

DCB BANK

BUY

19-Apr-17

INDUSTRY - **BANKING**
BSE Code - **532772**
NSE Code - **DCBBANK**
NIFTY - **9105**

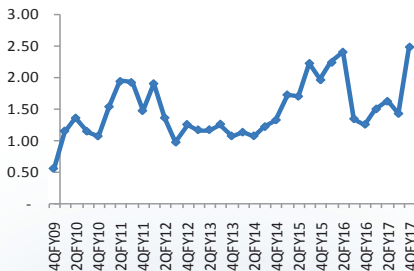
Company Data

CMP	177
Target Price	205
Previous Target Price	N/A
Upside	16%
Change from Previous	N/A
52wk Range H/L	184/87
Mkt Capital (Rs Cr)	5060
Av. Volume (,000)	531

Share Holding Pattern %

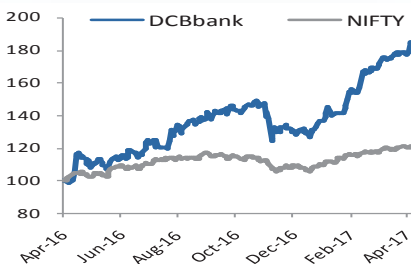
	4QFY17	3QFY17	2QFY17
Promoters	16.2	16.2	16.2
DII	14.9	15.3	15.9
FII	23.6	22.2	20.0
Others	45.3	46.3	47.9

DCB is trading at its higher range of P/B



Stock Performance %

	1Mn	1Yr	YTD
Absolute	8.3	112.9	62.0
Rel.to Nifty	8.6	96.9	50.6



DEEPAK KUMAR

Deepak.kumar@narnolia.com

Key Highlights of the report:

- ✓ Net Interest Income growth remained healthy over 25% plus since last 7 quarters. While the margins are near to peak.
- ✓ Strong loan growth of 22.4% remained better than its peers. Assets quality seems to stabilize with no major concerns on it due to retail focused. CASA has shown impressive growth despite majority of branches is newly opened.
- ✓ DCB Bank has shown aggressiveness in branch expansion as a major strategy to expand its reach. But on the other hand, increased operating expenses have resulted in lower return ratios.
- ✓ DCB Bank is planning to raise Rs 400 equity capital to strengthen its Tier 1 CRAR ratio to support the loan growth momentum.
- ✓ **We value DCB Bank at (2.2x P/B and 10.4x EPS at FY19) Rs 205 and maintain 'BUY'.**

Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
NII	508	620	797	1,033	1,212
PPP	277	349	418	536	672
PAT	191	195	200	253	321
NIM %	3.7	3.7	3.9	4.2	4.0
EPS (Rs)	6.8	6.8	7.0	8.2	10.4
EPS growth (%)	12%	1%	2%	17%	27%
ROE (%)	13.9%	11.5%	10.7%	11.2%	11.8%
ROA (%)	1.4%	1.2%	1.0%	1.0%	1.1%
BV	56	63	68	84	93
P/B (X)	2.0	1.3	2.5	2.1	1.9
P/E (x)	16.4	11.6	24.3	21.7	17.1

Recent Development : Key Highlights of Result Update

- ✓ PAT declined by 24% led by tax payment @ 35% against nil tax payment YoY. Thus, PBT grew by 17% YoY to Rs 81 Cr.
- ✓ Operating profit remained healthy at 19% growth YoY led by robust net interest income growth of 31% YoY.
- ✓ C/I ratio remain elevated at 59.4% due to aggressive branch expansion strategy.
- ✓ NIM expanded by 12 bps YoY led by decline in cost of funds.
- ✓ Loan growth remained healthy with 22.4% YoY growth. CASA ratio declined QoQ led by withdrawal of cash limit in banks by RBI. Assets quality stabilizes and remained healthy.
- ✓ Tier 1 ratio at 11.9%, management plans to raise Rs 400 Cr through QIP in FY18.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	448	471	506	550	549	23%	0%	1,698	2,076	22%
Interest Exp.	279	294	316	341	329	18%	-4%	1,079	1,279	19%
NII	169	177	190	209	220	31%	5%	620	797	29%
Other Income	61	60	62	64	64	3%	-1%	220	249	13%
Total Income	230	237	252	274	284	23%	4%	840	1,047	25%
Ope Exp.	133	144	151	164	169	27%	3%	491	628	28%
PPP	97	93	101	109	115	19%	6%	349	418	20%
Provisions	27	21	26	31	34	25%	11%	88	111	27%
PBT	70	72	74	79	81	17%	3%	261	307	17%
Tax	0	25	26	27	29	N/A	4%	67	107	61%
Net Profit	70	47	48	51	53	-24%	3%	195	200	3%

