2011

VANTAGE SECURITIES

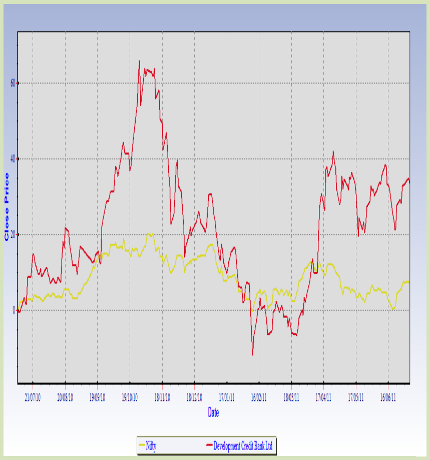
The Development Credit Bank Ltd

Bank - Private Sector

CMP: ₹ 60.80
Target Price: ₹ 79
Potential upside: 30%

The Development Credit Bank Ltd Buy

Relative Performance



Source: Capitaline Plus

Stock Data

No. of shares	: 200.17 mn
Market Cap (₹ mn)	: 12,170
52 week high	: ₹65.00
52 week low	: ₹38.50
TTM B/V	: ₹28.10
Bloomberg code	: DEVB IN
Reuters' code	: DCBA.BO

Shareholding (%) Mar 2011

Promoters	: 23.08
FIIs	: 11.67
DII	: 1.93
Others	: 63.32

Performance Table

Month	Stock	Nifty
1 month	1.50%	3.11%
6 month	7.71%	-5.77%
12 month	0.34%	8.16%

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Development Credit Bank: A Turnaround Story

De-Risked, Re-structured Balance Sheet

In response to stresses in the retail assets, especially the unsecured assets, a consequence of the 2008 global financial crisis, Development Credit Bank (DCB) undertook an exercise of de-risking its balance sheet by curtailing lending in the unsecured personal loan and CV/CE/STVL (Commercial Vehicle/Construction Equipment/ Short Term Vehicle Loan) segments. The Bank shifted focus to increased lending to Mortgage, SME (Small & Medium Enterprises) & MSME (Micro Small & Medium Enterprises) sectors, with emphasis on collateralized lending. The SME & MSME sectors, operating with limited and indigenous capital, are important parts of the Indian economy. These segments, with their high growth potential, resiliency to downturns in the economy, and limited access to traditional bank finance, will provide good business opportunity to DCB, while also providing diversification, on account of lending to a large number of small entities in a wide variety of industries. The de-risking strategy and emphasis on secured lending resulted in DCB's exposure to unsecured assets reducing to 9% in FY'11 from 29% in FY'08. In case of liabilities, DCB shifted focus to building its CASA and Retail deposits, which are more stable and lower the cost of funds. Consequently, DCB's CASA ratio improved from 24.27% in FY'08 to 35.21% in FY'11, while the proportion of Retail Deposits to Total Deposits increased from 51.95% to 81.17% over the same period.

Declining NPAs on Completion of Run-off

As a part of its de-risking strategy, DCB allowed its Unsecured Personal Loans and CE/CV/STCL portfolios to run-off over FY'08-FY'11. Consequently, the non-performing assets, both gross and net, increased considerably in FY'09 and FY'10 over FY'08. With no additional lending being made in these segments, they constitute only 0.20% and 2% of Total Advances of FY'11, respectively. These two factors should lead to a decline in the formation of NPAs, reducing its Gross NPAs ratios to manageable levels over time, and maintain Net NPA ratios below 1%.

Turn-around in Net Profit from Reduced Provisioning

After reporting Profit after Taxes of ₹383 mn. in FY'08, DCB incurred losses of ₹881 mn. and ₹785 mn. in FY'09 and FY'10, respectively. This was mainly due to the stresses faced by DCB in its unsecured retail and the CE/CV/STVL portfolio, which experienced significant losses over this period. DCB has provided for the potential losses from these segments and has been able to reduce its loan loss provisions from ₹1,619 mn. in FY'09 to ₹568 mn. in FY'11. This has enabled DCB to post a FY'11 Net Profit of ₹214 mn., declaring profits in 3 out of 4 quarters of FY'11. With insignificant exposure to these loss-making segments, DCB is expected to maintain provisions at these reduced levels, which should significantly improve its profitability.

Turnaround Affected by New Management Team

To affect a turnaround in the operations and profitability of DCB, the Board of Directors, in April 2009, appointed Mr. Murali Nataraj, to the post of MD & CEO. Having previously been the Global Head of SME Banking at Standard Chartered Bank, Mr. Natarajan has significant Retail & SME experience in India & abroad. Under his leadership, DCB has significantly de-risked its Balance Sheet and has experienced a sharp turnaround in performance and profits.

Book Value Accretive Capital Raising Plans to Augment Capital Adequacy

DCB has a Capital Adequacy Ratio of 13.25% with a Tier I ratio of 11.10% in FY'11. The Bank plans to come out with a fresh issue of capital in order to augment its Capital Adequacy Ratio. Towards this, DCB has obtained approval from the shareholders for further issuance of capital up to ₹3 bn., which can be by way of either a QIP or a right issue or both. The issue is expected to be book value accretive, while also providing room for the Bank to grow in the coming years. We have factored in a dilution of 12.5% and 12.3% due to the QIP and Rights Issue, respectively, in FY'12.

Acceleration in Branch Expansion

DCB currently operates a network of 80 branches across 9 states and 2 union territories, with majority of the branches located in the high growth Western states of India. Subsequent to improved performance in FY'11, DCB recently received 12 branch licenses from the RBI and has already finalized plans for opening 2 branches by H1FY'11. With further improvement expected in operations and profitability, enhancing the possibility of obtaining additional branch licenses from RBI, we expect DCB to expand its network to 120-130 branches over the next 2-3 years.

Wealth Creation

The stock has given compounded annual returns of 5.17% since listing in 2006. Over FY'08-FY'10, DCB's Net Interest Income declined at a CAGR of 12.62% before increasing by 33.10% in FY'11. After posting 2 years of losses in FY'09-FY'10, DCB posted a Net Profit of ₹214.29 mn. in FY'11. It's RoA and RoNW stands at 0.32% and 3.45% in FY'11 as against 0.60% and 5.61% in FY'08, respectively.

Financial Summary

Year	Total Income (₹ Mn.)	Net Interest Income (₹ Mn.)	Rep. PAT (₹ Mn.)	EPS (₹)	Book Value (₹)
FY09	7,652.69	1,972.54	(880.96)	(5.05)	30.74
FY10	5,664.92	1,419.84	(784.50)	(3.92)	27.02
FY11	6,483.61	1,891.38	214.29	1.07	28.10
FY12E	7,942.50	2,312.53	394.13	1.56	35.76
FY13E	9,951.22	2,993.87	892.22	3.53	39.38

Valuation and outlook

We expect DCB's Net Interest Income to grow at a CAGR of 25.81% and Net Profit at CAGR of 104.05% over FY'11-13E. At CMP ₹60.80, the stock is currently trading at P/BV of 1.70x its FY'12E BV of ₹35.76, while its peers trade between 1.2-1.9x their TTM BV. Based on the consistent and increasing trend in profits for past 3 quarters and the growth prospects of the Bank, we believe a higher multiple is justified. Considering 2 times P/BV and FY'13E BV of ₹39.38, we arrive at target price of ₹79, which is a price appreciation of 30% from current level.

