

Q2 FY12 Result Update

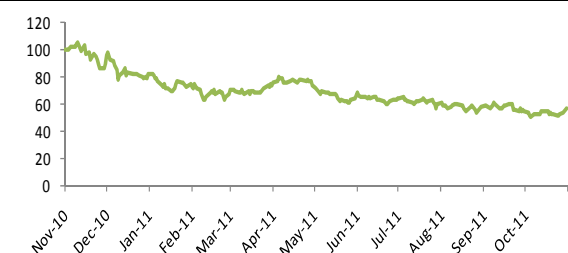
Dena Bank Ltd

Recommendation	BUY
CMP (02/11/2011)	Rs 81
Target Price	Rs 116
Sector	Banking

Stock Details

BSE Code	532121
NSE Code	DENABANK
Bloomberg Code	DBNK IN
Market Cap (Rs. Crs)	2,690
Free Float (%)	41.99%
52- wk HI/Low	151/70
Avg. volume BSE (Quarterly)	258,946
Face Value (Rs.)	10
Dividend (FY 2011)	22%
Shares o/s (in Crs)	33.33

Relative Performance	1 Mth	3 Mths	1 Yr
Dena Bank	3.66%	-4.78%	42.79%
Sensex	7.60%	-2.70%	13.02%



Shareholding Pattern 30/09/2011

Promoters Holding	58.01%
FII, Banks & Institutions	21.03%
Corporate Bodies	4.60%
Public & others	16.36%

Silky Jain, Research Analyst (022-39268178)
silky.jain@nirmalbang.com

Better than expected asset quality boosts bank's performance

Dena Bank's performance for Q2FY12 was above our estimates. The bank reported a net profit of Rs.193.6 crs in Q2FY12 resulting in a growth of 20.5% on a YoY basis and a QoQ increase of 15.2%. The bank witnessed marginal increase in gross NPAs resulting from shift to system based NPA recognition system.

Loan book shows slowdown

Dena Bank's loan book grew at 18.0% YoY. However on a sequential basis loan book showed de growth of 5.7% showing an impact of slowdown in the economy. Management expects the bank's advances to grow at 18%-20% for FY12E.

Slow growth in CASA deposits

The bank's total deposits grew by 20.1% YoY and only 0.09% QoQ in Q2FY12. CASA deposits too showed a dismal growth and increased 6.2% YoY and were flat on QoQ basis. CASA as a % of total deposits stood at 35.4% in Q2FY11.

NIMs improved sequentially

Net Interest Margin (NIM) stood at 3.22% in Q2FY12, as compared to 2.9% in Q1FY12 and 3.52% in Q2FY11. Stable CASA ratio and reprising of loans helped the bank to maintain higher NIMs.

Subdued other income performance

Other income was subdued with a 4.7% YoY decline and 8.8% sequential decline to Rs 113.4 crore. However, the bank expects a pickup in recovery in written off a/cs in 2HFY12 which is likely to support the banks other income going forward

Asset quality remains reasonably good

The bank has shifted all its accounts to system based NPA recognition in Q2FY12. However, the asset quality of the bank remained fairly stable with Gross NPA rising slightly by 4.2% QoQ to Rs 830.5 crore. Gross NPA ratio stood at 1.93% while Net NPA ratio came at 1.15%.

Valuation & Recommendation

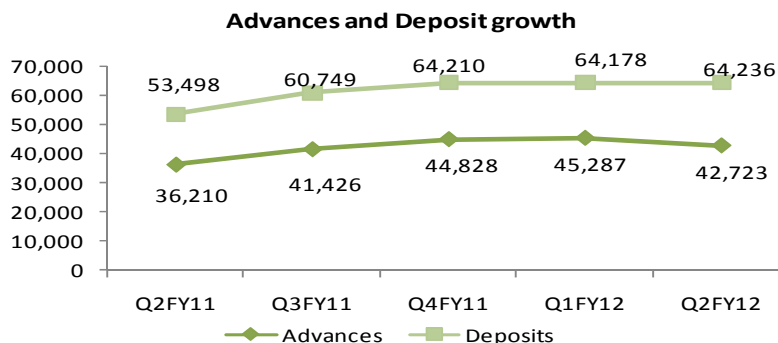
Comparatively stable NIMs, traction in core fee income are likely to boost Dena Bank's core operating performance which in turn will help the bank to register stable return ratios going forward. The bank has been consistently reporting RoA of approximately 1% and RoE of approximately 20% for the past 13 quarters which we believe reflects banks strong performance.

