

**SELL**

TP: Rs 70 | ▼ 26%

**DCB BANK**

Banking

28 August 2020

## Clarity on asset quality by Q3FY21

We present key takeaways from our recent interaction with the management of DCB Bank (DCBB):

- DCBB has 26% of loans under moratorium in the second phase, though this includes many customers who did not pay their April-July dues as dispensation was available. Collection efficiency has been improving across geographies since April.
- Moratorium share of the CV book is at 48% but also includes customers that have partly paid dues. DCBB has ~30k CV clients with no big-ticket exposure. Truck movement and hence CV sales will pick up if the economy improves.
- Management does not expect any portfolio collapse as customer cash flow will strengthen with easing of lockdown restrictions. Also, a large chunk of the bank's portfolio is secured which will limit the loss given default (LGD).
- The SMA book has reduced from ~Rs 19bn in Mar'20 to ~Rs 4.8bn in Jul'20 given healthy collections. Management does not expect slippages from SMA-0 while that from SMA-1/2 may be miniscule.
- A clear picture on asset quality may emerge by Dec'20 and slippages could peak by Sep'21. About 20-25% of customers may require handholding, either in terms of top-ups, ECLGS or restructuring (MSME).
- Tepid disbursements coupled with repayments in the mortgage portfolio (42% of loans) may lead to 5% contraction in loan book for FY21. Efforts have been stepped up to expand the retail gold loan business (avg. ticket size: Rs 0.1mn-0.2mn) and increase the share of salaried customers in home loans (to 50% from 21% currently). Agri & inclusive banking (AIB) business is back to normal with the highest tractor loans disbursed in June.
- DCBB aims to bring down the cost-to-assets ratio to ~2.2% in two years by focusing on digital initiatives and conscious headcount replacement. It has an enabling resolution to raise equity capital worth Rs 5bn.
- Cost of funds is declining steadily as bulk deposits are being replaced by retail deposits. Deploying excess liquidity should bring NIM back to ~3.6%.
- The velocity of electronic transactions in cash, credit, overdraft and current accounts has reached ~90% of pre-Covid levels.

**Vikesh Mehta**

research@bobcaps.in

Ticker/Price	DCBB IN/Rs 95
Market cap	US\$ 400.5mn
Shares o/s	310mn
3M ADV	US\$ 4.1mn
52wk high/low	Rs 218/Rs 58
Promoter/FPI/DII	15%/15%/70%

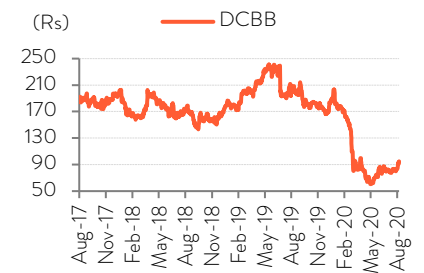
Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Net interest income	11,672	12,336	13,889
NII growth (%)	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	2,270	2,887	3,756
EPS (Rs)	6.6	7.8	10.1
P/E (x)	14.2	12.2	9.4
P/BV (x)	0.9	0.8	0.8
ROA (%)	0.6	0.7	0.8
ROE (%)	6.0	6.7	8.2

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

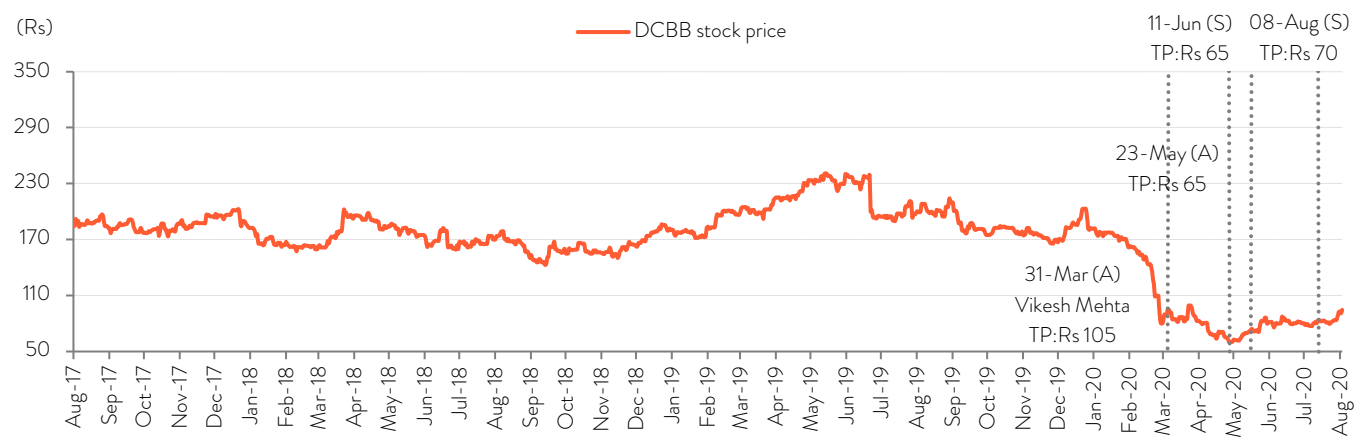
**ADD** – Expected return from >+5% to +15%

**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)



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

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