

DCB Bank

Refer to important disclosures at the end of this report

Weak growth, asset-quality risk set to persist

- Amid sub-par credit growth, muted margins and asset-quality risk coming to the fore, DCB Bank reported a beat on PAT at Rs0.78bn (est. Rs0.57bn), mainly due to better core fee income and under-provisioning. The bank carries a Covid-19 contingent buffer of 0.5% of loans, which looks sub-par given the elevated potential stress.
- Reported GNPA stands high at 4.1% vs. pro forma GNPA of 3.7% in Q3 due to lower recoveries, while the restructured pool also seems to be high at 4.3% of loans. We believe that the bank has relatively higher dependence on the self-employed category which remains the most impacted in the second Covid wave.
- In our view, growth may remain subdued, while asset quality should remain weak with the onset of second wave, keeping earnings under pressure. We expect the bank's RoA/RoE to remain moderate at 0.8-0.9%/9-11% over FY22-24E.
- Maintain Sell and cut TP to Rs75 from Rs95, factoring in a slight cut in earnings (13% in FY23E) and TP multiple to 0.6x from 0.8x which reflects the weakness in growth/asset quality. The shorter tenure of current MD (1 year) also adds to volatility.

Sub-par business momentum; margins remain impacted: Credit growth, though turned positive, remained subdued (up 2% yoy/3% qoq) due to conscious downtrend in the corporate and SME book, partially offset by growth in the retail business, driven by mortgage and gold loans. DCB continues to focus on growing business loans (LAP), home loans, gold loans, KCC, tractor loans, MFI & MFI-BC and short-term corporate loans, and has guided for high-teens growth once things settle after the second wave. Deposits have taken a hit (down 2% yoy) as the bank consciously shed high-cost bulk deposits. Margins were down 30bps qoq to 3.5% in Q4 due to higher liquidity, interest reversals on NPAs and interest waiver.

Asset-quality pain to accentuate: Reported GNPA remained elevated at 4.1% vs. pro forma GNPA of 3.7% in Q3 due to lower recoveries. Further, the restructured book stood at a high of 4.3% of loans. According to management, although collection efficiency seems to have improved (BL- 95%, HL- 97% and CV- 86%), it could show a downtrend with increasing logistical restrictions due to the second wave Covid picking up pace. The bank carries a Covid-related contingent provision of Rs1.2bn, 0.5% of loans, and a floating provision of Rs1.1bn, which we believe is sub-par given the elevated risk. In our view, the risk of elevated fresh delinquencies and relapse from the restructured pool should keep LLP at higher levels of 1.6-1.5% over FY22E-24E, keeping RoA under pressure.

Retain Sell: Maintain Sell and reduce TP to Rs75 from Rs95, factoring in a slight cut in earnings (13% in FY23E) and TP multiple to 0.6x from 0.8x which reflects the weakness in growth/asset quality. The shorter tenure of current MD (1 year) also adds to volatility. **Key risk:** better-than-expected growth/asset-quality experience, driven by shorter lockdowns and a sharp rebound in economic activity.

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

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	16,570	17,450	18,175	20,043	22,841
Net profit	3,379	3,359	3,391	3,899	4,677
EPS (Rs)	10.9	10.8	10.9	12.6	15.1
ABV (Rs)	96.5	101.3	110.5	121.2	134.2
RoA (%)	0.9	0.9	0.8	0.9	0.9
RoE (%)	11.2	10.0	9.2	9.8	10.9
PE (x)	8.3	8.4	8.3	7.2	6.0
P/ABV	0.9	0.9	0.8	0.8	0.7

Source: Company, Emkay Research

CMP	Target Price
Rs 91 as of (May 10, 2021)	Rs 75 (■) 12 months
Rating	Upside
SELL (■)	(17.4) %

Change in Estimates

EPS Chg FY22E/FY23E (%)	4.1/(12.9)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	10.9	12.6
Consensus	12.6	16.2
Mean Consensus TP (12M)	Rs 133	

