

# DCB Bank Limited

Industry Financial  
Bloomberg DCBB IN  
BSE CODE 532772

## Growth Moderates Further, NIM Likely To Remain Under Pressure

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>238</b>
<b>Price Target</b>	<b>248</b>
<b>Potential Upside</b>	<b>4%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	244.6/139.5
Mkt Capital (Rs Cr)	6,465
Free float (%)	85%
Avg. Vol 1M (000)	1,255
No. of Shares (Cr)	31
Promoters Pledged %	0%

FINANCIAL	FY19	FY20E	FY21E
NII	1149	1306	1633
PPP	647	798	1084
PAT	325	408	579
NIM %	3.7	3.5	3.6
EPS (Rs)	11	13	19
EPS growth	32	25	42
ROE (%)	11	12	15
ROA (%)	1.0	1.0	1.2
BV	101	113	130
P/B (X)	2.0	2.1	1.8
P/E (x)	19	18	13

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### 1QFY20 Result Update

- Slippages spiked to Rs 148 Cr vs. Rs 101 Cr sequentially. GNPA increased by 14 bps to 1.96% whereas NNPA increased to 16 bps to 0.81% in 1Q FY20. Specific PCR declined to 59% against 65% in 4Q FY19.
- Advances growth slowed down to 13% YoY in 1Q FY20 against the average run rate of 24% in last 4 quarters. Excluding corporate, total advances grew by 19% YoY. Deposits grew by 15% YoY.
- PAT grew by 17% YoY, NII grew by 12% YoY whereas NIM declined by 11 bps to 3.67% mainly due to rise on cost of fund. C/I ratio improved by 279 bps YoY to 57.5% in 1Q FY20. Fee income declined by 7% YoY.
- DCB Bank Ltd. (DCB Bank) has made an offer to Abu Dhabi Commercial Bank (ADCB) to acquire the business of identified customers of their two branches in India (Mumbai and Bangalore).

### NIM Remained Under Pressure

The bank reported muted NII growth of 12%/1% YoY/QoQ backed by lower advances growth of 13%/2% YoY/QoQ in 1QFY20. NIM remained under pressure as it declined by 23/11 bps YoY/QoQ due to higher refinance from institutions like NHB, SIDBI etc from which bank took refinance in September last year in anticipation of increasing rates, however rates declined and the loan taken at higher rates re prices after once year. Management expects NIM to stabilize in next 1 to 2 quarters. Yield improved by 37 bps YoY to 11.58% whereas cost increased by 58 bps/8 bps YoY/QoQ to 7.14% in 1QFY20.

### Slower Business Growth

Advances growth has been moderate with 13% YoY and 2% QoQ. Excluding corporate, total book grew by 19% YoY. Corporate segment de-grew by 13% YoY and corporate composition stood at 13% vs 17% a year ago. The management is focusing to take selective approach in this portfolio. Mortgage grew by 13% YoY, AIB grew by 26% and CV portfolio grew by 32% YoY. Deposits grew by 15% YoY; CASA registered the growth of 14.5% YoY. CASA share is at 24.5%.

### Deterioration in Asset quality

Deterioration in asset quality as decline in GNPA/NNPA of 14/16 bps QoQ to 1.965/0.81%. There was Rs 35-40 Cr of extra slippages from 5 accounts which slipped into NPA, management expects 2 accounts to get recover in next quarter. Management don't see any major issue in the portfolio. However, there are always challenges in corporate accounts. There are 2 accounts which can slip at current environment at any point of time. The slippages have been higher in AIB due to some of the customers of Agri loan who were not able to repay the entire amount. The restructured book went up by Rs 17-18 Cr QoQ on the account of restructuring of an MSME account in the quarter. PCR declined by 318 bps QoQ to 75.59% in 1QFY20.

### View and Valuation

Overall loan book growth continues to moderate for DCB bank as corporate book run downs further considering liquidity and risk management. Refinance at higher rates and focus on retail customer deposits will continue impact the NIM for next 1 or 2 quarters before it stabilises. Improvement in productivity was in line with expectation. However, assets quality deteriorated during the quarter with the spike in slippages mainly from agri and MSME sector; however management expects to recover some of the accounts soon. Loan growth is likely to remain moderate in near term considering slower pick up in operating environment. Factoring slower growth and NIM pressure we reduce our PAT estimate for FY20 by 3%. We maintain HOLD on the stock with the target price of Rs 248 at 1.9x BV FY21E.

