

9 May 2022

DCB Bank

Strong quarter, earnings to pick up; maintaining a Buy

Rating: **Buy**

Target Price: Rs.110

Share Price: Rs.78

Higher margins and moderating credit cost led to a strong increase in profitability for DCB, with RoA at ~1.1%. Higher slippages kept asset quality under pressure. Key positives for the quarter were 1) collection efficiency near pre-Covid levels, 2) strong recoveries/upgrades, 3) decline in stress across core segments, 4) strong traction in retail deposits and 5) strong pick-up in disbursements in its core mortgage book. With credit growth expected to pick up and normalising credit costs, earnings would improve. We maintain our Buy rating, with a TP of Rs.110, valuing the stock at 0.7x P/ABV on the FY24e book.

Slippages to ease ahead. Slippage for the quarter were a high Rs3.8bn (5.5% of loans), ~18% lower than the previous quarter. Recoveries/upgrades were strong, reflecting the bank's collection efforts. Collection efficiency (NPA and the restructured pool) of the key portfolio (details in Fig. 7) has been steadily improving. The net standard restructured book was Rs18.7bn (6.4% of loans). With improvement in business activities and collections at various segments, slippages are expected to moderate in a couple of quarters.

FY23 RoA to be 1%. With a pick-up in business growth and normalised slippages from FY23, credit cost should soften from current levels. Higher business growth combined with lower credit cost would lead to a sharp pick-up in earnings from current levels. We estimate a 1% RoA in FY23.

Valuation. Our May'23 target of Rs115 is based on the two-stage DDM model. This implies a ~0.7x P/ABV multiple on its FY24e book. **Risks:** Less-than-expected loan-book growth; large slippages from the mortgage book.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Net interest income (Rs m)	12,649	12,866	13,575	15,974	18,344
Pre-provisioning profit (Rs m)	7,531	8,848	7,970	9,385	10,999
Provisions (Rs m)	2,611	4,320	4,074	3,229	3,941
PAT (Rs m)	3,379	3,358	2,875	4,556	5,223
EPS (Rs)	10.9	10.8	9.2	14.6	16.8
NIM (%)	3.6	3.5	3.4	3.5	3.6
Cost-income (%)	54.5	48.9	56.0	54.7	53.2
RoE (%)	10.3	9.4	7.4	10.7	11.0
RoA (%)	0.9	0.9	0.7	1.0	1.0
Advances growth (%)	7.5	2.4	12.1	16.0	18.0
GNPA (%)	2.5	4.1	4.3	3.4	2.8
CAR (%)	17.8	19.7	18.9	17.2	16.6
P / E (x)	7.2	7.2	8.4	5.3	4.6
P / BV (x)	0.7	0.6	0.6	0.5	0.5
P / ABV (x)	0.8	0.7	0.7	0.6	0.5

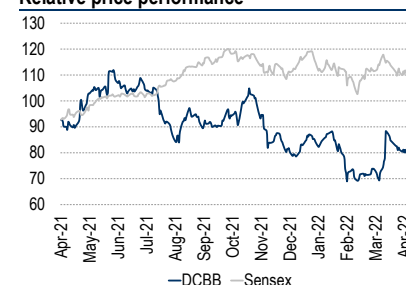
Source: Company, Anand Rathi Research

Key data	DCBB IN / DCBA.BO
52-week high / low	Rs.114 / 68
Sensex / Nifty	54836 / 16411
3-m average volume	\$1.4m
Market cap	Rs.24bn / \$315.2m
Shares outstanding	311m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	14.9	14.9	14.9
- of which, Pledged	-	-	-
Free float	85.1	85.1	85.1
- Foreign institutions	8.8	9.2	10.9
- Domestic institutions	38.7	39.6	38.3
- Public	37.6	36.3	35.9