Stock Details

Bloomberg Code	DCBB IN
Face Value (Rs)	10
Shares outstanding (mn)	311
52 Week H/L	127 / 58
M Cap (Rs bn/USD bn)	28 / 0.38
Daily Avg Volume (nos.)	1,972,024
Daily Avg Turnover (US\$ mn)	2.8

Shareholding Pattern Mar '21

Promoters	14.9%
FIIIs	13.0%
DIIIs	40.5%
Public and Others	31.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(21)	8	32
Rel. to Nifty	(9)	(20)	(8)	(18)

Relative price chart



Source: Bloomberg

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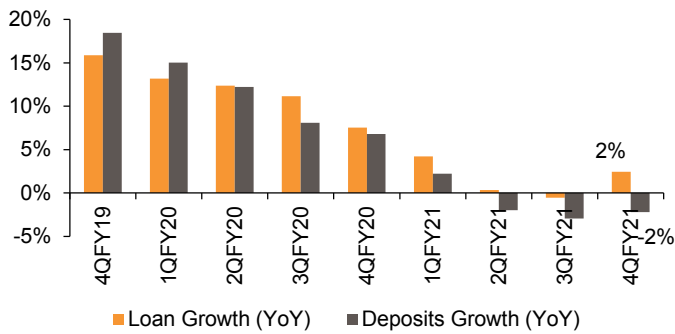
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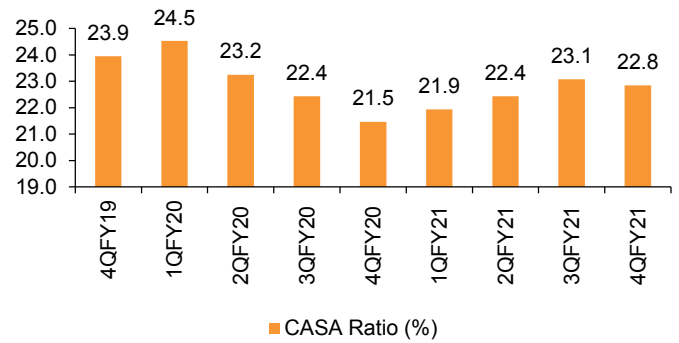
Story in Charts

Exhibit 1: Credit growth, though muted, picks up on growth in retail business, while deposits growth remains negative



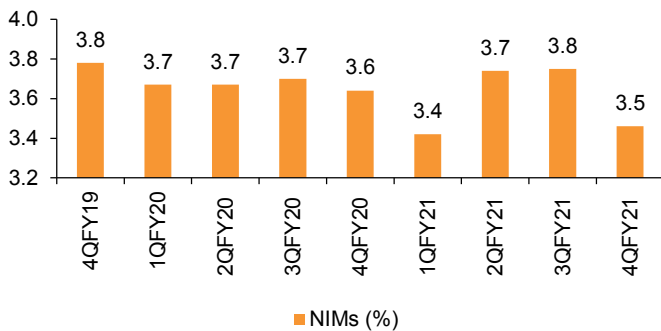
Source: Company, Emkay Research

Exhibit 2: CASA profile remains weak



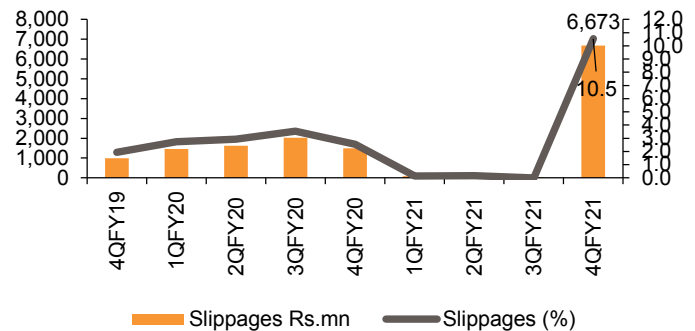
Source: Company, Emkay Research

Exhibit 3: NIM was impacted in Q4 by higher liquidity, interest reversal and interest waiver



