

ADD

TP: Rs 100 | ▲ 10%

DCB BANK

| Banking

| 10 May 2021

Recoveries to improve gradually – upgrade to ADD

DCB Bank's (DCBB) Q4FY21 PAT of Rs 0.8bn (+13% YoY) beat our estimate on below-expected provisions. FY21 slippages held at FY20 levels and collections post moratorium have risen across products, viz. home (97%), LAP (95%) and CV loans (86%). Non-NPA provisioning stands at 1.4% of loans and the restructured book at 3.7% is within the guided 3-5% range. Management expects growth to pick up in H2FY22. We maintain our Mar'22 TP of Rs 100 but upgrade DCBB from SELL to ADD on a better growth outlook and current low valuations of 0.7x FY23E P/BV.

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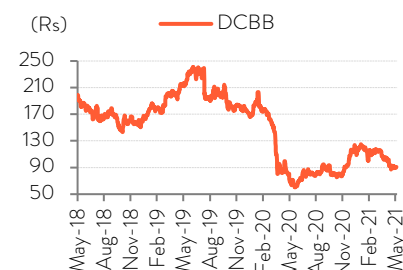
Collection efficiency rising consistently: DCBB's GNPA ratio increased 40bps QoQ to 4.1% as slippages stood at Rs 6.6bn (including recognition of erstwhile proforma slippages). We note that total slippages in FY21 stood at Rs 6.8bn, in line with the FY20 level of Rs 6.6bn. Collection efficiency has been steadily improving post moratorium for the home, LAP and CV loan books, standing at 96.8%, 95.2% and 86% respectively. Collections have dipped in Apr'21, but the bank does not anticipate a repeat of the sharp decline seen in FY21.

Ticker/Price	DCBB IN/Rs 91
Market cap	US\$ 383.4mn
Shares o/s	310mn
3M ADV	US\$ 2.6mn
52wk high/low	Rs 127/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

Asset quality to improve gradually: FY21 recoveries were affected as the court stay on NPA recognition halted the use of the SARFAESI Act. Per management, 90-95% of borrowers settle outside SARFAESI once it is applied. The bank remains cautious on the impact of the second Covid wave on slippages.

STOCK PERFORMANCE



Source: NSE

Loan growth guided to pick up: DCBB will continue to focus on LAP, home, gold and MSME/SME working capital loans for growth. The bank believes it can deliver growth in the high teens in FY22.

Upgrade to ADD: We retain estimates but raise the stock from SELL to ADD as the growth slowdown appears to have bottomed out in FY21 and valuations are cheap at 0.7x FY23E P/BV. Our Mar'22 TP remains at Rs 100 (0.8x FY23E).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	11,493	12,649	12,866	13,704	15,289
NII growth (%)	15.5	10.1	1.7	6.5	11.6
Adj. net profit (Rs mn)	3,254	3,379	3,455	3,130	3,905
EPS (Rs)	10.5	10.9	11.1	10.0	12.5
P/E (x)	8.6	8.4	8.2	9.0	7.3
P/BV (x)	1.0	0.9	0.8	0.7	0.7
ROA (%)	1.0	0.9	0.9	0.8	0.9
ROE (%)	11.0	10.3	9.6	8.0	9.3

Source: Company, BOBCAPS Research | P – Provisional

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	8,373	9,019	8,694	(7.2)	(3.7)	34,582	35,366	(2.2)
Interest expense	5,261	5,782	5,346	(9.0)	(1.6)	21,716	22,717	(4.4)
Net interest income	3,112	3,237	3,348	(3.9)	(7.0)	12,866	12,649	1.7
Non-interest income	1,339	1,099	1,545	21.8	(13.4)	4,585	3,911	17.2
Net total income	4,451	4,336	4,893	2.7	(9.0)	17,451	16,560	5.4
Staff expense	1,112	1,124	1,087	(1.1)	2.3	4,335	4,588	(5.5)
Other operating expenses	1,287	1,091	1,033	18.0	24.7	4,131	4,442	(7.0)
Operating expenses	2,399	2,215	2,119	8.3	13.2	8,466	9,030	(6.2)
Pre-provisioning profit	2,052	2,121	2,773	(3.2)	(26.0)	8,985	7,531	19.3
Total provisions	1,012	1,182	1,477	(14.4)	(31.5)	4,457	2,612	70.7
Profit before tax	1,040	938	1,296	10.8	(19.8)	4,528	4,919	(8.0)
Tax	261	251	334	4.1	(21.9)	1,170	1,540	(24.0)
Profit after tax	779	688	962	13.3	(19.0)	3,358	3,379	(0.6)
Balance Sheet								
Advances	259,592	253,453	253,001	2.4	2.6	259,592	253,453	2.4
Deposits	297,039	303,699	288,581	(2.2)	2.9	297,039	303,699	(2.2)
CASA ratio (%)	22.8	22.4	24.1	42bps	(121bps)	22.8	22.4	42bps
Yields and margins (%)								
Net interest margin	3.46	3.64	3.75	(18bps)	(29bps)			
Yield on advances	10.7	11.4	11.2	(72bps)	(54bps)			
Cost of funds	6.5	7.0	6.6	(54bps)	(9bps)			
Key ratios (%)								
Cost/Income	53.9	51.1	43.3	281bps	1058bps	48.5	54.5	(601bps)
Tax rate	25.1	26.7	25.8	(163bps)	(68bps)	25.8	31.3	(546bps)
Loan to Deposit ratio	87.4	83.5	87.7	394bps	(28bps)	87.4	83.5	394bps
Capital adequacy ratios (%)								
Tier 1	15.5	13.9	14.3	159bps	123bps	15.5	13.9	159bps
Total CAR	19.7	17.8	18.3	192bps	135bps	19.7	17.8	192bps
Asset quality (Rs mn)								
Gross NPAs	10,834	6,315	5,023	71.6	115.7	10,834	6,315	71.6
Net NPAs	5,942	2,935	1,497	102.4	296.8	5,942	2,935	102.4
Gross NPA ratio (%)	4.1	2.5	2.0	163bps	213bps	4.1	2.5	163bps
Net NPA ratio (%)	2.3	1.2	0.6	113bps	170bps	2.3	1.2	113bps
Credit costs (%)	1.6	1.9	2.4	(26bps)	(78bps)	1.7	0.7	100bps
NPA coverage (%)	45.2	53.5	70.2	(836bps)	(2,503bps)	45.2	53.5	(836bps)

