

July 30, 2008

**ACCUMULATE**

Price	Target Price
<b>Rs52</b>	<b>Rs60</b>
<b>Sensex</b>	<b>14,287</b>

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	12	(51)	(54)	(50)
Rel. to Sensex	6	(40)	(43)	(45)

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	DCBA.BO
Bloomberg	DEVB@IN
Equity Capital (Rs mn)	1743
Face Value	10
No of shares o/s (mn)	174
52 Week H/L	162/42
Market Cap	Rs9bn/US\$212mn
Daily Avg Volume (No of shares)	4.6mn
Daily Avg Turnover (US\$)	7.3mn

**Shareholding Pattern (%)**

	J'08	M'08	D'07
Promoters	26.5	26.5	26.5
FII/NRI	28.0	40.3	40.4
Institutions	4.1	2.1	2.3
Private Corp	14.3	10.1	10.8
Public	27.1	20.9	20.0

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**Development Credit Bank**Result  
Update**Results below expectations**

DCB's net profit at Rs54mn was below our expectations driven mainly by lower than expected NII. The NII has grown by 76% yoy to Rs487mn driven by 31% yoy growth in advances and 61bps yoy expansion in NIMs. However, the same was lower than our expectations. CASA has expanded by about 200bps sequentially.

However, the bank has once again disappointed on the asset quality front. The gross NPAs have risen from Rs634mn in Q4FY08 to Rs1.1bn now. They are 2.8% of advances compare with 1.5% of advances in Q4FY08. The slippage ratio has also risen to 5.4% (on annualised basis) for Q1FY09.

We have cut our FY09E and FY10E EPS downward by about 30% and 17% each to account for accelerated provisioning which may continue for next few quarters. As a result, we believe that the bank will also fail to ramp up the RoE over next two years and as a result does not warrant any premium valuations either. Consequently, we have revised our price target downwards to Rs60. The stock is currently quoting at 10.6x its FY10E EPS and 1.3x FY10E ABV. We change rating on the stock to ACCMULATE from BUY.

**NII grew 76%yoy led by expansion in NIM's**

DCB's NII grew by 76.0%yoy to Rs487mn which is below our expectations. The growth was primarily driven by 61bps yoy expansion in NIM's.

On sequential basis the NIMs were lower mainly driven by lower base of assets as the bank has securitised some loans to reduce priority sector lending obligations.

**Yield Analysis**

%	Q1Y09	Q1FY08	Q4FY08	y-o-y chg in bps	q-o-q chg in bps
Yield on advances	12.6	12.6	13.6	2	-103
Yield on investments	6.2	5.3	6.3	90	-2
Yield on assets	9.0	8.5	9.6	52	-55
Cost of funds	6.4	6.4	6.4	-9	-1
NIM	2.7	2.0	3.2	61	-54

Source: Company, Emkay Research

Calculated based on average quarterly balances

**Expansion helped by slower balance sheet growth**

The expansion in balance sheet was helped by a slower growth of 32.1% in advances to Rs38.2bn. The deposits have grown by just 18.3% yoy to Rs56.4bn.

The balance sheet growth has been slow for two reasons:

- The bank has shed off high cost deposits to mitigate the rising cost of funds in the tightening monetary environment
- The slippages in the retail portfolio has been much higher, thereby putting breaks on the retail expansion plans

**Advances mix**

Rs mn	Q1Y09	Q1FY08	Q4FY08	% yoy chg	% qoq chg
Total advances	38,150	28,872	40,690	32.1	-6.2
Retail advances	19,130	13,103	18,960	46.0	0.9
Retail as % of total	50.1	45.4	46.6		

Source: Company, Emkay Research

## CASA maintained at 26%

The slower balance sheet growth has also helped the bank to expand CASA to 26% for Q1FY09 vis-à-vis 24.3% for Q4FY08.

### Deposit mix

Rs mn	Q1FY09	Q4FY08	% qoq chg
Deposits	56,400	47,666	18.3
CASA deposits	14,664	11,440	28.2
CASA (%)	26.0	24.0	
Term deposits	41,736	36,226	15.2

Source: Company, Emkay Research

## Fee income regains strength

The fee income growth regained strength during the quarter as the total fee income (CEB+exchange transaction) has grown by 24.7% yoy to Rs294mn. The total non-interest income has grown by 18.2% yoy driven by lower treasury gains.

