

October 31, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	160		150	
NII (Rs m)	19,250	22,526	19,463	22,663
% Chng.	(1.1)	(0.6)		
Op. Profit (Rs m)	8,407	11,990	8,713	12,122
% Chng.	(3.5)	(1.1)		
EPS (Rs.)	16.1	23.1	16.5	22.5
% Chng.	(2.2)	2.8		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
NII (Rs m)	17,170	19,250	22,526	26,738
Op. Profit (Rs m)	7,867	8,407	11,990	15,315
PAT (Rs m)	4,656	5,075	7,263	9,532
EPS (Rs.)	14.8	16.1	23.1	30.3
Gr. (%)	60.8	9.0	43.1	31.2
DPS (Rs.)	-	1.6	2.3	3.0
Yield (%)	-	1.4	2.0	2.6
NIM (%)	3.8	3.6	3.5	3.5
RoAE (%)	11.5	11.3	14.5	16.8
RoAA (%)	1.0	0.9	1.1	1.2
P/BV (x)	0.8	0.8	0.7	0.6
P/ABV (x)	0.9	0.9	0.8	0.7
PE (x)	7.8	7.1	5.0	3.8
CAR (%)	17.6	17.4	17.3	17.2

Key Data

DCBA.BO | DCBB IN

52-W High / Low	Rs.141 / Rs.97
Sensex / Nifty	63,875 / 19,080
Market Cap	Rs.36bn / \$ 430m
Shares Outstanding	312m
3M Avg. Daily Value	Rs.211.08m

Shareholding Pattern (%)

Promoter's	14.81
Foreign	12.74
Domestic Institution	38.99
Public & Others	33.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.9)	8.2	6.4
Relative	(5.1)	3.5	1.2

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DCB Bank (DCBB IN)

Rating: BUY | CMP: Rs115 | TP: Rs160

Good core numbers but blip in asset quality

Quick Pointers:

- Core PAT beat of 23% due to higher fees and lower provisions.
- Asset quality blip but bank expects recoveries to improve in H2FY24.

DCBB a mixed quarter; while core PPOP was a 14% beat due to higher fees, asset quality saw a blip due to higher slippages resulting in GNPA rising by 10bps QoQ (vs decline for peers). Loan growth was bit better and bank would like to increase its risk appetite. Hence focus is back on bolstering LAP. While CoF could increase in H2FY24 albeit at a slower pace vs H1FY24, incremental focus on LAP, MFI and SME could partly support NIMs. Gross slippages emanated from OTR pool that has entirely come out of moratorium; bank expects recoveries to enhance in H2FY24. While valuation is attractive at 0.75x/0.65x key levers for re-rating are (1) consistent decline opex/assets led by sustained credit momentum (2) higher recoveries resulting in lower GNPA and (3) increase in RTD share. We maintain multiple at 1.0x but increase TP to Rs160 from Rs150 as we roll forward to Sep'25 ABV. Retain 'BUY'.

- Core PPOP beat led by higher fees; miss on asset quality:** NII was in-line at Rs4.75bn; NIM was a slight miss while credit growth was a bit higher. Loan growth was 19.1% YoY (PLe 18.5%) while deposit growth was 23.1% (PLe 20.8%). NIM was a slight miss at 3.85% (PLe 3.88%) led by lower yields. Other income was lower Rs1.07bn (PLe 1.12bn); while fees was higher at Rs970mn (PLe Rs800mn). Opex was slightly better at Rs3.72bn (PLe Rs3.8bn) due to both lower staff cost. PPOP was 1.2% below PLe at Rs2.1bn while core PPOP beat PLe by 14%. Asset quality disappointed as GNPA/NNPA increased QoQ by 10bps/8bps to 3.4%/1.2% due to higher gross slippages. Provisions were Rs397mn (PLe Rs450mn) while PCR was 62.8%. PAT was higher at Rs1.27bn (PLe Rs1.21bn) while core PAT was 23% higher to PLe.
- Focus back on LAP; RTD trending well:** Tad lower NIM was driven by QoQ loan growth in favor of agri (6.4%), mortgage (+4.4%) and corporate (+9.0%). With market conditions improving and majority of OTR pool out of moratorium, bank would like to increase its risk appetite. Hence it would like to enhance LAP share in mortgage that had declined during covid (pre-covid share was 85%); this should cushion NIM in a rising funding cost environment. AIB is another focus area that is growing well. Bank has also signed up with BC-partners to bolster the MFI business. On deposits, retail TD is tending well (grew by 7.3% QoQ). Bank endeavors to strengthen deposit franchise (CASA and RTD) with the help of additional capacity mobilization.
- Opex intensity could gradually reduce; blip in asset quality:** Operating leverage has started to play out with credit growth back in reckoning and opex to assets reducing from 3.05% in Q3'23 to 2.85% in Q2'24. Employee addition would continue to support business growth and bank plans to add 25-30 branches in FY24. We expect cost to assets to decline over FY23-26E from 2.8% to 2.3%. Gross slippages rose to Rs3.9bn (PLe Rs3.3bn) as entire OTR book came out of moratorium in Q2FY24. Management expects slippages to reduce in H2FY24 as customers would start repaying.

