



INVESTOR'S DELIGHT

7TH FEBRUARY, 2011

COMPANY	CENTRAL BANK OF INDIA LTD. (CBI)
NSE Code	CENTRALBK
BSE Code	532885
FV	Rs. 10
Equity Capital (Rs in mn)	4,041
Market Capitalization (Rs in mn)	62,636
CMP	Rs. 155
Target Price	Rs. 194
Upside	25%

ABOUT THE COMPANY

It was incorporated in 1911; it is one of the oldest banks of India. Till date, it has presence in 27 states and 4 union territories of the country. Presently, the branch network stands at 3,644 branches with 100% CBS (Centralized Banking System) rollout. In addition to this, it has an extension of 238 counters. The bank enjoys the luxury of having the largest rural branch networks in India. 38% of the total CBI branches is accounted by rural India, 25% by semi rural and the balance by urban and metropolitan. On a pan India basis, the bank has a strong presence in central states like Madhya Pradesh, Rajasthan and others accounting for 30%, followed by western and eastern India accounting for 21% each and balance by northern India.

The company has two subsidiaries: a) Centbank Financial and Custodian Services and Centbank Home Finance.

INVESTMENT RATIONALE

- 1) Impressive business growth:** Deposits witnessed a growth of 4.8% on yoy basis in Q3FY11. On the other hand, loans and advances registered growth rate of 27.7% on yoy basis, taking overall business growth at 13.3% in Q3FY11. As on December, 2010, CD ratio stood at 71.3%.
- 2) Strong improvement in CASA and NIMs:** The bank witnessed tremendous improvement in its CASA and NIMs. On a yoy basis, NIMs improved from 2.04% in Q3FY10 to touch 3.45% in Q3FY11. 9MFY11 NIMs stood at 3.22%, an improvement of 137 bps on yoy basis. This was mainly lead by reducing cost of deposits and improving CASA. On a yoy basis, CASA improved from 29.9% to 34.9% in Q3FY11. Simultaneously, cost of deposits declined by 42 bps to touch 5.68% in Q3FY11 on a yoy basis. 9MFY11 cost of deposits declined by 78 bps to touch 5.56%.
- 3) Declining NPAs:** Net NPAs declined to 0.71% in Q3FY11 from 0.74% on yoy basis with capital adequacy, at 11.76%, is barely sufficient for business growth.



FINANCIAL SUMMARY (Rs in mn)

Particulars	FY10	Q3FY10	Q3FY11
NII	25,453	7,300	14,320
Net Profit	10,580	306	404
CAR (%)	12.2	12.6	11.8
CD Ratio	66.0	58.5	71.3
Gross NPA (%)	2.29	2.72	2.34
Net NPA (%)	0.69	0.74	0.71
Provision coverage ratio (%)	70.4	73.3	70.3
CASA (%)	34.5	29.9	34.9
NIM (%)	1.86	2.04	3.45
ROE (%)	24.3	25.5	23.3
ROA (%)	0.66	0.74	0.89
Book Value (Rs.)	108	-	-
EPS (Rs.)	24.7	28.2**	36.8**
P/BV(x)	1.47x	-	-

Note: ** annualized EPS

OUTLOOK AND VALUATION

At CMP, the stock trades at a P/E of 4x on Q3FY11 annualized EPS. With due consideration to factors like a) strong presence in rural India, b) healthy CASA and improving NIMs, b) improving asset quality, c) attractive valuations, we recommend a 'BUY' with a target price of **Rs. 194** for investors with a six - nine months horizon.



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