Estimates revision (%)	FY23e	FY24e
Net interest income	4.9	1.5
Pre-provisioning profit	3.0	1.6
PAT	5.2	1.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net interest income	12,649	12,866	13,575	15,974	18,344
<i>NII growth (%)</i>	10.1	1.7	5.5	17.7	14.8
Non-interest income	3,911	4,448	4,520	4,737	5,148
Income	16,560	17,315	18,095	20,711	23,491
<i>Income growth (%)</i>	10.4	4.6	4.5	14.5	13.4
Operating expenses	9,029	8,466	10,126	11,326	12,492
PPOP	7,531	8,848	7,970	9,385	10,999
<i>PPOP growth (%)</i>	16.5	17.5	-9.9	17.8	17.2
Provisions	2,611	4,320	4,074	3,229	3,941
PBT	4,919	4,528	3,896	6,156	7,058
Tax	1,540	1,170	1,020	1,601	1,835
PAT	3,379	3,358	2,875	4,556	5,223
<i>PAT growth (%)</i>	3.9	-0.6	-14.4	58.5	14.7
FDEPS (Rs / sh)	10.9	10.8	9.2	14.6	16.8
DPS (Rs / sh)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	3,104	3,105	3,110	3,110	3,110
Reserves & surplus	31,108	34,481	37,379	41,934	47,157
Deposits	303,699	297,039	346,917	402,424	466,811
Borrowings	34,080	44,823	40,818	36,737	40,410
Total liabilities	385,051	396,021	448,401	505,857	578,523
Advances	253,453	259,592	290,958	337,511	398,263
Investments	77,415	84,137	90,982	95,531	100,308
Cash & bank bal	10,298	11,829	15,775	18,536	21,779
Fixed & other assets	5,459	5,685	6,612	6,744	6,879
Total assets	385,051	396,021	448,401	505,857	578,523
No. of shares (m)	310	311	311	311	311
<i>Deposits growth (%)</i>	6.8	-2.2	16.8	16.0	16.0
<i>Advances growth (%)</i>	7.5	2.4	12.1	16.0	18.0

Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis %

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
NIM	3.6	3.5	3.4	3.5	3.6
Other inc. / total inc.	23.6	25.7	25.0	22.9	21.9
Cost-income	54.5	48.9	56.0	54.7	53.2
Provision coverage	53.4	45.2	55.6	54.7	54.9
Dividend payout	0.0	0.0	0.0	0.0	0.0
Credit-deposit	83.5	87.4	83.9	83.9	85.3
Investment-deposit	25.5	28.3	26.2	23.7	21.5
Gross NPA	2.5	4.1	4.3	3.4	2.8
Net NPA	1.2	2.3	2.0	1.6	1.3
BV (Rs)	110.2	121.0	130.2	144.8	161.6
Adj. BV (Rs)	103.6	107.6	117.3	132.8	149.9
CAR (%)	17.8	19.7	18.9	17.2	16.6
- Tier 1	13.9	15.5	15.8	14.7	14.4
RoE	10.3	9.4	7.4	10.7	11.0
RoA	0.9	0.9	0.7	1.0	1.0

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



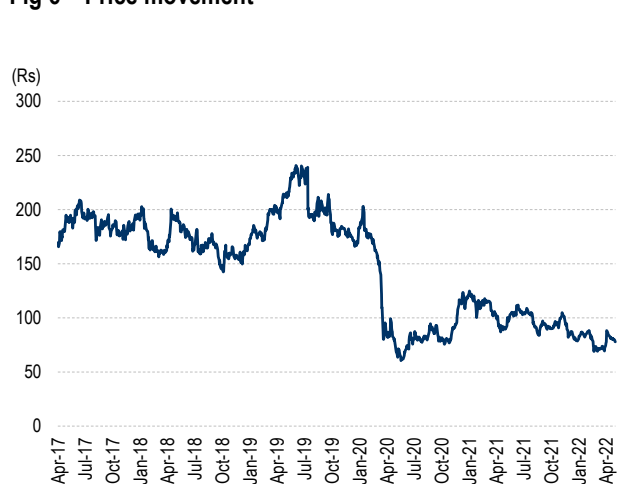
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Conference-call takeaways

Loans

- In the quarter, the bank disbursed Rs50.4bn (Rs33.4bn the previous quarter).
 - Corporate banking: Rs5.03bn (Rs5.70bn the previous quarter)
 - Agri: Rs7.82bn (Rs6.61bn the previous quarter)
 - Gold: Rs3.09bn (Rs3.28bn the previous quarter)
 - Mortgages: Rs11.15bn (Rs8.21bn the previous quarter)
 - CV: Rs0.24bn (Rs0.21bn the previous quarter)
 - SME: Rs1.12bn (Rs0.86bn the previous quarter)
 - Construction finance: Rs2.24bn (Rs1.69bn the previous quarter)
 - Co-lending: Rs19.54bn (Rs8.85bn the previous quarter)
- Under ECLGS, the bank has disbursed Rs12.6bn (15,002 customers).
- **Restructuring.** The current restructured book is Rs18.69bn (Rs18.84bn the previous quarter), largely from the mortgage, CV and MSME portfolios.
- **Business loans.** Customers (incl. delinquent & restructured) who have not paid any instalment from 1st Apr'20 to 31st Mar'22 were 0.59%. The percentage of the portfolio that has paid three EMIs or more in that period was 98.5%.
- **Home loans.** Customers (incl. delinquent & restructured) who have not paid any instalment from 1st Apr'20 to 31st Mar'22 were 1.53%. The percentage of the portfolio that has paid three EMIs or more in that period was 94.6%.
- **Commercial vehicles.** Customers (incl. delinquent & restructured) who have not paid any instalment from 1st Apr'20 to 31st Mar'22 were 2.83%. The percentage of the portfolio that has paid three EMIs or more in that period was 95.4%.

