

Growth miss - near term impact, long term trend on

Credit growth continued to decelerate by 12.4% YoY to ₹ 24798 crore led by de-risking in corporate book & moderation within SME, retail & mortgage book. However, ex corporate loan, growth marginally moderated to 16% YoY. Deposit accretion lagged erstwhile growth with CASA growth at 22 quarter low of 7% YoY. However, term deposit growth stayed healthy at 14% YoY. CASA ratio for Q2FY2 stood at 23.2%, down 129 bps QoQ.

NII came in line with our estimates at ~₹ 313 crore, up ~11% YoY, on the back of lower credit growth & steady margin sequentially. Other income growth came in higher than our expectation at ~38% YoY to ~₹ 101 crore led by multifold growth in trading income & steady growth of 6% QoQ in CEB book, which was at ~₹ 58 crore in Q2FY20 (~₹ 55 crore in Q2FY20). Accordingly, operating profit was at ₹ 185 crore, up 26% YoY.

Provision continued to remain elevated at ₹ 43 crore, up 36% YoY. The bank also revalued deferred tax asset during the quarter leading to additional impact of ₹ 25 crore in total tax. Accordingly, PAT came in at ₹ 91 crore, up 24% YoY. Slippages for quarter surged 65% YoY to ₹ 161 crore led by stress in commercial vehicle & mortgage. Accordingly, GNPA ratio increased 13 bps QoQ 2.09%.

Moderation in CI ratio to enhance return ratios

In the past, DCB had adopted an aggressive branch expansion policy. The bank successfully doubled its branch count and further raised it to 334 as of Q2FY20. We expect cost-to-income ratio to moderate to 55.6% by FY21E. This reduction in pace of opex is seen leading to a gradual improvement in RoA to 1.2% by FY21E.

Balance sheet to grow lower than expected; margins steady

DCB has been able to double its book every three to four years. Loan book grew at 22% CAGR in past 10 years from ₹ 3460 crore in FY09 to ₹ 23568 in FY19. The management reiterated guidance of doubling the balance sheet in three to four years with focus on low capital consuming loans. We expect loan book to grow at ~16% CAGR (earlier ₹ 34378 crore) in FY19-21E to ₹ 31858 crore.

Valuation & Outlook

Despite a weak quarter and muted outlook for the next two quarters, DCB is poised to maintain its long term growth path. Further, focus on risk adjusted growth coupled with improvement in CI ratio is expected to improve earnings at 26% CAGR for FY19-21E, return ratios to ~1.2% & RoE to ~15% by FY21E. Therefore, we maintain our **BUY** recommendation and revise our target price downward to ₹ 220 (earlier ₹ 260), valuing it at ~2.0x FY21E ABV.



Particulars

Particular	Amount
Market Capitalisation	₹ 5450 crore
GNPA (Q2FY20)	₹ 523 crore
NNPA (Q2FY20)	₹ 238 crore
NIM (Q2FY20)	3.7%
52 week H/L	245/148
Networth	₹ 3254 Crore
Face value	₹ 10
DII Holding (%)	30.0
FII Holding (%)	24.1

Key Highlights

- Mixed quarter with key negatives being lower credit growth & pressure on asset quality while stable margin & 200 bps QoQ improvement in CI ratio being key positives
- DCB to consolidate two branches of Abu Dhabi Commercial Bank with advance & deposit of ₹ 400 crore & ₹ 800, respectively, in Q3FY20
- Maintain BUY rating with revised target price of ₹ 220 (earlier ₹ 260)

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Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	797.1	995.4	1149.3	1334.5	1530.8	15%
PPP	418.2	525.0	646.6	745.0	871.3	16%
PAT	199.7	245.3	325.4	390.2	516.3	26%
ABV (₹)	63.9	78.2	87.8	96.6	111.9	
P/E	26.4	23.2	17.6	14.7	11.1	
P/ABV	2.9	2.4	2.1	1.9	1.7	
RoA	0.9	0.9	1.0	1.0	1.2	
RoE	11.1	11.1	12.2	12.9	14.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
NII	313	315	282	11.1	305	2.8	Slower credit offtake led to moderation in NII growth
NIM (%)	3.7	3.7	3.8	-16 bps	3.7	0 bps	
Other Income	101	89	73	38.0	87	16.9	Robust other income growth attributable to higher trading income & healthy fee income
Net Total Income	415	404	356	16.7	392	5.9	
Staff cost	115	119	110	4.1	116	-1.3	
Other Operating Expenses	116	112	99	16.7	109	6.2	
Cost to Income ratio	55.5	57.1	58.8	-5.7	57.5	2.4	Stable opex coupled with higher income lead to 200 bps QoQ improvement in CI ratio
PPP	185	173	146	26.1	167	10.8	
Provision	43.3	37.0	31.9	35.6	40.6	6.5	Provisions remain elevated led by higher slippages
PBT	141	136	114	23.4	126	12.2	
Tax Outgo	49.9	34.8	40.8	22.2	44.8	11.2	Tax rate cut benefit availed. However, revaluation of DTA leads to higher tax expense this quarter
PAT	91.4	101.6	73.7	24.1	81.1	12.8	

