

DCB Bank Limited

Industry Financial
Bloomberg DCBB IN
BSE CODE 532772

Moderation in growth along with deterioration in asset quality

RATING	BUY
CMP	181
Price Target	221
Potential Upside	22%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	245/148
Mkt Capital (Rs Cr)	5,622
Free float (%)	85%
Avg. Vol 1M (000)	680
No. of Shares (Cr)	31
Promoters Pledged %	0%

Fig.in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1149	1273	1457
PPP	647	755	979
PAT	325	411	590
NIM %	3.7	3.6	3.5
EPS (Rs)	11	13	19
EPS growth	32	26	44
ROE (%)	11	12	16
ROA (%)	1.0	1.1	1.3
BV	101	113	130
P/B (X)	2.0	1.6	1.4
P/E (x)	19	14	10

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2QFY20 Results Update

- ❑ DCBBANK reported muted NII growth of 11%/3% YoY/QoQ in line with our expectations backed by moderating advances growth of 12%/3% YoY/QoQ. NIM remained stable at 3.67% QoQ due to stable cost of funds managed by the bank.
- ❑ Other income reported high growth of 38%/27% YoY/QoQ. OPEX grew by 10% on the account of spike in other expenses. PAT grew by 24%/13% YoY/QoQ.
- ❑ Advances grew by 12%/3% YoY/QoQ driven by retail and AIB segments. The major focus of bank is towards movement to granular book going ahead. Corporate book is expected to be not more than 12% of the total book.
- ❑ Slippages spiked to Rs 161 Cr from Rs 148 Cr last quarter, major slippages and stress reported in CV segment. There have been 2-3 major accounts of Rs 5-8 Cr which slipped to NPA in 2QFY20.

Moderate Advance growth

Advances growth moderated to 12%/3% YoY/QoQ, the growth mainly derived from retail and AIB segments. The bank is focusing more on granular book going ahead making corporate exposure to be not more than 10-12% of the total book. 80% of the loans are of ticket size less than Rs 3 Cr. Retail book grew by 17% YoY whereas AIB grew by 18% YoY. Corporate book had a degrowth of 10% YoY in 2QFY20. Mortgage loans increased by 15%/6% YoY/QoQ. Top 20 depositors' stands at less than 10% of the total depositors and is expected to be around 5% going ahead in 1-2 years. CASA ratio is expected to see some improvement going ahead.

Asset quality deteriorated

Asset quality deteriorated as GNPA/NNPA both increased by 13/15 bps QoQ. Slippages hiked to Rs 161 Cr from Rs 148 Cr last quarter due to stress in CV segment. CV segment reported GNPA growth of 19% QoQ and is expected to be under stress in next 2 quarters as well. The major stress coming from new vehicle loan segment as against used vehicle one. The bank reported high slippages in MSME segment also. There have been no slippages coming from corporate segment. PCR declined by 250 bps to 73% QoQ.

NIM remained stable QoQ

NII reported growth of 11%/3% YoY/QoQ due to slow advance growth of 12%/3% YoY/QoQ. NIM remained stable QoQ to 3.67% in 2QFY20 backed by stable cost of funds QoQ. Yield increased by 46 bps YoY whereas it declined marginally by 5 bps to 11.53%. Cost of funds increased by 54 bps YoY whereas it remained stable QoQ to 7.13% in 2QFY20. The management expects NIM to be at 370-375 bps going ahead.

View and Valuation

Loan book growth has been moderating in last few quarters as the bank focuses on the book to be granular going ahead. Liability mix is also expected to be moving towards the retail term deposits. Stress seen in CV segment showed sign of stress and next few quarters is expected to deteriorate the asset quality of the bank further. Movement to external benchmarking lending rate as well focus on granularity of deposits is expected to put some pressure on the margins going ahead but the management is confident of having 3.70-3.75% NIM going ahead. Due to weakness in loan book growth and concern over the assets quality we reduce our PAT estimates for FY20 by 8%. We cut our target price to Rs 221 at 1.7x BV FY21e and maintain BUY.

Key Risks to our rating and target.

- ❑ Increase in delinquencies in CV segment
- ❑ Intensive competition may restrict yield improvement.