Adjusted for tax in 4Q FY16, PAT would have grown by 14% YoY in 4Q FY17.

Operating Profit Remained Healthy. Higher Cost dented the profitability

- ✓ Net interest income grew by healthy rate of 30.6% YoY led by strong loan growth and NIM expansion.
- ✓ Other income growth was tepid to 3.5% due to lower fee income.
- ✓ Operating expenses grew by 26.6% YoY led by aggressive branch expansion mode. This led the C/I ratio 59.4% against 57.8% a year back.
- ✓ Hence operating profit grew by 18.9% YoY mainly impacted by higher operating expenses and lower treasury gain.
- ✓ Provisions grew by 24.5% YoY.
- ✓ PAT declined by 24% YoY led by taxes paid @ of 35% in current quarter, as DCB paid nil tax in corresponding quarter of previous year due to accumulated tax benefits. If we adjust tax in 4Q FY16 then, then PAT would have grown by 14% YoY in 4Q FY17.

Aggressive Expansion mode led to higher C/I ratio

- ✓ Cost to income ratio increased to 59.4% against 57.8% a year back mainly due to branch expansion strategy.
- ✓ Employee expenses grew by 24% and other expenses grew by 29% YoY. DCB opened 12 new branches in 4Q FY17.
- ✓ Total branches are 262 as on FY17 which management intends to reach 300 branches till 3Q FY18 as per earlier guidance. Afterwards management will slow the pace of opening new branches which will lead to decline in C/I ratio.

C/I Ratio will remain elevated in FY18 due to expansion strategy.

PL Ratio Analysis	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
C/I Ratio %	57.8	60.9	60.0	60.1	59.4	1.52	-0.70	61.5	62.8	1.23
Empl. Cost/ Tot. Exp. %	49.3	50.3	49.5	48.1	48.4	-0.93	0.31	49.9	49.1	-0.87
Other Exp/Tot. Exp. %	50.7	49.7	50.5	51.9	51.6	0.93	-0.31	50.1	50.9	0.87
Provision/PPP %	28.1	22.2	26.2	27.9	29.4	1.33	1.47	25.2	26.7	1.47
Tax Rate %	0.3	34.9	34.8	34.8	35.1	34.74	0.24	25.5	34.9	9.39
Int Exp./Int Inc. (%)	62.4	62.4	62.4	61.9	59.9	-2.47	-2.04	63.5	61.6	-1.92
Other Inc./Net Inc. %	22.7	26.7	25.4	24.5	23.4	0.70	-1.03	26.2	23.8	-2.41
PAT/Net Income %	30.2	19.8	19.2	18.8	18.6	-11.59	-0.13	23.2	19.1	-4.08

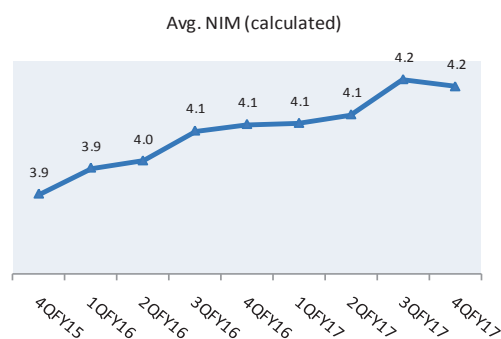
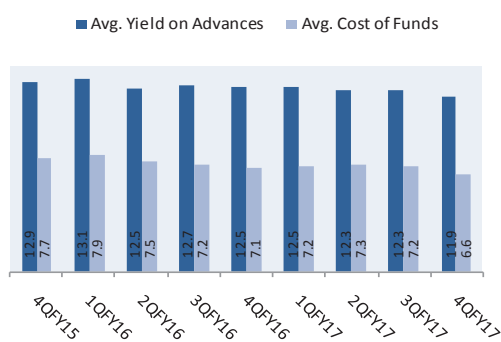
Margins expanded benefitted from declining cost of funds, sees limited scope of improvement going forward.

