BONANZA WEALTH MANAGEMENT RESEARCH

21st May 2021

DCB Bank – BUY

CMP :96-99
Target Price :130
Upside : 35%+
Stop Loss :87(Closing basis)

About DCB Bank

DCB Bank is a modern emerging new generation private sector bank with 333 branches across 19 states and 3 union territories. It is a scheduled commercial bank regulated by the Reserve Bank of India. It is professionally managed and governed. DCB Bank has contemporary technology and infrastructure including state of the art internet banking for personal as well as business banking customers.DCB Bank's business segments are Retail, micro-SME, SME, mid-Corporate, Agriculture, Commodities, Government, Public Sector, Indian Banks, Co-operative Banks and Non Banking Finance Companies (NBFC). DCB Bank has approximately 600,000 customers. DCB Bank's network of 331 plus state-of-the-art, customer friendly branches are across the states.

Investment Thesis

Loan growth moderateand Deposit de-grew retail term

Loan growth of 2. 4% yoy was driven by Home loan (+15%) and Gold Loan
(+172%) and AIB (+7%). Corporate and MSME loans were down 6.1% and 6.9% respectively.Deposits declined by 2.2%, retail term deposit however grew by growth of 19%.The bank has guided for 16-19% loangrowth in FY22E. In the coming months focus would be onSME/MSME, LAP, home, gold, KCC, tractor and short-term corporateloans. Due to the second wave of covid, resultant lockdown andcurfews, new disbursements have been affected in April 2021 andMay 2021.The bank's liquidity position remains adequatewith daily average LCR of 138.3% against the revised mandatory requirement of 90%.

Assets quality stable;restructuring book at 4.3%

Gross and net NPA were both up by ~40 bps from pro-forma levels of3QFY21 to 4.1% and 2.3% respectively. If not for the Supreme Court order, gross andnet NPA would have been at ~3.7% and ~1.9% respectively as of 3QFY21. Segmentally,NPL ratio worsened significantly in the vehicle loans portfolio to 13%.Provision coverage ratio (excluding technical write-offs) stood at ~45%, down from preCovid coverage ratio of 53%.

Financials

During the past 5 years, NII of DCB Bank has grown at CAGR of 6.94% while PAT grown at CAGR of 11.32% in same period.

Satnadal.(Rs. Cr)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	3041	3537	3496	3481	3784
NII	1149	1265	1308	1396	1503
% growth	15%	15%	3%	7%	8%
PAT	325	338	348	437	499
ABV	94.4	93	100.7	118	135
P/ABV	1.1	1.1	1.0	0.9	0.8
ROE(%)	10	11	10	12	12

Stock Details

Market Cap (RsCr)	3,074.75
BSE Code	532,772
NSE Code	DCBBANK
Sector/Index	Bank/BSE 500
Year End	March
52 w.High/Low	126.5/58.1
Shares in Issue (cr)	31.0
BSE Sensex	51193.3

Shareholding Pattern

Foreign Promoters	14.9
DII's	30.3
FII's	13.0
Others	41.8

Key Ratios as on 19th May 2021

Div Yield	00.0
TTM PE	9.16x
Industry P/BV	3.01
TTM EPS (Rs.)	10.8

The bank reported slippages of ~Rs6.6 bn in 4QFY21.However, on a full-year basis, slippages for FY2021 were very similar to FY2020 level of 2.7%, which gives us some comfort on the book's quality. Net restructured loans forthe bank stood at Rs9.7 bn (~3.7% of net advances). A large share of restructuring isfrom the LAP and CV book.

Key Business Highlights

Balance sheet growth expected to remain healthy

DCB has a track record of doubling-up its loan book in every three to four years. It has grown its book to Rs 25345 as of FY20 from Rs 3460 crore in FY09 implying a growth of 19.85% CAGR in the past 11 years. The management has maintained guidance of doubling the bank's balance sheet in three to four years focusing on low capital consuming loans. Estimate the credit book will grow at 9.9% CAGR in FY20-23E to33664crore.DCBbank proactivelyreduced exposure to some chunky corporate accounts, which it believes to be risky in the existing environment. Credit growth was 10% YoY;however, it was at 16% YoY, excluding corporate. Thecorporate loan portfolio expansion is not a part of core strategy.