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2QFY20 Results Below Expectation

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig.in Rs Cr
										YoY %
Interest Inc.	736	777	827	858	879	19.5%	2.5%	2,413	3,041	26.0%
Interest Exp.	454	484	526	553	566	24.7%	2.3%	1,418	1,892	33.5%
NII	282	294	301	305	313	11.2%	2.8%	995	1,149	15.5%
Other Income	73	94	99	87	101	38.0%	16.9%	311	350	12.6%
Total Income	355	388	400	392	415	16.7%	5.9%	1,306	1,499	14.8%
Opex Exp.	209	214	215	225	230	10.0%	2.3%	781	853	9.1%
PPP	146	174	185	167	185	26.3%	10.8%	525	647	23.2%
Provisions	32	40	35	41	43	35.6%	6.5%	139	140	0.9%
PBT	114	134	151	126	141	23.7%	12.2%	386	507	31.2%
Tax	41	48	54	45	50	22%	11.2%	141	181	28.6%
Net Profit	73	86	96	81	91	24.5%	12.8%	245	325	33%

Concall Highlights

- NIM is expected to be at 370-375 bps going ahead.
- Cost/Average assets stands at 2.5% and is expected to be at 2.25-2.2% in next 2 years time.
- ROE is expected to be at 15.5% going ahead.
- Fee income/Average Assets stands at 85-90 bps and is expected to be at 110-115 bps going ahead.
- The major focus of bank is towards movement to retail term deposits going ahead. Top 20 depositors' stands at less than 10% of the total depositors and is expected to be around 5% going ahead in 1-2 years. CASA ratio is expected to see some improvement going ahead.
- Most of the Inter Bank Deposits are from cooperative banks.
- The bank sees no stress in NBFC portfolio. The major stress is there in CV segment which is expected to be challenging for next 2 quarters and is expected to see similar level of slippages. In CV new vehicle segment reports more stress than the used vehicle segment.
- Slippages stood at Rs 161 Cr as against RS 148 Cr in last quarter, there has been 2-3 large account of Rs 5-8 Cr which slipped.
- The standard restructured book stands at Rs 40 Cr.
- The bank is focusing on granular book more, 80% of the loans are of ticket size less than Rs 3 Cr.
- Abu Dhabi Commercial Bank numbers will be consolidated in the bank's books from 3QFY20. The bank has portfolio of RS 700-800 Cr deposits and RS 300-400 Cr advances, largely corporate and AIB segment.
- Corporate loan book is expected to be not more than 10-12% of total portfolio going ahead.
- 15 new branches are expected to be opened in next 2 quarters.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	59.4	60.3	58.9	55.2	53.7	57.5	55.5	-3.37	-1.95
Empl. Cost/ Tot. Exp. %	49.1	50.7	52.7	51.5	48.8	51.6	49.8	-2.86	-1.85
Other Exp/Tot. Exp.%	50.9	49.3	47.3	48.5	51.2	48.4	50.2	2.86	1.85
Provision/PPP %	27.4	23.5	21.8	23.1	18.8	24.4	23.4	1.62	-0.95
Tax Rate %	37.5	35.8	35.7	35.6	36.0	35.6	35.3	-0.41	-0.33
Int Exp./Int Inc. (%)	59.4	61.1	61.7	62.2	63.6	64.5	64.4	2.67	-0.11
Other Inc./Net Inc. %	23.0	24.3	23.3	20.7	24.3	24.8	22.2	-1.12	-2.67
PAT/ Net Income %	18.4	19.5	20.7	22.2	24.1	20.7	22.0	1.37	1.34
RoE %	10.2	10.8	11.1	12.6	13.7	11.2	12.3	1.21	1.17
RoA %	0.9	0.9	0.9	1.0	1.1	0.9	1.0	0.09	0.10

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.4	11.2	11.1	11.3	11.6	11.6	11.5	0.46	-0.05
Cost Of Funds	6.5	6.6	6.6	6.7	7.1	7.1	7.1	0.54	-0.01
NIM	4.2	3.9	3.8	3.8	3.8	3.7	3.7	-0.16	0.00

