



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

20th Sept 2017

DHANLAKSHMI BANK LIMITED

NSE : DHANBANK

Sector: BANKING

BSE: 532180

View - BUY

CMP : Rs. 39

Target Price: Rs. 55 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Incorporated in 1927, Dhanlaxmi Bank is one of the oldest mid-size private sector banks in India. The bank has a pan-India presence through a network of 260 branches, 371 ATMs covering 680 centers across 15 states. As on March 31, 2017, the bank had total deposits at Rs. 11294 crs with advances at Rs. 6596 crs and an asset base of Rs. 12333 crs.

DBL has a well diversified product basket and is present across the Personal Banking, Corporate Banking, NRI Banking, Micro & Agri Banking, SME Banking and other Financial planning verticals. DBL strengths is its number of customers, scale of business, breadth of product offerings, banking experience the bank offers and the trust that customers have in the bank.

INVESTMENT HIGHLIGHTS

Strong Financials for DBL as on FY17 –

DBL reported a positive PAT of Rs 12.38 crs in FY17 after three consecutive years of net losses. Last year the net loss stood at Rs 209.45 crs. The bank also reported a 9% growth in NII totaling Rs 331.60 crs as compared to Rs 304.68 crs last year.

Further the bank reported a healthy improvement in the cost to income ratio which resulted in the operating profits moving up to Rs 96.37 crs as compared to a operating profit of just Rs 3.28 crs last year. The cost to income ratio for DBL has progressively come down to 78.75% in FY17 from 95.68% two years ago. Also other operating parameters like the CASA ratio was also better with higher deposit growth post the de monetization.

On the positive front, demonetization-led growth in CASA helped domestic CASA ratio improve to 29.44% from 25.03% last year and from 24.34% in FY15. Focus segments (Home loans, Retail loans etc.) were up 10-15% YoY whereas consolidation continued in large corporate and SME loans.

DBL confident on asset quality going ahead –

DBL is confident that worst of asset quality is behind; and maintaining NIMs appears to be the biggest challenge now, and the bank may not be as adversely affected by recent spike in bond yields.

Asset quality problems also seem to be behind and barring 2-3 accounts, DBL has largely recognized all the stressed loans.

Fresh slippages will be lower than previous quarters while recoveries/upgrades in FY18 are likely to cushion the impact of fresh slippages.

KEY DATA

FACE VALUE	Rs	10.00
DIVID YIELD %		NA
52 WK HI/LOW		45/21
NSE CODE		DHANBANK
BSE CODE		DHANBANK
MARKET CAP		RS 988 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	26%
BANKS, MFs & HNIs	-	37%
FIs	-	10%
PUBLIC	-	27%

KEY FUNDAMENTALS

YE	FY17	FY18	FY19
Income Gr%	9	38	17
EBIDTA Gr%	2300	30	50
PAT Gr%	150	150	
BV Rs	31	33	37
P/BV (x)	1.15	1.05	



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

The management sounded wary of margin compression as greater proportion of its loan book gradually transitions to MCLR regime. On loan growth, focus is on domestic market and going direct to customer and the focus of DBL clearly is on retail which accounts for around 44% of its advances portfolio. The other big business component for DBL is the SME and corporate segments which accounted for 25% and 17% of the Asset Advances as on FY17. DBL has also started to offer score base home loans and will do similar offerings on other retail loans.

Strong liability franchise; margin improvement led by lower CoD –

DBL has a strong retail presence in south with over 680 customer outlets spread across 260 branches, 371 ATMs and 49 BCs. Of these, 55% branches are in Kerala, followed by 14% in Tamil Nadu, 9% branches in Maharashtra that are CASA rich states and have good industrial activity. The domestic CASA ratio had been stable at 29.44% The NIMs have also 2,76% in FY17 from 2,46% last year. Also GNPA has also reduced to 4.78% in FY17 from a peak level of 7% in FY15 and around 6.36% last year. The NNPA stands at 2.58% as on FY17 as compared to 2.78% last year.

Loan Book Growth to pick up gradually –

Loan Book growth is expected to improve going ahead on the back of both retail and corporate loan segments in FY18. The bank management expects a lower teens growth in FY18 from the corporate segment supply chain and retail.

Govt announces fresh NPA reforms making recovery process stronger for banks –

The government has also recently amended the Banking Regulation Act (via an ordinance) to give more authority to the Reserve Bank of India (RBI) on resolving banks' non-performing assets including initiating insolvency proceedings and setting up a committee to advise banks.

