



Research



## RESEARCH:: COMPANY: DENA BANK LIMITED

26<sup>th</sup> May 2010

### Long Term Buy

CMP	Rs83.5
Target price	Rs 108
Estimated EPS	Rs 17.8
Projected PE	6-7
Investment period	6-9 months

### Stock Info (TTM Basis)

Sector	Banking
Market cap (Rs Cr)	2545.53
Face value	10
Book value	83.43
EPS	17.82
Dividend	12%
52 week H/L	93/37
Avg. Daily Vol (2wk)	889000
Managing Director	B R Rao
Listed At	NSE/BSE
Equity capital	286.82
Promoters Holding	51.19%

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Dena Bank is one of the most prestigious banks of India having a good market share. The Bank is one among the few banks to receive the World Bank loan for technological upgradation and training. They are the first bank to introduce Minor Savings Scheme, Credit card in rural India known as Dena Krishi Sakh Patra, Drive-in ATM counter of Juhu, Mumbai and Customer rating system for rating Bank Services.

### Key Highlights:

**Credit Growth:** The bank has been able to maintain credit growth of over 22.8%, during the financial year09-10 at Rs 35462.44cr as against Rs 28877.96cr during FY08-09, largely driven by improved Corporate & SME Advance, which has grown by 24.57% on Y-o-Y basis.

**Margin Improvement:** During the quarter ended on 31<sup>st</sup> March 2010, the net interest margin of the bank has improved to 2.8% from 2.5% during the corresponding period last year, while the NIM during the previous quarter of the same Financial year stands at 2.2%, the improvement in margins are largely due to improved CD ratio of 69.1% and higher CASA Deposits of 35.7%.

**Capital Infusion:** The bank has able to secure the Government of India's nod for capital infusion amounting Rs 600cr, out of which Rs 300cr in the form of Equity and Preference capital and rest by way of Preference Share. This will further strengthen GOI's holding in the bank to 59% from 51.19% currently.

**Low Cost Advantage:** The bank enjoys a significant high proportion of low cost deposits as, the Deposits from CASA to total deposits is on higher end.

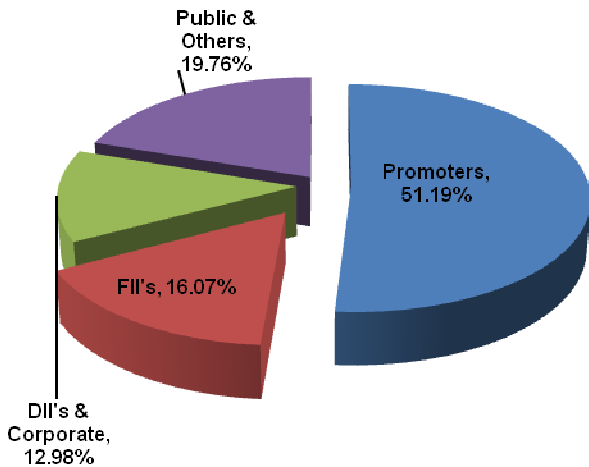
### Future Outlook

At the current price of Rs 83.5, the stock is available at 5.66x of its FY09 earnings, 4.68x of its FY10E earnings and 4.69x of its FY11E earnings. We recommend BUY with a price target of Rs108, given that the company's future shows potential.

Particulars (Rs Cr)	FY09	FY10	FY11E
Interest Earned	3447.5	4010.36	5091.7
Less: Interest Expended	2383.1	2910.33	3652.5
Net Interest Income	1064.4	1100.03	1439.2
Add: Non Interest Income	430.1	588.63	640.6
Net Income	1494.5	1688.66	2079.8
Less: Operating Expenses	768.19	848.08	949.8
Operating Income	726.31	840.58	1130
Less: Provisions	184.93	153.79	240.5
PBT	541.38	686.79	889.5
Less: Taxes	118.77	175.54	202.45
Net Profit	422.61	511.25	687.05
EPS(Diluted)	14.74	17.83	17.80*

\*EPS Diluted

Shareholding Pattern as on 31<sup>st</sup> Mar 2010



Dena Bank is considering Capital Infusion and due to this, the stake of Govt. of India will increase to 59% from 51.19% currently this will in turn lead to Equity Dilution to the tune of Rs. 386.8cr from Rs.286.8cr.

