

Date : 17th July, 2015

Q1 FY16 Quarterly Update

MARKET DATA

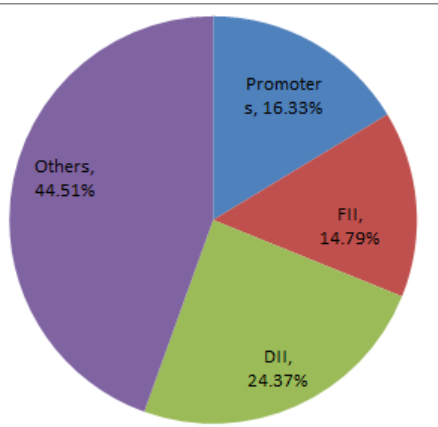
Fig. in ₹ (in Cr.) except Ratios

Network	1,639
Price/Book Value Ratio (FY16E)	2.1
EPS-Unit Curr. (FY16E)	19.6
Market Price (17/07/2015)	133
P/E Ratio (FY16E)	6.8
52 Week High (14/07/2015)	151
52 Week Low (11/08/2014)	76
Market Capitalisation	3,754

AVERAGE MONTHLY VOLUME ('000)

BSE	203.3
NSE	1320

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
DCB BANK	10%	12%	60%
SENSEX	-1%	1%	12%

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Quarterly Performance:

Particulars Rs. Cr	Q1 FY16	Q1 FY15	% YoY	Q4 FY15	%QoQ	FY15	FY14	% YoY
Interest Income	404	352	15%	379	7%	1,422	1,128	26%
Interest Expenses	264	213	24%	249	6%	914	760	20%
Net Interest Income	140	139	1%	130	8%	508	368	38%
Other Income	63	35	83%	46	36%	166	139	19%
Total Income	204	174	17%	176	16%	674	507	33%
Operating Expenses	114	92	23%	108	5%	397	319	24%
PPOP*	90	81	10%	68	32%	277	188	48%
Total Provisions	18	23	-21%	14	26%	69	37	90%
PBT	72	58	23%	54	34%	208	151	37%
Taxes	25	14	81%	(9)	-366%	17	-	
PAT	47	45	5%	63	-25%	191	151	26%

*PPOP - Pre-Provisioning Operating profits

In Q1 FY16, DCB Bank reported 34% QoQ (23% YoY) growth in profit before tax to ₹ 72 cr led by 36% QoQ (83% YoY) growth in non-interest income. Profit on sale of investments post shift of portfolio from HTM to HFT during the quarter resulted in high growth in non-interest income. However, net profit declined by 25% QoQ (up 5% YoY) as the company paid normal tax rate. Net interest income (NII) grew by 8% QoQ (1% YoY) to ₹ 140 cr. However, if adjusted for one off interest income on tax refund in last quarter last year (Q1 FY15), NII grew by 29% YoY led by improvement in margins and higher loan growth.

☒ **Strong loan book growth led by mortgages:** Loan book remain flat QoQ (up 26% YoY) led by 6% QoQ (42% YoY) growth in Mortgage segment and 2% QoQ (36% YoY) growth in Agri and inclusive banking (AIB) segment as against de-growth of Corporate book by 11% QoQ (up 9% YoY). This resulted increase in mortgage as a % of loan book to 45% in Q1 FY16 from 43% QoQ (40% YoY) and AIB % of loan book to 16% from 15% QoQ (14% YoY). Corporate book declined by 11% QoQ as few accounts exited during the quarter. CV book grew by 13% QoQ (54% YoY) to Rs. 300 cr (3% of portfolio). Management guided for 22-25% growth for next 3-5 years and targets to double the balance sheet in next 36-42 months.

