

Credit growth improved further, Asset quality remained largely stable

CMP: INR 85

Rating: Hold

Target Price: INR 91

Stock Info

BSE	532772
NSE	DCBBANK
Bloomberg	DCB IN
Reuters	DCBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	311
Mkt Cap (INR Cr)	2,645
52w H/L (INR)	121 / 78
Avg Yearly Vol (in 000')	2,193

Shareholding Pattern %

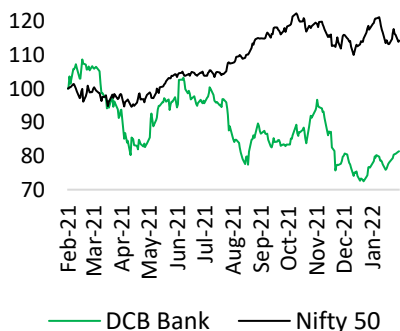
(As on December, 2021)

Promoters	14.87
FII	9.24
DII	28.61
Public & Others	47.28

Stock Performance (%)

	1m	3m	12m
DCB Bank	2.9 (16.5)	(21.3)	
Nifty 50	(2.1)	(3.3)	15.5

DCB Bank Vs Nifty



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DCB Bank has reported in line operating performance during Q3FY22 with PAT of INR 75 cr as against our estimate of INR 77 cr, driven by QoQ improvement in NIMs. Margins improved by 24bps on sequential basis supported by 12bps QoQ decline in cost of funds. NII for the quarter grew by 3% YoY/7% QoQ to INR 345 cr was higher than our estimate of INR 332 cr, driven by healthy credit growth. Bank has reported another quarter of healthy advance growth of 9% YoY (8% YoY in Q2FY22). Operating profit for the quarter declined by 28% YoY and increased by 14% QoQ to INR 199 cr as compared to our estimate of INR 203 cr. Slippages for the quarter remained elevated due to gold loan business was impacted by high infections from third COVID wave, as collections/repayments slowed.

Credit and Deposits growth improved further: Loan growth on the overall book improved to 9% YoY led by home loan, gold loan and agri banking. Disbursements stood at Rs 3,341 cr (-13% QoQ). The bank continues to focus on growing business loans (LAP), home loans, gold loans, KCC, tractor loans, MFI & MFI-BC, and MSME/SME working capital loans. Management retain its guidance on doubling the loan book over 3-4 years. The deposit franchise registered a growth of 12% YoY, aided by strong growth of 26% YoY in CASA Deposits. CASA ratio resultantly improved to 25.9% vs 25.4% QoQ.

Asset quality deteriorates marginally: Gross slippages for the quarter were elevated at INR 457 cr (~6.7% of loans vs 6.2% in Q2FY22), mainly from rise in gold loan NPA (including co-lending model), SME and Agri Banking portfolio. Management expects slippages to normalize back to 2-2.5% levels in the next 1-2 quarters. GNPA of the bank increased by 5bps QoQ at 4.7% while NNPA declined by 11bps QoQ at 2.5%. Recoveries and upgrades continue to be strong at INR 401 cr vs. INR 397 cr QoQ. Collection efficiency has improved to pre-Covid levels in the BL (LAP) and home loans segments for Dec'21, but it remains subdued for CV segment. Collection efficiency in LAP stood at 97.2%, Home loan CE is at 98.9% and CV collection efficiency stood at 84.8% as on Jan'22.

Outlook & Valuation: Improving macro-economic conditions have supported the demand and the trend is expected to continue resulting in a gradual uptick in credit growth. Bank has reported healthy improvement in credit growth in the second consecutive quarter. Excluding gold slippages, net slippages would have been negative. Most of gold delinquencies is expected to be recovered over the next 2-3 quarters. Healthy recoveries and increasing credit growth will support the valuation improvement. We revise our rating on the stock to Hold from Neutral with a revised target price of INR 91 (vs. INR 95 earlier), based on 0.7x FY24E ABV.

Particulars (Rs Cr)	FY21A	FY22E	FY23E	FY24E
Net interest income	1,287	1,370	1,558	1,718
Operating Profit	898	820	923	984
PAT	336	244	392	496
RoA (%)	0.9	0.6	0.9	1.0
RoE (%)	9.4	6.3	9.5	10.9
P/BV	7.9	10.9	6.7	5.3
P/ABV (x)	0.7	0.7	0.6	0.6

Q3FY22 result Snapshot

Particulars (Rs in Cr)	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ
Interest Earned	878	869	1%	869	1%
<i>Yield on Advances (%)</i>	10.7	11.4	-74bps	10.7	1bps
Interest Expended	533	535	0%	546	-2%
Net Interest Income	345	335	3%	323	7%
Other Income	118	155	-23%	98	21%
<i>Other income / Net Income (%)</i>	25.5	31.6	-604bps	23.2	233bps
Total income	463	489	-5%	421	10%
Operating Expenses	265	212	25%	246	8%
<i>Cost-income Ratio (%)</i>	57.1	43.3	1377bps	58.4	-132bps
Pre-Prov Profits	199	277	-28%	175	14%
Provisions & Contingencies	97	148	-34%	86	12%
PBT	102	130	-21%	89	15%
Provisions for Tax	26	33	-21%	24	11%
<i>Effective Tax Rate (%)</i>	26%	26%	23bps	27%	-86bps
PAT (reported)	75	96	-22%	65	16%
EPS Basic	2.4	3.1	-22%	2.1	16%
GNPA	1,340	502	167%	1,285	4%
NNPA	697	150	365%	707	-1%
GNPA (%)	4.73	1.96	277bps	4.68	5bps
NNPA (%)	2.52	0.59	193bps	2.63	-11bps
Total CAR (%)	18.21%	18.32%	-11bps	19.34%	-113bps
Tier 1 (%)	15.10%	14.26%	84bps	15.28%	-18bps
Tier 2 (%)	3.11%	4.06%	-95bps	4.06%	-95bps
NIM (%)	3.61%	3.75%	-14bps	3.37%	24bps
Advances	27,659	25,300	9%	26,850	3%
Deposits	32,231	28,858	12%	31,770	1%

