

## Dena Bank (DENBAN)

Rs. 65

### WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY10E) .....	Unchanged
EPS (FY11E) .....	Unchanged
RATING.....	Unchanged

### NII disappoints, low provisions drives PAT...

Dena bank reported business growth of 25% YoY for Q2FY10 at Rs 75432 crore. The growth was contributed by 26% YoY growth in deposits to Rs 45251 crore and 23% in advances to Rs 30181 crore. Despite balanced growth NII growth was muted and below expectations at Rs 240 crore. The major reason for fall in NII was fall in yield on assets by 55bps and 38 bps on YoY and QoQ basis respectively.

#### ■ Concern on non interest income continues

Non interest income was down for the first time in past four quarters on QoQ basis. The bank reported non interest income of Rs 126 crore down 19% YoY which was in line with our estimates. This segment remains a concern area for the bank and hence we estimate only 12% CAGR growth over FY09-FY11E to Rs 538 crore.

#### ■ Lower provisions helps PAT growth

The total provisions excluding taxes for the quarter was reported at Rs 15 crore down 96% YoY and QoQ basis. We feel there should be some write back of provisions on investment portfolio. On PPP front the bank reported growth of just 5% YoY lower than our estimates of Rs 200 crore. PAT was still a tad ahead of our estimates due to lower provisioning and tax expenses.

#### ■ Capital infusion awaited

The bank has applied to GOI to infuse capital to the tune of Rs 600 crore of which Rs 300 crore is expected by way of preferential equity and rest by way of preference shares which will raise GOI stake to around 59% from 51% currently. This will provide the bank with necessary impetus for near term balance sheet growth.

### Valuation

The bank is currently trading at 0.8x FY11E ABV which is attractive from medium term perspective. We expect the bank to deliver RoE 17-18%, RoA of ~1%, NIM of 2.4-2.5% and hence we value the bank at Rs 86 (1.1x FY11E ABV) and rate the stock as **OUTPERFORMER**

#### Exhibit 1: Performance Highlights

Rs Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	240.4	285.5	254.3	250.5	-5.4	-4.0
Other Income	125.3	125.6	85.2	155.4	47.0	-19.4
Total Income	365.7	411.1	339.5	405.9	7.7	-9.9
PPP	161.5	199.9	149.2	201.3	8.2	-19.8
PAT	124.6	114.6	102.8	115.0	21.2	8.4
EPS	4.3	3.7	3.6	4.0	-	-

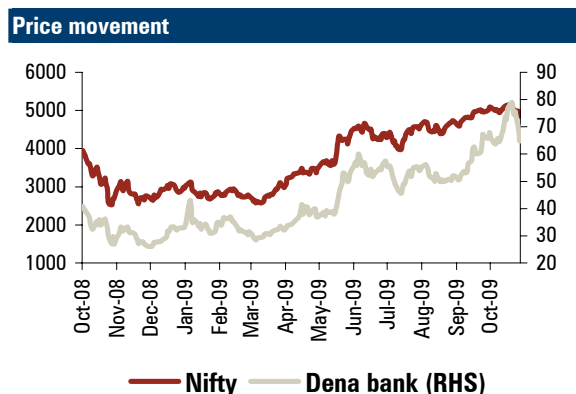
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Outperformer</b>
Target	: Rs. 86
Target Period	: 12 months
Potential Upside	: 32 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
NII	893	1064	1242	1443
PPP	686	727	906	1041
PAT	360	423	489	573

Valuation summary				
	FY08	FY09	FY10E	FY11E
EPS (Rs)	12.5	14.7	12.6	14.8
P/E (x)	5.2	4.4	5.1	4.4
Price / Adj Book (x)	1.2	1.0	0.9	0.8
GNPA (%)	2.5	2.1	2.2	2.2
NNPA (%)	0.9	1.1	1.0	1.0
RoNA (%)	1.0	1.0	0.9	0.9
RoE (%)	21.8	21.3	18.8	17.7

Stock data	
Market Capitalisation	Rs 1886 crore
GNPA (Q2FY10)	Rs 598 crore
NNPA (Q2FY10)	Rs 372 crore
NIM (Q2FY10)	2.3
52 week H/L	80 / 24
Equity capital	Rs 287 Crore
Face value	Rs 10
MF Holding (%)	3.4
RI Holding (%)	9.4

