

CMP: Rs 60

Rating: Reduce

Target Price: Rs 57

Stock Info

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)	1,876
52w H/L (Rs)	245 / 60
Avg Yearly Vol (in 000')	1,162

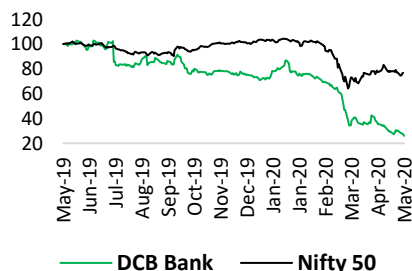
Shareholding Pattern %

(As on March, 2020)

Promoters	14.9
FII	22.8
DII	35.3
Public & Others	27.0

Stock Performance (%)	3m	6m	12m
DCB Bank	-46.2	-55.2	-54.3
Nifty 50	-23.0	-23.9	-22.2

DCB Bank Vs Nifty



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DCB Bank reported weak Q4FY20 performance as asset quality of the bank deteriorated further and moderation seen on advances growth front. Profit during the quarter was impacted by higher provisioning and margins compression. Profit during the quarter de-grew by 29% YoY to Rs 69 cr. NII for the quarter grew by 8% YoY to Rs 324 cr led by advances growth of 8%. Operating profit for the quarter grew by 14% YoY to Rs 212 cr, supported by other income growth of 11% YoY. Asset quality showed weakness as GNPA and NNPA's increased by 31bps/13bps QoQ to 2.46%/1.16% respectively. Margins during the quarter compressed by 7bps QoQ to 3.64%. We downgrade our rating to Reduce from Hold with a revised target price of Rs 57.

Loan Growth Moderated further: Overall loan book growth of the bank was at 8% YoY vs. 11% in previous quarter. Mortgage and Agri & Inclusive banking (AIB) book both have grown by 13% YoY while corporate & SME portfolio declined by 1% YoY. Deposit traction was muted at 7% YoY/2% QoQ, as CASA deposits registered a 4% YoY/6% QoQ fall. CASA ratio moderated to 21.5% from 23.3% sequentially.

NIM compressed sequentially: NIM declined by 7bps QoQ to 3.64% led by 15bps decline in yield on advances due to change in portfolio mix. However, cost of fund declined by 8bps due to decline in cost of deposits.

Asset Quality deteriorated further: GNPA ratio of the bank increased to 2.46% vs. 2.15% QoQ due to lower upgrades and recoveries during the quarter. Slippages remained elevated at Rs 150 cr vs. Rs 202 cr QoQ. The bank has classified accounts worth Rs 42.7 cr as NPA for March, 2020 and standard asset classification benefit was not taken by the bank for this account. The bank has made Covid provision of Rs 63 cr (0.2% of loan book) including regulatory requirement.

Outlook & Valuation: Lower credit growth, weakening CASA profile and Covid-19 related disruption has taken a weight on DCB bank's Q4FY20 performance. We have cut our loan growth estimate to 9%/13% from 12%/15% for FY20/21E on the basis of softer trend in loan growth coupled with stress in LAP/MSME portfolio. We believe near term prospects to remain challenging on growth as well as on asset quality front. A too big chunk of the loan book is under moratorium (i.e. ~60%), risks arising from business loans of self-employed people, as the crisis may prevent several businesses to come back/restart, which leading to defaults. Hence, we downgrade our rating to Reduce from Hold with revised TP of Rs 57, valuing it at 0.5x P/ABV FY22.

Q4FY20 result Snapshot

Particulars (Rs in Cr)	Q4FY20	Q4FY19	YoY	Q3FY20	QoQ
Interest Earned	902	827	9%	898	0%
<i>Yield on Advances (%)</i>	11.4	11.4		11.5	
Interest Expended	578	526	10%	575	1%
Net Interest Income	324	301	8%	323	0%
Other Income	110	99	11%	93	18%
<i>Other income / Net Income (%)</i>	25	25	2%	22	
Total income	434	400	8%	416	4%
Operating Expenses	222	215	3%	226	-2%
<i>Cost-income Ratio (%)</i>	51.1	53.7		54.4	
Pre-Prov Profits	212	185	14%	190	12%
Provisions & Contingencies	118	35	240%	59	100%
PBT	94	151	-38%	131	-28%
Provisions for Tax	25	54	-54%	34	
<i>Effective Tax Rate (%)</i>	27%	36%	-26%	26%	
PAT (reported)	69	96	-29%	97	-29%
EPS Basic	2.2	3.1	-29%	3.1	-29%
GNPA	632	439	44%	552	14%
NNPA	294	154	91%	261	13%
GNPA (%)	2.46	1.84		2.15	
NNPA (%)	1.16	0.65		1.03	
Total CAR (%)	17.75%	16.81%		15.80%	
Tier 1 (%)	13.90%	13.10%		12.30%	
Tier 2 (%)	3.85%	3.71%		3.50%	
NIM (%)	3.64%	3.78%		3.71%	
Advances	25,345	23,568	8%	25,438	0%
Deposits	30,370	28,435	7%	29,735	2%