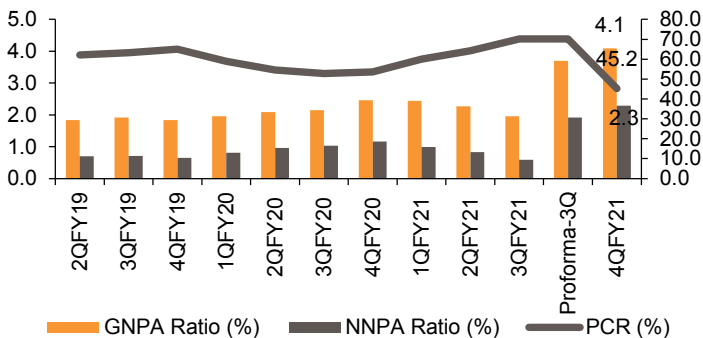
Source: Company, Emkay Research

Exhibit 4: Higher NPA formation on pandemic impacting the bank's otherwise vulnerable portfolio



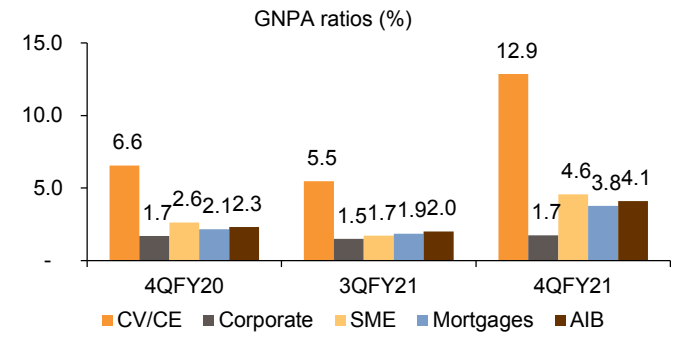
Source: Company, Emkay Research

Exhibit 5: GNPA stands higher at 4.1% vs. pro forma GNPA of 3.7% in Q3



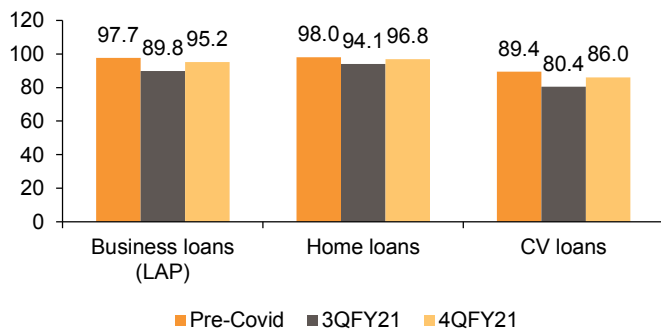
Source: Company, Emkay Research

Exhibit 6: Segmental GNPA ratios too look higher



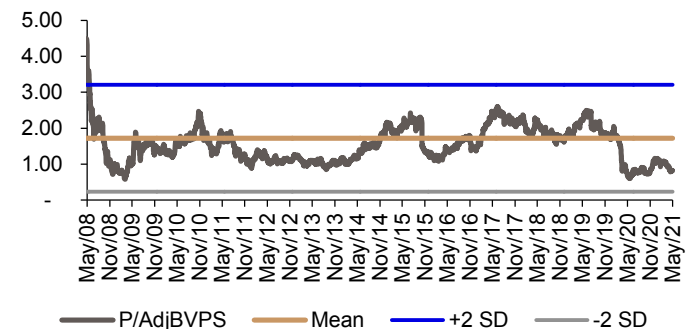
Source: Company, Emkay Research

Exhibit 7: Collection efficiency improves qoq but could dip again due to second Covid wave