☒ **NIMs improved; however guided for pressure going forward :** NIMs improved by 6bps QoQ (11bps) to 3.8% led by increase in yield on advances as well as decline in cost of funds. Yield on advances increased by 10bps QoQ (down 12bps) due to higher of retail and AIB loans. Cost of funds declined by 9bps QoQ (down 2bps YoY) due to reduction in deposit rates. Management guided for pressure on NIMs of 25-30bps going forward due to competitive pressure and targets 3.6% NIMs on sustainable basis.

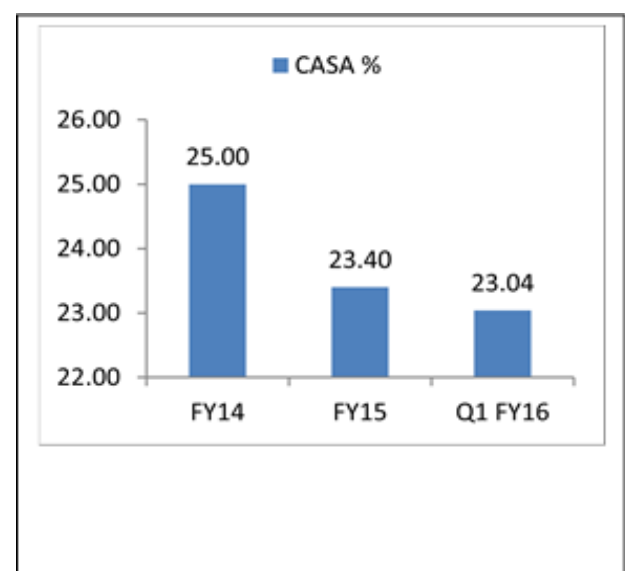
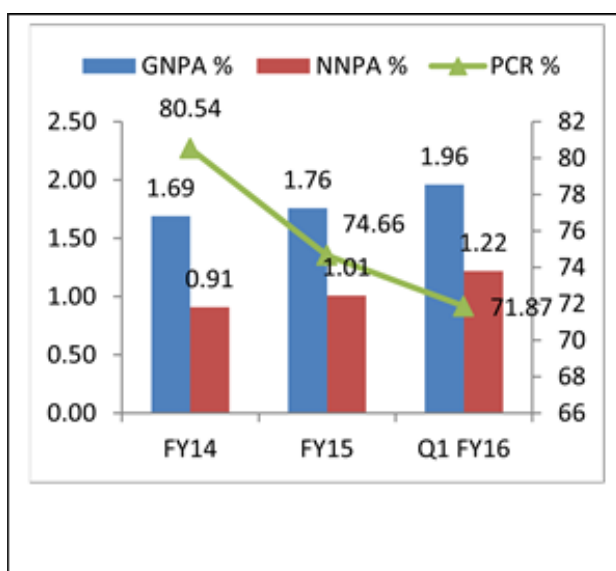
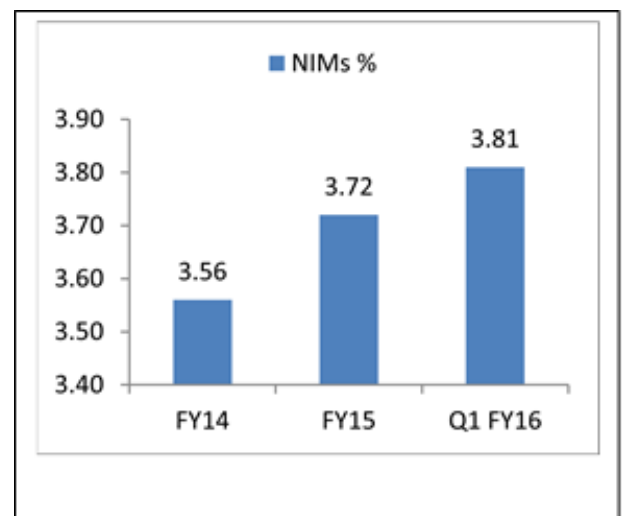
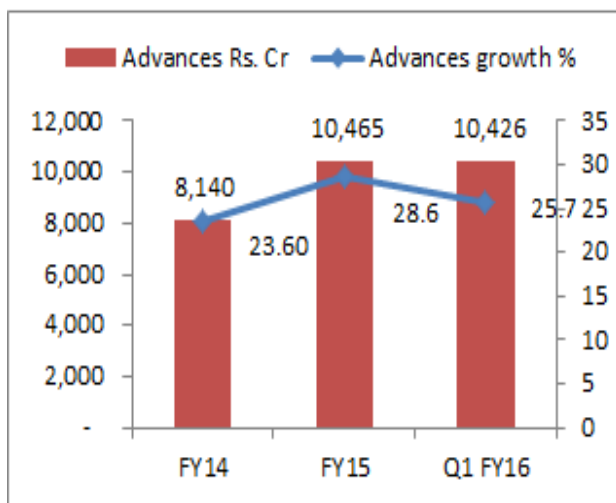
☒ **Asset quality slightly deteriorated:** GNPA % increased by 20bps QoQ (16bps YoY) to 1.96% led by fresh slippages of Rs.57 cr in Q1 FY16. This was on account of corporate account and gold loan account where auction could not be done timely. GNPA in absolute terms increased by 38% YoY (11% QoQ) to Rs.206 cr. With decline in provision coverage ratio by 280bps QoQ (723bps YoY), there was increase in NNPA % by 22bps QoQ (20bps YoY) to 1.2%. Outstanding restructured assets stood at Rs.49 cr (0.5% of Advances). Credit costs remain at manageable level of 0.7% in Q1 Fy16 (0.66% in FY15) and guided for maintaining credit costs at 0.5-0.6% going forward.

