

## Mixed performance; asset quality to be watched...

DCB Bank reported an operationally steady quarter but with higher provision at ₹ 63 crore related to Covid impacted earnings. Provision surged 240% YoY to ₹ 118 crore, including Covid related provisioning of ₹ 63 crore vs. RBI requirement of ₹ 9 crore. The bank has maintained additional floating provisions of ₹ 100 crore, i.e. ~0.4% of advances. PCR was at ~70.8%.

The bank has provided moratorium to all customers with opt out option except NBFC and large corporate clients. This has led to ~60% of its customers opting for moratorium (home loans – 52% by value and business loans/LAP – 56% by value) as of end of April 2020. In home and business loans, collection dipped from ~97% in January-February 2020 to ~90-93% in March 2020 and 51-57% in April 2020 (led by moratorium).

Advances growth witnessed continuous deceleration to 7.5% YoY at ₹ 25438 crore. This was largely due to muted growth across segment including corporate and SME book, except mortgage portfolio, which grew 12.3% YoY. Deposit accretion has also been slower at 6.8% YoY to ₹ 29735 crore, though retail deposit grew faster at 14% YoY to reach ₹ 18042 crore. CASA ratio dipped ~248 bps YoY to 21.47%.

Slippages for quarter surged 52.1% YoY to ₹ 149.8 crore, led by stress across segments. However, recovery, upgrades were lower at ₹ 71.4 crore, as DCB could not recover ₹ 12-15 crore of NPAs. Hence, GNPA, NNPA ratio increased QoQ by ~31 bps, ~13 bps to 2.46%, 1.16%, respectively.

Operating profit remained steady at ~₹ 212 crore, up 14.5% YoY, on the back of NII growth of 7.6% YoY and 10.6% YoY growth in other income. Opex remained a tad lower resulting in 327 bps QoQ improvement in CI ratio to 51.09%. Maintaining additional liquidity led to a marginal decline in margins by ~4 bps QoQ to 3.64%. Higher provision impacted earnings, which dipped 28.6% YoY to ~₹ 69 crore.

### Gradual pick-up in credit; focus on improving capital efficiency

Business growth is likely to remain slow in FY21E, as the management seeks to stay cautious on pedalling disbursements amid uncertainty on easing of lockdown and life ahead. The bank will have a relook at underwriting standards amid the changed environment. With higher chunk of SME, MSME, CV book, qualified for credit guarantee scheme, it intends to utilise benefit of credit guarantee scheme announced by Gol. However, capital consumption would remain in focus as the bank aims to improve capital efficiency. On liabilities, gradual replacement of bulk deposit by retail term deposit is to continue ahead, even if it entails marginally higher cost. We estimate business would grow at ~10% CAGR in FY20-22E to ₹ 30567 crore.

### Valuation & Outlook

Business momentum is expected to remain slow though the bank remains a beneficiary of the credit guarantee scheme announced by Gol. However, given substantial exposure to MSME & LAP, we remain cautious in the current environment. Focus on containing opex does provides cushion but lower business growth & expected asset quality woes are seen keeping RoE lower at 8-11% in FY20-22E. Hence, we maintain **HOLD** rating with a revised target price of ₹ 59, valuing the business at ~0.5x FY22E ABV.

#### Key Financial Summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	995	1149	1265	1220	1378	6%
PPP	525	647	753	704	834	9%
PAT	245	325	338	314	429	10%
ABV (₹)	78	88	90	95	111	
P/E	22.8	17.3	16.7	17.9	13.1	
P/ABV	2.3	2.1	2.0	1.9	1.6	
RoA	0.9	1.0	0.9	0.8	1.0	
RoE	11.1	12.2	11.4	9.4	11.3	



#### Particulars

Particular	Amount
Market Capitalisation	₹1876 crore
GNPA (Q4FY 20)	₹631 crore
NNPA (Q4FY 20)	₹293 crore
NIM (Q4FY 20)	3.70%
52 week H/L	245/165
Networth	₹3352 Crore
Face value	₹10
DII Holding (%)	35.3
FII Holding (%)	22.8

