



DCB Bank Q4 FY16 Quarterly Update

MARKET DATA

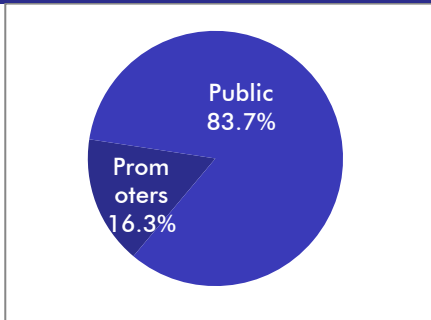
Fig. in ₹ (in Cr.) except Ratios

Networth (FY17E)	2,010
Price/Book Value Ratio (FY17)	1.4
EPS-Unit Curr. (FY17E)	7.7
Market Price	97
P/E Ratio (FY17E)	13
52 Week High (14/07/2015)	151
52 Week Low (21/1/2016)	69
Market Capitalisation	2,501

AVERAGE MONTHLY VOLUME ('000)

BSE	187
NSE	1,427

SHARE HOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	20	-8	-26
BSE	7	-5	-9

Vishal Rampuria
(Director, Research)

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

Siddhesh Mhatre (Research Analyst)

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

For Q4 FY16, DCB Bank reported PAT growth of 69% q-o-q (11% y-o-y) at Rs. 70crs. This was mainly driven by higher other income & almost nil tax provision. Net interest income (NII) grew by 5% q-o-q (30% y-o-y) to Rs. 169crs. Asset quality improved with lower slippages and sales to ARC. Cost to Income ratio was lower at 57.5% compared to 61.4% in Q4FY15 despite opening 44 branches in last one year. Total number of branches stand at 198.

Strong loan book growth led by AIB, SME+MSME & Mortgages

Loan book grew by 10% q-o-q (23% y-o-y) to Rs 129.2bn led by growth of 10% (40% y-o-y) in Agri & Inclusive Banking (AIB) segment, 10% (14% y-o-y) in SME+MSME and 5% (23% y-o-y) in mortgages segment. Loan book mix remained largely same with Mortgages 43%, AIB Segment 17% & SME+MSME 12%.

Improvement in NIM; Expected to come down due to competition

NIMs for FY16 improved by 22bps to 3.94% (y-o-y) due to a higher CD ratio (86.57% vs. 83.00%) and cost of funds declining more than yield on advances (Base rate lowered by 18bps only). Cost of funds declined by 24bps y-o-y due to rate cuts by RBI during the year whereas yield on advances declined by 11bps y-o-y. CASA% stood at 23% and retail deposits to total deposits stood at ~81% for FY16. Management continues to guide for 3.6-3.75% NIMs.

Asset Quality intact; Tax rate almost zero

Slippages declined by 8% q-o-q (41% y-o-y) to Rs. 50crs while GNPA% declined by 47bps q-o-q (25bps y-o-y) to 1.51%. GNPA in absolute terms fell by 16% q-o-q to Rs. 197crs. This was largely due to sales to ARC amounting to Rs. 58crs. Segmental GNPA was as following: Mortgages 0.4%, SME+MSME 0.2%, Corporate 0.7% and AIB (0.2 %). NNPA fell by 37bps q-o-q (26bps y-o-y) to 0.75%. Provision increased by 15% to Rs 27crs. Tax rate was almost zero as DCB Bank recognized DTA provisions against standard assets and floating provisions.

Outlook & Valuation

Management is gearing up through aggressive branch expansion (150 branches in 2 years) considering increasing competition. Return ratios is expected to remain under pressure in the near term due to aggressive roll out. However, DCB's control over opex despite branch expansion is commendable. We increase our earnings estimates of FY17E & FY18E by 7.4% and 1.1% due to lower opex and slightly higher spread. At CMP of Rs.97, DCB Bank is trading at P/B multiple of 1.4x its FY17E BV of Rs. 71 and 1.2x its FY18E BV of Rs. 84. We have valued the stock on our FY20E projections at 1.5x using justified P/BV method. The same has been discounted back to arrive at FY17 end target price of Rs. 112.