Dena Bank is currently trading at a very attractive valuation amongst the banking business space. At CMP, the stock is trading at 0.77x and 0.65x FY12E and FY13E Adj BVPS respectively. We maintain our **BUY** rating on the stock with a target price of Rs 116.

Year	NII (Rs. Crs)	Growth %	Profit before provisioning (Rs. Crs)	Margin %	PAT (Rs. Crs)	EPS (Rs)	P/E (x)	Adj. BVPS (Rs.)	P/ABV (x)	ROE %
FY 10A	1,100	3.1%	841	49.8%	511	17.82	4.53	73.0	1.11	21.4%
FY 11A	1,763	60.3%	1,224	53.3%	612	18.34	4.40	92.0	0.88	19.5%
FY 12E	1,941	10.1%	1,340	53.6%	681	20.42	3.95	105.4	0.77	17.2%
FY 13E	2,355	21.3%	1,623	54.4%	776	23.28	3.47	124.2	0.65	17.0%

Loan book shows slowdown

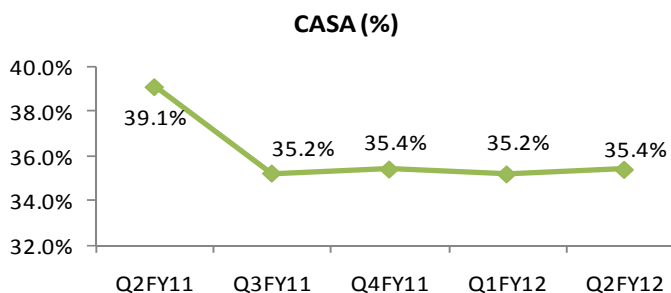
Dena Bank's loan book grew at 18.0% YoY. However on a sequential basis loan book showed de growth of 5.7% showing an impact of slowdown in the economy. Out of the total advances portfolio, MSME witnessed 20.1% YoY growth whereas Retail grew by 14.05%. The bank will continue to grow in high yielding SME & Retail portfolio. We have factored in loan growth of 18.1% and 20.6% for FY12E and FY13E respectively.



Source: Company data, Nirmal Bang Research

Slow growth in CASA deposits

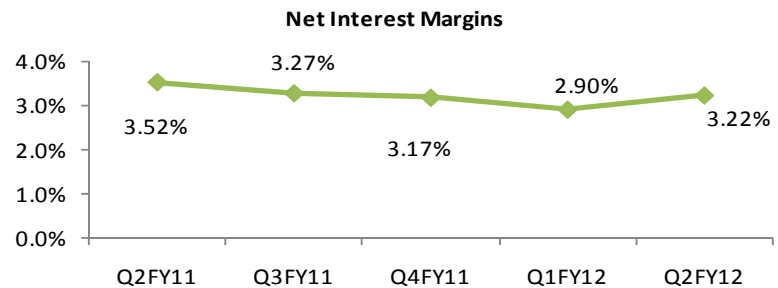
The bank's total deposits grew by 20.1% YoY and only 0.09% QoQ in Q2FY12. CASA deposits too showed a dismal growth and increased 6.2% YoY and were flat on QoQ basis. CASA as a % of total deposits stood at 35.4% in Q2FY11. We expect CASA ratio to be at 35.9% for FY12E and 36.1% for FY13E respectively.



Source: Company data, Nirmal Bang Research

NIMs improved sequentially

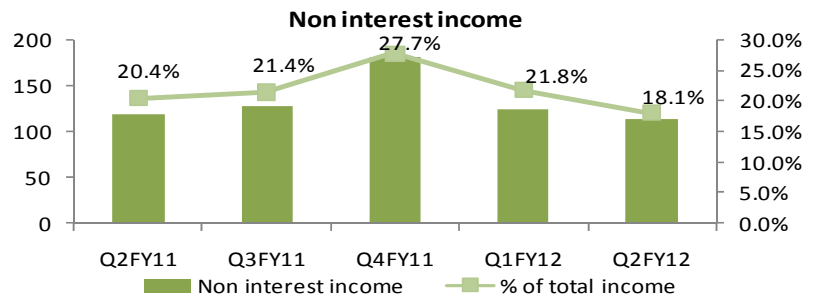
Net Interest Margin (NIM) stood at 3.22% in Q2FY12, as compared to 2.9% in Q1FY12 and 3.52% in Q2FY11. Stable CASA ratio and reprising of loans helped the bank to maintain higher NIMs. Going forward, we believe that resulting from the savings rate de regularization, the bank will face some pressure on its NIMs. However, Management has reiterated its earlier guidance of maintaining NIMs at 3% for FY12E. We expect NIMs to be at 2.8% for FY12E and then marginally improve to 2.9% for FY13E.



