

17 April 2018

RATING	BUY
CMP	190
Price Target	226
Previous Target	
Potential Upside	19%

Stock Info

52wk Range H/L	213/154
Mkt Capital (Rs Cr)	5864
Free float (%)	85%
Avg. Vol 1M (000)	1133
No. of Shares (Crore)	31
Promoters Pledged %	0%

Moderation in Opex to lead healthy earning growth

Key Highlights

- Among the small size private banks, DCB bank has the highest C/I ratio of 60% as on FY18. It has added 120 branches in last 2 years and has ended with 318 branches as of FY18. Now slowing the pace of expansion will lead to lower opex growth and moreover with the maturity of older branches C/I ratio could improve significantly over FY20. Management is targeting C/I ratio of below 50% in FY20.
- DCB Bank is the fastest growing bank among the small size of banks. Its loan book has registered CAGR of 25% in last 5 years and it very likely that due to growing SME sector in India, gaining market share from PSU banks will add another 25% CAGR over the next 2 years.
- NIM is likely to face little pressure due to high competitive pressure and increase in bond yield recently.
- Assets quality has remained stable with GNPA at sub 2% level since last 18 quarters. Well diversified loan book with focus of management on low ticket size gives comfort on assets quality front. However we remain cautious on agri loan book.

4Q FY18 Result:

Net interest income grew by 19% YoY led by strong loan growth and NIM expansion. Other income grew by 33% YoY led by strong fee income growth. Operating expenses grew by 23% YoY, however opex growth moderate QoQ to 2% as aggressive branch expansion has come to an end. C/I ratio declined to 59.4% from 62.2% a quarter back. Operating profit grew by 23% YoY. Provisions grew by 14% YoY led by stable assets quality. PAT increased by 21.5% YoY. Loan book grew by 29% YoY and assets quality improved during the quarter. NIM Expanded by 12 bps YoY to 4.16%.

View and Valuation

After aggressively expanding the branch network as targeted, management has now slowed down the pace of expansion which gives comparatively lower opex growth visibility going ahead. Strong loan CAGR of 25% over FY18-20 and improvement in productivity level could translate earning CAGR of 37% during the same period with RoE and RoA potential of 14% and 1% in FY20.

We assign P/BV multiple of 2x on FY20E and arrive at a target price of Rs 226. Recommend BUY.

Key Risks to our rating and target

- Slower pace of C/I reduction rate.
- Significant increase in bond yields implying a rise in cost of funds.
- Aggressive competition from existing player will hurt the margins.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	620	797	995	1184	1494
PPP	349	418	525	649	893
PAT	195	200	245	330	461
NIM %	3.7	3.9	3.9	3.7	3.7
EPS (Rs)	7	7	8	11	15
EPS growth (%)	0.9	2.3	13.8	34.5	39.8
ROE (%)	11.5	10.0	9.8	11.2	14.1
ROA (%)	1.1	0.9	0.9	1.0	1.1
BV	63	77	91	100	113
P/B (X)	1.3	2.2	1.8	1.9	1.7
P/E (x)	11.6	24.4	20.3	17.8	12.7

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**4Q FY 18 Results
In line**
Stable Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	549	566	587	611	649	18.2%	6.3%	2,076	2,413	16.2%
Interest Exp.	329	333	339	360	385	17.2%	7.0%	1,279	1,418	10.8%
NII	220	233	248	250	264	19.7%	5.3%	797	995	24.9%
Other Income	64	86	65	75	85	33.4%	13.2%	249	311	24.6%
Total Income	284	319	313	325	349	22.8%	7.1%	1,047	1,306	24.8%
Ope Exp.	169	183	189	203	207	22.8%	2.0%	628	781	24.3%
PPP	115	136	124	123	142	22.8%	15.5%	418	525	25.5%
Provisions	34	36	30	34	39	14.4%	13.3%	111	139	24.5%
PBT	81	101	94	88	103	26.2%	16.4%	307	386	25.9%
Tax	29	36	35	31	39	35.1%	23.3%	107	141	31.6%
Net Profit	53	65	59	57	64	21.5%	12.6%	200	245	22.9%

Advances growth remained healthy. CASA continues to be stable.