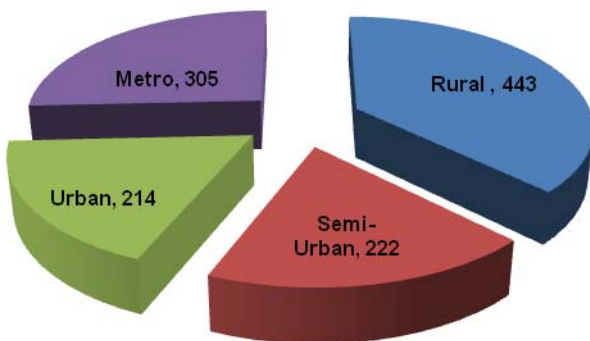
COMPANY PROFILE

Dena bank is among the smaller Public sector bank (with Government of India holding 51.19% stake) in India, the bank is primarily involved in commercial banking and other related services. The bank also provides in merchant banking, asset management and other related services. The bank has pan India presence with 1222 branches offices, 387 ATMs all over India. The Bank operates only in India.

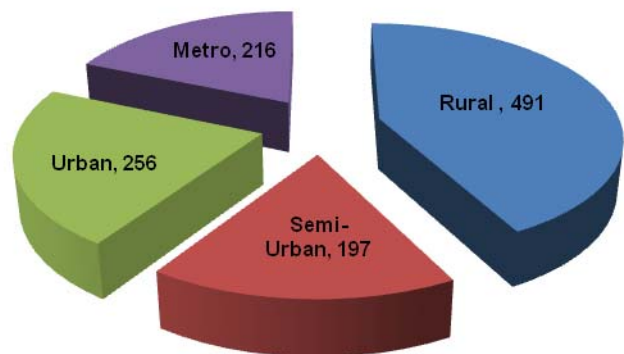
The bank has more of its business coming from very contrasting geographical locations Rural and Metros. It has implemented Core Banking Solutions (CBS) into its operations, which allowed the bank to serve its customer to the next level.

The Bank offer various products and services to its customers ranging from basic banking services like saving account, loans, deposits, ATM facility to high end banking facilities like RTGS, Net banking, Demat services, Currency trading etc.

Branch Distribution FY09



Branch Distribution FY08



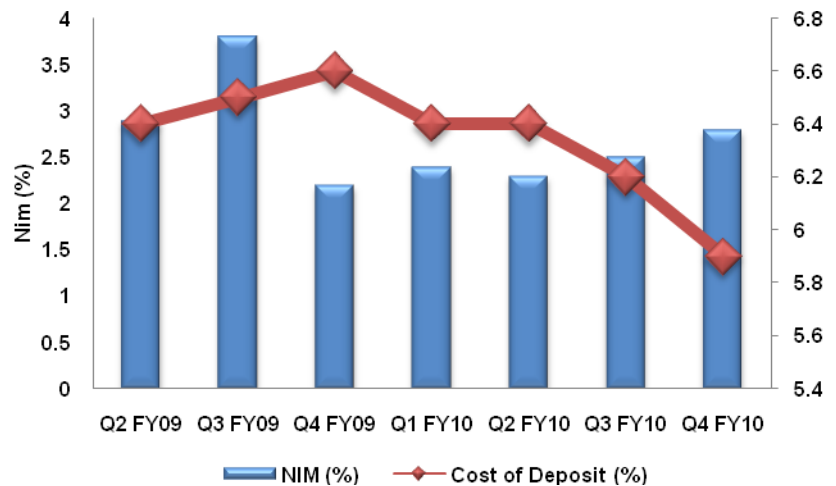
The Bank is all set to make its mark into new geographies, with the bank is strategically restructuring its presence. It has increased its focus on Semi- Urban and Metro population of the country, which is growing at a faster pace. The bank has large presence in western region primarily in Gujarat and Maharashtra.

