

SELL

TP: Rs 70 | ▼ 9%

DCB BANK

| Banking

| 31 October 2020

Earnings in line but growth remains weak

DCB Bank's (DCBB) Q2FY21 PAT at Rs 0.8bn was in line with estimates. Proforma GNPA ratio was stable at 2.4% and incremental restructuring is pegged at 3-5% of loans. Management expects the loan book to remain flat or contract marginally in FY21 and disbursements to reach pre-Covid levels in Mar-May'21. CASA ratio is guided to hold at 20-22% as DCBB is focusing on building a granular retail term deposit book. Collection efficiency has risen across products but remains far below pre-pandemic levels. Retain SELL.

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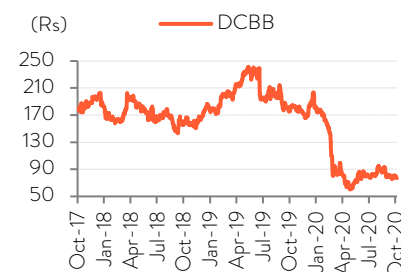
Proforma GNPA stable: DCBB's proforma GNPA ratio remained stable at 2.4%. Collection efficiency has improved across segments such as business, home and CV loans but remains well below pre-Covid levels. Further, 7.4%/5.4%/10.8% of LAP/home loan/CV customers have not paid any installments since Apr'20. Slippages were negligible at ~Rs 120mn (ex-SC stay order on loan classification) but management believes NPAs may increase over the next 3-4 quarters. In addition, DCBB indicated that 3-5% of the portfolio may require restructuring.

Ticker/Price	DCBB IN/Rs 77
Market cap	US\$ 320.2mn
Shares o/s	310mn
3M ADV	US\$ 2.8mn
52wk high/low	Rs 205/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

Loan growth remains muted; NIMs improve QoQ: DCBB's loan book was flat in Q2. Management highlighted that while economic activity is gradually picking up, disbursements are likely to reach pre-Covid levels only during Mar-May'21. The bank has sanctions worth Rs 20bn under the ECLGS but has disbursed a mere Rs 3bn and expects the balance to go out in Q3. NIM increased 32bps QoQ to 3.7% mainly backed by 15bps improvement in asset yields and a 20bps decline in cost of deposits.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We continue to believe that DCBB's exposure to the LAP and self-employed segments poses a risk to asset quality even as higher credit costs will keep profitability subdued. Maintain SELL; Sep'21 TP unchanged at Rs 70.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	11,672	12,336	13,889
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	3,254	3,379	2,270	2,887	3,756
EPS (Rs)	10.5	10.9	6.6	7.8	10.1
P/E (x)	7.3	7.1	11.6	9.9	7.6
P/BV (x)	0.8	0.8	0.7	0.7	0.6
ROA (%)	1.0	0.9	0.6	0.7	0.8
ROE (%)	11.0	10.3	6.0	6.7	8.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