Key Metrics

GNPA	523.2	490.7	410.0	27.6	476.4	9.8	Slippages increase ~9% QoQ to ₹ 161 crore mainly due to CV and mortgage portfolio. This led to 13 bps QoQ increase in GNPA ratio
NNPA	237.9	199.7	155.3	53.2	195.8	21.5	NNPA ratio increased 15 bps QoQ due to lower PCR pf 73% compared to 75% in Q1FY20
Total Restructured assets	40.0	35.0	31.0	29.0	38.0	5.3	
Credit Book	24,798	25,379	21,243	16.7	23,568	5.2	Credit growth impacted due to de-growth in corporate book & moderation in growth in mortgage & SME
Deposit Book	29,363	30,356	25,032	17.3	28,435	3.3	CASA ratio moderated by 129 bps QoQ to 23.24

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,340	1,334	-0.4	1,635	1,531	-6.3
Pre Provision Profit	761.1	745.0	-2.1	936.7	871.3	-7.0
NIM (%)	3.7	3.7	3 bps	3.8	3.7	-9 bps
PAT	436.0	390.2	-10.5	560.1	516.3	-7.8
ABV (₹)	100	97	-3.1	117	112	-4.3
EPS	14.1	12.6	-10.7	18.1	16.7	-8.0

Source: Company, ICICI Direct Research

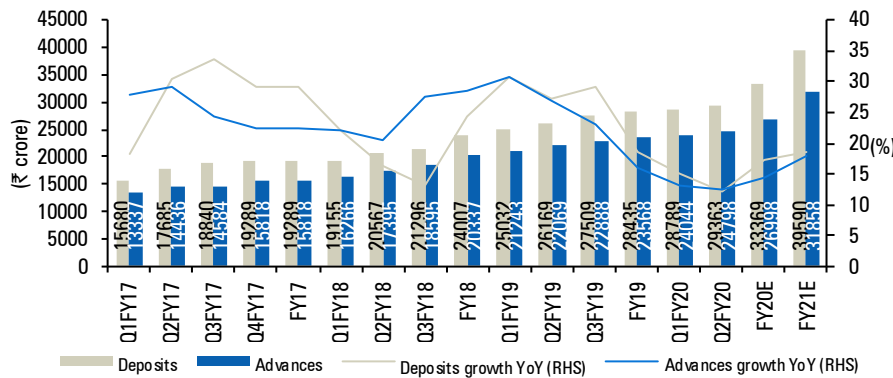
Exhibit 3: Assumption

	Current			Earlier	
	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	15.9	14.6	18.0	19.0	22.6
Deposit Growth (%)	18.4	17.3	18.6	18.8	21.3
CASA ratio (%)	23.9	24.2	24.6	23.9	23.7
NIM Calculated (%)	3.7	3.7	3.7	3.7	3.8
Cost to income ratio (%)	56.6	56.7	55.6	56.0	54.9
GNPA (₹ crore)	439	569	641	568	646
NNPA (₹ crore)	154	269	312	213	239
Slippage ratio (%)	2.1	2.0	1.6	1.9	1.6
Credit cost (%)	0.5	0.7	0.5	0.6	0.5

