

February 10, 2009

**Compendium of Q3-FY09
RESULTS ANALYSES OF BANKS**

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Compendium of Q3-FY09 Results Analyses of Banks

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BSE Sensex: 9647

BSE Bankex: 4973

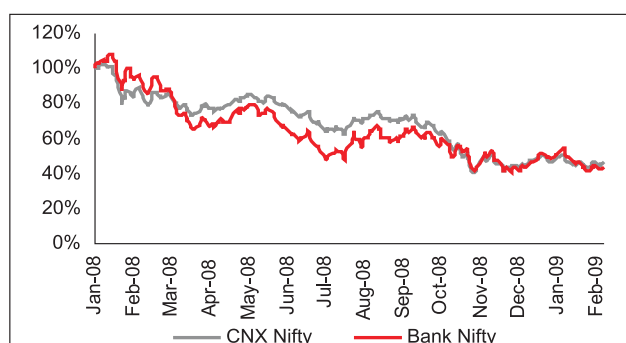
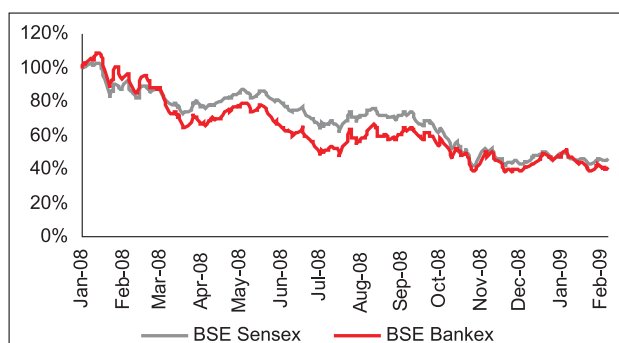
CNX Nifty: 2935

Bank Nifty: 4516

We reviewed Q3-FY09 results of a few banks viz., Corporation Bank, Central Bank of India and Development Credit Bank in the backdrop of the poor performance of banking sector indices over calendar 2008.

Key banking sector indices, viz., BSE Bankex and Bank Nifty (NSE) corrected by 58.6% and 56.2% respectively from January 1 2008, till date. These indices in both exchanges have given returns similar to the main index on each exchange (-53.7% for NSE Nifty and -54.2% on BSE Sensex)

Both BSE Bankex and NSE Bank Nifty moved in tandem with respective exchange's benchmark index



Performance of BSE Bank index vis-à-vis BSE Sensex and Bank Nifty vis-à-vis CNX Nifty

Time frame	BSE Sensex Returns	BSE Bankex Returns	CNX Nifty Returns	Bank Nifty Returns
Last 1 month	-10.01%	-20.21%	-8.66%	-19.67%
Last 3 months	-4.45%	-12.46%	-1.71%	-31.08%
Last 6 months	-38.30%	-34.16%	-34.68%	-31.51%
1-1-08 till date	-54.18%	-58.61%	-53.73%	-56.24%

Key Observations on Q3-FY09 Results of Banks

CASA (Current Accounts and Savings Accounts) fell across banks

CASA of most of the banks fell in Q3-FY09. We believe there are 2 broad reasons for the CASA fall.

- (i) Interest rates offered on FDs shot up in Q3-FY09, so a large number of account holders took advantage. There were also schemes run by banks with higher interest rates on FDs to lure customers to shift money to fixed deposit accounts. Given the volatile conditions across financial markets (equities, bonds, mutual funds), customers shifted funds to bank FDs, which can help protect not only the capital, but also generate a risk-free return.

It was seen that Public sector banks had more inflows from FDs, as they offered higher interest rates. A few accountholders also shifted funds from CASA to FDs.

- (ii) Corporates who maintained current accounts would have withdrawn money because of the liquidity crunch for working capital. This could also have lead to a fall in CASA in Q3-FY09.

