

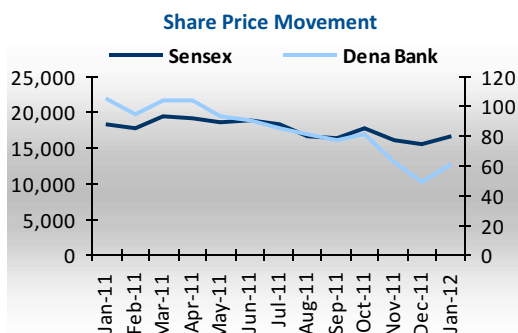
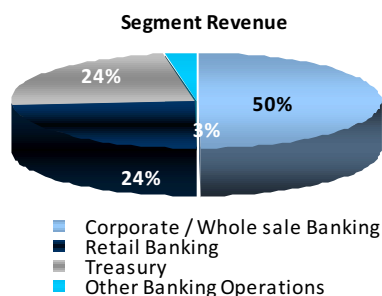


## Data Matrix as on 20.01.12 (BSE)

CMP (Rs)	60.85
52 Week High/Low (Rs)	114/47.50
Market Cap (Rs Cr)	2,029
Share Issued (Cr)	33.34
Equity Cap (Rs Cr)	333.39
EPS TTM(Rs)	20.21
P/E x TTM	3.01
P/BVx	0.53
Face Value (Rs)	10
Book Value (Rs)	114.43
Dividend Yield (%)	3.62
BSE Code	532121
BETA-Sensex	1.29
Industry PE	7.36

## Shareholdings as on 30.09.2011 (%)

Promoters (Govt)	58.01
FII's	13.06
DII's	8.0
Public & Others	20.97



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**Dena Bank**, a mid sized Public sector bank founded on May 26, 1938 by the family of Devkaran Nanjee under the name Devkaran Nanjee Banking Company. It became a Public Limited Company in December 1939 and later the name was changed to Dena Bank. With around 1300 branches and 520 ATMs it is offering almost all the basic banking services across the country. It has financial products in the form of Personal Banking, Corporate Finance and it also caters services to Priority and SME segment to meet their various agricultural and business requirements. Dena Bank has been the first Bank to introduce - Minor Savings Scheme, Credit card in rural India.

## INVESTMENT RATIONALE

## Interest Rates would start easing in upcoming phase...

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. Even though the bad loans have significantly increased, however most of the banks have managed to maintain their NIM but some banks have reported a sharp decline in their NIMs. The monthly inflation, which compelled RBI to raise the interest rates, remained above the comfort level of RBI's at 9%. India's headline inflation out riding above 9.7% mark since last three months, but this time for the month of Dec 2011, thanks to sharp decrease in food prices in past weeks, WPI managed to come under 7.5% as compared to 9.11% for the previous month. Thus, if the trend of WPI continues further RBI shall also start reducing the interest rates, which may prove to be a big relief for banks.

## Credit Growth of Banks in comfort zone...

The credit growth of the banks in the Dec 2011 has shown annual growth of around 17%. According to the latest figures released by the RBI, Banks lent close to Rs 1 lakh crore in the last fortnight of Dec 2011, also the quarter-ending period. As of date, bank has total outstanding credit amounted to Rs 43.65 lakh crore, up Rs 98,661 crore over the previous fortnight's levels. However, on a yoy basis, loan growth at 16.1% was well below the RBI's comfort level of 17% for the year. Loans grew by about Rs 2.7 lakh crore during the quarter and a bulk of the loans was extended in the month of Dec itself. The slow growth in credit off take is mainly attributed to a lack of new projects and investments due to high interest rates and overall dip in the business confidence in the economy. However diminishing of inflation and likely easing of key policy rates will boost the credit growth of banks in upcoming periods.

## Entered into Vehicle financing to boost Retail Loan...

To increase the financing in Priority sectors, Dena Bank has recently signed MoUs with two auto majors 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. Bank will provide loan up to 85% on merits for purchase of commercial vehicles for a maximum tenure of 7 Years. Bank has signed another MoUs with TVS Motor Company to finance upto 90% of the cost of three-wheeler passenger auto rickshaws manufactured by them. Entering into vehicle financing business will help to boost up the retail loan portfolio for the bank.