Source: Company data, Nirmal Bang Research

Subdued other income performance

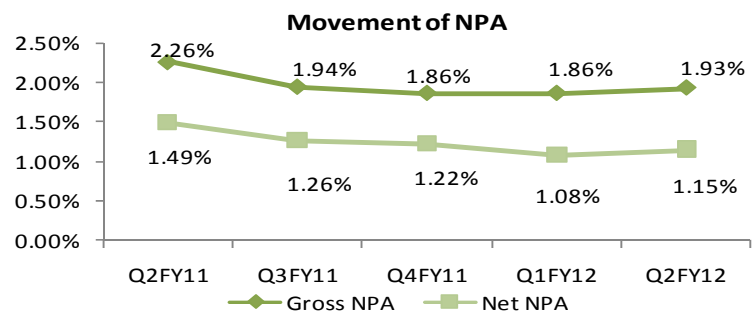
Other income was subdued with a 4.7% YoY decline and 8.8% sequential decline to Rs 113.4 crore. Although the bank reported marginal increase in its fee based income (5.1% QoQ), recovery in written off accounts declined significantly (52.8% YoY). However, the bank expects a pickup in recovery in written off a/cs in 2HFY12 which is likely to support the banks other income going forward.



Source: Company data, Nirmal Bang Research

Asset quality remains reasonably good

The bank has shifted all its accounts to system based NPA recognition in Q2FY12. However, the asset quality of the bank remained fairly stable with Gross NPA rising slightly by 4.2% QoQ to Rs 830.5 crore. Gross NPA ratio stood at 1.93% while Net NPA ratio came at 1.15%. Provisioning coverage ratio of the bank (including technical write off) stood at 77% in Q2FY12. The bank is not experiencing any concern so far from the power sector where its exposure is high. However, we remain cautious and expect Gross NPA ratio to be at 2.01% and Net NPA ratio to be at 1.18% for FY12E.



Source: Company data, Nirmal Bang Research

Q2 FY12 Result Update

Dena Bank Ltd

Income Statement	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
All figures in Rs. Crs, unless specified					
Interest Earned	1,634	1,221	33.8%	1,528	6.9%
Interest Expended	1,119	756	48.0%	1,082	3.4%
Net Interest Income	515	465	10.7%	447	15.3%
Other Income	113	119	-4.6%	124	-8.8%
Total Income	628	584	7.5%	571	10.0%
Payment to employees	163	163	0.1%	168	-3.3%
Other operating expenses	114	96	18.3%	95	19.5%
Total operating expenses	276	259	6.8%	263	5.0%
Profit before provisioning	352	326	8.1%	308	14.4%
Provisions	81	73	11.6%	65	24.2%
Profit before tax	271	253	7.1%	242	11.8%
Tax	77	92	-16.3%	74	4.0%
Profit after tax	194	161	20.5%	168	15.2%
EPS (quarterly)	5.81	4.82	20.5%	5.04	15.2%

Source: Company data

- EPS for Q2FY12 stood at Rs 5.8 while for Q2FY11, it was Rs 4.8.
- RoA stood at 1.1% and RoE% stood at 20.3% in Q2FY12.
- Capital Adequacy Ratio stands at 12.6% as on September 2011.

Valuation and Recommendation

Comparatively stable NIMs, traction in core fee income are likely to boost Dena Bank's core operating performance which in turn will help the bank to register stable return ratios going forward. The bank has been consistently reporting RoA of approximately 1% and RoE of approximately 20% for the past 13 quarters which we believe reflects banks strong performance.

Although some near term concerns over the banks high power sector exposure poses some threat to the bank's rich valuations; we believe that the concerns over bank's asset quality has majorly outdone as the bank has completely shifted to system based NPA recognition and has not recognized any major slippages.

