

Industry
Bloomberg
BSE CODE

Financial
DCBB IN
532772

RATING	BUY
CMP	182
Price Target	181
Potential Upside	-1%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	245/165
Mkt Capital (Rs Cr)	5,642
Free float (%)	85%
Avg. Vol 1M (,000)	899
No. of Shares (Crs)	31
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1149	1272	1418
PPP	647	747	936
PAT	325	385	550
NIM %	3.7	3.6	3.6
EPS (Rs)	11	12	18
EPS growth (%)	32	18	43
ROE (%)	11	12	15
ROA (%)	1.0	1.0	1.3
BV	101	112	128
P/B (X)	2.0	1.6	1.4
P/E (x)	19	15	10

RESEARCH ANALYST

DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

AYUSHI GOYAL

aayushi.goyal@narnolia.com

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Muted Advances Growth Along With Poor Asset Quality

3QFY20 Result Update

- DCBBANK reported muted NII growth of 10%/3% YoY/QoQ in line with our expectations backed by moderating advances growth of 11%/3% YoY/QoQ. NIM remained stable at 3.71% QoQ marginal increase of 3 bps QoQ due to stable cost of funds managed by the bank.
- Other income reported degrowth of 1%/8% YoY/QoQ. OPEX grew by 6% YoY on the account of spike in other expenses however they declined by 2% on sequential basis. PAT grew by 12%/6% YoY/QoQ on the account of high provisioning.
- Advances grew by 11%/3% YoY/QoQ driven by retail segment. Retail book grew by 16% YoY. In retail book AIB segment reported growth of 23%/8% YoY/QoQ. The major focus of bank is towards movement to granular book going ahead.
- Slippages spiked to Rs 202 Cr from Rs 161 Cr last quarter, major slippages and stress reported in CV segment.

Muted Advances growth

Advances growth moderated to 11%/3% YoY/QoQ, the growth mainly derived from retail and AIB segments. The bank is focusing more on granular book going ahead. Retail book grew by 16% YoY whereas AIB grew by 23% YoY. Corporate book had a degrowth of 11% YoY in 3QFY20. Mortgage loans increased by 14%/3% YoY/QoQ. Management believe that they should be able to double the book in 3 - 3.5 years or so, and which is what they have been doing but this year has been challenging enough.

Asset quality deteriorated

Asset quality deteriorated as GNPA/NNPA both increased by 6/7 bps QoQ. Slippages hiked to Rs 202 Cr from Rs 161 Cr last quarter due to stress in CV segment. Slippages include a Corporate Loan of Rs 41.8 Cr of a customer banking with bank for the past 9 years. CV segment reported GNPA growth of 32% QoQ. The major stress coming from new vehicle loan segment as against used vehicle one. The bank reported high slippages in corporate segment also. PCR declined by 111 bps to 72% QoQ.

NIM remained stable QoQ

NII reported growth of 10%/3% YoY/QoQ due to slow advance growth of 11%/3% YoY/QoQ. NIM remained stable QoQ to 3.71% in 3QFY20 backed by decline cost of funds QoQ. Yield remained stable at 11.52% whereas cost had marginal dip of 3 bps to 7.10% QoQ reason for expansion in margins. Cost of deposits also declined by 4 bps to 6.96% in 3QFY20. Margins are expected to be in the range of 3.7-3.75% going ahead.

View and Valuation

Deterioration in asset quality in last few quarters along with slow to almost muted advances growth has shown sign of concern for the bank. Due to slowdown in the economy and pressure in CV and SME segment, growth and asset quality concern will continue to persist in near term. However margins have been at better pace in last quarters and management expects margins to be in range of 3.7-3.75% going ahead but stress in CV segment in overall industry and bank's movement towards granularity causes the growth to remain muted. The bank focuses on liability mix also to be retail going ahead. We largely maintain our PAT for FY21 and maintain our target price at Rs 181 at 1.4x BV FY21 and maintain NEUTRAL.

Key Risks to our rating and target.

