



Development Credit Bank Ltd

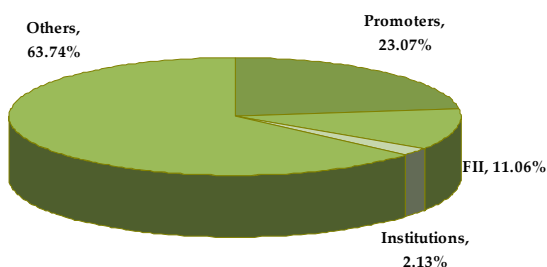
16 January 2012

Buy

Industry Banking

CMP (INR)	40
Target (INR)	64
52 week High/Low (INR)	66/30
Market Cap (INR MN)	8032
3M Avg. Daily Volumes	3015940
P/BV FY13E	1.2x

Shareholding Pattern (%)



Stock Performance



Performance (%)

	1 Month	3 Months	1 Year
DCB	8.9	-6.8	-22.3
NIFTY	1.4	-4.2	-15.4

* Source: Ace, Unicon Research

Particulars	(INR in mn)	
	Actual	Estimates
NII	597	623
Operating Profit	226	222
PAT	157	139

* Source: Company, Unicon Research

Q3FY12 Result Highlights

Development Credit Bank Ltd (DCB) delivered strong quarter, with net profits increasing by 94% to INR 157 mn vs. our estimates of INR 139 mn on YoY basis. This was contributed by net interest income growth of 21% to INR 597 mn YoY (estimates of INR 623 mn). The bank's asset quality has improved with overall decline in its gross and net NPAs. The bank's CASA deposit ratio stood at 33.1% in Q3FY12.

NIMs were sustained above 3.3%

Net Interest Income increased by 21% on a YoY basis in Q3FY12 to INR 597 mn driven by 29% & 30% yoy growth in advances & investments income respectively. NIMs improved by 24 bps to 3.37% in Q3FY12 on YoY basis; however, on sequential basis it has fallen by 4 bps. Non Interest Income grew by 1% to INR 262 mn, however, on sequential basis it increased 13.4%. This was primarily led by 22% & 12% growth in commission & brokerage income & exchange transaction, respectively.

Loan & Deposit book shows sluggish growth

DCB's loan book grew by 9% to INR 43.06 bn in Q3FY12 on YoY basis. Credit to deposit ratio stood at 69.9% and management is targeting a credit growth of 16-17% for FY12E. The deposits grew by 10% to INR 61.91 bn, however, CASA ratio remained at 33.1%. Retail Deposits were at 82.9% of Total Deposits as on Q3FY12 as against 78.9% as on Q3FY11.

Improvement in asset quality

On asset quality front bank improved its performance with Gross NPA in absolute terms declining by 14% YoY and 2% QoQ. The Gross & Net NPA ratio has fallen from 7.1% & 1.3% in Q3FY11 to 5.7% & 1% in Q3FY12 respectively. The provision coverage ratio improved to 87.9% in Q2FY12 as against 79.6% in Q2FY11.

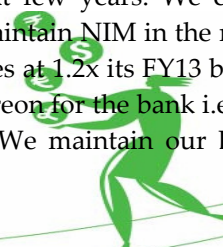
Decline in cost-to-income ratio

DCB continued to invest in new frontline staff the bank's employee expenses increased 16% YoY. Despite this DCB has been able to contain cost to income ratio at 73.8% in Q3FY12 compared to 72.6% in Q3FY11 & 74.6% in Q2FY12. DCB is planning to reduce its cost to income ratio below 60%.

