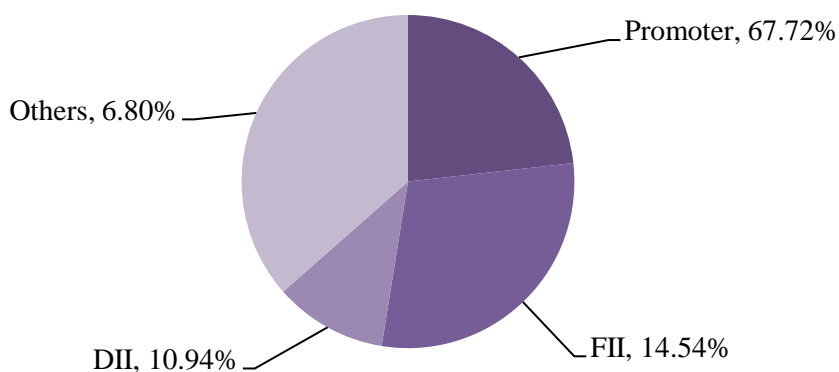




<b>BSE Code</b>	532483
<b>BSE Group / Index</b>	A / BSE100
<b>CMP</b>	Rs.476.60
<b>Market Capitalization</b>	Rs. 21113 Cr
<b>Face Value</b>	Rs.10
<b>EPS (TTM)</b>	Rs.83.35
<b>Book Value per Share</b>	Rs.439.53
<b>52 Wk High (BSE)</b>	Rs.844.00 (09 Nov,2010)
<b>52 Wk Low (BSE)</b>	Rs.401.00 (26 Aug,2011)

### Shareholding Pattern % as of Sep,2011



### Public holding more than 1% of the Total No. of Shares (as of Sep, 2011)

Sl. No.	Name of the Shareholder	No. of Shares	Shares as % of Total No. of Shares
1	Life Insurance Corporation of India	21,012,768	4.74
2	HSBC Global Investment Funds A/c HSBC Global Invest	5,533,555	1.25
	<b>Total</b>	<b>26,546,323</b>	<b>5.99</b>

**Q2 FY12 – Result Highlights**

Particulars (Rs.Cr)	Q2 FY12	Q2 FY11	YoY (%)	Q1 FY12	QoQ (%)	H1 FY12	H1 FY11	YoY (%)
Interest Earned	7614.47	5546.48	37.28%	7180.75	6.04%	14771.05	10673.21	38.39%
Interest Expended	5652.78	3574.14	58.16%	5387.67	4.92%	11040.45	7007.19	57.56%
<b>Net Interest Income</b>	<b>1961.69</b>	<b>1972.34</b>	<b>-0.54%</b>	<b>1793.08</b>	<b>9.40%</b>	<b>3730.60</b>	<b>3666.02</b>	<b>1.76%</b>
Non-Interest Income	828.26	530.58	56.10%	526.84	57.21%	1379.27	1298.70	6.20%
<b>Total Income</b>	<b>2789.95</b>	<b>2502.92</b>	<b>11.47%</b>	<b>2319.92</b>	<b>20.26%</b>	<b>5109.87</b>	<b>4964.72</b>	<b>2.92%</b>
Operating Expenses	1184.62	1087.15	8.97%	1049.52	12.87%	2234.14	2065.61	8.16%
<b>Operating Profit</b>	<b>1605.33</b>	<b>1415.77</b>	<b>13.39%</b>	<b>1270.40</b>	<b>26.36%</b>	<b>2875.73</b>	<b>2899.11</b>	<b>-0.81%</b>
Provisions & Contingencies	553.11	157.89	250.31%	344.55	60.53%	897.66	377.86	137.56%
<b>Profit before Tax</b>	<b>1052.22</b>	<b>1257.88</b>	<b>-16.35%</b>	<b>925.85</b>	<b>13.65%</b>	<b>1978.07</b>	<b>2521.25</b>	<b>-21.54%</b>
Tax	200.00	250.00	-20.00%	200.00	0.00%	400.00	500.00	-20.00%
<b>Profit after Tax</b>	<b>852.22</b>	<b>1007.88</b>	<b>-15.44%</b>	<b>725.85</b>	<b>17.41%</b>	<b>1578.07</b>	<b>2021.25</b>	<b>-21.93%</b>
Equity share capital (FV- Rs.10)	443.00	410.00		443.00		443.00	410.00	
<b>EPS (Rs.)</b>	<b>19.24</b>	<b>24.58</b>		<b>16.38</b>		<b>35.62</b>	<b>49.30</b>	



### **Strong business growth**

The bank reported 23.8% growth in advances and 25.4% growth in deposits in Q2FY12, YoY. Main growth drivers were agricultural segment which grew by 37.3% YoY, housing portfolio grew by 35.7% YoY and infrastructure portfolio grew by 36.6% YoY in Q2FY12. The management has guided for above 20% growth in total business for FY12.

