

CMP: Rs 202

Rating: Accumulate

Target Price: Rs 232

(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)	6267
52w H/L (Rs)	209/ 139
Avg Weekly Vol (BSE+NSE)	60,40,410

Shareholding Pattern	%
(As on December, 2018)	
Promoters	15.0
Public & Others	85.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
DCB Bank	9.3	26.2	3.1
SENSEX	7.6	14.1	14.0

Source: ACE Equity, Arihant Research

DCB BANK v/s SENSEX



Source: ACE Equity, Arihant Research

DCB bank delivered strong numbers during the quarter with 50% jump in net profit of Rs 96 cr (in-line with our estimate), driven by moderating operating expenses and lower provisioning. PPOp grew by 31% to Rs 185 cr, due to high other income and controlled OPEX. Loan growth of the bank lowered in FY19 due to de-growth in corporate book. Loan book for the year FY19 grew by 16% YoY to Rs 23,568 cr. NII for the quarter grew by 14% YoY to Rs 301 cr (our estimate: Rs 295 cr). OPEX grew by 4% YoY while it was flat on QoQ basis to Rs 215 cr, due to slower branch addition and improving productivity leading to improvement in Cost to Income ratio. CI ratio declined by 151 bps QoQ to 53.71% (multi quarter low).

Advances growth moderated in FY19 and was largely driven by retail portfolio; Agri-inclusive banking (AIB) & Mortgage segment to be the key growth driver

Total loan book of the bank grew by 16% YoY/ 3% QoQ. This was primarily driven by 16%/29% and 16% growth in Mortgages, AIB and MSME businesses respectively while corporate advances declined by 11% YoY mainly due to banks strategy to move towards short tenure or lower capital consuming loans. Other than this bank is in segments of CV, gold and construction finance which contributes 7%/2% and 3% in total advances.

Deposits

Deposits of the bank stood at Rs 28,435 cr registering growth of 18% YoY and 3% QoQ. CASA ratio dipped by 30bps QoQ to 23.9%. Retail term deposits formed 56% of total deposits.

Lower slippages, strong recoveries and high write-offs led to improvement in asset quality

Slippages declined to Rs 98.5 cr from Rs 114 cr on QoQ basis. Strong recoveries /upgrades and high write offs attributed improvement in asset quality. GNPA/NNPA improved by 8bps/6bps QoQ at 1.84% and 0.65% respectively. PCR ratio of the bank increased to 78.7% from 77%. NPA in CV segment is inching up from the last two quarters, however management is confident of recoveries in the segment. Security receipts book stood at Rs 38 cr (Rs 48 cr in 3QFY19) as the bank recovered Rs 10 cr from the ARC.

Rising cost weigh pressure on NIMs; expecting stability going ahead

Margin for the quarter declined by 38bps YoY/5 bps QoQ to 3.8%, mainly due to spike in cost of funds (+32 bps YoY) and muted loan growth. A higher deposit growth relative to advances during FY19 also partly contributed to the decline in NIMs. Going forward, we expect margins to inch up to normalised levels of 3.8-4.0% led by improvement in credit growth.

Valuation

DCB bank's strategy to improve employee productivity, focus on small ticket size loans, high secured lending is likely to improve banks performance. The management's long-term target is to double its book over the next 3-3.5 years. We expect CI ratio to moderate ~51-52% by FY21, leading to improvement in return ratios At CMP of Rs 202, the stock is trading at 11.6x P/E and 1.6x P/ABV to its FY21E of Rs 17.3 EPS and Rs 122 ABV respectively. We have valued the stock at 1.9x to its FY21E ABV and arrived at a fair value of Rs 232 per share, giving a potential upside of 15%. We have an "ACCUMULATE" rating on the stock.

ConCall Highlights:

1. Management has long term goal, to double its balance sheet over the next 3-3.5 years. With higher granularity in the portfolio, the asset quality performance is expected to be better.
2. Bank's main focus is on short tenure loan or lower capital consuming corporate loan.
3. The bank intends to improve employee productivity from Rs 8 cr business/employee currently to Rs 10-11 cr business/employee and on branch expansion, there is scope of increasing efficiencies in the existing network. The bank will add 15-20 branches per year and go faster, once profitability is strengthened.
4. On asset quality front, there are some worries over a few corporate accounts while rest of the portfolio should have recoveries, due to granular and secured lending.
5. ROA should be in the range of 1.3-1.5%. Cost and fee income would be the driver for improving ROA.
6. No capital infusion plan for the next 6-9 months.

