

Mixed quarter; eyes on collection efficiency trajectory

DCB Bank reported weak Q2FY21 results with controlled opex being the only silver lining. Muted business growth and elevated provisioning were the laggards, which impacted overall PAT.

Moratorium book (by value) as of September 2020 was at ₹ 356 crore (~1.4% of advances) against ₹ 1908 crore in March 2020. The morat book further reduced to ₹ 313 crore as on October 26, 2020. Segment wise, the bank said 7.4% of business loans, 5.4% of home loans and 10.8% of commercial vehicles by value have not paid any instalment in April-October 2020. Collection efficiencies for the same segments were at 87.5%, 91.3% and 77.1%, respectively. **The bank expects ~3-5% of overall advances to be restructured under the RBI's resolution framework for Covid-19 stress.**

Provision surged 161.4% to ₹ 113.1 crore (~45 bps of advances), including Covid related provisioning of ₹ 48 crore. Total Covid provisioning as of September 2020 was at ₹ 143 crore (~57 bps of advances). In addition, the bank has additional floating provisions of ₹ 103 crore. This translates into total contingent provisioning of ~160 bps as on Q2FY21. Slippages were lower at ₹ 9.1 crore, on the back of standstill asset classification. GNPA, NNPA ratio (including standstill asset norms) declined 17 bps, 16 bps QoQ to 2.27%, 0.83%, respectively. Excluding standstill asset norms, GNPA and NNPA ratio would be 2.39% and 0.92%, respectively.

Advances growth was broadly flattish at 0.3% YoY to ₹ 24878 crore led by a major decline in SME (down 8% YoY) and corporate segment (down 16.4% YoY). However, growth of agri, home and gold loans was healthy at 6%, 12% & 62% YoY, respectively. Disbursements as on Q2FY21 were at ₹ 1811 crore with major traction towards corporate (₹ 460 crore), agri (₹ 405 crore) and gold loans (₹ 402 crore). Unlike peers, deposit growth plummeted by 2% YoY and 2.2% QoQ to ₹ 28775 crore.

NII growth was steady at 6.6% YoY to ₹ 333.9 crore on account of healthy margins. NIMs was up 7 bps YoY and 32 bps QoQ to 3.74% on the back of reduced CoF. Operating expenses was down 12.4% YoY to ₹ 201.6 crore. Operating profit came in at ₹ 224.8 crore on the back of steady topline and lower opex. However, higher provisioning led PAT to come in at ₹ 82.3 crore, down 10% YoY.

Valuation & Outlook

The management plans to pedal credit growth from Q4FY21 onwards with focus on gold loans, LAP, tractor loans & kisan credit cards. We expect NPA to increase in the ensuing quarter or two, thus keeping credit costs elevated. Such elevated credit costs would cap growth in earnings and thereby return ratios. Improvement in collection efficiencies bodes well. However, as a substantial portion of customers have not paid any EMI, we would await clarity on restructured book (3-5% guidance). Thus, on the back of a gradual pick-up in return ratios and ambiguity on asset quality, we maintain our **HOLD** rating on the stock with a revised target price of ₹ 85 per share, valuing the business at ~0.7x FY22E ABV.

Key Financial Summary

₹Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	995	1149	1265	1271	1396	7%
PPP	525	647	753	794	902	12%
PAT	245	325	338	314	436	10%
ABV (₹)	78	88	93	100	115	
P/E	7.5	5.7	5.5	5.9	4.3	
P/ABV	0.8	0.7	0.6	0.6	0.5	
RoA	0.9	1.0	0.9	0.8	1.1	
RoE	11.1	12.2	11.3	9.6	11.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation	₹1876 crore
GNPA (Q2FY21)	₹574 crore
NNPA (Q2FY21)	₹206 crore
NIM (Q2FY21)	3.70%
52 week H/L	205/58
Networth	₹3421 Crore
Face value	₹10
D II Holding (%)	37.7
F II Holding (%)	14.4

Key Highlights

- Bank expects restructuring to be ~3-5% of overall advances
- Total contingent provisions held as on Q2FY21 at ~160 bps of advances
- Maintain HOLD recommendation with revised target price of ₹ 85

