Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

DCB Bank (DCBB IN)

Rating: BUY | CMP: Rs89 | TP: Rs120

July 31, 2022

Q1FY23 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	15,494	18,276
% Chng.	-	-		
Op. Profit (Rs. m)	8,842	10,639	8,842	10,639
% Chng.	-	-		
EPS (Rs.)	12.5	16.2	12.5	16.2
% Chng.	-	-		

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 (%)	-	*1.1*	*1.4*	*1.8*
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)	0.8	0.7	0.7	0.6
P/ABV (x)	0.9	0.8	0.7	0.7
PE (x)	8.2	9.6	7.1	5.5
CAR (%)	19.7	18.9	18.3	18.0

Key Data	DCBA.BO | DCBB IN
52-W High / Low	Rs.106 / Rs.68
Sensex / Nifty	57,570 / 17,158
Market Cap	Rs.28bn/ $ 348m
Shares Outstanding	311m
3M Avg. Daily Value	Rs.97.73m

Shareholding Pattern (%)

Promoter's	14.96
Foreign	12.54
Domestic Institution	37.53
Public & Others	34.97
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	16.0	4.9	(15.5)
Relative	6.8	4.2	(22.7)

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Asset quality risk gradually diminishing

Quick Pointers:

- Gross and margins were a miss, expected to reverse in coming quarters
- Guidance of doubliing the balance over 3-4 years is intact.

DCB earnings came in as expected with PAT at Rs0.97bn. PPoP was a miss due to lower NII as margin declined QoQ despite strong loan growth of 17% YoY. Stronger recoveries drove lower provisions. Owing to a larger share of fixed rate loans, NIM may remain under pressure which has been factored into our projections. While gross slippages were higher, recoveries were stronger leading to negligible net slippages which led to reduction in GNPA by 11bps QoQ. Management guides to lower the GNPA to 2.5% over medium term. While earnings were miss on NII (slower passthrough) and gross slippages (due to seasonality), trends in both are expected to reverse.We continue to remian constructive on DCB as asset quality risks are abating. Maintain multiple at 1.0x FY24 ABV with TP at Rs120. Reiterate BUY.

- **Earnings beat lead by lower provisioning:** NII was tad lower at Rs3.7bn (PLe Rs3.85bn) owing to higher funding costs despite better loan growth. Hence, NIM compressed by 18bps QoQ to 3.79% (PLe 4%). Loan growth was 17% YoY (PLe 13%) while LDR was higher at 85% as deposit growth was lower to loan growth. Other income was Rs0.9bn similar to expectations as fee income was steady sequentially, while there was nominal treasury gain. Opex was a miss at Rs3bn led by higher employee addition & other opex. Resulting in PPoP miss at Rs1.7bn (PLe Rs2.1bn) led by lower NII and higher opex. Provisions were lower at Rs0.35bn (PLe Rs0.9bn) owing to strong recoveries. Asset quality was better with GNPA reducing by 11bps QoQ to 4.2% while PCR was steady QoQ at 55%. PAT was largely in-line at Rs.0.97bn (PLe Rs0.94bn).

- **Business momentum improving:** Disbursals were healthy at Rs45bn that was largely attributable to mortgage, SME (shorter term product) and corporate. Co-lending partnerships would be extended, aspirations to increase share to 4-5%. Guidance is to double the balance sheet every 3-4 years with focus on SME/MSME, mortgage loans, tractors, KCC. SME utilization are lower in Q1, however the same is expected to pick up. Deposit mix continues to improve with CASA ratio rising by 182bps QoQ to 28.6% and management endeavors to increase ratio to +30% by branch led distribution.

- **Opex to remain elevated; asset quality steady:** Opex for Q1FY23 increased by 31% YoY led by increase in both employee expenses of 26% YoY and other opex by 38% YoY. Management expects cost-income to remain elevated in near term as branch expansion and technology spends would continue. Gross slippages were higher at R5.7bn (PLe Rs3.2bn) mainly led by gold loans although net slippages were negligible owing to strong recoveries of Rs5.7bn due to intra-quarter recoveries on account of Gold Loans. Hence GNPA reduced 11bps QoQ to 4.22%. The OTR pool slightly declined QoQ from Rs20bn to 19.5%. Focus is to reach a credit cost level of ~55bps as the slippages from mortgages, Home Loans and CV moderate.