#### Key Highlights

- 60% of the customers have opted for moratorium
- Provisions surged to ₹ 118 crore including Covid provisions of ₹ 63 crore and floating provisions of ₹ 100 crore
- Maintain our HOLD recommendation with a revised target price of ₹ 59

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Exhibit 1: Variance Analysis

	Q4FY20	14FY20E	Q4FY19	YoY (%)	Q3FY20	LoQ (%)	Comments
NII	324	316	301	7.6	323	0.2	Muted NII led by decelerated credit growth
NIM (%)	3.7	3.7	3.8	-11 bps	3.7	-4 bps	Increase in CoF led to dip in margins
Other Income	110	91	99	10.6	93	18.1	Fee income remained stable while treasury income was flattish
Net Total Income	1,012	997	926	9.2	991	2.1	
Staff cost	112	117	105	7.2	116	-2.8	
Other Operating Expenses	222	227	215	3.1	226	-2.1	
Cost to Income ratio	0.5	0.6	0.5	-4.9	0.5	-1.2	Contained cost led to improvement in CI ratio of 327 bps QoQ
PPP	212	180	185	14.5	190	11.7	
Provision	118.2	53.9	34.8	240.0	59.0	100.4	Provisions include Covid related provisioning of ₹ 63 crore and additional floating provisions of ₹100 crore
PBT	94	126	151	-37.6	131	-28.3	
Tax Outgo	25.1	32.2	54.2	-53.7	34.2	-26.7	
PAT	68.8	94.1	96.3	-28.6	96.7	-28.9	Steady PPP; Higher provisions dent earnings

Key Metrics

GNPA	631.5	579.6	439.5	43.7	552.0	14.4	Slippages remained high at ₹ 149.8 crore, led by stress across segments. Recovery and upgrades came lower at ₹71.4 crore, as the bank could not recover ₹12-15 crore of NPAs
NNPA	293.5	271.2	153.8	90.9	260.8	12.5	
Total restructured assets	237.0	35.0	31.0	664.5	46.0	415.2	Restructured advances led by CV at ₹135 crore
Credit Book	25,345	25,779	23,568	7.5	25,438	-0.4	Advances growth decelerated due to muted growth across segment including corporate and SME book, except mortgage portfolio
Deposit Book	30,370	31,134	28,435	6.8	29,735	2.1	Retail deposit grew faster at 14% YoY to reach ₹ 18042 crore. CASA ratio dipped ~248 bps YoY to 21.47%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Incon	1,531	1,220	-20.3	1562.0	1,378	-11.8
Pre Provision Pro	871.3	704.0	-19.2	851.6	833.8	-2.1
NIM (%)	3.7	3.2	-45 bps	3.5	3.3	-22 bps
PAT	516.3	313.9	-39.2	464.2	428.8	-7.6
ABV (₹)	112	95	-15.5	116.4	111	-4.6
EPS	16.7	10.1	-39.2	15.0	13.9	-7.6

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	FY20		Current		Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	15.9	7.5	6.8	10.5	18.0	18.0
Deposit Growth (%)	18.4	6.8	8.8	10.7	18.6	18.6
CASA ratio (%)	23.9	23.9	24.3	24.7	24.6	24.6
NIM Calculated (%)	3.7	3.6	3.2	3.3	3.7	3.7
Cost to income ratio (%)	56.6	54.3	56.5	54.3	55.6	55.6
GNPA (₹crore)	439	632	1,001	898	641	641
NNPA (₹crore)	154	370	718	637	312	312
Slippage ratio (%)	2.1	1.9	3.2	2.2	1.6	1.6
Credit cost (%)	0.5	0.4	0.9	0.8	0.5	0.5

