

Good Quarter; Pushing for Sustainable RoA of 1% from FY26!
Est. Vs. Actual for Q3FY25: NII – BEAT; PPOP – BEAT; PAT – BEAT
Changes in Estimates post Q3FY25
FY25E/FY26E/FY27E (in %): NII: 4.2/5.2/4.6; PPOP: 13.9/9.9/3.3; PAT: 12.1/7.4/-0.4
Recommendation Rationale

- Growth visibility healthy:** In Q3FY25, one of DCB's largest co-lending partners resumed the business origination driving healthy growth in the book. The bank has partnered with 6-7 co-lending partners and expects growth in the book across lending segments to remain healthy. Owing to the slowdown in microfinance, the demand for gold loans has improved, which is helping direct lending and co-lending. The management also indicated that the bank would continue to drive growth in the business loans. However, it would not shy away from pushing the growth pedal on Home Loans once clarity on PMAY guidelines emerges. The management indicated that the demand in the target customer segment continues to remain buoyant and expects a similar pace of growth to continue in the coming quarters. We expect DCB to report a strong advances growth of 20% CAGR over FY25-27E.
- NIM improvement remains the focus area:** The key lever for margin improvement remains an uptick in yield on advances and investments and the bank's ability to control CoF. While the yield on advances has slightly improved during the quarter, a portfolio shift toward better-yielding products would further aid yield improvement. However, the management would not look at pursuing growth, moving away from the risk and business strategy framework. DCB will look at aligning NII growth with balance sheet growth. While CoF is yet to peak out, we believe a favourable product mix should facilitate NIM improvement to ~3.5% (+/-5bps) over FY26-27E vs 3.4% in FY25.
- Focus on improving productivity to lower opex ratios:** DCB's C-I Ratio has, on average, ranged between 63-65% over the past 2 years. However, the bank is seeing productivity improve alongside cost control measures that have been undertaken and have been instrumental in arresting the pace of Opex growth. The management is optimistic about continued discipline on costs and aims to further improve the C-I Ratio to 60% in the near term. Currently, the C-A ratio is expected to settle at 2.55% vs 2.6%. Cost optimisation and Opex ratio improvement remain a key lever to help the bank achieve an RoA of 1%.

Sector Outlook: Positive

Company Outlook: With strong demand visibility in the target customer segment, DCB remains well-poised to drive healthy growth. The management intends to align deposit growth with credit growth while maintaining a steady C-D Ratio. We believe DCB is moving in the right direction in its journey to achieve an RoA of 1% by identifying NIM improvement levers, exercising stringent cost control and making efforts to improve productivity. No major asset quality challenges are visible; hence, slippages are expected to remain under control. Resultantly, credit costs are expected to range within the guided range of 45-55bps. Collectively, with these initiatives playing out, we expect DCB's RoA to improve to ~1% by FY26-27E, with a RoA delivery of 13-14%.

Current Valuation: 0.7x Sep'26E ABV; Earlier Valuation: 0.7x Sep'26E ABV

Current TP: Rs 140/share; Earlier TP: Rs 135/share

Recommendation: We maintain our **BUY** recommendation on reasonable valuations.

Financial Performance:

- Operational Highlights:** Disbursements grew by 10/1% YoY/QoQ. Advances growth was robust at 237% YoY/QoQ (Mortgages +21% YoY, AIB +21% YoY, Gold loans +35% YoY, while Corporate growth was muted, de-growing by 1% YoY). Deposits growth was equally healthy at 20/4% YoY/QoQ. Deposit growth was driven by both TDs (+22/5% YoY/QoQ) and CASA deposits (+16/2% YoY/QoQ). CASA Ratio stood at 25.1% vs 25.6% QoQ.
- Financial Performance:** NII growth improved to 15/7% YoY owing to a 3bps QoQ NIM improvement. NIMs stood at 3.3% vs 3.27%. Yields improved by 6bps QoQ, while CoF increased by ~3bps QoQ. Non-interest income grew by 49% YoY and de-grew by 10% QoQ. Opex growth was contained and de-grew by 1% QoQ (up 18% YoY). C-I Ratio improved to 62.7% vs 64.3% QoQ. PPOP grew by 28/6% YoY/QoQ. Credit costs (calc.) stood at 58bps vs 42bps QoQ. Earnings grew by 20% YoY and de-grew by 3% QoQ. GNPA/NNPA improved to 3.11/1.18% vs 3.29/1.17% QoQ. PCR stood at 63%.

