

October 31, 2023

RESULT REPORT Q2 FY24 | Sector: Banks

DCB Bank

Initiated as a least preferred name 2+ years ago, DCB continues to deliver sub-par outcomes

Result Highlights (See "Our View" below for elaboration and insight)

- **Asset quality:** Gross NPA addition amounted to Rs 3.95bn (annualised slippage ratio of 4.3%) while recoveries and upgrades amounted to at Rs 2.89bn
- **Margin picture:** NIM at 3.69% was down -14bps/-19bps QoQ/YoY, sequentially lower due to cost of deposits rising more than yield on advances.
- **Asset growth:** Advances grew 5.1%/19.1% QoQ/YoY, driven sequentially by Corporate Banking, AIB, Co-lending and 'Others' segments
- **Opex control:** Total opex rose 1%/13.7% QoQ/YoY, employee expenses fell/rose -3.1%/10.1% QoQ/YoY and other expenses rose 5.6%/17.6% QoQ/YoY
- **Fee income:** Core fee income rose 29.3%/26% QoQ/YoY, supported by growth in advances.

Our view—Mortgage asset quality and SA rate hike symptomatic for DCB

Gold loan book was not the only key source of slippages as restructured mortgages are proving to be a troublesome area: Most of the slippages emerged from the restructured book, which in turn were mainly mortgage customers who have just come out of moratorium. Slippages from restructured book are expected to stabilize in 2 quarters. Gold loan slippages continue and the gross slippage ratio excluding gold loan slippages amounted to 2.69%, which has declined on sequential basis.

Management did not sound confident with regard to margin commentary: Cost of funds has gone up on sequential basis by 16 bps and management expects this rise to play out over the next 2 quarters and then stabilize. In terms of moving parts, there is the SA bucket of Rs 1mn-20mn for which the bank has hiked the interest rate from less than 7% to 8% at the fag end of 2Q. On the other hand, there is some upward residual repricing remaining on the floating rate book.

Presently, DCB seems to be growing at a better pace than its not too distant past: It may be noted that YoY disbursement growth was negative primarily due to slowing down TREDs business where PSU banks are offering lower rates. AIB loans are growing at 30% plus YoY and it continues to remain a focus area. The intention is to increase overall loan growth to above 20% and still to double the balance sheet in 3-3.5 years.

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 0.8x FY25 P/BV for an FY24E/25E/26E RoE profile of 11.2/11.9/12.9%.

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

Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Interest Income	13,056	12,377	5.5	10,000	30.6
Interest Expense	(8,299)	(7,670)	8.2	(5,889)	40.9
Net Interest Income	4,757	4,707	1.1	4,111	15.7
Other income	1,074	1,069	0.4	992	8.2
Total Income	5,831	5,777	0.9	5,103	14.3
Operating expenses	(3,725)	(3,690)	1.0	(3,278)	13.7
PPOP	2,105	2,087	0.9	1,826	15.3
Provisions	(397)	(377)	5.2	(310)	28.0
PBT	1,708	1,709	(0.1)	1,516	12.7
Tax	(441)	(440)	0.1	(392)	12.4
PAT	1,268	1,269	(0.1)	1,124	12.9

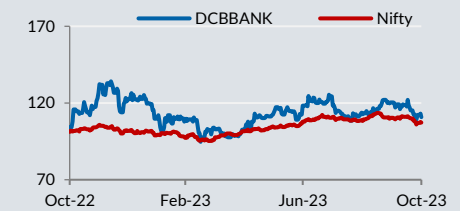
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 115
Target Price	: Rs 135
Potential Return	: 18%

Stock data (as on October 31, 2023)

Nifty	19,080
52 Week h/l (Rs)	141 / 97
Market cap (Rs/USD mn)	36481 / 438
Outstanding Shares (mn)	312
6m Avg t/o (Rs mn):	170
Div yield (%):	1.1
Bloomberg code:	DCBB IN
NSE code:	DCBBANK

Stock performance



	1M	3M	1Y
Absolute return	-8.0%	-6.4%	6.3%

Shareholding pattern (As of Sept'23 end)