Quarterly Performance:

Particulars Rs. Cr	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	448	379	18%	430	4%	1,698	1,422	19%
Interest Expenses	279	249	12%	269	4%	1,079	914	18%
Net Interest Income	169	130	30%	160	5%	620	508	22%
Other Income	61	46	33%	47	30%	220	166	33%
Total Income	230	176	31%	208	11%	840	674	25%
Operating Expenses	133	108	23%	123	8%	491	397	24%
Operating Profits before provisions	97	68	43%	84	15%	349	277	26%
Total Provisions	27	14	91%	21	30%	88	69	27%
PBT	70	54	30%	63	10%	261	208	26%
Taxes	0	(9)	-102%	22	-99%	67	17	296%
PAT	70	63	11%	41	69%	195	191	2%

*Note – Based on Abridged nos.



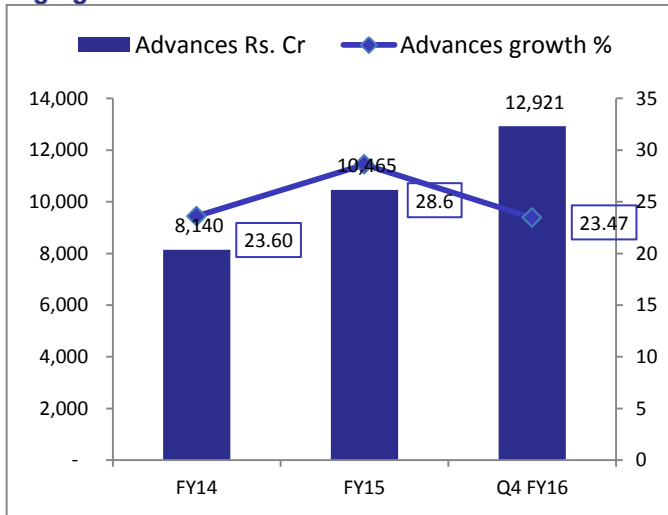
Q4FY16 CONFERENCE CALL HIGHLIGHTS: -

By October 2017 total branches are expected to be 300. If the new branches don't perform as per expectations, then there is a possibility of roll back on the plan. Average Opex cost per branch is Rs. 60 lacs.

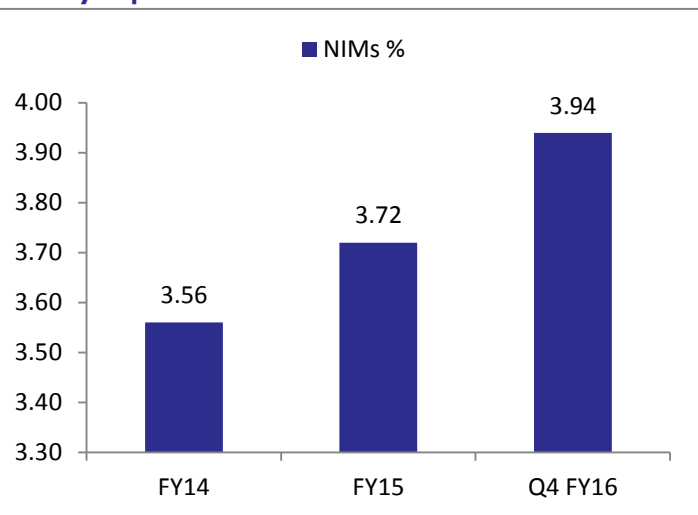
- Excluding corporate loans, loan book grew 36% y-o-y in FY16. In next 3 years, expect balance sheet to double and share of loan mix to remain largely same.
- DCB Bank is amongst the ten banks which is Unified Payment Interface enabled. Don't see payment bank as a big challenge.
- In Q4 FY16, DCB Bank recognized DTA provisions against standard assets and floating provisions. Thereby, fall in tax rate. Tax rate to normalize by FY17 at ~34%.
- Fee income will be based on transactions. Clear focus on forex transactions, Trade related fees etc.
- Aggressively spending on technology; branch is important as largely targeting SME segment.