### Investment Arguments:

#### Low Cost Deposits:

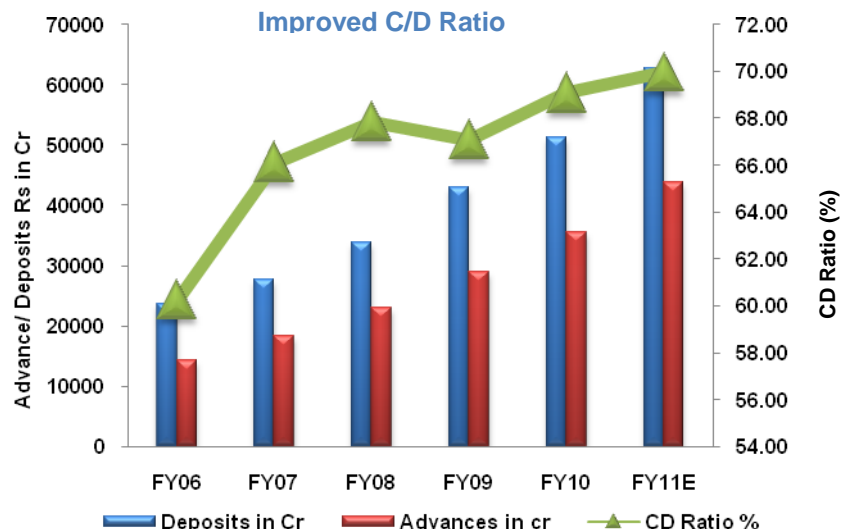
Dena bank is one of the well positioned bank in Public Sector banking, as it enjoys the leverage from low cost of deposits, which is highly attributed from high CASA deposits which accounts for 35.7%. The bank has managed to grow its CASA deposits by 23% on Y-o-Y basis to Rs 18320cr during the quarter. The stable CASA ratio is primarily due to its strong branch network

#### Improved NIM



The Low Cost Deposits of the bank will improve its NIM & Net Interest income in the rising interest rate scenario.

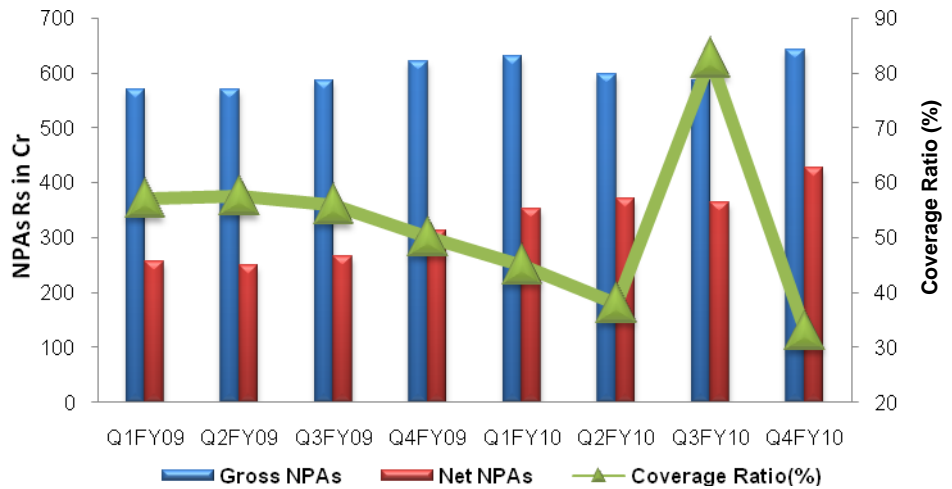
#### Turnover is Expected to Cross Rs 100000cr Mark:



During the FY10, the bank has able to grow its business 20.68% to Rs86806.71cr as against Rs 71928.7cr, driven by 22.8% in advances and 19.3% growth in Deposits. We expect the bank turnover would grow at 23% crossing Rs 100000cr mark for first time in the bank's history in FY11E.

The bank has a target to cross Rs 125000cr turnover mark by next 3 years, with increased focused high margin segments like housing, car and education.

