

## Development Credit Bank

Recommendation	BUY
CMP (16/07/2012)	Rs. 46
Target Price	Rs. 65
Sector	Banking

## Stock Details

BSE Code	532772
NSE Code	DCB
Bloomberg Code	DEVB IN
Market Cap (Rs cr)	1,115
Free Float (%)	80.8%
52- wk HI/Lo (Rs)	63/31
Avg. volume BSE (Quarterly)	506,500
Face Value (Rs)	10.0
Dividend (FY 12)	0%
Shares o/s (Crs)	24.07

Relative Performance	1Mth	3Mth	1Yr
DCB	16.5%	-5.3%	-23.2%
Sensex	3.2%	0.4%	-7.5%

Shareholding Pattern 30<sup>th</sup> June 12

Promoters Holding	19.2%
Institutional (Incl. FI)	22.6%
Corporate Bodies	10.2%
Public & others	48.0%

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## Results beat expectation on account of lower provisioning

Development Credit Bank (DCB)'s performance for Q1FY13 was above estimates. DCB reported a net profit of Rs.18.9 crs in Q1FY13 resulting in a growth of 114.3% on YoY basis and QoQ increase of 9.2%.

## ➤ NIM's witnessed an improvement

Net Interest Margin (NIM) of the bank stood at 3.18% as compared to 3.1% in Q1FY12 and 3.12% in Q4FY12. NIMs witnessed an improvement as the full benefit of the capital (~Rs 190 cr) which was raised during Q4FY12 was visible mainly in this quarter. Management expects that NIMs will be broadly in the range of 300-325 bps for FY13E. We expect NIMs to be at 3.2% for FY13E and FY14E respectively.

## ➤ Non-interest income declines sequentially

Non Interest Income declined marginally on a sequential basis but increased YoY by 17.3% to Rs 27.5 crs. The bank's core fee income declined 9.8% QoQ but increased 18.8% YoY to Rs 20.2 cr. The share of non interest income as % of total income stood at 30.1% in Q1FY13. Management expects the momentum in fee income to continue going forward.

## ➤ Cost to income ratio witnesses increase

The cost to income ratio of the bank stood at 72.8% as compared to 71.9% in Q4FY12 and 78.1% in Q1FY12 mainly due to higher employee expenses. We expect cost to income ratio to come down to 68.6% in FY13E and 65.6% in FY14E as compared to 70.7% in FY12.

## ➤ Some stress on asset quality persists

The asset quality of the bank showed a significant improvement with Gross NPA in absolute terms declining by 10.0% YoY and 2.3% QoQ. Gross NPA ratio and Net NPA ratio were at 4.18% and 0.75% respectively in Q1FY12. However, slippages increased during the quarter and stood at Rs 20 crs vs slippages of Rs 5 cr in Q4FY12. We expect the bank's GNPA's to come down to 3.85% in FY13E and 3.46% in FY14E.

## ➤ Loan book shows growth both sequentially and YoY

DCB reported growth both on QoQ and YoY basis (+ 28.7% YoY and 3.1% QoQ) at Rs 5,449 cr. This was mainly due to increase in the corporate banking segment and growth in the bank's mortgage book. The bank's SME book witnessed a flattish growth due to repayment in the existing books. However, Management has mentioned that the pipeline for the SME book continues to remain strong. We have factored in 19.8% growth in advances in FY13E and 18.2% growth in FY14E.

## Valuation &amp; Recommendation

At the current price of Rs. 46, DCB is trading at a PE of 13.82x and 10.56x of FY13E and FY14E EPS & at P/ABV of 1.20x and 1.08x of FY13E and FY14E respectively. We recommend BUY on the stock with a target price of Rs 65 (1.7x FY13E ABV).

Year	NII (Rs cr)	Growth (%)	PBP (Rs cr)	Margin (%)	PAT (Rs cr)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE (%)
FY11A	189	33.6%	86	13.3%	21	1.07	42.91	26.8	1.71	3.9%
FY12A	228	20.4%	84	10.2%	55	2.62	17.49	34.9	1.31	7.7%
FY13E	274	20.2%	123	13.0%	80	3.31	13.82	38.1	1.20	8.9%
FY14E	306	12.0%	151	14.5%	104	4.34	10.56	42.4	1.08	10.5%

