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Result Update
Development Credit Bank

Q2FY13- Liability Franchise improvement-prime concern

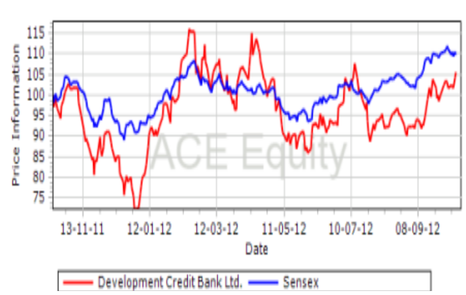
CMP:	**Rs. 46**
Target Price:	**Rs. 51**
Upside/(Downside) %	**11%**
Recommendation:	**Accumulate**

Stock Info	
BSE Group	B
BSE Code	532772
NSE Symbol	DCB
Bloomberg	DEVB IN
Reuters	DCBA.BO
BSE Sensex	18675.18
NSE Nifty	5676.0

Market Info	
Market Capital	`1116.92cr
Equity Capital	` 240.7cr
Avg. Trading Vol. ('000) (NSE Qtly)	2357
52 Wk High/ Low	53/31
Face Value	10

Shareholding Pattern (%)	**(30th Sep 2012)**
Promoters	19.2
Domestic Institutions	14.5
Foreign Institutions	7.6
Public & Others	58.7
Govt. Holdings	0

Financials	**FY12**	**FY13E**	**FY14E**
PAT (Rs in Cr)	55	74	87
EPS (in Rs)	2.5	3.1	3.6
PE (x)	17.9	14.7	12.4
PABV (x)	1.2	1.2	1.1



Development Credit Bank (DCB) continues to tread the growth path with steady steps to grow the book and maintain its quality. The bottom-line continues to be robust benefitted by low base, lower provisions and tax benefit. However, improvement in liability franchise and operational matrix should form the priorities for the bank.

Earnings in-line with estimates: DCB recorded whopping 62% YoY growth in profitability at Rs 22 crs which stood absolutely in-line with our estimates. The profitability growth stands higher primarily supported by tax benefit enjoyed by the bank, lower credit costs and decent core income performance. Net interest income at Rs 67 crs grew 13% YoY which was backed by healthy loan growth benefitted by low base. The advances grew by healthy 31% YoY and deposits by 14% YoY.

Weak low-cost deposit base, deposit growth should be the key focus: The retail liability led growth strategy is not completely in-line with expectations. The deposit growth is not moving in tandem with the loan growth of the bank; which means improvement in liability franchise stands as key priority for the bank. The CASA traction is not very encouraging and the CASA ratio (currently at 30%) has remained subdued since past 5 quarters. However, we are happy with the bank's changed strategy of funding the book with low-cost deposits than the wholesale deposits like in the past. Retail deposits now form 83% of the total deposits.

Margin pressures persist: Margins at 3.24% for the quarter though showed uptick QoQ, YoY they fell from 3.41% and hence sustainability of margins would be challenging for the bank. That said, softening of yields on sequential basis and steady yields emanating particularly from the high-yielding retail portfolio aided margins uptick for the quarter.

Operating efficiency bettering and remains a major focus area: Owing to the small balance sheet size and operating profits and uncertain macro environs, the cost to income ratio remained high. Thus, the opex matrix stands weak for the bank with C/I ratio as one of the highest in the industry despite fall in employee count in FY12 and no major branch additions. Although the Management plans to bring it down at 60% levels over the next two years, the task remains challenging and would be a overhang on the stock. The cost-income ratio (C/I) for Q2 FY13 stood flat at 72%.

Good show on asset quality: The asset quality has demonstrated improvement quarter after quarter despite challenging circumstances. The GNPAs have fallen to 3.9% from 5.8% a year before and NNPAs to 0.7% from 1.0% which is remarkable. The quarter also witnessed improvement in asset quality on sequential basis which provided liberty to the bank to reduce the credit costs. We retain our cautious stance and built in higher NPLs in the range of 4.4-4.7 for FY13-14. However, we remain confident of the bank surprising us positively on the NPA front.

Outlook: DCB has been recording strong bottom-line on account of lower credit costs and tax benefits. Also, the top-line is growing at a strong pace on account of healthy loan book expansion and low base effect. The CASA growth, operating efficiency and expansion in quality asset book remain the key focus areas for the bank. However, lower credit costs boosting profitability may not prove a sound strategy in the long-run and hence it becomes imperative for the bank to grow its deposit base and improve the liability franchise. We advise the Investors to Accumulate the stock on dips and we see the potential for upside from the current levels. The bank is still in the repair phase and is treading on the right path focusing on high yielding retail loan book that would translate into healthy earnings and return ratios in the medium to long term. We value the stock at 1.1X P/ABV FY14E with a Target price of Rs 51.

