

# Development Credit Bank Ltd

Recovered but challenges remain

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 4/5 (CMP has upside)

Industry Banking

Development Credit Bank Ltd (DCB Bank), one of the small private sector banks, predominantly concentrates on SME/micro SME lending and secured retail lending. It has 82 branches, mostly in Gujarat, Maharashtra and Andhra Pradesh. We retain the fundamental grade of **2/5**, indicating that DCB Bank's fundamentals are **moderate** relative to other listed securities in India.

## Out of the woods

DCB Bank, whose focus on high-yield unsecured lending in FY08 to ramp up the loan book funded by wholesale deposits led to delinquencies during the 2008 economic downturn, has come out of the woods. This is resultant of balance sheet restructuring and renewed focus on a diversified loan book - small and medium enterprises (SME), micro SME, corporate and secured retail lending. The bank's management team was replaced by a new team led by Mr Murali Natrajan. It has done well in the past four-five quarters.

## But challenges lie ahead to ramp up loan book, manage asset quality

DCB Bank still faces a couple of challenges - a) balancing its loan book growth with containment of costs and b) ramping up the loan book faster without substantial incremental slippages. However, cautious lending and stricter underwriting standards have resulted in lower slippages and provisioning. We will monitor this in the coming quarters. Being a small bank, DCB Bank faces challenges in funding large-scale projects.

## Ability to tap SME and mortgage lending amidst increasing competition

Considering the management's focus on SME and mortgage lending, we believe it will be essential for DCB Bank to tap the right set of customers. Further, given the huge untapped potential in both these segments and secured form of lending with low NPAs in mortgage, we expect competition to intensify and throw up more challenges for DCB Bank.

## Loan book growth to start reflecting in top line

CRISIL Research expects DCB Bank's total income to increase at a three-year CAGR of 19% to Rs 5.1 bn in FY14, driven by growth in net interest income (comprising 65% of the total income) with NIMs hovering at 3%. With this, the adjusted book value per share will rise to Rs 36 in FY14 from Rs 26 in FY11.

## Operating parameters and return ratios up but below industry average

Although the key operating parameters, viz. cost to income, net NPAs and return ratios, have marginally improved in 9MFY12, they are still below industry average as DCB Bank has just transitioned from losses. However, we expect operating parameters and return ratios to normalise in FY14.

## Valuations: Current market price has upside

Applying 1.7x on FY14E adjusted book value, we maintain the fair value of Rs 61 per share. The valuation grade is **4/5**.

## KEY FORECAST

(Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Total Income	2,491	3,012	3,423	4,159	5,130
Profit after tax	(785)	214	502	849	1,370
Net interest margins	2.8	3.1	3.1	3.0	3.2
Capital adequacy ratios	14.9	13.3	12.9	14.8	15.5
Net NPAs to net advances (%)	3.1	1.0	1.0	1.1	1.1
EPS (Rs)	-3.9	1.1	2.5	3.9	6.2
Adjusted book value (Rs)	21.7	26.2	28.2	33.4	36.0
P/E (x)	NM	42.8	20.3	13.2	8.2
P/ABV (x)	1.5	1.8	1.8	1.5	1.4
RoE (%)	-14.5	3.9	8.5	12.0	15.9

NM: Not meaningful; CMP: Current Market Price

Source: Company, CRISIL Research estimate

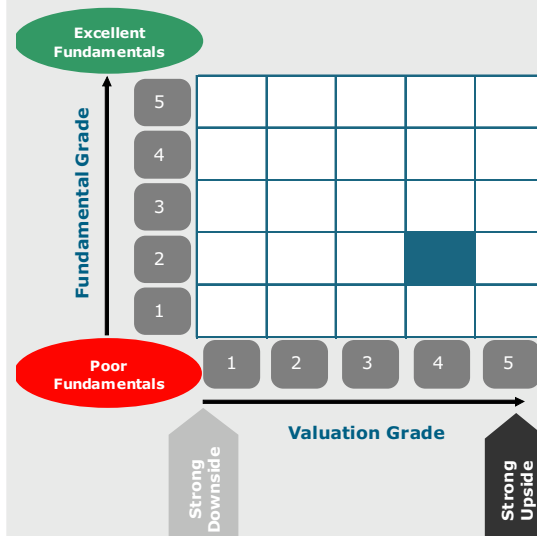


February 20, 2012

Fair Value Rs 61

CMP Rs 51

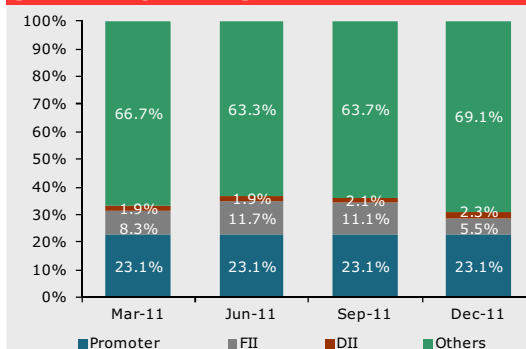
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	5564/18289
NSE/ BSE ticker	DCB
Face Value (Rs per share)	10
Shares outstanding (mn)	200.3
Market cap (Rs mn)/(US\$ mn)	10,209/207
52-week range (Rs) (H/L)	66/30
Beta	1.6
Free float (%)	77
Avg daily volumes (30-days)	2,399,433
Avg daily value (30-days) (Rs mn)	83.0

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
DCB Bank	26%	30%	8%	9%
NIFTY	12%	13%	10%	0%

## ANALYTICAL CONTACT

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