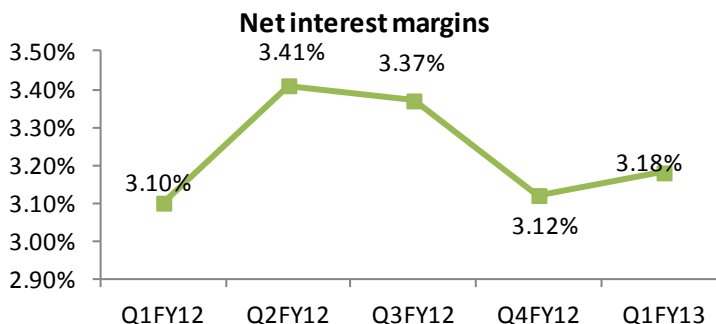


## Development Credit Bank

### NIM's witness improvement

Net Interest Income increased by 10.8% on QoQ basis and 32.4% YoY to Rs 64 crs in Q1FY13. Net Interest Margin (NIM) of the bank stood at 3.18% as compared to 3.1% in Q1FY12 and 3.12% in Q4FY12. NIMs witnessed an improvement as the full benefit of the capital (~Rs 190 cr) which was raised during Q4FY12 was visible mainly in this quarter.

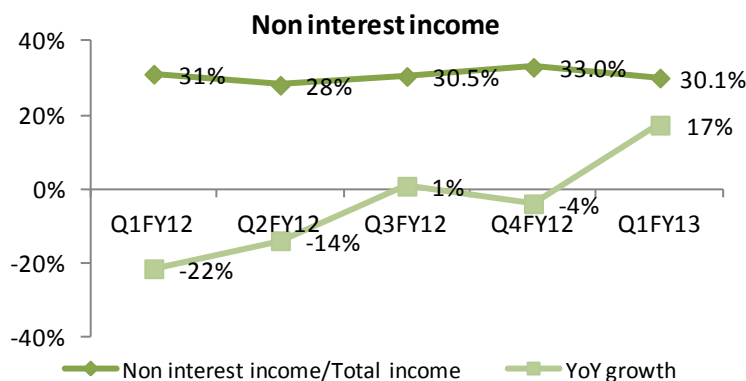
Going forward, Management expects to maintain NIMs at current levels for Q2FY13. Further, with reduction in the cost of funds, DCB may witness some improvement in its NIMs in the second half of FY13. Management expects that NIMs will be broadly in the range of 300-325 bps for FY13E. We expect NIMs to be at 3.2% for both FY13E and FY14E.



Source: Company data, Nirmal Bang Research

### Non-interest income declines sequentially

Non Interest Income declined marginally on a sequential basis but increased YoY by 17.3% to Rs 27.5 crs. The bank's core fee income declined 9.8% QoQ but increased 18.8% YoY to Rs 20.2 cr. Treasury gains declined 14.3% YoY and QoQ during the quarter. Q4FY12 is generally a seasonally strong quarter for the bank as the fee income on the loan generation is strong. The share of non interest income as % of total income stood at 30.1% in Q1FY13. We expect non-interest income to grow 16.4% and 12.3% in FY13E and FY14E respectively.



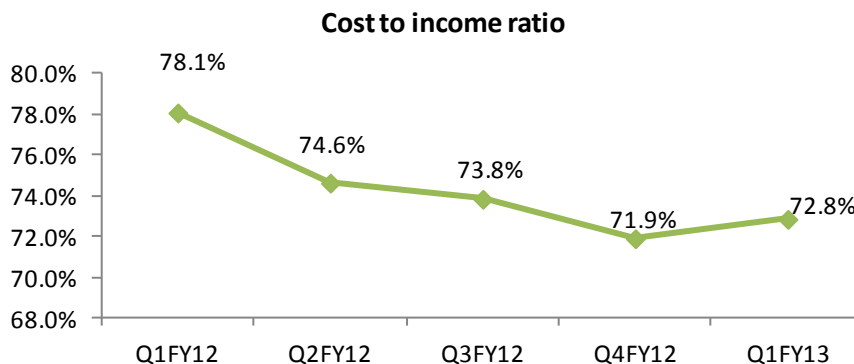
Source: Company data, Nirmal Bang Research



## Development Credit Bank

### Cost to income ratio witnesses an increase

The bank's employee expenses increased 6.3% QoQ and 8.3% YoY in Q1FY13 to Rs 32.9 cr. Employee expenses increased resulting from the increment in salary and bonus outgo. Other expenses were higher primarily as the bank opened 2 new branches and also there were some lease renewal in the quarter. The cost to income ratio of the bank stood at 72.8% as compared to 71.9% in Q4FY12 and 78.1% in Q1FY12. Management expects to bring down the cost to income ratio to sub 70% in FY13E and further below 60% in next 2-3 years driven by the expansion in business and cost efficiencies. We expect cost to income ratio to come down to 68.6% in FY13E and 65.6% in FY14E.