### Key Risks to our rating and target.

- Increase in delinquencies in MSME sector
- Intensive competition may restrict yield improvement.

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## 1QFY20 Results Below Expectation

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	701	736	777	827	858	22.3%	3.7%	2,413	3,041	26.0%
Interest Exp.	428	454	484	526	553	29.1%	5.1%	1,418	1,892	33.5%
NII	273	282	294	301	305	11.6%	1.3%	995	1,149	15.5%
Other Income	83	73	94	99	87	4.7%	-12.7%	311	350	12.6%
Total Income	356	355	388	400	392	10.0%	-2.2%	1,306	1,499	14.8%
Ope Exp.	214	209	214	215	225	4.9%	4.7%	781	853	9.1%
PPP	141	146	174	185	167	17.8%	-10.2%	525	647	23.2%
Provisions	33	32	40	35	41	22.3%	16.8%	139	140	0.9%
PBT	108	114	134	151	126	16.4%	-16.4%	386	507	31.2%
Tax	39	41	48	54	45	16%	-17.2%	141	181	28.6%
Net Profit	70	73	86	96	81	16.6%	-15.9%	245	325	33%

### Concall Highlights

- Barring 2-3 quarter issue, management expects NIM to be at steady state of 3.70-3.75%. NIM was impacted during the quarter due to higher refinance from institutions like NHB, SIDBI etc from which bank took refinance in September last year in anticipation of increasing rates, however rates declined and the loan taken at higher rates re prices after once year. During the quarter management also focused on retail customer deposits which also impacted the cost to rise. Management expects NIM to stabilize in next 1 to 2 quarters.
- Under the Fee income there was challenges in term of ATM regulations. Vendor was not able to make it as per compliance and ATM was stopped. There was loss of about Rs 3 Cr of revenue of ATM fee.
- Confident of controlling the cost and over the period of two to three-year, cost to average assets would come down to 215-220 bps. It will impact the major lever for RoA improvement.
- Plans for the business growth is intact, however QoQ there may be some deviation. Loan growth was lower as per expectation as higher ticket size loans were existed intentionally considering the risk appetite of the bank.
- There was Rs 35-40 Cr of extra slippages from 5 accounts which slipped into NPA, management expects 2 accounts to get recover in next quarter. Management don't see any major issue in the portfolio. However, there are always challenges in corporate accounts. There are 2 accounts which can slip at current environment at any point of time.
- The slippages have been higher in AIB due to some of the customers of Agri loan who were not able to repay the entire amount.
- The restructured book went up by Rs 17-18 Cr QoQ on the account of restructuring of an MSME account in the quarter.
- ALM mismatch has been in line with the prescribed limit by regulators and internal control system.
- Risk weighted assets grew by 5% QoQ. The reason being in the first quarter 15% operational risk kicks in.
- The bank will continue to open 15-17 new branches every year. The bank is unlikely to go into any new geography and will deepen its existing geography.
- DCB Bank Ltd. (DCB Bank) has made an offer to Abu Dhabi Commercial Bank (ADCB) to acquire the business of identified customers of their two branches in India (Mumbai and Bengaluru). In this connection, ADCB has granted exclusivity to DCB Bank for a period of 60 days to complete its due diligence and execute definitive documentation for the proposed acquisition which will be subject to such regulatory approvals as may be required. As on May 31, 2019, the balances in the relevant customer accounts amounted to Rs.1, 155 Crs. of Deposits (mostly Retail/ Non-Resident) and Rs.997 Crs. of Advances (mostly Corporate Banking).
- The bank pays 6.15% interest for deposit of more than Rs 1 Cr and for more than Rs 5 Cr, the bank pays 6.5%.
- CASA ratio is targeted to be at 25% in FY20.
- 70-75% of mortgage book is LAP.
- 20% of the branches are in rural areas.

