



Price Band Rs.22- Rs. 26

September 27, 2006

Issue Summary

Offer size	7.15 Crs Equity Shares
Reserved for employees of Bank	0.25 Crs Equity Shares
Net offer to Public	6.90 Crs Equity Shares
Price Band	Rs.22- Rs.26
Issue Size	Rs.157.3 Crs - 185.9 Crs
Open Date	Sep. 29, 2006
Close Date	Oct. 6 2006
Recommendation	Subscribe
BRLMs	JMMS, Enam
Registrar	Intime Spectrum Registry Ltd.
Minimum Lot	250 shares (Rs. 6500 @ upper band)
Maximum Lot	3750 shares (Rs. 97500 @ upper band)

Share Holding (%)	Pre Issue	Post Issue
Promotors (AKFED)	58.43	30.13
Platinum Jubilee Investment Ltd.	3.32	1.66
Public	38.36	68.21
Total	100	100

Post issue shareholding is calculated assuming that the existing shareholders will not participate in the issue

Revitalization Plan

The management has been actively addressing the financial, liquidity, risk management, personnel & operational issues facing the bank. The bank has established comprehensive revitalization plan to address key weaknesses that have restricted its ability to grow.

Bank's Mission

- Focus on growth opportunities in consumer banking
- Increase branch network
- Focus on fee based income
- Transform branches into one stop retail financial supermarket
- Focus on SMEs
- Focus on selected regional locations
- Use of technology
- Leveraging business alliances
- Enhance & retain quality human capital

Background:

DCB is a new private sector bank, which has embarked on revitalization plans. As part of revitalization plan, the bank has in place a new management team & the board of directors committed to improving bank's operational performance & overall business.

DCB's business is concentrated in certain regional centers, primarily Maharashtra, AP and Gujarat. The Bank has 106 interconnected branches including 5 extension counters & 34 Satellite offices, spread over 26 cities in the country. It also has an ATM network of 58 interconnected onsite and 43 interconnected offsite ATMs.

The Bank's three main business lines are

- Consumer banking (CASA, Home/ Personal Loans etc.)
- Commercial banking (Corporate banking/ Business Banking)
- Treasury operations (FX, Derivatives, Money Market)

Key Strengths

- ✓ Strong Retail Customer Base
- ✓ Strong Management team & Promoter
- ✓ Scalable Infrastructure & Strong technology Platform
- ✓ Presence in fast developing regions like Maharashtra, AP, Gujarat

Business Strategy

The Bank has established a revitalization plan to revitalize its business and to address key weaknesses that have restricted its ability to grow its business. As part of the plan, the Bank has in place a new management team and board of directors. It also includes;

- Focus on prudent risk management;
- Address the historically high level of NPAs;
- Focus on management attention to raise capital & improve liquidity to free capital for growth of advances book & treasury business;
- Emphasis on growth of low cost consumer deposit products;
- Focus on developing the bank's three core businesses, viz, consumer banking, commercial banking & treasury.

Object of the Issue

The RBI guideline require banks to maintain a minimum ratio of Capital to Risk adjusted assets & off balance sheet items of 9%. As at 31st Mar, 2006, DCB's CAR was 9.66% (including Tier-I CAR of 5.96% & Tier-II CAR of 3.7% of risk weighted assets).

- ✓ To augment the Bank's Tier-I capital base to meet the bank's future capital requirements which are expected to arise out of growth in the bank's assets, primarily the bank's loans/ advances & investment portfolio and to ensure compliance with RBI guidelines & other regulatory requirement;
- ✓ To fund general corporate purposes including meeting the expenses of the issue.



NPA level

As of 31st Mar 2006, close to 38% of Bank's Gross Industrial sector NPA portfolio was concentrated in following industry.

(Rs. In Crs.)

Industry (top five)	Balance O/s	Gross NPA
Chemical, Dyes etc	84.25	32.53
Rubber	37.02	31.36
All Engineering	49.903	22.78
Textiles	38.63	19.02
Cement	26.86	14.00
TOTAL	236.69	119.69

Year End	% of Gross NPA to Gross Advances	% of Net NPA to Net Advances
FY01	7.84	6.16
FY02	9.09	6.76
FY03	11.63	9.37
FY04	12.73	7.55
FY05	13.25	6.16
FY06	15.01	4.50

Net NPA for Q1FY07 were at 4.05%

Capital Adequacy Ratio (CAR)

Year	CAR	Tier-I	Tier-II
FY01	11.68%	11.00%	0.68%
FY02	11.49%	10.87%	0.62%
FY03	9.16%	5.68%	3.48%
FY04	9.50%	5.66%	3.84%
FY05	9.54%	5.62%	3.92%
FY06	9.66%	5.96%	3.70%

Post issue, the CAR is expected to be at 19.5%

Investment Concerns

- ✓ The bank has had a high level of NPAs in the past. As a result the bank had to make heavy provisions resulting in losses. To ensure better operating performance & efficient utilization of capital, the bank has to improve its NPA level in future.
- ✓ The bank has in place professional & well experienced new management team & board of directors. Composition of this new management team is key to the bank's success.
- ✓ DCB has to ensure low cost funding through increasing CASA deposits.