☒ **Other Highlights:** Fee income grew by 15% YoY due to lower processing fees. CASA ratio declined to 23% in Q1 FY16 as against 25.4% YoY due to higher term deposits growth. Cost to income ratio declined to 56% from 59% in FY15 with focus on increasing branch productivity and less branch expansion.

Q1 FY16 CONFERENCE CALL HIGHLIGHTS : -

- ◆ 6 new branches added during Q1 FY16, targets 25-30 new branches for FY16
- ◆ Expects corporate loan book growth to be below 10% due to competition pressure
- ◆ Expects mortgage book to grow better than 22% due to a) average ticket size of 40-50 lacs, b) Increase in distribution in tier II,III and IV cities, c) LTV 75% incrementally
- ◆ Drivers for RoA improvement - a) Cost to income ratio to decline with branch productivity, b) Lower credit cost due to 80% secured loan, c) Maintain NIMs and d) Improve fee income
- ◆ Bank targets RoA 1.3% and RoE 14.5% in next 2 years
- ◆ Targeting to double NRI deposits in next 2 years; 10- 12% NRI deposits consists of CASA
- ◆ NPA in Others category - 15-16 cr from Gold loan book, 18-19 cr from AIB

Graphs for important parameters



QUARTERLY PERFORMANCE : -

Amount (₹ in Cr.)

