

CMP: INR 144

Rating: Hold

Target Price: INR 158

Stock Info

BSE	532772
NSE	DCBBANK
Bloomberg	DCB IN
Reuters	DCBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	3,121
Mkt Cap (INR Mn)	45,256
52w H/L (INR)	163 / 97
Avg Yearly Vol (in 000')	2,028

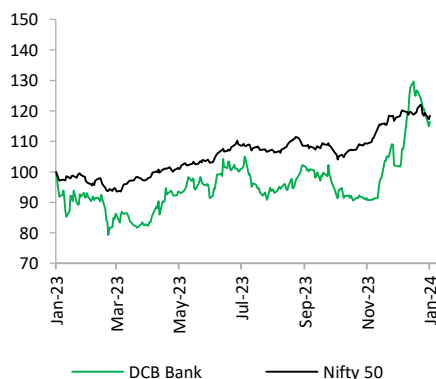
Shareholding Pattern %

(As on December, 2023)

Promoters	14.8
Public & Others	85.2

Stock Performance (%)	1m	6m	12m
DCB Bank	15.3	16	21.4
Nifty 50	0.06	9.01	19.9

DCB Bank Vs Nifty



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DCB Bank reported 11.2% YoY decline in net profit at INR 1.26 bn. The profitability remained flat sequentially. The decline in profitability was mainly attributable to the increase in cost of funds and increase in slippages, leading to sequentially flat growth of NII. NII of the bank increased by 6.3% YoY/-0.4% QoQ to INR 4.74 bn, led by advances growth of 18.16% YoY/ 4.49% QoQ. NIM for the quarter declined by 54bps YoY/ 21 bps QoQ at 3.48%. Management has reiterated that it expects NIM to be in the range of 3.65-3.75%. Operating profit of the bank increased by 9% YoY and 0.5% QoQ to INR 2.11 bn, due to growth in other income by 15.2% QoQ/ 29.7% YoY. Asset quality performance was mixed as GNPA increased while NNPA declined on sequential basis. GNPA increased by 7bps QoQ to 3.43% during the quarter and NNPA declined by 6bps QoQ to 1.22% during the quarter.

Decline in NIMs, led by increase in Cost of funds: NIMs declined by 21bps QoQ/ 54bps YoY at 3.48% (v/s 3.69% in Q2FY24). This decline was led by the decrease in yields on advances and higher increase in cost of funds. The yield on advances declined by 12 bps QoQ at 11.44% (v/s 11.56% in Q2FY24 & 10.99% in Q3FY23). On the other hand, the Cost of Funds increased to 7.02% for Q2FY24 as it grew by 97 bps YoY/17 bps QoQ. The bank's Management intends to take another quarter to pass on the interest rate hikes by repricing the deposits. Cost of deposits at 6.95% v/s 6.77% in Q2FY24 (v/s 5.98% in Q3FY23). The cost of funds are expected to stabilize at current levels for the subsequent quarters and provide some relief as the NII grows at current NIMs.

Asset quality degraded sequentially, driven by increasing slippages and decline in recoveries: The bank has reported higher slippages of INR 4.26 bn as compared to 3.93 bn in Q2FY24. Recoveries and upgrades for the quarter improved to INR 3.39 bn against INR 2.89 bn QoQ. Improved recoveries and upgrades was led by internal collections department driving better restructuring options to customers.

Outlook & Valuation:

Bank has displayed a decent performance during the quarter. Profits remained flat sequentially at INR 1.26 bn. Going forward, cost of funds is expected stabilize at these levels, and allow NIMs to improve as the deposit repricings take place. NIMs are expected to be in the range of 3.5 – 4%. Recoveries and upgrades are expected to remain elevated in coming quarters, thereby improving asset quality. We maintain our HOLD rating on the stock with a target price of INR 158, based on 0.7x FY26E ABV.

