

DCB reported advance degrowth of 0.37% for Q4FY20 on a QOQ basis while deposits registered a QOQ growth of 2.14%, even though Q4 usually has historically been the strongest quarter for the bank. NIMS for the quarter stood at 3.64% against 3.71% in Q3FY20. GNPA's stood at 2.46% against 2.20% in Q3FY20 while NNPA stood at 1.16% against 1.03% in Q3FY20. The provision coverage ratio was at 70.81% against 76.99% in Q3FY20. Advances growth to pick up pace from Q3FY21 as COVID induced pain eases and the economy returns to normalcy.

GNPA's increase - upgrades delayed

On a QOQ basis GNPA'S registered an increase of INR 795 mn as upgrades were affected by the lockdown. Within GNPA's the highest QOQ addition was in Mortgages, CV's and SME+MSME at 26%, 16% and 11% resp. CASA deposits registered a degrowth of 6.08% on a QOQ basis as depositors used these to get over temporary liquidity issues.

COVID Update

In home loans the bank has given a moratorium of 52% by value and in business loans or LAP 56% moratorium has been given. April and May the bank generated ~Rs. 800 crores of retail term deposits and replaced a lot of the bulk deposit and also got some refinance from NHB, SIDBI. 60%-70% of the customers are confident that over the next 3-6 months businesses will revive. Agri retail might be the first to immediately start after lockdown and tractor finance should also start, ~60%-70% is expected to come back. In April, the bank collected 56.9% in Home Loans and ~52% in Business Loans. No disbursements since mid-March, for nearly 45 days.

Recoveries and LTV Cushion

In March the bank missed out on ~12-15 crores of recovery, upgrade which was very much in the pipeline. Average LTV is 49% in Home Loans, 37% in Business Loans self-occupied residential/commercial is 87%, providing cushion to the bank incase of defaults as there is so much equity in the loan. The banks loan book is largely focused on self-employed. Almost 80% of customer base is self-employed - tractor is self-employed, KCC is self-employed; home loans ~70% is self-employed. Business loan, which is LAP, almost 90% is self-employed. Top 20 loans is 5.3%. No major pain points are expected to emerge out of the existing loan book with 48% of the customers in non-metro areas.

Q1FY21 Outlook

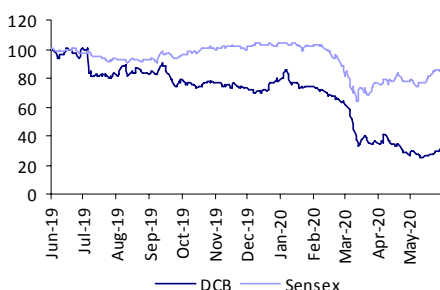
Fee income and banks charges will be negligible to nil while the bank may also save some on legal and other costs related to disbursements. First quarter there may not be any action as the bank does not do personal loans. Gold loans are being disbursed, some corporate loans as well, some tractors loans and KCC loans are being disbursed. The bank has delayed hiring and replacement. The branch addition in FY20 have been delayed due to the lockdown and may bundle up in the next 2 quarters as most of the work at nearly 10-12 branches is almost complete.

Valuation and Outlook

The bank has adopted a different approach vis-a-vis the industry approach of replacing focus on casa with retail deposits replacing bulk deposits which is evident from the continuous drop in the top 20 depositors to 9.27% in FY20 against 12.01% in FY19 after being around 14-15% from FY15-18. FY21 is expected to be a challenging year and we have assumed flat to no growth in Q1 followed by a normalisation in rest of the year. Healthy LTV's provide cushion while focus on self-employed segment might result in irregularities. We expect to see some softness in yields on advances as the bank maintains a more cautious approach with mild softening in cost of deposits as well leading to lower NIM's in FY21. Over the next 2 years we expect advances and deposits to register a CAGR of 16% each while PAT CAGR is expected to be around 29%. Currently the stock is trading at 0.5x p/b of FY22E ADBV of INR 142.2. We retain our buy recommendation with a target of INR 231 in 18 months based on 1.62x p/adbv of FY22E.

