

Will the new management script the long-elusive turnaround?

BFSI - Banks ▶ Result Update ▶ **January 25, 2024**

TARGET PRICE (Rs): 110

DCB reported a 14% miss on PAT at Rs1.3bn (Emkay: Rs1.5bn) due to lower margins, other income, and one-off provisioning for AIF (Rs45mn). Credit growth remains high at 18% YoY/4% QoQ, with the Retail/Agri book growing at a faster pace. Mortgage remains a dominant portfolio contributor (45%) and growth driver, as the portfolio diversification strategy (CV, GL) largely backfired. CASA ratio remains rigidly lower than peers' at 26%, despite a higher rate offering which, coupled with the need to accelerate TD growth for funding credit growth, should continue to weigh on margins (down by 21bps QoQ to 3.5% in 3Q). We cut FY24-26E earnings by 6-15%, factoring-in the lower margins/higher LLP, and expect the bank's RoA trajectory to remain sub-par at 0.8-0.9%. RBI has recently approved appointing Praveen Kutty (internal candidate; Head - Retail/Agri Banking) as MD & CEO w.e.f. 29-Apr-2024, raising hopes of a long-elusive turnaround that we believe will not be an easy task. We retain SELL; revise TP to Rs110/sh (earlier Rs95); roll fwd at 0.7x Dec-25E ABV.

DCB Bank: Financial Snapshot (Standalone)					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	2,875	4,656	5,110	5,661	6,228
Loan growth (%)	13.0	18.2	17.7	18.0	20.1
NII growth (%)	5.5	26.5	10.8	15.2	17.7
NIM (%)	3.5	3.8	3.5	3.5	3.4
PPOP growth (%)	(10.0)	(1.3)	7.5	24.3	21.8
Adj. EPS (Rs)	9.3	15.0	16.4	18.2	20.0
Adj. EPS growth (%)	(14.4)	61.7	9.7	10.8	10.0
Adj. BV (INR)	109.1	128.5	139	153.5	169.2
Adj. BVPS growth (%)	10.0	17.7	8.2	10.4	10.2
RoA (%)	0.7	1.0	0.9	0.8	0.8
RoE (%)	7.8	11.5	11.4	11.4	11.4
P/E (x)	15.6	9.6	8.8	7.9	7.2
P/ABV (x)	1.3	1.1	1.0	0.9	0.8

Source: Company, Emkay Research

Higher growth continues to weigh on margins

Credit growth remains high at 18% YoY/4%, with Retail/Agri book growing at a faster pace. Within the Mortgage book (~45% share of total loans), the management plans to expand the share of LAP book vs the earlier plan of the HL book to drive-in higher yields – a strategy that we in our view could be fraught with asset quality challenges. Bank continues to run down its CV book due to underlying asset quality stress, more so given the risky customer profile and product segment. Gold loan book too has been on a declining trend, given higher NPAs. CASA ratio remains rigidly lower than peers' at 26%, despite the higher rate offering that, along with need to accelerate TD growth for funding credit growth, should continue to weight on margins (down 21bps QoQ to 3.5% in 3Q).

Asset quality still haunts

Fresh slippages remain extremely high, at Rs4.3bn/4.4% of closing loans (vs Rs3.9bn/4.2% of loans in Q2FY24), leading to further increase in GNPA ratio by 7bps QoQ to 3.43% despite the higher growth. Bank also carries a higher restructured book at Rs13.5bn/3.5%, which could accentuate NPA formation as the moratorium ends gradually. Specific PCR remains sub-par at 65%, which we believe the bank needs to shore-up amid the rising asset quality noise.

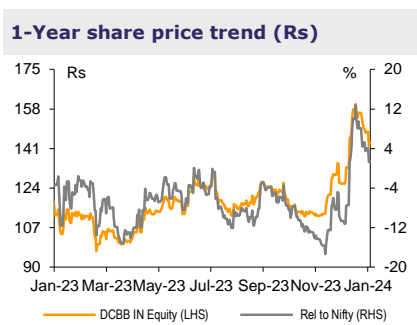
We retain SELL

We cut our earnings estimates for FY24-26 by 6-15%, factoring-in the lower margins/higher LLP and expect the bank's RoA trajectory to remain sub-par at 0.8-0.9%. The RBI has recently approved appointment of Praveen Kutty (internal candidate; Head - Retail/Agri Banking) as the MD & CEO w.e.f. 29-Apr-2024, raising hopes of the long-elusive turnaround, which we believe will not be an easy task. We retain SELL on the stock, with revised TP of Rs110/share, rolling fwd at 0.7x Dec-25E ABV.