NII growth was good at 21% YoY, however declined QoQ due to lower margins

Fee income was decent, while treasury income was about Rs0.05-0.06bn.

Opex was elevated led branch expansion and employee addition

Overall provisioning came off led by improvement in asset quality metrics.

Loan growth was strong at 17% YoY, deposits growth was 15% YoY.

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 ~29%

Exhibit 1: Lower provisioning aid PAT

P&L Statement (Rs m)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Interest Income	9,493	8,455	*12.3*	9,199	*3.2*
Interest Expended	5,753	5,368	*7.2*	5,395	*6.6*
Net interest income (NII)	**3,740**	**3,087**	***21.1***	**3,805**	***(1.7)***
-Treasury income	-	538	*NA*	3	*NA*
Other income	924	1,202	*(23.1)*	1,148	*(19.5)*
Total income	**4,664**	**4,289**	***8.7***	**4,953**	***(5.8)***
Operating expenses	3,002	2,277	*31.9*	2,744	*9.4*
-Staff expenses	1,551	1,227	*26.4*	1,463	*6.1*
-Other expenses	1,451	1,049	*38.3*	1,282	*13.2*
Operating profit	**1,661**	**2,012**	***(17.4)***	**2,208**	***(24.8)***
Core Operating Profit	**1,661**	**1,474**	***12.7***	**2,205**	***(24.7)***
Total provisions	350	1,555	*(77.5)*	676	*(48.2)*
Profit before tax	**1,311**	**457**	***NA***	**1,532**	***(14.4)***
Tax	340	119	*NA*	398	*(14.6)*
Profit after tax	**971**	**338**	***NA***	**1,134**	***(14.4)***
Balance Sheet (Rs m)					
Deposits	350,810	306,017	*14.6*	346,917	*1.1*
Advances	298,140	254,956	*16.9*	290,958	*2.5*
Ratios (%)					
NIM	**3.6**	**3.3**	***30***	**3.9**	***(32)***
RoaA	0.9	0.3	*56*	1.1	*(17)*
RoaE	9.8	3.7	*612*	11.6	*(180)*
Asset Quality					
Gross NPL (Rs m)	12,885	12,688	*1.6*	12,899	*(0.1)*
Net NPL (Rs m)	5,436	7,190	*(24)*	5,732	*(5.2)*
Gross NPL ratio	4.22	4.87	*(65)*	4.33	*(11)*
Net NPL ratio	1.82	2.82	*(99)*	1.97	*(15)*
Coverage ratio (Calc)	55.0	43.3	*1,167*	55.6	*(56)*
Business & Other Ratios					
Low-cost deposit mix	28.6	21.7	*688*	26.8	*182*
Cost-income ratio	64.4	53.1	*1,129*	55.4	*897*
Non int. inc / total income	19.8	28.0	*(820)*	23.2	*(336)*
Credit deposit ratio	85.0	83.3	*167*	83.9	*112*
CAR	18.5	19.6	*(117)*	18.9	*(45)*
Tier-I	15.4	15.5	*(10)*	15.8	*(40)*

Source: Company, PL

Q1FY23 Concall Highlights

Assets & Liabilities – Commentary & build-up

- Management reiterates doubling the balance sheet over 3-4 years which translates to 20% growth each year. Focus segment continues to be SME/MSME, mortgage loans, tractors, KCC and more co-lending partnerships.
- In Q1 FY 2023, the Bank disbursed Rs.45bn largely stable sequentially. Of which, Mortgage Rs.11.15 bn, Gold Loans Rs 3.88 bn., Agri & Inclusive Banking Rs.5.66 bn., MSME/SME Rs.7.15bn., Construction Finance Rs. 2.2bn., Commercial Vehicle Rs. 2.2bn, Corporate Banking Rs. 6.1bn, Co-Lending was limited during the quarter Rs.8.7bn.
- During Q1, SME utilisations remain lower, hence bank focused in short term product TreDs, which led to higher disbursements. ATS in this segment is Rs30-40lakhs.
- Going forward, the book would remain granular & secured. Mortgage (incl, Agri) share would more than +50%. Tractors, KCC and Gold Loan too would be focused on. While co-lending share would go upwards to 4-5%.
- Under ECLGS the Bank has so far disbursed Rs12.85bn. (15,002 customers).
- CASA moved up to ~28% with focus on Individual proprietary business mainly led by branches. Target would be to increase it to +30%

NIMs/Yields

- For Q1FY23, bank reported NIM of 3.6% as CoF went up faster than yields. Management expects steady state level of margin of 3.65-3.75%.
- Rate hike may not impact as most of the loans are linked to EBLR & MCLR barring Gold Loans, CV & tractors
- Bank has already hiked lending rate by 40-45bps in Q1, another 50bps would be done in August.

