

Q3FY13- Moving gradually

CMP: Rs. 49
Target Price: Rs. 58
Upside/(Downside) %: 18%
Recommendation: Accumulate

Stock Info

BSE Group	B
BSE Code	532772
NSE Symbol	DCB
Bloomberg	DEVB IN
Reuters	DCBA.BO
BSE Sensex	19424.1
NSE Nifty	6001.9

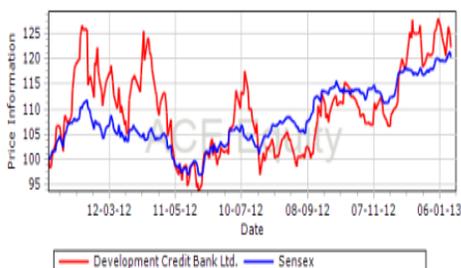
Market Info

Market Capital	1233 cr
Equity Capital	250 cr
Avg. Trading Vol. ('000) (NSE Qtly)	2007
52 Wk High/ Low	53/37
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	92	144
EPS (in Rs)	2.5	3.8	6.0
PE (x)	19.5	12.8	8.2
PABV (x)	1.3	1.3	1.1



RSF-EUP-01

January 17, 2013

Development Credit Bank (DCB), while moving steadily growing the book and improving asset quality, reported decent earnings performance backed by strong bottom-line that continues to benefit from low base, lower provisions and tax benefit. However, improvement in liability franchise remains the key challenge for the bank.

Good show on earnings front: DCB recorded whopping 81% YoY growth in profitability at Rs 27 crs little ahead of 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 72 crs (in-line with our expectations) grew 22% YoY which was backed by sturdy loan growth benefitted by low base. The advances grew by healthy 39% YoY and deposits by 22% YoY.

CASA ratio-standing at all-time low: The retail liability led growth strategy is not completely in-line with expectations. Improvement in liability franchise stands as key priority for the bank. The CASA traction is not very encouraging and the CASA ratio (currently at 28.8%) stands at all-time lower levels. While the term deposits grew in tandem with retail deposits YoY during the quarter, bank continues to focus on low-cost funding to support advances growth. Further, branch network expansion (current branch network: 89 branches, 296 ATMs) also remains the key focus area for the bank in order to boost its CASA base.

Margin pressures persist: Margins at 3.38% moved up 14 bps QoQ while remained stable YoY and hence sustainability of margins would be challenging for the bank. That said, yields uptick 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 that remained high for most of the quarters for the bank came down to 68.5% levels on account of controlled operating expenses showing marked improvement. As the bank continues to expand its branch network and increase its footprint, containing C/I would continue to be on radar.

Good show on asset quality: The asset quality has demonstrated improvement quarter after quarter despite challenging circumstances. While the GNPA's have fallen to 3.8% from historic high of 5.7% levels a year before, NNPA's also declined 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 but remain confident of the bank surprising us positively on the NPA front.

Target price achieved at Rs 51, Outlook positive: 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 backed by adequate branch network, operating efficiency and expansion in quality asset book remain the key focus areas for the bank. In our opinion, at this juncture, it remains imperative for the bank to grow its deposit base and improve the liability franchise. Our price target set at Rs 51 has already been achieved. Apparently current valuations factor in most of the positives, and we see 18% upside potential from the current levels raising our price target to Rs 58 and valuing the stock at 1.3X P/ABV FY14E (discount to peers). The bank is still in the repair phase and need to be cognizant about retail loan book expansion and CASA build-up.