Target Price – 12M	Dec-24
Change in TP (%)	15.7
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(20.1)
CMP (24-Jan-24) (Rs)	143.9

Stock Data	Ticker
52-week High (Rs)	163
52-week Low (Rs)	97
Shares outstanding (mn)	312.1
Market-cap (Rs bn)	45
Market-cap (USD mn)	540
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	574.4
ADTV-3M (USD mn)	6.9
Free float (%)	84.0
Nifty-50	21,454
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	14.8
FPIs/MFs (%)	12.7/39.0

Price Performance			
(%)	1M	3M	12M
Absolute	14.3	23.4	16.5
Rel. to Nifty	13.7	10.9	(1.6)



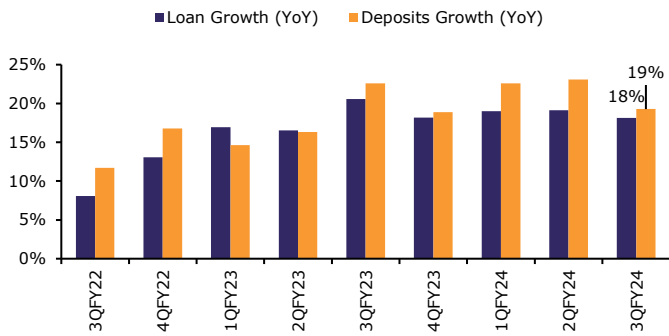
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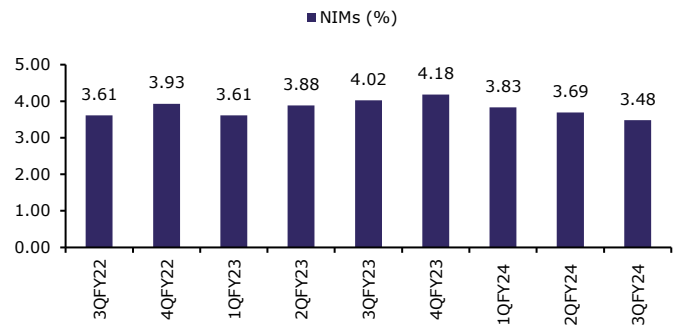
Story in Charts

Exhibit 1: Growth remains...



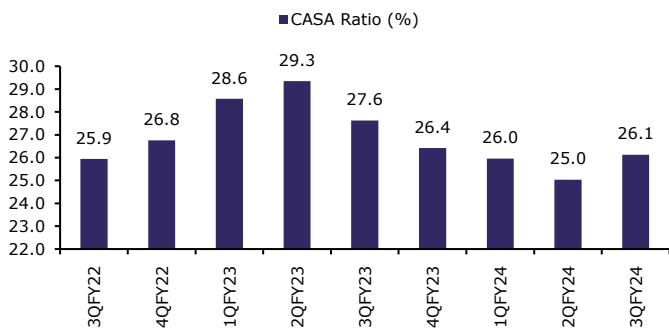
Source: Company, Emkay Research

Exhibit 2: ...weighing on margins



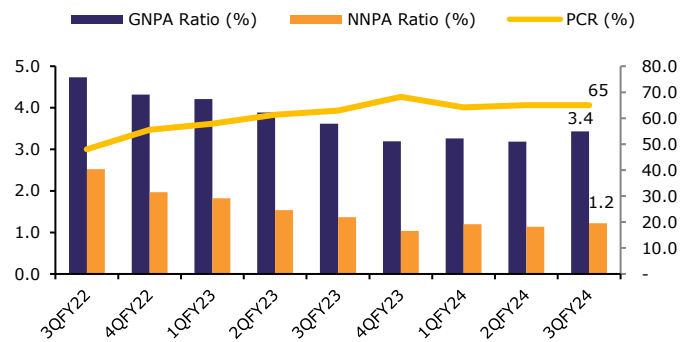
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains sub-par vs peers