- ✓ Calculated NIM for 4Q FY17 improved to 4.22% against 4.09% a year back. Yield on earning assets declined by 43 bps YoY to 10.57%. Cost of fund declined by 50 bps YoY to 6.57%.

NIM has Picked. Sees limited scope to expand.

Margin Performance

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Avg Yield on Advances	12.5	12.5	12.3	12.3	11.9	-0.66	-0.47	11.6	11.5	-0.11
Avg Yield on Er. Assets	11.0	10.9	11.0	10.9	10.6	-0.43	-0.36	10.3	10.3	-0.02
Avg Cost of Funds	7.1	7.2	7.3	7.2	6.6	-0.50	-0.59	6.9	6.7	-0.23
Avg NIM (calculated)	4.1	4.1	4.1	4.2	4.2	0.12	-0.02	3.7	3.9	0.19



Focus on Priority Sector lending gives an opportunity to generate fees from PLCs.

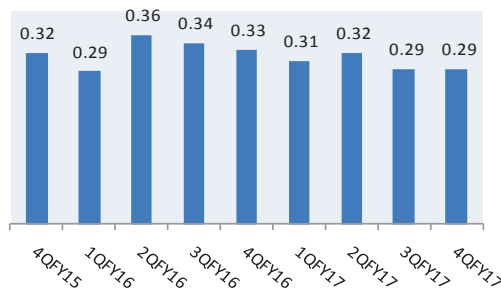
Fee Income Growth will remain moderate in near to mid-term.

- ✓ Other Income growth remained muted to 3.5% YoY mainly due to lower fee income growth of 9% YoY. Treasury income was flat YoY at Rs 4 Cr.
- ✓ We expect fee income growth to remain muted in near term as most of the branches are newly opened and immature which will take much time to generate any significant fee income growth.

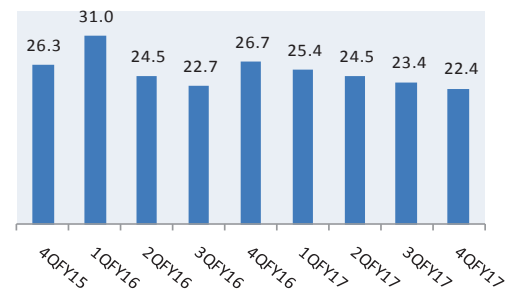
Other Income Break Up

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Comm./Exch/Brok. fee	40	38	42	40	45	14.4%	12.2%	141	166	17.8%
Profit on Exch Trans.	3	3	4	2	1	-67.9%	-59.1%	11	10	-8.8%
Profit on Sale of Invtt.	4	17	12	13	4	2.5%	-67.2%	42	45	7.6%
Miscellaneous Income	15	2	4	9	13	-11.6%	47.3%	26	28	6.8%
Total Other Income	61	60	62	64	64	3.5%	-0.8%	220	249	13.1%

Fee Income/Advances %



Other Income/Total Net Income %



Assets Quality

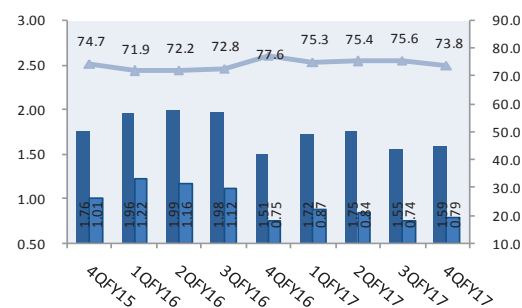
- ✓ Assets Quality largely remained stable with GNPA at 1.59% against 1.55% and NNPA at 0.79% against 0.74% a quarter back.
- ✓ Slippages declined by 6% QoQ while the slippage ratio was 51 bps against 55 bps on 3Q FY17. GNPA at corporate book was higher at Rs 86 Cr against Rs 65 Cr in 3Q FY17. GNPA at mortgage book was at Rs 72 Cr against Rs 67 in 3Q FY17. While it declined in SME book from Rs 37 Cr to Rs 32 Cr.
- ✓ PCR including technical write offs remained strong at 74%.