- Increase in delinquencies in CV segment
- Loan book growth

3QFY20 Results Below Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	777	827	858	879	898	15.5%	2.1%	2,413	3,041	26.0%
Interest Exp.	484	526	553	566	575	18.8%	1.6%	1,418	1,892	33.5%
NII	294	301	305	313	323	10.0%	3.1%	995	1,149	15.5%
Other Income	94	99	87	101	93	-1.5%	-8.2%	311	350	12.6%
Total Income	388	400	392	415	416	7.2%	0.3%	1,306	1,499	14.8%
Ope Exp.	214	215	225	230	226	5.6%	-1.7%	781	853	9.1%
PPP	174	185	167	185	190	9.3%	2.9%	525	647	23.2%
Provisions	40	35	41	43	59	47.0%	36.4%	139	140	0.9%
PBT	134	151	126	141	131	-2.0%	-7.3%	386	507	31.2%
Tax	48	54	45	50	34	-28.0%	-31.4%	141	181	28.6%
Net Profit	86	96	81	91	97	12.3%	5.8%	245	325	32.7%

Concall Highlights

- Margins are expected to be in the range of 3.7-3.75% going ahead.
- Fee income is expected to be at growing at 12-14% going ahead. Other income to Average Asset is expected to go up to 110 bps from 90 bps currently.
- Cost of deposits are going down as the bank targets to be one of the best in industry in terms of top 20 depositors in next 2 years period for which some pricing advantage has to be there.
- The slippages stood at Rs 202 Cr as against Rs 162 Cr last quarter which includes a Corporate Loan of Rs 41.8 Cr of a customer banking with bank for the past 9 years. DCB Bank is the sole banker with tangible collateral in the form of land, building and factory.
- The management expects the growth to pickup from 2Q of next financial year. The bank sees opportunity in home loan segment and SME.
- The company has non-funded exposure of Rs.30 Cr in the form of bank guarantees issued on their behalf .The bank guarantees are secured by 50% cash margin in the form of term deposits.
- The management does not see any trouble in AIB segment going ahead as it has a diverse portfolio of tractorloan, microfinance, KCC, SME loans for rural area.
- There are 2-3 accounts of Rs 20-30 Cr which are under stress.
- The bank is expecting to open 14-15 branches in 4QFY20 itself.
- The ticket size for CV segment stands at Rs 10-20 lakhs.
- Management believe that they should be able to double the book in 3 - 3.5 years or so, and which is what they have been doing but this year has been challenging enough.
- Rs 300 Cr of corporate loan book came from Abu Dhabi Commercial Bank where average ticket size is Rs 52 Cr.
- The bank has done provisioning 25% on Rs 41 Cr of corporate account slipped in this quarter.
- The bank had one account slipped to NPA in 4QFY19 which has been recovered in this quarter and recovery amount stood at Rs 7 Cr.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	60.3	58.9	55.2	53.7	57.5	55.5	54.4	-0.86	-1.14
Empl. Cost/ Tot. Exp. %	50.7	52.7	51.5	48.8	51.6	49.8	51.1	-0.38	1.28
Other Exp/Tot. Exp.%	49.3	47.3	48.5	51.2	48.4	50.2	48.9	0.38	-1.28
Provision/PPP %	23.5	21.8	23.1	18.8	24.4	23.4	31.1	7.97	7.62
Tax Rate %	35.8	35.7	35.6	36.0	35.6	35.3	26.1	-9.44	-9.15
Int Exp./Int Inc. (%)	61.1	61.7	62.2	63.6	64.5	64.4	64.0	1.79	-0.35
Other Inc./Net Inc. %	24.3	23.3	20.7	24.3	24.8	22.2	24.4	3.76	2.29
PAT/ Net Income %	19.5	20.7	22.2	24.1	20.7	22.0	23.2	1.05	1.20
RoE %	10.8	11.1	12.6	13.7	11.2	12.3	12.7	0.03	0.33
RoA %	0.9	0.9	1.0	1.1	0.9	1.0	1.0	0.00	0.04

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.2	11.1	11.3	11.6	11.6	11.5	11.5	0.26	-0.01
Cost Of Funds	6.6	6.6	6.7	7.1	7.1	7.1	7.1	0.36	-0.03
NIM	3.9	3.8	3.8	3.8	3.7	3.7	3.7	-0.12	0.04