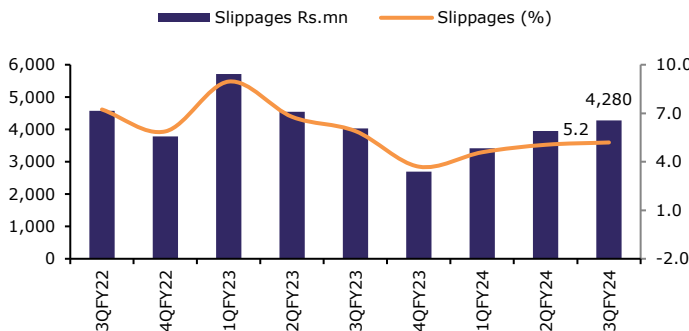
Source: Company, Emkay Research

Exhibit 4: NPAs remain immensely high



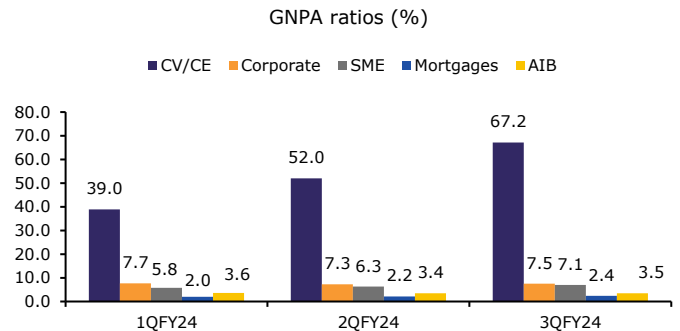
Source: Company, Emkay Research

Exhibit 5: Slippages stayed elevated owing to seasonal issues in the KCC book



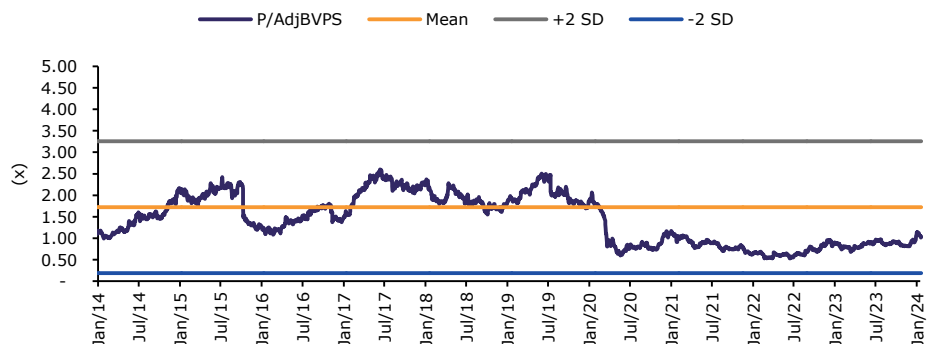
Source: Company, Emkay Research

Exhibit 6: CV continues to have the highest GNPA ratio; thus, the book is being run down



Source: Company, Emkay Research

Exhibit 7: The stock trades at 0.7x FY25E P/ABV



Source: Bloomberg, Emkay Research

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Exhibit 8: Actuals vs Estimates (Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	5,977	6,191	5,390	-3%	11%	Declining margins lead to a miss
PPOP	2,115	2,233	2,385	-5%	-11%	Lower Net income leads to a miss
PAT	1,266	1,466	1,326	-14%	-5%	Higher LLP/tax expense leads to a miss

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	10,717	11,793	12,377	13,056	13,741	28	5	42,003	53,236	27
Interest Exp	6,257	6,933	7,670	8,299	9,001	44	8	24,833	34,216	38
Net Interest Income	4,460	4,860	4,707	4,757	4,740	6	0	17,170	19,020	11
Global NIMs (reported)	4.02	4.18	3.83	3.69	3.48	-54bps	-21bps	3.79	3.54	-25bps
Non-interest Income	954	1,223	1,069	1,074	1,237	30	15	4,094	4,745	16
Operating Expenses	3,473	3,643	3,690	3,725	3,862	11	4	13,397	15,306	14
Pre Provisioning Profit	1,941	2,439	2,087	2,105	2,115	9	0	7,867	8,459	8
Provision & Contingencies	407	525	377	397	410	1	3	1,592	1,600	0.49
PBT	1,534	1,915	1,709	1,708	1,705	11	0	6,276	6,859	9
Income Tax Expense (Gain)	396	493	440	441	439	11	0	1,620	1,749	8
Net Profit/(Loss)	1,139	1,422	1,269	1,268	1,266	11	0	4,656	5,110	10
Gross NPA (%)	3.62	3.19	3.26	3.36	3.43	-19bps	7bps	3.19	3.29	10bps
Net NPA (%)	1	1	1	1	1	-15bps	-6bps	1	1	24bps
Deposits (Rs bn)	395	412	430	455	471	19	4	412	489	19
Net Advances (Rs bn)	330	344	355	373	390	18	4	344	405	18

