

January 24, 2025

**RESULT REPORT Q3 FY25** | Sector: Banks

# DCB Bank

## Growth alone does not warrant an upgrade

**Our view – Margin stabilizes at lower level, while slippages sustain at higher level**

**Balance sheet growth** – Loan growth remains healthy with co-lending driving growth for the quarter: Advances grew 7.5%/22.7% QoQ/YoY, driven sequentially by Co-lending and Commercial Vehicle segments. The Co-lending book was at Rs 53.92bn, up by 61% YoY as one large partner resumed lending after a brief pause. Excluding co-lending, the overall loan growth would be about 18-19% YoY, which is similar to the trend of previous quarters.

**Net Interest Margin** – Long-term NIM decline was arrested but margin seems to settle at a modest level: NIM at 3.30% was up/down 3bps/-18bps QoQ/YoY. The yield on advances in 3Q was at 11.44%, up by 5bps QoQ but flat YoY. The Cost of deposits in 3Q was at 7.12%, up by 3bps QoQ and 17bps YoY. Cost of funds has risen 3 bps due to Tier 2 capital raise, which is higher cost and also due to tightness in the system. Management did not provide margin guidance, per se, but stated that boosting RoA will not involve diluting risk metrics to pursue higher NIM.

**Asset Quality** – Slippages rose somewhat on sequential basis driven by the usual stressed segments: For the quarter, Gross NPA additions had amounted to Rs 3.96bn (Rs 3.89bn in 2QFY25), implying an annualised gross slippage ratio of 3.4%. Recoveries and upgrades amounted to Rs 2.92bn. The slight rise in slippages was driven by the microfinance and unsecured retail segments. Provisions were Rs 0.67bn, up by 47.3% QoQ and 63.9% YoY, translating to calculated annualised credit cost of 58bps. For the bank's business, the credit cost should range between 45-55 bps.

We maintain a less-than-bullish 'ADD' rating on DCB with a revised price target of Rs 135: DCB was among the bottom 2 names in our [Sector Initiation Report dated June 2021](#). We value the bank at 0.7x FY26 P/BV for an FY25/26/27E RoE profile of 11.2/11.9/13.0%.

**(See Comprehensive con call takeaways on page 2 for significant incremental colour.)**

### Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 62.7% was down by -156/-191bps QoQ/YoY and the Cost to assets was at 2.6% down by -15/-3bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.8%, down/up -3/14bps QoQ/YoY.

### Exhibit 1: Result table

(Rs mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Total Interest Income	16,711	15,684	6.5	13,741	21.6
Interest Expense	(11,282)	(10,592)	6.5	(9,001)	25.3
Net Interest Income	5,429	5,092	6.6	4,740	14.5
Fee Income	1,410	1,390	1.4	980	43.9
Non-fee Income	431	656	(34.4)	257	67.4
Total Non-Interest Income	1,841	2,046	(10.1)	1,237	48.8
Total Income	7,269	7,138	1.8	5,977	21.6
Employee Expense	(2,312)	(2,351)	(1.7)	(1,984)	16.5
Non-employee Opex	(2,246)	(2,236)	0.5	(1,878)	19.6
Total Operating expenses	(4,558)	(4,587)	(0.6)	(3,862)	18.0
PPOP	2,711	2,551	6.3	2,115	28.2
Provisions	(672)	(456)	47.3	(410)	63.9
PBT	2,040	2,095	(2.7)	1,705	19.6
Tax	(525)	(541)	(2.9)	(439)	19.5
PAT	1,515	1,555	(2.6)	1,266	19.7

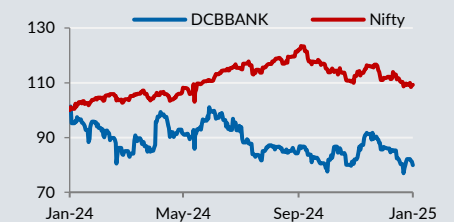
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 114
Target Price	: Rs 135
Potential Return	: +19%

### Stock data (as on January 24, 2025)

Nifty	23,092
52 Week h/l (Rs)	150 / 108
Market cap (Rs/USD mn)	36238 / 420
Outstanding Shares (mn)	314
6m Avg t/o (Rs mn):	210
Div yield (%):	1.1
Bloomberg code:	DCBB IN
NSE code:	DCBBANK