Promoter	14.8%
FII+DII	51.7%
Others	33.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	135	138

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	19,007	22,268	26,423
PPOP	9,456	11,545	14,215
Net Profit	5,496	6,608	8,044
Growth (%)	18.1	20.2	21.7
EPS (Rs)	16.8	20.2	24.6
BVPS (Rs)	161	179	202
P/E (x)	6.8	5.7	4.7
P/BV (x)	0.7	0.6	0.6
ROE (%)	11.2	11.9	12.9
ROA (%)	1.0	1.0	1.0
Tier-1 (%)	14.4	13.4	12.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	16.8	20.2	24.6
EPS (Old)	19.2	22.5	27.6
% change	-12.5%	-10.3%	-11.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 3.95bn for 2QFY24, translating to an annualized slippage ratio of 4.3% for the quarter. (Gross NPA additions had amounted to Rs 3.42bn during 1QFY24.)
 - **Restructured book slippages**
 - Most of the slippages emerged from the restructured book.
 - Restructured book slippages were mainly of mortgage customers who have just come out of moratorium.
 - The bank is intensifying collections from restructured pool and should be able to contain slippages emerging from the restructured book.
 - Slippages from restructured book are expected to stabilize in 2 quarters.
 - **Gold loan slippages**
 - Gold loan slippages continue and the gross slippage ratio excluding gold loan slippages amounted to 2.69%, which has declined on sequential basis.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 2.89bn for 2QFY24, implying net NPA addition of Rs 1.06bn for the quarter.
 - Recoveries and upgrades are building up and are higher compared with Rs 2.11bn registered in 1Q.
 - It is expected that recoveries and upgrades will improve further to levels seen in previous 2 years and reach 98-100% of gross slippages compared with 73%, currently.
- **Provisions**
 - **P&L provisions**
 - Total non-tax provisions were Rs 0.4bn, up by 5.2% QoQ and 28% YoY, translating to calculated annualised credit cost of 44bps (on fully-loaded basis).
 - NPA provisions alone amounted to a credit cost of 28 bps.
 - **Breakup of provisions**
 - NPA provisions – Rs 250mn
 - Standard asset provisions (general) – Rs 70mn
 - Floating – Rs 40mn
 - Other – Rs 37mn
 - **Balance sheet provisions**
 - The PCR has declined from 68% as of March to 64% as of September.
 - The intention is to take this to 70% over time.
 - However, there is no concern on under-provisioning as the bank allocates incremental specific provisions wherever necessary.
 - The corporate book PCR is higher but, on mortgages, the bank does not expect to lose much.
 - **Non-PCR provisions**
 - Restructured book – Rs 1.94bn
 - Contingent – Rs 0.43bn
- **Restructured book**
 - The standard restructured loans stood at Rs 14.61bn or 3.8% of gross advances.

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.69%, down -14bps QoQ and -19bps YoY.

(Con call takeaways continue on the next page)

- **Cost of funds**
 - Cost of funds has gone up on sequential basis by 16 bps.
 - Management expects this rise to play out over the next 2 quarters and then stabilize.
 - **Savings rate**
 - There is the SA bucket of Rs 1mn-20mn for which the bank has hiked the interest rate from less than 7% to 8% at the fag end of 2Q.
 - This portion of the SA book is not likely to have major impact since most of the SA balances come at the lower end of the pricing band.
 - This 8% SA rate is to retain customers who may have moved to other banks due to higher TD rates.
- **Yield on advances**
 - There is some upward residual repricing remaining on floating rate book.
 - There is a portion of mortgages book which was fixed rate on temporary basis, which will come for pricing.
 - There is also an MCLR book which has a fixed schedule for repricing.
- **Margin guidance**
 - The business model remains geared towards a NIM of 365-375 bps.
 - In the near term, there are challenges due to upcoming rise in cost of funds.