Source: Company, ICICI Direct Research

Story in charts

Exhibit 4: Loan growth ex-corporate seen improving, going ahead



We factor in 16.3% credit CAGR to ₹ 31858 crore in FY19-21E

Source: Company, ICICI Direct Research

Exhibit 5: Mortgage segment leads credit growth

(₹ crore)	FY17	Q1FY18	Q2FY18	Q3FY18	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Current Proportion
Agriculture	2847	2765	2957	3161	3661	3824	4193	4349	4714	4809	4960	20.0
SME	1898	1789	2087	2231	2440	2549	2648	2747	2828	2885	2976	12.0
Corporate	2531	2440	2957	3161	3457	3611	3310	3433	3064	3126	2976	12.0
Retail banking ex Mortgage	1740	2115	2087	2231	2644	2762	3090	3204	3535	3607	3720	15.0
Mortgage	6802	7157	7306	7810	8135	8497	8828	9155	9427	9618	10167	41.0
Total	15818	16266	17395	18595	20337	21243	22069	22888	23568	24044	24798	100.0

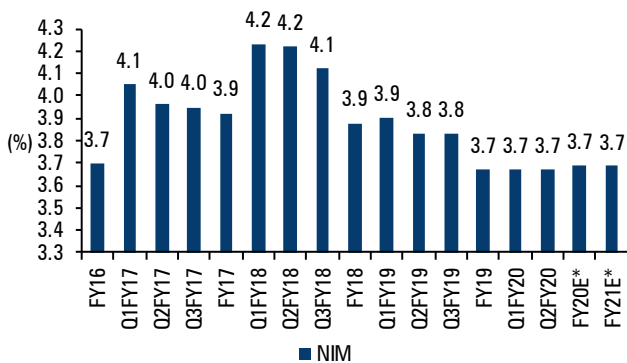
Source: Company, ICICI Direct Research

Exhibit 6: Retail deposit constitutes 80% of deposit

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total deposits	5610	6336	8364	10325	12609	14926	19289	24007	28435	33369	39590
Current account	886	839	899	959	1046	1177	1535	1836	1834	2146	2511
Saving deposits	1090	1195	1372	1622	1904	2313	3154	4005	4976	5921	7224
SA ratio	19.4	18.9	16.4	15.7	15.1	15.5	16.4	16.7	17.5	17.7	18.2
CASA ratio	35.2	32.1	27.2	25.0	23.4	23.4	24.3	24.3	23.9	24.2	24.6
Term deposits	3635	4301	6092	7744	9659	11436	14600	18167	21625	25302	29856
Retail deposits (RD)	4554	5348	6473	7944	10339	11941	15431	17765	22748	26695	31672
RD proportion	81.2	84.4	77.4	76.9	82.0	80.0	80.0	74.0	80.0	80.0	80.0

