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INITIATING

Development Credit Bank

In Nascent Stage

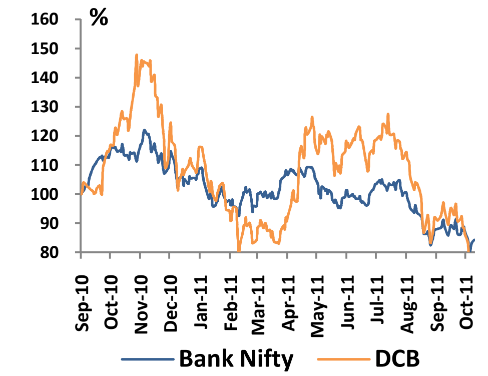
CMP:	**Rs. 40**
Target Price:	**Rs. 48**
Recommendation:	**ACCUMULATE**

Stock Info	
BSE Group	B
BSE Code	532772
NSE Symbol	DCB
Bloomberg	DEVB IN
Reuters	DCBA.BO
BSE Sensex	16577
NSE Nifty	4979

Market Info	
Market Capital	₹ 802 cr
Equity Capital	₹ 200.2 cr
Avg. Trading Vol. (NSE Qtly)	3026931
52 Wk High/ Low	77/38
Face Value	10

Shareholding Pattern (%)	**(30th June 2011)**
Promoters	23.1
Domestic Institutions	1.9
Foreign Institutions	20.9
Non Promoters Corp.	13.4
Public & Others	40.8
Govt. Holdings	0

Financials	**FY11**	**FY12**	**FY13**
PAT (Rs in Cr)	21	30	58
EPS (in Rs)	1.1	1.5	2.9
PE (x)	37.2	26.4	13.7
PABV (x)	1.33	1.28	1.18



October 10, 2011

Development Credit Bank (DCB) has revived itself from legacy credit issues and continued losses. The steps initiated by the new management in the recent past have yielded good results with bank returning to profit, CASA sustaining at 31%+, NPA reducing and margins improving. And we expect this momentum to continue. However it may take some time before it improves the RoA from present 0.5%, improve the RoE from ~5%, correct the high cost to income ratio of +70% and establish its brand. Therefore we say that the bank is in its 'Nascent Stage' of revival. The competition in banking sector has increased significantly and with likely advent of new banks, things might get tougher for DCB. To add to it are the economic uncertainties. **We initiate coverage on DCB with a price target of Rs 48 which would value the bank at 1.57 times its FY12E book value and 1.42 times its FY13E book value** on a normalized RoE of ~15% while we expect reported RoA to scale up to 0.73% by FY13. The impending QIP can be a healthy trigger for the stock going forward. We give it an ACCUMULATE rating and advise to buy on declines.

- **Clean-up Of Legacy Issues Will Permit Focus On Growth**

With exposure to unsecured loans reduced to just ~9% of the total book from 39% in FY07 and a robust 86% provision coverage, the loan book of DCB is expected to grow faster at 18% over FY12-13E as against a 1.6% CAGR growth over FY08-11. In order to make the growth sustainable, the bank is aptly focusing on the liability strengthening and building a low cost deposit franchise. This along with traditional sticky customer base has helped the bank maintain a healthy CASA ratio of more than 30% over the past three years.

- **RBI Approval To Open Branches To Help Sustain CASA**

Due to its improving matrix the bank has recently received 10 more licenses from RBI after a static branch count of ~80 for nearly two years. This will help the bank is sustaining its CASA growth amidst heavy competition and flight to term deposits. However we are building in some stress on CASA and expect it to reduce to ~30% from 33.3% over the next one year.

- **Substantial Reduction In NPA With Healthy Coverage**

Though yet high, banks gross NPA has almost halved to 5.9% from 11.2% in Q2FY10, with healthy coverage ratio of ~86%. Despite the given vulnerability of economy and continued delinquency of 1.2%-1.3%, we expect the GNPA to gradually reduce to 3.7% by FY13.
We also expect the bank to use the provision cushion to support profit growth and coverage to fall to 80% by FY13. All this would result in PAT to grow over FY11-13E CAGR of 65% as against a 15% CAGR in Net Interest Income.

- **Growth with healthy margin**

Despite sharp reduction in unsecured portfolio, the bank has been able to maintain healthy margins (average of 2.95% over the past 4 years) mainly due to sustenance of a healthy CASA and the asset composition. However we expect NIM to remain under pressure in FY12 at ~2.8% due to rising cost of funds.

- **Promoter Stake Reduction by 2014**

AKFED holds 23.1% stake in bank and have time till 2014 to reduce it to 10% as per RBI stipulation. Intended QIP of ~Rs 300 cr in FY12 will be one such move and could be a trigger for the stock as well. The FII stake has steadily increased from ~13% in Sep 2009 to 20.9% as at end of June 2011 which makes us believe that the stock will successfully generate investors interest through QIP. The dilution will however put pressure on its already weak return ratios (FY11 RoE 3.34%).

DCB had two revival attempts in the past six years and its second attempt is showing signs of a more convincing turnaround. The bank has managed to come back in green.

'Re'vival Attempt

Development Credit Bank, weakest of the new generation private banks, has suffered big losses in the past due to poor asset quality. It had two revival attempts in the past six years both of which followed introduction of new management team. First one was led by Mr. Gautam Vir and the present one by Mr. Murli Natrajan.

In its second attempt DCB is showing signs of a more convincing turnaround. An earlier attempt in FY07 could not face the brunt of global turmoil and high unsecured portfolio in personal loan segment. Also some big corporate accounts failed and hit the bank's balance sheet. This resulted in the GNPA of the bank rising from 1.5% in FY08 to 8.5% in FY09; despite the fact that DCB had started shutting down its unsecured personal loans in mid-2008 when such lending contributed 34% to total advances. In fact in 2008, the bank also resorted to selling down of some bad loans to ARCIL to clear up its book.

Going down little deeper in late 1990's and early 2000, DCB followed an aggressive strategy to expand its operations but had a difficult time in risk management. The loan portfolio was concentrated - geographically and industry wise. This unrestrained lending without adequate risk assessment led to credit loss. To add to it, erstwhile management deferred the recognition of these losses in the books which led to a systemic problem. These legacy NPA's were recognisied only in FY05 and FY06 after new management team took over, leading to substantial erosion of banks net-worth.

About Bank –

Promoted by Aga Khan Fund for Economic Development (AFKED) (~23.1% stake), Development Credit Bank (DCB) is the only cooperative bank to have received a commercial banking license in India. The bank with presence in southern and western belt of India started on a particular community base, however the current figures shows little bias with 16-17% share in deposits and 5% in advances. The business of the bank stands at near Rs 10,200 cr with advances at Rs 4,200 cr and deposits of ~Rs 6,000 cr.

Journey from loss to profit ……

In last eight years the bank has recorded net loss in four of the years. And after clocking a loss for past seven continuous quarters the bank returned to profits in second quarter of FY11 with profit of Rs 5 cr against a loss of Rs 17 cr in corresponding previous quarter. The accumulated losses as at the end of FY11 stood at Rs 364 cr.

This journey of bank from loss to profit began with a focus on cleaning the NPA in books and realigning the portfolio.
Apart from this, bank built a healthy coverage and CASA as well.

This journey of bank from loss to profit began with a focus to clean the NPA in books and realign the portfolio. The strategy was to do away with the most hurting personal loans and concentrate on SME and mortgage loans while maintain corporate sector proportion.

