

Dena Bank Ltd.

₹ 72

As long as RBI's losing Interest ...**Buy**

February 03, 2012

Company Background

Dena Bank is one of the earliest Banks in India. It was founded by the family of Devkaran Nanjee under the name Devkaran Nanjee Banking Company Ltd. It was renamed as Dena Bank Ltd. When it was incorporated as a Public Company in Dec 1939. It was nationalised in 1969 along with 13 other banks in India. Headquartered in Mumbai, it has branches all over India.

Dena Bank was one of the few Public Sector Banks selected by the World Bank for sanctioning a loan for augmentation of Tier-II Capital under Financial Sector Developmental project in the year 1995 & later for technological upgradation and training. It has also been amongst pioneer banks in india bringing many innovative concepts in the industry. It made a tie up with National Bulk Handling Corporation for providing financial assistance to farmers and others against pledge of warehouse receipts. Further, the Bank entered into a MoU with Zero Mass Finance as business, correspondent for financial inclusion in Gujarat state. Dena Bank has been the pioneer to introduce: Minor Savings Scheme, Credit card, & Customer rating system for Bank Services in rural India.

Financial Performance

Dena bank posted satisfactory result for the quarter ended Sep 2011 (Q2 FY12). The bank's advances grew to ₹ 427 bn up by 17% while deposits grew 20% YoY to ₹ 642 bn. During Q2FY12, non-interest income declined by 8.8% QoQ to ₹ 1.13 bn, mainly due to a 14.4% decline in fee income to ₹ 970 mn. Total income from operation stood at ₹ 17.5 bn as against ₹ 16.4 bn during previous corresponding quarter. Recoveries were strong during Q2FY12 on account of recovery teams and other steps taken by management, registering 25.4% QoQ growth. On the back of lower growth in deposits, the bank was able to sequentially increase its CASA ratio by 45bp to 35.6%. NIM improved 32 bps QoQ to 3.2% in Q2FY12 on account of 64bps rise in YoA to 12%, while CoD increased 26bps to 7%. Consequently its NPAT stood at ₹ 1.93 bn up by 20% from ₹ 1.6 during the corresponding previous quarter. During the quarter, the bank has shifted all its accounts to system based NPA recognition in Q2FY12 that was a cause for concern due to uncertain asset quality. However, stable asset quality with GNPA ratio standing at 1.9% surprised positively.

Investment Rationale**➔ Interest Rate Tapering Down**

Reserve Bank of India recently cut the CRR by 50 bps. To curb the inflation, RBI hiked key policy rates 13 times (350bps) since March 2010, since the RBI has started raising the key policy rates, the net interest margin (NIM) of the banks become under pressure. The monthly inflation, which compelled RBI to raise the interest rates, has fallen below the 9% for the first time in past 20 months or so. Further RBI has had to improve the liquidity in the market to boost the growth rate of the economy. Going forward we believe the bank has been done with rate hikes if inflation does not shoot again. This could turn really positively for the banks who were badly hit in last 4Qs.

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Info Codes

Reuters	DENA.BO
Bloomberg	DBNK@IN
NSE	DENABANK
BSE	532121

Market Data

52 Wk Range (₹)	: 114 / 48
Shares in Issue (mn)	: 333
Mkt. Cap (₹ bn)	: 24.50
BSE 2 Wk Avg Vol	: 7,80,000

Share Holding Pattern (%)

Promoters	: 58.01
DII's	: 7.64
FII's	: 11.79
Others	: 22.56

Investment Theme

The New Year saw a change in the fate of banking industry in India, as the RBI took a U-turn from its previous stance, and reduce the CRR by 50%. This is an indication that RBI is done with rate hikes & interest rates may come down from here. This augurs well for the banking industry as it will spur the demand. Further it would help the banks to ease pressure on their margins. Dena bank enjoys a strong CASA ratio. Asset quality is also good except SEB. It recently received ~₹ 540cr in the form of equity share capital from government. Capital Infusion could ease pressure on margins further. The management has continued to focus on its strengths. We believe that the asset quality would improved as the management has taken certain steps to nullify any impact SEBs could have on its balance sheet.

Cause Dena means "To Give" !!!

Dena Bank

➔New Product Mix

Dena Bank's loan portfolio has historically been inclined towards corporate lending which contributed above 50% of the total advances. However, the bank has now shifted its focus more on SME & Retail segment. Its strong presence in Maharashtra and Gujarat would be beneficial to the bank here. The bank's non interest income has shown a dismal growth in and had been a point of concern for the bank. However, now the Management is confident of a revival in its non interest income in the coming quarters. It is leveraging its relationship with its current customer base to increase the non fund based business to increase the fee based income by tie-ups with mutual funds etc. To increase the financing in Priority sectors, Dena Bank has recently signed MoUs with the Tata Motors & Bajaj Auto to finance their vehicles to eligible borrowers at a very attractive rate of interest. Bank has signed a MoU with Tata Motors for financing commercial vehicles manufactured by it in India and another MoU with bajaj Auto to finance upto 90% of the cost of three-wheeler passenger manufactured by them. Entering into vehicle financing business will help to boost up the retail loan portfolio for the bank.

