

In-line Quarter, Earnings Pressure Ahead

- While PPOP growth at 15% YoY was in-line, lower PAT was driven by COVID related provisions of Rs0.6bn. Rise in GNPA ratio (+30 bps QoQ to 2.46%) was owing to lower write-offs and weak recoveries/upgrades. Even as CASA levels declined QoQ, the bank has been granularizing and gradually strengthening its liability profile, albeit at higher costs.
- While we like the Bank for its conservative lending approach, granular secured franchise, demonstrated ability to manage recoveries and improved capital consumption, interim growth and asset quality challenges along with weak recovery prospects could continue to weigh on its earnings profile.
- We consequently slash our RoA estimates to 0.4%/0.9% for FY21E/22E, factoring in the benefit of contingency buffers (Rs1.6bn) in FY21E credit costs. We maintain our ACCUMULATE recommendation on the stock with a TP of Rs68, valuing it at 0.7x of FY22E P/ABV.

Despite growth pressures, Cost efficiencies continued

Despite growth challenges for most part of FY20, the bank managed a decline in its C-I ratio to 55% from 57% (in FY19) with a tight leash on costs. Management highlighted that it has further flexibility on controlling opex lines, which should support the bank's PPOP profile.

Risks to asset quality high; Provisioning buffers to cushion earnings

The bank's high exposure to self-employed segment along with high share of MSME/CV loans at 44% of advances makes it more vulnerable to asset quality risks. While lower ticket sizes and high security levels ensure ultimate recoveries, recovery prospects could continue to remain weak in the current environment. However, floating and other covid-related provisions at Rs1.6bn or 0.7% of loans cushion the impact on credit costs.

Rise in CoF pressurize NIM, deposit franchise strengthening

Reported CoF increased by ~35 bps YoY in FY20, resulting in ~15 bps decline in NIM, even as the bank largely maintained its pricing power. High CoF was driven by increased share of retail TDs (+51% YoY) and decline in CASA levels. The bank's reduced dependence on bulk deposits strengthens its liability profile, even if it comes at higher CoF

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Net interest income	3,237	3,009	7.6	3,231	0.2
Other income	1,099	994	10.6	931	18.1
Total Net Income	4,336	4,002	8.3	4,162	4.2
Operating expenses	2,215	2,150	3.1	2,263	(2.1)
Pre-provision profits	2,121	1,853	14.5	1,899	11.7
Provisions	1,182	348	240.0	590	100.4
Tax expense	251	542	(53.7)	342	(26.7)
Reported Net Profit	688	963	(28.6)	967	(28.9)
			(bps)		(bps)
Advances Growth (%)	7.5	15.9	(835)	11.1	(360)
NIM (%)	3.6	3.8	(14)	3.7	(7)
RoA (%)	0.7	1.2	(43)	1.0	(31)
RoE (%)	8.4	13.0	(460)	12.0	(355)
Gross NPA (%)	2.5	1.8	62	2.2	31

CMP	Rs 60
Target / Upside	Rs 68 / 12%
BSE Sensex	30,712
NSE Nifty	9,039

Scrip Details

Equity / FV	Rs 3,104mn / Rs 10
Market Cap	Rs 19bn
	USD 247mn
52-week High/Low	Rs 245/Rs 60
Avg. Volume (no)	1,640,820
NSE Symbol	DCBBANK
Bloomberg Code	DCBB IN

Shareholding Pattern Mar'20(%)

Promoters	14.9
MF/Banks/FIs	35.3
FIIIs	22.8
Public / Others	27.0

Valuation (x)

	FY20A	FY21E	FY22E
P/E	5.6	13.5	5.2
P/ABV	0.6	0.7	0.6
ROAA	0.9	0.4	0.9
ROAE	10.3	4.0	9.9

Estimates (Rs mn)