Opex/Branches/Fee income

- Opex increased 32%YoY/9.4% QoQ, due to branch expansion, employee addition and digital expenses. Going forward, C/I would continue to be elevated considering branch expansion. However, going forward endevour would be to bring down the C/I to less than 55% and Cost/Avg assets ~2%.

Asset Quality

- As on June 30, 2022, restructured book stood at 6.6% or Rs.19.5bn, collection efficiency of the book is similar to rest of the book. By September 2022 restructured advances under moratorium expected to be below Rs 7bn of which ~61% will be Home Loans and ~34% to be Business loan or LAP
- Credit cost would eventually trend towards 50-55bps trajectory as slippages in home loans, mortgages and commercial vehicles decline.

Agri & Corporate growth improved YoY

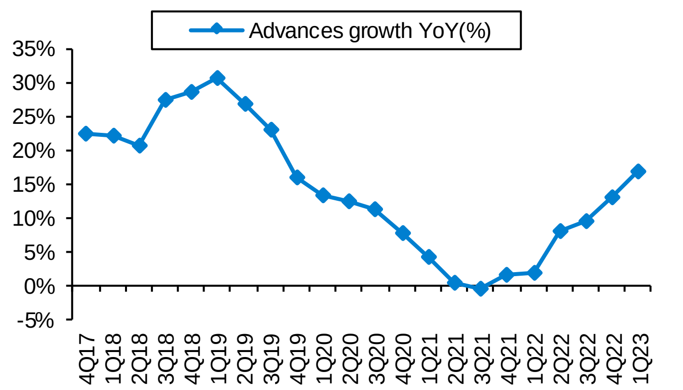
CV book continues to run down, mortgage remains mainstay, focus on tractor

Exhibit 2: Retail drives growth, corporate sees uptick

Advances break-up (Rs m)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Advances					
Retail	178,884	145,325	*23.1*	174,575	*2.5*
SME	26,833	25,496	*5.2*	26,186	*2.5*
Agriculture	62,609	56,090	*11.6*	61,101	*2.5*
Corporate	29,814	28,045	*6.3*	29,096	*2.5*
Total	**298,140**	**254,956**	***16.9***	**290,958**	***2.5***
Retail Loans break-up					
CV	8,944	12,748	*(29.8)*	8,729	*2.5*
Mortgage	125,219	109,631	*14.2*	119,293	*5.0*
Gold	14,907	15,297	*(2.6)*	14,548	*2.5*
Others	29,814	7,649	*289.8*	32,005	*(6.8)*

