Axis
Annual
Analysis 2023

AAA

DCB Bank Ltd.

AXIS SECURITIES

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Annual Report Analysis
5th July, 2023

DCB Bank Ltd.
BFSI – Banks

Buy
Target Price
150

FY23 – A Year of Recovery, Accelerating Growth Momentum!

Summary

FY23 was a year of recovery for DCB Bank Ltd (DCB). The bank proactively pushed the growth pedal during the year,accelerating growth on both sides of the balance sheet. Its asset quality concerns continued to ebb as collections improved and the recovery pipeline continued to be strong even as slippages remained elevated. In an increasing interest rate environment, DCB witnessed significant ***margin expansion*** in FY23**.** This was supported by lower slippages YoY, faster loan repricing, and a lag in rate transmission in CoF, which enabled DCB to exit FY23 with ***NIMs at a multi-year high (highest since FY19)***. The improved demand outlook and the management's guidance of doubling the balance sheet size in the next 3-4 years should keep the bank's credit/deposit book healthy at ~18%/17% CAGR over FY23-25E.

Key Highlights

- **Financial Performance:** DCB's disbursement growth picked-up in FY23 (+37 % YoY), thereby translated into an advances growth of 18% YoY, which was primarily led by growth in the core products – Mortgages and Agri/AIB portfolio. Deposit growth also picked up to 19% YoY, led by equally healthy growth in CASA Deposits (+17% YoY) and TDs (+19% YoY). While the systemic rates began to inch up in early FY23, the pass-through of higher interest rates on the deposits came in with a lag. This coupled with faster loan repricing supported the bank's NIMs. Resultantly, aided by buoyant growth and healthy NIMs (3.93% in FY23 vs. 3.56% in FY22), DCB reported robust NII growth of 26% YoY. While improved business activity supported core fee income, non-interest income de-grew by 9% YoY in the absence of treasury and PSLC income. The Bank reported an Opex growth of 32%+ YoY, as it built capacity and strengthened teams across verticals to support business growth. Resultantly, C-I Ratio inched-up to 63% vs. 56% YoY. Lower non-interest income and elevated cost ratio dented PPOP growth, which stood flattish on a YoY basis. However, with asset quality headwinds decisively behind, credit costs tapered sharply (-61% YoY), which in turn, supported the earnings growth of the Bank (+62% YoY). An improved overall operational performance enabled DCB to exit FY23 with healthy RoA/RoE of 1%/11.7% (nearing its targeted RoA/RoE range of 1-1.1%/13-14%) vs. 0.7%/7.9% YoY.
- **Asset Quality:** FY23 was the first normalised year for the Bank after witnessing a couple of disruptedyears induced by the pandemic. The Bank started the year with the near-normalising collection efficiency (CE) across segments and continued to witness meaningful CE improvement across segments as well. The bank's GNPA/NNPA improved by 113/93bps YoY and its restructured book also declined significantly (-17% YoY) to 4.5% of advances vs. 6.4% in FY22.
- **Operational Review:** The Bank'sconcentration ratios on both sides of the balance sheet showed divergent trends with a concentration of Top-20 deposits inching up marginally to ~7% vs. 6.3% in FY22. On the other hand, the concentration of Top-20 advances declined to 4.3% from 5% YoY. The Bank continues to remain adequately capitalised with its CRAR/Tier-I ratio standing at 18.7%/15.8%. Risk-weighted assets stood at Rs 28,221 Cr (+16% YoY) and formed ~54%/82% of Total Assets/RWA vs. ~54%/84% in FY22.
- **Key Competitive Strengths:** (a) Niche lender serving the under-penetrated self-employed segment; (b) Secured small-ticket size book resulting in lower LGDs; (c) Pan-India presence enabling the Bank to mitigate the risk of geographical concentration; (d) Granular book with one of the lowest concentration ratios amongst peers; (e) Experienced and competent management team.
- **Growth Drivers:** (a) Focus on doubling the balance sheet to keep growth buoyant; (b) Focus on the under-penetrated self-employed and small business segment which offers a large addressable market; (c) Improving profitability to drive return ratio improvement; (d) Continued asset quality improvement to support earnings growth.

Outlook &Valuation

DCB has regained its growth momentum in FY23 and we expect the same to sustain as the Bank looks to double its balance sheet size in the next 3-4 years. As DCB exit FY23, the Bank's collections in the core segment continued to improve and slippages stood at near-normalised levels. Keeping this in view, we expect credit costs to remain muted with no major challenges on the asset quality front. Moreover, operating leverage is expected to gradually kick-in.This along with improved fee income and moderate credit costs should compensate for the lower NIMs moving forward.**The stock is currently trading at an attractive valuation of 0.7x FY25E ABV and we value the stock at 0.9x FY25E ABV to arrive at a target price of Rs 150/share. The TP implies an upside of 21% from the CMP. We reiterate our BUY recommendation on the stock.**

Key Financials (Standalone)

(Rs. Cr)	FY22	FY23	FY24E	FY25E
NII	1,358	1,717	1,942	2,266
PPOP	797	787	923	1,141
Net Profit	288	466	548	684
EPS (Rs.)	9.2	14.9	17.6	22.0
ABV	111.8	132.2	146.1	163.3
P/ABV	1.1	0.9	0.8	0.7
NNPA (%)	2.0	1.0	1.0	1.0
ROA (%)	0.7	1.0	1.0	1.0

Source: Company, Axis Research

	(CMP as of Jul 04, 2023)
CMP (Rs)	124
Upside /Downside (%)	21%
High/Low (Rs)	141/75
Market cap (Cr)	3,930
Avg. daily vol. (6m) Shrs.	12,76,150
No. of shares (Cr)	31.1

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	14.9	14.9	14.8
FIIs	12.5	12.4	12.3
MFs / UTI	27.5	27.5	28.3
Others	45.1	45.2	44.6

Financial & Valuations

Y/E Mar (Rs. Cr)	FY23	FY24E	FY25E
NII	1,717	1,942	2,266
PPOP	787	923	1,141
Net Profit	466	548	684
EPS (Rs.)	14.9	17.6	22.0
ABV	132.2	146.1	163.3
P/ABV	0.9	0.8	0.7
GNPA (%)	1.0	1.0	1.0
ROAA (%)	1.0	1.0	1.0

Change in Estimates (%)

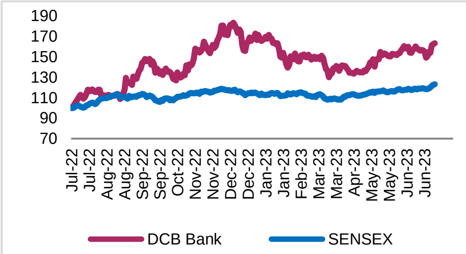
Y/E Mar	FY24E	FY25E
NII	-	-
PPOP	-	-
PAT	-	-

ESG disclosure Score**

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	**N.A**
Sector Average	**39.2**

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Company Overview

DCB is a retail-focused Bank that offers a diversified suite of products, primarily catering to self-employed borrowers (80-90% of the customer base). The Bank's portfolio is spread across segments such as Mortgage (mainly LAP), SME/MSME loans, Agri and Inclusive Banking, Gold loans, CV Loans, and Corporate loans. The Bank's total advances at the end of FY23stood at Rs 34,381 Cr. DCB has a pan-India network of 427 branches with ~56% of the branches in metro and urban cities.

