

## Slippages elevated, overall recovery to remain gradual

**About the stock:** DCB Bank is a new generation private sector bank offering a comprehensive range of financial products and has a niche in mortgage lending.

- Mortgage forms 43% of total loans while SME contributes 10%
- The bank has 354 branches, 402 ATMs across 19 states, three UTs in India

**Q1FY22 Results:** DCB's PAT was marred by high credit cost and a tepid topline.

- NII growth flattish YoY at ₹ 309 crore; NIMs fell 15 bps QoQ to 3.31%
- C/I ratio down 81 bps QoQ to 53.1%; provisions elevated at ₹ 155.5 crore
- GNPA up 78 bps QoQ to 4.87%, restructured book up ~170 bps at 5.4%
- Loans up 1.7% YoY at ₹ 25496 crore; deposits up 4% YoY at ₹ 30602 crore

**What should investors do?** DCB's share price has given ~20% returns over the past year. We believe business growth could pick up pace, going ahead. However, credit cost is expected to remain elevated in the near term.

- We downgrade our rating from BUY to HOLD on the stock

**Target Price and Valuation:** We value DCB Bank at ~0.8x FY23E ABV and revise our target price from ₹ 110 to ₹ 100 per share.

### Key triggers for future price performance:

- Pick-up in economy & SME segment to aid 10-12% credit growth
- Continued granularisation and reduction in deposit rate to propel margin
- Improvement in RoA visible, given focus on growth, margin & recovery
- Though historic LGD is low, elevated slippage & lesser provision buffer remain near term concerns

**Alternate Stock Idea:** Apart from DCB, in our coverage we also like CSB Bank.

- CSB Bank has shown a meaningful transformation in its overall performance in the past few years and currently focuses on gold and SME loans
- BUY with a target price of ₹ 380

### DCB BANK

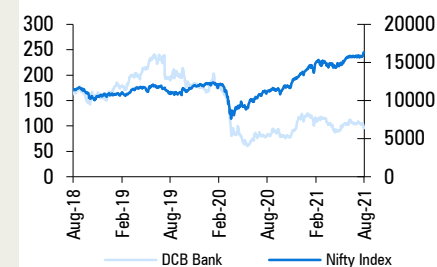
#### Particulars

Particular	Amount
Market Capitalisation	₹987
52 week H/L	126/74
Networth	₹3793 Crore
Face value	₹10

#### Shareholding Pattern

(in %)	June-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	14.9	14.9	14.9	14.9	14.9
FII	15.1	14.4	13.8	13.0	12.2
DII	35.9	37.7	39.0	40.5	38.5
Others	34.1	33.0	32.4	31.6	34.4

#### Price Chart



#### Recent Event & Key risks

- GNPA rise 78 bps QoQ to 4.87%, fresh slippages at ₹515 crore
- **Key Risk:** Persisting impact of second wave of pandemic could hurt asset quality.

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#### Key Financial Summary

₹ Crore	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	1149	1265	1287	13%	1380	1576	11%
PPP	647	753	898	21%	854	983	5%
PAT	325	338	336	14%	307	438	14%
P/E	8.9	8.6	8.7		9.5	6.7	
P/ABV	1.1	1.0	1.0		0.9	0.7	
RoA	1.0	0.9	0.9		0.8	1.0	
RoE	12.2	11.3	10.2		8.3	10.4	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Treasury income utilised to shore up provision

- NII growth remained flattish as business growth was sluggish. NIMs declined 15 bps QoQ to 3.31% due to interest reversals on NPA, low credit-deposit ratio and maintenance of additional liquidity
- Other income on a yearly basis saw a sharp jump of 54.9%, driven by 75% YoY uptick in fee income at ₹ 47.2 crore and treasury income at ₹ 53.8 crore
- Credit cost was elevated as provisions came in at ₹ 155.5 crore. The bank thus posted a net profit of ₹ 33.8 crore, down 57.5% YoY
- GNPA ratio increased 78 bps QoQ to 4.87% as accounts worth ₹ 5151 crore (~2% of loans) slipped into the NPA category. Restructuring jumped ~170 bps QoQ to 5.4% of book and was largely contributed by mortgage, SME and CV portfolio
- The bank has contingent provisions of ₹ 108 crore and floating provisions of ₹ 112 crore on its book. The bank also holds ₹ 189 crore provisions for restructured accounts
- Customers who have not paid any instalment during Q1FY22 for business loans (LAP), home loans, commercial vehicles are 0.78%, 1.48%, and 2.95%, respectively