Loan growth

- The advances for the bank stood at Rs 373 bn, up 5.1% QoQ and 19.1% YoY.
- The loan book remains granular with more than 85% of book comprising loans with ticket size less than Rs 30mn.
- **Disbursement**
 - It may be noted that YoY disbursement growth was negative.
 - This was primarily due to slowing down TREDs business where PSU banks are offering lower rates.
 - There has been shift from TREDs to better-yielding short-term corporate loans.
- **Gold loans**
 - Gold loans have not grown that well since the bank has shifted the focus of branch personnel to deposits by changing scorecards.
- **AIB loans**
 - AIB loans are growing at 30% plus YoY and continues to remain a focus area.
 - **Microfinance**
 - The bank has established 2 new BC relationships after losing a key BC partnership due to another bank acquiring the same.
- **Guidance**
 - The intention is to increase loan growth to above 20%.
 - The intention is still to double the balance sheet in 3-3.5 years.

Deposits growth

- The deposits were at Rs 455 bn, up by 5.8% QoQ and 23.1% YoY.
- The share of top 20 depositors is about 7% of total deposits book and has risen only somewhat on sequential basis.

(Con call takeaways continue on the next page)

Operating expenses

- **Total opex**
 - Total Opex, at Rs. 3.72bn, is up 1% QoQ and 13.7% YoY.
 - Consequently, cost/income ratio came in at 63.9%, up by 2bps QoQ but down -33bps YoY.
 - **Guidance**
 - The bank will continue to invest in capacity building but cost to assets will trend lower in the long-term.
- **Staff opex**
 - The staff opex is down -3,1% QoQ but up 10.1% YoY.
 - There has been an increase in headcount as the bank continues to invest in capacity building.
- **Non-staff opex**
 - Other opex is up 5.6% QoQ and 17.6% YoY.
 - **Branch expansion**
 - The bank is not going to add more than 25-30 branches per year.

CEO appointment

- An application has been made to the RBI and the bank is awaiting a response.

Fee income

- **Guidance**
 - Fee income is expected to grow in line with the balance sheet.
- **PSLC income**
 - The PSLC income this year has been Rs 30-40mn, which is lower than Rs 200mn registered last year and Rs 800mn registered earlier.
- **Other key parts**
 - Total non-interest income has been sluggish despite a healthy rise in commission, exchange and brokerage.
 - Some changes in IRDA regulations has led to a negative impact on third-party distribution fees.

Return ratios

- **Guidance**
 - The guidance for RoA and RoE is 1% and 14%.
 - Timeline is slightly delayed due to the rise in cost of funds and now can be achieved over the next 3-4 quarters.
 - **Factors aiding RoA expansion**
 - Earlier, the credit cost guidance used to be 45-50 bps but now, it is possible that the bank would achieve 35-38 bps.
 - There would be a product mix change wherein the bank will do more of business loans, i.e. LAP, within mortgages, which would aid NIM by a few bps (ceteris paribus).

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy	Q2FY24*	chg qoq*	chg yoy*
Advances	372,760	354,740	5.1	312,914	19.1	100.0	0bps	0bps
Corporate banking	31,312	28,734	9.0	32,543	(3.8)	8.4	30bps	-200bps
AIB	87,599	82,300	6.4	67,589	29.6	23.5	30bps	190bps
CV	2,982	3,902	(23.6)	6,884	(56.7)	0.8	-30bps	-140bps
Gold Loans	12,674	12,771	(0.8)	15,020	(15.6)	3.4	-20bps	-140bps
Mortgage	165,505	158,569	4.4	133,927	23.6	44.4	-30bps	160bps
SME and MSME	24,602	23,768	3.5	29,727	(17.2)	6.6	-10bps	-290bps
Co-Lending	29,821	27,670	7.8	15,646	90.6	8.0	20bps	300bps
Other Loans	18,265	17,028	7.3	11,578	57.8	4.9	10bps	120bps
Total Deposits	454,963	430,090	5.8	369,601	23.1	100.0	0bps	0bps
CASA	113,910	111,670	2.0	108,460	5.0	25.0	-93bps	-431bps
Term	341,053	318,420	7.1	261,141	30.6	75.0	93bps	431bps
RWA	301,080	290,880	3.5	257,800	16.8	NA	NA	NA
Investments	146,761	133,950	9.6	104,734	40.1	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	28.2	27.4	84bps	25.1	317bps	NA	NA	NA
Borrowings	51,898	47,300	9.7	35,149	47.7	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	10.2	9.9	33bps	8.7	156bps	NA	NA	NA