## Profitability Matrix

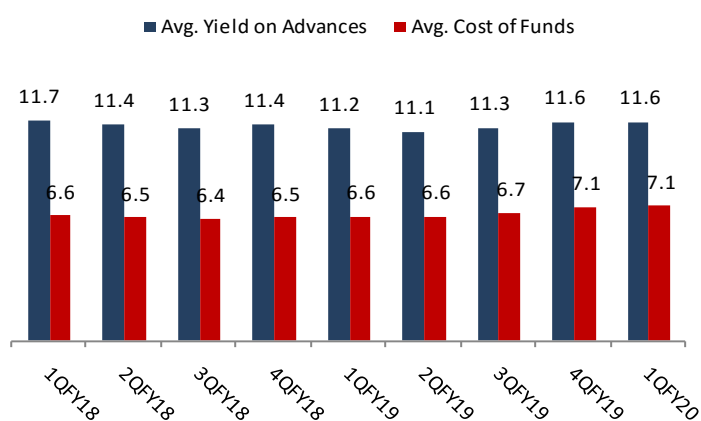
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	62.3	59.4	60.3	58.9	55.2	53.7	57.5	-2.79	3.78
Empl. Cost/ Tot. Exp. %	47.8	49.1	50.7	52.7	51.5	48.8	51.6	0.97	2.84
Other Exp/Tot. Exp.%	52.2	50.9	49.3	47.3	48.5	51.2	48.4	-0.97	-2.84
Provision/PPP %	28.0	27.4	23.5	21.8	23.1	18.8	24.4	0.90	5.64
Tax Rate %	35.4	37.5	35.8	35.7	35.6	36.0	35.6	-0.14	-0.36
Int Exp./Int Inc. (%)	59.0	59.4	61.1	61.7	62.2	63.6	64.5	3.39	0.85
Other Inc./Net Inc. %	20.8	23.0	24.3	23.3	20.7	24.3	24.8	0.48	0.48
PAT/ Net Income %	17.5	18.4	19.5	20.7	22.2	24.1	20.7	1.17	-3.38
RoE %	9.3	10.2	10.8	11.1	12.6	13.7	11.2	0.42	-2.52
RoA %	0.9	0.9	0.9	0.9	1.0	1.1	0.9	-0.01	-0.21

## Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.3	11.4	11.2	11.1	11.3	11.6	11.6	0.37	-0.01
Cost Of Funds	6.4	6.5	6.6	6.6	6.7	7.1	7.1	0.56	0.08
NIM	4.1	4.2	3.9	3.8	3.8	3.8	3.7	-0.23	-0.11

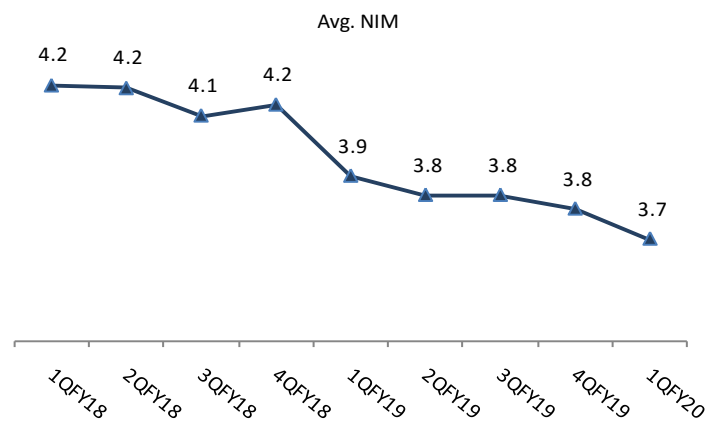
### Exhibit: Yield and Cost

Yield stable



### Exhibit: Net Interest Margin

NIM remained under pressure sequentially



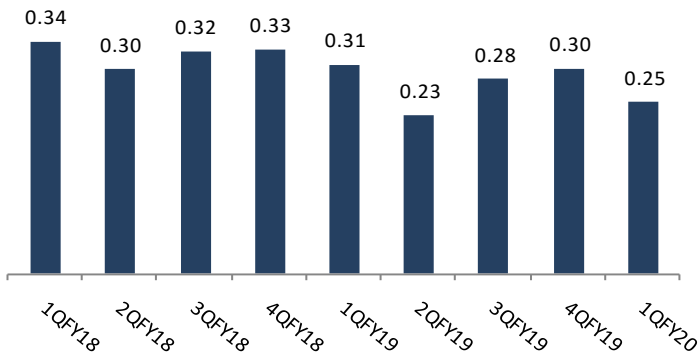
## Other Income Break Up- Decline in fee

