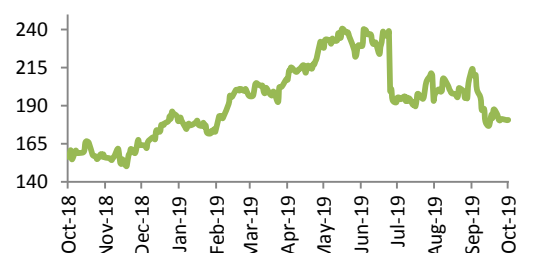


DCB Bank Ltd.

Recommendation	BUY
CMP	Rs. 176
Target Price	Rs. 242
Sector	Banking

Stock Details	
BSE Code	532772
NSE Code	DCBBANK
Bloomberg Code	DCBB IN
Market Cap (Rs Cr)	5448
Free Float (%)	85.1%
52- week H/L (Rs)	245/148
Avg. volume (BSE+NSE)	859480
Face Value (Rs)	10
Div per share (FY 19)	Rs. 1.00
Shares o/s (Cr)	31.0

Relative Performance	1Mth	3Mth	1Yr
DCB	-16%	-7%	16%
Sensex	0%	3%	15%



Shareholding Pattern		Sep' 19
Promoters Holding		14.9%
Institutional (Incl. FII)		54.1%
Public & others		31.0%

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Year	NII (Rs Cr)	Growth (%)	PBP (Rs cr)	PAT (Rs Cr)	Growth (%)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE (%)
FY18	995	25%	525	245	23%	8.0	22.1	87.2	2.0	9.8%
FY19	1,150	16%	647	326	33%	10.5	16.7	96.5	1.8	11.0%
FY20E	1,289	12%	747	392	20%	12.7	13.9	105.4	1.7	11.9%
FY21E	1,484	15%	893	503	28%	16.3	10.8	121.9	1.4	13.4%

Below par performance for second quarter in a row; Hopes hinge on improvement in economy; Long term thesis intact

DCB reported another dismal quarter on loan growth, NIMs, fee income and asset quality fronts. The only solace was the continued control over opex.

- Advances stood at Rs. 24,798 Cr vs Rs. 22,069 Cr in Q1FY19 a growth of 12% YoY (a multi-year low). Loan growth trended down owing to muted growth in corporate book as the bank shifted its focus completely towards granular loans like Mortgage, SME, Gold and Agri. Loan book ex-corporate grew by ~17% YoY. **We thus expect tepid organic loan growth of 13% in FY20E (on the back of run-down of corporate book) and a recovery to 17% in FY21E.**
- The bank observed a rising trend of loan rejection rates mainly in SME (working cap. loans) while it increased in a lower proportion for mortgage (LAP & home loans).
- NIMs declined 16 bps YoY & remained stable at 3.67% QoQ. They were at 3.83% YoY resulting in lower NII growth of 11%. **NIMs are expected remain subdued for the next couple of quarters and then stabilize around 3.70-3.75%.**
- Other income grew 38% YoY mainly led by treasury income while fee income increased by a mere 3%. Total Income grew by 17%.
- **Opex grew 10% YoY and cost/income declined 200 bps QoQ and 340 bps YoY to 55.5%.** Employee exp. increased by 4% YoY while other operating exp. increased by 17% (12% upon adjusting for one off depreciation policy reversal in Q2FY19). Opex growth will continue to be low.
- Provisions stood at Rs. 43.3 Cr, increasing QoQ from Rs. 40.6 Cr and YoY from Rs. 31.9 Cr. **Credit cost for the quarter came at 70 bps compared to 68 bps QoQ and 58 bps YoY.**
- Tax expenses were higher due to higher deferred tax on account of change in tax regime. Tax rates would be between 26-27% from the next quarter onwards.
- DCB reported profit growth of 24% YoY with PAT at Rs. 91.4 Cr.