Shareholding (%)	Mar-20
Promoters	14.88
FIIS	22.82
DII	35.33
Others	26.97

Relative Price Performance



Key Data	
BSE Code	532772
NSE Symbol	DCBBANK
Bloomberg Code	DCBB IN
Reuters Code	DCBA.BO
Shares Outstanding (mn)	310.4
Face Value	10
Mcap (INR bn)	23.14
52 Week H/L	245/58
2W Avg. Vol, NSE	5069100
Beta	0.7

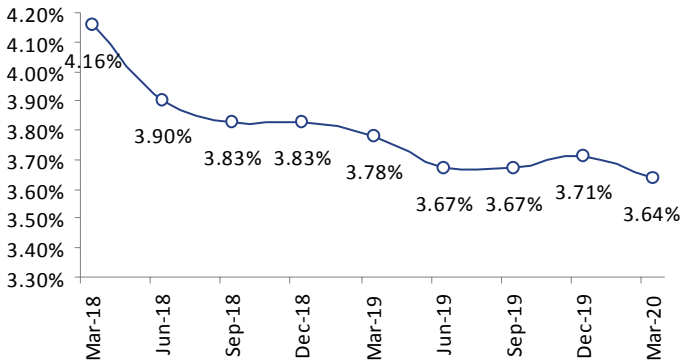
Y/E March (INR mn)	FY19	FY20	FY21E	FY22E
Interest income	30415	35366	37754	43966
Interest Expended	18922	22131	24222	27462
Net interest income	11493	13235	13532	16504
Growth	15.5%	15.2%	2.2%	22.0%
NIM	3.65%	3.74%	3.41%	3.55%
APAT	3254	3609	4256	6025
Growth	32.6%	10.9%	17.9%	41.6%
Adj. EPS (INR)	10.5	11.6	13.0	17.4
BVPS (INR)	101	110	129	150
P/BV (x)	2.0	0.6	0.6	0.5
Net NPA (%)	0.65%	1.16%	1.05%	0.76%
RoA	0.99%	0.97%	1.03%	1.26%
RoE	10.99%	11.04%	11.14%	12.81%