Q4FY19 Financial Snapshot:

Particulars (Rs in Cr)	Q4FY19	Q4FY18	YoY	Q3FY19	QoQ
Interest Earned	827	649	27%	777	6%
<i>Yield on Advances (%)</i>	11.6	11.4		11.3	
Interest Expended	526	385	37%	484	9%
Net Interest Income	301	264	14%	294	2%
Other Income	99	85	17%	94	5%
<i>Other income / Net Income (%)</i>	25	24	2%	24	
Total income	400	349	15%	388	3%
Operating Expenses	215	207	4%	214	0%
<i>Cost-income Ratio (%)</i>	53.7	59.4		55.2	
Pre-Prov Profits	185	142	31%	174	7%
Provisions & Contingencies	35	39	-10%	40	-13%
PBT	151	103	46%	134	13%
Provisions for Tax	54	39	40%	48	
<i>Effective Tax Rate (%)</i>	36%	38%	-4%	36%	
PAT (reported)	96	64	50%	86	12%
EPS Basic	3.1	2.1	49%	2.8	12%
GNPA	439	369	19%	445	-1%
NNPA	154	147	5%	163	-6%
GNPA (%)	1.8	1.8		1.9	
NNPA (%)	0.7	0.7		0.7	
Total CAR (%)	16.81%	16.47%		15.45%	
Tier 1 (%)	13.10%	12.72%		11.93%	
Tier 2 (%)	3.71%	3.75%		3.52%	
NIM (%)	3.78%	4.16%		3.83%	
Advances	23,568	20,337	16%	22,888	3%
Deposits	28,435	24,007	18%	27,509	3%

Income Statement

Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	3041.5	3564.7	4280.2
Interest Expenses	1892.2	2169.6	2560.1
Net Interest Income	1149.3	1395.1	1720.1
Other Income	350.2	406.2	467.1
Fee-based Income	239.9	287.9	345.5
Treasury Income	60.2	68.2	75.0
Operating Income	1499.5	1801.3	2187.2
Operating Expenses	852.9	938.7	1147.4
- Staff Cost	434.0	520.8	624.9
- Other Operating Exp.	334.4	418.0	522.4
Gross Profits	646.6	862.6	1039.8
Provisions	140.1	195.0	210.0
Profit Before Taxes	506.5	667.6	829.8
Taxes	181.2	233.7	290.4
Profit After Taxes	325.4	433.9	539.4

Ratio Analysis

Particulars	FY19	FY20E	FY21E
Basic Ratio (Rs.)			
EPS	10.53	14.03	17.42
Book Value per share	100.83	113.42	127.76
Adjusted Book Value	96.49	108.69	122.10
Dividend per share	0.55	0.61	0.67
Asset Quality (%)			
Gross NPAs	1.85	1.80	1.80
Net NPAs	0.56	0.50	0.50
PCR	70.00	72.00	72.00
Profitability ratios (%)			
RoAE	10.99	13.11	14.46
RoAA	0.99	1.11	1.17
NIM	3.97	4.07	4.19
Cost to Income	56.88	52.11	52.46

Balance Sheet

As on 31st March (Rs. cr)	FY19	FY20E	FY21E
LIABILITIES			
Capital	309.6	309.6	309.6
Reserves & Surplus	2804.9	3197.6	3645.2
Deposits	28435.1	33668.6	40449.3
Borrowings	2723.2	3131.7	3984.4
Other liabilities & provisions	1517.9	1745.6	2007.4
Total Liabilities	35791.8	42053.0	50396.1
ASSETS			
Cash on hand & with RBI	1317.2	1317.2	1317.2
Money at call and short notice	1476.2	1623.8	1786.2
Advances	23568.0	28281.6	34786.4
Investments	7844.1	8785.4	10256.5
Fixed assets	526.0	631.2	694.3
Other assets	1060.4	1414.4	1555.9
Total Assets	35791.8	42053.0	50396.1

Spread analysis (%)

Particulars	FY19	FY20E	FY21E
Yield on advances	11.29	11.20	11.20
Yield on investments	7.20	7.00	7.00
Cost of deposits	6.51	6.75	7.00
Avg. Cost of funds	6.07	5.90	5.76
Spread	3.61	3.72	3.74
Interest Income to AWF	11.81	11.31	11.48
Net Interest Income to AWF	3.65	3.74	3.88
Non Interest Income to AWF	1.36	1.29	1.25
Operating Expense to AWF	2.71	2.52	2.59
Operating Profit to AWF	2.05	2.31	2.34
Net Profit to AWF	1.03	1.16	1.22
Valuation ratios (x)			
P/E	19.18	14.39	11.59
P/BV	2.00	1.78	1.58
P/ABV	2.09	1.86	1.65

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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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