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	334	299	313	6.6	307	8.9	Stable NII growth due to healthy margins
NIM (%)	3.7	3.4	3.7	7 bps	3.4	32 bps	NIMs was up 7 bps YoY due to reduced CoF
Other Income	93	76	101	-8.7	78	19.3	Sequential recovery in fee income and treasury gains led to better QoQ growth in other income
Net Total Income	971	966	981	-1.0	951	2.1	
Staff cost	105	114	115	-8.4	109	-3.4	
Other Operating Expenses	202	200	230	-12.4	193	4.4	
Cost to Income ratio	0.5	0.5	0.6	-14.8	0.5	10.4	Contained cost led to improvement in CI ratio improvement to 47.28%
PPP	225	174	185	21.8	191	17.6	Stable topline and lower opex led to healthy PPP growth
Provision	113.1	85.9	43.3	161.4	83.7	35.1	Total provisions include Covid related provisioning of ₹143 crore and additional floating provisions of ₹103 crore
PBT	112	88	141	-20.9	107	4.0	
Tax Outgo	29.4	22.5	49.9	-41.0	28.1	4.8	
PAT	82.3	65.8	91.4	-10.0	79.4	3.7	Higher provisions dented PAT growth

Key Metrics

GNPA	573.7	634.2	523.2	9.6	621.8	-7.7	Slippages were lower at ₹9.1 crore, on the back of standstill asset classification. Excluding standstill asset norms, slippages would be ₹29 crore
NNPA	205.8	253.5	237.9	-13.5	248.5	-17.2	
Total restructured assets	477.0	35.0	40.0	1,092.5	469.0	1.7	
Credit Book	24,879	26,038	24,798	0.3	25,058	-0.7	Advances growth was broadly flattish at 0.3% YoY led by major decline in agriculture and SME credit.
Deposit Book	28,775	31,419	29,363	-2.0	29,432	-2.2	CASA ratio dipped ~81 bps YoY to 22.43%,

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹C crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,221	1,271	4.1	1346.6	1,396	3.7
Pre Provision Profi	705.6	793.7	12.5	823.7	901.8	9.5
NIM (%)	3.3	3.5	12 bps	3.5	3.6	11 bps
PAT	302.1	314.4	4.1	417.3	436.1	4.5
ABV (₹)	103	100	-2.7	117.3	115	-1.8
EPS	9.8	10.1	3.8	13.5	14.0	4.2

Source: Company, ICICI Direct Research

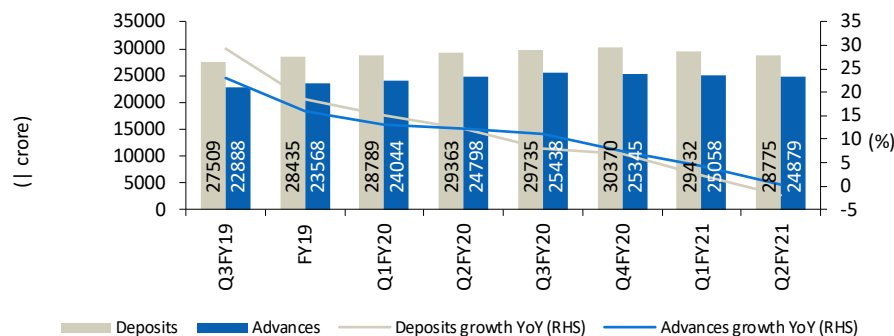
Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	15.9	7.5	1.2	9.4	-3.3	10.5
Deposit Growth (%)	18.4	6.8	-2.2	9.2	2.7	7.8
CASA ratio (%)	23.9	21.5	20.9	20.7	25.3	25.9
NIM C alculated (%)	3.7	3.6	3.5	3.6	3.3	3.5
Cost to income ratio (%)	56.6	54.3	50.2	48.7	54.2	51.8
GNPA (₹crore)	439	632	805	803	778	775
NNPA (₹crore)	154	294	400	359	385	345
Slippage ratio (%)	2.1	2.8	2.4	2.2	2.3	2.2
Credit cost (%)	0.5	0.7	1.1	0.9	1.1	0.9

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Muted loan growth amid Covid