Dena Bank is currently trading at a very attractive valuation amongst the banking business space. At CMP, the stock is trading at 0.77x and 0.65x FY12E and FY13E Adj BVPS respectively. We maintain our **BUY** rating on the stock with target price of Rs 116.

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Dena Bank Ltd

Financials

Profitability (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E	Balance Sheet (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Interest earned	4,010	5,034	6,525	7,804	Deposits	51,344	64,210	75,977	91,876
Interest expended	2,910	3,270	4,584	5,450	(of which CASA)	(18,461)	(22,742)	(27,290)	(33,158)
Net interest income	1,100	1,763	1,941	2,355	Borrowings	1,562	1,692	1,822	1,972
Non interest income	589	534	561	628	Other liab and prov	2,079	1,281	1,537	1,768
Total income	1,689	2,297	2,502	2,982	Total liabilities	54,985	67,183	79,337	95,617
Operating expenses	848	1,073	1,162	1,359	Equity capital	287	333	333	333
Staff costs	512	688	734	858	Reserves and surplus	2,315	3,323	3,906	4,573
Other Op Exp	336	385	428	501	Net worth	2,602	3,656	4,239	4,906
Operating profit	841	1,224	1,340	1,623	Total liab and equity	57,587	70,838	83,576	100,523
Provisions	154	325	371	498	Cash and bank bal	5,115	5,409	6,550	8,545
Profit before tax	687	899	969	1,125	Investments	15,694	18,769	22,076	25,960
Taxes	176	287	288	349	Advances	35,462	44,828	52,963	63,893
Net profit	511	612	681	776	Fixed assets	407	404	444	489
Quarterly (Rs. Crs)	Dec. 10	Mar. 11	June.11	Sept. 11	Other assets	908	1,429	1,543	1,636
Net interest income	466	471	447	515	Total assets	57,587	70,838	83,576	100,523
Non interest income	127	181	124	113	Key Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Total income	593	652	571	628	Yield Ratios				
Operating expenses	277	309	263	276	Avg Yield on Assets	8.7%	8.8%	9.4%	9.5%
Operating profit	316	343	308	352	Yield on Advances	9.4%	9.5%	10.2%	10.3%
Provisions	86	124	65	81	Yield on Investments	6.8%	6.9%	7.4%	7.3%
Profit before tax	231	219	242	271	Cost of Int Bearing Liab	6.0%	5.5%	6.4%	6.4%
Taxes	76	62	74	77	Cost of Deposits	6.1%	5.6%	6.3%	6.3%
Net profit	155	157	168	194	Net Interest Spread	2.7%	3.3%	3.0%	3.1%
Profitability Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E	NIM	2.4%	3.1%	2.8%	2.9%
Cost / Income Ratio	50.2%	46.7%	46.4%	45.6%	Balance Sheet Ratios				
Net profit margin	30.3%	26.6%	27.2%	26.0%	Gross NPA	1.80%	1.87%	2.01%	1.97%
RONW	21.4%	19.5%	17.2%	17.0%	Net NPA	1.21%	1.24%	1.18%	1.11%
Growth Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E	Return on Assets	1.0%	1.0%	0.9%	0.8%
Advances growth	22.8%	26.4%	18.1%	20.6%	CASA	36.0%	35.4%	35.9%	36.1%
Deposit growth	19.3%	25.1%	18.3%	20.9%	Loan-deposit ratio	69.1%	69.8%	69.7%	69.5%
NII growth	3.1%	60.3%	10.1%	21.3%	CAR	12.8%	13.6%	12.7%	11.9%
PAT growth	20.1%	19.7%	11.3%	14.0%	Valuation Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Pre prov profit growth	15.2%	45.6%	9.5%	21.1%	EPS	17.82	18.34	20.42	23.28
Non interest inc growth	36.9%	-9.3%	5.0%	12.0%	BVPS	83	103	121	141
Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E	Adjusted BVPS	73	92	105	124
P/BV	0.97	0.78	0.67	0.57	Dividend per share	2.0	2.2	2.5	2.8
P/ABV	1.11	0.88	0.77	0.65	Dividend yield	2.5%	2.7%	3.1%	3.5%
P/E	4.53	4.40	3.95	3.47					

Source: Company data, Nirmal Bang Research

NOTE

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