### Stock performance



	1M	3M	1Y
Absolute return	-7.3%	3.1%	-21.1%

### Shareholding pattern (As of Sep'24 end)

Promoter	14.7%
FII+DII	37.7%
Others	47.6%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	135	139

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
NII	21,302	26,036	30,967
PPOP	10,106	12,628	15,670
Net Profit	5,993	7,063	8,644
Growth (%)	11.8	17.8	22.4
EPS (Rs)	19.2	22.6	27.6
BVPS (Rs)	179	200	225
P/E (x)	5.9	5.0	4.1
P/BV (x)	0.6	0.6	0.5
ROE (%)	11.2	11.9	13.0
ROA (%)	0.9	0.9	0.9
Tier-1 (%)	13.4	12.6	11.9

### Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	19.2	22.6	27.6
EPS (Old)	18.2	22.6	27.9
% change	5.1%	-0.2%	-1.1%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Asset quality

- **Slippages**
  - Gross NPA additions amounted to Rs 3.96bn for 3QFY25, translating to an annualized slippage ratio of 3.4% for the quarter. (Gross NPA additions had amounted to Rs 3.89bn during 2QFY25.)
  - **Segmental comment**
    - The slight rise in slippages were driven by the microfinance and unsecured retail segments.
- **Recoveries and upgrades**
  - Recoveries and upgrades amounted to Rs 2.92bn for 3QFY25, implying net NPA addition of Rs 1.04bn for the quarter.
- **Provisions**
  - Provisions were Rs 0.67bn, up by 47.3% QoQ and 63.9% YoY, translating to calculated annualised credit cost of 58bps.
  - Write offs have been in line with what was seen last year.
  - **Credit cost guidance**
    - For the bank's business, the credit cost should range between 45-55 bps.
- **Restructured book**
  - The standard restructured loans stood at Rs 1.0bn or 2.05% of gross advances.
- **NPA ratios**
  - GNPA ratio stands at 3.11%, down -18bps QoQ and -32bps YoY while NNPA ratio stands at 1.2%, up 1bp QoQ but down -4bps YoY.
- **Microfinance**
  - The bank carries out lending to individuals via business correspondents and there is no 5% clawback condition in this business.
  - The bank also carries out lending to microfinance institutions.
  - Loans to microfinance institutions amount to Rs 7.9bn whereas loans to individuals (via BCs) is Rs 7.4bn, which is 1.5% of overall loan book.
  - Management is unable to comment on when the microfinance segment will stabilize.

### Loan growth

- The advances for the bank stood at Rs 478 bn, up 7.5% QoQ and 22.7% YoY.
- **Co-lending**
  - The Co-lending book was at Rs 53.92bn, up by 61% YoY.
  - Excluding co-lending, the overall loan growth would be about 18-19% YoY, which is similar to the trend of previous quarters.
  - Co-lending has provided the extra fillip to growth, taking it to 22% YoY plus.
  - Co-lending entails various segments including home loans, school finance, unsecured business loans, gold loans, SME and commercial vehicle loans.
  - The number of partners for co-lending happens to be more than 7-8 and one large partner resumed lending after a brief pause.
  - The bank intends to carry out co-lending with partners who are not present in the product, segment or location where the bank is present in.
  - Co-lending is accretive in nature (presumably from an RoA perspective).

(Con call takeaways continue on the next page)

- **Guidance**
  - For the ticket size that the bank operates in, there is enough demand.
  - While there is a microfinance slowdown, it has led to better demand for gold loans, which has helped both co-lending and organic gold lending.
  - The bank has a low base and there is no challenge growing upward of 20%.
- **Mortgages**
  - The average ticket size of the mortgages book is Rs 2.5-2.7mn.
  - This ticket size is a sweet spot from PMAY (Pradhan Mantri Awas Yojna) perspective.
  - As of now, business loans dominate mortgages business but, once PMAY is finalized, the bank may turn to home loans.