Exhibit: Yield and Cost

Yield stable:Cost Stable

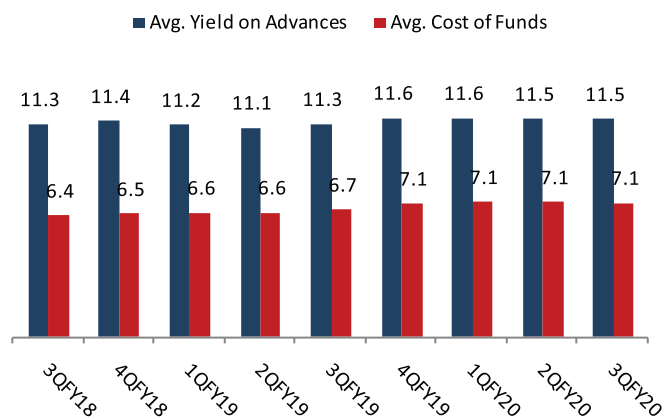
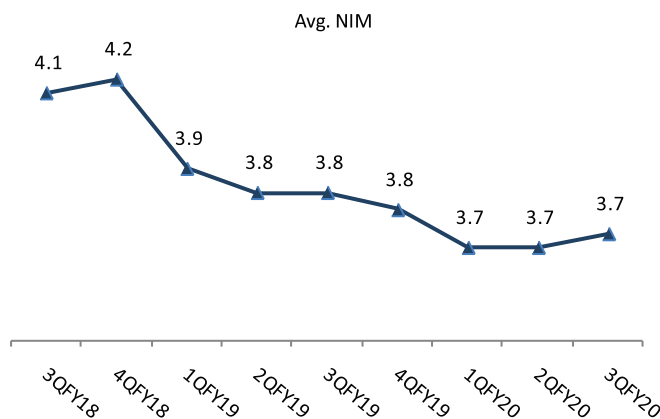


Exhibit: Net Interest Margin

NIM remained stable sequentially



Other Income Break Up- Decline in fee income.

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Comm./excha./brokerage	57	63	60	56	59	65	55	58	63
Profit on excha Transac	4	4	5	5	6	6	6	3	5
Total Fee Income	60	67	65	61	65	71	60	61	68
YoY Growth%	41	44	18	18	7	6	-7	0	4
Profit on Sale of Investment	6	4	15	3	11	9	16	25	7
Miscellaneous Income	9	14	3	9	18	19	11	15	19
Other Income	75	85	83	73	95	99	87	101	93
YoY Growth%	17	33	-3	13	26	16	4	38	-1