We initiate coverage with Buy recommendation on the stock.

Company Description

Headed by Mr. Nasser Munjee, former Executive Director of HDFC Ltd., and the founder of Infrastructure Development & Financing Corporation Ltd., Development Credit Bank (DCB) is a modern emerging new generation private sector bank. DCB is the only Co-operative Bank in India to have been successfully converted into a private sector commercial bank in 1995. DCB came out with an Initial Public Offering in 2006. DCB's current MD & CEO, Mr. Murali M. Natrajan, who was previously with Standard Chartered Bank as Global Head-SME Banking, Citibank and American Express, has significant Retail & SME experience in India & abroad. The Board of DCB appointed Mr. Natrajan to the post in April 2009, with the mandate to improve the working of the bank and bring it back into profitability. The Board also re-vamped the management team and the management structure to achieve the mandate.

Financial Background

Contraction in Balance Sheet due to Re-structuring of Business Model

In the aftermath of the global financial crises in 2008, the Banking industry as a whole saw a decline in retail lending across all products; viz., home loans, auto loans, personal loans & credit cards. All Banks started to face stresses in the retail lending assets, especially in the unsecured segment. As a pro-active measure to counter the effects of these stresses on its Balance Sheet, Development Credit Bank Ltd. (DCB) curtailed lending to the Retail and Commercial Vehicle/Construction Equipment/Small Ticket Vehicle Loans (CV/CE/STVL) segments, which were also impacted by economic slowdown. The focus on de-risking the Balance Sheet resulted in DCB's Total Assets and Total Business contracting over the period FY'08-FY'10, before expanding in FY'11. In addition, contraction in demand and slowdown in exports due to the financial crisis, affected profitability and capacity expansion plans for most companies in India. This resulted in a slowdown in credit off-take and stresses in the corporate portfolio which also contributed to the contraction experienced by DCB. Over the period FY'08-FY'10, DCB's Total Assets contracted at a CAGR of -10% from ₹75.77 bn. to ₹61.37 bn., while Total Business declined at a CAGR of -9.83% from ₹101.44 bn. to ₹82.47 bn. Within the Total Business, DCB's Advances contracted at a 2-year CAGR of -7.79% to ₹34.60 bn. Subsequently, in FY'11, DCB's Total Assets grew by 20.12% to ₹73.72 bn., Total Business increased by 17.26% to ₹98.82 bn., and Advances grew by 23.46% over FY'10 to ₹42.71 bn.

Increased Emphasis on Collateralized Loans

A consequence of the stresses faced due to the financial crisis, the composition of Advances also changed, with greater emphasis placed on Mortgage, SME & MSME and Agri & Inclusive Banking lending by DCB. These segments cumulatively constituted 69% of the loan book in FY'11 as against 39% in FY'09 and 54% in FY'10. In contrast, the contribution of Personal Loans and CV/CE/STVL in the loan book declined from 17% and 10% in FY'09 to 2% and 0.20% in FY'11, respectively. The decline in these segments was part of a strategy adopted by DCB to de-risk the balance sheet, by systematically reducing exposure to un-collateralized and under-collateralized high risk loans. Consequently, the share of unsecured advances has declined from 29% of Total Advances in FY'08 to 9% in FY'11. The run-down in these segments of the loan book was an additional factor in de-growth of the Balance Sheet and Total Business of the Bank. With the run-down nearly complete in these segments, DCB's Advances Book should exhibit stronger growth in the future periods.

Increasing Focus on Low Cost CASA and Stable Retail Deposits

Along with Advances, starting FY'08, DCB also focused on restructuring its deposit base by reducing dependence on highly volatile and high cost bulk deposits and shifting focus towards growing the relatively more stable retail deposits. In line with this strategy, DCB repaid the bulk deposits over FY'08-FY'11 with the proportion of bulk deposits to Total Deposits declining from 48.05% in FY'08 to 18.83% FY'11.

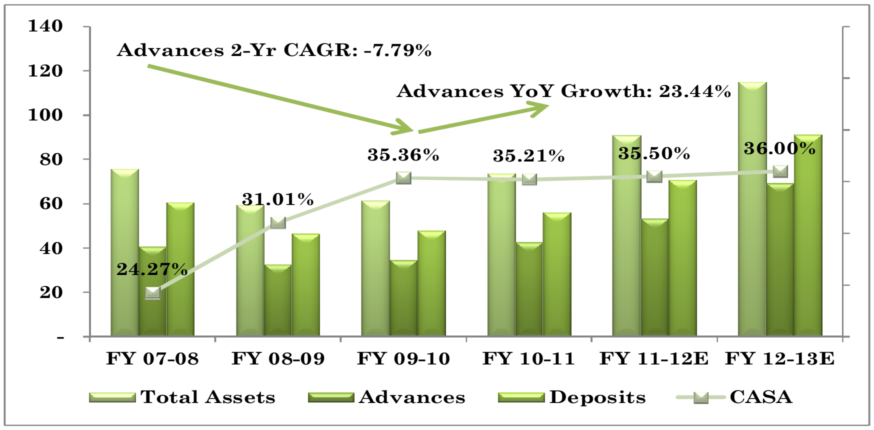
DCB's efforts on growing its Retail Deposits base (which includes CASA Accounts and Retail Term Deposits) was, however, impacted by the tight liquidity conditions during FY'08 and the global financial crisis in FY'09, with these deposits remaining largely flat before increasing during FY'10 and FY'11. During FY'08-FY'11, Retail Deposits of DCB have grown at a CAGR of 13%, while bulk deposits have contracted at a CAGR of -28.74%, resulting in Total Deposits contracting at a CAGR of -2.62%. Overall, the share of Retail Deposits in Total Deposits has increased from 51.95% in FY'08 to 81.17% in FY'11.

The change in CASA ratio also reflects this increased focus on obtaining retail funding. From a CASA Ratio of 24.27% in FY'08, when DCB relied significantly on term deposits, the share of CASA in the deposits mix has increased steadily and the CASA ratio has improved to 35.21% in FY'11. During the period FY'08-FY'11, CASA deposits grew at a CAGR of 10.25% while Term Deposits contracted at a CAGR of -7.55%. The Bank has been able to grow its CASA despite non-addition of new branches over the last few years.

