



DCB Bank Q3 FY16 Quarterly Update

MARKET DATA

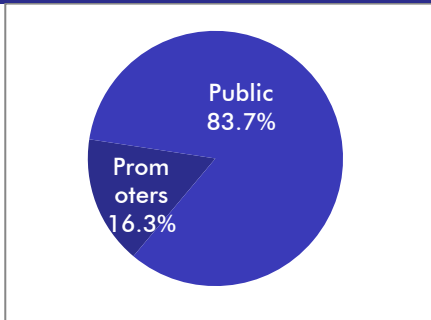
Fig. in ₹ (in Cr.) except Ratios

Networth (FY16E)	1,752
Price/Book Value Ratio (FY16E)	1.2
EPS-Unit Curr. (FY16E)	5.8
Market Price	74
P/E Ratio (FY16E)	12.6
52 Week High (14/07/2015)	150.9
52 Week Low (19/1/2016)	73
Market Capitalisation	2,074

AVERAGE MONTHLY VOLUME ('000)

BSE	325.8
NSE	1319.9

SHARE HOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	-24	-45	-39
BSE	-11	-14	-13

Vishal Rampuria
(Director, Research)

vishal.rampuria@dimensional.in
+91-22-66545256

Siddhesh Mhatre (Research Analyst)

siddhesh.mhatre@dimensional.in
+91-22-66545284

For Q3 FY16, DCB Bank reported growth of 12% q-o-q (27% y-o-y) in profit before tax which stood at Rs. 63 crs. Net profit increased by 12% q-o-q (down 3% y-o-y) due to marginal fall in other income, higher provisioning and normalisation of tax rate to 35%. Net interest income (NII) grew by 7% q-o-q (32% y-o-y) to Rs. 160crs. DCB Bank has spread out its branch expansion plan (doubling the network) over the next two years instead of one year (as hinted earlier). The aggressive expansion will have a negative impact on earnings & return ratio in the near term.

Strong loan book growth led by AIB & Mortgages

Loan book grew by 5% q-o-q (up 24% y-o-y) led by 22% q-o-q (57% y-o-y) growth in Agri & Inclusive Banking (AIB) segment, 6% q-o-q (31% y-o-y) growth in mortgages segment. Sequentially, Mortgage Segment continues to maintain its share at 45% however, Corporate banking lost 3% while AIB gained 2% and their share stood at 17% each respectively.

Improvement in NIM; Expected to come down due to competition

NIMs improved by 17bps q-o-q (26bps y-o-y) to 3.96% due to a higher CD ratio (83.33% for Q3FY16 vs. 82.47% for Q2FY16) and fall in cost of funds. Cost of funds declined by 16bps q-o-q (31bps y-o-y) due to reduction in deposit rates. Yield on advances decreased by 16 bps q-o-q (16bps y-o-y). CASA% has declined by 110bps q-o-q (80bps y-o-y) and retail deposits (including AIB Banking) to total deposits stood at ~81%. 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.

Asset Quality remained stable

Slippages declined by 12% q-o-q (up 147% y-o-y) to Rs. 62crs. GNPA% was flatish (down by 1bps q-o-q (8bps y-o-y) to 1.98%. GNPA in absolute terms increased by 5% q-o-q (31% y-o-y) to Rs. 235crs. Segmental GNPA stood at Mortgages Rs. 51crs (up 10% q-o-q & 48% y-o-y), SME+MSME Rs. 52crs (up 7% q-o-q & down 44% y-o-y), Corporate Rs. 86crs (down 6% q-o-q & up 230% y-o-y) and AIB Rs. 32crs (up 43% q-o-q & 106% y-o-y). NNPA fell by 4bps q-o-q (up 12bps y-o-y) to 1.12%. Recoveries/upgrades of Rs. 41crs (vs. Rs. 37crs in Q2FY16) kept headline asset quality number of GNPA/NNPA under check. Credit costs stood at 0.71% decreased by 6bps q-o-q (6bps y-o-y). The restructured standard book stood at Rs. 46crs in Q3FY16.