Exhibit: Yield and Cost

Yield stable: Cost Stable

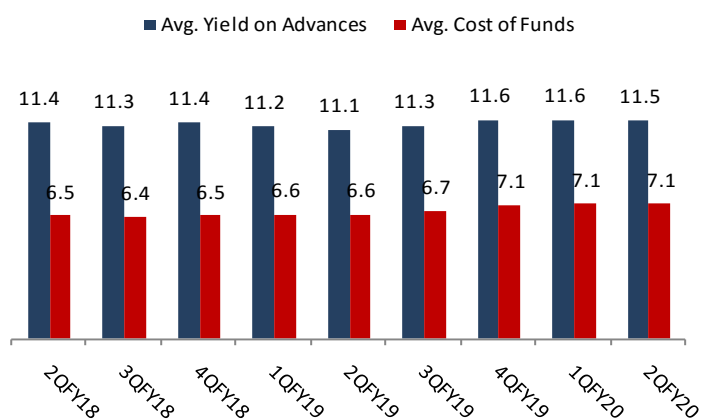
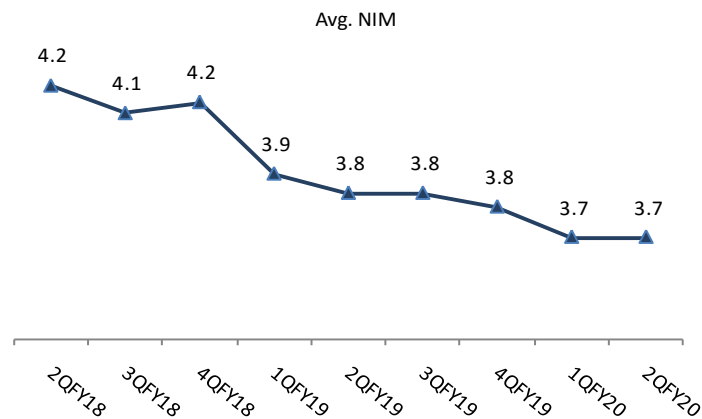


Exhibit: Net Interest Margin

NIM remained stable sequentially



Other Income Break Up- Decline in fee

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Comm./excha./brokerage	48	57	63	60	56	59	65	55	58
Profit on excha Transac	4	4	4	5	5	6	6	6	3
Total Fee Income	52	60	67	65	61	65	71	60	61
YoY Growth%	12	41	44	18	18	7	6	-7	0
Profit on Sale of Investment	7	6	4	15	3	11	9	16	25
Miscellaneous Income	6	9	14	3	9	18	19	11	15
Other Income	65	75	85	83	73	95	99	87	101
YoY Growth%	5	17	33	-3	13	26	16	4	38

