

May 8, 2022

Q4FY22 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	120		120	
NII (Rs. m)	15,494	18,276	15,164	17,984
% Chng.	2.2	1.6		
Op. Profit (Rs. m)	8,842	10,639	8,797	10,768
% Chng.	0.5	(1.2)		
EPS (Rs.)	12.5	16.2	12.6	16.1
% Chng.	(0.3)	0.7		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
NII (Rs m)	12,866	13,575	15,494	18,276
Op. Profit (Rs m)	8,985	7,970	8,842	10,639
PAT (Rs m)	3,358	2,875	3,897	5,050
EPS (Rs.)	10.8	9.2	12.5	16.2
Gr. (%)	-	-	-	-
DPS (Rs.)	-	1.0	1.3	1.6
Yield (%)	-	1.3	1.6	2.1
NIM (%)	3.6	3.5	3.5	3.6
RoAE (%)	10.0	7.8	10.1	12.2
RoAA (%)	0.9	0.7	0.8	0.9
P/BV (x)	0.7	0.6	0.6	0.6
P/ABV (x)	0.7	0.7	0.6	0.6
PE (x)	7.2	8.4	6.2	4.8
CAR (%)	19.7	18.9	18.3	18.0

Key Data

DCBA.BO | DCBB IN

52-W High / Low	Rs.114 / Rs.68
Sensex / Nifty	54,836 / 16,411
Market Cap	Rs.24bn / \$ 315m
Shares Outstanding	311m
3M Avg. Daily Value	Rs.111.31m

Shareholding Pattern (%)

Promoter's	14.86
Foreign	8.82
Domestic Institution	38.70
Public & Others	37.62
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	(21.3)	(13.6)
Relative	8.8	(13.8)	(22.9)

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DCB Bank (DCBB IN)

Rating: BUY | CMP: Rs78 | TP: Rs120

Recovery and growth trends warrant a re-rating

Quick Pointers:

- Strong quarter with beat on all fronts; GNPA improved by 40bps QoQ.
- Target is to steadily grow by 20% and deliver a 1% RoA each quarter.

DCB Bank (DCB) reported a stellar quarter with an all round beat as PAT at Rs1.13bn beat est. by 32%. Healthier PPop was led by higher loan growth, better NIM and softer opex while stronger recoveries drove lower provisions. Loan growth is improving since the last 4 quarters and DCB is targeting a consistent credit accretion of ~20%. NIM is guided to improve from 3.56% to 3.7% although we have been conservative in our projections due to a larger share of fixed rate loans. Opex might remain elevated as DCB would continue spend on branch and employee addition as well as technology. With recovery run-rate improving, the bank targets to deliver 1% RoA each quarter. DCB warrants a re-rating from 0.6x as credit growth and recoveries have bounced back. Maintain multiple at 1.0x FY24 ABV with TP at Rs120. Reiterate BUY.

