

Meets guidance on NPA but stay conservative

DCB Bank posted moderation in operating performance due to interest reversals on NPA recognition, deterioration in asset quality on proforma basis and tepid business growth.

Net interest income was down 7% QoQ, 4% YoY to ₹ 311 crore due to reversal of interest worth ₹ 37 crore due to NPA recognition and ₹ 10 crore towards interest on interest relief. Net interest margin (NIM) dipped from 29 bps sequentially to 3.5% as yields declined due to interest reversal. Other income also fell 13.4% QoQ to ₹ 134 crore owing to a sharp decline in treasury income. Opex jumped 9.5% QoQ as business activity increased. As a result of stunted topline and higher opex, C/I ratio increased 483 bps sequentially to 36.1%. Provisions for the quarter were at ₹ 101 crore while net profit came in at ₹ 78 crore, below our estimate.

Asset quality, on a proforma basis, deteriorated as GNPA ratio was up from 3.7% (proforma) to 4.09% QoQ while net NPA increased to 2.29% from 1.92% (proforma) QoQ. Restructured book, including those under implementation, were at ~₹ 1100 crore (4.2% of loans), below the management's earlier guidance of 5%. Recoveries were impacted during the year and Q4FY21 due to standstill norms by the SC, which restricted use of SARFAESI act. Collection efficiency in each business segment saw an improvement in March over December. However, the management has indicated that collections in April have shown some decline but did not comment on numbers.

DCB currently has contingency provisions of ₹ 124 crore on restructured and stressed assets & floating provisions worth ₹ 109 crore on its books. Provisions on restructured standard assets increased from ₹ 47 crore to ₹ 139 crore QoQ. Overall, the bank has provisions worth 3.3% of net loans.

Business growth for the bank has remained muted as credit growth was at 2.4% YoY to ₹ 25959 crore. The company is now focused on expanding LAP, gold loans, etc. Agri loans saw a healthy sequential pick-up of 7.5% while home loans were up 2.6% QoQ. New disbursements saw a steady rise till March 2021 but post lock down disbursement growth has been impacted in April and May 2021. On the deposit front also, growth was tepid as total deposit book was up 2.9% QoQ to ₹ 29704 crore. CASA ratio declined to 22.8% from 23.1% QoQ due to slower CASA growth than overall deposits.

Valuation & Outlook

The management has guided for loan growth of ~15-16% and also expects recoveries to increase from Q2 onwards. We believe with ~95% of secured nature of book and ability to use SARFAESI now higher quantum of recoveries is possible. In turn, this may aid asset quality improvement. Near term uncertainty due to partial lockdowns and early indicators like a drop in collection point towards rising stress. However, we believe low valuations factor in some of the risks and limit downside. Thus, we upgrade our rating from HOLD to BUY with a revised target price of ₹ 110 (₹ 130 earlier) and value the bank at ~0.8x FY23EABV.

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	1149	1265	1309	1396	1502	7%
PPP	647	753	932	902	1007	4%
PAT	325	338	343	436	497	20%
ABV (₹)	88	93	101	116	132	
P/E	11.0	10.7	10.5	8.3	7.2	
P/ABV	1.3	1.2	1.2	1.0	0.9	
RoA	1.0	0.9	0.9	1.1	1.1	
RoE	12.2	11.3	10.4	11.8	12.0	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation	₹ 2914 crore
GNPA (Q4FY21)	₹ 1083 crore
NNPA (Q4FY21)	₹ 594 crore
NIM (Q4FY21)	3.50%
52 week H/L	126/58
Networth	₹ 3759 Crore
Face value	₹ 10
DII Holding (%)	40.5
FII Holding (%)	13.0

Key Highlights

- Restructuring at 4.2% of loans
- GNPA at 4.09% vs. 3.7% QoQ (proforma)
- Upgrade to BUY from HOLD with revised target price of ₹110

Risk to our call

- Persisting impact of second wave of pandemic could hurt asset quality
- Tepid business growth may delay improvement in return ratios