Source: Company, ICICI Direct Research

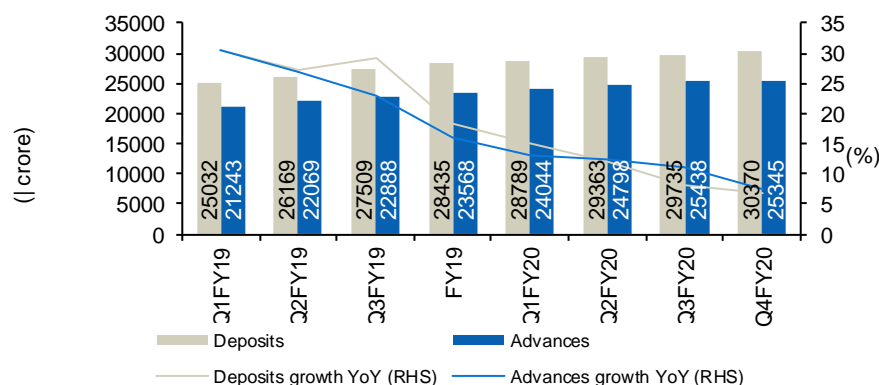
## Story in Charts

Exhibit 4: Moratorium break-up for home loans and business loans

Portfolio Value	Home Loans -38%		Business Loans (LAP) -62%	
Customer Segment	Salaried	Self Employed	Salaried	Self Employed
Moratorium by value	52%		56%	
EMI collected	March 20	April 20	March 20	April 20
	93%	57%	90%	0.5
Average LTV	49%		37%	
Type of property value	Self occupied Residential/Commercial -87%			
Average ticket size (in lakhs)	17.0		20.0	
Customers with outside liabilities (of DCB sanctioned loan amount)	NIL	35%	30%	
	<10%	23%	20%	
	10-20%	9%	9%	

Source: Company, ICICI Direct Research

Exhibit 5: Loan growth ex-corporate seen improving, going ahead



Source: Company, ICICI Direct Research

Exhibit 6: Mortgage segment leads credit growth

(₹ crore)	Q1FY18	Q2FY18	Q3FY18	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Current Proporti
Agriculture	2765	2957	3161	3661	3824	4193	4349	4714	4809	4960	5342	5323	14.8
SME	1789	2087	2231	2440	2549	2648	2747	2828	2885	2976	2798	2788	7.7
Corporate	2440	2957	3161	3457	3611	3310	3433	3064	3126	2976	3053	3041	8.5
Retail banking ex Mortgage	2115	2087	2231	2644	2762	3090	3204	3535	3607	3720	14245	14193	39.4
Mortgage	7157	7306	7810	8135	8497	8828	9155	9427	9618	10167	10430	10645	29.6
Total	16266	17395	18595	20337	21243	22069	22888	23568	24044	24798	35868	35990	100.0

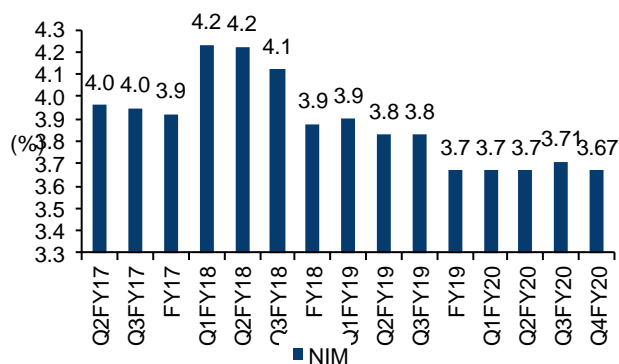
Source: Company, ICICI Direct Research

Exhibit 7: Retail deposit constitutes 76% of deposit

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total deposits	10325	12609	14926	19289	24007	28435	31134	33041	36579
Current account	959	1046	1177	1535	1836	1834	1982	2180	2461
Saving deposits	1622	1904	2313	3154	4005	4976	5473	5856	6559
SA ratio	15.7	15.1	15.5	16.4	16.7	17.5	17.6	17.7	17.9
CASA ratio	25.0	23.4	23.4	24.3	24.3	23.9	23.9	24.3	24.7
Term deposits	7744	9659	11436	14600	18167	21625	23680	25005	27558
Retail deposits (RD)	7944	10339	11941	15431	17765	22748	24907	26433	29263
RD proportion	76.9	82.0	80.0	80.0	74.0	80.0	80.0	80.0	80.0

