



DCB Bank Q1 FY17 Quarterly Update

MARKET DATA

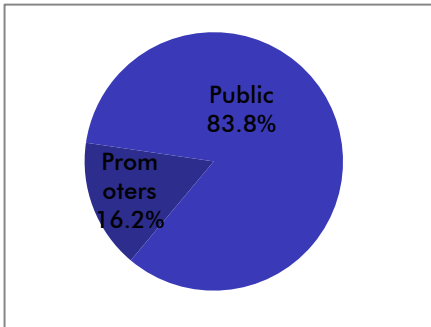
Fig. in ₹ (in Cr.) except Ratios

Net worth (FY17E)	1,982
Price/Book Value Ratio (FY17E)	1.4
EPS-Unit Curr. (FY17E)	6.7
Market Price	100
P/E Ratio (FY17E)	15
52 Week High (29/09/2015)	145
52 Week Low (21/1/2016)	69
Market Capitalisation	2,840

AVERAGE MONTHLY VOLUME ('000)

BSE	313
NSE	1,916

SHARE HOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	13	37	-25
BSE	7	15	-3

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In Q1 FY17, DCB Bank reported PAT de-growth of 32% q-o-q (0% y-o-y) at Rs. 47crs which was largely attributable to tax rate increasing to normal tax rate, higher opex and lower other income. Net interest income (NII) grew by 5% q-o-q (26% y-o-y) to Rs. 177crs.

Strong loan book growth led by AIB & Mortgages

Loan book grew by 3% q-o-q (28% y-o-y) to Rs 133.4bn led by growth of 3% q-o-q (38% y-o-y) in Agri & Inclusive Banking (AIB) segment and 6% q-o-q (25% y-o-y) in mortgages segment. Loan book mix remained largely same with Mortgages 44%, AIB Segment 17%, Corporate Banking 15%, SME+MSME 11% & CV 4%.

NII growth offset by higher opex and lowers other income

DCB reported a PAT of Rs. 47crs as strong NII growth of 5% q-o-q (26% y-o-y) was offset by higher opex (8% q-o-q & 26% y-o-y) and lower other income (2% q-o-q & 5% y-o-y). Cost to income (C/I) ratio increased from 60.90% from 57.85% in Q4 FY16 largely due to DCB's target of 150 branches expansion by October 2017. We expect C/I ratio to be 59.3% & 58.3% in FY17E & FY18E. CASA% broadly remained stable at 23% and retail deposits as a % of total deposits stood at ~80% for Q1 FY17.

Asset Quality intact

Slippages increased by 15% q-o-q (1% y-o-y) to Rs. 58crs while GNPA% increased by 21bps q-o-q (down 24bps y-o-y) to 1.72% due to lower recoveries and negligible write offs. NNPA increased by 12bps q-o-q (down 35bps y-o-y) to 0.87%. Segmental GNPA was driven by mortgages and AIB segments with no slippages in the corporate segment. Provision stood at Rs. 21crs (up 14% y-o-y) with loan/loss provision at ~Rs. 17crs and floating provisions at ~Rs. 3crs.

Outlook & Valuation

We expect strong loan book growth (~24% CAGR for next 3 years) and stable asset quality going ahead. Management is gearing up through aggressive branch expansion (150 branches in 2 years) considering increasing competition. Return ratios are expected to remain under pressure in the near term at 0.9% and 10.6% ROA & ROE for FY18E respectively.

At CMP of Rs.100, DCB Bank is trading at P/B multiple of 1.4x its FY17E BV of Rs. 70 and 1.2x its FY18E BV of Rs. 82. We have valued the stock on our FY20E projections at 1.4x using justified P/BV method. The same has been discounted back to arrive at FY17 end target price of Rs. 104.

