

DCB Bank

Refer to important disclosures at the end of this report

Growth to remain elusive as elevated asset quality risks persist

- Amid sub-par credit growth and elevated provisions with asset quality risk coming to fore, DCB reported a beat on PAT at Rs0.96bn (est. Rs0.55bn) mainly due to higher treasury income. We believe that subdued growth and ensuing interest reversals on NPA could weigh on NIMs/core earnings.
- Proforma GNPA stood high at 3.7%, while the restructured pool stood at Rs6.9bn (2.7% of loans). This coupled with continued sub-par collection efficiencies across portfolios (mainly CV) indicates inherent asset quality risk. DCB has increased the provisioning buffer to Rs2.3bn (0.9% of loans), but still remains sub-par in view of elevated stress.
- DCB guides for double-digit credit growth in FY22/23 and optimistically lower LLP in FY23 at ~50bps, leading to >1% RoA. We believe that the asset quality risk will persist in FY22/FY23, with elevated restructuring, and thus build in higher LLP (180bps/140bps) and lower RoA of 0.8%/1% in FY22/FY23.
- We maintain Sell/UW in EAP with a TP of Rs95 (based on 0.8x FY23E ABV), given the sub-par growth trajectory for small banks, traditionally weak liability profile, higher asset quality risk and subdued return ratios. Current MD's term is up for renewal in Apr'21 and it will be a key event to watch out for.

Growth remains sub-par as inherent asset quality risk comes to fore: Credit growth remains subdued (down 1% yoy) due to a slowdown in the retail/SME business. However, the bank has seen sharp re-acceleration in its corporate book in Q3, reversing the conscious downtrend for many quarters. Under ECLGS, the bank has disbursed Rs6bn so far (out of Rs21bn sanctioned). Incrementally, DCB intends to focus on business loans (LAP), home loans, gold loans, KCC, tractor loans and short-term corporate loans in the near- to medium-term and guides for high-teens growth in FY22-23. Deposits dip 3% yoy as DCB consciously sheds high-cost bulk deposits and instead is focusing on RTDs/CASA. NIM remains flat qoq at 3.7%, but we believe that ensuing interest reversals on NPA could weigh on NIMs.

Asset quality pain to accentuate further: Reported GNPA improved 30bps qoq to 1.96% due to continued SC stay on NPA tagging, while proforma GNPA is much higher at 3.7%. As a cautious stance, the bank improved specific PCR by 620bps qoq to 70% and made a contingent provision of Rs861mn during Q3, leading to a cumulative buffer of Rs2.3bn (0.9% of loan book), which we believe is still sub-par. In addition, it carries a floating provision of Rs1bn. DCB expects the next 4 quarters to be a bit challenging and guides for elevated stress once the SC stay is lifted with restructuring touching a higher band of 5%, and thus intends to provide adequately going ahead. In our view, the restructuring (3-5%) and potential relapse could lead to higher tail-end risk in FY22/FY23, and thus build in higher LLP over FY21-23E (140/180bs).

Retain Sell: We expect the bank's RoA/RoE trajectory to remain sub-par around 0.8-1%/9-11% given moderate growth and higher LLP. Retain Sell/UW in EAP with a TP of Rs95 based on 0.8x FY23 ABV. Key risks to our call include lower NPA formation than expected, and better operating leverage leading to higher RoAs.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	14,995	16,570	17,531	18,250	20,342
Net profit	3,254	3,379	3,154	3,257	4,479
EPS (Rs)	10.5	10.9	10.2	10.5	14.4
ABV (Rs)	88.5	96.5	104.9	112.2	124.6
RoA (%)	1.0	0.9	0.8	0.8	1.0
RoE (%)	11.1	10.4	8.8	8.4	10.8
PE (x)	11.0	10.6	11.4	11.0	8.0
P/ABV	1.3	1.2	1.1	1.0	0.9