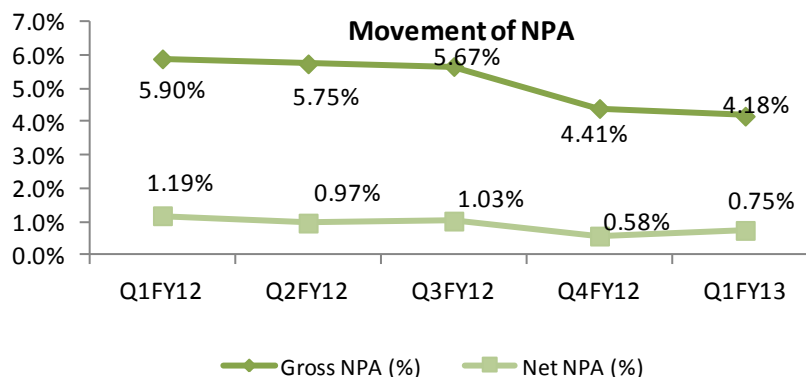


Source: Company data, Nirmal Bang Research

### Some stress on asset quality persists

The asset quality of the bank showed a significant improvement with Gross NPA in absolute terms declining by 10.0% YoY and 2.3% QoQ. Gross NPA ratio and Net NPA ratio were at 4.18% and 0.75% respectively in Q1FY12. Fresh slippages during the quarter stood at Rs 20 crs vs Rs 5 cr of slippage in Q4FY12. Out of this Rs 12 cr pertains to a large account in the rice processing company and Rs 3 cr pertains to mortgage loans. Going forward, Management expects recovery from these accounts.

The provision coverage ratio improved to 88.5% in Q1FY13 as against 85.55% in Q1FY12. Going forward, the bank does not expect any major stress on its asset quality in its retail and SME book. However some concerns does exist related to the overall economic slowdown in the environment. We expect the bank's Gross NPAs to come down to 3.85% in FY13E and 3.46% in FY14E.



Source: Company data, Nirmal Bang Research

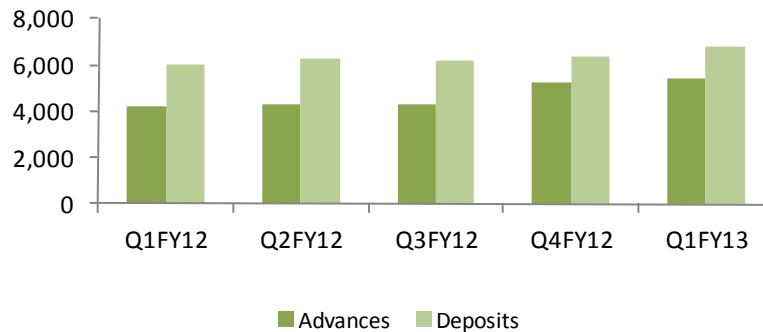


## Development Credit Bank

### Loan book shows growth both sequentially and YoY

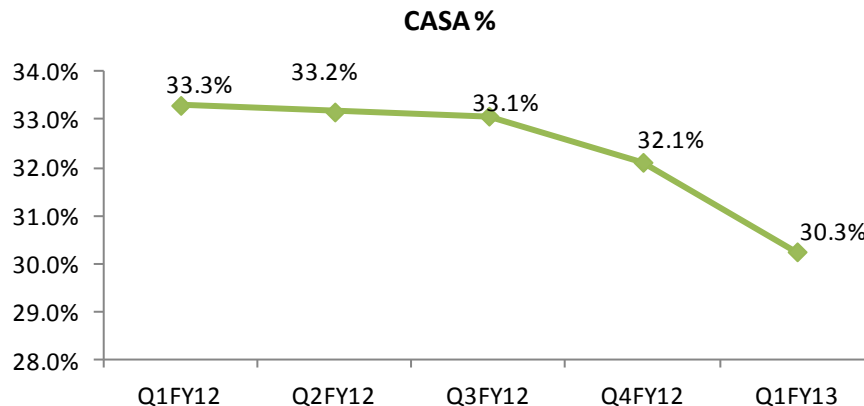
DCB reported growth both on QoQ and YoY basis (+ 28.7% YoY and 3.1% QoQ) at Rs 5,449 cr. This was mainly due to increase in the corporate banking segment where it reported growth of 5.5% QoQ and 22.7% YoY to Rs 1,259 cr in Q1FY13 and growth in the bank’s mortgage book (+15.3% QoQ and 45.9% YoY). Bank’s SME and micro SME segment was flat on QoQ basis whereas it increased 37.2% YoY. The main reason for the flattish growth in the SME book was repayment in the existing books. However, Management has mentioned that the pipeline for the SME book continues to remain strong. The bank has re-entered the CV finance space to reduce dependence to NBFC’s portfolio for meeting priority sector requirements. We have factored in 19.8% growth in advances in FY13E and 18.2% growth in FY14E.