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	311	355	324	-3.9	335	-7.0	Decline due to interest reversals of ₹ 37 crore on NPA recognition
NIM (%)	3.5	3.4	3.7	-21 bps	3.8	-29 bps	
Other Income	134	124	110	21.8	155	-13.4	Sequential fall due to lower treasury income
Net Total Income	971	1,019	1,012	-4.0	1,024	-5.1	
Staff cost	111	116	112	-1.1	109	2.3	
Other Operating Expenses	240	226	222	8.3	212	13.2	QoQ rise owing to increased business activity
PPP	205	253	212	-3.2	277	-26.0	
Provision	101.2	125.1	118.2	-14.4	147.7	-31.5	Remained relatively elevated due to stress recognition
PBT	104	128	94	10.8	130	-19.8	
Tax Outgo	26.1	31.9	25.1	4.1	33.4	-21.9	
PAT	77.9	95.8	68.8	13.3	96.2	-19.0	Tepid topline growth limits profitability

Key Metrics

GNPA	1,083.4	964.2	631.5	71.6	502.3	115.7	GNPA rises from 3.7% (proforma) to 4.09% QoQ
NNPA	594.2	289.3	293.5	102.4	149.7	296.8	
Total restructured assets	968.0	35.0	237.0	308.4	687.0	40.9	
Credit Book	25,959	26,059	25,345	2.4	25,300	2.6	Tepid business growth due to corporate segment
Deposit Book	29,704	29,435	30,370	-2.2	28,858	2.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1395.9	1,415	1.4	1,501.8	1,588.5	5.8
Pre Provision Profit	901.8	873.7	-3.1	1,007.2	992.8	-1.4
NIM (%)	3.6	3.6	-3 bps	3.6	3.7	8 bps
PAT	436.1	381.8	-12.4	497.4	484.8	-2.5
ABV (₹)	116.0	113	-2.9	132.3	135.3	2.3
EPS	14.0	12.3	-12.5	16.0	15.6	-2.6

Source: Company, ICICI Direct Research

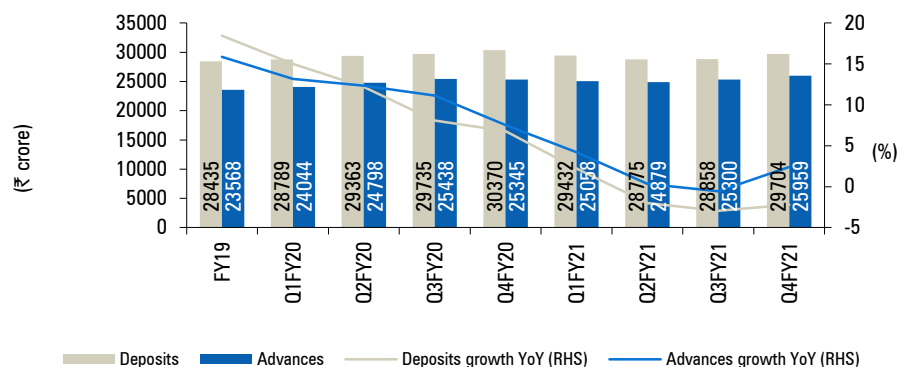
Exhibit 3: Assumption

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	15.9	7.5	2.4	12.5	7.5	1.2	9.4
Deposit Growth (%)	18.4	6.8	-2.2	11.5	6.8	-2.2	9.2
CASA ratio (%)	23.9	21.5	20.9	20.5	21.5	20.9	20.7
NIM Calculated (%)	3.7	3.6	3.5	3.6	3.6	3.6	3.6
Cost to income ratio (%)	56.6	54.3	48.3	50.8	54.3	46.2	48.7
GNPA (₹ crore)	439	632	1,076	907	632	805	803
NNPA (₹ crore)	154	294	559	387	294	400	359
Slippage ratio (%)	2.1	2.8	3.5	2.3	2.8	2.4	2.2
Credit cost (%)	0.5	0.7	1.6	0.9	0.7	1.5	0.9

Source: Company, ICICI Direct Research

Story in charts

Exhibit 4: Tepid loan growth for Q4FY21



Source: Company, ICICI Direct Research

Exhibit 5: Credit break-up

(₹ crore)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Current Proportion (%)
Agriculture	4809	4960	5342	5323	5262	5225	5313	5711	22
SME	2885	2976	2798	2788	2756	2737	2783	2596	10
Corporate	3126	2976	3053	3041	3007	2488	2783	2856	11
Retail banking	3607	3720	14245	14193	14032	14430	14421	14797	57
Total	14426	14631	25438	25345	25058	24879	25300	25959	100

