

**SELL**

TP: Rs 70 | ▼ 16%

**DCB BANK**

| Banking

| 08 August 2020

## Profit below estimates; need for higher Covid provision buffer

DCB Bank's (DCBB) Q1FY21 PAT at Rs 0.8bn (-2% YoY) was hit by muted NII growth and a 29% QoQ drop in non-interest income. Loan growth slowed further to 4% YoY and CASA ratio slipped for the fifth quarter to ~22%. The moratorium book now stands at 26% of loans with LAP/home loan/CV share at 29%/21%/48%. Collection efficiency has improved in select segments but is still far below pre-Covid levels. Contingent Covid provisions are low at Rs 950mn (0.4% of loans). Retain SELL; our Sep'21 TP moves to Rs 70 (vs. Rs 65) on rollover.

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**Moratorium share remains high:** DCBB defines moratorium as customers that have not paid any installments over Apr-Jul'20; those that have paid even one installment during this period are excluded from the pool. Overall moratorium stands at 26% of loans wherein 29%/21%/48% of LAP/home loan/CV customers (by value) have not paid any installments over April-July. Collection efficiency has been picking up steadily across the LAP, home loan and CV businesses but continues to be hampered by pandemic-related disruptions. Slippages were negligible at Rs 52mn while SMA loans in July declined to Rs 4.8bn (vs. Rs 19bn in Q4).

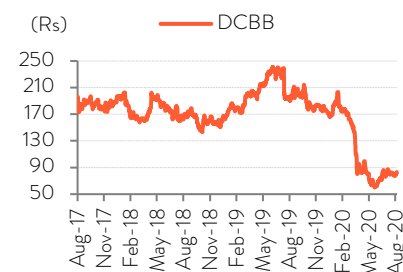
**Loan growth still subdued; NIM declines sharply:** Credit growth moderated further to 4% YoY but home and gold loans grew by 17-18%. DCBB intends to focus on home loans, gold loans, KCC and tractor finance for the next couple of quarters. NIM fell ~20bps QoQ to 3.4% due to excess liquidity. Fee income declined 60% QoQ owing to lower processing, ATM and CASA-related charges.

**Maintain SELL:** We continue to believe that DCBB's exposure to the LAP/self-employed segment poses a risk to asset quality even as higher credit costs will keep profitability subdued. Maintain SELL as we roll forward to a Sep'21 TP of Rs 70 (Rs 65 earlier).

Ticker/Price	DCBB IN/Rs 83
Market cap	US\$ 345.0mn
Shares o/s	310mn
3M ADV	US\$ 3.4mn
52wk high/low	Rs 218/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	11,672	12,336	13,889
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	3,254	3,379	2,270	2,887	3,756
EPS (Rs)	10.5	10.9	6.6	7.8	10.1
P/E (x)	7.9	7.7	12.5	10.7	8.2
P/BV (x)	0.9	0.8	0.8	0.7	0.7
ROA (%)	1.0	0.9	0.6	0.7	0.8
ROE (%)	11.0	10.3	6.0	6.7	8.2

