

Q2FY15- Moving in right direction

5th Nov, 2014

CMP: Rs. 93
Target Price: Rs. 116
Recommendation: BUY

DCB bank, while steadily growing advances and fairly maintaining its asset quality, reported decent earnings performance.

Stock Info

BSE Group	B
BSE Code	532772
NSE Symbol	DCB
Bloomberg	DEVB IN
Reuters	DCBA.BO
BSE Sensex	27,916
NSE Nifty	8,338

Good show on earnings front: DCB recorded profit growth of 24% YoY to Rs 41.1 crs, however its PBT grew at a faster pace of 39% YoY to Rs 46 crs. PAT growth was lower due to tax outgo of Rs 5 crs compared to nil in Q2 FY14.

Market Info

Market Capital	2,316 cr
Equity Capital	251 cr
Avg. Trading Vol	12,67,410
52 Wk High/ Low	94/47
Face Value	10

CASA ratio-standing near all-time low: The retail liability (83% of total deposits) led growth strategy is not completely in-line with expectations. Improvement in liability franchise stands as key priority for the bank. The CASA traction is not very encouraging and the CASA ratio (currently at 25.5%) stands near all-time lower levels (24.8). Further, branch network expansion (current branch network: 142 branches, 252 ATMs) also remains the key focus area for the bank in order to boost its CASA base.

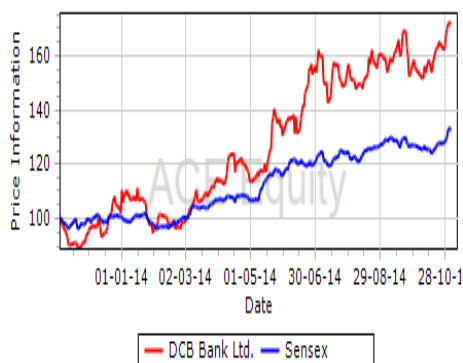
Shareholding Pattern (%) (30th Sep 2014)

Promoters	18.4
Domestic Institutions	16.4
Foreign Institutions	14.8
Public & Others	50.4
Govt. Holdings	NA

Stable NIM: NIM at 3.72% marginally up by 1 bps QoQ and 4 bps YoY, bank is able to steadily increase its margins. However in our view any further improvement in margins would be challenging for the bank. That said, yields uptick on sequential basis and steady yields emanating particularly from the high-yielding retail portfolio aided margins uptick for the quarter.

Good show on asset quality: Despite challenging environment bank is able to keep its NPA under control. Gross NPA for the quarter stood at 1.9% while Net NPA was 1.07%. Bank has 2 restructured assets amounting to Rs 42 crs, one in corporate sector amounting to Rs 12 crs and one in agri & sme sector amounting to Rs 7.5 crs and rest is from other small accounts. All restructured assets are secured and backed by collateral. Recovery during the quarter stood at 19 crs, write-off was 3crs & total restructured assets were Rs 83 crs (less than 1% of total advances).

Outlook: DCB had a strong loan growth with superior asset quality; however we have valued DCB at discount to its peers because of higher proportion of retail deposits in total deposits. We value DCB at 2x FY16E ABV of Rs 58 giving a price target of Rs 116. We recommend to **BUY** the stock.



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	284	368	457	532
Operating Profit	126	188	245	305
PAT	102	151	157	168
EPS (Rs)	4.2	6.0	6.3	6.7
EPS Growth (%)	77.4%	48.2%	3.8%	6.5%
RoE (%)	11.3	14.1	12.8	12.0
P/E (x)	22.2	15.3	14.7	13.8
ABV	39	43	50	58
P/ABV (x)	2.4	2.1	1.9	1.6