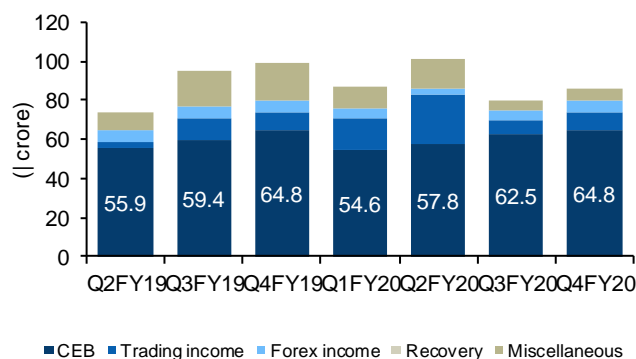
Source: Company, ICICI Direct Research

Exhibit 8: NIMs to dip, going ahead



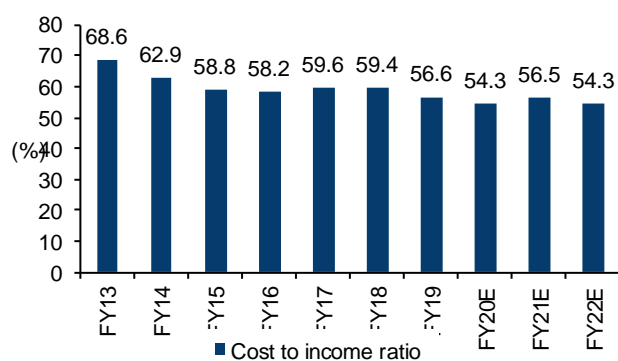
Source: Company, ICICI Direct Research

Exhibit 9: CEB income major contributor to other income



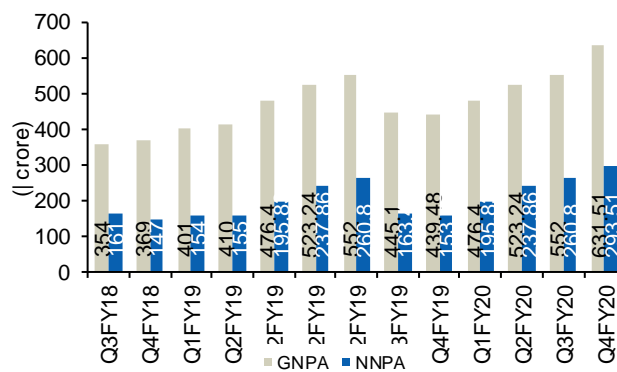
Source: Company, ICICI Direct Research

Exhibit 10: Cost to Income ratio to improve over FY20-22E



Source: Company, ICICI Direct Research

Exhibit 11: Asset quality to dip in medium term



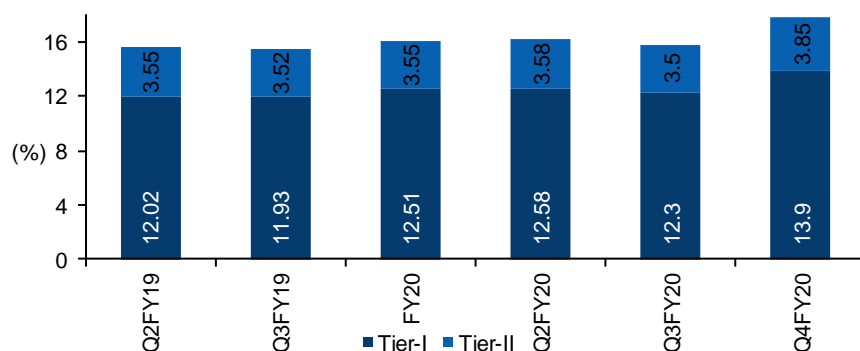
Source: Company, ICICI Direct Research

Exhibit 12: Sectoral break-up of GNPA

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Personal Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CV/CE	29.9	31.9	29.4	38.5	48.0	63.5	75.7	100.2	116.3
Corporate	84.0	90.2	93.0	77.9	61.9	18.7	18.7	48.1	51.5
SME & MSME	30.7	33.9	38.0	40.3	42.5	50.1	74.2	66.2	73.3
Mortgages	139.2	148.0	148.6	160.6	162.7	177.9	201.6	181.4	228.3
Others	85.2	96.6	101.0	127.8	124.4	166.2	153.0	156.1	162.1
Total GNPA	369.0	400.6	410.0	445.1	439.5	476.4	523.2	552.0	631.5
Total NNPA	146.7	153.9	155.3	163.4	153.8	195.8	237.9	260.8	293.5

Source: Company, ICICI Direct Research

Exhibit 13: CaR comfortable; capital raising seen in 2HFY20E



Source: Company, ICICI Direct Research

Exhibit 14: Valuation

(%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net interest income/ avg. total assets	3.0	3.5	3.5	3.7	3.7	3.5	3.4	3.0	3.1
