

DCB Bank Ltd.

29th July 2024

Increase in NIM and normalization of cost will drive profit

DCB Bank Ltd (DCB) reported a strong loan book growth of 3% on QoQ and 19% on a YoY basis during the quarter, with the mortgage/ AIB segment contributing 45%/ 25% of the loan book, demonstrating a growth of 4%/3% on a QoQ and 21%/29% on a YoY basis, respectively. NII grew by 5% on a YoY basis. However, NIM contracted by 44 bps on a YoY basis due to the renewal of deposits and changes in regulations. The Bank's cost-to-income ratio had remained elevated at ~68% during the quarter due to investment in technology and an increase in employees. During the quarter, slippages declined due to strong recovery and upgrades translating into continued low credit cost at 18 bps. Going forward, management expects strong recovery and upgrades to continue, which will reduce the slippage ratio and improve 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 ~5%/~20% on a QoQ/YoY basis in deposits, led by an increase in term deposits by ~6% on QoQ and ~21% on a YoY basis during the quarter. The CASA ratio is at ~25% in Q1FY25.

The loan book grew by 3%/19% on a QoQ/YoY basis. The mortgage/AIB segments contributed 45%/25% of the loan book, demonstrating a growth of 4%/3% on a QoQ and 21%/29% on a YoY basis, respectively. Management expects a strong momentum of more than 20% growth in loan book to continue owing to an increase in employee base and branch expansion.

Improvement in NIM and cost-to-income ratio to drive operating profit growth

In the quarter, the Bank's NIM compressed by 44/23 bps on a YoY/QoQ basis, due to the renewing of deposits and change in regulations. While the management is maintaining its guidance of 3.65-3.75% of NIM in FY25 led by an increase in yield to shift its focus from home loans to business loans, prioritize SME overdraft facilities instead of SME TReDs, and the Bank expects to benefit from the repricing of hybrid loans as they transition from fixed to floating rates. Additionally, the Bank is expecting an improvement in the cost-to-income ratio led by an improvement in productivity which will lead to operating leverage kicking in, leading to higher earning growth and improving the return ratios for the Bank.

Guiding ROA of 1% and ROE of 14%

The Bank targets more than 1% ROA and greater than 14% ROE led by a change in the product mix to improve the yield, increase its fee income from 86 bps to 100 bps, improve operational efficiency, and maintain its credit costs.

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. 232 (1.2x FY26 Adj. Book Value). We believe that DCB is set to grow its loan book at 20% with a stable NIM of 3.65-3.70%. 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. 126

TARGET Rs. 232 (+84.1%)

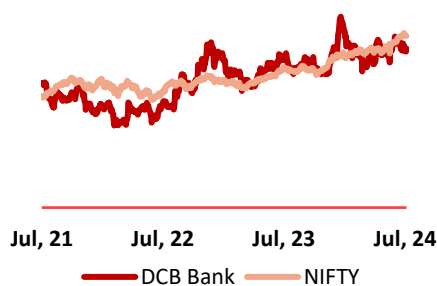
Company Data

Bloomberg Code	DCB IN
MCAP (Rs. Mn)	39,249
O/S Shares (Mn)	313
52w High/Low	163 / 110
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	321

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	14.8	14.8	14.8
FIIIs	14.7	12.7	13.0
DIIIs	27.6	29.7	34.2
Non-Institutional	43.0	42.8	37.9

DCB Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	19	23	27
PPOP	9	11	14
Net Profit	5	7	9
Advances	409	491	589
ROE (%)	11.1%	13.6%	15.1%
ROA (%)	0.9%	1.1%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

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DCB Bank Ltd. | Quarterly Update

Q1 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
Net Interest Income	4,966	4,707	5%	5,075	-2%	19,279
Other Income	1,430	1,069	34%	1,362	5%	4,742
Net Income	6,396	5,777	11%	6,437	-1%	24,021
Operating Expense	4,342	3,690	18%	4,100	6%	15,377
Employee Expense	2,253	1,951	16%	2,119	6%	7,943
Other Expense	2,089	1,739	20%	1,981	5%	7,434
Pre-provision Operating Profit	2,054	2,087	-2%	2,338	-12%	8,644
Provisions	284	377	-25%	241	18%	1,425
PBT	1,770	1,709	4%	2,097	-16%	7,220
Tax	456	440	4%	540	-16%	1,860
PAT	1,314	1,269	3%	1,557	-16%	5,360
EPS	4.2	4.0		4.9		17.0