Fig 7 – Collection efficiency (%)

	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22
Business loans	97.2	96.8	96.7	96.0	97.2	96.9	97.7
Home loans	98.8	98.6	98.5	98.7	98.9	98.5	99
CVs	84.6	82.2	83.3	85.2	84.8	83.0	85.1

Source: Company, Anand Rath Research

Fig 8 – Segment-wise results

Break-up of GNPA(Rs m)	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Opening balance	5,737	5,023	10,834	12,688	12,849	13,398
Slippages	5	6,673	5,196	4,166	4,575	3,781
Gross-slippage ratio (%)	0.0	10.6	8.0	6.5	6.8	5.5
Reductions	719	862	3,342	4,005	4,026	4,280
Upgrades	118	116	1,621	3,026	2,171	1,621
Recoveries	207	227	905	941	1,843	2,642
Write-offs	394	519	816	38	12	17
Closing balance	5,023	10,834	12,688	12,849	13,398	12,899
CV / CE	831	1669	2069	2454	2363	2259
Corporate	418	496	836	834	1016	1014
SME	474	1184	1509	1367	1198	1380
Mortgages	1971	4106	4716	4479	3853	3423
Others	1329	3379	3557.5	3715.3	4967.5	4823.3
GNPA	5,023	10,834	12,688	12,849	13,398	12,899
GNPA (%)	2.0	4.1	4.9	4.7	4.7	4.3
NNPA (%)	0.6	2.3	2.8	2.6	2.5	2.0

Source: Company, Anand Rathi Research

Fig 9 – Break-up of advances

(%)	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Corporate	11.0	11.0	11.0	11.0	10.0	10.0
AIB	21.0	22.0	22.0	22.0	22.0	21.0
SME + MSME	11.0	10.0	10.0	10.0	10.0	9.0
Mortgages	42.0	42.0	43.0	41.0	42.0	41.0
CV	6.0	5.0	5.0	4.0	4.0	3.0
Others	9.0	10.0	9.0	12.0	12.0	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 10 – Income statement

(Rs m)	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Interest income	8,694	8,373	8,455	8,693	8,781	9,199
Interest expense	5,346	5,261	5,368	5,460	5,331	5,395
NII	3,348	3,112	3,087	3,233	3,450	3,805
Y/Y growth %	3.6	(3.9)	0.6	(3.2)	3.1	22.3
Non-interest income	1,566	1,298	1,212	977	1,183	1,148
Trading profits	741	13	538	104	163	3
Total income	4,914	4,410	4,299	4,211	4,634	4,953
Y/Y growth %	18.1	1.7	11.9	1.5	(5.7)	12.3
Operating expenses	2,119	2,399	2,277	2,459	2,645	2,744
Of which, Staff cost	1,087	1,112	1,227	1,322	1,380	1,463
PPOP	2,795	2,011	2,022	1,751	1,988	2,208
Y/Y growth %	47.1	(5.2)	5.8	(17.8)	(28.8)	9.8
Total provisions	1,498	971	1,565	863	970	676
PBT	1,296	1,040	457	888	1,019	1,532
Tax	334	261	119	239	265	398
PAT	962	779	338	649	754	1,134
Y/Y growth %	(0.5)	13.3	(57.5)	(21.1)	(21.7)	45.6