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Comm./excha./brokerage	52	48	57	63	60	56	59	65	55
Profit on excha Transac	3	4	4	4	5	5	6	6	6
<b>Total Fee Income</b>	<b>34</b>	<b>12</b>	<b>42</b>	<b>44</b>	<b>18</b>	<b>18</b>	<b>8</b>	<b>6</b>	<b>-7</b>
<b>YoY Growth%</b>	<b>9</b>	<b>34</b>	<b>12</b>	<b>42</b>	<b>44</b>	<b>18</b>	<b>18</b>	<b>8</b>	<b>6</b>
Profit on Sale of Investment	29	7	6	4	15	3	11	9	16
Miscellaneous Income	2	6	9	14	3	9	18	19	11
<b>Other Income</b>	<b>86</b>	<b>65</b>	<b>75</b>	<b>85</b>	<b>83</b>	<b>73</b>	<b>95</b>	<b>99</b>	<b>87</b>
<b>YoY Growth%</b>	<b>43</b>	<b>6</b>	<b>17</b>	<b>33</b>	<b>-3</b>	<b>13</b>	<b>26</b>	<b>17</b>	<b>5</b>

## Exhibit: Fee Income/Advances %

Fee based income increased

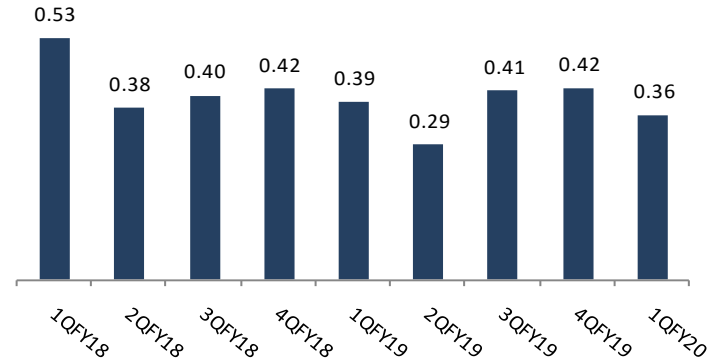
Fee Income/Advances %



## Exhibit: Deposits Growth %

Growth in other income picked-up

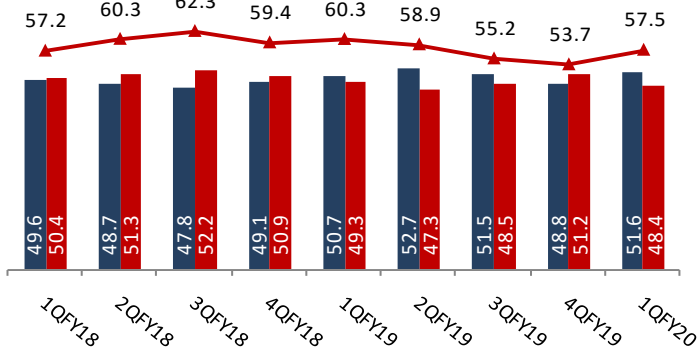
Other Income/Total Net Income %



## Exhibit: Opex Trend

C/I Ratio increased

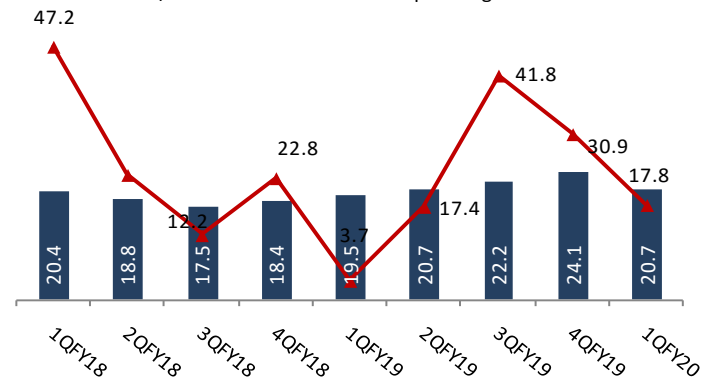
Empl. Cost/ Tot. Exp. % Other Exp/Tot. Exp. C/I Ratio %