Outcome of management's strategy -

- **Profit Over Provision –** Bank returned to profit after clearing legacy issues.
- **Cleaner Book With Sufficiently High Coverage –** GNPA (as a % of gross advances) was brought down by ~50% with overall coverage of > 85% including 100% provision on personal loans.
- **Shift from unsecured portfolio to secured portfolio –** Unsecured retail loans were replaced with secured loans in small and medium enterprises (SME) and Micro SME. The unsecured book has reduced from ~30% in FY09 to ~9% in FY11
- **CASA improvement despite static Branches –** With a clear focus, since FY09 the bank has maintained its CASA above 30% and retail deposit above 70%. This was acheived despite a static branch network of ~80 for past two years.

Investment Rationale

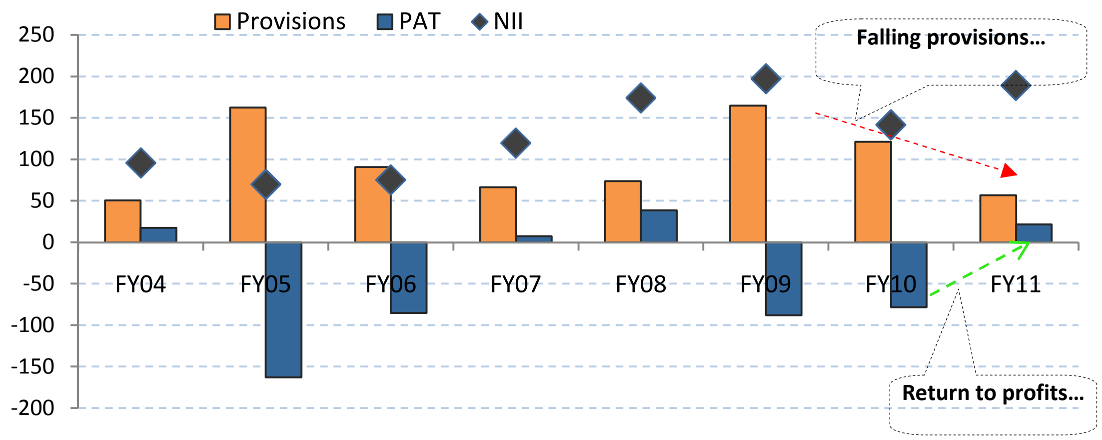
Going forward provisions are expected to come down further with sufficient coverage in kitty and RBI relaxation towards 70% coverage. Provisions and Contingencies which was Rs 65 cr in FY11 is expected to reduce to Rs 40 cr in FY12 as per management.

➢ Profit Over provision –

Creating a provision cushion for legacy exposures resulted in net losses for two years before the bank returned back to profits in Q2FY11.

The credit cost has reduced from 4% in FY09 to 1.2% in FY11. It is expected to marginally drop in FY12 and come down further to 0.86% by FY13. This will be facilitated by sufficient coverage in kitty and RBI relaxation towards 70% coverage. Provisions and Contingencies, which was Rs 65 cr in FY11, is expected to reduce to Rs 40 cr in FY12 as per management guidance, though we have built in a higher number of Rs 54 cr given the fragile economic scenario. Bank targets to reduce credit cost on Personal Loans to be 0.2% and on SME 0.5%. This can be a big positive for the bank.

In fact going forward the bank will benefit from the accumulated losses in terms of tax saving while any recovery from personal loans also will directly flow to bottom-line as it is fully provided. Management expects that 20% of the Personal Loan NPA is likely to be recovered over next two years, directly accruing to profits. We also envisage the bank to utilize the relaxation in NPA coverage offered by RBI and support its profit.



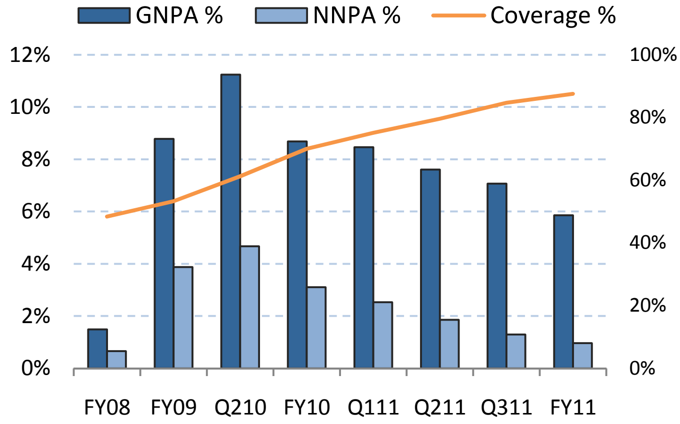
Though NPA is still high at 5.9% it has come down nearly 50% from its peak. The coverage is healthy at ~86%.
With legacy issues behind, the bank can now concentrate on growth. However any further strain on NPA could be detrimental for investor outlook and so growth has to be carefully treaded.

➢ Cleaner Book With Sufficiently High Coverage – Will Permit Focus On Growth

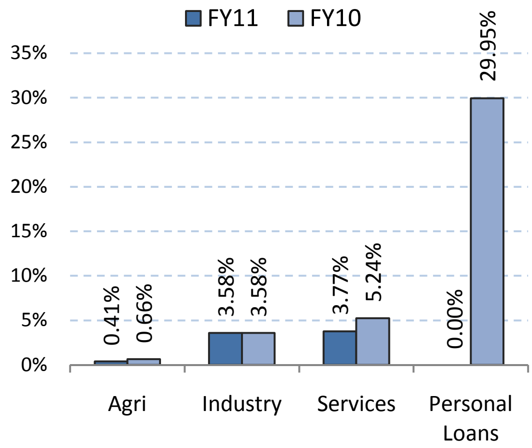
From 11.24% in Q210, the gross NPA has been reduced by nearly 50% to 5.9%. Part of the reduction has been due to intensive recovery while there is also a substantial control on new accretions. In fact the delinquency has reduced from 9.3% in FY09 to 1.2% in FY11. While NPA relating to Personal Loans has been fully provided, the overall coverage is healthy at ~86%. Of this, core coverage is high at ~81% suggesting very little write off resorted by bank now and more scope in future. The unsecured loan book has fallen from 39% in FY07 to 30% in FY09 to just 9% now, reducing the risk attached to the asset book. The restructured book has substantially come down and is miniscule at Rs 12.5cr as against Rs 31 cr last year.

With legacy issue majorly addressed and sufficient coverage of ~86% in hand, the bank can be expected to concentrate on growth which had faded to just 1.6% between FY08 and FY11. We build in a CAGR growth of 18.5% over FY12E-13E. However any further strain on NPA could be detrimental for investor outlook and so growth has to be carefully treaded.

