



DCB Bank Q2 FY16 Quarterly Update

MARKET DATA

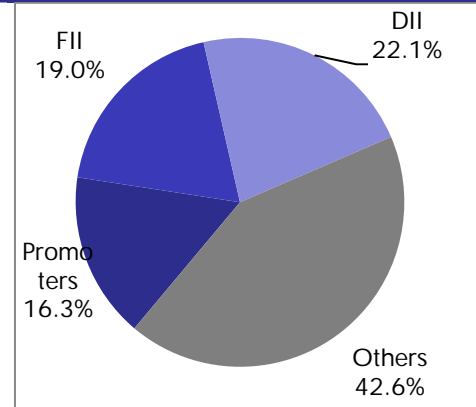
Fig. in ` (in Cr.) except Ratios

Networth	1,678
Price/Book Value Ratio (FY16E)	1.69
EPS-Unit Curr. (FY16E)	6.5
Market Price (30/10/2015)	86.60
P/E Ratio (FY16E)	16.37
52 Week High (13/07/2015)	150.9
52 Week Low (29/10/2015)	86.2
Market Capitalisation	2,455

AVERAGE MONTHLY VOLUME ('000)

BSE	109.8
NSE	726.7

SHARE HOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	-41.6	-17.8	43.5
BSE	-2.6	-1.4	-1.0

Vishal Rampuria
(Director, Research)

vishal.rampuria@dimensional.in

+91-22-66545256

Quarterly Performance:

Particulars Rs. Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Interest Income	416	335	24%	404	3%	1,422	1,128	26%
Interest Expenses	266	217	23%	264	1%	914	760	20%
Net Interest Income	150	118	27%	140	7%	508	368	38%
Other Income	49	37	32%	63	-23%	166	139	19%
Total Income	199	155	28%	204	-2%	674	507	33%
Operating Expenses	121	95	27%	114	6%	397	319	24%
Operating profit before provisions	78	60	30%	90	-13%	277	188	48%
Total Provisions	22	14	58%	18	20%	69	37	90%
PBT	56	46	22%	72	-21%	208	151	37%
Taxes	20	5	290%	25	-21%	17	-	-
PAT	37	41	-10%	47	-21%	191	151	26%

Aggressive expansion to negatively impact profitability

DCB Bank has announced that it plans to double its branch network to 300+ (almost doubling from the current level) by Dec'17 to combat competition from the recently announced small bank licensee. This frontloading of expansion instead of over 5- 6 years coupled with heavy investment in technology to negatively impact profitability over the next 2-3 years. Management has guided for 24-30 months to breakeven new branches and payback of 44-50 months; however, such targets have high execution risk.

For Q2FY16, DCB Bank reported de-growth of 21% QoQ (up 22% YoY) in profit before tax which stood at ` 56 cr. However, net profit declined by 21% QoQ (10% YoY) due to fall in other income, higher provisioning and normalisation of tax rate to 35%. Net interest income (NII) grew by 7% QoQ (27% YoY) to ` 150 cr.

Strong loan book growth led by mortgages and CV

Loan book grew by 7% QoQ (up 27% YoY) led by 6% QoQ (36% YoY) growth in Mortgage segment, 14% QoQ (59% YoY) growth in CV segment and 8% QoQ (flat YoY) growth in SME/MSME. Sequentially, Mortgage Segment continues to maintain its share at 45% however, Corporate Banking and Agri and Inclusive Banking (AIB) lost 1% each and its share stood at 20% and 15% respectively.

Steady NIM; Expected to come down due to competition

NIMs declined by 2bps QoQ (up 7bps YoY) to 3.79% due to fall in the yield on advances more than that of cost of funds. Yield on advances decreased by 21bps QoQ (9bps YoY). Cost of funds declined by 16bps QoQ (13bps YoY) due to reduction in deposit rates. CASA has improved by 106bps QoQ (down 136bps YoY) and supported fall in the cost of funds on sequential basis. NIMs are expected to be at ~3.5% in next 24 months due to rise in competition and change in base rate calculation methodology which has been recently proposed by RBI.

Deterioration in Asset Quality:

Slippages rose by 9% QoQ (48%YoY) to `62 cr due to subdued economic environment and delay in liquidation of security as a result of legal issues. GNPA jumped by 3bps QoQ (9bps YoY) to 1.99% mainly due to cash flow challenges faced by the customers, legal processes and partly due to seasoning of Mortgages, SME/MSME and AIB. GNPA in absolute terms increased by 9% QoQ (33% YoY) to `224 cr. with flat provision coverage ratio QoQ (down 460bps YoY). NNPA fell by 6bps QoQ (up 6bps YoY) to 1.16%. Credit costs stood at 0.78% increasing by 9bps QoQ (16 bps YoY). The restructured portfolio stood at `~47 cr in Q2FY16.