## Exhibit: Operating Profit Growth %

Operating profit decreased

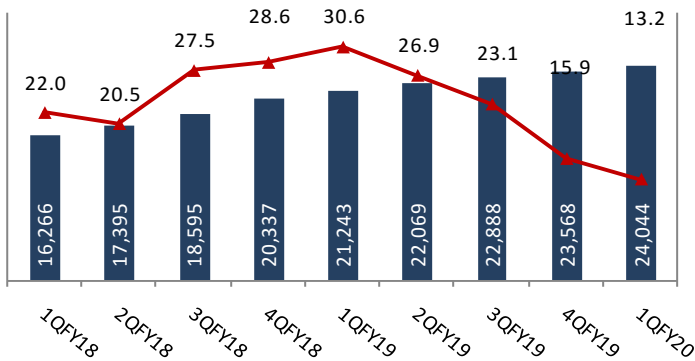
PAT/ Net Income % Operating Profit Growth YoY %



## Exhibit: Advances performance

Advances growth declined

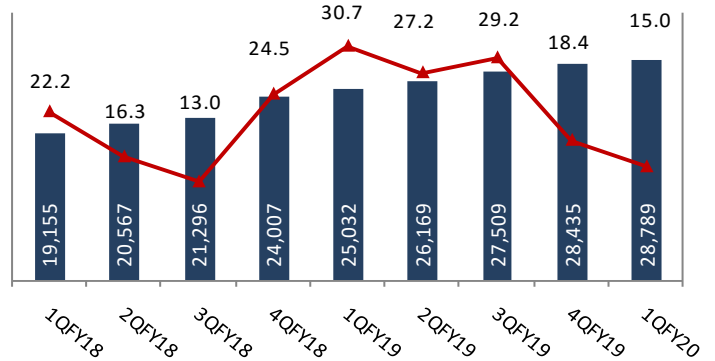
Net Advances (Rs in Cr) Adv. Growth YoY %



