

CMP: Rs.158

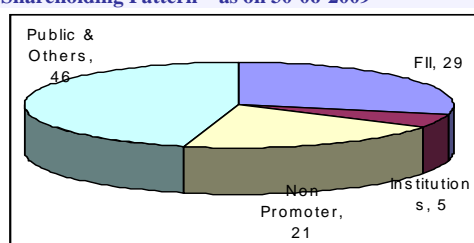
Target Price: Rs.196

Initiating Coverage: BUY

Key Share Data

Face Value (Rs.)	10
Equity Capital (Rs. crs)	64.12
Market. Cap. (Rs. Cr.)	1020.47
52-wk High / Low (Rs.)	178.40 / 37.00
Average Yearly Volume	134739
BSE code	532180
NSE code	DHANBANK
Reuters code	DNBK.BO
Bloomberg code	DHLBK IN

Shareholding Pattern – as on 30-06-2009



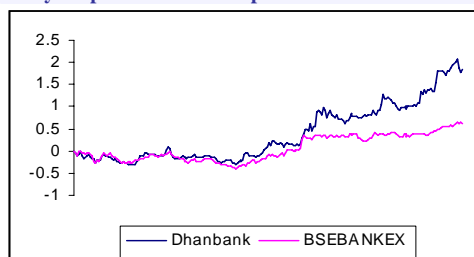
Financials

	FY08	FY09	FY10E	FY11E
Net Int. Inc.	98.98	121.62	172.37	251.60
NIMs (%)	3.19	2.85	2.81	2.92
Operat. Profit	44.50	87.90	122.66	178.34
PAT	28.47	57.45	65.15	93.84
PAT Gr	76.35	101.83	18.00	43.00
EPS (Rs.)	8.88	8.96	10.55	15.05
BVPS (Rs.)	53.73	66.21	74.95	90.59

Key Financial Ratios

	FY08	FY09	FY10E	FY11E
P/E	17.79	17.63	14.97	10.50
P/ABV	3.30	2.56	2.35	2.02
Cost to Income %	68.45	56.26	58.91	57.83
RoA%	0.76	1.08	0.90	0.93
RoE%	16.53	13.54	14.08	16.61
PAT Margin%	8.03	11.78	9.00	9.29
Spread %	3.85	2.99	2.89	3.06
NPA Coverage%	70.64	56.17	33.46	32.47
NNPAs / Advances%	0.90	0.89	1.01	1.11

One year performance comparison v/s BSE Bankex



Analyst: Amandeep Goraya

Tel No.: +91 22 2281 9012 Mob. 9920104371

Email: aman.goraya@skpmoneywise.com

Company Profile

Dhanalakshmi Bank Ltd. (Dhanbank) was incorporated on 14th November 1927 by a group of entrepreneurs at Thrissur, Kerala. The bank started with a Capital of Rs.11,000 and 7 employees and subsequently became a Scheduled Commercial Bank in the year 1977. Bank's Total business as on 31-03-09 was Rs.8214 Cr. The Bank is guided by a Board of Directors comprising eminent professionals. Mr.G.N.Bajpai is the bank's Chairman and Mr. Amitabh Chaturvedi, the Managing Director and CEO. Bank's vision is to be among the top 5 Indian private banks in the near future.

Investment Rationale:

- **Huge Expansion Plans:** Dhanbank has plans to open 66 new branches and 389 new ATMs by the current FY end. ATMs would be opened on "Only opex no capex" model, for this AGS has been appointed to set up new ATMs.
- **Brand Transformation:** Ogilvy & Mather and Fitch have been appointed as marketing consultants; this would help the bank to reach to the new customers and to strengthen its brand image in the market.
- **Healthy loan book:** Dhanbank's loan book consists mainly of corporate loans and most of these corporate are A and above rated by external rating agencies. NPA levels have also come down significantly.
- **Excellent management:** With new management consisting of highly qualified professionals having vast experience, Dhanbank has been put on high growth track as reflected in the FY2008-09 results.
- **Margins heading North:** Margins are expected to improve on basis of:
 1. Increase in CASA.
 2. Increase in NRI deposits.
 3. Better yield on investments.
 4. Repricing of deposits.
 5. Reshuffling of loan book.
- **Venture into new business segments:** Dhanbank is getting into distribution of insurance and Mutual Fund products, gold coins, forex services, AMC & Venture capital. This would help to increase other income category which leads to better RoE & EPS, as bank does not incur capital expenditure to provide these products.