Outlook & Valuation

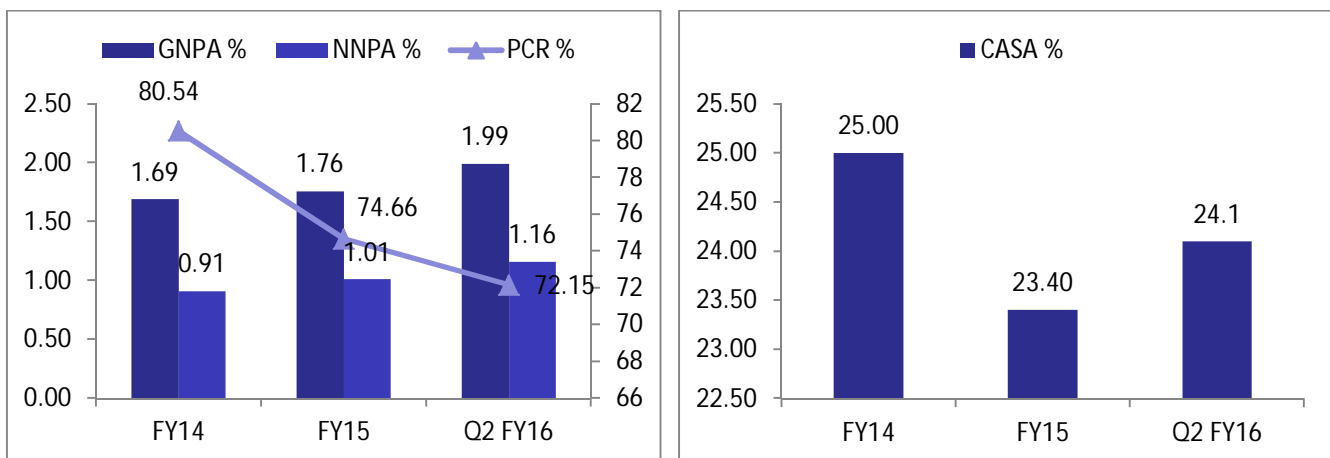
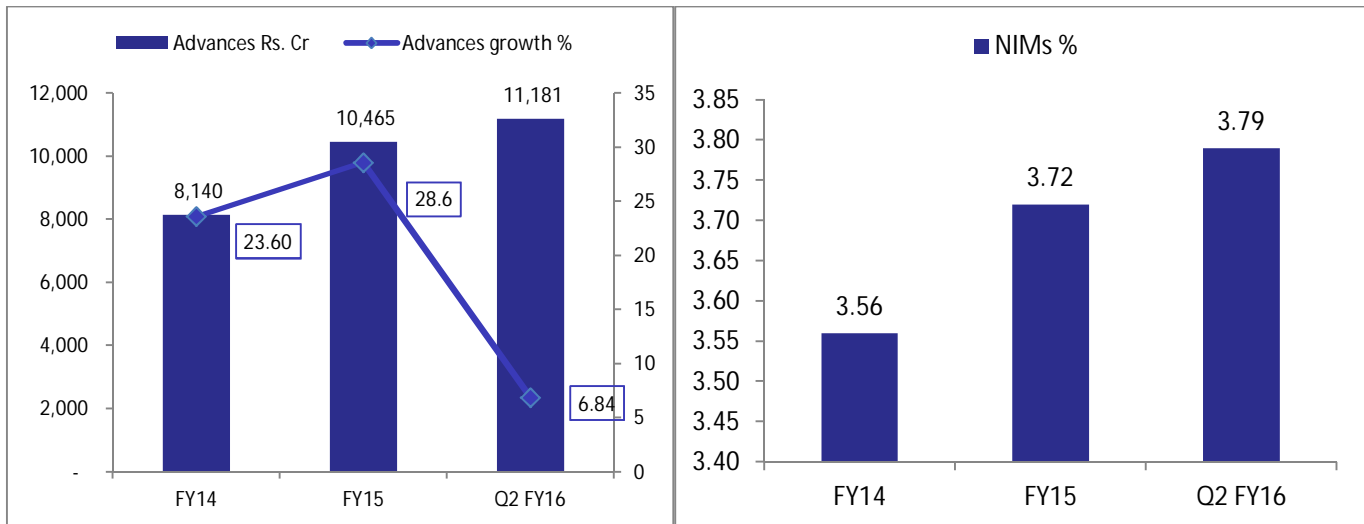
Given the sharp fall in prices, we continue to maintain **Buy** rating with a target of `100 (Implied FY17 P/B of 1.5x). The stock is expected to remain under pressure in the short term, although the aggressive expansion strategy will benefit the bank in the long term, execution remains the key. We have valued the stock on our FY20 projections at 0.9x using justified P/B multiple method. The same has been discounted back to arrive at FY16 end target price.