Deposits grew at 14.2% on YoY and 7.8% on QoQ basis. Credit to deposit ratio came down from 83.4% in Q4FY12 to 79.8% in Q1FY13. Borrowings declined on QoQ basis resulting from the growth in deposits. Borrowing declined 10.1% QoQ (up 39.6% YoY) while Investments increased 4.7% QoQ (up 8.6% QoQ).



Source: Company data, Nirmal Bang Research

The bank’s CASA ratio continued to witness a decline both on QoQ and YoY basis and stood at 30.25%. The proportion of Retail deposits declined to 82.72% as compared to 84.42% in Q4FY12. As per the Management although the SA continues to witness traction, CA have been facing challenges. Despite this, Management expects to maintain the CASA ratio above 30%. We expect CASA ratio to remain flat at 31.0% for FY13E and 31.4% for FY14E.



Source: Company data, Nirmal Bang Research

## Development Credit Bank

Income Statement (Rs cr)	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)
Interest Earned	213.5	161.6	32.1%	193.3	10.5%
Interest Expended	149.6	109.8	36.3%	136.3	9.8%
<b>Net Interest Income</b>	<b>63.9</b>	<b>51.9</b>	<b>23.2%</b>	<b>57.1</b>	<b>12.1%</b>
Other Income	27.5	23.4	17.3%	28.1	-2.1%
Total Income	91.4	75.3	21.4%	85.1	7.4%
Payment to employees	32.9	30.4	8.3%	31.0	6.3%
Other operating expenses	33.7	28.4	18.6%	30.2	11.4%
Total operating expenses	66.6	58.8	13.3%	61.2	8.8%
<b>Profit before provisioning</b>	<b>24.8</b>	<b>16.5</b>	<b>50.3%</b>	<b>23.9</b>	<b>3.8%</b>
Provisions	5.9	7.7	-23.1%	6.6	-10.5%
Profit before tax	18.9	8.8	114.2%	17.3	9.2%
Tax	0.0	0.0	N/A	0.0	N/A
<b>Profit after tax</b>	<b>18.9</b>	<b>8.8</b>	<b>114.2%</b>	<b>17.3</b>	<b>9.2%</b>
No of shares	24.1	20.0	N/A	24.1	N/A
EPS	0.8	0.4	78.1%	0.7	9.4%

Source: Company data, Nirmal Bang Research

- Net Profit has shown a growth of 114.2% YoY at Rs 18.9 cr as compared to Rs 8.8 cr in Q1FY12 mainly due to 17.7% YoY decline in provisioning expense at Rs 5.9 crs vs 7.7 crs and no tax expense during the quarter.
- EPS for Q4FY12 stood at Rs 0.8 vs Rs 0.4 in Q1FY12.
- Capital Adequacy Ratio stood at 14.49% as on June 2012 of which Tier I Ratio stood at 13.18%.
- There won't be any tax liability for the bank in FY13E and FY14E as the bank has unabsorbed losses. We have not assumed the same in our estimates for FY13E and FY14E.

### Valuation and Recommendation

The improvement efforts of the bank have started to show some effects with traction in the bank's fee income and controlled credit cost. We believe that the bank will thrive on improvement efforts over the next couple of years. Moreover, DCB's operational restructuring is expected to drive traction on fee income streams and improve cost efficiency. We expect RoE and RoA for the bank to show a continuous improvement (RoE from 7.7% in FY12 to 9.4% in FY14E and RoA from 0.7% in FY12 to 0.9% in FY14E).

We believe that at current levels the stock is trading at attractive levels and therefore we continue to maintain BUY rating on the stock. Our target price for the stock is Rs 65 based on a P/ABV multiple of 1.7x on its FY13E adjusted book value of Rs.38.1 per share.