This is a positive step as it will enable expeditious resolution of bad loans straining banks' balance sheets, thus helping to revive credit flow. It also shifts the onus of decision-making from banks to the RBI, in a sense shielding bankers from fears of being investigated later.

Public sector banks will be recapitalised as they take haircuts, but they will have to commit to structural improvements, such as reducing overheads and shutting loss-making branches, in return for capital infusion. The recapitalisation however, may have fiscal implications depending on the actual haircuts taken. The ball is now clearly in the RBI's court and it will set out the process for resolution.

DBL Plans to strategise its overall business growth in the following way as stated below –

Liability Strategy - DBL plans a systematic growth in deposits

Additionally its is increasing CASA

Also DBL's focus is on increasing Retail / Low cost Deposits

Asset Strategy - DBL plans to maintain a quality Advance Portfolio

Increase Retail Advances

Offer Lending based on Collaterals

Offer better pricing to customers



JOINDRE

JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

- NPA Management -** **Early Resolution of NPA Accounts**
 Close Monitoring of accounts to avoid slippages
 Increased Provision Coverage Ratio
- Cost Rationalization --** **Relocating high Cost Premises & low hit ATMs**
 Renegotiating with vendors for cost reduction
 Looking at other cost rationalization measures
- Focus on Non Interest Income -** **Continued focus on Cross Selling**
 Focus on Insurance and Mutual Fund Products
 DBL to increase focus on Non Fund based facilities
- Other Initiatives --** **Leveraging of Technology Products**
 Transformation Projects
 Using effective use of data mining tools
 Also adopt improved business visibility measures



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

Business Outlook & Stock Valuation –

We expect loan growth to improve sharply to 7-10% YoY in FY18E given the change in strategy wherein the bank is also witnessing traction in domestic credit and retail loans.

The DBL management has set in motion several transformational projects including (1) safer lending in corporate segment, (2) CMS and supply chain financing to build SME book, (3) centralized underwriting, pre-approved loans, and building sales infrastructure to boost retail assets and (4) new management on cards for capital market verticals. These transformations will help improve risk-weighted profitability of the business, which should translate into uptick in RoE in the medium term

The bank is well capitalized with a CAR of 10.26% and believes it will not need any fresh capital for the next 18 months

Large clean-up over the past few quarters removes the overhang of significant deterioration in asset quality in ensuing quarters. We also like the management's focus on improving core profitability and risk management practices for sustainable and healthy performance in the ensuing years – results of which are already reflected in Q1FY18 performance

Currently the DCB stock is trading at 1.18x P/BV on FY18 and 1.05x P/BV FY19 which look attractive from a long term perspective considering the banks size and long term prospects. Another interesting aspect is that the bank could be a prime takeover candidate as presently most funds and HNIs control 47% of the equity and the current management does not have full equity control.

Hence we believe that the DBL stock should be purchased at the current price for a price target of around Rs 55 over the next 12 to 18 months assuming that DCB could get a P/B multiple of 1.5x going ahead.

FINANCIALS

For the Year Ended March RsCrs	FY15A	FY16A	FY17A	FY18E	FY19E
Net Interest Income	298.84	304.68	331.6	460.00	540.00
EBIDTA	16.58	3.28	96.37	125.00	190.00
Profit After Tax	-241.47	-209.45	12.38	30.00	75.00
Book Value (Rs)	41.00	29.00	31.00	33.00	37.00
Equity Capital	177.00	177.00	209.85	253.01	253.01
Networth	723.00	507.00	655.00	930.00	1010.00

Source Company our Estimates



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

KEY CONCERNS

Slowdown in the economy and decline in loan growth.

Increase in cost to income ratio.

Worsening of asset quality

DISCLAIMERS AND DISCLOSURES

This document has been prepared by Joindre Capital Services Limited SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555 and is meant for the recipient only for use as intended and not for circulation. This document should not be reproduced or copied or made available to others. Recipients may not receive this report at the same time as other recipients. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, Joindre Capital Services Limited, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Joindre Capital Services Limited, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report. This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behaviour of investors or recipients or provide any investment/tax advice. This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis. Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital. Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of Joindre Capital Services Limited, its directors, officers, or employees. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

CONTACT DETAILS

Mr. Avinash Gorakshakar (Research Head)	Tel.: 4033 4766,	Email: avinashg@joindre.com
Mr. Vikas Khandelwal (Research Sr. Executive)	Tel.: 4033 4900	Email: vikas@joindre.com

COMPLIANCE TEAM

Mr. A. P. Shukla (President & COF)	Tel.: 4033 4723	Email: shuklaap@joindre.com
Mrs. Sujata Poojary (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com
Mrs. Nikita Shah (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com