	FY20A	FY21E	FY22E
NII	12,649	12,976	13,797
PPOP	7,530	7,487	7,897
PAT	3,379	1,385	3,615
Adj BV	93.1	85.2	98.4

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Other Important Highlights

- Close to 60% of bank's loans are under moratorium as of April-end, having given an 'opt-out' on moratorium to all retail borrowers.
- Capital efficiency has improved over the last few quarters with reduced RWA utilization, strengthening the bank's Tier I capital ratio to 13.9%
- During the quarter, the bank recognized as NPA Rs0.4bn of overdue exposure that would have been eligible for asset quality standstill as per RBI's March 27 circular. Also, for Rs0.9 bn of loans where the bank extended the asset classification benefit, it made a provision of 10% or Rs90mn.
- Exposure to top 20 depositors has come down to 9.27% from 12% a year ago.
- The bank has restructured Rs2.37bn or 1% of loans under the MSME restructuring scheme as of Mar-20, a large part of which was done during 4QFY20.
- Borrowing increased by 25% led by higher refinance from NHB/NABARD/SIDBI, as the bank reduced its dependence on bulk deposits
- Many MSME customers have placed incremental deposits with the Bank during the lockdown period while average utilization of CC/OD limits is low at ~40%

Risks to the View: Higher-than-estimated credit loss from core client group of SME/MSME, inability to contain opex, higher than anticipated stress on macro-economy from COVID-19

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	3,237	3,328	(2.7)	
Operating Profit	2,121	2,057	3.1	
PAT	688	967	(28.9)	Due to higher COVID related provisions

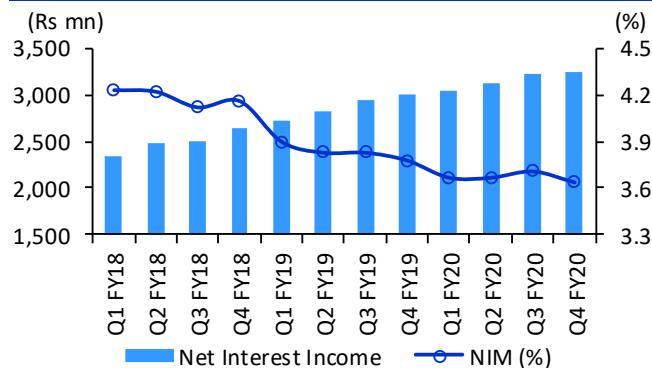
Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	Previous		Revised		Change %		Comments
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Net Operating Revenue	19,163	21,461	16,787	17,615	(12.4)	(17.9)	Weaker loan and fee growth along with moderation in NIM
Pre Provision Profits	8,752	9,542	7,487	7,897	(14.5)	(17.2)	
PAT	3,086	5,911	1,385	3,615	(55.1)	(38.8)	Factor in large part of AQ pain to play out in FY21E, though restructuring & moratorium extension may defer the impact