## Net interest margin

- **NIM for the quarter**
  - NIM was at 3.30%, up 3bps QoQ but down -18bps YoY.
- **Yield on advances**
  - The yield on advances in 3Q was at 11.44%, up by 5bps QoQ but flat YoY.
- **Cost of deposits**
  - The Cost of deposits in 3Q was at 7.12%, up by 3bps QoQ and 17bps YoY.
  - Cost of funds has risen 3 bps due to Tier 2 capital raise, which is higher cost and also due to tightness in the system.
- **Margin guidance**
  - The NIM reduction has stopped and there has been an uptick.
  - Boosting RoA will not involve diluting risk metrics to pursue higher NIM.
- **Loan to deposit ratio (LDR)**
  - The loan to deposit ratio was at 84.3%, up by 276bps QoQ and 164bps YoY.
  - The LDR has increased due to Tier 2 capital raise and also borrowings.
  - However, management is not comfortable with the LDR rise and plans to bring it down.

## Operating expenses

- **Total opex**
  - Total opex, at Rs. 4.56bn, is down -0.6% QoQ but up 18% YoY.
  - Cost to income ratio came in at 62.7%, down by -156bps QoQ and -191bps YoY.
  - **Cost to assets**
    - The cost to assets was at 2.59%, down by -15bps QoQ and -3bps YoY
  - **General comments**
    - The bank is focused on discipline on productivity and cost control.
    - The bank expects to demonstrate the same in future as well.
- **Employee expenses**
  - The staff opex is down -1.7% QoQ but up 16.5% YoY.
  - **Headcount**
    - There has been a headcount reduction due to improvement in productivity.
    - Performers are rewarded and non-performers are groomed for improvement.
- **Non-employee expenses**
  - Other opex is up 0.5% QoQ and 19.6% YoY.
  - There has been a series of cost control measures and non-employee expenses will see a similar trend line going forward.

(Con call takeaways continue on the next page)

- **Branches**
  - The company has opened 6 branches in 3Q, taking the total branch count to 457.
- **Guidance**
  - The target for cost to assets and cost to income ratio is 2.5-.26% and 60%.

## Fee income

- The core fee income for the quarter was at Rs 1.41bn, up 1.4% QoQ and 44% YoY.
- Fee to average assets was at 0.8%, down -3bps QoQ but up 14bps YoY.
- **Strategy**
  - The bank is working on strategies to improve core fee income as means for boosting RoA.
  - For example, mortgages was a low engagement product but the bank is now approaching mortgage customers with a second or third product.

## Deposits growth

- The deposits were at Rs 567 bn, up by 3.9% QoQ and 20.3% YoY.
- The share of top 20 depositors was at 6.97%.
- **CASA deposits**
  - CASA ratio was at 25.09%
  - CASA deposits were at Rs 142bn, up by 15.5% YoY.

## Return ratios

- The RoA for 3Q was at 0.86% and RoE was at 11.98%.
- The target RoA remains 1%.

## Capital Adequacy

- The RWA to total assets was at 49.42%.
- The Tier I capital ratio was at 13.54%, down -11bps QoQ and -15bps YoY.
- The Tier II capital ratio was at 2.75%, up 85bps QoQ and 72bps YoY.
- **Capital infusion**
  - There is some minor information that needs to be provided to the RBI.
  - The capital infusion from the promoters can happen anytime.

## Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3FY25	Q2FY25	% qoq	Q3FY24	% yoy	Q3FY25*	chg qoq*	chg yoy*
Advances	477,800	444,652	7.5	389,510	22.7	100.0	0bps	0bps
Corporate banking	30,101	30,681	(1.9)	30,382	(0.9)	6.3	-60bps	-150bps
AIB	112,761	109,384	3.1	93,093	21.1	23.6	-100bps	-30bps
CV	4,778	2,668	79.1	2,337	104.4	1.0	40bps	40bps
Gold Loans	16,245	15,563	4.4	12,075	34.5	3.4	-10bps	30bps
Mortgage	212,621	201,427	5.6	175,280	21.3	44.5	-80bps	-50bps
SME and MSME	25,323	26,234	(3.5)	23,371	8.4	5.3	-60bps	-70bps
Co-Lending	53,991	35,572	51.8	33,498	61.2	11.3	330bps	270bps
Other Loans	21,979	23,122	(4.9)	19,476	12.9	4.6	-60bps	-40bps
Total Deposits	566,780	545,317	3.9	471,200	20.3	100.0	0bps	0bps
CASA	142,220	139,630	1.9	123,110	15.5	25.1	-51bps	-103bps
Term	424,560	405,687	4.7	348,090	22.0	74.9	51bps	103bps
RWA	353,670	351,840	0.5	313,660	12.8	NA	NA	NA
Investments	179,630	182,049	(1.3)	154,430	16.3	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	27.3	29.0	-173bps	28.4	-107bps	NA	NA	NA
Borrowings	73,890	68,201	8.3	53,720	37.5	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	11.5	11.1	42bps	10.2	130bps	NA	NA	NA

