

April 28, 2010

Dena Bank (DENBAN)

Rs 83

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Changed from Rs 16.2 to Rs 16.0
EPS (FY12E)	Rs 15.8
RATING.....	Unchanged

Awaiting capital infusion...

Dena Bank reported its Q4FY10 results, which were ahead of our estimates. The total business of the bank grew 21% YoY from Rs 72,236 crore in FY09 to Rs 86,807 crore in FY10. The deposit base grew 19% YoY to Rs 51,344 crore while the loan book grew 22% to Rs 35,721 crore. The NII grew 37% YoY to Rs 326 crore (we estimated Rs 350 crore) while PAT at Rs 137 crore was up 23% YoY ahead of our estimate of Rs 122 crore. We expect 20% CAGR in the balance sheet to Rs 84,664 crore by FY12E and 22% CAGR in PAT to Rs 768 crore.

NIM expands to 2.8%

The cost of deposits for the bank improved by 63 bps YoY and 29 bps QoQ to 5.9% in Q4FY10. On other hand, yield on advances fell by 55 bps YoY and 41 bps QoQ to 10% in Q4FY10. This coupled with higher loan growth and stable CASA of 36% led to an expansion in the NIM by 27 bps QoQ and 57 bps YoY to 2.8%. We expect CASA of 38% and NIM of 2.7-2.9% for FY12E.

Commission income, recovers driving other income growth

For Q4FY10, fee-based income showed very encouraging growth of 16% QoQ to Rs 97 crore. Hence, it contributed nearly 55% to total non interest income. The bank reported very strong growth in recoveries (Rs 70 crore against Rs 28 crore in Q4FY09), coupled with lower treasury gains and MTM losses. We expect 23% CAGR over FY09-FY12E to Rs 794 crore.

Capital infusion awaited

In phase I, the bank has applied to the Government of India to infuse capital to the tune of Rs 600 crore. Of this, Rs 300 crore is expected by way of preferential equity and the rest by way of preference shares. This will raise Gol's stake to around 59% from 51% currently. We have, therefore, factored in capital dilution to that effect in FY11E. This will drag down RoE to 18% in FY12E from 22% currently.

Valuation

The bank is currently trading at 0.9x FY12E ABV. This is attractive from a medium-term perspective. We expect the bank to deliver RoE of 18%, RoA of ~1% and NIM of 2.7-2.9%. Hence, we maintain our fair value for the bank at Rs 91 and recommend **BUY** on the stock at current levels.

Exhibit 1: Financial performance

Rs Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	326.1	350.8	239.0	283.0	36.5	15.2
Other Income	174.9	150.7	140.0	133.1	24.9	31.3
PPP	280.1	282.2	187.8	197.7	49.2	41.7
PAT	137.1	121.8	111.2	134.5	23.3	1.9

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Buy
Target	: Rs 91
Target Period	: 12-15 months
Potential Upside	: 10%

Trailing 4 quarters growth (Rs Crore)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
NII	250.5	240.4	283	326.1
PPP	201.3	161.5	197.7	280.1
PAT	115.0	124.6	134.5	137.1

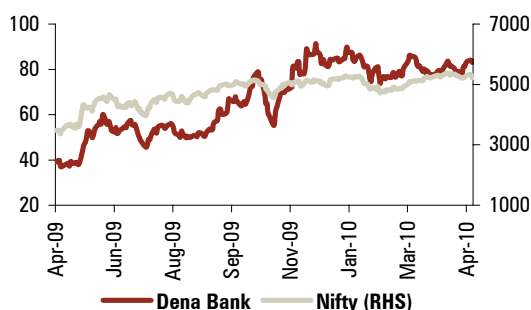
Valuation summary

Year to March	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	422.6	511.3	619.2	768.2
EPS (Rs)	14.7	17.8	16.0	15.8
Growth (%)	17.5	21.0	-10.2	-1.4
P/E (x)	5.6	4.7	5.2	5.3
ABV (RS)	64.7	75.0	80.3	89.0
Price / Book (x)	1.1	0.9	0.9	0.8
Price / Adj Book (x)	1.3	1.1	1.0	0.9
GNPA (%)	2.1	2.2	2.2	2.3
NNPA (%)	1.1	1.3	1.1	1.0
RoNA (%)	1.0	1.0	1.0	1.0
RoE (%)	21.3	21.4	20.0	18.2