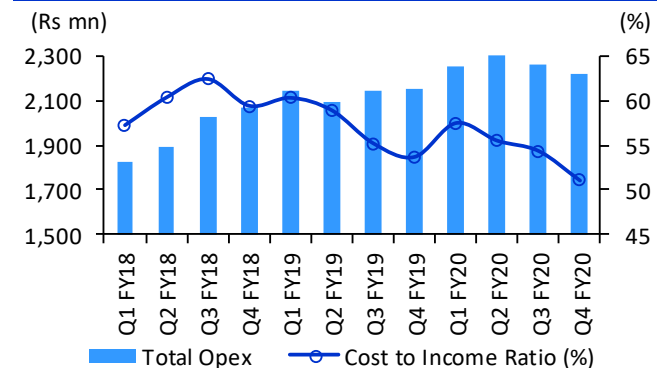
Source: Company, DART

Exhibit 3: Margins continue to be under pressure driven by sticky CoF



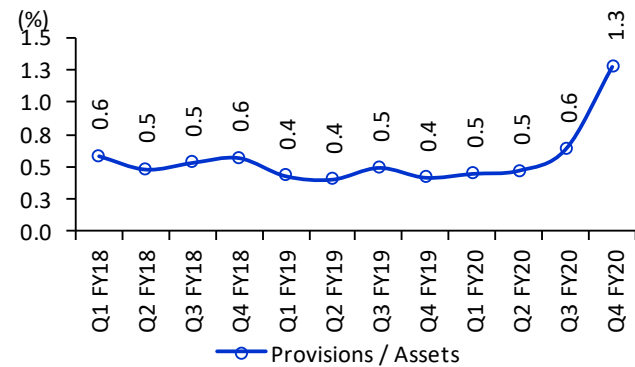
Source: Company, DART

Exhibit 4: Tight leash on costs led to decline in cost to income ratio



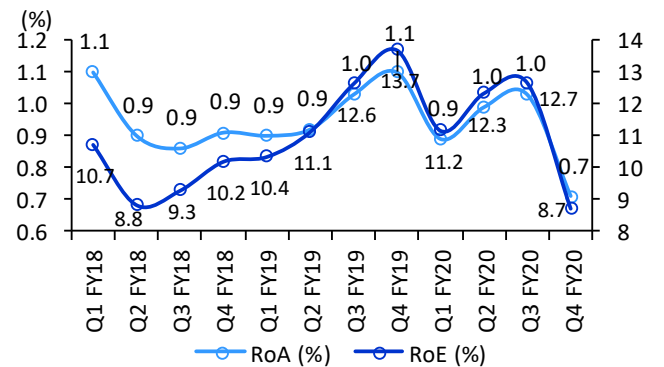
Source: Company, DART

Exhibit 5: Higher COVID related provisions lead to...