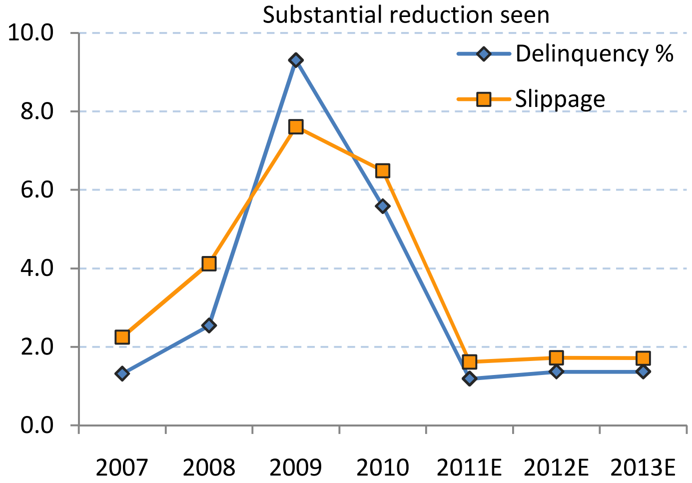
Coverage cushion may allow better profits ahead



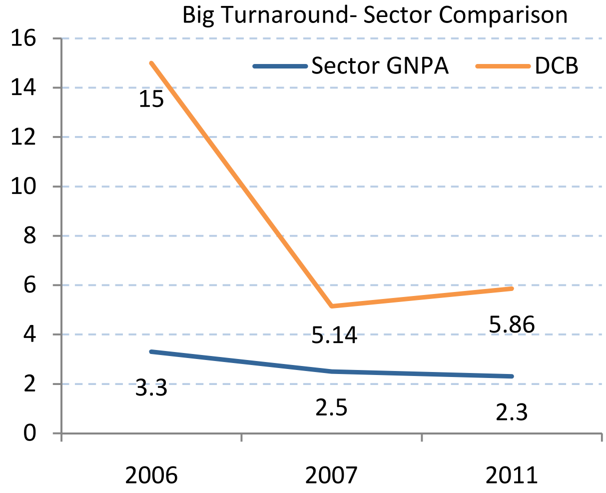
Sector-wise Net NPAs shows control over PL



Substantial reduction seen



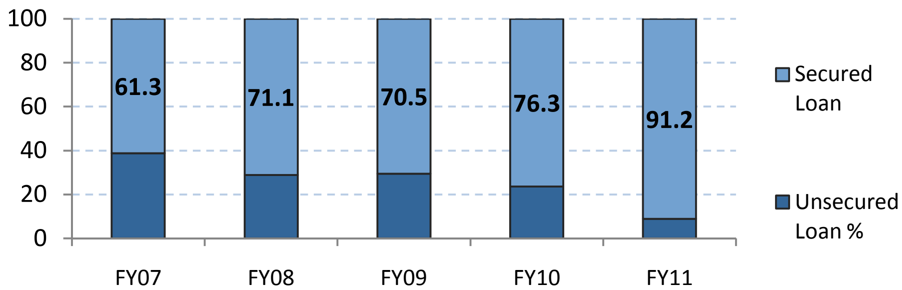
Big Turnaround- Sector Comparison



➢ **Safer Focus Areas Carved To Drive Growth –**

Hurt by unsecured book, mainly personal loans (PL), DCB has exited the PL portfolio almost entirely and the same has reduced from 10% in FY09 to 0.2% in FY11. At the same time the focus has shifted to SME and MSME which stands at 24% and is targeted to reach 40%.

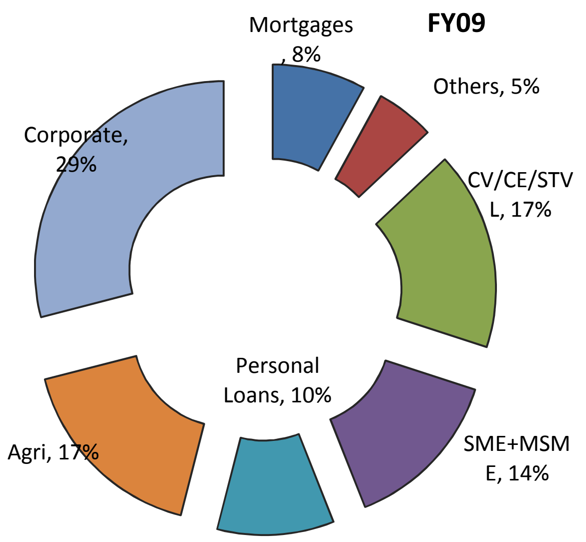
Management exited the areas which hurt them most in a slowing economy - personal loans, commercial vehicle and commercial equipment. Its focus has since then shifted to retail Mortgages, MSME and SME. Retail mortgages have almost doubled while MSME and SME have grown by ~65% (FY11 over FY09).The unsecured book of the bank has reduced from ~30% in FY09 to ~9% in FY11. Going forward management plans to increase the SME and MSME to 40% (from 24% now), contain the mortgages to 25% of total while the remaining will be spread between Agriculture and Corporate. The reason for curtailing corporate related exposure on asset as well as liability side has been the small size of the bank which restricts its capability to be a sole banker and as a part of consortium lending, restricts authority. The bank plans to focus more on loans where it is a sole lender and hence can get better control on risk associated. Even in corporate, DCB rebalanced its portfolio by replacing short term lending with working Capital and term Loans.

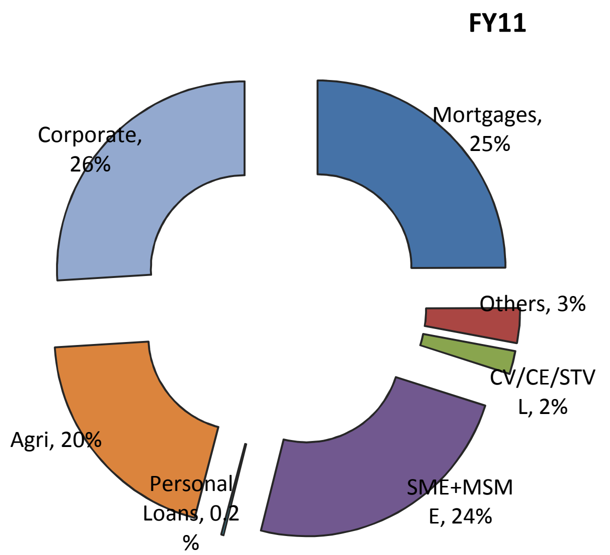


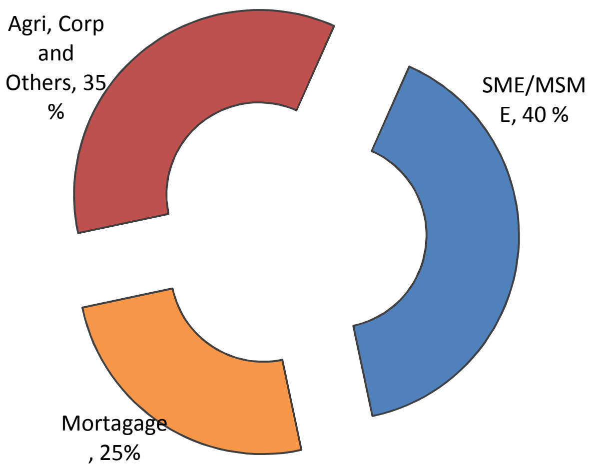
> Over the years the bank has shown erratic growth in advances where period of high growth were followed by higher NPA. We expect the bank management to take steadier and stronger steps forward in future.

Over the years the bank has shown erratic growth in advances with its six-year CAGR at 12.1%. In its earlier recovery attempt in 2007, the bank grew its advances aggressively at a CAGR of 47% during FY06-FY08. This growth fizzled out in turmoil that followed FY08 and in its re-attempt the bank has taken slow but stable moves with advances growing at a CAGR of 14.2% over FY09-FY11. We expect the bank management to take steadier and stronger steps forward in future.

