

RESULTS REVIEW

Share Data

Market Cap	Rs. 63.4 bn
Price	Rs. 441.65
BSE Sensex	17,032.51
Reuters	CRBK.BO
Bloomberg	CRPBK IN
Avg. Volume (52 Week)	0.03 mn
52-Week High/Low	Rs. 480 / 155
Shares Outstanding	143.4 mn

Valuation Ratios

	2010E	2011E
EPS (Rs.)	80.2	101.7
+/- (%)	27.7%	26.9%
PER (x)	5.5x	4.3x
P / PPP (x)	2.8x	2.0x
P / ABV (x)	1.1x	0.9x

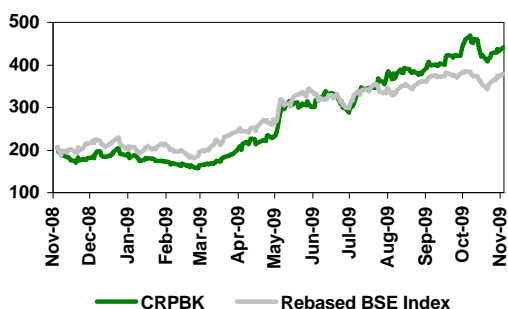
Shareholding Pattern (%)

Promoter	57
FII's	4
Institutions	35
Public & Others	5

Holding >1% (Non-Promoter)

Life Insurance Corporation of India	26.32
ICICI Prudential Infrastructure Fund	1.66
Bajaj Allianz Life Insurance Company Ltd	1.61
Reliance Capital Trustee Co. Ltd A/C Reliance Longterm Equity Fund	1.31
Matthews India Fund	1.20

Relative Performance



Corporation Bank

Hold

Healthy performance to continue

Corporation Bank's (CorpBank's) results exceeded our expectations with net profit increasing by 52.3% yoy to Rs. 2.9 bn, driven by the healthy growth in net interest income and non-interest income. In addition, the Bank reported both sequential and yearly improvement in deposits, loan-book, and NPA ratios. In the upcoming quarters, we expect the Bank's core-fee income to continue its upward trend led by the introduction of new fee-based businesses. Further, we anticipate the costs of funds to decline on the back of the Bank's increasing focus to push for higher share of low-interest bearing current and savings account. As a result, we have upgraded our estimates and our fair-value estimate stands at Rs. 488, implying an upside of 10.5% from the present level. Currently, the stock trades at a P/B of ~1.2x, which is close to its historical five year average. Therefore, we reiterate our rating to **Hold**.

NIMs to inch-up marginally: Despite a yoy fall, the Bank reported a slight improvement of 4 bps qoq in NIM to 2.3%, on the back of re-pricing benefits. We expect the NIMs to move-up marginally in the near-term due to (a) re-pricing of deposits and (b) the Bank's increasing focus to lower the cost of deposits by acquiring low-interest bearing current and savings accounts, thereby increasing its CASA, and by aggressively selling its recurring deposits (RD), which are low-cost long term deposits. The Bank recently launched its 5-10 years RD scheme and has been mobilizing ~ Rs. 1.1 bn every month under the scheme.

Non-interest income to show an upsurge: The non-interest income of the Bank witnessed an increase of 73.7% yoy to Rs. 3.0 bn, led by

Key Figures

Quarterly Data

(Figures in Rs. mn, except per share data)

	Q2'09	Q1'10	Q2'10	YoY %	QoQ%	H1'09	H1'10	YoY %
Net Interest Income	4,067	4,675	5,035	23.8%	7.7%	7,847	9,711	23.7%
Net Operating Income	5,810	8,269	8,063	38.8%	(2.5%)	11,166	16,332	46.3%
Pre-Prov Op. Profit	3,515	5,712	5,356	52.4%	(6.2%)	6,725	11,069	64.6%
Net Profit	1,915	2,612	2,917	52.3%	11.6%	3,758	5,529	47.1%
Cost to Income Ratio	-	30.91%	-	-	-	39.78%	32.23%	-
NIM	2.43%	2.26%	2.30%	-	-	2.43%	2.28%	-
NPA ratio	0.40%	0.32%	0.29%	-	-	0.40%	0.29%	-

Per Share Data (Rs.)