Advances grew by a healthy rate of 29% YoY and 9% QoQ . The growth was spread across the entire portfolio. Corporate book grew by 37% YoY. Management highlighted that the strong growth in corporate book was led by gain in market share from PSU bank. DCB bank is largely focus on mortgage finance which contributes 40% of the portfolio. This portfolio grew by 20% YoY during the quarter. AIB grew by 29% whereas commercial vehicle grew by 93% YoY led by healthy CV sales. SME portfolio grew by 29% YoY.

Deposits grew by 24% YoY. CASA growth was also stronger and grew by 25% YoY. However CASA ratio declined sequentially to 24.3% against 25.7% as on 3Q FY18. Total retail deposits of bank declined to 74% against 77% a quarter back.

Assets Quality Improves

Assets Quality improved during the quarter led by lower slippages. Slippages ratio declined by 16 bps sequentially to 0.44%. GNPA ratio improved to 1.79% vs 1.89% a quarter back where as NNPA improved by 15 bps sequentially to 0.72%. PCR increased to 76%. However increasing GNPA in mortgage portfolio remains a cause of concern which grew by 10% sequentially in absolute terms whereas assets quality remains stable in corporate portfolio.

NIM expand, C/I improvement will be a key.

Sequentially NIM improved by 4 bps to 4.16% due to improvement in yield on advances which grew by 16 bps QoQ led by strong growth in CV portfolio. However due to rise in G-sec bond yield, cost of fund has also increased by 9 bps QoQ during the quarter. We expect NIM to remain under little pressure due to increasing cost.

C/I ratio showed improvement of 3% QoQ to 59% due to normalization of branch expansion. Management has completed its target of branch expansion, hence we expect with opex growth to moderate and increase in productivity level will trend the C/I ratio in downward direction.

Concall Highlights :

- ✓ Core fee income has shown petty strong growth led by the bank assurance cross sell, health insurance MRTA, Life insurance, Mutual fund and also due to lots of trading done across the branches.
- ✓ Expect long term of ROE and ROA is 14% and 1% respectively.
- ✓ 15 more branches to be added in the FY 18-19 and for FY19-20 -16-17 branches.
- ✓ Target of C/I ratio for FY18-19 is 55% and beyond FY18-19 to achieve below 50%.
- ✓ Under Mortgage 70% is LAP and rest is home loan.
- ✓ Total Employee count is at 5790.
- ✓ Management has conservative approach in terms of NIM at 3.75-3.80% going forward.

Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	60.0	60.1	59.4	57.2	60.3	62.3	59.4	0.02	-2.96
Empl. Cost/ Tot. Exp. %	49.5	48.1	48.4	49.6	48.7	47.8	49.1	0.74	1.29
Other Exp/Tot. Exp.%	50.5	51.9	51.6	50.4	51.3	52.2	50.9	-0.74	-1.29
Provision/PPP %	26.2	27.9	29.4	26.0	24.3	28.0	27.4	-2.01	-0.54
Tax Rate %	34.8	34.8	35.1	35.4	37.5	35.4	37.5	2.45	2.09
Int Exp./Int Inc. (%)	62.4	61.9	59.9	58.8	57.7	59.0	59.4	-0.50	0.39
Other Inc./Net Inc. %	25.4	24.5	23.4	22.4	26.9	20.8	23.0	-0.40	2.20
PAT/ Net Income %	19.2	18.8	18.6	20.4	18.8	17.5	18.4	-0.20	0.90
RoE %	10.4	10.7	10.0	10.7	8.8	9.3	10.2	0.25	0.91
RoA %	0.9	0.9	0.9	1.1	0.9	0.9	0.9	0.01	0.05

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	12.3	12.3	11.9	11.8	11.7	11.7	11.6	-0.31	-0.09
Cost Of Funds	7.2	6.9	7.0	6.6	6.5	6.4	6.5	-0.49	0.09
NIM	4.1	4.2	4.2	4.2	4.3	4.2	4.2	-0.06	-0.04

Exhibit: Yield and Cost

Both Yield and Cost expanded during the quarter, however yield outpaced cost.

