

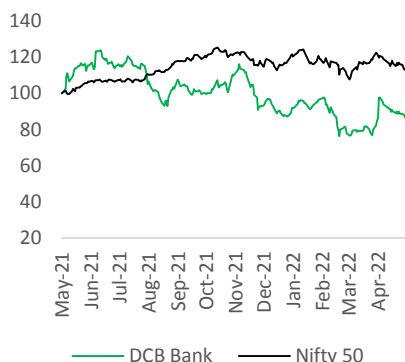
**Margins increased sharply, asset quality saw an improvement**
**CMP: INR 81**
**Rating: Hold**
**Target Price: INR 91**
**Stock Info**

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)	2,424
52w H/L (INR)	114 / 68
Avg Yearly Vol (in 000')	1,514

**Shareholding Pattern %**
*(As on March, 2022)*

Promoters	14.9
FII	8.8
DII	38.7
Public & Others	37.6

Stock Performance (%)	1m	3m	12m
DCB Bank	0.1	-10.9	-13.6
Nifty 50	-7.8	-6.3	11.5

**DCB Bank Vs Nifty**


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DCB Bank reported good performance during Q4FY22 with strong profit growth of 46% YoY/51% QoQ to INR 113 cr, driven by 11% QoQ increase in operating profit and provision decline of 30% YoY. NII of the bank increased strongly by 22% YoY/10% QoQ to INR 380 cr was higher than our estimate of INR 362 cr, led by advances growth of 12% YoY/5% QoQ and margin expansion. NIM of the bank improved sharply by 32bps QoQ at 3.9%. Operating profit for the quarter increased by 8% YoY/11% QoQ to INR 221 cr, driven by strong operating income and controlled operating expenses. Headline asset ratio of the bank improved as GNPA declined by 41bps QoQ at 4.3% and NNPA declined by 55bps QoQ at 2%. Restructuring pool of the bank decreased by 40bps QoQ at 6.4%.

**Loan growth momentum gaining pace:** Credit growth of the bank was healthy at 12.1% YoY/5% QoQ (vs. 9% YoY in Q3FY22) to INR 29,096 cr. Disbursements of the bank continued to remain strong. In Q4FY22, disbursements was at INR 5,043 cr including co-lending disbursements of INR 1,954 cr as compared to INR 3,343 cr in Q3FY22. Its core segment, Mortgage portfolio grew by 9% YoY. Corporate banking increased by 2% YoY/5% QoQ. Management has indicated that it will focus on growing the portfolios on LAP, home loans, gold loans and SME/MSME working capital loans. Management reiterated that, bank is looking to double its balance sheet in next 3-4 years.

**Asset quality improved sequentially:** The bank has reported slippages of INR 376 cr (slippage ratio at 5.2% vs ~6.6% QoQ) in Q4FY22, lower than ~6-8% witnessed in the previous 2-3 quarters. Recoveries and upgrades for the quarter remained strong at INR 426 cr vs. INR 401 cr in Q3FY22. Management has indicated that recoveries will continue to be healthy over the next few quarters. Collection efficiency in LAP and home loan portfolio improved further and it has reached to have pre-covid. While CV portfolio collection improving but it continued to remain well below than pre-covid level. The bank carries a contingent provision of INR 99 cr (0.34% of loans).

**Outlook & Valuation:** DCB Bank's Q4FY22 performance was marked by strong sequential growth in business, good operating performance, margins improvement and healthy recoveries. However, slippages ratio of the bank remained elevated, restructuring book is higher at 6.4% and provision buffer is lower which are still not at comfortable level. We revise our rating on the stock to Hold from Neutral with a target price of INR 91, based on 0.7x FY24E ABV.

Particulars (Rs Cr)	FY21A	FY22	FY23E	FY24E
Net interest income	1,287	1,358	1,497	1,636
Operating Profit	898	797	928	1,002
PAT	336	288	431	498
RoA (%)	0.9	0.7	0.9	1.0
RoE (%)	9.4	7.4	10.1	10.6
P/BV	0.7	0.6	0.6	0.5
P/ABV (x)	0.8	0.7	0.7	0.6

## Q4FY22 result Snapshot

Particulars (Rs in Cr)	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
Interest Earned	920	837	10%	878	5%
Yield on Advances (%)	10.7	11.4	-70bps	10.7	4bps
Interest Expended	539	526	3%	533	1%
<b>Net Interest Income</b>	<b>380</b>	<b>311</b>	<b>22%</b>	<b>345</b>	<b>10%</b>
Other Income	115	134	-14%	118	-3%
Other income / Net Income (%)	23.2	30.1	-690bps	25.5	-236bps
<b>Total income</b>	<b>495</b>	<b>445</b>	<b>11%</b>	<b>463</b>	<b>7%</b>
Operating Expenses	274	240	14%	265	4%
Cost-income Ratio (%)	55.4	53.9	151bps	57.1	-168bps
<b>Pre-Prov Profits</b>	<b>221</b>	<b>205</b>	<b>8%</b>	<b>199</b>	<b>11%</b>
Provisions & Contingencies	68	101	-33%	97	-30%
<b>PBT</b>	<b>153</b>	<b>104</b>	<b>47%</b>	<b>102</b>	<b>50%</b>
Provisions for Tax	40	26	52%	26	50%
Effective Tax Rate (%)	26%	25%	87bps	26%	-3bps
<b>PAT (reported)</b>	<b>113</b>	<b>78</b>	<b>46%</b>	<b>75</b>	<b>51%</b>
EPS Basic	3.7	2.5	45%	2.4	50%
GNPA	1,290	1,083	19%	1,340	-4%
NNPA	573	594	-4%	697	-18%
GNPA (%)	4.32	4.09	23bps	4.73	-41bps
NNPA (%)	1.97	2.29	-32bps	2.52	-55bps
Total CAR (%)	18.92%	19.67%	-75bps	18.21%	71bps
Tier 1 (%)	15.84%	15.49%	35bps	15.10%	74bps
Tier 2 (%)	3.08%	4.18%	-110bps	3.11%	-3bps
NIM (%)	3.93%	3.46%	47bps	3.61%	32bps
Advances	29,096	25,959	12%	27,659	5%
Deposits	34,692	29,704	17%	32,231	8%