Branch Expansion

Outlook and Valuations The branch expansion is expected to remain reasonable over FY20-FY23 period, as Management aims to open only 15-20 branches incrementally per annum. Going forward, even with stable NIM of the bank, a sharper reduction in Operating cost /Assets is expected to drive the ROA, in our view.

Valuation

Increasing major of restructuring credit book and elevated credit cost are likely to keep bottom line growth subdued in the near term. Net restructured loans for the bank stood at Rs9.7 bn (~3.7% of net advances). A large share of restructuring is from the LAP and CV books. It will continue to face higher delinquency in the CV portfolio. We remain watchful on asset quality deteriorated sharply, and thus expect credit cost to dropped at 1.5%/0.9% in FY22E/FY23E. We estimate DCB bank to deliver FY23E RoA/RoE at 1.1%/12.0% led by cautious balance sheet growth along with slight deterioration in asset quality. We value the bank at PBV of 0.96x FY23E Adj. BVPS to arrive at a price target of ₹130. (0.96x FY23E ABV) Factoring the current scenario, Believe the NPA to increase in next few quarters but it can be managed with healthy operating performance. Considering an inexpensive valuation (0.9x Adj. BVPS) and improving collection scenario we recommend BUY.

Risk & Concern

- Increase in delinquencies in MSME sector
- Intensive competition may restrict yield improvement.

Graphs & Charts

Figure 1: Operating Exp to Avg assets

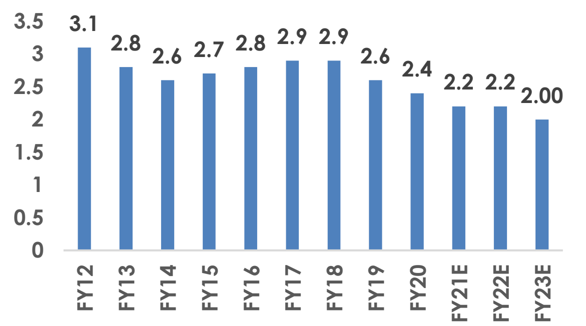


Figure 2: Net Interest Income Trend

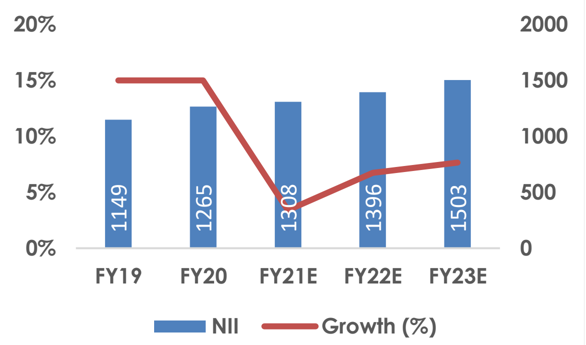


Figure 3: PAT Trend

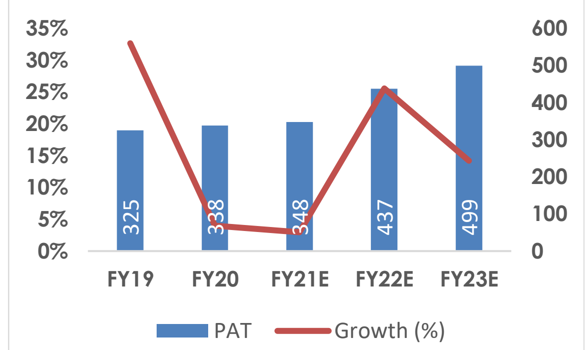
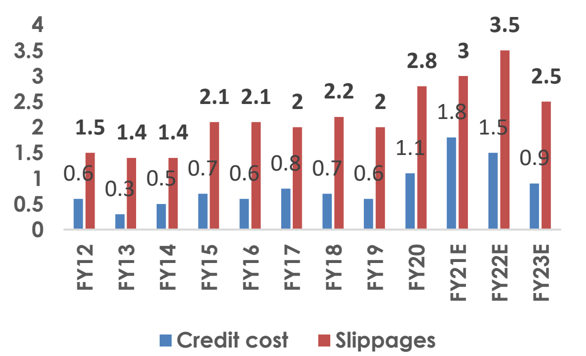


Figure 4:Slippages and Credit cost trend



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