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FIRST LIGHT

29 September 2023

RESEARCH

DCB BANK | TARGET: Rs 144 | +16% | BUY

Improving prospects; BUY

BOB ECONOMICS RESEARCH | MONETARY POLICY EXPECTATIONS

RBI: Hawkish while holding horses

POWER

Expert call: Gearing up for GNA

Daily macro indicators

Indicator	26-Sep	27-Sep	Chg (%)
US 10Y yield (%)	4.54	4.61	7bps
India 10Y yield (%)	7.14	7.17	3bps
USD/INR	83.24	83.23	0
Brent Crude (US$/bbl)	94.0	96.6	2.8
Dow	33,619	33,550	(0.2)
Hang Seng	17,467	17,612	0.8
Sensex	65,945	66,119	0.3
India FII (US$ mn)	**25-Sep**	**26-Sep**	**Chg ($ mn)**
FII-D	7.6	53.9	46.4
FII-E	(166.9)	16.6	183.4

Source: Bank of Baroda Economics Research

SUMMARY

DCB BANK

- Expect a strong 18% credit CAGR over FY23-FY25 (1.4x industry growth), supported by a better portfolio mix
- Margin to sustain at current level with both operational and credit cost forecast to gradually soften; expect a PPOP CAGR of 24%
- Improved return ratios along with growth can fetch higher valuations; we assume coverage with BUY and a TP of Rs 144 (0.8x FY25E ABV)

Click here **for the full report.**

INDIA ECONOMICS: MONETARY POLICY EXPECTATIONS

In the upcoming credit policy meet of RBI, which is scheduled on 6 Oct 2023, we expect MPC to maintain a hawkish pause and keep the rates unchanged. No change in stance is also expected, as RBI will keep liquidity tight to keep short-term rate higher and support INR. Liquidity tightening may also worsen close to election months. We have ruled out any rate cuts this fiscal year, and anticipate earliest possible rate cut in Q1FY25. Further, upward revision to RBI's CPI forecast for FY24 can be expected, by 10-20bps. However GDP forecasts are anticipated to remain unchanged. We expect 10Y yield to trade in the range of 7.15-7.25% next month.

Click here **for the full report.**

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POWER

- GNA comes into effect on 1 October but key aspects of new regime remain ambiguous
- Solar power prices likely to cool further as indigenous modules and higher capacities enhance supply
- All-round renewable addition key to grid stability as excess reliance on solar capacity can cause demand-supply imbalance

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BUY
TP: Rs 144 | 16%

DCB BANK | Banking | 28 September 2023

Improving prospects; BUY

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Targeting 2x growth in balance sheet: Muted SME/MSME disbursal along with lower participation in e-platform TReDS moderated growth in DCBB's advances to 19% YoY in Q1FY24. Going forward, we expect network expansion and a sharp focus on retail products such as mortgage, SME/MSME, gold loans, and AIB to support an 18% credit CAGR over FY23-FY25 (along with a 17% deposit CAGR). Management is confident of growth and aims to double the balance sheet in 3-4 years.

Margin to improve…: The recent NIM contraction (31bps QoQ in Q1FY24) was mainly due to a change in portfolio mix towards corporate loans and a higher cost of funds. We believe a majority of the increase in cost of funds is factored in and expect a recovery in AIB, mortgage and TReDS to help the bank maintain NIM at 3.72%/3.65% over FY24/FY25 – broadly in line with its target range of 3.7-3.75%.

…but C/I to remain high: On the operational front, the bank has invested heavily in network and human resources, adding 75 branches and 3,473 employees during FY22-FY23 vs. 19 branches and 298 employees over FY20-FY21. This has led to higher C/I ratios of 64%/63% in Q1FY24/FY23 vs. 48.5% in FY21. We expect sticky operating cost to keep the C/I ratio high at 62% in FY24 (and 59% in FY25).

Asset stress expected to ease: As most of the loan book emerged from moratorium in recent months, slippages were elevated at 4% of advances during Q1FY24. Management is confident of limiting slippages and expects asset quality to improve hereon. We model for controlled slippages of 3.6% in both FY24 and FY25, aiding improvement in GNPA/NNPA to 2.3%/0.9% over FY25. The bank's restructured book stood at 4% of loans in Q1, wherein it already has provisions of 14-15%. We pencil in credit cost of 54bps/60bps in FY24/FY25 vs. 50bps in FY23.

BUY, TP Rs 144: Baking in healthy growth, sustainable margins and improving asset quality, we expect DCBB to clock ROA/ROE of 1%/13% in FY25 vs. 0.96%/10.8% in FY23. However, sustainability of business growth would be key to watch. The stock is trading at 0.7x FY25E ABV. We assume coverage with BUY, valuing DCBB at 0.8x FY25E ABV for a TP of Rs 144, based on the Gordon Growth Model.