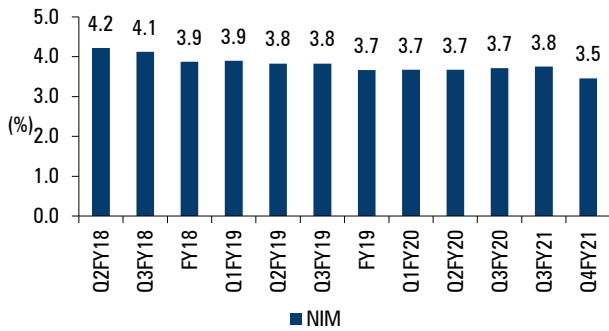
Source: Company, ICICI Direct Research

Exhibit 6: Retail deposit major contributor to overall deposits

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total deposits	14926	19289	24007	28435	30370	29709	33106	37206
Current account	1177	1535	1836	1834	1917	1842	2026	2229
Saving deposits	2313	3154	4005	4976	4602	4372	4766	5242
SA ratio	15.5	16.4	16.7	17.5	15.2	14.7	14.4	14.1
CASA ratio	23.4	24.3	24.3	23.9	21.5	20.9	20.5	20.1
Term deposits	11436	14600	18167	21625	23851	23495	26315	29736
Retail deposits (RD)	11941	15431	17765	22748	24296	23767	26154	29393
RD proportion	80.0	80.0	74.0	80.0	80.0	80.0	79.0	79.0