Outlook & Recommendation:

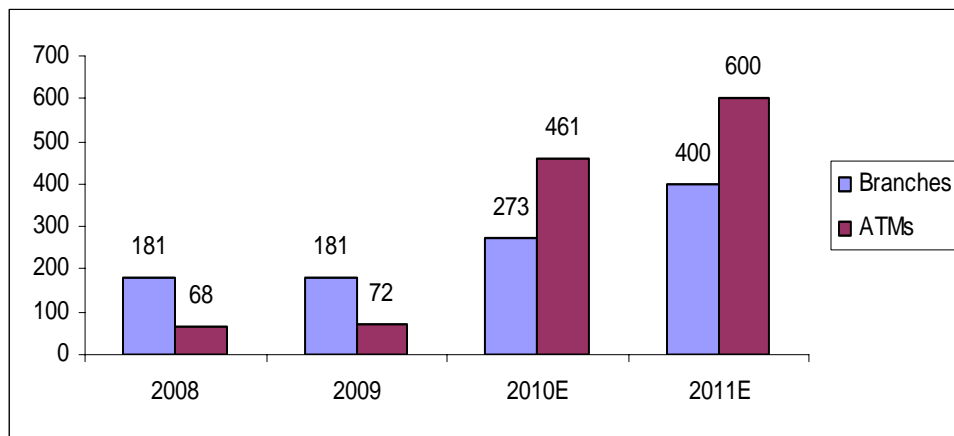
Dhanbank is an old private sector bank, which has now adopted a three pronged approach towards its transformation into a new age high growth bank: launch of innovative products and services, creation of a nationwide footprint and evolving a strong brand communication for its diverse customer base.

We hereby initiate coverage on Dhanalakshmi Bank Ltd. and recommend buy rating with a target price of Rs.196 (24% upside) in 12 months implying 2.9x and 2.5x to adj. Book value per share of FY2010 & FY2011 respectively.

Investment Rationale:

1. March towards pan India presence:

Dhanalakshmi Bank Ltd. (Dhanbank) has vision to be one of the top 5 Indian private banks in the near future. To attain this goal Dhanbank has huge expansion plans to tap the potential lying in other places outside Kerala. Dhanbank is expected to open up 66 new branches and 389 new ATMs in the current financial year. Dhanbank will convert its 26 extension counters into full fledged branches in the current year, taking the total no. of branches to 273 in the current year. Dhanbank is expected to have 400 branches & 600 ATMs by the end of FY2010-11.



Source: Company & SKP Research.

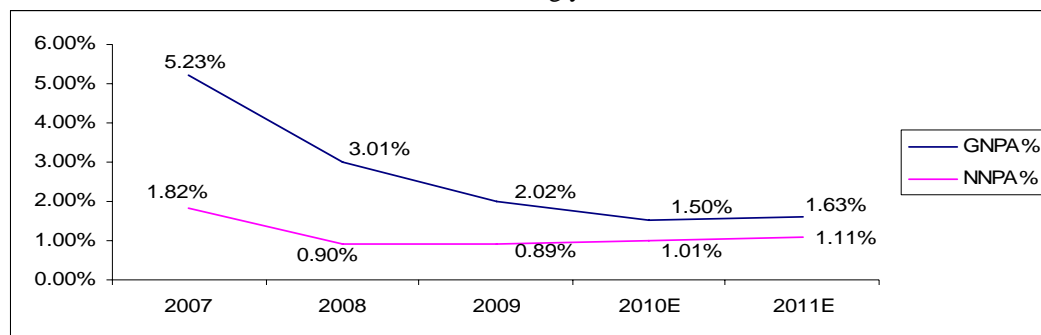
- Dhanbank has got a contract with a German company, AGS, to handle its new ATM opening based on “**only opex no capex**” model. As per this model, AGS would be responsible for setting up new ATMs at strategic locations and to maintain the ATMs. Cost incurred to Dhanbank would be on number of transactions.
- Dhanbank has 65% of its branches in state of Kerala. Out of the new branches few would be located in rural areas of Kerala and other would be mainly in Maharashtra & Gujarat & Northern areas, as these areas has the highest portion of deposits and loan off-take, from the total business of Indian banks. Opening of new rural branches would help Dhanbank to tap the huge potential lying in the rural areas.
- Dhanbank is expecting to add 900-1000 accounts daily after achieving the 273 branches target. This would help to bring in more CASA deposits.

2. Brand Transformation:

- Dhanbank is in process to strengthen its brand in the market. Ogilvy & Mather and Fitch have been appointed as marketing consultants; this would help the bank to reach to the new customers and to strengthen its brand image in the market.
- Dhanbank has appointed Ogilvy & Mather as its agency for the banking business to chart out a new brand proposition and communication strategy. O&M, India's leading communication agency will help the Bank to design and implement a comprehensive go-to market communication approach. The agency will help the Bank in its endeavor to create an entirely new customer experience and to incorporate a young and contemporary look across all customer touch-points.

