

ADD

TP: Rs 65 | ▲ 8%

DCB BANK

| Banking

| 23 May 2020

Continued overhang on asset quality

DCB Bank's (DCBB) Q4FY20 PAT at Rs 0.7bn declined 29% YoY on slower NII growth (8%) and a spike in provisions. The bank has 60% of its portfolio under moratorium and made Rs 0.6bn of Covid-related provisions. GNPA ratio increased 30bps QoQ to 2.5% as slippages remained high at Rs 1.5bn. Barring gold loans and pickup in select corporate loans, overall growth has been muted during the lockdown. We scale back FY21-FY22 EPS by 31-35% on higher credit costs and lower loan growth. Maintain ADD with a revised Mar'21 TP of Rs 65 (vs. Rs 105).

Vikesh Mehta

research@bobcaps.in

60% of portfolio under moratorium: Barring NBFCs, corporates and large-ticket customers, DCBB has offered an 'opt-out' moratorium option to all retail customers. The bank has 60% of its overall portfolio, 52% of home loans, 56% of business loans (LAP), and 60% of the SME portfolio under moratorium. The share is higher for small-ticket and CV loans. DCBB made Rs 630mn of Covid-19-related provisions, including Rs 90mn (entire 10% of provisioning mandated by RBI) towards accounts worth ~Rs 0.9bn that have availed of moratorium and asset classification standstill benefits.

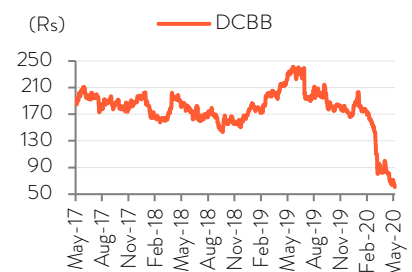
Asset quality deteriorates further: GNPA ratio rose to 2.5% (2.2% in Q3) as slippages remained elevated at ~Rs 1.5bn and recoveries/upgrades were lower at Rs 0.7bn (Rs 1.7bn in Q3). The bank conservatively classified accounts worth Rs 427mn as NPA in Mar'20 and avoided claiming forbearance benefits on these accounts, which belonged to the mortgage (Rs 261mn), CV (Rs 65mn), SME (Rs 40mn) and corporate (Rs 34mn) segments. Outstanding floating provisions totalled ~Rs 1bn (0.4% of loans).

Maintain ADD: We scale back our FY21-FY22 earnings estimates by 31-35% to reflect slower growth and higher credit costs. Maintain ADD with a reduced Mar'21 TP of Rs 65 set at 0.6x FY22E P/BV.

Ticker/Price	DCBB IN/Rs 60
Market cap	US\$ 246.8mn
Shares o/s	310mn
3M ADV	US\$ 1.9mn
52wk high/low	Rs 245/Rs 60
Promoter/FPI/DII	15%/25%/61%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	9,954	11,493	12,649	12,594	13,658
NII growth (%)	24.9	15.5	10.1	(0.4)	8.4
Adj. net profit (Rs mn)	2,453	3,254	3,379	2,235	2,893
EPS (Rs)	8.2	10.5	10.9	7.2	9.3
P/E (x)	7.3	5.8	5.6	8.4	6.5
P/BV (x)	0.7	0.7	0.6	0.6	0.5
ROA (%)	0.9	1.0	0.9	0.6	0.7
ROE (%)	9.8	11.0	10.3	6.3	7.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Income Statement								
Interest income	9,019	8,271	8,978	9.0	0.5	35,366	30,415	16.3
Interest expense	5,782	5,262	5,747	9.9	0.6	22,717	18,922	20.1
Net interest income	3,237	3,009	3,231	7.6	0.2	12,649	11,493	10.1
Non-interest income	1,099	994	931	10.6	18.1	3,911	3,502	11.7
Net total income	4,336	4,002	4,162	8.3	4.2	16,560	14,995	10.4
Staff expense	1,124	1,049	1,156	7.2	(2.8)	4,588	4,340	5.7
Other operating expenses	1,091	1,101	1,107	(0.9)	(1.4)	4,442	4,209	5.5
Operating expenses	2,215	2,150	2,263	3.1	(2.1)	9,030	8,549	5.6
Pre-provisioning profit	2,121	1,853	1,899	14.5	11.7	7,531	6,446	16.8
Total provisions	1,182	348	590	240.0	100.4	2,612	1,401	86.5
Profit before tax	938	1,505	1,309	(37.6)	(28.3)	4,919	5,045	(2.5)
Tax	251	542	342	(53.7)	(26.7)	1,540	1,812	(15.0)
Profit after tax	688	963	967	(28.6)	(28.9)	3,379	3,234	4.5
Balance Sheet								
Advances	253,453	235,680	254,382	7.5	(0.4)	253,453	235,680	7.5
Deposits	303,699	284,351	297,349	6.8	2.1	303,699	284,351	6.8
CASA ratio (%)	22.4	23.9	23.3	(153bps)	(92bps)	22.4	23.9	(153bps)
Yields and margins (%)								
Net interest margin	3.6	3.8	3.7	(14bps)	(7bps)	-	-	-
Yield on advances	11.4	11.6	11.5	(22bps)	(15bps)	-	-	-
Cost of funds	7.0	7.1	7.1	(4bps)	(8bps)	-	-	-
Key ratios (%)								
Cost/Income	51.1	53.7	54.4	(262bps)	(328bps)	54.5	57.0	(249bps)
Tax rate	26.7	36.0	26.1	(927bps)	59bps	31.3	35.9	(460bps)
Loan to Deposit ratio	83.5	82.9	85.5	57bps	(209bps)	83.5	82.9	57bps
Capital adequacy ratios (%)								
Tier 1	13.9	13.1	12.3	80bps	160bps	13.9	13.1	80bps
Total CAR	17.8	16.8	15.8	94bps	195bps	17.8	16.8	94bps
Asset quality (Rs mn)								
Gross NPAs	631,510	439,480	552,030	43.7	14.4	631,510	439,480	43.7
Net NPAs	293,510	153,770	260,760	90.9	12.6	293,510	153,770	90.9
Gross NPA ratio (%)	2.5	1.8	2.2	62bps	31bps	2.5	1.8	62bps
Net NPA ratio (%)	1.2	0.7	1.0	51bps	13bps	1.2	0.7	51bps
NPA coverage (%)	53.5	65.0	52.8	(1,149bps)	76bps	53.5	65.0	(1,149bps)