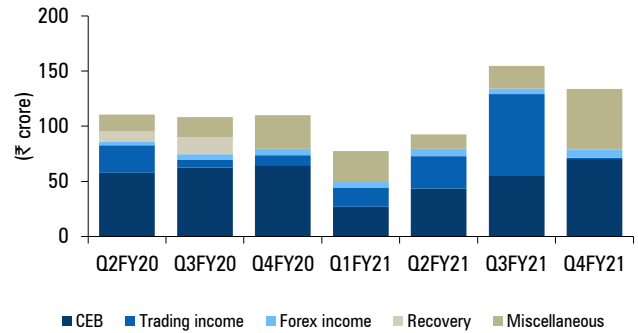
Source: Company, ICICI Direct Research

Exhibit 7: NIMs moderating



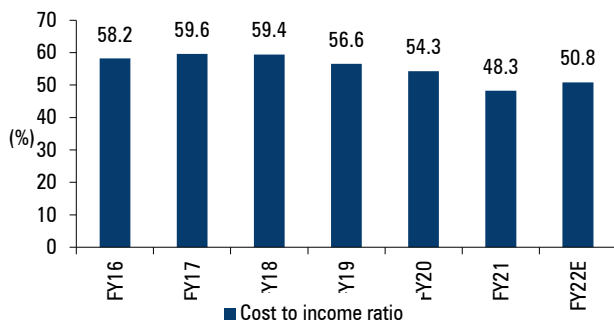
Source: Company, ICICI Direct Research

Exhibit 8: Other income profile



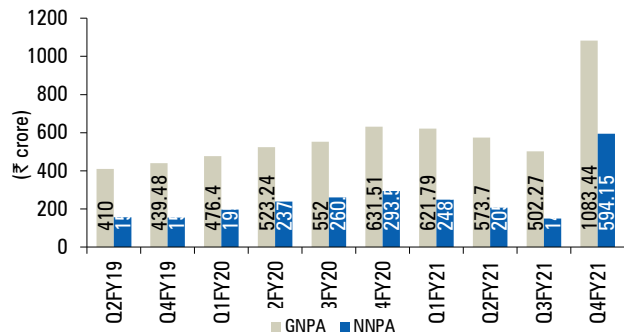
Source: Company, ICICI Direct Research

Exhibit 9: Cost to Income ratio to stabilise



Source: Company, ICICI Direct Research

Exhibit 10: Proforma GNPA rises sequentially



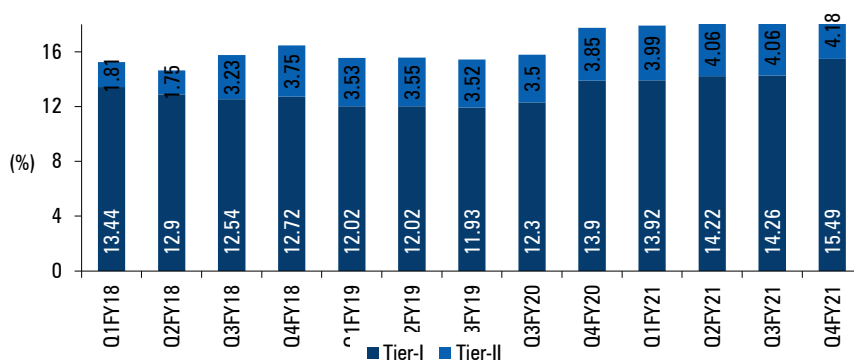
Source: Company, ICICI Direct Research

Exhibit 11: Delinquencies in mortgage rise sequentially

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
CV/CE	63.5	75.7	100.2	116.3	113.4	108.2	83.1	166.9
Corporate	18.7	18.7	48.1	51.5	51.5	41.8	41.8	49.6
SME & MSME	50.1	74.2	66.2	73.3	72.5	53.1	47.4	118.4
Mortgages	177.9	201.6	181.4	228.3	228.8	220.7	197.1	410.6
Others	166.2	153.0	156.1	162.1	155.6	149.9	132.9	337.9
Total GNPA	476.4	523.2	552.0	631.5	621.8	573.7	502.3	1083.4
Total NNPA	195.8	237.9	260.8	293.5	248.5	205.8	149.7	594.2

Source: Company, ICICI Direct Research

Exhibit 12: Comfortable on capital adequacy



Source: Company, ICICI Direct Research

Exhibit 13: Valuation

(%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net interest income/ avg. total assets	3.5	3.7	3.7	3.5	3.4	3.3	3.4	3.4
Non-interest income/ avg. total assets	1.3	1.2	1.2	1.1	1.1	1.2	0.9	0.9
Net total income/ avg. total assets	4.8	4.9	4.8	4.6	4.5	4.5	4.3	4.4
Operating expenses/ avg. total assets	2.8	2.9	2.9	2.6	2.4	2.2	2.2	2.2
Operating profit/ avg. total assets	2.0	2.0	2.0	2.0	2.0	2.3	2.1	2.2
Provisions/ Avg. total assets	0.5	0.5	0.5	0.4	0.7	1.1	0.8	0.7
Return on avg. total assets	1.1	0.9	0.9	1.0	0.9	0.9	0.9	1.1
Leverage -Avg. total assets/ average equity (x)	10.8	11.7	12.1	12.2	12.3	11.6	11.2	11.1
Return on equity	12.0	11.1	11.1	12.2	11.3	10.2	10.5	11.8

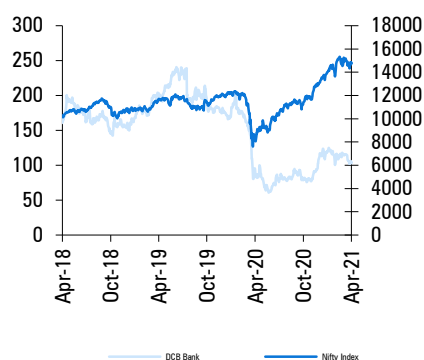
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-20	June-20	Sep-20	Dec-20	Mar-21
Promoter	14.9	14.9	14.9	14.9	14.9
FII	22.8	15.1	14.4	13.8	13.0
DII	35.3	35.9	37.7	39.0	40.5
Others	27.0	34.1	33.0	32.4	31.6

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	3,041	3,537	3,458	3,701	4,105
Interest Expended	1,892	2,272	2,172	2,286	2,517
Net Interest Income	1,149	1,265	1,287	1,415	1,588
growth (%)	15.5	10.1	1.7	10.0	12.3
Non Interest Income	350	391	459	371	422
Net Income	1,499	1,656	1,745	1,786	2,011
Staff cost	434	459	433	468	516
Other Operating expense	419	444	413	444	502
Operating profit	647	753	898	874	993
Provisions	140	261	446	344	309
Taxes	181	154	117	148	199
Net Profit	325	338	336	382	485
growth (%)	32.6	3.9	(0.6)	13.7	27.0
EPS (₹)	10.5	10.9	10.8	12.3	15.6