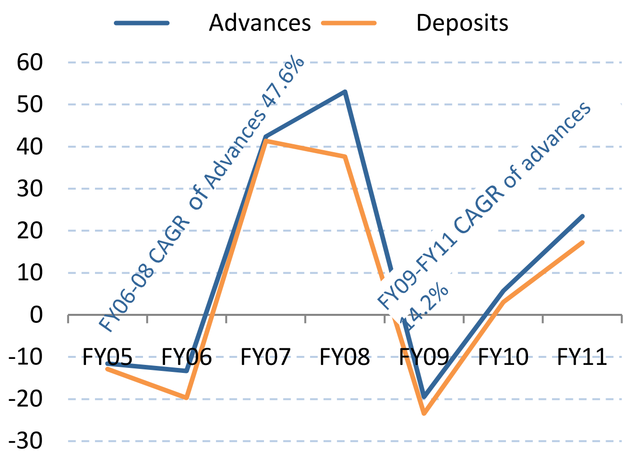
Bank has been able to meet the priority sector lending obligations and in FY11 it was ~45% as against ~42% last year. This is despite its averseness towards microfinance which stands at ~3% of total exposure. The outstanding RIDF investment at Rs 397 cr on which the bank earns interest @ 3.5% and which make up nearly 10% of the loans book will start to fade off in next three to four years.







Targeted Break-up of Advances



Erratic past with hopes of smooth future

SME and MSME – Suited for growth

The SME and MSME (S&MSME) business together grew by 70.2% in FY11. Post a dip in economic activity and availability of other sources of money to Corporates; S&MSME is one of the most pursued sectors with most of the financial institutions turning to them for future growth. This sector however is usually considered risky as there is lack of information and management bandwidth. However DCB finds them suitable for a bank of their size and scale due to following reasons

- Unlike big corporate, DCB is their sole banker and is in a position to keep a closer track on the bank transactions of that enterprise or entrepreneur and monitor the risk.
- Most of the advances are fully secured with mortgages, lien and guarantees.
- DCB has major concentration in business areas having such small enterprises and in fact even the new branch licenses allotted are close on lines.

Hurt by unsecured book, bank identified its strength and decided to pursue SME and MSME loans. Its small size and location of branches allowed the bank to further target and scale up the portfolio to 40% from the present 24%

Despite being a competitive sector, DCB is confident of steering through while managing the risk associated.

DCB is also confident of steering through the competition because being a smaller bank it can provide personalized services (a relationship manager assigned to each S&MSME) and unlike bigger banks with departmentalization, it provides all services on one platform - i.e. loans and other fee based services like trade finance etc.

In case of risk management, apart from security and tracking of bank accounts, DCB follows an internal rating system based on CRISIL provided software. This indicates the risk and accordingly security required is determined. Also the sanction is centralized at HO while the branch managers just function as sales head. Also 80% of loans to SME is working cap loan with tenure of around one year with 3 month reset.

As DCB plans to increase the S&MSME sector proportion to 40% from present 24%, we feel it may result in some kind of overexposure though industry-wise the exposure could be well diversified. Also generally risk in smaller units is non-availability of correct and complete information.

Healthy Margins Maintained but Pressure ahead

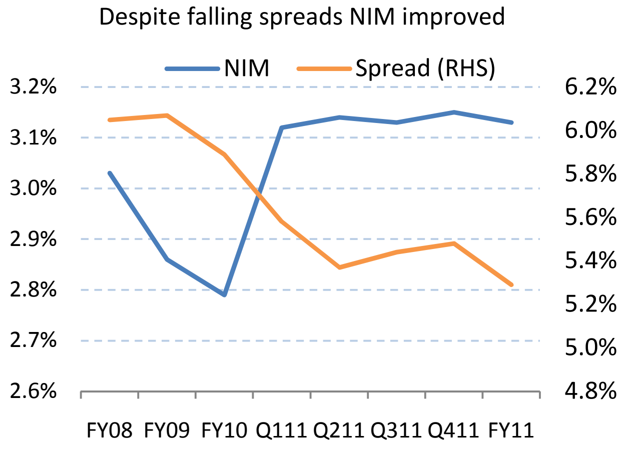
Past 4 years average of NIM has been 2.95% despite falling spreads.

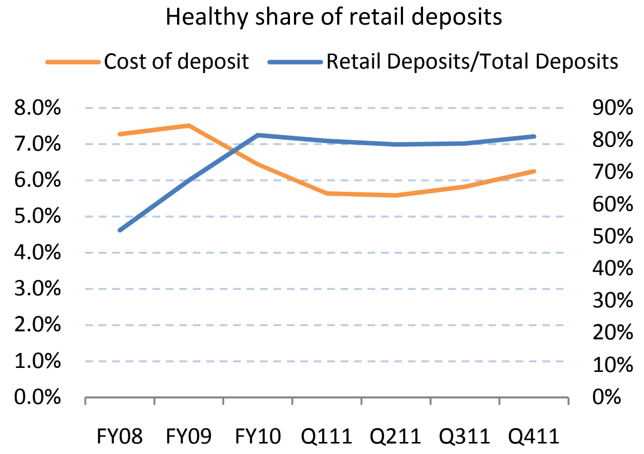
Over next one year margins may withdraw marginally due to lag effect of deposit re-pricing and negative gap in less than one year bucket.

The bank has been able to maintain its margin at an average of 2.95% over the past four years despite the falling spreads. In FY11 the bank managed to improve its NIM to 3.13%. The main reason for the improvement has been sustenance of a healthy CASA and the asset composition. At the same time the bank has managed to consistently improve the share of retail deposits, thereby reducing its dependence on bulk deposits. Bulk deposits have dropped from around 48% in FY08 to 18% in Q1FY12. Its negative ALM in less than one yr bucket is also a concern here. In Q1FY12 as the re-pricing effect seeped in, the cost of funds grew by 84bps to 6.7% (as against 77 bps in yield on advances) and together with subdued credit growth, the NIM slipped from 3.15% in Q4FY11 to 3.11%. We expect the margin pressure to continue for some more time because even as the rates fall, lending rates will correct faster than deposits.

Rating improvement will help in improving the cost bargain. The bank has seen some upgrades and as the financials improve, more may follow.

CRISIL – Feb 2009	CD downgrade to 'P1' from 'P1+'
Fitch - Sep 2010	Overall Upgrade to Stable from Negative + Tier II BBB reaffirmed
CRISIL – Oct 2010	Tier II upgrade to 'BBB+/Stable' from 'BBB/Stable'; CD maintained at P1





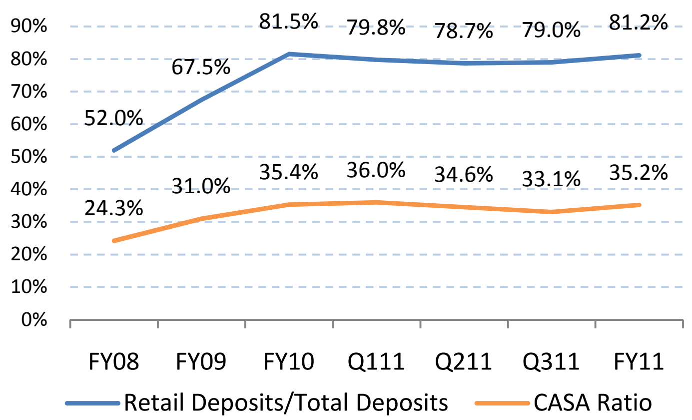
CASA Improvement Despite Static Branches

Due to its improved performance the bank has received in all 12 licenses from Govt after a gap of 2 years.
With CASA at 33% bank plans to improve CASA per branch further from ~Rs 23 cr to 35 cr.

