Corporation Bank Ltd. ₹ 460

Branching Off !!! Buy

Gateway to Prosperity

March 09, 2012

Company Background

Corporation Bank (CorpBank) is a mid sized PSU bank having a strong presence in the southern part of the country. Established in 1906, the Mangalore based Bank is one of the leading premier public sector banks in India. GOI holds 58.5% & LIC of India holds 25.5% in the bank. Nationalised in 1980, CorpBank was the forerunner in evolving and adapting to the financial sector reforms. In 1997, it became the Second Public Sector Bank in the country to enter capital market. Today it offers all the standard banking products & services plus has pioneered many banking services and standards in the industry which include - Cash Management Services, Gold Banking, m-Commerce, 100% CBS Compliance to name a few. The bank has the distinction of the first Indian bank to publish its financial results (1998–99) conforming to US GAAP. CorpBank has been rated frequently among India's Best Public Sector Banks.

Financial Performance

For Q3FY12, CorpBank registered a moderate financial performance. The Bank witnessed robust growth in advances up by 28.4% YoY and 13.2% QoQ to ₹ 923.8bn while Deposits also grew by 28.5% YoY. Net interest income of the bank grew by muted 2.3% YoY to ₹ 8.62 bn. Non-interest income growth, however, was robust at 67.0% YoY to ₹ 4.42 bn. The huge increase was largely on account of strong growth in fee income, trading gains.

CASA share of CorpBank continues to remain low at 21.1% while NIMs of the bank improved sequentially by 22bps to 2.4%. Operating expenses of the bank increased by 29.1% YoY to ₹ 8.26 bn, while provisioning expenses increased by 20.6% YoY to ₹ 3.01 bn, leading to PAT growth of 5.5% YoY to ₹ 4.02 bn.

It's asset quality deteriorated during Q3FY12, with both gross & net NPA levels increasing by sequentially. As of Q3F Y12, gross NPA ratio stands at 1.35% (up 16% from Q2FY12 levels), while net NPA ratio stands at nearly 1% (up by 18%). Provisioning coverage ratio dropped by 186bp during Q3FY12 to 62.9%.

Investment Rationale

➡ Branch Addition to Improve Business

CorpBank is having a wide network of 1431 branches and 1262 ATMs with major presence in South India (more than 50% branches in south). Bank is now aggressively trying to diversify in the financial hub of the country in the western region. In comparison with its peer group, bank has added highest number of branches in FY11. It is expected to add another 150 branches in FY12 which will be used to draw CASA in the longer run. With substantial branch addition, bank is confident of increasing its CASA ratio. It would have a favourable impact in ensuing quarters. Although C/D ratio is likely to improve with loan book (6.6% QoQ) growing faster than deposits (3.9% QoQ).

➡ Well-diversified loan book

CorpBank 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. CorpBank's loan book has

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Info Codes

Reuters	CRBK.BO
Bloomberg	CRPBK@IN
NSE	CORPBANK
BSE	532179

Market Data

52 Wk Range (₹)	658 / 335
Shares in Issue (mn)	148.0
Mkt. Cap (₹ bn)	67.95
BSE 2 Wk Avg Vol	7286

Share Holding Pattern (%)

Promoters	58.52
DIIs	30.54
FIIs	4.50
Others	6.44

Investment Theme

Corp Bank is a midsized PSU bank. The bank has strong presence in the southern part of India. Corporation Bank is trying to diversify geographically and has opened one of the highest numbers of branches in recent quarters. Over the years, its net sales has significantly risen. Despite growing at fast rate, the bank maintained its asset quality and has enjoyed one of the lowest Net NPA ratios among peers. Its loan book is well diversified and returns on assets have been amongst highest compared to peers. Banks CAR is also satisfactory. Corporation bank's other incomes have been quite high. It is also expected to gain form MCX IPO substantially. Higher branches would help the bank to improve CASA. We are bullish on the bank & thus we recommend to buy this share.