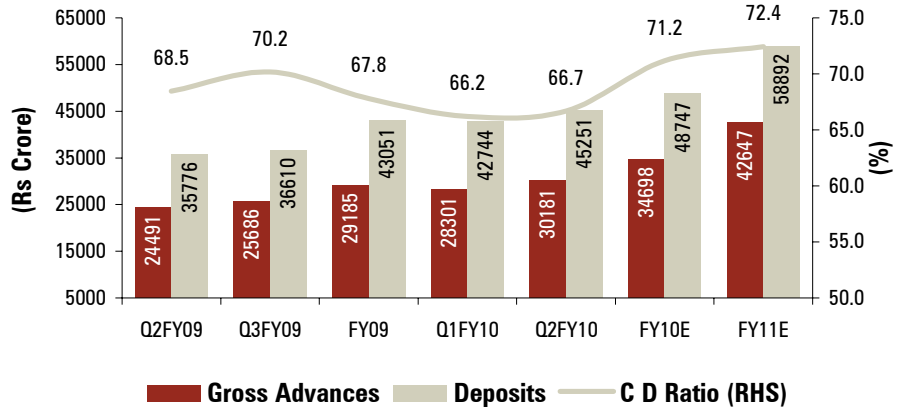


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**Business Highlights**

**Exhibit 2: Business growth picking momentum**

We expect loan growth to pick up from H2FY10E

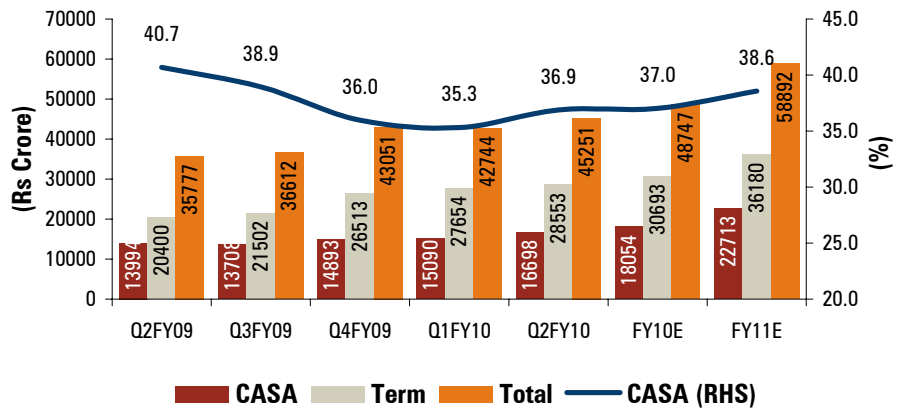


Source: Company, ICICIdirect.com Research

**Exhibit 3: Deposit mix showing early signs of improvement**

Sequential improvement is seen in CASA accumulation which is commendable in this environment, higher compared to peers for Q2FY10

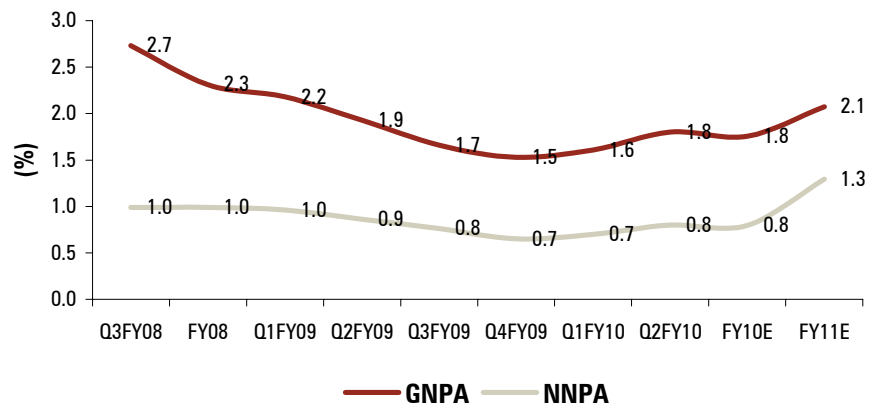
The bank has applied for 100 more branch licenses to RBI. We expect expansion of distribution platform to continue which will help the bank is CASA improvement over next couple of years



Source: Company, ICICIdirect.com Research

**Exhibit 4: Cautious on asset quality**

We believe bank has done well in controlling rise in GNPA, but we have cautiously built in high GNPA as the bank has restructured assets of nearly Rs 1550 crore

