

## Mixed bag, wait and watch play on asset quality

DCB Bank has posted mixed set of numbers overall for Q3FY21 with stable margins and controlled opex. However, asset quality has weakened, with increase in restructuring guidance and elevated credit cost expected.

For the bank, headline asset quality numbers looked sanguine, as GNPA and NNPA ratio declined from 2.27% and 0.83% to 1.96% and 0.59% QoQ, respectively. This was due to standstill asset classification norms. On a **proforma basis, GNPA and NNPA ratio increased 131 bps and 100 bps QoQ to 3.70% and 1.92%, respectively.** The bank has restructured loans worth ₹ 687 crore (~2.7% of loans) and further expects ~5% of loans to come-up for restructuring. **During the quarter, the bank has made provisions worth ₹ 86 crore, towards Covid related stress. As a result, it now holds provisions worth ₹ 229 crore, towards the same. In addition to this, the bank has floating provisions worth ₹ 106 crore.** The bank overall has provision buffer of ~2% of net advances.

On the collection front, the bank has seen improving trend in each segment of the portfolio, collection efficiency for LAP, home loans and CV segment were at 89.8%, 94.1% and 80.4%, respectively. **There has been healthy reduction in the quantum of customer pool that did not pay single EMI.** In LAP business, this quantum reduced significantly from 7.4% in October 2020 to 1.31%. In home loans it reduced from 5.4% to 1.55%.

Loan growth was muted as advances were down 0.5% YoY to ₹ 25300 crore, mainly on account of 9% YoY decline in corporate credit and ~15% YoY decline in CV book. Within retail pockets like home loans, gold loans showed healthy growth of 11% YoY and 105% YoY (low base for gold loans), respectively. Deposits also saw minor reduction of 2.9% YoY but retail term deposits have risen 22% YoY indicating increased granularity.

NII growth was modest and increased marginally by just 3.6% YoY to ₹ 335 crore, mainly on account of flattish loan growth. NIM for the quarter was stable at ~3.75%. Other income jumped 67% QoQ & 93% YoY, driven by treasury gains. Opex was kept under control. As a result, cost-to-income ratio declined ~397 bps QoQ to 43.3%. Provisions remained elevated (up 30.6% QoQ) to ₹ 147.7 crore. As a result, PAT was flat on a yearly basis at ₹ 96.2 crore but was up sequentially by 17%.

## Valuation & Outlook

We expect business growth to gain momentum gradually especially driven by retail and SME. However, on the asset quality front, the road to recovery could be bit elongated. Increasing quantum of restructuring and elevated credit cost are likely to keep bottomline growth subdued in the near term. Improving trend in collection efficiencies and reduction in number of customers not paying single EMI bode well. Thus, on the back of a gradual pick-up in return ratios and ambiguity on asset quality, we downgrade our rating on the stock from Buy to **HOLD** with a revised target price of ₹ 130/share (₹ 135 earlier), valuing the business at ~1x FY23E ABV.



### Particulars

Particular	Amount
Market Capitalisation	₹ 3552 crore
GNPA (Q3FY21)	₹ 502 crore
NNPA (Q3FY21)	₹ 149 crore
NIM (Q3FY21)	3.75%
52 week H/L	186/58
Networth	₹ 3680 Crore
Face value	₹ 10
DII Holding (%)	39.0
FII Holding (%)	13.8

### Key Highlights

- Bank expects restructuring to be 5% of overall advances
- Proforma GNPA at 3.7% vs. 2.39% QoQ
- Downgrade to HOLD with revised target price of ₹ 130

### Risk to our call

- Elevated levels of credit cost could dampen profitability
- Better-than-expected rise in collection trend could help speedy recovery

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Sameer Sawant  
Sameer.sawant@icicisecurities.com

### Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
NII	1149	1265	1309	1396	1502	6%
PPP	647	753	932	902	1007	10%
PAT	325	338	343	436	497	14%
ABV (₹)	88	93	101	116	132	
P/E	11.0	10.7	10.5	8.3	7.2	
P/ABV	1.3	1.2	1.2	1.0	0.9	
RoA	1.0	0.9	0.9	1.1	1.1	
RoE	12.2	11.3	10.4	11.8	12.0	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	335	350	323	3.6	334	0.3	Modest growth on account of flat loan book
NIM (%)	3.8	3.7	3.7	4 bps	3.7	1 bps	Stable margins due to improving deposit profile, sequential rise in CASA
Other Income	155	88	93	66.0	93	67.0	Higher treasury gains boost non-interest income
Net Total Income	1,024	1,022	991	3.3	971	5.4	
Staff cost	109	110	116	-6.0	105	3.5	
Other Operating Expenses	212	209	226	-6.3	202	5.1	
Cost to Income ratio	0.4	0.5	0.5	-20.3	0.5	15.0	Controlled opex leading to decline in C/I but could rise with pick-up in business activities
PPP	277	229	190	46.0	225	23.4	
Provision	147.7	121.3	59.0	150.4	113.1	30.6	Elevated provisioning continues due to Covid-related stress
PBT	130	107	131	-1.0	112	16.0	
Tax Outgo	33.4	27.4	34.2	-2.3	29.4	13.6	
PAT	96.2	80.0	96.7	-0.5	82.3	16.9	High credit cost impact profitability

Key Metrics

GNPA	502.3	619.6	552.0	-9.0	573.7	-12.5	Proforma based GNPA increased 131 bps to 3.70%
NNPA	149.7	216.1	260.8	-42.6	205.8	-27.2	
Total restructured assets	687.0	35.0	46.0	1,393.5	477.0	44.0	Restructuring guidance at ~5% of book
Credit Book	25,300	26,964	25,438	-0.5	24,879	1.7	Corporate and CV segment remain a drag
Deposit Book	28,858	31,519	29,735	-2.9	28,775	0.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	1,221	1,309	7.2	1346.6	1,396	3.7	1,501.8
Pre Provision Profit	705.6	931.9	32.1	823.7	901.8	9.5	1,007.2
NIM (%)	3.3	3.6	22 bps	3.5	3.6	11 bps	3.6
PAT	302.1	342.7	13.4	417.3	436.1	4.5	497.4
ABV (₹)	103	101	-1.8	117.3	116	-1.1	132.3
EPS	9.8	11.0	13.1	13.5	14.0	4.2	16.0

Source: Company, ICICI Direct Research

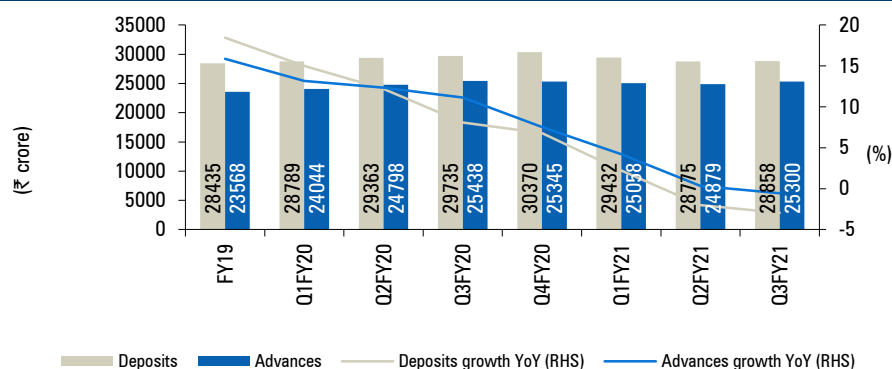
Exhibit 3: Assumption

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	28.6	15.9	7.5	1.2	9.4	-3.3	10.5
Deposit Growth (%)	24.5	18.4	6.8	-2.2	9.2	2.7	7.8
CASA ratio (%)	24.3	23.9	21.5	20.9	20.7	25.3	25.9
NIM Calculated (%)	3.9	3.7	3.6	3.6	3.6	3.3	3.5
Cost to income ratio (%)	59.4	56.6	54.3	46.2	48.7	54.2	51.8
GNPA (₹ crore)	369	439	632	805	803	778	775
NNPA (₹ crore)	147	154	294	400	359	385	345
Slippage ratio (%)	2.2	2.1	2.8	2.4	2.2	2.3	2.2
Credit cost (%)	0.6	0.5	0.7	1.5	0.9	1.1	0.9