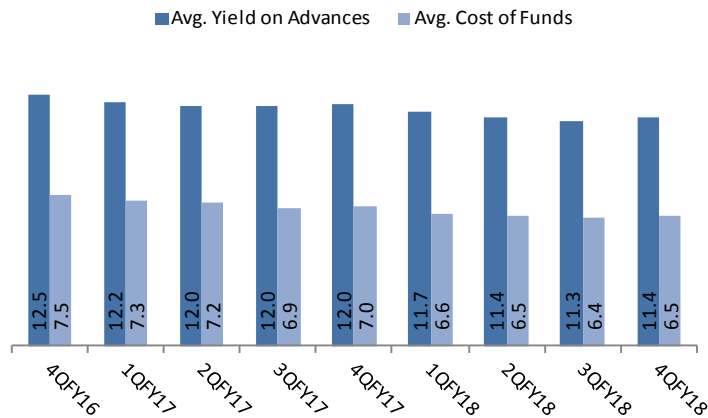
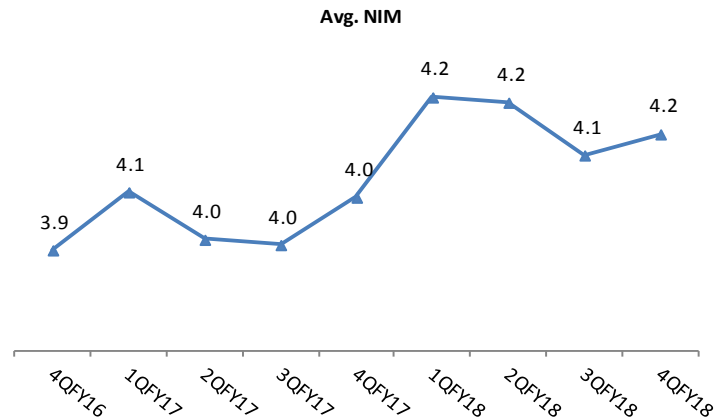


Exhibit: Net Interest Margin

NIM expanded sequentially but remained under pressure.



Other Income Break Up- Pickup in fee income.

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Commission, exchange and	40	38	42	40	45	52	48	57	63
Profit on Exchange	3	3	4	2	1	3	4	4	4
Total Fee Income	42	41	46	43	46	55	52	60	67
Profit on Sale of Investment	4	17	12	13	4	29	7	6	4
Miscellaneous Income	15	2	4	9	13	2	6	9	14
Other Income	61	60	62	64	64	86	65	75	85