RBI measures to restructure bank assets

In August 2008, RBI issued guidelines to restructure bank assets. Subsequently, certain facilities were granted up to June 30, 2009 including eligibility of 2nd restructuring and 1st restructuring of commercial real estate exposures for special regulatory treatment. Further, banks were allowed to apply special regulatory treatment for accounts which were standard on September 1, 2008 and taken up for restructuring up to January 31, 2009, even if these had turned non-performing (NPAs) during this period.

The deadline to restructure assets was January 31, 2009 which has been extended to March 31, 2009. All these are one-time measures and would be available for restructuring packages implemented till June 30, 2009. Further, this treatment will be available to all accounts which were standard on September 1, 2008 and were eligible under restructuring in terms of the Reserve Bank circulars dated August 27, December 8, 2008 and January 2, 2009.

As per the RBI measures, banks did undertake restructuring of assets. These are the accounts which are not only non-performing but also standard assets which may foresee risks amid the current financial turmoil. These accounts are dealt on a case-to-case basis and may face difficulty in meeting repayment deadlines and therefore need time for repayment.

Growth in core fee-income slowing down

Even though a few banks reported good numbers in non-interest income, the core fee-income growth has been on a downward trend. This is pertinent in the current environment viz., (i) exporters have suffered, so demand for LCs (letters of credit), bills of collection is poor (ii) products like mutual funds too have been facing pressures.

Lending under pressure; if undertaken, can impact asset quality. Can NPAs escalate?

Most of the banks have maintained a cautious view on lending. Sectors that remained under pressure during Q3-FY09 comprise of Real estate, SMEs, Retail, Auto, textiles and exporters in general.

Treasury gains boost bottom lines

Most of the banks reported better numbers on account of treasury gains.

Signs of tough times ahead...

Currently, there is continual decline in credit growth in the banking industry. In spite of the liquidity released by the RBI, bank credit growth has slowed down. The RBI has restricted the exposures to certain sectors. Segments especially SMEs, retail, export are already facing pressures, with banks restricting lending to them. Bank credit growth has decelerated even as the corporate sector faces challenges in accessing international sources of equity and debt funding. We feel after RBI's warning to banks to reduce lending rates further, pressure on NIMs may increase, going forward. The core-fee income growth also has been subdued. Deterioration in asset quality is likely to lead to higher NPA formation.

For Q4-FY09, focus of the banking industry will be on maintaining NIMs, cautious lending and efficient recoveries of NPAs. The banks which have efficient cost controls, are likely to survive these turbulent times.

...though with a silver lining

In the last 1 year, banking indices have moved in tandem with respective broad market indices. Valuations are low across the entire banking sector. We however, believe that going forward, if credit off-take picks up, along with a drop in NPAs and provisioning, bottomlines of the banking sector may improve. In such scenario, the banking sector may well outperform the overall market going forward.

We analysed Q3-FY09 results of Corporation Bank, Central Bank of India and Development Credit Bank.

Highlights of Q3-FY09 Results

	Sector	M-Cap (RsCr)	P/b (x)	% of Total Operating Income		Operating Profit % change (y-o-y)	Bottom line% change (y-o-y)
				Net-Interest Income	Non-Interest Income		
Corporation Bank	Public	2510	0.59	62.9%	37.1%	61.9%	34.3%
Central Bank Of India	Public	1538	0.48	68.3%	31.7%	66.5%	75.7%
Development Credit Bank	Private	349	0.53	65.0%	35.0%	23%	-112.5%

Compendium of Q3-FY09 Results Analyses of Banks

Parameters (Q3-FY09)