### Q1FY22 earnings conference call highlights

- Improvement in NIMs to be aided by a reduction of deposit rates, which would come into effect from mid-August 2021
- Top 20 depositors are now below 7%. In the next year and a half, it should go down below 5%
- Expect loan growth for FY22 to be around 10-12%. Upgrades due to restructuring were minimal. Gold loan book is mostly below 75% LTV
- Two accounts from the corporate category slipped into NPA with exposure of ~₹ 15 crore and ~₹ 25 crore, respectively
- Collection efficiencies in each bucket have seen an improvement from June onwards
- In MFI book, all slippages up to June 2020 have been provided by 90%

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating	₹ Bn	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	83	100	Buy	431	1.6	9.5	14.1	52.1	8.8	5.9	0.8	0.7	0.6	0.1	0.4	0.6	1.1	6.2	8.6
SBI (STABAN)	436	540	Buy	3888	22.9	30.5	35.8	19	14.3	12.2	1.8	1.7	1.5	0.5	0.6	0.6	8.4	10.2	10.8
Indian Bank (INDIBA)	135	180	Buy	168	26.6	32.9	46.7	5.1	4.1	2.9	0.6	0.7	0.6	0.6	0.6	0.8	9.9	10.4	13.5
Axis Bank (AXIBAN)	741	900	Buy	2273	25.2	47.7	58.7	29.4	15.5	12.6	2.6	2.2	1.9	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	153	200	Buy	113	8.4	10.0	12.0	18.4	15.3	12.8	2.3	2.0	1.7	1.2	1.3	1.4	11.2	11.9	12.6
DCB Bank (DCB)	95	100	Hold	30	10.8	12.3	15.6	8.8	7.7	6.1	1.0	0.8	0.7	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	87	100	Buy	183	8.0	9.5	12.0	10.9	9.1	7.2	1.2	1.1	1.0	0.8	0.9	1.0	10.4	11.8	13.4
HDFC Bank (HDFBAN)	1,494	1,800	Buy	8263	56.4	66.4	77.8	26.5	22.5	19.2	4.1	3.7	3.4	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	1,029	1,150	Buy	797	36.7	65.1	78.6	28.1	15.8	13.1	1.9	1.7	1.5	0.8	1.3	1.4	7.3	10.8	11.6
Kotak Bank (KOTMAH)	1,779	2,040	Buy	3527	35.1	43.2	51.4	50.6	41.2	34.6	5.8	5.1	4.4	1.8	1.9	2.0	12.4	12.0	13.1
CSB Bank (CSBBAN)	340	380	Buy	59	12.6	18.3	25.5	27.0	18.6	13.3	3.2	2.8	2.3	0.1	1.0	1.2	10.5	13.6	16.4
Bandhan (BANBAN)	304	330	Hold	489	14.7	24.7	31.4	20.6	12.3	9.7	3.5	2.8	2.2	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	49	60	Buy	305	0.8	0.6	2.9	61.7	83.2	16.9	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3

Source: Company, ICICI Direct Research

DCB Bank is currently trading at sub-par valuations. Faster business growth and higher recovery remain positive though movement of RoA towards 1% is expected to remain gradual. Therefore, relative performance could remain benign.

**Exhibit 2: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	309	323	307	0.6	311	-0.8	Subdued growth on account of fall in NIMs
NIM (%)	3.3	3.5	3.4	-11 bps	3.5	-15 bps	
Other Income	120	127	78	54.9	134	-10.2	NIM decline due to interest reversals on NPA and high
Net Total Income	429	450	384	11.6	445	-3.6	
Staff cost	123	113	109	12.9	111	10.4	Salary hike lead to uptick in staff cost
Other Operating Expenses	105	132	84	24.2	129	-18.5	QoQ fall owing to low business activity
PPP	201	205	191	5.3	205	-2.0	
Provision	155.5	107.5	83.7	85.9	101.2	53.7	Remained relatively elevated due to stress recognition
PBT	46	97	107	-57.5	104	-56.1	
Tax Outgo	11.9	25.5	28.1	-57.6	26.1	-54.5	
PAT	33.8	71.9	79.4	-57.5	77.9	-56.7	Tepid topline growth and high credit costs dent profitability