Outlook & Valuation

Management is gearing up through aggressive branch expansion (150 branches in 2 years) considering increasing competition. We expect return ratios to remain under pressure. At CMP of Rs.73, DCB Bank is trading at P/B multiple of 1.2x its FY16E BV of Rs. 62 and 1.1x its FY17E BV of Rs. 69. 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 FY16 end target price of Rs. 88. We maintain a buy rating on the stock.

Quarterly Performance:

Particulars Rs. Cr	Dec-15	Dec-14	y-o-y	Sep-15	q-o-q	FY15	FY14	y-o-y
Interest Income	430	357	21%	416	3%	1,422	1,128	26%
Interest Expenses	269	235	15%	266	1%	914	760	20%
Net Interest Income	160	122	32%	150	7%	508	368	38%
Other Income	47	48	-2%	49	-3%	166	139	19%
Total Income	208	170	22%	199	5%	674	507	33%
Operating Expenses	123	102	22%	121	2%	397	319	24%
Operating Profits before provisions	84	68	23%	78	8%	277	188	48%
Total Provisions	21	18	14%	22	-3%	69	37	90%
PBT	63	50	27%	56	12%	208	151	37%
Taxes	22	7	199%	20	13%	17	0.0	-
PAT	41	43	-3%	37	12%	191	151	26%

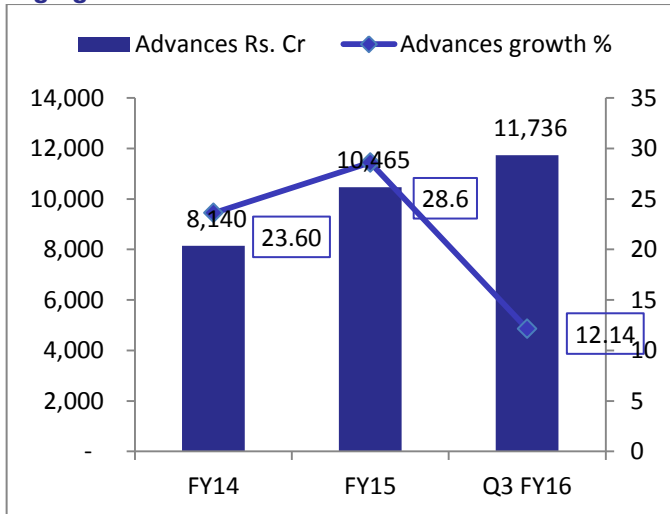


Q3FY16 CONFERENCE CALL HIGHLIGHTS: -

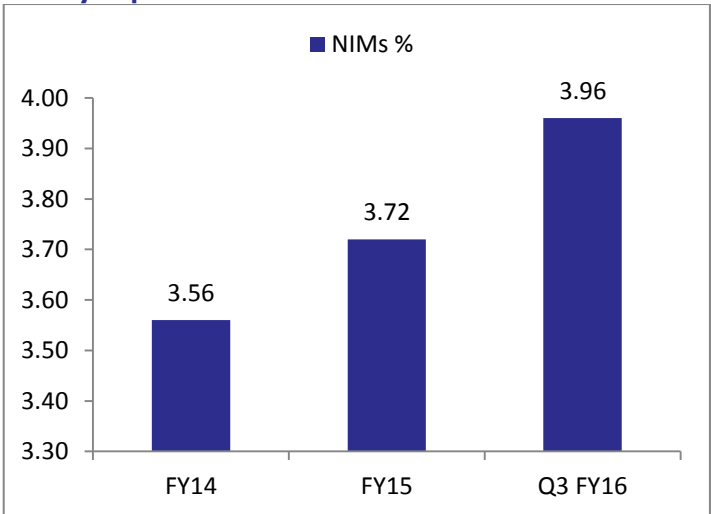
- In the SME segment focus continues to be on low ticket size. Further bank highlighted that not more than 2-3 groups have large ticket size loans from the bank.
- Management expect CASA ratio to moderate, till the time, branch will mature and expect to take it back to 25%.
- No sale to ARCs during the quarter
- There could be impact of 25-30bps on the NIMs due to transition towards MCLR regime. Management guided NIMs to be in the range of 3.5-3.7%.
- 65-70% of the mortgage loans is LAP
- DCB Bank has a tied-up with TVS credit services which has a strong foothold in 2-W and car segment. They have an agreement to generate car loans by TVS for a fee.
- DCB Bank has opened 16 branches this quarter and plans to open 20 more branches next quarter.

Graphs for important parameters

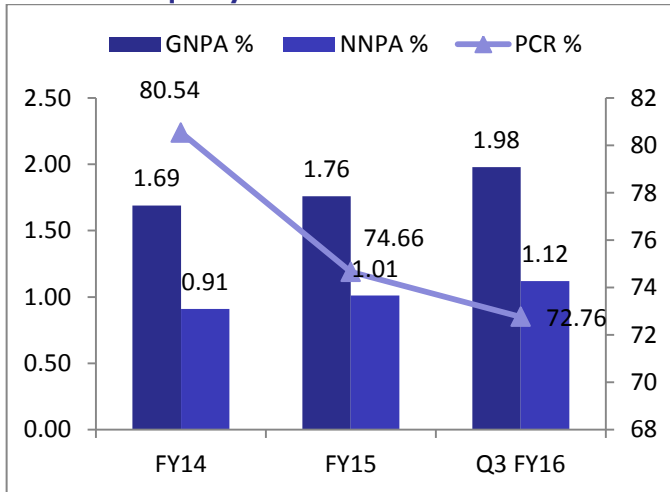
High growth in Loan book



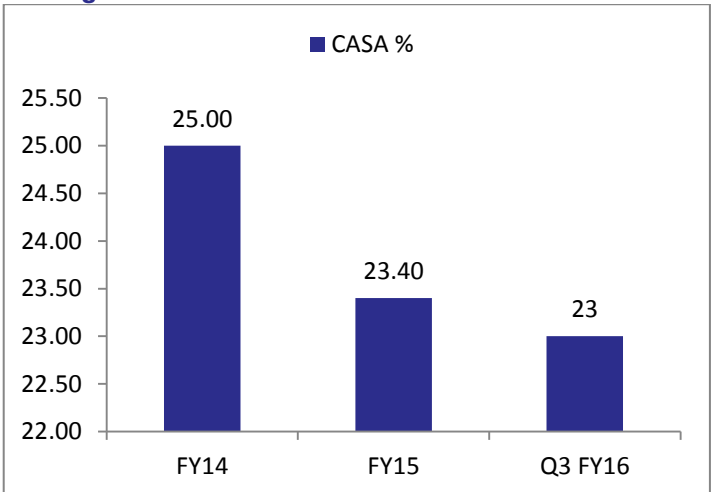
Steady improvement in NIMs



Stable asset quality



Declining CASA ratio





QUARTERLY PERFORMANCE:

Particulars	Dec-15	Dec-14	y-o-y	Sep-15	q-o-q	FY15	FY14	y-o-y
Interest Income	430	357	21%	416	3%	1,422	1,128	26%
Interest Expenses	269	235	15%	266	1%	914	760	20%
Net Interest Income	160	122	32%	150	7%	508	368	38%
Other Income	47	48	-2%	49	-3%	166	139	19%
Fee Income	36	31	18%	35	3%	119	101	18%
Total Income	208	170	22%	199	5%	674	507	33%
Operating Expenses	123	102	22%	121	2%	397	319	24%
Employee	62	50	25%	60	4%	196	157	25%
Others	61	52	18%	61	1%	201	162	24%
Operating Profits before provisions	84	68	23%	78	8%	277	188	48%
Total Provisions	21	18	14%	22	-3%	69	37	90%
PBT	63	50	27%	56	12%	208	151	37%
Taxes	22	7	199%	20	13%	17	0.0	-
PAT	41	43	-3%	37	12%	191	151	26%
EPS	1.4	1.5	-5%	1.3	12%	6.7	6.0	12%
Asset Quality								
GNPA Rs. Cr	235	179	31%	224	5%	186	139	34%
NNPA Rs. Cr	131	95	38%	130	1%	106	74	43%
GNPA %	1.98	1.90	8	1.99	-1	1.8	1.7	6
NNPA %	1.12	1.00	12	1.16	-4	1.0	0.9	10
PCR % Calculated	44.2	46.9	-264	42.0	228	43.2	46.6	-337
PCR % Reported	72.8	77.1	-434	72.2	61	74.7	80.5	-584
Slippages	55	22	147%	62	-12%	173	97	78%
Slippage Ratio %	1.87	0.94	93	2.22	-35	1.65	1.19	46
Credit Cost %	0.71	0.78	-6	0.78	-6	0.66	0.45	21
Stressed Assets % of Advances	1.12	1.00	12	1.16	-4	1.00	0.90	10
Ratios %								
Fees to Advances	1.23	1.29	-6	1.26	-3	1.14	1.24	-10
Cost to Income ratio	59.42	59.74	-32	60.69	-126	58.84	62.93	-409
Tax Rate	34.91	14.80	2011	34.56	36	8.08	0.03	805
Loan/Deposit	83.33	80.10	324	82.47	86	83.00	78.84	416
CASA %	23	23.8	-80	24.1	-110	23.4	25	-160
CAR (Basel III) %	13.04	14.44	-140	13.63	-59	14.95	13.71	124
Tier I %	12.33	13.58	-125	12.93	-60	14.21	12.86	135
Tier II %	0.71	0.86	-15	0.7	1	0.74	0.85	-11
Opex to Loan book	4.21	4.28	-7	4.31	-11	3.79	3.92	-13
Margins %								
Yield on Advances	12.34	12.5	-16	12.5	-16	12.63	12.84	-21
Cost of Deposits	7.44	7.75	-31	7.6	-16	7.78	7.78	0
Quarterly NIMs	4.0	3.7	26	3.79	17	3.72	3.56	16
BV-Calculated	60	54	11%	59	3%	56	46	22%
Adjusted Networth	1,590	1,428	11%	1,548	3%	1,483	1,080	37%
Adj. BV	56	51	10%	54	3%	52	43	22%
Balance sheet								
Capital	286	282	2%	286	0%	285	253	13%
Net Worth	1,721	1,523	13%	1,678	3%	1,589	1,154	38%
FV	10	10		10		10	10	
Deposits	14,084	11,850	19%	13,557	4%	12,609	10,325	22%
Investments	4,030	4,034	0%	4,065	-1%	4,471	3,634	23%



Particulars	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	FY15	FY14
Interest Income	10.6%	11.0%	11.1%	10.4%	10.6%	9.79%	9.32%
Interest Expenses	6.6%	7.0%	7.2%	6.9%	7.0%	6.29%	6.28%
Net Interest Income	4.0%	3.9%	3.8%	3.6%	3.6%	3.50%	3.04%
Other Income	1.2%	1.3%	1.7%	1.3%	1.4%	1.14%	1.15%
Fee Income	0.9%	0.9%	0.8%	0.9%	0.9%	0.82%	0.84%
Total Income	5.1%	5.2%	5.6%	4.8%	5.1%	4.64%	4.19%
Operating Expenses	3.0%	3.2%	3.1%	3.0%	3.0%	2.73%	2.64%
Employee	1.5%	1.6%	1.6%	1.5%	1.5%	1.35%	1.30%
Others	1.5%	1.6%	1.5%	1.5%	1.6%	1.38%	1.34%
Operating Profits before provisions	2.1%	2.1%	2.5%	1.9%	2.0%	1.91%	1.55%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%	0.00%
Total Provisions	0.5%	0.6%	0.5%	0.4%	0.5%	0.48%	0.30%
PBT	1.6%	1.5%	2.0%	1.5%	1.5%	1.43%	1.25%
Taxes	0.5%	0.5%	0.7%	-0.3%	0.2%	0.12%	0.00%
PAT (RoA)	1.0%	1.0%	1.3%	1.7%	1.3%	1.32%	1.25%
Average Assets/ Average Equity	10.00	10.44	10.29	10.59	10.16	10.59	11.22
RoE	10.2%	10.1%	13.2%	18.3%	12.9%	13.94%	14.03%

OUTLOOK & VALUATION: -

Management is gearing up through aggressive branches expansion (150 branches in 2 years) considering increasing competition. We expect return ratios to remain under pressure.