	Corporation Bank	Central Bank of India	Development Credit Bank
Branch network	1036	400	80
Addition of branches in quarter	55	54	Nil
Total Business (RsCr)	106,831	200,249	6,350
% growth y-o-y	27.7%	28.4%	-4.0%
Aggregate Advances (RsCr)	44,937	81,467	3,491
% growth y-o-y	30.4%	38.3%	-4.0%
Aggregate Deposits	61,894	118,782	2,859
% growth y-o-y	25.9%	22.4%	N.A.
Capital Adequacy Ratio	12.76%	10.02%	14.13%
Tier I Capital	9.68%	5.33%	N.A.
Tier II Capital	3.08%	4.69%	N.A.
% NPA to Net Advances	0.33%	1.18%	2.04%
CD Ratio	72.60%	60.69%	N.A.
Yield on advances	10.83%	10.23%	10.80%
Cost of deposits	6.91%	N.A.	N.A.
CASA	25.22%	34.00%	28.20%
NIM	2.53%	2.37%	2.80%
ROA	1.27%	1.11%	-0.2%

Corporation Bank Ltd. Q3-FY09 Results Analysis

February 10, 2009

Price: Rs175
52 wk high/low: 360/155

Category: Public sector Bank
MCap:Rs2510Cr (\$515mn)

Summary

Corporation Bank Ltd. (CBL) has a network of 1036 branches, 7 Extension counters and 1023 ATMs. In Q3-FY09, the bank registered a 27.7% growth in business (aggregate of advances and deposits) and 30.4% credit growth.

While Non-Interest Income grew by 85% y-o-y, it was boosted by profit on sale of investments. Net of profit on sale of investments, the Non-Interest Income growth would be 28.8%.

However, the core-fee income growth remained subdued, up 39.91%. The bottom line was boosted by treasury gains. CBL may face margin pressure, going forward, due to low CASA base, and asset quality risks.

Key Data-points

	(RsCr)	% change (y-o-y)
Total Business	106,831	27.7%
Aggregate Advances	44,937	30.4%
Aggregate Deposits	61,894	25.9%
Net Interest Income	478	37.3%
Non-Interest Income	282	85.0%
Operating Profit	449	61.9%
Profit After tax	256	34.3%
Ratios		
Capital Adequacy Ratio	12.76%	
Tier I Capital	9.68%	
Tier II Capital	3.08%	
% Net NPAs to Net Advances	0.33%	
CD Ratio	72.60%	
Yield on Advances	10.83%	
Cost of Deposits	6.91%	
Net Interest Margin (NIM)	2.53%	
ROA	1.27%	

Q3 Highlights

Branch Network and Expansion plan

CBL has a network of 1036 branches and 1023 ATMs. During Q3, it opened 55 new branches and 66 ATMs. It intends to open 30 new branches in Q4-FY09. It opened a representative office in Dubai last year and proposes to open another rep office in Hong Kong.

Non-interest income led total income growth

Total income grew 50.5% y-o-y, led by a 37.3% growth in net interest income (NII) as well as 85.5% growth in non-interest income. NII growth was on account of 30.4% growth in advances, with yield of 10.83%. Non-Interest Income was up 85.0%, mainly due to profit of sale in investments which doesn't represent the core fee-income.

Treasury gains contributed to the bottom line

Non-Interest Income excluding Treasury profit grew 28.8% contributing to bottom line growth. The core areas of Non-Interest Income grew 39.91%.

Restructuring of assets

It undertook restructuring of assets which are standard in nature. These are accounts which are either facing pressure for repayment or need time for repayment. The list of assets to undergo restructuring is being sent to RBI.

CAR: comfortable with raising additional Tier II capital

During the quarter, CBL raised Tier II capital of Rs500Cr, which helped the bank increase CAR to 12.76% as per

Compendium of Q3-FY09 Results Analyses of Banks

Basel I. Of the total capital of the bank, Tier I capital is 9.68%. As per Basel II, CAR would be 12.06%, which is well above the RBI stipulated norm of 9%.

Prime Lending Rates (PLR) and Deposit rates

Currently, the yield on advances stands at 10.83% and cost of deposits is 6.91%. CBL would reduce its deposit rates by 50-75 bps and retail lending rates by 50-100 bps. It will also reduce rates on retail loans, housing loans, education loans, auto and personal loans.