### Maintained Interest margin above 3% since last four quarters...

Dena Bank has maintained its Net Interest Margin (NIM) well above the 3% since last many quarters. However, due to firm interest rate policy by RBI the margin has come to 3.06% in Q2FY12, It was down 46bps from its corresponding quarter of the last year. Bank has also maintained its PAT margin above 11% since last ten-eleven quarters. In Q2FY12, due to high interest cost it declined by 130bps to 11.85% from previous year's quarter.

### Maintained Assets Quality...

The quality of Non Performing Assets (NPAs) of Dena Bank has been improved by 23bps to 1.15% in the Q2FY12, its has merely Rs 491 crore amount of NPAs during the same period. The bank has maintained its NPA level below 1.5% but due to high exposure in power sector there is some concern in near term but in the long term, it would always be a priority sector from lending point of view. Banks also managed to bring its Gross NPA (GNPA) less than 2% since Q1FY12, GNPA of the banks is currently measuring at 1.93% in the latest quarter of the current financial year.

### Valuations & Recommendations

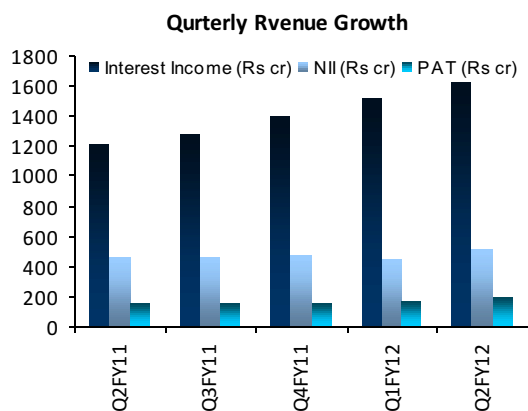
Dena Bank is trading at P/E of 2.8x of its FY12E EPS of Rs 21.4 and 0.53x of its FY11 book value. Further, we are expecting that owing to easing of Inflation in the past week, RBI shall start reducing the key interest rates in up coming quarters. With yielding Interest rates, banks will get to improve there interest margins and with the high assets quality and entering into vehicle financing, Dena bank will help to augment its interest income & margins in upcoming periods. Hence, we recommend to keep maintain buy strategy in stock for the target price of Rs 87 from medium to long-term point of view.

### FINANCIALS

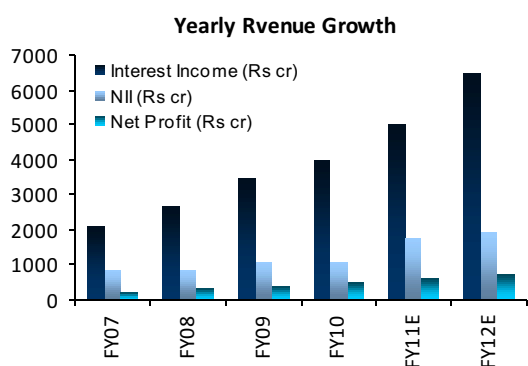
The annual CAGR growth of Interest Income of Dena bank has shown a significant of over 23% in last five years (FY06-FY11). The Net Interest Income (NII), which is the net difference of interest expended to borrow the fund over the interest earned income also grown 19.5% in the same period while owing to healthier net interest margin (NIM) bank has posted phenomenal growth of 53% during the same years. In FY11, the Interest Income of the bank surged 25.5% to Rs 5033.53 crore over FY10, NII also grew 60% to Rs 1763.37 crore while PAT increased 20% to Rs 622.63 crore from FY10.

In Q2FY12, the Interest Income Dena Bank grew by 34% to Rs 1633.82 crore over the same quarter of the last year, NII grew by 10.7% to Rs 514.89 crore while despite increase in interest cost in the same quarter the PAT improved by 20.5% to Rs 193.58 crore. The NIM of the bank for the same period marginally down by 46bps to 3.06% while PAT margin declined 130bps to 11.85% during the period.