Stock data

Market Capitalisation	Rs 2381 crore
GNPA (FY10)	Rs 642 crore
NNPA (FY10)	Rs 428 crore
NIM (Q4FY10)	2.8 %
52 week H/L	93 / 36
Equity capital	Rs 287 crore
Face value	Rs 10
DII Holding (%)	8.0
FII Holding (%)	15.3

Price movement (Stock vs. Nifty)



Analyst's name

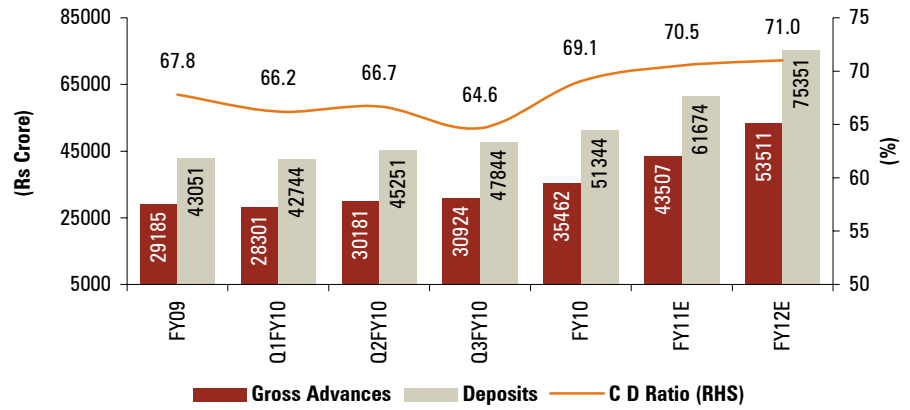
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The incremental C/D ratio of the bank is on the higher side of around 78%. It is likely to stabilise around 70-72% in the coming quarters

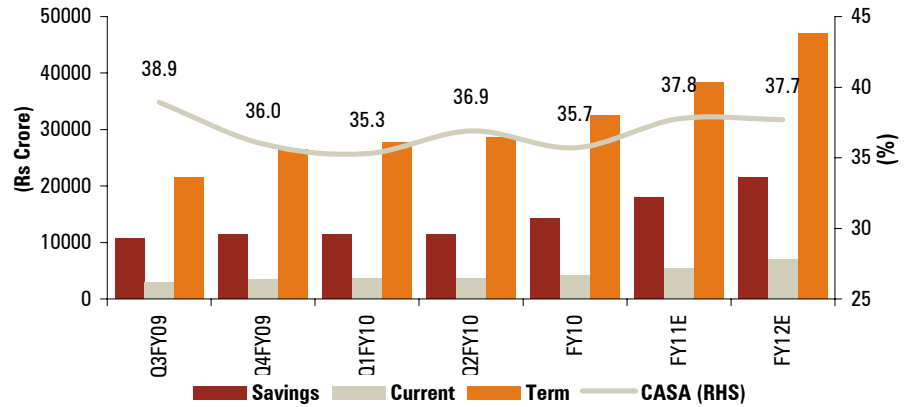
Exhibit 2: C/D ratio to stay stable



Source: Company, ICICIdirect.com Research

The bank is planning to add another 400 branches in the coming three years. This will help it to improve its CASA by 200 bps to ~38%

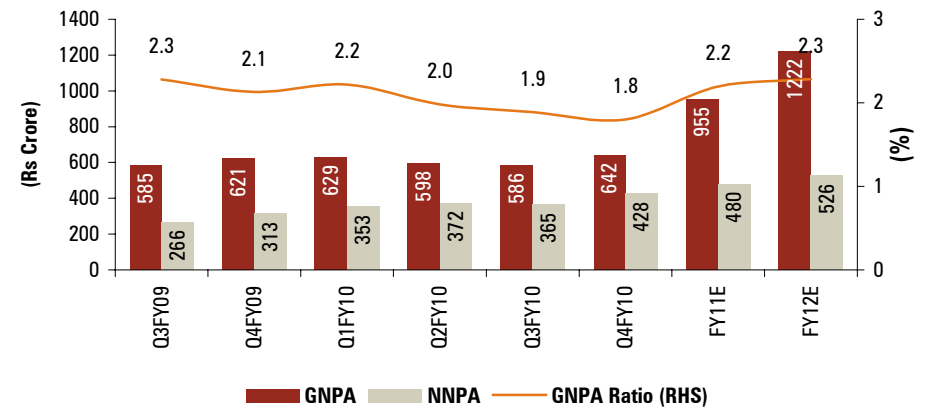
Exhibit 3: Deposit mix showing early signs of improvement