Exhibit 1: Financial Performance

Particulars (Rs Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	1,358	1,717	1,978	2,344	2,761
Operating Profit	797	787	1,082	1,350	1,658
PAT	288	466	689	892	1,126
RoA (%)	0.7	1.0	1.2	1.4	1.5
RoE (%)	7.4	10.8	14.1	15.8	17.0
P/E (x)	15.6	9.6	6.5	5.0	4.0
P/BV	1.1	1.0	0.9	0.7	0.6
P/ABV (x)	1.3	1.1	0.9	0.8	0.7

Q3FY24 result Snapshot

Particulars (Rs in Cr)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Interest Earned	1,374.1	1,305.6	1,071.7	5.2%	28.2%
Interest Expended	900.1	829.9	625.7	8.5%	43.9%
Net Interest Income	474.0	475.7	446.0	-0.4%	6.3%
Other Income	123.7	107.4	95.4	15.2%	29.7%
Total income	597.7	583.1	541.4	2.5%	10.4%
Operating Expenses	386.2	372.5	347.3	3.7%	11.2%
<i>Cost-income Ratio (%)</i>	<i>64.61%</i>	<i>63.89%</i>	<i>64.15%</i>	<i>100bps</i>	<i>46bps</i>
Pre-Prov Profits	211.5	210.5	194.1	0.5%	9.0%
Provisions & Contingencies	41.0	39.7	40.7	3.3%	0.8%
PBT	170.5	170.8	153.4	-0.2%	11.1%
Provisions for Tax	43.9	44.1	39.6	-0.3%	11.0%
<i>Effective Tax Rate (%)</i>	<i>25.76%</i>	<i>25.78%</i>	<i>25.80%</i>	<i>0bps</i>	<i>-3bps</i>
PAT (reported)	126.6	126.8	113.9	-0.2%	11.2%
Deposits	47,120.0	45,496.3	39,506.0	3.57%	19.27%
CASA (%)	26.13%	22.50%	27.62%	400bps	-149bps
Advances	38,951.0	37,276.0	32,966.0	4.49%	18.16%
Total Assets	59,804.0	57,710.2	49,866.0	3.63%	19.93%
Capital Adequacy Ratio (%)	15.72%	16.55%	16.26%	-100bps	-54bps
Spread Analysis					
Yield on Avg Advances (%)	11.44%	11.56%	10.99%	-12bps	45bps
Cost of Funds (%)	7.02%	6.85%	6.05%	17bps	97bps
NIM (%)	3.48%	3.69%	4.02%	-21bps	-54bps
Asset Quality					
Gross NPA	1367.6	1281.3	1223.3	6.74%	11.80%
Net NPA	476.9	476.4	453.2	0.09%	5.21%
GNPA (%)	3.43%	3.36%	3.62%	7bps	-19bps
NNPA (%)	1.22%	1.28%	1.37%	-6bps	-15bps
RoA (%) (annualized)	0.86%	0.90%	0.94%	-4bps	-8bps

Concall Highlights:**Management Guidance:**

- The management expects to double the business in 3-4 years as loan growth to be 20% YoY.
- Management intends to achieve more than 20% growth rate in the next year.
- Management guides of Fee Income growth in line with Balance Sheet growth for the future years.

Key Highlights:

- The Net interest income (standalone) for the bank was up by 6.3% YoY and flattish on sequential basis, soft growth in NII was on account of fall in net interest margins.
- NIM declined by 54 bps YoY and 21 bps QoQ to 3.48%, this was owing to fall in yield on advances along with rise in cost of funds on sequential basis.
- Non-interest income was up 29.7% YoY and 15.2% QoQ mainly on account of 40% YoY rise in core fee income.
- Cost to income ratio was up 46 bps YoY and 72 bps QoQ owing to branch and employee addition.
- In Q3 FY24, the bank posted advances growth of 18.2% YoY and 4.5% QoQ to INR 38,951 crore.
- Growth in the mortgage segment stood at 25% YoY while disbursement in the same were at INR 1,494 crore v/s INR 1,395 crore a year ago.
- Total disbursements for the quarter came in at INR 4,307 crore and were down 5.5% QoQ.
- Mortgage loans formed 45% of total credit while corporate banking loans contributed 7.8% to the total loan book.
- Agri and inclusive Banking formed 23.9% of total loans. Within this mortgages, tractor and kisan credit contributed majorly.
- Deposits growth for the quarter stood at 19.3% YoY and 3.6% QoQ to INR 47,120 crore.
- CASA deposits registered a growth of 12.8% YoY and was slower than overall deposit growth, as a result CASA ratio declined to 26.1% from 27.6% YoY, but was up 109 bps sequentially. Top-20 depositors contribute 6.75% of total deposits versus 7.06% QoQ, reflecting increasing granularity.
- In Q3 FY24, the asset quality performance for DCB Bank was mixed as GNPA ratio increased on sequential basis by 7 bps to 3.43% while net NPA declined by 6 bps QoQ to 1.22%.
- Fresh loans worth INR 426 crore turned into NPA as compared to INR 393 crore in the previous quarter and INR 401 crore YoY.
- Slippage ratio for the quarter increased to 4.63% versus 4.48% QoQ and 5.2% YoY. Slippage excluding gold loan was 2.55%.
- Recoveries and upgrades during the quarter stood at INR 120 crore and INR 219 crore, respectively as against INR 104 crore and INR 185 crore in the previous quarter.
- GNPA on absolute basis in mortgage segment increased from INR 361 crore to INR 420 crore QoQ while in MSME + SME loans GNPA was up to INR 165 crore v/s INR 154 crore QoQ.
- Overall credit cost during Q3 FY24 stood at 0.28% and was at similar levels to last quarter.
- Provision coverage ratio stood at 76.4% as against 75.49% QoQ, PCR excluding gold loans stood at 77.27% versus 76.63% QoQ.
- Standard restructured loans outstanding stood at INR 1,337 crore as against INR 1,461 crore QoQ.
- Collection efficiency in business loans stood at 98.8% while in home loans and CV loans it was 98.9% and 95.7% respectively for the month of December 2023.