➔Better Asset Quality

Dena Bank has one of the strongest CASA amongst PSU banks. It has been able to maintain the ratio above 35%. Its strength lies in having strong concentration of branches in the CASA rich western regions of the country (mainly in Gujarat and Maharashtra). Approximately 65% of the Bank's branches are located in the western India and the bank also has strong presence in the rural and semi-urban areas. On account of having a strong branch network in such region, Dena Bank has been able to register and sustain such strong CASA. Management intends to continue to focus on increasing its CASA share by focusing on rural as well as SME sector. This structural advantage of higher CASA is reflected in the bank's cost of funds at 5.5% in FY2011, which is one of the lowest amongst peers. It has also helped the bank in protecting its NIM. With increasing interest rates and cost of deposits, NIMs is expected to be under pressure. But, considering its strong CASA ratio & recent equity infusion by government would help the bank maintain its NIMs.

➔Capital Infusion

Dena Bank has received ~₹ 540cr in the form of equity share capital from the government. Post the capital infusion, the Government of India's holding has increased to 58.0% and the bank's tier-I ratio has improved by ~250bp to 9.7%, which should enable it to grow its advances in the medium term.

Key Financials

Year Ended 30 th	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	40348.8	46210.5	55821.4
Rev. growth (%)	22.2	14.5	20.8
EBITDA (₹ mn)	28658.3	36026.7	41841.5
Net profit (₹ mn)	4226.6	5112.5	6116.3
Shares outstanding (mn)	286.8	286.8	333.4
EPS (₹)	14.7	17.8	18.3
EPS growth (%)	17.5	21.0	2.9
P/E (x)	45.6	91.2	90.1
EV/ EBITDA	65.8	128.5	130.8
ROCE (%)	2.1	22.5	22.4

Indian Banking Sector

The banking sector, in a way, is a trend setter for the Indian indices as it has major weight age on the indices. As they are the channel through which savings are turned into investments, banks have high impact right from retail customer to big enterprises. However banks' performances and asset quality heavily depends on industrial cycles. The last year has been quite busy and wild for the industry as the RBI successively increased the rates to curb the inflation, the overall pressure on their margin had shot up. Further the demand for the supply was slowing down. Domestic economic growth fell below 7%. It was becoming difficult to repay bank loans. With borrowers hit hard by increasing raw material prices, slowing demand, hardening interest rates and the depreciating rupee, NPA has increased drastically putting banks capital at risk. However with the start of New Year, things have managed to become somewhat lighter. The global environment has improved slightly. As the inflation fell RBI cut CRR by 50 bps. This signals the end of rate hike exercise by RBI provided inflation does not shoot up again. This is going to ease out the pressure on margins of the banks. Further the government of India has promised to infuse more capital in the public sector banks to protect their tier I capital ratio. Two global private equity majors-Carlyle Group and Warburg Pincus-offloaded substantial chunks of their holdings in two of India's leading financial services firms - HDFC and Kotak Mahindra Bank, respectively - through block deals in this week jointly worth about ₹ 22 bn. According to the respective banks the buyers of the block deals are long term investors highlighting the fact that, the industry remains stable.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Interest Earned	34475	40104	16.33	50335	25.51
Interest Expended	23831	29103	22.12	32702	12.37
Non Interest Income	4301	5886	36.85	5338	(9.31)
Fees and advisory	1323	1275	(3.63)	1428	12.00
Treasury Income	543	1535	182.69	240	(84.36)
Other income	2435	3076	26.32	3670	19.31
Net Income	14945	16887	12.99	22972	36.03
Employee cost	4679	5116	9.34	6882	34.52
Other operating Exp.	3003	3365	12.05	3852	14.47
Operating Income	7264	8406	15.72	12238	45.59
Provisions	1849	1538	(16.82)	3256	111.70
PBT	5414	6868	26.86	8982	30.78
Taxes	1605	1755	9.35	2866	63.30
Net Profit	4227	5113	20.96	6116	19.62

4 Years Balance Sheet

(₹ mn)

