Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

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29th August 2019

DCB Bank – BUY

CMP :199.95
Target Price :263
Upside : 27%+
Stop Loss :166 (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 moderates

For the second consecutive quarter unexpectedly, growth slowed down further to 13/2% YoY/QoQ loan growth. This slowdown was primarily due to a decline in the corporate book and in general Q1 is usually a weak quarter for the bank. DCB bank's core mortgage book grew in line with the overall book to constitute 40% of advances. The corp. book shrank 13% YoY, in line with the earlier cautious stance. Despite macro headwinds, due to challenges faced by NBFCs and PSBs, DCBB could have gained credit market share, on its small base. But cautious management commentary and sticky, unfavorable macros pressure them to tone down loan growth in future.

Assets quality

DCB Bank's asset quality deteriorated marginally on sequential basis with GNPA and NNPA at 1.96% and 0.81% respectively. Provisioning levels remain at healthy levels. The GNPA ratio was 1.96% (up 10bps y/y, 12bpsq/q). Deterioration was seen across all other major segments, barring corporate. In its core mortgage portfolio, GNPA continued high but stable at 1.85% (up 11bps y/y, 12bps q/q). We expect the asset quality to hold steady over FY20-21 owing to the granular loan mix. There was Rs 35-40 Cr of extra slippages from 5 accounts which slipped into NPA, management expecting that 2 accounts to get recover in next quarter. Management doesn't see any major issue in the portfolio. However, there are always challenges in corporate accounts. There are 2 accounts which can slip at current environment at any point of time. The slippages have been higher in AIB due to some of the customers of Agri loan who were not able to repay the entire amount.

Financials

During the past 5 years, Interest Income of DCB Bank has grown at CAGR of 22% while PAT grown at CAGR of 27% in same period.

Satnadal.(Rs. Cr)	FY17	FY18	FY19	FY20E	FY21E
Interest Income	2076	2413	3041	3690	4572
NII	797	995	1149	1320	1599
% growth	29%	25%	15%	15%	21%
PAT	200	245	325	376	522
ABV	72.9	86.4	94.4	102.5	116.9
P/ABV	2.6	2.1	2.5	1.9	1.7
ROE	8%	8%	10%	10%	12%

Stock Details

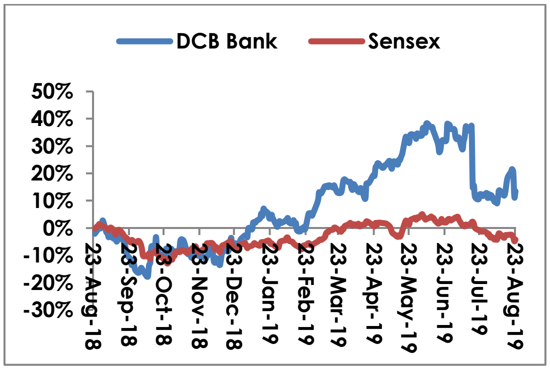
Market Cap (RsCr)	6,115.5
BSE Code	532,772
NSE Code	DCBBANK
Sector/Index	Bank/BSE 500
Year End	March
52 w.High/Low	244/139
Shares in Issue (cr)	31.0
BSE Sensex	36387.7

Shareholding Pattern

Foreign Promoters	14.1
DII's	27.4
FII's	24.5
Others	33.2

Key Ratios

Div Yield	0.5
TTM PE	18.15x
ROE	12%
TTM EPS (Rs.)	10.87



DCB Bank 1QFY20 Result Update

Slippages spiked to Rs 148 Cr vs. Rs 101 Cr sequentially. GNPA increased by 14 bps to 1.96% whereas NNPA increased to 16 bps to 0.81% in 1Q FY20. Specific PCR declined to 59% against 65% in 4Q FY19.Advances growth slowed down to 13% YoY in 1Q FY20 against the average run rate of 24% in last 4 quarters. Excluding corporate, total advances grew by 19% YoY. Deposits grew by 15% YoY.PAT grew by 17% YoY, NII grew by 12% YoY whereas NIM declined by 11 bps to 3.67% mainly due to rise on cost of fund. C/I ratio improved by 279 bps YoY to 57.5% in 1Q FY20. Fee income declined by 7% YoY. DCB Bank Ltd. (DCB Bank) has made an offer to Abu Dhabi Commercial Bank (ADCB) to acquire the business of identified customers of their two branches in India Mumbai and Bengaluru.In this connection,ADCB has granted exclusively to DCB bank for a period of 60 days to complete its due diligence, subject to such regulatory may be required. This deal will help DCB Bank to gain access to corporate loan book/NRI deposit base of the tune of Rs 10bn/Rs 11.5bn, respectively.