Exhibit: Fee Income/Advances %

Expanding fee income base

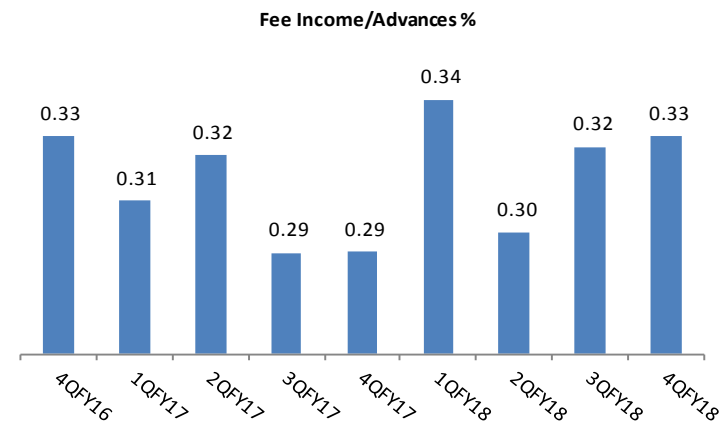


Exhibit: Other Income/ Total Income %

Growth in line with advances

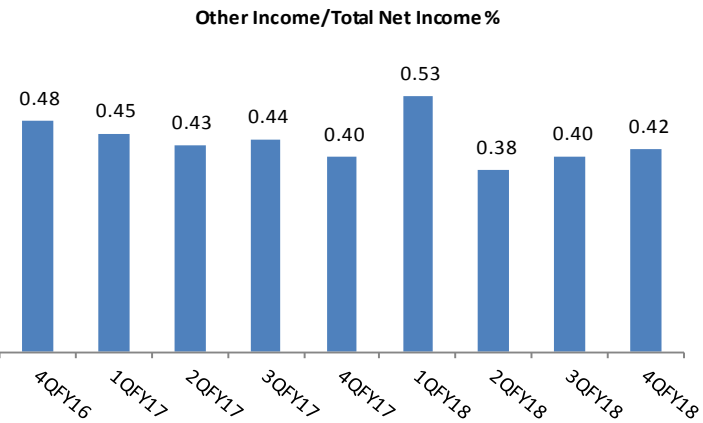


Exhibit: Opex Trend

Elevated C/I Ratio

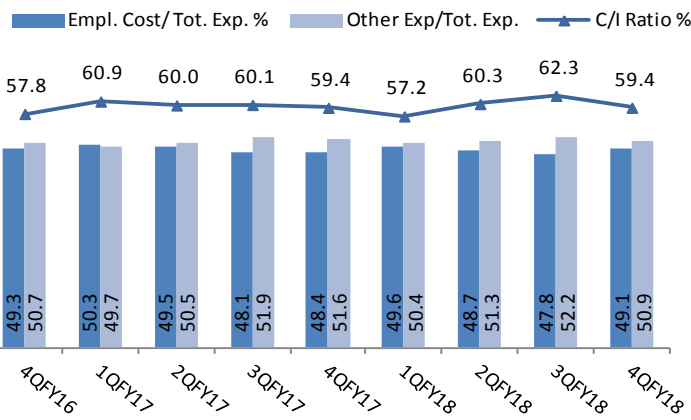


Exhibit: Profitability trend

Growth increase

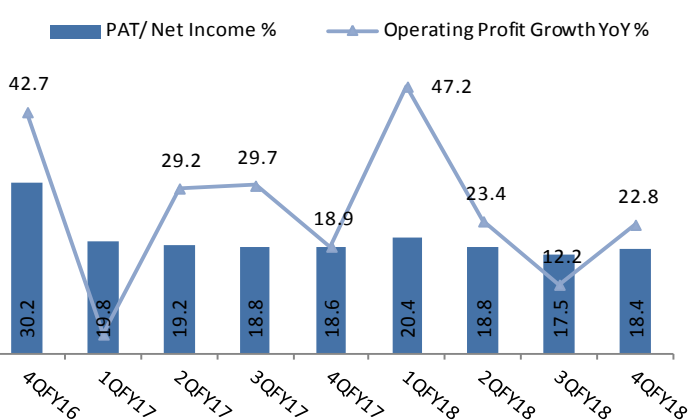


Exhibit: Advances performance

Healthy growth continues

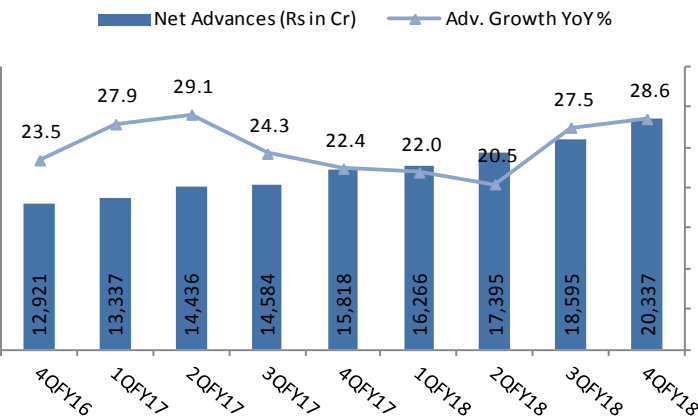


Exhibit: Deposits trend

Spike in deposits

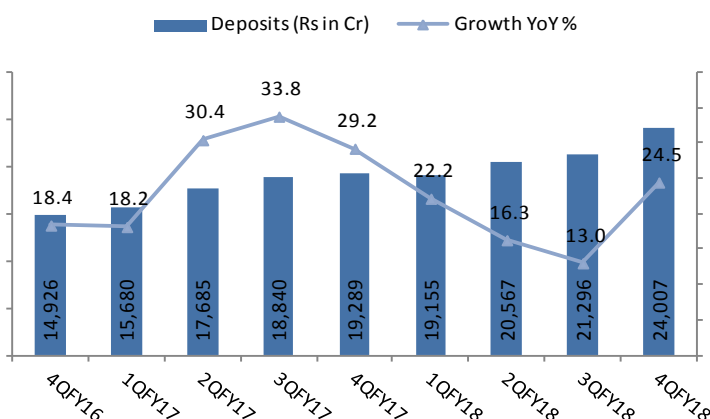


Exhibit: Advances breakup

Diversified

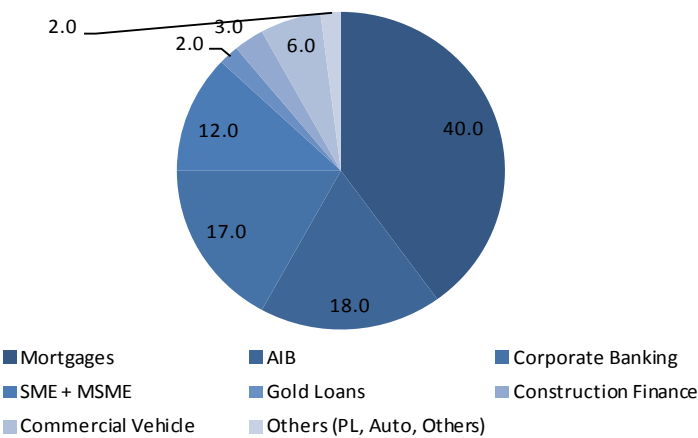
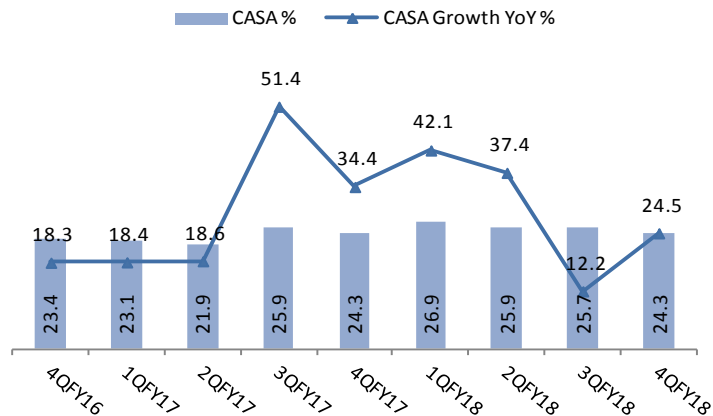


Exhibit: CASA

Stable CASA ratio



Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	255	228	254	285	316	355	369	45%	4%