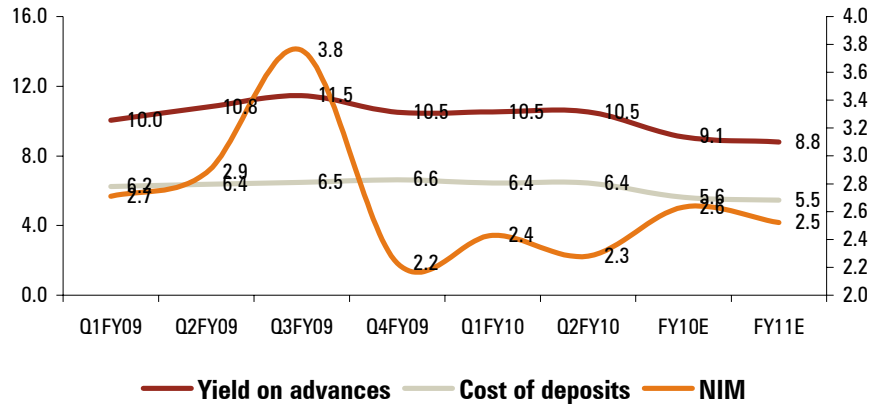


Source: Company, ICICIdirect.com Research

NIM in this quarter was subdued despite balanced growth in business mix due to fall in yield on funds might be because of excess liquidity held by way of investments in liquid MF where yields are low comparatively.

We believe full impact of reprising of bulk deposits will come in effect from Q3FY10. On other hand higher deposit growth has led to lower NII growth in this quarter and thereby slight moderation in NIM

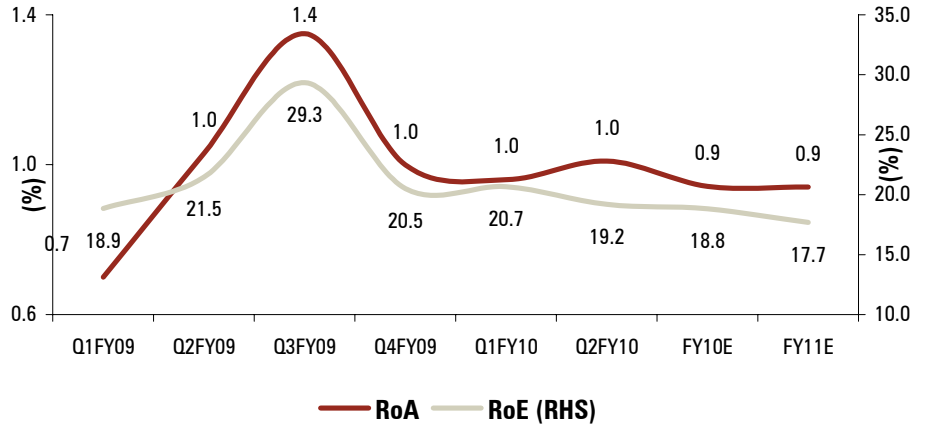
**Exhibit 5: NIM likely to improve once loan demand picks up from Q2FY10**



Source: Company, ICICIdirect.com Research

We expect RoE to moderate down, since we have considered equity dilution in FY10E factoring in capital infusion from GOI

