

DCB Bank

Refer to important disclosures at the end of this report

CASA, asset quality pain to accentuate

CMP: Rs 60
as of (May 23, 2020)TP: Rs 51 (▼)
12 months

Rating: SELL (■)

Upside: (15.6) %

- Subdued credit growth and weakening CASA profile continued to weigh in on DCB's margins, which coupled with Covid-19 related contingent provisions (Rs630mn; 0.2% of loans), led to lower PAT of Rs687mn - down 29% yoy.
- The GNPA ratio deteriorated by 31bps QoQ to 2.46% vs. 1.84% a year ago due to higher slippages of Rs1.5bn, mainly from the LAP/CV portfolio. Nearly 60% of customers by value have opted for moratorium given the bank's main customers being self-employed.
- Factoring in slower growth, lower margins and higher LLP in the wake of deteriorating asset quality, we cut our earnings estimates for FY21/FY22 by 29/26% and expect RoA to slip to a low of 0.6-0.7% from 0.9% in FY20.
- We maintain Sell/UW in EAP with a revised TP of Rs51 (based on 0.5x FY22E ABV) given weakening asset quality, liability profile and return ratios. Instead, we prefer City Union Bank that offers much better return metrics in the small-cap space.

CASA slips for fourth quarter in a row, weighing in on margins: Loan growth slipped further to 7.5% yoy, with the slowdown seen across business verticals and more prominently on the corporate/SME front as bank struggles with asset quality. The bank expects near-term growth to be subdued, given the elevated risk environment and its focus on risk-adjusted returns vs. growth. However, the bank believes that ~43% of the bank's portfolio (Mortgage BL/SME/CV) will be eligible for MSME guarantee scheme, which should drive in some growth. CASA has been slipping even before Yes Bank saga unfolded and slipped further, exposing the bank's weak liability franchise. Alternatively, the bank has been focusing on retail TDs, leading to higher cost of funds. This, coupled with higher NPA formation, led to continued pressure on NIMs which were down 6bps qoq to 3.6%.

Asset quality pain to accentuate further: The GNPA ratio deteriorated by 31bps QoQ to 2.46% vs. 1.84% a year ago due to higher slippages of Rs1.5bn, mainly from LAP/CV/SME portfolio. Standstill classification benefit was not taken by the bank for Rs430mn out of total eligible loans of Rs830mn, which if taken would have reduced the GNPA ratio by 20bps. The GNPA ratio in vehicle loans further deteriorated to 6.6% from 5.6% in Q3, while in mortgages it deteriorated to 2.1% from 1.7% in Q3. The bank has made contingent provision of Rs630mn (0.2% of loan book) including regulatory requirement, which is lower than that of other banks. The moratorium is opted by 60% of customers by value, while bank believes that moratorium extension by the RBI for another 3m will provide customers a breathing time as business growth normalizes.

Outlook and valuations: We believe that extended lockdown would put stress on the bank's otherwise high-risk LAP/self-employed portfolio and would call for elevated provisioning in FY21. We further cut our earnings estimates for FY21-22E by 26-29% and retain Sell/UW in EAP with a revised TP of Rs51, based on 0.5x FY22E ABV from TP of Rs65 earlier (based on 0.6x FY22E ABV). Key risks to our call include higher-than-expected growth/margins, lower NPA deterioration and better operating leverage leading to higher RoAs.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	14,995	16,559	17,063	18,294	20,358
Net profit	3,254	3,379	2,531	3,045	4,167
EPS (Rs)	10.5	10.9	8.2	9.8	13.4
ABV (Rs)	88.5	96.7	103.3	113.6	126.6
RoA (%)	1.0	0.9	0.6	0.7	0.9
RoE (%)	11.1	10.4	7.1	8.0	10.0
PE (x)	5.7	5.5	7.4	6.2	4.5
P/ABV	0.7	0.6	0.6	0.5	0.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(29)/(26)
Target Price change (%)	(21.5)
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	8.2	9.8
Consensus	13.3	15.7
Mean Consensus TP (12M)	Rs 118	

Stock Details

Bloomberg Code	DCBB IN
Face Value (Rs)	10
Shares outstanding (mn)	310
52 Week H/L	245 / 60
M Cap (Rs bn/USD bn)	19 / 0.25
Daily Avg Volume (nos.)	1,731,079
Daily Avg Turnover (US\$ mn)	2.0