**Key Metrics**

GNPA	1,268.8	1,137.6	621.8	104.1	1,083.4	17.1	GNPA rises from 4.09% to 4.87%
NNPA	719.0	623.9	248.5	189.3	594.2	21.0	
Credit Book	25,496	26,219	25,058	1.7	25,959	-1.8	Sluggish business growth owing to lockdowns
Deposit Book	30,602	30,446	29,432	4.0	29,704	3.0	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1414.8	1,380	-2.5	1,588.5	1,575.6	-0.8
Pre Provision Profit	869.1	853.7	-1.8	987.6	983.0	-0.5
NIM (%)	3.6	3.6	-7 bps	3.7	3.7	0 bps
PAT	378.4	306.6	-19.0	481.0	437.7	-9.0
ABV (₹)	116.0	110	-5.3	138.6	126.7	-8.5
EPS	12.2	9.9	-19.0	15.5	14.1	-9.0

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	2.4	10.4	2.4	12.5
Deposit Growth (%)	-2.2	10.1	-2.2	11.5
CASA ratio (%)	20.9	20.8	20.9	20.5
NIM Calculated (%)	3.5	3.6	3.5	3.6
Cost to income ratio (%)	48.3	52.7	48.3	50.9
GNPA (₹ crore)	1,083	1,070	1,083	909
NNPA (₹ crore)	594	595	594	427
Slippage ratio (%)	2.7	2.9	2.7	2.2
Credit cost (%)	1.8	1.2	1.8	0.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	3,041	3,537	3,458	3,651	4,055
Interest Expended	1,892	2,272	2,172	2,272	2,480
Net Interest Income	1,149	1,265	1,287	1,380	1,576
growth (%)	15.5	10.1	1.7	7.2	14.2
Non Interest Income	350	391	458	435	482
Net Income	1,499	1,656	1,745	1,815	2,057
Staff cost	434	459	433	477	526
Other Operating expense	419	444	413	484	549
Operating profit	647	753	898	854	983
Provisions	140	261	446	425	363
Taxes	181	154	117	122	183
Net Profit	325	338	336	307	438
growth (%)	32.6	3.9	(0.6)	(8.7)	42.8
EPS (₹)	10.5	10.9	10.8	9.9	14.1

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	31.0	31.0	31.1	31.1	31.1
EPS (₹)	10.5	10.9	10.8	9.9	14.1
BV (₹)	84.8	94.9	106.1	121.7	138.9
ABV (₹)	87.8	93.1	94.4	109.9	126.7
P/E (x)	8.9	8.6	8.7	9.5	6.7
P/BV (x)	1.1	1.0	0.9	0.8	0.7
P/ABV (x)	1.1	1.0	1.0	0.9	0.7
Yields & Margins (%)					
Net Interest Margins	3.7	3.6	3.5	3.6	3.7
Yield on assets	9.7	10.1	9.4	9.4	9.5
Avg. cost on funds	6.6	7.0	6.4	6.4	6.3
Yield on average advances	11.2	11.6	11.1	10.8	10.8
Avg. Cost of Deposits	6.7	6.6	6.5	6.4	6.3
Quality and Efficiency (%)					
Credit/Deposit ratio	82.9	83.5	87.4	87.6	88.1
GNPA	1.9	2.5	4.2	3.7	3.2
NNPA	0.7	1.2	2.3	2.1	1.9
Cost to income ratio	56.6	54.3	48.3	52.7	52.0
RoE	12.2	11.3	10.2	8.3	10.4
ROA	1.0	0.9	0.9	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	310	310	311	311	311
Reserves and Surplus	2,805	3,111	3,447	3,928	4,462
Networth	3,114	3,421	3,758	4,239	4,773
Deposits	28,435	30,370	29,704	32,718	36,554
Borrowings	2,723	3,408	4,482	4,272	4,909
Other Liabilities & Provisions	1,518	1,305	1,657	1,746	2,308
Total	35,792	38,506	39,603	42,977	48,546
Applications of Funds					
Fixed Assets	526	546	569	592	619
Investments	7,844	7,742	8,414	8,535	9,352
Advances	23,568	25,345	25,959	28,662	32,191
Other Assets	1,060	1,327	1,622	1,863	2,760
Cash with RBI & call money	2,793	3,546	3,039	3,325	3,625
Total	35,792	38,506	39,603	42,977	48,546

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios (%)					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	18.4	7.6	2.8	8.5	13.0
Advances	15.9	7.5	2.4	10.4	12.3
Deposit	18.4	6.8	(2.2)	10.1	11.7
Total Income	24.5	15.8	(0.3)	4.3	11.0
Net interest income	15.5	10.1	1.7	7.2	14.2
Operating expenses	9.2	5.9	(6.2)	13.5	11.8
Operating profit	23.2	16.5	19.3	(5.0)	15.1
Net profit	32.6	3.9	(0.6)	(8.7)	42.8
Net worth	12.3	10.9	10.8	13.6	13.3
EPS	32.0	3.6	(0.7)	(8.7)	42.8

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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