GNPA %	1.8	1.6	1.6	1.7	1.8	1.9	1.8	0.2	-0.1
NNPA (Rs in Cr)	121	108	124	149	157	162	147	18%	-9%
NNPA %	0.8	0.7	0.8	0.9	0.9	0.9	0.7	-0.07	-0.15
Slippages (Rs in Cr)	50	79	74	89	78	104	81	10%	-22%
Specific PCR %	75.4	75.6	73.8	71.8	72.0	73.4	75.7	3%	3%

GNPA Composition (Rs in Cr)

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Mortgages	46	63	74	67	72	100	116	127	139
AIB	29	40	38	32	37	51	56	63	63
Corporate	86	86	86	65	86	68	68	84	84
SME+MSME	25	28	37	37	32	32	33	37	31
Gold Loans	2	3	6	6	2	7	6	7	11
CV/CE/STVL	9	11	13	18	20	22	29	28	30
Personal Loan	0	0	0	0	0	0	0	0	0
Others	0	0	2	4	5	7	8	8	11

Exhibit: Assets Quality

Improvement in assets quality

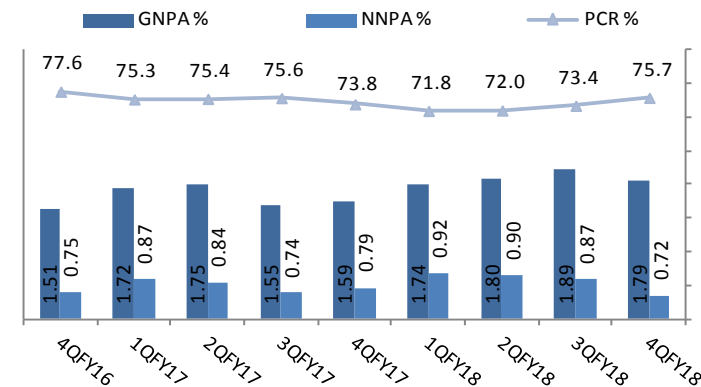
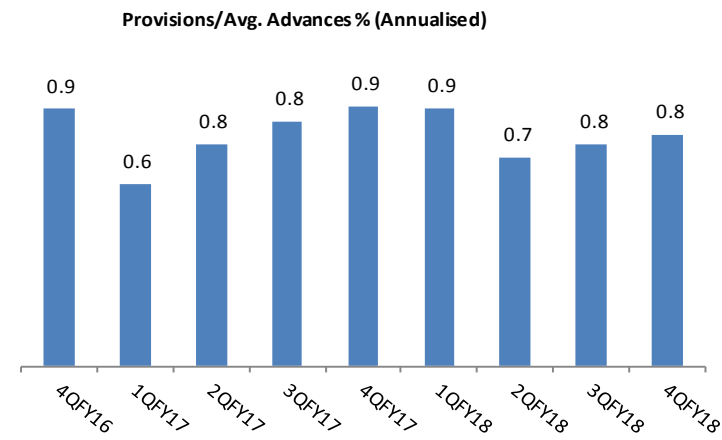


