

DCB Bank Ltd.

1st Nov 2023

Well-positioned for sustainable growth and enhanced performance

DCB Bank Ltd (DCB) reported a strong loan book growth of 5% on QoQ and 19% on a YoY basis during the quarter, with the mortgage and AIB segment contributing 44% and 24% of the loan book, demonstrating substantial growth of 4%/6% on a QoQ and 24%/30% on a YoY basis, respectively. NII grew by 16% on a YoY basis. However, NIM contracted by 19 bps on a YoY basis due to the increased cost of funds. The Bank's cost-to-income ratio had remained elevated at ~64% during the quarter due to its ongoing expansion of its branch network and continuous increase in employees. During the quarter, slippages were increased due to loans coming out of the moratorium from the restructured portfolio. However, net slippages remained low due to strong recoveries and upgrades. Going forward, management expects strong recovery and upgrades to continue, which will improve the slippage ratio and asset quality for the Bank. Management aims to reduce the cost-to-income ratio to 55% and achieve an ROA of >1% in the next two to three years.

Strong growth in loan book and deposits

DCB reported a strong growth of 6%/23% on QoQ and YoY basis in deposits, led by an increase in term deposits by 7% on QoQ and 31% on a YoY basis during the quarter. The CASA ratio stood at 25% in Q2FY24.

In the loan book, overall disbursement picked up, which grew by ~8% on a QoQ basis. This resulted in steady growth in loan book growing by 5% on a QoQ and 19% on a YoY basis. The mortgage and AIB segment contributing 44% and 24% of the loan book, demonstrating substantial growth of 4%/6% on a QoQ and 24%/30% on a YoY basis, respectively. Management expects a strong momentum of more than 20% growth in loan book to continue owing to increase in employee base and branch expansion.

Operating leverage to kick in

The operating cost during the quarter has increased by 14% on a YoY basis as the Bank aggressively expanded the employee base and increased the branch network. Despite these challenges, the Bank's PPOP grew by 15% on a YoY basis in Q2FY24. Management is expecting improvement in the cost-to-income ratio to 55% in the next two to three years, which will result in operating leverage kicking in, leading to higher earning growth and improving the return ratios for the Bank.

Strong recovery and upgrades will lead to improvement in asset quality

In the quarter, gross slippage increased due to the loans coming out of the moratorium from the restructured portfolio. However, net slippages remained low due to recoveries and upgrades. It typically takes customers who have exited the moratorium about 3-4 months to establish a regular payment routine. Going forward, management expects strong recovery and upgrades to continue, which will improve the slippage ratio and asset quality for the Bank.

View & Valuation

We have revised our estimates and maintained our view on DCB Bank Ltd with a BUY rating and a target price of Rs. 250 (1.2x FY26 Adj. Book Value). We believe that DCB is set to grow its loan book at 20-22% with a stable NIM of 3.70-3.75%. Improvement in the cost-to-income ratio and provision will lead to the normalization of asset quality. All these factors will lead to profitability growth and enhance its return ratios.

BUY

CMP Rs. 113

TARGET Rs. 250 (+121%)

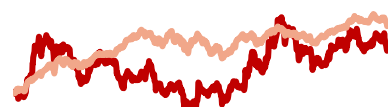
Company Data

Bloomberg Code	DCB IN
MCAP (Rs. Mn)	35,779
O/S Shares (Mn)	312
52w High/Low	141 / 97
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	190

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	14.8	14.8	14.8
FII's	12.7	12.3	12.3
DII's	39.0	39.7	39.9
Non-Institutional	33.5	33.2	33.0

DCB Bank vs Nifty



Oct, 20 Oct, 21 Oct, 22 Oct, 23
 — DCB Bank — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	17	19	23
PPOP	8	9	12
Net Profit	5	6	8
Advances	344	419	508
ROE (%)	10.2%	11.0%	12.7%
ROA (%)	0.9%	1.0%	1.1%

Source: Company, Keynote Capitals Ltd. estimates

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DCB Bank Ltd. | Quarterly Update

Q2 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Net Interest Income	4,757	4,111	16%	4,707	1%	9,464	7,850	21%	17,170
Other Income	1,074	992	8%	1,069	0%	2,143	1,916	12%	4,094
Net Income	5,831	5,103	14%	5,777	1%	11,607	9,767	19%	21,264
Operating Expense	3,725	3,278	14%	3,690	1%	7,415	6,280	18%	13,397
Pre-provision Operating Profit	2,105	1,826	15%	2,087	1%	4,192	3,487	20%	7,867
Provisions	397	310	28%	377	5%	774	660	17%	1,592
PBT	1,708	1,516	13%	1,709	0%	3,418	2,827	21%	6,276
Tax	441	392	12%	440	0%	881	732	20%	1,620
PAT	1,268	1,124	13%	1,269	0%	2,537	2,095	21%	4,656
EPS	4.0	3.6		4.0		8.1	6.7		14.8