Source: Company, Emkay Research

CMP	Target Price
Rs 116 as of (January 22, 2021)	Rs 95 (■) 12 months
Rating	Upside
SELL (■)	(19.5) %

Change in Estimates

EPS Chg FY21E/FY22E (%)	3.2/0.0
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	Sell

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	10.2	10.5
Consensus	8.7	11.5
Mean Consensus TP (12M)	Rs 113	

Stock Details

Bloomberg Code	DCBB IN
Face Value (Rs)	10
Shares outstanding (mn)	310
52 Week H/L	186 / 58
M Cap (Rs bn/USD bn)	36 / 0.49
Daily Avg Volume (nos.)	2,377,995
Daily Avg Turnover (US\$ mn)	3.5

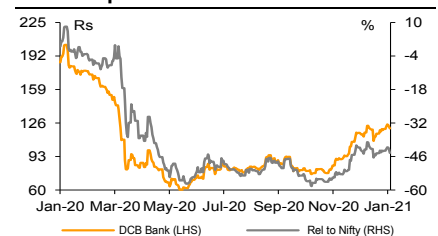
Shareholding Pattern Dec '20

Promoters	14.9%
FIIIs	13.8%
DIIIs	39.0%
Public and Others	32.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	44	42	(36)
Rel. to Nifty	(3)	19	10	(46)

Relative price chart



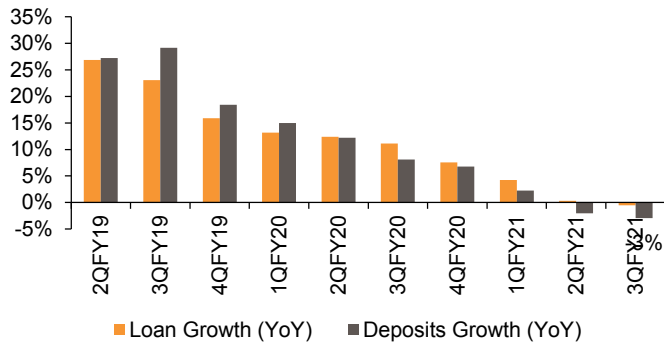
Source: Bloomberg

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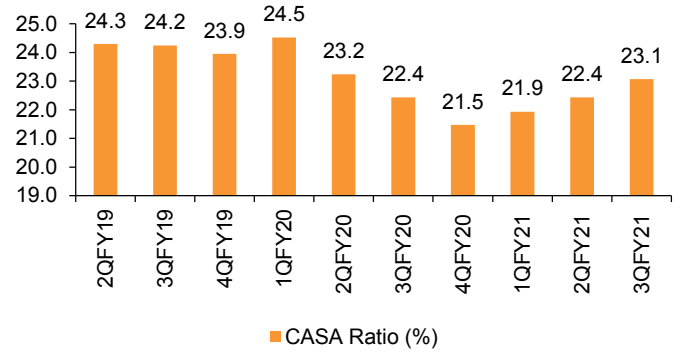
Story in Charts

