

Muted Loan growth; Asset quality concerns remains high

CMP: Rs 84

Rating: Reduce

Target Price: Rs 80

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)	2,617
52w H/L (R0s)	205/ 58
Avg Yearly Vol (in 000')	1,955

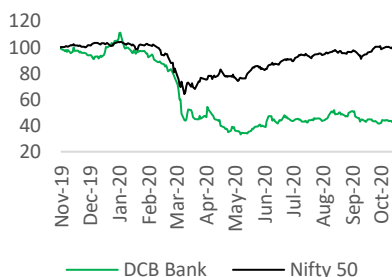
Shareholding Pattern %

(As on September, 2020)

Promoters	14.88
FII	14.44
DII	37.68
Public & Others	33.00

Stock Performance (%)	3m	6m	12m
DCB Bank	5.0	23.2	-54.3
Nifty 50	9.5	32.3	2.5

DCB Bank Vs Nifty



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DCB Bank's earnings were ahead of our estimates but business growth remained muted. The bank has reported profit of Rs 82 cr (+4% QoQ) vs. our estimate of Rs 66 cr, mainly due to NIM expansion and cost control. NII for the quarter grew by 7% YoY/9% QoQ, largely due to NIM expansion of 32bps QoQ to 3.74%. Operating profit for the quarter grew by 22% YoY/18% QoQ to Rs 225 cr, supported by improvement in cost ratio and healthy growth in other income on a sequential basis. Cost-income ratio has declined by 300bps QoQ to 47.3% on account of decline in employees cost. Profit for the quarter de-grew by 10% YoY to Rs 82 cr on the back of higher provision at Rs 113 cr (+161% YoY/35% QoQ). The bank has made Covid provision of Rs 48 cr, taking the total Covid provision at Rs 143 cr (0.6% of advances). We maintain our Reduce rating with a revised target price of Rs 80.

Loan growth moderated further: Advances growth of the bank was at multi quarter low at 0.3% YoY vs. 4% in previous quarter, owing to negative growth in major portfolio. Corporate loan book de-grew by 16% YoY followed by 8% YoY decline in SME portfolio. Its core segment, mortgage book has grown by 3% YoY while AIB (Agri inclusive banking) portfolio grew by 5% YoY. Deposits for the quarter declined by 2% YoY/QoQ, led by decline in inter-bank term deposits. CASA ratio increased to 22.43% from 21.93% QoQ.

Stable asset quality, Collection efficiency improved but still low: Asset quality of the bank was stable as SC's stay on NPA recognition led lower slippages of Rs 9 cr, supported by better recoveries. GNPA/NNPA ratio declined by 17bps/16bps QoQ to 2.27%/0.83% respectively. Proforma GNPA ratio for the quarter stood at 2.39%. Collection efficiency has improved across segments such as business loans at 87.5%, home loans at 91.3% and CV loans at 77.1% but it remains well below pre-covid levels.

Outlook & Valuation

DCB Bank's Q2FY21 performance was mixed as growth was lower, margin was higher and asset quality was stable. We need to keep a watch on asset quality as collection efficiency of the bank is far below than pre-covid levels and 7%/5%/10% customers of business loans, home loan and CV loan have not paid any single EMI since Apr'20 which poses a higher risk to the portfolio. 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 continue to value the bank at 0.7x FY22E P/ABV for a target price of Rs 80 and reiterate our reduce rating on the stock.

Particulars (Rs Cr)	FY19	FY20E	FY21E	FY22E
Net interest income	1,149	1,265	1,160	1,062
Operating Profit	647	753	708	616
PAT	325	338	292	247
EPS Growth (%)	31.8%	3.6%	-13.6%	-15.3%
RoE (%)	11.0	10.3	8.2	6.5
P/E (x)	8.0	7.7	9.0	10.6
ABV	96	101	107	115
P/ABV (x)	0.9	0.8	0.8	0.7