Source: Company, ICICI Direct Research

Exhibit 5: Major credit traction towards retail banking & mortgage segments

(₹ crore)	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Current Proportion (%)
Agriculture	4193	4349	4714	4809	4960	5342	5323	5262	5225	15
SME	2648	2747	2828	2885	2976	2798	2788	2756	2737	8
Corporate	3310	3433	3064	3126	2976	3053	3041	3007	2488	7
Retail banking ex Mortgage	3090	3204	3535	3607	3720	14245	14193	14032	14430	41
Mortgage	8828	9155	9427	9618	10167	10430	10645	10524	10449	30
Total	22069	22888	23568	24044	24798	35868	35990	35582	35328	100

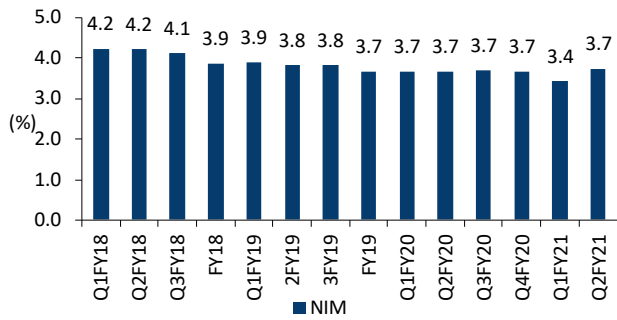
Source: Company, ICICI Direct Research

Exhibit 6: Retail deposit to constitute ~79% of deposits, going forward

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total deposits	10325	12609	14926	19289	24007	28435	30370	29709	32444
Current account	959	1046	1177	1535	1836	1834	1917	1842	1990
Saving deposits	1622	1904	2313	3154	4005	4976	4602	4372	4722
SA ratio	15.7	15.1	15.5	16.4	16.7	17.5	15.2	14.7	14.6
CASA ratio	25.0	23.4	23.4	24.3	24.3	23.9	21.5	20.9	20.7
Term deposits	7744	9659	11436	14600	18167	21625	23851	23495	25733
Retail deposits (RD)	7944	10339	11941	15431	17765	22748	24296	23767	25631
RD proportion	76.9	82.0	80.0	80.0	74.0	80.0	80.0	80.0	79.0