Exhibit 1: Business growth remained weak in this quarter too



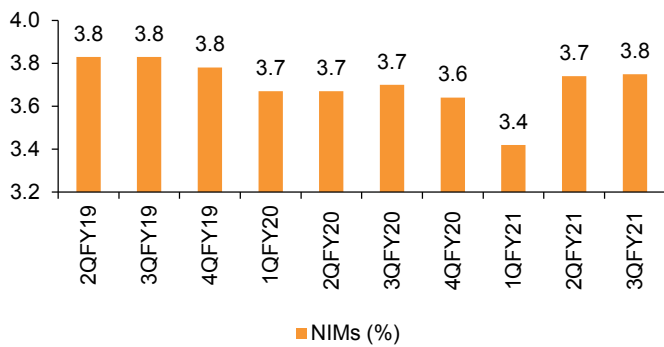
Source: Company, Emkay Research

Exhibit 2: CASA ratio improves as bank runs down bulk deposits



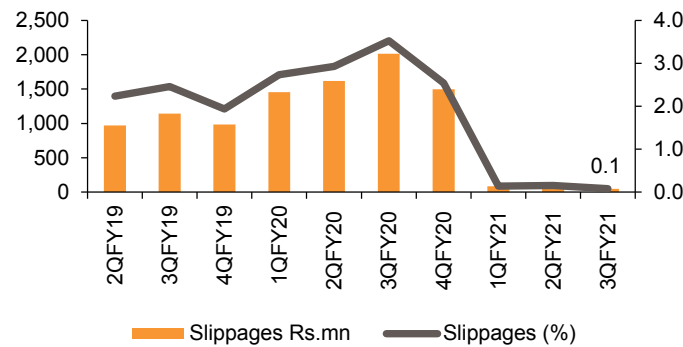
Source: Company, Emkay Research

Exhibit 3: NIM back to pre-Covid levels but difficult to sustain with elevating asset quality stress



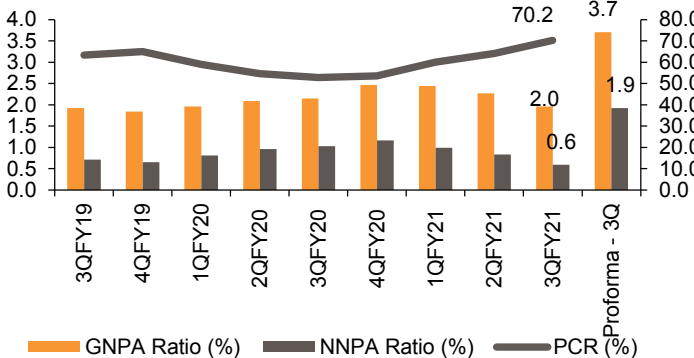
Source: Company, Emkay Research

Exhibit 4: Reported slippages are abysmally low due to continued stay on NPA tagging



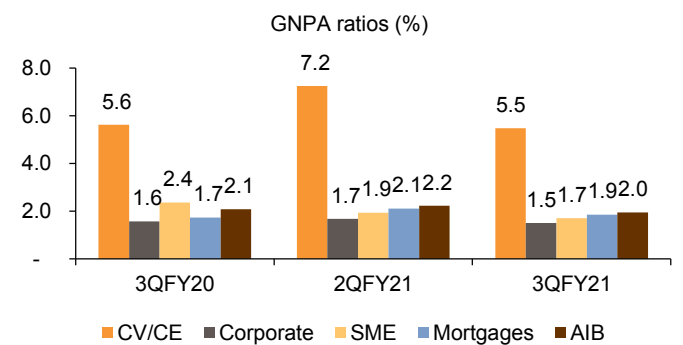
Source: Company, Emkay Research

Exhibit 5: GNPA improves qoq due to SC stay on NPA tagging, but is likely to jump as forbearance ends...