Outlook & Valuation

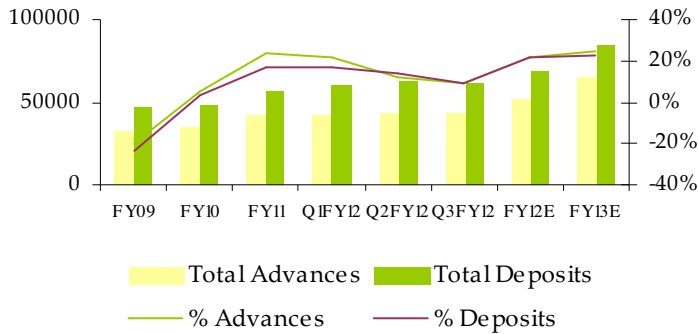
DCB has revamped itself since FY09 and with change in management and business strategy we believe DCB to run on growth trajectory going forward. We believe that with thrust on improving NIMs, CASA ratio, better core operating income and return ratios, DCB would be one of the fastest growing Indian banks over next few years. We expect DCB to control its incremental slippages and maintain NIM in the range of ~3.3% levels by FY13E. At the CMP stock trades at 1.2x its FY13 book value. We expect return ratios to improve from hereon for the bank i.e. RoE to reach to 9.8% in FY13E from 3.5% in FY11. We maintain our Buy rating for target price of INR 64.

Analyst

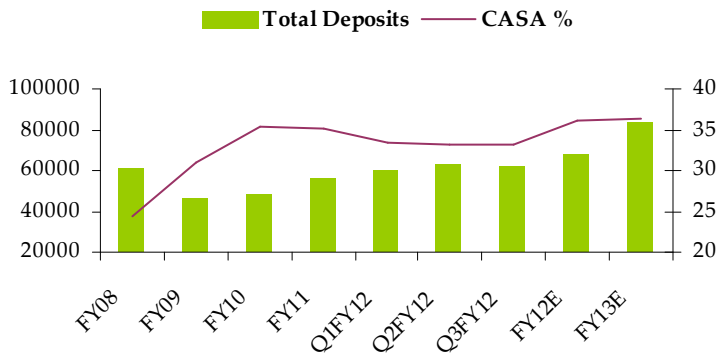
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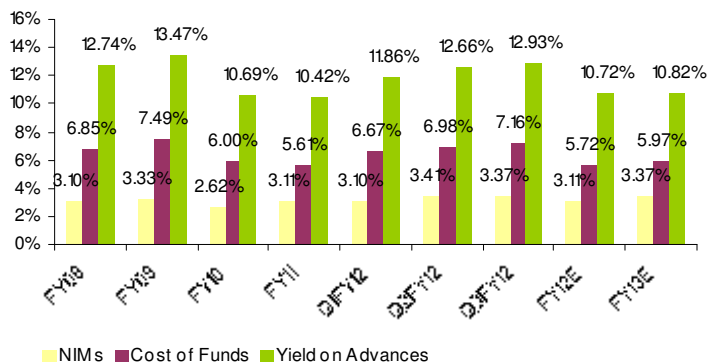
Business Growth



Deposit grew 10% YoY to INR 61.91 bn while advances increased 9% YoY to INR 43.06 bn. The bank has pared down its growth guidance to 14-16% for FY12E. We estimate the business mix will grow at a CAGR of 15% over FY11-13E

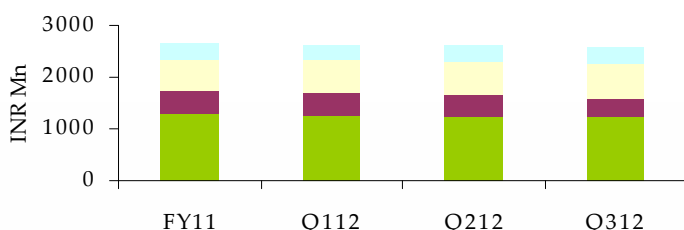


The CASA ratio was maintained at 33% with CASA growing by 9% YoY in absolute terms. Retail deposits as % of Total Deposits increased from 79% in Q3FY11 to 82% in Q3FY12



The NIM improved 24 bps YoY as YoA increased by 167 bps to 12.93% with CoF rising only 134 bps to 7.16%. We estimate NIM of 3.4% by FY13E

GNPA breakup



GNPA from personal loans and CV/CE/STVL segment declined marginally. The corporate segment saw a sequential addition leading to total GNPA remaining flat.