Q2FY16 CONFERENCE CALL HIGHLIGHTS: -

- 150 new branches to be added by December 2017 in Tier 2 to Tier 6 unbanked locations, likely to break even in 24-30 months and payback in 44-50 months. To add 10-15 branches per year post December 2016. Branch cost is in the range of ₹ 40 to ₹ 80 lakhs depending on the location.
- To heavily invest in customer facing and frontline enabling technologies to tackle emerging competition like providing tablet phone to RMs to quicken loan sanction process.
- To concentrate on retail segment with small ticket size.
- RoA and RoE to be in the range of 50-60bps and below 10% respectively.
- Headcount to be in the range of 5400-5800 in 12-14 months from ~ 3600 currently.
- To raise capital in Q4FY17 on successful implementation of expansion plan.

Graphs for important parameters





QUARTERLY PERFORMANCE:

Particulars	Sep-15	Sep-14	% YoY	Jun-15	%QoQ	FY15	FY14	% YoY
Interest Income	416	335	24%	404	3%	1,422	1,128	26%
Interest Expenses	266	217	23%	264	1%	914	760	20%
Net Interest Income	150	118	27%	140	7%	508	368	38%
Other Income	49	37	32%	63	-23%	166	139	19%
Fee Income	35	31	14%	30	17%	119	101	18%
Total Income	199	155	28%	204	-2%	674	507	33%
Operating Expenses	121	95	27%	114	6%	397	319	24%
Employee	60	47	26%	58	4%	196	157	25%
Others	61	47	28%	56	8%	201	162	24%
Operating Profits before provisions	78	60	30%	90	-13%	277	188	48%
Total Provisions	22	14	58%	18	20%	69	37	90%
PBT	56	46	22%	72	-21%	208	151	37%
Taxes	20	5	290%	25	-21%	17	-	-
PAT	37	41	-10%	47	-21%	191	151	26%
EPS	1.3	1.6	-20%	1.6	-21%	6.7	6.0	12%
Asset Quality								
GNPA ` Cr	224	169	33%	206	9%	186	139	34%
NNPA ` Cr	130	94	38%	127	2%	106	74	43%
GNPA %	1.99	1.90	9	1.96	3	1.8	1.7	6
NNPA %	1.16	1.10	6	1.22	-6	1.0	0.9	10
PCR % Calculated	42.0	44.1	-218	38.5	350	43.2	46.6	-337
PCR % Reported	72.2	76.8	-465	71.9	28	74.7	80.5	-584
Slippages	62	42	48%	57	9%	173	97	78%
Slippage Ratio %	2.22	1.90	32	2.19	3	1.65	1.19	46
Credit Cost %	0.78	0.62	15	0.69	8	0.66	0.45	21
Stressed Assets % of Advances	1.16	1.10	6	1.22	-6	1.00	0.90	10
Ratios %								
Fees to Advances	1.26	1.41	-15	1.15	11	1.14	1.24	-10
Cost to Income ratio	60.69	61.28	-59	55.94	475	58.84	62.93	-409
Tax Rate	34.56	10.82	2373	34.57	-1	8.08	0.00	808
Loan/Deposit	82.47	80.67	180	78.57	390	83.00	78.84	416
CASA %	24.1	25.5	-140	23.04	106	23.4	25	-160
CAR (Basel III) %	13.63	13.04	59	14.27	-64	14.95	13.71	124
Tier I %	12.93	12.16	77	13.56	-63	14.21	12.86	135
Tier II %	0.7	0.88	-18	0.71	-1	0.74	0.85	-11
Opex to Loan book	4.31	4.31	0	4.37	-5	3.79	3.92	-13
Margins %								
Yield on Advances	12.5	12.5	-9	12.71	-21	12.63	12.84	-21
Cost of Deposits	7.6	7.7	-13	7.77	-17	7.78	7.78	0
Quarterly NIMs	3.79	3.7	9	3.81	-2	3.72	3.56	16
Capital	286	254	13%	285	0%	285	253	13%
Net Worth	1,678	1,235	36%	1,639	2%	1,589	1,154	38%
FV	10	10		10		10	10	
Deposits	13,557	10,900	24%	13,269	2%	12,609	10,325	22%
Investments	4,065	3,340	22%	4,548	-11%	4,471	3,634	23%
Loans	11,181	8,793	27%	10,426	7%	10,465	8,140	29%
BV-Calculated	59	49	21%	57	2%	56	46	22%
Adjusted Networth	1,548	1,141	36%	1,512	2%	1,483	1,080	37%
Adj. BV	54	45	21%	53	2%	52	43	22%