Exhibit 1: Earnings beat led by higher fees and lower provisions

P&L Statement (Rs m)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)
Interest Income	13,056	10,000	30.6	12,377	5.5
Interest Expended	8,299	5,889	40.9	7,670	8.2
Net interest income (NII)	4,757	4,111	15.7	4,707	1.1
-Treasury income	40	-	N.A.	40	-
Other income	1,074	992	8.2	1,069	0.4
Total income	5,831	5,103	14.3	5,777	0.9
Operating expenses	3,725	3,278	13.7	3,690	1.0
-Staff expenses	1,889	1,717	10.1	1,951	(3.1)
-Other expenses	1,836	1,561	17.6	1,739	5.6
Operating profit	2,105	1,826	15.3	2,087	0.9
Core operating profit	2,065	1,826	13.1	2,047	0.9
Total provisions	397	310	28.0	377	5.2
Profit before tax	1,708	1,516	12.7	1,709	(0.1)
Tax	441	392	12.4	440	0.1
Profit after tax	1,268	1,124	12.9	1,269	(0.1)
Balance Sheet (Rs m)					
Deposits	454,963	369,601	23.1	430,090	5.8
Advances	372,760	312,914	19.1	354,740	5.1
Ratios (%)					
NIM	3.9	3.9	(9)	4.0	(13.4)
RoaA	1.0	1.0	(5)	1.0	(4)
RoaE	11.3	11.1	14	11.6	(32)
Asset Quality					
Gross NPL (Rs m)	12,813	12,491	2.6	11,814	8.5
Net NPL (Rs m)	4,764	4,829	(1)	4,239	12.4
Gross NPL ratio	3.36	3.90	(53)	3.26	10
Net NPL ratio	1.28	1.54	(27)	1.19	8
Coverage ratio (Calc)	62.8	61.3	148	64.1	(130)
Business & Other Ratios					
Low-cost deposit mix	25.0	29.3	(431)	26.0	(93)
Cost-income ratio	63.9	64.2	(33)	63.9	2
Non int. inc / total income	18.4	19.4	(103)	18.5	(10)
Credit deposit ratio	81.9	84.7	(273)	82.5	(55)
CAR	16.6	17.9	(136)	17.1	(54)
Tier-I	14.3	14.9	(66)	14.8	(50)

Source: Company, PL

NII growth was in-line growing 1.1% QoQ

Other Income grew 0.4% QoQ led by higher fee income.

Operating expense was sequentially higher by 1%.

PPoP was a miss at Rs2.1bn led by higher staff cost.

Overall provisioning increased by 5.2% QoQ at Rs397mn.

Deposit growth was strong at 5.1% QoQ/23.1% YoY led by retail TD.

NIM declined by 13bps QoQ led by lower yields and higher CoF.

Asset quality metrics declined led by higher slippages and lower recoveries/upgrades.

CASA declines to 25% as TD grew faster.

Q2FY24 Concall Highlights

Assets & Liabilities

- **Management reiterated guidance to double B/S over 3 years.** The focus segment would be SME/MSME, mortgage loans, tractors, and gold loans. Disbursements have declined 1.04% YoY led by substantial decline in the TReD portfolio although disbursements Ex-TReD grew YoY.
- **Focus would be on increasing business loans (LAP) segment,** the share of LAP used to constitute 85% of the overall business pre-covid which was cautiously reduced led by adverse market conditions. With stabilizing interest rates and favorable market conditions, the share of LAP would be increased which would further help in yield accretion.
- **Deposits grew 5.8% QoQ to Rs454bn.** CASA ratio stood at 25.04% vs 25.96% in Q1FY24. Bank endeavors to increase deposit franchise and CASA ratio with the help of additional capacity mobilization towards deposit front.
- **Management aims to gradually improve ROA/ROE to 1%/14%,** driven by change in product mix from HL to LAP, growth in advances & fee income and improving deposit franchise.