NIMs continue to remain under control in place of rising cost of funds

The Bank's NIM margins declined by 23bps YoY and 11bps QoQ to 3.67% in 1QFY20 led by 56bps YoY/8bps QoQ due to rise in cost of funds. Increase in cost of funds was primarily due to higher cost of refinance liabilities and banks focus on retail deposit. Yield on advances increased by 29bps QoQ to 11.58%. Going forward, Management expect NIMs to be steady at 370-375bps.

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 23568 as of FY19 from Rs 3460 crore in FY09 implying a growth of 22% CAGR in the past 10 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 25% CAGR in FY19-21E to 36689 crore. DCB bank proactively reduced exposure to some chunky corporate accounts, which it believes to be risky in the existing environment. Credit growth was 13% YoY;however, it was at 19% YoY, excluding corporate. The corporate loan portfolio expansion is not a part of core strategy.

Branch Expansion

Outlook and Valuations The branch expansion is expected to remain reasonable over FY19-21E 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

Overall loan book growth continues to moderate for DCB bank as corporate book run downs further considering liquidity and risk management. Refinance at higher rates and focus on retail customer deposits Yield on advances increased by 29bps QoQ to 11.58%. Improvement in productivity was in line with expectation. However, assets quality deteriorated during the quarter with the spike in slippages mainly from agri, CV/STVL and MSME sector; however management expects to recover some of the accounts soon. DCB Bank has maintained its long term growth path. Focus on risk adjusted growth, steady margins and improvement in CI ratio are expected to lead to an improvement in earnings at 27% CAGR and RoE of 12% by FY21E. Therefore, we reiterate our positive stance and maintain our target price of 251 valuing at 2.15x FY21E ABV. Recommend BUY.

Risk & Concern

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

Graphs & Charts

Figure 1: Interest IncomeTrend

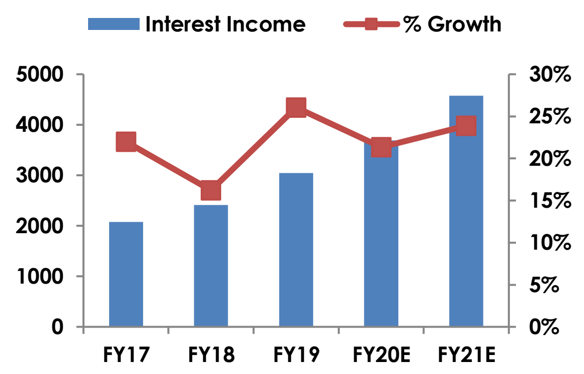


Figure 2: Net Interest Income Trend

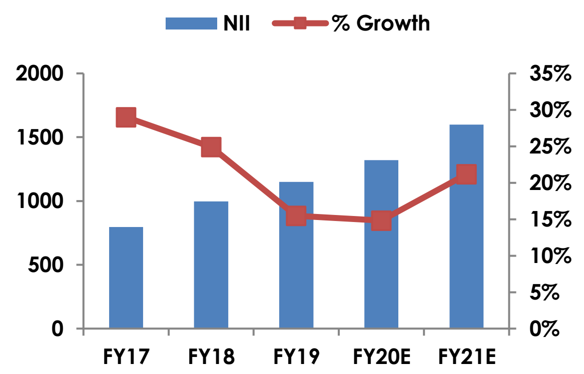


Figure 3: PAT Trend

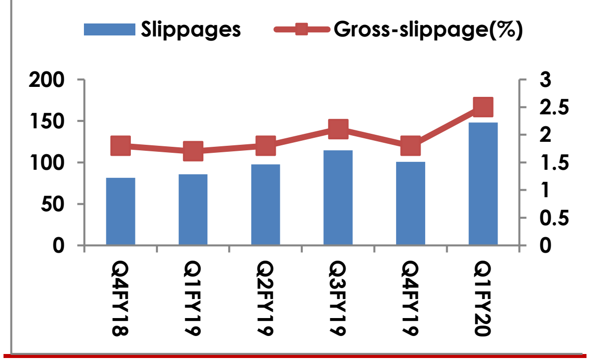
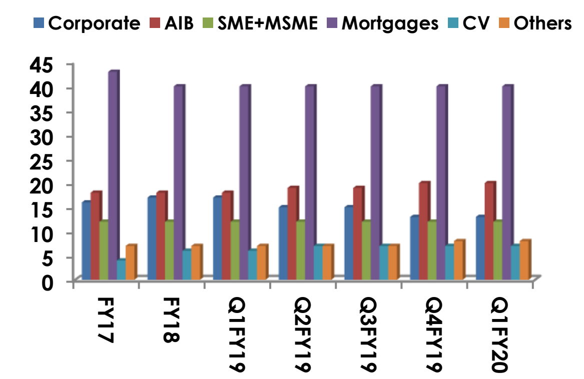


Figure 4:Break up of Advances in %



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