Source: Company, ICICI Direct Research

## Story in Charts

Exhibit 4: Subdued loan growth



Source: Company, ICICI Direct Research

Exhibit 5: Credit break-up

(₹ crore)	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Current Proportion (%)
Agriculture	4714	4809	4960	5342	5323	5262	5225	5225	15
SME	2828	2885	2976	2798	2788	2756	2737	2737	8
Corporate	3064	3126	2976	3053	3041	3007	2488	2488	7
Retail banking ex Mortgage	3535	3607	3720	14245	14193	14032	14430	14430	41
Mortgage	9427	9618	10167	10430	10645	10524	10449	10449	30
Total	23568	24044	24798	35868	35990	35582	35328	35328	100

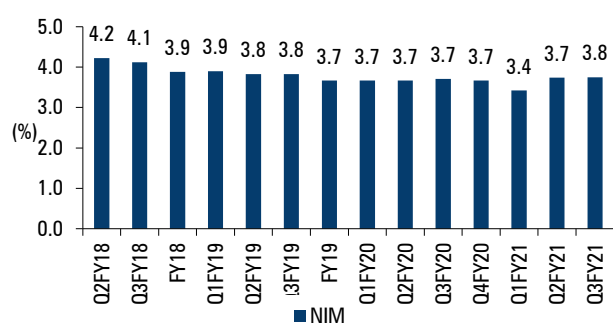
Source: Company, ICICI Direct Research

Exhibit 6: Retail deposit to constitute ~80% of deposits

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total deposits	14926	19289	24007	28435	30370	29709	32444	35435
Current account	1177	1535	1836	1834	1917	1842	1990	2150
Saving deposits	2313	3154	4005	4976	4602	4372	4722	5100
SA ratio	15.5	16.4	16.7	17.5	15.2	14.7	14.6	14.4
CASA ratio	23.4	24.3	24.3	23.9	21.5	20.9	20.7	20.5
Term deposits	11436	14600	18167	21625	23851	23495	25733	28186
Retail deposits (RD)	11941	15431	17765	22748	24296	23767	25631	27994
RD proportion	80.0	80.0	74.0	80.0	80.0	80.0	79.0	79.0