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced	Revised	Change
Net income	24,530	23,765	-3.1%	30,457	27,800	-8.7%	35,451	32,958	-7.0%
PPOP	8,920	8,459	-5.2%	12,552	10,517	-16.2%	14,878	12,815	-13.9%
PAT	5,424	5,110	-5.8%	6,371	5,661	-11.1%	7,363	6,228	-15.4%
EPS (Rs)	17.4	16.4	-5.8%	20.5	18.2	-11.1%	23.6	20.0	-15.4%
BV (Rs)	152.5	151.5	-0.7%	170.4	167.1	-1.9%	191.1	184.1	-3.6%

Source: Emkay Research

Exhibit 11: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	18	18	18	20
Deposit Growth (%)	19	19	19	21
NIM (%)	3.8	3.5	3.5	3.4
GNPA (%)	3.2	3.3	3.2	3.0
Credit Cost (%)	0.4	0.4	0.7	0.9

Source: Emkay Research

Exhibit 12: Key ratios and trends

Particulars	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans (Rs mn)	273,430	290,958	298,140	312,914	329,660	343,807	354,740	372,760	389,510
Loan Growth YoY (%)	8.1	13.0	16.9	16.5	20.6	18.2	19.0	19.1	18.2
Loan Growth QoQ (%)	1.8	6.4	2.5	5.0	5.4	4.3	3.2	5.1	4.5
Composition (%)									
- Corporate	10.0	10.0	10.0	10.4	10.0	7.9	8.1	8.4	7.8
- SME/BB	10.0	9.0	9.0	9.5	9.1	8.4	6.7	6.6	6.0
- Retail & Others	58.0	60.0	60.0	58.5	58.9	60.4	62.0	61.5	62.3
- Agri	22.0	21.0	21.0	21.6	22.0	23.3	23.2	23.5	23.9
Liability Profile & Margin									
CASA (%)	25.9	26.8	28.6	29.3	27.6	26.4	26.0	25.0	26.1
Branches (no. of)	367	400	405	410	418	427	436	439	440
NIM (%)	3.61	3.93	3.61	3.88	4.02	4.18	3.83	3.69	3.48
Asset Quality (%)									
GNPA	4.7	4.3	4.2	3.9	3.6	3.2	3.3	3.4	3.4
NNPA	2.5	2.0	1.8	1.5	1.4	1.0	1.2	1.3	1.2
PCR	48.0	55.6	57.8	61.3	63.0	68.2	64.1	62.8	65.0
Slippages (Rs mn)	4,575	3,781	5,710	4,550	4,030	2,690	3,420	3,950	4,280
Upgrades/Recoveries (Rs mn)	4,014	4,263	5,700	4,530	3,750	3,060	2,110	2,890	3,390
Write-Offs (Rs mn)	12	17	30	410	540	630	730	60	20
Annualized Slippages (%)	7.2	5.9	9.0	6.8	5.9	3.7	4.6	5.0	5.2
Capital Adequacy (%)									
Capital Adequacy (%)	18.2	18.9	18.5	17.9	16.3	17.6	17.1	16.6	15.7
Tier I (%)	15.1	15.8	15.4	14.9	14.5	15.2	14.8	14.3	13.7
ROE Decomposition on Total Asset (%)									
NII	3.3	3.5	3.3	3.6	3.7	3.8	3.5	3.4	3.2
Other Income	1.0	1.1	0.8	0.9	0.8	0.9	0.8	0.7	0.7
Opex	2.6	2.6	2.7	2.9	2.9	2.9	2.8	2.6	2.6
PPOP	1.9	2.1	1.5	1.6	1.6	1.9	1.6	1.5	1.4
Provisioning Cost	0.9	0.6	0.3	0.3	0.3	0.4	0.3	0.3	0.3
PBT	1.0	1.4	1.2	1.3	1.3	1.5	1.3	1.2	1.2
ROA	0.7	1.1	0.9	1.0	0.9	1.1	0.9	0.9	0.9
ROE	7.7	11.4	9.5	10.8	10.5	12.7	11.0	10.7	10.4