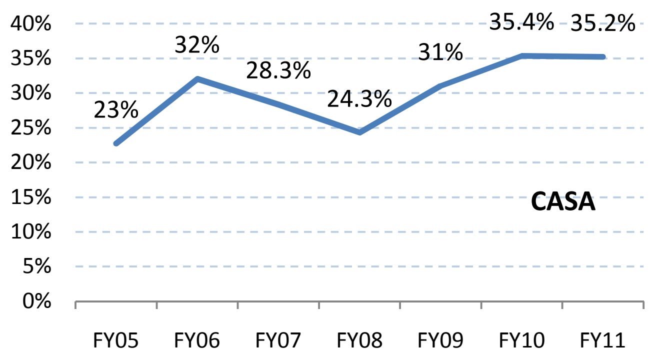
Since FY09, banks key liability strategy was to maintain CASA above 30% and retail deposits above 70%. The same has been achieved.

In fact due to its improved performance, in the start of FY11 the bank received two branch licenses for rural and semi urban places in Gujarat; after a gap of 2 years. After that recently it has received 10 more licenses from RBI. These are expected to get operationalised over next 6 months. During this intermittent two years the bank managed to improve and sustain CASA by relocating branches, introducing new products and employing bigger and better sales staff. The CASA of the bank stands at 33% with a branch network of just 80. On existing branches, DCB plans to improve CASA per branch further from Rs 23 cr to 35 cr. At the same time the new branches are expected to add momentum going forward while the bank will continue to seek more licenses from RBI. This seems aggressive and may not be easy for the bank. With interest rates rising and all banks in general vying for CASA, we expect the CASA to fall further, though not below 30%.

Big spike in FY10 stands corrected in FY11



Relocating branches, introducing new products and employing bigger and better sales staff helped CASA momentum



DCB has approval for raising capital through – QIP not exceeding Rs 300 cr and rights issue not exceeding Rs 200 cr.
The dilution however will put further pressure on the weak return ratios of the bank (FY11 RoE -3.34 and book value Rs 28.1).

Capital Sufficiency

Post a public issue in 2006 the bank has diluted only twice - Rs 280 cr preferential issue in 2007 at Rs 105/share and Rs 81 cr QIB in 2009 at Rs 34/share. The CRAR of the bank as at end of June 2011 stood at 12.9% with Tier I at 11.07%. With an endeavor to maintain Tier I above 10.5%, DCB has following approvals for raising capital in the future – QIP not exceeding Rs 300 cr and rights issue not exceeding Rs 200 cr. Planned for over quite some time, due to market conditions, the issue is now likely post quarter or two. However dilution of already heavy capital base will put further pressure on the weak return ratios of the bank (FY11 RoE 3.34). The object of the issue will be to mainly invest in expansion of branches rather than advances. We have not built the infusion in our projections and it will remain as a positive trigger for the stock.

Promoter Stake Reduction Can Be a Trigger

AFKED has time till 2014 to reduce its stake to 10% as per RBI stipulation from 23.1% now.

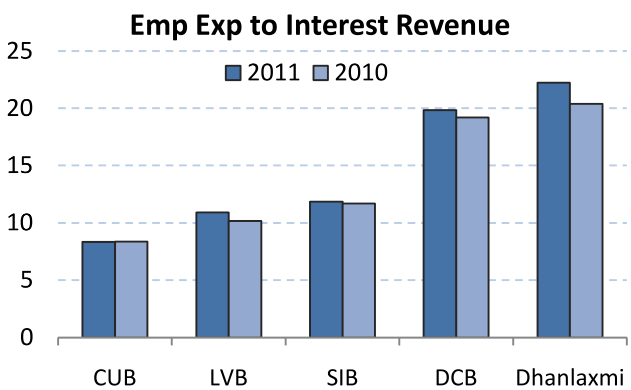
DCB's promoter, the Aga Khan Fund for Economic Development (AKFED) held over 26% stake till Q2FY10, after which they reduced it to 23.1%. They have time till 2014 to reduce it to 10% as per RBI stipulation. Intended QIP of ~Rs 300 cr will be one of the options. The FII stake has steadily increased from ~13% in Sep 2009 to 20.9% as at end of June 2011 which makes us believe that the stock will successfully generate investors interest through QIP. The new banking license draft which allows 15% holding by promoters may bring some amnesty for promoters of DCB to retain upto 15%.

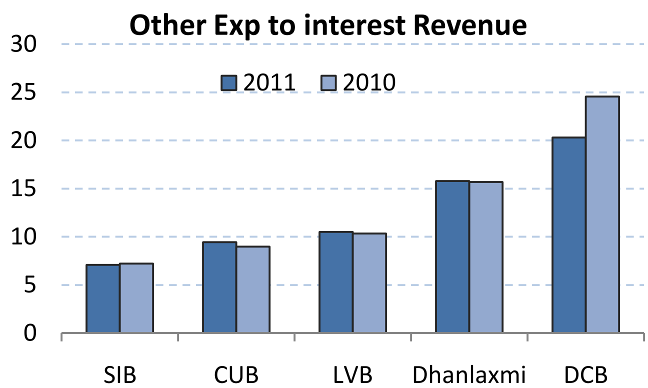
AKFED is an international development agency dedicated to promoting entrepreneurship and building economically sound enterprises in the developing world. It had co-promoted HDFC in India in the late seventies. AKFED operates as a network of affiliates comprising 90 separate project companies. Employing over 30,000 people, it reported annual revenues of US$ 2.3 billion in 2010. The Fund is active in 16 countries in the developing world.

High Cost to income - A drawback Yet

Going forward even as the income profile improves, the CTI may not see a correction and is expected to remain at ~70%-72%. This is because as the bank follows its growth strategy, it plans to invest more on resources

Though the cost to income fell from peak of 80%, it is still high with the last four years average at 74%. This is because while the bank had to curtail its balance sheet growth given the challenges, its expenses could not follow the pace down, despite reducing its staff by more than 40% over FY09-FY10. Going forward even as the income profile improves, the cost to income may not see a correction and is expected to remain at ~70%-72%. This is because as the bank follows its growth strategy, it plans to invest more on all resources, mainly on sales staff on liability front, in its existing as well as upcoming branches. Thus cost-income ratio is expected to remain ~72% before gradually fading to ~68% by end of FY13 (supported by QIP it can fall further to ~61%).