**Asset Quality Stable but coverage ratio a major concern**

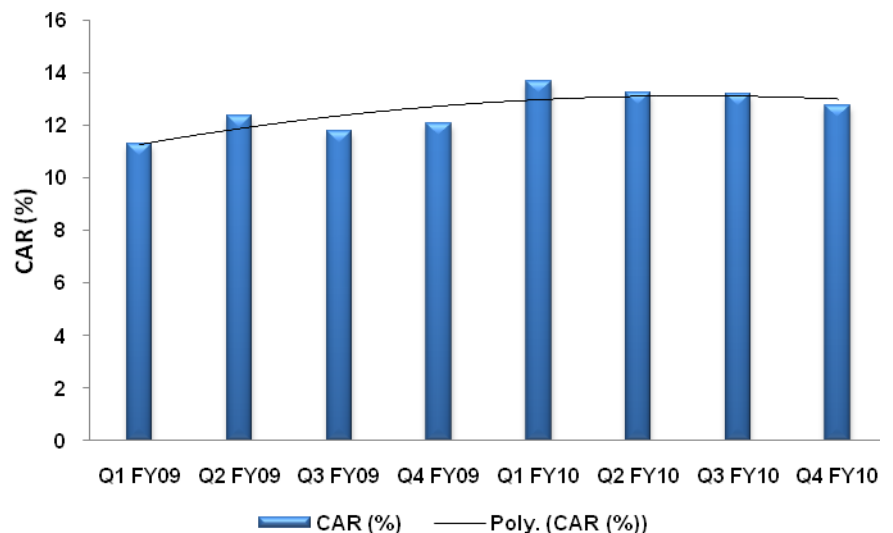


The bank has managed to maintain stable asset quality, however the coverage ratio for the quarter has fallen to 33% from 50% during the corresponding period last year, and from 82.6% during the previous quarter same Financial year.

The asset quality of the bank has slipped slightly on both Y-o-Y and Q-o-Q basis, however the bank has managed to stabilize its asset quality over the period. The Gross NPA of the bank has increased by 3% on y-o-y basis and 10% on q-o-q basis to Rs 641.99 crore. The Net NPA of the bank has jumped up by 36% on y-o-y basis and 17% on q-o-q basis to Rs 427.53 crore in the quarter ended March 2010.

The ratio of Gross NPA's to Gross Advances has declined from 2.13% in Q4FY09 to 1.89% in Q3FY10 and 1.8% in Q4FY10. On the other hand, %Net NPA's have increased from 1.09% in Q4FY09 to 1.19% in Q3FY10 to 1.21% in Q4FY10. The provision coverage ratio of the bank has declined to 33% in the quarter ended march 2010, as against 50% during the corresponding period last year.

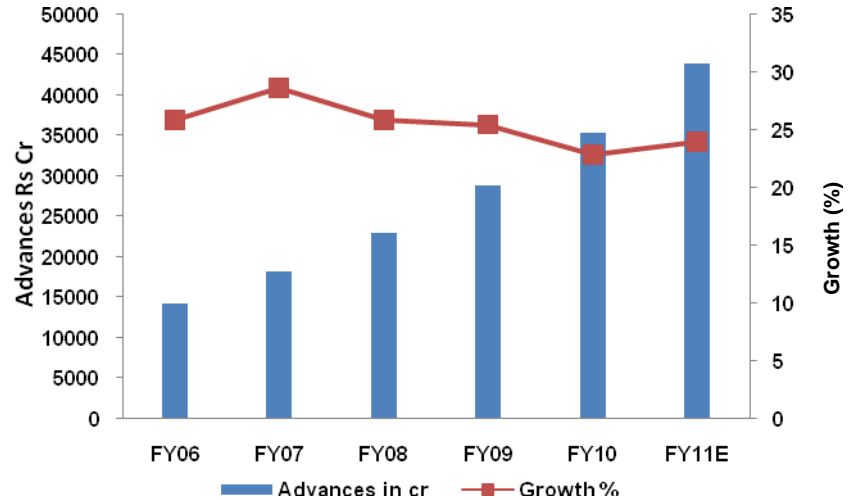
**Capital Adequacy Ratio:**



The Bank's Capital adequacy ratio stands at 12.77%, with Tier-1 capital of 8.2%, above the minimum statutory norm of 6%. The bank is expected capital infusion from the Government.