Source: Company, Emkay Research

DCB Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	35,128	42,003	53,236	60,799	69,965
Interest Expense	21,553	24,833	34,216	38,881	44,168
Net interest income	13,575	17,170	19,020	21,918	25,797
NII growth (%)	5.5	26.5	10.8	15.2	17.7
Other income	4,520	4,094	4,745	5,882	7,161
Total Income	18,095	21,264	23,765	27,800	32,958
Operating expenses	10,126	13,397	15,306	17,283	20,142
PPOP	7,970	7,867	8,459	10,517	12,815
PPOP growth (%)	(10.0)	(1.3)	7.5	24.3	21.8
Core PPOP	7,229	7,772	8,230	10,105	12,197
Provisions & contingencies	4,074	1,592	1,600	2,952	4,492
PBT	3,895	6,276	6,859	7,566	8,323
Extraordinary items	0	0	0	0	0
Tax expense	1,020	1,620	1,749	1,904	2,095
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	2,875	4,656	5,110	5,661	6,228
PAT growth (%)	(14.4)	61.9	9.8	10.8	10.0
Adjusted PAT	2,875	4,656	5,110	5,661	6,228
Diluted EPS (Rs)	9.2	14.9	16.3	18.1	19.9
Diluted EPS growth (%)	(14.1)	61.7	9.7	10.8	10.0
DPS (Rs)	1.0	1.3	2.0	2.5	3.0
Dividend payout (%)	10.8	8.4	12.2	13.8	15.0
Effective tax rate (%)	26.2	25.8	25.5	25.2	25.2
Net interest margins (%)	3.5	3.8	3.5	3.5	3.4
Cost-income ratio (%)	56.0	63.0	64.4	62.2	61.1
Shares outstanding (mn)	311.0	311.5	311.5	311.5	311.5