Exhibit: Fee Income/Advances %

Fee based income

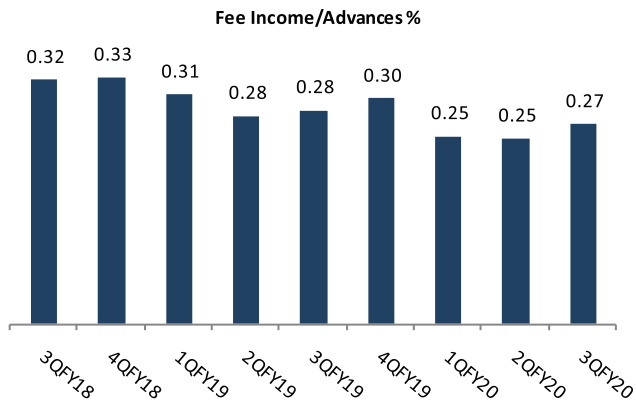


Exhibit: Deposits Growth %

Other income declined QoQ

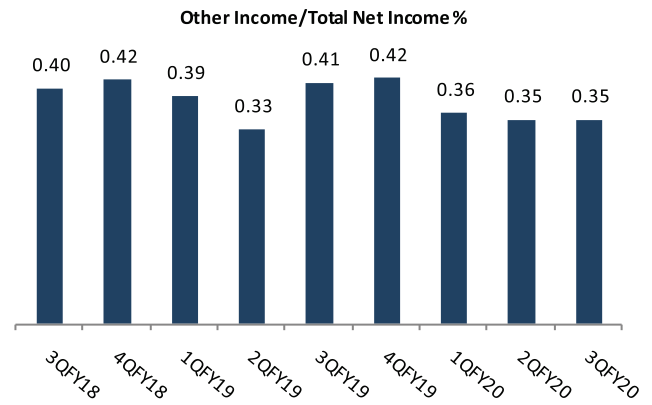


Exhibit: Opex Trend

C/I Ratio improved

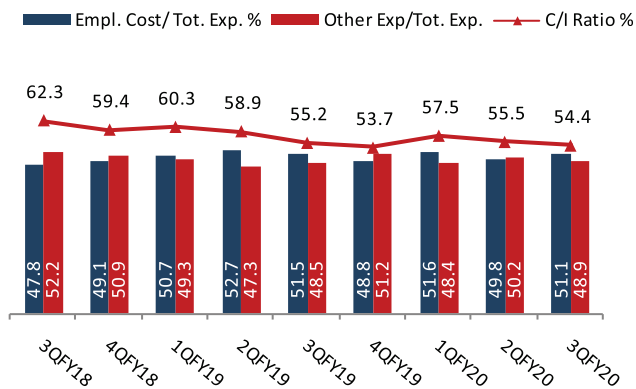


Exhibit: Operating Profit Growth %

Operating profit increased

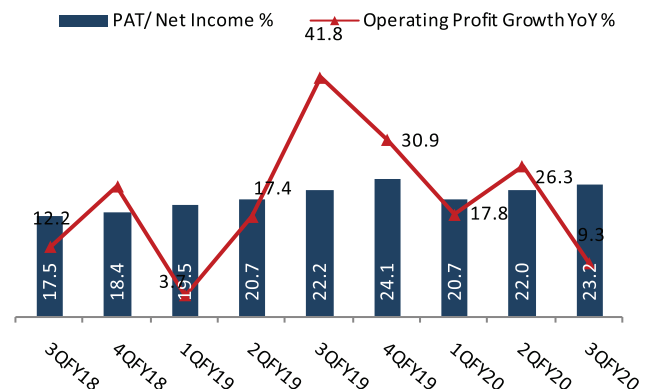


Exhibit: Advances performance

Advances growth declined

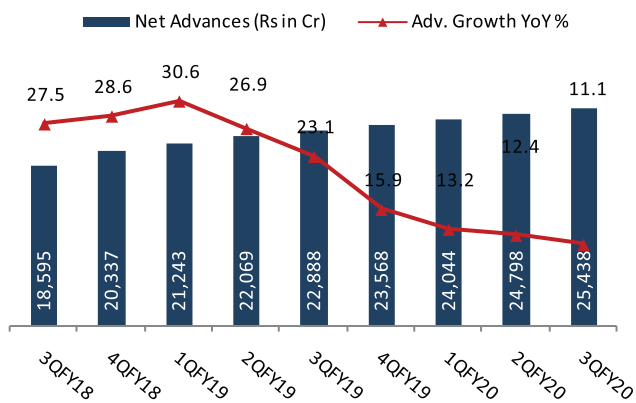


Exhibit: Deposits trend

Slow deposit growth

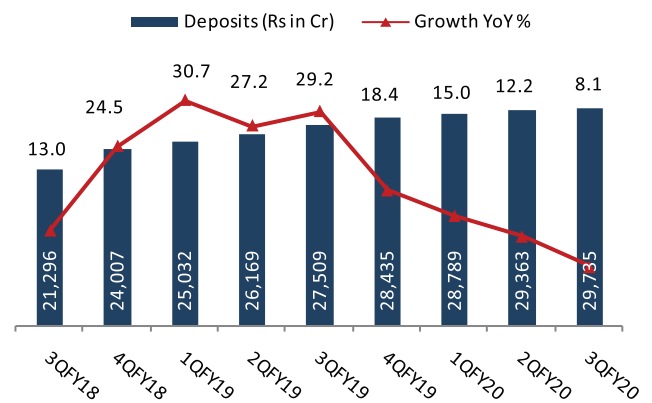


Exhibit: Advances breakup

Diversified

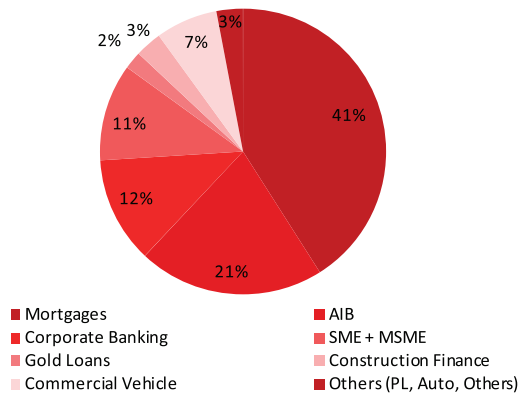
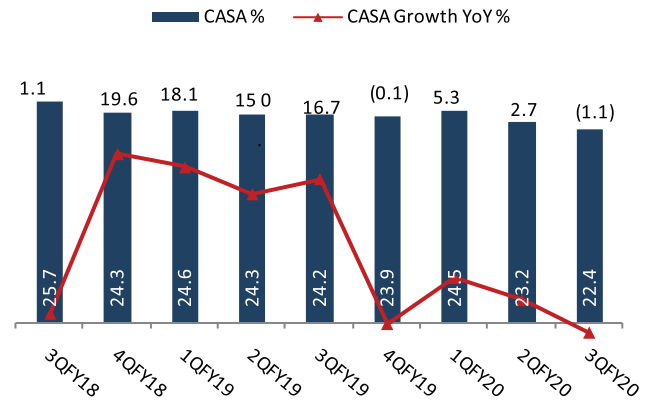