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

Exhibit 3: Key quarterly ratios

(%)	Q2FY24	Q1FY24	chg qoq	Q2FY23	chg yoy
Net interest margin	3.69	3.83	-14bps	3.88	-19bps
Yield on advances	11.56	11.55	1bps	10.81	75bps
Cost of Deposits	6.77	6.61	16bps	5.87	90bps
Loan to Deposit ratio	81.9	82.5	-55bps	84.7	-273bps
Non-interest income/Total income	18.4	18.5	-10bps	19.4	-103bps
Fee Income to Avg. Total Assets	0.7	0.6	13bps	0.7	2bps
Cost to Income	63.9	63.9	2bps	64.2	-33bps
Opex to Avg. Total Assets	2.6	2.8	-11bps	2.9	-21bps
RoE^	11.6	11.8	-24bps	11.5	10bps
RoA^	0.9	0.9	-4bps	1.0	-7bps
Annualised Slippage Ratio*	4.3	3.8	42bps	5.8	-157bps
Provision Coverage	75.5	77.1	-158bps	72.8	266bps
Gross NPA	3.4	3.3	10bps	3.9	-53bps
Net NPA	1.3	1.2	9bps	1.5	-26bps
Capital adequacy ratio	16.6	17.1	-54bps	17.9	-136bps
Tier I capital ratio	14.3	14.8	-50bps	14.9	-66bps

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

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	4,757	4,857	(2.1)
Pre-Prov. Operating Profit	2,105	2,150	(2.1)
Profit After Tax	1,268	1,272	(0.3)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Employee Expense	1,889	1,951	(3.1)	1,717	10.1
Other Operating Expense	1,836	1,739	5.6	1,561	17.6
Total Operating Expense	3,725	3,690	1.0	3,278	13.7

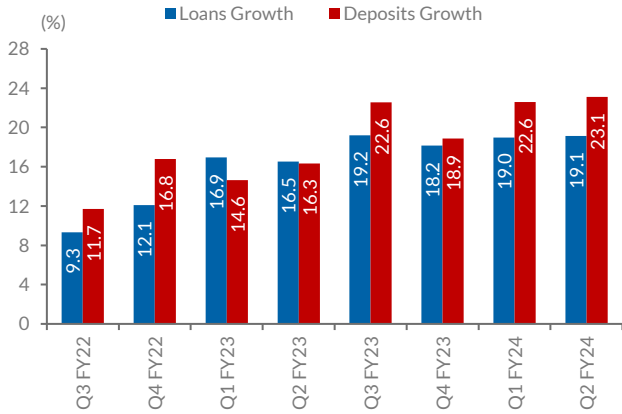
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Fee Income (A)	970	750	29.3	770	26.0
Other Income (B)	104	319	(67.6)	222	(53.4)
Total Non-Interest Income (A+B)	1,074	1,069	0.4	992	8.2

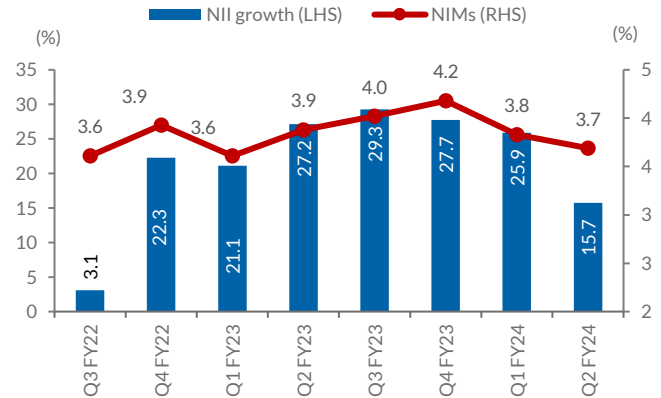
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