Source: Company, ICICIdirect.com Research

The bank has witnessed a consistent decline in its GNPA ratio over FY10. We believe the bank has done well in controlling the rise in GNPA. However, we have cautiously built in higher GNPA as the bank has restructured assets of nearly Rs 1,600 crore

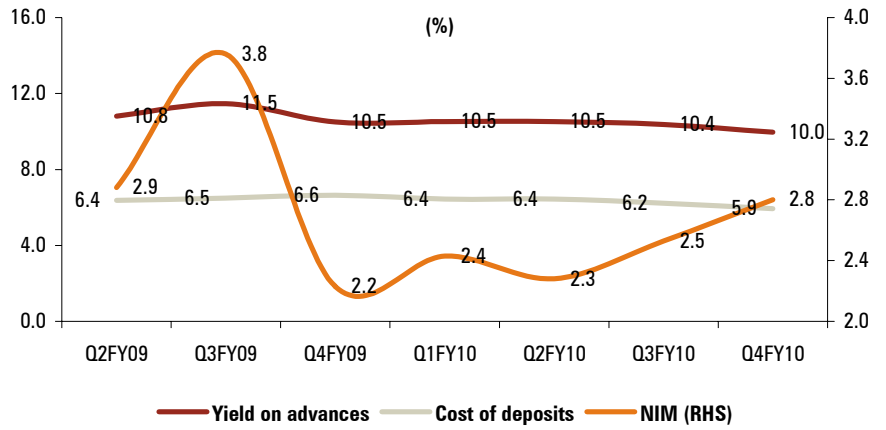
Exhibit 4: Asset quality to stay stable



Source: Company, ICICIdirect.com Research

Exhibit 5: NIM to stabilise, going ahead

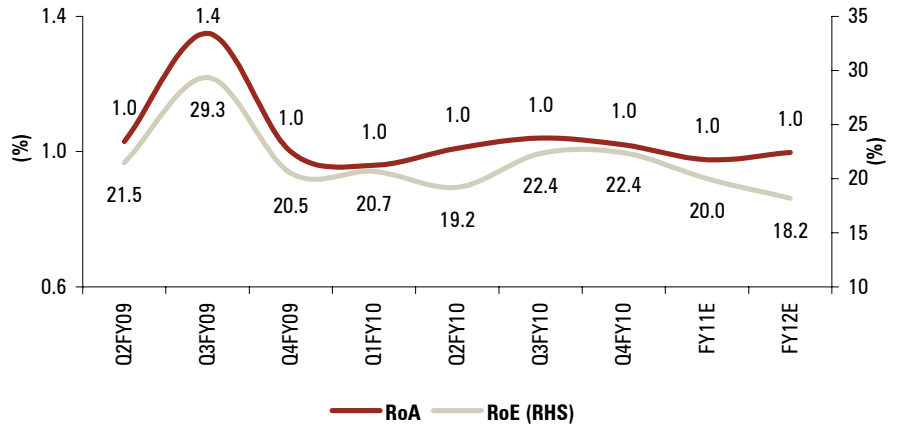
The NIM rose sequentially to 2.8% in Q4FY10 from 2.5% in Q3FY10 due to repricing of bulk deposits. The NII grew 36.5% YoY to Rs 326 crore on the back of an increase in credit offtake. We expect NIM to stabilise around 2.7- 2.9%



Source: Company, ICICIdirect.com Research

Exhibit 6: Expected dilution in FY11 to dampen RoE

The bank expects a Rs 600-crore capital infusion from Govt starting from H1FY11. This would lead to a moderation of RoE from FY11 onwards



Source: Company, ICICIdirect.com Research

Financial scorecard

Exhibit 7: Profit and loss account

Rs Crore	FY09	FY10	FY11E	FY12E
Interest Earned	3447.5	4010.4	5069.2	6366.2
Interest Expended	2383.1	2910.3	3613.5	4466.0
Net Interest Income	1064.4	1100.0	1455.7	1900.2
Growth (%)	19.2	3.3	32.3	30.5
Non Interest Income	430.1	588.6	666.6	794.1
Fees and advisory	132.3	165.4	206.8	258.4
Treasury Income and sale of Invt.	54.3	153.5	65.7	72.3
Other income	243.5	423.2	394.1	463.3
Net Income	1494.5	1688.7	2122.3	2694.3
Employee cost	467.9	540.0	632.0	737.1
Other operating Exp.	300.3	308.1	332.4	472.3
Operating Income	726.4	840.6	1157.9	1484.9
Provisions	184.9	153.8	364.1	500.0
PBT	541.4	686.8	793.8	984.8
Taxes	118.8	175.5	174.6	216.7
Net Profit	422.6	511.3	619.2	768.2

