

CMP: Rs 182

Rating: Hold

Target Price: Rs 202

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)	5,642
52w H/L (Rs)	245/ 165
Avg Weekly Vol (BSE+NSE)	873,220

Shareholding Pattern

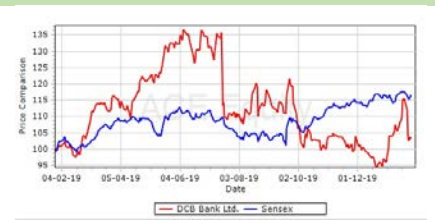
	%
(As on December, 2019)	
Promoters	14.9
FII	24.6
DII	32.8
Public & Others	27.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
DCB Bank	3.0	-7.0	-0.3
SENSEX	6.6	9.9	15.0

Source: ACE Equity, Arihant Research

DCB BANK v/s SENSEX



Source: ACE Equity, Arihant Research

DCB Bank reported weak Q3FY20 performance as asset quality of the bank deteriorated further and moderation seen on advances growth front. The result was below our estimates. NII for the quarter grew by 10% YoY while PAT grew by 12% YoY led by lower tax rate (26% vs 35% YoY). Provisions grew sharply on account of higher slippages, especially from the Corporate and CV portfolio. Asset quality showed weakness as GNPA's and NNPA's ratio increased marginally QoQ. Margins of the bank remained strong at 3.71%, an increase of 4bps sequentially. We maintain our Hold rating on the stock with a revised target price of Rs 202.

Key Result Highlights:

- **Loan Growth Moderated further:** Overall loan book growth of the bank was at 11% YoY vs. 12% in previous quarter, which has been lowest in past 7 years. Mortgage and Agri & Inclusive banking (AIB) book have grown by 14% and 23% YoY while corporate portfolio declined by 11% YoY. SME advances fell by 6% sequentially due to management's cautious approach. Deposits have grown by 8%, with stable CASA ratio at 23%.
- **NIM saw an expansion on sequential basis:** Margins improved by 4bps QoQ to 3.71% led by decline in cost of funds. However, yield on advances remained stable QoQ at 11.52%. NIM guidance for the year stands at 3.7-3.8%. The bank is more focused on increasing the share of Retail Deposits and improving the granularity of deposits rather than targeting a lower cost of funds.
- **Cost to income ratio registered 114bps QoQ improvement to 54%, as overall OPEX declined by 2% QoQ.**
- **Slippages remained elevated:** Fresh Slippages of the bank remained elevated at Rs 202 cr vs. Rs 161 cr QoQ. Increase in slippages was mainly from CV portfolio and one large corporate account (Rs 41cr). The bank is hopeful of recovery in this corporate account. GNPA's/NNPA's increased by 6bps/7bps sequentially to 2.15%/1.03% respectively.

Valuation

We cut our loan growth estimate to 14%/15% from 15%/16% for FY20/21E on the basis of softer trend in loan growth coupled with stress in CV and Corporate portfolio. However, DCB bank's loan book granularity, sustained cost control and steady margin profile are some of its key positives. We believe near term prospects to remain muted on growth front as there is weakness seen in the SME segment and run down of corporate portfolio to impact the loan growth. Normalized slippages level and loan book growth pick up to act as a trigger for rerating in the stock. We value the bank at 1.7(x) (based on 10 year average multiple) to its FY21E ABV and arrived at a fair value of Rs 202 per share, giving a potential upside of 11%. We maintain our 'HOLD' rating on the stock.

Financial Snapshot:

Particulars (Rs Cr)	FY19	FY20E	FY21E
Net interest income	1,149	1,283	1,400
Operating Profit	647	751	818
PAT	325	379	450
EPS Growth (%)	32.3%	16.5%	18.6%
RoE (%)	11.0	11.5	12.2
P/E (x)	17.3	14.9	12.5
ABV	96	106	119
P/ABV (x)	1.9	1.7	1.5

Concall Highlights:

1. Management has guided NIM to be in the range of 370-375 bps going forward.
2. One packaging sector corporate account of Rs 41 cr, slipped during the quarter. The bank has tangible collateral in the form of land, building and factory and made 25% provisioning during Q3FY20.
3. Broking account exposure of Rs 30 cr for that half is guaranteed by bank and half has cash margin in form of term deposits.
4. Fee income is expected to grow at 12-14%.
5. Management expects growth to pick up from 2Q of next financial year.
6. Management does not see any issue in AIB (Agri inclusive banking) segment going ahead as it has diversified loan portfolio of tractor loan, microfinance, Kisan credit card and SME loans.