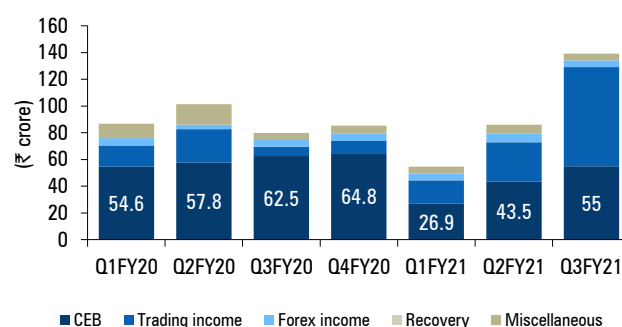
Source: Company, ICICI Direct Research

Exhibit 7: NIMs trend



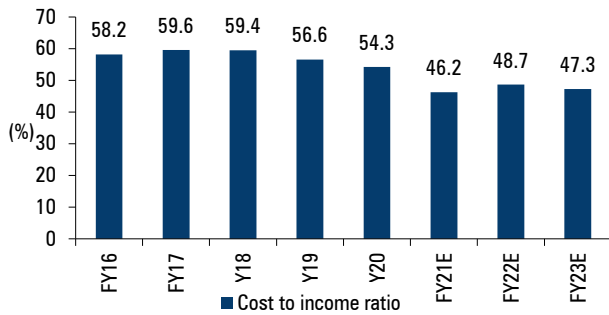
Source: Company, ICICI Direct Research

Exhibit 8: Treasury a major contributor to other income



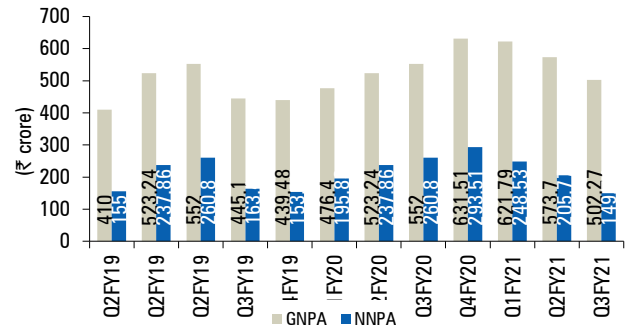
Source: Company, ICICI Direct Research

Exhibit 9: Cost to Income ratio to improve, going ahead



Source: Company, ICICI Direct Research

Exhibit 10: Asset quality key to watch



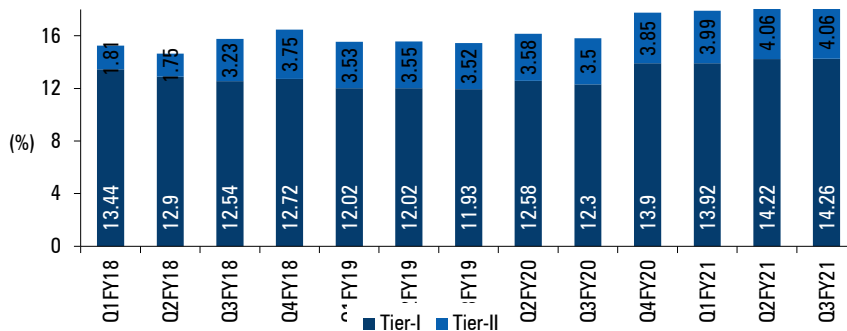
Source: Company, ICICI Direct Research

Exhibit 11: Sectoral break-up of GNPA

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
CV/CE	63.5	75.7	100.2	116.3	113.4	108.2	83.1
Corporate	18.7	18.7	48.1	51.5	51.5	41.8	41.8
SME & MSME	50.1	74.2	66.2	73.3	72.5	53.1	47.4
Mortgages	177.9	201.6	181.4	228.3	228.8	220.7	197.1
Others	166.2	153.0	156.1	162.1	155.6	149.9	132.9
Total GNPA	476.4	523.2	552.0	631.5	621.8	573.7	502.3
Total NNPA	195.8	237.9	260.8	293.5	248.5	205.8	149.7

Source: Company, ICICI Direct Research

Exhibit 12: Comfortable on capital adequacy



Source: Company, ICICI Direct Research

Exhibit 13: Valuation

(%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net interest income/ avg. total assets	3.0	3.5	3.5	3.7	3.7	3.5	3.4	3.4	3.5	3.4
Non-interest income/ avg. total assets	1.1	1.1	1.3	1.2	1.2	1.1	1.1	1.1	0.9	1.0
Net total income/ avg. total assets	4.2	4.6	4.8	4.9	4.8	4.6	4.5	4.5	4.4	4.4
Operating expenses/ avg. total assets	2.6	2.7	2.8	2.9	2.9	2.6	2.4	2.1	2.1	2.1
Operating profit/ avg. total assets	1.6	1.9	2.0	2.0	2.0	2.0	2.0	2.4	2.3	2.3
Provisions/ Avg. total assets	0.3	0.5	0.5	0.5	0.5	0.4	0.7	1.2	0.8	0.8
Return on avg. total assets	1.3	1.3	1.1	0.9	0.9	1.0	0.9	0.9	1.1	1.1
Leverage -Avg. total assets/ average equity (x)	11.8	11.0	10.8	11.7	12.1	12.2	12.3	11.5	10.7	10.4
Return on equity	14.8	14.6	12.0	11.1	11.1	12.2	11.3	10.4	11.8	12.0

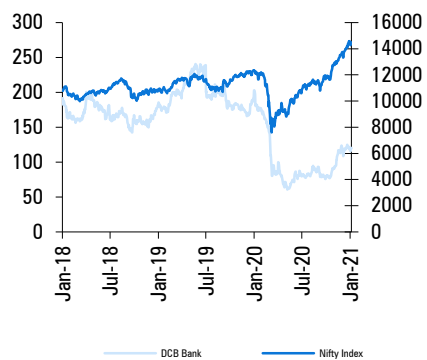
Source: Company, ICICI Direct Research

**Exhibit 14: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	June-20	Sep-20	Dec-20
Promoter	14.9	14.9	14.9	14.9	14.9	14.9
FII	24.1	24.6	22.8	15.1	14.4	13.8
DII	30.0	32.8	35.3	35.9	37.7	39.0
Others	31.0	27.7	27.0	34.1	33.0	32.4