FY23 Performance Round-up:

- **Growth momentum improves in FY23** – DCB pushed the growth pedal as it entered FY23 and was able to sustain the momentum supported by improved demand in core segments that the Bank caters to. Disbursement growth picked up and registered a healthy growth of 37% YoY, translating into credit growth of 18% YoY (best since FY19). Mortgages, SME/MSE, and Agri segments registered strong growth while CV and Gold portfolios de-grew during FY23. DCB's market share in terms of advances has remained largely stable at ~25bps in FY23.

- **Deposit franchise picked up momentum** – DCB continued to focus on building a retail-dominated granular deposit franchise as was visible in the stable CASA Ratio. CASA Ratio remained largely flattish at 26.4% in FY23 vs. 26.8% in FY22, despite a sharp increase in interest rates and a flow from CASA deposits to TDs. The Bank's focus remains on garnering SA accounts as the competitive intensity amongst CA customers remains high. It will continue to leverage its existing branch network and offer competitive interest rates to enable deposit mobilisation with a primary focus on SA Deposits. The Bank aims to improve its CASA Ratio to ~30% over the medium term. DCB's market share in terms of deposits improved YoY by ~3bps to stand at ~23bps.

- **Concentration ratios improved** – DCB has been successful in improving its concentration ratios over the past few years. The concentration of the Top-20 advances improved YoY to 4.3% in FY23 vs. 5.03% in FY22. However, the Top-20 deposits and Top-20 exposure to the largest customers/borrowers increased by 65/62bps YoY and stood at 7.0%/6.2% respectively.

- **NIMs expand owing to faster loan repricing** – NIMs expanded by 37bps in YoY primarily owing to faster loan repricing, lower interest reversals, and a lag in rate transmission on the liability side. Lending yields improved by 35bps YoY supported by a higher mix of floating rate loans (except Gold/Vehicle Finance) enabling faster loan repricing. On the other hand, the Cost of Deposits (CoD) and Cost of Funds (CoF) remained largely stable with a minor cut of 2/5 bps YoY in FY23. Thus, better yields and stable CoF drove margin improvement for the Bank. The management expects NIMs to remain range-bound between 365-375bps, factoring in the impact of a sharp increase in the CoF in the coming quarters.

- **Core fee income improving** – As business activity throughout the year remained buoyant, core fee income improved. However, owing to poor market conditions and regulatory changes, PSLC income remained impacted.

- **Opex remained elevated –** During the year, DCB continued to build capacity and strengthen the team across verticals to support its growth aspirations. Resultantly, its C-I Ratio inched up to 63% from 56% in FY22. However, the management has guided FY24 Opex growth to be lower than FY23 levels.

- **Strong recovery pipeline aided asset quality improvement**– Improving macros and focus on improving collections drove the Bank's collection efficiencies (CE) across segments to near pre-COVID levels in FY23. Similarly, slippages moderated marginally during the year, especially in H2FY23, and were near normalized in the Bank's core segments. However, the slippage ratio of 5.4% of advances continued to remain significantly higher than the long-term average of ~2%. The recovery pipeline continued to remain robust throughout the year resulting in a meaningful improvement in the Bank's asset quality. GNPA/NNPA declined by 113/93bps YoY in FY23. Thus, receding asset quality stress resulted in lower provisions which moderated sharply by 61% YoY in FY23. Credit cost stood at ~50bps vs. ~150bps in FY22. Additionally, the Bank's restructured book continued to taper throughout the year and stood at 4.5% vs. 6.4% in FY22. The restructured book has been performing well in FY23 and the management remains confident of similar performance going ahead.

- **Bank remains well capitalized**: DCB remains well capitalized to fuel its medium-term growth with CRAR/Tier I Capital at 17.6%/15.2% in FY23.Credit Risk-weighted assets (RWA) grew by 16% YoY, which was marginally lower than credit growth (~18% YoY), primarily owing to a lower mix of assets with a risk weight of >100%. The mix of <100% loans improved to 69.8% vs. 66.8% in FY22.

Key Operating Highlights

- **Accelerating growth with demand visibility improvement in core segments**– During FY23, as business gathered momentum, DCB disbursed Rs 17,910 Cr with a bulk of disbursements towards core segments – Mortgages (31% Mix), SME/MSME (20% Mix), and AIB (22% Mix).Thus, advances growth in Mortgages/SME+MSME/AIB segments remained healthy at 26%/10%/31% YoY respectively, while other segments such as Gold and CVs de-grew sharply during the year.

  The **Mortgages business** expanded during the year with increased sourcing from the selected segments and more focus on home loans. DCB increased its distribution in the Mortgage business by adding frontline headcount and expanding its geographic presence.

  In **Gold loans**, DCB focused on improving customer experience and service by continuously investing in process improvements through the in-housing of the valuation process and a significant overhaul of the front-end system used for loan processing. The Bank has invested in improving controls in order to avoid operating errors and fraud losses.

  To build a secured book along with creating long-term relationships with high-quality **large and mid-corporates**, the bank added 74 new units across products.