Development Credit Bank Ltd

Financials

(INR in mn)

	Q3 FY12	Q3 FY11	Y-o-Y	Q2 FY12	Q-o-Q
Interest income	1835	1402	30.85	1785	2.79
Interest expense	1238	909	36.19	1194	3.67
Net Interest Income	597	493	21.01	591	1.00
Other Income	262	260	0.92	231	13.44
Total Operating income	859	753	14.08	822	4.50
Operating expenditure	634	547	15.95	614	3.32
Operating Profit	226	206	9.59	209	7.94
Operating Profit (%)	10.78	12.41	-163 bps	10.39	39 bps
Provisions	69	94	-26.75	75	-8.90
PBT	157	112	40.23	133	18.09
Tax	0	31	-	0	-
PAT	157	81	93.77	133	18.09
EPS (INR.)	0.79	0.41	93.63	0.67	18.03
NIMs	3.37	3.13	24 bps	3.41	-4 bps

Source: Company, Unicon Research

*Standalone

Profit & Loss Statement					Key Ratios				
Y/E March	FY10	FY11	FY12E	FY13E	Y/E March (INR Mn)	FY10	FY11	FY12E	FY13E
INR Mn					Valuation				
Interest Income	4590	5363	6746	8433	EPS (INR)	-3.92	1.07	2.12	3.58
Interest Expenses	3174	3471	4466	5448	Book Value (INR)	29.95	30.91	35.66	39.24
Net Interest Income	1416	1891	2281	2985	Adj. Book Value (INR)	24.57	28.85	34.02	37.69
Other Income	1075	1121	1330	1609	P/E (x)	-14.79	54.18	22.66	13.42
Operating Income	2491	3012	3611	4594	P/BV (x)	1.94	1.88	1.35	1.22
Operating Expenses	2008	2152	2408	2828	P/ABV (x)	2.36	2.01	1.41	1.27
Operating Profit	483	861	1202	1765	RoANW	-14.75	-12.88	2.97	5.66
Provisions and Contingencies	1210	568	658	791	RoNW	-13.10	3.46	5.94	9.12
Profit before Tax	-727	293	545	974	RoAA	-1.30	0.32	0.60	0.85
Provision for Tax	57	78	54	146	ROE	-13.13	3.52	6.79	9.55
Profit after Tax	-784	214	490	828	Cost / Income Ratio	80.62	71.43	66.70	61.57
Balance Sheet					Sources of Funds				
Y/E March	FY10	FY11	FY12E	FY13E	Equity Capital	2000	2002	2314	2314
INR Mn					Reserves & Surplus	3990	4186	5939	6767
Equity Capital	2000	2002	2314	2314	Net Worth	5989	6187	8253	9081
Reserves & Surplus	3990	4186	5939	6767	Deposits	47874	56101	68239	83814
Net Worth	5989	6187	8253	9081	Borrowings	5035	8607	8749	9227
Deposits	47874	56101	68239	83814	Other Liabilities	2447	2800	3232	3633
Borrowings	5035	8607	8749	9227	Total Liabilities	61367	73723	88566	105849
Other Liabilities	2447	2800	3232	3633	Application of Funds				
Total Liabilities	61367	73723	88566	105849	Cash & Balance with RBI	2914	4045	4784	5173
Application of Funds					Bal. with Banks/ Short Notice	410	826	871	651
Cash & Balance with RBI	2914	4045	4784	5173	Advances	34597	42714	52112	64723
Bal. with Banks/ Short Notice	410	826	871	651	Investments	20179	22950	27160	31488
Advances	34597	42714	52112	64723	Fixed Assets	1358	1275	1492	1612
Investments	20179	22950	27160	31488	Other Assets	1909	1912	2147	2202
Fixed Assets	1358	1275	1492	1612	Total Assets	61367	73723	88566	105849
Other Assets	1909	1912	2147	2202	Key Ratios				
Total Assets	61367	73723	88566	105849	CASA	35.36	35.21	36.03	36.46
					Gross NPA to Adv (%)	9.23	6.17	4.56	3.50
					Net NPAs to Adv (%)	3.31	1.02	0.76	0.57
					CAR	14.85	13.25	14.47	13.18
					- Tier - I	11.93	11.10	12.92	11.66
					CASA per branch	212	247	273	332



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Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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