

CMP: Rs 116

Rating: Reduce

Target Price: Rs 105

Stock Info

BSE	532772
NSE	DCBBANK
Bloomberg	DCB IN
Reuters	DCBA.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	311
Mkt Cap (Rs Cr)	3,599
52w H/L (Rs)	186 / 58
Avg Yearly Vol (in 000')	2,337

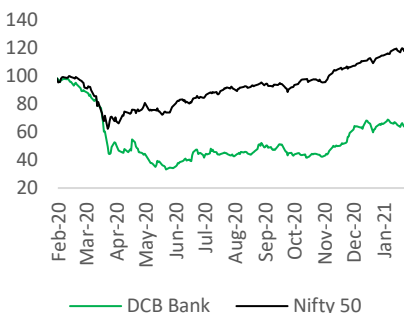
Shareholding Pattern %

(As on December, 2020)

Promoters	14.88
FII	13.76
DII	38.99
Public & Others	32.37

Stock Performance (%)	3m	6m	12m
DCB Bank	44.1	42.4	-35.6
Nifty 50	20.8	29.1	18.7

DCB Bank Vs Nifty



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DCB Bank has reported 1% YoY decline in earnings despite a 46% YoY operating profit growth largely on account of higher provisions, which has increased ~2.5X YoY. Asset quality, on a pro-forma basis, showed a sharp deterioration with GNPA rising to 3.7% of loans from 2.4% of loans in Q2FY21. NII growth for the quarter was lower at 4% YoY. Operating profit for the quarter grew by 46% YoY/23% QoQ, largely due to sharp growth in other income. Other income for the quarter grew by 66% YoY, due to strong growth in treasury income. Core operating profit (ex treasury gain) for the quarter increased by 11% YoY. The bank has reported net profit of Rs 96 cr (-1% YoY/17% QoQ). The bank has made additional Covid provision of Rs 86 cr, taking the total Covid provision at Rs 229 cr. We maintain our Reduce rating with a revised target price of Rs 105.

Business momentum remained weak: Advances of the bank has declined marginally by 0.5% YoY at Rs 25,300 cr, owing to negative growth in major portfolio. Corporate loan book de-grew by 9% YoY followed by 15% YoY decline in CV portfolio and 1% decline in SME portfolio. Its core segment, mortgage book has grown by 2% YoY. Deposits for the quarter declined further by 3% YoY, led by 17% YoY decline in inter-bank term deposits. CASA ratio improved to 23.07% from 22.43% QoQ.

Underlying GNPA's rise; Collection efficiency (CE) remained low : GNPA/NNPA ratio declined 31bps/24bps QoQ to 2%/0.6% respectively. Adjusting for extended standstill, these ratios would be 3.7% and 1.9% respectively. The borrowers account not classified as NPA from Aug'20 to Dec' 20 was Rs 448 cr, out of which Rs 30 cr has moved to below 90DPD, Rs 56 cr comprises secured gold loan, Rs 55 cr comprises BC MFI loans and Rs 159 cr is eligible for restructuring. As on Q3FY21, the net restructured standard advances including Covid-19 relief stood at Rs 687 cr, largely contributed by Mortgages, CV and SME portfolio. Collection efficiency in LAP has declined to 89.8% in Dec' 20 as compared to 91.5% in Nov'20. CE in home loan has improved further to 94.1% from 91.3% in Sep'20. CV portfolio CE remains low at 80.4% for the month of Dec'20.

Outlook & Valuation

Q3FY21 performance of the bank remained weak on most parameters. Asset quality of the bank continue to be a key monitorable given the low collection efficiency and higher restructuring. Focus in the near term would be on preservation of balance sheet and risk controlling. We continue to maintain our cautious view on DCB due to its weak liability franchise, higher asset quality risk and lower growth trajectory of the bank. We roll our estimates to FY23E and value the bank at 0.8x FY23E P/ABV for a target price of Rs 105 and reiterate our reduce rating on the stock.

Particulars (Rs Cr)	FY19	FY20E	FY21E	FY22E	FY23E
Net interest income	1,149	1,265	1,269	1,370	1,537
Operating Profit	647	753	865	947	1,104
PAT	325	338	311	340	528
RoA (%)	1.0	0.9	0.8	0.8	1.2
RoE (%)	11.0	10.3	8.7	8.7	12.3
P/E (x)	8.0	10.6	11.6	10.6	6.8
P/BV	0.8	1.1	1.0	0.9	0.8
P/ABV (x)	0.9	1.2	1.1	1.0	0.9