- PAT beat led by higher PPop and lower provisions:** NII was tad higher at Rs33.8bn (PLe Rs3.6bn) owing to better NIM and loan growth. NIM was 3.96% (PLe 3.83%) as cost of funds was lower at 5.9% (PLe 6.2%). Loan growth was 13% YoY (PLe 10%) although LDR was lower at 83.9% (PLe 86.5%) as deposit growth exceeded loan growth. Other income was Rs1.2bn while opex was a tad lower at Rs2.7bn (PLe Rs2.8bn) led by other opex. PPop was a beat at Rs2.2bn (PLe Rs2.0bn) largely led better NII and lower opex. Provisions were a beat Rs0.67bn (PLe Rs0.9bn) owing to strong recoveries. Asset quality was better with GNPA reducing by 40bps QoQ to 4.3% (PLe 4.5%) while PCR rose QoQ from 48% to 56%. PAT was ahead at Rs.1.1bn (PLe Rs0.86bn).
- Target to double the balance sheet in 3-4 years:** Disbursals were healthy at Rs50.4bn (vs Rs33.4bn last quarter) that was largely attributable to co-lending, mortgage, AIB and corporate. Co-lending has been largely through gold loans which have higher repayment rate. Guidance is to double the balance sheet every 3-4 years and focus would remain on mortgage, gold, AIB and SME while stance on corporate remains cautious. As guided, DCB reached 400 branches in Q4FY22 which would support business volumes that could lead to decline in cost to income. Deposit mix continues to improve with CASA ratio rising by 81bps QoQ to ~27% and CASA+RTD contribute 90% to deposits. CASA share may further increase and wholesale TD share may fall to 5% in 1.5 years.
- Opex to remain elevated; asset quality enhances:** Opex for FY22 increased by 20% YoY as during FY22 employee base expanded by ~26% while 48 branches were added. Management expects cost-income to remain elevated in near term as branch expansion and technology spends would continue. Gross slippages were largely in-line at Rs3.78bn (PLe Rs3.7bn) mainly led by gold loans although net slippages were negative owing to strong recoveries of Rs4.3bn as collection efficiency is improving each quarter. Hence GNPA materially reduced QoQ. The OTR pool slightly declined QoQ from 7.8% to 7.4%. Focus is to reach a credit cost level of ~55bps in the near term.

Exhibit 1: Strong quarter with all around beat.

P&L Statement (Rs m)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Interest Income	9,199	8,373	9.9	8,781	4.8
Interest Expended	5,395	5,261	2.5	5,331	1.2
Net interest income (NII)	3,805	3,112	22.3	3,450	10.3
-Treasury income	3	13	(76.9)	163	(98.2)
Other income	1,148	1,339	(14.3)	1,183	(3.0)
Total income	4,953	4,451	11.3	4,634	6.9
Operating expenses	2,744	2,399	14.4	2,645	3.7
-Staff expenses	1,463	1,112	31.6	1,380	6.0
-Other expenses	1,282	1,287	(0.5)	1,266	1.3
Operating profit	2,208	2,052	7.6	1,988	11.1
Core Operating Profit	2,205	2,039	8.2	1,825	20.8
Total provisions	676	1,012	(33.2)	970	(30.3)
Profit before tax	1,532	1,040	47.3	1,019	50.4
Tax	398	261	52.4	265	50.2
Profit after tax	1,134	779	45.6	754	50.5
Balance Sheet (Rs m)					
Deposits	346,917	297,039	16.8	322,311	7.6
Advances	290,958	259,592	12.1	276,588	5.2
Ratios (%)					
NIM	3.9	3.5	47	3.6	32.0
RoaA	1.1	0.8	28	0.8	31
RoaE	11.6	8.7	295	7.9	370
Asset Quality					
Gross NPL (Rs m)	12,899	10,834	19.1	13,398	(3.7)
Net NPL (Rs m)	5,732	7,032	(18.5)	6,965	(17.7)
Gross NPL ratio	4.33	4.11	21.35	4.73	(41)
Net NPL ratio	1.97	2.71	(73.85)	2.52	(55)
Coverage ratio (Calc)	55.6	35.1	2,046	48.0	755
Business & Other Ratios					
Low-cost deposit mix	26.8	22.8	391	25.9	81
Cost-income ratio	55.4	53.9	151	57.1	(168)
Non int. inc / total income	23.2	30.1	(690)	25.5	(236)
Credit deposit ratio	83.9	87.4	(352)	85.8	(194)
CAR	18.9	19.7	(75)	18.2	71
Tier-I	15.8	15.5	35	15.1	74

Source: Company, PL

NII growth was good at 22% YoY owing to better margins and loan growth.

Fee income was strong, however treasury declined sharply.

Opex was elevated led branch expansion

Overall provisioning came off led by strong asset quality metrics

Loan growth was decent at 12% YoY, deposits growth was strong too.

NIM expansion was mainly on account of better recoveries and upgrades.

Asset quality metrics strong led by better recoveries and upgrades despite slippages.