Quarterly Performance:

Particulars Rs. Cr	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	471	404	16%	448	5%	1,698	1,422	19%
Interest Expenses	294	264	11%	279	5%	1,079	914	18%
Net Interest Income	177	140	26%	169	5%	620	508	22%
Other Income	60	63	-5%	61	-2%	220	166	33%
Total Income	237	204	17%	230	3%	840	674	25%
Operating Expenses	144	114	27%	133	8%	491	397	24%
Operating Profits before provisions	93	90	3%	97	-4%	349	277	26%
Total Provisions	21	18	14%	27	-25%	88	69	27%
PBT	72	72	1%	70	3%	261	208	26%
Taxes	25	25	2%	0	NA	67	16.8	296%
PAT	47	47	0%	70	-32%	195	191	2%

**Q1FY17 CONFERENCE CALL HIGHLIGHTS: -****• Guidance**

Loan book - Management expects to double the loan book by 3-3.5 years (~23-25% CAGR for next 3 years). In Q1 FY17, loan book growth was 28% y-o-y.

Cost to Income Ratio - Guidance remains the same as per October 2015 con-call by the Management. Management expects maximum 3-5% increase in the C/I ratio due to adding up of 150 branches by October 2017.

ROA - By the fourth quarter of 2019, Management has guided an ROA of more than 100 bps and ROE of 14%.

Fee income trajectory – Management guided 15-17% growth in fee income going ahead after removing treasury gain (which is volatile and cannot be predicted).

- Loan book for DCB Bank is very granular. The focus is to do as many loans as possible below Rs. 3crs. Loans above 3crs are ~10% of the overall book.
- 44% of the overall book is Mortgages. Out of that, 70-75% is LAP and the balance is home loan. Majority of the home loan is given to self-employed people where yields are higher than to the salaried class. Average ticket size is ~Rs. 30-35crs which used to be Rs. 60 lacs 3 years ago.
- Once a new branch reaches 1000-1500 customers, it starts generating good fee income. It takes ~18-20 months for a branch to break-even and the capex for a setting up a new branch is ~50-60 lacs. Out of the total 205 branches, ~40% are for AIB.

• Asset Quality

Slippages – For Q1 FY17, slippages are Rs. 58 crs mainly coming mortgages and Agriculture inclusive banking (AIB). There are ~300 accounts contributing to Rs. 58crs. 2 of the large accounts are worth Rs. 2.35crs & Rs. 1.5crs. Rest all are below Rs. 1crs.

Overall loan book of ~Rs. 13,339crs is fully secured loan book except for loan through MFIs which is done to meet the PSL targets.

Provisions break up (Rs. 20.5crs) – Loan/loss provision - ~Rs. 16-17crs & floating standard assets provision - ~3-4crs.

- DCB Bank is the first bank to launch India's first aadhar number and fingerprint biometric ATM. As of now, DCB Bank has 11 ATMS for biometrics out of the total 442. If you are a DCB Bank customer and has registered the aadhar no. with the bank, this technology enables you to use ur aadhar no at the ATM and your finger print as password and use all the facilities of an ATM. The cost of 1 debit card for the bank is Rs. 100.
- DCB Bank has stopped giving personal loans. They are given to the existing customers only where the bank has a track record of the customer and it will always be below 5% of the overall portfolio. Currently, personal loans are ~2% of the overall portfolio.
- DCB Bank pursues a policy of all products in all branches (especially in a new branch). SA growth y-o-y is ~21% and Retail deposits comprises of ~80% of the overall deposits. The focus is on improving the CASA ratio. Term deposits are largely from the bigger cities.



QUARTERLY PERFORMANCE:

Particulars Rs. Cr	Jun-16	Jun-15	y-o-y	Mar-16	q-o-q	FY16	FY15	y-o-y
Interest Income	471	404	16%	448	5%	1,698	1,422	19%
Interest Expenses	294	264	11%	279	5%	1,079	914	18%
Net Interest Income	177	140	26%	169	5%	620	508	22%
Other Income	60	63	-5%	61	-2%	220	166	33%
Fee Income *	38	30	27%	40	-4%	141	119	18%
Total Income	237	204	17%	230	3%	840	674	25%
Operating Expenses	144	114	27%	133	8%	491	397	24%
Employee	73	58	26%	66	11%	245	196	25%
Others	72	56	28%	67	6%	246	201	23%
Operating Profits before provisions	93	90	3%	97	-4%	349	277	26%
Total Provisions	21	18	14%	27	-25%	88	69	27%
PBT	72	72	1%	70	3%	261	208	26%
Taxes	25	25	2%	0	NA	67	16.8	296%
PAT	47	47	0%	70	-32%	195	191	2%
EPS	1.6	1.6	0%	2.4	-32%	6.8	6.7	1%
Asset Quality								
GNPA Rs. Cr	231	206	12%	197	17%	197	186	6%
NNPA Rs. Cr	116	127	-9%	97	19%	97	106	-8%
GNPA %	1.72	1.96	-24	1.51	21	1.5	1.8	-25
NNPA %	0.87	1.22	-35	0.75	12	0.8	1.0	-25
PCR % Calculated	50.0	38.5	1151	50.6	-66	50.6	43.2	742
PCR % Reported	71.9	71.9	0	77.6	-568	77.6	74.7	289
Slippages	58	57	1%	50	15%	224	173	30%
Slippage Ratio %	1.73	2.19	-46	1.55	18	1.74	1.65	8
Credit Cost %	0.62	0.69	-8	0.84	-23	0.68	0.66	2
Ratios %								
Fees to Advances	1.14	1.15	-1	1.22	-9	1.09	1.14	-5
Cost to Income ratio	60.90	55.94	496	57.85	305	58.45	58.84	-39
Tax Rate	34.86	34.57	29	0.33	3453	25.51	8.08	1743
Loan/Deposit	85.06	78.57	649	86.57	-151	86.57	83.00	357
CASA %	23.04	23.04	0	23	4	23	23.4	-40
RoA %	0.99	1.16	-17	1.53	-54	1.53	1.37	16
RoE %	10.35	11.61	-126	15.91	-556	11.59	14.16	-257
CAR (Basel III) %	13.15	14.27	-112	14.11	-96	14.11	14.95	-84
Tier I %	11.92	13.56	-164	12.79	-87	12.79	14.21	-142
Tier II %	1.23	0.71	52	1.32	-9	1.32	0.74	58
Opex to Loan book	4.33	4.37	-4	4.12	21	3.80	3.79	1
Margins %								
Yield on Advances	12.19	12.71	-52	12.52	-33	12.52	12.63	-11
Cost of Deposits	7.29	7.77	-48	7.54	-25	7.54	7.78	-24
Quarterly NIMs	3.8	3.81	0	3.94	-13	3.94	3.72	22
BV-Calculated	64	57	12%	63	3%	63	56	13%
Adj. BV	60	53	14%	59	2%	59	52	14%
Balance sheet								
Capital	286	285	0%	286	0%	286	285	0%
Net Worth	1,840	1,639	12%	1,792	3%	1,792	1,589	13%
FV	10	10		10		10	10	
Deposits	15,680	13,269	18%	14,926	5%	14,926	12,609	18%
Investments	4,382	4,548	-4%	4,333	1%	4,333	4,471	-3%
Loans	13,337	10,426	28%	12,921	3%	12,921	10,465	23%

*Source – Dimensional Securities



ROA Tree

Particulars	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	FY16	FY15
Interest Income	10.5%	10.2%	10.6%	11.0%	11.1%	9.6%	9.8%
Interest Expenses	6.5%	6.3%	6.6%	7.0%	7.2%	6.1%	6.3%
Net Interest Income	3.9%	3.8%	4.0%	3.9%	3.8%	3.5%	3.5%
Other Income	1.3%	1.4%	1.2%	1.3%	1.7%	1.3%	1.1%
Fee Income	0.8%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%
Total Income	5.3%	5.2%	5.1%	5.2%	5.6%	4.8%	4.6%
Operating Expenses	3.2%	3.0%	3.0%	3.2%	3.1%	2.8%	2.7%
Employee	1.6%	1.5%	1.5%	1.6%	1.6%	1.4%	1.3%
Others	1.6%	1.5%	1.5%	1.6%	1.5%	1.4%	1.4%
Operating Profits before provisions	2.1%	2.2%	2.1%	2.1%	2.5%	2.0%	1.9%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Provisions	0.5%	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%
PBT	1.6%	1.6%	1.6%	1.5%	2.0%	1.5%	1.4%
Taxes	0.6%	0.0%	0.5%	0.5%	0.7%	0.4%	0.1%
PAT (RoA)	1.0%	1.6%	1.0%	1.0%	1.3%	1.1%	1.3%
Average Assets/ Average Equity	10.32	10.43	10.00	10.44	10.29	10.43	10.59
RoE	10.8%	16.5%	10.2%	10.1%	13.2%	11.5%	13.9%