### **Higher recovery and trading gains boosted Non-interest income**

The bank's other income reported a robust growth of 56.10% YoY to Rs.828.26Cr, primarily led by higher trading gains and recoveries during the quarter. While, trading gains stood higher at Rs.149Cr in Q2FY12 as against profit of Rs.2Cr in Q2FY11, recoveries were also robust at Rs.135Cr as against Rs.66Cr YoY in Q2FY12. The management has attributed the higher trading gains to higher churning of portfolio during the quarter, which may not be repeated.

### **Asset quality under pressure due to system recognition of NPAs**

The bank's asset quality has come under pressure as small ticket size accounts are being processed by system for NPA recognition. GNPA in absolute terms have grown by 44% Y-o-Y and 5.2% in Q2FY12. GNPA stood at 1.73% in Q2FY12 vs 1.49% for Q2FY11 and 1.67% for Q1FY12. Net NPA stood at 1.43% in Q2FY12 vs 1.06% for Q2FY11 and 1.34% for Q1FY12. This has kept the provision cost high for the bank, thus pressurizing profitability. Fresh slippages were mainly from SME segment up to the tune of Rs.170Cr and non priority small accounts of Rs.210Cr in Q2FY12. **Cash recoveries were Rs.808Cr in Q2FY12 (Rs.1558Cr in H1FY12 vs Rs.742Cr in H1FY11) & seem to be heading higher.**

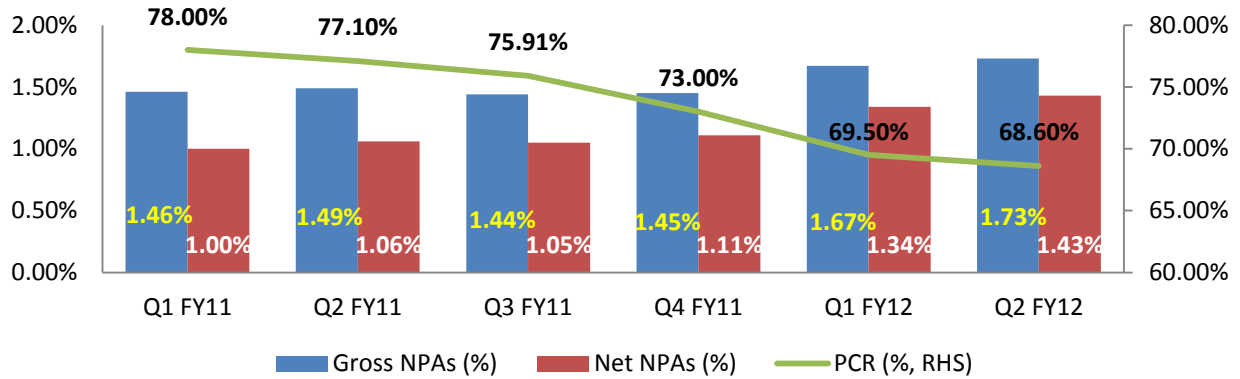
### **Margins & CASA ratio improve sequentially**

The bank has improved NIM to 2.64% in Q2FY12 vs 2.42% in Q1FY12. This was mainly due to slow increase in cost of deposits as compared to yield on advances. Management has guided that NIMs for FY12 will be atleast 2.8% despite savings rate deregulation. CASA ratio improved by 40 bps at 26.7% vs 26.3% QoQ & was supported by 17.9% YoY growth in savings deposits.

