IIFL INDIA PRIVATE CLIENTS

EXPRESS Idea

Development Credit Bank – BUY

Sector: Banking	
Sensex:	18,492
CMP (Rs):	58
Target price (Rs):	68
Upside (%):	16.7
52 Week h/l (Rs):	77/39
Market cap (Rscr) :	1,166
6m Avg vol ('000Nos):	4,798
No of o/s shares (mn):	200
FV (Rs):	10
Bloomberg code:	DEVB IN
Reuters code:	DCBA.BO
BSE code:	532772
NSE code:	DCB

Prices as on 28 Jun, 2011

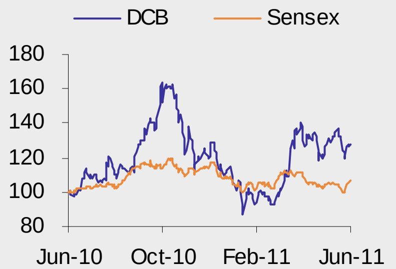
Shareholding pattern

March'10	(%)
Promoters	23.1
Institutions	10.2
Non promoter corp hold	15.2
Public & others	51.5

Performance rel. to sensex

(%)	1m	3m	1yr
DCB	(1.0)	32.7	20.2
Federal Bk	0.4	14.5	37.3
ING Vysya Bk	(1.0)	8.0	(7.5)
Karur Vysya Bk	(3.8)	2.0	31.8

Share price trend



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Magnificent turnaround!

Over FY08-11, DCB has been through a fairytale turnaround. From being a bank that was retail assets driven (mainly unsecured/sticky loans) and wholesale funded (bulk deposits were ~50%), DCB has transformed itself into having a diversified, secured and floating loan assets and stable low-cost liability franchise (CASA at 35%). The successful restructuring has improved balance sheet strength and bank's credibility immensely. Since returning to profits in Q2 FY11 (after seven quarters of losses due to higher provisioning), DCB's profitability has improved materially in each quarter.

Pursuing profitable growth; margin to contract in near-term

After scripting the phenomenal turnaround, the professional management and competent Board are now focused on profitable balance sheet expansion. Asset growth would be liability-driven, ensuring that CASA is not compromised. We estimate a healthy loan book CAGR of 21% over FY11-13. While most banks witnessed sharp volatility in quarterly NIMs during FY11, DCB's NIM was steady at 3.1%, reflecting the structural improvement in asset and liability profile. Though margin is likely to correct in the near-term by 20-30bps, it would remain robust in the longer term, aided by stronger growth in better yielding SME segment.

Worst over for asset quality; well-capitalized for growth

There has been a tremendous improvement in DCB's asset quality over the past five quarters, driven by significant reduction in slippages and substantial recoveries/upgradations. In-line with this, absolute LLP declined but remained conservative, as reflected in high coverage of 87.6%. NPL risk has diminished sharply with Net NPL at 7% of networth currently as compared to 27% in Q1 FY10. GNPL% is expected to decline further with minimal incremental slippages (given robust portfolio now/negligible restructured assets), healthy recoveries and brisk loan growth. As a result, credit cost is estimated to dip sharply. With Tier-1 capital at 11.1%, DCB seems adequately capitalized for medium-term growth.

85% earnings CAGR over FY11-13E; RoA/RoE to bounce-back

DCB is estimated to deliver disproportionately higher 85% earnings CAGR over FY11-13E, driven by improved operating efficiency, benign provisioning and lower tax rate (due to unabsorbed losses). With stable balance sheet growth and improvement in leverage, RoA and RoE would recover considerably to 0.7% and 11%, respectively by FY13. Though current valuation at 1.7x FY13 P/adj.BV fully captures bank's resurrection, potential for exceptional earnings growth may further re-rate the stock.

Valuation summary

Y/e 31 March (Rs m)	FY10	FY11	FY12E	FY13E
Total operating income	2,491	3,012	3,308	4,168
yoy growth (%)	(21.5)	20.9	9.8	26.0
Operating profit (pre-prov)	483	861	963	1,424
Net profit	(785)	214	426	729
yoy growth (%)	(10.9)	(127.3)	99.0	71.1
EPS (Rs)	(3.9)	1.1	2.1	3.6
BVPS (Rs)	30.1	31.0	33.2	36.8
P/E (x)	(14.8)	54.2	27.2	15.9
P/BV (x)	1.9	1.9	1.7	1.6
ROE (%)	(13.9)	3.9	7.3	11.3
ROA (%)	(1.3)	0.3	0.5	0.7
CAR (%)	14.9	13.3	11.9	11.0

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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