Source: Company, BOBCAPS Research | Note: Proforma GNPA and NNPA ratios as on Q3FY21 stood at 3.7% and 1.92% respectively

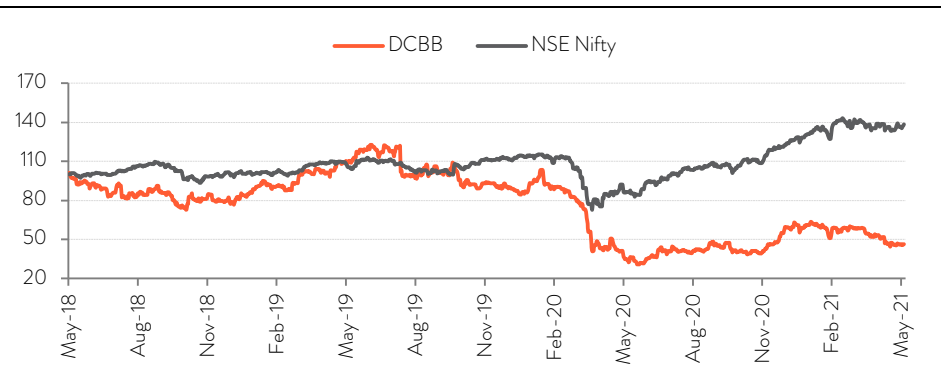
Valuation methodology

We maintain estimates for DCBB as we believe our FY22-FY23 credit cost assumptions of 180-140bps adequately reflect the stress that could emerge from exposure to the LAP and self-employed segments coupled with low PCR of 45%.

At the same time, we upgrade the stock from SELL to ADD as (1) it is trading at low valuations of 0.7x FY23E PBV, (2) the bank can utilise SARFAESI as a tool to initiate recoveries now that the Supreme Court has lifted the NPA recognition standstill, and (3) the slowdown in growth appears to have bottomed out in FY21 with gradual recovery likely post H1FY22.

We maintain our Mar'22 target price at Rs 100, ascribing the stock an unchanged FY23E P/BV multiple of 0.8x given the resurgence in Covid cases and potentially slow normalisation of the bank's earnings trajectory. We expect DCBB to deliver modest ROA/ROE of 0.9%/9.3% in FY23.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- prolonged and severe asset quality deterioration in the wake of the second Covid-19 wave, and
- potential churn in top management (MD and CEO) whose term is up for renewal in Apr'22.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	11,493	12,649	12,866	13,704	15,289
NII growth (%)	15.5	10.1	1.7	6.5	11.6
Non-interest income	3,502	3,911	4,585	4,658	4,923
Total income	14,995	16,560	17,451	18,362	20,212
Operating expenses	8,529	9,029	8,335	9,282	10,786
Operating profit	6,466	7,531	9,116	9,080	9,426
Operating profit growth (%)	23.2	16.5	21.0	(0.4)	3.8
Provisions	1,401	2,611	4,457	4,860	4,161
PBT	5,065	4,919	4,659	4,220	5,266
Tax	1,812	1,540	1,204	1,091	1,361
Reported net profit	3,254	3,379	3,455	3,130	3,905
Adjustments	0	0	0	0	0
Adjusted net profit	3,254	3,379	3,455	3,130	3,905

