

**CMP : Rs 181**

**Rating : Accumulate**

**Target : Rs 208**

**STOCK INFO**

INDEX	
BSE	532772
NSE	DCBBANK
Bloomberg	DCBB IN
Reuters	DCBA.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr.)	309
Mkt Cap (Rs cr.)	5,613
52w H/L (Rs)	204/139
Avg Monthly Vol (BSE+NSE)	1,520,940

**SHAREHOLDING PATTERN**

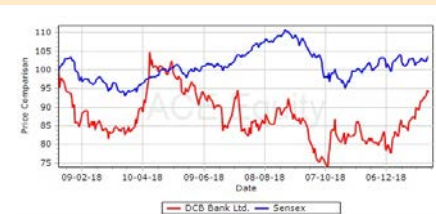
	%
(as on December, 2018)	
Promoters	15.0
FII	23.6
DII	25.3
Public & Others	36.1

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
DCB Bank	7.9	12.3	-6.4
SENSEX	3.3	-	4.5

Source: ACE Equity, Arihant Research

**DCB Bank v/s SENSEX**



Source: ACE Equity, Arihant Research

DCB bank reported healthy operating performance during the quarter, profit jumped by 51% aided by high other income, however there is some pressure on its assets quality. Net profit for the quarter stood at Rs. 86 cr vs 57 cr YoY. Other income for the quarter stood at Rs. 94 cr vs 75 cr registering a growth of 26% YoY. NII for the quarter grew by 17% at Rs. 294 cr vs 250 cr YoY.

**Deposits**

Deposits for the bank stood at Rs. 27,509 cr registering robust growth of 29% YoY and 5% QoQ. The CASA portion for the bank stood at Rs. 6,670 cr rising by 22% YoY and 5% QoQ. CASA ratio almost stood flat at 24.2% vs. 24.3% QoQ. Retail term deposits stood at 54%.

**NIM & Advances:**

Yield on advances improved by 19 bps sequentially to 11.26% due to better pricing environment while cost of funds inched up by 15 bps at 6.74% resulting flat NIM at 3.83%. C/D ratio for the bank stood at 83.2%.

Bank has reported credit growth of 23% YoY. Its loan book as on Q3FY19 stood at Rs. 22,888 cr. Net Advances mix as on Q3FY19 stood flat at 40% (Mortgages), SME+MSME (12%), corporate lending (15%), AIB (19%), commercial vehicle (7%), construction finance (3%), gold loan (2%) and others (2%) sequentially.

**Asset quality**

Gross NPA for the quarter stood at 1.92% vs. 1.84% while Net NPA was at 0.71% vs 0.70% sequentially. Fresh slippages during the quarter were Rs 114 cr vs. Rs. 97 crs sequentially and Rs 103 cr YoY largely due to its AIB and mortgage portfolio. Recoveries stood marginally lower during the quarter at Rs. 28 cr vs Rs 33 cr QoQ. PCR of the bank remained strong at 77%. Return on assets improved on QoQ basis at 1.03% vs 0.92%.

**Expansion**

Bank has added 3 new branches taking the total to 331 and closed down 36 ATM's taking the total to 505. Cost to income ratio for the bank improved to 55.22% from 58.88% QoQ and 62.34% YoY due to some rationalisation of its ATMs (guidance is for below 55%).

**Valuation:**

Bank is well capitalised having CAR ratio at 15.45%. Management guided for doubling its loan book in next 3-4 years. High CV loan growth, better yield on credit and stable asset quality are some key positives for the stock. At CMP of Rs 181, the stock is trading at 13.2x P/E and 1.7x P/ABV to its FY20E of Rs 13.7 EPS and Rs 109 ABV respectively. We have valued the stock at 1.9x to its FY20E ABV and arrived at a fair value of Rs 208 per share giving potential upside of 15%. We have an "ACCUMULATE" rating on the stock.

**ConCall Highlights:**

1. Bank is gradually winding down commodity funding business. During the quarter bank has reported fraud amounting to Rs 12.44 crore under Agri Portfolio in respect to commodity funding account. As of now, the bank has only Rs. 30-40 cr outstanding in the commodity funding business.
2. Management has guided for doubling the loan book in next 3-4 years. The bank further emphasized that it would aim to pursue profitable growth.
3. The bank would keep corporate loan book share at 15% of the total going forward.
4. Employee's total headcount stands at 5,934. The bank would be opening 15-20 branches next year (in FY20).
5. Bank is not facing any challenges in its Micro-finance book.