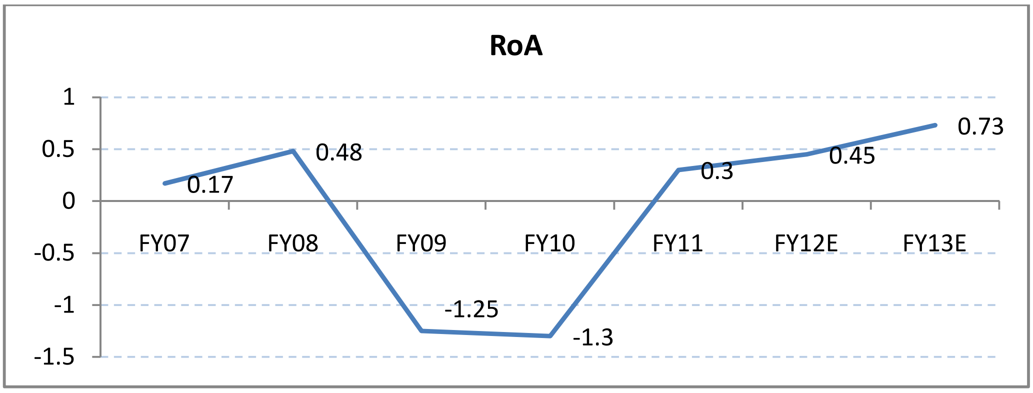




Apart from its small size, likely competition, high cost to income and NPA – Low RoA of 0.3%, low RoE of 3.34%, further dilution, ALM concern in rising rate scenario and low fee income are some of the other challenges for DCB.

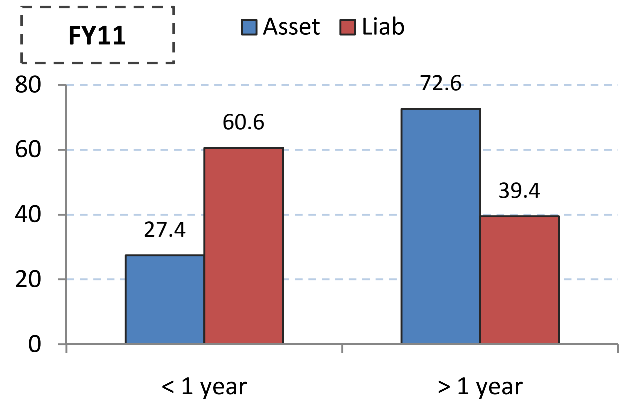
Low RoA

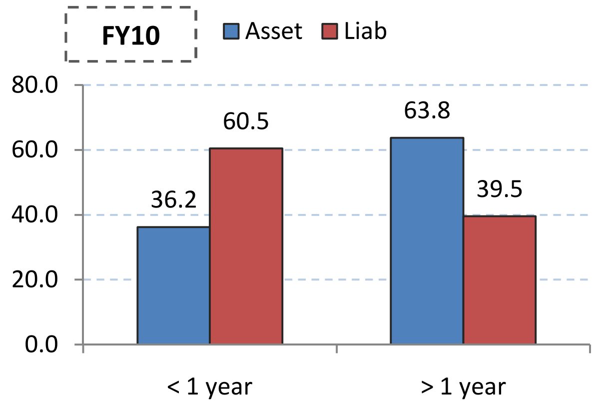
Low profits due to high cost and provision hit, has led to bank reporting weak RoA. With FY12 target 0.6%, bank has a long way to go to reach sector average of ~1%. The heavy capital base has resulted in low RoE which will further face pressure from likely QIP dilution.



ALM -

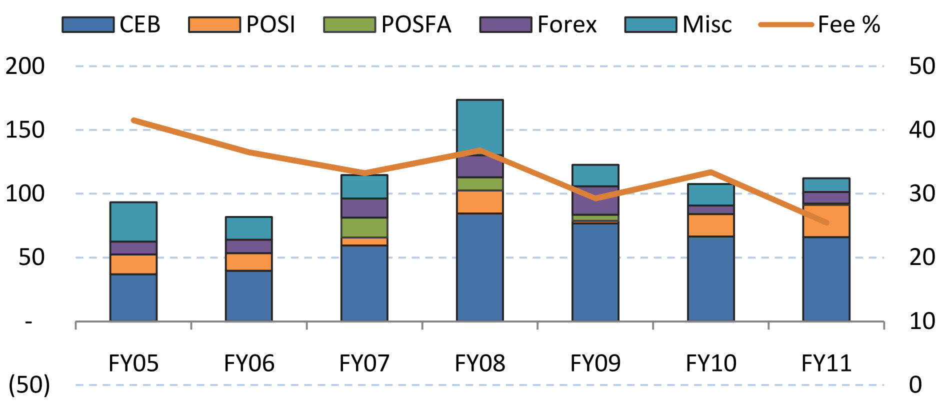
More deposits than assets in less than one year bucket create a negative gap, which is detrimental in a rising rate scenario. This gap has increased over the last year. This gap may result in some strain on the NII and hence margins.





Fee Income needs fillip

The Fee income of the bank has not been very encouraging and as a percentage of operating income has come down over the years. In FY11 the new IRDA guidelines was one of the main reasons for the drop, though as per management they have now settled and expect a 10-15% growth in FY12.

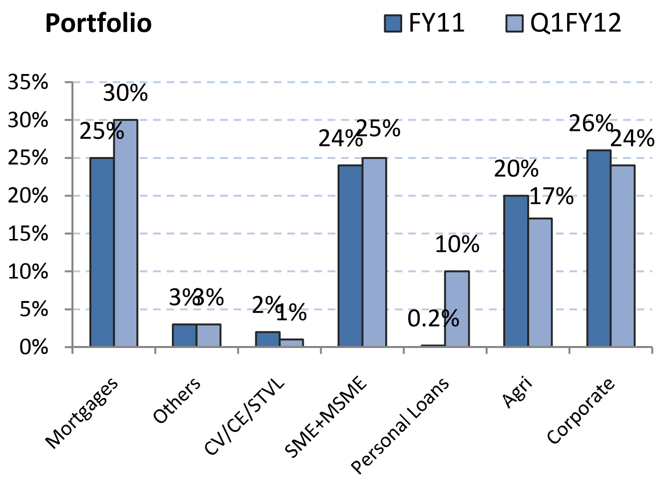


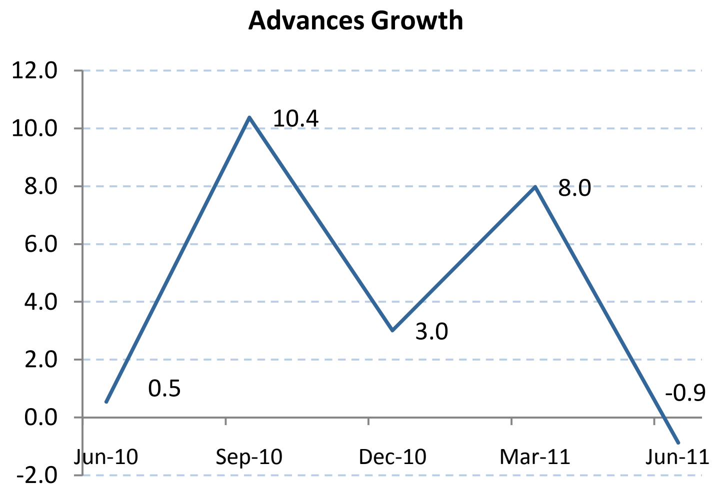
Quarterly Numbers

Q2FY11 broke the two year long trend of loss of past seven quarters as the provision burden reduced. The core Income has been stable over the quarters. As the challenges reduced the bank could improve its CD ratio steadily while total advances to SME and Micro SME increasing by 74% YoY to Rs 1021.9 cr; increasing its proportion from 17% in FY10 to 24% in FY11. NIM remained healthy at more than 3% over the year.

