HDFC securities
Institutional Research

Daily Note
March 30, 2011

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	19,121	0.9	7.3
Nifty	5,736	0.9	7.6
CNX 500	4,549	0.7	7.1
BSE Bank	13,173	0.7	11.3
BSE IT	6,400	1.1	4.8
BSE Oil & Gas	10,016	0.4	5.9
Dow Jones	12,279	0.7	0.4
Nasdaq	2,757	1.0	(0.9)
FTSE	5,932	0.5	(1.0)
DAX	6,934	(0.1)	(4.6)

Mkt Breadth	Advance	Decline	Unchanged
Nifty	41	9	0
Sensex	26	3	1

Turnover	INR Bn	% Chg
BSE Cash	37	16.4
NSE Cash	133	7.4
NSE F&O	1,764	10.5
Total	1,935	

Fund Flows	US $ mn	MTD	YTD
FII Equity	108	987	(1,226)
MF	51	219	664

Forex/Bond		Chg 1-d	Chg mtd
USD/INR	44.78	(0.05)	(0.49)
USD/EUR	1.411	0.00	0.03
YEN/USD	82.5	0.79	0.70
10 yr G-Sec	8.00	0.02	(0.01)

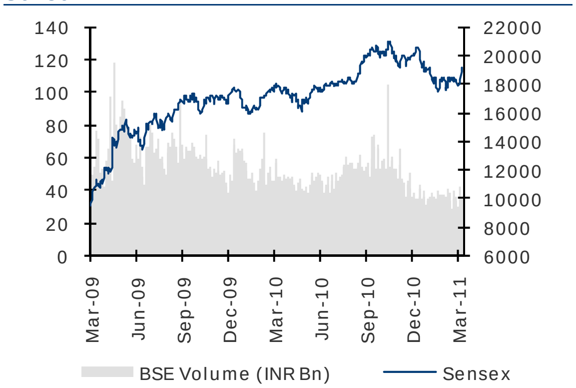
Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	115.2	0.3	3.2
Gold ($/oz)	1,419	(0.1)	0.5
Copper ($/mt)	9,585	0.5	(3.0)
Aluminium ($/mt)	2,648	1.3	1.8

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	36.9	5.5	3.4
HDFC Bank	165.9	1.8	7.4
ICICI Bank	49.4	1.5	0.6
ITC	4.0	(0.9)	(1.3)
Infosys	70.8	1.9	(0.2)
Satyam	3.0	(0.3)	3.2
Ranbaxy	9.8	0.0	0.1
Reliance	46.1	(0.3)	1.0
Wipro	14.3	1.5	38.6
SBI	126.0	1.4	1.9
Tata Motors	27.7	2.3	(0.1)

* US$

Sensex



From the Research Desk

Development Credit Bank – Management Meeting Note

We met the management of Development Credit Bank (DCB) to gauge the business environment. The key takeaways from the meeting were a) liquidity conditions continue to remain tight, b) NIMs to remain under pressure but bank targets to maintain it at 2.8%+, c) cost/income ratio to remain high as bank continues to invest in manpower, and d) improving asset quality to boost net profits. DCB trades at 1.5x trailing book and 1.3x FY12 consensus book.

Headlines

- Cabinet Committee on Economic Affairs has cleared proposal for Rs45bn FDI in **Hero Investments Pvt Ltd** by PE firms **Bain Capital** and **Lathe Investments**. (FE)
- **GAIL India Ltd** plans to borrow US$500m from overseas market in FY12 to raise low cost funds to fund its expansion plans. (Mint)
- **SKS Microfinance** has securitised micro finance loans worth Rs6.1bn with some banks and NBFCs. (BS)
- **Aban Offshore Ltd** to sell its 50% stake in JV company **Venure Drilling AS** for around US$34m. (BS)
- **Rio Tinto** has dropped minimum acceptance condition of 50% of shares from its US$4bn takeover bid for Australia's **Riversdale Mining Ltd**. (Mint)
- US based **International Paper Co.** would acquire **Andhra Pradesh Paper Mills Ltd** for US$423m in an all cash transaction. (Mint)
- PE firm **L Capital** will pick up a minority stake in **Gitanjali Gems** for US$100-125m. (BS)
- **Lanco Infratech** has raised debt of Rs55bn from consortium led by PFC to finance its 1,320MW power plant at Amarkantak in Chhattisgarh. (ET)
- **Jindal Saw Ltd** to acquire **Freightstar Pvt Ltd,** container train operating unit of Dubai's ETA Group, for Rs1-1.5bn. (Mint)
- **Essar Plc** has signed a pact with **Shell UK Ltd** to acquire its oil refinery and associated assets at Stanlow for US$359m. (Mint)
- **Mcnally Bharat Engineering Company** has received Rs1.15bn order from **Neyveli Lignite Corp** for construction related works. (FE)