CASA moves up to 27%

Q4FY22 Concall Highlights

Assets & Liabilities – Commentary & build-up

- Environment was better during the quarter and it resulted in reaching ROA of +1%. Management has guided for doubling the balance sheet over 3-4 years which translates to 20% growth each year. Focus segment continues to be SME/MSME and mortgage loans, while maintain cautious stance on corporate exposures. Management guides to consistently deliver 1% ROA and ROE expansion by 100-150bps every year.
- In Q4 FY 2022, the Bank disbursed Rs.50bn. Of which, Mortgage Rs.11.15 bn, Gold Loans Rs 3.09 bn., Agri & Inclusive Banking Rs.7.82 bn., MSME/SME Rs.1.12 bn., Construction Finance Rs. 2.4bn., Commercial Vehicle Rs. 0.24bn, Corporate Banking Rs. 5bn, Co-Lending Rs.20bn.
- Going forward, Mortgage (incl, Agri) share would go upto 52-54%. Co-lending has been largely through Gold Loan which has higher repayment rate though seasonal. KCC, Tractors growth would be slow in Q1FY23.
- Under ECLGS the Bank has so far disbursed Rs12.85bn. (15,002 customers).
- CASA moved up to ~27% with focus on Individual proprietary business.

NIMs/Yields

- For Q4FY22, bank reported NIM of 3.96% which was mainly due to yield to better recoveries & upgrades. Management expects steady state level of margin of 3.65-3.75%. Expansion would be dependent on recoveries & upgrades, higher share of low cost deposits. Rate hike may not impact as most of the loans are linked to EBLR & MCLR barring Gold Loans

Opex/Branches/Fee income

- Opex increased 14%YoY/3.4% QoQ, due to branch expansion and digital expenses. Going forward, C/I would continue to be elevated considering branch expansion. (Break even in 20-22months) as also the treasury gains would be minimal in rising rate scenario.

Asset Quality

- As on March 31, 2022, restructured book stood at 7.4% of Rs.18.7bn, collection efficiency of the book is similar to rest of the book.
- Commercial Vehicle is a declining book; hence collection efficiency continues to be at 85%.
- Credit cost would eventually trend towards 50-55bps trajectory.

Cautious stance on corporates keep growth muted

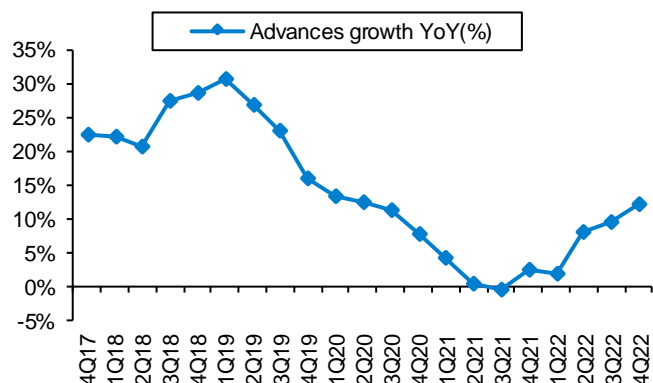
CV book continues to run down, mortgage remains mainstay

Exhibit 2: Retail drives growth

Advances break-up (Rs m)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Advances					
Retail	174,575	147,968	18.0	160,421	8.8
SME	26,186	25,959	0.9	27,659	(5.3)
Agriculture	61,101	57,110	7.0	60,849	0.4
Corporate	29,096	28,555	1.9	27,659	5.2
Total	290,958	259,592	12.1	276,588	5.2
Retail Loans break-up					
CV	8,729	12,980	(32.8)	11,064	(21.1)
Mortgage	119,293	109,029	9.4	116,167	2.7
Gold	14,548	15,576	(6.6)	16,595	(12.3)
Others	32,005	10,384	208.2	16,595	92.9