Q3FY13 EARNINGS UPDATE- SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	Q3FY13	Q3FY12	YoY	Q2FY13	QoQ	Comments
Interest Earned	220	183	26%	220	4%	
Yield on Advances (%)	12.7	12.9		12.7		
Interest Expended	153	119	27%	153	3%	
Cost of Funds (%)	7.7	7.2		7.7		
Net Interest Income	72	59	22%	67	8%	NII in-line with our estimates reporting healthy 22% YoY growth aided by superior loan growth
Other Income	29	26	10%	27	7%	Decent growth in non-interest income during the quarter, but the bank require to prop up the same going ahead
Other income / Net Income (%)	28.7	30.8		28.7		
Total income	101	85	19%	94	7%	
Employee Expenses	35	32	11%	34	3%	
Non-Employee expenses	34	32	8%	34	1%	
Operating Expenses	69	63	9%	68	2%	
Cost-income Ratio (%)	68.5	74.5		72.3		Improvement in C/I ratio indicates bank's renewed focus on bettering operating efficiency
Pre-Prov Profits	32	22	46%	26	22%	
Provisions & Contingencies	5	7	-29%	6	11%	Credit costs moved downwards, a good sign
PBT	27	15	81%	22	25%	
Provisions for Tax	0	0		0		
Effective Tax Rate (%)	-	-		-		
PAT (reported)	27	15	81%	22	25%	YoY PAT turned out to be quite strong (marginally ahead of our expectations) on account of lower credit costs and lower base effect
EPS Basic	1.1	0.8		0.9		
EPS Diluted	1.1	0.8		0.9		
GNPA	233.9	256.4		226.0		
NNPA	43.5	44.3		30.4		
GNPA (%)	3.8	5.7		3.9		Good show on asset quality with GNPLs declining from historic highs
NNPA (%)	0.7	1.0		0.8		NNPAs at <1% levels is a positive sign
Total CAR (%)	13.7	13.0		14.0		
Tier 1 (%)	12.6	11.2		12.7		
Tier 2 (%)	1.1	1.9		1.3		
NIM (%)	3.4	3.4		3.2		
Advances	5,964	4,306	39%	5,671	5%	Sturdy loan book expansion on lower base
Deposits	7,558	6,191	22%	7,137	6%	

Source: Arianth, Research

Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	536	717	855	1036
Interest Expenses	347	489	548	626
Net Interest Income	189	228	307	411
- growth %	34	20	35	34
Fee-based Income	77	87	107	131
Treasury Income	34	19	22	24
Other Non-interest Income	1	-3	2	2
Operating Income	301	330	438	568
- growth %	21	10	33	30
Operating Expenses	215	247	278	325
- Staff Cost	106	125	78	90
- Other Operating Exp.	109	122	200	235
Gross Profits	86	84	160	243
- growth %	78	-3	91	52
Provisions	57	29	68	98
Profit Before Taxes	29	55	92	146
Taxes	8	0	0	1
Profit After Taxes	21	55	92	144
- growth %	127	156	67	57

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
Capital	200	241	250	250
Reserves & Surplus	419	618	710	854
Deposits	5,610	6,336	7,349	8,672
- growth %	17.2	12.9	16.0	18.0
Borrowings	861	1,123	1,600	1,813
Other liabilities & provisions	323	359	531	1,192
TOTAL LIABILITIES	7,413	8,677	10,441	12,781
Cash, Inter-bank, etc	487	457	656	889
Advances	4,282	5,284	6,500	8,125
- growth %	23.8	23.4	23.0	25.0
Investments	2,295	2,518	2,607	3,049
Fixed assets	128	185	314	341
Other assets	221	233	364	378
TOTAL ASSETS	7,413	8,677	10,441	12,781

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	1.1	2.5	3.8	6.0
Book Value per share	28.1	33.4	37.6	43.6
70% Adjusted Book Value	30.0	38.4	38.8	43.6
Asset Quality (%)				
Gross NPAs	5.9	4.4	4.1	4.0
Net NPAs	1.0	0.6	0.8	1.2
NPA Coverage	84.4	91.2	81.0	70.8
Profitability ratios (%)				
RoAE	3.9	8.1	10.8	14.8
RoAA	0.3	0.7	1.0	1.2
NIM	3.1	3.3	3.6	4.0
Operating Profit Margin	13.3	10.3	16.2	20.4
Net Profit Margin	3.3	6.7	9.3	12.1
Cost to Income	71.4	74.6	63.5	57.1

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	10.4	11.2	11.3	11.3
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	6.1	6.0
Spread	2.7	2.6	3.2	3.2
Net Interest Income to AWF	2.9	3.0	3.4	3.8
Non Interest Income to AWF	1.7	1.3	1.4	1.5
Operating Profit to AWF	1.3	1.1	1.8	2.3
Net Profit to AWF	0.3	0.7	1.0	1.4
Valuation ratios (x)				
P/E	45.6	19.5	12.8	8.2
P/BV	1.7	1.5	1.3	1.1
P/ABV	1.6	1.3	1.3	1.1

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Stock Rating Scale

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

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