Exhibit: Fee Income/Advances %

Fee based income

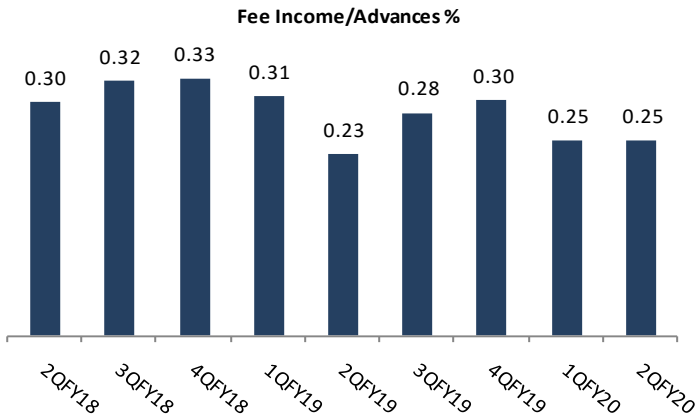


Exhibit: Deposits Growth %

Growth in other income picked-up

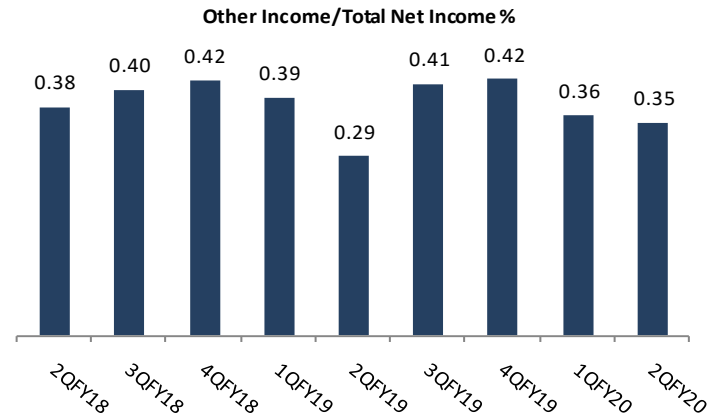


Exhibit: Opex Tre 245/148

C/I Ratio improved

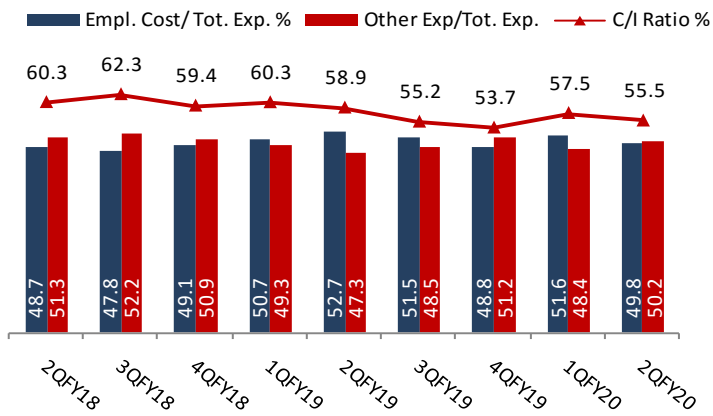


Exhibit: Operating Profit Growth %

Operating profit increased

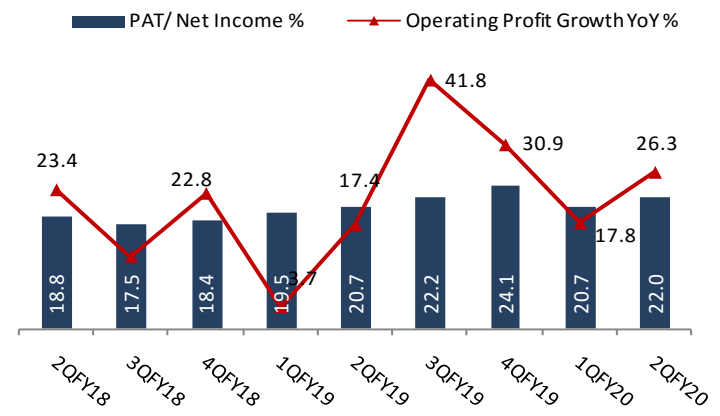


Exhibit: Advances performance

Advances growth declined

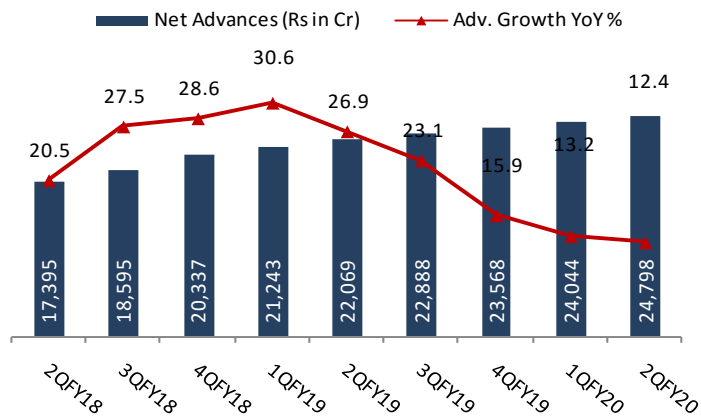


Exhibit: Deposits trend

Strong deposits growth

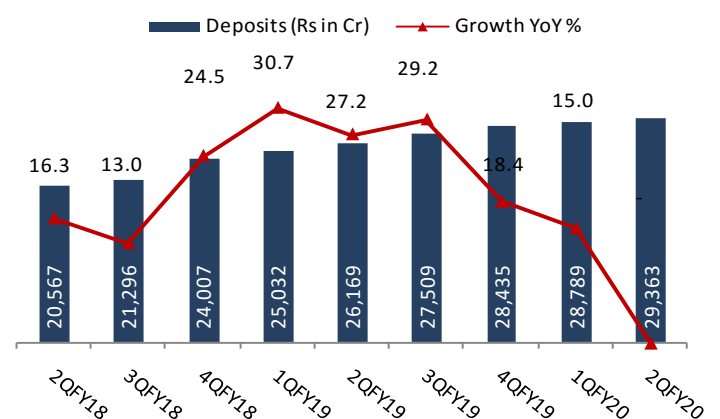


Exhibit: Advances breakup

Diversified

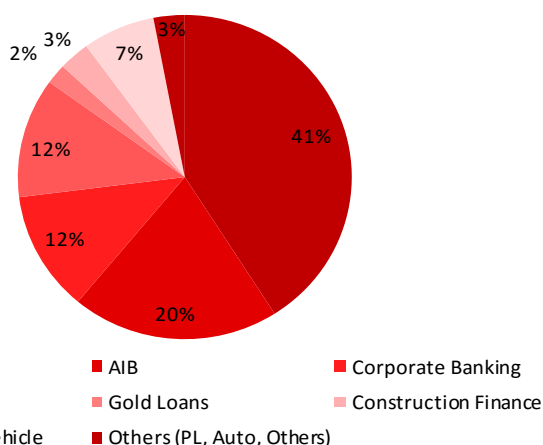
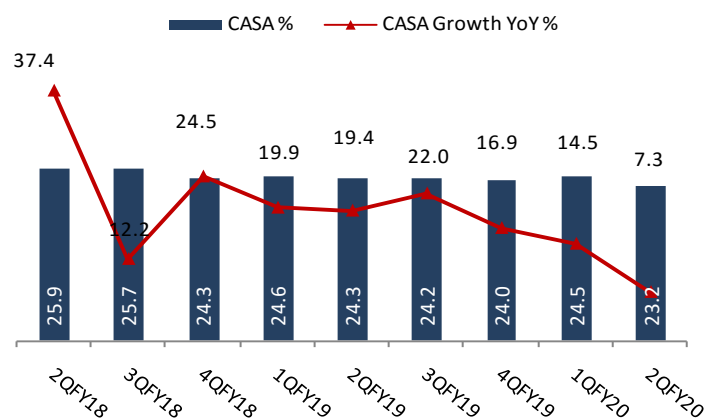


Exhibit: CASA

CASA ratio decreased



Asset Quality

Fig.in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	369	401	410	445	440	476	523	28%	10%
GNPA %	2	2	2	2	2	2	2	0.25	0.13
NNPA (Rs in Cr)	147	154	155	163	154	196	238	53%	22%
NNPA %	1	1	1	1	1	1	1	0.26	0.15
Slippages (Rs in Cr)	81	107	98	115	101	148	161	65%	9%
PCR %	76	76	77	77	79	76	73	-5%	-3%

GNPA Composition (Rs in Cr)

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Mortgages	116	127	139	148	149	161	163	178	202
AIB	56	63	63	73	76	102	98	126	106
Corporate	68	84	84	90	93	78	62	19	19
SME+MSME	33	37	31	34	38	40	43	50	74
Gold Loans	6	7	11	11	10	10	8	9	12
CV/CE/STVL	29	28	30	32	29	39	48	64	76
Personal Loan	-	-	-	-	-	-	-	-	-
Others	8	8	11	13	15	16	18	31	35