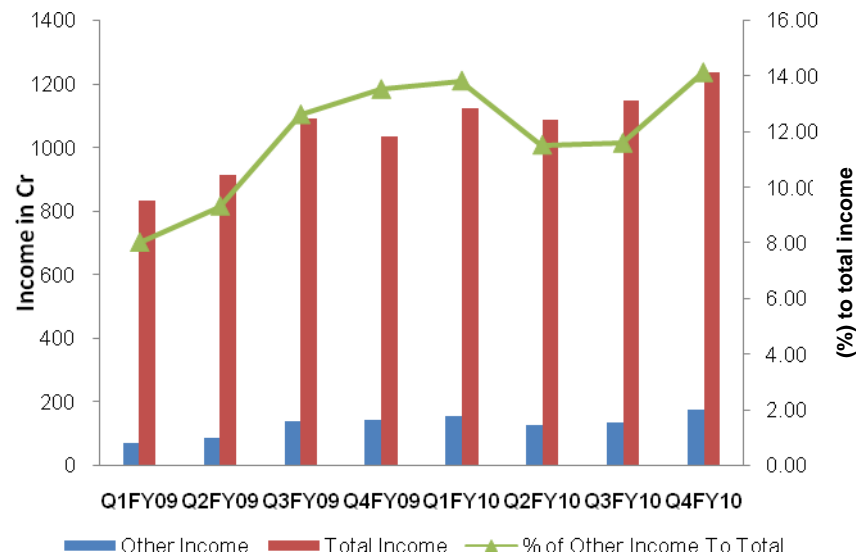
The bank has increased its focus of on high margin products, which include advance to SMEs. Deana Bank has been able to grow its loan book at a CAGR of 25.64% in the last five years to Rs 35462.44cr in FY10, We expect the bank to grow its advance by 24% at Rs 43941.59cr in FY11E.

**Credit Growth likely to be maintained:**



Fee based income accounts for a major portion of a bank's other income. A bank generates higher fee income through innovative products and adapting the technology for sustained service levels, on Y-o-Y basis the bank reported a 7.1% increment in its fee income amounting Rs 97cr, while the income from recoveries showed an impressive growth of over 150% to Rs 70cr. This stream of revenue is not depended on the bank's capital adequacy and consequently, the potential to generate the income is immense.

**Contribution of Other Income Improved**



The contribution of other income to that of total income has improved for the bank during the quarter; however, it is still below the average contribution from the segment in private bank which stands at 15-18%.

**Expansion Plans:**

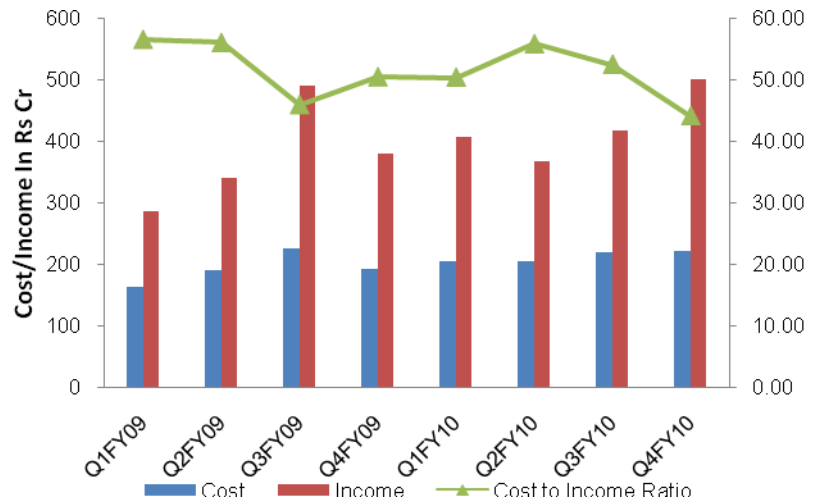
Dena bank has aggressively planned its expansions from 1222 branches to 1372 branches during the fiscal year. The bank already obtained RBI's nod for opening 105 new branches. As, a strategically move the bank has increased its focus on Metros and Semi- Urban parts of the country, which is highly untapped so far.

The bank has recently entered into agreement with Bajaj Allianz, for the distribution of an insurance product of the company. It has also entered into a distribution agreement with Shinsei Asset Management, under which the bank will distribute the products of the company, by reaping the benefits to both parties of its large branch network.

During the quarter ended on 31<sup>st</sup> March 2010 the bank has managed to improve its operating efficiency, the cost to income ratio of the bank improved on both Y-o-Y and Q-o-Q basis to 44% as against 50.5% during the corresponding period last year and 52.5% during the previous quarter.

The Operating expenses of the bank has moved up by 15% to Rs 220.84 crore owing to 10% increase in the employee cost to Rs 128.45 crore and 24% jump in the other operating expenses to Rs 92.39cr.