NIMs/Yields/Opex

- **Bank reported NIM of 3.69% due to lag effect of increase in cost of funds.** Cost of funds are expected to further go up in subsequent quarters but at a slower pace. Management expects steady state level margin of 3.60-3.75%.
- Yields are expected to improve in H2FY24 led by the repricing of advances portfolio. LAP and mortgage loans are initially on fixed rates, within 6-12 months of disbursements, loans are transferred to floating rate book. As a results majority of book would come for repricing by Q4FY24.
- **Other income grew 8.2% YoY/0.4% QoQ** led by strong growth in core fee income. PSLC income reduced significantly in Q2FY24 compared to previous quarters. Aim would be to grow fee income in-line with growth in balance sheet.
- **Opex increased 13.7% YoY/1% QoQ** mainly led by employee cost increasing by 10% YoY. Employee addition would continue to support business growth although the cost to avg. asset ratio is expected to decline. Bank plans to add 25-30 branches in FY24.

Asset Quality

- **GNPA/NNPA increased to 3.36/1.28% for Q2FY24.** For the quarter, NPA provisions stood at Rs250mn, standard at Rs70mn, floating at Rs40mn and other provisions at 37mn.

Retail growth was strong at 25%YoY/ 4.2%QoQ, SME witnessed decline to the tune of 17.2%YoY.

CV book continues to run down declining by 56.7% YoY, mortgage remains mainstay (+4.4% QoQ/23.6% YoY)

- **Slippages increased to Rs3.93bn vs Rs3.4bn in Q1FY24** mainly led by mortgage and home loan portfolio as the entire restructured book came out of moratorium in Q2FY24. Slippages are expected to reduce in H2FY24 as customers take time to again start repayments after coming out of moratorium. With regards to gold loan slippages, bank is comfortable with the asset quality as the entire loan book is secured.
- **PCR for Q2FY24 stood at 75.49%**, management has provisions to the tune of Rs1.94bn on the restructured portfolio. Credit cost was at 0.28% for Q2FY24, and expected to be at 35-38bps for FY24.

Others

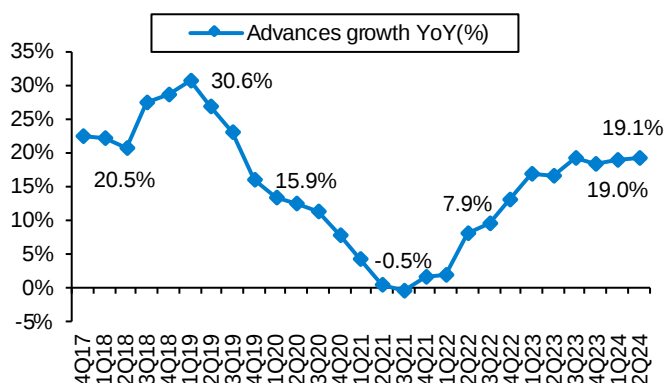
- **Succession planning:** Proposal for CEO has been submitted to SEBI and now waiting for approval.

Exhibit 2: Loan growth driven by retail (+25.2%YoY) and agri (+29.6% YoY)

Advances break-up (Rs m)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)
Advances					
Retail	229,247	183,055	25.2	219,939	4.2
SME	24,602	29,727	(17.2)	23,768	3.5
Agriculture	87,599	67,589	29.6	82,300	6.4
Corporate	31,312	32,543	(3.8)	28,734	9.0
Total	372,760	312,914	19.1	354,740	5.1
Retail Loans break-up					
CV	2,982	6,884	(56.7)	3,902	(23.6)
Mortgage	165,505	133,927	23.6	158,569	4.4
Gold	12,674	15,020	(15.6)	12,771	(0.8)
Others	48,086	27,223	76.6	44,697	7.6