Exhibit: Asset Quality

Assets quality deteriorates

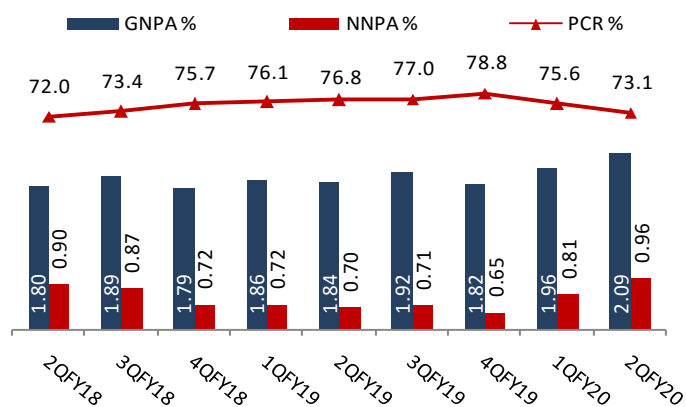
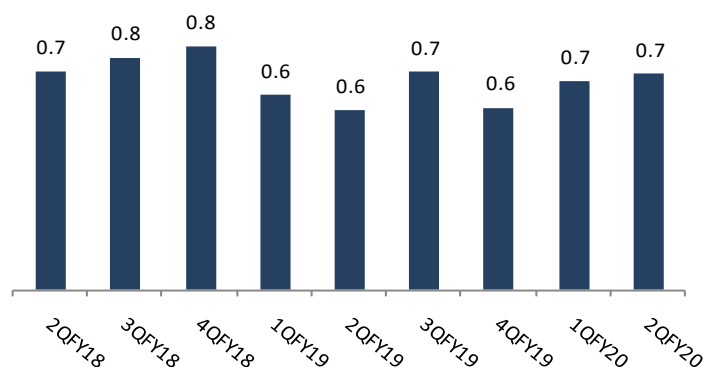


Exhibit: Provisions/Advances

Credit cost

Provisions/Avg. Advances % (Annualised)



Financial Details

Balance Sheet

Fig.in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	250	282	284	285	308	310	310	310
>> 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	3180	3723
Networth	1154	1589	1792	2205	2808	3116	3489	4033
Deposits	10325	12609	14926	19289	24007	28435	32087	38504
Change (%)	23	22	18	29	24	18	13	20
>> CASA Deposits	2581	2950	3490	4689	5840	6810	7540	9626
Change (%)	14	14	18	34	25	17	11	28
Borrowings	860	1164	1148	1276	1927	2723	2824	2965
Other Liabilities & Provisions	584	771	1252	1276	1481	1518	1645	1975
Total Liabilities	12923	16132	19119	24046	30222	35792	40045	47476
Cash & Bank	690	719	892	1192	2372	2793	3088	3344
Investments	3634	3962	4333	5818	6219	7844	8663	10396
Change (%)	8	9	9	34	7	26	10	20
Advances	8140	10465	12921	15818	20337	23568	26632	31958
Change (%)	24	29	23	22	29	16	13	20
Fixed Assets	239	237	248	489	494	526	552	580
Other Assets	221	749	724	730	800	1060	1110	1198
Total Assets	12923	16132	19119	24046	30222	35792	40045	47476

Income Statement

Fig.in Rs Cr

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	3,562	4,079
Interest expended	760	914	1,079	1,279	1,418	1,892	2,289	2,623
Net Interest Income	368	508	620	797	995	1,149	1,273	1,457
Change (%)	30	38	22	29	25	15	11	14
Other Income	139	166	220	249	311	350	396	482
Change (%)	18	20	33	13	25	13	13	22
>> Core Fee Income	101	119	152	176	234	262	257	313
>> Treasury Income	22	28	42	45	46	39	76	106
>> Others	16	19	26	28	32	50	64	63
Total Net Income	507	674	840	1,047	1,306	1,499	1,670	1,939
Operating Expenses	319	396	491	628	781	853	915	959
Change (%)	16	24	24	28	24	9	7	5
>> Employee Expenses	157	196	245	308	381	434	460	475
Pre-provisioning Profit	188	277	349	418	525	647	755	979
Change (%)	49	48	26	20	26	23	17	30
Provisions	37	69	88	111	139	140	167	184
Change (%)	52	90	27	27	24	1	19	10
PBT	151	208	261	307	386	507	588	795
Tax	-	17	67	107	141	181	177	205
Profit After Tax	151	191	195	200	245	325	411	590
Change (%)	48	26	2	3	23	33	26	44

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	24	29	23	22	29	16	13	20
Deposit Growth (%)	23	22	18	29	24	18	13	20
C/D Ratio (%)	79	83	87	82	85	83	83	83
CASA (%)	25	23	23	24	24	24	24	25
Investment/Deposit (%)	35	31	29	30	26	28	27	27
CRAR (%)	13.7	15.0	14.1	13.8	16.5	16.8	15.7	15.0
>> Tier 1 (%)	12.9	14.2	12.8	11.9	12.7	13.1	12.6	12.4
>> Tier 2 (%)	0.9	0.7	1.3	1.9	3.8	3.7	3.1	2.6