Source: Company, YES Sec – Research, \* Share in Total and change in share

## Exhibit 3: Key quarterly ratios

(%)	Q3FY25	Q2FY25	chg qoq	Q3FY24	chg yoy
Net interest margin	3.30	3.27	3bps	3.48	-18bps
Yield on advances	11.44	11.39	5bps	11.44	0bps
Cost of Deposits	7.12	7.09	3bps	6.95	17bps
Loan to Deposit ratio	84.3	81.5	276bps	82.7	164bps
Non-interest income/Total income	25.3	28.7	-335bps	20.7	462bps
Fee Income to Avg. Total Assets	0.8	0.8	-3bps	0.7	14bps
Cost to Income	62.7	64.3	-156bps	64.6	-191bps
Opex to Avg. Total Assets	2.6	2.7	-15bps	2.6	-3bps
Credit Cost	0.58	0.4	16bps	0.4	15bps
RoE^	12.0	12.7	-67bps	11.3	68bps
RoA^	0.9	0.9	-7bps	0.9	0bps
Annualised Slippage Ratio*	3.4	3.5	-15bps	4.4	-103bps
Provision Coverage	74.8	75.6	-86bps	76.4	-166bps
Gross NPA	3.1	3.3	-18bps	3.4	-32bps
Net NPA	1.2	1.2	1bps	1.2	-4bps
Capital adequacy ratio	16.3	15.6	74bps	15.7	57bps
Tier I capital ratio	13.5	13.7	-11bps	13.7	-15bps

Source: Company, YES Sec – Research, ^Annualised, \*Annualised Gross NPA Addition Ratio

## Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	5,429	5,295	2.5
Pre-Prov. Operating Profit	2,711	2,364	14.7
Profit After Tax	1,515	1,432	5.8

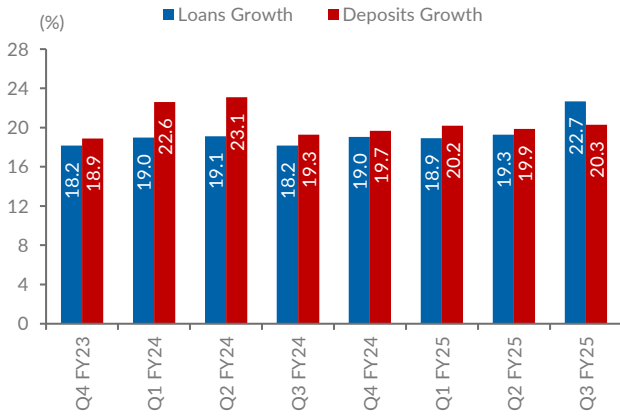
Source: Company, YES Sec – Research

## Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q3FY25	Q2FY25	% qoq	Q3FY24	% yoy
Fee Income (A)	1,410	1,390	1.4	980	43.9
Other Income (B)	431	656	(34.4)	257	67.4
<b>Total Non-Interest Income (A+B)</b>	<b>1,841</b>	<b>2,046</b>	<b>(10.1)</b>	<b>1,237</b>	<b>48.8</b>