3. Improving health of the bank:

- Dhanbank is looking for growth along with quality. Its loan book consists mainly of corporate loans. Most of these corporate have rating of A and above by the external rating agencies.
- NPA levels have come down significantly in 2009 from the high levels of 2007. It is expected that Dhanbank would be able to maintain the Net NPA levels below 1% in the coming years.

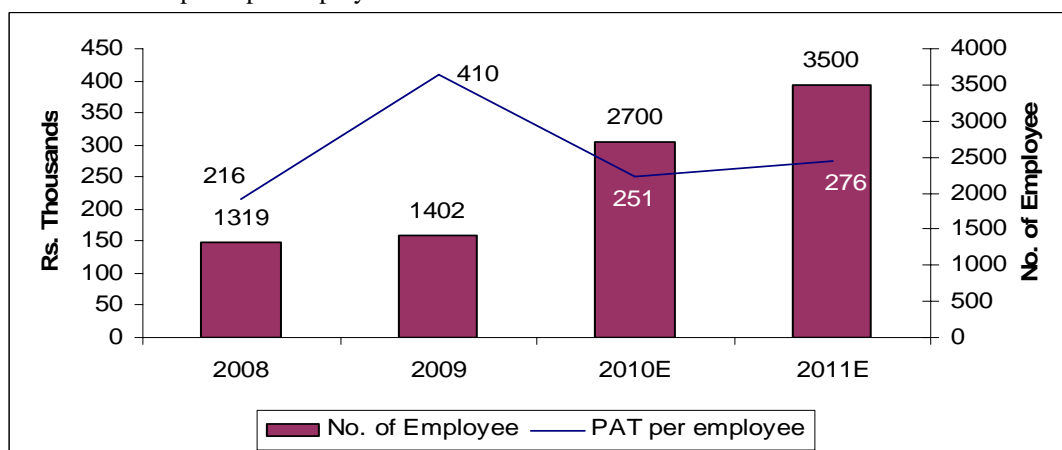


Source: Company & SKP Research.

- There was restructuring of only 1% of advances in FY2008-09 and already dues from these restructured loans have started coming in.

4. Leading with example:

- Change in management has led to overall revamp of the bank's working and attitude, as can be seen from the FY2008-09 robust performance and the bank's new vision to be one of the top 5 Indian private banks.
- Bank's management team consists of highly qualified professionals with many years of experience and the ability to take strategic decisions and to execute the same. **Mr. Amitabh Chaturvedi, MD & CEO**, took charge last year and has taken bank to new heights through his expert domain knowledge and vast experience from Reliance Mutual Fund, Reliance Capital & ICICI Bank. Other core management team members are Mr. P.G.Jayakumar (Credit & operations), Mr. Bipin Kabra (CFO), Mr. Manish Kumar (HR), Mr. H Rangarajan (Planning & Development) & Mr. Rajeev Deoras (wholesale Banking).
- Dhanbank is on a massive recruitment drive to bring in fresh & enthusiastic work force. This would help the bank to increase business and profit per employee.



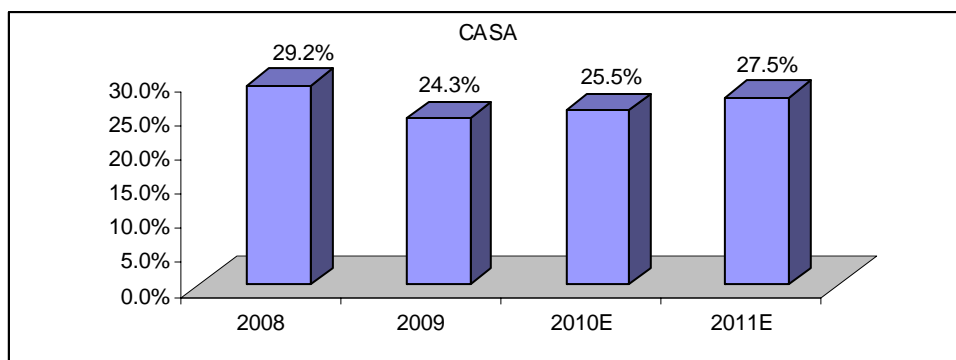
Source: Company & SKP Research

Dhanbank is putting in new plans to increase the staff productivity. Recently 6% of Equity capital has been allotted as ESOPs to motivate the work force.