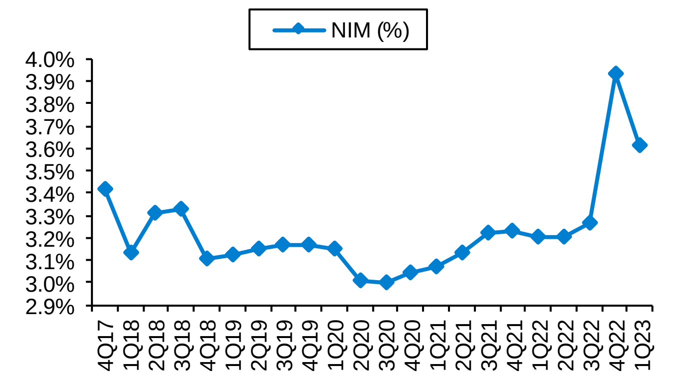
Source: Company, PL

Exhibit 3: Loan growth sees uptick due to organic lending



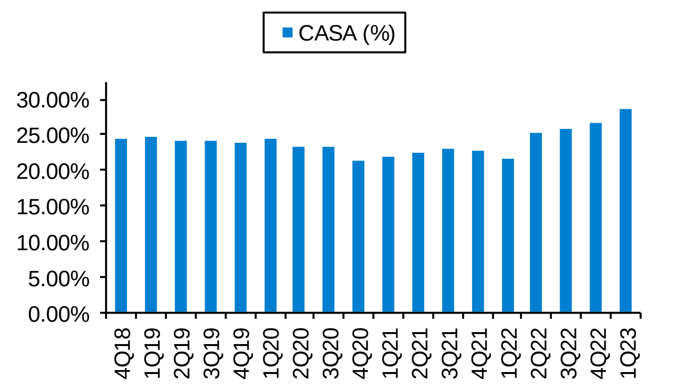
Source: Company, PL

Exhibit 4: NIM compression due to sharp rise in CoF



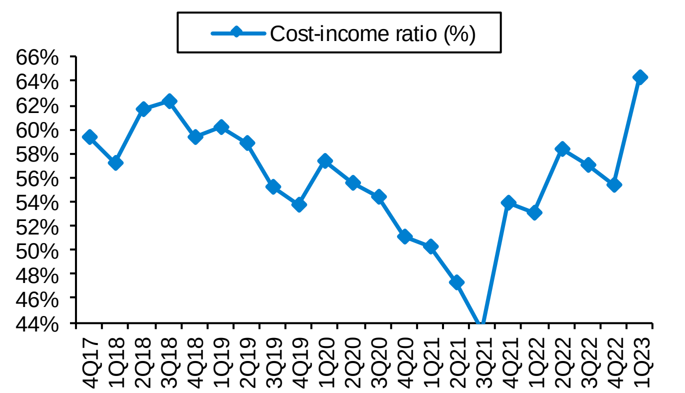
Source: Company, PL

Exhibit 5: CASA accretions remain steady



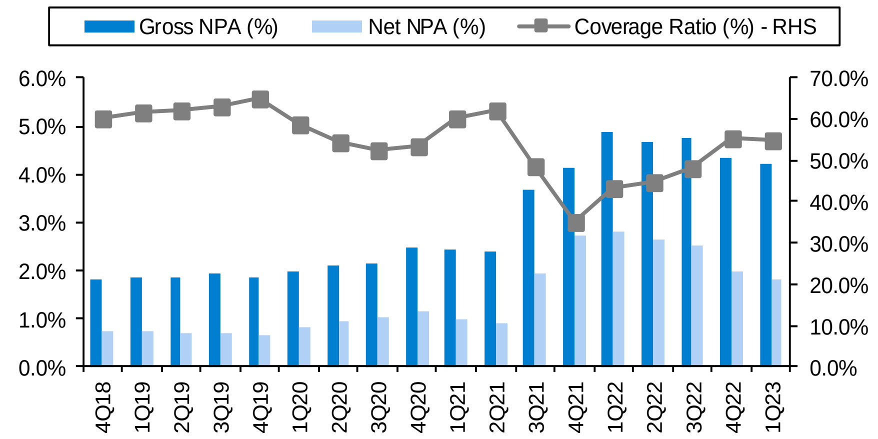
Source: Company, PL

Exhibit 6: C/I to remain elevated



Source: Company, PL

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



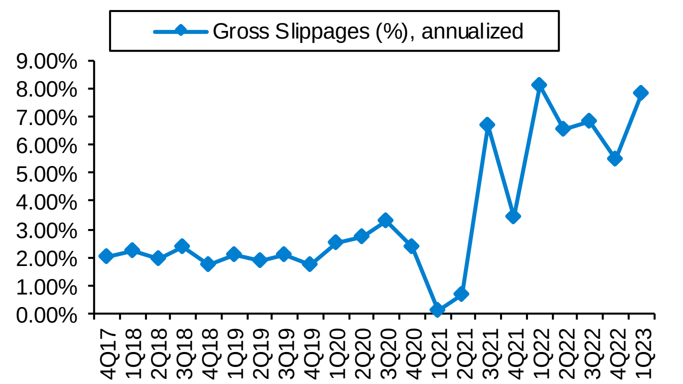
Source: Company, PL

Exhibit 8: Fresh slippages increases, GNPA continues to be higher in GL

Movement of NPL	Q1FY23	Q1FY22	*YoY gr. (%)*	Q4FY22	*QoQ gr. (%)*
Opening	12,899	10,834	*19.1*	13,398	*(3.7)*
Additions	5,710	5,196	*9.9*	3,780	*51.0*
Reduction	5,730	3,342	*71.5*	4,280	*33.9*
Closing	**12,885**	**12,688**	*1.6*	**12,899**	*(0.1)*
Slippages (%)	***7.85***	***8.08***	***(23)***	***5.49***	***197***
GNPA Composition					
Mortgages	2.64	4.30	*(166)*	2.87	*8*
Gold Loans	7.11	4.22	*289*	9.14	*(203)*
CV/STVL	25.71	16.23	*948*	25.88	*(17)*
Others	1.81	6.77	*(496)*	1.80	*1*
SME	5.55	5.92	*(37)*	5.27	*28*
Agriculture	5.06	4.27	*80*	4.77	*29*
Corporate	3.39	2.98	*41*	3.49	*(10)*