Shareholding Pattern Mar '20

Promoters	14.9%
FII	22.8%
DII	35.3%
Public and Others	27.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(31)	(65)	(66)	(74)
Rel. to Nifty	(30)	(53)	(55)	(66)

Relative price chart



Source: Bloomberg

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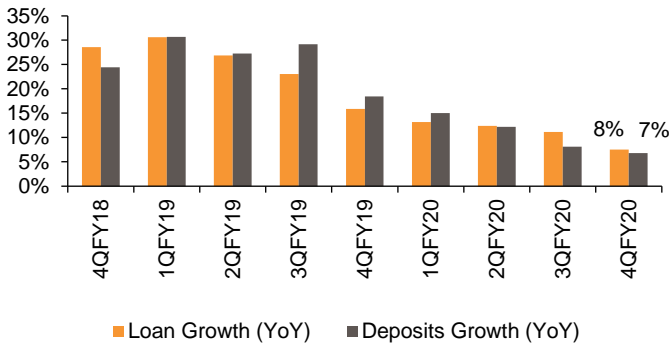
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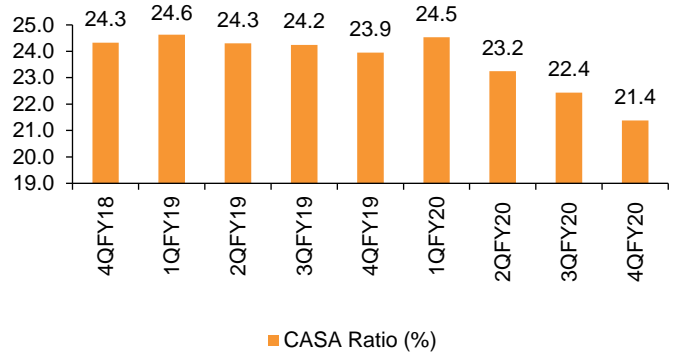
Story in Charts