We expect loan book to grow at 22% CAGR (FY15-18E) with RoA and RoE towards 1% and 11.5% by FY18E.

At CMP of Rs.73, DCB Bank is trading at P/B multiple of 1.2x its FY16E BV of Rs. 62 and 1.1x its FY17E BV of Rs. 69. 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 FY16 end target price of Rs. 88. We maintain a buy rating on the stock.

**PROFIT & LOSS STATEMENT:**

Particulars, Rs Cr	FY14	FY15	FY16E	FY17E	FY18E
Interest Earned	1,128	1,422	1,673	1,980	2,422
Interest expended	760	914	1,070	1,265	1,556
Net Interest Income	368	508	604	715	865
Other Income	139	166	199	229	263
NII+ Other Inc.	507	674	803	944	1,128
Employees Cost	157	196	235	276	326
Op, Admin & Other expenses	162	201	233	261	290
Profit Before Provision & Cont	188	277	334	407	513
Provisions & Contingencies	37	69	94	117	135
PBT	151	208	240	290	378
Provision for Tax	0	17	77	93	121
PAT	151	191	163	197	257

Source: Company, Dimensional Securities

BALANCE SHEET STATEMENT:

Particulars, Rs. Cr	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	250	282	282	282	307
Employee Stock Options	3.2	3.2	3.2	3.2	3.2
Total Reserves	901	1303	1467	1664	2227
Deposits	10,325	12,609	15,383	18,921	23,462
Borrowings	860	1,164	1,381	1,713	2,076
Other Liabilities	584	771	865	982	1,117
TOTAL LIABILITIES	12,923	16,132	19,378	23,562	29,189
APPLICATION OF FUNDS :					
Cash & Bank Balances	690	719	701	481	867
Investments	3,634	4,471	5,544	6,763	8,116
Advances	8,140	10,465	12,558	15,572	19,309
Fixed Assets	239	237	301	389	468
Other Assets	221	241	278	359	432
TOTAL ASSETS	12,923	16,132	19,378	23,562	29,189

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.7%	10.2%	9.8%	9.6%	9.5%
Cost of Funds	6.9%	6.9%	6.6%	6.4%	6.4%
Interest Spread	2.8%	3.2%	3.1%	3.1%	3.1%
Net Interest Margin	3.2%	3.6%	3.5%	3.5%	3.4%
Profitability Ratio					
RoE, %	14.1%	14.0%	9.8%	10.7%	11.5%
RoA, %	1.3%	1.3%	0.9%	0.9%	1.0%
Interest Expense/Interest Income	67.3%	64.3%	63.9%	63.9%	64.3%
Non-Interest Income/Total Income	27.3%	24.6%	24.8%	24.2%	23.3%
Efficiency Ratio					
Cost/Income	62.9%	58.8%	58.4%	56.9%	54.5%
Employee Cost/Operating Expenses	49.2%	49.4%	51.0%	51.0%	50.0%
Asset Liability Ratio					
Credit/Deposit	78.8%	83.0%	81.6%	82.3%	82.3%
CASA/Deposit	25.0%	23.4%	22.0%	21.3%	21.3%
Investment/Deposits	35.2%	35.5%	36.0%	35.7%	34.6%
Asset Quality					
GNPA (%)	1.69%	1.76%	1.99%	2.00%	2.00%
NNPA (%)	0.91%	1.01%	1.11%	0.92%	0.81%
Valuation Ratio					
Book Value, Rs.	45.98	56.22	62.00	69.00	82.54
EPS, Rs.	6.05	6.78	5.78	6.99	8.37
Dividend, Rs.	0.00	0.00	0.00	0.00	0.25
P/BV, x	1.33	1.90	1.23	1.10	0.92
P/E, x	10	16	13	11	9

Source: Company, Dimensional Securities

**ANALYST CERTIFICATION**

We /I (Vishal Rampuria/ Siddhesh Mhatre), 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/ Siddhesh Mhatre), Research Analysts 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/Siddhesh Mhatre), Research Analysts 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.