#### Operating Efficiency: (Cost/Income Ratio)



#### QUARTERLY ANALYSIS:

Particulars (Rs Cr)	Mar-10	Mar-09	VAR % (Y-o-Y)	Dec-09	VAR % (Q-o-Q)
Interest Earned	1063.24	895.79	18.7%	1015.9	4.7%
Other Income	174.86	140.04	24.9%	133.14	31.3%
Total Income	1238.1	1035.83	19.5%	1149.04	7.8%
Operating Expenses	957.97	848.07	13.0%	951.36	0.7%
Operating Profit Before Prov. & Cont.	280.13	187.76	49.2%	197.68	41.7%
Provisions & Contingencies	82.44	51.35	60.5%	29.25	181.8%
Provision for Taxes	60.62	25.24	140.2%	33.91	78.8%
Net Profit	137.07	111.17	23.3%	134.52	1.9%
Extra-ordinary Items	0	0	-	0	-
Adjusted Profit After Extra-ordinary item	137.07	111.17	23.3%	134.52	1.9%
EPS	4.78	3.88	23.2%	4.69	1.9%
Equity	286.82	286.82	0	286.82	
Face Value	10	10	-	10	-

For the quarter ended March 2010, the total income of the bank grew by 19.5% to Rs 1238.1cr as against Rs 1035.83cr during the corresponding quarter last year. Dena bank has reported 36% increase in NII to Rs 326.11 crore on the back of 19% increase in the Interest Earned to Rs 1063.24 crore. On the other hand, Interest expended has increased by 12% to Rs 737.13 crore in the quarter under review. Further, 25% increase in other income to Rs 174.86 crore has pushed up Net Total Income up by 32% to Rs 500.97 crore.



The Operating expenses of the bank has moved up by 15% to Rs 220.84 crore owing to 10% increase in the employee cost to Rs 128.45 crore and 24% jump in the other operating expenses to Rs 92.39 crore. However, the cost to Income ratio of the bank has slipped down by 640 bps to 44.1% and lifted Operating Profits up by 49% to Rs 280.13 crore.

Despite strong 49% rise in the operating profit at Rs 280.13 crore, the company has to settle with 23% rise in Net Profit mainly on the back of 140% spike in taxation to Rs 60.62 crore in the quarter under review. The provisions and contingencies of the bank has flung up by 61% to Rs 82.44 crore and led PBT up by 45% to Rs 197.69 crore. Finally, provisions for taxation have shot up by 140% to Rs 60.62 crore and restricted Net Profit of the bank up by 23% on y-o-y basis.

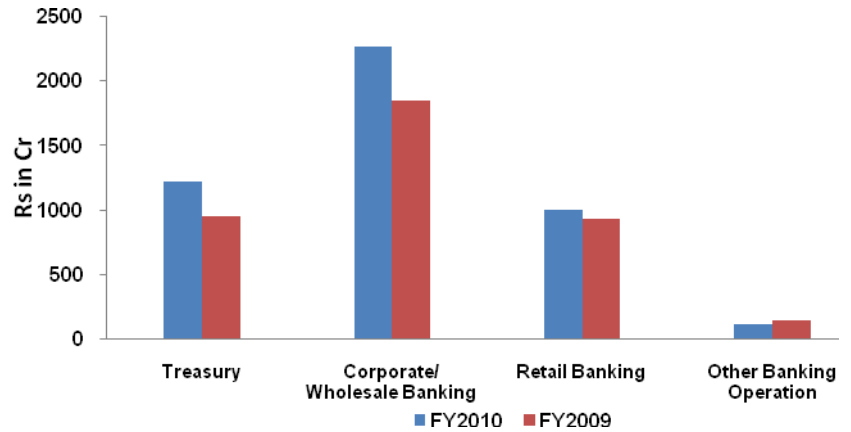
The asset quality of the bank has slightly slipped both on the y-o-y basis and sequential basis. In Absolute terms Gross NPA of the bank has increased by 3% on y-o-y basis and 10% on q-o-q basis to Rs 641.99 crore. The Net NPA of the bank has jumped up by 36% on y-o-y basis and 17% on q-o-q basis to Rs 427.53 crore in the quarter ended March 2010.