Quarterly Financials

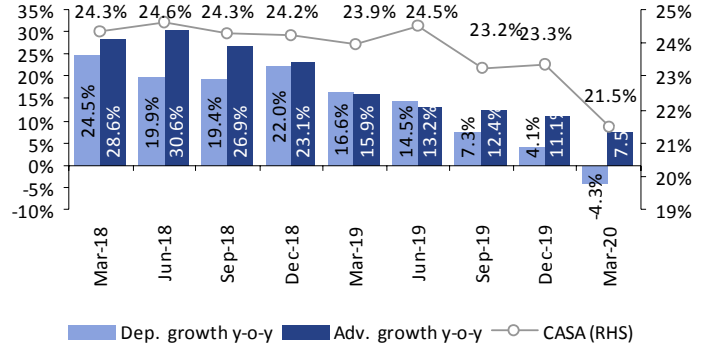
Particulars (INR mn)	Q4 FY20	Q4 FY19	Q3 FY20	y-o-y	q-o-q	12M FY20	12M FY19	y-o-y
Interest Earned	9019	8271	22144	9.0%	-59.3%	36366	30415	19.6%
Interest Expended	5782	5262	13660	9.9%	-57.7%	22717	18922	20.1%
Net Interest Income	3237	3009	8484	7.6%	-61.8%	13649	11493	18.8%
NIM (%)	3.64%	3.78%	3.85%	-14 bps	-21 bps	3.68%	3.85%	-17 bps
Other Income	1099	994	2508	10.6%	-56.2%	3911	3502	11.7%
Net Total Income	4336	4002	10992	8.3%	-60.6%	17560	14995	17.1%
Operating Expenses	2215	2150	6379	3.1%	-65.3%	9030	8529	5.9%
Employee Cost	1124	1049	3291	7.2%	-65.9%	4588	4340	5.7%
Other operating expenses	1091	1101	3088	-0.9%	-64.7%	4442	4189	6.0%
Cost/Income Ratio (%)	51.1%	53.7%	58.0%	-262 bps	-695 bps	51.4%	56.9%	-546 bps
Operating Profits	2121	1853	4613	14.5%	-54.0%	8531	6466	31.9%
Provisions & Contingencies	1182	348	1053	240.0%	12.3%	2611	1401	86.4%
Profit Before Tax	938	1505	3560	-37.6%	-73.6%	5919	5065	16.9%
Provision for Tax	251	542	1270	-53.7%	-80.3%	1540	1812	-15.0%
Net Profit	688	963	2290	-28.6%	-70.0%	4379	3254	34.6%
EPS	2.22	3.11	7.41	-28.6%	-70.0%	10.90	10.53	3.5%
Equity	3104	3096	3093	0.3%	0.4%	3104	3095	0.3%
Net Advances	253453	235680	228884	7.5%	10.7%	253453	235680	7.5%
Deposits	303699	284351	275090	6.8%	10.4%	303699	284351	6.8%
Advance / Deposit Ratio (%)	83.5%	82.9%	83.2%	57 bps	25 bps	83.5%	82.9%	57 bps
CASA Ratio (%)	21.5%	23.9%	24.2%	-248 bps	-278 bps	21.5%	23.9%	-248 bps
GNPA	6315	4395	4451	43.7%	41.9%	6315	4395	43.7%
NNPA	2935	1538	1634	90.9%	79.6%	2935	1538	90.9%
GNPA (%)	2.46%	1.84%	1.92%	62 bps	54 bps	2.46%	1.84%	62 bps
NNPA (%)	1.16%	0.65%	0.71%	51 bps	45 bps	1.16%	0.65%	51 bps
PCR (%) (incl. tech w/offes)	70.81%	78.77%	76.99%	-796 bps	-618 bps	70.81%	78.77%	-796 bps
PCR (%) (excl. tech w/offes)	53.52%	65.01%	63.28%	-1149 bps	-976 bps	53.52%	65.01%	-1149 bps
RoA (%)	0.71%	1.10%	0.95%	-39 bps	-24 bps	0.90%	0.99%	-9 bps

