

7 February 2008

BUY

Price **Rs112** Target Price **Rs134**

Sensex **18,140**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(24)	3	9	0
Rel. to Sensex	(16)	8	(13)	16

Source: Capitaline

Stock Details

Sector	Banks
Reuters	DCBA.BO
Bloomberg	DEVB@IN
Equity Capital (Rs mn)	1743
Face Value	10
52 Week H/L	162/53
Market Cap	Rs20.2bn/US\$0.5bn
Daily Avg Volume (No of shares)	2388708
Daily Avg Turnover (US\$)	8.3

Shareholding Pattern (%)(31ST Dec.'07)

Promoters	26.5
FII	40.4
Institutions	2.3
Private Corp.	10.8
Public	20.0

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Development Credit Bank

Result
Update

Strong growth

Development Credit Bank (DCB) reported a net profit of Rs Rs257mn, ahead of our expectation, driven by lower provisioning and tax write backs. However NII at Rs426mn is slightly disappointing driven by lower than expected expansion in NIMs as the bank tried to meet its priority sector lending targets. Driven by robust operating performance and tax write backs, the bank has reported nine fold growth in net profit.

The asset quality continued to strengthen as the net NPA stood at 0.97% as compare to 1.2% quarter back.

The stock is currently quoting at 17.6x its FY10E EPS and 2.1x FY10E ABV. We maintain our BUY rating on the stock with a price target of Rs134.

NII growth remain subdued

DCB's NII grew by a slower 34.8% to Rs425.5mn despite a strong 53.2% yoy growth in total business, 48% yoy growth in assets and margin expansion of 36bps yoy.

Yield Analysis

%	Q3Y08	Q3Y07	Q2Y08	y-o-y chg in bps	q-o-q chg in bps
Yield on advances	12.2	11.0	14.0	121.0	-177.8
Yield on investments	7.1	6.8	7.0	25.0	11.0
Yield on assets	8.8	8.1	9.6	71.3	-81.5
Cost of funds	6.1	5.1	6.2	100.1	-1.6
NIM	2.7	3.0	3.5	-28.9	-79.9
NIM-reported	2.9	2.5	3.5	36bps	-60BPS

Source: Company, Emkay Research

Calculated based on average quarterly balances

The slower than expected growth in was on account of higher accumulation of the priority sector lending which was done towards the end of the quarter. The strong growth in lower yielding priority sector loans put a bit of pressure on the expansion in margins.

Similarly on sequential basis, albeit we expected a 30bps contraction in margins, the same was steep at 60bps driven by priority sector lending.

Healthy business growth

The bank's total business grew by a healthy 53.2% yoy to Rs89.5bn led by higher deposit and advances growth. The advances have grown by 70% yoy to Rs36.5bn, which was driven by smart growth in all segments. The deposits have grown by 44% yoy to Rs53bn.

... Aided by the strong growth in retail segment

During the quarter the CD ratio has improved by 1052bps yoy and 384bps on sequential basis to 68.8% mainly driven by the retail loans which grew by 79% yoy. Retail loan constituted 49.2% of the overall advances as against 46.7% same quarter a year back, which has helped in improvement in yield on advances.

Some slippages in CASA driven by faster growth

The faster growth in balance sheet has also put slight pressure on CASA as the proportion of CASA has slipped by 150bps on sequential basis to 27.5%.

Deposit mix

%	Q3FY08	Q2FY08	% qoq chg
Deposits	53,038	49,166	43.6
CASA deposits	14585	14,258	2.3
CASA (%)	27.5	29.0	
Term deposits	38,452	34,907	10.1

Source: Company, Emkay Research

Opex ratios improving

The Opex ratios have continued to improve as the Opex as percentage of net income is now down to 76% for Q3FY08 compared with 79% for Q3FY07. With just 16.6% growth in Opex, the operating profit has grown by 38.4%yoy to Rs186.6mn.

Lower provisioning and tax write back push net income

The bank net profit grew nine fold supported by lower provisioning and tax write back. The bank made a lower provisioning of Rs 53mn as compare to Rs107mn in same quarter last year. At the same time the bank made a tax write back of Rs124mn during the quarter which boosted the net profit.

Asset quality remains strong

The gross NPAs are now at 4.2% of the gross advances (14.1% in Q3FY07,4.2% in Q2FY08) and the net NPAs are now at 0.97% of the net advances (2.8% in Q3FY07, 1.2% in Q2FY08). However with standard asset provisioning, the net NPA are 0.3% as compare to 1.15% for Q2FY08.

Capital adequacy remains comfortable

With capital adequacy ratio of 13.7%, the bank is comfortably capitalised for growth. The management has hinted that looking at current pace of growth; the bank may require equity dilution in H1FY09.

Valuations and view

We expect DCB to witness robust growth in its earnings driven by robust 41% CAGR in revenues. We also expect the asset quality to continue to improve going forward driven by higher recoveries as lesser slippages.

The stock is currently quoting at 17.6x its FY10E EPS and 2.1x FY10E ABV. We maintain our BUY rating on the stock with a price target of Rs 134.

Quarterly results

Rs mn	M9FY08	M9FY07	% yoy change	Q3FY08	Q3FY07	Q2FY08	% yoy change	% qoq change
Net interest income	1,253	811	54.5	426	316	507	34.8	-16.1
Other Income	1,027	712	44.3	353	272	388	29.9	-9.0
Treasury gains	380	260	46.2	180	160	160	12.5	12.5
Non trading income	647	452	43.2	173	112	228	54.8	-24.0
Net income	2,280	1,523	49.7	779	588	895	32.5	-13.0
Operating expenses	1,690	1,265	33.6	592	451	575	31.3	3.0
Pre-provision profit	590	258	128.5	187	137	321	36.7	-41.8
Provisions	317	179	77.3	54	109	220	-50.6	-75.6
Profit before tax	273	79	243.9	133	28	100	379.8	32.6
Provision for Taxes	-187	2	0.0	-124	0	-45	0.0	0.0
Net Profit	459	78	491.5	257	28	145	828.2	77.4

Valuation table

Y/E March 31	Net income Rs mn	Net profit Rs mn	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	2,127	-82	-0.6	18.5	0.2	3.2	6.1	-278.6
FY2008E	3,034	602	3.4	36.9	0.9	12.0	3.0	37.8
FY2009E	4,306	755	3.7	48.4	0.9	8.9	2.3	30.1
FY2010E	5,741	1,292	6.4	54.2	1.1	12.2	2.1	17.6

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