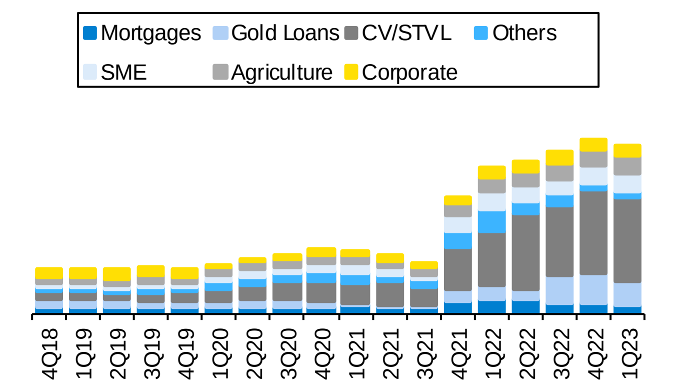
Source: Company, PL

Exhibit 9: Slippages increase due to Gold Loans



Source: Company, PL

Exhibit 10: GNPA Composition: CV remains stress area



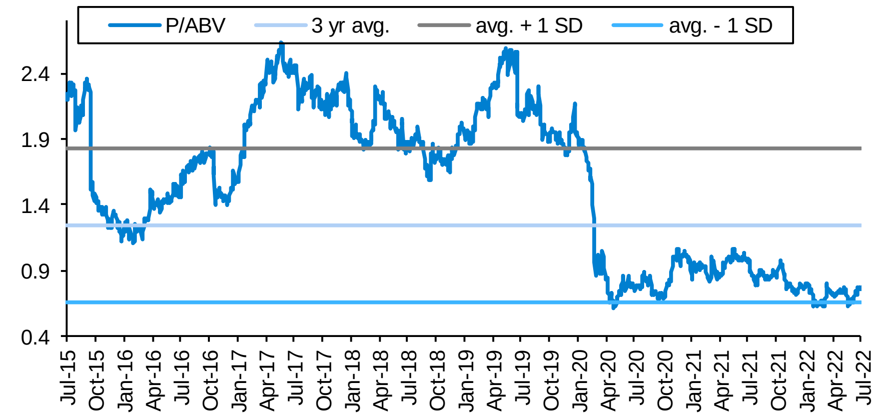
Source: Company, PL

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: 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 NNPAs	5,942	5,732	4,924	4,173
Deposits	2,97,039	3,46,917	4,01,451	4,82,515
Growth(%)	*(2.2)*	*16.8*	*15.7*	*20.2*
CASA Deposits	67,865	92,811	1,06,384	1,32,692
% of total deposits	*22.8*	*26.8*	*26.5*	*27.5*
Total Liabilities	**3,96,021**	**4,48,401**	**5,11,418**	**6,02,132**
Net Advances	2,57,372	2,90,958	3,40,566	4,05,625
Growth(%)	*1.5*	*13.0*	*17.1*	*19.1*
Investments	84,137	90,982	1,04,377	1,20,629
Total Assets	**3,96,021**	**4,48,401**	**5,11,418**	**6,02,132**
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	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Interest Income	8,693	8,781	9,199	9,493
Interest Expenses	5,460	5,331	5,395	5,753
Net Interest Income	**3,233**	**3,450**	**3,805**	**3,740**
YoY growth (%)	*(3.2)*	*3.1*	*22.3*	*21.1*
CEB	614	630	663	648
Treasury	-	-	-	-
Non Interest Income	977	1,183	1,148	924
Total Income	**9,670**	**9,964**	**10,347**	**10,417**
Employee Expenses	1,322	1,380	1,463	1,551
Other expenses	1,138	1,266	1,282	1,451
Operating Expenses	2,459	2,645	2,744	3,002
Operating Profit	**1,751**	**1,988**	**2,208**	**1,661**
YoY growth (%)	*(22.1)*	*(28.3)*	*7.6*	*(17.4)*
Core Operating Profits	1,647	1,825	2,205	1,656
NPA Provision	-	-	-	-
Others Provisions	863	970	676	350
Total Provisions	863	970	676	350
Profit Before Tax	**888**	**1,019**	**1,532**	**1,311**