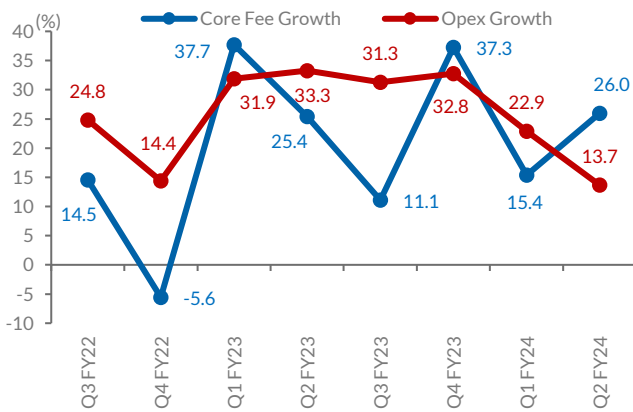
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM (%)



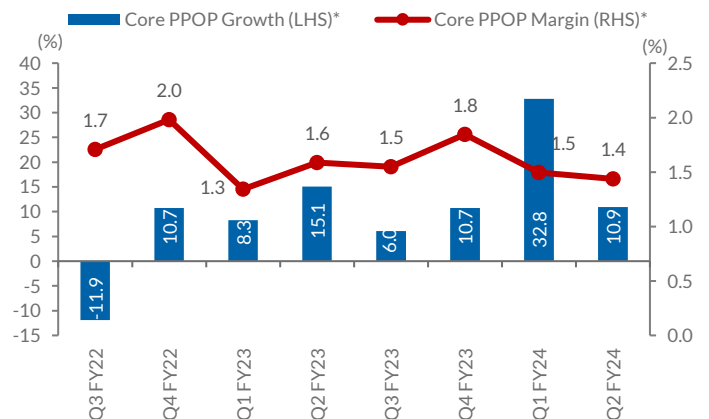
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



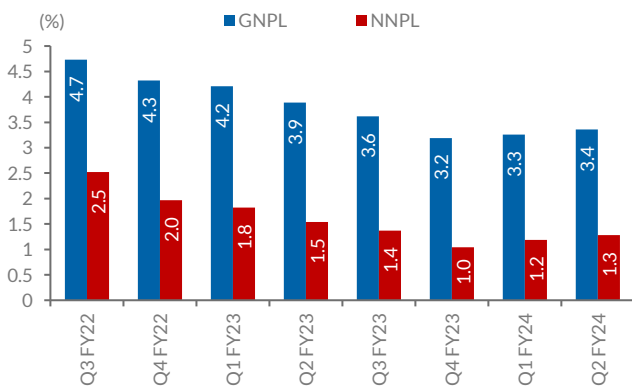
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



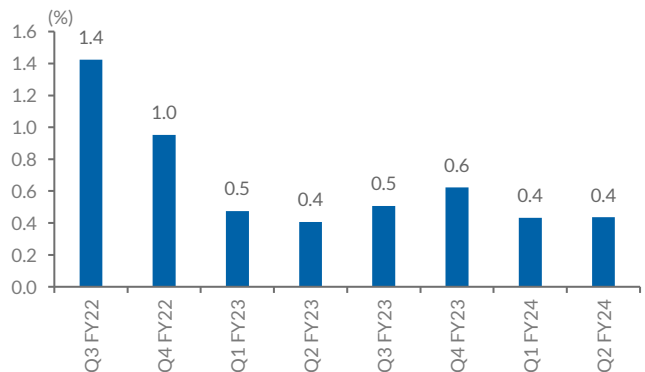
Source: Company, YES Sec – Research. * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



