

2 November 2007

**BUY**

Price	Target Price
<b>Rs107</b>	<b>Rs134</b>

<b>Sensex</b>	<b>19,724</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(9)	8	36	0
Rel. to Sensex	(20)	(19)	(3)	54

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	DCBA.BO
Bloomberg	DEVB@IN
Equity Capital (Rs mn)	1743
Face Value	10
52 Week H/L	128/41
Market Cap	Rs18.8bn/US\$0.5bn
Daily Avg Volume (No of shares)	<b>731,071</b>
Daily Avg Turnover (US\$)	<b>2.0</b>

**Shareholding Pattern (%)**

(30th Sep.'07)	
Promoters	26.5
FII	42.7
Institutions	1.4
Private Corp.	10.0
Public	19.4

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# Development Credit Bank

Result  
Update

## Strong operating performance

Development Credit Bank (DCB) has reported robust operating performance for Q2FY08. The NII has grown by a strong 89% yoy to Rs507mn driven by 86bps expansion NIMs and 70% growth in advances. Driven by third party product revenues the fee income has also doubled over last year. Driven by robust operating performance and tax write backs, the bank has reported twenty fold growth in net profit.

While Q1FY08 saw some higher slippages, the same has now been contained. The gross NPAs now stand at 4.3% and net NPA at 1.15%.

While we expect the NIMs to be slightly lower for H2FY08 as the impact of equity float nullifies, we still expect strong 3%+ NIMs for rest of the year. Asset quality is likely to continue on track and net NPAs are expected at 1%. The stock is currently quoting at 21x its FY09E EPS and 2.2x FY09E ABV. We maintain our BUY rating on the stock with a price target of Rs134.

**Strong growth in NII**

DCB's NII has grown by 89.2% yoy to Rs507mn driven by robust 70.6% yoy growth in advances and an 86bps yoy expansion in the NIMs. On the sequential basis the NIMs have expanded by 111bps.

**Portfolio mix and equity float help NIM**

The robust expansion in the NIMs has been driven by change in the portfolio mix in favor of retail loans as their proportion now stands at 45% of the loan book compared with 31% in the same quarter last year.

The expansion in the NIMs has also been partly funded (about 25-30bps) by the equity float of Rs2.9bn generated by the QIP placement that the bank did in late August 2007.

**Yield Analysis**

%	Q2FY08	Q2FY07	Q1FY08	y-o-y chg in bps	q-o-q chg in bps
Yield on advances	14.0	11.0	12.6	296	138
Yield on investments	7.0	6.1	6.3	84	65
Yield on assets	9.6	7.8	8.8	182	82
Cost of funds	6.2	5.2	6.4	96	-30
NIM	3.5	2.6	2.4	86	111
Yield on advances-reported	12.8	9.5		337	
NIM-reported	2.9	2.4		55	

Source: Company, Emkay Research

Calculated based on average quarterly balances, Reported numbers are for half year

**Some slippages in CASA driven by faster growth**

The proportion of CASA has slipped by 200bps yoy to 29% driven by faster growth in the balance sheet

**Deposit mix**

%	Q2FY08	Q2FY07	Q1FY08	% yoy chg	% qoq chg
Deposits	49,166.00	35,144.00	47,666.00	39.90	3.15
CASA deposits	14,258.14	10,894.64	13,060.48	30.87	9.17
CASA (%)	29.00	31.00	27.40		
Term deposits	34,907.86	24,249.36	34,605.52	43.95	0.87

Source: Company, Emkay Research

### Third party sales continue to drive fee income

The fee income has continued to grow strong as it has almost doubled over last year to Rs372mn driven by the third party product sales like life insurance and mutual funds. The fee income constitutes healthy 41% of the net income now compared with 38% last year

### Opex ratios improving

The Opex ratios have continued to improve as the Opex as percentage of net income is now down to 64% for Q2FY08 compared with as high as 92% for Q2FY07. With just 40% growth in Opex, the operating profit has grown eight-fold to Rs321mn.

Although, DCB's banking operations have broken even at operating level now, the banking operations are still in red at net level because of higher provisioning. We expect that as bank continues to improve asset quality (as discussed later), the provision requirements will reduce. This coupled with improving cost/income ratio is likely to result in the break even for the banking operations by the end of this year.

### Asset quality back on track

DCB has seen some slippages in the advances portfolio in Q1FY08 as the gross NPAs rose by about 3% qoq. However, the improvement was seen in the same in Q2FY08 as the gross NPAs are again lower than the FY07 levels.

The gross NPAs are now at 4.3% of the gross advances (14.9% in Q2FY07, 4.9% in Q1FY08) and the net NPAs are now at 1.153% of the net advances (3.7% in Q2FY07, 1.6% in Q1FY08).

### Capital adequacy remains comfortable

With Tier I capital adequacy ratio of 13.7%, the bank is comfortably capitalised for growth over FY08. The management has hinted that looking at current pace of growth, the bank may require equity dilution in H1FY09.

### Valuations and view

We expect DCB to witness robust growth in its earnings driven by robust 41% CAGR in revenues. While the current NIMs of 3.5% may not be sustainable, we believe that bank will be able to end the year with 3% NIMs. The NIMs for Q3FY08 will still have partial impact of the equity float. We also expect the asset quality improvement to continue driven by higher recoveries as lesser slippages.

The stock is currently quoting at 21x its FY09E EPS and 2.2x FY09E ABV. We maintain our BUY rating on the stock with a price target of Rs134.

## Quarterly results

Rs mn	H1FY08	H1FY07	% yoy change	Q2FY08	Q2FY07	Q1FY08	% yoy change	% qoq change
Net interest income	827.39	495.40	67.01	507.39	268.20	320.00	89.18	58.56
Other Income	674.08	440.20	53.13	387.98	178.80	286.10	116.99	35.61
Treasury gains	20.00	10.00	100.00	16.00	6.00	4.00	166.67	300.00
Non trading income	654.08	430.20	52.04	371.98	172.80	282.10	115.27	31.86
Net income	1,501.47	935.60	60.48	895.37	447.00	606.10	100.31	47.73
Operating expenses	1,098.22	814.00	34.92	574.72	411.20	523.50	39.77	9.78
Pre-provision profit	403.25	121.60	231.62	320.65	35.80	82.60	795.68	288.20
Provisions	263.22	69.93	276.39	220.42	27.53	42.80	700.61	414.99
Profit before tax	140.04	51.67	171.03	100.24	8.27	39.80	1,112.19	151.85
Provision for Taxes	-62.30	1.70		-44.70	1.70	-17.60		
Net Profit	202.34	49.97	304.92	144.94	6.57	57.40	2,106.36	152.50

## Valuation table

Y/E March 31	Net income Rs mn	Net profit Rs mn	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	2,127	-82	-0.6	18.5	0.2	3.2	5.8	-265.1
FY2008E	3,228	564	3.2	36.4	0.9	11.3	2.9	38.3
FY2009E	4,499	1,034	5.1	49.3	1.2	12.1	2.2	20.9
FY2010E	5,951	1,612	8.0	56.6	1.4	14.7	1.9	13.4

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