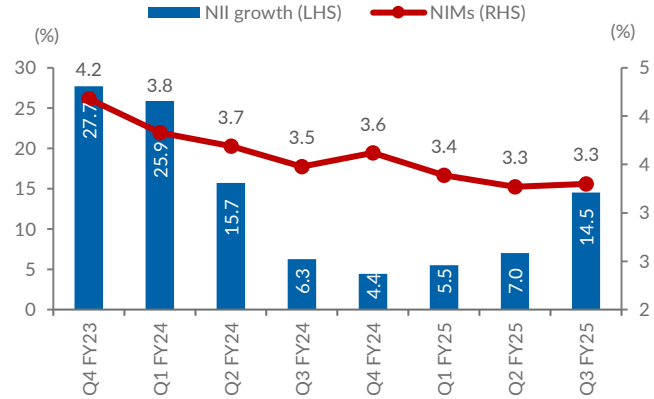
Source: Company, YES Sec - Research

**Exhibit 6: Loans and Deposits growth (YoY %)**



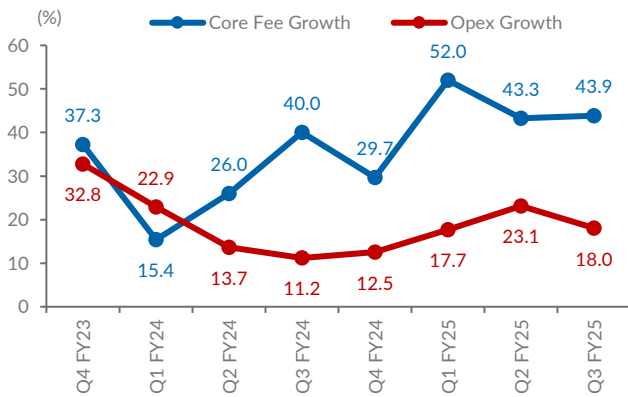
Source: Company, YES Sec – Research

**Exhibit 7: NII growth (YoY %) and NIM (%)**



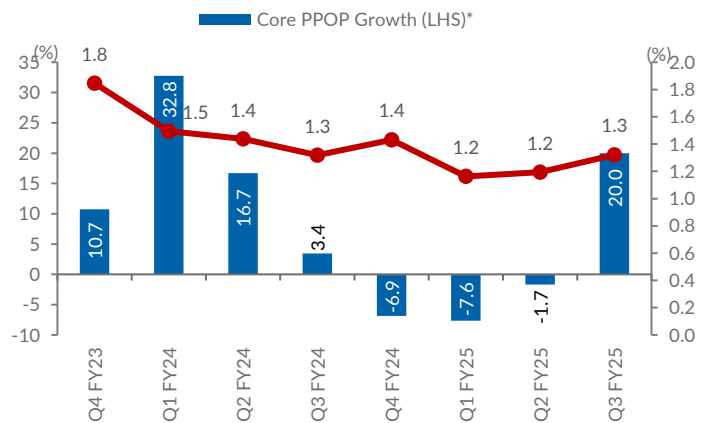
Source: Company, YES Sec – Research

**Exhibit 8: Core Fee and Opex growth (YoY %)**



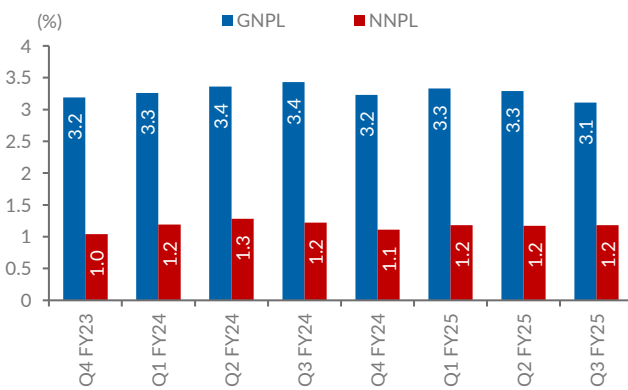
Source: Company, YES Sec – Research

**Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin (%)**



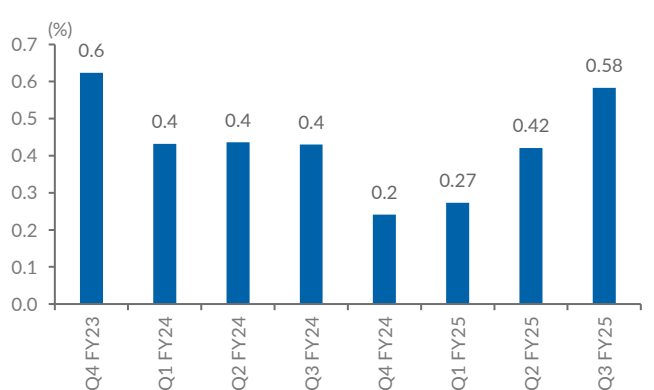
Source: Company, YES Sec – Research, \* Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