## Concall Highlights:

1. Management stated that most covid led challenges are behind.
2. Bank has 400 branches (33 branches opened during the quarter) and branch opening have gathered pace. Management targets to open 25-35 branch annually.
3. The bank will continue to pursue its strategy of lending to small ticket retail and MSME segment.
4. Management aims to double its Balance sheet over the next 3-4 years.
5. Margin is likely to be in the range of 3.7-4 % range.
6. A large part of the book is linked with external benchmark and will benefit with rise in interest rates.
7. Management intends to deliver RoA of 1% and RoE in the range of ~12%.
8. Mortgage segment should continue to do well.
9. Cash flow in self employed segment is back to pre-covid level, primarily in secured loan segment (LAP, Home loan and CV loans)
10. Majority of the co-lending takes place in the Gold loan segment. However, co-lending will not contribute more than 5% of the book.
11. The bounce rates are slightly higher, but recoveries are in line with pre-covid levels.

## Key Financials

Income Statement					Balance Sheet				
Year to 31st March (Rs.Cr)	FY21A	FY22	FY23E	FY24E	As on 31st March (Rs. cr)	FY21A	FY22	FY23E	FY24E
Interest Income	3458	3513	4113	4442	<b>LIABILITIES</b>				
Interest Expenses	2172	2155	2616	2806	Capital	311	311	311	311
<b>Net Interest Income</b>	<b>1287</b>	<b>1358</b>	<b>1497</b>	<b>1636</b>	Reserves & Surplus	3447	3738	4137	4604
Other Income	459	452	484	522	Deposits	29704	34692	36001	39601
- Fee-based Income	293	343	363	390	Borrowings	4482	4082	4490	4939
- Treasury Income	166	109	120	132	Other liabilities & provisions	1657	2018	2115	2214
<b>Operating Income</b>	<b>1745</b>	<b>1810</b>	<b>1980</b>	<b>2159</b>		<b>39602</b>	<b>44840</b>	<b>47055</b>	<b>51670</b>
Operating Expenses	847	1013	1052	1157	<b>ASSETS</b>				
- Staff Cost	434	539	620	682	Cash on hand & with RBI	1183	1578	1735	1909
- Other Operating Exp.	328	376	432	475	Money at call and short notice	1856	2513	2714	2931
<b>Gross Profits</b>	<b>898</b>	<b>797</b>	<b>928</b>	<b>1002</b>	Advances	25959	29096	30601	33661
Provisions	446	407	346	329	Investments	8414	9098	9280	10208
<b>Profit Before Taxes</b>	<b>453</b>	<b>390</b>	<b>582</b>	<b>673</b>	Fixed assets	569	661	694	729
Taxes	117	102	151	175	Other assets	1621	1894	2030	2232
<b>Profit After Taxes</b>	<b>336</b>	<b>288</b>	<b>431</b>	<b>498</b>	<b>Total Assets</b>	<b>39602</b>	<b>44840</b>	<b>47055</b>	<b>51670</b>

Ratio Analysis					Spread analysis (%)				
Particulars	FY21A	FY22	FY23E	FY24E	Particulars	FY21A	FY22	FY23E	FY24E
Basic Ratio (Rs.)					Yield on advances	11.1	11.0	11.0	11.0
EPS	10.8	9.2	13.8	16.0	Yield on investments	7.2	7.0	7.0	7.0
Book Value per share	121	130	143	158	Cost of deposits	6.5	6.5	6.5	6.5
Adjusted Book Value	102	112	124	137	Avg. Cost of funds	6.4	5.6	6.5	6.3
Dividend per share	1	1	1	1	Spread	2.9	2.7	2.8	2.8
Asset Quality (%)					Interest Income to AWF	9.7	9.3	10.2	10.1
Gross NPAs	4.1	4.3	3.8	3.8	Net Interest Income to AWF	3.4	3.4	3.4	3.5
Net NPAs	2.3	2.0	1.9	1.9	Non Interest Income to AWF	1.3	1.2	1.2	1.2
PCR	45.0	40.0	50.0	50.0	Operating Expense to AWF	2.3	2.5	2.4	2.5
Profitability ratios (%)					Operating Profit to AWF	2.4	2.0	2.1	2.1
RoAE	9.4	7.4	10.1	10.6	Net Profit to AWF	0.9	0.7	1.0	1.1
RoAA	0.9	0.7	0.9	1.0	Valuation ratios (x)				
NIM	3.7	3.4	3.5	3.5	P/E	7.5	8.8	5.9	5.1
Cost to Income	48.5	56.0	53.1	53.6	P/BV	0.7	0.6	0.6	0.5
					P/ABV	0.8	0.7	0.7	0.6

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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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