5. Margins heading north:

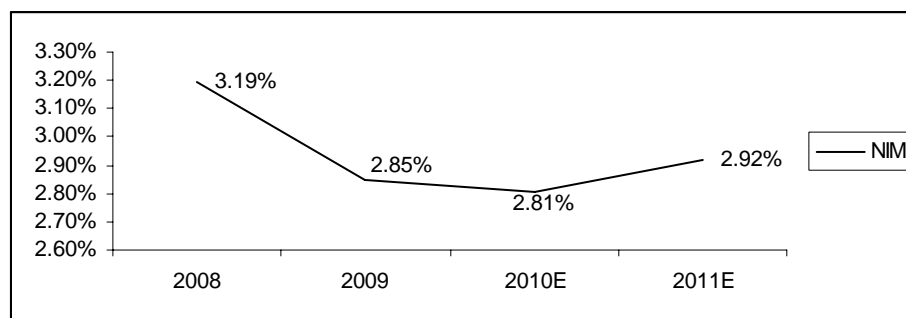
Improvement in margins might be seen in the near future on the basis of:

- **Increase in CASA:** Increase in number of branches is expected to bring in 900 to 1000 accounts daily; this would help to grow the CASA deposits. Dhanbank targets to achieve CASA of 30% in medium span of time. As CASA deposits are low cost deposits this would lead to lower cost of deposits.



Source: Company & SKP Securities

- **Increase in NRI deposits:** At present out of the total deposits, the NRI deposits are approx. 6%. Dhanbank has its major presence in Kerala and this area has huge potential of NRI deposits. Dhanbank plans to tap as much NRI deposits as possible, as these are low cost deposits. A special NRI deposit handling team is setup to tap this category of deposits.
- **Yield on Investments:** In FY2008-09, yield on investments went down as Dhanbank had major holding in T-bills. Now Dhanbank plans to invest in the government securities, this is expected to increase the yield on investments, as the govt. securities yield better returns than T-bills.
- **Repricing of deposits to decrease cost of deposits:** In the present low interest rate scenario, Dhanbank is to benefit from the repricing of deposits. This will decrease the cost. Repricing could continue benefiting bank up to 1 year.
- **Reshuffling of loan book:** Dhanbank's loan book consists mainly of corporate loans (this category yield lower returns than retail or SME loans). The bank is expected to increase the proportion of retail & SME loan which would lead to higher yield on advances, leading to better margins.

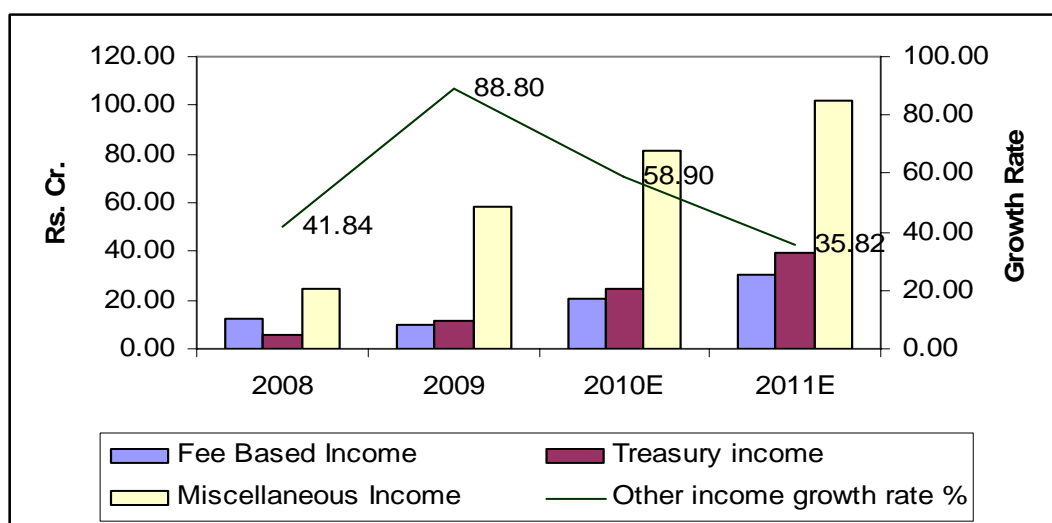


Source: Company & SKP Securities

6. Venture into new business segments:

Fee & Commission based business would be the focus of Dhanbank. This category of income leads to higher ROE & EPS as it does not require capital expenditure and it leads to regular stream of income. Dhanbank has taken various initiatives to increase its other income sources. With the increasing number of branches and deeper reach to retail clients would be a catalyst for the income from Fee & commission based income.

- **Insurance distribution:** Dhanbank has got into a tie up with Bajaj Allianz for its Life Insurance & general insurance product distribution. A special team of 300 marketing officers is set-up for insurance distribution business.
- **Mutual fund distribution:** As part of their wealth management, Dhanbank intends to distribute leading mutual fund schemes. Professional would be joining for MF product distribution and the bank would have a similar strategy as in case of its insurance distribution business.
- **Other Products:** Dhanbank is expected to come up with new products like gold coins, Travelers cheques, and forex services. The bank plans to offer 3in1 account whereby the customer would be provided with the routine banking relationship (Savings A/C) along with Demat A/C and a trading platform.
- **AMC:** Dhanbank is planning to get into Asset Management business. It is planning to enter the asset management business by buying into an existing fund, the investment is likely to be around Rs15-20 Cr. to buy stake in an existing AMC.
- **Venture Capital:** The bank is also looking at setting up a wholly-owned venture capital firm soon. Bank would put in about Rs.2000 Cr. in VC to invest in new start ups. The expected annual return from VC business is approx. 25%.



