

CMP: Rs 177

Rating: Hold

Target Price: Rs 194

Stock Info

INDEX	
BSE	532772
NSE	DCBBANK
Bloomberg	DCB IN
Reuters	DCBA.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	310
Mkt Cap (Rs Cr)	5,473
52w H/L (Rs)	245/ 148
Avg Weekly Vol (BSE+NSE)	10,53,250

Shareholding Pattern

	%
(As on September, 2019)	
Promoters	14.9
FII	24.1
DII	30.0
Public & Others	31.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
DCB Bank	-8.6	-16.9	11.0
SENSEX	7.1	2.6	18.2

Source: ACE Equity, Arihant Research

DCB BANK v/s SENSEX



Source: ACE Equity, Arihant Research

DCB Bank reported another weak quarter in Q2FY20, with asset quality deterioration and moderation in loan book growth. The result was below our estimates. NII for the quarter came in at Rs 313 cr (our estimate: Rs 345 cr), up 11% YoY, due to lower credit growth. Other income grew sharply by 38% YoY/17% QoQ led by sharp jump in trading income. Operating profit during the quarter grew by 26% YoY to Rs 185 cr vs. our estimate of Rs 213 cr, supported by high other income growth. The bank has reversed (deferred tax asset) DTA during the quarter leading to Rs 25 crore impact in tax. PAT for the quarter grew by 24% YoY to Rs 91 cr due to DTA adjustment. Slippages remained a tad higher for the quarter, led by MSME, CV and mortgage portfolio. We maintain our Hold rating.

Key Result Highlights:

- On the back of de-growth in the corporate banking segment, overall loan book growth of the bank moderated to 12% YoY vs. 13% in Q1FY20 which has been lowest in past 7 years. Mortgage and Agri & Inclusive banking (AIB) have grown by 16% and 19% respectively while other segments like CV and SME grew by 13% each. Corporate loan portfolio declined by 10% YoY.
- On liabilities front, total deposits of the bank grew by 12% YoY. Granular retail deposit of grew by 26% YoY. CASA ratio of the bank moderated to 23.24% vs. 24.53% QoQ.
- Stable margins and improvement in OPEX ratio were key positives during the quarter. NIM for the quarter stood at 3.67% QoQ, despite a 5 bps QoQ drop in yield. Yield on advances declined by 5 bps QoQ to 11.53% while cost of deposits remained stable QoQ at 5.99%.
- Cost to income ratio of the bank improved by 200 bps QoQ to 55.5%.
- Slippages were continued to remain elevated at Rs 161 cr vs. Rs 145 cr QoQ, mainly due to stress in Mortgages, SME and CV portfolio. Due to rise in slippages, asset quality of the bank deteriorated further with GNPA/NNPA ratio increased by 13bps/15 bps QoQ at 2.09%/1.96% respectively.

Valuation

We have lowered our loan growth estimate to 15%/16% from 18%/20% for FY20-21E on the basis of near term growth and asset quality issues. Loan book granularity, sustained cost control and steady margin profile are key positives for the bank. We expect near term growth prospects to remain challenging in terms of loan growth coupled with asset quality stress which could weigh on its return ratios. We have valued the stock at 1.6(x) to its FY21E ABV and arrived at a fair value of Rs 194 per share, giving a potential upside of 10%. We maintain our 'HOLD' rating on the stock with a revised target price of Rs 194.

Financial Snapshot:

Particulars (Rs Cr)	FY19	FY20E	FY21E
Net interest income	1,149	1,299	1,449
Operating Profit	647	767	841
PAT	325	391	467
EPS (Rs)	10.5	12.6	15.1
EPS Growth (%)	32.3%	20.1%	19.5%
RoAE (%)	11.0	11.9	12.6
P/E (x)	16.8	14.0	11.7
ABV	96	107	121
P/ABV (x)	1.8	1.6	1.5

Concall Highlights:

1. Management has guided NIM to be in the range of 370-375 bps going forward.
2. Effective tax rate for the quarter stood at 35%, the reason being DTA reversal of Rs 25 cr. Going forward, effective tax rate would be 25.75%.
3. Bank is mainly focussing on retail term deposits.
4. The bank sees no stress in NBFCs portfolio. The major stress seen in CV portfolio mainly new CV segment which is expected to be challenging in next 2 quarter.
5. Slippage rises sequentially, as there has been 2-3 large account of Rs 5-8 cr which slipped.
6. The bank is focussing on granular loan book, 80% of the loans are of ticket size less than Rs 3 cr.