Q3FY20 Financial Snapshot:

Particulars (Rs in Cr)	Q3FY20	Q3FY19	YoY	Q2FY20	QoQ
Interest Earned	898	777	16%	879	2%
<i>Yield on Advances (%)</i>	11.5	11.4		11.5	
Interest Expended	575	484	19%	566	2%
Net Interest Income	323	294	10%	313	3%
Other Income	93	94	-1%	101	-8%
<i>Other income / Net Income (%)</i>	22	24	-8%	24	
Total income	416	388	7%	415	0%
Operating Expenses	226	214	6%	230	-2%
<i>Cost-income Ratio (%)</i>	54.4	55.2	-86	55.5	-114
Pre-Prov Profits	190	174	9%	185	3%
Provisions & Contingencies	59	40	47%	43	36%
PBT	131	134	-2%	141	-7%
Provisions for Tax	34	48		50	
<i>Effective Tax Rate (%)</i>	26%	36%		35%	
PAT (reported)	97	86	12%	91	6%
EPS Basic	3.1	2.8	12%	2.9	6%
GNPA	552	445	24%	523	6%
NNPA	261	163	60%	238	10%
GNPA (%)	2.2	1.9		2.1	
NNPA (%)	1.0	0.7		1.0	
Total CAR (%)	15.80%	15.45%		16.16%	
Tier 1 (%)	12.30%	11.93%		12.58%	
Tier 2 (%)	3.50%	3.52%		3.58%	
NIM (%)	3.71%	3.83%		3.67%	
Advances	25,438	22,888	11%	24,798	3%
Deposits	29,735	27,509	8%	29,363	1%

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	3041	3484	3960
Interest Expenses	1892	2201	2560
Net Interest Income	1149	1283	1400
Other Income	350	406	471
- Fee-based Income	290	338	396
- Treasury Income	60	68	75
Operating Income	1499	1690	1871
Operating Expenses	853	939	1054
- Staff Cost	434	521	573
- Other Operating Exp.	419	418	481
Gross Profits	647	751	818
Provisions	140	205	210
Profit Before Taxes	507	546	608
Taxes	181	167	158
Profit After Taxes	325	379	450

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
LIABILITIES			
Capital	310	310	310
Reserves & Surplus	2805	3153	3571
Deposits	28435	31609	35927
Borrowings	2723	3431	3774
Other liabilities & provisions	1519	1890	2174
	35792	40393	45757
ASSETS			
Cash on hand & with RBI	1317	1449	1550
Money at call and short notice	1476	1624	1786
Advances	23568	26868	30898
Investments	7844	8707	9578
Fixed assets	526	579	608
Other assets	1060	1167	1338
Total Assets	35792	40393	45757

Ratio Analysis			
Particulars	FY19	FY20E	FY21E
Basic Ratio (Rs.)			
EPS	10.5	12.3	14.5
Book Value per share	100.8	112.0	125.4
Adjusted Book Value	96.5	106.1	119.1
Dividend per share	0.6	0.6	0.7
Asset Quality (%)			
Gross NPAs	1.9	2.2	2.1
Net NPAs	0.6	0.7	0.6
PCR	70.0	70.0	70.0
Profitability ratios (%)			
RoAE	11.0	11.5	12.2
RoAA	1.0	1.0	1.0
NIM	4.0	3.8	3.7
Cost to Income	56.9	55.6	56.3

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	6.3	6.4
Spread	3.6	3.5	3.3
Interest Income to AWF	11.8	11.1	10.9
Net Interest Income to AWF	3.6	3.5	3.4
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	1.0	1.1
Valuation ratios (x)			
P/E	17.3	14.9	12.5
P/BV	1.8	1.6	1.5
P/ABV	1.9	1.7	1.5

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880