Exhibit: Provisions/Advances

Stable credit cost



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	250	250	282	284	285	308	308	308
>> Equity Capital	250	250	282	284	285	308	308	308
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	753	904	1,307	1,508	1,920	2,500	2,500	2,765
Networth	1,003	1,154	1,589	1,792	2,205	2,808	2,808	3,073
Deposits	8,364	10,325	12,609	14,926	19,289	24,007	24,007	30,263
Change (%)	32.0	23.5	22.1	18.4	29.2	24.5	24.5	26.1
>> CASA Deposits	2,272	2,581	2,950	3,490	4,689	5,840	5,840	8,625
Change (%)	11.6	13.6	14.3	18.3	34.4	24.5	24.5	47.7
Borrowings	1,526	860	1,164	1,148	1,276	1,927	1,927	2,351
Other Liabilities & Provisions	386	584	771	1,252	1,276	1,481	1,481	2,181
Total Liabilities	11,279	12,923	16,132	19,119	24,046	30,222	30,222	37,868
Cash & Bank	883	690	719	892	1,192	2,372	2,372	2,602
Investments	3,359	3,634	3,962	4,333	5,818	6,219	6,219	8,171
Change (%)	33.4	8.2	9.0	9.4	34.3	6.9	6.9	31.4
Advances	6,586	8,140	10,465	12,921	15,818	20,337	20,337	25,421
Change (%)	24.6	23.6	28.6	23.5	22.4	28.6	28.6	25.0
Fixed Assets	239	239	237	248	489	494	494	519
Other Assets	211	221	749	724	730	800	800	1,155
Total Assets	11,279	12,923	16,132	19,119	24,046	30,222	30,222	37,868

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	916	1,128	1,422	1,698	2,076	2,413	2,986	3,751
Interest expended	632	760	914	1,079	1,279	1,418	1,802	2,258
Net Interest Income	284	368	508	620	797	995	1,184	1,494
Change (%)	24.9	29.5	38.0	21.9	28.7	24.9	19.0	26.2
Other Income	117	139	166	220	249	311	379	471
Change (%)	13.9	18.5	19.5	33.0	13.1	24.6	21.8	24.3
>> Core Fee Income	89	101	119	152	176	234	310	388
>> Treasury Income	14	22	28	42	45	46	29	44
>> Others	14	16	19	26	28	32	40	39
Total Net Income	401	507	674	840	1,047	1,306	1,563	1,965
Operating Expenses	275	319	396	491	628	781	914	1,072
Change (%)	11.6	15.9	24.3	23.8	28.0	24.3	17.0	17.3
>> Employee Expenses	138	157	196	245	308	381	450	535
Pre-provisioning Profit	126	188	277	349	418	525	649	893
Change (%)	50.5	49.0	47.6	25.8	19.8	25.5	23.6	37.6
Provisions	24	37	69	88	111	139	149	194
Change (%)	(16.3)	52.1	89.8	26.6	26.8	24.5	7.3	30.3
PBT	102	151	208	261	307	386	500	699
Tax	-	-	17	67	107	141	170	238
Profit After Tax	102	151	191	195	200	245	330	461
Change (%)	85.3	48.3	26.3	1.7	2.7	22.9	34.5	39.8

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	24.6	23.6	28.6	23.5	22.4	28.6	28.6	25.0
Deposit Growth (%)	32.0	23.5	22.1	18.4	29.2	24.5	24.5	26.1
C/D Ratio (%)	78.7	78.8	83.0	86.6	82.0	84.7	84.0	84.0
CASA (%)	27.2	25.0	23.4	23.4	24.3	24.3	28.5	28.5
Investment/Deposit (%)	40.2	35.2	31.4	29.0	30.2	25.9	27.0	27.0
CRAR (%)	13.6	13.7	15.0	14.1	13.8	15.3	14.3	12.8
>> Tier 1 (%)	12.6	12.9	14.2	12.8	11.9	13.4	11.2	10.3
>> Tier 2 (%)	1.0	0.9	0.7	1.3	1.9	1.8	3.1	2.5

