



# LSE Securities

## Dhanalakshmi Bank - Buy

Dhanalakshmi Bank was incorporated in 1927, It provides a suite of banking products and services to serve both resident Indians and non-resident Indians. The bank serves its customers, across the nation, through its network of 207 branches and 78 ATMs.

The Bank is a leading player in dispensation of Micro Credit among Kerala-based Banks, both public and private. As at the end of March 2009, it had an outstanding of INR 124.40 crore under micro credit.

Dhanalakshmi Bank is presently having 181 branches and 26 Extension Counters extended over the states of Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, Maharashtra, Gujarat, Delhi and West Bengal has attained the national importance. Bank has obtained approval from the Reserve Bank of India to open 66 more branches and 380 ATMs across the country in the current fiscal. With this the number of customer outlets will increase from 279 to 725.

The bank has also obtained the approval from RBI for the opening of 5 Regional Offices and 2 Central Processing Centers in Kerala.

## Management

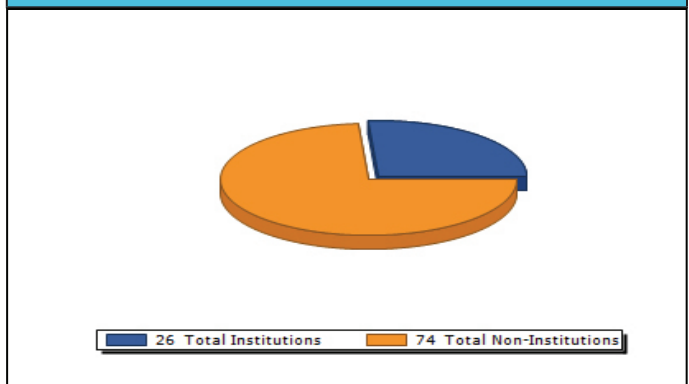
The management of the company is led by Gyanendra Nath Bajpai- Chairman. Amitabh Chaturvedi is the Managing Director. Other directors of the company include S Santhanakrishnan, Shailesh V Haribhakti, K Srikanth Reddy, Ghanshyam Dass and Sateesh Kumar Andra.

## Business Overview

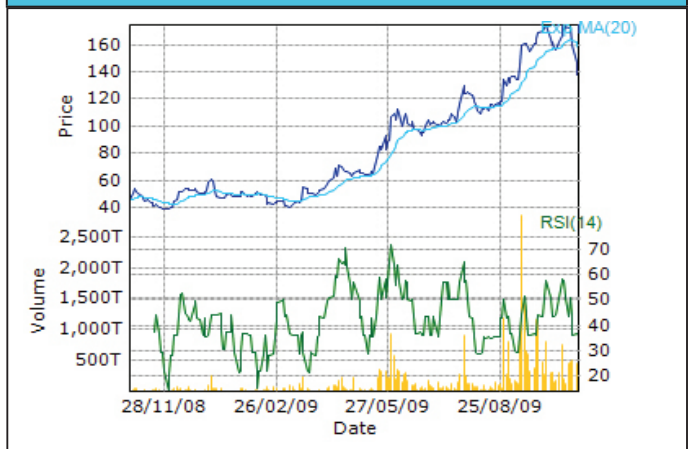
Dhanalakshmi Bank provides retail banking and commercial banking services to corporate, commercial, retail, and agricultural customers in India. It primarily offers deposit products, such as savings, current, term, re-investment, demand, and time deposit accounts. The company's retail banking product portfolio includes housing loans, gold loans, auto loans, educational loans, and other personal loans. Its commercial banking products comprise agricultural loans, term loans, industrial advances, trade advances, letters of credit, guarantees, and import/export facilities.

Stock Data		30/10/09
Current Mkt Price (Rs)		136.90
52 Week High		178.40
52 Week Low		37.00
Mkt Cap (Rs. in Million)		8751.78
Return in last one Month (%)		-1.48

## Share Holding



## Performance in last one year



## Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	4084.15	3182.85	28.32
Other Income	793.59	362.32	119.03
Total Expenditure	1130.74	965.16	17.16
Operating Profit	796.61	386.84	105.93
Interest	2867.96	2135.05	34.33
Profits After Tax	574.51	284.64	101.84
Reserve & Surplus	3.60	1.40	157.08
Reported EPS(Rs)	8.96	8.88	0.90
Core EBITDA Margin (%)	21.52	13.98	53.96



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The Dhanalakshmi Bank also offers a range of general banking services, including debit cards, treasury operations, locker facilities, and cash management services; provides cheque collection services; and distributes life insurance and non-life insurance products, as well as operates as a depository participant. The company's other services include foreign currency remittances, issue and purchase of traveler's cheque, issue and purchase of foreign drafts/cheques/currency, extension of export credit both in Indian rupee and foreign currency, issue of foreign letter of credit, and the provision of import related services.

The Bank has put the Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems in place to facilitate large value payments and settlements online in real time, on a transaction-by-transaction basis.

In an effort to provide NRIs with value-added services, the Bank has set up NRI Boutiques (Relationship Centres) at 9 locations in the states of Kerala and Tamil Nadu. The Bank also has plans to open specialized NRI outlets at potential locations, stressing on the highest quality of service.