PPP per share	24.5	39.8	37.3	52.4%	(6.2%)	46.9	77.2	64.6%
Diluted EPS	13.4	18.2	20.3	52.3%	11.6%	26.2	38.6	47.1%
ABVPS	321.0	359.6	379.9	18.4%	5.7%	321.0	379.9	18.4%

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180.5% yoy increase in core-fee income and 78.5% yoy increase in treasury income. We expect the non-interest income to augment in the upcoming quarters mainly due to an increase in core-fee income because of introduction of new business areas like loan syndication, supply chain management financing; and increasing focus on government tax collection; and expected foray into general insurance businesses.

Result Highlights

CorpBank reported a net profit growth of 52.3% yoy and 11.6% qoq to Rs. 2.9 bn. The profit growth was primarily driven by 73.7% yoy increase in non-interest income, particularly 180.5% yoy growth in core-fee income and 78.5% yoy treasury gain.

- Net Interest Income (NII) recorded a healthy growth of 23.8% yoy and 7.7% qoq to Rs. 5.0 bn, as loans stood at Rs. 525.7 bn witnessing a growth of 20.7% yoy and 11.0% qoq. However, NIM witnessed a fall of 13 bps yoy to 2.3% led by a decline in CASA ratio from 25.4% in Q2'09 to 22.4% in Q2'10. Sequentially, NIM witnessed a marginal improvement (up 4 bps) as cost of deposits dipped from 6.7% in Q1'10 to 6.2% in Q2'10.
- Operating expenses increased by 17.9% yoy to Rs. 2.7 bn, mainly due to a 19.6% yoy increase in the employee costs. However, on the back of strong operating income growth, the cost-to-income ratio declined from 39.8% in H1'09 to 32.2% in H1'10.
- Gross NPAs ratio decreased from 1.4% in Q2'09 to 1.2% in Q2'10 and Net NPA ratio decreased from 0.4% to 0.3% on yoy basis. The Bank maintained healthy provisioning ratio of 75.4% as compared to 70.7% in Q2'09. The Bank registered cash recovery (including upgradation of NPAs) of Rs. 1.4 bn during the half year ended Sep' 09 as compared to Rs. 1.3 bn during the corresponding period of previous year.
- The Bank's deposits increased 34.2% yoy and 12.1% qoq to Rs. 808.9 bn, led by an yearly increase of 18.2% in demand deposits and 39.7% in term deposits. The growth in term deposits outpaced that of demand deposit resulting in the 300 bps yoy fall of CASA ratio.

However, the stable nature of term deposits is likely to provide the Bank with opportunity to grow its balance sheet in the near term.

- At the close of Q2'10, the Bank's total capital adequacy ratio and tier 1 ratio, as per Basel II, stood at a healthy 18.2% and 10.8%, respectively, versus the regulatory minimum of 9% and 6%.
- The Bank's return on average assets (ROAA) stood at 1.3% (annualised) for Q2'10 as compared to 1.2% for Q2'09. The basic and diluted EPS increased from Rs.13.4 in Q2'09 to Rs. 20.3 in Q2'10 on a non-annualised basis.

Valuation

We have valued the Bank using Discounted Equity Cash Flow (DECF) model, using a cost of equity of 16.16% and an estimated terminal growth rate of 9.95%. This results in a fair-value estimate of Rs. 488, which implies an upside of 10.5% over the current market price of Rs. 441.65. Currently, the stock trades at a P/B of ~1.2x, which is close to its historical five year average. Therefore, we reiterate our Hold rating on the stock.