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	31.0	31.0	31.1	31.1	31.1
EPS (₹)	10.5	10.9	10.8	12.3	15.6
BV (₹)	84.8	94.9	106.0	117.8	136.4
ABV (₹)	87.8	93.1	95.5	112.6	135.3
P/E (x)	8.8	8.5	8.6	7.6	6.0
P/BV (x)	1.1	1.0	0.9	0.8	0.7
P/ABV (x)	1.1	1.0	1.0	0.8	0.7
Yields & Margins (%)					
Net Interest Margins	3.7	3.6	3.5	3.6	3.7
Yield on assets	9.7	10.1	9.4	9.4	9.4
Avg. cost on funds	6.6	7.0	6.4	6.4	6.3
Yield on average advances	11.2	11.6	11.1	10.9	10.8
Avg. Cost of Deposits	6.7	6.6	6.5	6.4	6.3
Quality and Efficiency (%)					
Credit/Deposit ratio	82.9	83.5	87.4	88.2	88.7
GNPA	1.9	2.5	4.1	3.1	2.3
NNPA	0.7	1.2	2.2	1.3	0.8
Cost to income ratio	56.6	54.3	48.3	50.8	50.4
RoE	12.2	11.3	10.2	10.5	11.8
ROA	1.0	0.9	0.9	0.9	1.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	310	310	311	311	311
Reserves and Surplus	2,805	3,111	3,448	3,808	4,388
Networth	3,114	3,421	3,759	4,118	4,699
Deposits	28,435	30,370	29,704	33,106	37,206
Borrowings	2,723	3,408	4,482	4,272	4,909
Other Liabilities & Provisions	1,518	1,305	1,656	1,746	2,308
Total	35,792	38,506	39,602	43,245	49,125
Applications of Funds					
Fixed Assets	526	546	569	592	619
Investments	7,844	7,742	8,414	8,975	9,576
Advances	23,568	25,345	25,959	29,204	33,000
Other Assets	1,060	1,327	1,621	1,149	2,305
Cash with RBI & call money	2,793	3,546	3,039	3,325	3,625
Total	35,792	38,506	39,602	43,245	49,125

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios (%)					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	18.4	7.6	2.8	9.2	13.6
Advances	15.9	7.5	2.4	12.5	13.0
Deposit	18.4	6.8	(2.2)	11.5	12.4
Total Income	24.5	15.8	(0.3)	4.0	11.2
Net interest income	15.5	10.1	1.7	10.0	12.3
Operating expenses	9.2	5.9	(6.2)	7.7	11.6
Operating profit	23.2	16.5	19.3	(2.8)	13.6
Net profit	32.6	3.9	(0.6)	13.7	27.0
Net worth	12.3	10.9	10.7	10.2	14.9
EPS	32.0	3.6	(0.7)	13.7	27.0

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Banks)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
SBI (STABAN)	362	410	Buy	3196	20.0	28.1	30.5	18	12.9	11.9	1.6	1.4	1.3	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	117	180	Buy	127	16.9	29.1	45.5	6.9	4.0	2.6	0.7	0.6	0.6	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	717	900	Buy	2195	25.2	47.7	58.7	28.4	15.0	12.2	2.5	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	170	200	Buy	125	10.0	10.0	10.0	17.0	17.0	17.0	2.5	2.2	2.2	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	94	110	Buy	29	10.8	12.3	15.6	8.7	7.6	6.0	1.0	0.8	0.7	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	79	90	Buy	155	7.7	7.9	10.0	10.2	10.0	7.9	1.2	1.1	1.1	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1,414	1,700	Buy	8085	56.4	66.4	77.8	25.1	21.3	18.2	3.9	3.5	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	945	1,100	Buy	715	36.8	56.5	66.5	25.7	16.7	14.2	1.9	1.8	1.8	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	24	25	Hold	17	7.5	10.4	0.0	3.2	2.3		0.3	0.3	1.0	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,804	2,040	Buy	3527	35.1	43.2	51.4	51.3	41.8	35.1	5.8	5.1	4.5	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	297	330	Hold	478	14.7	24.7	31.4	20.2	12.0	9.5	3.4	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	55	52	Buy	351	NA	100.5	103.2	NA	0.5	0.5	2.0	1.9	1.6	0.3	0.5	0.9	2.7	4.8	8.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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