The #1 PSU Bank in 2010-11 - E&Y !

seen a significant growth of 37.4% in FY11 with Credit / Deposit ratio above industry levels of 74.4%. The bank is having well diversified loan book which reduces its risk on the asset quality front. The major portion of the credit demand is mainly driven by sectors like infrastructure and power which is expected to remain same going ahead. Currently, large industry is having a dominant share of 37% in total loan book pie followed by retail and SME forming 19.3% and 15.1% respectively. Despite growing at fast rate, the bank maintained its asset quality and has enjoyed one of the lowest Net NP ratios among peers.

Comfortable Capital Adequacy Ratio

Traditionally Corporation Bank has reported lower GNP. The risk is comparatively lower due to migration to system recognition of NPLs by Sept'11. Over the past four years, bank has managed to keep its GNPA around 1% levels which exhibit its good credit quality accounts. With provision coverage ratio at healthy levels of 70%, Net NPAs of the bank stood at 0.4% which has remained consistent since FY08. Corporation Bank has a track-record of robust recovery which has aided in containing asset quality risks. Corporation Bank's capital adequacy with Tier-1 ratio at 8.9% is better than many other PSU Banks. With strong loan book expansion in Q4 FY12, this ratio is likely to improve in the near term. Bank has already received additional capital support by issuing 4.7mn equity shares to GoI at an issue price of ₹ 658.5 amounting to ₹ 3090mn as a part of recapitalization programme. With this GoI (Government Of India) holding increased from 57.2% to 58.5%.

Strong boost in Other Income

Other income contributes significantly to the bank's total income. During last few quarters, Corporation Bank witnessed a strong growth of 22% YoY when other PSU banks were struggling. Due to timely and appropriate lending rate hikes, loan yield has improved significantly by ~140bps over the past three quarters. Corp 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.

MCX to unfold

Corporation Bank together with SBI Life Insurance and Bank of Baroda hold about 6.5 mn shares (9.69%) of MCX, bought at about ₹ 562 mn between 2004 and 2005. The MCX – multi commodity exchange of India was the first stock exchange to get listed on stock market. The IPO received overwhelming response from investors. The issue was oversubscribed 54 times. Considering the premium valuation it can fetch, the current value of the investment of the above group stands close to ₹ 7 bn.

Key Financials

Year Ended 31st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	70831.6	83834.5	102526.7
Rev. growth (%)	**9.3**	**18.4**	**22.3**
Net profit (₹ mn)	8013.7	10726.8	12063.2
Net profit (%)	**12.9**	**14.1**	**13.9**
Shares outstanding (mn)	143.0	143.0	143.0
EPS (₹)	56.0	75.0	84.4
EPS growth (%)	**32.5**	**33.9**	**12.5**
P/E (x)	3.2	6.4	7.6
ROCE (%)	**16.4**	**18.6**	**16.9**

Banking Sector Update

The Reserve Bank of India (RBI) recently stated that "non-performing loans have grown and have grown quite rapidly in the second half of 2011 calendar year". With the rise in the interest rates and stress in the economic environment, the banking sector has witnessed a steep rise in the provisioning of bad and doubtful debts (NPAs). While there are definitely pressures in terms of accounts coming into CDR, the banks have started to restructure accounts.

The worst seems to be over as the banks have started cleaning up in the last two three quarters. Some amount of an improvement in the asset quality was seen coupled with a good recovery in small value, the trend is continuing the current quarter also. Overall asset quality is expected to improve and on a sequential basis some moderation could occur at the NPA levels. The RBI stated that there is still room to cut the cash reserve ratio (CRR) for banks