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
GNPA (Rs)	197	231	255	228	254	28.6%	11.4%	197	254	28.6%
GNPA %	1.51	1.72	1.75	1.55	1.59	0.08	0.04	1.5	1.6	0.08
NNPA (Rs)	98	116	121	108	124	27.6%	15.2%	98	124	27.6%
NNPA %	0.75	0.87	0.84	0.74	0.79	0.04	0.05	0.8	0.8	0.04
Slippages (Rs)	51	58	50	79	74	45.8%	-6.4%	225	261	16.0%
PCR% (In. Tech Write offs)	77.6	75.3	75.4	75.6	73.8	-3.75	-1.84	77.6	73.8	-3.75
Prov/Avg Adv% (Ann.)	0.88	0.63	0.76	0.84	0.89	0.01	0.05	0.75	0.78	2.4%

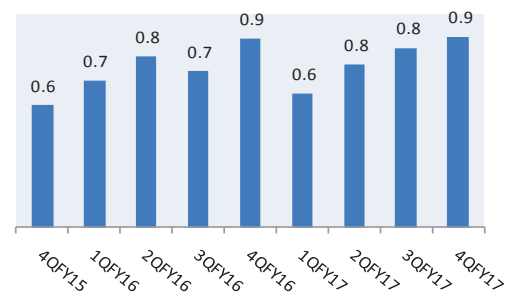
GNPA Composition (Rs in Crore)

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Mortgages	46.4	62.6	74.3	66.9	71.7	54.5%	7.2%	46.4	71.7	54.5%
AIB	28.8	40.4	37.7	32.4	36.6	27.1%	13.0%	28.8	36.6	27.1%
Corporate	86.1	86.1	86.1	65.2	85.9	-0.2%	31.7%	86.1	85.9	-0.2%
SME+MSME	24.5	27.9	36.7	36.8	32.4	32.2%	-12.0%	24.5	32.4	32.2%
Gold Loans	2.2	2.8	5.5	5.5	2.2	0.0%	-60.0%	2.2	2.2	0.0%
CV/CE/STVL	9.2	11.1	13.4	17.6	20.0	117.4%	13.6%	9.2	20.0	117.4%

GNPA % NNPA % PCR % (Inc. Technical Write offs)



Provisions/Avg. Advances % (Annualised)



Advances growth remained healthy, Demonetization helped CASA pick up

- ✓ Advances grew by a healthy rate of 22.5% YoY and 8% QoQ led by strong growth in corporate book and agri book which grew by 31% YoY and 30% YoY respectively.
- ✓ Mortgage and SME book grew by 22% YoY each.
The loan growth was temporarily impacted by demonetization in 3Q FY17 which has picked up in current quarter.
- ✓ DCB bank is largely focused on mortgage finance which constitutes 43% of the total loan book. Management does not want to grow corporate book beyond 20% of the loan book and intends to focus on retail and low ticket size loans.
- ✓ Deposits grew by 29.2% YoY led by demonetization impact. CASA grew by 34.4% YoY, however it declined by 3.7% QoQ as per expected due to cash limit withdrawal by RBI.
- ✓ Thus CASA ratio declined to 24.3% against 25.9% on 3Q FY17. CD ratio improved to 82% from 77.4% in previous quarter.

Concall Highlights:

- ✓ After FY19 C/I ratio will be below 55%.
- ✓ Comfortable to grow loan book at 20%.
- ✓ Competition is intensive from every finance companies.
- ✓ Comfortable for NIM around 3.7%.
- ✓ See PLC certificate as an opportunity to grow fee income.
- ✓ 15% fee income growth is possible if branches get matured.
- ✓ QIP will be raised till Dec, 2017.
- ✓ Not to grow corporate book beyond 20%. Focus on retail, SME and small ticket size loan.
- ✓ Added personal loan product recently and expect it to be 5% of the book within a year.
- ✓ After reaching 300 branches in oct or dec qtr, pace of adding new branches will decline. Only 10 to 12 branches will be added per year.
- ✓ Hold Rs 40 cr of floating provisions in BS.
- ✓ Total employee count is 4979.
- ✓ Rs 45 Cr restructured assets outstanding in 3 accounts.