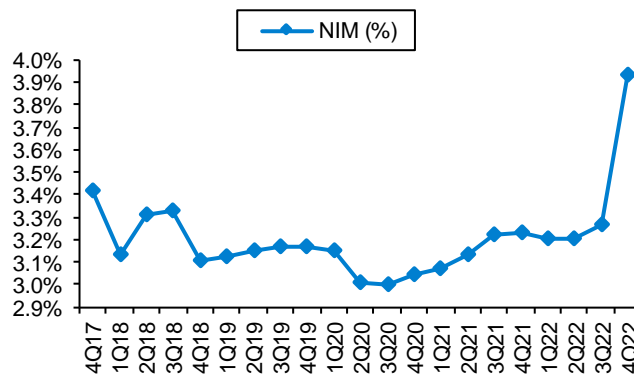
Source: Company, PL

Exhibit 3: Loan growth sees uptick mainly due to co-lending



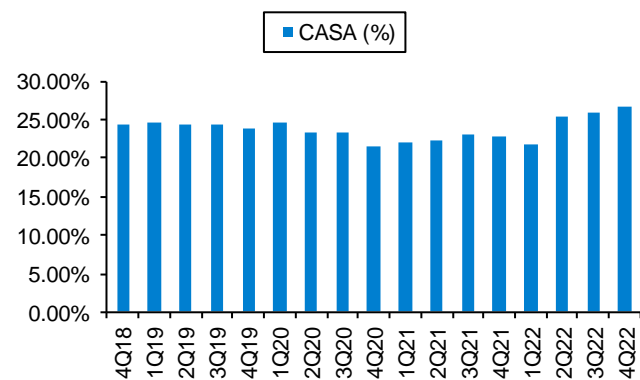
Source: Company, PL

Exhibit 4: NIM expansion due to recories/upgrades



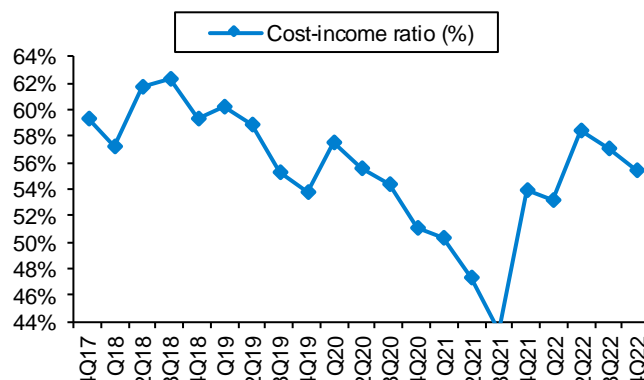
Source: Company, PL

Exhibit 5: CASA accretions remain steady



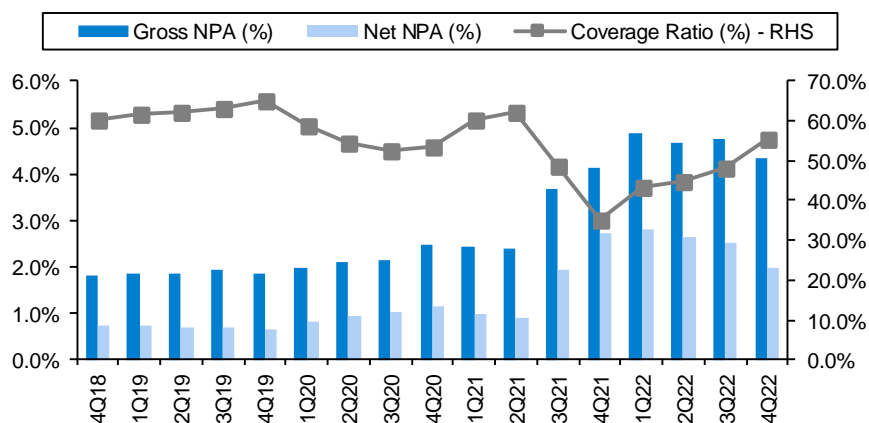
Source: Company, PL

Exhibit 6: C/I continues to remain range bound



Source: Company, PL

Exhibit 7: Slippages steady, PCR inches up to 55%



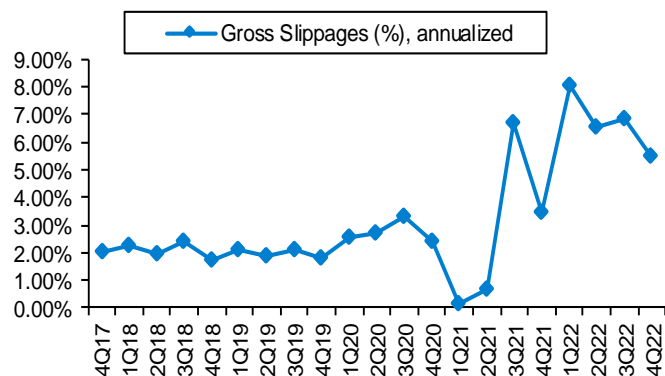
Source: Company, PL

Exhibit 8: Fresh slippages come off, GNPA continues to be higher in CV

Movement of NPL	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Opening	13,398	9,503	41.0	12,849	4.3
Additions	3,780	2,193	72.4	4,575	(17.4)
Reduction	4,280	862	396.5	4,026	6.3
Closing	12,899	10,834	19.1	13,398	(3.7)
Slippages (%)	5.49	3.42	207	6.91	(142)
GNPA Composition					
