



Central Bank of India – Q4FY11 update

16th May, 2011

Recommendation: *“Accumulate on dips”*

CMP: Rs. 126

Target price: Rs. 165

Upside from CMP: 31%

FV: Rs.10

Q4FY11 Financial summary - (Rs. in bn)

Particulars	Q4FY11	Q4FY10	% yoy change	Q3FY11	% qoq change
<i>Interest earned</i>	<i>42.3</i>	<i>31.6</i>	<i>34.1</i>	<i>39.3</i>	<i>7.6</i>
a) <i>Interest/Discount on Advance/Bills</i>	<i>31.2</i>	<i>22.2</i>	<i>40.4</i>	<i>29.5</i>	<i>5.9</i>
c) <i>Income on Investments</i>	<i>9.7</i>	<i>9.0</i>	<i>7.4</i>	<i>9.6</i>	<i>1.0</i>
<i>Interest expense</i>	<i>28</i>	<i>24.9</i>	<i>12.5</i>	<i>25.0</i>	<i>12.1</i>
Net Interest income	14.3	6.6	115.2	14.3	(0.2)
Other income	5.2	5.7	(8.2)	2.5	109.6
Fee and other income	1.8	2.1	(12.4)	1.5	19.1
Treasury profit	1.7	1.7	(0.6)	0.4	286.0
Operating expenses	16.2	6.4	153.7	8.7	87.1
- Employee cost	13.2	4.4	201.2	6.3	24.8
- Other cost	3.0	2.0	49.8	2.4	24.8
Operating profit	3.3	6.0	(44.4)	8.1	(59.4)
Prov. For contingencies	3.1	3.9	5.0	1.9	61.1
PBT	0.3	3.0	(91.7)	6.2	(96.0)
Tax	(1.1)	1.3	(182.2)	2.2	(148.6)
PAT	1.3	1.7	(23.2)	4	(67.1)
Equity	4.0	4.0	-	4.0	
EPS	3.3	4.3		10.0	

Q4FY11 update

Net interest income witnessed yoy growth of 115% to touch Rs. 14.3 bn in Q4FY11. However, on a qoq basis, it remained flat. This was mainly attributed to improved margins and strong advances growth.

Total deposits clocked yoy growth of 10.6% to touch Rs. 1,793 bn in Q4FY11 whereas Loans and advances witnessed yoy growth of 22.7% to Rs. 1,314 bn in the same period.

NIMs reported a significant improvement by 166 bps on yoy basis to touch 3.47% in Q4FY11. This was mainly on account of Central Bank's strategy of reducing its high cost bulk deposits and repricing of advances. CASA deposits registered yoy growth of 12.97%. Savings deposits grew by 16.88% on yoy basis, whereas current account deposits clocked yoy growth of 2.39%. However, on a qoq basis, NIMs remained stable at ~3.5% due to structural change in Credit/Deposit ratio which improved by 100 bps to touch 72% in Q4FY11.

The bank's operating profit witnessed a decline of 44% on a yoy basis. This was mainly on account of wage related provision. Wage related liability (including gratuity and retired employee pension was Rs.20.4 bn. The bank has provided Rs.5.7 bn towards pension liability of retired employees in the quarter.

The asset quality of the bank was safeguarded against deterioration. Higher recoveries inspite of qoq incremental slippages was the main reason behind it. Incremental slippages during the quarter stood at Rs. 6.1 bn. However, bank reported higher recoveries worth Rs.3.6 bn.

Key Ratios (%)

Particulars	Q4FY11	Q4FY10	yoy change	Q3FY11	qoq change
<i>Capital Adequacy ratio</i>					
<i>As per Basel – I</i>	10.77	10.81	(4) bps	10.88	(11)bps
<i>As per Basel – II</i>	11.68	12.23	(55) bps	11.76	8 bps
<i>Yield on Advances</i>	10.60	9.59	101 bps	10.47	13 bps
<i>Yield on Investments</i>	7.87	6.75	112 bps	7.24	63 bps
<i>Cost of Deposits</i>	6.08	6.09	(1)bps	5.68	40 bps
<i>Cost to Income ratio</i>	83.03	51.81	3,122 bps	51.53	3,150 bps
<i>CASA</i>	34.3	34.4	(1) bps	34.9	(60) bps
<i>NIM</i>	3.47	1.81	166 bps	3.45	2 bps
<i>Net NPAs</i>	0.7	0.7	-	0.7	-
<i>RoA</i>	0.28	0.40	(12) bps	0.89	(61) bps
<i>Provision Coverage ratio</i>	67.6	70.4	(280) bps	70.3	(270) bps

Outlook and Recommendation

The Bank's profitability in Q4FY11 was under pressure on account of employee provisioning. However, the bank has done well in terms of improving its Net Interest Margins, higher recoveries thereby improving its asset quality. We believe that the current bearish phase in secondary markets due to RBI's hawkish stance may result in stock being under pressure in the near term. However, this would provide an opportunity to accumulate the stock at lower levels, resulting in higher margin of safety.

At the CMP, the stock is valued at P/BV of 0.91x (FY11E Book Value). 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 **'Accumulate" on dips with a target price of Rs. 165 (1.14x FY12E Book value)** for investors with a 9-12 months horizon.

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