*Source – Dimensional Securities

OUTLOOK & VALUATION: -

We expect strong loan book growth (~24% CAGR for next 3 years) and stable asset quality going ahead. Management is gearing up through aggressive branch expansion (150 branches in 2 years) considering increasing competition. Return ratios are expected to remain under pressure in the near term at 0.9% and 10.6% ROA & ROE for FY18E respectively.

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**PROFIT & LOSS STATEMENT:**

Particulars, Rs Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	1,128	1,422	1,698	1,985	2,377
Interest expended	760	914	1,079	1,271	1,508
Net Interest Income	368	508	620	714	869
Other Income	139	166	220	254	292
NII+ Other Inc.	507	674	840	968	1,161
Employees Cost	157	196	245	284	334
Op, Admin & Other expenses	162	201	246	289	342
Profit Before Provision & Cont	188	277	349	394	485
Provisions & Contingencies	37	69	88	104	119
PBT	151	208	261	290	365
Provision for Tax	0	17	67	100	126
PAT	151	191	195	190	239

Source: Company, Dimensional Securities

BALANCE SHEET STATEMENT:

Particulars, Rs. Cr	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	250	282	284	284	309
Employee Stock Options	3	3	2	2	2
Total Reserves	901	1,303	1,506	1,696	2,238
Deposits	10,325	12,609	14,926	18,359	22,582
Borrowings	860	1,164	1,148	1,762	2,136
Other Liabilities	584	771	1,252	1,357	1,476
TOTAL LIABILITIES	12,923	16,132	19,119	23,460	28,742
APPLICATION OF FUNDS :					
Cash & Bank Balances	690	719	892	1,473	2,130
Investments	3,634	4,471	4,333	4,853	5,436
Advances	8,140	10,465	12,921	16,023	19,868
Fixed Assets	239	237	248	255	262
Other Assets	221	241	724	855	1,047
TOTAL ASSETS	12,923	16,132	19,119	23,460	28,742

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.7%	10.2%	10.1%	9.9%	9.6%
Cost of Funds	7.6%	7.6%	7.4%	7.2%	6.9%
Interest Spread	2.2%	2.6%	2.7%	2.7%	2.7%
Net Interest Margin	3.2%	3.6%	3.7%	3.5%	3.5%
Profitability Ratio					
RoE, %	14.1%	14.0%	11.5%	10.1%	10.6%
RoA, %	1.3%	1.3%	1.1%	0.9%	0.9%
Interest Expense/Interest Income	67.3%	64.3%	63.5%	64.0%	63.4%
Non-Interest Income/Total Income	27.3%	24.6%	26.2%	26.2%	25.1%
Efficiency Ratio					
Cost/Income	62.9%	58.8%	58.4%	59.3%	58.3%
Employee Cost/Operating Expenses	49.2%	49.4%	51.0%	51.0%	50.0%
Asset Liability Ratio					
Credit/Deposit	78.8%	83.0%	86.6%	87.3%	88.0%
CASA/Deposit	25.0%	23.4%	23.4%	23.1%	22.9%
Investment/Deposits	35.2%	35.5%	29.0%	26.4%	24.1%
Asset Quality					
GNPA (%)	1.69%	1.76%	1.52%	1.75%	1.85%
NNPA (%)	0.91%	1.01%	0.75%	0.86%	0.87%
Valuation Ratio					
Book Value, Rs.	45.98	56.22	62.95	69.62	82.33
EPS, Rs.	6.05	6.78	6.84	6.67	7.72
Dividend, Rs.	0.00	0.00	0.00	0.00	0.25
P/BV, x	1.33	1.90	1.25	1.44	1.21
P/E, x	10	16	12	15	13

Source: Company, Dimensional Securities

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