NPAs

Gross NPA was down to 1.24% compared to 1.71% y-o-y, while net NPA ratio was unchanged at 0.33%.

Summary of Financial Results

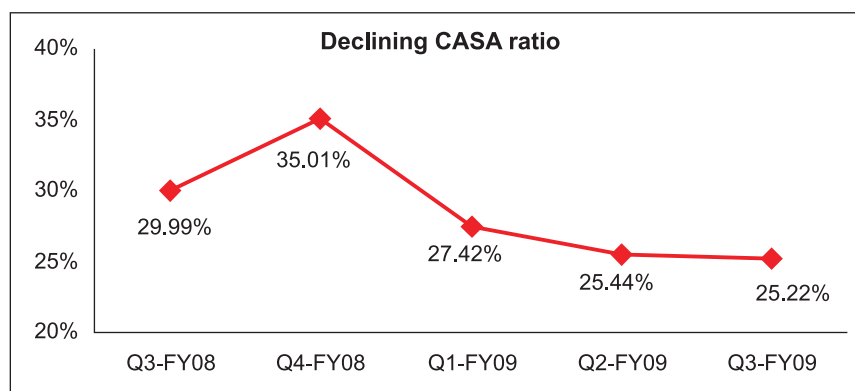
(RsCr)

Particulars	Q3-FY08	Q2-FY09	Q3-FY09	% change (y-o-y)	% change (q-o-q)
Interest Earned	1,113.40	1,448.75	1,623.48	45.8%	12.1%
Interest on Advance	821.34	1,064.42	1,223.69	49.0%	15.0%
Income on Investment	269.78	337.40	378.30	40.2%	12.1%
Interest on Balances	7.02	27.91	21.79	210.5%	-21.9%
Others Interests	15.27	19.029	-0.30	-102.0%	-101.6%
Non-Interest Income	152.43	174.37	282.04	85.0%	61.7%
Total Income	1,265.83	1,623.13	1,905.52	50.5%	17.4%
Interest Expended	765.16	1,042.09	1,145.51	49.7%	9.9%
Operating Expenses	223.12	229.54	310.61	39.2%	35.3%
Total Expenditure	988.28	1,271.62	1,456.12	47.3%	14.5%
Operating Profit	277.55	351.50	449.40	61.9%	27.9%
Tax	76.92	104.22	174.41	126.7%	67.4%
Provisions and Contingencies	9.73	55.78	18.52	90.3%	-66.8%
Net Profit	190.90	191.51	256.47	34.3%	33.9%
EPS (Rs)	13.31	13.35	17.88		
Book value (Rs)	263.44	295.73	296.05		
Paid up equity capital	143.44	143.44	143.44		
FVPS (Rs)	10	10	10		
Capital Adequacy Ratio	12.07%	11.75%	12.76%		
Tier I Capital	10.76%	9.60%	9.68%		
Tier II Capital	1.31%	2.15%	3.08%		
% NPA to Net Advances	0.33%	0.40%	0.33%		

Concerns

CASA too low, in spite of clientele growth

1.3mn new deposit accounts were acquired during the 9 months to December 2008. To improve share of low cost deposits, CBL acquired 0.76mn savings accounts during the Savings Account campaign (July-October 2008). In spite of all these efforts to scale up the customer base, CASA stood low at 25.22%.



NIMs under pressure

NIM stands at 2.53%, which is way below the industry average for Public Sector Banks. With yields likely to fall further, only way out to maintain the margins would be to increase CASA base.

Core fee-income remained stagnant

The core fee-income comprises of bills collection, DD sold, LC commission, Cash management and miscellaneous income. CBL was among the first to start with Cash Management Services which is now declining. The bank seems to be losing market share on this side of fee-income. Miscellaneous income comprises of Rs150Cr which is the maintenance fees charged to existing customers who have accounts with the bank for over 6 months.