Source: Company data, Arihant Research



Q2FY15 EARNINGS UPDATE- SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	Q2FY15	Q2FY14	YoY	Q1FY15	QoQ	Comments
Interest Earned	335	269	25%	352	-5%	
Yield on Advances (%)	12.6	12.7		12.8		
Interest Expended	217	178	22%	213	2%	
Cost of Funds (%)	7.7	7.6		7.8		
Net Interest Income	118	91	29%	139	-15%	
Other Income	37	27	36%	34	7%	
Other income / Net Income (%)	23.9	23.0		19.9		
Total income	155	119	30%	173	-11%	
Employee Expenses	47	39	22%	46	2%	Primarily driven by new branches.
Non-Employee expenses	47	40	20%	46	3%	
Operating Expenses	95	78	21%	92	3%	
Cost-income Ratio (%)	61.3	66.2		53.2		C/I is on higher side
Pre-Prov Profits	60	40	49%	81	-26%	
Provisions & Contingencies	14	7	96%	23	-40%	7 cr for NPA, 3.5cr for SA, 2cr of floating provisions and Rs 1.76 cr of additional provision for SA
PBT	46	33	39%	58	-21%	
Provisions for Tax	5.0	0		14		
Effective Tax Rate (%)	11%			23%		15% expected for FY15
PAT (reported)	41.1	33.1	24%	44.6	-8%	
EPS Basic	1.6	1.3		1.8		
EPS Diluted	1.6	1.3		1.8		
GNPA	168.8	235.1		149.2		
NNPA	94.3	57.2		80.5		
GNPA (%)	1.9	3.4		1.8		
NNPA (%)	1.07	0.9		1.0		
Total CAR (%)	13.0	13.8		13.6		
Tier 1 (%)	12.2	12.9		12.8		
Tier 2 (%)	0.9	0.9		0.9		
NIM (%)	3.72	3.68		3.71		
Advances	8,793	6,677	32%	8,291	6%	25-27% growth expected for FY15
Deposits	10,900	8,788	24%	10,552	3%	24-26% growth expected for FY15

Source: Company data, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	916	1,128	1,334	1,546
Interest Expenses	632	760	878	1,015
Net Interest Income	284	368	457	532
- growth %	25	30	24	16
Other Income	117	139	162	188
Fee-based Income	92	111	132	157
Treasury Income	21	28	30	31
Other non interest income	4	3	4	5
Operating Income	401	507	618	720
- growth %	21	26	22	16
Operating Expenses	275	319	373	414
- Staff Cost	138	157	181	191
- Other Operating Exp.	137	162	192	223
Gross Profits	126	188	245	305
- growth %	50	49	30	24
Provisions	24	37	48	55
Profit Before Taxes	102	151	197	250
Taxes	-	-	39	83
Profit After Taxes	102	151	157	168
- growth %	84	48	4	7

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	250	250	251	251
Employee stock option	3	3	3	3
Reserves & Surplus	750	901	1,058	1,226
Deposits	8,364	10,325	12,184	14,133
Borrowings	1,526	860	945	1,039
Other liabilities & provisions	386	584	692	767
Total Liabilities	11,279	12,923	15,132	17,418
ASSETS				
Cash on hand & with RBI	379	505	584	661
Money at call and short notice	504	185	337	281
Advances	6,586	8,140	9,768	11,722
Investments	3,359	3,634	3,933	4,176
Fixed assets	239	239	268	311
Other assets	211	221	243	267
Total Assets	11,279	12,923	15,132	17,418

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	4.2	6.0	6.3	6.7
Book Value per share	40	46	52	59
Adjusted Book Value	39	43	50	58
Dividend per share	0.0	0.0	0.0	0.0
Asset Quality (%)				
Gross NPAs	3.3	1.1	1.1	1.0
Net NPAs	0.76	0.92	0.58	0.21
PCR	74.2	45.1	50.9	75.6
Profitability ratios (%)				
RoAE	11.3	14.1	12.8	12.0
RoAA	1.0	1.3	1.1	1.0
NIM	3.1	3.3	3.6	3.6
Operating Profit Margin	12.2	14.8	16.4	17.6
Net Profit Margin	9.9	11.9	10.5	9.7
Cost to Income	68.6	62.9	60.3	57.6

Source: Company data, Arihant Research

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
Yield on advances	12.0	11.8	11.8	11.8
Yield on investments	6.7	7.0	7.0	6.5
Cost of deposits	7	7	7	7
Cost of funds	6	7	7	7
Spread	2.5	2.8	3.1	3.0
Interest Income to AWF	9.57	9.72	9.97	9.95
Net Interest Income to AWF	2.97	3.17	3.41	3.42
Non Interest Income to AWF	1.2	1.2	1.2	1.2
Operating Expense to AWF	2.87	2.75	2.79	2.67
Operating Profit to AWF	1.3	1.6	1.8	2.0
Net Profit to AWF	1.07	1.30	1.18	1.08
Valuation ratios (x)				
P/E	22.2	15.3	14.7	13.8
P/BV	2.3	2.0	1.8	1.6
P/ABV	2.4	2.1	1.9	1.6



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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%

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