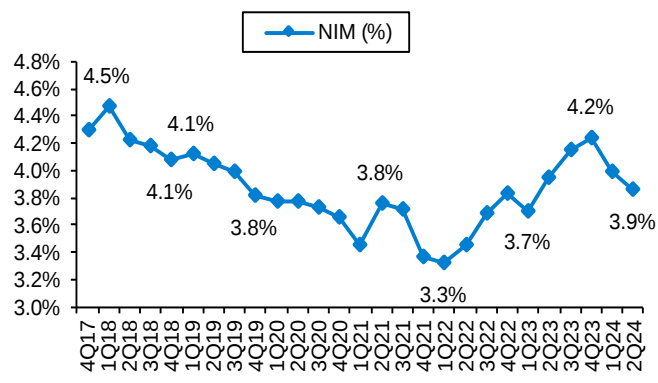
Source: Company, PL

Exhibit 3: Loan growth inches up at 19.1%

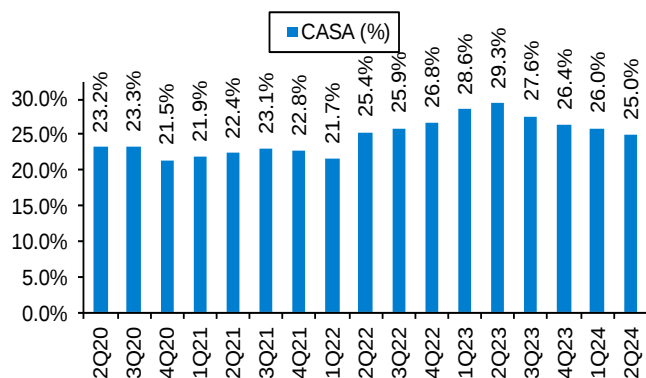


Source: Company, PL

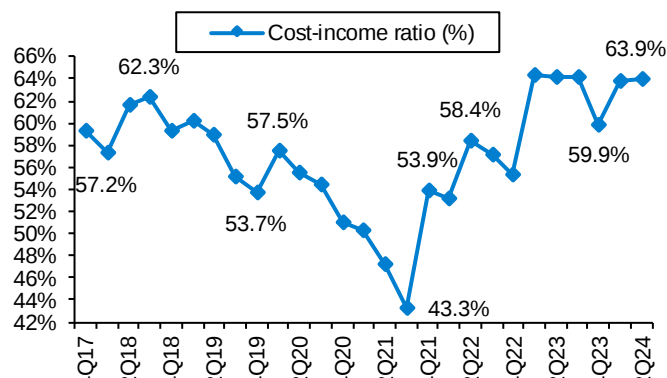
Exhibit 4: NIMs decline 13bps QoQ at 3.9%