Focus on High Growth Segments to drive Advances Growth

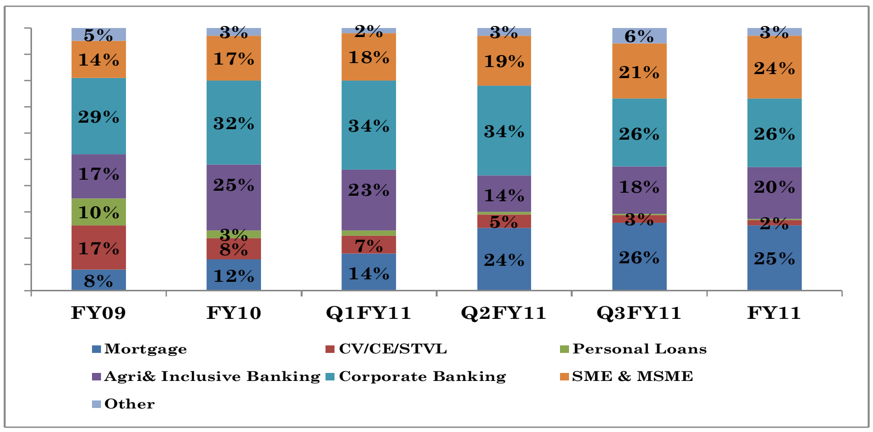
DCB will continue to focus on the Mortgage, SME and MSME segments of the Advances Book with emphasis on secured lending. The SME and MSME sectors are important parts of the economy of the country catering to the needs of the market with limited and indigenous capital sources. These segments exhibit greater resiliency to reversals suffered by the economy, due to the flexibility of their business models, allowing them to quickly adapt to changed economic environment. Their need for traditional bank financing along with potential for high growth in the future will provide good opportunity to DCB to grow its advances portfolio, and interest and fee (from cross sell of products) income. The implicit diversification provided by advancing loans to this sector, due to the large numbers of small entities in a variety of industries involved, will reduce the risk exposure of the balance sheet. DCB expects its strategy to enable it to grow Advances book by ~27% in the coming fiscals, with majority of the growth coming from the MSME and SME segments. DCB expects these segments to constitute ~40% of the total portfolio going forward from ~24% in FY'11.

Exhibit 1: Total Assets, Advances and Deposits growth



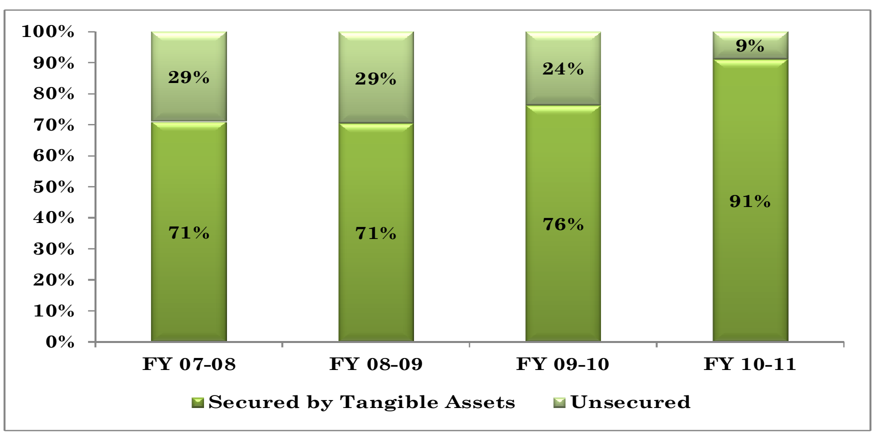
Source: Vantage Securities (₹ in Billions)

Exhibit 2: Break-up of Loan Book



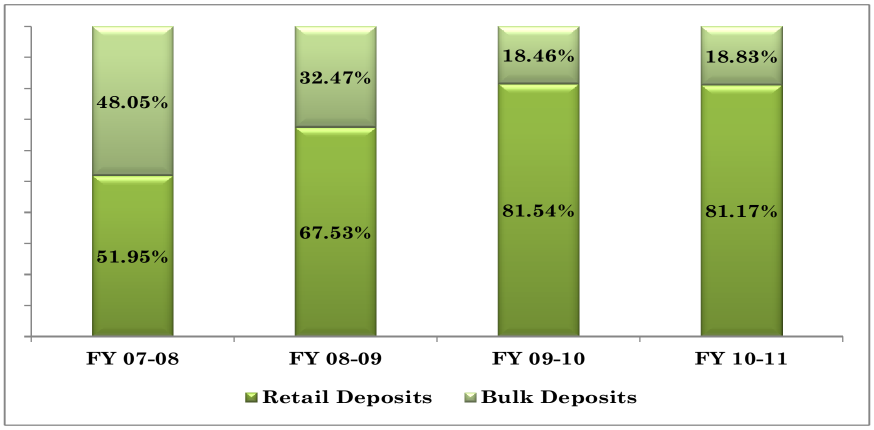
Source: Company

Exhibit 3: Secured & Unsecured Loans



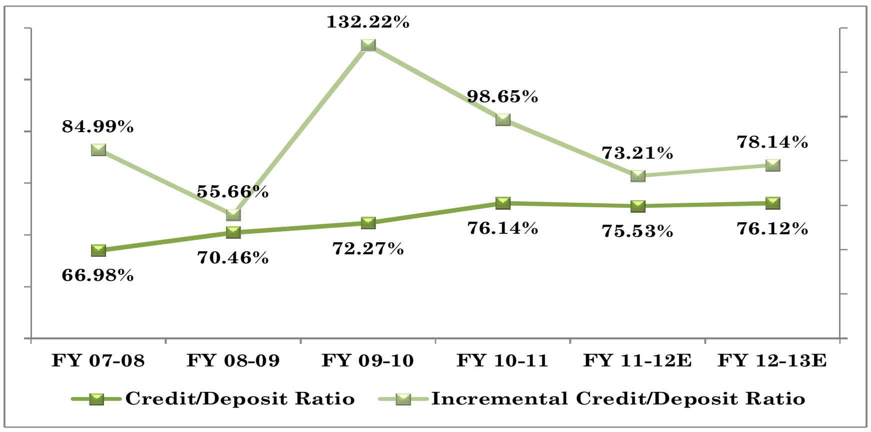
Source: Company

Exhibit 4: Retail v/s Bulk Deposits



Source: Company

Exhibit 5: Credit/Deposit & Incremental Credit/Deposit Ratio



Source: Vantage Securities

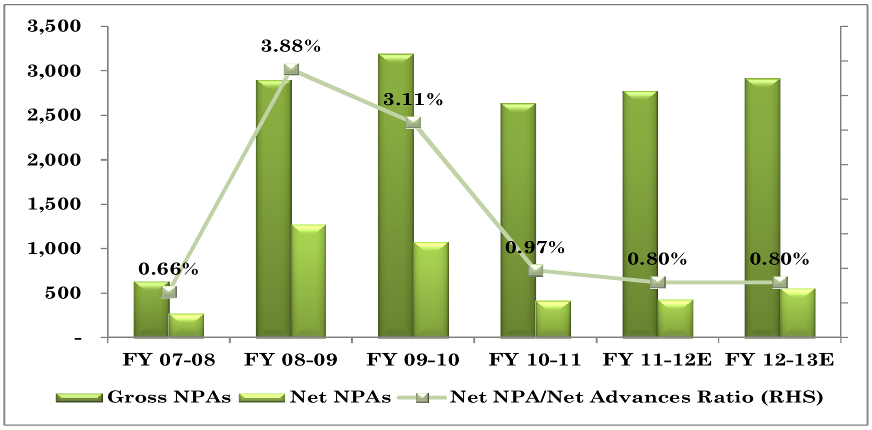
High NPAs due to run-down in Unsecured Portfolio