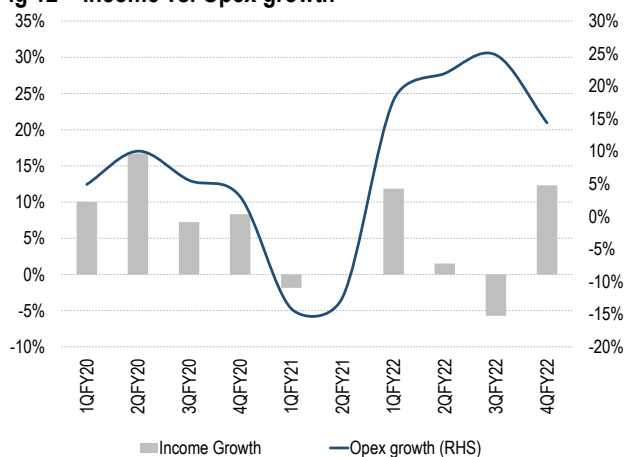
Source: Company, Anand Rath Research

Fig 11 – Balance sheet

(Rs m)	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Equity capital	3,105	3,105	3,105	3,106	3,106	3,110
Reserves & Surplus	33,699	34,481	34,822	35,472	36,229	37,379
Shareholders' Funds	36,804	37,586	37,927	38,579	39,335	40,488
Deposits	288,581	297,039	306,017	317,695	322,311	346,917
Borrowings	35,683	44,823	43,222	40,422	32,082	40,818
Other Liabilities	17,520	16,574	15,919	18,052	18,048	20,178
Total Equity and Liabilities	378,588	396,021	403,085	414,747	411,776	448,401
Deposits y/y growth %	(2.9)	(2.2)	4.0	10.4	11.7	16.8
Deposits q/q growth %	0.3	2.9	3.0	3.8	1.5	7.6
Assets						
Cash and cash balances	24,032	30,393	34,521	38,392	28,049	15,775
Advances	253,001	259,592	254,956	268,503	276,588	290,958
Investments	80,977	84,137	91,070	86,261	85,833	90,982
Other assets	20,578	21,899	22,538	21,592	21,306	25,554
Total Assets	378,588	396,021	403,085	414,747	411,776	448,401
Advances y/y growth %	(0.5)	2.4	1.7	7.9	9.3	12.1
Advances q/q growth %	1.7	2.6	(1.8)	5.3	3.0	5.2