Exhibit 1: Disbursement Mix dominated by core segments

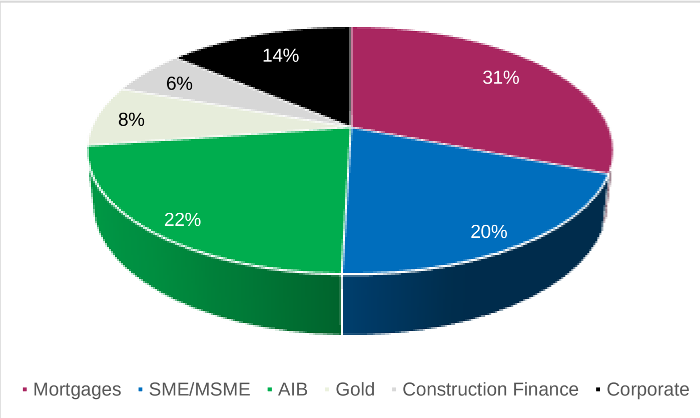
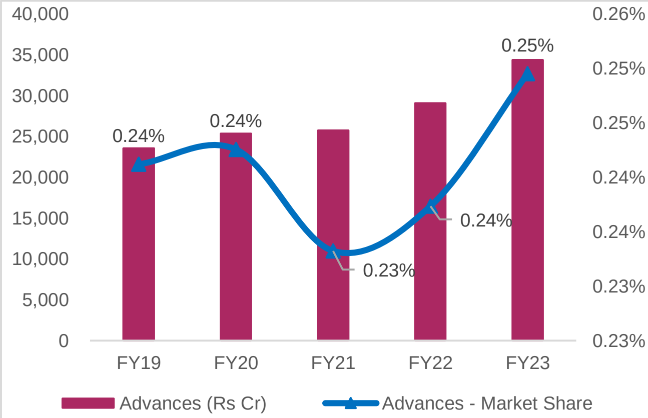
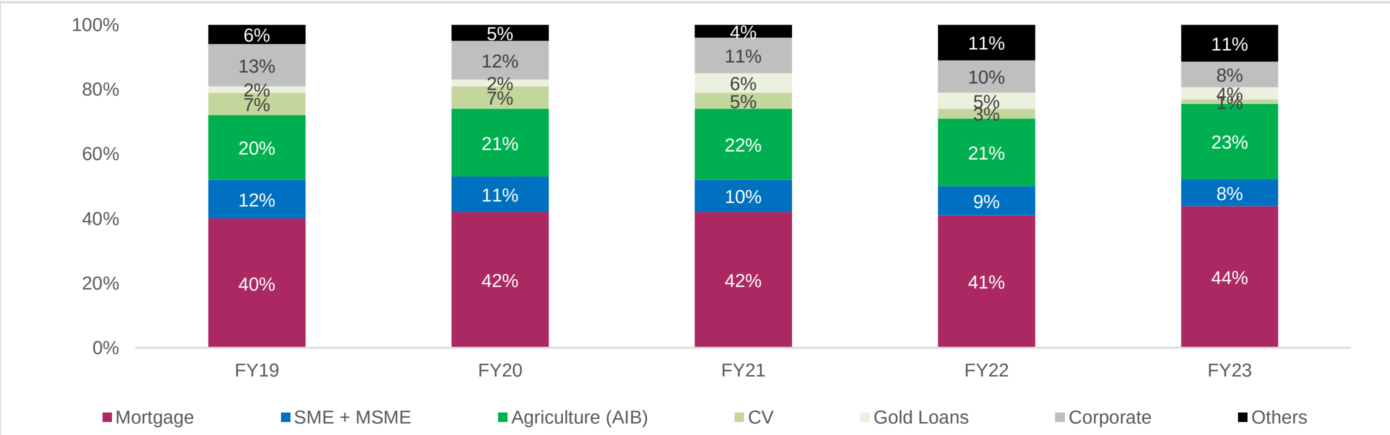


Exhibit 2: Gradual improvement in advance Market share



Source: Company, Axis Securities

Exhibit 3: Core segments continue to dominate the portfolio



Source: Company, Axis Securities

- **Improving Deposit Franchise Granularity** – DCB has focused on making the deposit base more granular and retail-dominant. Deposits registered a strong growth of 19% YoYwith growth driven by equally healthy growth in both CASA Deposits (+17% YoY) and TDs (+19% YoY). Within CASA Deposits, while SA deposits grew by 23% YoY, CA deposits registered a de-growth of 2% YoY.With travel restrictions having eased, the Bank focused on garnering NRI deposits during FY23. Resultantly, NRI SA Balances grew by 20% YoY. The Bank has NRI customers from 128 countries, which contributes ~8.6% of total customer deposits. Going forward, we expect DCB's deposit momentum to remain healthy given its improved branch network and frontline force facilitating better mobilization of deposits.

Exhibit 4: Deposits growth largely driven by TDs

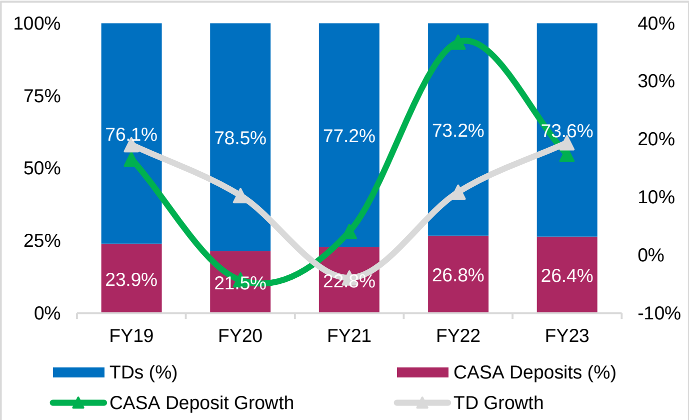
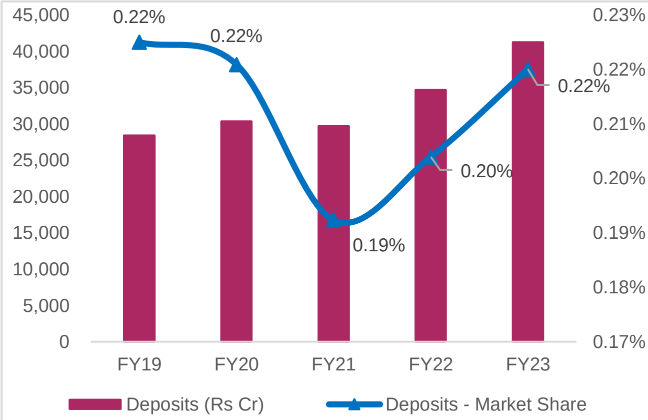
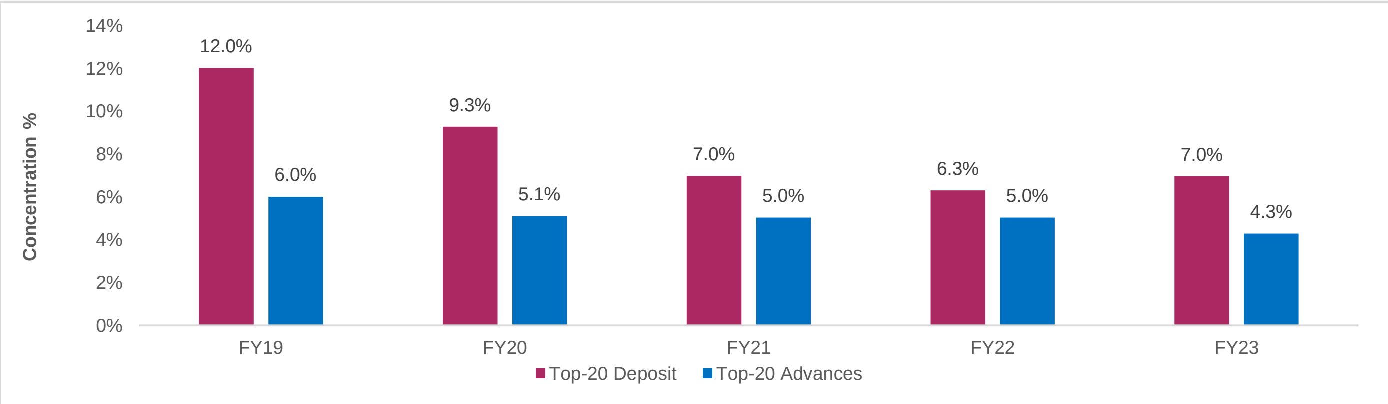