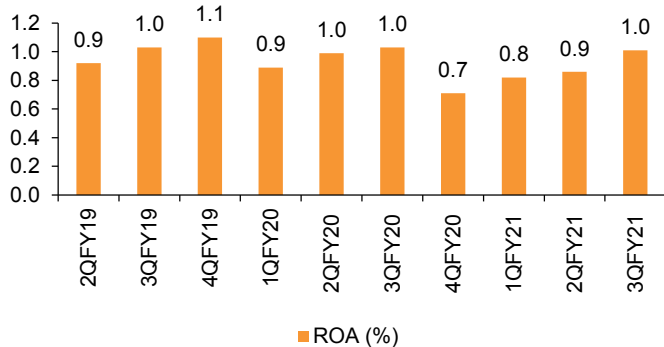
Source: Company, Emkay Research

Exhibit 6: ...leading to segmental NPA ratios being relatively stable qoq



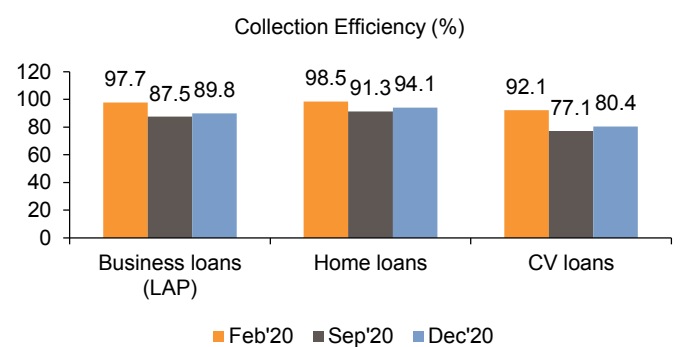
Source: Company, Emkay Research

Exhibit 7: Higher treasury gain, lower opex lead to a sequentially better RoA

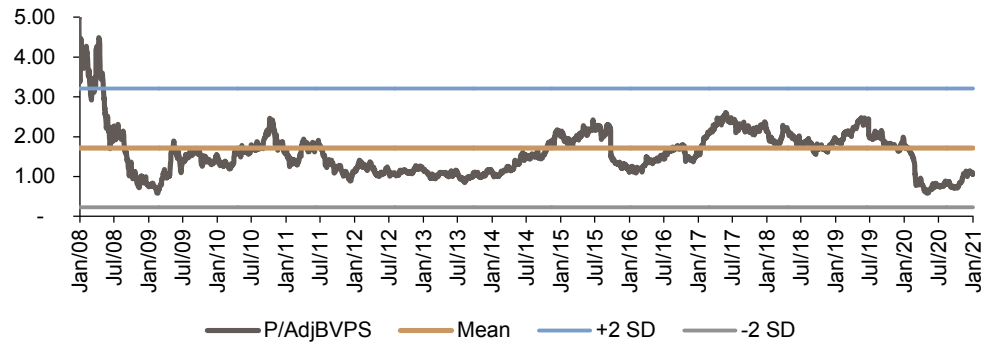


Source: Company, Emkay Research

Exhibit 8: Collection efficiency looks better than previous quarter but still lower than pre-Covid levels



Source: Company, Emkay Research

Exhibit 9: The stock currently trades at 1.0x – 1 year forward ABV

Source: Emkay Research

Exhibit 10: Actuals vs. estimates

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,893	4,345	4,076	13%	20%	Higher treasury income leads to a beat
PPOP	2,773	2,073	2,074	34%	34%	Lower opex supported net income
PAT	962	550	753	75%	28%	Higher PPOP offset elevated LLP

Source: Company, Emkay Research

Exhibit 11: Quarterly summary

Rs (mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	8,978	9,018	8,731	8,784	8,694	-3	-1	35,367	34,859	-1
Interest Exp	5,747	5,782	5,664	5,445	5,346	-7	-2	22,718	21,820	-4
Net Interest Income	3,231	3,236	3,067	3,339	3,348	4	0	12,649	13,040	3
Global NIMs (reported)	3.70	3.64	3.42	3.74	3.75	5bps	1bps	3.59	3.59	-1bps
Non-interest Income	930	1,099	776	925	1,545	66	67	3,921	4,492	15
Operating Expenses	2,262	2,215	1,932	2,016	2,119	-6	5	9,029	8,393	-7
Pre Provisioning Profit	1,899	2,120	1,910	2,248	2,773	46	23	7,542	9,138	21
Provision & Contingencies	590	1,182	837	1,131	1,477	150	31	2,622	4,876	86
PBT	1,309	938	1,074	1,117	1,296	-1	16	4,919	4,262	-13
Income Tax Expense (Gain)	342	251	281	294	334	-2	14	1,540	1,108	-28
Net Profit/(Loss)	967	687	793	823	962	-1	17	3,379	3,154	-7
Gross NPA (%)	2.15	2.46	2.44	2.27	1.96	-19bps	-31bps	2.46	3.90	145bps
Net NPA (%)	1.03	1.16	0.99	0.83	0.59	-44bps	-24bps	1.16	1.48	32bps
Deposits (Rs in bn)	297	304	294	288	289	-3	0	304	291	-4
Net Advances (Rs in bn)	254	253	251	249	253	-1	2	253	253	0