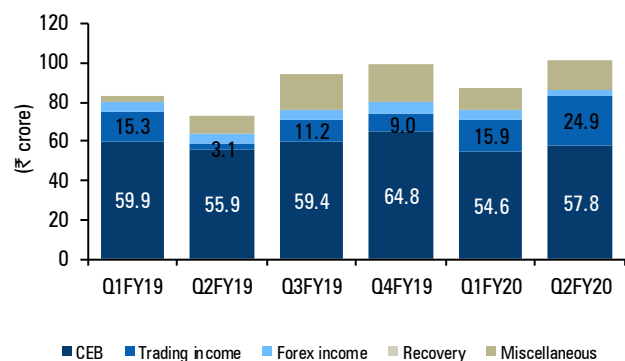
Source: Company, ICICI Direct Research

Exhibit 7: Steady margin seen ahead



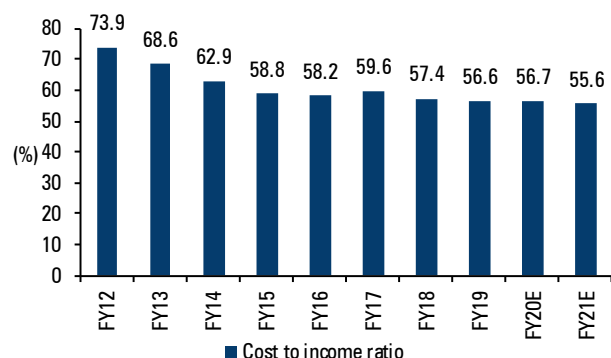
Source: Company, ICICI Direct Research

Exhibit 8: CEB income major contributor to other income



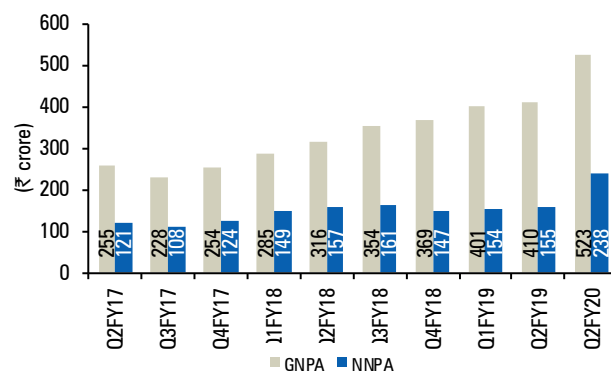
Source: Company, ICICI Direct Research

Exhibit 9: Cost to income ratio to improve in FY19-21E



Source: Company, ICICI Direct Research

Exhibit 10: GNPA to remain below 2% for FY19-21E



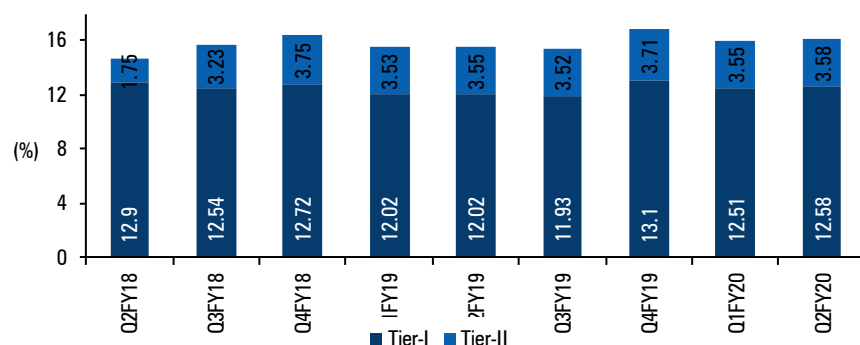
Source: Company, ICICI Direct Research

Exhibit 11: Sectoral break-up of GNPA

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Personal Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CV/CE	28.3	29.9	31.9	29.4	38.5	48.0	63.5	75.7
Corporate	84.0	84.0	90.2	93.0	77.9	61.9	18.7	18.7
SME & MSME	37.3	30.7	33.9	38.0	40.3	42.5	50.1	74.2
Mortgages	126.9	139.2	148.0	148.6	160.6	162.7	177.9	201.6
Others	78.0	85.2	96.6	101.0	127.8	124.4	166.2	153.0
Total GNPA	354.5	369.0	400.6	410.0	445.1	439.5	476.4	523.2
Total NNPA	161.5	146.7	153.9	155.3	163.4	153.8	195.8	237.9