Tax	239	265	398	340
PAT	**649**	**754**	**1,134**	**971**
YoY growth (%)	*(21.1)*	*(21.7)*	*45.6*	*187.8*
Deposits	**3,17,695**	**3,22,311**	**3,46,917**	**3,50,810**
YoY growth (%)	*10.4*	*11.7*	*16.8*	*14.6*
Advances	**2,68,503**	**2,76,588**	**2,90,958**	**2,98,140**
YoY growth (%)	*7.9*	*9.3*	*13.0*	*16.9*

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	89	89	89	89
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)	8.2	9.6	7.1	5.5
P/BV (x)	0.8	0.7	0.7	0.6
P/ABV (x)	0.9	0.8	0.7	0.7
DPS (Rs)	-	1.0	1.3	1.6
Dividend Payout Ratio (%)	-	*10.8*	*10.0*	*10.0*
Dividend Yield (%)	-	*1.1*	*1.4*	*1.8*

Efficiency

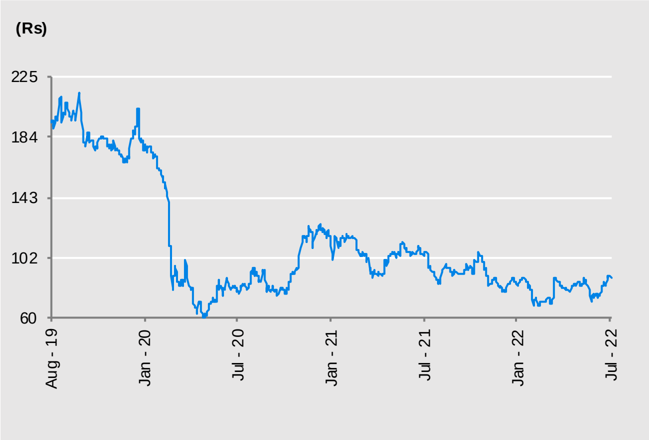
Y/e Mar	FY21	FY22	FY23E	FY24E
Cost-Income Ratio (%)	*48.5*	*56.0*	*55.7*	*54.4*
C-D Ratio (%)	*86.6*	*83.9*	*84.8*	*84.1*
Business per Emp. (Rs m)	86	79	87	98
Profit per Emp. (Rs lacs)	5	4	5	6
Business per Branch (Rs m)	1,575	1,595	1,734	1,939
Profit per Branch (Rs m)	10	7	9	11

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	08-Jul-22	Hold	120	81
2	08-May-22	BUY	120	78
3	09-Apr-22	BUY	120	86

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	2,300	2,006
2	Axis Bank	BUY	940	727
3	Bank of Baroda	BUY	125	105
4	Can Fin Homes	BUY	675	538
5	City Union Bank	BUY	170	145
6	DCB Bank	Hold	120	81
7	Federal Bank	BUY	135	99
8	HDFC	BUY	2,900	2,378
9	HDFC Bank	BUY	1,740	1,362
10	ICICI Bank	BUY	950	800
11	IDFC First Bank	UR	-	34
12	IndusInd Bank	BUY	1,300	1,018
13	Kotak Mahindra Bank	Accumulate	1,950	1,827
14	LIC Housing Finance	Accumulate	435	351
15	Punjab National Bank	BUY	50	31
16	State Bank of India	BUY	600	487

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

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