

SELL

TP: Rs 100 | ▼ 14%

DCB BANK

| Banking

| 23 January 2021

Growth remains subdued

DCB Bank's (DCBB) Q3FY21 PAT of ~Rs 1bn beat estimates on higher treasury income and contained opex. Collection efficiency improved MoM for home (94%) and CV loans (80%) but moderated slightly in the LAP portfolio (90%). Unlike most banks, DCBB did not tone down restructuring guidance of 3-5% of loans. Credit growth remains muted and is likely to resume gradually. We raise our TP to Rs 100 (vs. Rs 70) as we hike FY21-FY23 EPS by 10-17%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

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Visibility on asset quality remains elusive: DCBB's reported GNPA ratio declined 31bps QoQ to ~2% due to the court stay on asset classification, but the proforma ratio shot up to 3.7% (vs. 2.4% in Q2). Management expects NPAs to rise for the next 3-4 quarters and intends to provide adequately. The bank is restructuring accounts worth ~Rs 1.6bn under the Covid-19 relief/MSME restructure framework (it has already included proforma slippages worth ~Rs 4.5bn) and believes 3-5% of its portfolio may eventually be restructured. Higher restructuring proposals have come from the LAP and CV segments while home and SME/MSME borrowers are displaying less interest currently.

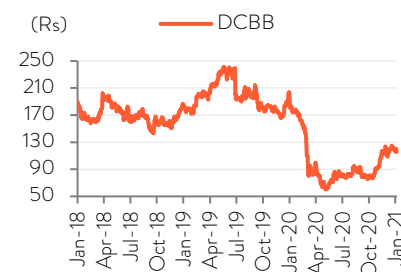
Loan growth still subdued: DCBB's loan book remained flat in Q3 though management expects growth to pick up in Q1FY22. The bank highlighted that gold, home, Kisan Credit Card and tractor loans are showing good traction but it remains cautious on corporate and SME/MSME working capital loans. Retail term deposits grew 22% YoY and CASA ratio improved to 24.1% (22.4% in Q2). NIM was stable QoQ at 3.75%.

Maintain SELL: We raise FY21-FY23 EPS by 10-17% to factor in higher other income, lower operating expenses and slightly better credit growth. Valuing the stock at 0.8x P/BV (0.6x earlier), we roll to a new Mar'22 TP of Rs 100.

Ticker/Price	DCBB IN/Rs 116
Market cap	US\$ 493.2mn
Shares o/s	310mn
3M ADV	US\$ 3.3mn
52wk high/low	Rs 186/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	12,672	12,907	14,446
NII growth (%)	15.5	10.1	0.2	1.9	11.9
Adj. net profit (Rs mn)	3,254	3,379	2,589	3,092	3,956
EPS (Rs)	10.5	10.9	7.8	8.7	11.1
P/E (x)	11.0	10.7	14.9	13.3	10.4
P/BV (x)	1.3	1.1	1.0	1.0	0.9
ROA (%)	1.0	0.9	0.7	0.7	0.9
ROE (%)	11.0	10.3	6.8	7.2	8.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	8,694	8,978	8,785	(3.2)	(1.0)	26,209	26,347	(0.5)
Interest expense	5,346	5,747	5,445	(7.0)	(1.8)	16,455	16,935	(2.8)
Net interest income	3,348	3,231	3,339	3.6	0.3	9,754	9,412	3.6
Non-interest income	1,545	931	925	66.0	67.0	3,246	2,812	15.4
Net total income	4,893	4,162	4,264	17.6	14.7	13,000	12,224	6.3
Staff expense	1,087	1,156	1,050	(6.0)	3.5	3,224	3,464	(6.9)
Other operating expenses	1,033	1,107	966	(6.7)	6.9	2,844	3,350	(15.1)
Operating expenses	2,119	2,263	2,016	(6.3)	5.1	6,067	6,814	(11.0)
Pre-provisioning profit	2,773	1,899	2,248	46.0	23.4	6,933	5,410	28.2
Total provisions	1,477	590	1,131	150.4	30.6	3,445	1,429	141.1
Profit before tax	1,296	1,309	1,117	(1.0)	16.0	3,488	3,981	(12.4)
Tax	334	342	294	(2.3)	13.6	909	1,289	(29.5)
Profit after tax	962	967	823	(0.5)	16.9	2,579	2,692	(4.2)
Balance Sheet								
Advances	253,001	254,382	248,786	(0.5)	1.7	253,001	254,382	(0.5)
Deposits	288,581	297,349	287,747	(2.9)	0.3	288,581	297,349	(2.9)
CASA ratio (%)	24.1	23.3	22.4	71bps	162bps	24.1	23.3	71bps
Yields and margins (%)								
Net interest margin	3.8	3.7	3.7	4bps	1bps	-	-	-
Yield on advances	11.2	11.5	11.3	(33bps)	(9bps)	-	-	-
Cost of funds	6.6	7.1	6.6	(53bps)	(4bps)	-	-	-
Key ratios (%)								
Cost/Income	43.3	54.4	47.3	(1,105bps)	(397bps)	46.7	55.7	(907bps)
Tax rate	25.8	26.1	26.3	(36bps)	(55bps)	26.1	32.4	(632bps)
Loan to Deposit ratio	87.7	85.5	86.5	212bps	121bps	87.7	85.5	212bps
Capital adequacy ratios (%)								
Tier 1	14.3	12.3	14.2	196bps	4bps	14.3	12.3	196bps
Total CAR	18.3	15.8	18.3	252bps	4bps	18.3	15.8	252bps
Asset quality (Rs mn)								
Gross NPAs	5,023	5,520	5,737	(9.0)	(12.5)	5,023	5,520	(9.0)
Net NPAs	1,497	2,608	2,058	(42.6)	(27.2)	1,497	2,608	(42.6)
Gross NPA ratio (%)	2.0	2.2	2.3	(19bps)	(31bps)	2.0	2.2	(19bps)
Net NPA ratio (%)	0.6	1.0	0.8	(44bps)	(24bps)	0.6	1.0	(44bps)
NPA coverage (%)	70.2	52.8	64.1	1,742bps	605bps	70.2	52.8	1,742bps