Source: Company, Emkay Research

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	16,881	17,531	3.9%	18,045	18,250	1.1%	20,134	20,342	1.0%
PPOP	8,339	9,138	9.6%	8,992	9,353	4.0%	10,192	10,570	3.7%
PAT	3,056	3,154	3.2%	3,257	3,257	0.0%	4,479	4,479	0.0%
EPS (Rs)	9.8	10.2	3.2%	10.5	10.5	0.0%	14.4	14.4	0.0%
BV (Rs)	112.5	112.9	0.3%	121.5	121.9	0.3%	133.0	133.3	0.2%

Source: Emkay Research

Exhibit 13: Key assumptions

	FY20A	FY21E	FY22E	FY23E
Loan Growth %	7.5	(0.2)	9.4	17.6
Deposit Growth %	6.8	(4.3)	11.2	18.3
NIM %	3.6	3.6	3.6	3.6
GNPA %	2.5	3.9	4.6	3.7
Credit Cost %	0.7	2.0	1.8	1.4

Source: Emkay Research

Exhibit 14: Key trends and ratios

Particulars	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Loans Rs mn	228,884	235,680	240,440	247,976	254,382	253,453	250,580	248,786	253,001
Loan Growth YoY %	23.1	15.9	13.2	12.4	11.1	7.5	4.2	0.3	(0.5)
Loan Growth QoQ %	3.7	3.0	2.0	3.1	2.6	(0.4)	(1.1)	(0.7)	1.7
Composition %									
- Corporate	15.0	13.0	13.0	12.0	12.0	12.0	12.0	10.0	11.0
- SME/BB	12.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0
- Retail & Others	54.0	55.0	55.0	56.0	56.0	56.0	56.0	58.0	57.0
- Agri	19.0	20.0	20.0	20.0	21.0	21.0	21.0	21.0	21.0
Liability Profile & Margin									
CASA %	24.2	23.9	24.5	23.2	22.4	21.5	21.9	22.4	23.1
Branches	331	333	334	334	334	336	341	344	347
NIM	3.83	3.78	3.67	3.67	3.70	3.64	3.42	3.74	3.75
Asset Quality									
GNPA	1.9	1.8	2.0	2.1	2.2	2.5	2.4	2.3	2.0
NNPA	0.7	0.7	0.8	1.0	1.0	1.2	1.0	0.8	0.6
PCR	63.3	65.0	58.9	54.5	52.8	53.5	60.0	64.1	70.2
Slippages (Rs mn)	1,143	985	1,454	1,617	2,017	1,498	84	98	50
Upgrades/Recoveries	630	822	744	796	1,328	713	116	295	601
Write-Offs	166	241	369	353	416	1	65	284	118
Annualized Slippages %	2.5	1.9	2.7	2.9	3.5	2.5	0.1	0.2	0.1
Capital Adequacy %									
Capital Adequacy %	15.5	16.8	16.1	16.2	15.8	17.8	17.9	18.3	18.3
Tier I %	11.9	13.1	12.5	12.6	12.3	13.9	13.9	14.2	14.3
ROE Decomposition % (on Total Asset)									
NII	3.5	3.4	3.4	3.4	3.4	3.4	3.2	3.5	3.6
Other Income	1.0	1.0	0.8	0.8	0.9	1.0	0.4	0.7	0.9
Opex	2.6	2.5	2.5	2.5	2.4	2.3	2.0	2.1	2.2
PPOP	2.1	2.1	1.8	2.0	2.0	2.2	2.0	2.4	2.9
Provisioning Cost	0.5	0.4	0.5	0.5	0.6	1.2	0.9	1.2	1.6
PBT	1.6	1.7	1.4	1.5	1.4	1.0	1.1	1.2	1.4
ROA	1.0	1.1	0.9	1.0	1.0	0.7	0.8	0.9	1.0
ROE	11.6	12.6	10.3	11.4	11.7	8.1	9.2	9.4	10.7