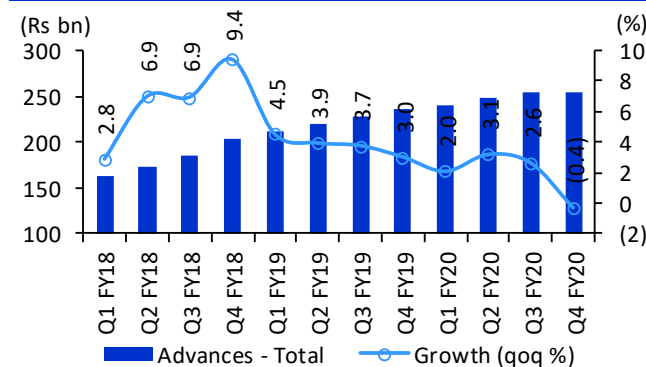
Source: Company, DART

Exhibit 6: ...decline in return ratios



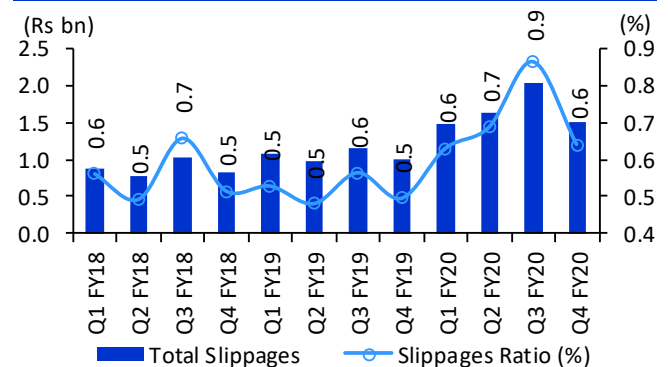
Source: Company, DART

Exhibit 7: Loan growth remains muted



Source: Company, DART

Exhibit 8: Slippages benefit from RBI's moratorium



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4FY20	Q4FY19	% yoy / bps	Q3FY20	% qoq / bps
Interest Inc. / Oper. Revenue	9,019	8,271	9.0	8,978	0.5
<i>Yield on Advances (%)</i>	11.4	11.6	(22)	11.5	(15)
Interest Expenses	5,782	5,262	9.9	5,747	0.6
<i>Cost of Fund (%)</i>	7.0	7.1	(4)	7.1	(8)
Net Interest Income	3,237	3,009	7.6	3,231	0.2
<i>NII to Net Operating Income</i>	74.7	75.2	(52)	77.6	(298)
<i>NIM (%)</i>	3.6	3.8	(14)	3.7	(7)
Adjusted NII	3,146	2,932	7.3	3,146	(0.0)
Commission, exchange and brokerage	664	648	2.5	625	6.2
Exchange transactions	52	58	(10.3)	51	2.0
Sale of investments	174	90	93.3	70	148.6
Sale of land, buildings and other assets	209	198	5.7	185	13.0
Other Income - Total	1,099	994	10.6	931	18.1
<i>Other Income to Net Operating Income</i>	25.3	24.8	52	22.4	298
Net Operating Revenue	4,336	4,002	8.3	4,162	4.2
Employee Expenses	1,124	1,049	7.2	1,156	(2.8)
<i>Empl. Cost/Oper. Exps.</i>	25.9	26.2	(28)	27.8	(185)
Other Opex	1,091	1,101	(0.9)	1,107	(1.4)
<i>Other Opex/ Assets</i>	0.3	0.3	(4)	0.3	(1)
Total Opex	2,215	2,150	3.1	2,263	(2.1)
<i>Cost to Income Ratio (%)</i>	51.1	53.7	(262)	54.4	(328)
Pre Provision Profits	2,121	1,853	14.5	1,899	11.7
Provisions & Contingencies - Total	1,182	348	240.0	590	100.4
<i>NPA Provisions as % Operating Income</i>	55.8	18.8	3,698	31.1	2,469
Profit Before Tax	938	1,505	(37.6)	1,309	(28.3)
Tax	251	542	(53.7)	342	(26.7)
<i>Effective Tax Rate (%)</i>	26.7	36.0	(927)	26.1	58.8
Reported Profits	688	963	(28.6)	967	(28.9)
<i>RoA (%)</i>	0.7	1.1	(39)	1.0	(32.0)
<i>RoE (%)</i>	8.7	13.7	(496)	12.7	(394)
Basic EPS	2.2	3.1	(28.6)	3.1	(28.8)
Diluted EPS	2.2	3.1	(28.4)	3.1	(28.7)

Balance Sheet Analysis	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Net Worth	30,171	31,145	31,611	32,533	33,523	34,212	2.1	9.8
RoE (%)	12.6	13.7	11.2	12.3	12.7	8.7	(394)	(496)
Tier 1 (%)	11.9	13.1	12.5	12.6	12.3	13.9	13	6
Total CAR (%)	15.5	16.8	16.1	16.2	15.8	17.8	12	6
RWA - Total	221,891	221,747	232,357	231,227	236,510	233,936	(1.1)	5.5
Advances - Total	228,884	235,680	240,443	247,976	254,382	253,453	(0.4)	7.5
Investments	75,157	78,441	79,951	78,436	81,391	77,415	(4.9)	(1.3)
Total Assets	343,818	357,918	362,824	370,184	380,571	385,051	1.2	7.6
RoA (%)	1.03	1.10	0.89	0.99	1.03	0.71	(31)	(35)
Deposits	275,090	284,351	287,892	293,633	297,349	303,699	2.1	6.8
CASA Deposits	66,701	68,099	70,618	68,249	69,413	65,192	(6.1)	(4.3)
CASA Ratio (%)	24.3	23.9	24.5	23.2	23.3	21.5	(8)	(10)
Term Deposits	208,389	216,252	217,274	225,384	227,936	238,507	4.6	10.3

Source: Company, DART

Movement of NPA (Rs mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Gross Advances	231,823	238,848	243,061	250,354	256,758	256,711	(0.0)	7.5
Gross NPA	4,451	4,395	4,764	5,232	5,520	6,315	14.4	43.7
Gross NPA Ratio (%)	1.92	1.84	1.96	2.09	2.15	2.46	31	62
PCR - Calculated (%)	63.3	65.0	58.9	54.5	52.8	53.5	76	(1,149)
Net NPA	1,634	1,538	1,958	2,379	2,608	2,935	12.6	90.9
Net NPAs Ratio (%)	0.71	0.65	0.81	0.96	1.03	1.16	13	51