Outlook:

We factor in healthy growth momentum and NIM improvement, resulting in an upward revision of NII estimates by ~4-5% over FY25-27E. On expectations of cost control measures panning out and improving productivity alongside stable asset quality driving under-control credit costs, we raise our earnings estimates by 7-12% over FY25-26E while maintaining our FY27 estimates.

Valuation & Recommendation:

The stock currently trades at 0.6x Sep'26E ABV, and we value it at 0.7x Sep'26E ABV and arrive at a target price of Rs 140/share, implying an upside of 23% from the CMP. **We maintain our BUY recommendation backed by reasonable valuations.**

Key Financials (Standalone)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	543	+6.6	+14.5	530	+2.3
PPOP	271	+6.3	+28.2	240	+13.0
Net Profit	151	-2.6	+19.6	143	+6.2
NNPA (%)	1.2	+1 bps	-5 bps	1.1	+3 bps
RoA (%)	0.9	-7 bps	+0 bps	0.8	+5 bps

Source: Company, Axis Securities Research

 (CMP as of 24th January, 2025)

CMP (Rs)	114
Upside /Downside (%)	23%
High/Low (Rs)	146/108
Market cap (Cr)	3,563
Avg. daily vol. (6m) Shrs.	14,89,897
No. of shares (Cr)	31.4

Shareholding (%)

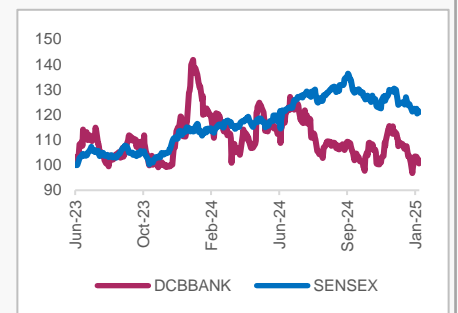
	Jun-24	Sep-24	Dec-24
Promoter	14.9	14.9	14.9
FIIs	14.8	11.2	11.0
MFs	18.6	18.5	19.8
Others	51.7	55.4	54.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	2,134	2,638	3,154
PPOP	1,049	1,352	1,619
Net Profit	634	828	991
EPS (Rs)	20.3	26.5	31.7
ABV (Rs)	163.8	185.8	209.2
P/ABV (x)	0.7	0.6	0.5
RoA (%)	0.9	1.0	1.0
NNPA (%)	1.0	1.0	0.9

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	+4.2	+5.2	+4.6
PPOP	+13.9	+9.9	+3.3
PAT	+12.1	+7.4	-0.4

Relative Performance


Source: AceEquity, Axis Securities Research

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Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail the bank's earnings momentum.
- The bank's inability to mobilise deposits could potentially derail credit growth or hamper margins.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	2,134	2,638	3,154	2,048	2,507	3,016	4.2	5.2	4.6
PBP	1,049	1,352	1,619	921	1,230	1,568	13.9	9.9	3.3
Provisions	194	235	283	159	190	226	22.3	24.0	25.1
PAT	634	828	991	566	772	995	12.1	7.4	-0.4

Source: Company, Axis Securities Research

Results Review (Standalone)