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	13,040	13,716	15,469
Other income	3,502	3,921	4,492	4,534	4,873
Fee income	2,399	2,412	2,050	2,194	2,413
Net income	14,995	16,570	17,531	18,250	20,342
Operating expenses	8,528	9,029	8,393	8,897	9,772
Pre provision profit	6,466	7,542	9,138	9,353	10,570
PPP excl treasury	6,080	6,879	7,679	8,186	9,287
Provisions	1,401	2,622	4,876	4,999	4,585
Profit before tax	5,065	4,919	4,262	4,354	5,986
Tax	1,812	1,540	1,108	1,097	1,507
Tax rate	36	31	26	25	25
Profit after tax	3,254	3,379	3,154	3,257	4,479

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	3,095	3,104	3,105	3,105	3,105
Reserves	27,689	31,108	34,146	36,827	40,270
Net worth	30,785	34,212	37,251	39,932	43,375
Deposits	284,351	303,699	290,647	323,238	382,533
Borrowings	20,366	27,214	28,574	30,003	33,003
Total liabilities	357,918	385,051	389,172	425,474	497,025
Cash and bank	13,172	10,298	10,813	11,354	11,921
Investments	78,441	77,414	78,799	87,800	102,656
Loans	235,680	253,453	253,020	276,886	325,516
Others	10,603	13,266	15,500	18,325	21,769
Total assets	357,918	385,051	389,172	425,474	497,025

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.7	3.6	3.6	3.6	3.6
Non-ll/avg assets	1.1	1.1	1.2	1.1	1.1
Fee income/avg assets	0.7	0.6	0.5	0.5	0.5
Opex/avg assets	2.6	2.4	2.2	2.2	2.1
Provisions/avg assets	0.4	0.7	1.3	1.2	1.0
PBT/avg assets	1.5	1.3	1.1	1.1	1.3
Tax/avg assets	0.5	0.4	0.3	0.3	0.3
RoA	1.0	0.9	0.8	0.8	1.0
RoAE	11.1	10.4	8.8	8.4	10.8
GNPA (%)	1.8	2.5	3.9	4.6	3.7
NNPA (%)	0.7	1.2	1.5	1.6	1.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	10.5	10.9	10.2	10.5	14.4
BVPS	91.8	102.7	112.9	121.9	133.3
ABVPS	88.5	96.5	104.9	112.2	124.6
DPS	1.0	0.0	0.0	1.5	3.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	11.0	10.6	11.4	11.0	8.0
P/BV	1.3	1.2	1.1	1.0	0.9
P/ABV	1.3	1.2	1.1	1.0	0.9
P/PPOP	5.5	4.7	3.9	3.8	3.4
Dividend Yield (%)	0.9	0.0	0.0	1.3	2.6

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	15.5	10.1	3.1	5.2	12.8
PPOP	23.2	16.6	21.2	2.4	13.0
PAT	32.6	3.9	(6.7)	3.3	37.5
Loans	15.9	7.5	(0.2)	9.4	17.6

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
NII	3,231	3,236	3,067	3,339	3,348
NIM (%)	3.7	3.6	3.4	3.7	3.8
PPOP	1,899	2,120	1,910	2,248	2,773
PAT	967	687	793	823	962
EPS (Rs)	3.12	2.21	2.55	2.65	3.10

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	14.9	14.9	14.9	14.9	14.9
FII	24.6	22.8	15.1	14.4	13.8
DII	32.8	35.3	35.9	37.7	39.0
Public and Others	27.7	27.0	34.1	33.0	32.4