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

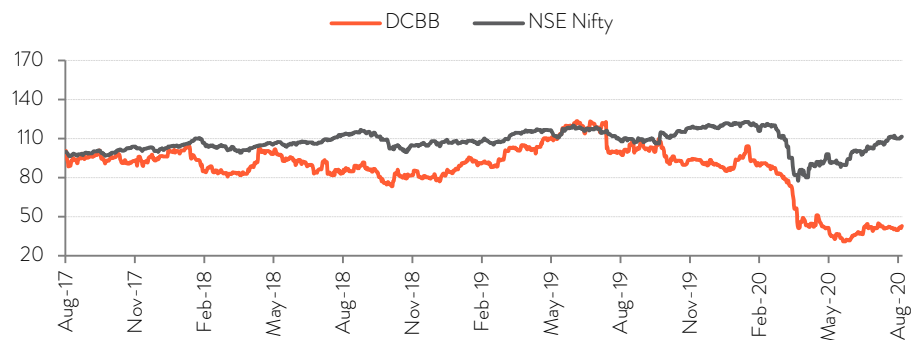
(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
<b>Income Statement</b>					
Interest income	8,731	8,577	9,019	1.8	(3.2)
Interest expense	5,664	5,530	5,782	2.4	(2.0)
<b>Net interest income</b>	<b>3,067</b>	<b>3,048</b>	<b>3,237</b>	<b>0.6</b>	<b>(5.2)</b>
Non-interest income	776	868	1,099	(10.6)	(29.4)
<b>Net total income</b>	<b>3,843</b>	<b>3,915</b>	<b>4,336</b>	<b>(1.8)</b>	<b>(11.4)</b>
Staff expense	1,087	1,162	1,124	(6.5)	(3.3)
Other operating expenses	845	1,088	1,091	(22.3)	(22.6)
Operating expenses	1,932	2,250	2,215	(14.1)	(12.8)
<b>Pre-provisioning profit</b>	<b>1,911</b>	<b>1,665</b>	<b>2,121</b>	<b>14.8</b>	<b>(9.9)</b>
Total provisions	837	406	1,182	105.9	(29.2)
Profit before tax	1,075	1,259	938	(14.7)	14.5
Tax	281	448	251	(37.4)	11.9
<b>Profit after tax</b>	<b>794</b>	<b>811</b>	<b>688</b>	<b>(2.1)</b>	<b>15.4</b>
<b>Balance Sheet</b>					
Advances	250,578	240,443	253,453	4.2	(1.1)
Deposits	294,321	287,892	303,699	2.2	(3.1)
CASA ratio (%)	21.9	24.5	22.4	(260bps)	(49bps)
<b>Yields and margins (%)</b>					
Net interest margin	3.4	3.7	3.6	(25bps)	(22bps)
Yield on advances	11.1	11.6	11.4	(45bps)	(24bps)
Cost of funds	6.8	7.1	7.0	(32bps)	(20bps)
<b>Key ratios (%)</b>					
Cost/Income	50.3	57.5	51.1	(720bps)	(82bps)
Tax rate	26.1	35.6	26.7	(949bps)	(60bps)
Loan to Deposit ratio	85.1	83.5	83.5	162bps	168bps
<b>Capital adequacy ratios (%)</b>					
Tier 1	13.9	12.5	13.9	141bps	2bps
Total CAR	17.9	16.1	17.8	185bps	16bps
<b>Asset quality (Rs mn)</b>					
Gross NPAs	6,218	4,764	6,315	30.5	(1.5)
Net NPAs	2,485	1,958	2,935	26.9	(15.3)
Gross NPA ratio (%)	2.4	2.0	2.5	48bps	(2bps)
Net NPA ratio (%)	1.0	0.8	1.2	18bps	(17bps)
NPA coverage (%)	60.0	58.9	53.5	114bps	651bps

Source: Company, BOBCAPS Research

## Valuation methodology

We continue to value DCBB at 0.6x FY22E P/BV using the two-stage Gordon Growth Model. However, the bank's exposure to the LAP/self-employed segment poses a risk to asset quality even as higher credit costs will keep profitability subdued. Maintain SELL as we roll forward to a Sep'21 target price of Rs 70 (from Rs 65 earlier).

**FIG 2 – 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
<b>Net interest income</b>	<b>11,493</b>	<b>12,649</b>	<b>11,672</b>	<b>12,336</b>	<b>13,889</b>
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Non-interest income	3,502	3,911	3,947	4,273	4,674
Total income	14,995	16,560	15,619	16,608	18,562
Operating expenses	8,529	9,029	8,595	9,006	9,666
Operating profit	6,466	7,531	7,024	7,602	8,896
Operating profit growth (%)	23.2	16.5	(6.7)	8.2	17.0
Provisions	1,401	2,611	3,974	3,722	3,206
PBT	5,065	4,919	3,051	3,880	5,690
Tax	1,812	1,540	781	993	1,935
<b>Reported net profit</b>	<b>3,254</b>	<b>3,379</b>	<b>2,270</b>	<b>2,887</b>	<b>3,756</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,254</b>	<b>3,379</b>	<b>2,270</b>	<b>2,887</b>	<b>3,756</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	3,095	3,104	3,707	3,707	3,707
Reserves & surplus	28,061	31,117	37,790	40,388	43,496
Net worth	31,156	34,222	41,496	44,094	47,202
Deposits	284,351	303,699	309,773	319,066	344,592
Borrowings	27,232	34,080	38,169	43,894	52,673
Other liabilities & provisions	15,179	13,051	15,400	18,480	22,176
<b>Total liabilities and equities</b>	<b>357,918</b>	<b>385,051</b>	<b>404,839</b>	<b>425,535</b>	<b>466,644</b>
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	240,780	252,819	278,101
Fixed & Other assets	15,864	18,725	42,582	38,623	38,699
<b>Total assets</b>	<b>357,918</b>	<b>385,051</b>	<b>404,839</b>	<b>425,535</b>	<b>466,644</b>
Deposit growth (%)	18.4	6.8	2.0	3.0	8.0
Advances growth (%)	15.9	7.5	(5.0)	5.0	10.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	10.5	10.9	6.6	7.8	10.1
Dividend per share	0.9	1.2	0.0	0.7	1.5
Book value per share	92.4	102.2	105.1	112.1	120.4