Exhibit 1: Loan growth and deposit growth fall further



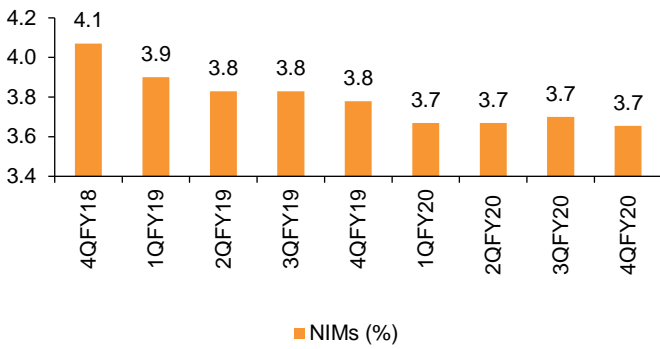
Source: Company, Emkay Research

Exhibit 2: CASA slips for the fourth quarter in a row



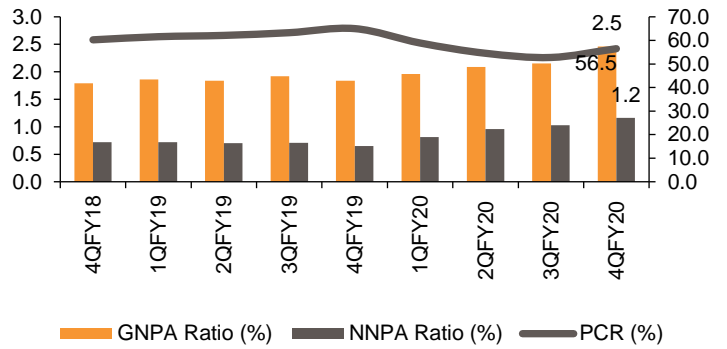
Source: Company, Emkay Research

Exhibit 3: NIM remains under pressure due to interest reversal on slippages



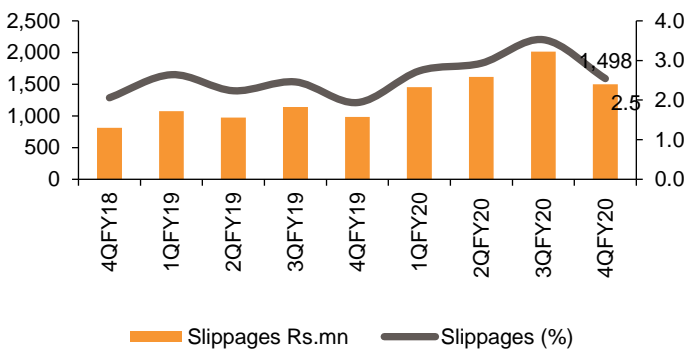
Source: Company, Emkay Research

Exhibit 4: GNPA increased by 31 bps due to higher slippages of Rs1.5bn



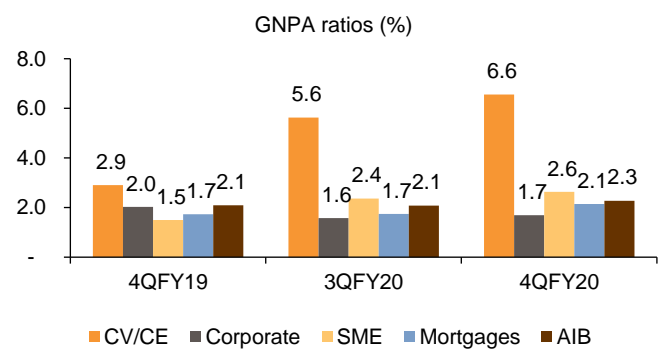
Source: Company, Emkay Research

Exhibit 5: Slippages have mainly come from mortgages, CV and AIB



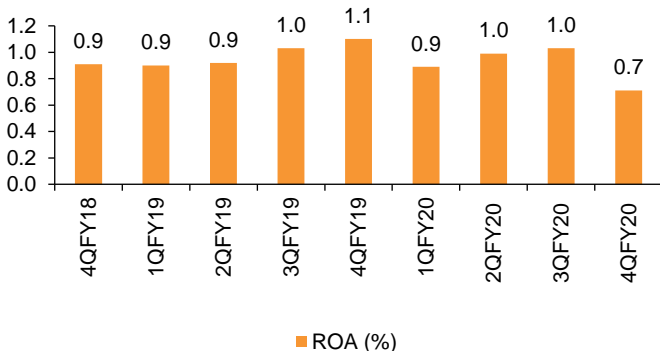
Source: Company, Emkay Research

Exhibit 6: Asset quality slipping across business segments with sharper deterioration in CV, SME and Mortgages



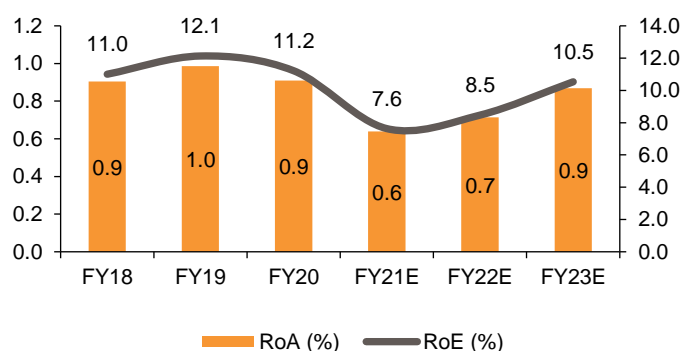
Source: Company, Emkay Research

Exhibit 7: RoA was impacted during the quarter by Covid-19 related provisioning of Rs630mn

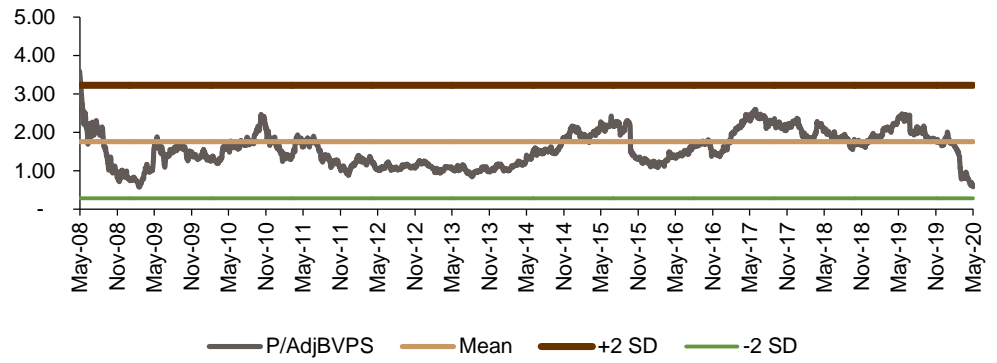


Source: Company, Emkay Research

Exhibit 8: ROA/ROE to remain under pressure in FY21/22E



Source: Company, Emkay Research

Exhibit 9: The stock currently trades at 0.58x – 1 year forward ABV

Source: Company, Emkay Research

Exhibit 10: Actuals vs. Estimates (Q4FY20)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,335	4,450	4,155	-3%	4%	Lower Loan growth leads to lower net income
PPOP	2,120	2,028	1,896	5%	12%	Better Treasury gains pushed PPOP
PAT	687	1,087	920	-37%	-25%	Covid-19 provisions dragged earnings