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Agri & Inclusive Banking (AIB)	23%	24%	24%	25%	25%	29%	3%
Mortgages	8%	8%	8%	9%	9%	38%	3%
Tractors	3%	3%	3%	3%	3%	15%	6%
Kissan Credit Card	4%	4%	4%	4%	4%	26%	3%
MFI+BC	4%	4%	4%	5%	5%	41%	-5%
Gold Loan	2%	2%	2%	2%	2%	19%	3%
SME + MSME	1%	1%	0%	0%	0%	-41%	-23%
Others	3%	3%	3%	3%	3%	33%	15%
Mortgages	45%	44%	45%	45%	45%	21%	4%
Corporate banking	8%	8%	8%	8%	7%	1%	-6%
Gold Loan	4%	3%	3%	3%	3%	9%	10%
Commercial Vehicle	1%	1%	1%	0%	0%	-57%	3%
SME + MSME	7%	7%	6%	6%	6%	10%	8%
Co-lending	8%	8%	9%	8%	7%	8%	-2%
Others	5%	5%	5%	5%	6%	36%	7%
Total Funded Assets (Rs. Bn)	355	373	389	409	422	19%	3%

Source: Company, Keynote Capitals Ltd.

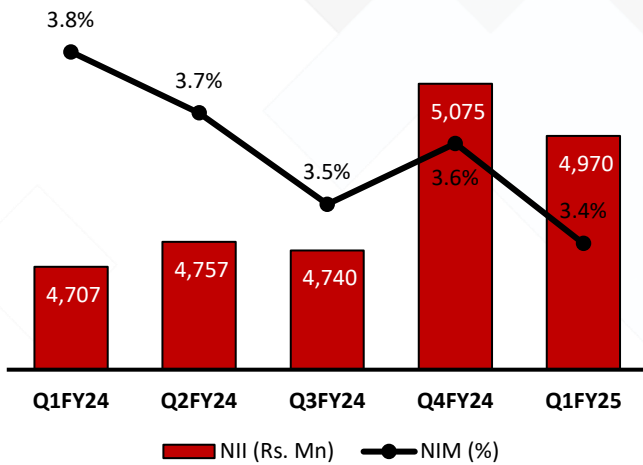
Deposits mix (%)

Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	26%	25%	26%	26%	25%	18%	2%
Term Deposits	74%	75%	74%	74%	75%	21%	6%
Total Deposits (Rs. Bn)	430	455	471	494	517	20%	5%

Source: Company, Keynote Capitals Ltd.

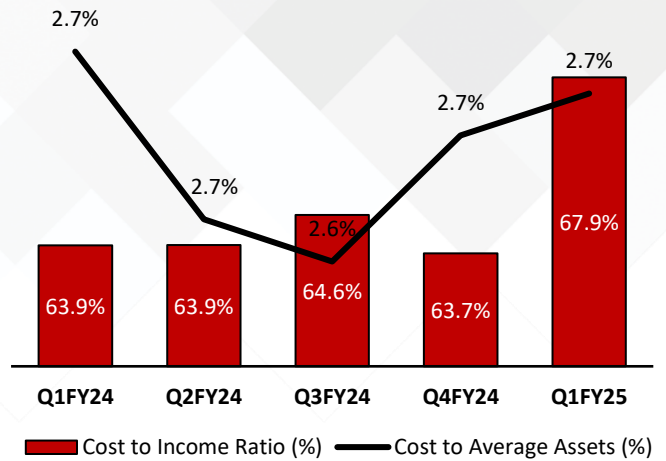
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Management has guided NIM (%) to be in the range of 3.65-3.75%

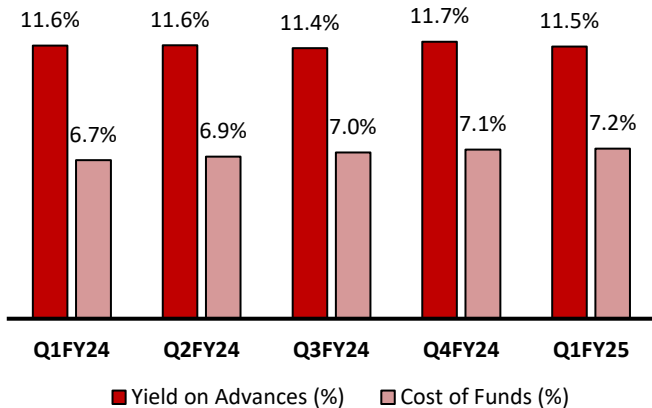


Source: Company, Keynote Capitals Ltd.