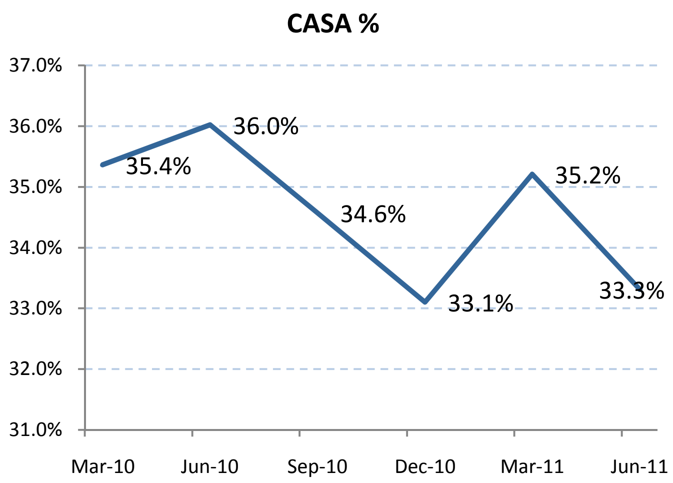
Not all was good in Q1FY12 despite DCB posting a PAT of Rs 8.8cr (+400% YoY, -22% QoQ) on a weak base of Rs -2.9 cr loss last year same quarter. The credit growth remained more subdued than expected while fresh slippage from corporate segment kept the gross NPA static. The tax incidence was NIL as the bank (under MAT due to accumulated losses) resorted to write off's. Bank lost CASA to higher rate on FD's as the term deposits continued to grow reasonably well.

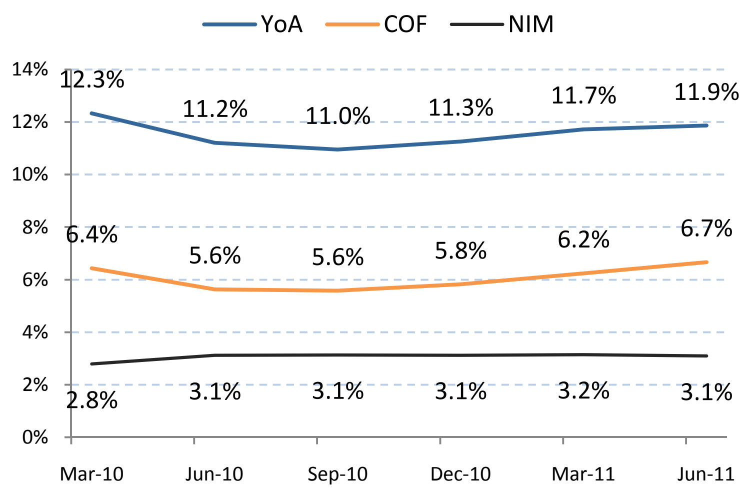
Rs in Cr	Jun-11	Jun-10	YoY	Mar-11	Dec-10	Sep-10	Mar-10
Interest Earned	161.6	119.9	34.8	148.2	140.2	127.9	114.3
Interest Expended	109.8	76.7	43.1	98.0	90.9	81.5	71.7
NII	**51.9**	**43.3**	19.9	**50.2**	**49.3**	**46.4**	**42.6**
Other Income	23.4	29.9	-21.7	29.3	26.0	26.9	24.6
Operating income	**75.3**	**73.2**	2.9	**79.4**	**75.3**	**73.3**	**67.2**
Operating Expenses	58.8	50.6	16.2	57.4	54.7	52.5	48.0
Payment To Provisions For Employees	30.4	24.8	22.4	29.2	27.3	25.0	19.2
Other Operating Expenses	28.4	25.8	10.2	28.2	27.4	27.5	28.8
PBPT	**16.5**	**22.6**	-26.9	**22.0**	**20.7**	**20.8**	**19.2**
Provisions and Contingencies	7.7	24.5	-68.5	8.0	9.4	14.9	24.0
PBT	**8.8**	**(1.9)**	575.7	**14.0**	**11.3**	**5.9**	**(4.9)**
Tax	-	1.1		2.6	3.1	1.1	3.3
Profit After Tax	**8.8**	**(2.9)**	403.8	**11.4**	**8.2**	**4.8**	**(8.2)**
CTI %	78.1	69.1		72.3	72.6	71.6	71.5
Provision coverage %	80.8	72.03		84.36	82.67	77.02	66.28
Provision coverage Technical %	85.6	75.19		87.64	84.73	79.64	70.04
Tax Rate %	0	-56.5		18.7	27.5	18	67.9
Burden Ratio %	60.1	40.8		49.1	52.4	48.7	48.8
NIM %	3.1	3.12		3.15	3.13	3.14	3.27
Capital Adequacy Ratio %	12.9	13.8		13.25	13.39	13.57	14.85
Gross / Net NPA							
Amount of Gross NPA	262.3	314.0	-16.5	263.6	297.3	310.7	319.2
Amount of Net NPA	50.4	87.8	-42.6	41.2	51.5	71.4	107.6
Percentage of Gross/Net NPA							
% of Net NPAs	5.9	8.47		5.86	7.07	7.61	8.69
% of Gross NPAs	1.19	2.53		0.97	1.3	1.86	3.11
Return on Assets %	0.47	-0.19		0.63	0.47	0.29	-0.55
Deposits	5,981	5,115	16.9	5,610	5,651	5,495	4,787
Advances	4,234	3,479	21.7	4,271	3,956	3,840	3,460
CD Ratio %	70.8	68.0		76.1	70.0	69.9	72.3



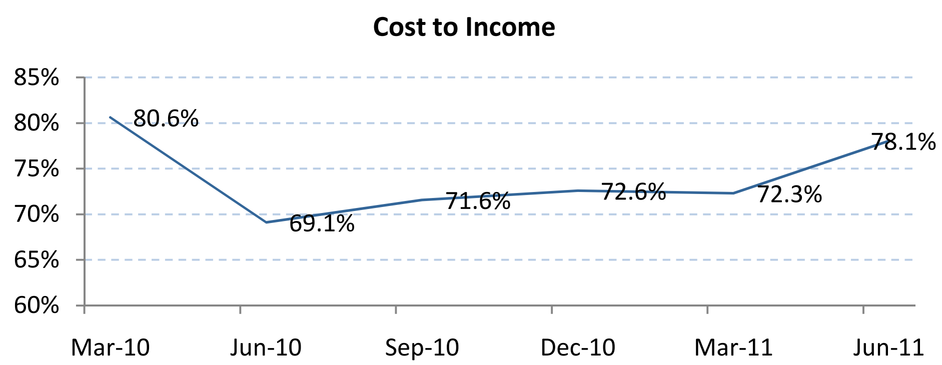


Dip in Advances growth led mainly by Agriculture and Corporate segment slowdown





Dip in CASA, Re-pricing effect of deposits and slow loan growth impacted margin



Cost to Income shot up on lower income support and continues investment in manpower