Exhibit 5: Gradual improvement in Deposits Market share



Source: Company, Axis Securities

Exhibit 6: Concentration ratios on a YoY basis inching up for deposits while improving for Advances



Source: Company, Axis Securities

- **Productivity Metrics continue to improve** – As DCB continued to invest in strengthening its frontline force across verticals to support strong business momentum, its Cost-Income ratio (C-I Ratio) remained elevated. It increased sharply to 63% in FY23 from 56% in FY22. Similarly, its C-A Ratio also inched up to 2.8% from 2.4% in FY22.

  However, as vintage branches turned profitable and more productive, DCB witnessed an improvement in most the productivity ratios. The Bank's business/branch improved to ~Rs 177 Cr/branch vs. Rs 159 Cr/branch in FY22. While employee addition growth was higher (+23% YoY), business/employee was marginally lower at Rs 7.6 Cr vs. Rs 7.9 Cr in FY22. ***As operating leverage kicks in with branches maturing, DCB is likely to witness further improvement across productivity metrics as well as in the C-I Ratio***.

Exhibit 7: Business per branch improves with vintage branches turning profitable

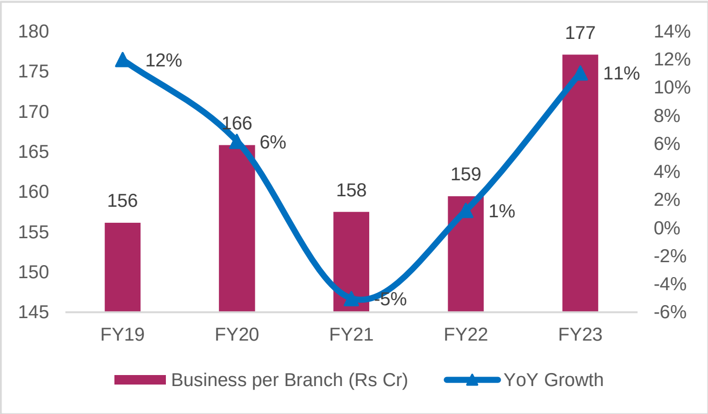
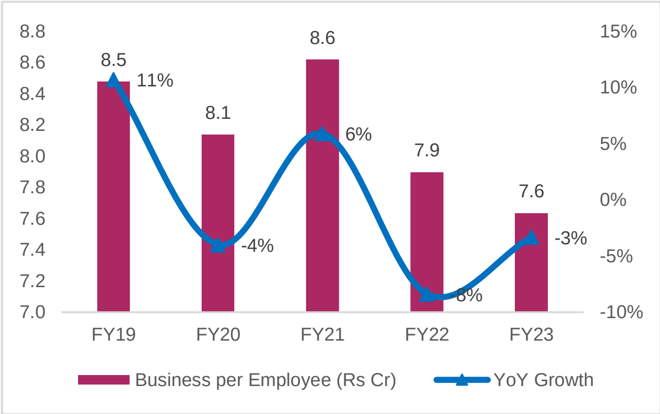


Exhibit 8: Higher employee addition growth vs business growth keeps business per employee ratio slightly lower YoY



Source: Company, Axis Securities

Exhibit 9:Improving profitability per branch

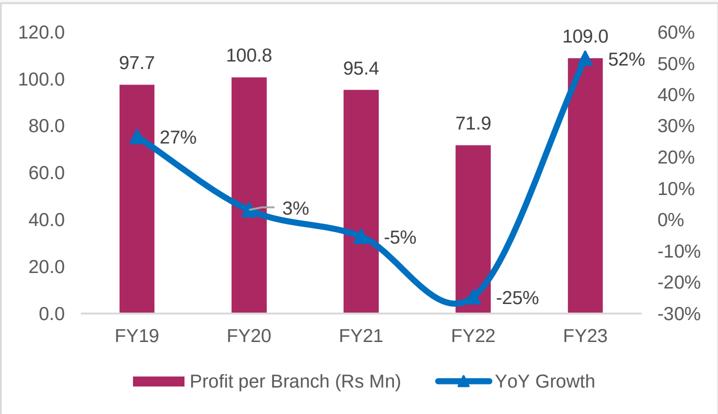
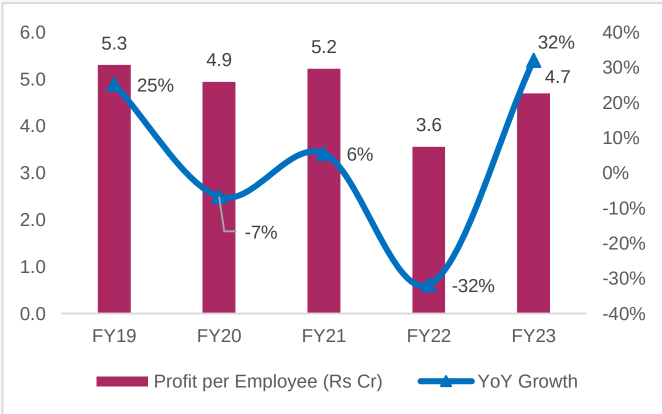


Exhibit 10: Profitability per employee improves sharply in FY23



Source: Company, Axis Securities

- **Strong recoveries result in improved asset quality even as slippages remain elevated**: With collection efficiency across core segments improving throughout the year, slippages moderated YoY. However, they remained fairly elevated vs. normalized levels. A key reason for higher slippages was slippages from the gold book in most quarters. However, the management continued to highlight that these slippages were not alarming and would be recovered in the subsequent quarters. The management also highlighted that the slippages in the core segments, ex-gold book, have mostly normalized as DCB exit FY23. Thus, slippages going into FY24 are expected to be meaningfully lower vs. FY23. The slippage ratio for FY23 stood at 5.4% vs. 6.5% in FY22.

  The Bank has a strong collection team at 304 locations across India. During FY23, the total upgrades and recoveries stood at 1,866 Cr vs. Rs 1,565 Cr in FY22 (5.9% of advances in FY23 vs. 5.7% in FY22). Thus, supported by lower slippages YoY and strong recoveries, DCB witnessed a sharp improvement in the asset quality with GNPA down 113bps YoY. Similarly, DCB's restructured book (net) continued to improve and stood at 4.5% at the end of FY23 vs. 6.4% in FY22.

