

CMP: INR 128.8

Rating: Hold

Target Price: INR 142

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)	4,017
52w H/L (INR)	141 / 81
Avg Yearly Vol (in 000')	1,811

Shareholding Pattern %

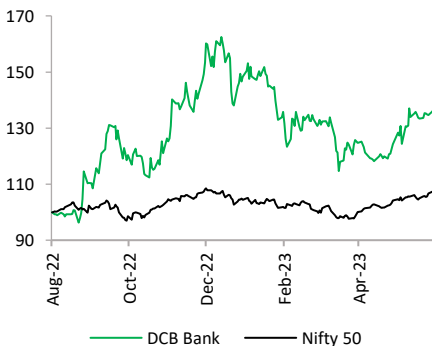
(As on June, 2023)

Promoters	14.9
Public & Others	85.1

Stock Performance (%)

	1m	6m	12m
DCB Bank	5.1	11.1	50.8
Nifty 50	1.7	11.2	13.3

DCB Bank Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

DCB Bank reported 31% YoY increase in net profit at INR 126 cr. However, the profitability declined by 11% QoQ. The decline in profitability was mainly attributable to the increase in cost of funds and increase in slippages, leading to decline in NII of the bank. NII of the bank increased by 26% YoY/-3% QoQ to INR 470 cr, led by advances growth of 18% YoY/3% QoQ. NIM for the quarter declined by 35bps QoQ at 3.83%. Management has reiterated that it expects NIM to be in the range of ~3.65-3.75%. Operating profit of the bank increased by 26% YoY/-14% QoQ to INR 208 cr, impacted due to decline in other income on a sequential basis by 13% QoQ. Other income of the bank increased by 16% YoY but declined by 13% QoQ to INR 106 cr due to decline in TReDs portfolio. The asset quality of the bank degraded. GNPA increased by 7bps QoQ to 3.26% during the quarter and NNPA increased by 15bps QoQ to 1.19% during the quarter.

Decline in NIMs, led by increase in Cost of funds: NIMs declined by 35bps QoQ at 3.83% (v/s 3.61% in Q1FY23). This decline was led by the decline in yields on advances and increasing cost of funds. The yield on advances declined by 12 bps QoQ at 11.55% (v/s 10.65% in Q1FY23). This decline was led by the change in product mix. This quarter, the bank disbursed more of corporate lending, which had less average yield on advances. Further, the cost of funds increased by 29 bps QoQ at 6.7%, led by increasing cost of deposits at 6.61% (+28bps QoQ/ +71bps YoY). The cost of funds are expected to increase in coming quarters, which might put NIMs under pressure.

Asset quality degraded sequentially, driven by increasing slippages and decline in recoveries: The bank has reported higher slippages of INR 340 cr (slippage ratio at 3.99% vs 3.28% QoQ) in Q1FY24. Recoveries and upgrades for the quarter was lower at INR 211 cr as compared to INR 306 cr QoQ. Lower recoveries and upgrades has led to an deterioration in asset quality with GNPA increasing by 7bps QoQ at 3.26%. Management has indicated that recoveries will improve over the next few quarters.

Outlook & Valuation:

Bank has displayed a seasonally weak quarter. Profitability declined by 11% QoQ to INR 126 cr. Going forward, cost of funds is expected to increase, although at slower pace as compare to FY23. This will put a slight pressure on NIMs. NIMs are expected to be in the range of 3.5 – 4%. Recoveries and upgrades are expected to pickup in coming quarters, thereby improving asset quality. We maintain our Hold rating on the stock with a revised target price of INR 142, based on 0.75x FY25E ABV.

Exhibit 1: Financial Performance

Particulars (Rs Cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	1,287	1,358	1,717	1,931	2,160
Operating Profit	898	797	787	1,035	1,166
PAT	336	288	466	654	756
RoA (%)	0.9	0.7	1.0	1.2	1.3
RoE (%)	9.4	7.4	10.8	13.4	13.6
P/E (x)	11.9	14.0	8.6	6.1	5.3
P/BV	1.1	1.0	0.9	0.8	0.7
P/ABV (x)	1.3	1.2	1.0	0.8	0.7

Q1FY24 result Snapshot

Particulars (Rs in Cr)	Q1FY24	Q1FY23	Q4FY23	YoY	QoQ
Interest Earned	1,237.74	949.27	1,179.28	30%	5%
Interest Expended	767.02	575.32	693.33	33%	11%
Net Interest Income	470.72	373.95	485.95	26%	-3%
Other Income	106.94	92.42	122.33	16%	-13%
Total income	577.66	466.37	608.28	24%	-5%
Operating Expenses	368.99	300.24	364.34	23%	1%
<i>Cost-income Ratio (%)</i>	<i>63.9%</i>	<i>64.4%</i>	<i>59.9%</i>	<i>-5bps</i>	<i>40bps</i>
Pre-Prov Profits	208.67	166.13	243.94	26%	-14%
Provisions & Contingencies	37.73	35.01	52.48	8%	-28%
PBT	170.94	131.12	191.46	30%	-11%
Provisions for Tax	44.01	33.97	49.25	30%	-11%
<i>Effective Tax Rate (%)</i>	<i>26%</i>	<i>26%</i>	<i>26%</i>	<i>-14bps</i>	<i>-6bps</i>
PAT (reported)	126.93	97.15	142.21	31%	-11%