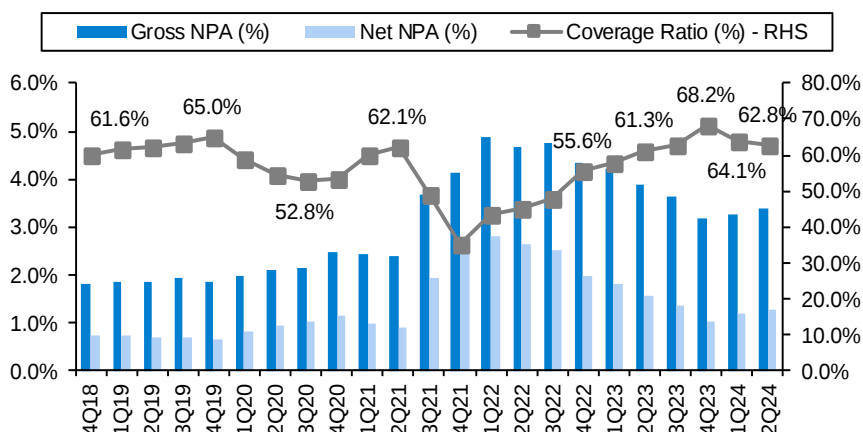
Source: Company, PL

Exhibit 5: CASA declines to 25%, as TD grow faster


Source: Company, PL

Exhibit 6: C/I sequentially stable at 63.9%


Source: Company, PL

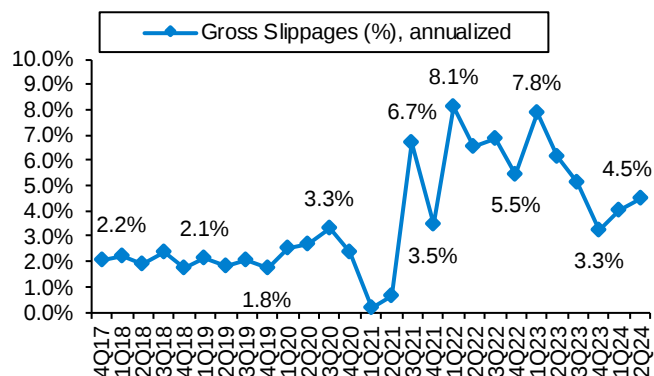
Exhibit 7: GNPA increased by 10bps QoQ while PCR declines to 62.8%


Source: Company, PL

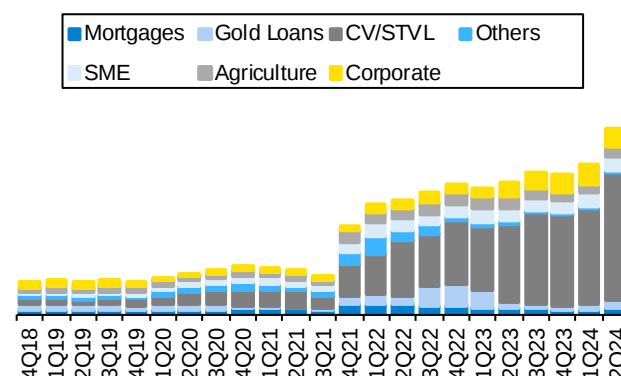
Exhibit 8: Slippage ratio increases to 5.43% led by mortgages

Movement of NPL	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)
Opening	11,808	12,888	(8.4)	11,228	5.2
Additions	3,950	4,550	(13.2)	3,420	15.5
Reduction	2,950	4,940	(40.3)	2,840	3.9
Closing	12,813	12,491	2.6	11,814	8.5
Slippages (%)	5.43	6.26	(82)	5.32	12
GNPA Composition					
Mortgages	2.18	2.20	(2)	1.99	19
Gold Loans	3.31	2.73	58	1.88	143
CV/STVL	51.98	31.67	2,031	38.95	1,302
Others	0.85	1.69	(84)	0.81	5
SME	6.26	4.98	128	5.81	45
Agriculture	3.42	4.39	(97)	3.57	(15)
Corporate	7.28	6.27	101	7.69	(41)

Source: Company, PL

Exhibit 9: Slippage further increased to 4.5%


Source: Company, PL

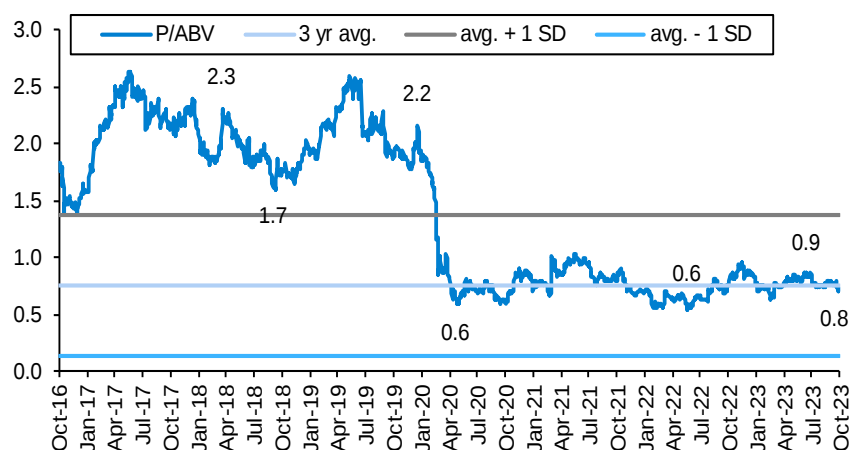
Exhibit 10: GNPA Composition: Corporate/CV stress higher


