

DCB Bank Ltd.

The enduring narrative remains unaltered

DCB Bank Ltd (DCB) reported a strong loan book growth of 4% on QoQ and 18% on a YoY basis during the quarter, with the mortgage/ AIB segment contributing 45%/ 24% of the loan book, demonstrating substantial growth of 6%/6% on a QoQ and 25%/28% on a YoY basis, respectively. NII grew by 6% on a YoY basis. However, NIM contracted by 21 bps on a QoQ basis due to the increased cost of funds. The Bank's cost-to-income ratio had remained elevated at ~65% during the quarter due to its expansion of its branch network and 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 4%/19% on a QoQ/ YoY basis in deposits, led by an increase in term deposits by 2% on QoQ and 22% on a YoY basis during the quarter. The CASA ratio increased by 109 bps on a QoQ basis and stood at 26% in Q3FY24.

The loan book grew by 4%/18% on a QoQ/ YoY basis. The mortgage/ AIB segments contributed 45%/ 24% of the loan book, demonstrating substantial growth of 6%/6% on a QoQ and 25%/28% 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.

NIM pressure to normalize, leading to healthy operating profit growth

In the quarter, the Bank's NIM decreased by 21 bps sequentially, affecting overall growth and resulting in a stable PAT on a QoQ basis. Since the initiation of the rate cycle, the cost of funds has risen by 100 basis points, and the management has suggested that it is nearing its peak levels. As NIM approaches its lower limit, we anticipate NII growth to align with loan growth. A reduction in interest rates could potentially accelerate NII growth. The Bank has seen a rise in the cost-to-income ratio, but it is expected that going forward, NII will grow faster than cost, 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. 248 (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.

25th January 2024

BUY

CMP Rs. 135

TARGET Rs. 248 (+84%)

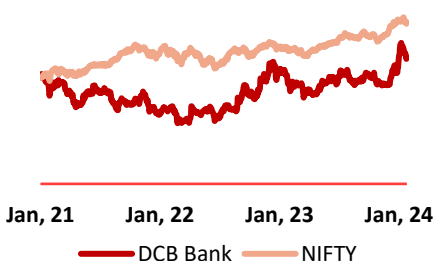
Company Data

Bloomberg Code	DCB IN
MCAP (Rs. Mn)	44,951
O/S Shares (Mn)	312
52w High/Low	163 / 97
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	539

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	14.8	14.8	14.8
FII's	13.0	12.7	12.3
DII's	34.2	39.0	39.7
Non-Institutional	37.9	33.5	33.2

DCB Bank vs 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	7
Advances	344	407	489
ROE (%)	10.2%	10.6%	12.3%
ROA (%)	0.9%	0.9%	1.0%

Source: Company, Keynote Capitals Ltd. estimates

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DCB Bank Ltd. | Quarterly Update

Q3 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)	9MFY24	9MFY23	Change % (Y-o-Y)	FY23
Net Interest Income	4,740	4,460	6%	4,757	0%	14,204	12,311	15%	17,170
Other Income	1,237	954	30%	1,074	15%	3,380	2,871	18%	4,094
Net Income	5,977	5,414	10%	5,831	3%	17,584	15,181	16%	21,264
Operating Expense	3,862	3,473	11%	3,725	4%	11,277	9,753	16%	13,397
Pre-provision Operating Profit	2,115	1,941	9%	2,105	0%	6,307	5,428	16%	7,867
Provisions	410	407	1%	397	3%	1,184	1,067	11%	1,592
PBT	1,705	1,534	11%	1,708	0%	5,123	4,361	17%	6,276
Tax	439	396	11%	441	0%	1,320	1,127	17%	1,620
PAT	1,266	1,139	11%	1,268	0%	3,803	3,234	18%	4,656
EPS	4.0	3.6		4.0		12.1	10.3		14.8