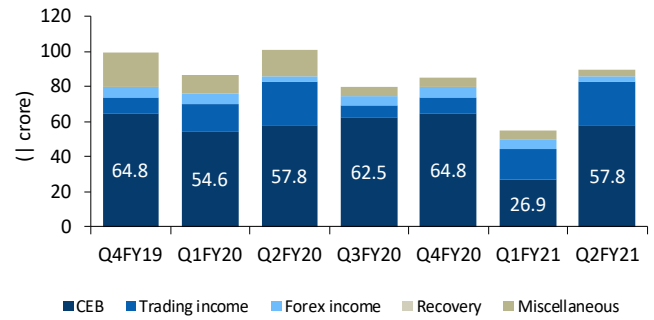
Source: Company, ICICI Direct Research

Exhibit 7: NIMs trend



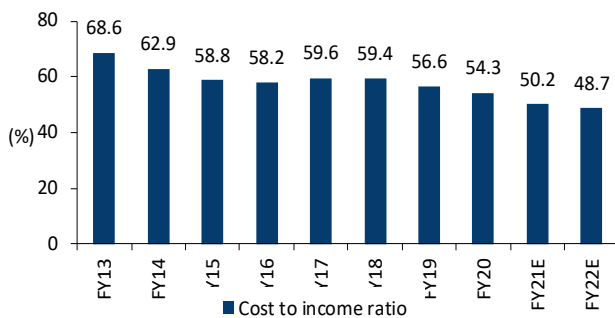
Source: Company, ICICI Direct Research

Exhibit 8: CEB income major contributor to other income



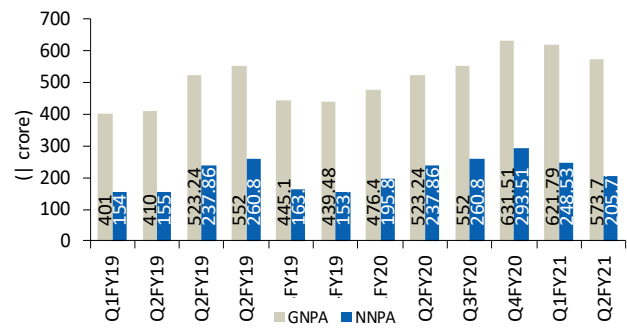
Source: Company, ICICI Direct Research

Exhibit 9: Cost to Income ratio to improve over FY20-22E



Source: Company, ICICI Direct Research

Exhibit 10: Asset quality to deteriorate, going forward



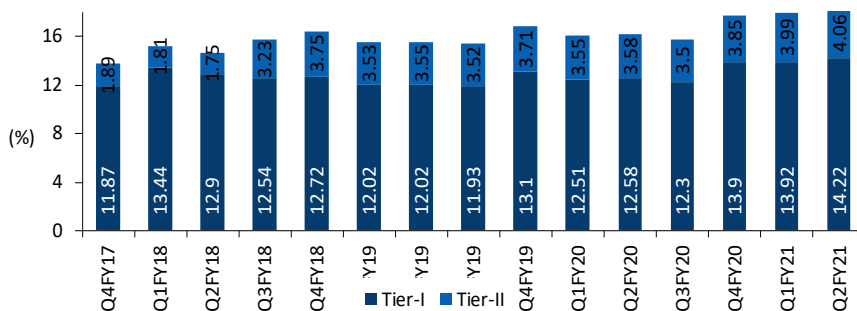
Source: Company, ICICI Direct Research

Exhibit 11: Sectoral break-up of GNPA

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Personal Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CV/CE	29.4	38.5	48.0	63.5	75.7	100.2	116.3	113.4	108.2
Corporate	93.0	77.9	61.9	18.7	18.7	48.1	51.5	51.5	41.8
SME & MSME	38.0	40.3	42.5	50.1	74.2	66.2	73.3	72.5	53.1
Mortgages	148.6	160.6	162.7	177.9	201.6	181.4	228.3	228.8	220.7
Others	101.0	127.8	124.4	166.2	153.0	156.1	162.1	155.6	149.9
Total GNPA	410.0	445.1	439.5	476.4	523.2	552.0	631.5	621.8	573.7
Total NNPA	155.3	163.4	153.8	195.8	237.9	260.8	293.5	248.5	205.8

Source: Company, ICICI Direct Research

Exhibit 12: CaR to remain comfortable



Source: Company, ICICI Direct Research

Exhibit 13: Valuation

(%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net interest income/ avg. total assets	3.0	3.5	3.5	3.7	3.7	3.5	3.4	3.3	3.5
Non-interest income/ avg. total assets	1.1	1.1	1.3	1.2	1.2	1.1	1.1	0.9	0.9
Net total income/ avg. total assets	4.2	4.6	4.8	4.9	4.8	4.6	4.5	4.2	4.4
Operating expenses/ avg. total assets	2.6	2.7	2.8	2.9	2.9	2.6	2.4	2.1	2.1
Operating profit/ avg. total assets	1.6	1.9	2.0	2.0	2.0	2.0	2.0	2.1	2.3
Provisions/ Avg. total assets	0.3	0.5	0.5	0.5	0.5	0.4	0.7	1.0	0.8
Return on avg. total assets	1.3	1.3	1.1	0.9	0.9	1.0	0.9	0.8	1.1
Leverage -Avg. total assets/ average equity (x)	11.8	11.0	10.8	11.7	12.1	12.2	12.3	11.5	10.8
Return on equity	14.8	14.6	12.0	11.1	11.1	12.2	11.3	9.6	11.9

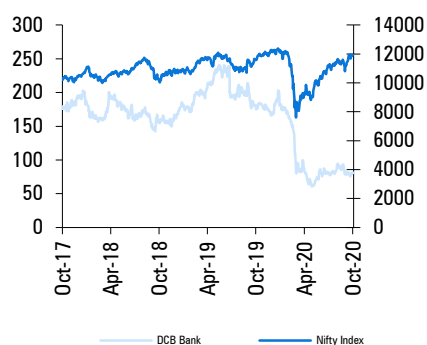
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	June-20	Sep-20
Promoter	14.9	14.9	14.9	14.9	14.9
FII	24.1	24.6	22.8	15.1	14.4
DII	30.0	32.8	35.3	35.9	37.7
Others	31.0	27.7	27.0	34.1	33.0