The run-down in the Unsecured Personal Loans and the CV/CE/STVL portfolios of DCB resulted in a significant jump in the Non-Performing Assets (NPAs) of the Bank. The Gross NPAs of DCB increased from ₹634.30 mn. in FY'08 to ₹2,900 mn. in FY'09. Relative to Gross Advances, the Gross NPA ratio increased from 1.49% in FY'08 to a peak of 8.78% in FY'09, before subsequently declining to 5.86% by FY'11. The Net NPA ratio also peaked in FY'09 at 3.88% and declined to 0.97% over the period up to FY'11. These declines have been mainly due to the growth in the secured assets portfolio and the completion of the run-down in the unsecured assets portfolio, in addition to successful collection and recovery efforts on these portfolios by the bank. With the unsecured advances portfolio almost run-down, DCB should be able to reduce its Gross NPA ratio to manageable levels, while keeping its Net NPA ratio below 1%.

In order to prevent a recurrence of the above events, DCB has put in place strong risk management and risk monitoring procedures. DCB has put in place early warning systems which monitor each portfolio and provide advance warnings of delinquencies. DCB has also designated relationship managers for each client, who are responsible for the performance of each portfolio. This should enable DCB to ensure the quality of its asset book by controlling the formation of fresh NPAs.

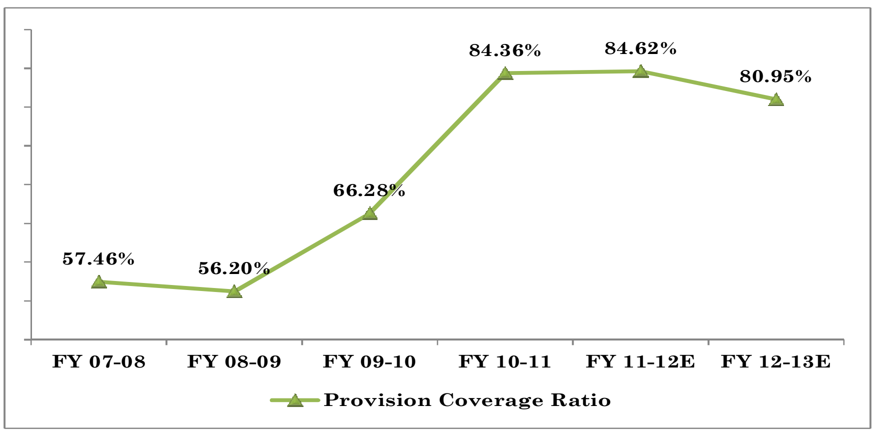
In the process of writing-off its advances, DCB also achieved the required minimum 70% Provision Coverage Ratio, with the PCR standing at 84.36% in FY'11.

Exhibit 6: Non-Performing Assets & Ratios



Source: Vantage Securities (₹ Millions)

Exhibit 7: Provision Coverage Ratio



Source: Vantage Securities

Income impacted by Contraction in Balance Sheet

The contraction in DCB's balance sheet during FY'08-FY'10 is reflected in its Total Income which also contracted at a CAGR of -12.37% during this period. Interest Income contracted at a CAGR of -10.58%, while Non-Interest Income contracted at an even faster CAGR of -18.98% during this period. The contraction in the advances book of DCB, along with the substitution of higher yielding unsecured personal loans with comparatively lower yielding secured mortgage loans, agriculture and MFI loans and MSME & SME loans, led to the decline in DCB's Interest Income over the FY'08-FY'10 period. The subsequent expansion in the Balance Sheet and Advances, in FY'11 over FY'10, resulted in Total Income increasing 14.49% to ₹6.48 bn. The

Interest Income increased by 16.78% to ₹5.36 bn., while Non-Interest Income increased by 4.67% to ₹1.12 bn. in FY'11.

During FY'08-FY'11, DCB was able to maintain its Yield on Advances at ~10% each year, with Yield on Advances increasing to 10.42% in FY'11 from 9.74% in FY'08 and 9.82% in FY'10, mainly on account of higher lending rates in light of the increasing policy rates scenario.

DCB's strategy of re-paying high cost bulk deposits and substituting the same with retail deposits, enabled it to reduce its Interest Expenses which declined at a CAGR of -9.61% over FY'08-FY'10 period. Over this period, the cost of deposits of DCB declined from a peak of 6.90% in FY'09 to 6.29% in FY'10. The cost of deposits further declined to 5.61% in FY'11. However, the Interest Expenses of DCB increased by 9.46% in FY'11, mainly due to the 17.19% increase in Deposits during the year.

DCB's Net Interest Income (NII) contracted at a CAGR of -12.62% over the period FY'08-FY'10, mainly due to the sharp fall in its Interest Income and high Cost of Deposits of the Bank. However, the subsequent decline in Cost of Deposits and increase in Yield of Advances resulted in NII increasing by 33.10% during FY'11 to ₹1.89 bn. This is also reflected in its Net Interest Margin (NIM), which was maintained in the range of ~3% over the period. For FY'11, the NIM of DCB increased to 3.13% from 2.79% in FY'10 and 3.03% in FY'08.

The stresses on the balance sheet also impacted DCB's Non-Interest Income. DCB's focus on re-structuring and de-risking its balance sheet led to a reduced focus on generating fee-based income which is reflected in the decline in Commission Income, Exchange Transaction Fees and Other Income from FY'08 to FY'11. Over this period, Commission Income, Exchange Transaction Fees and Other Income declined from ₹845 mn., ₹229 mn., and ₹435 mn., respectively, to ₹661 mn., ₹90 mn., and ₹106 mn., respectively. Consequently, the share of Non-Interest Income in Total Income declined from 22.07% in FY'08 to 17.29% in FY'11.