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Agri & Inclusive Banking (AIB)	22%	22%	23%	23%	24%	30%	6%
Mortgages	7%	7%	7%	8%	8%	41%	8%
Tractors	3%	3%	3%	3%	3%	19%	-1%
Kissan Credit Card	4%	4%	4%	4%	4%	16%	2%
MFI+BC	3%	3%	4%	4%	4%	48%	13%
Gold Loan	2%	2%	2%	2%	2%	13%	11%
SME + MSME	1%	1%	1%	1%	1%	-26%	-12%
Others	2%	2%	3%	3%	3%	41%	9%
Mortgages	43%	43%	44%	45%	44%	24%	4%
Corporate banking	10%	10%	8%	8%	8%	-4%	9%
Gold Loan	5%	4%	4%	4%	3%	-16%	-1%
Commerical Vehicle	2%	2%	1%	1%	1%	-57%	-24%
SME + MSME	10%	9%	8%	7%	7%	-17%	4%
Co-lending	5%	6%	7%	8%	8%	91%	8%
Others	4%	4%	4%	5%	5%	58%	7%
Total Funded Assets (Rs. Bn)	313	330	344	355	373	19%	5%

Source: Company, Keynote Capitals Ltd.

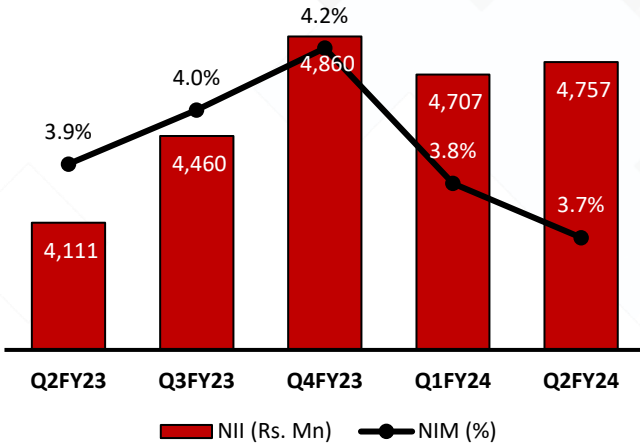
Deposits mix (%)

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	29%	28%	26%	26%	25%	5%	2%
Term Deposits	71%	72%	74%	74%	75%	31%	7%
Total Deposits (Rs. Bn)	370	395	412	430	455	23%	6%

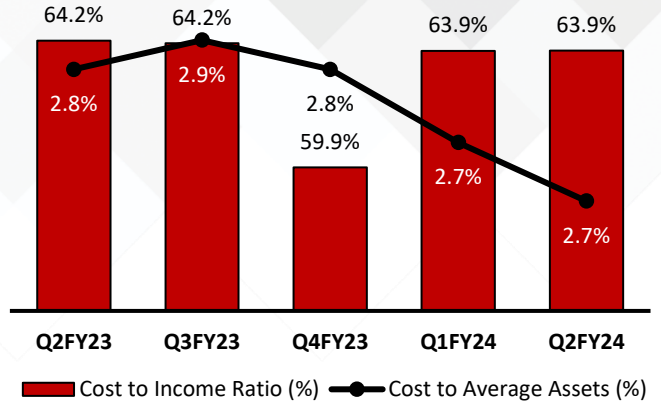
Source: Company, Keynote Capitals Ltd.

DCB Bank Ltd. | Quarterly Update

Management has guided NIM (%) to be in the range of 3.70-3.75%

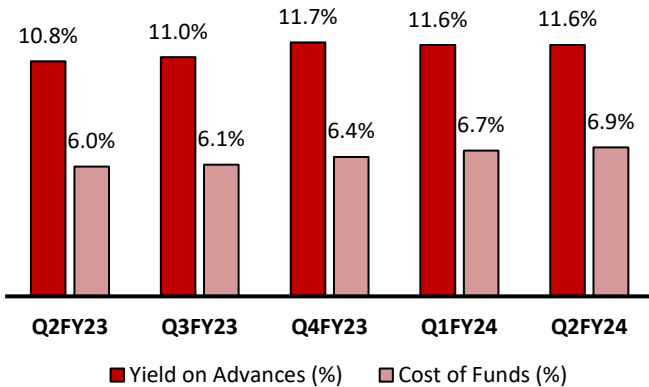


Cost-to-income ratio remained elevated due to the continuous addition of frontline employees while cost to average assets is improving on a QoQ basis