Source: Company, ICICI Direct Research

Exhibit 15: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	3,041	3,537	3,458	3,481
Interest Expended	1,892	2,272	2,187	2,085
Net Interest Income	1,149	1,265	1,271	1,396
growth (%)	15.5	10.1	0.5	9.8
Non Interest Income	350	391	331	368
Net Income	1,499	1,656	1,602	1,764
Staff cost	434	459	433	468
Other Operating expense	419	444	376	394
Operating profit	647	753	794	902
Provisions	140	261	369	313
Taxes	181	154	110	153
Net Profit	325	338	314	436
growth (%)	32.6	3.9	(7.0)	38.7
EPS (₹)	10.5	10.9	10.1	14.0

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	31.0	31.0	31.0	31.0
EPS (₹)	10.5	10.9	10.1	14.0
BV (₹)	84.8	94.9	105.2	119.3
ABV (₹)	87.8	93.1	99.8	115.1
P/E (x)	5.7	5.5	5.9	4.3
P/BV (x)	0.7	0.6	0.6	0.5
P/ABV (x)	0.7	0.6	0.6	0.5
Yields & Margins (%)				
Net Interest Margins	3.7	3.6	3.5	3.6
Yield on assets	9.7	10.1	9.4	9.0
Avg. cost on funds	6.6	7.0	6.5	6.0
Yield on average advances	11.2	11.6	10.9	10.3
Avg. Cost of Deposits	6.7	6.6	6.5	5.9
Quality and Efficiency (%)				
Credit/Deposit ratio	82.9	83.5	86.3	86.5
GNPA	1.9	2.5	3.1	2.9
NNPA	0.7	1.2	1.6	1.3
Cost to income ratio	56.6	54.3	50.2	48.7
RoE	12.2	11.3	9.6	11.9
ROA	1.0	0.9	0.8	1.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	310	310	310	310
Reserves and Surplus	2,805	3,111	3,423	3,859
Networth	3,114	3,421	3,734	4,170
Deposits	28,435	30,370	29,709	32,444
Borrowings	2,723	3,408	3,718	4,089
Other Liabilities & Provisions	1,518	1,305	1,187	1,246
Total	35,792	38,506	38,349	41,950
Applications of Funds				
Fixed Assets	526	546	565	592
Investments	7,844	7,742	7,790	8,351
Advances	23,568	25,345	25,651	28,065
Other Assets	1,060	1,327	484	730
Cash with RBI & call money	2,793	3,546	3,859	4,212
Total	35,792	38,506	38,349	41,950

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	18.4	7.6	(0.4)	9.4
Advances	15.9	7.5	1.2	9.4
Deposit	18.4	6.8	(2.2)	9.2
Total Income	24.5	15.8	(3.5)	1.6
Net interest income	15.5	10.1	0.5	9.8
Operating expenses	9.2	5.9	(10.4)	6.6
Operating profit	23.2	16.5	5.4	13.6
Net profit	32.6	3.9	(7.0)	38.7
Net worth	12.3	10.9	9.8	12.5
EPS	32.0	3.6	(7.0)	38.7

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Banks)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	42	52	Hold	19,244.0	1.2	1.8	5.8	35.6	NA	NA	0.5	0.5	0.4	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	1,68,701	16.2	15.3	26.1	11.8	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	58	70	Hold	6,765	-27.2	8.5	13.0	-2.1	6.8	4.4	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	453	530	Buy	1,33,804	5.8	10.6	25.6	78.5	42.7	17.7	1.7	1.7	1.6	0.2	0.3	0.7	2.1	3.5	8.0
City Union Bank (CITUN)	143	130	Hold	10,400	6.5	7.5	9.7	22.1	19.0	14.7	2.4	2.2	1.9	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	77	85	Hold	1,876	10.9	9.8	13.5	7.1	7.9	5.7	0.8	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,417	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,199	1,450	Buy	6,59,894	47.9	52.3	63.3	25.0	22.9	18.9	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	585	625	Hold	44,299	63.7	36.4	60.5	9.2	16.1	9.7	1.2	1.2	1.1	1.5	0.9	1.3	14.4	7.4	11.1
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,070	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,329	1,600	Buy	2,59,771	31.1	26.0	32.1	42.8	51.0	41.4	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	311	400	Hold	50,202	18.1	17.7	25.2	17.2	17.5	12.3	3.4	3.1	2.6	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	32	34	Buy	18,066	-4.6	0.7	2.1	NA	46.1	14.7	1.0	1.1	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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