Interest Income to drive Total Income

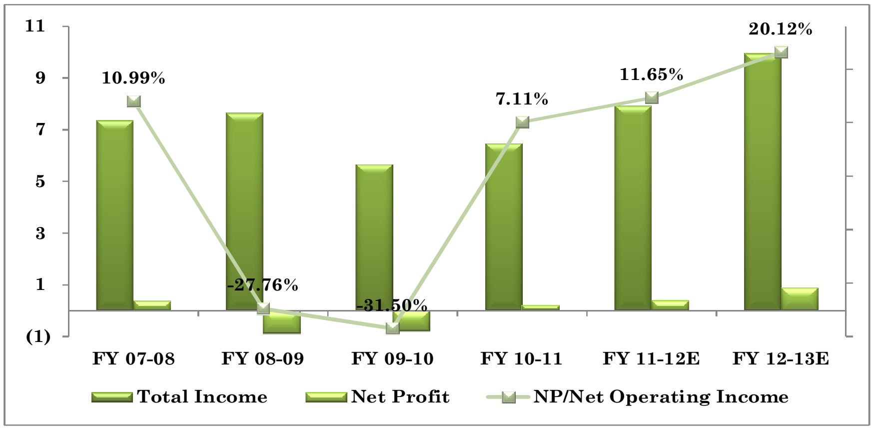
With the balance sheet re-structuring exercise almost complete, DCB is well-positioned to show an accelerated growth in Total Income. A higher growth in Interest Income, as growth in advances is restored and yields increase in light of the rising policy rates scenario, is expected to be the main contributor to Total Income growth. Interest Income is estimated to grow at a CAGR of 25.97% over FY'11-FY'13E. The Non-Interest Income is estimated to grow at a slower CAGR of 13.39% on back of lower Investment Profits, which is expected to off-set increase in Fee-based Income of the Bank. Cumulatively, Total Income of DCB is estimated to grow at a CAGR of 23.89% over FY'11-FY'13E.

The Interest Expenses of DCB are estimated to rise at a CAGR of 26.06% over FY11-FY'13E on back of increase in deposit base, as DCB leverages its existing network and adds new branches to its network. The cost of deposit is also expected to increase, in line with the rising policy rates. However, with the substitution of high cost bulk deposits by low cost retail deposits, the impact of rising rates on the Bank should be limited.

The Net Interest Income of DCB should grow at a CAGR of 25.81% over FY'11-FY'13E. The increasing cost of deposits and limited scope for the Bank to raise lending rates, however, are expected to impact the NIM of DCB. This is expected to lead to a compression in the NIM of

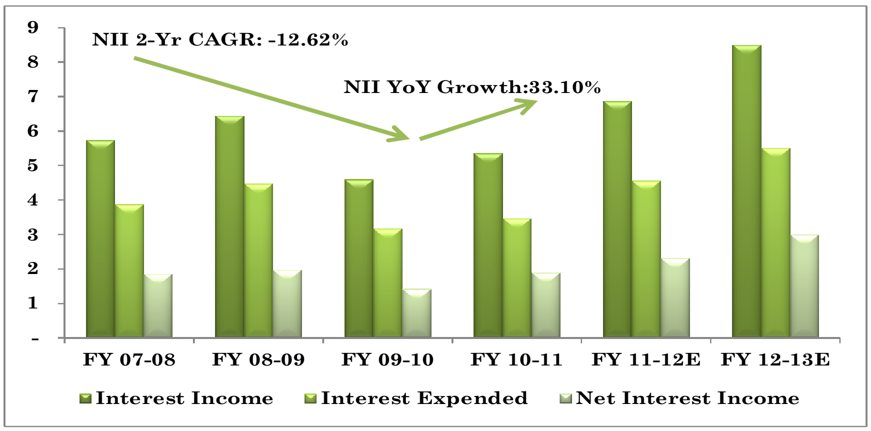
DCB from the current 3.13%. However, the management is confident of being able to maintain NIM above 2.75% in the coming fiscals.

Exhibit 8: Total Income, Net Profit & NP/Net Operating Income Margin



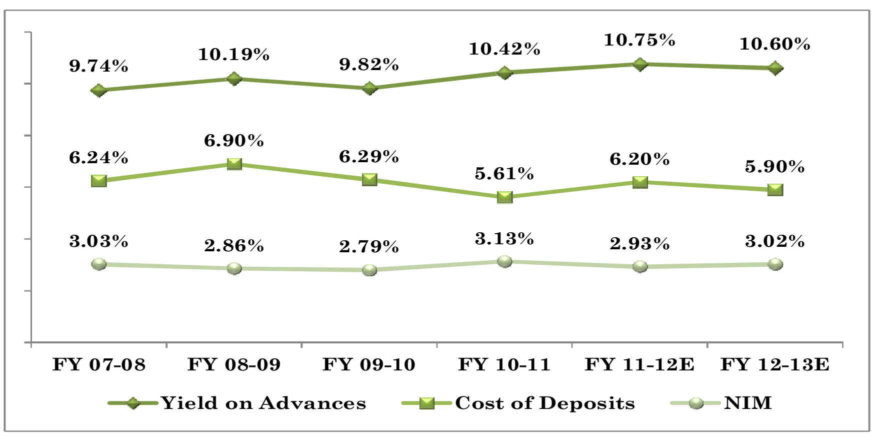
Source: Vantage Securities (₹Billions)

Exhibit 9: Interest Income, Interest Expense & Net Interest Income



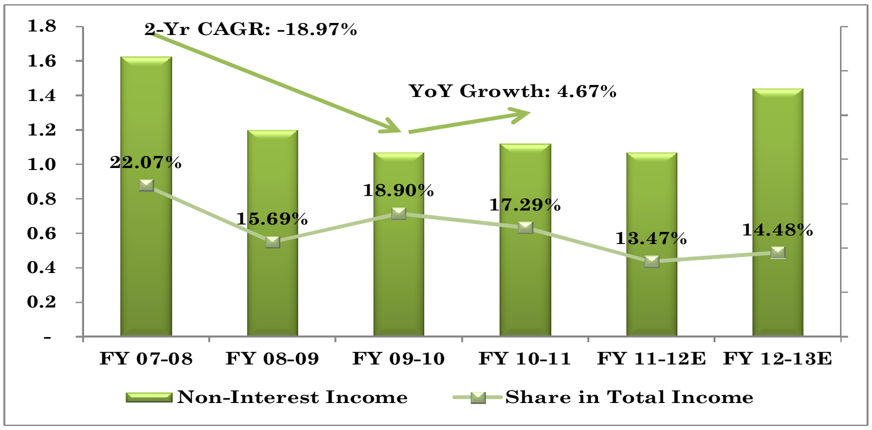
Source: Vantage Securities (₹Billions)