**Exhibit 10: Gross NPA and Net NPA (%)**



Source: Company, YES Sec – Research

**Exhibit 11: Provisions/Average Advances (%)**



Source: Company, YES Sec – Research

**Exhibit 12: 1-year rolling P/BV band**



Source: Company, YES Sec – Research

**Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations**



Source: Company, YES Sec – Research



## ANNUAL FINANCIALS

### Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Total cash & equivalents	23,684	30,659	44,199	52,596	62,590
Investments	125,825	162,108	189,938	221,483	258,492
Advances	343,807	409,246	491,095	584,403	695,439
Fixed assets	8,263	8,649	9,514	10,465	11,512
Other assets	22,080	19,708	20,102	20,504	20,914
<b>Total assets</b>	<b>523,659</b>	<b>630,370</b>	<b>754,847</b>	<b>889,451</b>	<b>1,048,947</b>
Net worth	45,661	50,713	56,136	62,528	70,351
Deposits	412,389	493,530	595,842	712,477	851,272
Borrowings	41,181	62,195	66,287	70,953	76,504
Other liabilities	24,427	23,932	36,582	43,494	50,819
<b>Total liabilities incl. Equity</b>	<b>523,659</b>	<b>630,370</b>	<b>754,847</b>	<b>889,451</b>	<b>1,048,947</b>

Source: Company, YES Sec – Research

### Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	42,003	53,620	63,472	76,051	90,150
Interest expense	(24,833)	(34,341)	(42,170)	(50,015)	(59,184)
<b>Net interest income</b>	<b>17,170</b>	<b>19,279</b>	<b>21,302</b>	<b>26,036</b>	<b>30,967</b>
Non-interest income	4,094	4,742	7,162	7,893	9,359
<b>Total income</b>	<b>21,264</b>	<b>24,021</b>	<b>28,465</b>	<b>33,929</b>	<b>40,326</b>
Operating expenses	(13,397)	(15,377)	(18,358)	(21,301)	(24,656)
<b>PPoP</b>	<b>7,867</b>	<b>8,644</b>	<b>10,106</b>	<b>12,628</b>	<b>15,670</b>
Provisions	(1,592)	(1,425)	(2,019)	(3,097)	(4,005)
<b>Profit before tax</b>	<b>6,276</b>	<b>7,220</b>	<b>8,088</b>	<b>9,531</b>	<b>11,665</b>
Taxes	(1,620)	(1,860)	(2,095)	(2,469)	(3,021)
<b>Net profit</b>	<b>4,656</b>	<b>5,360</b>	<b>5,993</b>	<b>7,063</b>	<b>8,644</b>

Source: Company, YES Sec – Research

## Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	8.6	9.3	9.2	9.3	9.3
Interest expense	-5.1	-6.0	-6.1	-6.1	-6.1
<b>Net interest income</b>	<b>3.5</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>
Non-interest income	0.8	0.8	1.0	1.0	1.0
<b>Total income</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>
Operating expenses	-2.8	-2.7	-2.7	-2.6	-2.5
PPoP	1.6	1.5	1.5	1.5	1.6
Provisions	-0.3	-0.2	-0.3	-0.4	-0.4
<b>Profit before tax</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
Taxes	-0.3	-0.3	-0.3	-0.3	-0.3
<b>Net profit</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, YES Sec – Research

## Exhibit 17: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Interest Income	21,302	26,036	30,967	21,662	26,400	31,146	(1.7)	(1.4)	(0.6)
Pre-Prov. Operating Profit	10,106	12,628	15,670	9,472	12,444	15,208	6.7	1.5	3.0
Profit after tax	5,993	7,063	8,644	5,702	7,078	8,741	5.1	(0.2)	(1.1)