Exhibit: CASA

CASA ratio decreased



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	401	410	445	440	476	523	552	24%	6%
GNPA %	2	2	2	2	2	2	2	12%	3%
NNPA (Rs in Cr)	154	155	163	154	196	238	261	60%	10%
NNPA %	1	1	1	1	1	1	1	45%	7%
Slippages (Rs in Cr)	107	98	115	101	148	161	202	76%	25%
PCR %	76	77	77	79	76	73	72	-7%	-2%

GNPA Composition (Rs in Cr)

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Mortgages	127	139	148	149	161	163	178	202	181
AIB	63	63	73	76	102	98	126	106	111
Corporate	84	84	90	93	78	62	19	19	48
SME+MSME	37	31	34	38	40	43	50	74	66
Gold Loans	7	11	11	10	10	8	9	12	12
CV/CE/STVL	28	30	32	29	39	48	64	76	100
Personal Loan	-	-	-	-	-	-	-	-	-
Others	8	11	13	15	16	18	31	35	33

Exhibit: Asset Quality

Assets quality deteriorated

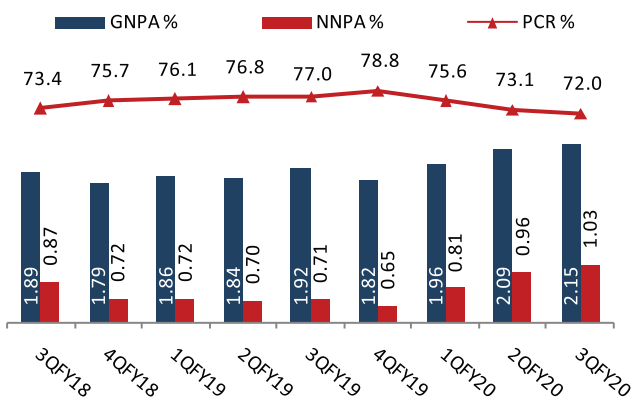
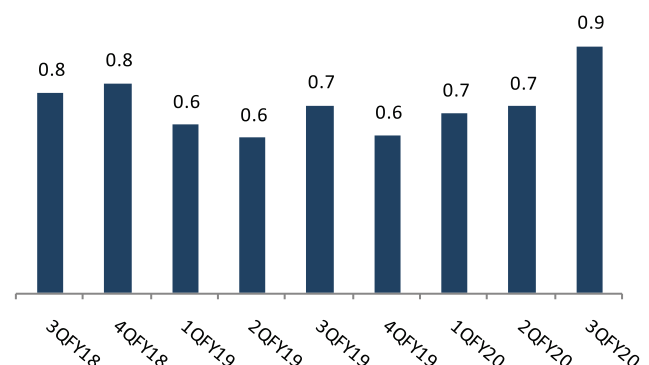


Exhibit: Provisions/Advances

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	3154	3658
Networth	1154	1589	1792	2205	2808	3116	3464	3968
Deposits	10325	12609	14926	19289	24007	28435	31235	35920
Change (%)	23	22	18	29	24	18	10	15
CASA Deposits	2581	2950	3490	4689	5840	6810	7340	8980
Change (%)	14	14	18	34	25	17	8	22
Borrowings	860	1164	1148	1276	1927	2723	2749	2766
Other Liabilities & Provisions	584	771	1252	1276	1481	1518	1602	1842
Total Liabilities	12923	16132	19119	24046	30222	35792	39049	44495
Cash & Bank	690	719	892	1192	2372	2793	3058	3286
Investments	3634	3962	4333	5818	6219	7844	8433	9698
Change (%)	8	9	9	34	7	26	8	15
Advances	8140	10465	12921	15818	20337	23568	25925	29814
Change (%)	24	29	23	22	29	16	10	15
Fixed Assets	239	237	248	489	494	526	552	580
Other Assets	221	749	724	730	800	1060	1080	1118
Total Assets	12923	16132	19119	24046	30222	35792	39049	44495