Concall Highlights:

1. Bank has offered moratorium to all customers except NBFC and some large ticket size loan. Total moratorium is at 60% of AUM as on 30th April 2020. For Home loan it is at 52%, Business loan (LAP) at 56% and for SME it is at 60%.
2. Near term focus of the bank is to preserve balance sheet by focusing on maintaining adequate liquidity, managing portfolio stress and reducing cost.
3. Top 20 depositors share stands at 9.07% (as on 20th May, 2020) from 9.27% (as of March, 2020). Bank strategy is to reduce bulk deposit and replace it with retail TDs.
4. As per survey done by bank, 60-70% customers will take 2-3 months to come back to business at certain level.
5. Bank has classified Rs 42.7 cr as NPA on which RBI's asset classification benefits has not taken while it took benefit of Rs 89.3 cr on asset classification and provided entire 10% provision as per RBI circular.

Key Financials

Income Statement					Balance Sheet				
Year to 31st March (Rs.Cr)	FY19	FY20	FY21E	FY22E	As on 31st March (Rs. cr)	FY19	FY20	FY21E	FY22E
Interest Income	3041	3537	3741	4148	LIABILITIES				
Interest Expenses	1892	2272	2524	2848	Capital	311	311	311	311
Net Interest Income	1149	1265	1218	1299	Reserves & Surplus	2805	3111	3400	3739
Other Income	350	391	438	504	Deposits	28435	30370	32889	37164
- Fee-based Income	290	307	345	401	Borrowings	2723	3408	3919	4507
- Treasury Income	60	85	93	102	Other liabilities & provisions	1519	1305	1544	1667
Operating Income	1499	1656	1656	1803	ASSETS	35793	38505	42063	47389
Operating Expenses	853	903	910	1021	Cash on hand & with RBI	1317	1030	1102	1448
- Staff Cost	434	459	505	555	Money at call and short notice	1476	2516	2768	3044
- Other Operating Exp.	419	352	405	466	Advances	23568	25345	27626	31218
Gross Profits	647	753	746	782	Investments	7844	7742	8516	9367
Provisions	140	261	313	282	Fixed assets	526	546	573	602
Profit Before Taxes	507	492	432	500	Other assets	1060	1327	1478	1710
Taxes	181	154	112	130	Total Assets	35792	38505	42063	47389
Profit After Taxes	325	338	320	370					

Ratio Analysis					Spread analysis (%)				
Particulars	FY19	FY20	FY21E	FY21E	Particulars	FY19	FY20	FY21E	FY22E
Basic Ratio (Rs.)					Yield on advances	11.3	11.5	11.5	11.5
EPS	10.5	10.9	10.3	11.9	Yield on investments	7.2	7.0	7.0	7.0
Book Value per share	100.9	110.5	119.3	130.1	Cost of deposits	6.6	7.0	7.1	6.9
Adjusted Book Value	95.6	100.6	108.5	118.8	Avg. Cost of funds	6.1	6.7	6.9	6.8
Dividend per share	0.6	0.6	0.7	0.7	Spread	3.6	4.0	3.5	3.4
					Interest Income to AWF	11.8	11.2	10.5	10.7
Asset Quality (%)					Net Interest Income to AWF	3.6	3.5	3.1	3.0
Gross NPAs	1.9	2.5	3.0	2.8	Non Interest Income to AWF	1.4	1.2	1.2	1.3
Net NPAs	0.7	1.2	1.2	1.1	Operating Expense to AWF	2.7	2.5	2.3	2.4
PCR	78.8	70.8	60.0	60.0	Operating Profit to AWF	2.1	2.1	1.9	1.8
					Net Profit to AWF	1.0	0.9	0.8	0.9
Profitability ratios (%)									
RoAE	11.0	10.3	9.0	9.5	Valuation ratios (x)				
RoAA	1.0	0.9	0.8	0.8	P/E	5.7	5.5	5.8	5.1
NIM	3.8	3.7	3.5	3.4	P/BV	0.6	0.5	0.5	0.5
Cost to Income	56.9	54.5	54.9	56.6	P/ABV	0.6	0.6	0.6	0.5

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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% to -12%
SELL	<-12%

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