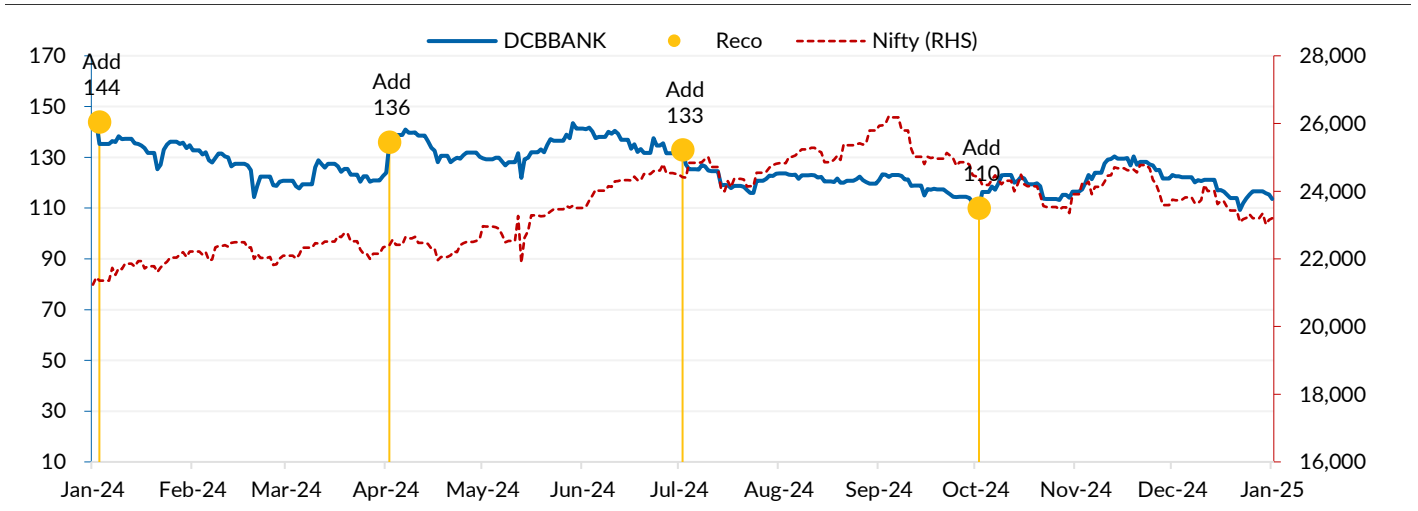
Source: Company, YES Sec – Research

## Exhibit 18: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	26.5	12.3	10.5	22.2	18.9
PPoP	-1.3	9.9	16.9	25.0	24.1
Net profit	61.9	15.1	11.8	17.8	22.4
Loans	18.2	19.0	20.0	19.0	19.0
Deposits	18.9	19.7	20.7	19.6	19.5
<b>Profitability Ratios (%)</b>					
Net interest margin	3.9	3.7	3.4	3.4	3.5
Return on Average Equity	10.8	11.1	11.2	11.9	13.0
Return on Average Assets	1.0	0.9	0.9	0.9	0.9
<b>Per share figures (Rs)</b>					
EPS	14.9	17.1	19.2	22.6	27.6
BVPS	147	162	179	200	225
ABVPS	135	148	158	172	196
<b>Valuation multiples</b>					
P/E	7.6	6.6	5.9	5.0	4.1
P/BV	0.8	0.7	0.6	0.6	0.5
P/ABV	0.8	0.8	0.7	0.7	0.6
<b>NIM internals (%)</b>					
Yield on loans	10.7	11.3	11.1	11.2	11.2
Cost of deposits	5.9	6.8	6.9	6.9	6.9
Loan-deposit ratio	83.4	82.9	82.4	82.0	81.7
CASA ratio	26.4	26.0	26.0	26.0	26.0
<b>Opex control (%)</b>					
Cost/Income ratio	63.0	64.0	64.5	62.8	61.1
Cost to average assets	2.8	2.7	2.7	2.6	2.5
<b>Capital adequacy (%)</b>					
Tier 1 capital ratio	15.2	14.5	13.4	12.6	11.9
<b>Asset quality (%)</b>					
Slippage ratio	5.4	4.0	3.4	3.0	2.5
Gross NPL ratio	3.2	3.2	2.8	2.5	2.1
Credit cost	0.5	0.5	0.4	0.5	0.6
Net NPL ratio	1.0	1.1	1.4	1.5	1.3

Source: Company, YES Sec – Research

**Recommendation Tracker**



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