RSF-EUP-01

OCTOBER 15, 2012

Q2FY13 EARNINGS UPDATE- SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	**Q2FY13**	**Q2FY12**	**YoY**	**Q1FY13**	**QoQ**	**Comments**
Interest Earned	220	179	*23%*	214	*3%*	
Yield on Advances (%)	*12.7*	*12.7*		*12.7*		
Interest Expended	153	119	*28%*	150	*2%*	
Cost of Funds (%)	*7.7*	*7.0*		*7.8*		
Net Interest Income	**67**	**59**	*13%*	**64**	*5%*	YoY NII growth was below our estimates, yet decent
Other Income	27	23	*17%*	28	*-2%*	While sequential other income was poor and not encouraging
Other income / Net Income (%)	*28.7*	*28.1*		*30.1*		
Total income	**94**	**82**	*14%*	**91**	*3%*	
Employee Expenses	34	32	*8%*	33	*3%*	
Non-Employee expenses	34	30	*14%*	34	*1%*	
Operating Expenses	**68**	**61**	*11%*	**67**	*2%*	
Cost-income Ratio (%)	*72.3*	*74.6*		*72.8*		
Pre-Prov Profits	**26**	**21**	*25%*	**25**	*5%*	
Provisions & Contingencies	4	8	*-42%*	6	*-26%*	Credit costs moved downwards, a good sign
PBT	**22**	**13**	*62%*	**19**	*14%*	
Provisions for Tax	0	0		0		
Effective Tax Rate (%)						
PAT (reported)	**22**	**13**	*62%*	**19**	*14%*	**YoY PAT turned out to be quite strong on account of lower credit costs**
EPS Basic	0.9	0.7		0.8		
EPS Diluted	0.9	0.7		0.8		
GNPA	226.0	260.5		236.2		
NNPA	30.4	42.1		40.9		
GNPA (%)	3.9	5.8		4.2		Good show on asset quality with GNPLs declining
NNPA (%)	0.7	1.0		0.8		
Total CAR (%)	14.0	13.1		14.5		
Tier 1 (%)	12.7	11.2		13.2		
Tier 2 (%)	1.3	1.9		1.3		
NIM (%)	3.2	3.4		3.2		
Advances	5,671	4,315	*31%*	5,449	*4%*	Sturdy loan growth
Deposits	7,137	6,262	*14%*	6,829	*5%*	

Source: Arihant, Research

Income Statement				
Year to 31st March (Rs.Cr)	**FY11**	**FY12**	**FY13E**	**FY14E**
Interest Income	536	717	835	998
Interest Expenses	347	489	548	634
Net Interest Income	**189**	**228**	**287**	**365**
- growth %	*34*	*20*	*26*	*27*
Fee-based Income	77	87	105	126
Treasury Income	34	19	22	24
Other Non-interest Income	1	-3	2	2
Operating Income	**301**	**330**	**415**	**516**
- growth %	*21*	*10*	*26*	*24*
Operating Expenses	215	247	277	321
- Staff Cost	106	125	78	90
- Other Operating Exp.	109	122	199	231
Gross Profits	**86**	**84**	**139**	**195**
- growth %	*78*	*-3*	*65*	*41*
Provisions	57	29	65	107
Profit Before Taxes	**29**	**55**	**74**	**88**
Taxes	8	0	0	1
Profit After Taxes	**21**	**55**	**74**	**87**
- growth %	*127*	*156*	*34*	*19*

Balance sheet				
As on 31st March (Rs. Cr)	**FY11**	**FY12**	**FY13E**	**FY14E**
Capital	200	241	241	241
Reserves & Surplus	419	618	691	779
Deposits	5,610	6,336	7,349	8,672
- growth %	*17.2*	*12.9*	*16.0*	*18.0*
Borrowings	861	1,123	1,460	1,663
Other liabilities & provisions	323	359	524	1,020
TOTAL LIABILITIES	**7,413**	**8,677**	**10,265**	**12,374**
Cash, Inter-bank, etc	487	457	648	879
Advances	4,282	5,284	6,341	7,736
- growth %	*23.8*	*23.4*	*20.0*	*22.0*
Investments	2,295	2,518	2,607	3,049
Fixed assets	128	185	314	341
Other assets	221	233	355	369
TOTAL ASSETS	**7,413**	**8,677**	**10,265**	**12,374**

Ratio Analysis				
	FY11	**FY12**	**FY13E**	**FY14E**
Basic Ratio (Rs.)				
EPS	1.1	2.5	3.1	3.6
Book Value per share	28.1	33.4	36.5	40.1
70% Adjusted Book Value	30.0	38.4	37.3	40.1
Asset Quality (%)				
Gross NPAs	5.9	4.4	4.3	4.7
Net NPAs	1.0	0.6	1.0	1.6
NPA Coverage	84.4	91.2	76.9	66.5
Profitability ratios (%)				
RoAE	3.9	8.1	8.8	9.5
RoAA	0.3	0.7	0.8	0.8
NIM	3.1	3.3	3.4	3.7
Operating Profit Margin	13.3	10.3	14.4	17.0
Net Profit Margin	3.3	6.7	7.6	7.6
Cost to Income	71.4	74.6	66.6	62.1

	FY11	**FY12**	**FY13E**	**FY14E**
Spread analysis (%)				
Yield on advances	10.4	11.2	11.1	11.2
Yield on investments	6.1	7.2	7.0	6.9
Yield on interest-earning assets	8.1	9.2	9.3	9.2
Cost of funds	5.4	6.6	6.2	6.1
Spread	2.7	2.6	3.1	3.1
Net Interest Income to AWF	2.9	3.0	3.2	3.5
Non Interest Income to AWF	1.7	1.3	1.4	1.4
Operating Profit to AWF	1.3	1.1	1.5	1.9
Net Profit to AWF	0.3	0.7	0.8	0.8

Valuation ratios (x)				
P/E	41.9	17.9	14.7	12.4
P/BV	1.6	1.3	1.2	1.1
P/ABV	1.5	1.2	1.2	1.1

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5