

Corporation Bank

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Not Rated
Rs170

Key Highlights of Analysts Meet held by Corporation Bank post its Q4FY03 results on 14 May 2003:

Advances up 9%

Advances have grown by 9% to Rs120.3bn, but the interest income from advances has grown by a mere 2.3% to Rs10.2bn. Yield on advances have dropped by 110bps. We believe that the low growth in advances and interest income can be attributed to the following two factors:

- Rs42.6bn worth of advances matured in FY03
- The Bank has taken a conscious decision to restructure its advance portfolio to reduce sub-PLR loans. The Bank still has Rs15bn of sub-PLR advances on its books.

Retail advances grew by 52% to Rs23.5bn -- constitute 19.6% of outstanding advances. Housing portfolio stands at Rs14bn. The Bank plans to focus on retail advances to grow its advances book and stabilise its yield on advances.

Investments grew by 35%

Investments spiked 35% (Rs106bn) while interest income grew by 17% to Rs9.6bn. We believe that the Bank has incrementally put large amount of funds in G-Secs, as new advances were only available at lower yields. We believe that fresh investment to the tune of Rs38.25bn (including investments which matured in FY03) at lower yields has resulted in average yields on investments to decline by 100bps to 10.4%. The duration of the investment portfolio is 4.9 years.

Total interest income grew by 8% driven primarily by higher investments. Net interest income, on the other hand, grew by 27% on the back of lower interest expenditure. Interest expenditure fell due to higher growth in low cost deposits (from 26% of total in FY02 to 28.5% in FY03) and deposits re-pricing. Deposits grew by 14.3% to Rs217bn. Cost of deposits fell by 100bps to 6.7%. We believe that deposit costs will fall next year as well due to higher percentage of low cost deposits and re-pricing.

Other Income higher by 39.2%

Other Income surged 39.2% driven by a 97% increase in profits from sale of securities to the tune of Rs2.66bn. However, we believe that this income stream is not sustainable.

One of the best provision covers among peers

Provisioning cover has increased to 69.4% resulting in net NPAs falling to 1.69%. This makes Corp Bank having the best provision coverage and low net NPA levels in its PSU peer group.

Three options open to lower CAR

The Bank has a capital adequacy ratio (CAR) of 18.5%. We believe that the CAR is too high and that there are the following three options available with the Bank:

- The government currently has a 57% holding in the Bank. The Bank could return 6% of the capital to the government either by way of capitalised or recapitalised bonds. The Bank holds Rs800mn of recapitalisation bonds of which Rs150mn are redeemable and Rs650mn are perpetuity bonds. The Bank's management has however not shown any interest in returning this additional capital.

- The Bank could increase its dividend payout resulting in higher dividend yields and lower CAR.
- Merger of the Bank with LIC Housing Finance. This would reduce CAR along with giving the Bank a good housing portfolio, which would allow it to enjoy higher yields on advances.

View and Valuation

We believe that with the business outlook not looking too good coupled with fierce competition Corp Bank would continue to show lower core interest income growth. We believe that other income levels are unsustainable and growth would be muted. On the positive side, deposit re-pricing will continue and the benefits will flow to net interest income growth. The Bank has one of the lowest net NPA levels in its peer group.

In the long term, we believe there exist three triggers for the stock:

- Return of capital to the government
- Higher dividend payout
- Merger with LIC Housing Finance

The result: lower CAR and a good portfolio. However, we believe that these developments are subject to management philosophy and regulatory risks and, could take time to materialise. In the near term, there are no immediate positives to drive the stock. At current levels, the stock trades at 1.12x FY03 P/ABV. We have no rating on the stock.

	Rs Million		
	FY02	FY03	YoY(%)
Interest Earned	19456.89	21025.2	810.00%
Interest Expended	13204.798	13103.8	-80.00%
Net Interest Income	6252.092	7921.4	26.70%
Total Other Income	3819.448	5320	28.20%
Total Net Income	10071.54	13241.4	31.50%
Staff Cost	2138.998	2559.1	19.60%
Other Operating Cost	1703.183	2154.7	26.50%
Total Operating Cost	3842.181	4713.8	22.70%
Pre-Provisional Profit	6229.359	8527.6	36.90%
Provision for NPA's	1286.7	1819.9	41.40%
Other Provisions	390.9	439.2	11.00%
Profits before Prov of Tax	4551.759	6268.5	37.70%
Income Tax	1470.7	2106.2	43.20%
PAT	3081.085	4162.326	35.10%

Source: Company Reports

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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