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

Rs (mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	8,271	8,577	8,792	8,978	9,018	9	0	35,365	36,630	4
Interest Exp	5,262	5,530	5,658	5,747	5,782	10	1	22,717	23,533	4
Net Interest Income	3,009	3,048	3,134	3,231	3,236	8	0	12,649	13,097	4
Global NIMs (reported)	3.78	3.67	3.67	3.70	3.64	-14bps	-6bps	3.59	3.51	-8bps
Non-interest Income	994	868	1,014	930	1,099	11	18	3,910	3,966	1
Operating Expenses	2,150	2,250	2,302	2,262	2,215	3	-2	9,029	9,608	6
Pre Provisioning Profit	1,853	1,665	1,845	1,899	2,120	14	12	7,530	7,455	-1
Provision & Contingencies	348	406	433	590	1,182	240	100	2,611	4,071	56
PBT	1,505	1,259	1,413	1,309	938	-38	-28	4,919	3,384	-31
Income Tax Expense (Gain)	542	448	499	342	251	-54	-27	1,540	853	-45
Net Profit/(Loss)	963	811	914	967	687	-29	-29	3,379	2,531	-25
Gross NPA (%)	1.84	1.96	2.09	2.15	2.46	62bps	31bps	2.46	3.31	85bps
Net NPA (%)	0.65	0.81	0.96	1.03	1.16	51bps	13bps	1.16	1.35	19bps
Deposits (Rs in bn)	284	288	294	297	304	7	2	304	321	6
Net Advances (Rs in bn)	236	240	248	254	253	8	0	253	267	5

Source: Company, Emkay Research

Exhibit 12: Revision in Estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E Introduced
	Earlier	Revised	% change	Earlier	Revised	% change	
Net income	18,209	17,063	-6.3%	20,431	18,294	-10.5%	20,358
PPOP	8,037	7,455	-7.2%	9,034	7,798	-13.7%	8,767
PAT	3,573	2,531	-29.2%	4,110	3,045	-25.9%	4,167
EPS (Rs)	11.5	8.2	-29.4%	13.3	9.8	-26.1%	13.4
BV (Rs)	111.7	110.9	-0.7%	122.6	120.7	-1.5%	134.2

Source: Company, Emkay Research

We have cut our earnings estimates for FY21/FY22E by 29/26%, factoring in slower growth, lower margins and higher LLP.

Exhibit 13: Key Assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	7.5	5.3	9.9	15.2
Deposit Growth %	6.8	5.7	10.0	15.0
NIM %	3.6	3.5	3.5	3.5
GNPA %	2.5	3.3	3.2	2.9
Credit Cost %	1.2	1.9	1.3	1.0