Break-up of Non-interest Income

(RsCr)

	Q3-FY08	Q3-FY09	% change (y-o-y)
Commission on BG\LC	21.72	30.00	38.1%
Com. on TT\DD\Bills for Collection etc.	10.33	9.10	-11.9%
Exchange \ Brokerage	3.87	4.52	16.8%
Service Charges	9.05	10.20	12.7%
Locker Rent	3.71	5.03	35.6%
Bullion Trade	3.48	4.08	17.2%
Others	29.27	51.00	74.2%
Sub-Total (Core area)	81.43	113.93	39.9%
Profit on Exchange Trans.	8.25	11.74	42.3%
Profit on Sale of Investments	29.24	123.39	322.0%
Dividend on Shares	1.34	0.22	-83.6%
Cash Management Services	10.24	9.28	-9.4%
Bad Debts Recovery (Write back)	21.93	23.47	7.0%
Total	152.43	282.03	85.0%

Credit off-take robust but asset quality a concern

CBL managed advance growth of 30.4% in the quarter. With the restructuring of assets undertaken, it must have rejigged its portfolio. In spite of this, looking at the current scenario, we feel stress on the assets may continue, going forward.

Break-up of Credit Portfolio

Segments	Q3-FY08	Q3-FY09	% change (y-o-y)	% to NBC (Q3-FY09)
Agriculture	2963	4117	38.9%	9.2%
SME	3740	4658	24.5%	10.4%
Large Industries	9384	13743	46.5%	30.6%
Retail	8113	8930	10.1%	19.9%
Wholesale Trade	305	550	80.3%	1.2%
Food Credit	776	1121	44.5%	2.5%
Others	9177	11818	28.8%	26.3%
Total Advances	34458	44937	30.4%	100.0%

Export Credit, SME Credit, Retail Credit grew @ 21.0%, 24.5% and 10.1% respectively on y-o-y basis. In spite of tough environment in these segments, CBL increased advances for the same. This can lead to pressures of NPA in this segment, going forward.

NPAs in SMEs / Retail increased in Q3-FY09

Segments	Q3-FY08	Q3-FY09	% change (y-o-y)
Agriculture	62.68	70.88	13.1%
SME	53.39	67.31	26.1%
Large Industries	65.30	38.41	-41.2%
Wholesale Trade	9.74	7.47	-23.3%
Retail	212.87	220.04	3.4%
Others	194.52	155.88	-19.9%
Total	598.50	559.99	-6.4%

Future Outlook

Going forward, CBL plans to grow advances @ 25% and maintain NIMs at current levels. To maintain NIMs, it aims at CASA of 30%. For CASA growth, it has outlined 2 strategies viz., including family member's accounts as well as having tie-ups with schools, colleges and tapping students to open accounts in the bank.

Valuation

It currently trades at 0.59xP/b TTM.

Central Bank of India Ltd. Q3-FY09 Results Analysis

February 10, 2009

Price: Rs37.50

Category: Public sector Bank

52 wk high/low: 117/32

MCap:Rs1538Cr (\$316mn)

Summary

- Business grew by 28.4% y-o-y.
- It has a network of 400 branches. 54 branches were added during the quarter.
- Deposits and advances grew by 22.4% and 38.29% respectively, y-o-y.
- CD ratio stands at 60.69%.

Key Data points

	(RsCr)	% change (y-o-y)
Total Business	200,249	28.4%
Aggregate Advances	81,467	38.3%
Aggregate Deposits	118,782	22.4%
Net Interest Income	671.94	30.3%
Non-Interest Income	311.19	46.7%
Operating Profit	466.46	66.5%
Profit After tax	353.26	75.7%
Ratios		
Capital Adequacy Ratio	10.02%	
Tier I Capital	5.33%	
Tier II Capital	4.69%	
% Net NPAs to Net Advances	1.18%	
CD Ratio	60.69%	
CASA Ratio	34.00%	
Yield on Advances	10.23%	
Net Interest Margin (NIM)	2.37%	
ROA	1.11%	

Q3 Highlights

Total Income up largely due to contribution from non-interest income

Non-Interest income is likely to increase going forward also, as CBL will market more 3rd party products and targets to recover approx. Rs300Cr by FY09, of which already Rs45Cr has been recovered. CBIL derived a large portion of non-interest income from non-core area viz., trading gains Rs161Cr.