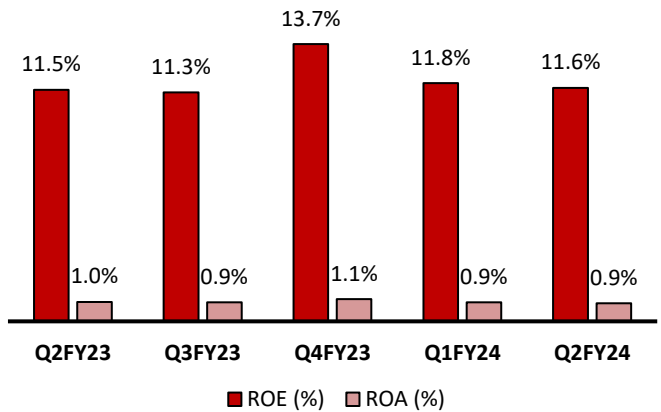


Source: Company, Keynote Capitals Ltd.

Yield on advances remains steady on a QoQ basis while rise in cost of funds impacted NIM (%)

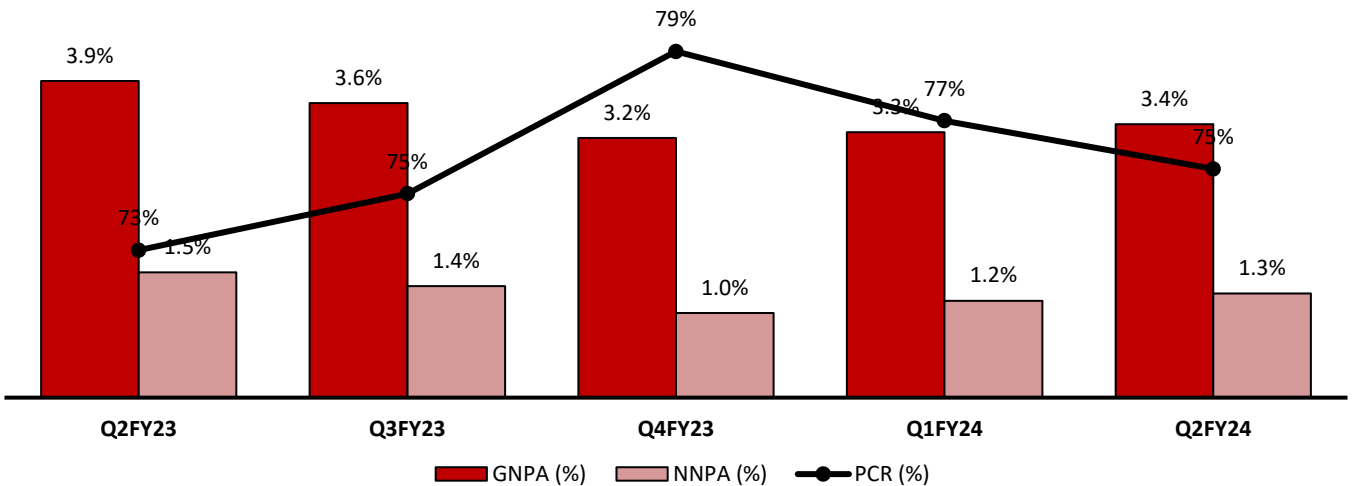


ROE and ROA (%)



Source: Company, Keynote Capitals Ltd.

YoY improvement in asset quality



Source: Company, Keynote Capitals Ltd.

Segment-wise GNPA trend

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY23
Mortgage	2.2%	2.1%	1.8%	2.0%	2.2%
SME+MSME	5.0%	4.9%	4.5%	5.8%	6.3%
Corporate	6.3%	6.5%	7.3%	7.7%	7.3%
AIB	4.4%	4.0%	3.4%	3.6%	3.4%
Gold Loan	1.3%	0.8%	0.5%	0.6%	1.0%
CV/ CE	31.7%	37.1%	37.2%	39.0%	52.0%
Others	4.0%	3.4%	3.6%	2.1%	2.2%

Q2 FY24 Conference Call Takeaways

- The Bank continues to maintain its guidance of doubling the loan book in 3-3.5 years and expects strong growth in disbursement in the coming quarters.
- Loan book remains granular, with 85% of loans below <Rs. 30 Mn.
- An increase in the cost of funds/deposits has affected NIM for the quarter. This impact is expected to continue for the next two quarters before it stabilizes.
- Management expects NIM to be in the range of 3.65-3.75% in FY24.
- Collection efficiency remains robust, and although there were some mortgage slippages, particularly from customers exiting moratoriums, no more moratoriums are available. It typically takes customers who have exited the moratorium about 3-4 months to establish a regular payment routine.
- Collection upgrades and recoveries, representing 73% of the slippages. The bank anticipates this percentage to reach 100% in the next two quarters.
- Increase in gross slippages majorly attributed to loans coming out of moratorium from the restructured portfolio. However, net slippages remained low due to recoveries and upgrades.
- The cost-to-average-assets ratio is anticipated to decrease further as the Bank continuously expands its loan book and enhances its productivity.
- The Bank emphasises on the gold loan co-lending product, as it contributes positively to the bank's margins and doesn't involve any associated operating costs.