## Exhibit: Deposits trend

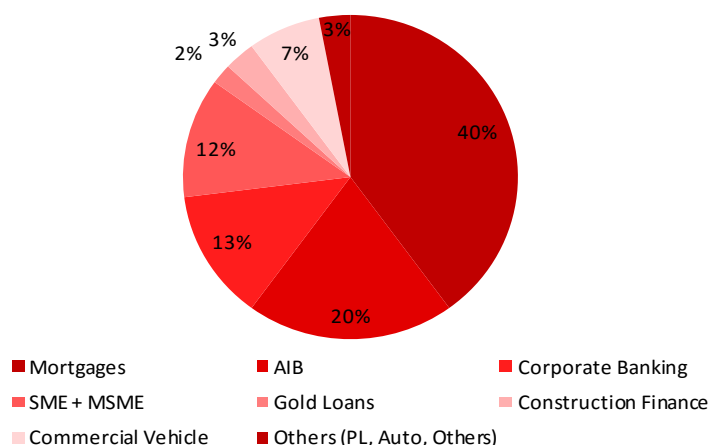
Strong deposits growth

Deposits (Rs in Cr) Growth YoY %



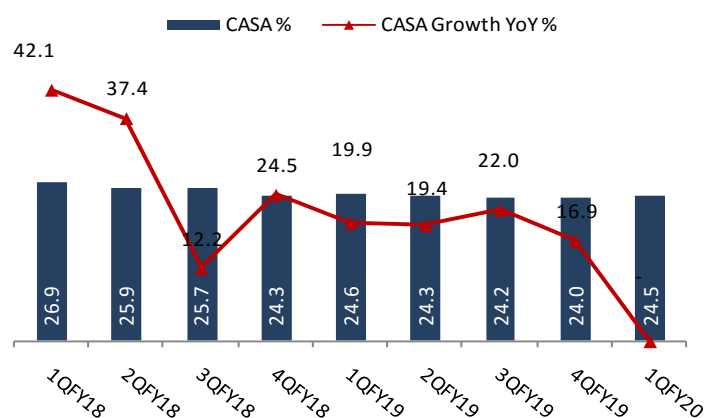
## Exhibit: Advances breakup

Diversified



## Exhibit: CASA

CASA ratio remained stable



## Asset Quality

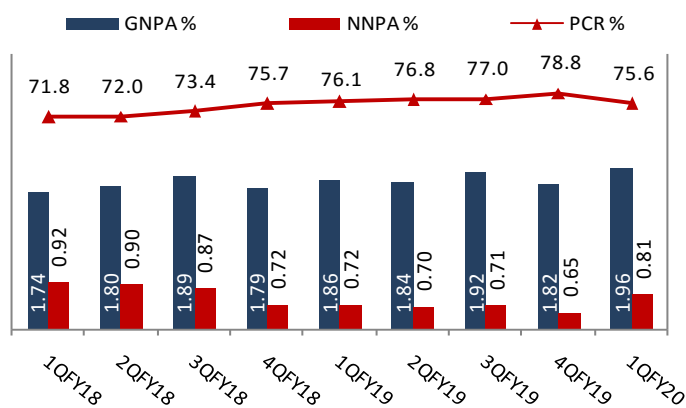
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	355	369	401	410	445	440	476	19%	8%
GNPA %	2	2	2	2	2	2	2	0.1	0.14
NNPA (Rs in Cr)	162	147	154	155	163	154	196	27%	27%
NNPA %	1	1	1	1	1	1	1	0.09	0.16
Slippages (Rs in Cr)	104	81	107	98	115	101	148	38%	47%
PCR %	73	76	76	77	77	79	76	-1%	-4%

## GNPA Composition (Rs in Cr)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Mortgages	100	116	127	139	148	149	161	163	178
AIB	51	56	63	63	73	76	102	98	126
Corporate	68	68	84	84	90	93	78	62	19
SME+MSME	32	33	37	31	34	38	40	43	50
Gold Loans	7	6	7	11	11	10	10	8	9
CV/CE/STVL	22	29	28	30	32	29	39	48	64
Personal Loan	-	-	-	-	-	-	-	-	-
Others	7	8	8	11	13	15	16	18	31

