

# Investment Ideas

## CORPORATION BANK LTD

**HOLD**

**Corporation Bank Limited [CBL]** incorporated in 1904, is a mid-cap government owned bank (57.2%) with a balance sheet size of approximately Rs 1116bn (as on 31.3.2010) and it has a network of 1159 branches as on 30<sup>th</sup> June 2010

- The bank's credit book grew 30.3%Y-o-Y as compared to industry average of 17%. The bank is well placed in term of asset quality (ROA at 1.1%) and other return parameters. It enjoys healthy provision coverage ratio at 76%. Cost to Income ratio stands at 35.6%, lowest among its peers
- The loan book mix continues to be dominated by large corporates which is approximately 40% while retail loans constitute around 20%.
- The management expects the NIM to stabilize at around 2.5% for FY11. The bank expects total business of 2 lakh cr by end of FY11. The bank plans to increase its CASA ratio to 30% by FY11 from the current 28%.
- The Q1FY11 results were better than street expectations mainly on account of higher net interest income, healthy other income and lower loan provisions. There was an expansion in Credit Deposit Ratio.

**Based on a standalone P/Adj Book Value multiple of 1.1, the fair value per share for the company works out to Rs668.**

### Financial Snapshot

Projections (Rs Mn)	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Interest Income	14,433	16,910	22,103	29,087	35,723
Y-o-Y Growth %		17%	31%	32%	23%
Non-Interest Income	6,998	11,072	11,864	13,407	15,418
Y-o-Y Growth %		58%	7%	13%	15%
Total Income	52,163	71,746	84,810	106,048	131,219
Y-o-Y Growth %		38%	18%	25%	24%
PAT	7,350	8,928	11,703	15,262	17,158
Y-o-Y Growth %		21%	31%	30%	12%
EPS Rs	51.2	62.2	81.6	106.4	119.6
Adj Book Value Rs	285.9	331.7	388.8	498.0	607.5
NIM %	2.5%	2.2%	2.2%	2.3%	2.3%
RoE %	17.4%	18.2%	20.3%	20.9%	19.0%
PER x	11.9	9.8	7.5	5.7	5.1
Price/ BV	2.1	1.8	1.5	1.2	1.0
Price/Adjusted BV	2.1	1.8	1.6	1.2	1.0

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

**Strong Buy** – Expected Returns > 20% p.a.

**Buy** – Expected Returns from 10 to 20% p.a.

**Hold** – Expected Returns from 0 % to 10% p.a.

**Reduce** – Expected Returns from 0 % to 10% p.a. with possible downside risk

**Sell** – Returns < 0 %



### STOCK DATA

BSE / NSE Code	532179/CORPBANK
Bloomberg Code	CRP BANK IN Equity
No. of Shares (Mn)	143.4
Sensex / Nifty	18257 / 5479

### PRICE DATA

CMP Rs (18th August'10)	608.45
Beta	0.65
Market Cap ( Rs mn)	87,252
52 Week High-low	624/ 362
Average Daily Volume	15,339

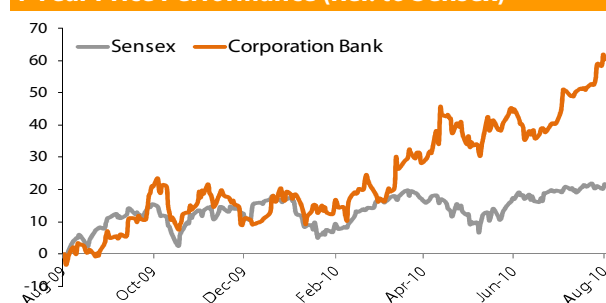
### STOCK RETURN (%)

	30D	3M	6M	1Y
Corporation Bank	14%	17%	38%	60%
Sensex	2%	8%	12%	21%
Nifty	2%	8%	12%	23%