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.8x 1-year forward ABV



Source: Emkay Research

Exhibit 9: Actual vs. Estimates (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,451	4,532	4,601	-2%	-3%	Lower margins led to a miss
PPOP	2,053	2,206	2,275	-7%	-10%	Higher opex led to a miss
PAT	781	576	678	36%	15%	Under-provisioning led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	9,018	8,731	8,784	8,694	8,373	-7	-4	34,581	36,327	5
Interest Exp	5,782	5,664	5,445	5,346	5,261	-9	-2	21,716	22,858	5
Net Interest Income	3,236	3,067	3,339	3,348	3,112	-4	-7	12,866	13,469	5
Global NIMs (reported)	3.64	3.42	3.74	3.75	3.46	-18bps	-29bps	3.52	3.52	0bps
Non-interest Income	1,099	776	925	1,545	1,339	22	-13	4,585	4,706	3
Operating Expenses	2,215	1,932	2,016	2,119	2,398	8	13	8,465	8,960	6
Pre Provisioning Profit	2,120	1,910	2,248	2,773	2,053	-3	-26	8,986	9,215	3
Provision & Contingencies	1,182	837	1,131	1,477	1,012	-14	-32	4,457	4,681	5
PBT	938	1,074	1,117	1,296	1,042	11	-20	4,529	4,534	0
Income Tax Expense (Gain)	251	281	294	334	261	4	-22	1,170	1,143	-2
Net Profit/(Loss)	687	793	823	962	781	14	-19	3,359	3,391	1
Gross NPA (%)	2.46	2.44	2.27	1.96	4.09	163bps	213bps	4.10	4.76	67bps
Net NPA (%)	1.16	0.99	0.83	0.59	2.29	113bps	170bps	2.29	2.20	-9bps
Deposits (Rs in bn)	304	294	288	289	297	-2	3	297	318	7
Net Advances (Rs in bn)	253	251	249	253	260	2	3	260	276	6

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	18,250	18,175	-0.4%	20,342	20,043	-1.5%	22,841
PPOP	9,353	9,215	-1.5%	10,570	10,215	-3.4%	11,697
PAT	3,257	3,391	4.1%	4,479	3,899	-13.0%	4,677
EPS (Rs)	10.5	10.9	4.1%	14.4	12.6	-12.9%	15.1
BV (Rs)	121.9	123.4	1.2%	133.3	132.9	-0.3%	144.0

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	2.4	6.2	12.0	15.3
Deposit Growth %	(2.2)	7.0	12.9	15.3
NIM %	3.5	3.5	3.6	3.6
GNPA %	4.1	4.8	4.3	3.6
Credit Cost %	1.7	1.6	1.6	1.5

Source: Emkay Research

Exhibit 13: Key Trends and Ratios

Particulars	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs mn	235,680	240,440	247,976	254,382	253,453	250,580	248,786	253,001	259,592
Loan Growth YoY %	15.9	13.2	12.4	11.1	7.5	4.2	0.3	(0.5)	2.4
Loan Growth QoQ %	3.0	2.0	3.1	2.6	(0.4)	(1.1)	(0.7)	1.7	2.6
Composition %									
- Corporate	13.0	13.0	12.0	12.0	12.0	12.0	10.0	11.0	11.0
- SME/BB	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0	10.0
- Retail & Others	55.0	55.0	56.0	56.0	56.0	56.0	58.0	57.0	57.0
- Agri	20.0	20.0	20.0	21.0	21.0	21.0	21.0	21.0	22.0
Liability Profile & Margin									
CASA %	23.9	24.5	23.2	22.4	21.5	21.9	22.4	23.1	22.4
Branches	333	334	334	334	336	341	344	347	352
NIM	3.78	3.67	3.67	3.70	3.64	3.42	3.74	3.75	3.46
Asset Quality									
GNPA	1.8	2.0	2.1	2.2	2.5	2.4	2.3	2.0	4.1
NNPA	0.7	0.8	1.0	1.0	1.2	1.0	0.8	0.6	2.3
PCR	65.0	58.9	54.5	52.8	53.5	60.0	64.1	70.2	45.2
Slippages (Rs mn)	985	1,454	1,617	2,017	1,498	84	98	5	6,673
Upgrades/Recoveries	822	744	796	1,328	713	116	295	601	343
Write-Offs	241	369	353	416	1	65	284	118	519
Annualized Slippages %	1.9	2.7	2.9	3.5	2.5	0.1	0.2	0.0	10.5
Capital Adequacy %	16.8	16.1	16.2	15.8	17.8	17.9	18.3	18.3	19.7
Tier I %	13.1	12.5	12.6	12.3	13.9	13.9	14.2	14.3	15.5
ROE Decomposition % (on Total Asset)									
NII	3.4	3.4	3.4	3.4	3.4	3.2	3.5	3.6	3.2
Other Income	1.0	0.8	0.8	0.9	1.0	0.4	0.7	0.9	1.4
Opex	2.5	2.5	2.5	2.4	2.3	2.0	2.1	2.2	2.5
PPOP	2.1	1.8	2.0	2.0	2.2	2.0	2.4	2.9	2.1
Provisioning Cost	0.4	0.5	0.5	0.6	1.2	0.9	1.2	1.6	1.0
PBT	1.7	1.4	1.5	1.4	1.0	1.1	1.2	1.4	1.1
ROA	1.1	0.9	1.0	1.0	0.7	0.8	0.9	1.0	0.8
ROE	12.6	10.3	11.4	11.7	8.1	9.2	9.4	10.7	8.4