Loan Book Analysis (Rs mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Mortgages	91,554	94,272	96,177	101,670	104,297	106,450	2.1	12.9
SME + Micro SME	27,466	28,282	28,853	29,757	27,982	27,880	(0.4)	(1.4)
Agri & Inclusive Banking	43,488	47,136	48,089	49,595	53,420	53,225	(0.4)	12.9
Corporate Banking	34,333	30,638	31,258	29,757	30,526	30,414	(0.4)	(0.7)
Commercial Vehicle	16,022	16,498	16,831	17,358	17,807	17,742	(0.4)	7.5
Other	16,022	18,854	19,235	19,838	20,351	17,742	(12.8)	(5.9)
Advances - Total	228,884	235,680	240,443	247,976	254,382	253,453	(0.4)	7.5

Source: Company, DART;

Conference Call Highlights

Asset Quality and Moratorium:

- Moratorium given to ~60% of book as of April end. Moratorium across portfolios: MSME 60%; LAP 56%; Home Loans 52%. CV moratorium higher than 60%.
- Reached out to majority of customers to explain terms of the moratorium; post which many customers opted out of moratorium.
- 60-70% of customers contacted feel confident of reviving business 2-3 months post lifting of lockdown restrictions
- LGD has not been more than 10-15%, especially in mortgages, giving comfort on PCR (ex-COVID provisions)
- Recoveries/upgrades were impacted due to lockdown
- Floating provisions stood at ~Rs 102crs, made ~2crs additional floating provisions in 4QFY20

Deposit strategy:

- Bank will keep RTD rates higher vs key peers and focus on small ticket size RTDs (~Rs 0.15mn). Bulk deposit rates have been dropped significantly in past couple of months
- Bank would like to have lower dependence on bulk deposits and focus on quality of CASA vs quantity of CASA. CASA fluctuations due to businesses utilizing CASA balances to pay for expenses
- Retail term deposits grew 51% YoY while the exposure to top 20 depositors has come down to 9.27%.
- The bank has limited reliance on govt deposits
- In April – May, the bank generated 800crs of retail TD to replace bulk deposits and also received refinance from NHB/NABARD/SIDBI.
- The bank maintains LCR >100%; excess liquidity maintained costed ~4-5bps

Mortgage Portfolio:

- Low LTV and high share of self-occupied premises (87%) ensures higher equity of customer
- Post moratorium there could be some disruptions, but the bank remains fully prepared to tackle the same.
- LAP and MSME portfolio are very similar in terms of customer profiles, collateral cover, tenors, LTVs, valuation of collateral, etc.
- Bank also monitors the monthly sales of MSME customers to derive comfort on such loans
- Most customers of business loan (LAP)/MSME/CV would be eligible for the MSME credit guarantee scheme and benefits announced by the RBI

Restructured accounts:

- 130crs of CV (large part done in Jan-Feb), 43crs of MSME, 40 crs mortgage, 10crs of corporate
- Demand flowing from many customers with cash flow issues
- Employees: 6845 as of March end
- PSLC income at ~40crs vs 28cr in FY19
- Fee income will remain a challenge; most fee lines affected due to lock down restrictions.

Profit and Loss Account (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E
Interest Income	30,415	35,366	35,945	37,700
Interest expenses	18,922	22,717	22,969	23,902
Net interest income	11,493	12,649	12,976	13,797
Other incomes	3,502	3,911	3,811	3,818
Total expenses	8,529	9,030	9,300	9,718
- Employee cost	4,340	4,588	4,726	4,915
- Other	4,189	4,442	4,575	4,803
Pre provisioning profit	6,466	7,530	7,487	7,897
Provisions	1,401	2,611	5,609	2,998
Profit before taxes	5,065	4,919	1,877	4,899
Tax provision	1,812	1,540	492	1,283
Profit after tax	3,253	3,379	1,385	3,615
Adjusted profit	3,253	3,379	1,385	3,615