**Exhibit 6: Return matrix likely to moderate down**



Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	417	FY09	3007.3	57.2	7.3	2.0	1.5	25.0
		<b>Target</b>	350	FY10E	3586.2	68.2	6.1	1.6	1.4	23.9
<b>Mcap (Rs Cr)</b>	22146	<b>Upside (%)</b>	-16	FY11E	4532.0	86.2	4.8	1.4	1.5	25.9
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	482	FY09	2227.2	61.1	7.9	1.5	1.1	18.7
		<b>Target</b>	532	FY10E	2582.0	70.6	6.9	1.2	1.1	18.4
<b>Mcap (Rs Cr)</b>	18047	<b>Upside (%)</b>	10	FY11E	3117.6	85.3	5.7	1.1	1.1	18.7
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	65	FY09	422.6	14.7	4.4	1.0	1.0	21.3
		<b>Target</b>	86	FY10E	488.9	12.6	5.1	0.9	0.9	18.8
<b>Mcap (Rs Cr)</b>	1886	<b>Upside (%)</b>	34	FY11E	572.7	14.8	4.4	0.8	0.9	17.7
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	117	FY09	1325.8	24.3	4.8	1.0	1.2	22.1
		<b>Target</b>	144	FY10E	1292.7	23.7	5.0	1.1	1.0	17.6
<b>Mcap (Rs Cr)</b>	6374	<b>Upside (%)</b>	23	FY11E	1887.9	34.7	3.4	0.8	1.2	22.3
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	121	FY09	858.5	7.8	15.8	1.4	0.6	12.1
		<b>Target</b>	116	FY10E	925.8	12.8	9.6	1.3	0.5	11.8
<b>Mcap (Rs Cr)</b>	8773	<b>Upside (%)</b>	-13	FY11E	1132.4	14.2	8.6	1.3	0.5	12.7
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	248	FY09	7.7	6.9	0.9	0.6	0.0	0.0
		<b>Target</b>	255	FY10E	13.1	6.1	0.8	0.8	0.0	0.0
<b>Mcap (Rs Cr)</b>	6239	<b>Upside (%)</b>	-13	FY11E	12.4	5.4	0.8	1.3	0.0	0.0
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	834	FY09	3091.3	98.0	8.5	1.8	1.4	22.9
		<b>Target</b>	UR	FY10E	3260.7	103.4	8.0	1.6	1.2	20.4
<b>Mcap (Rs Cr)</b>	26265	<b>Upside (%)</b>		FY11E	4139.5	131.3	6.3	1.5	1.3	22.8
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2200	FY09	91.2	143.7	15.3	2.7	1.1	17.1
		<b>Target</b>	2217	FY10E	99.4	156.5	14.1	2.5	1.0	16.2
<b>Mcap (Rs Cr)</b>	142012	<b>Upside (%)</b>	1	FY11E	100.0	195.0	11.3	2.1	1.0	17.5
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	257	FY09	1727.6	34.2	8.0	1.6	1.2	21.4
		<b>Target</b>	250	FY10E	1886.0	37.3	7.3	1.4	1.1	19.7
<b>Mcap (Rs Cr)</b>	13311	<b>Upside (%)</b>	-3	FY11E	2308.1	45.7	6.0	1.2	1.1	20.4
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	955	FY09	1815.5	50.6	18.9	3.5	1.4	19.1
		<b>Target</b>	1100	FY10E	2166.2	53.0	18.0	2.5	1.3	16.2
<b>Mcap (Rs Cr)</b>	34827	<b>Upside (%)</b>	15	FY11E	2572.2	62.9	15.2	2.2	1.2	14.7
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1675	FY09	2244.9	52.8	31.7	5.1	1.4	17.2
		<b>Target</b>	1881	FY10E	2843.5	63.0	26.6	3.7	1.4	15.9
<b>Mcap (Rs Cr)</b>	71392	<b>Upside (%)</b>	12	FY11E	3901.0	86.4	19.4	3.4	1.6	17.6
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	775	FY09	275.8	8.0	98.4	7.6	1.0	7.5
		<b>Target</b>	584	FY10E	351.2	10.2	77.3	7.0	1.2	8.8
<b>Mcap (Rs Cr)</b>	27564	<b>Upside (%)</b>	-25	FY11E	497.5	14.4	54.5	6.8	1.5	11.8
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	235	FY09	303.8	10.3	22.9	4.4	1.6	20.7
		<b>Target</b>	245	FY10E	421.3	14.2	16.5	3.5	1.6	23.0
<b>Mcap (Rs Cr)</b>	7132	<b>Upside (%)</b>	4	FY11E	617.7	19.6	12.0	2.4	1.9	23.7

## Continued...

<b>IDFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	IDFC	<b>CMP</b>	159	FY09	748.0	5.8	26.3	3.2	2.5	12.7
		<b>Target</b>	175	FY10E	952.0	7.3	20.7	2.9	2.9	14.6
<b>Mcap (Rs Cr)</b>	20549	<b>Upside (%)</b>	10	FY11E	1103.9	8.5	17.8	2.6	2.9	15.2
<b>LICHF</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	LICHF	<b>CMP</b>	807	FY09	532.4	62.6	12.9	3.0	2.0	25.3
		<b>Target</b>	710	FY10E	608.9	63.4	12.8	2.5	1.8	21.8
<b>Mcap (Rs Cr)</b>	6897	<b>Upside (%)</b>	-12	FY11E	719.4	74.9	10.8	2.1	1.8	20.5
<b>MOSL</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	157	FY09	93.4	6.6	23.9	2.8	8.3	11.8
		<b>Target</b>	184	FY10E	153.6	10.8	14.5	2.5	8.4	17.1
<b>Mcap (Rs Cr)</b>	2338	<b>Upside (%)</b>	17	FY11E	191.0	13.4	11.7	2.1	8.9	17.8
<b>Rel Cap</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	795	FY08	1334.7	54.2	14.7	2.5	7.7	18.6
		<b>Target</b>	800	FY09	1151.4	46.8	17.0	2.3	5.8	14.0
<b>Mcap (Rs Cr)</b>	19665	<b>Upside (%)</b>	1	FY10E	1073.5	43.6	18.2	2.0	4.6	11.6

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**Performer:** Between 10% and 20%;

**Hold:**  $\pm 10\%$  return;

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