Source: Company, BOBCAPS Research

Valuation methodology

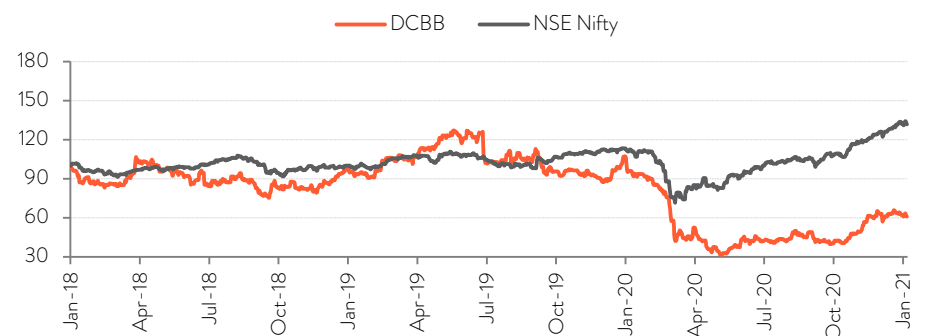
We raise our FY21/FY22/FY23 EPS estimates by 17%/12%/10% to factor in higher non-interest income, lower operating expenses and slightly better credit growth. Valuing the stock at 0.8x P/BV (0.6x earlier), we roll to a new Mar'22 target price of Rs 100 (vs. Rs 70). Maintain SELL given DCBB's weak liability franchise, subpar return ratios, subdued credit growth and higher asset quality risk.

FIG 2 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	12,672	12,907	14,446	11,672	12,336	13,889	8.6	4.6	4.0
Pre-provisioning profit	8,769	8,825	9,994	7,024	7,602	8,896	24.8	16.1	12.3
Net Profit	2,589	3,092	3,956	2,270	2,887	3,756	14.1	7.1	5.3
EPS (Rs)	8	9	11	7	8	10	17.0	12.2	10.4

Source: BOBCAPS Research

FIG 3 – 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	12,672	12,907	14,446
NII growth (%)	15.5	10.1	0.2	1.9	11.9
Non-interest income	3,502	3,911	4,547	4,773	5,174
Total income	14,995	16,560	17,219	17,680	19,619
Operating expenses	8,529	9,029	8,449	8,854	9,625
Operating profit	6,466	7,531	8,769	8,825	9,994
Operating profit growth (%)	23.2	16.5	16.4	0.6	13.2
Provisions	1,401	2,611	5,289	4,670	4,001
PBT	5,065	4,919	3,480	4,156	5,993
Tax	1,812	1,540	891	1,064	2,038
Reported net profit	3,254	3,379	2,589	3,092	3,956
Adjustments	0	0	0	0	0
Adjusted net profit	3,254	3,379	2,589	3,092	3,956