Assets Quality Metrics

Gross NPA	215	139	186	197	254	369	462	590
Gross NAP (%)	3.2	1.7	1.8	1.5	1.6	1.8	1.8	1.8
Net NPA	49	74	106	98	124	147	175	206
Net NPA (%)	0.8	0.9	1.0	0.8	0.8	0.7	0.7	0.6
Slippages (%)	-	-	2.2	2.2	2.0	2.2	1.8	1.7
Provision Coverage (%)	77.2	46.6	43.2	50.6	51.0	60.2	62.0	65.0
Provision/Average Advances (%)	0.4	0.5	0.7	0.8	0.8	0.8	0.7	0.7

Margin Metrics

Yield On Advances (%)	12.0	11.8	11.8	11.6	11.5	10.7	10.7	10.6
Yield On Investment (%)	6.7	7.0	7.4	7.4	7.8	7.0	6.9	7.0
Yield on Earning Assets (%)	9.8	9.9	10.4	10.3	10.3	9.4	9.3	9.3
Cost Of Deposits (%)	7.3	7.1	7.3	7.3	6.9	5.9	5.9	5.9
Cost Of Funds (%)	7.0	7.0	7.0	6.9	6.6	5.8	5.9	5.9
Spread (%)	2.8	3.0	3.4	3.4	3.6	3.6	3.4	3.5
NIM (%)	3.0	3.2	3.7	3.7	3.9	3.9	3.7	3.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	69.0	67.3	64.3	63.5	61.6	58.7	60.3	60.2
Fee Income/NII (%)	31.4	27.4	23.5	24.5	22.1	23.5	26.2	26.0
Cost to Income (%)	68.6	62.9	58.8	58.4	60.0	59.8	58.5	54.6
Cost on Average Assets (%)	3.0	2.8	2.9	3.0	3.1	3.1	2.8	2.7
Tax Rate (%)	-	-	8.1	25.5	34.9	36.5	34.0	34.0

Valuation Ratio Metrics

EPS (Rs)	4	6	7	7	7	8	11	15
Change (%)	78.3	48.2	12.1	0.9	2.3	13.8	34.5	39.8
ROAE (%)	10.9	14.0	13.9	11.5	10.0	9.8	11.2	14.1
ROAA (%)	1.0	1.3	1.3	1.1	0.9	0.9	1.0	1.1
Dividend Payout (%)	-	-	-	-	4.2	4.4	4.1	3.7
Dividend yield (%)	-	-	-	-	0.5	0.8	1.0	1.3
Book Value (Rs)	40	46	56	63	77	91	100	113
Change (%)	12.1	14.9	22.2	11.9	22.6	18.0	9.4	13.5
P/B (X)	1.1	1.3	2.0	1.3	2.2	1.8	1.9	1.7
P/E (X)	10.5	10.1	16.4	11.6	24.4	20.3	17.8	12.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	9.3	9.8	9.6	9.6	8.9	8.8	8.8
Interest expended	6.3	6.3	6.1	5.9	5.2	5.3	5.3
Net Interest Income	3.0	3.5	3.5	3.7	3.7	3.5	3.5
Non-Fund Based Income	1.1	1.1	1.3	1.2	1.1	1.1	1.1
>> Core Fee Income	0.8	0.8	0.9	0.8	0.9	0.9	0.9
>> Trading and Other Income	0.3	0.3	0.4	0.3	0.3	0.2	0.2
Core Operating Income	3.9	4.3	4.4	4.5	4.5	4.4	4.4
Total Income	4.2	4.6	4.8	4.8	4.8	4.6	4.6
Total Operating Expenses	2.6	2.7	2.8	2.9	2.9	2.7	2.5
>> Employee Expenses	1.3	1.3	1.4	1.4	1.4	1.3	1.3
>> Other Expenses	1.3	1.4	1.4	1.5	1.5	1.4	1.3
Operating Profit	1.6	1.9	2.0	1.9	1.9	1.9	2.1
Provisions	0.3	0.5	0.5	0.5	0.5	0.4	0.5
Others	-	-	-	-	-	-	-
PBT	1.3	1.4	1.5	1.4	1.4	1.5	1.6
Tax	-	0.1	0.4	0.5	0.5	0.5	0.6
PAT/RoA	1.3	1.3	1.1	0.9	0.9	1.0	1.1
>> Equity Multiplier (x)	11.2	10.6	10.4	10.8	10.8	11.6	12.9
RoE	14.0	13.9	11.5	10.0	9.8	11.2	14.1



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