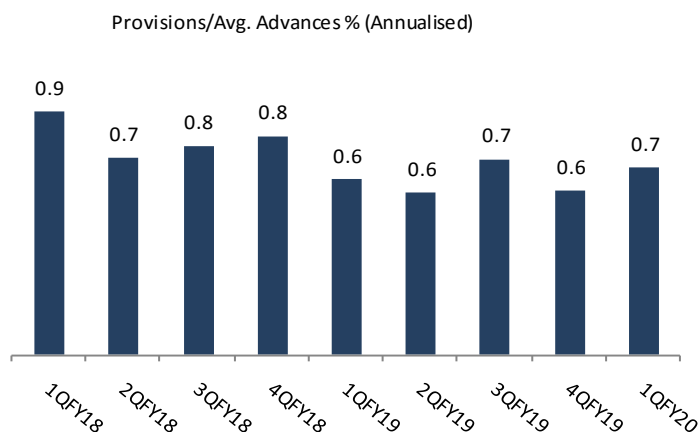
## Exhibit: Asset Quality

Assets quality deteriorates



## Exhibit: Provisions/Advances

Credit cost increased



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>250</b>	<b>282</b>	<b>284</b>	<b>285</b>	<b>308</b>	<b>310</b>	<b>310</b>	<b>310</b>
>> Equity Capital	250	282	284	285	308	310	310	310
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	904	1307	1508	1920	2500	2806	3177	3709
<b>Networth</b>	<b>1154</b>	<b>1589</b>	<b>1792</b>	<b>2205</b>	<b>2808</b>	<b>3116</b>	<b>3486</b>	<b>4019</b>
Deposits	10325	12609	14926	19289	24007	28435	34642	42263
Change (%)	23	22	18	29	24	18	22	22
>> CASA Deposits	2581	2950	3490	4689	5840	6810	8834	10904
Change (%)	14	14	18	34	25	17	30	23
Borrowings	860	1164	1148	1276	1927	2723	3021	3234
Other Liabilities & Provisions	584	771	1252	1276	1481	1518	1777	2167
<b>Total Liabilities</b>	<b>12923</b>	<b>16132</b>	<b>19119</b>	<b>24046</b>	<b>30222</b>	<b>35792</b>	<b>42926</b>	<b>51683</b>
Cash & Bank	690	719	892	1192	2372	2793	3415	3594
Investments	3634	3962	4333	5818	6219	7844	9007	11115
Change (%)	8	9	9	34	7	26	15	23
Advances	8140	10465	12921	15818	20337	23568	28753	35079
Change (%)	24	29	23	22	29	16	22	22
Fixed Assets	239	237	248	489	494	526	552	580
Other Assets	221	749	724	730	800	1060	1198	1315
<b>Total Assets</b>	<b>12923</b>	<b>16132</b>	<b>19119</b>	<b>24046</b>	<b>30222</b>	<b>35792</b>	<b>42926</b>	<b>51683</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,128	1,422	1,698	2,076	2,413	3,041	3,597	4,249
Interest expended	760	914	1,079	1,279	1,418	1,892	2,291	2,616
<b>Net Interest Income</b>	<b>368</b>	<b>508</b>	<b>620</b>	<b>797</b>	<b>995</b>	<b>1,149</b>	<b>1,306</b>	<b>1,633</b>
Change (%)	30	38	22	29	25	15	14	25
Other Income	139	166	220	249	311	350	404	513
Change (%)	18	20	33	13	25	13	15	27
>> Core Fee Income	101	119	152	176	234	262	280	372
>> Treasury Income	22	28	42	45	46	39	57	66
>> Others	16	19	26	28	32	50	67	76
<b>Total Net Income</b>	<b>507</b>	<b>674</b>	<b>840</b>	<b>1,047</b>	<b>1,306</b>	<b>1,499</b>	<b>1,710</b>	<b>2,146</b>
Operating Expenses	319	396	491	628	781	853	912	1,062
Change (%)	16	24	24	28	24	9	7	16
>> Employee Expenses	157	196	245	308	381	434	458	525
<b>Pre-provisioning Profit</b>	<b>188</b>	<b>277</b>	<b>349</b>	<b>418</b>	<b>525</b>	<b>647</b>	<b>798</b>	<b>1,084</b>
Change (%)	49	48	26	20	26	23	23	36
Provisions	37	69	88	111	139	140	169	193
Change (%)	52	90	27	27	24	1	21	14
PBT	151	208	261	307	386	507	629	891
Tax	-	17	67	107	141	181	221	312
<b>Profit After Tax</b>	<b>151</b>	<b>191</b>	<b>195</b>	<b>200</b>	<b>245</b>	<b>325</b>	<b>408</b>	<b>579</b>
Change (%)	48	26	2	3	23	33	25	42

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
Loan Growth (%)	24	29	23	22	29	16	22	22
Deposit Growth (%)	23	22	18	29	24	18	22	22
C/D Ratio (%)	79	83	87	82	85	83	83	83
CASA (%)	25	23	23	24	24	24	26	26
Investment/Deposit (%)	35	31	29	30	26	28	26	26
CRAR (%)	13.7	15.0	14.1	13.8	16.5	16.8	14.6	13.7
>> Tier 1 (%)	12.9	14.2	12.8	11.9	12.7	13.1	11.7	11.3
>> Tier 2 (%)	0.9	0.7	1.3	1.9	3.8	3.7	2.9	2.4

## Assets Quality Metrics

Gross NPA (Rs)	139	186	197	254	369	440	533	674
Gross NPA (%)	1.7	1.8	1.5	1.6	1.8	1.8	1.8	1.9
Net NPA(Rs)	74	106	98	124	147	154	208	245
Net NPA (%)	0.9	1.0	0.8	0.8	0.7	0.7	0.7	0.7
Slippages (%)	-	2.2	2.2	2.0	2.2	2.1	2.1	1.9
Provision Coverage (%)	47	43	51	51	60	65	61	64
Provision/Average Advances (%)	0.5	0.7	0.8	0.8	0.8	0.6	0.6	0.6