Q2FY20 Financial Snapshot:

Particulars (Rs in Cr)	Q2FY20	Q2FY19	YoY	Q1FY20	QoQ
Interest Earned	879	736	20%	858	3%
<i>Yield on Advances (%)</i>	11.5	11.4		11.6	
Interest Expended	566	454	25%	553	2%
Net Interest Income	313	282	11%	305	3%
Other Income	101	73	38%	87	17%
<i>Other income / Net Income (%)</i>	24	21	18%	22	
Total income	415	355	17%	392	6%
Operating Expenses	230	209	10%	225	2%
<i>Cost-income Ratio (%)</i>	55.5	58.9		57.5	
Pre-Prov Profits	185	146	26%	167	11%
Provisions & Contingencies	43	32	36%	41	6%
PBT	141	114	24%	126	12%
Provisions for Tax	50	41	22%	45	
<i>Effective Tax Rate (%)</i>	35%	36%	-1%	36%	
PAT (reported)	91	73	24%	81	13%
EPS Basic	2.9	2.4	24%	2.6	13%
GNPA	523	410	28%	476	10%
NNPA	238	155	53%	196	21%
GNPA (%)	2.1	1.8		2.0	
NNPA (%)	1.0	0.7		0.8	
Total CAR (%)	16.16%	15.57%		16.06%	
Tier 1 (%)	12.58%	12.02%		12.51%	
Tier 2 (%)	3.58%	3.55%		3.55%	
NIM (%)	3.67%	3.83%		3.67%	
Advances	24,798	22,069	12%	24,044	3%
Deposits	29,363	26,169	12%	28,789	2%

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	3041	3500	4009
Interest Expenses	1892	2201	2560
Net Interest Income	1149	1299	1449
Other Income	350	406	471
Fee-based Income	240	288	345
Treasury Income	60	68	75
Operating Income	1499	1706	1920
Operating Expenses	853	939	1080
- Staff Cost	434	521	599
- Other Operating Exp.	334	418	481
Gross Profits	647	767	841
Provisions	140	205	210
Profit Before Taxes	507	562	631
Taxes	181	171	164
Profit After Taxes	325	391	467

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
LIABILITIES			
Capital	310	310	310
Reserves & Surplus	2805	3165	3600
Deposits	28435	32266	36558
Borrowings	2723	3164	3799
Other liabilities & provisions	1518	1882	2165
Total Liabilities	35792	40786	46432
ASSETS			
Cash on hand & with RBI	1317	1449	1550
Money at call and short notice	1476	1624	1786
Advances	23568	27103	31440
Investments	7844	8785	9664
Fixed assets	526	659	692
Other assets	1060	1166	1300
Total Assets	35792	40786	46432

Ratio Analysis			
Particulars	FY19	FY20E	FY21E
Basic Ratio (Rs.)			
EPS	10.5	12.6	15.1
Book Value per share	100.8	112.4	126.3
Adjusted Book Value	96.5	107.3	121.2
Dividend per share	0.6	0.6	0.7
Asset Quality (%)			
Gross NPAs	1.9	2.0	1.8
Net NPAs	0.6	0.6	0.5
PCR	70.0	72.0	72.0
Profitability ratios (%)			
RoAE	11.0	11.9	12.6
RoAA	1.0	1.0	1.1
NIM	4.0	3.9	3.8
Cost to Income	56.9	55.0	56.2

Spread analysis (%)			
Particulars	FY19	FY20E	FY21E
Yield on advances	11.3	11.2	11.2
Yield on investments	7.2	7.0	7.0
Cost of deposits	6.5	6.8	7.1
Avg. Cost of funds	6.1	6.2	6.3
Spread	3.6	3.5	3.4
Interest Income to AWF	11.8	11.1	11.0
Net Interest Income to AWF	3.6	3.6	3.5
Non Interest Income to AWF	1.4	1.3	1.3
Operating Expense to AWF	2.7	2.6	2.6
Operating Profit to AWF	2.1	2.1	2.0
Net Profit to AWF	1.0	1.1	1.1
Valuation ratios (x)			
P/E	16.8	14.0	11.7
P/BV	1.8	1.6	1.4
P/ABV	1.8	1.6	1.5

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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