Graphs for important parameters

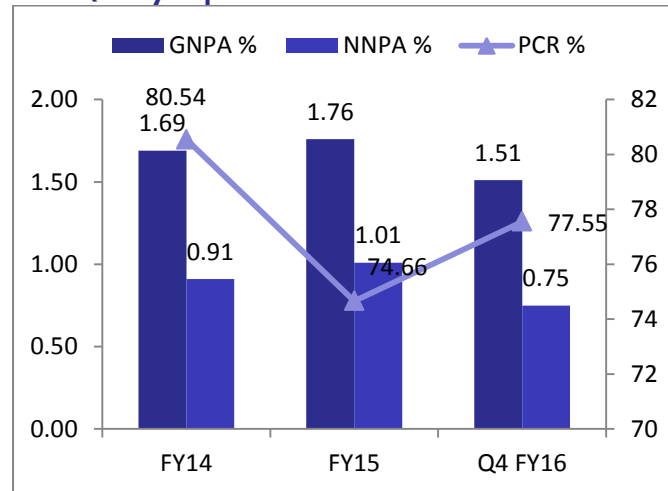
High growth in Loan book



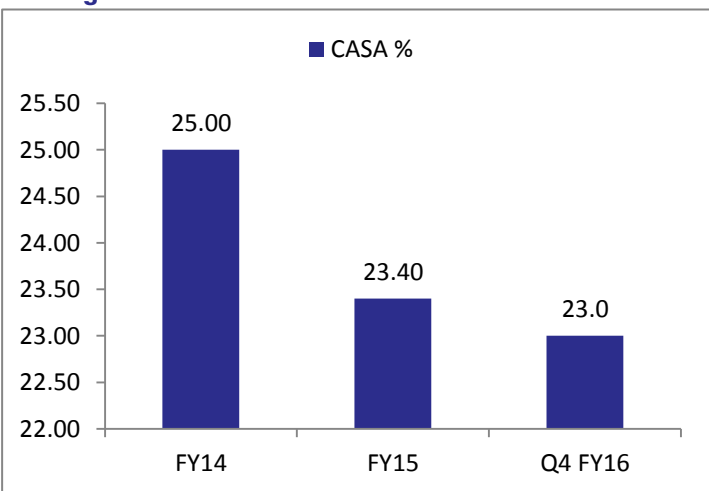
Steady improvement in NIMs



Asset Quality Improved



Declining CASA ratio



*Source – Dimensional Securities



QUARTERLY PERFORMANCE:

Particulars Rs. Cr	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	448	379	18%	430	4%	1,698	1,422	19%
Interest Expenses	279	249	12%	269	4%	1,079	914	18%
Net Interest Income	169	130	30%	160	5%	620	508	22%
Other Income	61	46	33%	47	30%	220	166	33%
Total Income	230	176	31%	208	11%	840	674	25%
Operating Expenses	133	108	23%	123	8%	491	397	24%
Employee	66	53	24%	62	6%	245	196	25%
Others	67	55	22%	61	10%	246	201	23%
Operating Profits before provisions	97	68	43%	84	15%	349	277	26%
Total Provisions	27	14	91%	21	30%	88	69	27%
PBT	70	54	30%	63	10%	261	208	26%
Taxes	0	(9)	-102%	22	-99%	67	16.8	296%
PAT	70	63	11%	41	69%	195	191	2%
EPS	2.4	2.2	10%	1.4	69%	6.8	6.7	1%
Asset Quality								
GNPA Rs. Cr	197	186	6%	235	-16%	197	186	6%
NNPA Rs. Cr	97	106	-8%	131	-26%	97	106	-8%
GNPA %	1.51	1.76	-25	1.98	-47	1.5	1.8	-25
NNPA %	0.75	1.00	-25	1.12	-37	0.8	1.0	-25
PCR % Calculated	50.6	43.2	742	44.2	639	50.6	43.2	742
PCR % Reported	77.6	74.7	289	72.8	479	77.6	74.7	289
Slippages	50	85	-41%	55	-9%	224	173	30%
Slippage Ratio %	1.55	3.25	-169	1.87	-32	1.74	1.65	8
Credit Cost %	0.84	0.55	30	0.71	13	0.68	0.66	2
Stressed Assets % of Advances	0.75	1.00	-25	1.12	-37	0.75	1.00	-25
Ratios %								
Fees to Advances	1.22	1.28	-6	1.23	-1	0.00	1.14	-114
Cost to Income ratio	57.85	61.40	-355	59.42	-158	58.45	58.84	-39
Tax Rate	0.33	-17.35	1768	34.91	-3458	25.51	8.08	1743
Loan/Deposit	86.57	83.00	357	83.33	324	86.57	83.00	357
CASA %	23	23.4	-40	23	0	23	23.4	-40
CAR (Basel III) %	14.11	14.95	-84	13.04	107	14.11	14.95	-84
Tier I %	12.79	14.21	-142	12.33	46	12.79	14.21	-142
Tier II %	1.32	0.74	58	0.71	61	1.32	0.74	58
Opex to Loan book	4.12	4.13	-1	4.21	-8	3.80	3.79	1
Margins %								
Yield on Advances	12.52	12.61	-9	12.34	18	12.52	12.63	-11
Cost of Deposits	7.54	7.86	-32	7.44	10	7.54	7.78	-24
Quarterly NIMs	3.9	3.75	19	3.96	-2	3.94	3.72	22
BV-Calculated	63	56	13%	60	4%	63	56	13%
Adjusted Networth	1,695	1,483	14%	1,590	7%	1,695	1,483	14%
Adj. BV	59	52	14%	56	7%	59	52	14%
Balance sheet								
Capital	286	285	0%	286	0%	286	285	0%
Net Worth	1,792	1,589	13%	1,721	4%	1,792	1,589	13%
FV	10	10		10		10	10	
Deposits	14,926	12,609	18%	14,084	6%	14,926	12,609	18%
Investments	4,333	4,471	-3%	4,030	8%	4,333	4,471	-3%
Loans	12,921	10,465	23%	11,736	10%	12,921	10,465	23%



ROA Tree

Particulars	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	FY16	FY15
Interest Income	10.2%	10.6%	11.0%	11.1%	10.4%	9.6%	9.8%
Interest Expenses	6.3%	6.6%	7.0%	7.2%	6.9%	6.1%	6.3%
Net Interest Income	3.8%	4.0%	3.9%	3.8%	3.6%	3.5%	3.5%
Other Income	1.4%	1.2%	1.3%	1.7%	1.3%	1.3%	1.1%
Fee Income	0.9%	0.9%	0.9%	0.8%	0.9%	0.8%	0.8%
Total Income	5.2%	5.1%	5.2%	5.6%	4.8%	4.8%	4.6%
Operating Expenses	3.0%	3.0%	3.2%	3.1%	3.0%	2.8%	2.7%
Employee	1.5%	1.5%	1.6%	1.6%	1.5%	1.4%	1.3%
Others	1.5%	1.5%	1.6%	1.5%	1.5%	1.4%	1.4%
Operating Profits before provisions	2.2%	2.1%	2.1%	2.5%	1.9%	2.0%	1.9%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Provisions	0.6%	0.5%	0.6%	0.5%	0.4%	0.5%	0.5%
PBT	1.6%	1.6%	1.5%	2.0%	1.5%	1.5%	1.4%
Taxes	0.0%	0.5%	0.5%	0.7%	-0.3%	0.4%	0.1%
PAT (RoA)	1.6%	1.0%	1.0%	1.3%	1.7%	1.1%	1.3%
Average Assets/ Average Equity	10.43	10.00	10.44	10.29	10.59	10.43	10.59
RoE	16.5%	10.2%	10.1%	13.2%	18.3%	11.5%	13.9%