Exhibit 11: Asset Quality improvement continues

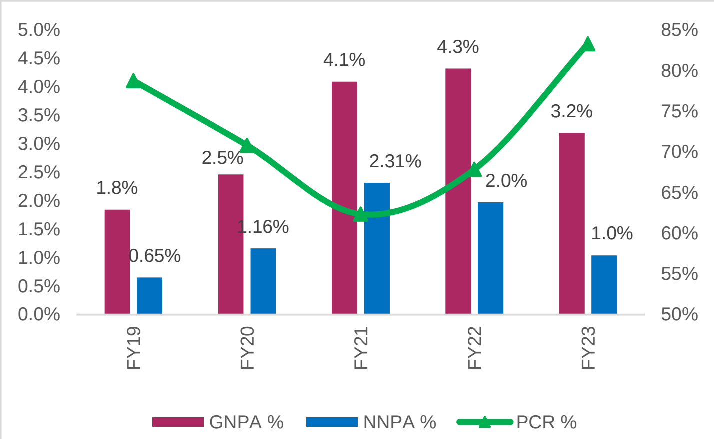
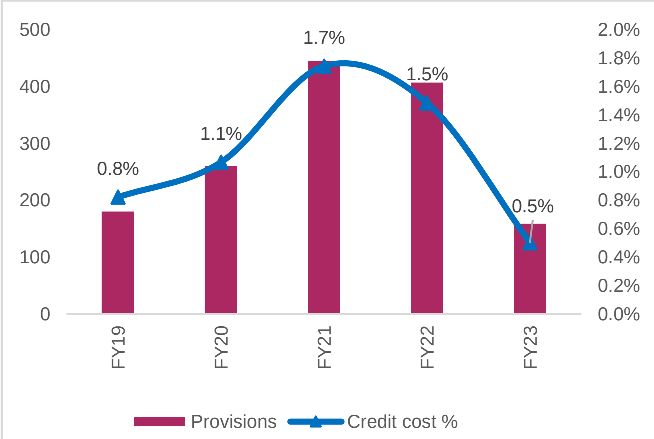


Exhibit 12: Credit Cost likely to remain stable going forward



Source: Company, Axis Securities

Exhibit13: Segmental NPA trend

	FY18	FY19	FY20	FY21	FY22	FY23
Mortgage	1.7%	1.7%	2.1%	3.8%	2.9%	1.8%
SME+MSME	1.3%	1.5%	2.6%	4.6%	5.3%	4.5%
Corporate	2.4%	2.0%	1.7%	1.8%	3.5%	7.3%
AIB	1.7%	2.1%	2.3%	4.1%	4.8%	3.4%
Gold Loans	2.6%	1.8%	1.4%	3.6%	9.1%	1.5%
Others	11.1%	1.2%	2.7%	4.7%	1.8%	1.3%

Source: Company, Axis Securities

Exhibit 14: FY23 Trends – Collections continue to improve across segments

Bucket 0	Jan-20	Mar-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23
Business Loans (LAP)	98.9%	97.7%	98.3%	98.2%	98.6%	97.9%	98.0%	98.8%
Home Loans	99.2%	99.0%	99.1%	98.8%	98.9%	98.1%	98.2%	98.7%
CV Loans	96.0%	85.1%	93.8%	93.6%	94.8%	93.6%	92.8%	96.0%
CE incl delinquency and restructured Book	**Jan-20**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Jan-23**	**Feb-23**	**Mar-23**
Business Loans (LAP)	97.5%	96.7%	97.0%	96.7%	97.3%	96.3%	96.6%	97.9%
Home Loans	98.5%	98.5%	98.4%	98.1%	98.3%	97.6%	97.2%	97.7%
CV Loans	92.1%	85.2%	88.6%	89.4%	92.4%	90.2%	89.8%	93.6%

Source: Company, Axis Securities

- **Improving core fee income profile** – One of the key strategies of the Bank is to enter into alliances with entities whose products and services enable it to improve customer acquisition and retention. This was visible in the improving fee income ratio to advances. The fee income/avg. advances improved to 95bps vs. 87bps in FY22. Thus, the core fee income profile for DCB has witnessed improvement, thanks to strong growth in third-party product distribution income. PSLC income continued to remain subdued during the year owing to weak market conditions.

Key Growth Drivers

Focus on doubling the balance sheet to keep growth momentum intact

The on-ground demand for DCB's core products continues to remain healthy with no visible signs of weakening so far. The sectoral data released by the RBI also shows healthy growth momentum despite expectations of moderation in FY24 vis-a-vis FY23. Growth in the SME/MSME and retail segments has been healthy and largely broad-based in the retail segment, while the corporate segment has been picking up gradually as well. The management expects the disbursement momentum to improve hereon, thereby supporting its credit growth. The Bank looks to double its loan book over the next 3-3.5 years. Similarly, leveraging its existing branch network and its unabated focus on mobilizing deposits (especially CASA and Retail deposits), we expect deposit growth for the Bank to remain healthy over the medium term. **We believe DCB remains well-placed to deliver a healthy Credit/Deposit growth of ~18/17% CAGR over FY23-25E as it endeavours to double its balance sheet to ~Rs 1 Tn over the next 3-4 years.**

Tapping the SME/MSME opportunity

DCB's core competence lies in extending credit to smaller businesses/self-employed segments which have acted as a key catalyst in driving growth for theBank. The Mortgage and SME/MSME segments are likely to remain the Bank's key growth drivers moving forward. The SME/MSME segment continues to remain under-penetrated thereby providing ample opportunities to scale up the book. As per the MSME Annual Report for FY22-23, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Karnataka, Bihar, AP, Gujarat, Rajasthan, and MP are the Top-10 states with a higher concentration of SME/MSME business units (74.1% of total business units). Of these states, DCB has a significant presence in Maharashtra, Gujarat, MP, and Rajasthan. The management also remains confident of delivering robust growth with SME/MSME segment being the key growth driver for the Bank. **Thus, we believe DCB is well-placed to tap the SME opportunity and scale up the loan book.**

Focus on the self-employed segment

The niche market of self-employed customers that DCB caters to has acted as a key catalyst for the Bank's growth over the past decade. The self-employed segment continues to remain underpenetrated and underserved, thereby providing ample opportunities for DCB to build a scalable loan book. Additionally, this segment of customers is interest-rate agnostic which helps DCB to enjoy better pricing power and thereby enables it to achieve better yields. Supported by a higher mix of floating rate loans, DCB's NIMs witnessed a sharp improvement in FY23 with benefits from faster loan repricing and a lag in rate transmission on the deposits. However, we expect pressure on margins in FY24 vs. FY23 with a sharp increase in CoF, and expect margins to remain at 3.65%(+/- 5bps) over the medium term.