Non-interest income/ avg. total assets	1.1	1.1	1.3	1.2	1.2	1.1	1.1	1.0	1.0
Net total income/ avg. total assets	4.2	4.6	4.8	4.9	4.8	4.6	4.5	4.1	4.2
Operating expenses/ avg. total assets	2.6	2.7	2.8	2.9	2.9	2.6	2.4	2.3	2.3
Operating profit/ avg. total assets	1.6	1.9	2.0	2.0	2.0	2.0	2.0	1.8	1.9
Provisions/ Avg. total assets	0.3	0.5	0.5	0.5	0.5	0.4	0.7	0.7	0.6
Return on avg. total assets	1.3	1.3	1.1	0.9	0.9	1.0	0.9	0.8	1.0
Leverage -Avg. total assets/ average equity (x)	11.8	11.0	10.8	11.7	12.1	12.2	12.3	11.8	11.4
Return on equity	14.8	14.6	12.0	11.1	11.1	12.2	11.4	9.4	11.3

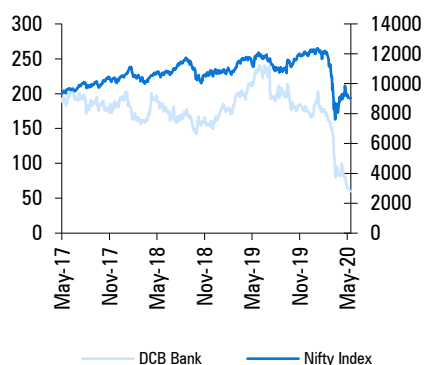
Source: Company, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	14.9	14.9	14.9	14.9	14.9
FII	26.0	24.5	24.1	24.6	22.8
DII	24.2	27.4	30.0	32.8	35.3
Others	34.9	33.2	31.0	27.7	27.0

Source: Company, ICICI Direct Research

Exhibit 16: Price Chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	3,041	3,537	3,483	3,763
Interest Expended	1,892	2,272	2,263	2,385
Net Interest Income	1,149	1,265	1,220	1,378
growth (%)	15.5	10.1	(3.5)	12.9
Non Interest Income	350	391	407	455
Net Income	1,499	1,656	1,627	1,833
Staff cost	434	459	441	487
Other Operating expense	419	444	482	513
Operating profit	647	753	704	834
Provisions	140	261	274	246
Taxes	181	154	116	159
Net Profit	325	338	314	429
growth (%)	32.6	3.9	(7.1)	36.6
EPS (₹)	10.5	10.9	10.1	13.9