Source: Company, BOBCAPS Research

Valuation methodology

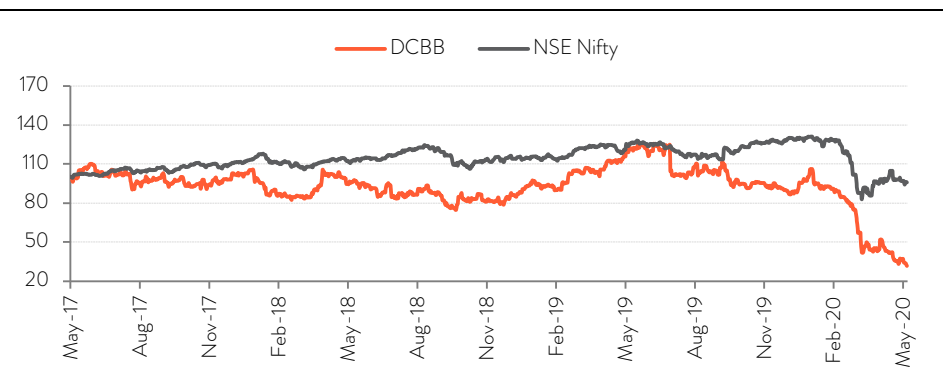
We value DCBB at 0.6x FY22E P/BV using the two-stage Gordon Growth Model. However, we reduce our Mar'21 target price to Rs 65 from Rs 105 on lowering our FY21-FY22 EPS estimates by 31-35% to reflect higher credit costs and slower growth. Maintain ADD.

FIG 2 – REVISED ESTIMATES

Particulars (Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	12,594	13,658	14,131	16,137	(10.9)	(15.4)
Pre-provisioning profit	6,958	7,342	7,660	8,812	(9.2)	(16.7)
Net Profit	2,235	2,893	3,405	4,203	(34.4)	(31.2)
EPS (Rs)	7.2	9.3	10.9	13.5	(34.6)	(31.4)

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)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	9,954	11,493	12,649	12,594	13,658
NII growth (%)	24.9	15.5	10.1	(0.4)	8.4
Non-interest income	3,103	3,502	3,911	4,186	4,618
Total income	13,057	14,995	16,560	16,780	18,276
Operating expenses	7,807	8,529	9,030	9,822	10,934
Operating profit	5,250	6,466	7,531	6,958	7,342
Operating profit growth (%)	25.5	23.2	16.5	(7.6)	5.5
Provisions	1,219	1,401	2,612	3,955	3,453
PBT	4,030	5,065	4,919	3,004	3,889
Tax	1,577	1,812	1,540	769	995
Reported net profit	2,453	3,254	3,379	2,235	2,893
Adjustments	0	0	0	0	0
Adjusted net profit	2,453	3,254	3,379	2,235	2,893