Source: Company, ICICIdirect.com Research

Exhibit 8: Balance sheet

Rs Crore	FY09	FY10	FY11E	FY12E
Sources of Funds				
Capital	286.8	286.8	386.8	486.8
Reserves and Surplus	1883.7	2314.9	3200.9	4370.6
Networth	2170.5	2601.7	3587.8	4857.4
Deposits	43050.6	51344.3	61674.4	75350.6
Borrowings	52.1	1561.9	402.3	402.9
Other Liabilities & Provisions	3187.3	2078.7	3659.5	4053.1
Total	48460.6	57586.6	69324.0	84664.0
Uses of Funds				
Fixed Assets	405.2	407.3	452.3	488.5
Investments	12473.1	15694.2	19812.4	23621.6
Advances	28878.0	35462.4	43506.7	53510.5
Other Assets	847.3	908.1	1007.4	906.1
Cash with RBI & call money	5857.1	5114.5	4545.2	6137.3
Total	48460.6	57586.6	69324.0	84664.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	385	FY10	1894.1	36.0	10.7	1.8	0.8	13.4
		Target	383	FY11E	2566.8	48.8	7.9	1.6	0.9	16.6
Mcap (Rs Cr)	20248	Upside (%)	-0.5	FY12E	3216.3	61.2	6.3	1.5	0.9	19.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	686	FY10	2939.3	80.4	8.5	1.8	1.2	20.7
		Target	744	FY11E	3566.3	97.6	7.0	1.5	1.3	20.7
Mcap (Rs Cr)	25086	Upside (%)	8.4	FY12E	4536.3	124.1	5.5	1.2	1.3	21.5
Dena Bank										
Idirect Code	DENBAN	CMP	83	FY10	511.3	17.8	4.7	1.1	1.3	1.0
		Target	91	FY11E	566.3	14.6	5.7	1.0	1.2	0.9
Mcap (Rs Cr)	2381	Upside (%)	9.6	FY12E	682.4	14.0	5.9	1.0	1.1	0.9
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	98	FY10	1292.7	14.2	7.0	1.1	0.6	10.9
		Target	99	FY11E	920.2	16.9	5.8	0.9	0.6	12.3
Mcap (Rs Cr)	5364	Upside (%)	0.6	FY12E	1182.0	21.7	4.5	1.0	0.7	14.9
IDBI Bank										
Idirect Code	IDBI	CMP	119	FY10	1029.2	14.2	8.4	1.2	0.5	13.1
		Target	141	FY11E	1261.6	15.8	7.5	1.1	0.5	14.0
Mcap (Rs Cr)	8658	Upside (%)	18.0	FY12E	1543.9	17.6	6.8	1.0	0.5	14.5
OBC										
Idirect Code	ORIBAN	CMP	337	FY10	1128.0	45.0	7.5	3.4	0.9	14.4
		Target	377	FY11E	1354.4	54.1	6.2	3.0	0.9	15.2
Mcap (Rs Cr)	8444	Upside (%)	11.9	FY12E	1655.6	66.1	5.1	2.7	1.0	16.1
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1023	FY10	3719.0	118.0	8.7	4.2	1.4	23.0
		Target	950	FY11E	4514.8	143.2	7.1	3.8	1.4	24.2
Mcap (Rs Cr)	32255	Upside (%)	-7.1	FY12E	5418.1	171.8	6.0	3.4	1.4	25.9
SBI										
Idirect Code	STABAN	CMP	2237	FY 09	91.2	143.7	15.6	2.9	1.1	17.1
		Target	2251	FY10	101.5	159.8	14.0	2.7	1.0	16.5
Mcap (Rs Cr)	142023	Upside (%)	0.6	FY11E	112.2	176.7	12.7	2.3	0.9	16.0
Union Bank of India										
Idirect Code	UNIBAN	CMP	312	FY10	2053.7	40.7	7.7	1.6	1.2	21.4
		Target	310	FY11E	2349.0	46.5	6.7	1.3	1.1	20.6
Mcap (Rs Cr)	15762	Upside (%)	-0.7	FY12E	2871.4	56.8	5.5	1.0	1.2	20.8
Axis Bank										
Idirect Code	UTIBAN	CMP	1253	FY10	2514.5	62.1	20.2	3.3	1.7	19.2
		Target	1302	FY11E	3129.7	76.5	16.4	2.7	1.6	17.5
Mcap (Rs Cr)	50780	Upside (%)	3.9	FY12E	4133.3	101.1	12.4	2.3	1.7	19.2
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	149	FY10	24.0	3.7	39.8	2.4	0.4	5.5
		Target	170	FY11E	65.3	9.4	15.8	2.0	0.7	12.8
Mcap (Rs Cr)	954	Upside (%)	14.3	FY12E	107.9	15.6	9.5	1.7	0.8	17.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	1967	FY10	2948.7	64.4	30.5	4.3	0.3	1.8
		Target	2151	FY11E	3972.3	87.6	22.4	3.8	0.3	1.7
Mcap (Rs Cr)	90029	Upside (%)	9.4	FY12E	5051.4	111.4	17.7	3.4	0.3	1.9
Kotak Bank										
Idirect Code	KOTMAH	CMP	736	FY 09	293.9	8.5	86.2	7.1	1.2	11.4
		Target	734	FY10	275.8	8.0	92.2	6.4	1.0	7.5
Mcap (Rs Cr)	25573	Upside (%)	-0.2	FY11E	464.2	13.4	54.8	6.3	1.5	11.5
South Indian bank										
Idirect Code	SOUINO	CMP	174	FY10	265.6	23.5	7.4	1.5	1.1	19.2
		Target	201	FY11E	359.8	31.8	5.5	1.2	1.3	22.0
Mcap (Rs Cr)	1966	Upside (%)	15.5	FY12E	458.0	40.5	4.3	1.0	1.3	23.2
Yes Bank										
Idirect Code	YESBAN	CMP	278	FY10	461.9	14.0	19.9	3.1	1.7	19.8
		Target	293	FY11E	630.5	19.0	14.6	2.6	1.8	18.8
Mcap (Rs Cr)	8337	Upside (%)	5.5	FY12E	819.0	24.7	11.2	2.1	1.7	20.1