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	12,649	12,866	13,469	15,000	17,267
Other income	3,921	4,585	4,706	5,043	5,574
Fee income	2,412	2,050	2,255	2,481	2,853
Net income	16,570	17,450	18,175	20,043	22,841
Operating expenses	9,029	8,465	8,960	9,828	11,144
Pre provision profit	7,542	8,986	9,215	10,215	11,697
PPP excl treasury	6,879	7,527	8,048	8,931	10,285
Provisions	2,622	4,457	4,681	5,004	5,446
Profit before tax	4,919	4,529	4,534	5,210	6,250
Tax	1,540	1,170	1,143	1,311	1,573
Tax rate	31	26	25	25	25
Profit after tax	3,379	3,359	3,391	3,899	4,677

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	3,104	3,105	3,105	3,105	3,105
Reserves	31,108	34,481	37,296	40,159	43,495
Net worth	34,212	37,586	40,401	43,264	46,599
Deposits	303,699	297,039	317,935	358,886	413,760
Borrowings	27,214	37,957	39,854	43,840	48,224
Total liabilities	385,051	396,021	428,425	479,522	552,118
Cash and bank	10,298	11,829	12,420	13,041	13,693
Investments	77,414	84,137	90,995	102,511	117,213
Loans	253,453	259,592	275,586	308,702	355,928
Others	13,266	16,214	19,130	22,672	26,924
Total assets	385,051	396,021	428,425	479,522	552,118

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.6	3.5	3.5	3.6	3.6
Non-II/avg assets	1.1	1.2	1.1	1.1	1.1
Fee income/avg assets	0.6	0.5	0.5	0.5	0.6
Opex/avg assets	2.4	2.2	2.2	2.2	2.2
Provisions/avg assets	0.7	1.1	1.1	1.1	1.1
PBT/avg assets	1.3	1.2	1.1	1.1	1.2
Tax/avg assets	0.4	0.3	0.3	0.3	0.3
RoA	0.9	0.9	0.8	0.9	0.9
RoAE	11.2	10.0	9.2	9.8	10.9
GNPA (%)	2.5	4.1	4.8	4.3	3.6
NNPA (%)	1.2	2.3	2.2	1.8	1.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	10.9	10.8	10.9	12.6	15.1
BVPS	102.7	114.0	123.4	132.9	144.0
ABVPS	96.5	101.3	110.5	121.2	134.2
DPS	0.0	0.0	1.5	3.0	4.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	8.3	8.4	8.3	7.2	6.0
P/BV	0.9	0.8	0.7	0.7	0.6
P/ABV	0.9	0.9	0.8	0.8	0.7
P/PPOP	3.7	3.1	3.1	2.8	2.4
Dividend Yield (%)	0.0	0.0	1.6	3.3	4.4

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	10.1	1.7	4.7	11.4	15.1
PPOP	16.6	19.1	2.5	10.9	14.5
PAT	3.9	(0.6)	1.0	15.0	20.0
Loans	7.5	2.4	6.2	12.0	15.3