Peer Comparison

Company Name	EPS (Rs.)	P/E	BV (Rs.)	P/ BV	RoNW (%)
DCB	-	-	18.3	1.4*	(52.74)
Bank of Rajasthan	2.8	13.6	31.7	1.4	4.6
IndusInd Bank	0.2	36.9	29.8	1.6	4.3
ING Vyasa Bank	1.6	87.0	100.1	1.4	0.9
Yes Bank	2.3	39.9	21.2	3.7	14.08
Karnataka Bank	14.1	8.0	91.6	1.1	16.9
J&K Bank	35.3	11.1	371.1	1.2	10.2
Karur Vyasa Bank	37.9	7.3	242.4	2.4	16.6

*P/BV calculated at upper band of Rs. 26

The Net Worth as on 31st Mar 2006 is Rs.139.3 Crs & BV per share is at Rs. 18.3 (Pre- issue).

The Net Worth as on Q1FY07 is at Rs. 143.7 Crs and the issue proceeds of Rs. 186 Crs (assuming allotment at upper band of Rs. 26) will add to the Net worth to Rs.329.7 Crs. The BV per share at this level is at Rs. 22.33.

The Price band of the issue is between Rs 22 to Rs 26. At the lower & upper Price band the valuations is at 0.99 times and 1.16 times the book value respectively as on Quarter ending June 2006 (Post issue).

We Recommend "**SUBSCRIBE**".



Quarterly Results

(Rs. In Crs)

Particulars	Q1FY07	Q1FY06
Interest Income	73.79	70.37
Other Income	26.14	19.47
Total Income	99.93	89.84
Interest Expanded	51.07	54.87
Operating Expenses	40.27	42.73
Total Expenses	91.34	97.6
Operating Profit	8.59	(7.76)
Other Provisions	4.24	16.4
Provision for tax	0.00	0.00
PAT	4.35	(24.16)
CAR (%)	9.39	9.10
EPS (Rs.)	0.57	(3.74)
BV per Share (Rs.)	18.86	23.14
Gross NPAs to Advances (%)	14.51	14.38
Net NPAs to Advances (%)	4.05	6.36
Return on Assets (%)	0.43	(2.08)

(Rs. in Crs)

Income Statement	FY04	FY05	FY06
Interest Income	353.29	303.22	277.14
Other Income	88.36	91.29	80.29
TOTAL INCOME	441.65	394.50	357.43
Interest Expense	256.87	233.52	201.95
Operating Expenses	129.77	165.11	175.15
Operating Profit	55.01	(4.13)	(19.67)
Provisions & Contingencies	107.00	68.86	57.84
Provision for Tax	8.81	0.00	3.08
Net Profit after Tax	(52.00)	(72.99)	(80.59)

Balance Sheet	FY04	FY05	FY06
Share Capital	65.36	65.50	76.13
Reserves and Surplus	151.42	129.26	88.05
Net Worth	187.83	166.31	139.31
Subordinate Debts	166.00	166.00	166.00
Borrowings	238.58	159.77	129.80
Deposits	4474.18	3894.76	3124.00
Other liabilities & provisions	208.43	239.50	157.74
Total Liabilities	5275.02	4626.34	3716.84
Gross Block	124.16	116.40	107.15
Less : Revaluation reserve	25.88	25.38	24.88
Net Block	98.29	91.02	82.27
Investments	2059.45	1833.39	1291.92
Advances	2510.10	2151.84	1867.32
Cash and Bank Balances	28.03	31.21	19.80
Balance with RBI	248.85	189.90	172.68
Balance with Banks	119.84	137.32	108.25
Other Assets	210.46	191.66	174.60
Total Assets	5275.02	4626.34	3716.84



Key Ratios

Ratio	FY04	FY05	FY06
Return on Equity	(23.11%)	(41.22%)	(52.74%)
Return on avg. Assets	(0.95%)	(1.53%)	(1.91%)
Yields	8.92%	7.57%	7.84%
Cost of Funds	6.37%	5.43%	5.47%
Spread	2.55%	2.14%	2.38%
Net Interest Margin	0.23%	0.17%	0.21%
CAR	9.50%	9.54%	9.66%
Net NPA	7.55%	6.16%	4.50%
EPS (Rs.)	(14.84)	(18.53)	(12.23)
BV per Share (Rs.)	47.72	25.75	18.30

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