Balance Sheet (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	3,096	3,104	3,104	3,104
Reserves & Surplus	28,061	31,117	31,851	34,915
Minority Interest	0	0	0	0
Net worth	31,156	34,222	34,955	38,019
Borrowings	27,232	34,080	34,337	37,691
- Deposits	284,351	303,699	309,030	339,220
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	15,179	13,051	14,201	14,278
Total Liabilities	357,918	385,051	392,522	429,208
Application of Funds				
Cash and balances with RBI	27,934	35,459	33,810	33,478
Investments	78,441	77,415	79,582	87,607
Advances	235,680	253,453	258,522	284,374
Fixed assets	5,260	5,459	5,352	5,442
Other current assets, loans and advances	10,604	13,266	15,256	18,307
Total Assets	357,918	385,051	392,522	429,208

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Yield on advances	11.2	11.6	11.4	11.3
Yields on interest earning assets	9.6	10.0	9.7	9.7
Yield on investments	7.6	8.0	7.6	7.6
Costs of funds	6.6	7.0	6.7	6.6
Cost of deposits	6.5	6.9	6.6	6.5
NIMs	3.6	3.6	3.5	3.5
(B) Asset quality and capital ratios (%)				
GNPA	1.8	2.5	5.5	4.8
NNPA	0.6	1.2	2.5	1.9
PCR	66.6	53.5	55.0	60.0
Slippages	2.1	2.8	6.0	3.0
NNPA to NW	5.1	9.2	19.5	15.3
CASA	23.9	21.0	21.0	21.0
CAR	17.1	17.9	17.1	17.1
Tier 1	13.3	14.0	13.5	13.6
Credit - Deposit	82.9	83.5	83.7	83.8
(C) Dupont as a percentage of average assets				
Interest income	9.2	9.5	9.2	9.2
Interest expenses	5.7	6.1	5.9	5.8
Net interest income	3.5	3.4	3.3	3.4
Non interest Income	1.1	1.1	1.0	0.9
Total expenses	2.6	2.4	2.4	2.4
- cost to income	56.9	54.5	55.4	55.2
Provisions	0.4	0.7	1.4	0.7
Tax	0.5	0.4	0.1	0.3
RoA	1.0	0.9	0.4	0.9
Leverage	12.5	12.1	11.9	11.9
RoE	11.0	10.3	4.0	9.9
RoRwa	1.5	1.5	0.6	1.4
(D) Measures of Investments				
EPS - adjusted	10.5	10.9	4.5	11.6
BV	92.7	102.6	105.8	116.3
ABV	87.6	93.1	85.2	98.4
(E) Growth Ratios (%)				
Net interest income	15.5	10.1	2.6	6.3
PPoP	23.2	16.5	(0.6)	5.5
Adj PAT	32.6	3.9	(59.0)	160.9
Advances	15.9	7.5	2.0	10.0
Total borrowings	41.3	25.1	0.8	9.8
Total assets	18.4	7.6	1.9	9.3
(F) Valuation Ratios				
Market Cap (Rs. mn)	18,765	18,765	18,765	18,765
CMP (Rs.)	60	60	60	60
P/E (x)	5.8	5.6	13.5	5.2
P/BV (x)	0.7	0.6	0.6	0.5
P/ABV (x)	0.7	0.6	0.7	0.6

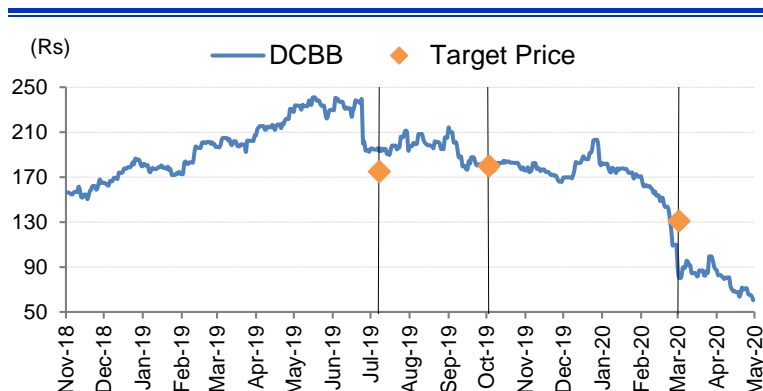
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Reduce	175	193
Oct-19	Reduce	180	175
Mar-20#	Buy	131	81

*Price as on recommendation date
Change the analyst

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