

DCB Bank

Provisioning cushion emerges ahead of expectations

DCBB's 3QFY21 earnings were significantly ahead of estimates on account of strong treasury gains and CoF tailwinds, despite higher-than-anticipated provisions. We've revised our earnings estimates to factor in a slight improvement in margins and a higher non-interest income trajectory. We maintain ADD with a target price of Rs 157 (1.2x FY23E). Inexpensive valuations and the bank's conservative approach to lending, underpin our stance. We will watch for trends in asset quality and credit growth.

- Stress build-up visible:** Pro forma asset quality metrics registered significant deterioration- GNPA's at 3.7% (vs. ~2.4% in 2QFY21) and slippages at ~2.4% annualised (9MFY21). However, these included accounts to the tune of ~Rs 1.6bn, which were eligible for restructuring. The outstanding stock of restructured advances stood at Rs 6.9bn (2.7% of loans) and the management continued to guide that this eventually inch up to 3- 5%. We continue to expect GNPA's to reach 4.1% in FY21E.
- Provisions remain elevated:** The bank clocked a 150.4/30.6% rise in non-tax provisions, which came in ~38% higher than our estimates, at Rs 1.48bn; including additional COVID-19 related provisions of Rs 860mn. The total stock of such provisions stood at ~Rs 2.3bn (~90bps of loans). We have increased our FY21E LLP estimates to 1.76% (vs. 1.53% earlier).
- Focus to shift to growth:** We expect DCBB's credit growth to have bottomed in 3QFY21 at -0.5/+1.7% YoY/QoQ. At present, growth appears to be limited to select segments such home loans (+11% YoY) gold loans (+105% YoY). A more broad-based uptick in growth across the bank's portfolio is likely post FY21. We estimate DCBB to register a loan CAGR of 16.8% over FY22-23E. The management has guided for 'double digit' to 'high-teen' growth in FY22E and has begun building operational capacity.

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	3,348	3,231	3.6%	3,339	0.3%	12,649	13,062	14,257	16,650
PPOP	2,773	1,899	46.0%	2,248	23.4%	7,531	8,814	9,237	10,489
PAT	962	967	-0.5%	823	16.9%	3,379	3,142	4,164	5,118
EPS (Rs)	3.1	3.1	-0.7%	2.7	16.9%	10.9	10.1	13.4	16.5
ROAE (%)						10.3	8.8	10.6	11.7
ROAA (%)						0.9	0.8	1.0	1.1
Adj. BVPS (Rs)						93.1	97.1	116.0	131.9
P/ABV (x)						1.3	1.2	1.0	0.9
P/E (x)						10.7	11.5	8.7	7.0

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	2,67,570	2,60,626	-2.60%	3,09,503	3,01,385	-2.62%	3,65,267	3,55,606	-2.64%
Deposits	3,11,128	2,90,553	-6.61%	3,51,708	3,38,635	-3.72%	4,05,852	3,95,118	-2.64%
NIM (%)	3.27	3.62	35	3.56	3.72	16	3.95	3.77	-18
NII	12,716	13,062	2.7%	14,268	14,257	-0.1%	16,524	16,650	0.8%
PPOP	7,884	8,814	11.8%	8,728	9,237	5.8%	10,156	10,489	3.3%
PAT	3,001	3,142	4.7%	3,823	4,164	8.9%	4,768	5,118	7.4%
ABVPS (Rs)	93.8	97.1	3.4%	113.0	116.0	2.7%	126.6	131.9	4.2%

Source: Bank, HSIE Research

ADD

CMP (as on 22 Jan 2021)	Rs 116
Target Price	Rs 157
NIFTY	14,372

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 151	Rs 157
EPS %	FY21E	FY22E
	+4.7%	+8.9%

KEY STOCK DATA

Bloomberg code	DCBB IN
No. of Shares (mn)	310
MCap (Rs bn) / (\$ mn)	36/493
6m avg traded value (Rs mn)	241
52 Week high / low	Rs 186/58

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	44.1	42.4	(35.8)
Relative (%)	23.6	13.3	(54.7)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	14.9	14.9
FIs & Local MFs	37.7	39.0
FPIs	14.4	13.8
Public & Others	33.0	32.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7328

Aakash Dattani

aakash.dattani@hdfcsec.com
+91-22-6171-7337

Punit Bahlani

punit.bahlani@hdfcsec.com
+91-22-6171-7354

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com