Assets Quality Metrics

Gross NPA (Rs)	139	186	197	254	369	440	613	731
Gross NPA (%)	1.7	1.8	1.5	1.6	1.8	1.8	2.3	2.3
Net NPA(Rs)	74	106	98	124	147	154	316	344
Net NPA (%)	0.9	1.0	0.8	0.8	0.7	0.7	1.2	1.1
Slippages (%)	-	2.2	2.2	2.0	2.2	2.1	2.6	2.2
Provision Coverage (%)	47	43	51	51	60	65	48	53
Provision/Average Advances (%)	0.5	0.7	0.8	0.8	0.8	0.6	0.7	0.6

Margin Metrics

Yield On Advances (%)	11.8	11.8	11.6	11.5	10.7	11.2	11.4	11.3
Yield On Investment (%)	7.0	7.4	7.4	7.8	7.0	7.6	7.6	6.9
Yield on Earning Assets (%)	9.9	10.4	10.2	10.2	9.4	9.8	10.0	9.8
Cost Of Deposits (%)	7.1	7.3	7.3	6.9	6.0	6.5	6.8	6.8
Cost Of Funds (%)	7.0	7.0	6.9	6.6	5.8	6.4	6.7	6.6
Spread (%)	2.9	3.3	3.3	3.6	3.6	3.4	3.3	3.2
NIM (%)	3.2	3.7	3.7	3.9	3.9	3.7	3.6	3.5

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	67.3	64.3	63.5	61.6	58.7	62.2	64.3	64.3
Fee Income/NII (%)	27.4	23.5	24.5	22.1	23.5	22.8	20.2	21.5
Cost to Income (%)	62.9	58.8	58.4	60.0	59.8	56.9	54.8	49.5
Cost on Average Assets (%)	2.6	2.7	2.8	2.9	2.9	2.6	2.4	2.2
Tax Rate (%)	-	8.1	25.5	34.9	36.5	35.8	30.2	25.8

Valuation Ratio Metrics

EPS (Rs)	6.0	6.8	6.8	7.0	8.0	10.5	13.3	19.1
Change (%)	48.2	12.1	0.9	2.3	13.8	32	26.2	43.8
ROAE (%)	14.0	13.9	11.5	10.0	9.8	11.0	12.4	15.7
ROAA (%)	1.3	1.3	1.1	0.9	0.9	1.0	1.1	1.3
Dividend Payout (%)	-	-	-	7.1	9.4	9.5	9.4	7.9
Dividend yield (%)	-	-	-	0.3	0.5	0.5	0.7	0.8
Book Value (Rs)	46	56	63	77	91	101	113	130
Change (%)	15	22	12	23	18	10	12	16
P/B (X)	0.3	2.0	1.3	2.2	1.8	2.0	1.6	1.4
P/E (X)	2.0	16.4	11.6	24.4	20.3	19.5	13.7	9.5

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	9.4	9.3
<i>Interest expended</i>	6.3	6.1	5.9	5.2	5.7	6.0	6.0
<i>Net Interest Income</i>	3.5	3.5	3.7	3.7	3.5	3.4	3.3
<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	0.7
>> Trading and Other Income	0.3	0.4	0.3	0.3	0.3	0.4	0.4
Core Operating Income	4.3	4.4	4.5	4.5	4.3	4.0	4.0
<i>Total Income</i>	4.6	4.8	4.8	4.8	4.5	4.4	4.4
Total Operating Expenses	2.7	2.8	2.9	2.9	2.6	2.4	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
<i>Operating Profit</i>	1.9	2.0	1.9	1.9	2.0	2.0	2.2
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	1.8
Tax	0.1	0.4	0.5	0.5	0.5	0.5	0.5
<i>PAT/RoAA</i>	1.3	1.1	0.9	0.9	1.0	1.1	1.3
<i>Equity Multiplier (x)</i>	10.6	10.4	10.8	10.8	11.1	11.5	11.6
<i>ROAE</i>	13.9	11.5	10.0	9.8	11.0	12.4	15.7

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