Exhibit 10: Spread Analysis



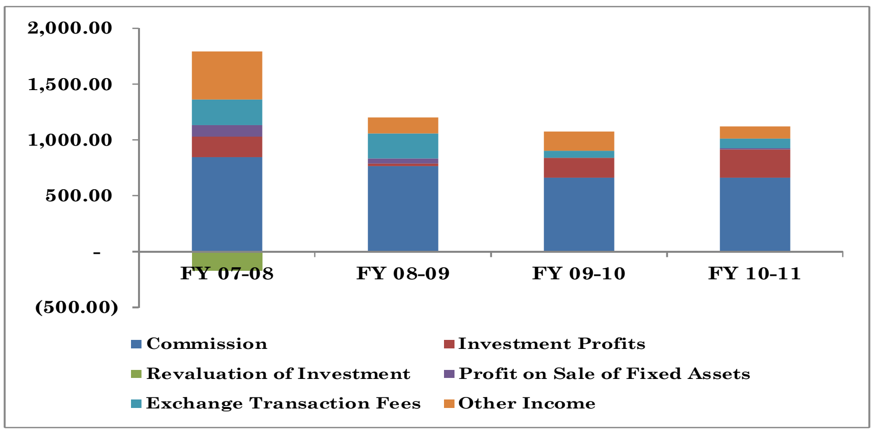
Source: Vantage Securities

Exhibit 11: Non-Interest Income



Source: Vantage Securities (₹Billions)

Exhibit 12: Non-Interest Income Break-up

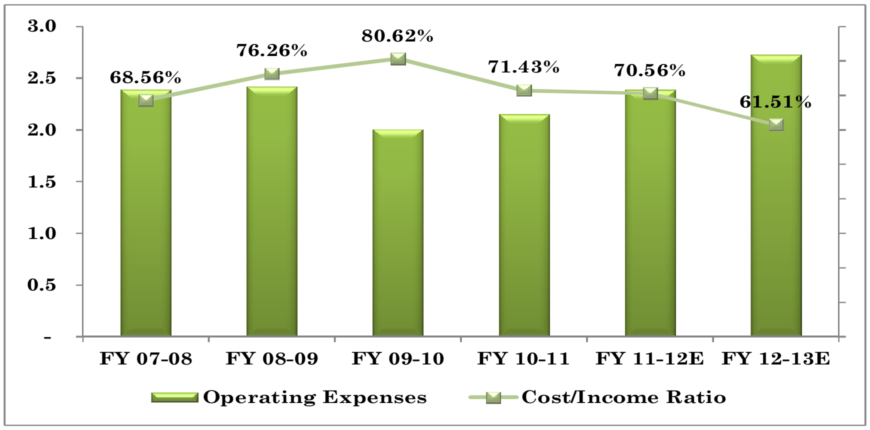


Source: Company (₹ Millions)

High but Declining Cost-to-Income Ratio

DCB's cost to income ratio, which measures a bank's operating efficiency, has averaged above 75% over the period FY'08-FY'11. This indicates high inefficiency in the operations of the Bank. The situation has been exacerbated by the fact that Total Income of the Bank declined while its operating expenses did not decline at a similar pace. This led to the sharp spike in cost to income ratio from 68.56% in FY'08 to 80.62% in FY'10, in which period Total Income declined by a CAGR of -12.37%, while Operating Expenses declined by a CAGR of -8.29%. However, the situation exhibited an improvement in FY'11 with the cost to income ratio declining to 71.43%, on back of increase in Total Income of the Bank and increased efficiency in the operations of the Bank. DCB expects the ratio to remain at this level in FY'12, as it undertakes branch expansion in light of new licenses received from RBI, and increases its headcount at existing as well as new branches.

Exhibit 13: Operating Expenses & Cost to Income Ratio



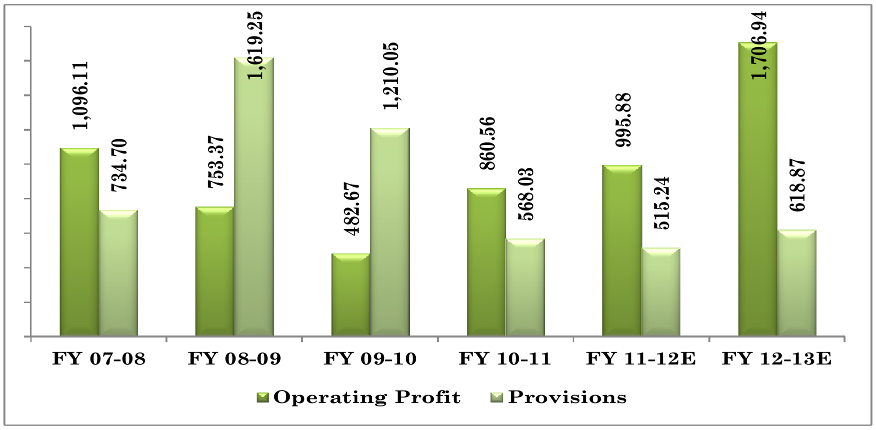
Source: Vantage Securities (₹ Billions)

Significant Provisions due to Run-down of Unsecured Loans Portfolio

The stresses in the unsecured personal loans and the CE/CV/STVL segments of the loan portfolio led to significantly higher provisions in FY'09 and FY'10, as DCB provided for the losses from non-performing loans. The loan loss provision jumped 120.40% from ₹734.70 mn. in FY'08 to ₹1619.25 mn. in FY'09. Coupled with a decline in operating profits, the higher provisions resulted in net losses reported by DCB for FY'09 and FY'10 from a net profit in FY'08. The provisions for FY'11 declined on back of the completion of run-down in the non-performing loans portfolio. The loan loss provision declined by 53% to ₹568 mn. in FY'11 from ₹1,210 mn. in FY'10. Combined with the increase in Total Income and Operating Profits, DCB experienced a turn-around and reported a Net Profit in Q2FY'11 after 2 years of significant losses. DCB reported Net Profits of ₹214.29 mn in FY'11 as against a Net Loss of ₹784.50 mn. in FY'10.

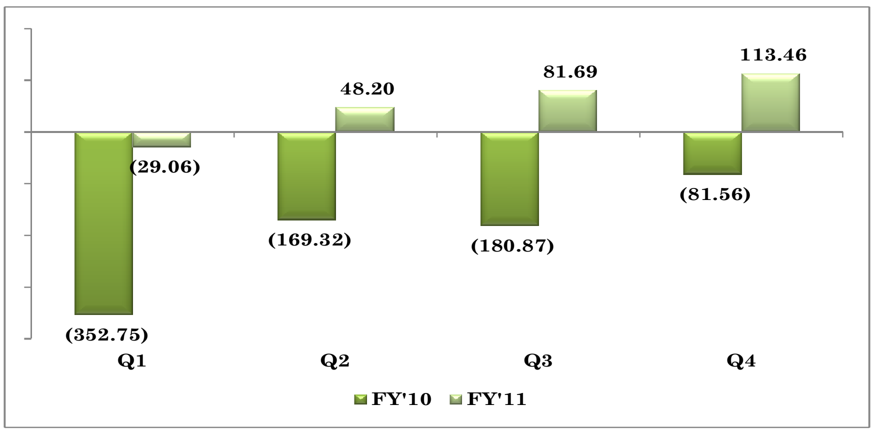
With the non-performing loans almost run-off, and growth and stability of the balance sheet restored, we believe the worst is behind for DCB, and the Bank should be able to show improvement in its operations and performance. Further, the decline in the provisioning requirements should be an additional positive for DCB, improving its profitability. Consequently, we estimate DCB's NP to grow at a CAGR of 104.05% over FY'11-FY'13E.