View & Valuation

With the focus on retail book, DCB Bank is well placed to grow in the range of 20%-23% in near to mid-term. Assets Quality of DCB Bank will remain healthy due to retail centric. Net Interest income will remain healthy but extensive branch addition will result in higher operating expenses. Due to new branches and low focus on corporate loans fee income will remain muted but new opportunity in Fee income from PSLCs will provide some relief. Tier 1 at 11.9% DCB has planned to raise Rs 400 Cr in FY18. We estimate NIM in the range of 4-4.2%. **Factoring equity dilution we estimate RoE of 11-12% and RoA of 1-1.1%. We value DCB Bank at (2.2x P/B and 10.4x EPS at FY19) Rs 198 and maintain 'BUY'.**

Advances Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Net Advances (Rs in Cr)	10465	10426	11181	11736	12921	13337	14436	14584	15818
Adv. Growth YoY %	28.6	25.7	27.2	23.7	23.5	27.9	29.1	24.3	22.4
>> Growth QoQ %	10.3	-0.4	7.2	5.0	10.1	3.2	8.2	1.0	8.5

Advances Sectoral Breakup %

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Mortgages	43.0	45.2	45.0	45.0	43.0	44.0	43.0	44.0	43.0
AIB	15.0	15.7	15.0	17.0	17.0	17.0	17.0	17.0	18.0
Corporate Banking	23.0	20.7	20.0	17.0	15.0	15.0	16.0	16.0	16.0
SME + MSME	13.0	11.9	12.0	12.0	12.0	11.0	11.0	11.0	12.0
Gold Loans	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Construction Finance	0.0	0.0	0.0	0.0	2.0	2.0	2.0	2.0	3.0
Commercial Vehicle	2.0	2.9	3.0	3.0	4.0	4.0	4.0	4.0	4.0
Others (PL, Auto, Others)	1.0	0.6	2.0	4.0	5.0	5.0	5.0	4.0	2.0

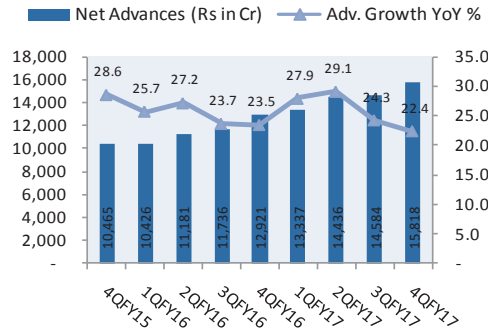
Deposits Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Deposits (Rs in Cr)	12609	13269	13557	14084	14926	15680	17685	18840	19289
Growth YoY %	22.1	25.8	24.4	18.9	18.4	18.2	30.4	33.8	29.2
>> Growth QoQ %	6.4	5.2	2.2	3.9	6.0	5.0	12.8	6.5	2.4
CASA (Rs)	2950	3057	3267	3218	3490	3619	3875	4871	4689
CASA Growth YoY %	14.3	14.1	17.7	14.2	18.3	18.4	18.6	51.4	34.4
>> Growth QoQ %	4.7	3.6	6.9	-1.5	8.5	3.7	7.1	25.7	-3.7
CASA %	23.4	23.0	24.1	22.8	23.4	23.1	21.9	25.9	24.3
Credit Deposit Ratio	83.0	78.6	82.5	83.3	86.6	85.1	81.6	77.4	82.0