Key changes

Target	Rating
▲	▲

Ticker/Price	DCBB IN/Rs 125
Market cap	US$ 472.0mn
Free float	85%
3M ADV	US$ 2.7mn
52wk high/low	Rs 141/Rs 96
Promoter/FPI/DII	15%/12%/40%

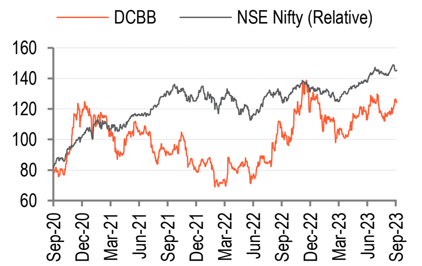
Source: NSE | Price as of 27 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	17,170	20,026	23,175
NII growth (%)	26.5	16.6	15.7
Adj. net profit (Rs mn)	4,656	5,631	7,021
EPS (Rs)	15.0	18.1	22.5
Consensus EPS (Rs)	15.0	17.3	20.8
P/E (x)	8.3	6.9	5.5
P/BV (x)	0.8	0.8	0.7
ROA (%)	1.0	1.0	1.0
ROE (%)	10.8	11.7	13.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONETARY POLICY EXPECTATIONS

28 September 2023

RBI: Hawkish while holding horses

Sonal Badhan
Economist

In the upcoming credit policy meet of RBI, which is scheduled on 6 Oct 2023, we expect MPC to maintain a hawkish pause and keep the rates unchanged. No change in stance is also expected, as RBI will keep liquidity tight to keep short-term rate higher and support INR. Liquidity tightening may also worsen close to election months. We have ruled out any rate cuts this fiscal year, and anticipate earliest possible rate cut in Q1FY25. Further, upward revision to RBI's CPI forecast for FY24 can be expected, by 10-20bps. However GDP forecasts are anticipated to remain unchanged. We expect 10Y yield to trade in the range of 7.15-7.25% next month.

What has changed since the last policy?: Since the last policy, RBI will be evaluating changes in oil prices, trends in inflation, monsoon and sowing, movement of high frequency indicators and global developments.

Oil prices: Since the last policy (10th Aug 2023), international crude oil prices have averaged ~US$ 89/bbl, sitting above US$ 85/bbl factored into RBI estimates (Apr'23 policy briefing). In fact, since early Sep'23 (8 Sep) prices have hovered above US$ 90/bbl. At the time of last policy, prices oil prices averaged ~US$ 79/bbl. This implies 12.6% jump in prices since the previous policy. Factors responsible for this trend include: tightened supplies (US crude stockpiles and extended voluntary production cuts by OPEC+ members) ahead of winter months, prospects of soft landing of the US economy, and pause in rate hike by major central banks which in turn may aide demand.

Domestic inflation scenario: Latest CPI print for Aug'23 shows that inflation came down to 6.8% from 7.4% in Jul'23. RBI has estimated 6.2% CPI for Q2, and to meet that target, inflation for Sep'23 needs to come in at ~4.3-4.5%. On the positive front, vegetable prices and core inflation has begun to soften. On the other hand, key upside risks persist owing to weak monsoon, pressure on sowing (particularly that of pulses), and recent build-up in oil prices. Our previous study shows that US$10/bbl increase in oil prices, leads to 40-60bps increase in CPI. Since we expect Sep'23 CPI print to overshoot RBI's estimates, we expect RBI to revise its current inflation forecast from 5.4% for FY24 to ~5.5%.

Monsoon and sowing: For the period 1 Jun 2023 to 27 Sep 2023, South West Monsoon was 6% below LPA compared with last year. IMD has stated that currently weak El Nino conditions over the equatorial Pacific region are prevailing which is expected to intensify in the later part of the year. Furthermore, IMD has confirmed that withdrawal of South West Monsoon has begun. In terms of cropping activity, overall kharif sowing, as of 22 Sep 2023, has been only by 0.3% higher compared with last year. However the performance has been varied. The sown area of coarse cereal has improved owing to higher sowing for Bajra and Maize.

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Expert call: Gearing up for GNA

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- **Solar power prices likely to cool further as indigenous modules and higher capacities enhance supply**
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We hosted an investor call with power sector expert Arun Kumar. Key takeaways:

Lower cost for power generators: General network access (GNA), which provides non-discriminatory access to the central transmission network to all power producers, will reduce overhead transmission charges in the day ahead market (DAM) from the current 30-40paise per unit paid by each the buyer and the seller. Once GNA takes effect on 1 October, only the buyer will pay this cost.

GNA still lacks clarity: Key aspects of the GNA mechanism remain unclear. For instance, Temporary GNA (TGNA) will entail a 10% higher transmission cost, the impact of which is unknown. Due to such uncertainty, power traders are currently entering three-month forward orders before the new rules set in, to ensure a smooth transition phase.

Renewable addition disappointing: The pace of renewable capacity addition in India has fallen behind policy targets and not all bids won from Solar Energy Corp (SECI) have been converted into power purchase agreements (PPA). Additionally, Kumar believes that renewable capacity addition should have a healthier mix going forward, and overweighting solar energy (as opposed to wind and hydro) may have an adverse impact on grid operations in future due to its variability.

Prices of renewable power to drop: Kumar believes that prices of power from renewable sources will decline significantly over the next 3-4 years and expects a long-term average solar power price of Rs 2-2.25/kWh from the current ~Rs 3/kWh. He expects coal prices to remain stable in the near term as the country has adequate reserves along with access to global supply.

Stabilising the grid: The variability of wind and solar sources that can only produce electricity when weather conditions are right is an area of concern for the government. To prevent failures on this account, it is exploring the areas of pumped storage hydropower, battery storage and gas-based power, besides looking to shift the demand load from non-solar hours to solar hours.

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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