From the Blogosphere

The Source: Stimulus Withdrawal Should Worry Investors (Source)

The massive infusion of fiscal and monetary stimulus in 2008 and 2009 triggered one of the biggest and fastest global asset-market rallies ever.

Which should make investors nervous. Because both fiscal and monetary policy will start to be withdrawn everywhere this year.

The European Central Bank has all but confirmed that it will start to hike rates next month in response to rising inflationary pressure in Germany and other core European countries. At the same time, countries across the single-currency region are due to be tightening fiscal policy—that is those that aren't already pursuing EU-imposed austerity programs.

In the U.K., the government's long-trailed austerity program really starts to kick in this year. Meanwhile, the Bank of England is under growing pressure to respond to persistently strong inflation.

Across the Atlantic, the Federal Reserve's second round of quantitative easing comes to an end in June and Fed members are already talking publicly about planning for withdrawal of the extraordinary degrees of accommodation.

And in Congress, the Republicans are pushing for $61 billion worth of spending cuts. This probably won't go through, but trimming the country's enormous fiscal deficit is clearly on the agenda.

RTE: Top 10 Dying Industries (Source)

The U.S. economy is recovering from a severe recession, but some industries are unlikely to ever fully bounce back.

A new analysis by research firm IBIS World looks at 10 industries that appear to be dying. The list isn't exactly shocking, but it represents a mix of sectors that are being left behind by technology or have been hurt by cheaper overseas competition.

The biggest industry profiled by IBISWorld is wired telecom carriers, largely being supplanted by cellphones and the Internet. The dominance of the Web and digital media also puts Newspaper publishers, record stores and video-rental companies on the list. Meanwhile, photofinishing also takes its place among the top 10 dying industries thanks to the growing influence of digital photography.

Cheap imports are blamed for a decline in mills and apparel manufacturers. Companies that rent formal wear are also counted among dying industries amid both competition from abroad and lower prices making owning your own formal wear a more attractive option than renting.

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Banking

Development Credit Bank

Management Meeting Note

March 30, 2011

Recommendation	**Not rated**
CMP	**44**
Target	**N.A**
Stock Return	**N.A**

Nifty	5,736
Sensex	19,121

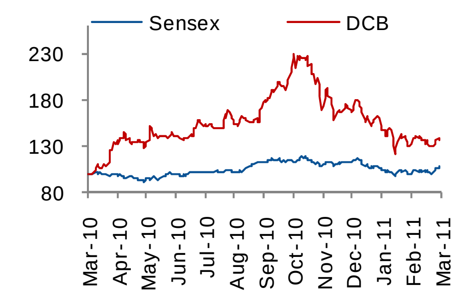
Key Stock Data	
Sector	Banking
Reuters Code	DCBA.BO
BLOOMBERG Code	DEVB IN
No. of Shares (mn)	200
Market Cap (Rs bn)	9
Market Cap ($ mn)	199
6m Avg. traded val. (Rs mn)	283

Stock Performance (%)			
52 - Week high / low	Rs76/32		
	3M	**6M**	**12M**
Absolute (%)	(21.3)	(23.9)	37.4
Relative (%)	(15.1)	(19.2)	28.7