On the socio-economic front, the Bank plays a leading role in dispensing Micro Credit among private and public banks based in Kerala. As at the end of March 2009, the outstanding under micro credit were Rs.124.40 crore. This involvement is part of the Bank's objective to act as a catalyst for the economic prosperity of the country

## Latest result analysis

- Net profit of the bank declined by 28.70% to Rs 6.26 crore for the second quarter ended September 30, 2009, over the same period last year.
- Net interest income of the bank increased by 26.65% to Rs123.74 crore compared to Rs 97.70 crore in the quarter ended September 2008.
- The other income component of the company increased by good 163.27% to Rs 27.38 from Rs 10.40.
- Total deposits of the Bank increased by 43.02% to Rs. 5,629.41 crore from Rs. 3,936.23 crore of

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	4084.15	3182.85	28.32
Total Income	4877.74	3545.17	37.59
Total Expenditure	1130.74	965.16	17.16
Operating Profit	796.61	386.84	105.93
Profits After Tax	574.51	284.64	101.84

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	641.16	320.58	100.00
Reserve & Surplus	3603.63	1401.76	157.08
Total Liabilities	56428.24	40329.84	39.92
Investments	15673.62	10750.56	45.79
Current Liabilities	0.00	0.00	0.00
Net Current Assets	0.00	0.00	0.00
Total Assests	56428.24	40329.84	39.92

Key Ratios		
(Rs. in Million)		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	8.96	8.88
Core EBITDA Margin (%)	21.52	13.98
EBIT Margin (%)	89.73	79.23
ROA (%)	1.02	0.71
ROE (%)	13.53	16.53
ROCE (%)	6.49	6.25
Price/Book (x)	0.76	1.17
Net Sales Growth (%)	28.32	28.08
EBIT Growth (%)	0.00	0.00
PAT Growth (%)	101.84	76.35
Total Debt/Mcap (%)	0.00	0.02

corresponding previous quarter.

- The bank has posted an impressive 37.8% growth in total income of Rs. 286.72 crore for the half year ended September 30, 2009.
- During the half-year ended September 30, 2009, the bank has raised Rs 150 crore as Tier-II bonds by private placement.
- Its Capital adequacy ratio (CAR) was at 14.93% versus 15.56%.
- Its net NPAs (Non-Performing Asset) were at 0.86% versus 0.91%.



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## Industry Scenario

The Indian banking sector has played a commendable role in fuelling and sustaining growth in the economy. In the recent past a large part of the banking sector's growth has been on the back of financing consumption, as reflected in the growth of retail banking. Over the post reform period of 1991 through 2008, total assets of banking industry have grown at a compounded annual rate of growth of 11.5%. The induction of new private and foreign sector banks and private equity in public sector banks has brought professional dynamism and vibrancy to the industry. High rate of economic growth since 2004 place the banking industry on an exponential growth path.

However, the recent slowdown in economy coupled with the drought like conditions in large part of the country has threatened the sector regarding shrinking profits and rising non-performing assets (NPAs). The purpose of this note is to visualise how the poor monsoon will impact asset quality of the banks.

After declining for years, NPAs of Indian banks showed some uptick in the last fiscal, primarily due to the sharp slowdown in global economy and its resulting impact on India.

From a longer term perspective, there are no systematic risks with Indian banking industry. Despite slight uptick in NPAs, absolute level remains fairly low. This, coupled with high capital adequacy ratio would ensure that asset quality of banks does not deteriorate beyond tolerable levels.

## Latest developments

Dhanalakshmi Bank has garnered Rs 1.5 billion on private placement basis by issuing 10.30% unsecured redeemable subordinated non-convertible lower tier-II (series VIII) bonds.

Dhanalakshmi Bank has appointed Ogilvy & Mather (O&M) as its agency of record to chart out a new brand proposition and communication strategy for the banking business. O&M will help the bank to design and implement a comprehensive go-to market communication approach.

Dhanalakshmi Bank is planning to float a venture capital fund and an asset management company

next year. The bank is planning to launch its venture capital fund in the first-quarter of the next financial year, while the asset management company (AMC) will be floated in the last quarter of this fiscal.

Dhanalakshmi Bank has lowered its deposit rates by up to 1%. Deposit rates have been trimmed across various maturities.

## Recommendation Factors

Dhanalakshmi Bank, the 82 year old private sector bank in the last one year has adopted a three-pronged approach towards its transformation into a new age high growth bank.

The bank is planning a brand transformation initiative and has hired London-based FITCH to roll out a new brand identity and retail design, a revamped brand identity will enable establishing deeper connect with the bank's rapidly increasing customer base.

Dhanalakshmi Bank recently announced a venture fund with Rs 2000 crore corpus, a move that will give it a better long-term investment view in selected companies.

The Bank is also planning to enter the asset management business by buying an existing fund. This move will make it the first old private sector bank to hold stake in an AMC.

The bank has obtained approval from the Reserve Bank of India to open 66 more branches and 380 ATMs across the country; this will help in expanding its reach beyond the southern part of the country.

Gross NPA of the bank is continuously showing declining trend which can be attributed to the good recovery measures of the bank.

Dhanalakshmi Bank is one of the oldest private sector bank in India, initially it was having is traditional customers based in Kerala but the bank is now on the way to transform itself and is taking all measures to right from revamping its brand identity to spreading its reach across India. The scrip is currently trading at Rs 137 with a P/E multiple of 15.76, we recommend a BUY on the stock at current levels with a price target of Rs 190, for a medium term out look as the NII and PAT of the bank are expected to grow at a CAGR of 22% & 38% over FY08 to FY11E.



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## LSE Securities Ltd.

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