Mortgages	2.87	3.77	(90)	3.32	(45)
Gold Loans	9.14	3.54	560	8.23	92
CV/STVL	25.88	12.86	1,302	21.36	452
Others	1.80	4.61	(281)	3.62	(181)
SME	5.27	4.56	71	4.33	94
Agriculture	4.77	4.11	66	4.94	(16)
Corporate	3.49	1.74	175	3.67	(19)

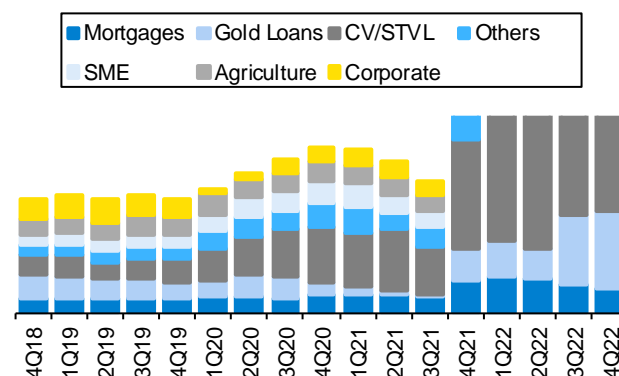
Source: Company, PL

Exhibit 9: Slippages continue to trend down



Source: Company, PL

Exhibit 10: GNPA Composition: CV remains stress area



Source: Company, PL

Exhibit 11: Return ratios are on track to see mid-tier levels

Du-pont Analysis	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
NII/Assets	3.5	3.7	3.7	3.5	3.4	3.3	3.2	3.2	3.3
Other inc./Assets	1.3	1.2	1.1	1.1	1.1	1.2	1.1	0.9	0.9
Net revenues/Assets	4.8	4.8	4.8	4.5	4.5	4.5	4.3	4.2	4.2
Opex/Assets	2.8	2.9	2.9	2.6	2.4	2.2	2.4	2.3	2.3
Provisions/Assets	0.5	0.5	0.5	0.4	0.7	1.1	1.0	0.7	0.7
Taxes/Assets	0.4	0.5	0.5	0.5	0.4	0.3	0.2	0.3	0.3
ROA (%)	1.1	0.9	0.9	1.0	0.9	0.9	0.7	0.8	0.9
ROE (%)	11.4	9.9	8.8	11.0	11.2	10.0	7.8	10.1	12.2