Break-up of Operating Income

	Q3-FY08	Q2-FY09	Q3-FY09
Net Interest Income	70.9%	87.2%	68.3%
Non- Interest Income	29.1%	12.8%	31.7%
Total Operating Income	100.0%	100.0%	100.0%

Operating profit grew 66.5% y-o-y and 58.6% q-o-q

NIM at 2.37% vis-à-vis 2.33% y-o-y basis. Cost control measures helped the bank boost operating profits.

Restructuring of assets

In line with the RBI measures for restructuring of assets, CBIL restructured advances worth Rs168Cr during the quarter.

NPA declined to 1.18% in Q3-FY09 compared to 1.22% y-o-y

Apparently NPAs have declined; however the write-off on NPA was not done in this quarter and will happen in subsequent quarter.

Credit off-take slowed down

The bank has exposure to large corporate, viz., Tata group, Godrej, GMR, Future group, Videocon, Nalco and GVK group. All this together constitutes 55% of the bank's advances. The management stated that they are sitting on surplus cash to lend and approvals for lending are also sanctioned. However there is not much offtake and no advances are taking place.

Net worth down 2.3% in Q3-FY09

The bank's net worth declined to Rs4407Cr from Rs4510Cr, y-o-y.

Summary of Financial Results

(RsCr)

Particulars	Q3-FY08	Q2-FY09	Q3-FY09	% change (y-o-y)	% change (q-o-q)
Interest Income	1993.34	2674.40	2722.22	36.6%	1.8%
Interest on advances	1292.05	1992.66	2076.49	60.7%	4.2%
Income on Investments	602.64	653.88	632.33	4.9%	-3.3%
Interest on balances with RBI	73.01	4.10	13.40	-81.6%	226.8%
Other Interest	25.64	23.76	0.00	-100.0%	-100.0%
Non-Interest Income	212.14	94.49	311.19	46.7%	229.3%
Total Income	2205.48	2768.89	3033.41	37.5%	9.6%
Interest Expended	1477.64	2028.11	2050.28	38.8%	1.1%
Operating Expenses	447.68	446.63	516.67	15.4%	15.7%
Operating Profit	280.16	294.15	466.46	66.5%	58.6%
Provisions & Contingencies	-11.6	106.54	-97.15	737.5%	-191.2%
Provision for Taxes	90.75	91.46	210.35	131.8%	130.0%
Net Profit	201.01	96.15	353.26	75.7%	267.4%
EPS (Rs)	4.97	2.38	8.74		
Paid-up Equity Share Capital	404.14	404.14	404.14		
FVPS (Rs)	10	10	10		
Capital Adequacy Ratio	11.63%	10.02%	10.02%		
Tier I Capital	N.A.	5.33%	5.33%		
Tier II Capital	N.A.	4.69%	4.69%		
% NPA to Net Advances	1.22%	1.17%	1.18%		

Concerns

CAR too low at 10.02%, may not be able to meet Basel II guidelines

It may get government aid or may go again for fund raising. The headroom to raise capital in Tier I and Tier II capital are approx Rs500Cr. It is in talks with government who is ready to lend Rs1500Cr to public sector banks for meeting CAR requirements. Recently, it announced its plans to raise capital in the form of tier II bonds to the tune of Rs270Cr.

Tier 1 capital stands low at 5.33%, which is below the stipulated RBI norm for Basel II that is at least 6%.

Valuations

It currently trades at 0.48xP/b TTM.

