

Q3FY15- Moving in right direction

15th Jan, 2015

CMP: Rs. 118
Target Price: Rs. 146
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	27,347
NSE Nifty	8,278

Good show on earnings front: DCB recorded profit growth of 17% YoY to Rs 42.5 crs, however its PBT grew at a faster pace of 37% YoY to Rs 50 crs. PAT growth was lower due to tax outgo of Rs 7.4 crs compared to nil in Q3 FY14.

Market Info

Market Capital	Rs 2,944 cr
Equity Capital	Rs 251 cr
Avg. Trading Vol	12,67,410
52 Wk High/ Low	Rs 94/47
Face Value	Rs 10

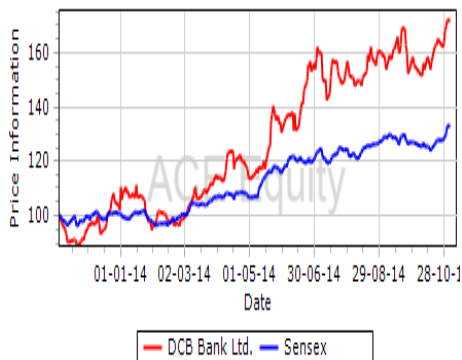
CASA ratio-standing near all-time low: The retail liability (81.5% of total deposits) led growth strategy is not completely in-line with expectations. Improvement in liability franchise stands as key priority for the bank. The CASA traction is not very encouraging and the CASA ratio stands near all-time low level of 23.8%. Further, branch network expansion (current branch network: 145 branches, 292 ATMs) also remains the key focus area for the bank in order to boost its CASA base.

Shareholding Pattern (%)	(31 st Dec 2014)
Promoters	16.4
Domestic Institutions	24.3
Foreign Institutions	15.5
Public & Others	43.8
Govt. Holdings	NA

Stable NIM: NIM at 3.7% marginally down by 2 bps QoQ, however on YoY basis it was up by 15 bps. In our view any further improvement in margins would be challenging for the bank. DCB Advances consists of Retail Mortgages (43%); Gold Loans (1%); Commercial Vehicles (3%); Other Retail (2%); SME / MSME (14%); Agri and Inclusive Banking (AIB) (13%) and Corporate Banking (24%).

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 1.0%. Fresh slippages during the quarter were Rs 22 crs with slippage ratio of 0.95%. Recovery during the quarter stood at 12 crs, write-off was zero & total restructured assets were Rs 110 crs (little over 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 2.75x FY16E ABV of Rs 53 giving a price target of Rs 146. We recommend to **BUY** the stock.



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	284	368	476	586
Operating Profit	126	188	266	360
PAT	102	151	174	205
EPS (Rs)	4.2	6.0	6.6	7.3
EPS Growth (%)	77.4%	48.2%	2.4%	17.5%
RoE (%)	11.3	14.1	13.9	14.0
P/E (x)	28.3	19.4	17.9	16.2
ABV	39	43	49	53
P/ABV (x)	3.0	2.7	2.4	2.2

Source: Company data, Arian Research



Q3FY15 EARNINGS UPDATE- SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	Q3FY15	Q3FY14	YoY	Q2FY15	QoQ	Comments
Interest Earned	357	291	23%	335	6%	
Yield on Advances (%)	0.0	13.0		12.6		
Interest Expended	235	197	19%	217	8%	
Cost of Funds (%)	0.0	7.9		7.7		
Net Interest Income	122	94	30%	118	4%	
Other Income	48	33	46%	37	30%	
Other income / Net Income (%)	28.2	25.9		23.9		
Total income	170	127	34%	155	10%	
Employee Expenses	49	39	25%	47	4%	Primarily driven by new branches.
Non-Employee expenses	52	41	27%	47	10%	
Operating Expenses	102	80	26%	95	7%	
Cost-income Ratio (%)	59.8	63.4		61.3		C/I is on higher side, mostly due to new branches added
Pre-Prov Profits	68	46	47%	60	14%	
Provisions & Contingencies	18	10	84%	14	34%	7 cr for NPA, 3.5cr for SA, 2cr of floating provisions and Rs 1.76 cr of additional provision for SA
PBT	50	36	37%	46	8%	
Provisions for Tax	7.4	0		5		
Effective Tax Rate (%)	15%			11%		15% expected for FY15
PAT (reported)	42.5	36.4	17%	41.1	3%	
EPS Basic	1.5	1.5		1.6		
EPS Diluted	1.5	1.5		1.6		
GNPA	179.2	207.9		168.8		
NNPA	95.2	57.0		94.3		
GNPA (%)	1.9	2.8		1.9		
NNPA (%)	1.00	0.8		1.1		
Total CAR (%)	14.4	12.9		13.0		
Tier 1 (%)	13.6	12.0		12.2		
Tier 2 (%)	0.9	0.9		0.9		
NIM (%)	3.70	3.55		3.72		
Advances	9,491	7,362	29%	8,793	8%	25-27% growth expected for FY15
Deposits	11,850	9,592	24%	10,900	9%	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	1,354	1,601
Interest Expenses	632	760	878	1,015
Net Interest Income	284	368	476	586
- growth %	25	30	29	23
Other Income	117	139	166	195
Fee-based Income	92	111	137	165
Treasury Income	21	28	30	31
Other non interest income	4	3	4	5
Operating Income	401	507	641	781
- growth %	21	26	26	22
Operating Expenses	275	319	375	421
- Staff Cost	138	157	181	191
- Other Operating Exp.	137	162	194	229
Gross Profits	126	188	266	360
- growth %	50	49	42	35
Provisions	24	37	48	55
Profit Before Taxes	102	151	218	306
Taxes	-	-	44	101
Profit After Taxes	102	151	174	205
- growth %	84	48	15	17

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	250	250	281	281
Employee stock option	3	3	3	3
Reserves & Surplus	750	901	1,074	1,279
Deposits	8,364	10,325	12,184	14,133
Borrowings	1,526	860	938	1,030
Other liabilities & provisions	386	584	977	1,283
Total Liabilities	11,279	12,923	15,458	18,010
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	10,094	12,314
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	15,458	18,010

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	4.2	6.0	6.6	7.3
Book Value per share	40	46	48	55
Adjusted Book Value	39	43	49	53
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	0.60	0.54
PCR	74.2	45.1	49.4	53.9
Profitability ratios (%)				
RoAE	11.3	14.1	13.9	14.0
RoAA	1.0	1.3	1.2	1.2
NIM	3.1	3.3	3.7	3.8
Operating Profit Margin	12.2	14.8	17.5	20.1
Net Profit Margin	9.9	11.9	11.5	11.4
Cost to Income	68.6	62.9	58.5	53.9

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	3.0	3.0
Interest Income to AWF	9.57	9.72	10.10	10.26
Net Interest Income to AWF	2.97	3.17	3.55	3.76
Non Interest Income to AWF	1.2	1.2	1.2	1.3
Operating Expense to AWF	2.87	2.75	2.80	2.70
Operating Profit to AWF	1.3	1.6	2.0	2.3
Net Profit to AWF	1.07	1.30	1.30	1.31
Valuation ratios (x)				
P/E	28.3	19.4	17.9	16.2
P/BV	2.9	2.6	2.3	2.1
P/ABV	3.0	2.7	2.4	2.2

Source: Company data, Arihant Research



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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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