	Q3FY25	Q3FY24	% YoY	Q2FY25	% QoQ	9MFY25	9MFY24	% YoY
Net Interest Income	543	474	14.5	509	6.6	1549	1420	9.0
Non-Interest Income	184	124	48.8	205	-10.1	532	338	57.3
Operating expenses	456	386	18.0	459	-0.6	1349	1128	19.6
Staff Cost	231	198	16.5	235	-1.7	692	582	18.7
Pre provision profits	271	212	28.2	255	6.3	732	631	16.0
Provisions and contingencies	67	41	63.9	46	47.3	141	118	19.2
PBT	204	171	19.6	210	-2.7	590	512	15.3
Provision for Tax	52	44	19.5	54	-2.9	152	132	15.3
PAT	151	127	19.6	155	-2.6	438	380	15.2
Business Update								
Disbursements	4,757	4,307	10.4	4,729	0.6	13,624	13,101	4.0
Net Advances	47,780	38,952	22.7	44,465	7.5	47,780	38,952	22.7
Deposits								
	56,678	47,120	20.3	54,532	3.9	56,678	47,120	20.3
CASA Deposits	14,222	12,311	15.5	13,963	1.9	14,222	12,311	15.5
CASA Ratio	25.1	26.1	-103bps	25.6	-51bps	0.3	0.3	-1bps
Cost-Income ratio (%)	62.7	64.6	-191bps	64.3	-155bps	65.0	64.1	82bps
Yield on Advances	9.5	11.4	-193bps	11.4	-188bps	11.1	10.7	34bps
Cost of Deposits	7.1	7.0	17bps	7.1	3bps	6.0	6.1	-2bps
Cost of Funds	7.2	7.0	18bps	7.2	3bps	6.1	6.2	-5bps
NIMs (%)	3.3	3.5	-18bps	3.3	3bps	3.9	3.6	37bps
Asset Quality								
Gross NPA (%)	3.1%	3.4%	-32bps	3.3%	-18bps	3.1%	3.4%	-32bps
Net NPA (%)	1.2%	1.2%	-5bps	1.2%	1bps	1.2%	1.2%	-5bps
PCR (%)	73%	76%	-340bps	76%	-260bps	73.0%	76.4%	-340bps
Capital Adequacy								
CRAR	16.3	15.7	57bps	15.6	74bps	16.3	15.7	57bps
Tier I	13.5	13.7	-15bps	13.7	-11bps	13.5	13.7	-15bps
Tier II	2.8	2.0	72bps	1.9	85bps	2.8	2.0	72bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,928	2,134	2,638	3,154
Other Income	474	745	873	1,015
Total Income	2,402	2,879	3,512	4,169
Total Operating Exp	1,538	1,830	2,160	2,550
PPOP	864	1,049	1,352	1,619
Provisions & Contingencies	142	194	235	283
PBT	722	854	1,116	1,336
Provision for Tax	186	220	288	345
PAT	536	634	828	991

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	313	313	313	313
Reserves	4,758	5,329	6,075	6,868
Shareholder's Funds	5,071	5,642	6,388	7,181
Total Deposits	49,353	59,403	71,203	84,003
Borrowings	6,219	5,894	8,855	12,150
Other Liabilities & Provisions	2,393	2,799	3,411	4,078
Total Liabilities	63,037	73,739	89,858	1,07,412
APPLICATION OF FUNDS				
Cash & Bank Balance	3,066	3,868	4,281	5,050
Investments	16,211	16,661	21,394	25,240
Advances	40,925	49,819	60,051	72,182
Fixed Assets & Other Assets	2,836	3,391	4,132	4,939
Total Assets	63,037	73,739	89,858	1,07,412