Source: Company, ICICI Direct Research

Exhibit 12: CAR comfortable; capital raising seen in H2FY20E



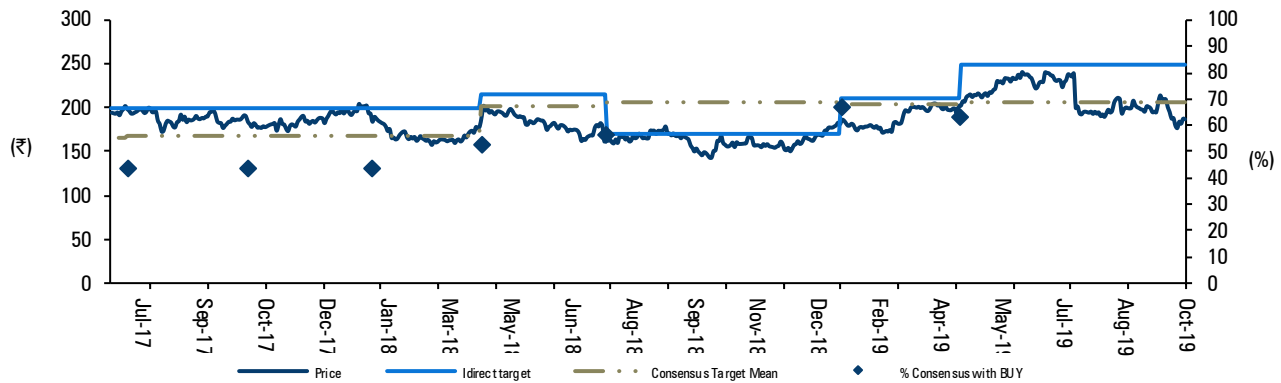
Source: Company, ICICI Direct Research

Exhibit 13: Valuation

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net interest income/ avg. total assets	2.8	2.9	3.0	3.5	3.5	3.7	3.7	3.5	3.5	3.4
Non-interest income/ avg. total assets	1.3	1.2	1.1	1.1	1.3	1.2	1.3	1.1	1.0	1.0
Net total income/ avg. total assets	4.1	4.0	4.2	4.6	4.8	4.9	5.0	4.6	4.5	4.4
Operating expenses/ avg. total assets	3.0	2.8	2.6	2.7	2.8	2.9	2.9	2.6	2.5	2.4
Operating profit/ avg. total assets	1.1	1.3	1.6	1.9	2.0	2.0	2.1	2.0	1.9	1.9
Provisions/ Avg. total assets	0.4	0.2	0.3	0.5	0.5	0.5	0.5	0.4	0.5	0.4
Return on avg. total assets	0.7	1.0	1.3	1.3	1.1	0.9	0.7	1.0	1.0	1.2
Leverage -Avg. total assets/ average equity (x)	11.7	11.4	11.8	11.0	10.8	11.7	12.1	12.2	12.6	12.8
Return on equity	8.4	11.7	14.8	14.6	12.0	11.1	8.4	12.2	12.9	14.8

Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)	
1	Aga Khan Development Network	30-06-2019	14.11%	43.75M	0
2	Matthews International Capital Management, L.L.C.	30-06-2019	4.41%	13.67M	-0.90M
3	HDFC Asset Management Co., Ltd.	31-08-2019	4.40%	13.64M	+1.66M
4	ICICI Venture Funds Management Co. Ltd.	30-06-2019	4.02%	12.47M	0
5	Aditya Birla Sun Life AMC Limited	30-06-2019	3.66%	11.36M	-0.95M
6	HDFC Life Insurance Company Limited	30-06-2019	3.46%	10.72M	+7.32M
7	Sundaram Asset Management Company Limited	31-08-2019	2.93%	9.08M	0
8	DSP Investment Managers Pvt. Ltd.	30-06-2019	2.91%	9.02M	-0.09M
9	Dimensional Fund Advisors, L.P.	31-08-2019	2.43%	7.52M	-0.00M
10	Prazim Trading & Investment Co. Pvt. Ltd.	30-06-2019	2.21%	6.85M	0

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
HDFC Life Insurance Company Limited	+25.16M	+7.32M	Tano Mauritius India FVCI II	-12.69M	-3.69M
HDFC Asset Management Co., Ltd.	+4.84M	+1.66M	Aditya Birla Sun Life AMC Limited	-3.27M	-0.95M
ICICI Prudential Asset Management Co. Ltd.	+1.87M	+0.68M	Matthews International Capital Management, L.L.C.	-3.09M	-0.90M
Tata Asset Management Limited	+1.09M	+0.38M	Steinberg Asset Management, LLC	-3.00M	-0.87M
Edelweiss Asset Management Ltd.	+0.39M	+0.13M	HSBC Global Asset Management (India) Private Limited	-1.17M	-0.40M

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	15.0	14.9	14.9	14.9	14.9
FII	24.2	23.6	26.0	24.5	24.1
DII	24.5	25.4	24.2	27.4	30.0
Others	36.3	36.1	34.9	33.2	31.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	2,413	3,041	3,546	4,133
Interest Expended	1,418	1,892	2,211	2,602
Net Interest Income	995	1,149	1,334	1,531
growth (%)	24.9	15.5	16.1	14.7
Non Interest Income	310	350	396	443
Net Income	1,306	1,499	1,730	1,974
Staff cost	381	434	468	528
Other Operating expense	399	419	517	575
Operating profit	525	647	745	871
Provisions	139	140	203	178
Taxes	141	181	152	177
Net Profit	245	325	390	516
growth (%)	22.9	32.6	19.9	32.3
EPS (₹)	8.0	10.5	12.6	16.7

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	30.8	31.0	31.0	31.0
EPS (₹)	8.0	10.5	12.6	16.7
BV (₹)	83.0	92.7	105.3	122.0
ABV (₹)	78.2	87.8	96.6	111.9
P/E (x)	26.2	19.9	16.6	12.5
P/BV (x)	2.5	2.3	2.0	1.7
P/ABV (x)	2.7	2.4	2.2	1.9
Yields & Margins (%)				
Net Interest Margins	3.9	3.7	3.7	3.7
Yield on assets	9.4	9.7	9.8	9.9
Avg. cost on funds	6.1	6.6	6.5	6.5
Yield on average advances	10.7	11.2	11.2	11.4
Avg. Cost of Deposits	6.6	6.7	6.6	6.5
Quality and Efficiency (%)				
Credit/Deposit ratio	84.7	82.9	80.9	80.5
GNPA	1.8	1.9	2.1	2.0
NNPA	0.7	0.7	1.0	1.0
Cost to income ratio	59.4	56.6	56.7	55.6
RoE	11.1	12.2	12.9	14.8
ROA	0.9	1.0	1.0	1.2