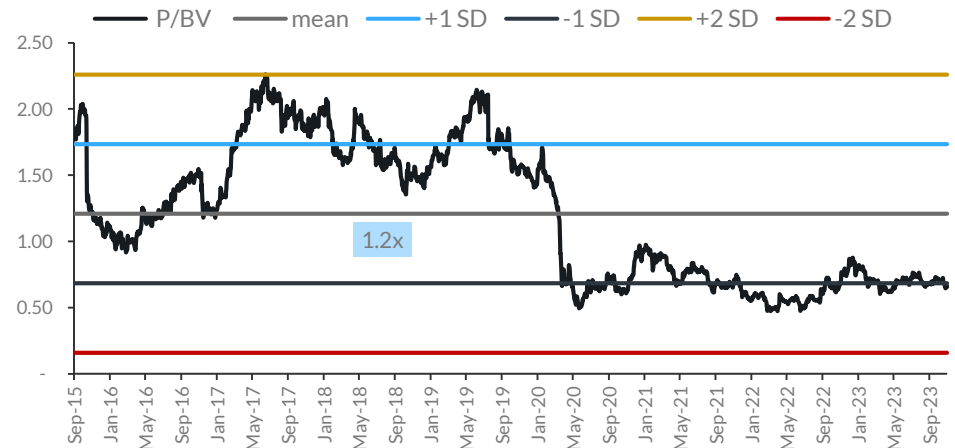
Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	40,908	23,684	28,398	33,510	39,542
Investments	90,982	125,825	140,347	163,349	190,257
Advances	290,958	343,807	405,693	478,717	564,887
Fixed assets	6,612	8,263	9,089	9,998	10,998
Other assets	18,942	22,080	22,521	22,972	23,431
Total assets	448,401	523,659	606,049	708,546	829,115
Net worth	40,488	45,661	52,660	58,641	65,920
Deposits	346,917	412,389	505,217	596,498	704,209
Borrowings	40,818	41,181	44,275	47,927	52,235
Other liabilities	20,178	24,427	3,896	5,481	6,750
Total liabilities incl. Equity	448,401	523,659	606,049	708,546	829,115

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	35,128	42,003	49,458	57,982	68,264
Interest expense	(21,553)	(24,833)	(30,451)	(35,714)	(41,841)
Net interest income	13,575	17,170	19,007	22,268	26,423
Non-interest income	4,520	4,094	5,611	6,548	7,693
Total income	18,095	21,264	24,618	28,816	34,117
Operating expenses	(10,126)	(13,397)	(15,162)	(17,271)	(19,901)
PPoP	7,970	7,867	9,456	11,545	14,215
Provisions	(4,074)	(1,592)	(2,038)	(2,627)	(3,360)
Profit before tax	3,895	6,276	7,418	8,918	10,855
Taxes	(1,020)	(1,620)	(1,921)	(2,310)	(2,812)
Net profit	2,875	4,656	5,496	6,608	8,044

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	8.3	8.6	8.8	8.8	8.9
Interest expense	-5.1	-5.1	-5.4	-5.4	-5.4
Net interest income	3.2	3.5	3.4	3.4	3.4
Non-interest income	1.1	0.8	1.0	1.0	1.0
Total income	4.3	4.4	4.4	4.4	4.4
Operating expenses	-2.4	-2.8	-2.7	-2.6	-2.6
PPoP	1.9	1.6	1.7	1.8	1.8
Provisions	-1.0	-0.3	-0.4	-0.4	-0.4
Profit before tax	0.9	1.3	1.3	1.4	1.4
Taxes	-0.2	-0.3	-0.3	-0.4	-0.4
Net profit	0.7	1.0	1.0	1.0	1.0

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	19,007	22,268	26,423	19,746	22,959	27,114	(3.7)	(3.0)	(2.5)
Pre-Prov. Operating Profit	9,456	11,545	14,215	10,512	12,575	15,293	(10.0)	(8.2)	(7.0)
Profit after tax	5,496	6,608	8,044	6,279	7,371	9,036	(12.5)	(10.3)	(11.0)