### SHARE HOLDING PATTERN (%)

Promoter	57.2
Institution	37.3
Non Institution	5.5
<b>Total</b>	<b>100.0</b>

### 1 Year Price Performance (Rel. to Sensex)



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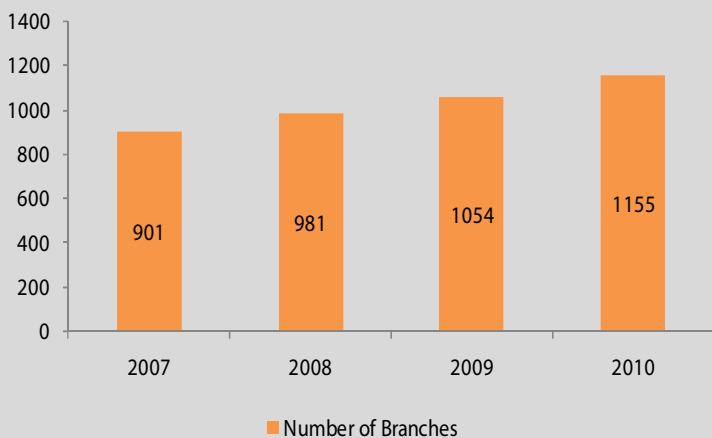


## BUSINESS PROFILE

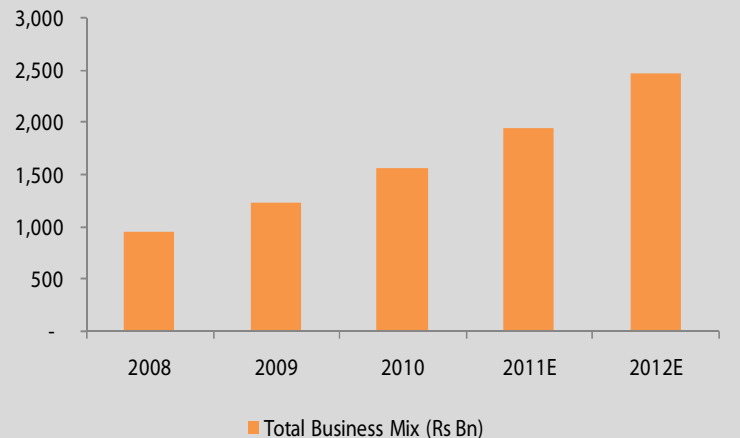
Corporation Bank incorporated in 1904, is a mid-cap government owned bank (57.2%) with a balance sheet size of approximately Rs 1116bn (as on 31.3.2010) and it has a network of 1217 branches. The bank has migrated all its units to the Core Banking solutions (CBS) covering 100% business. The bank has also operationalised and networked 1145 ATMs across the country inclusive of 7 Biometric ATMs. The bank has more than 47% of its branches located in southern part of India. Life Insurance Corporation of India holds 26% stake in the bank. The bank sells insurance products of LIC and it has also tied-up with New India Assurance for selling its general insurance products. Corporation bank was among the first banks in India to provide cash management services (CMS).

**LIC holds 26% stake in the bank**

**Number of Branches**



**Total Business Mix (Rs Bn)**



### Aggressive Branch Expansion to lead to increase in CASA to around 30% by FY11

Corporation bank has been expanding its branch network at a rapid pace. During FY2010 it had opened 101 new branches while during FY2009 it added 73 branches. The bank has a rich presence in south and west India which together account for ~75% of total network. It plans to add over 800 new branches over next 5 years and implement pan India presence. The bank has focused on branchless banking and currently covers over 1200 villages and has opened over 0.54mn no-frill accounts mobilizing over Rs 0.25bn. With impetus given towards financial inclusion and consolidation in the banking system, Corporation bank is expected to be a key beneficiary. It plans to extend this business to over 2,000 villages in near future.