Q2FY21 result Snapshot

Particulars (Rs in Cr)	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Interest Earned	878	879	0%	873	1%
<i>Yield on Advances (%)</i>	11.3	11.4	-13bps	11.1	15bps
Interest Expended	545	566	-4%	566	-4%
Net Interest Income	334	313	7%	307	9%
Other Income	93	101	-9%	78	19%
<i>Other income / Net Income (%)</i>	21.7	24.4	-275bps	20.2	151bps
Total income	426	415	3%	384	11%
Operating Expenses	202	230	-12%	193	4%
<i>Cost-income Ratio (%)</i>	47.3	55.5	-822bps	50.3	-298bps
Pre-Prov Profits	225	185	22%	191	18%
Provisions & Contingencies	113	43	161%	84	35%
PBT	112	141	-21%	107	4%
Provisions for Tax	29	50	-41%	28	5%
<i>Effective Tax Rate (%)</i>	26%	35%	-899bps	26%	21bps
PAT (reported)	82	91	-10%	79	4%
EPS Basic	2.7	2.9	-10%	2.6	4%
GNPA	574	523	10%	622	-8%
NNPA	206	238	-13%	249	-17%
GNPA (%)	2.3	2.1	18bps	2.4	-17bps
NNPA (%)	0.8	1.0	-13bps	1.0	-16bps
Total CAR (%)	18.28%	16.16%	212bps	17.91%	37bps
Tier 1 (%)	14.22%	12.58%	164bps	13.92%	30bps
Tier 2 (%)	4.1%	3.6%	48bps	4.0%	7bps
NIM (%)	3.7%	3.7%	7bps	3.4%	32bps
Advances	24,879	24,798	0%	25,058	-1%
Deposits	28,775	29,363	-2%	29,432	-2%

Concall Highlights:

1. As on Sept'20, moratorium deferment extended to SMA/ overdue categories stood at Rs 356 cr which has further declined to Rs 313 cr. Moratorium book, which was 26% as at June end, has declined to 3-5%.
2. Management expects restructuring proportion to be in the range of 3-5% of total advances.
3. Bank has a exposure of Rs 6 cr towards Sambandh Finserve (MFI Company) which has reported fraud and provisions of Rs 2 cr have been made on this account.
4. NIM expected to be in the range of 3.6-3.7%.
5. Focus will continue to be on Gold loans, Insurance, Home loans, KCC and selected Business loans.
6. Bank has a branch expansion plan of 15-17 every year.
7. The bank has sanctioned Rs 2000 cr under ECLGS, out of which Rs 301 cr has been disbursed.

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	3738	LIABILITIES				
Interest Expenses	1892	2272	2377	2676	Capital	311	311	311	311
Net Interest Income	1149	1265	1160	1062	Reserves & Surplus	2805	3111	3372	3588
Other Income	350	391	438	508	Deposits	28435	30370	29363	32887
- Fee-based Income	290	307	345	406	Borrowings	2723	3408	3919	4507
- Treasury Income	60	85	93	102	Other liabilities & provisions	1519	1305	1530	1736
Operating Income	1499	1656	1598	1570		35793	38505	38496	43030
Operating Expenses	853	903	890	954	ASSETS				
- Staff Cost	434	459	496	520	Cash on hand & with RBI	1317	1030	1102	1443
- Other Operating Exp.	419	352	394	434	Money at call and short notice	1476	2516	2768	3044
Gross Profits	647	753	708	616	Advances	23568	25345	24078	26967
Provisions	140	261	313	282	Investments	7844	7742	8516	9367
Profit Before Taxes	507	492	395	334	Fixed assets	526	546	573	602
Taxes	181	154	103	87	Other assets	1060	1327	1459	1605
Profit After Taxes	325	338	292	247	Total Assets	35792	38505	38496	43030

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	9.4	7.9	Yield on investments	7.2	7.0	7.0	7.0
Book Value per share	100.9	110.5	118.4	125.2	Cost of deposits	6.6	7.0	6.5	6.2
Adjusted Book Value	95.6	100.6	107.5	114.8	Avg. Cost of funds	6.1	6.7	7.1	7.2
Dividend per share	0.6	0.6	0.7	0.7	Spread	3.6	4.0	3.7	3.1
Asset Quality (%)					Interest Income to AWF	11.8	11.2	9.9	10.1
Gross NPAs	1.9	2.5	3.5	3.0	Net Interest Income to AWF	3.6	3.5	3.1	2.7
Net NPAs	0.7	1.2	1.4	1.2	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	1.9	1.6
RoAE	11.0	10.3	8.2	6.5	Net Profit to AWF	1.0	0.9	0.8	0.6
RoAA	1.0	0.9	0.8	0.6	Valuation ratios (x)				
NIM	3.8	3.7	3.5	3.1	P/E	8.0	7.7	9.0	10.6
Cost to Income	56.9	54.5	55.7	60.8	P/BV	0.8	0.8	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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