

**CMP: Rs 82**

**Rating: Reduce**

**Target Price: Rs 78**

**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)	2,561
52w H/L (Rs)	218 / 58
Avg Yearly Vol (in 000')	1,550

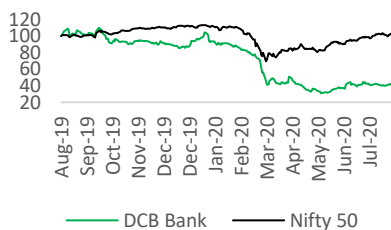
**Shareholding Pattern %**

(As on March, 2020)

Promoters	14.88
FII	15.08
DII	35.92
Public & Others	34.12

Stock Performance (%)	3m	6m	12m
DCB Bank	15.3	-52.6	-57.6
Nifty 50	20.1	-7.4	3.2

**DCB Bank Vs Nifty**



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DCB Bank reported mixed performance during Q1FY21 as NII growth was low at 1% YoY, led by weak loan growth and softer NIM. It has reported 2% decline in profit at Rs 79 cr, due to higher provisions (+106% YoY). The Bank has provided Rs 32 cr towards Covid related contingencies and Rs 38 cr towards NPA provisions. Strong treasury gain (+139% YoY) and lower OPEX leading to operating profit growth of 15% YoY to Rs 191 cr. Moratorium book of the Bank declined to ~26% from 60% in phase 1. We maintain our Reduce rating with a revised target price of Rs 78.

**Loan Growth Moderation continues:** Advances growth of the bank was multi quarter low at 4% YoY vs. 8% in previous quarter. Loan growth was driven by Agri & Inclusive banking (AIB) and Mortgage book which has grown by 9% each on YoY basis. MSME and corporate book declined by 4.5% and 3.8% respectively YoY. Deposits declined by 3% QoQ, led by decline in inter-bank term deposits. CASA ratio improved by 47bps QoQ to 21.9%.

**Margins impacted due to excess liquidity:** NIM declined by 22bps QoQ to 3.42%, led by 24bps QoQ decline in yield on advances and excess liquidity. Excess liquidity impact on margin was ~20bps. NIM is expected to improve over the next 3-6 months. Cost of fund during the quarter declined by 20bps QoQ to 6.82%, largely due to decline in cost of deposits.

**Asset Quality stable, Moratorium book came down:** Asset quality of the bank was stable as standstill moratorium benefit led to lower slippages at Rs 5 cr vs. Rs 150 cr in Q4FY20. GNPA ratio declined by 2bps QoQ to 2.44% while NNPA ratio improved by 17bps QoQ to 0.99%. Cumulative Covid provisions stood at Rs 95 cr as on Q1FY21. As of July 31<sup>st</sup>, ~26% (by Value) have not paid any installments since 1<sup>st</sup> April 2020. Business Loans at (LAP) 29.1%, Home Loan at 21.2% and CV at 48.2%.

**Outlook & Valuation:** DCB Bank's Q1FY20 performance was mixed as growth was lower, asset quality was stable and moratorium book declined. CAR ratio of the bank is quite healthy at 17.9% as on Q1FY21. Going forward, we need to keep watch on asset quality of the bank as higher proportion of the loan book (~26%) is under moratorium. Also, recoveries seems to be difficult under current scenario. While maintaining our cautious view, we downgrade our estimates further. In line with the management guidance, we have reduced our FY21 loan growth estimate to -5% from +9% earlier. We have revised our FY21/FY22 estimates and reiterate our Reduce rating on the stock with revised TP of Rs 78, valuing it at 0.7x P/ABV FY22.

## Q1FY21 result Snapshot

Particulars (Rs in Cr)	Q1FY21	Q1FY20	YoY	Q4FY20	QoQ
Interest Earned	873	858	2%	902	-3%
<i>Yield on Advances (%)</i>	11.1	11.4		11.4	
Interest Expended	566	553	2%	578	-2%
<b>Net Interest Income</b>	<b>307</b>	<b>305</b>	<b>1%</b>	<b>324</b>	<b>-5%</b>
Other Income	78	87	-11%	110	-29%
<i>Other income / Net Income (%)</i>	20	22	-9%	25	
<b>Total income</b>	<b>384</b>	<b>392</b>	<b>-2%</b>	<b>434</b>	<b>-11%</b>
<b>Operating Expenses</b>	<b>193</b>	<b>225</b>	<b>-14%</b>	<b>222</b>	<b>-13%</b>
<i>Cost-income Ratio (%)</i>	50.3	57.5		51.1	
<b>Pre-Prov Profits</b>	<b>191</b>	<b>167</b>	<b>15%</b>	<b>212</b>	<b>-10%</b>
Provisions & Contingencies	84	41	106%	118	-29%
<b>PBT</b>	<b>107</b>	<b>126</b>	<b>-15%</b>	<b>94</b>	<b>15%</b>
Provisions for Tax	28	45	-37%	25	
<i>Effective Tax Rate (%)</i>	26%	36%	-27%	27%	
<b>PAT (reported)</b>	<b>79</b>	<b>81</b>	<b>-2%</b>	<b>69</b>	<b>15%</b>
EPS Basic	2.6	2.6	-2%	2.2	15%
GNPA	622	476	31%	632	-2%
NNPA	249	196	27%	294	-15%
GNPA (%)	2.44	1.96		2.46	
NNPA (%)	0.99	0.81		1.16	
Total CAR (%)	17.91%	16.06%		17.75%	
Tier 1 (%)	13.92%	12.51%		13.90%	
Tier 2 (%)	3.99%	3.55%		3.85%	
NIM (%)	3.42%	3.67%	-25 bps	3.64%	-22 bps
Advances	25,058	24,044	4%	25,345	-1%
Deposits	29,432	28,789	2%	30,370	-3%