Source: Company, Emkay Research

Exhibit 14: Key ratios and trends

Particulars	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Loans Rs mn	203,367	212,434	220,688	228,884	235,680	240,440	247,976	254,382	253,453
Loan Growth YoY %	28.6	30.6	26.9	23.1	15.9	13.2	12.4	11.1	7.5
Loan Growth QoQ %	9.4	4.5	3.9	3.7	3.0	2.0	3.1	2.6	(0.4)
Composition %									
- Corporate	17.0	17.0	15.0	15.0	13.0	13.0	12.0	12.0	12.0
- SME/BB	12.0	12.0	12.0	12.0	12.0	12.0	12.0	11.0	11.0
- Retail & Others	53.0	53.0	54.0	54.0	55.0	55.0	56.0	56.0	56.0
- Agri	18.0	18.0	19.0	19.0	20.0	20.0	20.0	21.0	21.0
Liability Profile & Margin									
CASA %	24.3	24.6	24.3	24.2	23.9	24.5	23.2	22.4	21.5
CA %	7.6	5.7	5.4	5.1	6.5	5.4	5.3	5.2	5.1
SA %	16.7	19.0	18.9	19.1	17.5	19.1	18.0	17.2	16.4
Branches	318	323	328	331	333	334	334	334	336
NIM	4.07	3.90	3.83	3.83	3.78	3.67	3.67	3.70	3.64
Asset Quality									
GNPA	1.8	1.9	1.8	1.9	1.8	2.0	2.1	2.2	2.5
NNPA	0.7	0.7	0.7	0.7	0.7	0.8	1.0	1.0	1.2
PCR	60.2	61.6	62.1	63.3	65.0	58.9	54.5	52.8	53.5
Slippages (Rs mn)	814	1,074	972	1,143	985	1,454	1,617	2,017	1,498
Upgrades/Recoveries	667	680	700	630	822	744	796	1,328	713
Write-Offs	2	78	184	166	241	369	353	416	1
Annualized Slippages %	2.1	2.6	2.2	2.5	1.9	2.7	2.9	3.5	2.5
Capital Adequacy %									
Capital Adequacy %	16.5	15.6	15.6	15.5	16.8	16.1	16.2	15.8	17.8
Tier I %	12.7	12.0	12.0	11.9	13.1	12.5	12.6	12.3	13.9
ROE Decomposition % (on Total Asset)									
NII	3.7	3.6	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Other Income	1.1	0.9	0.9	1.0	1.0	0.8	0.8	0.9	1.0
Opex	2.9	2.8	2.6	2.6	2.5	2.5	2.5	2.4	2.3
PPOP	2.0	1.8	1.8	2.1	2.1	1.8	2.0	2.0	2.2
Provisioning Cost	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.6	1.2
PBT	1.4	1.4	1.4	1.6	1.7	1.4	1.5	1.4	1.0
ROA	0.9	0.9	0.9	1.0	1.1	0.9	1.0	1.0	0.7
ROE	9.3	9.8	10.2	11.6	12.6	10.3	11.4	11.7	8.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	13,097	13,958	15,683
Other income	3,502	3,910	3,966	4,336	4,675
Fee income	2,399	2,413	2,292	2,522	2,824
Net income	14,995	16,559	17,063	18,294	20,358
Operating expenses	8,528	9,029	9,608	10,497	11,591
Pre provision profit	6,466	7,530	7,455	7,798	8,767
PPP excl treasury	6,080	6,878	6,771	7,079	8,012
Provisions	1,401	2,611	4,071	3,727	3,199
Profit before tax	5,065	4,919	3,384	4,071	5,568
Tax	1,812	1,540	853	1,026	1,402
Tax rate	36	31	25	25	25
Profit after tax	3,254	3,379	2,531	3,045	4,167

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	3,095	3,104	3,104	3,104	3,104
Reserves	27,689	31,117	33,533	36,467	40,529
Net worth	30,785	34,222	36,637	39,571	43,633
Deposits	284,351	303,699	320,979	353,077	406,038
Borrowings	21,366	27,714	31,871	35,058	42,069
Total liabilities	357,917	385,051	406,913	446,629	513,268
Cash and bank	13,172	10,298	10,813	11,354	11,921
Investments	78,441	77,415	85,356	94,604	109,006
Loans	235,680	253,453	266,836	293,238	337,808
Others	10,603	13,266	14,565	16,000	17,645
Total assets	357,917	385,051	406,913	446,629	513,268

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.7	3.6	3.5	3.5	3.5
Non-ll/avg assets	1.1	1.1	1.0	1.0	1.0
Fee income/avg assets	0.7	0.6	0.6	0.6	0.6
Opex/avg assets	2.6	2.4	2.4	2.5	2.4
Provisions/avg assets	0.4	0.7	1.0	0.9	0.7
PBT/avg assets	1.5	1.3	0.9	1.0	1.2
Tax/avg assets	0.5	0.4	0.2	0.2	0.3
RoA	1.0	0.9	0.6	0.7	0.9
RoAE	11.1	10.4	7.1	8.0	10.0
GNPA (%)	1.8	2.5	3.3	3.2	2.9
NNPA (%)	0.7	1.2	1.4	1.1	1.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	10.5	10.9	8.2	9.8	13.4
BVPS	91.8	102.9	110.9	120.7	134.2
ABVPS	88.5	96.7	103.3	113.6	126.6
DPS	1.0	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	5.7	5.5	7.4	6.2	4.5
P/BV	0.7	0.6	0.6	0.5	0.5
P/ABV	0.7	0.6	0.6	0.5	0.5
P/PPOP	2.9	2.5	2.5	2.4	2.1
Dividend Yield (%)	1.7	0.0	0.0	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	15.5	10.1	3.5	6.6	12.4
PPOP	23.2	16.5	(1.0)	4.6	12.4
PAT	32.6	3.9	(25.1)	20.3	36.8
Loans	15.9	7.5	5.3	9.9	15.2

