

**CMP: Rs 200**

**Rating: Hold**

**Target Price: Rs 218**

(NR-Not Rated)

**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)	6185
52w H/L (Rs)	245/ 139
Avg Weekly Vol (BSE+NSE)	11,13,190

**Shareholding Pattern**

	%
<b>(As on March, 2019)</b>	
Promoters	15.0
FII	24.5
DII	27.4
Public & Others	33.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
DCB Bank	-1.2	7.2	22.8
SENSEX	0.2	7.8	7.4

Source: ACE Equity, Arihant Research

**DCB BANK v/s SENSEX**



Source: ACE Equity, Arihant Research

**DCB Bank started Q1FY20 on a weaker note led by lower loan growth and margin pressure. It has reported 17% YoY profit growth & muted 10% YoY growth in total income. Advances growth moderated to 13% YoY on the back of de-growth in the Corporate Loan book and decline in NIMs. Asset quality saw marginal deterioration while corporate book saw some write-offs in 1QFY20. Given the management's focus towards increasing share of Retail Deposits, cost of deposits continued to increase further and consequently, NIM was declined by 11bps QoQ and 23 bps YoY. We expect asset quality and growth concern to weigh on the bank's earnings visibility. Therefore, we downgrade our earnings estimates by 8%/15% for FY20-21E and revise our rating to Hold from Accumulate with a target price of Rs 218 (1.8x FY21 P/ABV) vs. Rs 232 earlier.**

**Loan growth was significantly lower primarily due to corporate book**

On the back of 13% YoY de-growth in corporate book, credit growth of the bank was moderated to 13% on YoY basis to Rs 24,044 cr. Excluding corporate book, the loan growth was reasonably healthy at 19% YoY, but significantly slower than management aspiration to double balance sheet in 3-3.5 years. CV book and Agri banking continued on high growth trajectory at 32%/26% YoY.

**Slippages rise, Asset quality marginally deteriorated**

Slippages increased 48% QoQ to Rs 145 cr vs. Rs 98.5 cr in 4QFY19. Stress in the corporate book was negligible but change in segmental GNPA's indicates stress in CV, Agri and other retail loans. Management stated that increase in slippages was on account of 5 performing accounts worth Rs 35-40 cr, which slipped during the quarter. Overall GNPA increased by 12bps while NNPA increased by 16bps QoQ to 1.96%/0.81% respectively. Due to Bank's granularity in asset profile and management's cautious approach, we expect recoveries to step up.

**Rising cost weigh pressure on NIMs; expecting stability going ahead**

The Bank's margins declined by 23bps YoY and 11bps QoQ to 3.67% in 1QFY20 led by 56bps YoY/8bps QoQ due to rise in cost of funds. Hike in cost of funds was primarily due to higher cost of refinance liabilities and banks focus on retail deposit. Yield on advances increased by 29bps QoQ to 11.58%. Going forward, we expect margins to remain stable at current levels.

**Valuation**

We like DCB Bank due to its granular loan book, risk adjusted growth approach and steady NIMs profile. However, we expect some headwinds in the near term on its growth, margin and asset quality front. Moderation in credit growth/NIMs coupled with asset quality stress could weigh on its return ratios. We have valued the stock at 1.8(x) to its FY21E ABV and arrived at a fair value of Rs 218 per share, giving a potential upside of 9%. We downgrade the stock to 'HOLD' with a revised TP of Rs 218.

**ConCall Highlights:**

1. During the quarter, the bank had Rs 35-40 cr of extra slippages from 5 accounts. The management expects at least 2 of these accounts to get resolved in Q2FY20.
2. In the AIB segment, there were some delinquencies in the tractor and commodity segment.
3. Average ticket size in mortgage and SME is in the range of Rs 35-40 lacs.
4. Proportion of LAP in the mortgage book is 70-75%.
5. DCB bank has made an offer to Abu Dhabi Commercial Bank (ADCB) to acquire the business of identified customers of their two branches in India (Mumbai and Bengaluru). ADCB has granted exclusivity to DCB bank for a period of 60 days to complete its due diligence and execution of a definitive agreement. The balance in the relevant customer accounts amounted to Rs 1155 cr of Deposits and (mostly Retail) and Rs 997 cr of Advances (mostly corporate). The target business is said to be of very high quality.
6. CASA ratio is targeted to be at 25% in FY20.
7. Management expect NIMs to be steady at 370-375bps.