Particulars	Jun-15	Jun-14	% YoY	Mar-15	%QoQ	FY15	FY14	% YoY
Interest Income	404	352	15%	379	7%	1,422	1,128	26%
Interest Expenses	264	213	24%	249	6%	914	760	20%
Net Interest Income	140	139	1%	130	8%	508	368	38%
Other Income	63	35	83%	46	36%	166	139	19%
Fee Income	30	26	15%	34	-11%	119	101	18%
Total Income	204	174	17%	176	16%	674	507	33%
Operating Expenses	114	92	23%	108	5%	397	319	24%
Employee	58	46	24%	53	9%	196	157	25%
Others	56	46	23%	55	2%	201	162	24%
Operating Profits before provisions	90	81	10%	68	32%	277	188	48%
Total Provisions	18	23	-21%	14	26%	69	37	90%
PBT	72	58	23%	54	34%	208	151	37%
Taxes	25	14	81%	(9)	-366%	17	-	-
PAT	47	45	5%	63	-25%	191	151	26%
EPS	1.6	1.8	-7%	2.2	-25%	6.7	6.0	12%
Asset Quality								
GNPA Rs. Cr	206	149	38%	186	11%	186	139	34%
NNPA Rs. Cr	127	81	58%	106	20%	106	74	43%
GNPA %	2.0	1.8	16	1.8	20	1.8	1.7	6
NNPA %	1.2	1.0	22	1.0	22	1.0	0.9	10
PCR % Calculated	38.5	46.0	-759	43.2	-475	43.2	46.6	-337
PCR % Reported	71.9	79.1	-723	74.7	-279	74.7	80.5	-584
Slippages	57	24	138%	85	-33%	173	97	78%
Slippage Ratio %	2.19	1.16	103	3.25	-106	1.65	1.19	46
Credit Cost %	0.69	1.10	-41	0.55	15	0.66	0.45	21
Stressed Assets % of Advances	1.22	1.00	22	1.00	22	1.00	0.90	10
Ratios %								
Fees to Advances	1.15	1.25	-11	1.28	-14	1.14	1.24	-10
Cost to Income ratio	55.94	53.14	280	61.40	-546	58.84	62.93	-409
Tax Rate	34.57	23.46	1111	-17.35	5192	8.08	0.00	808
Loan/Deposit	78.57	78.58	-1	83.00	-443	83.00	78.84	416
CASA %	23.04	25.4	-236	23.4	-36	23.4	25	-160
CAR (Basel III) %	14.27	13.63	64	14.95	-68	14.95	13.71	124
Tier I %	13.56	12.77	79	14.21	-65	14.21	12.86	135
Tier II %	0.71	0.86	-15	0.74	-3	0.74	0.85	-11
Opex to Loan book	4.37	4.45	-8	4.13	24	3.79	3.92	-13
Margins %								
Yield on Advances	12.71	12.83	-12	12.61	10	12.63	12.84	-21
Cost of Deposits	7.77	7.79	-2	7.86	-9	7.78	7.78	0
Quarterly NIMs	3.81	3.7	11	3.75	6	3.72	3.56	16

Amount (₹ in Cr.)

Particulars	Jun-15	Jun-14	% YoY	Mar-15	%QoQ	FY15	FY14	% YoY
Capital	285	253	13%	285	0%	285	253	13%
Net Worth	1,639	1,199	37%	1,589	3%	1,589	1,154	38%
FV	10	10		10		10	10	
Deposits	13,269	10,552	26%	12,609	5%	12,609	10,325	22%
Investments	4,548	3,540	28%	4,471	2%	4,471	3,634	23%
Loans	10,426	8,291	26%	10,465	0%	10,465	8,140	29%
BV-Calculated Rs.	57	47	21%	56	3%	56	46	22%
Adjusted Network*	1,512	1,119	35%	1,483	2%	1,483	1,080	37%
Adj. BV Rs.	53	44	20%	52	2%	52	43	22%

*Adj. Network = Reported Network - NNPA

RoA Tree Analysis:

Particulars	Jun-15	Mar-15	Dec-14	Sep-14	Jun-14	FY15	FY14
Interest Income	11.1%	10.4%	10.6%	10.9%	11.8%	9.79%	9.32%
Interest Expenses	7.2%	6.9%	7.0%	7.1%	7.1%	6.29%	6.28%
Net Interest Income	3.8%	3.6%	3.6%	3.8%	4.7%	3.50%	3.04%
Other Income	1.7%	1.3%	1.4%	1.2%	1.2%	1.14%	1.15%
Fee Income	0.8%	0.9%	0.9%	1.0%	0.9%	0.82%	0.84%
Total Income	5.6%	4.8%	5.1%	5.0%	5.8%	4.64%	4.19%
Operating Expenses	3.1%	3.0%	3.0%	3.1%	3.1%	2.73%	2.64%
Employee	1.6%	1.5%	1.5%	1.5%	1.6%	1.35%	1.30%
Others	1.5%	1.5%	1.6%	1.5%	1.5%	1.38%	1.34%
Operating Profits before provisions	2.5%	1.9%	2.0%	2.0%	2.7%	1.91%	1.55%
Total Provisions	0.5%	0.4%	0.5%	0.4%	0.8%	0.48%	0.30%
PBT	2.0%	1.5%	1.5%	1.5%	2.0%	1.43%	1.25%
Taxes	0.7%	-0.3%	0.2%	0.2%	0.5%	0.12%	0.00%
PAT (RoA)	1.3%	1.7%	1.3%	1.3%	1.5%	1.32%	1.25%
Average Assets/ Average Equity	10.29	10.59	10.16	10.61	10.64	10.59	11.22
RoE	13.2%	18.3%	12.9%	14.2%	15.9%	13.94%	14.04%

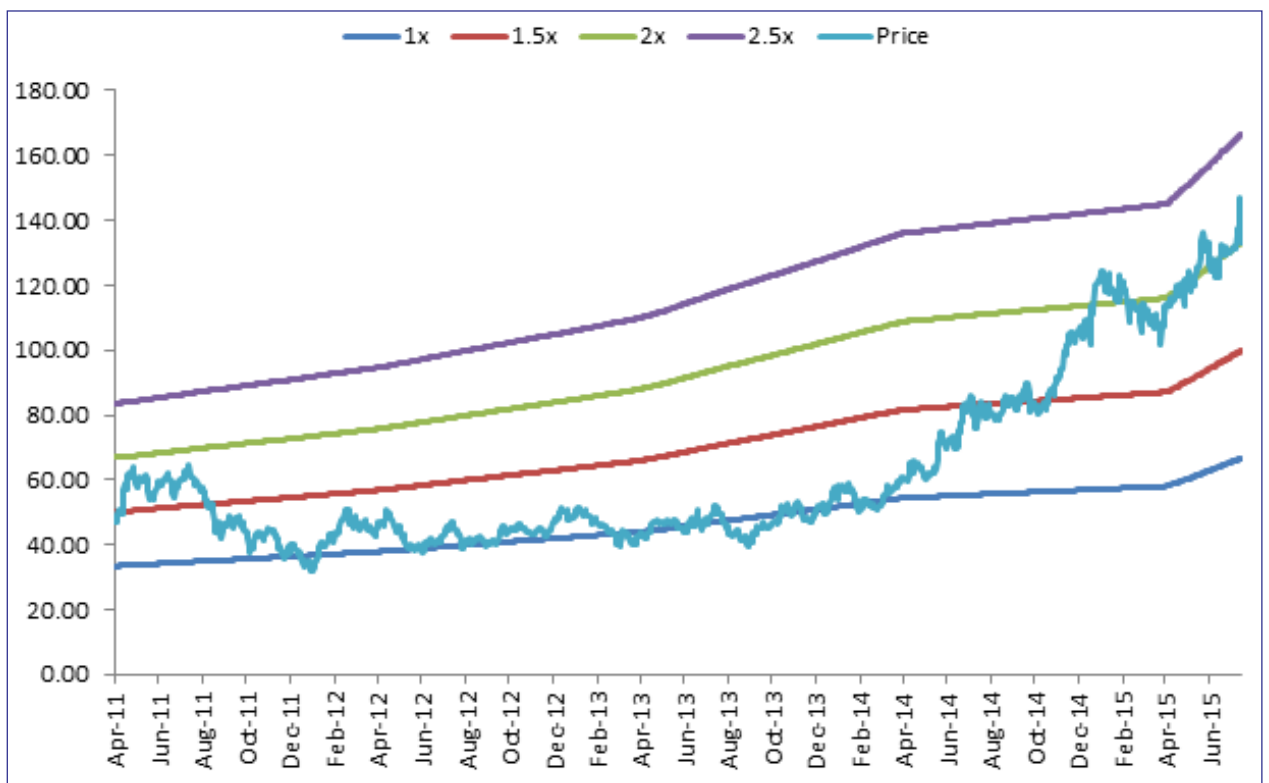
OUTLOOK & VALUATION: -

DCB bank reported better operational performance with a) improvement in NIMs, b) improvement in cost to income ratio and c) higher loan growth. Also, with Tier I ratio of 14% bank could benefit from growth opportunities as economy recovers.