#### PAST PERFORMANCE (Yearly)

Particulars (Rs Cr)	FY 2010	FY 2009	VAR [%]	FY 2008	FY 2007	FY 2006
Interest Earned	4010.36	3447.5	16.3	2675.9	2118.52	1760.13
Other Income	588.63	430.12	36.9	478.12	391.52	439.04
Total Income	4598.99	3877.62	18.6	3154.02	2510.04	2199.17
Operating Expenses	3758.41	3151.26	19.3	2467.58	1874.67	1598.8
Operating Profit Before Prov. & Cont.	840.58	726.36	15.7	686.44	635.37	600.37
Provisions & Contingencies	153.79	184.93	-16.8	368.82	402.35	548.87
Provision for Taxes	175.54	118.77	47.8	-42.17	-34.02	-21.49
Fringe Benefit Tax	0	0	0	0	1.39	0
Deferred Tax	0	0	0	0	64.09	0
Net Profit	511.25	422.66	21	359.79	201.56	72.99
Extra-ordinary Items	0	0	0	0	0	56.32
Adjusted Profit After Extra-ordinary item	511.25	422.66	21	359.79	201.56	16.67
EPS	17.83	14.74	21	12.54	7.03	2.54
Dividend (%)	20	12		10	8	0
Equity	286.82	286.82	0	286.82	286.82	286.82
Reserve & Surplus	2106.23	1662.09	26.7	1279.7	953.46	778.74
Face Value	10	10		10	10	10

For the year ended March 2010, Dena bank has reported 21% rise in the Net Profit to Rs 511.25 crore over marginal 3% increase in the Net Interest Income to Rs 1100.03 crore. The other income which constituted 35% of the Net Total Income jumped up by 37% to Rs 588.63 crore. The Operating expenses of the company has moved up by 10% to Rs 848.08 crore and led Operating Profit up by 16% to Rs 840.58 crore. With the dip in provisions and contingencies by 17% to Rs 153.79 crore, the total provisions of the bank have marginally increased by 8% to Rs 175.54 crore. As a result, net Profit of the bank has increased by 21% for FY10 to Rs 511.25 crore.

### Segmental Turnover:



The corporate banking services contribute nearly 50% to the bank's total revenue. During the FY10, it has able to over 22.5% to Rs 2261.44cr as against Rs 1844.48cr during FY09, while Treasury segment witnessed a growth of 28.4% to Rs 1217.01cr as against Rs 948.11cr.

### BALANCE SHEET: Dena Bank Limited (Rs Cr)

Particulars (Rs Cr)	31st March 2010	31st March 2009
<b>Capital &amp; Liabilities</b>		
Capital	286.82	286.82
Reserve & Surplus	2314.87	1883.67
Deposits	51344.27	43050.61
Borrowings	1561.91	1443.13
Other Liabilities and Provisions	2078.7	1796.28
<b>Total</b>	<b>57586.57</b>	<b>48460.51</b>
<b>Assets</b>		
Cash and Balance with RBI	4355.03	4982.41
Balance With the Banks and money at call and short notice	759.49	874.71
Investments	15694.23	12473.08
Advances	35462.44	28877.96
Fixed Assets	407.28	405.15
Other Assets	908.1	847.2
<b>Total</b>	<b>57586.57</b>	<b>48460.51</b>

The asset book of the bank registered a y-o-y growth of about 19% to stand at Rs 57586.57cr as of Mar. 31, 2010. Deposits and advances growth of the bank was in line with those recorded by the banking industry and stood at Rs 51344.27cr and Rs 35462.44cr respectively as of Mar. 31, 2009. The credit off take in agriculture sector grew by 25.32 per cent, in retail 21.50 per cent, medium and small enterprise at 20.50 per cent, and by 50 per cent in infrastructure segment.