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	3,095	3,104	3,536	3,536	3,536
Reserves & surplus	28,061	31,117	38,131	40,913	44,187
Net worth	31,156	34,222	41,667	44,449	47,723
Deposits	284,351	303,699	306,736	328,208	367,593
Borrowings	27,232	34,080	36,806	42,327	50,792
Other liabilities & provisions	15,179	13,051	15,400	18,480	22,176
Total liabilities and equities	357,918	385,051	400,609	433,464	488,284
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	248,384	268,255	300,445
Fixed & Other assets	15,864	18,725	30,749	31,116	37,995
Total assets	357,918	385,051	400,609	433,464	488,284
Deposit growth (%)	18.4	6.8	1.0	7.0	12.0
Advances growth (%)	15.9	7.5	(2.0)	8.0	12.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	10.5	10.9	7.8	8.7	11.1
Dividend per share	0.9	1.2	0.4	0.8	1.7
Book value per share	92.4	102.2	110.6	118.5	127.7

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	11.0	10.7	14.9	13.3	10.4
P/BV	1.3	1.1	1.0	1.0	0.9
Dividend yield (%)	0.8	1.0	0.3	0.7	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.5	3.4	3.2	3.1	3.1
Non-interest income	1.1	1.1	1.2	1.1	1.1
Operating expenses	2.6	2.4	2.2	2.1	2.1
Pre-provisioning profit	2.0	2.0	2.2	2.1	2.2
Provisions	0.4	0.7	1.3	1.1	0.9
PBT	1.5	1.3	0.9	1.0	1.3
Tax	0.5	0.4	0.2	0.3	0.4
ROA	1.0	0.9	0.7	0.7	0.9
Leverage (x)	11.1	11.4	10.4	9.7	10.0
ROE	11.0	10.3	6.8	7.2	8.6

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	15.5	10.1	0.2	1.9	11.9
Pre-provisioning profit	23.2	16.5	16.4	0.6	13.2
EPS	27.5	3.5	(28.5)	12.1	27.9
Profitability & Return ratios (%)					
Net interest margin	3.7	3.6	3.5	3.4	3.4
Fees / Avg. assets	0.7	0.6	0.6	0.5	0.5
Cost-Income	56.9	54.5	49.1	50.1	49.1
ROE	11.0	10.3	6.8	7.2	8.6
ROA	1.0	0.9	0.7	0.7	0.9
Asset quality (%)					
GNPA	1.8	2.4	3.3	3.2	2.3
NNPA	0.7	1.2	0.8	0.8	0.5
Provision coverage	64.4	52.4	74.3	76.4	79.2
Ratios (%)					
Credit-Deposit	82.9	83.5	81.0	81.7	81.7
Investment-Deposit	27.6	25.5	26.8	27.5	27.5
CAR	16.8	17.8	20.1	20.1	19.1
Tier-1	13.1	13.9	16.2	16.3	15.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

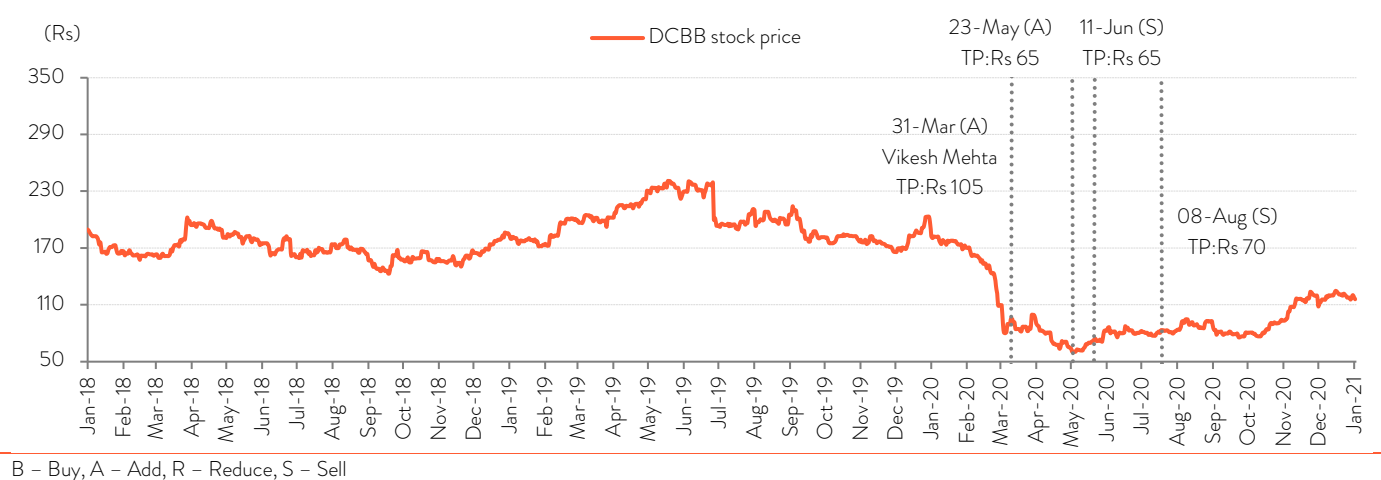
ADD – Expected return from >+5% to +15%

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)



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