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	3,081	3,095	3,104	3,104	3,104
Reserves & surplus	24,997	28,061	31,132	33,457	36,061
Net worth	28,078	31,156	34,236	36,561	39,165
Deposits	240,069	284,351	303,699	321,921	354,113
Borrowings	19,267	27,232	34,080	38,169	43,894
Other liabilities & provisions	14,807	15,179	13,051	15,400	18,480
Total liabilities and equities	302,221	357,918	385,066	412,052	455,653
Cash & bank balance	23,720	27,934	35,459	39,416	43,828
Investments	62,190	78,441	77,415	82,060	90,266
Advances	203,367	235,680	253,453	271,195	301,026
Fixed & Other assets	12,945	15,864	18,725	19,381	20,533
Total assets	302,221	357,918	385,051	412,052	455,653
Deposit growth (%)	24.5	18.4	6.8	6.0	10.0
Advances growth (%)	28.6	15.9	7.5	7.0	11.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	8.2	10.5	10.9	7.2	9.3
Dividend per share	0.6	0.9	0.0	0.6	0.8
Book value per share	82.6	92.4	101.9	109.3	117.7

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	7.3	5.8	5.6	8.4	6.5
P/BV	0.7	0.7	0.6	0.6	0.5
Dividend yield (%)	1.0	1.5	0.0	1.0	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	3.7	3.5	3.4	3.2	3.1
Non-interest income	1.1	1.1	1.1	1.1	1.1
Operating expenses	2.9	2.6	2.4	2.5	2.5
Pre-provisioning profit	1.9	2.0	2.0	1.7	1.7
Provisions	0.4	0.4	0.7	1.0	0.8
PBT	1.5	1.5	1.3	0.8	0.9
Tax	0.6	0.5	0.4	0.2	0.2
ROA	0.9	1.0	0.9	0.6	0.7
Leverage (x)	10.8	11.1	11.4	11.3	11.5
ROE	9.8	11.0	10.3	6.3	7.6

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Net interest income	24.9	15.5	10.1	(0.4)	8.4
Pre-provisioning profit	25.5	23.2	16.5	(7.6)	5.5
EPS	18.0	27.5	3.5	(34.0)	29.5
Profitability & Return ratios (%)					
Net interest margin	3.9	3.7	3.6	3.3	3.3
Fees / Avg. assets	0.8	0.7	0.7	0.7	0.7
Cost-Income	59.8	56.9	54.5	58.5	59.8
ROE	9.8	11.0	10.3	6.3	7.6
ROA	0.9	1.0	0.9	0.6	0.7
Asset quality (%)					
GNPA	1.8	1.8	2.4	3.0	3.1
NNPA	0.7	0.7	1.1	1.2	1.2
Provision coverage	59.5	64.4	54.0	58.3	60.9
Ratios (%)					
Credit-Deposit	84.7	82.9	83.5	84.2	85.0
Investment-Deposit	25.9	27.6	25.5	25.5	25.5
CAR	16.5	16.8	17.8	17.4	16.7
Tier-1	12.7	13.1	13.9	13.7	13.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

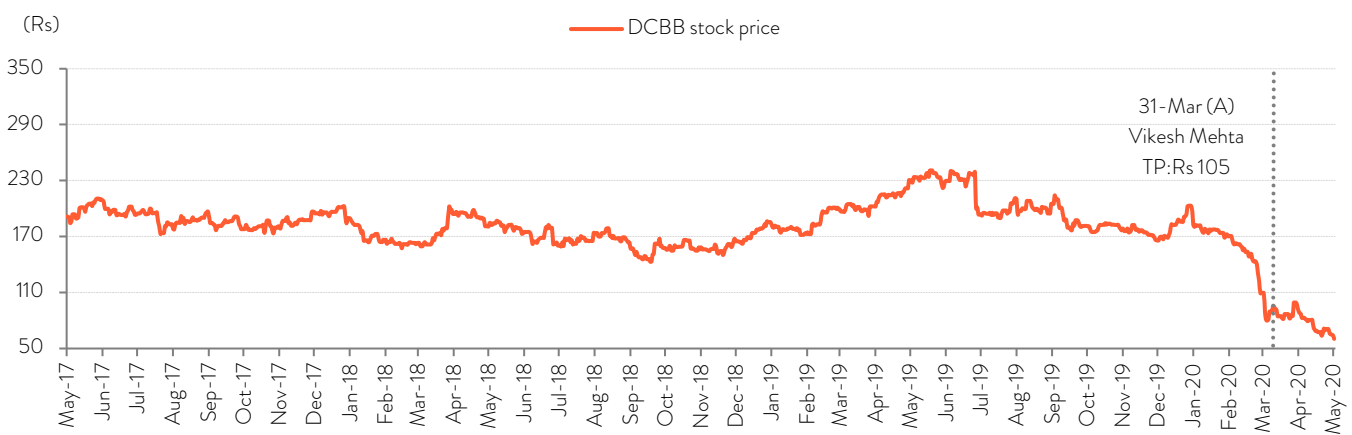
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: DCB BANK (DCBB IN)



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

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