Source: Company, PL

Exhibit 11: Return ratios are on track to see 1% RoA/14% RoE

Du-pont Analysis	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII/Assets	3.7	3.5	3.4	3.3	3.2	3.5	3.3	3.3
Other inc./Assets	1.1	1.1	1.1	1.1	1.1	0.8	0.8	0.9
Net revenues/Assets	4.8	4.5	4.5	4.4	4.3	4.4	4.1	4.2
Opex/Assets	2.9	2.6	2.4	2.2	2.4	2.8	2.6	2.4
Provisions/Assets	0.5	0.4	0.7	1.1	1.0	0.3	0.3	0.3
Taxes/Assets	0.5	0.5	0.4	0.3	0.2	0.3	0.3	0.4
ROA (%)	0.9	1.0	0.9	0.9	0.7	1.0	0.9	1.1
ROE (%)	8.8	11.0	11.2	10.0	7.8	11.5	11.3	14.5

Source: Company, PL

Exhibit 12: One year forward P/ABV of DCB Bank trades at 0.8x


Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Int. Earned from Adv.	33,948	42,480	48,118	53,630
Int. Earned from invt.	7,078	10,144	12,321	13,909
Others	976	883	1,211	1,354
Total Interest Income	42,003	53,507	61,650	68,893
Interest Expenses	24,833	34,257	39,124	42,155
Net Interest Income	17,170	19,250	22,526	26,738
Growth(%)	26.5	12.1	17.0	18.7
Non Interest Income	4,094	4,343	6,100	6,919
Net Total Income	21,264	23,593	28,626	33,657
Growth(%)	16.3	25.5	17.1	11.9
Employee Expenses	6,929	7,790	8,635	9,520
Other Expenses	5,698	7,396	8,002	8,822
Operating Expenses	13,397	15,186	16,637	18,342
Operating Profit	7,867	8,407	11,990	15,315
Growth(%)	(1.3)	6.9	42.6	27.7
NPA Provision	1,627	3,210	2,153	2,381
Total Provisions	1,592	1,574	2,162	2,416
PBT	6,276	6,833	9,828	12,898
Tax Provision	1,620	1,758	2,565	3,366
Effective tax rate (%)	25.8	25.7	26.1	26.1
PAT	4,656	5,075	7,263	9,532
Growth(%)	61.9	9.0	43.1	31.2

Balance Sheet (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Face value	10	10	10	10
No. of equity shares	315	315	315	315
Equity	3,146	3,146	3,146	3,146
Networth	45,661	50,403	55,622	63,775
Growth(%)	12.8	10.4	10.4	14.7
Adj. Networth to NNPA's	3,569	5,038	5,048	5,364
Deposits	4,12,389	4,89,140	5,86,007	7,01,847
Growth(%)	18.9	18.6	19.8	19.8
CASA Deposits	1,08,956	1,25,660	1,52,362	1,85,990
% of total deposits	26.4	25.7	26.0	26.5
Total Liabilities	5,23,659	6,23,320	7,34,783	8,74,920
Net Advances	3,43,807	4,09,011	4,87,045	5,81,285
Growth(%)	18.2	19.0	19.1	19.3
Investments	1,25,825	1,52,763	1,75,802	2,10,554
Total Assets	5,23,659	6,26,964	7,34,783	8,74,920
Growth (%)	16.9	19.7	17.2	19.1

Asset Quality

Y/e Mar	FY23	FY24E	FY25E	FY26E
Gross NPAs (Rs m)	11,228	14,008	14,024	14,884
Net NPAs (Rs m)	3,569	5,038	5,048	5,364
Gr. NPAs to Gross Adv.(%)	3.2	3.4	2.8	2.5
Net NPAs to Net Adv. (%)	1.0	1.2	1.0	0.9
NPA Coverage %	68.2	64.0	64.0	64.0

Profitability (%)

Y/e Mar	FY23	FY24E	FY25E	FY26E
NIM	3.8	3.6	3.5	3.5
RoAA	1.0	0.9	1.1	1.2
RoAE	11.5	11.3	14.5	16.8
Tier I	15.2	14.9	14.8	14.7
CRAR	17.6	17.4	17.3	17.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Interest Income	10,717	11,793	12,377	13,056
Interest Expenses	6,257	6,933	7,670	8,299
Net Interest Income	4,460	4,860	4,707	4,757
YoY growth (%)	29.3	27.7	25.9	15.7
CEB	700	910	750	970
Treasury	-	-	-	-
Non Interest Income	954	1,223	1,069	1,074
Total Income	11,672	13,016	13,447	14,130
Employee Expenses	1,796	1,865	1,951	1,889
Other expenses	1,677	1,778	1,739	1,836
Operating Expenses	3,473	3,643	3,690	3,725
Operating Profit	1,941	2,439	2,087	2,105
YoY growth (%)	(2.4)	10.4	25.6	15.3
Core Operating Profits	1,921	2,429	2,047	2,065
NPA Provision	-	-	-	-
Others Provisions	407	525	377	397
Total Provisions	407	525	377	397
Profit Before Tax	1,534	1,914	1,709	1,708
Tax	396	493	440	441
PAT	1,139	1,422	1,269	1,268
YoY growth (%)	51.1	25.3	30.7	12.9
Deposits	3,95,060	4,12,389	4,30,090	4,54,963
YoY growth (%)	22.6	18.9	22.6	23.1
Advances	3,29,660	3,43,807	3,54,740	3,72,760
YoY growth (%)	19.2	18.2	19.0	19.1