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	3,009	3,048	3,134	3,231	3,236
NIM(%)	3.8	3.7	3.7	3.7	3.6
PPOP	1,853	1,665	1,845	1,899	2,120
PAT	963	811	914	967	687
EPS (Rs)	3.11	2.62	2.95	3.12	2.21

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	14.9	14.9	14.9	14.9	14.9
FIIIs	26.0	24.5	24.1	24.6	22.8
DIIIs	25.1	27.4	30.0	32.8	35.3
Public and Others	34.0	33.2	31.0	27.7	27.0

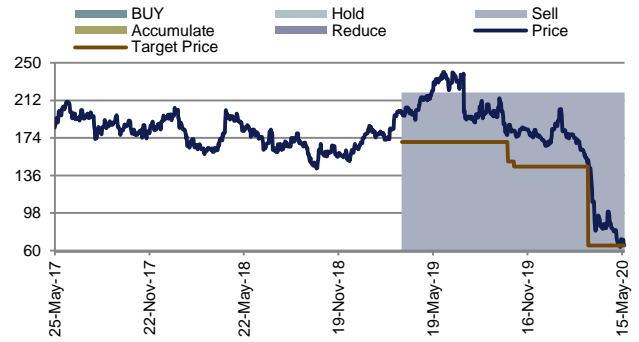
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Mar-20	152	65	12m	Sell	Anand Dama
27-Jan-20	182	145	12m	Sell	Anand Dama
21-Oct-19	181	145	12m	Sell	Anand Dama
9-Oct-19	184	150	12m	Sell	Anand Dama
16-Jul-19	239	170	12m	Sell	Anand Dama
18-Apr-19	202	170	12m	Sell	Anand Dama
20-Mar-19	199	170	12m	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.39	18.39	0.0%	0	100.00
Axis Bank	1.68	1.77	6%	10	9.64
AU Small Finance Bank	0.05	0.02	-67%	-3	0.09
Bandhan Bank	0.13	0.19	55%	7	1.06
Bank of Baroda	0.09	0.00	-100%	-9	0.00
Canara Bank	0.03	0.00	-100%	-3	0.00
City Union Bank	0.20	0.25	28%	6	1.37
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.16	0.16	0%	0	0.87
HDFC Bank	7.48	7.72	3%	24	41.99
ICICI Bank	4.01	4.27	7%	26	23.23
Indian Bank	0.01	0.00	-100%	-1	0.00
Indusind Bank	0.43	0.48	12%	5	2.60
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.79	2.29	-18%	-50	12.44
Punjab National Bank	0.06	0.00	-100%	-6	0.00
RBL Bank	0.09	0.06	-30%	-3	0.35
State Bank of India	1.17	1.17	0%	0	6.36
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.02	0.00	-100%	-2	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

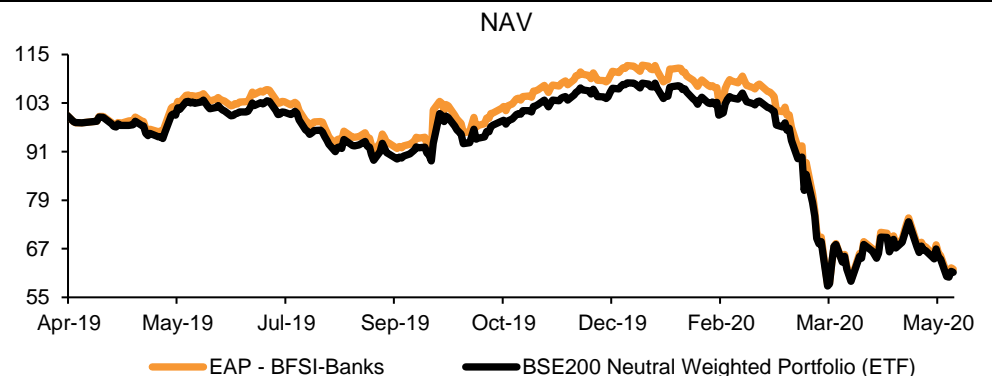
Sector portfolio NAV

	Base					Latest
	01-Apr-19	20-Aug-19	21-Nov-19	20-Feb-20	21-Apr-20	21-May-20
EAP - BFSI-Banks	100.0	94.5	108.5	107.7	67.1	61.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	92.3	104.6	103.5	66.2	61.2

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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