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Agri & Inclusive Banking (AIB)	22%	23%	23%	24%	24%	28%	6%
Mortgages	7%	7%	8%	8%	8%	39%	9%
Tractors	3%	3%	3%	3%	3%	15%	8%
Kissan Credit Card	4%	4%	4%	4%	4%	25%	10%
MFI+BC	3%	4%	4%	4%	4%	36%	-1%
Gold Loan	2%	2%	2%	2%	2%	18%	4%
SME + MSME	1%	1%	1%	1%	0%	-41%	-16%
Others	2%	3%	3%	3%	3%	45%	9%
Mortgages	43%	44%	45%	44%	45%	25%	6%
Corporate banking	10%	8%	8%	8%	8%	-8%	-3%
Gold Loan	4%	4%	4%	3%	3%	-13%	-5%
Commerical Vehicle	2%	1%	1%	1%	1%	-58%	-22%
SME + MSME	9%	8%	7%	7%	6%	-22%	-5%
Co-lending	6%	7%	8%	8%	9%	59%	12%
Others	4%	4%	5%	5%	5%	51%	7%
Total Funded Assets (Rs. Bn)	330	344	355	373	389	18%	4%

Source: Company, Keynote Capitals Ltd.

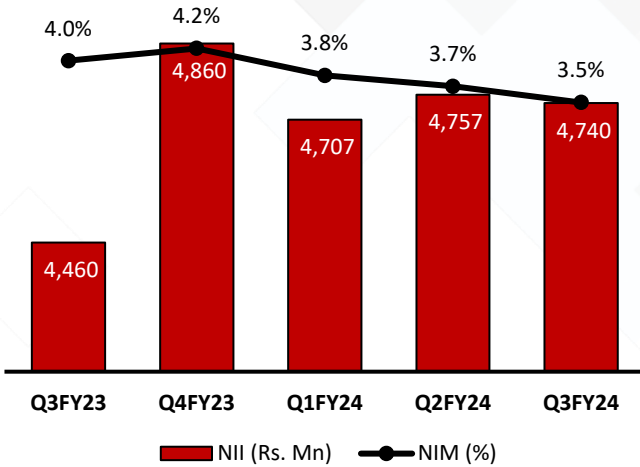
Deposits mix (%)

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	28%	26%	26%	25%	26%	13%	8%
Term Deposits	72%	74%	74%	75%	74%	22%	2%
Total Deposits (Rs. Bn)	395	412	430	455	471	19%	4%

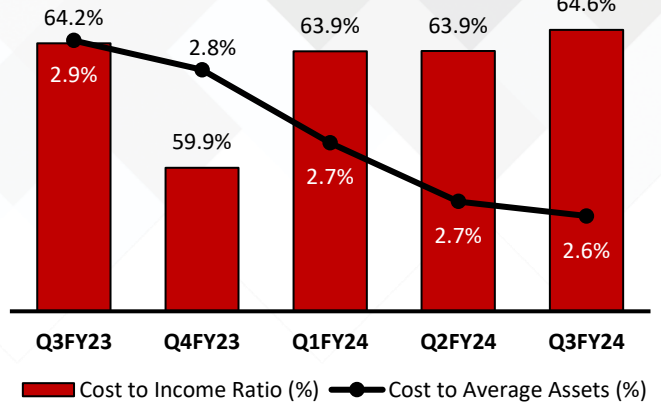
Source: Company, Keynote Capitals Ltd.

DCB Bank Ltd. | Quarterly Update

Management has guided NIM (%) to be in the range of 3.65-3.75%

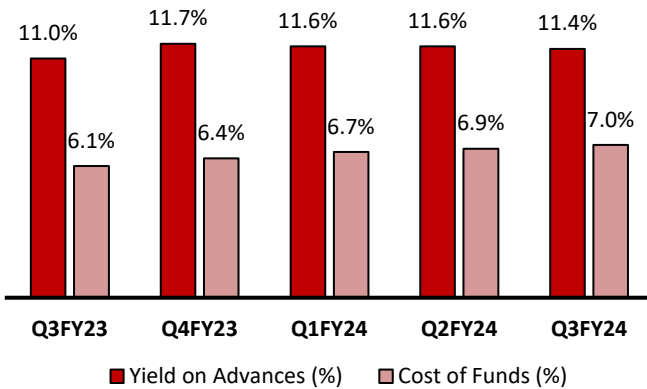


Cost-to-income ratio remained elevated due to the continuous addition of frontline employees while cost to average assets is improving on a QoQ basis