**The bank has been very aggressive in terms of financial inclusion and plans to expand its business in over 2000 villages**

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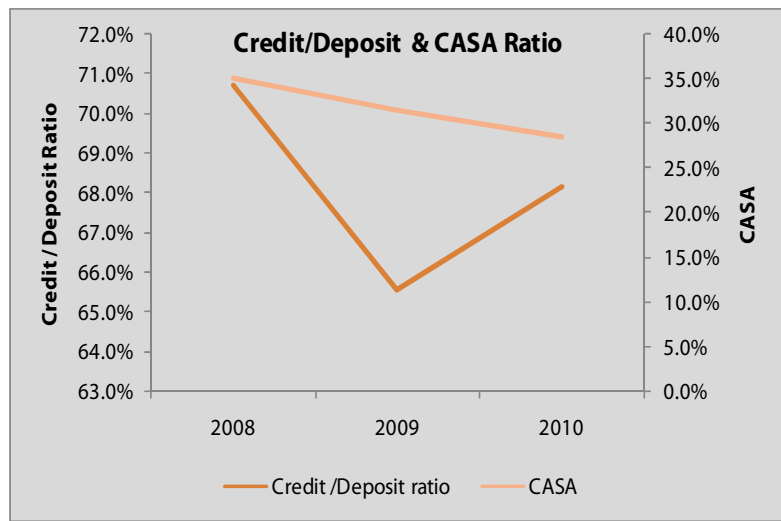
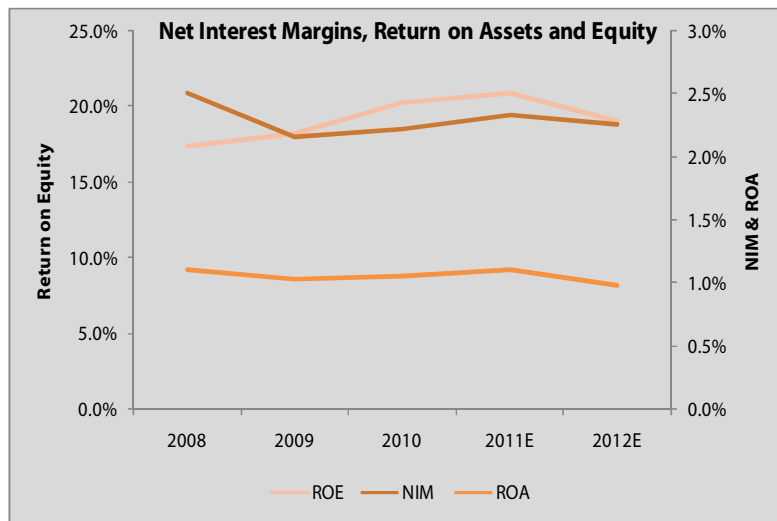
# Investment Ideas

## BUSINESS PERFORMANCE

### Strong Quarterly Performance...

Corporation Bank Q1FY11 net profit was up 27.8% Y-o-Y and 6.9% Q-o-Q at Rs 3,338mn. Loan growth came in higher at 36.8% and deposit book grew 26.2% Y-o-Y. CASA stood at 24.1% whereas NIM showed a significant improvement increased by 36bps Y-o-Y to 2.62%. Improved efficiency and higher productivity had resulted in lower operating cost during the quarter. Cost/Income for the bank at 35.6% is the lowest amongst its peers.

**Cost/Income ratio stands at 35.6% lowest amongst its peers**



### Peer Comparison

Corporation bank has good asset quality and a healthy provision coverage ratio. Its Gross NPA stood at 1.03% and Net NPA stood at 0.3% which is in line with the other peers. The bank has been struggling on CASA front but it aims to have a CASA of 30% by FY11. The bank's deposit book has grown much faster as compared to others and major portion came in from Term Deposits.

**It has a healthy coverage ratio of 76%**

### Peer Group Comparison

Companies	NIM Margins %	Net NPA Ratio %	RoE %	ROA %	P/E	P/B	CMP	FV
Corporation Bank	2.2%	0.3%	20.3%	1.0%	7.02	1.51	608.5	10
Bank of Baroda	2.7%	0.3%	22%	1.2%	9.71	2.04	839	10
Punjab National Bank	3.6%	0.5%	27%	1.4%	9.15	2.30	1186	10

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# Investment Ideas

## VALUATION

We believe the bank will have a good credit growth and has good asset quality with better operational efficiency and higher coverage ratios.