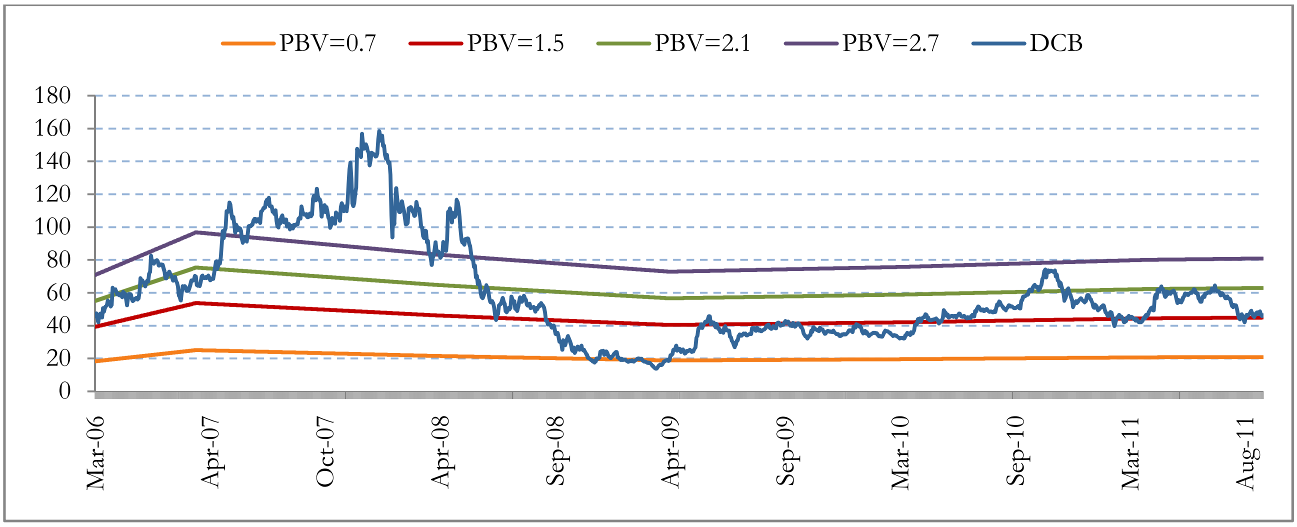
Peer Comparison

Though a new generation private bank, its poor structure due to legacy issue forces us to compare it with smaller older generation private banks.

	DCB	Lakshmi Vilas	Dhanlaxmi	Karnataka
As at end of FY11				
4 yr CAGR advances growth %	12.6	22.4	49.0	16.1
4 yr CAGR deposits growth%	6.2	22.1	41.9	18.1
Advances (in Rs Cr)	4,272	8,094	9,065	17,348
Composition of Term loan %	59.3	39.5	74.9	44.5
SME and MSME %	24.0	36.0	16.0 *	NA
Unsecured book %	8.8	14.9	11.9	7.47
As at end of Q1FY12				
Branches	82	283	275	479
Bs per Branch (in Rs Cr)	124.6	71.0	82.1	95.3
Equity (in Rs Cr)	200.2	97.5	85.1	188.2
CAR % (B-II)	12.9	12.1	11.4	13.1
Planned amount of equity infusion(in Rs Cr)	~450	~40% of capital	~1000	^
GNPA %	5.9	2.1	0.63	3.68
Peak GNPA % since FY07	11.2(FY10)	5.7(FY10)	5.1(FY07)	3.97(FY11)
NNPA %	1.2	0.98	0.23	1.87
Coverage %	79.6	53.3	63.5	49.2
NIM %	3.1	3.75	2.0	1.93
CASA % FY11	35.21	18.8	22.9	24.9
CTI %	78.1	45.3	87.6	54.6
RoA %	0.47	0.73	0.09	0.73
RoE % (FY11)	3.34	12.8	3.6	9.60
Book Value (Rs) #	31.0	85.6	99.6	131.7
P/BV (x)	1.3	1.0	0.7	0.6
TTM PE (x)	24.1	8.5	26.0	5.7

* SME, ^ Rs 457 cr Rights issue completed in March 2011; # adjusted for revaluation reserve

Historical 1-yr Fwd Price to Book Value



Income Statement				
Year to 31st March (Rs.Cr)	**FY10**	**FY11**	**FY12E**	**FY13E**
Interest Income	459	536	665	784
Interest Expenses	317	347	448	534
Net Interest Income	**142**	**189**	**216**	**250**
- growth %	*-28*	*34*	*14*	*16*
Fee-based Income	83	77	84	104
Treasury Income	25	34	32	41
Other Non-interest Income	0	1	1	1
Operating Income	**249**	**301**	**332**	**396**
- growth %	*-22*	*21*	*10*	*19*
Operating Expenses	201	215	242	270
- Staff Cost	88	106	122	139
- Other Operating Exp.	113	109	120	131
Gross Profits	**48**	**86**	**90**	**126**
- growth %	*-38*	*78*	*5*	*40*
Provisions	121	57	54	58
Profit Before Taxes	**-73**	**29**	**36**	**69**
Taxes	6	8	5	10
Profit After Taxes	**-79**	**21**	**30**	**58**
- growth %	*11*	*127*	*41*	*92*

Balance sheet				
As on 31st March (Rs. Cr)	**FY10**	**FY11**	**FY12E**	**FY13E**
Capital	200	200	200	200
Reserves & Surplus	401	421	452	510
Deposits	4,787	5,610	6,738	8,018
- growth %	*3.0*	*17.2*	*20.1*	*19.0*
Borrowings	504	861	904	1,021
Other liabilities & provisions	245	280	270	330
TOTAL LIABILITIES	**6,137**	**7,372**	**8,564**	**10,080**
Cash on hand & with RBI	291	405	511	600
Money at call and short notice	41	83	97	134
Advances	3,460	4,271	5,040	5,998
- growth %	*5.7*	*23.5*	*18.0*	*19.0*
Investments	2,018	2,295	2,547	2,918
Fixed assets	136	128	140	154
Other assets	191	191	229	275
TOTAL ASSETS	**6,137**	**7,372**	**8,564**	**10,080**

Ratio Analysis				
	FY10	**FY11**	**FY12E**	**FY13E**
Basic Ratio (Rs.)				
EPS	-4.2	1.1	1.5	2.9
Book Value per share	32	28	30	33
70% Adjusted Book Value	31	30	31	34
Dividend per share	0.0	0.0	0.0	0.0
Asset Quality (%)				
Gross NPAs	8.8	6.0	4.8	3.7
Net NPAs	3.1	1.0	0.9	0.8
NPA Coverage	66.9	84.7	81.9	79.9
Profitability ratios (%)				
RoAE	-13.85	3.70	5.25	9.31
RoAA	-1.30	0.32	0.38	0.63
NIM	2.64	3.13	3.04	3.01
Operating Profit Margin	8.5	13.3	11.6	13.6
Net Profit Margin	-13.9	3.3	3.9	6.3
Cost to Income	80.6	71.4	72.8	68.1
Fee-based income to Operating Income	33.4	25.5	25.2	26.3

	FY10	**FY11**	**FY12E**	**FY13E**
Spread analysis (%)				
Yield on advances	10.7	10.4	10.8	10.8
Yield on investments	5.2	6.1	6.4	6.7
Yield on interest-earning assets	8.3	8.1	8.7	8.7
Cost of deposits	6.0	5.6	6.0	6.0
Cost of borrowings	7.3	8.1	8.8	9.9
Cost of funds	6.0	5.4	5.9	5.9
Spread	2.3	2.8	2.8	2.8
Net Interest Income to AWF	2.5	2.9	2.8	2.8
Non Interest Income to AWF	1.9	1.7	1.5	1.6
Operating Profit to AWF	0.8	1.3	1.2	1.4
Net Profit to AWF	-1.4	0.3	0.4	0.7
Valuation ratios (x)				
P/E	-9.5	37.2	26.4	13.7
P/BV	1.25	1.42	1.34	1.22
P/ABV	1.27	1.33	1.28	1.18

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5