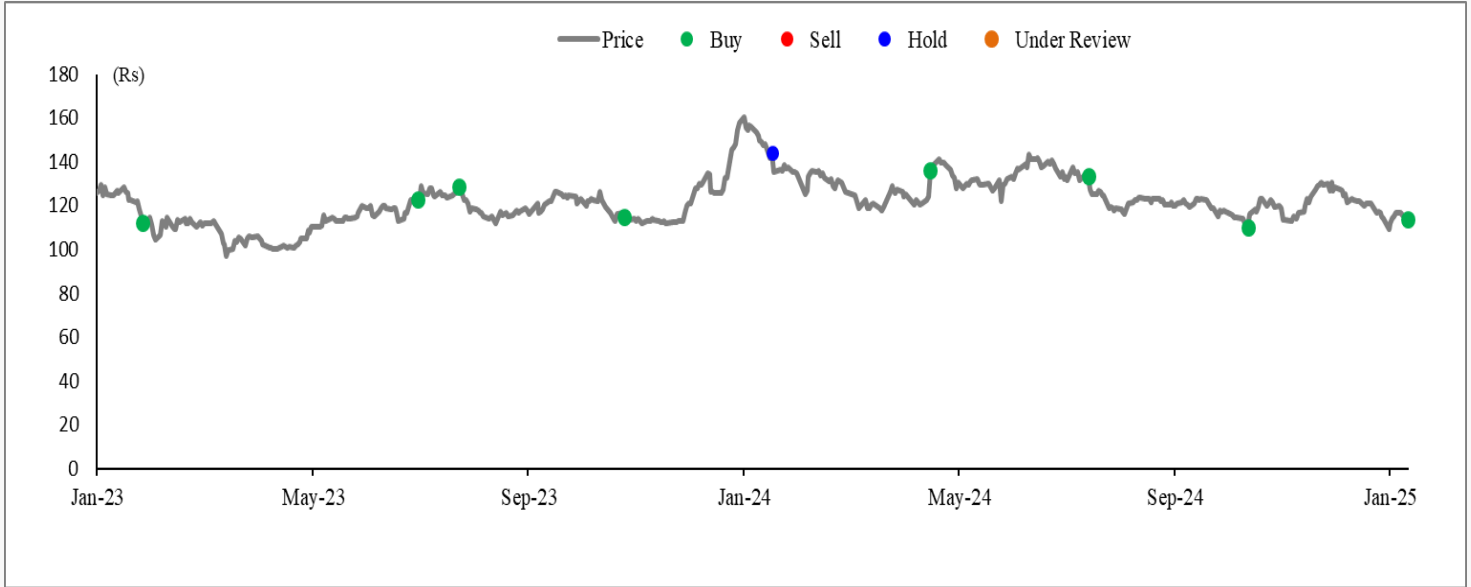
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	17.1	20.3	26.5	31.7
Earnings Growth (%)	0.1	0.2	0.3	0.2
BVPS	162.1	180.4	204.2	229.6
Adj. BVPS	147.6	163.8	185.8	209.2
ROAA (%)	0.9	0.9	1.0	1.0
ROAE (%)	11.1	11.8	13.8	14.6
P/E (x)	6.6	5.6	4.3	3.6
P/ABV (x)	0.8	0.7	0.6	0.5
PROFITABILITY				
NIM (%)	3.7	3.4	3.5	3.5
Cost-Income Ratio	64.0	63.6	61.5	61.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	19.0	21.7	20.5	20.2
Deposit Growth (%)	19.7	20.4	19.9	18.0
Equity/Assets (%)	8.0	7.7	7.1	6.7
Equity/Loans (%)	12.4	11.3	10.6	9.9
CAR	16.6	15.9	15.1	14.0
CAR Tier I	14.5	14.0	13.4	12.6
ASSET QUALITY				
Gross NPLs (%)	3.2	2.9	2.6	2.4
Net NPLs (%)	1.1	1.0	1.0	0.9
Coverage Ratio (%)	81.1	79.2	78.5	78.6
Credit Costs	0.4	0.4	0.4	0.4
ROAA TREE				
Net-Interest Income	3.3	3.1	3.2	3.2
Non-Interest Income	0.8	1.1	1.1	1.0
Operating Cost	2.7	2.7	2.6	2.6
Provisions	0.2	0.3	0.3	0.3
Tax	0.3	0.3	0.4	0.3
ROAA	0.9	0.9	1.0	1.0
Leverage (x)	12.0	12.0	12.8	14.5
ROAE	11.1	11.8	13.8	14.6

Source: Company, Axis Securities Research

DCB Bank Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-23	BUY	150	Result Update
08-May-23	BUY	140	Result Update
05-Jul-23	BUY	150	AAA
31-Jul-23	BUY	150	Result Update
01-Nov-23	BUY	140	Result Update
25-Jan-24	HOLD	155	Result Update
25-Apr-24	BUY	155	Result Update
25-Jul-24	BUY	150	Result Update
25-Oct-24	BUY	135	Result Update
27-Jan-25	BUY	140	Result Update

Source: Axis Securities Research

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