Q3FY21 result Snapshot

Particulars (Rs in Cr)	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ
Interest Earned	869	898	-3%	878	-1%
<i>Yield on Advances (%)</i>	11.2	11.4	-22bps	11.3	-9bps
Interest Expended	535	575	-7%	545	-2%
Net Interest Income	335	323	4%	334	0%
Other Income	155	93	66%	93	67%
<i>Other income / Net Income (%)</i>	31.6	22.4	922bps	21.7	988bps
Total income	489	416	18%	426	15%
Operating Expenses	212	226	-6%	202	5%
<i>Cost-income Ratio (%)</i>	43.3	54.4	-1105bps	47.3	-397bps
Pre-Prov Profits	277	190	46%	225	23%
Provisions & Contingencies	148	59	150%	113	31%
PBT	130	131	-1%	112	16%
Provisions for Tax	33	34	-2%	29	14%
<i>Effective Tax Rate (%)</i>	26%	26%	-36bps	26%	-55bps
PAT (reported)	96	97	-1%	82	17%
EPS Basic	3.1	3.1	-1%	2.7	17%
GNPA	502	552	-9%	574	-12%
NNPA	150	261	-43%	206	-27%
GNPA (%)	1.96	2.15	-19bps	2.27	-31bps
NNPA (%)	0.59	1.03	-44bps	0.83	-24bps
Total CAR (%)	18.32%	15.80%	252bps	18.28%	4bps
Tier 1 (%)	14.26%	12.30%	196bps	14.22%	4bps
Tier 2 (%)	4.06%	3.50%	56bps	4.06%	0bps
NIM (%)	3.75%	3.71%	4bps	3.74%	1bps
Advances	25,300	25,438	-1%	24,879	2%
Deposits	28,858	29,735	-3%	28,775	0%

Concall Highlights:

1. Other income for the quarter increased by 66% due to profit on sale from G sec.
2. The bank has a target to add 15-20 branches in each financial year.
3. The main target market of the Bank is SME/MSME segment. In terms of products, the bank is focused on growing Business Loans (LAP), Home Loans, Gold Loans, KCC (Kissan Credit Card), Tractor Loans, Loans to MFIs and MFI-BC Loans
4. Company will increase employees count from Q4FY21 to increase the growth.
5. The bank's focus continues to be growing small ticket retail term deposit and reducing bulk deposits.
6. The Advances momentum is steadily improving and as of now it is expected to reach pre covid levels by Q1FY22.
7. Bank has a branch expansion plan of 15-17 every year.
8. The bank has sanctioned Rs 2,138 cr under ECLGS, out of which Rs 613 cr has been disbursed.

Key Financials

Income Statement					Balance Sheet				
Year to 31st March (Rs.Cr)	FY20	FY21E	FY22E	FY23E	As on 31st March (Rs. cr)	FY20	FY21E	FY22E	FY23E
Interest Income	3537	3500	3657	3981	LIABILITIES				
Interest Expenses	2272	2232	2287	2445	Capital	311	311	311	311
Net Interest Income	1265	1269	1370	1537	Reserves & Surplus	3111	3422	3731	4227
Other Income	391	426	469	525	Deposits	30370	29926	30834	33532
- Fee-based Income	307	333	367	413	Borrowings	3408	3919	4625	5087
- Treasury Income	85	93	102	112	Other liabilities & provisions	1305	1726	2483	2681
Operating Income	1656	1695	1839	2062	ASSETS	38505	39304	41983	45839
Operating Expenses	903	830	892	958	Cash on hand & with RBI	1030	1102	1212	1333
- Staff Cost	459	436	458	481	Money at call and short notice	2516	2768	2989	3228
- Other Operating Exp.	352	394	434	477	Advances	25345	24838	26825	29508
Gross Profits	753	865	947	1104	Investments	7742	8361	8528	9088
Provisions	261	444	488	391	Fixed assets	546	612	643	675
Profit Before Taxes	492	421	459	713	Other assets	1327	1623	1785	2007
Taxes	154	109	119	185	Total Assets	38505	39304	41983	45839
Profit After Taxes	338	311	340	528					

Ratio Analysis					Spread analysis (%)				
Particulars	FY20	FY21E	FY22E	FY23E	Particulars	FY20	FY21E	FY22E	FY23E
Basic Ratio (Rs.)					Yield on advances	11.5	11.2	11.3	11.3
EPS	10.9	10.0	10.9	16.9	Yield on investments	7.0	7.0	7.0	7.0
Book Value per share	110.5	120.0	129.8	145.8	Cost of deposits	7.0	6.5	6.5	6.5
Adjusted Book Value	100.6	103.9	114.7	130.6	Avg. Cost of funds	6.7	6.6	6.4	6.3
Dividend per share	0.6	0.7	0.7	0.8	Spread	4.0	3.9	3.9	4.0
Asset Quality (%)					Interest Income to AWF	11.2	9.8	9.8	10.3
Gross NPAs	2.5	4.0	3.5	3.2	Net Interest Income to AWF	3.5	3.4	3.6	3.7
Net NPAs	1.2	2.0	1.8	1.6	Non Interest Income to AWF	1.2	1.2	1.3	1.4
PCR	70.8	50.0	50.0	50.0	Operating Expense to AWF	2.5	2.2	2.3	2.3
Profitability ratios (%)					Operating Profit to AWF	2.1	2.3	2.5	2.7
RoAE	10.3	8.7	8.7	12.3	Net Profit to AWF	0.9	0.8	0.9	1.3
RoAA	0.9	0.8	0.8	1.2	Valuation ratios (x)				
NIM	3.7	3.8	4.0	4.2	P/E	10.6	11.6	10.6	6.8
Cost to Income	54.5	49.0	48.5	46.5	P/BV	1.1	1.0	0.9	0.8
					P/ABV	1.2	1.1	1.0	0.9

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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