Exhibit 14: Operating Profit & Provisions



Source: Vantage Securities (₹ Millions)

Exhibit 15: Quarterly Profits for FY’10 & FY’11

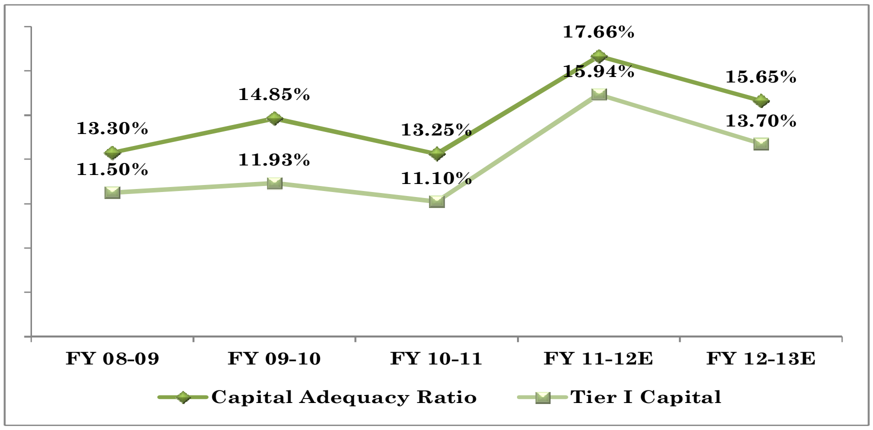


Source: Company (₹ Millions)

Capital Raising Plans to be Book-value Accretive

DCB is adequately capitalized with a Capital Adequacy Ratio of 13.25% and a Tier I ratio of 11.10% in FY’11. DCB has obtained approval from the shareholders at its recently concluded AGM to raise further capital up to ₹3 bn. for augmenting of its adequacy ratio. The management expects to make a QIP issue and a right issue over the course of the year. The issue should be book value accretive while providing sufficient headroom to the Bank to grow at its current pace for the next few years. Factoring in a dilution of 12.5% and 12.3% on account of the QIP and Rights issue, respectively, during FY’12E, we estimate the Book Value Per Share of DCB (excluding revaluation reserves) at ₹39.38 in FY13.

Exhibit 16: Capital Adequacy Ratio



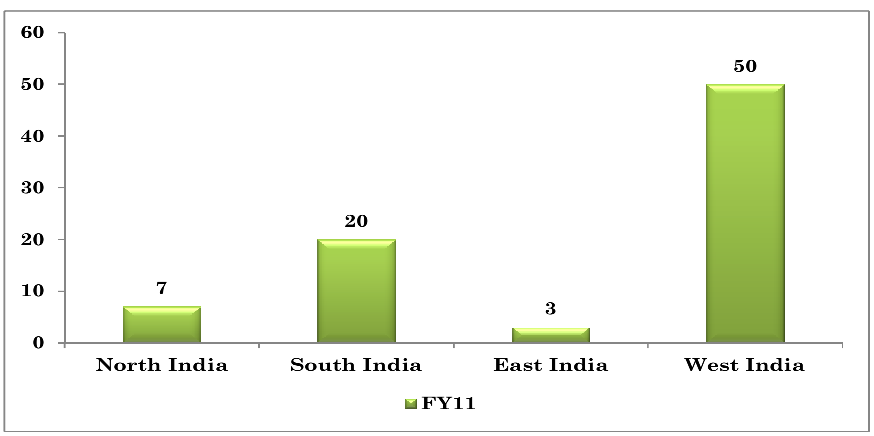
Source: Vantage Securities

Small Branch Network mainly located in High Growth States

DCB has a small network of branches with 80 branches across 9 states and 2 union territories. However, 70 branches of the network are located in high growth Western and Southern states of India, with the balance situated in the Northern and Eastern states of India.

The Bank has been unable to add to its existing network during the period FY'08-FY'11, as it did not receive licenses from RBI during this period. However, in light of a sharp improvement in performance in FY'11, DCB was recently granted 12 branch licenses by RBI. DCB intends to utilize these branch licenses soon and apply to RBI for additional branch licenses. The Bank has plans to significantly scale up its presence over the next 2 years and we expect it to expand its network to 120-130 branches over the next 2-3 years. DCB has adopted a cluster-based approach in obtaining licenses and introducing new branches. This approach will enable DCB to provide enhanced services to its customers, who primarily operate within a localized region. The Bank has also shifted some of its low performing current branches to areas with greater growth and higher yield prospects. This should provide a boost to the Bank in its Business and balance sheet growth and future profitability.

Exhibit 17: Geographical Branch Presence



Source: Company

Risk and Concern

The Bank has a high regional concentration with 63% of the branches located in the western region of India. Any adverse events impacting the economy of these states can adversely impact the results of operations of the Bank.

The RBI is raising its policy rates, in order to tame the currently prevailing high inflation rates. This is expected to impact the funding costs of banks, adversely impacting NIMs.

The rising interest rates could impact the growth of the economy of the country, resulting in a slowdown in the demand for capital. This could impact the credit growth of the Bank.

After posting two years of significant losses consecutively, the Bank reported profit after taxes in FY'11. A decline in demand for capital due to slowdown in the economy could impact the performance resulting in the Bank incurring losses again.

The Bank has significant exposure to the SME & MSME segments of the economy, which can be significantly impacted during downturns in the economy.