Source: Company & SKP Securities

7. Tapping synergy to grow:

Dhanbank has kept its option of an acquisition as and when required to reach its objective of fast-paced growth. The strategy is to fully leverage on the current capacity (including planned ramp up), showcase superior management and execution skills to the markets and then execute a strategy for inorganic growth. Then it would look out for a strategic acquisition of a bank which would help to increase the business in form of larger balance sheet and provide with large branch network, to enhance the Dhanbank's pan India presence.

Outlook:

Bulls Say:

- **Better performance:** With the improving market conditions, Dhanbank may perform much better than expectations.
- **Raising Equity:** If Dhanbank raises equity at higher price, this can provide huge funds for expansion and development. This would also increase Dhanbank's capital base, helping it to increase business.
- **Strategic Acquisition:** If Dhanbank is able to acquire a bank, which can provide large customer base and deeper penetration in untapped market, could be a positive trigger in the performance of the bank.

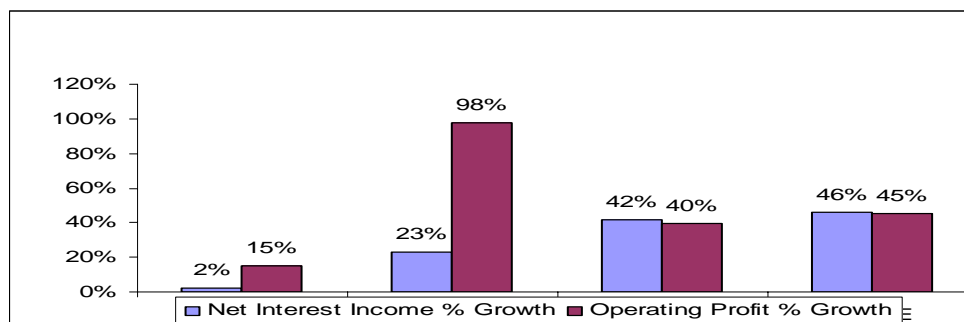
Bears Say:

- **Timely execution of plans:** Any delay in executing plans can be a hindrance to the expected growth of the bank.
- **Equity Dilution:** Dhanbank is growing at high rate, this may require the bank to raise capital through equity issue, this may lead to dilution in EPS, and this might reduce the fair value of the bank.
- **Acquisition synergy:** Dhanbank is open to acquire other banks as and when required in near future. This can increase the cost for Dhanbank depending on the terms & conditions of acquisition and the time taken by Dhanbank & acquired entity to synergize working processes to reap profit from acquisition.

Financial outlook & Valuation:

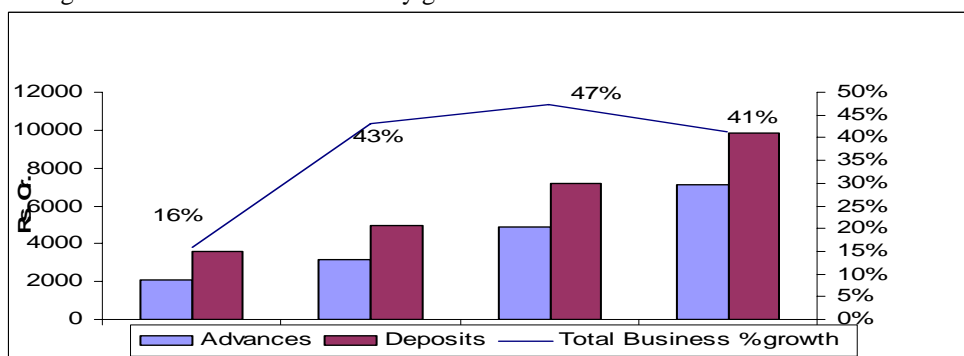
Dhanbank showed spectacular performance during the FY2008-09.