## Concall Highlights:

- Collection efficiency:** Business loans - April: 51.6% and July: 59.4%, Home loan – April: 56.9% and July: 67.3% while CV – April: 30.1% and July: 39.3%. Collection efficiencies have been witnessing steady improvements across segments.
- Moratorium Update:** ~26% of the book is under moratorium and have not paid any installments. CV is one of the most affected portfolio, wherein ~48.2% customers have not paid instalments since April' 2020.
- Over the next 6-9 months, focus will be on Gold loans, Insurance, Home loans, KCC and selected Business loans.
- Advances is expected to de-grow by 5% in FY21.
- Provision-** Additional Covid-19 provision- Rs 32 cr, Restructure provision- Rs 15 cr, NPA provision- Rs 22 cr.
- LTV is below ~50% (within regulatory norms). If customers needs additional funding, then bank has a options of giving top up loans.
- OPEX-** Bank have 359 digital improvement project. The Bank has a target to sustain OPEX/Total assets ratio at 2.15-2.20% and confidence to achieve in next 18 months.

## 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	3537	3818	<b>LIABILITIES</b>				
Interest Expenses	1892	2272	2450	2762	Capital	311	311	311	311
<b>Net Interest Income</b>	<b>1149</b>	<b>1265</b>	<b>1087</b>	<b>1056</b>	Reserves & Surplus	2805	3111	3318	3529
Other Income	350	391	438	508	Deposits	28435	30370	29363	33474
- Fee-based Income	290	307	345	406	Borrowings	2723	3408	3919	4507
- Treasury Income	60	85	93	102	Other liabilities & provisions	1519	1305	1584	1711
<b>Operating Income</b>	<b>1499</b>	<b>1656</b>	<b>1525</b>	<b>1564</b>		<b>35793</b>	<b>38505</b>	<b>38496</b>	<b>43533</b>
Operating Expenses	853	903	890	954	<b>ASSETS</b>				
- Staff Cost	434	459	496	520	Cash on hand & with RBI	1317	1030	1102	1448
- Other Operating Exp.	419	352	394	434	Money at call and short notice	1476	2516	2768	3044
<b>Gross Profits</b>	<b>647</b>	<b>753</b>	<b>635</b>	<b>610</b>	Advances	23568	25345	24078	27449
Provisions	140	261	313	282	Investments	7844	7742	8516	9367
Profit Before Taxes	507	492	321	328	Fixed assets	526	546	573	602
Taxes	181	154	84	85	Other assets	1060	1327	1459	1622
<b>Profit After Taxes</b>	<b>325</b>	<b>338</b>	<b>238</b>	<b>243</b>	<b>Total Assets</b>	<b>35792</b>	<b>38505</b>	<b>38496</b>	<b>43533</b>

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	11.6
EPS	10.5	10.9	7.6	7.8	Yield on investments	7.2	7.0	7.0	7.5
Book Value per share	100.9	110.5	116.7	123.3	Cost of deposits	6.6	7.0	7.1	6.7
Adjusted Book Value	95.6	100.6	107.3	113.5	Avg. Cost of funds	6.1	6.7	7.4	7.3
Dividend per share	0.6	0.6	0.7	0.7	Spread	3.6	4.0	3.5	3.1
Asset Quality (%)					Interest Income to AWF	11.8	11.2	9.9	10.3
Gross NPAs	1.9	2.5	3.0	2.8	Net Interest Income to AWF	3.6	3.5	2.9	2.7
Net NPAs	0.7	1.2	1.2	1.1	Non Interest Income to AWF	1.4	1.2	1.2	1.4
PCR	78.8	70.8	60.0	60.0	Operating Expense to AWF	2.7	2.5	2.4	2.4
Profitability ratios (%)					Operating Profit to AWF	2.1	2.1	1.7	1.5
RoAE	11.0	10.3	6.7	6.5	Net Profit to AWF	1.0	0.9	0.6	0.6
RoAA	1.0	0.9	0.6	0.6	Valuation ratios (x)				
NIM	3.8	3.7	3.3	3.0	P/E	7.8	7.6	10.8	10.6
Cost to Income	56.9	54.5	58.4	61.0	P/BV	0.8	0.7	0.7	0.7
					P/ABV	0.9	0.8	0.8	0.7

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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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