DCB Bank Ltd. | Quarterly Update

- An application for a change in the MD & CEO position has already been submitted to the RBI.
- Four key factors will drive the anticipated improvement in ROA: 1) The expected stabilisation of the cost of funds in the next two quarters, 2) Improvement in cost-to-average assets and increased fees income, 3) Anticipated credit cost improvement from 45-50 bps to 35-38 bps, and 4) A shift in the product mix from home loans to LAP.
- The Bank anticipates a significant reduction in other income from PSLCs, with a decline from Rs. 800 Mn in FY22 to Rs. 200 Mn in FY23 and a further expectation of ~Rs. 30-40 Mn in FY24.
- The Bank has cultivated robust third-party fees income streams and anticipates sustaining this momentum. Management foresees that fees income will parallel the growth of the loan book.
- Although still ahead of RBI provisioning norms, the Bank aims to gradually increase the PCR to 70% from the current 63%.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	13,575	17,170	19,422	22,743	26,632
Other Income	4,520	4,094	5,147	6,419	8,013
Net Income	18,095	21,264	24,569	29,162	34,645
Operating Expenses	10,126	13,397	14,742	16,622	19,055
Pre-Provision Operating Profit	7,970	7,867	9,828	12,540	15,590
Provisions	4,074	1,592	1,717	1,846	2,195
Profit Before Tax	3,895	6,276	8,110	10,694	13,396
Tax	1,020	1,620	2,028	2,674	3,349
Profit After Tax	2,875	4,656	6,083	8,021	10,047

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	13.0%	18.2%	22.0%	21.0%	20.0%
Deposit Growth (%)	16.8%	18.9%	22.5%	19.6%	18.6%
NII Growth (%)	5.5%	26.5%	13.1%	17.5%	18.3%
PPOP Growth (%)	-10.0%	-1.3%	20.2%	28.2%	25.4%
Ratios					
NIM (%)	3.4%	3.8%	3.6%	3.6%	3.5%
Cost to Income Ratio	56.0%	63.0%	61.5%	58.5%	56.5%
C/D Ratio	83.9%	83.4%	83.0%	84.0%	85.0%
CASA Ratio (%)	26.8%	26.4%	27.1%	28.3%	29.5%
ROE (%)	7.1%	10.2%	11.0%	12.7%	14.2%
ROA (%)	0.6%	0.9%	1.0%	1.1%	1.1%
Asset Quality					
GNPA	4.4%	3.3%	3.1%	2.7%	2.5%
NNPA	2.0%	1.4%	1.1%	0.9%	0.8%
PCR (%)	55.6%	68.2%	64.5%	66.7%	68.0%
Credit Cost (%)	0.9%	0.6%	0.4%	0.4%	0.4%
Valuation					
Book Value Per Share		146.5	173.3	195.8	224.4
Adjusted Book Value Per Share		130.6	158.5	181.1	208.7
P/BV (x)		0.85	0.65	0.58	0.50
Price-ABV (x)		0.96	0.71	0.62	0.54

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	3,110	3,115	3,115	3,115	3,115
Reserves & Surplus	37,365	42,515	50,990	58,208	67,251
Networth	40,475	45,630	54,105	61,324	70,366
Deposits	3,46,917	4,12,389	4,93,465	5,85,272	6,74,925
Borrowings	40,818	41,181	47,585	58,625	99,098
Other Liabilities & Provisions	19,702	24,427	25,000	26,000	27,000
Total Liabilities	4,47,926	5,23,649	6,20,154	7,31,220	8,71,389
ASSETS					
Cash and Balance	40,908	23,684	32,350	37,660	60,460
Investments	90,507	1,25,825	1,37,090	1,53,100	1,70,030
Advances	2,90,958	3,43,807	4,19,445	5,03,334	5,93,934
Fixed Assets & Others	25,554	30,332	31,269	37,122	46,965
Total Assets	4,47,926	5,23,649	6,20,154	7,31,220	8,71,389

Source: Company, Keynote Capitals Ltd. Estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
16 th Oct 2023	BUY	123	+103%
1 st Nov 2023	BUY	113	+121%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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