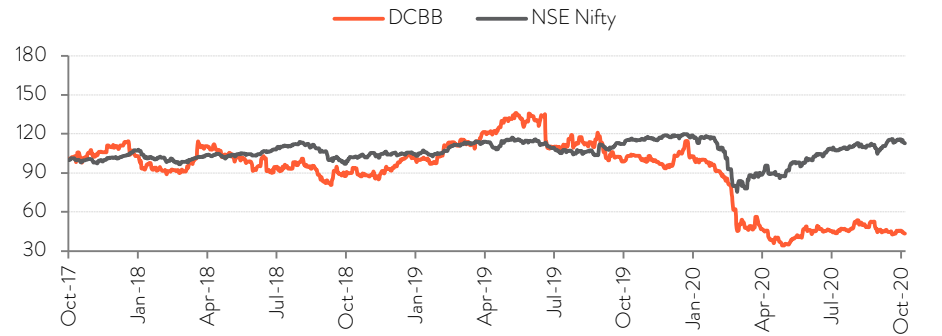
(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Income Statement								
Interest income	8,785	8,792	8,731	(0.1)	0.6	17,516	17,369	0.8
Interest expense	5,445	5,658	5,664	(3.8)	(3.9)	11,109	11,188	(0.7)
Net interest income	3,339	3,134	3,067	6.6	8.9	6,406	6,181	3.6
Non-interest income	925	1,014	776	(8.7)	19.3	1,701	1,882	(9.6)
Net total income	4,264	4,148	3,843	2.8	11.0	8,107	8,063	0.6
Staff expense	1,050	1,147	1,087	(8.4)	(3.4)	2,137	2,308	(7.4)
Other operating expenses	966	1,156	845	(16.4)	14.4	1,811	2,244	(19.3)
Operating expenses	2,016	2,302	1,932	(12.4)	4.4	3,948	4,552	(13.3)
Pre-provisioning profit	2,248	1,845	1,911	21.8	17.6	4,160	3,511	18.5
Total provisions	1,131	433	837	161.4	35.1	1,968	839	134.5
Profit before tax	1,117	1,413	1,075	(20.9)	4.0	2,192	2,672	(18.0)
Tax	294	499	281	(41.0)	4.8	575	947	(39.3)
Profit after tax	823	914	794	(10.0)	3.7	1,617	1,725	(6.3)
Balance Sheet								
Advances	248,786	247,976	250,578	0.3	(0.7)	248,786	247,976	0.3
Deposits	287,747	293,633	294,321	(2.0)	(2.2)	287,747	293,633	(2.0)
CASA ratio (%)	22.4	23.2	21.9	(81bps)	50bps	22.4	23.2	(81bps)
Yields and margins (%)								
Net interest margin	3.7	3.7	3.4	7bps	32bps	-	-	-
Yield on advances	11.3	11.5	11.1	(25bps)	15bps	-	-	-
Cost of funds	6.6	7.1	6.8	(52bps)	(21bps)	-	-	-
Key ratios (%)								
Cost/Income	47.3	55.5	50.3	(823bps)	(298bps)	48.7	56.5	(776bps)
Tax rate	26.3	35.3	26.1	(895bps)	21bps	26.2	35.4	(921bps)
Loan to Deposit ratio	86.5	84.5	85.1	201bps	132bps	86.5	84.5	201bps
Capital adequacy ratios (%)								
Tier 1	14.2	12.6	13.9	164bps	30bps	14.2	12.6	164bps
Total CAR	18.3	16.2	17.9	212bps	37bps	18.3	16.2	212bps
Asset quality (Rs mn)								
Gross NPAs	5,737	5,232	6,218	9.6	(7.7)	5,737	5,232	9.6
Net NPAs	2,058	2,379	2,485	(13.5)	(17.2)	2,058	2,379	(13.5)
Gross NPA ratio (%)	2.3	2.1	2.4	18bps	(17bps)	2.3	2.1	18bps
Net NPA ratio (%)	0.8	1.0	1.0	(13bps)	(16bps)	0.8	1.0	(13bps)
NPA coverage (%)	64.1	54.5	60.0	959bps	410bps	64.1	54.5	959bps

Source: Company, BOBCAPS Research

Valuation methodology

We continue to value DCBB at 0.6x FY22E P/BV using the two-stage Gordon Growth Model. In our view, exposure to the LAP and self-employed segments poses a risk to asset quality while high credit costs will keep profitability subdued. Maintain SELL with an unchanged Sep'21 target price of Rs 70.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A pick-up in economic growth may ease asset stress and lead to lower SME slippages than estimated.
- If branch addition picks up pace, we could see improvement in the bank's liability franchise.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	11,672	12,336	13,889
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Non-interest income	3,502	3,911	3,947	4,273	4,674
Total income	14,995	16,560	15,619	16,608	18,562
Operating expenses	8,529	9,029	8,595	9,006	9,666
Operating profit	6,466	7,531	7,024	7,602	8,896
Operating profit growth (%)	23.2	16.5	(6.7)	8.2	17.0
Provisions	1,401	2,611	3,974	3,722	3,206
PBT	5,065	4,919	3,051	3,880	5,690
Tax	1,812	1,540	781	993	1,935
Reported net profit	3,254	3,379	2,270	2,887	3,756
Adjustments	0	0	0	0	0
Adjusted net profit	3,254	3,379	2,270	2,887	3,756