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	3,095	3,104	3,105	3,105	3,105
Reserves & surplus	28,061	31,117	34,577	37,347	40,803
Net worth	31,156	34,222	37,683	40,453	43,908
Deposits	284,351	303,699	297,039	317,831	355,971
Borrowings	27,232	34,080	44,823	51,546	61,855
Other liabilities & provisions	15,179	13,051	16,574	19,889	23,867
Total liabilities and equities	357,918	385,051	396,118	429,719	485,601
Cash & bank balance	27,934	35,459	30,393	33,906	37,836
Investments	78,441	77,415	84,137	92,551	103,657
Advances	235,680	253,453	259,592	280,360	314,003
Fixed & Other assets	15,864	18,725	21,996	22,903	30,106
Total assets	357,918	385,051	396,118	429,719	485,601
Deposit growth (%)	18.4	6.8	(2.2)	7.0	12.0
Advances growth (%)	15.9	7.5	2.4	8.0	12.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	10.5	10.9	11.1	10.0	12.5
Dividend per share	0.9	1.2	0.0	1.0	1.3
Book value per share	92.4	102.2	113.1	122.0	133.1

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	8.6	8.4	8.2	9.0	7.3
P/BV	1.0	0.9	0.8	0.7	0.7
Dividend yield (%)	1.0	1.3	0.0	1.1	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	3.5	3.4	3.3	3.3	3.3
Non-interest income	1.1	1.1	1.2	1.1	1.1
Operating expenses	2.6	2.4	2.1	2.2	2.4
Pre-provisioning profit	2.0	2.0	2.3	2.2	2.1
Provisions	0.4	0.7	1.1	1.2	0.9
PBT	1.5	1.3	1.2	1.0	1.2
Tax	0.5	0.4	0.3	0.3	0.3
ROA	1.0	0.9	0.9	0.8	0.9
Leverage (x)	11.1	11.4	10.9	10.6	10.9
ROE	11.0	10.3	9.6	8.0	9.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	15.5	10.1	1.7	6.5	11.6
Pre-provisioning profit	23.2	16.5	21.0	(0.4)	3.8
EPS	27.5	3.5	2.0	(9.5)	24.8
Profitability & Return ratios (%)					
Net interest margin	3.7	3.6	3.5	3.5	3.6
Fees / Avg. assets	0.7	0.6	0.6	0.6	0.6
Cost-Income	56.9	54.5	47.8	50.6	53.4
ROE	11.0	10.3	9.6	8.0	9.3
ROA	1.0	0.9	0.9	0.8	0.9
Asset quality (%)					
GNPA	1.8	2.4	4.0	3.3	2.3
NNPA	0.7	1.2	2.3	1.4	0.9
Credit cost	0.5	0.7	1.7	1.8	1.4
Provision coverage	64.4	52.4	42.9	57.6	62.0
Ratios (%)					
Credit-Deposit	82.9	83.5	87.4	88.2	88.2
Investment-Deposit	27.6	25.5	28.3	29.1	29.1
CAR	16.8	17.8	19.6	18.9	18.1
Tier-1	13.1	13.9	15.5	15.0	14.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

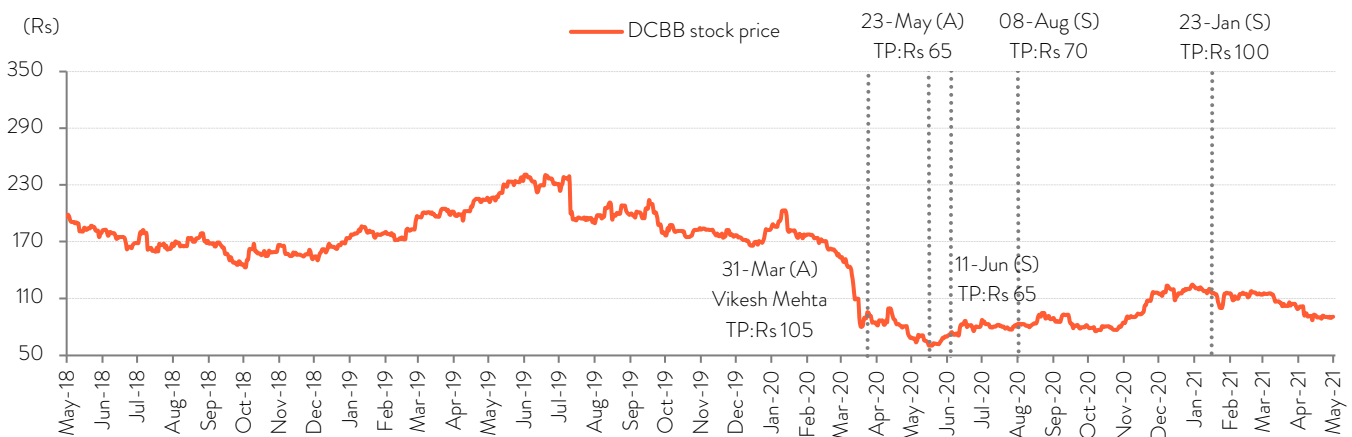
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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