Shareholding Pattern	**(%)**
Promoters	23.08
FIs & Local MFs	3.44
FIIs	8.27
Public & Others	65.21

Source: Company

Sensex and Stock Movement



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Long term strategy intact; Focus on CASA remains supreme

DCB continues to focus on building a deposit based franchise and the focus on CASA remains paramount. DCB, despite being a smaller bank, maintained a CASA ratio of 30% on average over the last many years. Within the term deposits, the retail deposits account for 78% while bulk forms the remaining 22%. Even in terms of breakup of manpower, almost ~50% of work force (total: ~2,000) is to mobilize deposits. The Retail CASA per branch currently stands at Rs222m/branch and bank targets to take it to Rs350m/branch by 2013. In terms of loan book growth, bank would like to maintain a growth guidance of 20-22% in FY12 and 25-30% in FY13, largely driven by SME/MSME (to form 40% by 2013) while corporate book to remain stable.

NIMs to remain tight, C/I ratio to remain high

As per the management, liquidity continues to remain tight and pressure on margin sustains. During 3QFY11, bank made a NIMs of 3.1%, however, it might not sustain at these levels as the cost has been going up. However, in the long term, management believes that it can sustain 2.8-2.9% margins. Another kicker to NIMs would come in the form of redemption of NABARD/RIDF bonds amounting to Rs3.9bn (~6% of balance sheet) from FY13 onwards. One of the investors concern has been on the high cost/income ratio of the bank at 73% as in Q3FY11. Management expects the cost to remain high as it continues to invest in hiring manpower and expanding branch network (130 branches by 2013). However, it expects the ratio to drop sub-60% by Q4FY13.

Improvement in asset quality to boost profits

Management expects the asset quality to improve on the back of a) diligent risk management practices, b) run-off of personal loan portfolio (~50% of gross NPA) and c) robust recoveries. Management expects provisioning write back of 20% of provisioning on personal loan portfolio (Rs1.59bn) over the next two years. DCB currently trades at 1.5x trailing book and 1.3x FY12 consensus book.

Table 1: Financial Summary

Particulars	FY06	FY07	FY08	FY09	FY10
Total net income (Rsm)	1,585	2,398	3,476	3,201	2,494
Net Profit (Rsm)	(853)	74	383	(881)	(785)
EPS	-11.2	0.5	2.2	-5.1	-3.9
EPS growth (%)	NA	-104%	341%	-330%	-22%
RoA (%)	-2.0	0.2	0.5	-1.3	-1.3
RoE (%)	-51.9	2.2	6.0	-14.7	-13.1
BVPS	22	22	36	34	30
PEx	NA	140	39	NA	NA
P / BV	2.1	2.0	1.2	1.3	1.5

Source: Capitaline, HDFC Securities Institutional Research

Table 2: 9MFY11 results summary

Income Statement (Rsm)	9MFY10	9MFY11	YoY growth
Interest earned	3,446	3,880	13%
- on Advances / Bills	2,727	2,899	6%
- Income on investments	679	966	42%
- on bal with RBI and other banks	41	15	-63%
Interest Expended	2,457	2,491	1%
Net Interest Income	**990**	**1,390**	40%
Other income	828	829	0%
Operating income	**1,818**	**2,219**	22%
Total Operating expenses	1,528	1,577	3%
Employee expenses	688	772	12%
Other Operating expenses	840	806	-4%
Operating profit	290	641	121%
Provisions and contingencies	970	488	-50%
PBT	**(680)**	**154**	NA
Provision for Tax	24	52	116%
PAT	**(704)**	**102**	NA
Other Details			
Gross NPA	3,730	2,973	-20%
Net NPA	1,364	515	-62%
% of Gross NPAs	11.1%	7.1%	-4.0%
% of Net NPAs	4.4%	1.3%	-3.1%
Coverage	63%	83%	19.2%
Advances	31,392	39,557	26%
Deposits	44,824	56,506	26%
CASA Deposits	17,097	18,704	9%
CASA Ratio	38%	33%	-5%

Source : HDFC Securities Institutional Research

Institutional Research