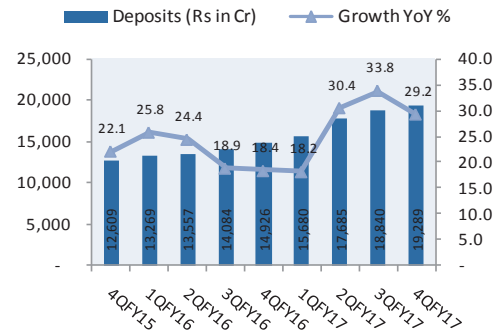
Other Status

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Branches	154	157	160	176	198	205	228	248	262
ATM	328	343	373	397	410	442	490	496	515
Business (In Cr)	23074	23695	24738	25820	27847	29017	32121	33424	35107
Busi. Per Branch (Cr)	150	151	155	147	141	142	141	135	134
Business Growth % YoY	25.0	25.7	25.6	21.0	20.7	22.5	29.8	29.5	26.1

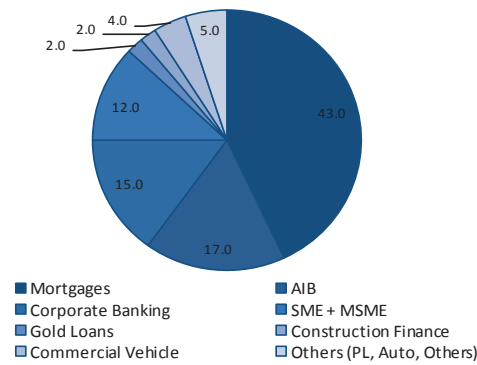
Advances Growth remained Healthy



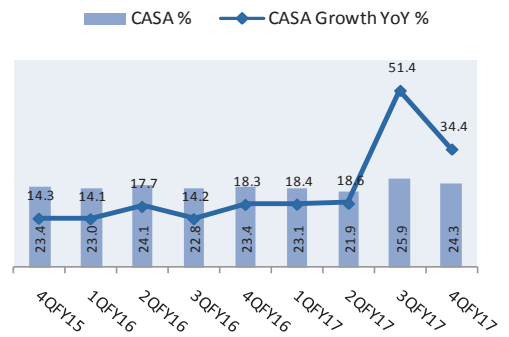
Robust Deposits Growth



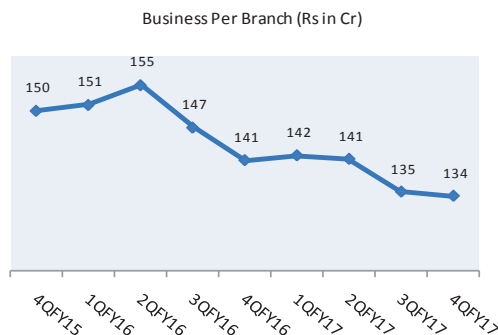
Advances Breakup % (FY17)



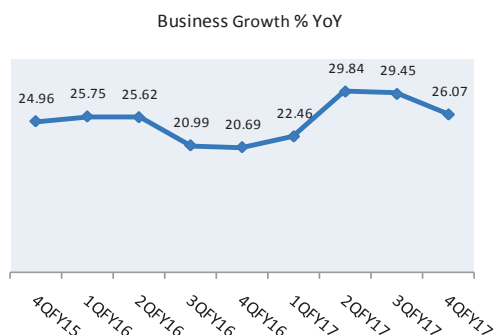
Demonetization led higher CASA



Recent aggressive branch expansion led to decline in Business per branch



Robust Business Growth



Financials Snap Shot

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	284	285	308	308
>> <i>Equity Capital</i>	284	285	308	308
>> <i>Preference Capital</i>	-	-	-	-
Reserves & Surplus	1,508	1,920	2,520	2,811
Networth	1,792	1,946	2,569	2,859
Deposits	14,926	19,289	22,937	27,688
<i>Change (%)</i>	18.4	29.2	18.9	20.7
>> <i>CASA Deposits</i>	12,836	15,694	19,221	23,050
<i>Change (%)</i>	18.3	22.3	22.5	19.9
Borrowings	1,148	1,276	1,626	1,954
Other Liabilities & Provisions	1,252	1,276	1,637	1,976
Total Liabilities	19,119	24,046	29,027	34,737
Cash & Bank	892	1,192	1,334	1,532
Investments	4,333	5,818	6,918	8,351
<i>Change (%)</i>	9.4	34.3	18.9	20.7
Advances	12,921	15,818	19,382	23,258
<i>Change (%)</i>	23.5	22.4	22.5	20.0
Fixed Assets	248	489	513	539
Other Assets	724	730	881	1,057
Total Assets	19,119	24,046	29,027	34,737