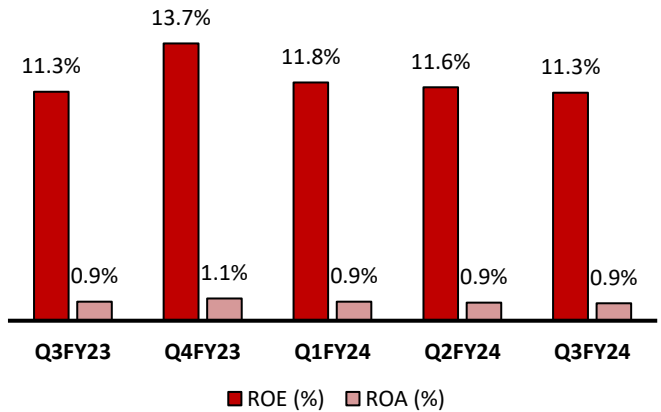


Source: Company, Keynote Capitals Ltd.

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

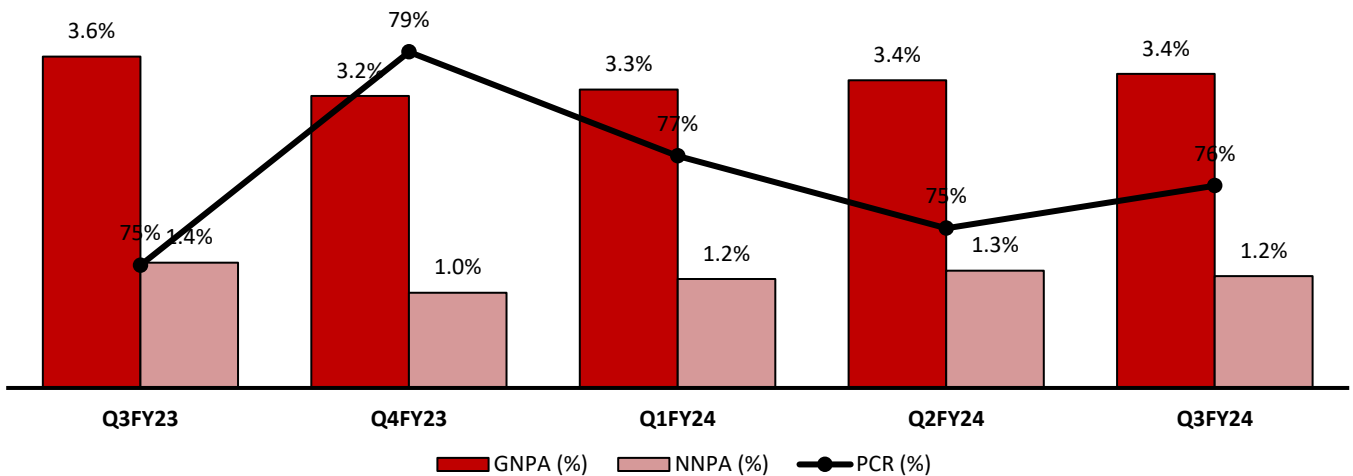


ROE and ROA (%)



Source: Company, Keynote Capitals Ltd.

YoY improvement in asset quality



Source: Company, Keynote Capitals Ltd.

Segment-wise GNPA trend

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Mortgage	2.1%	1.8%	2.0%	2.2%	2.4%
SME+MSME	4.9%	4.5%	5.8%	6.3%	7.1%
Corporate	6.5%	7.3%	7.7%	7.3%	7.5%
AIB	4.0%	3.4%	3.6%	3.4%	3.5%
Gold Loan	0.8%	0.5%	0.6%	1.0%	0.7%
CV/ CE	37.1%	37.2%	39.0%	52.0%	67.2%
Others	3.4%	3.6%	2.1%	2.2%	2.2%

Q3 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.
- In Q3FY23, the CASA ratio improved by 109 bps on a QoQ basis to 26%.
- An increase in the cost of funds/deposits has affected NIM for the quarter. This impact is expected to continue for another quarter 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 79% 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.
- In the co-lending loan book, the Bank is expecting growth of 18-20%.