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	7.9	7.7	12.5	10.7	8.2
P/BV	0.9	0.8	0.8	0.7	0.7
Dividend yield (%)	1.1	1.4	0.0	0.8	1.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.5	3.4	3.0	3.0	3.1
Non-interest income	1.1	1.1	1.0	1.0	1.0
Operating expenses	2.6	2.4	2.2	2.2	2.2
Pre-provisioning profit	2.0	2.0	1.8	1.8	2.0
Provisions	0.4	0.7	1.0	0.9	0.7
PBT	1.5	1.3	0.8	0.9	1.3
Tax	0.5	0.4	0.2	0.2	0.4
ROA	1.0	0.9	0.6	0.7	0.8
Leverage (x)	11.1	11.4	10.4	9.7	9.8
ROE	11.0	10.3	6.0	6.7	8.2

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	15.5	10.1	(7.7)	5.7	12.6
Pre-provisioning profit	23.2	16.5	(6.7)	8.2	17.0
EPS	27.5	3.5	(38.9)	16.8	30.1
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.7	3.6	3.2	3.3	3.4
Fees / Avg. assets	0.7	0.6	0.5	0.5	0.6
Cost-Income	56.9	54.5	55.0	54.2	52.1
ROE	11.0	10.3	6.0	6.7	8.2
ROA	1.0	0.9	0.6	0.7	0.8
<b>Asset quality (%)</b>					
GNPA	1.8	2.4	3.4	3.3	2.4
NNPA	0.7	1.2	1.4	1.3	0.8
Provision coverage	64.4	52.4	58.0	61.6	66.2
<b>Ratios (%)</b>					
Credit-Deposit	82.9	83.5	77.7	79.2	80.7
Investment-Deposit	27.6	25.5	26.5	28.3	29.3
CAR	16.8	17.8	19.7	20.3	19.8
Tier-1	13.1	13.9	15.9	16.4	16.0

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

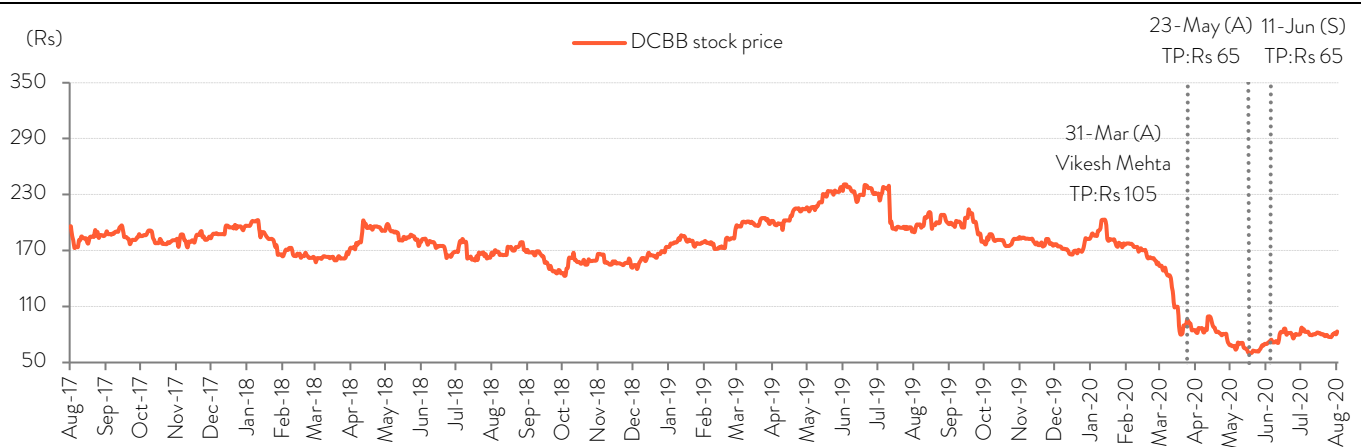
**ADD** – Expected return from >+5% to +15%

**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)



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

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