Dhanbank's total income grew by 37.5% in FY2008-09 from Rs.354 Cr. to Rs.487 Cr. on account of increase in other income, which grew by 88% in FY2008-09 from Rs. 42 Cr. to Rs.79 Cr. We expect Dhanbank to continue growth at higher levels as we can see in the graphs below:



Source: Company & SKP Research

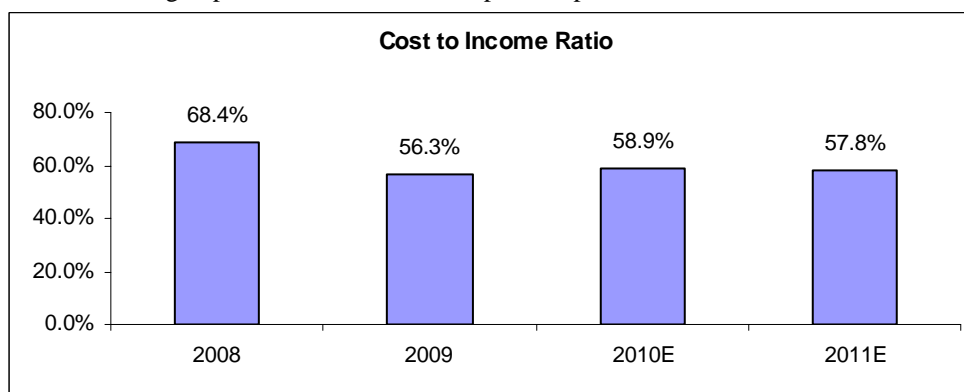
Dhanbank's total business grew at the rate of 43% from Rs.5710 Cr. to Rs.8164 Cr. With the growing number of branches, deposits are expected to grow at twice the rate of industry growth rate.



Source: Company & SKP Securities

Dhanbank has successfully increased Credit-Deposit ratio from 58.25% in FY2008 to 64.32% for FY2009.

Dhanbank has successfully brought down the Cost to Income ratio from 68.4% to 56.26% in FY2008-09. In coming years we expect the cost for Dhanbank will go up for short term due to expansion plans.

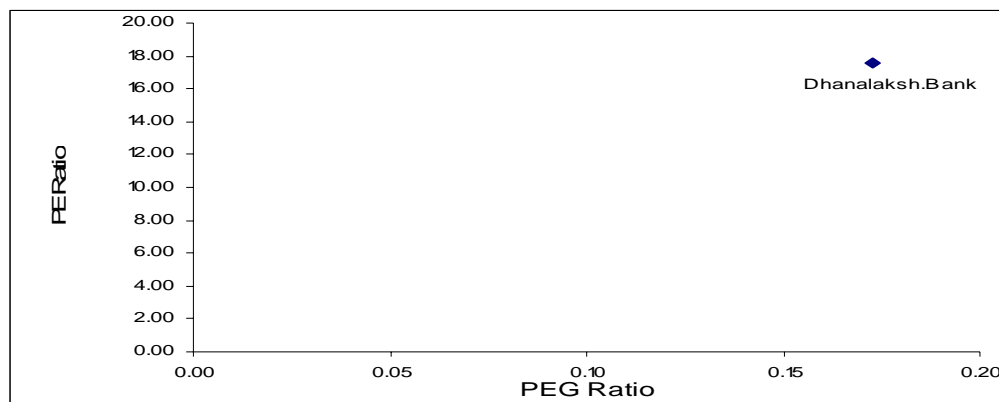


Source: Company & SKP Securities

On the profitability part the RoE for FY2008-09 stood at 13.54% and RoAA stood at 1.27%. In short term we expect to see decline in RoAA, but Dhanbank will maintain its RoE above previous year levels.

Dhanbank declared 10% dividend for FY2008-09.

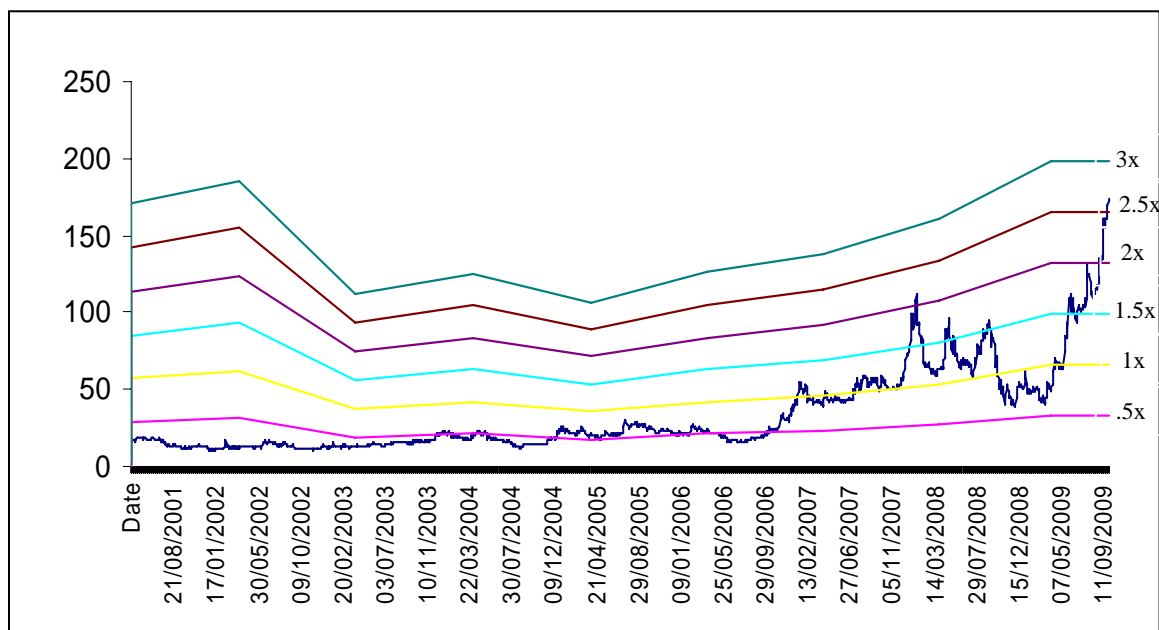
Valuation:



Source: Capital line & SKP Securities

As per the graph, on bases of PEG ratio we can see that Dhanbank is undervalued as its PEG ratio is less than 0.5. As per the thumb rule any stock with less than 0.5 PEG Ratio is undervalued. This can be taken as an indicator for a good investment.

Price to Book Value band chart:



Source: Capital Line & SKP Securities

At present Dhanbank is trading at 2.56x Adj. Book value of FY2008-09. Our target price of Rs.196 is 2.9x and 2.5x to Adj. Book value per share of FY2010& FY2011 respectively.

We hereby initiate coverage on Dhanbank and recommend buy rating with a target price of Rs.196/- (24% upside) in 12 months.

Income Statement				
(Rs. Cr.)	FY08	FY09	FY10E	FY11E
Interest Income	312.48	408.42	625.39	867.67
Interest Expenses	213.51	286.80	453.02	616.06
Net Interest Income	98.98	121.62	172.37	251.60
Fee based Income	12.10	10.13	20.26	30.39
Treasury Income	5.37	11.15	24.52	39.23
Miscellaneous Income	24.56	58.08	81.32	101.65
Other Income	42.03	79.36	126.10	171.27
Operating Income	141.01	200.98	298.47	422.87
Staff Cost	47.37	62.56	105.21	145.45
Other Operating Expenses	49.15	50.51	70.60	99.08
Operating Expenses	96.52	113.07	175.81	244.53
Operating Profit	44.50	87.90	122.66	178.34
Provisions	5.81	8.24	26.01	40.52
Profit before Taxes	38.69	79.66	96.65	137.82
Taxes	10.22	22.21	28.99	41.35
PAT	28.47	57.45	67.65	96.48

Balance Sheet				
(Rs. Cr.)	FY08	FY09	FY10E	FY11E
LIABILITIES				
Capital Reserves & Surplus	32.06	64.12	64.12	64.12
Deposits	140.18	360.36	416.41	516.73
Borrowings	3608.42	4968.81	7155.09	9874.02
Other Liabilities	4.00	0.00	0.00	0.00
ESOPS	248.33	249.53	409.39	608.46
Total Liabilities	4032.98	5642.82	8048.84	11067.18
ASSETS				
Balances with RBI	0.00	0.00	0.00	0.00
Cash & Balances with banks.	301.24	316.13	465.08	641.81
Advances	391.20	369.94	431.10	249.31
Investments	2102.03	3196.06	4882.86	7126.34
Fixed Assets	1075.06	1567.36	1989.18	2687.48
Other assets	47.08	46.21	89.34	113.58
Total Assets	4032.98	5642.82	8048.84	11067.18

Important Ratios				
	FY08	FY09	FY10E	FY11E
Spread analysis (%)				
Yield on advances	11.14%	11.03%	10.80%	11.20%
Yield on investments	6.83%	5.99%	5.79%	6.11%
Yield on interest-earn.assets	10.08%	9.56%	9.51%	9.44%
Cost of deposits	6.12%	6.52%	6.57%	6.20%
Cost of funds	6.22%	6.56%	6.68%	6.33%
Spread	3.85%	2.99%	2.83%	3.11%
Profitability ratios (%)				
RoAA	0.82%	1.27%	1.03%	1.13%
ROE	16.53%	13.54%	13.63%	16.30%
NIM	3.19%	2.85%	2.70%	2.89%
Operating Profit Margin	12.55%	18.02%	17.55%	17.24%
Net Profit Margin	8.03%	11.78%	9.30%	10.14%
Cost to Income	68.45%	56.26%	57.45%	60.29%
Asset Quality (%)				
Gross NPAs (RS.Cr.)	63.21	64.43	65.62	68.75
Net NPAs (Rs. Cr.)	18.56	28.24	36.98	45.46
NPA Coverage	69.61%	55.18%	43.64%	33.88%
Net NPA as % to Networth	10.78%	6.65%	7.74%	7.90%
Delinquency Rate	0.77%	1.18%	0.90%	0.87%
Valuation ratios (x)				
EPS	8.88	8.96	10.16	14.64
BV per share	53.73	66.21	74.55	89.79
P/E	17.79	17.63	15.55	10.80
P/BV	2.94	2.39	2.12	1.76
Business Ratio:				
Credit Deposit ratio	58.25%	64.32%	58.28%	63.69%
Investment Deposit ratio	29.79%	31.54%	27.84%	27.45%
SLR to Investment ratio	85.93%	88.55%	89.79%	91.06%
CASA ratio	29.24%	24.30%	25.50%	27.50%