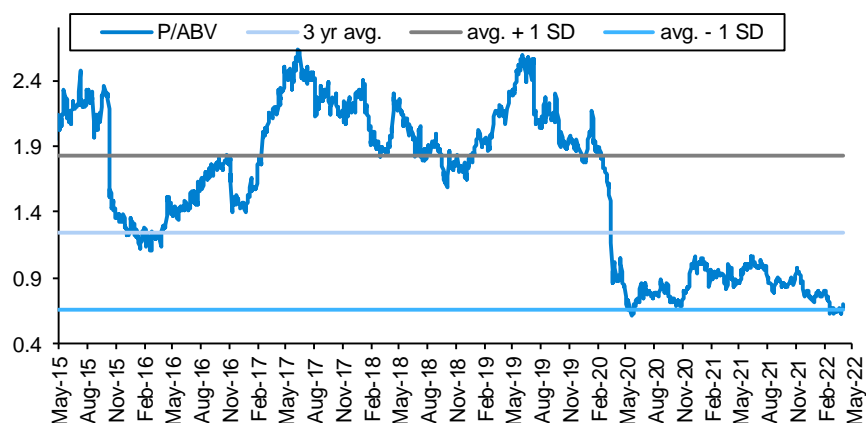
Source: Company, PL

Exhibit 12: We marginally tinker our estimates on loan growth & NII front

Earnings Estimates Changes (Rs mn)	Earlier		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	15,164	17,984	15,494	18,276	2.2	1.6
Operating profit	8,797	10,768	8,842	10,639	0.5	(1.2)
Net profit	3,916	5,026	3,897	5,050	(0.5)	0.5
Loan Growth (%)	18.1	20.1	17.1	19.1	(5.9)	(1.0)
Credit Cost (bps)	112.4	106.9	113.0	102.0	0.6	(5.0)
EPS (Rs)	12.6	16.1	12.5	16.2	(0.3)	0.7
ABVPS (Rs)	107.9	123.5	110.9	126.0	2.7	2.0
Price target (Rs)	120		120		-	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 13: DCB Bank One-year forward P/ABV chart



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Earned from Adv.	27,855	28,318	34,071	41,787
Int. Earned from invt.	5,832	5,943	6,838	8,213
Others	895	867	927	948
Total Interest Income	34,582	35,128	41,835	50,947
Interest Expenses	21,716	21,553	26,342	32,671
Net Interest Income	12,866	13,575	15,494	18,276
Growth(%)	1.7	5.5	14.1	18.0
Non Interest Income	4,585	4,520	4,455	5,076
Net Total Income	17,451	18,096	19,949	23,352
Growth(%)	(0.3)	1.2	16.8	21.0
Employee Expenses	4,335	5,391	5,988	6,852
Other Expenses	4,131	4,734	5,120	5,861
Operating Expenses	8,466	10,126	11,107	12,713
Operating Profit	8,985	7,970	8,842	10,639
Growth(%)	19.3	(11.3)	10.9	20.3
NPA Provision	2,573	3,544	3,724	3,985
Total Provisions	4,457	4,074	3,568	3,805
PBT	4,528	3,896	5,274	6,833
Tax Provision	1,170	1,021	1,376	1,784
Effective tax rate (%)	25.8	26.2	26.1	26.1
PAT	3,358	2,875	3,897	5,050
Growth(%)	(0.6)	(14.4)	35.6	29.6

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Face value	10	10	10	10
No. of equity shares	311	311	311	311
Equity	3,115	3,110	3,110	3,110
Networth	37,586	40,488	41,779	45,725
Growth(%)	9.8	7.7	3.2	9.4
Adj. Networth to NNPA's	5,942	5,732	4,924	4,173
Deposits	297,039	346,917	401,451	482,515
Growth(%)	(2.2)	16.8	15.7	20.2
CASA Deposits	67,865	92,811	106,384	132,692
% of total deposits	22.8	26.8	26.5	27.5
Total Liabilities	396,021	448,401	511,418	602,132
Net Advances	257,372	290,958	340,566	405,625
Growth(%)	1.5	13.0	17.1	19.1
Investments	84,137	90,982	104,377	120,629
Total Assets	396,021	448,401	511,418	602,132
Growth (%)	2.8	13.2	14.1	17.7