**Based on standalone P/Adjusted Book Value multiple of 1.1, the fair value per share for the company works out to Rs668.**

We recommend a '**HOLD**' rating on the stock.

**Based on a standalone FY12 P/Adj BV multiple of 1.1, the fair value for the company works out to Rs 668.**

## Financial Analysis and Projections

Particulars (Rs Mn)	FY2008	FY2009	FY2010	FY2011E	FY2012E
Interest Earned	45,166	60,674	72,946	92,641	115,802
Interest Expenditure	30,732	43,764	50,843	63,554	80,078
Net Interest Income	14,433	16,910	22,103	29,087	35,723
Other Income	6,998	11,072	11,864	13,407	15,418
Total Income	52,163	71,746	84,810	106,048	131,219
Non-Interest Expense	8,920	10,016	12,600	14,998	19,513
Provisions & Contingencies	1,857	3,859	4,744	5,693	7,116
Less: Tax	3,304	5,180	4,921	6,541	7,354
Profit After Tax	7,350	8,928	11,703	15,262	17,158
EPS (Rs)	51.2	62.2	81.6	106.4	119.6
Adjusted Book Value (Rs)	285.9	331.7	388.8	498.0	607.5
Net Interest Margin (%)	2.5%	2.2%	2.2%	2.3%	2.3%
RoA (%)	1.1%	1.0%	1.0%	1.1%	1.0%
RoE (%)	17.4%	18.2%	20.3%	20.9%	19.0%

### Valuation Ratios (x)

P/E	5.7	5.1
Price/ BV	1.2	1.0
Price/Adjusted BV	1.2	1.0

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## Board Of Directors

Director Name	Current Position	Description
J.M Garg	Chairman & MD	Shri J.M Garg is the Chairman & MD of Corporation Bank. He is a Post Graduate in Physics and CAIIB started his career as Probationary Officer in Indian Bank in 1973. He Has over 36 years of banking experience with expertise in Industrial Credit, Corporate Finance, Forex. Mr Garg has served all over India and abroad. before joining Corporation Bank he was the executive director of PNB. He is also on Board of several companies as Nominee Director
Asit Pal	Executive Director	Shri. Asit Pal is Executive Director of Corporation Bank. He is a Graduate and an Associate Chartered Accountant appointed by the Central Government as the Executive Director of the Bank. Started his career as probationary Officer in Allahabad Bank and later joined Bank of Baroda in 1978 as an Officer- Chartered Accountant. In Bank of Baroda he has worked in different capacities in branches, Regional/Zonal Offices, administrative offices in India before he was posted as an Internal Auditor of UK and Brussels Operations. He was also a member of the core team for the Gartner's Business Transformation Project and member of Risk Management Project working with the then consultants MIs Arthur Anderson who were assisting the Bank for setting up the Integrated Risk Management Department. He attended various training programmes in India and abroad covering various areas Of Banking including Risk Management, Basel-II, Derivatives, US GAAP.
Narendra Singh	Executive Director	Shri. Narendra Singh is Executive Director of Corporation Bank. He is Graduate in Science and Law, started his career as directly recruited Officer in Allahabad Bank in 1980. In the year 1985 he was appointed as the Senior Law Officer in Middle Management Grade III of Allahabad Bank. He worked in different capacities in various branches, Regional Zonal Offices, Administrative Office of Allahabad Bank during his banking career spanning three decades. He attended many training programmes covering various areas of banking including Emerging Dimension in General Insurance in Nepal, Managerial Effectiveness, Management Education Programme, etc. Shri Narendra Singh headed the Planning, Development, Marketing, Publicity, Anti-Money Laundering & KYC Divisions of Allahabad Bank till his elevation of the post of Executive Director. A versatile banker, Shri Narendra Singh carries with him three decades of Banking experience. Shri Narendra Singh joined Corporation Bank and took charge as the Executive Director of the Bank on 7th December 2009.
Lalit Kumar	Govt Nominee Director	Shri. Lalit Kumar is Non-Executive Director - Representative of Government of India for Corporation Bank. Shri Lalit Kumar, an India Economic Service Officer of the 1995 batch, has joined the Board of Directors of the Bank on 9th December 2009, on being nominated by the Government of India as the Government of India nominee. Shri Lalit Kumar, presently Director, Insurance Division of Ministry of Finance, Government of India took his Honours degree in Economics from Delhi University and the Masters Degree from the Jamia Millia Islamia University Delhi.