Cost-to-income ratio and cost to average assets has increased on a QoQ and YoY basis

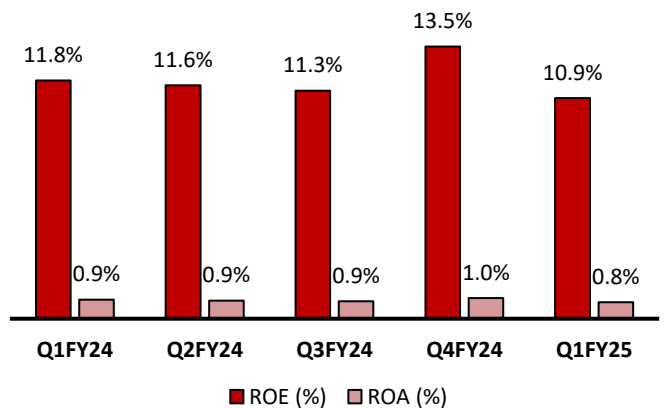


Yield on advances and cost of fund (%)

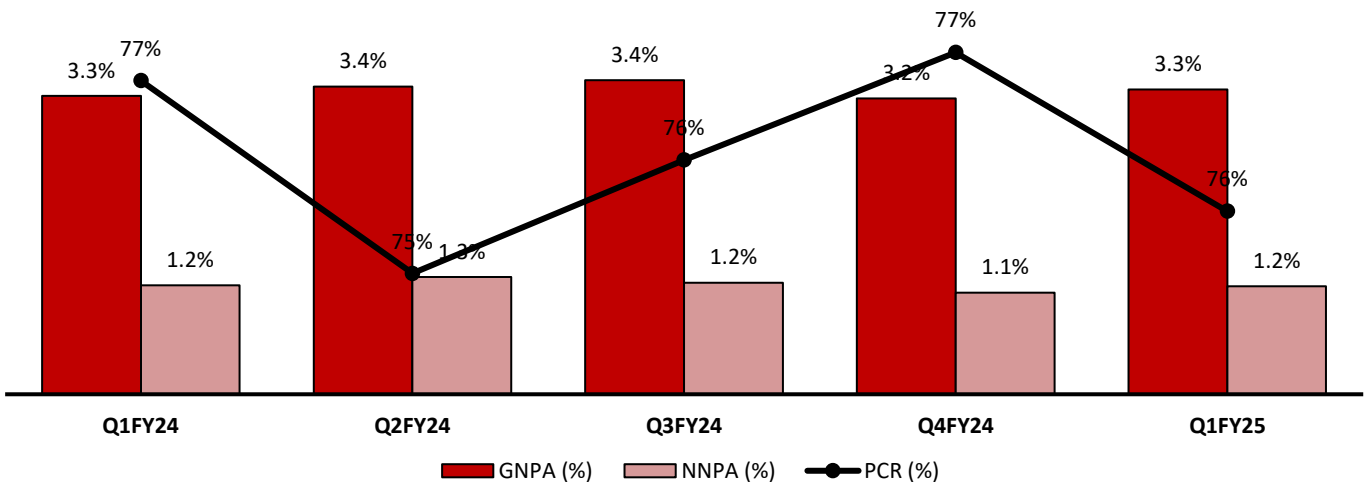


Source: Company, Keynote Capitals Ltd.

Improvement in ROE and ROA (%) on a QoQ basis



Stable asset quality



Source: Company, Keynote Capitals Ltd.

Segment-wise GNPA trend

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Mortgage	2.0%	2.2%	2.4%	2.4%	2.5%
SME+MSME	5.8%	6.3%	7.1%	6.7%	6.7%
Corporate	7.7%	7.3%	7.5%	6.3%	6.6%
AIB	3.6%	3.4%	3.5%	3.1%	3.1%
Gold Loan	0.6%	1.0%	0.7%	0.8%	1.0%
CV/ CE	39.0%	52.0%	67.2%	91.0%	86.5%
Others	2.1%	2.2%	2.2%	2.2%	2.5%

Q1 FY25 Conference Call Takeaways

- The Bank continues to maintain its guidance of doubling the loan book and deposits in 3-3.5 years.
- The Bank will continue to grow its deposits faster than loan book.
- The promoter is expected to infuse capital by the end of Q2 FY25.
- The Bank is intensifying its investment in frontline headcount and plans to sustain this trend in the future.
- Cost of deposits is expected to stabilize by Q3FY25.
- The Bank NIM compressed by 44/ 23 bps on a YoY/ QoQ basis led by 1) DCB is at the final stage of renewing long-term term deposits that were initially booked at lower interest rates two to two and a half years ago. These deposits are now being repriced at current, higher rates, which has increased the cost of deposits. However, the rate of increase in deposit costs is slowing down and is expected to stabilize by the middle of the third quarter. 2) Recent regulatory changes affecting loans have led to interest reversals, contributing to NIM compression. One significant change is the shift from penal interest to penal charges, which has been implemented by banks. Additionally, the interest charge on incremental loan disbursements is now applied from the date of disbursement (DD handover date). These regulatory impacts are considered one-time events, and their effects are expected to diminish over time.
- Management expects NIM to be in the range of 3.65-3.75% in FY25.
- As guided by management, collection efficiency remained strong during the quarter. Collection upgrades and recoveries represent 77% of the slippages. The Bank anticipates the trend of strong recoveries and collection to continue.

