source: Company, KJMC Research

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Corporation Bank reported PAT of Rs 4022.2mn, up 5.2%YoY which was above our/steet estimates. NII for the quarter was lower than estimated, grew by 2.3%YoY mainly on account of higher interest expended. However other income grew robustly by 67.0%YoY to Rs 4416.5mn due to which PAT came above our estimates. With major PSU banks reporting higher NPAs, CRPBKs GNPA remained stable at 1.35%, NNPA at 1.0%. NIMs improved by 22bps to 2.4% sequentially.

The stock is currently trading at 0.7x of its FY13E ABV. We value the standalone business at 0.9x of its FY13E ABV at Rs 600.5 and maintain our Buy rating on the stock revising Target Price downwards to Rs 540 considering restructuring accounts to increase in coming quarters.

## Key Highlights

**Strong growth in advances:** CRPBK witnessed robust growth in advances up by 28.4% YoY and 13.2% QoQ to Rs 923.8bn while Deposits also grew by 28.5% YoY in which CASA share continues to remain low at 21.1% while NIMs of the bank improved sequentially by 22bps to 2.4%.

**Strong growth in other income supported by fee income and trading gains:** Other income of the bank increased significantly by 67% YoY to Rs 4417mn as compared to our estimate of Rs 3835mn. The huge increase was largely on account of strong growth in fee income, trading gains and recovery.

**Asset quality remained stable; restructuring in comfort zone:** On the asset quality front, Gross NPA of the bank remained stable at 1.4% to Rs 12bn while NNPA at 1.0%. Slippages for the quarter stood at Rs 3740mn which includes one large account of King fisher Airlines of Rs 1.55bn for which it has made provision of Rs 0.4bn. In addition, bank has restructured loans worth Rs 7.4bn which includes GTL exposure of Rs 3.1bn. Moreover, Bank is expected to restructure Rajasthan State power Distribution Company worth Rs 13bn in the coming quarter. The total outstanding restructured amount stood at Rs45.4bn (4.9% of advances).

**Provisions higher due to GTL exposure:** The provisions and contingencies increased to Rs. 3014.9mn as compared to 2048mn in Q2 FY12 mainly due to increase in higher provisioning of NPAs at Rs 1769mn while 504mn on investment depreciation. Also, bank has taken hit of Rs 490mn by providing NPV loss on GTL.

## Standalone Financial Snapshot

(Rs in mn)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Interest Income (Rs)	60673.4	72946.0	91352.5	129937.6	151448.0
NII (Rs)	16909.7	22102.6	29397.4	34122.5	44083.5
PAT (Rs)	8927.7	11702.5	14132.7	14627.6	18781.8
EPS (Rs)	62.2	81.6	95.4	98.8	126.8
ABV (Rs)	331.7	388.8	455.0	520.2	600.5
P/E (x)	6.7	5.1	4.4	4.2	3.3
P/ABV (x)	1.3	1.1	0.9	0.8	0.7

Source: Company, KJMC Research

## Valuations and Outlook

CRPBK has delivered healthy growth in its profits driven by robust growth in other income coupled with improvement in margins. Asset quality remained stable but still uncertainty continues going forward with restructuring amount likely to increase. The stock is currently trading at 0.7x of its FY13E ABV. We value the standalone business at 0.9x of its FY13E ABV at Rs 600.5 and maintain our Buy rating on the stock revising Target Price downwards to Rs 540 (vs earlier of Rs 601) considering restructuring accounts to increase in coming quarters.