**Q3FY19 Financial Snapshot:**

Particulars (Rs in Cr)	Q3FY19	Q3FY18	YoY	Q2FY19	QoQ
Interest Earned	777	611	27%	736	6%
Yield on Advances (%)	11.3	11.5		11.1	
Interest Expended	484	360	34%	454	7%
<b>Net Interest Income</b>	<b>294</b>	<b>250</b>	<b>17%</b>	<b>282</b>	<b>4%</b>
Other Income	94	75	26%	73	29%
Other income / Net Income (%)	24	23	6%	21	
<b>Total income</b>	<b>388</b>	<b>325</b>	<b>19%</b>	<b>355</b>	<b>9%</b>
<b>Operating Expenses</b>	<b>214</b>	<b>203</b>	<b>6%</b>	<b>209</b>	<b>2%</b>
Cost-income Ratio (%)	55.2	62.3		58.9	
<b>Pre-Prov Profits</b>	<b>174</b>	<b>123</b>	<b>42%</b>	<b>146</b>	<b>19%</b>
Provisions & Contingencies	40	34	17%	32	26%
<b>PBT</b>	<b>134</b>	<b>88</b>	<b>51%</b>	<b>114</b>	<b>17%</b>
Provisions for Tax	48	31	52%	41	
Effective Tax Rate (%)	36%	35%		36%	
<b>PAT (reported)</b>	<b>86</b>	<b>57</b>	<b>51%</b>	<b>73</b>	<b>17%</b>
EPS Basic	2.8	1.9		2.4	
GNPA	445	354	26%	410	9%
NNPA	163	161	1%	155	5%
GNPA (%)	1.9	1.9		1.8	
NNPA (%)	0.7	0.9		0.7	
Total CAR (%)	15.45%	15.77%		15.57%	
Tier 1 (%)	11.93%	12.54%		12.02%	
Tier 2 (%)	3.52%	3.23%		3.55%	
NIM (%)	3.83%	4.12%		3.83%	
Advances	22,888	18,595	23%	22,069	4%
Deposits	27,509	21,296	29%	26,169	5%

Income Statement			
Year to 31st March (Rs.Cr)	FY18	FY19E	FY20E
Interest Income	2,413	3,004	3,557
Interest Expenses	1,418	1,860	2,169
<b>Net Interest Income</b>	<b>995</b>	<b>1,144</b>	<b>1,388</b>
Other Income	310	372	447
Fee-based Income	251	301	361
Treasury Income	59	65	71
Other non interest income	(0)	(0)	-
<b>Operating Income</b>	<b>1,306</b>	<b>1,516</b>	<b>1,835</b>
Operating Expenses	781	857	1,005
- Staff Cost	381	465	535
- Other Operating Exp.	318	392	470
<b>Gross Profits</b>	<b>525</b>	<b>659</b>	<b>830</b>
Provisions	139	160	180
<b>Profit Before Taxes</b>	<b>386</b>	<b>500</b>	<b>650</b>
Taxes	141	175	227
<b>Profit After Taxes</b>	<b>245</b>	<b>325</b>	<b>422</b>

Ratio Analysis			
	FY18	FY19E	FY20E
<b>Basic Ratio (Rs.)</b>			
EPS	8.3	10.5	13.7
Book Value per share	94.5	101.4	114.2
Adjusted Book Value	86.1	97.1	109.4
Dividend per share	0.5	0.6	0.6
<b>Asset Quality (%)</b>			
Gross NPAs	1.5	1.9	1.8
Net NPAs	0.7	0.6	0.5
PCR	75.7	70.0	72.0
<b>Profitability ratios (%)</b>			
RoAE	9.8	10.9	12.7
RoAA	0.9	1.0	1.1
NIM	4.1	3.9	4.0
Cost to Income	59.8	56.5	54.8

Balance Sheet			
As on 31st March (Rs. cr)	FY18	FY19E	FY20E
<b>LIABILITIES</b>			
Capital	309	309	309
Reserves & Surplus	2,498	2,823	3,218
Deposits	24,007	27,904	33,651
Borrowings	1,927	2,137	2,134
Other liabilities & provisions	1,481	1,629	1,873
<b>Total Liabilities</b>	<b>30,222</b>	<b>34,802</b>	<b>41,185</b>
<b>ASSETS</b>			
Cash on hand & with RBI	1,136	1,202	1,202
Money at call and short notice	1,236	1,359	1,495
Advances	20,337	23,997	29,277
Investments	6,219	6,697	7,367
Fixed assets	494	684	752
Other assets	800	863	949
<b>Total Assets</b>	<b>30,222</b>	<b>34,802</b>	<b>41,185</b>

Spread analysis (%)			
	FY18	FY19E	FY20E
Yield on advances	11.4	11.1	11.2
Yield on investments	7.0	7.2	7.0
Cost of deposits	6.9	6.5	7.0
Avg. Cost of funds	5.5	6.2	6.1
Spread	3.6	3.2	3.3
Interest Income to AWF	9.4	11.7	11.5
Net Interest Income to AWF	3.9	3.7	3.8
Non Interest Income to AWF	1.2	1.4	1.4
Operating Expense to AWF	3.0	2.8	2.8
Operating Profit to AWF	2.0	2.1	2.3
Net Profit to AWF	1.0	1.0	1.2
<b>Valuation ratios (x)</b>			
P/E	22.0	17.2	13.3
P/BV	1.9	1.8	1.6
P/ABV	2.1	1.9	1.7

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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