Improving asset quality and operational efficiency to support profitability

As margin pressures surface in FY24, key drivers for the Bank's RoA would be improving operational efficiency, improving core fee income profile, and benign credit costs. With asset quality stress on the mend and asset quality improvement likely to continue, we expect credit costs to remain steady over the medium term. With focused efforts on improving the core fee income profile, DCB is likely to witness healthy growth in the non-interest income segment with strong contributions from fee income and third-party distribution income (even in the absence of PSLC income). Similarly, improving the operational efficiency of vintage branches along with a more productive and contributing employee base will support the overall business growth of the Bank. Thus, pressure on margins is most likely to be adequately offset by the aforementioned factors. We expect DCB to sustain its RoA delivery of 1-1.1% over the medium term

Risks & Mitigation

- **Higher exposure to self-employed customers**

  DCB's core customer base consists of self-employed borrowers who pose a higher default risk during disruptions as witnessed during Covid-19.

  Mitigation: Over the years, DCB has built its strength in servicing this segment and has a proven track record of maintaining robust asset quality and containing credit costs despite headwinds and challenging times. Its strong underwriting practices and a higher proportion of secured books with home properties as collateral (with a large part of them being self-occupied), largely insulate the Bank from higher LGDs.

- **Ensuring seamless management succession**

  With the current MD CEO slated to retire in CY24, the Bank will have to look out for a suitable successor and ensure seamless management succession.

  Mitigation: The management has stated that the nomination committee will decide on the head-hunting agency that would be appointed and the search panel to shortlist a suitable candidate from within or from outside the organization. The Bank is most likely to finalize the candidate by the end of Nov'23 and submit the application to the regulator for approval.

Operational Performance and Financial Statement Analysis

Profitability Analysis **(Rs. Cr)**

Particulars	FY22	FY23	Change	Comments
Net Interest Income	1,358	1,717	26.5%	Strong loans growth, loan repricing, lag in an increase in CoF, and lower slippages led to lower interest reversals, resulting in healthy NII growth
Non-Interest Income	452	409	-9.4%	Lower PSLC income and hit on treasury income resulted in de-growth in non-interest income
PPOP	797	787	-1.3%	Lower non-interest income along with the Bank ramping up capacity and beefing up frontline teams elevated Opex, denting PPOP growth
Provisions	407	159	-60.9%	Receding asset quality stress resulted in the moderation of provisions
PAT	288	466	61.9%	Healthy NII growth and meaningfully lower provisions resulted in healthy earnings growth
EPS	9.2	14.9	61.7%	Same as above

Source: Company; Axis Securities

Spread Analysis **(Rs. Cr)**

Particulars	FY22	FY23	Change	Comments
Blended Yields (reported)	10.7	11.1	+40 bps	Faster loan repricing with a large part of the book being floating rate enabled yield expansion
Cost of Deposits (reported)	6.1	6.0	-10 bps	Slower transmission of higher interest rates resulted in a flattish Cost of Deposits
Cost of Funds (reported)	6.6	6.2	-40 bps	Same as above
Spreads (reported)	2.9	3.3	+40 bps	
NIMs (reported)	3.6	3.9	+37 bps	Yield expansion along with muted CoF-supported NIMs

Source: Company; Axis Securities

Asset Quality Analysis **(Rs Cr)**

Particulars	FY22	FY23	Change	Comments
GNPA	1,290	1,123	-13.0%	Lower slippages YoY and a healthy recovery pipeline resulted in a decline in GNPA
GNPA %	4.3	3.2	-113 bps	Same as above
Slippage	1,772	1,698	-4.1%	
Slippage Ratio (%)	6.5	5.4	-111 bps	
NNPA	573	357	-37.7%	Increased provision cover resulted in lower NPA
NNPA %	2.0	1.0	-93 bps	
Credit Costs (%)	1.5	0.5	-98 bps	Receding asset quality stress resulted in lower credit costs
Provision Coverage Ratio %	67.8	83.3	+1550 bps	

Source: Company; Axis Securities

Efficiency Ratios

(%)

Particulars	FY22	FY23	Change	Comments
Cost-Income Ratio	56.0	63.0	+700 bps	Focus on building capacity and strengthening teams across verticals resulted in higher Opex, thereby keeping the C-I Ratio inflated
Cost-Assets Ratio	2.4	2.8	+40 bps	Same as above
ROA	0.7	1.0	+30 bps	Improved profitability driven by strong NII growth and significantly lower credit costs led to improved RoA
ROE	7.4	10.8	+340 bps	
CRAR	18.9	18.7	-20 bps	The Bank remains well-capitalized to fuel medium-term growth
Tier I	15.8	15.8	-	Same as above
RWA	24,313	28,221	16.1%	
RWA to Total Assets (%)	54.2	53.9	-30 bps	