Key Ratios

Y/e Mar	FY23	FY24E	FY25E	FY26E
CMP (Rs)	115	115	115	115
EPS (Rs)	14.8	16.1	23.1	30.3
Book Value (Rs)	136	151	167	193
Adj. BV (Rs)	135	135	151	176
P/E (x)	7.8	7.1	5.0	3.8
P/BV (x)	0.8	0.8	0.7	0.6
P/ABV (x)	0.9	0.9	0.8	0.7
DPS (Rs)	-	1.6	2.3	3.0
Dividend Payout Ratio (%)	-	10.0	10.0	10.0
Dividend Yield (%)	-	1.4	2.0	2.6

Efficiency

Y/e Mar	FY23	FY24E	FY25E	FY26E
Cost-Income Ratio (%)	63.0	64.4	58.1	54.5
C-D Ratio (%)	83.4	83.6	83.1	82.8
Business per Emp. (Rs m)	76	84	96	109
Profit per Emp. (Rs lacs)	5	5	6	8
Business per Branch (Rs m)	1,771	2,003	2,279	2,596
Profit per Branch (Rs m)	11	11	15	19

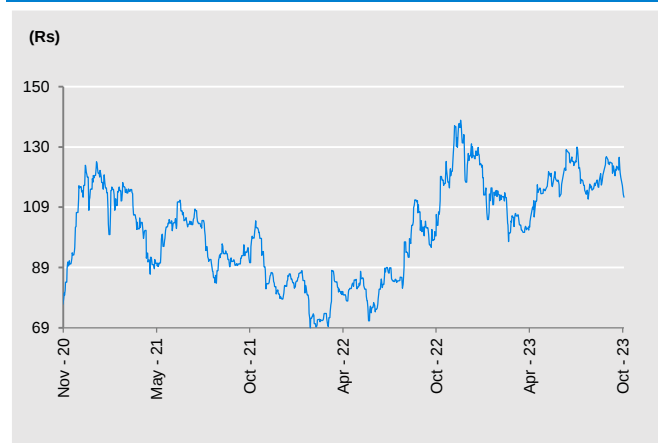
Du-Pont

Y/e Mar	FY23	FY24E	FY25E	FY26E
NII	3.53	3.35	3.31	3.32
Total Income	5.22	4.86	5.10	5.04
Operating Expenses	2.76	2.64	2.44	2.28
PPoP	2.46	2.22	2.66	2.76
Total provisions	0.33	0.27	0.32	0.30
RoAA	0.96	0.88	1.07	1.18
RoAE	11.51	11.26	14.51	16.80

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	150	123
2	29-Jul-23	BUY	150	129
3	06-Jul-23	BUY	150	129
4	06-May-23	BUY	150	106
5	29-Jan-23	BUY	150	114
6	05-Jan-23	BUY	150	130
7	07-Nov-22	BUY	150	120

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,726
2	Axis Bank	BUY	1,170	1,001
3	Bank of Baroda	BUY	235	215
4	Can Fin Homes	BUY	900	763
5	City Union Bank	Accumulate	160	129
6	DCB Bank	BUY	150	123
7	Federal Bank	BUY	180	149
8	HDFC Asset Management Company	BUY	3,000	2,757
9	HDFC Bank	BUY	2,025	1,530
10	ICICI Bank	BUY	1,280	933
11	IndusInd Bank	BUY	1,620	1,420
12	Kotak Mahindra Bank	BUY	2,250	1,770
13	LIC Housing Finance	Hold	430	468
14	State Bank of India	BUY	770	594
15	UTI Asset Management Company	BUY	900	787

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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