Valuation and Outlook

DCB has surpassed its inflection point in terms of a gradual and continuous reduction in its cost to income ratio as the benefit of over 2x increase in branches post FY15 becomes visible. Although the economic slowdown and run-down of corporate book shall impact the bank during FY20, we remain positive from FY21 perspective, given DCB's strong presence in the SME and Retail space with no baggage of any legacy asset quality issues. **We maintain BUY on the stock and upgrade the target price to Rs. 242 (at 2x of FY21E Adj. BV).**

DCB Bank Ltd.

Quarterly Results

Particulars (Rs. Cr)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Interest Earned	587	611	649	701	736	777	827	858	879
Interest Expended	339	360	385	428	454	484	526	553	566
Net Interest Income	248	250	264	273	282	294	301	305	313
Growth	30%	20%	20%	17%	14%	17%	14%	12%	11%
NIMs	4.04%	4.12%	4.09%	3.90%	3.83%	3.83%	3.78%	3.67%	3.67%
Other Income	65	75	85	83	73	94	99	87	101
% of total income	21%	23%	24%	23%	21%	24%	25%	22%	24%
Total Income	313	325	349	356	355	388	400	392	415
Growth	24%	19%	23%	12%	13%	19%	15%	10%	17%
Employee exp	92	97	102	109	110	110	105	116	115
Other op exp	97	106	105	106	99	104	110	109	116
Total op exp	189	203	207	214	209	214	215	225	230
Growth	25%	23%	23%	17%	11%	6%	4%	5%	10%
Cost to income ratio	60.3%	62.3%	59.4%	60.3%	58.9%	55.2%	53.7%	57.5%	55.5%
Profit before prov.	124	123	142	141	146	174	185	167	185
Provisions	30	34	39	33	32	40	35	41	43
Growth	14%	12%	14%	-6%	5%	17%	-10%	22%	36%
Credit Cost	0.70%	0.74%	0.76%	0.63%	0.58%	0.70%	0.59%	0.68%	0.70%
Profit before tax	94	88	103	108	114	134	151	126	141
Tax	35	31	39	39	41	48	54	45	50
Profit after tax	58.9	57.0	64.2	69.5	73.4	86.1	96.3	81.1	91.4
Growth	21%	11%	21%	7%	25%	51%	50%	17%	24%
No. of shares (Cr)	30.8	30.8	30.8	30.9	30.9	30.9	31.0	31.0	31.0
EPS	1.92	1.85	2.08	2.25	2.37	2.78	3.11	2.62	2.95
Advances	17,395	18,595	20,337	21,243	22,069	22,888	23,568	24,044	24,798
Growth	20%	28%	29%	31%	27%	23%	16%	13%	12%
CASA Ratio	25.9%	25.7%	24.3%	24.6%	24.3%	24.2%	23.9%	24.6%	24.8%
Tier 1 CAR	12.9%	12.5%	12.7%	12.0%	12.0%	11.9%	13.1%	12.5%	12.6%
Slippages	78	103	81	107	97	114	99	145	161
Slippage Ratio	1.8%	2.2%	1.6%	2.0%	1.8%	2.0%	1.7%	2.4%	2.6%
Gross NPA	1.8%	1.9%	1.8%	1.9%	1.8%	1.9%	1.8%	2.0%	2.1%
Net NPA	0.9%	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	1.0%
PCR	72.0%	73.4%	75.7%	76.1%	76.8%	77.0%	78.8%	75.6%	73.1%
ROA	0.94%	0.86%	0.91%	0.90%	0.92%	1.03%	1.10%	0.89%	0.99%
ROE	8.8%	9.3%	10.2%	10.8%	11.1%	12.6%	13.7%	11.2%	12.3%