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	12,900.2	11,229.3	13,601.7	15,769.8	17,780.0
Net NPLs	5,742.0	3,569.9	5,168.6	5,677.1	6,223.0
GNPA ratio (%)	4.3	3.2	3.3	3.2	3.0
NNPA ratio (%)	2.0	1.0	1.3	1.2	1.1
Provision coverage (%)	55.5	68.2	62.0	64.0	65.0
Gross slippages	17,719.1	16,984.6	15,816.0	14,454.1	13,401.0
Gross slippage ratio (%)	6.8	5.7	4.5	3.5	2.8
LLP ratio (%)	1.4	0.4	0.4	0.7	0.9
NNPA to networth (%)	13.6	7.7	10.1	10.1	10.0
Capital adequacy					
Total CAR (%)	18.9	17.6	15.0	13.6	12.5
Tier-1 (%)	15.8	15.2	13.0	11.9	10.9
CET-1 (%)	15.8	15.2	13.0	11.9	10.9
RWA-to-Total Assets (%)	54.3	53.9	58.0	60.0	60.0
Miscellaneous					
Total income growth (%)	1.6	16.3	25.8	15.0	15.7
Opex growth (%)	19.6	32.3	14.3	12.9	16.5
Core PPOP growth (%)	(3.7)	7.5	5.9	22.8	20.7
PPOP margin (%)	20.1	17.1	14.6	15.8	16.6
PAT/PPOP (%)	36.1	59.2	60.4	53.8	48.6
LLP-to-Core PPOP (%)	56.4	20.5	19.4	29.2	36.8
Yield on advances (%)	10.6	10.9	11.4	11.1	10.9
Cost of funds (%)	5.9	5.9	6.9	6.6	6.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	3,110	3,115	3,115	3,115	3,115
Reserves & surplus	37,378	42,546	46,889	51,635	56,798
Net worth	40,488	45,661	50,004	54,750	59,913
Deposits	346,917	412,389	488,696	579,782	698,846
Borrowings	40,818	41,181	55,045	63,276	69,704
Interest bearing liab.	387,735	453,570	543,741	643,059	768,550
Other liabilities & prov.	19,702	24,427	31,357	33,793	44,347
Total liabilities & equity	447,926	523,659	625,102	731,602	872,810
Net advances	290,958	343,807	404,540	477,216	573,214
Investments	90,507	125,825	157,879	177,611	205,045
Cash, other balances	40,908	23,684	27,187	35,368	46,113
Interest earning assets	422,372	493,316	589,607	690,196	824,372
Fixed assets	6,612	8,263	9,094	10,134	11,266
Other assets	18,942	22,080	26,401	31,273	37,172
Total assets	447,926	523,659	625,102	731,602	872,810
BVPS (Rs)	123.0	137.2	151.5	167.1	184.1
Adj. BVPS (INR)	109.1	128.5	139.0	153.5	169.2
Gross advances	298,116	351,467	412,974	487,309	584,770
Credit to deposit (%)	83.9	83.4	82.8	82.3	82.0
CASA ratio (%)	26.8	26.4	25.5	25.3	25.6
Cost of deposits (%)	5.9	5.9	6.5	6.3	6.0
Loans-to-Assets (%)	65.0	65.7	64.7	65.2	65.7
Net advances growth (%)	13.0	18.2	17.7	18.0	20.1
Deposit growth (%)	16.8	18.9	18.5	18.6	20.5
Book value growth (%)	8.3	11.5	10.4	10.3	10.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	15.6	9.6	8.8	7.9	7.2
P/B (x)	1.2	1.1	1.0	0.9	0.8
P/ABV (x)	1.3	1.1	1.0	0.9	0.8
P/PPOP (x)	5.6	5.7	5.3	4.3	3.5
Dividend yield (%)	0.7	0.9	1.4	1.7	2.1
DuPont-RoE split (%)					
NII/avg assets	3.2	3.5	3.3	3.2	3.2
Other income	1.1	0.8	0.8	0.9	0.9
Fee income	0.9	0.8	0.8	0.8	0.8
Opex	2.4	2.8	2.7	2.5	2.5
PPOP	1.9	1.6	1.5	1.6	1.6
Core PPOP	1.7	1.6	1.4	1.5	1.5
Provisions	1.0	0.3	0.3	0.4	0.6
Tax expense	0.2	0.3	0.3	0.3	0.3
RoA (%)	0.7	1.0	0.9	0.8	0.8
Leverage ratio (x)	11.5	12.0	12.8	13.7	14.7
RoE (%)	7.8	11.5	11.4	11.4	11.4

Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	4,460	4,860	4,707	4,757	4,740
NIM (%)	4.0	4.2	3.8	3.7	3.5
PPOP	1,941	2,439	2,087	2,105	2,115
PAT	1,139	1,422	1,269	1,268	1,266
EPS (Rs)	3.66	4.57	4.07	4.07	4.06

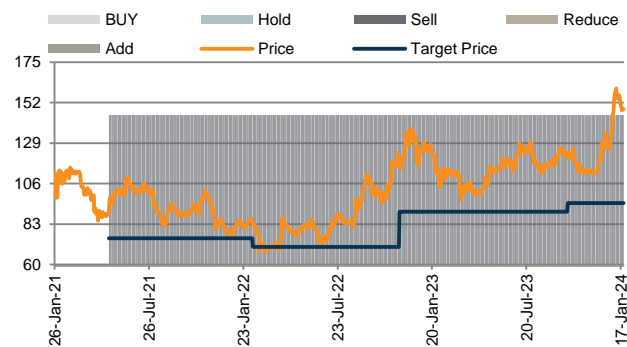
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	112	95	Sell	Anand Dama
07-Oct-23	123	95	Sell	Anand Dama
09-Mar-23	113	90	Sell	Anand Dama
18-Nov-22	117	90	Sell	Anand Dama
10-Feb-22	83	70	Sell	Anand Dama
31-Oct-21	89	75	Sell	Anand Dama
08-Aug-21	94	75	Sell	Anand Dama
10-May-21	91	75	Sell	Anand Dama
25-Jan-21	112	95	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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