DCB Bank Ltd. | Quarterly Update

- During the quarter, RBI appointed Mr Praveen Kutty as MD & CEO. He currently heads the retail and AIB banking. He has been with the Bank since 2007 and has handled all the key portfolios for DCB.
- The Bank is expecting the NIM to be in the range of 3.65-3.75%. The anticipated improvement in NIM is due to a) expecting cost-of-fund to stabilize in 4-5 months, b) increasing the share of LAP in the portfolio (the Bank is aiming for a 100-bps differential between LAP and home loans), and c) the co-lending loan book is skewed towards gold loan which will change going forward leading to improvement in yield.
- The Bank will continue to grow its deposits faster than loan book.
- The elevated GNPA can be attributed to the restructured and moratorium portfolios. However, the Bank expresses confidence that this situation will normalize, anticipating robust recovery and upgrades.
- The Bank anticipates a favourable response from the RBI regarding the promoter's proposed capital infusion of \$10 Mn.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	13,575	17,170	19,135	22,764	26,926
Other Income	4,520	4,094	5,130	6,354	7,884
Net Income	18,095	21,264	24,265	29,118	34,810
Operating Expenses	10,126	13,397	15,166	17,471	20,190
Pre-Provision Operating Profit	7,970	7,867	9,099	11,647	14,620
Provisions	4,074	1,592	1,502	1,703	1,936
Profit Before Tax	3,895	6,276	7,597	9,944	12,684
Tax	1,020	1,620	1,899	2,486	3,171
Profit After Tax	2,875	4,656	5,698	7,458	9,513

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	13.0%	18.2%	18.5%	20.0%	20.0%
Deposit Growth (%)	16.8%	18.9%	20.5%	20.7%	22.3%
NII Growth (%)	5.5%	26.5%	11.4%	19.0%	18.3%
PPOP Growth (%)	-10.0%	-1.3%	15.7%	28.0%	25.5%
Ratios					
NIM (%)	3.4%	3.8%	3.5%	3.6%	3.6%
Cost to Income Ratio	56.0%	63.0%	62.5%	60.0%	58.0%
C/D Ratio	83.9%	83.4%	82.0%	81.5%	80.0%
CASA Ratio (%)	26.8%	26.4%	27.1%	28.3%	29.5%
ROE (%)	7.1%	10.2%	10.6%	12.3%	13.8%
ROA (%)	0.6%	0.9%	0.9%	1.0%	1.1%
Asset Quality					
GNPA	4.4%	3.3%	3.4%	3.2%	3.0%
NNPA	2.0%	1.4%	1.0%	0.9%	0.8%
PCR (%)	55.6%	68.2%	70.6%	71.9%	73.3%
Credit Cost (%)	0.9%	0.6%	0.4%	0.4%	0.4%
Valuation					
Book Value Per Share		146.5	172.6	194.1	221.6
Adjusted Book Value Per Share		130.6	159.5	180.0	206.5
P/BV (x)		0.9	0.8	0.7	0.6
Price-ABV (x)		1.0	0.8	0.7	0.7

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	3,110	3,115	3,119	3,119	3,119
Reserves & Surplus	37,365	42,515	50,639	57,352	65,913
Networth	40,475	45,630	53,758	60,471	69,032
Deposits	3,46,917	4,12,389	4,96,844	5,99,870	7,33,341
Borrowings	40,818	41,181	40,740	35,072	26,015
Other Liabilities & Provisions	19,702	24,427	25,000	26,000	27,000
Total Liabilities	4,47,926	5,23,649	6,16,342	7,21,413	8,55,389
ASSETS					
Cash and Balance	40,908	23,684	32,320	32,441	44,631
Investments	90,507	1,25,825	1,47,770	1,69,990	1,90,470
Advances	2,90,958	3,43,807	4,07,412	4,88,894	5,86,673
Fixed Assets & Others	25,554	30,332	28,841	30,089	33,619
Total Assets	4,47,926	5,23,649	6,16,342	7,21,413	8,55,389

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%
25 th Jan 2024	BUY	135	+84%

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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