### Other income

Rs mn	Q1Y09	Q1FY08	Q4FY08	% yoy chg	% qoq chg
CEB	220	195	187	12.5	17.7
Treasury gains	10	45	21	-78.9	-55.0
Profit on sale of assets	44	17	83	162.7	NA
Forex	75	41	51	83.5	47.2
Extraordinary	0	0	250	NA	NA
Miscellaneous	42	32	47	31.4	-11.6
Total	389	329	639	18.2	-39.1
Total excl extraordinary and profit on sale of assets	346	313	306	10.5	13.0

Source: Company, Emkay Research

## Slippages substantially higher than expected; drag on profits

There has been a sharp rise in the slippages over FY08 and Q1FY09. The gross slippages have averaged at 2.5% of the advances for FY08 and remained at 5.3% (on annualised basis) for Q1FY09. The slippages have particularly been higher on the retail side as is seen in the rising provisions for the retail portfolio.

While we believe that operating performance of the bank will remain strong, we fail to see it materializing in robust performance at net profit level due to high provisioning required.

### Break up of provisions

Rs mn	Q1Y09	Q1FY08	% yoy chg
NPA	194.30	27.00	619.6
Retail	162.90	54.40	199.4
Corporate	31.40	-27.40	NA
Investment depreciation	43.80	-6.10	NA
Standard assets	-22.00	19.80	NA
Others	1.10	2.10	-47.6
Total	217.20	42.80	407.5

Source: Company, Emkay Research

### Deteriorating asset quality

Rs mn	Q1FY09	FY08
Gross NPA (Rs mn)	1,148	634
Gross NPA (%)	2.8	1.5
Net NPA (Rs mn)	581	269
Net NPA (%)	1.5	0.7
Slippages (%)	5.3%##	2.5%

Source: Company, Emkay Research

## on annualised basis

### Capital adequacy remains comfortable

With capital adequacy ratio of 13.7%, the bank is comfortably capitalised for growth with tier I capital of 12.4%.

### Valuations and view

We have cut our FY09E and FY10E EPS downward by about 30% and 17% each to account for accelerated provisioning which may continue for next few quarters. As a result, we believe that the bank will also fail to ramp up the RoE over next two years and as a result does not warrant any premium valuations either. Consequently, we have revised our price target downwards to Rs60. The stock is currently quoting at 10.6x its FY10E EPS and 1.3x FY10E ABV. **We change rating on the stock to ACCMULATE from BUY**

#### Estimate change

Rs	Old estimates		New estimates		% change	
	FY09	FY10	FY09	FY10	FY09	FY10
EPS	3.3	6.2	2.3	5.2	-30.3	-16.7
ABV	48.4	47.5	38.2	43.2	-21.1	-9.1

## Quarterly results

Rs mn	Q1Y09	Q1FY08	Q4FY08	% yoy chg	% qoq chg
Net interest income	487	277	568	76.0	-14.2
Other Income	389	329	639	18.2	-39.1
<i>Fee income</i>	294	236	238	24.7	24.0
Net income	876	606	1,207	44.6	-27.4
Total operating expenses	625	524	700	19.5	-10.7
Operating Profit	251	83	506	203.6	-50.5
Provisions & Contingencies	217	43	418	407.5	-48.0
<i>NPA</i>	357	81	211	338.8	69.3
Profit before tax	34	40	88	-15.6	-62.0
Provision for Taxes	-21	-18	165	NA	NA
Net Profit	54	57	-76	-5.2	NA
Extra-ordinary Items	0	0	233	NA!	NA
Adjusted Profit After Extra-ordinary item	54	57	-309	-5.2	NA

## Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	P/ABV	PE
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2007	2,127	-82	-0.6	18.5	0.2	3.2	2.9	-133.3
FY2008	3,678	383	2.2	34.2	0.6	8.1	1.6	28.4
FY2009E	4,558	458	2.3	38.2	0.5	6.5	1.4	23.7
FY2010E	5,811	1,029	5.2	43.2	0.9	12.4	1.3	10.6

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