Source: Company; Axis Securities

Exhibit 15: Cost ratios remain elevated with investment in franchise

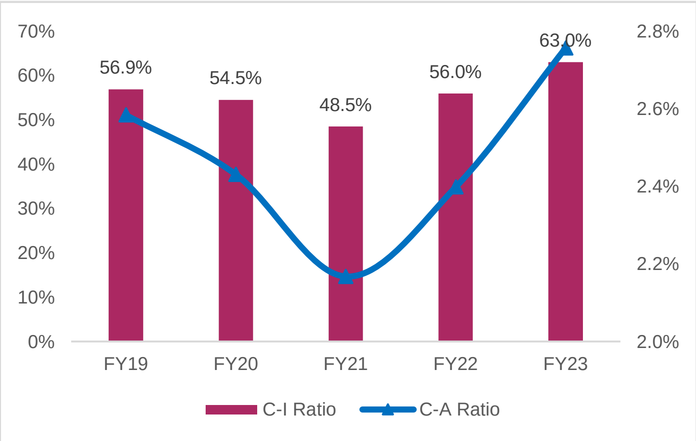
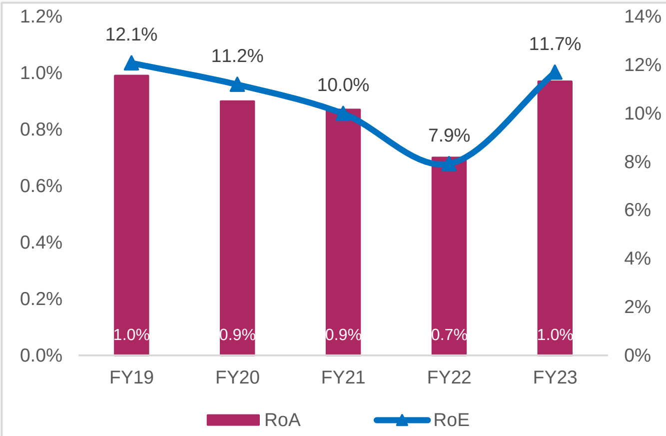
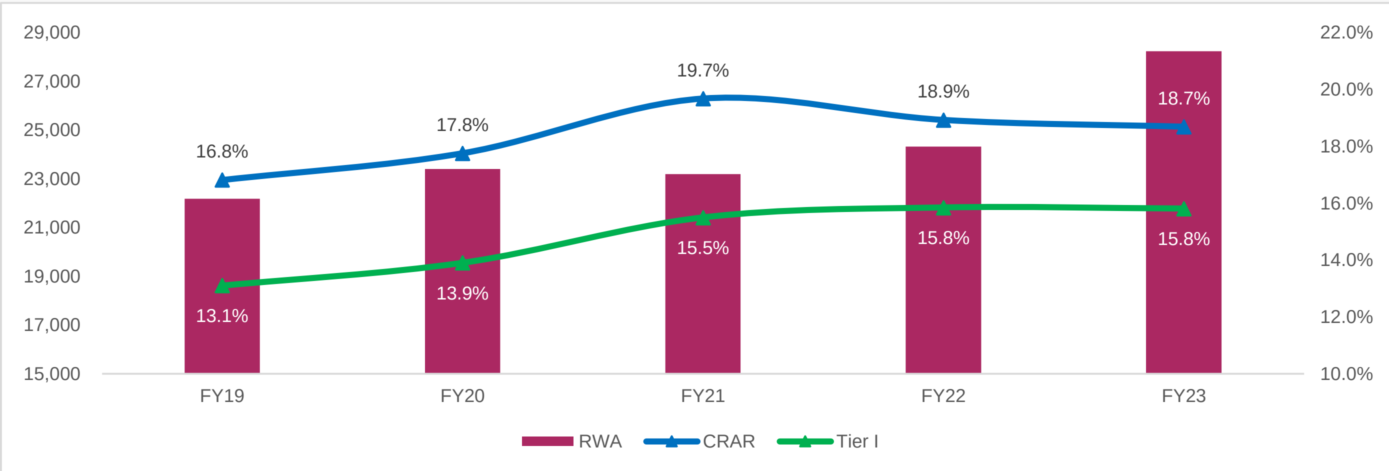


Exhibit 16:Return Ratios to improve gradually



Source: Company, Axis Securities

Exhibit 17: DCB remains well capitalized to fuel medium term growth



Source: Company, Axis Securities

Asset and Liability Analysis **(Rs Cr)**

Particulars	FY22	FY23	Change	Comments
Advances	29,096	34,381	18.2%	Strong growth in disbursements, especially in the core segments drove healthy Advances growth
Deposits	34,692	41,239	18.9%	Strong growth led by TDs and CASA Deposits drove healthy deposits growth
C/D Ratio (%)	83.9	83.4	-50 bps	
CASA Deposits	9,281	10,896	17.4%	CASA growth was driven by healthy growth in SA deposits (+23% YoY) as CA deposit growth was muted (flattish YoY)
CASA Ratio (%)	26.8	26.4	-40 bps	Same as above
Total Assets	44,840	52,366	16.8%	

Source: Company; Axis Securities

Exhibit 18: Advances regaining growth momentum

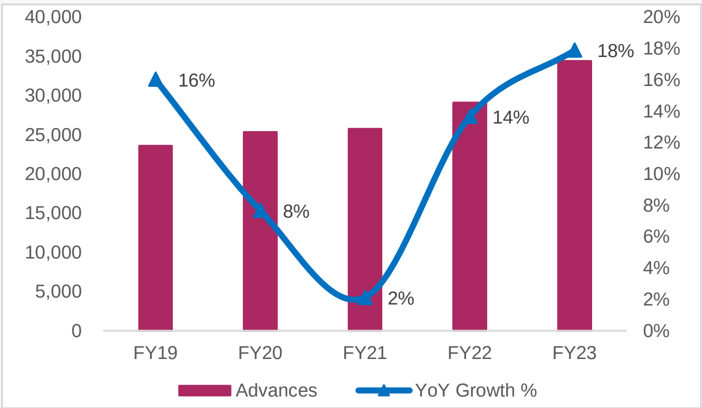
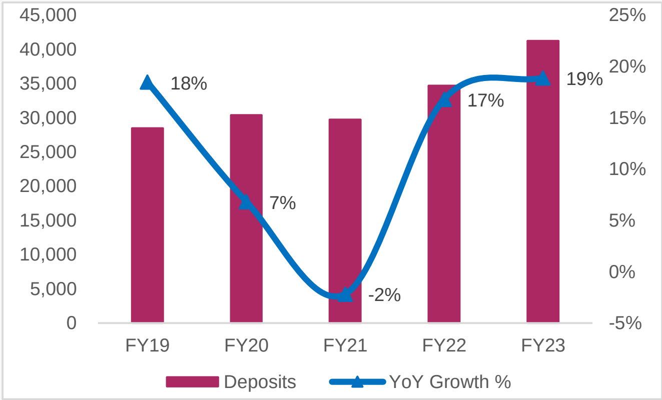
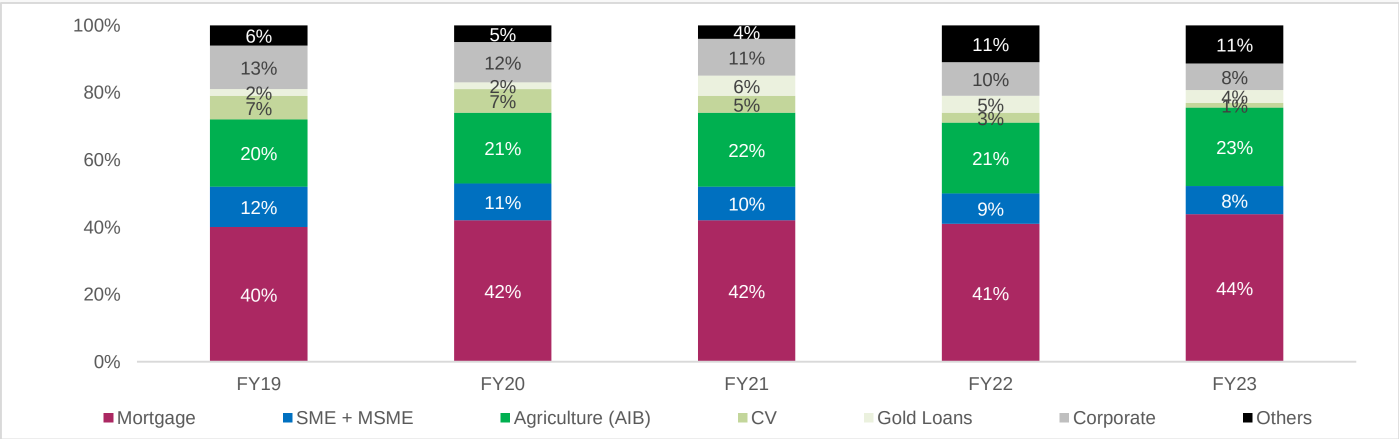