We expect loan book to grow better than industry at 24% CAGR (FY15-17E) with RoA and RoE (post full tax impact) to improve towards 1.2% and 14% by FY17E.

At CMP of ₹ 133 DCB Bank is trading at P/B multiple of 2.1x its FY16E BV of ₹ 63 and 1.9x its FY17E BV of ₹ 69. We recommend a BUY rating with a target of ₹ 159 by March 2016 and an upside potential of 19%. Our valuation is based on FY17E P/B multiple of 2.3, arrived at using justified P/B multiple method.

P/BV (Forward)



PROFIT & LOSS STATEMENT : -

Particulars	FY14	FY15	FY16E	FY17E
Interest Earned	1,128	1,422	1,694	1,980
Interest expended	760	914	1,070	1,242
Net Interest Income	368	508	624	738
Other Income	139	166	196	231
NII+ Other Inc.	507	674	819	969
Employees Cost	157	196	225	252
Other Expenses	162	201	225	252
PPOP*	188	277	369	465
Provisions	37	69	71	80
PBT	151	208	297	385
Provision for Tax	0	17	101	131
PAT	151	191	196	254

*Adj. Network = Reported Network - NNPA

Particulars	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS :				
Capital	250	282	282	282
ESOPs	3	3	3	3
Reserves	901	1,303	1,500	1,671
Deposits	10,325	12,609	15,383	18,767
Borrowings	860	1,164	1,427	1,770
Other Liabilities	584	771	842	923
TOTAL LIABILITIES	12,923	16,132	19,434	23,413
APPLICATION OF FUNDS :				
Cash & Balances				
with RBI	505	634	792	1,060
Balances with Banks	185	86	278	373
Investments	3,634	4,471	4,828	5,215
Advances	8,140	10,465	12,977	16,091
Fixed Assets	239	237	292	352
Other Assets	221	241	270	325
TOTAL ASSETS	12,923	16,132	19,434	23,413

Particulars	FY14	FY15	FY16E	FY17E
Spread Analysis				
Yield on Earning Assets	9.7%	10.2%	9.9%	9.6%
Cost of Funds	6.9%	6.9%	6.6%	6.3%
Net Interest Margin	3.2%	3.6%	3.6%	3.6%
Profitability Ratio				
RoE %	14.1%	14.0%	11.7%	13.6%
RoA %	1.3%	1.3%	1.1%	1.2%
Interest Expense/ Interest Income	67.3%	64.3%	63.2%	62.7%
Non-Interest Income/ Total Income	27.3%	24.6%	23.9%	23.8%
Efficiency Ratio				
Cost/Income	62.9%	58.8%	55.0%	52.0%
Employee Cost/ Operating Exp.	49.2%	49.4%	50.0%	50.0%
Asset Liability Ratio				
Credit/Deposit	78.8%	83.0%	84.4%	85.7%
CASA/Deposit	25.0%	23.4%	25.0%	25.0%
Investment/ Deposits	35.2%	35.5%	31.4%	27.8%
Valuation Ratio				
Book Value Rs.	46.0	56.2	63.2	69.3
EPS, Rs.	15.1	19.1	19.6	25.4
Dividend, Rs.	0.0	0.0	0.0	2.5
P/BV, x	1.3	2.0	2.1	1.9
P/E, x	4.0	5.8	6.8	5.3

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