Continued...

NBFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	166	FY 09	848.0	6.5	25.4	3.5	2.8	14.3
		Target	180	FY10	1058.7	8.2	20.3	3.1	3.2	15.9
Mcap (Rs Cr)	21505	Upside (%)	8.4	FY11E	1191.5	9.2	18.1	2.7	3.1	15.9
LICHF										
Idirect Code	LICHF	CMP	902	FY 09	532.4	62.6	14.4	3.3	2.0	25.3
		Target	805	FY10	572.7	59.7	15.1	2.8	1.7	20.7
Mcap (Rs Cr)	8565	Upside (%)	-10.8	FY11E	741.5	77.2	11.7	2.3	1.8	21.3
Rel Cap										
Idirect Code	RELCAP	CMP	731	FY 09	1014.1	41.2	17.7	2.4	5.9	14.4
		Target	800	FY10	555.6	22.6	32.4	2.3	2.9	7.2
Mcap (Rs Cr)	17945	Upside (%)	9.5	FY11E	907.7	36.9	19.8	2.1	4.3	11.0
Brokerage firms										
Edelweiss Capital										
Idirect Code	EDECAP	CMP	406	FY10	255.3	32.0	12.7	1.3	6.7	11.5
		Target	494	FY11E	323.7	40.6	10.0	1.2	6.4	13.2
Mcap (Rs Cr)	3046	Upside (%)	21.7	FY12E	351.5	44.1	9.2	1.1	5.6	12.9
India Infoline										
Idirect Code	INDINF	CMP	108	FY10	234.3	8.3	13.0	1.8	9.0	14.6
		Target	111	FY11E	239.6	8.5	12.7	1.6	7.4	14.2
Mcap (Rs Cr)	3071	Upside (%)	3.0	FY12E	242.8	8.6	12.6	1.5	7.1	13.1
MOFSL										
Idirect Code	MOTOSW	CMP	177	FY 09	93.4	6.6	26.9	3.2	6.6	11.8
		Target	184	FY10	160.7	11.3	15.7	2.8	9.7	17.8
Mcap (Rs Cr)	2532	Upside (%)	3.9	FY11E	173.0	12.2	14.5	2.4	9.2	16.2

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