Many of the public sector banks fall short of the tier I capital adequacy ratio requirement of 8 per cent as per Basel II norms and are in dire need of capital to fulfil the norm. This year the Government had made provision for only ₹ 60 bn in the budget for recapitalisation of banks, but the country's largest lender SBI alone was recently provided ₹ 79 bn so that its requirement of tier I capital of 8 per cent could be met. Public sector banks require capital infusion of ₹ 3.5 tn over the next 10 years and it is expected that this money would be provided from the plan expenditure from 2012-13. Over ₹ 200 bn is expected to be earmarked for capital infusion in banks within the overall annual plan.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Interest Earned	60673.5	72946	20.23	9135.25	(87.48)
Interest Expended	43763.7	50843.5	16.18	6195.51	(87.81)
Non Interest Income	16909.8	22102.5	30.71	2939.74	(86.70)
Fees and advisory	10158.1	10888.5	7.19	1117.42	(89.74)
Treasury Income etc.	27067.9	32991	21.88	4057.16	(87.70)
Other income	4679.7	6317	34.99	894.94	(85.83)
Net Income	549.6	659.3	19.96	69.26	(89.49)
Employee cost	9891.6	9254.7	(6.44)	1034.36	(88.82)
Other operating Exp.	11715.7	16052	37.01	2189.48	(86.36)
Operating Income	22388.2	26674	19.14	3162.22	(88.14)
Provisions	7338.5	6212.3	(15.35)	661.37	(89.35)
PBT	15049.7	20461.7	35.96	2500.85	(87.78)
Taxes	5383	4920.5	(8.59)	520.37	(89.42)
Net Profit	8927.7	11702.5	31.08	1413.27	(87.92)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	**665976.7**	**869058.1**	**1116673.1**	**1435086.0**
Equity Share capital	1434.4	1434.4	1434.4	1481.3
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	40850.7	47530.7	56314.3	69896.8
Revaluation Reserves	0.0	0.0	0.0	0.0
Net Worth	**42285.1**	**48965.1**	**57748.7**	**71378.1**
Deposits	554244.2	739839.1	927336.7	1167475.0
Borrowings	21376.0	20724.0	90775.3	159653.8
Total Debt	575620.2	760563.1	1018112.0	1327128.8
Other Liabilities & Provisions	48071.4	59529.9	40812.4	36579.1
Total Assets	665976.7	869058.0	1116673.0	1435085.9
Gross Block	71035.3	55906.0	88350.3	81423.2
Less : Revaluation Reserves	18123.2	49490.9	19568.9	22501.9
Advances	391855.7	485121.6	632025.6	868504.0
Investments	165123.8	249377.7	345226.3	434527.4
Gross Block	7234.0	7758.6	8131.7	9040.3
Accumulated Depreciation	4516.5	4769.4	5256.6	5776.1
Net Block	**2717.5**	**2989.2**	**2875.1**	**3264.2**
Capital Work In Progress	0.0	0.0	17.5	45.9
Other Assets	17121.2	26172.6	28609.3	24819.3
Contingent Liabilities	221240.1	344933.3	340603.8	376627.9
Book Value (Rs)	2947.9	3413.6	4026.0	4818.5

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Total Income	30457.8	32680.1	34894.7	38045
Interest Earned	25553.6	29783.2	30907.4	33628.5
Interest Expended	17936.1	22707.6	23471.4	25010.4
Net Interest Income (NII)	7617.5	7075.6	7436	8618.1
Other Income	4904.2	2896.9	3987.3	4416.5
Operating Expenses	7751	5881	6469.5	7790.2
PBIT	4770.8	4091.5	4953.8	5244.4
Exceptional Items	0.0	0.0	0.0	0.0
Deprecition	0.0	0.0	0.0	0.0
Provisions	2700	1670	2050	3010
PBT	4770.8	4091.5	4953.8	5244.4
Non Recurring Item	0.0	0.0	0.0	0.0
Tax	1317.5	577	942.7	1222.2
Profit After Tax	3453.3	3514.5	4011.1	4022.2

52 Week Index Relative Percentage Appreciation

CORPBANK vs SENSEX vs PSU

Risks Associated

➡ Maintaining NIMs

Bank has witnessed strong loan growth. However banks had to mobilize high cost deposits, going forward to support loan growth. Unlike other banks, one of the major challenges the bank is facing is to maintain its NIMs. Margins of the Corporation bank have reduced which is mainly due to decreasing investment spreads.

➡ Impact of FII investments

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). Bank's exposure to Air India is significant Rs13bn. During Q3 FY12, Kingfisher account with an exposure of Rs1.6bn slipped into NPA.

➡ CASA Worries

Bank's deposit profile has weakened due to decline in CASA ratio and consistent higher share of bulk deposits. Significant portion of bulk deposits is not high-cost i. Since the bulk deposits are short term, their re-pricing and availability could become challenging if the liquidity tightens further.

In a Nutshell

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days
Reduce : Expected to depreciate up to 10% over 12-months
Sell : Expected to depreciate 10% or more over 12-months
Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer