



DCB Bank Q2 FY16 Quarterly Update

MARKET DATA

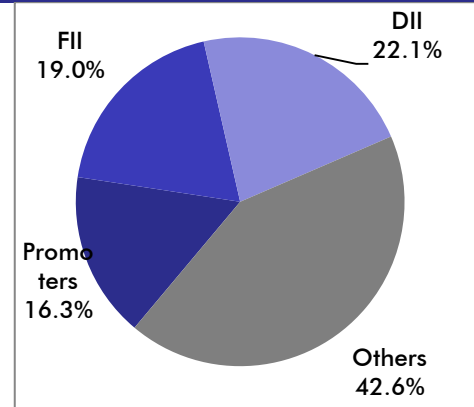
Fig. in ₹ (in Cr.) except Ratios

Networth	1,678
Price/Book Value Ratio (FY16E)	1.74
EPS-Unit Curr. (FY16E)	4.8
Market Price (14/10/2015)	106.55
P/E Ratio (FY16E)	22.19
52 Week High (14/07/2015)	150
52 Week Low (16/10/2014)	81
Market Capitalisation	3,027

AVERAGE MONTHLY VOLUME ('000)

BSE	198.5
NSE	1260.7

SHARE HOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	24.5	-7.3	27.4
BSE	-4.1	-7.8	1.6

Vishal Rampuria
(Director, Research)

vishal.rampuria@dimensional.in

+91-22-66545256

Shrikant Deshpande
(Research Analyst)

shrikant.deshpande@dimensional.in

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'16 to combat competition from the recently announced small bank licensee. This frontloading of Capex by 6x 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 tax rate at 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.

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 Rs.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). A corporate account contributed 9 cr. to incremental GNPA. The restructured portfolio stood at ~47 cr in Q2FY16.

Valuation

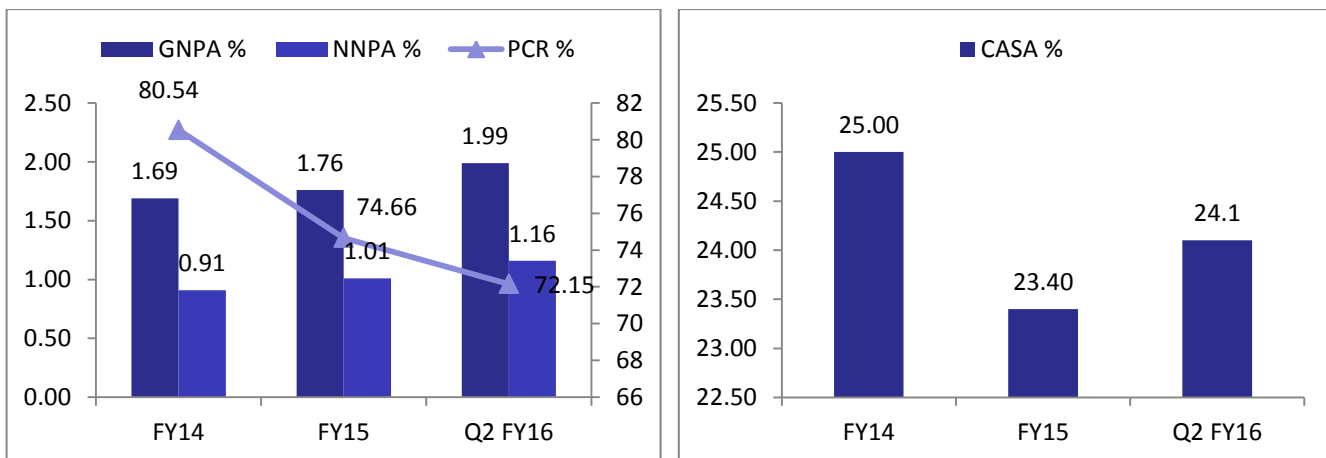
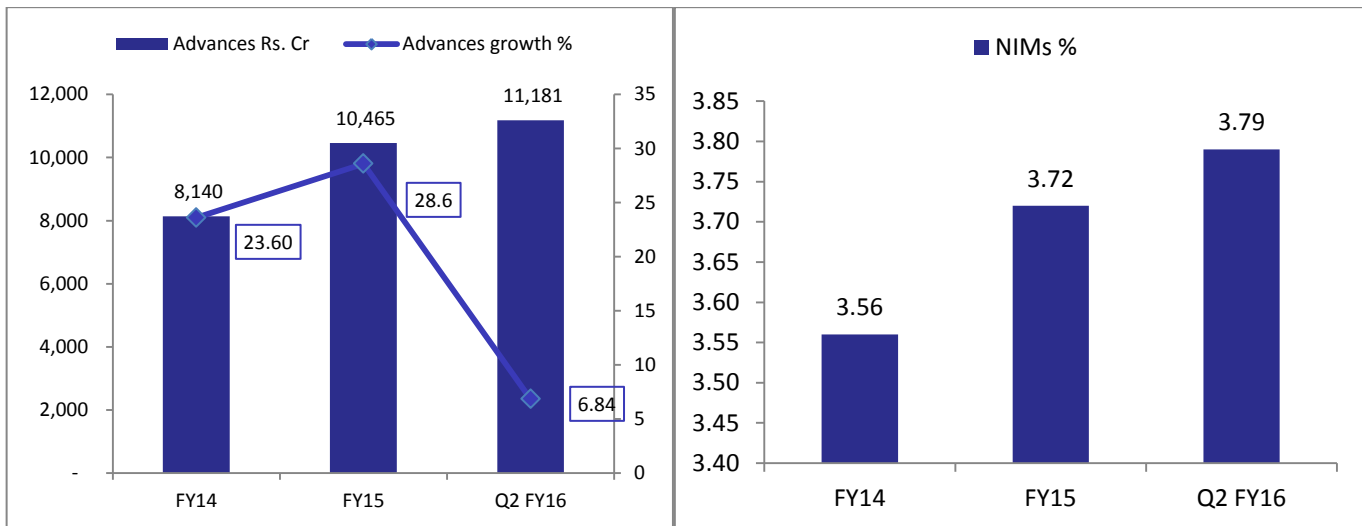
We recommend a **hold** rating with a target of ₹104 (FY17 P/B of 1.6). The stock is expected to underperform given the profitability pressure and execution related risk. We have valued the stock on FY20 projections at 2x using justified P/B multiple method. The same has been discounted back to arrive at FY16 end target price



Q1 FY16 CONFERENCE CALL HIGHLIGHTS: -

- 150 new branches to be added by December 2016 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.
- 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 Rs. Cr	224	169	33%	206	9%	186	139	34%
NNPA Rs. 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	0.0%	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: -**

DCB bank reported below par operational performance due to a) lower other income b) higher provisioning and c) standard tax rate. Tier I ratio declined by 63bps to 12.9% in Q2FY16. We expect profitability to remain under pressure due to aggressive expansion plans announced by the company in Q2FY16.

At CMP of 106.55 DCB Bank is trading at P/B multiple of 1.6x its FY17E BV of 66. We recommend a HOLD rating with a target of 104 and a downside potential of 2.4%. Our valuation is based on FY20E P/B multiple of 2, 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 and we have downgraded DCB Bank's NIM forecast. We also lower our profitability expectations due to frontloading of Opex and rise in competition. Our change in earning forecast is depicted below.

	FY16			FY17		
	Revised	Old	Change	Revised	Old	Change
NIM	3.5%	3.6%	-2.8%	3.5%	3.4%	2.8%
ROE	8.2%	11.7%	-29.9%	7.8%	13.6%	-42.6%
BV	61	63	-3.2%	66	69	-4.3%

PROFIT & LOSS STATEMENT:

Particulars	FY14	FY15	FY16E	FY17E
Interest Income	1,128	1,422	1,694	1,979
Interest Expense	760	914	1,071	1,264
Net Interest Income	368	508	623	715
Non- Interest Income	139	166	196	230
Total Income	507	674	818	945
Employee Cost	157	196	258	307
Other Operating Expenses	162	201	258	307
Total Operating Expenses	319	397	516	614
Operating Profit	188	277	303	331
Provisions	37	69	97	120
Pre-tax Income	151	208	205	211
Taxes	0	17	70	72
Net Income	151	191	136	139

Key Ratios	FY14	FY15	FY16E	FY17E
Spread	2.8%	3.2%	3.2%	3.1%
NIM	3.2%	3.6%	3.6%	3.4%
Op Profit Margin	37.1%	41.2%	37.0%	35.0%
RoE	14.1%	14.0%	8.2%	7.8%
RoA	1.2%	1.3%	1.1%	0.9%
NNPA	0.9%	1.0%	0.8%	0.8%

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