## Financials - Standalone



Quarterly Growth	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Chg
<b>Interest Earned</b>	<b>1221.47</b>	<b>1289.89</b>	<b>1407.49</b>	<b>1528.18</b>	<b>1633.82</b>	33.8%
Other Income	118.91	127.06	180.77	124.35	113.37	-4.7%
<b>Total Income</b>	<b>1340.38</b>	<b>1416.95</b>	<b>1588.26</b>	<b>1652.53</b>	<b>1747.19</b>	30.4%
Interest Expended	756.20	823.47	936.30	1081.63	1118.93	48.0%
<b>Net Interest Income (NII)</b>	<b>465.27</b>	<b>466.42</b>	<b>471.19</b>	<b>446.55</b>	<b>514.89</b>	10.7%
<b>NIM % (chg in bps)</b>	<b>3.52</b>	<b>3.20</b>	<b>0.00</b>	<b>0.00</b>	<b>3.06</b>	<b>-46.0</b>
Operating Expenses	258.54	277.05	308.84	263.16	276.25	6.9%
Operating Profit before Prov. & Cont	25.64	316.43	343.12	307.74	352.01	8.1%
Exceptional Items	0.00	0.00	0.00	0.00	0.00	0.0%
Provisions and Contingencies	72.85	85.69	123.82	65.49	81.33	11.6%
PBT	252.79	230.74	219.30	242.25	270.68	7.1%
Tax	92.16	75.53	62.30	74.16	77.10	-16.3%
<b>Profit After Tax</b>	<b>160.63</b>	<b>155.21</b>	<b>157.00</b>	<b>168.09</b>	<b>193.58</b>	<b>20.5%</b>
<b>PATM% (chg in bps)</b>	<b>13.15</b>	<b>12.03</b>	<b>11.15</b>	<b>11.00</b>	<b>11.85</b>	<b>-130.0</b>
<b>Net NPAs% (chg in bps)</b>	<b>1.49</b>	<b>1.26</b>	<b>1.22</b>	<b>1.08</b>	<b>1.15</b>	<b>-34.0</b>
EPS (Rs)	5.60	5.41	4.71	5.04	5.81	3.8%
EPS Annualised (Rs)	22.40	21.65	18.84	20.17	23.23	3.7%



Annual Growth	FY07	FY08	FY09	FY10	FY11	FY12E
<b>Interest Earned</b>	<b>2118.52</b>	<b>2675.90</b>	<b>3447.50</b>	<b>4010.36</b>	<b>5033.53</b>	<b>6475.26</b>
Other Income	391.52	478.12	430.12	588.63	533.84	540.20
<b>Total Income</b>	<b>2510.04</b>	<b>3154.02</b>	<b>3877.62</b>	<b>4598.99</b>	<b>5567.37</b>	<b>7015.46</b>
Interest Expended	1263.16	1817.14	2383.07	2910.33	3270.16	4519.73
<b>Net Interest Income (NII)</b>	<b>855.36</b>	<b>858.76</b>	<b>1064.43</b>	<b>1100.03</b>	<b>1763.37</b>	<b>1955.53</b>
Operating Expenses	611.51	650.44	768.19	848.08	1073.42	1091.61
Op. Profit before Prov. & Co	635.37	686.44	726.36	840.58	1223.79	1404.12
Exceptional Items	0.00	0.00	0.00	0.00	0.00	0.00
Provisions & Contingencies	402.35	368.82	184.93	153.79	325.20	345.10
PBT	233.02	317.62	541.43	686.79	898.59	1059.02
Tax	31.46	-42.17	118.77	175.54	286.96	333.59
<b>Profit After Tax</b>	<b>201.56</b>	<b>359.79</b>	<b>422.66</b>	<b>511.25</b>	<b>611.63</b>	<b>725.43</b>
<b>PATM%</b>	<b>9.51</b>	<b>13.45</b>	<b>12.26</b>	<b>12.75</b>	<b>12.15</b>	<b>11.20</b>
Net Profit	201.56	359.79	422.66	511.25	611.63	11.20
EPS (Rs.)	7.03	12.54	14.74	17.82	18.35	21.44
<b>% of Net NPAs</b>	<b>0.00</b>	<b>0.94</b>	<b>1.09</b>	<b>1.21</b>	<b>1.22</b>	<b>1.20</b>

Source: ACE Equity

₹ Crore

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