Exhibit 19: Deposits growth picking-up



Source: Company, Axis Securities

Exhibit 20: With demand in core segment improving, DCBs portfolio mix remains largely skewed towards Mortgages/LAP/SME/Agri



Source: Company, Axis Securities

Contingent Liability Analysis **(Rs Cr)**

Particulars	FY22	FY23	Change	Comments
Contingent Liabilities				
(a) Claims against the Bank not acknowledged as debts	35.5	34.8	-2.0%	
(b) Liability on account of outstanding forward exchange and derivative contracts - Forward Contracts	1,778	3,442	93.6%	Normal business activity
(c) Guarantees given on behalf of constituents – In India	1,107	1,244	12.4%	Normal business activity
(d) Guarantees given on behalf of constituents – Outside India	708	703	-0.7%	
(e) Acceptances, Endorsements and other obligations	232	116	-49.4%	Normal business activity
Total Contingent Liabilities	**5,062**	**5,098**		**% of contingent liabilities has reduced significantly YoY even though in absolute terms it has remained flattish**
Contingent Liabilities/Total Assets (%)	***11.3%***	***9.7%***		

Source: Company; Axis Securities

Related Party Transactions **(Rs Cr)**

Particulars	FY22	FY23	Change	Comments
Remuneration to Key Management Personnel	5.6	4.4	-21.4%	

Source: Company; Axis Securities

Corporate Social Responsibility (CSR)

- ✓ The Bank's CSR thrust areas are Water, Waste Management, Renewable Energy, Recycling, Support Technology incubators related to the Bank's thrust areas, Preserve Archaeological and Historic sites and Disaster relief. The CSR and HR team work together to engage employees in tree plantation, habitat restoration, and clean-up of parks, lakes, beaches, and water bodies.
- ✓ In FY23, the Bank's 'DCB Social volunteers' engaged in various clean-up and environmental restoration initiatives across Bank's footprint. Meaningful contribution of time and effort by 1,600 CSR volunteers across DCB Bank locations has greatly helped drive awareness on saving water in households, reducing the usage of single-use plastic, encouraging local communities to segregate recyclable and organic waste, enhancing green cover in rural and urban locations.
- ✓ The Bank earmarked Rs 8.8 Cr towards CSR activities during FY23.

Financials (Standalone)

Profit & Loss **(Rs Cr)**

Y/E March	FY22	FY23	FY24E	FY25E
Net Interest Income	**1,358**	**1,717**	**1,942**	**2,266**
Other Income	452	409	502	603
Total Income	**1,810**	**2,126**	**2,444**	**2,869**
Total Operating Exp	1,013	1,340	1,521	1,728
PPOP	**797**	**787**	**923**	**1,141**
Provisions & Contingencies	407	159	190	226
PBT	**390**	**628**	**733**	**915**
Provision for Tax	102	162	185	231
PAT	**288**	**466**	**548**	**684**

Source: Company, Axis Securities

Balance Sheet **(Rs Cr)**

Y/E March	FY22	FY23	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	311	312	312	312
Reserves and surplus	3,738	4,255	4,748	5,363
Shareholders' funds	**4,049**	**4,566**	**5,059**	**5,675**
Deposits	34,692	41,239	48,555	56,888
Borrowings	4,082	4,118	4,993	5,746
Other Liabilities	2,018	2,443	2,809	3,315
Total	**44,840**	**52,366**	**61,416**	**71,624**
APPLICATION OF FUNDS				
Cash & Bank Balance	4,091	2,368	2,691	3,153
Investments	9,098	12,582	14,572	16,504
Advances	29,096	34,381	40,594	47,816
Fixed and Other assets	2,555	3,034	3,559	4,150
Total Assets	**44,840**	**52,366**	**61,416**	**71,624**

Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY22	FY23	FY24E	FY25E
VALUATION RATIOS				
EPS	9.2	14.9	17.6	22.0
Earnings Growth (%)	*-15%*	*62%*	*18%*	*25%*
BVPS	130.2	146.6	162.4	182.2
Adj. BVPS	111.8	132.2	146.4	163.3
ROAA (%)	0.7%	1.0%	1.0%	1.0%
ROAE (%)	7.4%	10.8%	11.4%	12.7%
P/E (x)	11.5	7.1	6.0	4.8
P/ABV (x)	1.1	0.9	0.8	0.7
PROFITABILITY				
Yield on Total Assets (%)	11.1	10.7	11.0	11.2
Cost of Funds (%)	6.6	6.2	6.3	6.4
Core Spread (%)	4.4	4.3	4.4	4.4
NIM (%)	3.6	3.6	3.6	3.7
OPERATING EFFICIENCY				
Cost-Income Ratio (%)	48.5	56.0	55.7	53.6
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	13.0	18.2	18.1	17.8
Deposit Growth (%)	16.8	18.9	17.7	17.2
Equity/Assets (%)	9.0	8.7	8.2	7.9
Equity/Loans (%)	13.9	13.3	12.5	11.9
CAR	18.9	18.4	17.4	16.6
CAR Tier I	15.8	15.5	14.7	14.1
ASSET QUALITY				
Gross NPLs (%)	4.3	3.2	2.9	2.8
Net NPLs (%)	2.0	1.3	1.3	1.2
Coverage Ratio (%)	68	73	70	70
Credit Costs	1.5	0.5	0.5	0.5
ROAA TREE				
Net Interest Income	3.2	3.5	3.4	3.4
Non-Interest Income	1.1	0.8	0.9	0.9
Operating Cost	2.4	2.8	2.7	2.6
Provisions	1.0	0.3	0.3	0.3
Tax	0.2	0.3	0.3	0.3
ROAA	0.7	1.0	1.0	1.0
Leverage (x)	10.8	11.3	11.8	12.4
ROAE	7.4	10.8	11.4	12.7

Source: Company, Axis Securities

DCB BankPriceChartand Recommendation History

Date	Reco	TP	Research
01-Sep-21	BUY	115	Initiating Coverage
01-Nov-21	BUY	120	Result Update
10-Feb-22	BUY	115	Result Update
09-May-22	BUY	115	Result Update
21-Jun-22	BUY	115	AAA
01-Aug-22	BUY	115	Result Update
07-Nov-22	BUY	145	Result Update
30-Jan-23	BUY	150	Result Update
08-May-23	BUY	140	Result Update
05-Jul-23	BUY	150	AAA

Source: Axis Securities

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