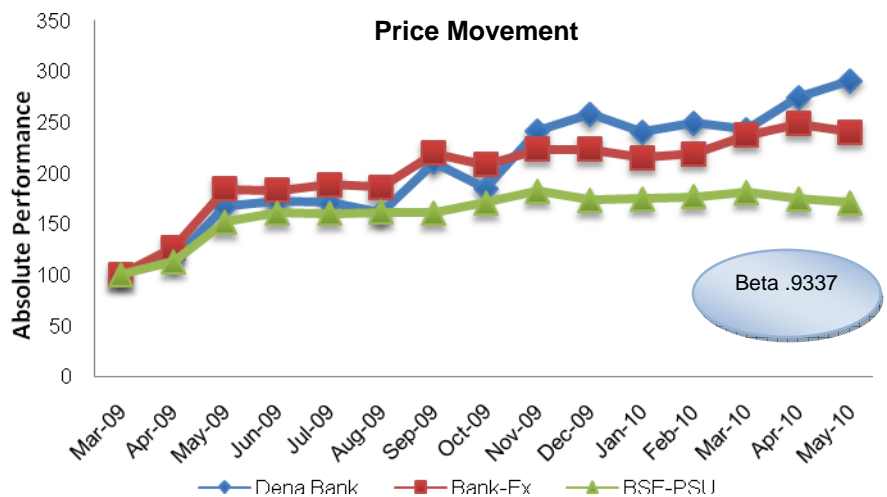
Peer Comparison

	PSU Banks				Private Banks	
Parameters	Dena Bank	OBC	Corporation Bank	Uco Bank	Axis Bank	Yes Bank
NII Growth (%)	3%	45.6%	30.7%	41.3%	35.8%	54.7%
NIM (%)	2.8%	2.8%	2.4%	2.2%	3.8%	3.1%
CASA Ratio	35.7%	25%	28.5%	22.3%	46.7%	10.5%
CD Ratio	69.95%	70.2%	68.2%	68.1%	73.8%	82.8%
NPA (%)		0.9%	0.3%	1.2%	0.4%	0.1%
CAR (%)	12.7%	12.5%	15.4%	13.2%	15.8%	20.6%
P/BV	1.08	1.11	1.26	1.07	3.05	2.92

The Dena bank is available at considerable discount to their private sector peers, the scrip is available at 1.08 times to its book value while private players generally enjoy higher value ranging between 2.7-3.25 times of their book value. The bank has an advantage over other players with its CASA deposits, as the bank poses a strong branch network. However, below par growth of Net Interest Income of the bank as compared to other players is a cause of concern.

Stock Performance

The stock has generally moves in tandem with Bank Index, however since oct-09 the stock has consistently outperforming the broader banking index.



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## Industry Overview:

The growth of the banking sector is highly correlated with the overall growth in GDP of the country. We expect, with India's GDP growing at rate of 8-9% p.a. loan demand and credit off take to pick up from the growing corporate sector of the country.

Banking is an essential part of an economy. The banking Industry has the capital and commitment to support the financial needs to individuals, businesses and all levels of government. Banks are the single most supplier of credit. Banking Industry is the most dominant sector of the financial system in India. The Indian Banking system is financially stable and resilient to the shocks that may arise due to higher non-performing assets (NPAs) and the global economic crisis, according to a stress test done by the RBI.

Credit Deposit Ratio is expected to increase as loan growth will be more for as against deposits. The current CD ratio of entire banking system is below 70% mark. The disbursement of loan is expected to improve as corporate India has large expansion plans coupled with massive infrastructure developments taking place in the country.

Indian banks have compared favorably on growth, asset quality and profitability with other regional banks over the last few years. The banking Index has grown at a CAGR of over 51 per cent since April 2001 as compared to a 27 per cent growth in the market index for the same period. The policy makers which comprises the Reserve Bank of India(RBI), Ministry of Finance and related Government and financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. These changes include strengthening prudential norms, enhancing the payment system and integrating regulations between commercial and co-operative banks.

Banking is a significant driver of GDP growth and employment and large sections of the population gain access to quality banking products, failure of some weak banks threaten the stability of the sector. Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labor laws, and weak corporate governance and ineffective regulations beyond SCB unless addressed could seriously weaken the health of the sector.

Banking Industry is the most dominant sector of the financial system in India, and with good valuations and increasing profits, the sector has been among the top performers in the market.

## Key Risks:

**Competitive Pressure:** The bank is expected to face increased competition from the private sectors banks, for a considerable market share from CASA deposits. We expects slight fall in the market share of CASA deposits to the tune of 1-1.5% to the bank.

**Net Interest Income:** The bank has managed to grow its Net Interest Income marginally by 3% over the year, any drop in credit growth could significantly affect the Net Interest Margins of the Bank, thus having its bearing on profit earning capability of the bank.

**Economy Slowdown:** Any slowdown in economy could seriously affect the credit growth of the bank, thus having its impact on the Net Interest Income of the bank and thus the growth prospectus of the bank.

**Interest Rate Hike:** Interest rates are expected to rise, with banks having minimum 25% of balance sheet as investment, it is estimated that the any rate hike would have negative impact on profitability of the bank.

Notes: Figures are sourced from [www.bseindia.com](http://www.bseindia.com), capital market and annual report.

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