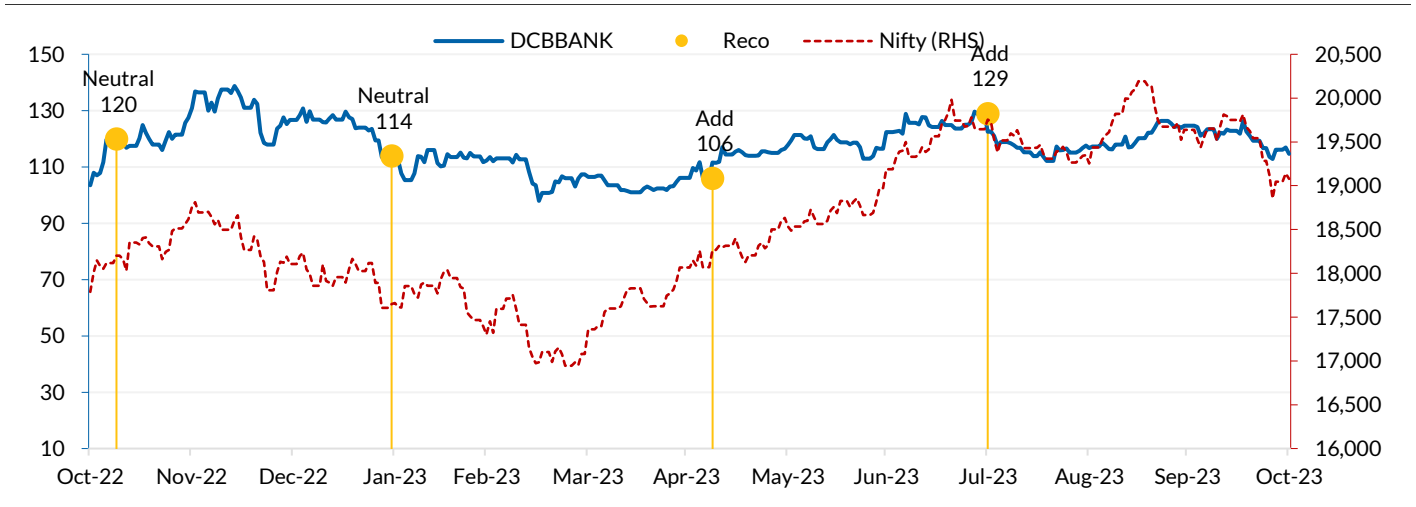
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	5.5	26.5	10.7	17.2	18.7
PPoP	-11.3	-1.3	20.2	22.1	23.1
Net profit	-14.4	61.9	18.1	20.2	21.7
Loans	12.1	18.2	18.0	18.0	18.0
Deposits	16.8	18.9	22.5	18.1	18.1
Profitability Ratios (%)					
Net interest margin	3.6	3.9	3.7	3.8	3.8
Return on Average Equity	7.4	10.8	11.2	11.9	12.9
Return on Average Assets	0.7	1.0	1.0	1.0	1.0
Per share figures (Rs)					
EPS	9.2	14.9	16.8	20.2	24.6
BVPS	130	147	161	179	202
ABVPS	112	135	155	167	183
Valuation multiples					
P/E	12	7.7	6.8	5.7	4.7
P/BV	0.9	0.8	0.7	0.6	0.6
P/ABV	1.0	0.8	0.7	0.7	0.6
NIM internals (%)					
Yield on loans	10.3	10.7	10.8	10.8	10.8
Cost of deposits	5.9	5.9	6.0	5.9	5.9
Loan-deposit ratio	83.9	83.4	80.3	80.3	80.2
CASA ratio	26.8	26.4	26.5	26.8	26.8
Opex control (%)					
Cost/Income ratio	56.0	63.0	61.6	59.9	58.3
Cost to average assets	2.4	2.8	2.7	2.6	2.6
Capital adequacy (%)					
Tier 1 capital ratio	15.8	15.2	14.4	13.4	12.6
Asset quality (%)					
Slippage ratio	6.4	5.4	3.0	2.5	2.5
Gross NPL ratio	4.3	3.2	2.3	2.4	2.4
Credit cost	1.0	0.5	0.5	0.6	0.6
Net NPL ratio	2.0	1.0	0.5	0.9	1.1

Source: Company, YES Sec – Research

Recommendation Tracker



DISCLAIMER

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