Cash Flow Statement				
(Rs. Cr.)	FY'08	FY09	FY10E	FY11E
Cash Profit from Operations before change in WC	36.53	65.00	80.89	112.97
Cash Profit from Operations after change in WC	56.23	-255.96	75.27	-162.60
Net Cash flow from operating activities	87.26	-205.32	110.95	-107.92
Purchase of fixed assets	-5.43	-0.51	-59.69	-42.29
proceeds from sale of fixed assets	0.04	1.34	2.15	1.56
Net Cash flow from investing activities	-5.39	0.83	-57.54	-40.73
Net Cash flow from Financing activities	0.00	191.73	168.59	143.59
Net Increase/(decrease in Cash & cash Equivalent	81.87	-12.75	222.00	-5.06
Cash and Cash Equivalent at the beginning of the year	605.07	686.93	674.18	896.18
Cash and Cash Equivalent at the end of the year	686.93	674.18	896.18	891.12

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol and ISI Securities

DISCLAIMER: This document has been issued by SKP Securities Ltd (SKP), a stock broker registered with and regulated by Securities & Exchange Board of India, for the information of its clients/potential clients and business associates/affiliates only and is for private circulation only, disseminated and available electronically and in printed form. Additional information on recommended securities may be made available on request. This document is supplied to you solely for your information and no matter contained herein may be reproduced, reprinted, sold, copied in whole or in part, redistributed or passed on, directly or indirectly, to any other person for any purpose, in India or into any other country without prior written consent of SKP. The distribution of this document in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this document comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition. If you are dissatisfied with the contents of this complimentary document or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the document and SKP shall not be responsible and/ or liable in any manner. Neither this document nor the information or any opinion expressed therein should be construed as an investment advice or offer to anybody to acquire, subscribe, purchase, sell, dispose of, retain any securities or derivatives related to such securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment. Any recommendation or view or opinion expressed on investments in this document is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this document are those of the analyst which are subject to change and do not represent to be an authority on the subject. SKP may or may not subscribe to any and/ or all the views expressed herein. It is the endeavor of SKP to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information may not have been independently verified by SKP or the analyst(s). The information, opinions and views contained within this document are based upon publicly available information, considered reliable at the time of publication, which are subject to change from time to time without any prior notice. The Document may be updated anytime without any prior notice to anybody. SKP makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or correctness of the information in this Report. SKP, its Directors, affiliates and employees do not accept any liability whatsoever, direct or indirect, that may arise from the use of the information or recommendations herein. Please note that past performance is not necessarily a guide to evaluate future performance. SKP or its affiliates, may, from time to time render advisory and other services to companies being referred to in this document and receive compensation for the same. SKP and/or its affiliates, directors and employees may trade for their own account or may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies or may sell or buy any securities or make any investment, which may be contrary to or inconsistent with this document. This document should be read and relied upon at the sole discretion and risk of the reader. The value of any investment made at your discretion based on this document or income there from may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors. Neither SKP nor its affiliates or their directors, employees, agents or representatives/associates, shall be responsible or liable in any manner, directly or indirectly, for information, views or opinions expressed in this document or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the document or inability to use or access our service or this document or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this document or inability to use or access our service or this document.

SKP Securities Ltd

Contacts	Research		Sales	
	Mumbai	Kolkata	Mumbai	Kolkata
Phone	022 2281 9012	033 4007 7000	022 2281 1015	033 4007 7400
Fax	022 2283 0932	033 4007 7007	022 2283 0932	033 4007 7007
E-mail	researchmum@skpmoneywise.com	research@skpmoneywise.com	dealingdesk@skpmoneywise.com	

Member: NSE BSE NSDL CDSL NCDEX* MCX* MCX-SX FPSB

INB/INF: 230707532, BSE INB: 010707538, CDSL IN-DP-CDSL-132-2000, DPID: 021800, NSDL IN-DP-NSDL: 222-2001, DP ID: IN302646, ARN: 0006, NCDEX: 00715, MCX: 31705, MCX-SX: INE 260707532

*Group Entities