Concall Highlights:

- Interest Income came at INR 1237.74 cr v/s INR 1179.28 cr in last quarter (up 30% YoY, up 5% QoQ), which is in line with the balance sheet growth.
- Interest expense increased to INR 767.02 cr (up 33% YoY, up 11% QoQ), owing to the increasing cost of funds. The cost of funds increased by 29 bps QoQ to 6.7%. This led to the decrease in NIMs to 3.83% from 4.18% in last quarter. Their NIMs are expected to be in the range of 3.5% to 4% in coming quarters.
- GNPA increased from 3.19% in last quarter to 3.26% and NNPA increased from 1.04% in last quarter to 1.19%, due to the increase in slippages during the quarter.
- Their increase in NPA is primarily on account of loans which have come out of moratorium and a very small portion is left, which will get over by July and also on account of delays in recoveries.
- Their recoveries and upgrades are expected to pick up in coming quarters.
- PSLC income decreased substantially during the quarter as the bank as bank decreased the focus on this during the quarter due to the weak rates. The bank did sell PSL during the quarter but the income is not substantial due to weak rates.
- Their disbursal for tread portfolio was very less in first quarter because rates were low, so bank decided to not to participate in this portfolio during the quarter. The momentum will pickup in q2 and q3 of the fiscal year 24.
- The bank opened 8 branches during the quarter.
- The bank CASA ratio declined from 26.42% to 25.97% on a sequential basis. This is because interest rates on term deposits was high during the quarter.
- The cost of funds will increase in the coming quarters although not at the same pace as in FY23. This will put a slight pressure on NIMs.

Key Financials

Income Statement						Balance Sheet					
Year to 31st March (Rs.Cr)	FY21	FY22	FY23	FY24E	FY25E	As on 31st March (Rs. cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	3458	3513	4200	5032	5529	LIABILITIES					
Interest Expenses	2172	2155	2483	3101	3369	Capital	311	311	311	311	311
Net Interest Income	1287	1358	1717	1931	2160	Reserves & Surplus	3447	3738	4252	4874	5600
Other Income	459	452	409	442	478	Deposits	29704	34692	41239	44089	48497
- Fee-based Income	293	343	370	399	430	Borrowings	4482	4082	4118	4530	4983
- Treasury Income	166	109	39	43	47	Other liabilities & provisions	1657	2018	2443	2549	2657
Operating Income	1745	1810	2126	2373	2638		39602	44840	52363	56353	62048
Operating Expenses	847	1013	1340	1338	1472	ASSETS					
- Staff Cost	434	539	693	762	838	Cash on hand & with RBI	1183	1578	2031	2234	2457
- Other Operating Exp.	328	376	524	576	633	Money at call and short notice	1856	2513	338	365	394
Gross Profits	898	797	787	1035	1166	Advances	25959	29096	34381	36620	40398
Provisions	446	407	159	151	144	Investments	8414	9098	12582	13841	15225
Profit Before Taxes	453	390	628	883	1022	Fixed assets	569	661	826	868	911
Taxes	117	102	162	230	266	Other assets	1621	1894	2208	2426	2663
Profit After Taxes	336	288	466	654	756	Total Assets	39602	44840	52366	56353	62048

Ratio Analysis						Spread analysis (%)					
Particulars	FY21	FY22	FY23	FY24E	FY25E	Particulars	FY21	FY22	FY23	FY24E	FY25E
Basic Ratio (Rs.)						Yield on advances	11.1	11.0	11.1	11.1	11.1
EPS	10.8	9.2	14.9	21.0	24.3	Yield on investments	7.2	7.0	7.0	7.0	7.0
Book Value per share	121	130	146	166	190	Cost of deposits	6.5	6.5	6.5	6.5	6.5
Adjusted Book Value	102	112	135	157	190	Avg. Cost of funds	6.4	5.6	5.5	6.4	6.3
Asset Quality (%)						Spread	2.9	2.7	3.0	3.0	3.0
Gross NPAs	4.1	4.3	3.2	3.8	3.8	Interest Income to AWF	9.7	9.3	10.4	10.9	10.7
Net NPAs	2.3	2.0	1.0	0.8	0.8	Net Interest Income to AWF	3.4	3.4	3.7	3.7	3.8
PCR	45.0	67.8	79.3	80.0	80.0	Non Interest Income to AWF	1.3	1.2	1.0	1.0	0.9
Profitability ratios (%)						Operating Expense to AWF	2.3	2.5	2.9	2.6	2.6
RoAE	9.4	7.4	10.8	13.4	13.6	Operating Profit to AWF	2.4	2.0	1.7	2.0	2.1
RoAA	0.9	0.7	1.0	1.2	1.3	Net Profit to AWF	0.9	0.7	1.0	1.3	1.3
NIM	3.7	3.4	3.7	3.7	3.8	Valuation ratios (x)					
Cost to Income	48.5	56.0	63.0	56.4	55.8	P/E	11.9	14.0	8.6	6.1	5.3
						P/BV	1.1	1.0	0.9	0.8	0.7
						P/ABV	1.3	1.2	1.0	0.8	0.7

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 Ratlam Kothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880