## Quarterly Result Q2 FY12

Particulars (Rs in mn)	Q3FY12	Q3FY11	yoy (%)
<b>Interest earned</b>	<b>33628.4</b>	<b>24,712.6</b>	<b>36.1</b>
-Interest/discount on advances/bills	24573.6	17,213.9	42.8
-Income on investments	8163.1	6,308.3	29.4
-Interest on bal. with RBI	116.3	69.6	67.0
-Others	775.4	1,120.8	-30.8
Interest expenses	25010.3	16,288.7	53.5
<b>Net Interest Income (NII)</b>	<b>8618.1</b>	<b>8,423.9</b>	<b>2.3</b>
Other Income	4416.5	2,644.8	67.0
Total income	13034.6	11,068.7	17.8
Operating expenses	4775.4	3,699.3	29.1
-Employee cost	2473.2	1,829.9	35.2
-Other operating expenses	2302.2	1,869.4	23.2
<b>Operating profit</b>	<b>8259.2</b>	<b>7,369.4</b>	<b>12.1</b>
Provision for contingencies	3014.9	2,500.2	20.6
<b>PBT</b>	<b>5244.4</b>	<b>4,869.2</b>	<b>7.7</b>
Provision for taxes	1222.2	1,045.0	17.0
<b>Net profit</b>	<b>4022.2</b>	<b>3,824.2</b>	<b>5.2</b>
Equity	1481.3	1434.4	3.3
EPS	27.2	26.7	1.8
<b>Ratios (%)</b>			
Int. exp/Int earned (%)	74.4	65.9	-
Cost/Income ratio (%)	36.6	33.4	-
Emp. cost/Int. Income (%)	7.4	7.4	-
Gross NPAs (Rs)	12491.7	9137.5	36.7
Net NPAs (Rs)	8852.9	4135.1	114.1
Gross NPAs (%)	1.4	1.3	-
Net NPAs (%)	1.0	0.6	-
ROA (%)	1.1	1.2	-
CAR (%)	12.8	14.3	-
Advances (Rs)	923,775.3	719,341.8	28.4
Deposits (Rs)	1,266,072.3	985,257.7	28.5
Business (Rs)	2,189,847.6	1,704,599.5	28.5
CD ratio (%)	73.0	73.0	-
Investments (Rs)	478280.5	391134.2	22.3
Total assets (Rs)	1525252.4	1214507.5	25.6
Provisions (Rs)	3638.9	5002.4	-27.3
Provision coverage (%)	29.1	54.7	-46.8

Source: Company, KJMC Research

## Financial Summary

### Income Statement

(Year ending March, Rs in mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Interest Income</b>					
-Interest/Discount on advances and bills	43848.7	49792.0	64752.1	93511.8	108474.0
-Income on Investments	15076.7	20914.3	23276.8	32903.3	38932.7
-Int. on bal. with RBI	850.3	37.5	148.9	189.0	207.9
-Others	897.8	2202.2	3174.7	3333.4	3833.5
<b>Total Interest Income</b>	<b>60673.5</b>	<b>72946.0</b>	<b>91352.5</b>	<b>129937.6</b>	<b>151448.0</b>
Interest on deposits	40828.3	45553.0	53335.5	85981.5	95564.3
Interest on RBI / Inter-bank borrowings	1060.0	278.1	1598.2	2283.0	2739.7
Others	1875.4	5012.3	7021.4	7550.5	9060.6
<b>Total Interest expense</b>	<b>43763.7</b>	<b>50843.4</b>	<b>61955.1</b>	<b>95815.0</b>	<b>107364.5</b>
<b>Net Interest Income</b>	<b>16909.8</b>	<b>22102.6</b>	<b>29397.4</b>	<b>34122.5</b>	<b>44083.5</b>
Other Income	11072.1	11864.2	13243.7	13501.5	14852.0
<b>Total Income</b>	<b>27981.9</b>	<b>33966.8</b>	<b>42641.1</b>	<b>47624.0</b>	<b>58935.5</b>
Employees Cost	4679.7	6317.0	8949.4	10105.8	12060.2
Other operating expenses	5336.0	6282.5	7467.7	8292.6	9112.0
Total operating expenses	10015.8	12599.5	16417.1	18398.4	21172.2
<b>Operating Profit</b>	<b>17966.1</b>	<b>21367.3</b>	<b>26224.0</b>	<b>29225.7</b>	<b>37763.2</b>
Provisions and contingencies	4103.7	4744.3	6887.7	9187.8	10932.2
<b>Profit before tax (PBT)</b>	<b>13862.4</b>	<b>16623.0</b>	<b>19336.3</b>	<b>20037.8</b>	<b>26831.1</b>
Tax provisions	4934.8	4920.5	5203.6	5410.2	8049.3
<b>Profit After Tax (PAT)</b>	<b>8927.6</b>	<b>11702.5</b>	<b>14132.7</b>	<b>14627.6</b>	<b>18781.8</b>
(% change)	21.5	31.1	20.8	3.5	28.4
EPS	62.2	81.6	95.4	98.8	126.8
Share Capital	1434.4	1434.4	1481.3	1481.3	1481.3