Comparative Performance of Development Credit Bank with Peers on Select Parameters:

Particulars	Development Credit Bank	City Union Bank	Dhanlaxmi Bank
Market Cap (₹ Millions)	**12,020**	20,610	10,190
Branches	**80**	250	275
Total Business (₹ Millions)	**98,816**	222,433	119,340
Net Interest Income (₹ Millions)	**1,891**	4,200	2,651
Net Profit Margin	**4%**	18%	3%
Net Interest Margin	**3.13%**	3.64%	3.00%
CASA Ratio	**35.0%**	20.0%	23.0%
Q4FY'11 Return on Assets	**0.63%**	1.48%	0.34%
Gross NPA Ratio	**5.9%**	1.2%	0.7%
Net NPA Ratio	**1.0%**	0.52%	0.30%
BVPS (₹)	**28.10**	**24.83**	97.24
Price (₹) [as on 06/07/2011]	**60.80**	48.25	120.15
TTM P/BV	**2.16**	1.94	1.24

Financial Statements

Income statement: ₹ Millions

Particulars	FY09	FY10	FY11	FY12E	FY13E
Income	**7,652.69**	**5,664.92**	**6,483.61**	**7,942.50**	**9,951.22**
Interest Earned	**6,452.05**	**4,594.04**	**5,362.62**	**6,872.72**	**8,509.86**
Interest/discount on advances/bills	4,945.91	3,598.87	4,026.53	5,165.78	6,508.62
Income on Investments	1,259.33	950.90	1,319.71	1,664.83	1,950.72
Interest on Balances with RBI & Other inter-bank funds	246.82	44.28	16.39	42.10	50.52
Others	-	-			
Other Income	**1,200.64**	**1,070.88**	**1,120.99**	**1,069.78**	**1,441.36**
Net Interest Income (NII)	**1,972.54**	**1,419.84**	**1,891.38**	**2,312.53**	**2,993.87**
Expenditure	**6,899.32**	**5,182.25**	**5,623.05**	**6,946.61**	**8,244.28**
Interest Expended	**4,479.51**	**3,174.20**	**3,471.24**	**4,560.19**	**5,516.00**
Interest on Deposits	4,013.81	2,830.06	2,917.05	3,930.48	4,775.33
Interest on RBI/Inter-Bank borrowings/Tier I & II debt instruments	293.06	218.20	420.54	492.51	533.16
Others	172.64	125.93	133.65	137.19	207.51
Operating Expenses	2,419.81	2,008.05	2,151.81	2,386.43	2,728.28
Profit before provisions & contingencies	753.37	482.67	860.56	995.88	1,706.94
Provisions & Contingencies	1,619.25	1,210.05	568.03	515.24	618.87
Profit before Tax (PBT)	**(865.88)**	**(727.38)**	**292.53**	**480.65**	**1,088.07**
Income Tax	15.08	57.12	78.24	86.52	195.85
PROFIT AFTER TAX (PAT)	**(880.96)**	**(784.50)**	**214.29**	**394.13**	**892.22**
EPS (₹)	**(5.05)**	**(3.92)**	**1.07**	**1.56**	**3.53**

Balance sheet Statement: ₹ Millions

Particulars	FY09	FY10	FY11	FY12E	FY13E
Assets					
Cash & Balances with RBI	2,868.78	2,913.64	4,045.10	4,948.17	6,155.17
Balances with banks and money at call & short notice	3,733.41	409.84	825.99	706.88	820.69
Investments	16,217.28	20,179.30	22,950.45	28,275.24	34,651.30
Advances	32,740.19	34,597.10	42,714.47	53,393.08	69,411.01
Fixed Assets	1,489.25	1,357.55	1,275.05	1,413.76	1,641.38
Other Assets	2,381.59	1,909.22	1,912.35	2,120.64	2,370.88
Total Assets	**59,430.50**	**61,366.65**	**73,723.40**	**90,857.77**	**115,050.42**
Liabilities & Capital					
Capital	1,742.99	1,999.85	2,001.71	2,529.49	2,529.49
Reserves & Surplus	4,214.24	3,989.96	4,185.05	7,051.41	7,943.62
Total Shareholder Funds	5,957.23	5,989.81	6,186.77	9,580.90	10,473.11
Deposits	46,468.92	47,873.29	56,101.66	70,688.09	91,187.63
Borrowings	4,455.18	5,035.12	8,607.15	10,603.21	12,766.27
Other Liabilities & Provisions	2,523.04	2,447.19	2,799.69	(14.43)	623.40
Total Liabilities & Capital	**59,404.36**	**61,345.41**	**73,695.27**	**90,857.77**	**115,050.42**

Growth Matrix:

Particulars	FY09	FY10	FY11	FY12E	FY13E
Advances Growth	-19.53%	5.67%	23.46%	25.00%	30.00%
Deposits Growth	-23.51%	3.02%	17.19%	26.00%	29.00%
Total Income Growth	3.88%	-25.97%	14.45%	22.50%	25.29%
NII Growth	5.99%	-28.02%	33.21%	22.27%	29.46%
Operating Expenses Growth	1.22%	-17.02%	7.16%	10.90%	14.33%
Pre-Provision Operating Profit Growth	-31.27%	-35.93%	78.29%	15.72%	71.40%
PAT Growth	-329.83%	-10.95%	-127.32%	83.92%	126.38%

Spread Analysis:

Particulars	FY09	FY10	FY11	FY12E	FY13E
Avg. Yield on Loans	10.19%	9.82%	10.42%	10.75%	10.60%
Avg. Yield on Investments	6.89%	6.74%	6.12%	6.50%	6.20%
Avg. Cost of Deposits	6.90%	6.29%	5.61%	6.20%	5.90%
Interest Spread	2.45%	1.97%	2.44%	2.46%	2.63%
Net Interest Margin	2.86%	2.79%	2.94%	2.93%	3.02%

Profitability Ratios:

Particulars	FY09	FY10	FY11	FY12E	FY13E
Interest Expense/Interest Income	69.43%	69.09%	64.73%	66.35%	64.82%
Non Interest Income/Interest Income	18.61%	23.31%	20.90%	15.57%	16.94%
Cost/Income Ratio	76.26%	80.62%	71.43%	70.56%	61.51%
Tax Rate	-1.74%	-7.85%	26.75%	18.00%	18.00%
Net Profit/Net Operating Income	-27.76%	-31.50%	7.11%	11.65%	20.12%
RoAA	-1.30%	-1.30%	0.32%	0.48%	0.87%
RoE	-14.79%	-13.10%	3.45%	4.11%	8.52%

Asset-Liability Profile:

Particulars	FY09	FY10	FY11	FY12E	FY13E
Loans/Deposits Ratio	70.46%	72.27%	76.14%	75.53%	76.12%
Incremental Loans/Deposits Ratio	55.66%	132.22%	98.65%	73.21%	78.14%
CASA Ratio	31.01%	35.36%	35.21%	35.50%	36.00%
Investment/Deposits Ratio	34.90%	42.15%	40.91%	40.00%	38.00%
G-Sec/Investment Ratio	77.10%	77.61%	76.10%	76.00%	79.70%
CAR	13.30%	14.85%	13.25%	17.66%	15.65%
Tier-I	11.50%	11.93%	11.10%	15.94%	13.70%

Valuation Ratios:

Particulars	FY09	FY10	FY11	FY12E	FY13E
EPS (₹)	(5.05)	(3.92)	1.07	1.56	3.53
P/E(x)	(12.03)	(15.50)	57.01	39.02	17.24
BVPS (₹) [Excl. Revaluation Reserves]	30.74	27.02	28.10	35.76	39.38
P/BV(x)	1.98	2.25	2.16	1.70	1.54

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