Source: Company data, Nirmal Bang Research

Key Conference-call highlights and our takeaways

➤ Operational Highlights

- Loan growth stood at 12% YoY (a multi-year low) & 3% QoQ at Rs. 24,798 Cr. Although, the ex-corporate loan book grew by ~17% YoY. Growth was lower QoQ at 3% as the bank continued to run down the corporate book.
- DCB observed a rising trend of loan rejection rates mainly in SME (working cap. loans) while it increased in a lower proportion for mortgage (LAP & home loans).
- NIMs were stable QoQ & declined by 16 bps YoY to 3.67% resulting in lower NII growth of 11% YoY. NIMs declined mainly on the back of (i) attracting retail customers to make the deposit franchise granular wherein TD grew 28% YoY (interbank deposit mix declined from 20% to 13% YoY); (ii) Refinancing cost via NHB and others was higher when the bank availed funds last year, and should get repriced lower from Q4FY20; (iii) higher slippages resulted in interest reversals; (iv) bank had to purchase low yield RIDF bonds due to lower agri exposure which had an impact of 2-3 bps. NIMs are expected to stabilize in the 370-375 bps range from Q4FY20 onwards.
- EBLR (external benchmark linked rate) will be applicable for the bank from Oct 1st on mortgage and SME loans.
- Other income grew 38% YoY mainly led by treasury income (Rs. 25 Cr vs Rs. 3 Cr YoY) while fee income increased by a mere 3%. Total Income grew by 17%.
- Opex grew 10% YoY and cost/income declined 200 bps QoQ and 340 bps YoY to 55.5%. Employee exp. increased by 4% YoY while other operating exp. increased by 17% (12% upon adjusting for one off depreciation policy reversal in Q2FY19). Opex growth will continue to be low and the bank will keep adding 15-17 branches each year in order to garner retail SA and TD; current tally stands at 334 branches.
- This led to PPP growing by 26% YoY. Core PPP would have grown by 12% excl. the impact of higher treasury income.
- Provisions stood at Rs. 43.3 Cr, increasing QoQ from Rs. 40.6 Cr and YoY from Rs. 31.9 Cr. Credit cost remained slightly elevated for the second quarter in a row at 70 bps, from FY19 level of 59 bps.
- Profits grew by 24% YoY to Rs. 91.4 Cr.
- Tax rates would be between 26-27% from next quarter onwards.

DCB Bank Ltd.

➤ Asset Quality

- Slippages increased 11% QoQ to Rs. 161 Cr; against the historical trend of a 10% decline in Q2 over Q1. Slippage ratio was at 2.6% vs QoQ 2.4% & YoY 1.8% (at a multi-year high and above the historical guidance range of 1.8-2.0%). As per management, the next 1-2 quarters also look challenging for asset quality.
- Recovery rates are between 60-70%. Recovery is done by a separate team of 600 people.
- Construction finance is 3-4% of loan book with avg. ticket size of Rs. 7-8 Cr.
- GNPA's were at 2.09% vs 1.96% QoQ (above the historical guidance of 1.8-2.0%). Absolute GNPA's increased 28% YoY. Stress has been witnessed across all segments, especially in CV loans comprising 7% mix with GNPA of 4.4%.

➤ Guidance:

- Longer term target ROA of 1.2% & ROE of 15% shall be a function of:
 - Increasing NIM to 370-375 bps on steady state basis.
 - Increasing fee income / loans to 110 bps from 92 bps in FY20E
 - Reducing opex/assets to 220 bps from 250 bps in FY20E.

➤ Other development

Abu Dhabi Commercial Bank (ADCB) will be included in financials from Q3FY20. ADCB loans will amount to an addition of Rs. 300-400 Cr in the books of DCB. These are largely wholesale loans from various industries with average ticket size of ~Rs. 20 Cr. Deposits are in the range of Rs. 700-800 Cr.

DCB Bank Ltd.