Particulars	Sep-15	Jun-15	Mar-15	Dec-14	Sep-14	FY15	FY14
Interest Income	11.0%	11.10%	10.40%	10.60%	10.90%	9.79%	9.32%
Interest Expenses	7.0%	7.20%	6.90%	7.00%	7.10%	6.29%	6.28%
Net Interest Income	3.9%	3.80%	3.60%	3.60%	3.80%	3.50%	3.04%
Other Income	1.3%	1.70%	1.30%	1.40%	1.20%	1.14%	1.15%
Fee Income	0.9%	0.80%	0.90%	0.90%	1.00%	0.82%	0.84%
Total Income	5.2%	5.60%	4.80%	5.10%	5.00%	4.64%	4.19%
Operating Expenses	3.2%	3.10%	3.00%	3.00%	3.10%	2.73%	2.64%
Employee	1.6%	1.60%	1.50%	1.50%	1.50%	1.35%	1.30%
Others	1.6%	1.50%	1.50%	1.60%	1.50%	1.38%	1.34%
Operating Profits before provisions	2.1%	2.50%	1.90%	2.00%	2.00%	1.91%	1.55%
Total Provisions	0.0%	0.50%	0.40%	0.50%	0.40%	0.48%	0.30%
PBT	0.6%	2.00%	1.50%	1.50%	1.50%	1.43%	1.25%
Taxes	1.5%	0.70%	-0.30%	0.20%	0.20%	0.12%	0.00%
PAT (RoA)	0.5%	1.30%	1.70%	1.30%	1.30%	1.32%	1.25%
Average Assets/Average Equity	1.0%	10.29	10.59	10.16	10.61	10.59	11.22
RoE	10.44	13.20%	18.30%	12.90%	14.20%	13.94%	14.04%

**OUTLOOK & VALUATION: -**

We expect profitability to remain under pressure in the short term due to aggressive expansion plans announced by the company in Q2FY16.

At CMP of ₹87 DCB Bank is trading at P/B multiple of 1.5x its FY17E BV of 70. Given the sharp fall in prices we maintain our BUY recommendation with a target of 100 and an upside potential of 15.47%. Our valuation is based on FY20E P/B multiple of 0.9x, arrived at using justified P/B multiple method.

REVISED ESTIMATES: -

Due to aggressive expansion plans, we expect profitability to remain under pressure for next 24 months while we expect NIMs to remain stable at 3.6%; RoE will continue to remain under pressure. We have lowered our profitability expectations due to frontloading of expansion to combat competition. Our change in earning forecast is depicted below.

	FY16			FY17		
	Revised	Old	Change	Revised	Old	Change
NIM	3.6%	3.6%	-0.0%	3.6%	3.4%	5.9%
ROE	10.9%	11.7%	-6.8%	10.5%	13.6%	-22.8%
BV	63	63	-0.5%	70	69	-0.9%
PAT	183	196	-6.6%	196	254	-22.8%

PROFIT & LOSS STATEMENT:

Particulars	FY14	FY15	FY16E	FY17E
Interest Income	1,128	1,422	1,696	2,014
Interest Expense	760	914	1,071	1,269
Net Interest Income	368	508	625	745
Non- Interest Income	139	166	182	205
Total Income	507	674	807	950
Employee Cost	157	196	214	236
Other Operating Expenses	162	201	217	295
Total Operating Expenses	319	397	431	531
Operating Profit	188	277	376	419
Provisions	37	69	97	120
Pre-tax Income	151	208	279	299
Taxes	0	17	97	104
Net Income	151	191	183	196

Key Ratios	FY14	FY15	FY16E	FY17E
Spread	2.8%	3.2%	3.2%	3.2%
NIM	3.2%	3.6%	3.6%	3.6%
Op Profit Margin	37.1%	41.2%	46.6%	44.1%
RoE	14.1%	14.0%	10.9%	10.5%
RoA	1.2%	1.3%	1.0%	0.9%
NNPA	0.9%	1.0%	0.8%	0.8%

**ANALYST CERTIFICATION**

I (Vishal Rampuria), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Vishal Rampuria), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Vishal Rampuria), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.