Source: Company, SPA Research

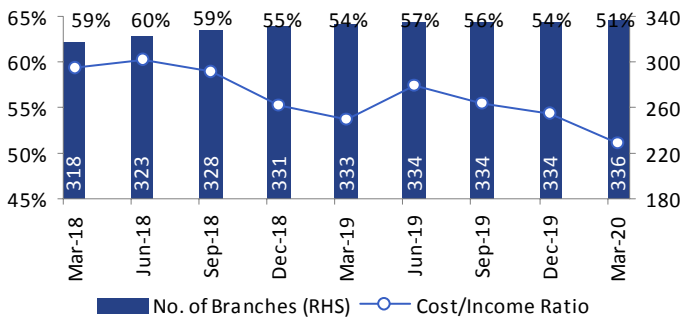
NIMs decline as CASA degress



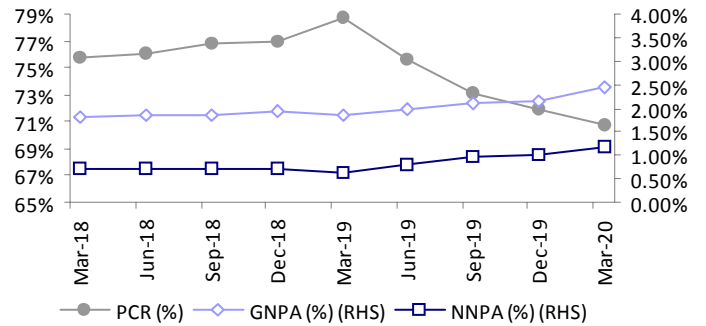
CASA Ratio declined



C/I Ratio declining



GNPA Rise led By lower upgrades



Financials

Income Statement

Y/E March (INR mn)	FY19	FY20	FY21E	FY22E
Interest income	30415	35366	37754	43966
<i>Growth (%)</i>	<i>26.0%</i>	<i>16.3%</i>	<i>6.8%</i>	<i>16.5%</i>
Interest Expended	18922	22131	24222	27462
Net interest income	11493	13235	13532	16504
<i>Growth</i>	<i>15.5%</i>	<i>15.2%</i>	<i>2.2%</i>	<i>22.0%</i>
Other Income	3502	3911	4345	4947
Net Income	14994	17146	17877	21451
Operating Expenditure	8529	9678	10152	11279
Pre Provisioning Profit	6466	7468	7725	10172
Provisions & Contingencies	1401	2611	1996	2063
PBT	5065	4857	5728	8110
Tax	1812	1248	1472	2084
PAT	3254	3609	4256	6025
<i>Growth</i>	<i>32.6%</i>	<i>10.9%</i>	<i>17.9%</i>	<i>41.6%</i>
<i>EPS (INR)</i>	<i>10.5</i>	<i>11.6</i>	<i>13.0</i>	<i>17.4</i>

Balance Sheet

Y/E March (INR mn)	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS				
Equity Share Capital	3095	3104	3284	3464
Reserves	28,061	31,117	38,939	48,404
Total Shareholders Funds	31156	34222	42224	51869
Total Deposits	284351	303699	346217	408536
<i>Growth</i>	<i>18.4%</i>	<i>6.8%</i>	<i>14.0%</i>	<i>18.0%</i>
Borrowings	27232	34079	35101	36856
Other Liabilities & Provisions	15179	13051	18614	20516
Total Liabilities	357918	385051	442156	517777
APPLICATION OF FUNDS				
C/B with RBI and Call Money	27934	35549	46293	55082
Investments	78441	77415	92283	103880
Advances	235680	253453	288524	342941
<i>Growth</i>	<i>15.9%</i>	<i>7.5%</i>	<i>13.8%</i>	<i>18.9%</i>
Fixed Assets	5260	5459	5056	4915
Other Assets	10604	13167	10000	10960
Total Assets	357918	385043	442156	517777

Key Ratios

Y/E March	FY19	FY20	FY21E	FY22E
Per Share Data (INR)				
EPS	10.5	11.6	13.0	17.4
BVPS	100.7	110.2	128.6	149.7
ABVPS	95.7	100.8	119.3	142.2
DPS	0.8	-	0.9	1.2
Profitability Ratios				
Yield on Advances	11.2%	11.7%	11.2%	11.2%
Cost of Deposits	6.5%	6.7%	6.6%	6.5%
Cost of Funds	7.1%	7.2%	7.1%	7.0%
Net Interest Margin (Calc)	3.6%	3.7%	3.4%	3.6%
RoA	1.0%	1.0%	1.0%	1.3%
RoE	11.0%	11.0%	11.1%	12.8%
Balance Sheet Ratios				
Credit/Deposit Ratio	84.0%	83.5%	83.3%	83.9%
Investment/Deposit Ratio	27.6%	25.5%	26.7%	25.4%
CASA Ratio	23.9%	21.5%	21.2%	20.7%
Capital Adequacy Ratio (CAR)	16.8	17.8	17.5	17.9
Tier I	13.1	13.9	14.3	15.0
Asset Quality Ratios				
GNPA (INR mn)	4395	6315	6240	5804
NNPA (INR mn)	1538	2935	3033	2614
Gross NPA	1.84%	2.46%	2.14%	1.68%
Net NPA	0.65%	1.16%	1.05%	0.76%
PCR (excl. tech w/off) cal.	65.01%	53.39%	51.40%	54.95%
Efficiency Ratios				
Cost to Income Ratio	56.9%	56.4%	56.8%	52.6%
Business per Employee (in INR mn)	85.5	81.4	96.8	109.2
Profit per Employee (in INR mn)	0.5	0.5	0.6	0.9
Valuation Ratios				
P/E (x)	19.2	5.8	5.7	4.3
P/BV (x)	2.0	0.6	0.6	0.5
Dividend Yield	0.4%	0.0%	1.2%	1.7%

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