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	31.0	31.0	31.0	31.0
EPS (₹)	10.5	10.9	10.1	13.9
BV (₹)	92.7	102.4	117.7	131.6
ABV (₹)	87.8	90.4	94.6	111.0
P/E (x)	5.7	5.5	5.9	4.3
P/BV (x)	0.6	0.6	0.5	0.5
P/ABV (x)	0.7	0.7	0.6	0.5
Yields & Margins (%)				
Net Interest Margins	3.7	3.6	3.2	3.3
Yield on assets	9.7	10.2	9.3	9.1
Avg. cost on funds	6.6	6.9	6.4	6.2
Yield on average advance	11.2	11.0	10.3	10.2
Avg. Cost of Deposits	6.7	6.6	6.4	6.2
Quality and Efficiency (%)				
Credit/Deposit ratio	82.9	83.5	81.9	81.7
GNPA	1.9	2.5	3.7	3.0
NNPA	0.7	1.5	2.7	2.1
Cost to income ratio	56.6	54.3	56.5	54.3
RoE	12.2	11.4	9.4	11.3
ROA	1.0	0.9	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	310	310	310	310
Reserves and Surplus	2,805	3,112	3,580	4,008
Net worth	3,114	3,422	3,889	4,318
Deposits	28,435	30,370	33,041	36,579
Borrowings	2,723	3,408	3,378	3,716
Other Liabilities & Provisio	1,518	1,305	1,673	1,757
Total	35,792	38,507	41,984	46,371
Applications of Funds				
Fixed Assets	526	546	590	625
Investments	7,844	7,742	9,252	10,218
Advances	23,568	25,345	27,062	29,891
Other Assets	1,060	2,301	1,622	1,772
Cash with RBI & call mon	2,793	2,573	3,458	3,865
Total	35,792	38,507	41,984	46,371

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	18.4	7.6	9.0	10.5
Advances	15.9	7.5	6.8	10.5
Deposit	18.4	6.8	8.8	10.7
Total Income	24.5	15.8	(0.9)	8.4
Net interest income	15.5	10.1	(3.5)	12.9
Operating expenses	9.2	5.9	2.3	8.2
Operating profit	23.2	16.5	(6.5)	18.4
Net profit	32.6	3.9	(7.1)	36.6
Net worth	12.3	10.7	14.7	11.8
EPS	32.0	3.6	(6.9)	36.6

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Banks)

Sector / Company	CMP		M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP (₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Bank of Baroda (BANBAR)	37	65	Hold	17,304.0	-0.4	-1.9	-4.3	NA	NA	NA	0.5	0.5	0.4	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	151	250	Buy	1,34,627	16.8	24.2	33.7	9.0	6.2	4.5	0.9	0.8	0.7	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	44	50	Hold	4,997	-27.2	8.5	13.0	-1.6	5.2	3.4	0.3	0.3	0.2	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	337	500	Buy	95,128	5.8	17.4	27.9	58.4	19.4	12.1	1.3	1.3	1.2	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	128	171	Buy	9,404	8.7	10.1	11.4	14.7	12.7	11.2	2.0	1.8	1.5	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	60	59	Hold	2,524	13.0	13.5	15.0	4.6	4.4	4.0	0.6	0.6	0.5	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	37	47	Hold	7,440	7.7	7.9	12.5	4.8	4.7	3.0	0.6	0.5	0.5	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	839	1,100	Buy	46,00,483	47.9	57.1	69.6	17.5	14.7	12.0	2.7	2.5	2.2	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	338	400	Hold	23,456	63.7	54.9	66.7	5.3	6.2	5.1	0.7	0.7	0.6	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	13	12	Sell	895	-12.7	-0.1	-6.1	-1.0	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,160	1,600	Buy	2,22,049	31.1	30.4	34.9	37.3	38.2	33.2	4.6	3.8	3.4	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	203	300	Buy	32,737	18.1	18.8	19.9	11.2	10.8	10.2	2.3	2.0	1.8	3.9	2.9	2.5	22.1	18.8	17.4
IDFC First (IDFBAN)	19	23	Buy	9,067	-4.8	1.0	2.1	NA	19.8	9.2	0.7	0.6	0.6	-1.6	0.3	0.6	-15.0	3.0	6.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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