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	3,095	3,104	3,707	3,707	3,707
Reserves & surplus	28,061	31,117	37,790	40,388	43,496
Net worth	31,156	34,222	41,496	44,094	47,202
Deposits	284,351	303,699	309,773	319,066	344,592
Borrowings	27,232	34,080	38,169	43,894	52,673
Other liabilities & provisions	15,179	13,051	15,400	18,480	22,176
Total liabilities and equities	357,918	385,051	404,839	425,535	466,644
Cash & bank balance	27,934	35,459	39,416	43,828	48,746
Investments	78,441	77,415	82,060	90,266	101,098
Advances	235,680	253,453	240,780	252,819	278,101
Fixed & Other assets	15,864	18,725	42,582	38,623	38,699
Total assets	357,918	385,051	404,839	425,535	466,644
Deposit growth (%)	18.4	6.8	2.0	3.0	8.0
Advances growth (%)	15.9	7.5	(5.0)	5.0	10.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	10.5	10.9	6.6	7.8	10.1
Dividend per share	0.9	1.2	0.0	0.7	1.5
Book value per share	92.4	102.2	105.1	112.1	120.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	7.3	7.1	11.6	9.9	7.6
P/BV	0.8	0.8	0.7	0.7	0.6
Dividend yield (%)	1.2	1.6	0.0	0.9	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.5	3.4	3.0	3.0	3.1
Non-interest income	1.1	1.1	1.0	1.0	1.0
Operating expenses	2.6	2.4	2.2	2.2	2.2
Pre-provisioning profit	2.0	2.0	1.8	1.8	2.0
Provisions	0.4	0.7	1.0	0.9	0.7
PBT	1.5	1.3	0.8	0.9	1.3
Tax	0.5	0.4	0.2	0.2	0.4
ROA	1.0	0.9	0.6	0.7	0.8
Leverage (x)	11.1	11.4	10.4	9.7	9.8
ROE	11.0	10.3	6.0	6.7	8.2

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	15.5	10.1	(7.7)	5.7	12.6
Pre-provisioning profit	23.2	16.5	(6.7)	8.2	17.0
EPS	27.5	3.5	(38.9)	16.8	30.1
Profitability & Return ratios (%)					
Net interest margin	3.7	3.6	3.2	3.3	3.4
Fees / Avg. assets	0.7	0.6	0.5	0.5	0.6
Cost-Income	56.9	54.5	55.0	54.2	52.1
ROE	11.0	10.3	6.0	6.7	8.2
ROA	1.0	0.9	0.6	0.7	0.8
Asset quality (%)					
GNPA	1.8	2.4	3.4	3.3	2.4
NNPA	0.7	1.2	1.4	1.3	0.8
Provision coverage	64.4	52.4	58.0	61.6	66.2
Ratios (%)					
Credit-Deposit	82.9	83.5	77.7	79.2	80.7
Investment-Deposit	27.6	25.5	26.5	28.3	29.3
CAR	16.8	17.8	19.7	20.3	19.8
Tier-1	13.1	13.9	15.9	16.4	16.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

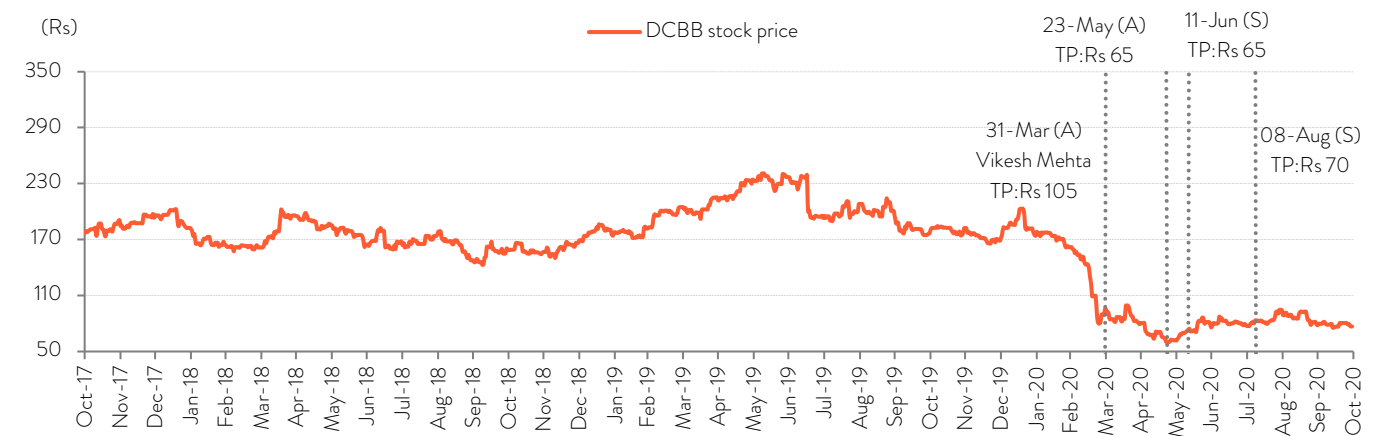
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): DCB BANK (DCBB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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