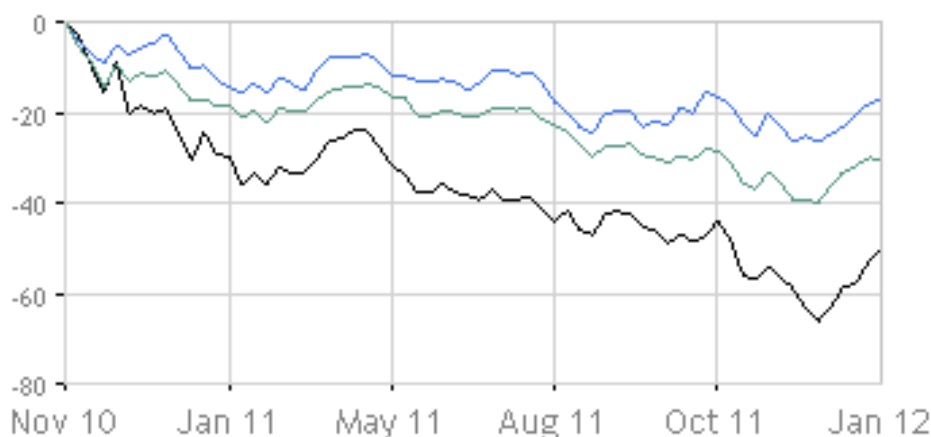
Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	386417.3	484605.1	575865.9	708384.2
Equity Share capital	2868.2	2868.2	2868.2	3333.9
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	12796.9	16620.9	21062.3	31257.9
Revaluation Reserves	2341.5	2215.9	2086.4	1967.4
Net Worth	18006.6	21705.0	26016.9	36559.2
Deposits	339431.8	430506.1	513442.8	642096.2
Borrowings	3946.2	521.3	15619.2	16916.6
Total Debt	343378.0	431027.4	529062.0	659012.8
Other Liabilities & Provisions	25032.7	31872.7	20787.0	12812.2
USES OF FUNDS	386417.3	484605.1	575865.9	708384.2
Cash & Balances with RBI	35330.1	49824.1	43550.3	47214.1
Balance with Banks, Money at Call	5046.4	8747.1	7594.9	6874.0
Advances	230239.8	288779.6	354624.4	448280.5
Investments	102829.8	124730.8	156942.3	187689.1
Gross Block	7816.5	7983.3	8289.5	8880.0
Accumulated Depreciation	3697.1	3932.6	4218.9	4844.0
Net Block	4119.4	4050.7	4070.6	4036.0
Capital Work In Progress	0.9	0.9	2.2	1.5
Other Assets	8850.9	8472.0	9081.1	14289.1
Total Assets	386417.3	484605.2	575865.8	708384.3
Contingent Liabilities	133721.0	100195.3	113304.5	125239.7

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 10	Mar 11	Jun 11	Sep 11
Sales	12898.9	14074.9	15281.8	16338.2
Other Income	1270.6	1807.7	1243.5	1133.7
Total Income	14169.5	15882.6	16525.3	17471.9
Interest Expended	8234.7	9363.0	10816.3	11189.3
Net Interest Income (NII)	4664.2	4711.9	4465.5	5148.9
Operating Expenses	2770.5	3088.4	2631.6	2762.5
PBIT	3164.3	3431.2	3077.4	3520.1
Exceptional Items	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0
Provisions	856.9	1238.2	654.9	813.3
PBT	2307.4	2193.0	2422.5	2706.8
Non Recurring Item	0.0	0.0	0.0	0.0
Tax	755.3	623.0	741.6	771.0
Profit After Tax	1552.1	1570.0	1680.9	1935.8c

52 Week Index Relative Percentage Appreciation



Dena Bank vs SENSEX vs PSU

Risks Associated

➔ Asset quality a cause of concern in near term

Asset quality has been a concern for Dena Bank. It has a very high exposure in the power sector and out of this around more than 30% is to State Electricity Boards (SEBs) on a short-term working capital basis. This is a cause of concern as the current outlook for SEBs is not very good. One needs to watch out how power sector pans out.

➔ High NPA

AS the economic climate got worsened a year back, many of the banks posted higher than expected NPA ratios. The provisions by banks have been quite high. In the event of the macro-economic scenario worsening again, there is a strong possibility of higher-than-expected NPA provisions.

➔ Uncertainty about Capital Infusion

Government is trying to give capital boost to banks to improve their asset quality. But the question is when the government is actually going to do it. It itself is struggling to reduce the current account deficit. so it is really difficult to evaluate the exact impact or usefulness of the capital infusion.

In a Nutshell

Dena Bank is one of the earliest Banks in India. Headquartered in Mumbai, it is one of the mid-sized PSU banks. The bank has a strong presence in the CASA rich western region of India i.e. Gujarat & Maharashtra. On account of having a strong branch network in such region, Dena Bank has been able to register and sustain such strong CASA. It has helped the bank to have one of the lowest cost of funds amongst PSBs at 5.5%. This has also shielded its NIM from the rate hikes previous year. Further, Dena Bank's loan portfolio has historically been inclined towards corporate lending which contributed above 50% of the total advances. It is now trying to focus on SME sector. To increase the financing in Priority sectors, Dena Bank has recently signed MoUs with the Tata Motors & Bajaj Auto to finance their vehicles. The Bank has received ~ 540cr in the form of equity share capital from the government. This is going to boost its asset quality. Overall the banking Industry is looking for a turn around after having been hit by last year's poor economic situation. Going forward we believe that the asset quality would improve as the management has taken certain steps to nullify any impact SEBs could have on its balance sheet. We believe the bank to do well in the long term. Thus we recommend to buy this share.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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