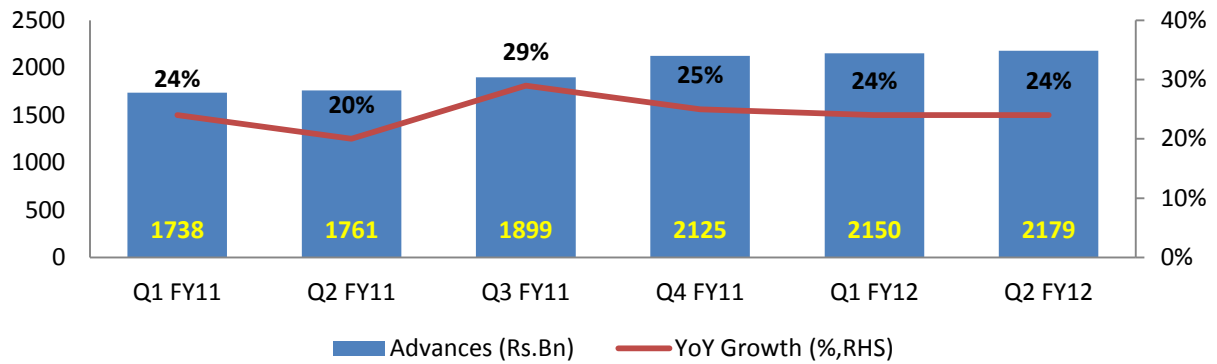


Quarterly Trends

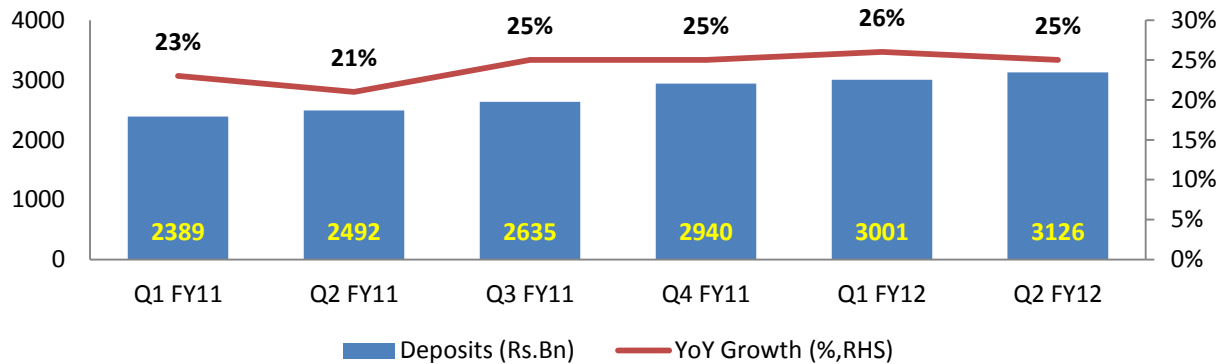
Strain on asset quality



Advances grow at 24% YoY

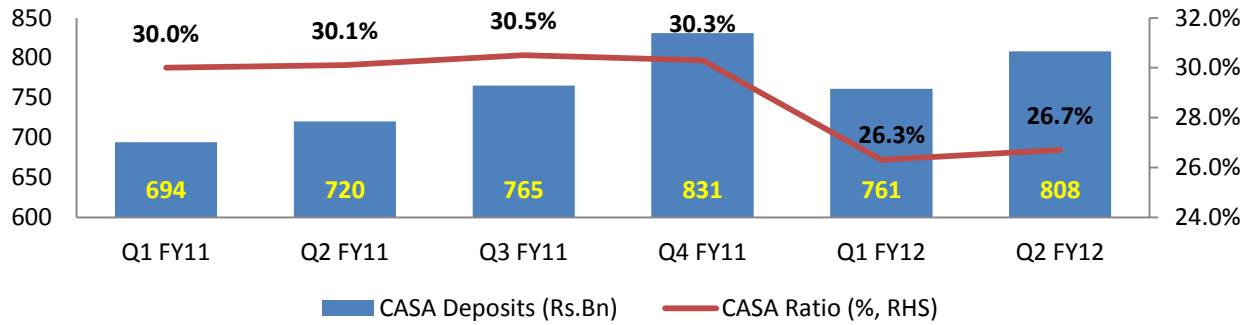


Deposit grow at 25% YoY

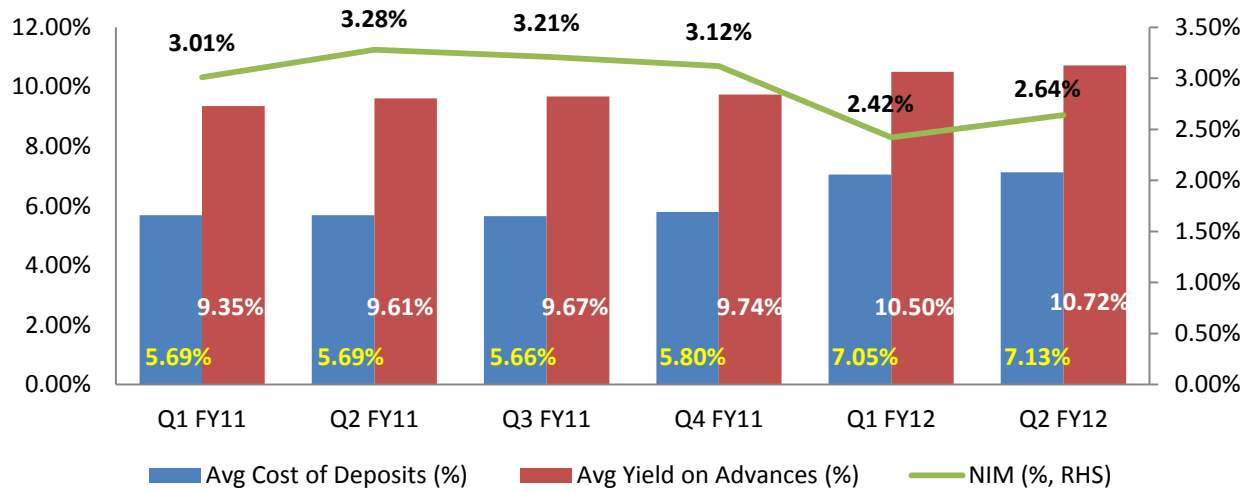




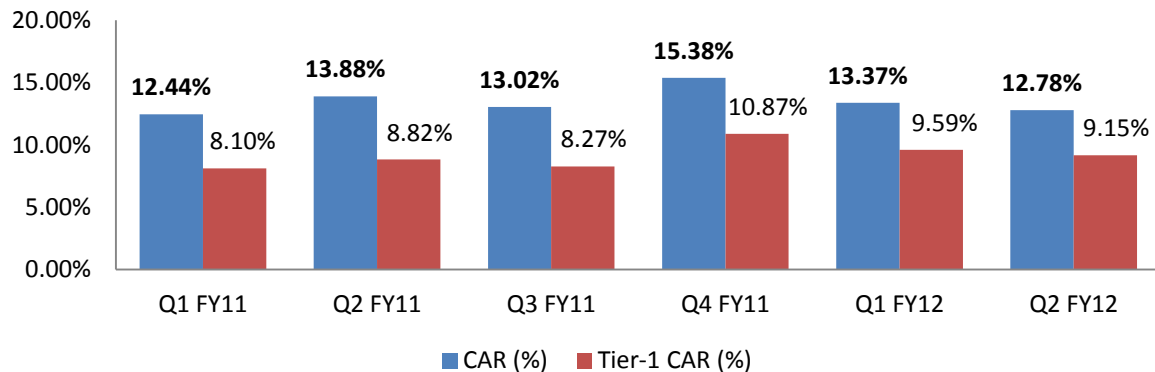
**CASA improves 40bps QoQ to 26.7%**



**NIMs increase 22bps QoQ**



**Comfortable Capital Adequacy**





## View

**With the shift of CBK's complete portfolio to system-based NPL recognition method, slippages are likely to normalize going forward**, thereby lowering the drag on earnings in terms of credit costs and margin impact due to income reversals. We expect return ratios to remain healthy going forward with average ROA of ~1% and average RoE of 18-19%. While the higher share of infrastructure loans (~25%), vulnerable liability profile (~26% CASA and ~30% bulk deposits) and volatile earnings remain a concern, we believe current valuations of 5.72x TTM EPS of Rs.83.35 and 1.08x Sep'12 BV of Rs 439.5 largely factor in negatives.

**“We feel that looking at the bank’s performance track record; the stock would trade at higher multiples since bank has strong cash recovery mechanism in place & asset quality is expected to improve going forward.”**

**Disclaimer:**

**Analyst Holding: Yes**  
**Recommended to Clients: Yes**  
**Relationship with Management: No**

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