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## Board Of Directors

Director Name	Current Position	Description
M.A Srinivisan	RBI Nominee Director	M.A Srinivisan a retired Chief General Manager, RBI has been nominated by GOI as Director on the Board of the Bank from 27th Feb 2007. He has hold senior positions in RBI central office departments like IT, Banking Supervision and Personnel Administration
V Raghuraman	Workmen Employee Director- Representative from GOI	Shri. Venkatraman Raghuraman is Workmen Employee Director - Representative of Government of India for Corporation Bank. Shri V. Raghuraman is a Special- Assistant and presently working at Chennai - Indiranagar Branch of the Bank He has experience both in Banking and trade union movement. He has over 31 years of Banking Service to his credit, He is the Vice-President Of Corporation Bank Employees Union, Treasurer of Tamilnadu Bank Employees Federation, a State unit of AJBEA and Central Committee Member of AIBEA. Shri V. Raghuratnan is a graduate in Science and Commerce and also a AI1B from the Indian Institute of Bankers.
Raj Kumar Agarwal	Chartered Accountant Director	Shri. Raj Kumar Agrawal is Chartered Accountant Director of Corporation Bank since May 14, 2010. Shri Raj Kumar Agrawal is a Chartered Accountant by profession and holds a Ph.D in "Comparative analysis between Commercial Tax and Value Added Tax in India".Shri Agrawal carries with him as experience of over 23 years in the field of Finance, Income Tax and Management Consultancy and was on audit panel of various Nationalised Banks, State Government Corporations and Industries. He also served as Non official Director of United Bank of India and was also the Chairman of the Audit Committee of the Board. He has been nominated by the Central Government as a part time Non-Official Director under Chartered Accountant category on the Board of the Bank from 14th May 2010 for a period of 3 years.
Sathish Goel	Part Time Non Official Director	Shri. Satish Goel is Part time Non-official Director - Representative of Government of India/Reserve Bank of India for Corporation Bank. He has been nominated as a part - time non- official director by Central Govt. on the Board of the Bank, for a period of three years effective from December 2007. A Chartered Accountant by Profession and doing his practice in Chandigarh. Shri. Goel has graduated in commerce and also acquired Honours in Economics. Shri. Goel is carrying with him an experience of 16 years in the field of Financial, Income Tax and Management Consultancy and Audits of corporate and non-corporate entities. He has handled a number of assignment of stock audit of big corporate on behalf of many banks. He was a non- official member on the management committee of National Research Centre for Sorghum, Hyderabad during the period 1993-1996. Shri Goel was also associated with a number of social works as a member of Lions Club and Rotary Club.
Hiren Mehta	Shreholders Director	Shri. Hiren Mehta is Shareholder Independent Director of Corporation Bank. He is a Graduate in Commerce with Honours and a Fellow Chartered Accountant. He is a practising Chartered Accountant with 13 years of experience in Economics, Finance and Law. During the course of professional practice Shri Mehta handled special Investigation Audit of M/s. Indodan Industries Ltd. and special audit of M/s. Cepham Organics Ltd. for ascertaining deployment of funds. Shri Mehta elected as Director representing shareholders of Corporation Bank and assumed office on 27th July 2005. Shri Mehta was on the Board of the Bank as a Director representing the Shareholders and completed his term of Office on 25th July 2008 and was re-elected and assumed office on 9th August 2008

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