Income Statement

in Rs Crores

Y/E March	FY16	FY17	FY18E	FY19E
Interest income	1,698	2,076	2,458	2,899
Interest expended	1,079	1,279	1,425	1,687
Net Interest Income	620	797	1,033	1,212
<i>Change (%)</i>	21.9	28.7	29.6	17.3
Other Income	220	249	282	342
<i>Change (%)</i>	33	13.1	12.9	21.4
>> <i>Core Fee Income</i>	152	176	211	256
>> <i>Treasury Income</i>	42	45	36	43
>> <i>Others</i>	26	28	35	43
Total Net Income	840	1,047	1,315	1,554
Operating Expenses	491	628	779	882
<i>Change (%)</i>	23.82	28.0	24.0	13.1
>> <i>Employee Expenses</i>	245	308	377	431
Pre-provisioning Profit	349	418	536	672
<i>Change (%)</i>	25.8	19.8	28.1	25.5
Provisions	88	111	153	186
<i>Change (%)</i>	26.56	26.8	37.0	22.0
PBT	261	307	383	486
Tax	67	107	130	165
Profit After Tax	195	200	253	321
<i>Change (%)</i>	1.75	2.7	26.5	26.9

Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Balance Sheet Metrics				
Loan Growth (%)	23.5	22.4	22.5	20.0
Deposit Growth (%)	18.4	29.2	18.9	20.7
C/D Ratio (%)	86.6	82.0	84.5	84.0
CASA (%)	23.4	24.3	24.3	24.3
Investment/Deposit (%)	29.0	30.2	30.2	30.2
CRAR (%)	14.1	13.8	15.7	14.3
>> <i>Tier 1 (%)</i>	12.8	11.9	14.8	13.6
>> <i>Tier 2 (%)</i>	1.3	1.9	0.8	0.7
Assets Quality Metrics				
Gross NPA	197	254	319	399
Gross NAP (%)	1.51	1.59	1.63	1.70
Net NPA	98	124	146	179
Net NPA (%)	0.75	0.79	0.75	0.77
Slippages (%)	2.17	2.04	2.16	2.16
Spec.Provision Coverage (%)	50.6	51.0	54.3	55.1
Provision/Avg Advances (%)	0.75	0.78	0.87	0.87
Margin Metrics				
Yield On Advances (%)	11.6	11.5	11.0	10.7
Yield On Investment (%)	7.4	7.8	7.7	7.6
Yield on Earning Assets (%)	10.3	10.3	9.9	9.7
Cost Of Deposits (%)	7.3	7.1	6.3	6.2
Cost Of Funds (%)	6.9	6.7	6.0	6.0
Spread (%)	3.4	3.6	3.8	3.7
NIM (%)	3.7	3.9	4.2	4.0
Profitability & Efficiency Metrics				
Int. Expense/Int. Income (%)	63.5	61.6	58.0	58.2
Fee Income/NII (%)	24.5	22.1	20.4	21.2
Cost to Income (%)	61.5	62.8	60.9	58.3
Cost on Average Assets (%)	3.0	3.1	3.1	2.9
Tax Rate (%)	25.5	34.9	34.0	34.0
Valuation Ratio Metrics				
EPS (Rs)	6.8	7.0	8.2	10.4
<i>Change (%)</i>	1.0	2.3	17.4	26.9
ROAE (%)	11.5	10.7	11.2	11.8
ROAA (%)	1.2	1.0	1.0	1.1
Dividend Payout (%)	-	8.6	8.8	8.6
Dividend Per share (Rs)	-	0.5	0.6	0.8
Book Value (Rs)	63	68	84	93
<i>Change (%)</i>	11.9	8.2	22.5	11.3
P/B (X)	1.26	2.50	2.13	1.91
P/E (X)	11.59	24.33	21.67	17.08