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- The rise in costs during the quarter can be attributed to two significant technology upgrades 1) The Bank upgraded to a new TCS BaNCS system for its treasury operations. This system provides a consolidated platform for managing various treasury functions across front, middle, and back offices. 2) The Bank also upgraded its Security Information and Event Management (SIEM) system. This system enhances the bank's ability to detect and respond to security threats by analyzing data from across the systems in real-time.
- The Bank strategically plans to increase the proportion of LAP within the overall mortgage portfolio. In the corporate segment, the focus will be on short-term loan products.
- In the business loan segment, the yield is 150-200 bps higher than that of home loans.
- The Bank has guided for branch addition of 15-20 in FY25.
- The Bank has guided for credit costs of 30-35 bps.
- The Bank expects that the cost to average assets will decrease from the current 2.7% to 2.5% over the next 3 to 4 quarters. This anticipated improvement is expected to stem from enhanced productivity and significant advancements in digital initiatives, which are likely to reduce operational costs.
- The Bank is looking to raise Tier 2 capital as and when the opportunity arises.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	17,170	19,279	23,149	27,022	31,262
Other Income	4,094	4,742	6,477	7,981	8,629
Net Income	21,264	24,021	29,626	35,002	39,891
Operating Expenses	13,397	15,377	18,368	21,001	23,137
Pre-Provision Operating Profit	7,867	8,644	11,258	14,001	16,754
Provisions	1,592	1,425	1,441	1,621	1,815
Profit Before Tax	6,276	7,220	9,817	12,380	14,939
Tax	1,620	1,860	2,454	3,095	3,735
Profit After Tax	4,656	5,360	7,363	9,285	11,204

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	18.2%	19.0%	20.0%	20.0%	20.0%
Deposit Growth (%)	18.9%	19.7%	22.1%	21.5%	22.3%
NII Growth (%)	26.5%	12.3%	20.1%	16.7%	15.7%
PPOP Growth (%)	-1.3%	9.9%	30.2%	24.4%	19.7%
Ratios					
NIM (%)	3.8%	3.5%	3.6%	3.5%	3.4%
Cost to Income Ratio	63.0%	64.0%	62.0%	60.0%	58.0%
C/D Ratio	83.4%	82.9%	81.5%	80.5%	79.0%
CASA Ratio (%)	26.4%	26.0%	26.0%	27.0%	27.5%
ROE (%)	10.8%	11.1%	13.6%	15.1%	15.8%
ROA (%)	1.0%	0.9%	1.1%	1.2%	1.2%
Asset Quality					
GNPA	3.3%	3.2%	3.0%	2.8%	2.8%
NNPA	1.4%	1.1%	1.0%	0.9%	0.8%
PCR (%)	68.2%	65.6%	66.7%	67.9%	71.4%
Credit Cost (%)	0.6%	0.4%	0.3%	0.3%	0.3%
Valuation					
Book Value Per Share		162.0	183.3	210.0	242.3
Adjusted Book Value Per Share		147.5	167.6	193.1	224.2
P/BV (x)		0.8	0.7	0.6	0.5
Price-ABV (x)		0.9	0.7	0.6	0.6

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	3,115	3,128	3,128	3,128	3,128
Reserves & Surplus	42,515	47,551	54,211	62,568	72,652
Networth	45,630	50,679	57,339	65,696	75,780
Deposits	4,12,389	4,93,530	6,02,570	7,32,067	8,95,160
Borrowings	41,181	62,195	46,710	36,980	52,092
Other Liabilities & Provisions	24,427	23,932	26,000	27,000	27,000
Total Liabilities	5,23,649	6,30,372	7,32,620	8,61,743	10,50,033
ASSETS					
Cash and Balance	23,684	30,660	34,680	55,454	63,454
Investments	1,25,825	1,62,110	1,75,123	1,84,221	2,45,406
Advances	3,43,807	4,09,246	4,91,095	5,89,314	7,07,176
Fixed Assets & Others	30,332	28,357	31,722	32,755	33,996
Total Assets	5,23,649	6,30,372	7,32,620	8,61,743	10,50,032

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%
25 th April 2024	BUY	136	+75%
29 th July 2024	BUY	126	+84.1%

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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