Quarterly (Rs mn)	Q4FY20	Q4FY21	Q1FY21	Q2FY21	Q3FY21
NII	3,236	3,112	3,067	3,339	3,348
NIM(%)	3.6	3.4	3.4	3.7	3.8
PPOP	2,120	2,053	1,910	2,248	2,773
PAT	687	781	793	823	962
EPS (Rs)	2.21	2.51	2.55	2.65	3.10

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	14.9	14.9	14.9	14.9	14.9
FIIIs	22.8	15.1	14.4	13.8	13.0
DIIIs	35.3	35.9	37.7	39.0	40.5
Public and Others	27.0	34.1	33.0	32.4	31.5

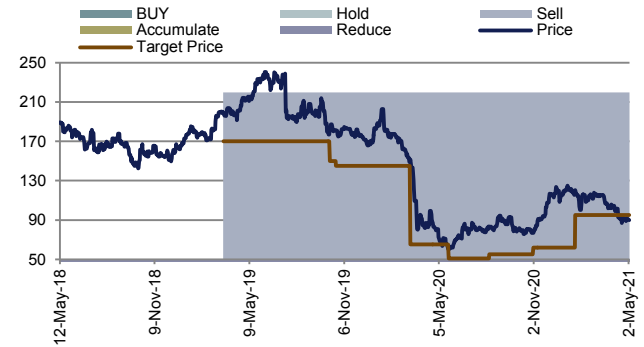
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Jan-21	114	95	12m	Sell	Anand Dama
20-Jan-21	120	95	12m	Sell	Anand Dama
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	201	170	12m	Sell	Anand Dama
20-Mar-19	198	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	20.43	20.40	-0.2%	-3	100.00
Axis Bank	2.25	2.33	4%	9	11.42
AU Small Finance Bank	0.23	0.19	-18%	-4	0.92
Bandhan Bank	0.26	0.30	18%	4	1.47
Bank of Baroda	0.16	0.11	-31%	-5	0.53
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.08
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.21
Federal Bank	0.18	0.23	23%	4	1.11
HDFC Bank	6.86	6.97	2%	11	34.11
ICICI Bank	4.99	5.14	3%	15	25.17
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.72	16%	10	3.54
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.77	2.28	-18%	-49	11.15
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.11	0.08	-27%	-3	0.40
State Bank of India	1.64	1.78	9%	15	8.74
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	0.03	NA	3	0.16

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	7-May-20	6-Nov-20	5-Feb-21	8-Apr-21	7-May-21
EAP - BFSI-Banks	100.0	67.7	93.3	121.6	112.0	112.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	66.7	91.9	119.4	110.0	110.6

*Performance measurement base date 1st April 2019

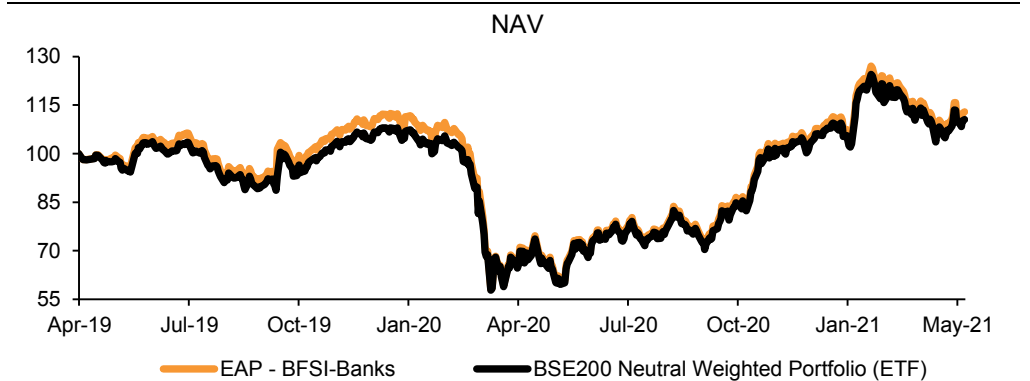
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	0.8%	-7.1%	21.0%	66.8%
BSE200 Neutral Weighted Portfolio (ETF)	0.5%	-7.4%	20.3%	65.7%

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%

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