Source: Company, KJMC Research

### Balance Sheet

(Year ending March, Rs in mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Application of funds</b>					
Share Capital	1434	1434	1481	1481	1481
Reserves & Surplus	47531	56314	69897	80530	93386
Total Deposits	739839	927337	1167475	1433306	1768385
Borrowings	48099	90775	159654	191585	229901
Other Liabilities and provisions	32155	40812	36579	49053	55053
<b>Total liabilities</b>	<b>869058</b>	<b>1116673</b>	<b>1435086</b>	<b>1755955</b>	<b>2148206</b>
<b>Sources of funds</b>					
Cash and Balances with RBI & Bal. with banks	105397	107919	103925	143191	143386
Total Advances / Credit	485122	632026	868504	1059575	1324469
Total Investments	249378	345226	434527	519191	642979
Fixed Assets	2989	2893	3310	3778	4153
Other Assets	26173	28609	24819	30220	33220
<b>Total assets</b>	<b>869058</b>	<b>1116673</b>	<b>1435086</b>	<b>1755955</b>	<b>2148206</b>

Source: Company, KJMC Research

## Key Ratios

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
<b>(A) Efficiency Ratios (%)</b>					
Int. exp/Int. earned	72.1	69.7	67.8	73.7	70.9
Cost / Income	35.8	37.1	38.5	38.6	35.9
C-D ratio	65.6	68.2	74.4	73.9	74.9
Net Interest Margin	2.3	2.3	2.4	2.2	2.3
<b>B) Solvency</b>					
Gross NPAs/ Net Advances (%)	1.1	1.0	0.9	1.1	1.0
Net NPAs/ Net Advances (%)	0.3	0.3	0.5	0.5	0.4
<b>C) Measures of Investment</b>					
EPS (Rs)	62.2	81.6	95.4	98.7	126.8
BV (Rs)	341.4	402.6	481.9	553.6	640.4
Adjusted BV (Rs)	331.7	388.8	455.0	520.2	600.5
Avg. ROE (%)	19.6	21.9	21.9	19.1	21.2
Avg. ROA (%)	1.2	1.2	1.1	0.9	1.0
P/E (x)	6.7	5.1	4.4	4.2	3.3
P/ABV (x)	1.3	1.1	0.9	0.8	0.7
Dividend yield (%)	3.0	4.0	4.8	5.3	5.8
Effective tax rate (%)	35.6	29.6	26.9	27.0	30.0
<b>D) Growth Rates (%)</b>					
Deposits	33.5	25.3	25.9	22.8	23.4
Advances	23.8	30.3	37.4	22.0	25.0
<b>E) Other performance parameters</b>					
No. of branches (No.)	1054	1155	1361	1511	1661
No. of employees (No.)	12465	12494	13861	15861	17861
Business per branch (Rs mn)	1162.2	1350.1	1495.9	1649.8	1862.0
Profit per branch (Rs mn)	8.5	10.1	10.4	9.7	11.3
Business per employee (Rs mn)	98.3	124.8	146.9	157.2	173.2
Profit per employee (Rs mn)	0.7	0.9	1.0	0.9	1.1

Source: Company, KJMC Research

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#### Recommendation Parameters

Expected returns in absolute terms over a one-year period

<b>Buy</b>	- appreciate more than 20% over a 12- month period
<b>Accumulate</b>	- appreciate 10% to 20% over a 12- month period
<b>Hold / Neutral</b>	- appreciate up to 10% over a 12- month period
<b>Reduce</b>	- depreciate up to 10% over a 12- month period
<b>Sell</b>	- depreciate more than 10% over a 12- month period

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Products	Contains	Frequency
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Daily Performance Report for all Debt & Equity Funds	Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund.	Mon-Fri
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Data Sources : Capitalline, Companies, Bloomberg, Various Websites & publication available on Public domain.

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<b>Mutual Fund's AMFI No.</b>	:	ARN - 2386

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