Key Financials

Income Statement (Rs.Cr)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	3513	4200	5203	6068	7080
Interest Expenses	2155	2483	3225	3724	4319
Net Interest Income	1358	1717	1978	2344	2761
Other Income	452	409	442	478	516
- Fee-based Income	343	370	399	430	464
- Treasury Income	109	39	43	47	52
Operating Income	1810	2126	2420	2821	3277
Operating Expenses	1013	1340	1338	1472	1619
- Staff Cost	539	693	762	838	922
- Other Operating Exp.	376	524	576	633	697
Gross Profits	797	787	1082	1350	1658
Provisions	407	159	151	144	136
Profit Before Taxes	390	628	931	1206	1521
Taxes	102	162	242	314	395
Profit After Taxes	288	466	689	892	1126

Balance Sheet (Rs. cr)	FY22	FY23	FY24E	FY25E	FY26E
LIABILITIES					
Capital	311	311	311	311	311
Reserves & Surplus	3738	4252	4909	5771	6037
Deposits	34692	41239	47837	55491	64925
Borrowings	4082	4118	4530	4983	5481
Other liabilities & provisions	2018	2443	2549	2657	2767
	44840	52363	60136	69213	79521
ASSETS					
Cash on hand & with RBI	1578	2031	2234	2457	2703
Money at call and short notice	2513	338	365	394	426
Advances	29096	34381	40570	47047	55664
Investments	9098	12582	13841	15225	16747
Fixed assets	661	826	868	911	957
Other assets	1894	2208	2260	3178	3025
Total Assets	44840	52366	60136	69213	79521

Ratios	FY22	FY23	FY24E	FY25E	FY26E
Basic Ratio (Rs.)					
EPS	9.2	14.9	22.1	28.6	36.1
Book Value per share	130	146	168	195	230
Adjusted Book Value	112	135	158	184	217
Asset Quality (%)					
Gross NPAs	4.3	3.2	3.8	3.8	3.8
Net NPAs	2.0	1.0	0.8	0.8	0.8
PCR	67.8	79.3	80.0	80.0	80.0
Profitability ratios (%)					
RoAE	7.4	10.8	14.1	15.8	17.0
RoAA	0.7	1.0	1.2	1.4	1.5
NIM	3.4	3.7	3.7	3.8	3.9
Cost to Income	56.0	63.0	55.3	52.2	49.4

Spread Analysis (%)	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	11.0	11.1	11.1	11.1	11.1
Yield on investments	7.0	7.0	7.0	7.0	7.0
Cost of deposits	6.5	6.5	6.5	6.5	6.5
Avg. Cost of funds	5.6	5.5	6.2	6.2	6.1
Spread	2.7	3.0	3.0	3.0	3.1
Interest Income to AWF	9.3	10.4	11.2	11.3	11.4
Net Interest Income to AWF	3.4	3.7	3.7	3.8	3.8
Non Interest Income to AWF	1.2	1.0	1.0	0.9	0.8
Operating Expense to AWF	2.5	2.9	2.5	2.4	2.2
Operating Profit to AWF	2.0	1.7	2.0	2.2	2.3
Net Profit to AWF	0.7	1.0	1.3	1.4	1.6
Valuation ratios (x)					
P/E	15.6	9.6	6.5	5.0	4.0
P/BV	1.1	1.0	0.9	0.7	0.6
P/ABV	1.3	1.1	0.9	0.8	0.7

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Stock Rating Scale

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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