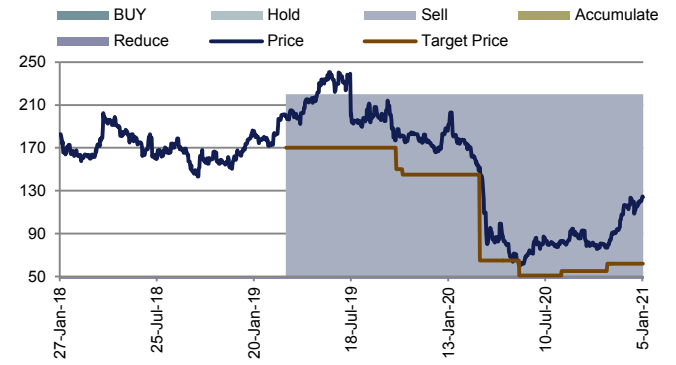
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Nov-20	77	62	12m	Sell	Anand Dama
9-Aug-20	83	55	12m	Sell	Anand Dama
23-May-20	60	51	12m	Sell	Anand Dama
11-Mar-20	152	65	12m	Sell	Anand Dama
27-Jan-20	182	145	12m	Sell	Anand Dama
21-Oct-19	181	145	12m	Sell	Anand Dama
9-Oct-19	184	150	12m	Sell	Anand Dama
16-Jul-19	239	170	12m	Sell	Anand Dama
18-Apr-19	202	170	12m	Sell	Anand Dama
20-Mar-19	199	170	12m	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.41	20.41	0.0%	0	100.00
Axis Bank	2.12	2.27	7%	15	11.12
AU Small Finance Bank	0.23	0.20	-13%	-3	1.00
Bandhan Bank	0.28	0.41	44%	13	2.01
Bank of Baroda	0.12	0.12	1%	0	0.59
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.16	0.16	-1%	0	0.78
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.18	0%	0	0.90
HDFC Bank	7.35	7.53	2%	18	36.90
ICICI Bank	4.61	4.80	4%	20	23.52
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.73	15%	9	3.57
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.99	2.41	-19%	-58	11.81
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.15	0.13	-14%	-2	0.61
State Bank of India	1.36	1.47	8%	11	7.19
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	24-Jan-20	24-Jul-20	23-Oct-20	23-Dec-20	22-Jan-21
EAP - BFSI-Banks	100.0	108.7	78.9	85.9	103.1	107.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.5	77.8	84.3	101.5	105.3

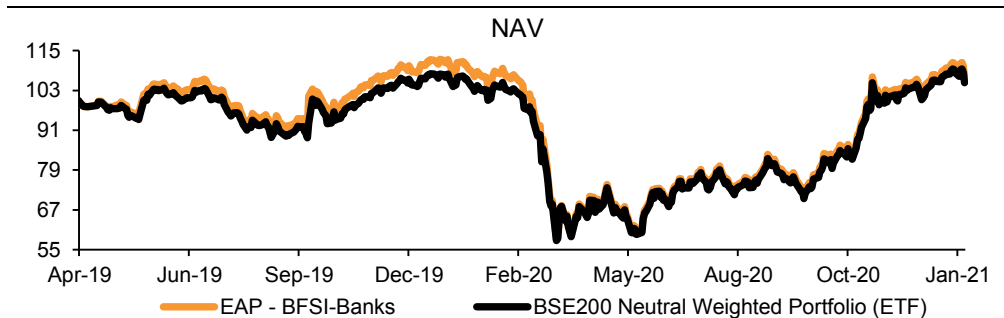
*Performance measurement base date 1st April 2019 | Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	3.9%	24.7%	35.8%	-1.5%
BSE200 Neutral Weighted Portfolio (ETF)	3.8%	25.0%	35.5%	0.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Jan 2021 16:32:06 (SGT)

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