## Development Credit Bank

### Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E	Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	536	717	824	910	Deposits	5,610	6,336	7,570	8,938
Interest expended	347	489	551	604	(of which CASA)	(1,976)	(2,035)	(2,347)	(2,806)
<b>Net interest income</b>	<b>189</b>	<b>228</b>	<b>274</b>	<b>306</b>	Borrowings	861	1,123	1,168	1,324
Non interest income	112	101	117	132	Other liab and prov	280	356	392	431
<b>Total income</b>	<b>301</b>	<b>329</b>	<b>391</b>	<b>438</b>	Total liabilities	6,751	7,815	9,130	10,693
Operating expenses	215	245	268	287	Equity capital	200	241	241	241
Staff costs	106	125	138	150	Reserves and surplus	419	618	698	802
Other Op Exp	109	120	130	138	Net worth	619	859	938	1,043
<b>Profit before prov</b>	<b>86</b>	<b>84</b>	<b>123</b>	<b>151</b>	<b>Total liab and equity</b>	<b>7,372</b>	<b>8,677</b>	<b>10,071</b>	<b>11,739</b>
Provisions	57	29	43	46	Cash and bank bal	487	457	725	960
Profit before tax	29	55	80	104	Investments	2,295	2,518	2,579	2,837
Taxes	8	0	0	0	Advances	4,271	5,284	6,329	7,481
<b>Net profit</b>	<b>21</b>	<b>55</b>	<b>80</b>	<b>104</b>	Fixed assets	128	185	194	204
<b>Quarterly (Rs. Crs)</b>	<b>Sept. 11</b>	<b>Dec.11</b>	<b>Mar.12</b>	<b>Jun.12</b>	Other assets	191	233	245	257
Net interest income	59	59.7	57.1	63.9	<b>Total assets</b>	<b>7,372</b>	<b>8,677</b>	<b>10,071</b>	<b>11,739</b>
Non interest income	23	26	28	28					
Total income	82	86	85	91	<b>Key Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Operating expenses	61	63	61	67	<b>Yield Ratios</b>				
Operating profit	21	22	24	25	<b>Avg Yield on Assets</b>	8.4%	9.7%	9.5%	9.5%
Provisions	7.5	6.9	6.6	5.9	Yield on Advances	10.4%	11.2%	11.0%	11.0%
Profit before tax	13	16	17	19	Yield on Investments	6.1%	7.2%	7.0%	6.9%
Taxes	0	0	0	0	<b>Cost of Int Bearing Liab</b>	5.9%	7.0%	6.8%	6.7%
<b>Net profit</b>	<b>13</b>	<b>16</b>	<b>17</b>	<b>19</b>	Cost of Deposits	5.5%	6.7%	6.5%	6.4%
<b>Profitability Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	Net Interest Spread	2.5%	2.7%	2.7%	2.9%
Cost / Income Ratio	71.4%	70.7%	68.6%	65.6%	NIM	3.1%	3.2%	3.2%	3.2%
Net profit margin	7.1%	16.8%	20.4%	23.8%	<b>Balance Sheet Ratios</b>				
RONW	3.9%	7.7%	8.9%	10.5%	Gross NPA	5.73%	4.40%	3.83%	3.44%
<b>Growth Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	Net NPA	1.05%	0.57%	0.56%	0.50%
Advances growth	23.5%	23.7%	19.8%	18.2%	Return on Assets	0.3%	0.7%	0.9%	1.0%
Deposit growth	17.2%	12.9%	19.5%	18.1%	CASA	35.2%	32.1%	31.0%	31.4%
NII growth	33.6%	20.4%	20.2%	12.0%	Loan-deposit ratio	76.1%	83.4%	83.6%	83.7%
PAT growth	N/A	157.4%	44.9%	30.9%	CAR	13.3%	15.4%	13.6%	13.6%
Pre prov profit growth	78.2%	-2.6%	46.6%	22.8%	Dividend yield	0.0%	0.0%	0.0%	0.0%
Non interest inc growth	4.2%	-10.0%	16.4%	12.3%					
<b>Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>Valuation Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
P/BV	1.62	1.28	1.17	1.05	EPS	1.07	2.62	3.31	4.34
P/ABV	1.71	1.31	1.20	1.08	BVPS	28.2	35.8	39.1	43.5
P/E	42.91	17.49	13.82	10.56	Adjusted BVPS	26.8	34.9	38.1	42.4

Source: Company data, Nirmal Bang Research



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