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	3,546	3,926
Interest expended	760	914	1,079	1,279	1,418	1,892	2,274	2,508
Net Interest Income	368	508	620	797	995	1,149	1,272	1,418
Change (%)	30	38	22	29	25	15	11	11
Other Income	139	166	220	249	311	350	380	435
Change (%)	18	20	33	13	25	13	8	15
Core Fee Income	101	119	152	176	234	262	256	298
Treasury Income	22	28	42	45	46	39	61	78
Others	16	19	26	28	32	50	63	60
Total Net Income	507	674	840	1,047	1,306	1,499	1,652	1,853
Operating Expenses	319	396	491	628	781	853	905	917
Change (%)	16	24	24	28	24	9	6	1
Employee Expenses	157	196	245	308	381	434	458	454
Pre-provisioning Profit	188	277	349	418	525	647	747	936
Change (%)	49	48	26	20	26	23	16	25
Provisions	37	69	88	111	139	140	193	195
Change (%)	52	90	27	27	24	1	38	1
PBT	151	208	261	307	386	507	554	741
Tax	-	17	67	107	141	181	169	191
Profit After Tax	151	191	195	200	245	325	385	550
Change (%)	48	26	2	3	23	33	18	43

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	10	15
Deposit Growth (%)	23	22	18	29	24	18	10	15
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	16.0	15.8
Tier 1 (%)	12.9	14.2	12.8	11.9	12.7	13.1	12.8	13.0
Tier 2 (%)	0.9	0.7	1.3	1.9	3.8	3.7	3.2	2.8

Assets Quality Metrics

Gross NPA (Rs)	139	186	197	254	369	440	593	704
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	287	296
Net NPA (%)	0.9	1.0	0.8	0.8	0.7	0.7	1.1	1.0
Slippages (%)	-	2.2	2.2	2.0	2.2	2.1	2.8	2.1
Provision Coverage (%)	47	43	51	51	60	65	52	58
Provision/Average Advances (%)	0.5	0.7	0.8	0.8	0.8	0.6	0.8	0.7

Margin Metrics

Yield On Advances (%)	11.8	11.8	11.6	11.5	10.7	11.2	11.5	11.5
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	10.1	10.0
Cost Of Deposits (%)	7.1	7.3	7.3	6.9	6.0	6.5	6.9	6.8
Cost Of Funds (%)	7.0	7.0	6.9	6.6	5.8	6.4	6.7	6.7
Spread (%)	2.9	3.3	3.3	3.6	3.6	3.4	3.3	3.3
NIM (%)	3.2	3.7	3.7	3.9	3.9	3.7	3.6	3.6

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	67.3	64.3	63.5	61.6	58.7	62.2	64.1	63.9
Fee Income/NII (%)	27.4	23.5	24.5	22.1	23.5	22.8	20.1	21.0
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	30.5	25.8

Valuation Ratio Metrics

EPS (Rs)	6.0	6.8	6.8	7.0	8.0	10.5	12.4	17.8
Change (%)	48.2	12.1	0.9	2.3	13.8	32	18.4	42.8
ROAE (%)	14.0	13.9	11.5	10.0	9.8	11.0	11.7	14.8
ROAA (%)	1.3	1.3	1.1	0.9	0.9	1.0	1.0	1.3
Dividend Payout (%)	-	-	-	7.1	9.4	9.5	10.0	8.4
Dividend yield (%)	-	-	-	0.3	0.5	0.5	0.7	0.8
Book Value (Rs)	46	56	63	77	91	101	112	128
Change (%)	15	22	12	23	18	10	11	15
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	14.6	10.2

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.8	9.6	9.6	8.9	9.2	9.5	9.4
Interest expended	6.3	6.1	5.9	5.2	5.7	6.1	6.0
Net Interest Income	3.5	3.5	3.7	3.7	3.5	3.4	3.4
Non-Fund Based Income	1.1	1.3	1.2	1.1	1.1	1.0	1.0
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	0.3	0.3
Core Operating Income	4.3	4.4	4.5	4.5	4.3	4.1	4.1
Total Income	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
Operating Profit	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	0.5	0.5
Others	-	-	-	-	-	-	-
PBT	1.4	1.5	1.4	1.4	1.5	1.5	1.8
Tax	0.1	0.4	0.5	0.5	0.5	0.5	0.5
PAT/RoAA	1.3	1.1	0.9	0.9	1.0	1.0	1.3
Equity Multiplier (x)	10.6	10.4	10.8	10.8	11.1	11.4	11.2
ROAE	13.9	11.5	10.0	9.8	11.0	11.7	14.8

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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