Source: Company, ICICI Direct Research

**Exhibit 15: Price performance**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 16: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	3,041	3,537	3,496	3,481	3,784
Interest Expended	1,892	2,272	2,187	2,085	2,282
Net Interest Income	1,149	1,265	1,309	1,396	1,502
growth (%)	15.5	10.1	3.5	6.6	7.6
Non Interest Income	350	391	431	368	415
Net Income	1,499	1,656	1,741	1,764	1,917
Staff cost	434	459	433	468	492
Other Operating expense	419	444	376	394	418
Operating profit	647	753	932	902	1,007
Provisions	140	261	469	313	335
Taxes	181	154	120	153	175
Net Profit	325	338	343	436	497
growth (%)	32.6	3.9	1.4	27.2	14.1
EPS (₹)	10.5	10.9	11.0	14.0	16.0

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares	31.0	31.0	31.0	31.0	31.0
EPS (₹)	10.5	10.9	11.0	14.0	16.0
BV (₹)	84.8	94.9	106.1	120.2	136.3
ABV (₹)	87.8	93.1	100.7	116.0	132.3
P/E (x)	11.0	10.7	10.5	8.3	7.2
P/BV (x)	1.4	1.2	1.1	1.0	0.9
P/ABV (x)	1.3	1.2	1.2	1.0	0.9
Yields & Margins (%)					
Net Interest Margins	3.7	3.6	3.6	3.6	3.6
Yield on assets	9.7	10.1	9.5	9.0	9.0
Avg. cost on funds	6.6	7.0	6.5	6.0	6.0
Yield on average advances	11.2	11.6	11.1	10.3	10.3
Avg. Cost of Deposits	6.7	6.6	6.5	5.9	5.9
Quality and Efficiency (%)					
Credit/Deposit ratio	82.9	83.5	86.3	86.5	86.7
GNPA	1.9	2.5	3.1	2.9	2.8
NNPA	0.7	1.2	1.6	1.3	1.1
Cost to income ratio	56.6	54.3	46.2	48.7	47.3
RoE	12.2	11.3	10.4	11.8	12.0
ROA	1.0	0.9	0.9	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital	310	310	310	310	310
Reserves and Surplus	2,805	3,111	3,452	3,888	4,385
Networth	3,114	3,421	3,762	4,198	4,696
Deposits	28,435	30,370	29,709	32,444	35,435
Borrowings	2,723	3,408	3,718	4,089	4,496
Other Liabilities & Provisions	1,518	1,305	1,187	1,246	1,308
Total	35,792	38,506	38,378	41,979	45,937
Applications of Funds					
Fixed Assets	526	546	565	592	619
Investments	7,844	7,742	7,790	8,351	8,952
Advances	23,568	25,345	25,651	28,065	30,708
Other Assets	1,060	1,327	512	758	1,048
Cash with RBI & call money	2,793	3,546	3,859	4,212	4,610
Total	35,792	38,506	38,378	41,979	45,937

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios (%)					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	18.4	7.6	(0.3)	9.4	9.4
Advances	15.9	7.5	1.2	9.4	9.4
Deposit	18.4	6.8	(2.2)	9.2	9.2
Total Income	24.5	15.8	0.0	(2.0)	9.1
Net interest income	15.5	10.1	3.5	6.6	7.6
Operating expenses	9.2	5.9	(10.4)	6.6	5.6
Operating profit	23.2	16.5	23.8	(3.2)	11.7
Net profit	32.6	3.9	1.4	27.2	14.1
Net worth	12.3	10.9	10.7	12.4	12.6
EPS	32.0	3.6	1.4	27.2	14.1

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Banks)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
BoB (BANBAR)	76	70	Hold	307	1.2	4.3	7.1	64.3	17.7	10.7	0.7	0.6	0.6	0.1	0.2	0.3	0.9	2.7	4.4
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	680	710	Buy	2058	5.8	10.6	25.6	118	64.0	26.6	2.5	2.5	2.4	0.2	0.3	0.7	2.1	3.5	8.0
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	940	1,050	Hold	728	63.7	32.5	50.9	14.8	28.9	18.5	2.0	1.9	1.8	1.5	0.8	1.1	14.4	6.6	9.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,869	1,950	Hold	3887	20.4	21.1	26.4	91.5	88.6	70.7	11.5	9.2	8.2	1.8	1.7	1.8	12.9	11.2	11.8
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**



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