**Q1FY20 Financial Snapshot:**

Particulars (Rs in Cr)	Q1FY20	Q1FY19	YoY	Q4FY19	QoQ
<b>Interest Earned</b>	<b>858</b>	<b>701</b>	<b>22%</b>	<b>827</b>	<b>4%</b>
<i>Yield on Advances (%)</i>	11.6	11.4		11.6	
Interest Expended	553	428	<b>29%</b>	526	<b>5%</b>
<b>Net Interest Income</b>	<b>305</b>	<b>273</b>	<b>12%</b>	<b>301</b>	<b>1%</b>
Other Income	87	83	<b>5%</b>	99	<b>-13%</b>
<i>Other income / Net Income (%)</i>	22	23	<b>-5%</b>	25	
<b>Total income</b>	<b>392</b>	<b>356</b>	<b>10%</b>	<b>400</b>	<b>-2%</b>
<b>Operating Expenses</b>	<b>225</b>	<b>214</b>	<b>5%</b>	<b>215</b>	<b>5%</b>
<i>Cost-income Ratio (%)</i>	57.5	60.3		53.7	
<b>Pre-Prov Profits</b>	<b>167</b>	<b>141</b>	<b>18%</b>	<b>185</b>	<b>-10%</b>
Provisions & Contingencies	41	33	<b>22%</b>	35	<b>17%</b>
<b>PBT</b>	<b>126</b>	<b>108</b>	<b>16%</b>	<b>151</b>	<b>-16%</b>
Provisions for Tax	45	39	<b>16%</b>	54	
<i>Effective Tax Rate (%)</i>	36%	36%	<b>0%</b>	36%	
<b>PAT (reported)</b>	<b>81</b>	<b>70</b>	<b>17%</b>	<b>96</b>	<b>-16%</b>
EPS Basic	2.6	2.3	<b>16%</b>	3.1	<b>-16%</b>
GNPA	476	401	<b>19%</b>	439	<b>8%</b>
NNPA	196	154	<b>27%</b>	154	<b>27%</b>
GNPA (%)	2.0	1.9		1.8	
NNPA (%)	0.8	0.7		0.7	
Total CAR (%)	16.06%	15.55%		16.81%	
Tier 1 (%)	12.51%	12.02%		13.10%	
Tier 2 (%)	3.55%	3.53%		3.71%	
NIM (%)	3.67%	3.90%		3.78%	
Advances	24,044	21,243	<b>13%</b>	23,568	<b>2%</b>
Deposits	28,789	25,032	<b>15%</b>	28,435	<b>1%</b>

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	3041	3540	4157
Interest Expenses	1892	2201	2560
<b>Net Interest Income</b>	<b>1149</b>	<b>1339</b>	<b>1597</b>
Other Income	350	406	467
Fee-based Income	240	288	345
Treasury Income	60	68	75
Operating Income	1499	1745	2064
Operating Expenses	853	939	1147
- Staff Cost	434	521	625
- Other Operating Exp.	334	418	522
<b>Gross Profits</b>	<b>647</b>	<b>806</b>	<b>917</b>
Provisions	140	195	210
Profit Before Taxes	507	611	707
Taxes	181	214	247
<b>Profit After Taxes</b>	<b>325</b>	<b>397</b>	<b>459</b>

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
<b>LIABILITIES</b>			
Capital	310	310	310
Reserves & Surplus	2805	3171	3600
Deposits	28435	33107	38805
Borrowings	2723	3159	3633
Other liabilities & provisions	1518	1746	2057
<b>Total Liabilities</b>	<b>35792</b>	<b>41493</b>	<b>48404</b>
<b>ASSETS</b>			
Cash on hand & with RBI	1317	1449	1550
Money at call and short notice	1476	1624	1786
Advances	23568	27810	33372
Investments	7844	8785	9664
Fixed assets	526	659	725
Other assets	1060	1166	1307
<b>Total Assets</b>	<b>35792</b>	<b>41493</b>	<b>48404</b>

Ratio Analysis			
Particulars	FY19	FY20E	FY21E
<b>Basic Ratio (Rs.)</b>			
EPS	10.5	12.9	14.8
Book Value per share	100.8	112.6	126.3
Adjusted Book Value	96.5	107.9	120.9
Dividend per share	0.6	0.6	0.7
<b>Asset Quality (%)</b>			
Gross NPAs	1.9	1.8	1.8
Net NPAs	0.6	0.5	0.5
PCR	70.0	72.0	72.0
<b>Profitability ratios (%)</b>			
RoAE	11.0	12.1	12.4
RoAA	1.0	1.0	1.0
NIM	4.0	3.9	4.0
Cost to Income	56.9	53.8	55.6

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	6.1	6.0
Spread	3.6	3.6	3.6
Interest Income to AWF	11.8	11.2	11.2
Net Interest Income to AWF	3.6	3.6	3.7
Non Interest Income to AWF	1.4	1.3	1.3
Operating Expense to AWF	2.7	2.5	2.7
Operating Profit to AWF	2.1	2.2	2.1
Net Profit to AWF	1.0	1.1	1.1
<b>Valuation ratios (x)</b>			
P/E	19.0	15.6	13.5
P/BV	2.0	1.8	1.6
P/ABV	2.1	1.9	1.7

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**Stock Rating Scale**

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

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