Development Credit Bank Ltd. Q3-FY09 Results Analysis

February 10, 2009

Price: Rs19.60

Category: Private sector Bank

52 wk high/low: 120/18

MCap:Rs349Cr (\$72mn)

Summary

Development Credit Bank Ltd. (DCBL) witnessed 4% fall in lending as well as 50% fall in accepting deposits in Q3FY09 (y-o-y). Making matters worse, DCB was badly hit during the quarter by higher NPAs and higher provisioning, leading to net loss. This was in spite of tighter cost controls in respect of operating expenses.

Pressures likely to be faced by the banking sector in general and management instability, poor asset quality, drop in credit lending in particular are concerns. The post of CEO still remains vacant. Though DCB has already made provisions for retail assets, we still foresee risks in retail credit to only increase. Going forward, it is de-emphasizing retail portfolio and will be cautious towards corporate credit as well.

Key Data-points

	(RsCr)	% change (y-o-y)
Total Business	6,350	-4.0%
Aggregate Advances	3,491	-4.0%
Aggregate Deposits	2859	N.A.
Net Interest Income	51	29.3%
Non-Interest Income	28	-27.9%
Operating Profit	23	23.0%
Profit After tax	(3)	-112.5%
Ratios		
Capital Adequacy Ratio	14.13%	
% Net NPAs to Net Advances	2.04%	
CASA ratio	28.20%	
Yield on Advances	10.80%	
Net Interest Margin (NIM)	2.80%	

Q3 Highlights

Branch network stagnant, no growth visible ahead too

The network of branches stands at 80 compared to 76 in last quarter. However, there was no addition in the branches, as the extension counters were simply converted into branches. Relocation of Thane and Andheri (W) branches to well-located prominent locations, which has eased access for customers, enhanced brand visibility, and helped it reach out to new customer base the new branches.

In Q4-FY09, there will be no addition to branch network as it aims at more stringent cost controls to avoid further losses.

Impending dilution of promoter stake?

RBI will issue new branch licenses only if it brings in more outside capital, a move that could cause a dilution in the promoter's holding, which is already low at 26.5%.

No lending growth, advances down 4% y-o-y

Advances at Rs3492Cr, witnessed a marginal drop of 4% (y-o-y). Retail Advances grew by 5% to Rs1872Cr. The composition of retail advances has shown improvement with unsecured retail asset book showing a decrease to Rs519Cr from Rs788Cr y-o-y. On the corporate side too, advances declined marginally. Total deposits also reduced mainly on account of reduction in Inter-bank Deposits to Rs1661Cr, 50% lower y-o-y, indicating higher reliance on stable retail deposits.

Total Income managed to increase y-o-y, but declined q-o-q

Total Income growth of 11.3% (y-o-y) was due to NII led by higher yield of advances of 10.8%. Non-Interest Income did not contribute on y-o-y or q-o-q basis and witnessed declines by 27.9% and 4.2% respectively. The proportion of non-interest income to total income stood at 35%.

Compendium of Q3-FY09 Results Analyses of Banks

As non-interest income (fee income) contributes a smaller share of the bank's income, it becomes more dependent on net interest income to drive earnings. In the current banking industry scenario, where lending remains a concern and there is rigidity towards certain segments to provide credit, boosting NII may pose a challenge.

Break-up of Operating Income

	Q3-FY08	Q2-FY09	Q3-FY09
Net Interest Income	50.8%	66.8%	65.0%
Non- Interest Income	49.2%	33.2%	35.0%
Total Operating Income	100.0%	100.0%	100.0%

Fee-income down 27.9% y-o-y and 4.2% q-o-q

Fee income from all segments suffered viz., brokerage, mutual funds, miscellaneous, etc. DCBL has no tie-up for mutual funds products but now it intends to focus on insurance side which is the only segment from fee-side to register growth of 9.7% y-o-y.