*Source – Dimensional Securities

OUTLOOK & VALUATION: -

Management is gearing up through aggressive branch expansion (150 branches in 2 years) considering increasing competition. Return ratios is expected to remain under pressure in the near term due to aggressive roll out. However, DCB's control over opex despite branch expansion is commendable. We increase our earnings estimates of FY17E & FY18E by 7.4% and 1.1% due to lower opex and slightly higher spread.

We expect loan book to grow at 24% CAGR (FY16-18E) with RoA and RoE towards 1% and 11.7% by FY18E.

At CMP of Rs.97, DCB Bank is trading at P/B multiple of 1.4x its FY17E BV of Rs. 71 and 1.2x its FY18E BV of Rs. 84. We have valued the stock on our FY20E projections at 1.5x using justified P/BV method. The same has been discounted back to arrive at FY17 end target price of Rs. 112. We maintain a buy rating on the stock.

REVISED ESTIMATES: -

Particulars (Rs. in crs.)	FY17E			FY18E		
	Revised	Old	%Change	Revised	Old	%Change
NII	741	715	3.6%	889	861	3.3%
PAT	218	203	7.4%	269	266	1.1%

**PROFIT & LOSS STATEMENT:**

Particulars, Rs Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	1,128	1,422	1,698	1,957	2,348
Interest expended	760	914	1,079	1,217	1,459
Net Interest Income	368	508	620	741	889
Other Income	139	166	220	254	292
NII+ Other Inc.	507	674	840	994	1,180
Employees Cost	157	196	245	281	328
Op, Admin & Other expenses	162	201	246	275	322
Profit Before Provision & Cont	188	277	349	437	530
Provisions & Contingencies	37	69	88	104	119
PBT	151	208	261	333	411
Provision for Tax	0	17	67	115	142
PAT	151	191	195	218	269

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	3.2	3.2	2	2	2
Total Reserves	901	1303	1,506	1,724	2,296
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	23,488	28,801
APPLICATION OF FUNDS :					
Cash & Bank Balances	690	719	892	1,499	2,183
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	256	263
Other Assets	221	241	724	857	1,051
TOTAL ASSETS	12,923	16,132	19,119	23,488	28,801

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.7%	10.2%	10.1%	9.7%	9.5%
Cost of Funds	6.9%	6.9%	6.8%	6.3%	6.1%
Interest Spread	2.8%	3.2%	3.3%	3.4%	3.3%
Net Interest Margin	3.2%	3.6%	3.7%	3.7%	3.6%
Profitability Ratio					
RoE, %	14.1%	14.0%	11.5%	11.5%	11.7%
RoA, %	1.3%	1.3%	1.1%	1.0%	1.0%
Interest Expense/Interest Income	67.3%	64.3%	63.5%	62.2%	62.1%
Non-Interest Income/Total Income	27.3%	24.6%	26.2%	25.5%	24.7%
Efficiency Ratio					
Cost/Income	62.9%	58.8%	58.4%	56.0%	55.1%
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%	23.4%	23.4%
Investment/Deposits	35.2%	35.5%	29.0%	26.4%	24.1%
Asset Quality					
GNPA (%)	1.69%	1.76%	1.52%	1.40%	1.35%
NNPA (%)	0.91%	1.01%	0.75%	0.68%	0.62%
Valuation Ratio					
Book Value, Rs.	45.98	56.22	62.95	70.61	84.21
EPS, Rs.	6.05	6.78	6.84	7.66	8.69
Dividend, Rs.	0.00	0.00	0.00	0.00	0.25
P/BV, x	1.33	1.90	1.25	1.37	1.15
P/E, x	10	16	12	13	11

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.