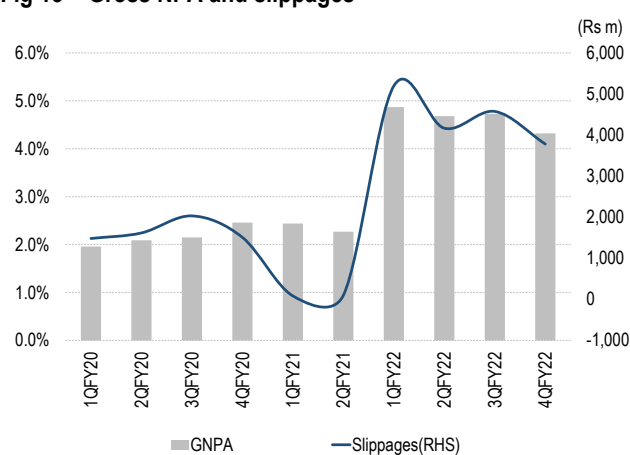
Source: Company, Anand Rath Research

Fig 12 – Income vs. Opex growth



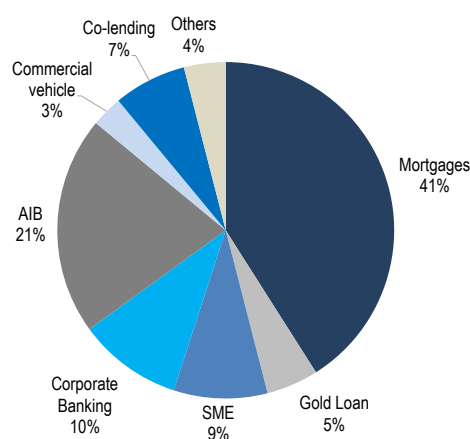
Source: Company, Anand Rathi Research

Fig 13 – Gross NPA and slippages



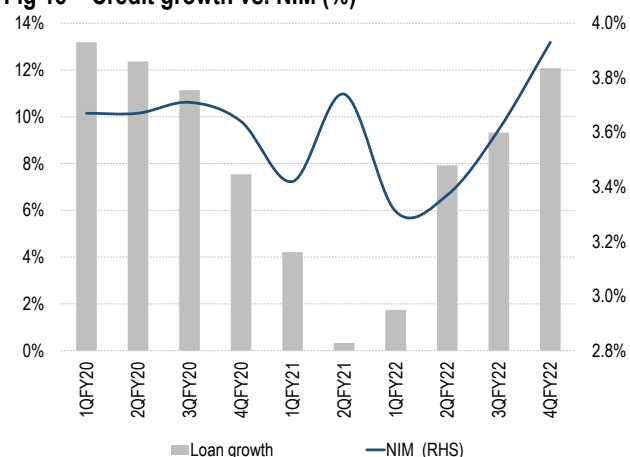
Source: Company, Anand Rathi Research

Fig 14 – Loan break-up



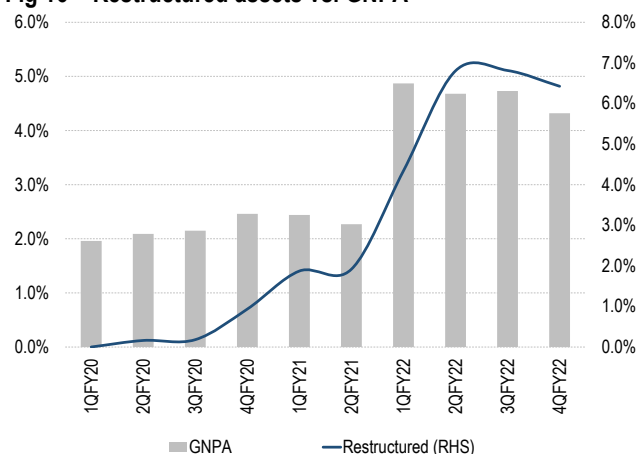
Source: Company, Anand Rathi Research

Fig 15 – Credit growth vs. NIM (%)



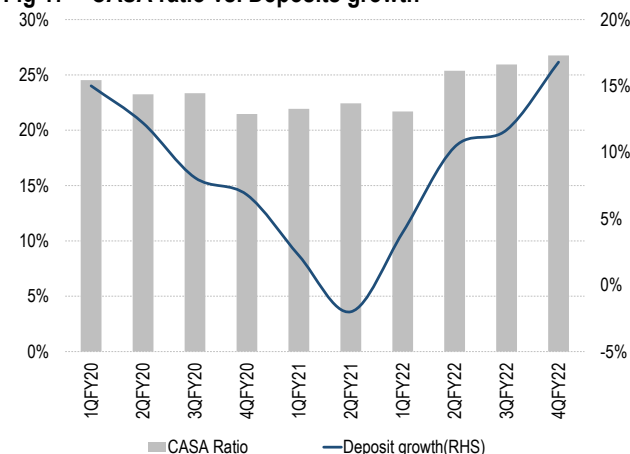
Source: Company, Anand Rathi Research

Fig 16 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 17 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

- Our May'23 target of Rs110 is based on the two-stage DDM model. This implies a ~0.7x P/ABV multiple on its FY24e book.

Fig 17 – Change in estimates

(Rs m)	FY23e			FY24e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	15,974	15,224	4.9	18,344	18,073	1.5
Pre-provisioning profit	9,385	9,110	3.0	10,999	10,825	1.6
PAT	4,556	4,329	5.2	5,223	5,164	1.1

Source: Anand Rathi Research

Risks

- Lower-than-anticipated loan growth could cut into our estimates.
- Large slippages from the mortgage book.

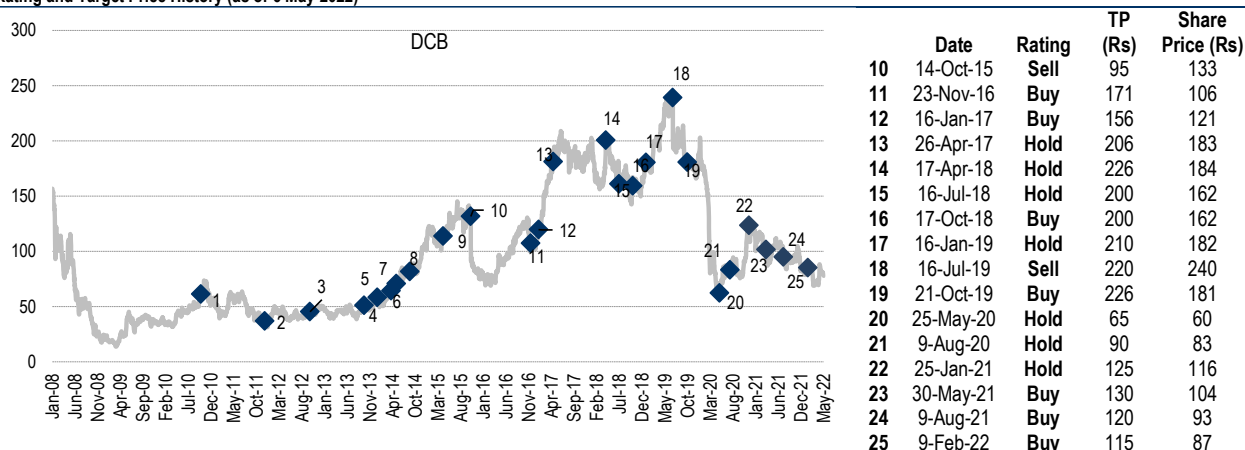
Appendix

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