Break-up of Non-interest Income

(RsCr)

	Q3-FY08	Q3-FY09	% change (y-o-y)
Commission, Fees & Brokerage	14.83	11.69	-21.2%
Commission on Insurance	3.41	3.74	9.7%
Commission from Mutual fund	2.55	0.34	-86.7%
Profit on sale of Investments/IPO	5.14	0.61	-88.1%
Profit on sale of property	-0.32	-0.05	-84.4%
Profit on Exchange Transactions	7.38	9.41	27.5%
Miscellaneous Income	5.19	1.8	-65.3%
Total	38.18	27.54	-27.9%

Operating profit grew 23% y-o-y and 20.1% q-o-q due to tight cost controls

Operating profit growth was attributable to increased NIMs as well as tight control over operating costs. Operating expenses fell by 5.7% y-o-y and 17.6% q-o-q. The headcount has been reduced by 11.7% to 1,976 and more layoffs will be announced in Q4-FY09.

Net loss on account of increased provisioning

PAT turned negative on account of an increase in retail asset provisioning. Its NPAs were up in this quarter. It seems that the bank expects additional defaults and hence has made higher retail provisions leading to the net loss. More provisions in retail asset are likely. Higher provisions are also on account of conservative policy of the bank for provisioning on personal loans at 50% of the delinquent amount (as compared to 25% earlier), which is higher than the rate prescribed by RBI.

CAR looks comfortable

CAR was a robust 14.1% up from 12.49% in the last quarter. However, with bad asset quality, there can be requirement for more funds, going forward.

Summary of Financial Results

(RsCr)

Particulars	Q3-FY08	Q2-FY09	Q3-FY09	% change (y-o-y)	% change (q-o-q)
Interest Income	137.11	172.79	167.62	22.3%	-3.0%
Interest on advances	104.11	131.26	129.13	24.0%	-1.6%
Income on Investments	28.92	34.26	32.16	11.2%	-6.1%
Interest on balances with RBI	4.08	7.27	6.33	55.1%	-12.9%
Non-Interest Income	38.19	28.75	27.54	-27.9%	-4.2%
Total Income	175.3	201.54	195.16	11.3%	-3.2%
Interest Expended	97.61	114.92	116.56	19.4%	1.4%
Operating Expenses	59.03	67.5	55.64	-5.7%	-17.6%
Total Expenditure	156.64	182.42	172.20	9.9%	-5.6%
Operating Profit	18.66	19.12	22.96	23.0%	20.1%
Provisions and Contingencies	5.37	20.77	29.07	441.3%	40.0%
PBT	13.29	-1.65	-6.11	-146.0%	270.3%
Provision for Taxes	0.46	2.65	0.21	-54.3%	-92.1%
Deferred Tax	-12.88	0.00	-3.10	-75.9%	
Profit After Tax	25.71	1.00	-3.22	-112.5%	-422.0%
EPS (Rs)	1.48	0.06	-0.18		
Paid-up Equity Share Capital	174.30	174.30	174.30		
FVPS (Rs)	10	10	10		
Capital Adequacy Ratio	13.65%	12.49%	14.13%		

Concerns

Instability in management

Gautam Vir, MD & CEO has put in his papers. He has relinquished his term effective from 15/01/09. Susheel Narayan Kak, Chief Credit and Risk Officer will attend to day-to-day operations of the bank in the interim, till a suitable replacement for Vir is identified. We believe even the CFO quit last year. The instability in the management is a cause for concern. While a new CFO has been appointed, the post of CEO still lies vacant and is likely to be filled in by March.

NPAs escalated to 2.04%

In spite of reduction in aggregate advances by 4% y-o-y, NPAs have risen from 1.32% in Q2-FY09 to 2.04% in Q3-FY09, which is on account of difficult business environment impacting Retail Asset Book. It sends strong signals that lending growth is restricted and whatever lending is taking place is of substandard quality.

CASA increased to 28.2%, yet low compared to industry

DCB focused greater attention on CASA, which helped it to increase to 28.2% in Q3-FY09. In spite of the increase in CASA base, it is still low compared to other peers in the industry. Management aims at increasing CASA to protect the margins.

Valuations

It currently trades at 0.53xP/b TTM.

Keynote Capitals Ltd.

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