Asset Quality

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs (Rs m)	10,834	12,899	11,896	10,455
Net NPAs (Rs m)	5,942	5,732	4,924	4,173
Gr. NPAs to Gross Adv.(%)	4.1	4.3	3.4	2.5
Net NPAs to Net Adv. (%)	2.3	2.0	1.4	1.0
NPA Coverage %	45.2	55.6	58.6	60.1

Profitability (%)

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	3.6	3.5	3.5	3.6
RoAA	0.9	0.7	0.8	0.9
RoAE	10.0	7.8	10.1	12.2
Tier I	15.5	15.8	14.7	14.0
CRAR	19.7	18.9	18.3	18.0

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Interest Income	8,455	8,693	8,781	9,199
Interest Expenses	5,368	5,460	5,331	5,395
Net Interest Income	3,087	3,233	3,450	3,805
YoY growth (%)	0.6	(3.2)	3.1	22.3
CEB	472	614	630	663
Treasury	-	-	-	-
Non Interest Income	1,202	977	1,183	1,148
Total Income	9,657	9,670	9,964	10,347
Employee Expenses	1,227	1,322	1,380	1,463
Other expenses	1,049	1,138	1,266	1,282
Operating Expenses	2,277	2,459	2,645	2,744
Operating Profit	2,012	1,751	1,988	2,208
YoY growth (%)	5.3	(22.1)	(28.3)	7.6
Core Operating Profits	1,474	1,647	1,825	2,205
NPA Provision	-	-	-	-
Others Provisions	1,555	863	970	676
Total Provisions	1,555	863	970	676
Profit Before Tax	457	888	1,019	1,532
Tax	119	239	265	398
PAT	338	649	754	1,134
YoY growth (%)	(57.5)	(21.1)	(21.7)	45.6
Deposits	306,017	317,695	322,311	346,917
YoY growth (%)	4.0	10.4	11.7	16.8
Advances	254,956	268,503	276,588	290,958
YoY growth (%)	1.7	7.9	9.3	13.0

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	78	78	78	78
EPS (Rs)	10.8	9.2	12.5	16.2
Book Value (Rs)	113	123	127	139
Adj. BV (Rs)	104	111	126	126
P/E (x)	7.2	8.4	6.2	4.8
P/BV (x)	0.7	0.6	0.6	0.6
P/ABV (x)	0.7	0.7	0.6	0.6
DPS (Rs)	-	1.0	1.3	1.6
Dividend Payout Ratio (%)	-	10.8	10.0	10.0
Dividend Yield (%)	-	1.3	1.6	2.1

Efficiency

Y/e Mar	FY21	FY22	FY23E	FY24E
Cost-Income Ratio (%)	48.5	56.0	55.7	54.4
C-D Ratio (%)	86.6	83.9	84.8	84.1
Business per Emp. (Rs m)	86	79	87	98
Profit per Emp. (Rs lacs)	5	4	5	6
Business per Branch (Rs m)	1,575	1,595	1,734	1,939
Profit per Branch (Rs m)	10	7	9	11

Du-Pont

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	3.29	3.22	3.23	3.28
Total Income	5.64	5.36	5.09	5.11
Operating Expenses	2.17	2.40	2.31	2.28
PPoP	3.47	2.96	2.77	2.82
Total provisions	1.14	0.96	0.74	0.68
RoAA	0.86	0.68	0.81	0.91
RoAE	10.01	7.84	10.05	12.20

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-22	BUY	120	86

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	3,500	2,485
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	150	120
4	Can Fin Homes	BUY	800	642
5	City Union Bank	BUY	180	140
6	DCB Bank	BUY	120	86
7	Federal Bank	BUY	135	100
8	HDFC	BUY	2,900	2,264
9	HDFC Bank	BUY	1,740	1,465
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	979
13	Kotak Mahindra Bank	Accumulate	1,925	1,776
14	LIC Housing Finance	Accumulate	420	393
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	610	516

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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