## Margin Metrics

Yield On Advances (%)	11.8	11.8	11.6	11.5	10.7	11.2	11.1	10.9
Yield On Investment (%)	7.0	7.4	7.4	7.8	7.0	7.6	7.4	6.6
Yield on Earning Assets (%)	9.9	10.4	10.2	10.2	9.4	9.8	9.7	9.5
Cost Of Deposits (%)	7.1	7.3	7.3	6.9	6.0	6.5	6.5	6.2
Cost Of Funds (%)	7.0	7.0	6.9	6.6	5.8	6.4	6.4	6.1
Spread (%)	2.9	3.3	3.3	3.6	3.6	3.4	3.3	3.4
NIM (%)	3.2	3.7	3.7	3.9	3.9	3.7	3.5	3.6

## Profitability &amp; Efficiency Metrics

Int. Expense/Int.Income (%)	67.3	64.3	63.5	61.6	58.7	62.2	63.7	61.6
Fee Income/NII (%)	27.4	23.5	24.5	22.1	23.5	22.8	21.4	22.8
Cost to Income (%)	62.9	58.8	58.4	60.0	59.8	56.9	53.3	49.5
Cost on Average Assets (%)	2.6	2.7	2.8	2.9	2.9	2.6	2.3	2.2
Tax Rate (%)	-	8.1	25.5	34.9	36.5	35.8	35.1	35.0

## Valuation Ratio Metrics

EPS (Rs)	6.0	6.8	6.8	7.0	8.0	10.5	13.2	18.7
Change (%)	48.2	12.1	0.9	2.3	13.8	32	25.3	42.0
ROAE (%)	14.0	13.9	11.5	10.0	9.8	11.0	12.4	15.4
ROAA (%)	1.3	1.3	1.1	0.9	0.9	1.0	1.0	1.2
Dividend Payout (%)	-	-	-	7.1	9.4	9.5	9.5	8.0
Dividend yield (%)	-	-	-	0.3	0.5	0.5	0.5	0.6
Book Value (Rs)	46	56	63	77	91	101	113	130
Change (%)	15	22	12	23	18	10	12	15
P/B (X)	0.3	2.0	1.3	2.2	1.8	2.0	2.1	1.8
P/E (X)	2.0	16.4	11.6	24.4	20.3	19.5	18.1	12.7

## Financial Details

## Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.8	9.6	9.6	8.9	9.2	9.1	9.0
<i>Interest expended</i>	6.3	6.1	5.9	5.2	5.7	5.8	5.5
<b><i>Net Interest Income</i></b>	<b>3.5</b>	<b>3.5</b>	<b>3.7</b>	<b>3.7</b>	<b>3.5</b>	<b>3.3</b>	<b>3.5</b>
<i>Non-Fund Based Income</i>	1.1	1.3	1.2	1.1	1.1	1.0	1.1
>> Core Fee Income	0.8	0.9	0.8	0.9	0.8	0.7	0.8
>> Trading and Other Income	<b>0.3</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Core Operating Income	4.3	4.4	4.5	4.5	4.3	4.0	4.2
<b><i>Total Income</i></b>	<b>4.6</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.5</b>	<b>4.3</b>	<b>4.5</b>
Total Operating Expenses	2.7	2.8	2.9	2.9	2.6	2.3	2.2
>> Employee Expenses	1.3	1.4	1.4	1.4	1.3	1.2	1.1
>> Other Expenses	1.4	1.4	1.5	1.5	1.3	1.2	1.1
<b><i>Operating Profit</i></b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.3</b>
Provisions	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Others	-	-	-	-	-	-	-
PBT	1.4	1.5	1.4	1.4	1.5	1.6	1.9
Tax	0.1	0.4	0.5	0.5	0.5	0.6	0.7
<b><i>PAT/RoAA</i></b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>
<i>Equity Multiplier (x)</i>	10.6	10.4	10.8	10.8	11.1	11.9	12.6
<b><i>ROAE</i></b>	<b>13.9</b>	<b>11.5</b>	<b>10.0</b>	<b>9.8</b>	<b>11.0</b>	<b>12.4</b>	<b>15.4</b>



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