Concall Highlights:

- Slippages was higher during the quarter on account of gold loan slippages. Including co-lending portfolio, gold loan slippages stood at INR 140 cr. Challenges in gold book were primarily due to high COVID infections and are getting resolved in Q4FY22. ~99% of the gold loan customers square off the loan or repay overdues when threatened with auction. There are no concerns on the gold loan NPAs.
- 2-3 accounts are always stressed in the corporate book and there are no major issues in the book
- As slippages normalize, credit costs are expected to improve to pre covid levels of 50-60bps in 1-2 quarters.
- Slippages are expected to revert to pre-COVID levels in 1-2 quarters.
- Collection efficiency is around pre-Covid level, however, if customers are out of moratorium it takes 1-2 months to settle down the payment.
- Provisions- include NPA- INR 64 cr, floating provisions- INR 3 cr, Std. asset provisions- INR 2 cr, Restructured assets- INR 18 cr and mgmt. overlay (standard assets)- INR 9 cr. The total stands at INR 96 cr.
- Bank targets to cross 400 branches within the next two quarters.
- NIM is expected to improve as excess liquidity normalizes
- In Next 3-4qtrs would do ROA of 1%+ and ROE of 14%+.
- Bank is awaiting RBI's decision regarding the CEO's tenure extension.

Key Financials

Income Statement					Balance Sheet				
Year to 31st March (Rs. Cr)	FY21A	FY22E	FY23E	FY24E	As on 31st March (Rs. cr)	FY21A	FY22E	FY23E	FY24E
Interest Income	3458	3729	4077	4502	LIABILITIES				
Interest Expenses	2172	2358	2518	2784	Capital	311	311	311	311
Net Interest Income	1287	1370	1558	1718	Reserves & Surplus	3447	3660	4021	4487
Other Income	459	413	450	490	Deposits	29704	32348	36001	39601
- Fee-based Income	293	231	250	270	Borrowings	4482	4930	5424	5966
- Treasury Income	166	182	200	220	Other liabilities & provisions	1657	1729	1820	1914
Operating Income	1745	1783	2008	2208		39602	42978	47578	52279
Operating Expenses	847	963	1086	1224	ASSETS				
- Staff Cost	434	520	598	688	Cash on hand & with RBI	1183	1301	1431	1574
- Other Operating Exp.	328	443	487	536	Money at call and short notice	1856	2005	2165	2339
Gross Profits	898	820	923	984	Advances	25959	27819	30601	33661
Provisions	446	490	392	314	Investments	8414	9255	10181	11199
Profit Before Taxes	453	329	530	671	Fixed assets	569	804	1110	1166
Taxes	117	86	138	174	Other assets	1621	1794	2090	2340
Profit After Taxes	336	244	392	496	Total Assets	39602	42978	47578	52279

Ratio Analysis					Spread analysis (%)				
Particulars	FY21A	FY22E	FY23E	FY24E	Particulars	FY21A	FY22E	FY23E	FY24E
Basic Ratio (Rs.)					Yield on advances	11.1	11.1	11.1	11.1
EPS	10.8	7.8	12.6	15.9	Yield on investments	7.2	7.0	7.0	7.0
Book Value per share	121	128	139	154	Cost of deposits	6.5	6.5	6.5	6.5
Adjusted Book Value	102	103	116	129	Avg. Cost of funds	6.4	6.3	6.1	6.1
					Spread	2.9	2.9	3.1	3.1
					Interest Income to AWF	9.7	9.9	10.3	10.3
Asset Quality (%)					Net Interest Income to AWF	3.4	3.5	3.6	3.6
Gross NPAs	4.1	4.6	4.0	3.8	Non Interest Income to AWF	1.3	1.1	1.1	1.1
Net NPAs	2.3	2.8	2.4	2.3	Operating Expense to AWF	2.3	2.4	2.5	2.5
PCR	45.0	40.0	40.0	40.0	Operating Profit to AWF	2.4	2.1	2.1	2.0
					Net Profit to AWF	0.9	0.6	0.9	1.0
Profitability ratios (%)									
RoAE	9.4	6.3	9.5	10.9	Valuation ratios (x)				
RoAA	0.9	0.6	0.9	1.0	P/E	7.9	10.9	6.7	5.3
NIM	3.7	3.5	3.7	3.7	P/BV	0.7	0.7	0.6	0.6
Cost to Income	48.5	54.0	54.1	55.4	P/ABV	0.8	0.8	0.7	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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