Financials

Profitability (Rs. Crs)	FY17	FY18	FY19	FY20E	FY21E	Balance Sheet (Rs. Cr)	FY17	FY18	FY19	FY20E	FY21E
Interest earned	2,076	2,413	3,041	3,535	4,038	Deposits	19,289	24,007	28,435	32,029	37,457
Interest expended	1,279	1,418	1,892	2,246	2,554	Growth	29%	24%	18%	13%	17%
NII	797	995	1,150	1,289	1,484	(of which CASA)	4,689	5,840	7,002	7,695	9,074
Growth	29%	25%	16%	12%	15%	Borrowings	1,276	1,927	2,723	2,777	3,191
Non interest income	249	310	350	394	446	Other liab and prov	1,276	1,479	1,518	1,670	1,837
Growth	13%	24%	13%	13%	13%	Total liabilities	21,841	27,413	32,676	36,475	42,486
Total income	1,047	1,306	1,500	1,684	1,930	Equity capital	285	308	310	310	310
Growth	25%	25%	15%	12%	15%	Reserves and surplus	1,920	2,501	2,806	3,167	3,707
Operating expenses	628	781	853	937	1,038	Net worth	2,205	2,809	3,116	3,476	4,017
Growth	28%	24%	9%	10%	11%	Total liab and equity	24,046	30,222	35,792	39,952	46,502
Staff costs	308	381	434	469	520	Cash and bank bal	1,192	2,370	2,794	3,204	4,339
Other Op Exp	320	400	419	467	518	Investments	5,818	6,219	7,844	8,048	8,732
Profit before prov	418	525	647	747	893	Advances	15,818	20,337	23,568	26,982	31,569
Growth	20%	26%	23%	15%	20%	Growth	22%	29%	16%	14%	17%
Provisions	111	139	140	187	213	Fixed assets	489	494	526	552	580
Profit before tax	307	386	507	560	680	Other assets	730	802	1,060	1,166	1,283
Taxes	107	141	181	168	177	Total assets	24,046	30,222	35,792	39,952	46,502
Net profit	200	245	326	392	503	Growth	26%	26%	18%	12%	16%
Growth	3%	23%	33%	20%	28%						
Quarterly (Rs. Crs)	Sep.18	Dec.18	Mar.19	Jun.19	Sep.19	Key Ratios	FY17	FY18	FY19	FY20E	FY21E
Net interest income	282	294	301	305	313	Yield Ratios					
Non interest income	73	94	99	87	101	Yield on Advances	11.5%	10.7%	11.2%	11.5%	11.5%
Total income	355	388	400	392	415	Yield on Investments	7.8%	6.9%	7.5%	7.2%	7.2%
Operating expenses	209	214	215	225	230	Cost of Int Bearing Li:	7.0%	6.1%	6.6%	6.8%	6.8%
Operating profit	146	174	185	167	185	Spread	4.49%	4.63%	4.52%	4.64%	4.68%
Provisions	32	40	35	41	43	NIM	4.04%	4.16%	3.83%	3.69%	3.74%
Profit before tax	114	134	151	126	141	Balance Sheet Ratios					
Taxes	41	48	54	45	50	Gross NPA	1.59%	1.79%	1.84%	2.07%	2.05%
Net profit	73	86	96	81	91	Net NPA	0.79%	0.72%	0.66%	0.95%	0.93%
Profitability Ratios	FY17	FY18	FY19	FY20E	FY21E	PCR	74%	76%	79%	75%	76%
Cost / Income Ratio	60.0%	59.8%	56.9%	55.6%	53.8%	CD Ratio	82.0%	84.7%	82.9%	84.2%	84.3%
ROE	10.0%	9.8%	11.0%	11.9%	13.4%	CASA	24.3%	24.3%	24.6%	24.0%	24.2%
ROA	0.93%	0.90%	0.99%	1.03%	1.16%	Tier - 1	11.9%	12.7%	13.1%	13.0%	13.2%
Per Share Data	FY17	FY18	FY19	FY20E	FY21E	Valuation Ratios	FY17	FY18	FY19	FY20E	FY21E
EPS	7.0	8.0	10.5	12.7	16.3	P/E	25.2	22.1	16.7	13.9	10.8
BVPS	77	91	101	112	130	P/BV	2.3	1.9	1.7	1.6	1.4
Adjusted BVPS	74	87	96	105	122	P/ABV	2.4	2.0	1.8	1.7	1.4

Source: Company data, Nirmal Bang Research



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