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	308	310	310	310
Reserves and Surplus	2,498	2,805	3,195	3,711
Networth	2,806	3,114	3,505	4,021
Deposits	24,007	28,435	33,369	39,590
Borrowings	1,927	2,723	3,097	3,523
Other Liabilities & Provisions	1,481	1,518	1,594	1,673
Total	30,222	35,792	41,566	48,810
Applications of Funds				
Fixed Assets	494	526	545	563
Investments	6,219	7,844	8,629	9,663
Advances	20,337	23,568	26,998	31,858
Other Assets	800	1,060	2,290	3,268
Cash with RBI & call money	2,372	2,793	3,103	3,458
Total	30,222	35,792	41,566	48,810

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios (%)

(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	25.7	18.4	16.1	17.4
Advances	28.6	15.9	14.6	18.0
Deposit	24.5	18.4	17.3	18.6
Total Income	17.0	24.5	16.2	16.1
Net interest income	24.9	15.5	16.1	14.7
Operating expenses	24.3	9.2	15.5	11.9
Operating profit	25.5	23.2	15.2	17.0
Net profit	22.9	32.6	19.9	32.3
Net worth	31.3	12.3	13.6	15.8
EPS	13.8	32.0	19.9	32.3

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Banks)

Sector / Company	CMP		Rating	M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Bn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E		
BoB (BANBAR)	90	140	Buy	347	1.8	12.2	23.1	50.4	7.4	3.9	1.1	0.8	0.7	0.1	0.3	0.6	0.9	5.6	9.4		
SBI (STABAN)	270	400	Buy	2412	1.0	26.7	35.9	278.6	10	7.5	1.9	1.4	1.2	0.0	0.7	0.8	0.5	12.1	13.8		
Indian Bank (INDIBA)	126	220	Hold	62	6.7	21.7	40.6	18.8	5.8	3.1	0.6	0.5	0.5	0.1	0.3	0.6	1.7	5.3	9.4		
Axis Bank (AXIBAN)	712	865	Buy	2007	18.1	26.8	49.1	39	26.5	14.5	3.3	2.5	2.1	0.6	0.9	1.4	0.6	0.9	1.4		
City Union (CITUNI)	211	240	Buy	155	9.3	10.4	12.0	22.7	20.3	17.6	3.6	3.1	2.7	1.6	1.6	1.6	15.3	14.8	14.8		
DCB Bank (DCB)	182	260	Buy	56	10.5	12.6	16.7	17.3	14.4	10.9	2.1	1.9	1.6	1.0	1.0	1.2	12.2	12.9	14.8		
Federal Bank (FEDBAN)	84	125	Buy	166	6.3	8.7	10.2	13.3	9.6	8.2	1.4	1.3	1.1	0.8	1.0	1.0	9.8	12.4	13.1		
HDFC Bank (HDFBAN)	1,240	1,440	Buy	6780	38.7	47.7	56.8	32.0	26.0	21.8	4.6	4.1	3.5	1.8	1.9	1.9	16.5	16.3	17.0		
IndusInd Bank (INDBA)	1,340	1,400	Buy	929	60.9	83.4	110.7	22.0	16.1	12.1	3.2	2.6	2.2	1.6	1.9	2.1	14.5	16.8	18.4		
J&K (JAMKAS)	32	48	Hold	18	8.3	9.4	14.5	3.8	3.4	2.2	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0		
Kotak Bank (KOTMAH)	1,627	1,575	Hold	3108	25.5	34.1	41.4	63.8	47.7	39.3	7.5	6.6	5.7	1.7	1.9	1.9	12.1	14.2	14.9		
Yes Bank (YESBAN)	52	UR Reduce		132	6.2	6.2	8.6	8.4	8.3	6.1	0.5	0.5	0.5	0.4	0.4	0.5	5.4	5.3	6.5		
Bandhan (BANBAN)	560	650	Buy	668	16.4	25.2	33.4	3.2	2.1	1.6	0.6	0.5	0.4	3.9	4.6	4.5	19.0	23.9	25.1		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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