Sensitivity Analysis of the Fair Value Estimate:

		Sensitivity Analysis				
		Cost of Equity				
		15.86%	16.01%	16.16%	16.31%	16.46%
Terminal growth	9.65%	494	482	471	461	451
	9.80%	503	491	479	468	458
	9.95%	512	500	488	476	466
	10.10%	522	509	497	485	474
	10.25%	532	519	506	494	482

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09E	FY10E	FY11E
Interest Income	45,166	60,673	76,443	94,339	Per share data (Rs.)				
Interest Expense	30,631	43,710	56,810	66,796	Shares outstanding (mn)	143	143	143	143
Net Interest Income	14,535	16,963	19,633	27,543	Basic EPS	52.3	62.8	80.2	101.7
YoY Growth (%)	11.1%	16.7%	15.7%	40.3%	Diluted EPS	52.3	62.8	80.2	101.7
Other Income	7,021	11,114	13,426	15,372	Book value per share	294.8	341.4	400.7	472.2
Operating Income	21,556	28,077	33,059	42,915	Adj. book value per share	294.8	341.4	400.7	472.2
YoY Growth (%)	10.9%	30.3%	17.7%	29.8%	Valuation ratios (x)				
Operating Expense	8,923	10,019	10,465	10,805	P/PPP	3.2x	1.4x	2.8x	2.0x
Pre-Provisioning Profit	12,633	18,058	22,594	32,110	P/E	5.4x	2.9x	5.5x	4.3x
Provisions and Contingencies	1,857	4,104	4,569	9,668	P/B	1.0x	0.5x	1.1x	0.9x
Profit Before Tax	10,776	13,954	18,024	22,442	P/ABV	1.0x	0.5x	1.1x	0.9x
Tax	3,272	4,951	6,525	7,855	Performance ratio (%)				
Net Profit	7,504	9,003	11,500	14,587	Return on avg. assets	1.3%	1.2%	1.1%	1.2%
YoY Growth (%)	40.0%	20.0%	27.7%	26.9%	Return on avg. net worth	18.8%	19.7%	21.6%	23.3%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY08	FY09	FY10E	FY11E	Advances to deposits	70.7%	65.6%	64.7%	64.7%
Cash and balances with RBI	89,159	105,397	120,955	135,451	Borrowings to advances	5.5%	4.3%	12.8%	12.2%
Investments	165,124	249,378	410,917	474,552	Investments to assets	24.8%	28.7%	36.1%	35.8%
YoY Growth (%)	14.5%	51.0%	64.8%	15.5%	Investments to deposits	29.8%	33.7%	45.0%	44.0%
Advances	391,856	485,122	590,852	697,624	Net Worth to assets	6.3%	5.6%	5.1%	5.1%
YoY Growth (%)	30.8%	23.8%	21.8%	18.1%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	2,718	2,989	2,966	2,941	Opt. expense per employee	0.7	0.9	0.8	0.8
Other Assets	17,121	26,173	11,371	13,238	Net profit per employee	0.6	0.8	0.9	1.0
Total Assets	665,977	869,058	1,137,060	1,323,805	Asset per employee	55.4	74.4	91.6	93.1
Deposits	554,244	739,839	913,149	1,078,527	Operating ratios (%)				
YoY Growth (%)	30.9%	33.5%	23.4%	18.1%	Operating cost to operating income	41.4%	35.7%	31.7%	25.2%
Borrowings	21,376	20,724	75,472	84,880	Operating cost to avg. assets	1.5%	1.3%	1.0%	0.9%
YoY Growth (%)	-29.2%	-3.1%	264.2%	12.5%					
Other Liabilities & Provisions	48,071	59,530	90,965	92,666					
Total Liabilities	623,692	820,093	1,079,586	1,256,073					
Share Capital	1,434	1,434	1,434	1,434					
Reserves & Surplus	40,851	47,531	56,040	66,297					
Total Equity & Liabilities	665,977	869,058	1,137,060	1,323,805					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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