

# Result Update

**CMP : INR 128**  
**Rating : Buy**  
**Target : INR 140**

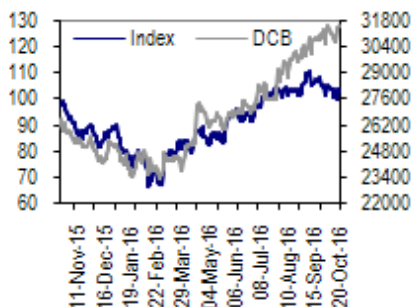
## KEY DATA

Market Cap (INR bn)	36.4
Market Cap (USD mn)	543.9
52 WK High / Low	131/68
Avg Weekly Volume (NSE)	1350
Face Value (INR)	10

BSE Sensex	28,130
Nifty	8,699
BSE Code	532772
NSE Code	DCBBANK
Reuters Code	DCBA.BO
Bloomberg Code	DCBB IN

Shareholding %	2Q	1Q	4Q
Promoter	16.2	16.2	16.2
FII	20.0	15.0	16.5
DII	21.3	22.7	20.4
Others	42.5	46.1	46.9

## Performance Chart



## DCB Bank Ltd.

DCB Bank (DCBB) registered a strong growth of 27% Y-o-Y in net interest income to Rs.1903 mn in Q2FY17 on back of strong credit growth. This led to 29% growth in operating profit to Rs. 1009 mn Y-o-Y beating the estimates. This further led to 31% growth in PAT in Q2FY17 to Rs 485 mn vs. 369 mn in Q2FY16. On asset quality front DCBB has been able to improve GNPA's & NNPA's ratios to 1.8% & 0.8% from 2% & 1.2% in Q2FY16 Y-o-Y respectively. Business growth was strong with 29.1% Y-o-Y & 8.2% Q-o-Q growth in advances while deposits grew by 30.4% & 12.1% Y-o-Y & Q-o-Q respectively.

### Business growth to continue

Business growth continues to be strong in this quarter as well by registering a growth of 30% Y-o-Y and 10.3% Q-o-Q. Advances have grown by 29.1% Y-o-Y in Q2FY17 to Rs 133 bn. Mortgages, AIB, CV & SME segment were the main contributors to credit growth as AIB, Mortgages and CV portfolio grew by 50%, 24% and 111% Y-o-Y in Q2FY17 respectively. We expect advances to grow by 26% CAGR over FY16-18E. Deposits registered a growth of 30.4% Y-o-Y in Q2FY17 on back of 26% Y-o-Y growth in retail deposit. Also we expect branch expansion to help the bank in registering deposits growth of 25% CAGR during FY16-18E. CASA deposits during the quarter increased by 18.6% Y-o-Y, and bank has been able to maintain the share of CASA in total deposits at 22% in Q2FY17. In the medium term we believe the CASA ratio to remain ~22-23% as the bank will continue to focus on expanding its asset side.

### Margins to remain in robust

DCBB reported a 29.2% growth in operating profit to Rs 1009 mn & PAT grew by 31.3% to Rs 485 mn Y-o-Y in Q2FY17. Due to strong advance growth NII grew by 26.5% to Rs 1903 mn Y-o-Y. We expect DCB Bank to register a 23% CAGR in NII during FY16-18E. Due to branch expansion DCBB CI ratio were at 60% in Q2FY17 vs. 60.9% in Q1FY17. Although bank is planning to install ~50% of branches in Tier 2 to Tier 6 locations giving it a cost benefit, we expect CI ratio to be ~62.7% in FY18E because of the change in strategy to increase the branches in next 12-24 months. Also as per the current business model, branches are expected to break even in 22 to 24 months depending upon size and location. DCBB reported NIMs of 3.96% in Q2FY17 vs. 4.1% in Q1FY17 & 3.8% in Q2FY16. Going forward, DCB bank expects NIMs to come under pressure in medium term as deposit rates in the market are declining, however; the interest rates on loans are likely to move down faster. We expect NIMs to be ~3.9% in FY18E.

### Strategic changes in business strategy to improve long term growth

During the quarter DCBB added 23 branches and opex growth was flat at 5% on Q-o-Q basis and the core CI ratio remained at 60% vs 60.9% sequentially. We have estimated a ~27% CAGR growth in opex over FY16-18E and CI ratio to increase to 62.7% by FY18E from 58.4% in FY16. We believe the proven track record of the management to deliver results in tough environment going ahead.

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### **Healthy Asset Quality to continue & well capitalized for future growth**

During the quarter DCBB reported stable asset quality with slippages of Rs 500 mn. The slippages were led by corporate, mortgages and AIB segments. The GNPA's increased by 10.4% Qo-Q to Rs. 2.6bn and GNPA & NNPA's ratio decreased to 1.8% to 0.8% in Q2FY17 as against 2% & 1.2% Y-o-Y basis respectively. During the quarter recoveries were at Rs 139 mn. DCBB is well placed in terms of asset quality among its peers with less concentration risk, lower restructured assets and is likely to keep credit costs under control. PCR of the bank stood at 75.4% in Q2FY17 as against 75.3% in Q1FY17. We expect DCB Bank to maintain GNPA's & NNPA's at ~1.6% & 0.8% in FY17E by focusing more on the recoveries. The bank is well capitalized with CAR ratio of 11.9% & tier I ~10.7%.

### **Valuation**

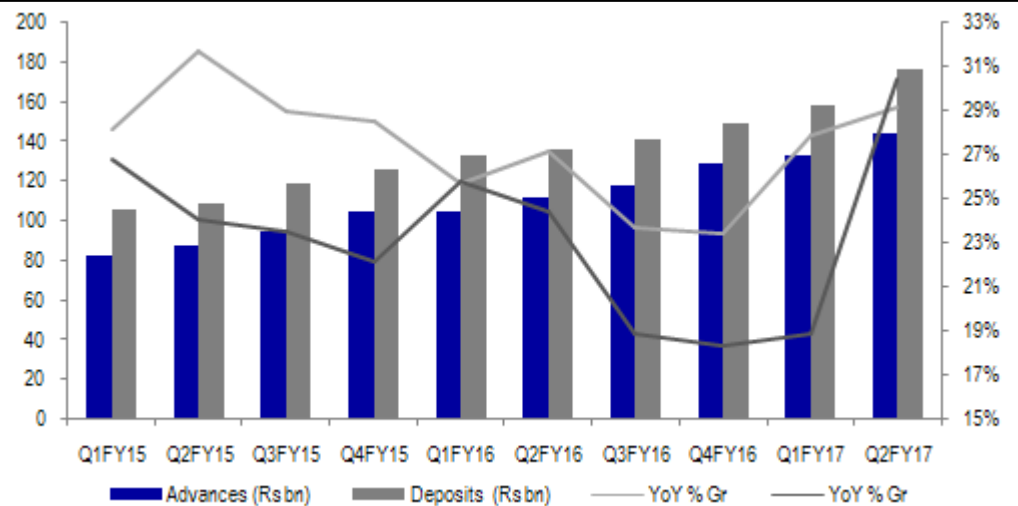
We believe bank is set for next growth phase on back of strong balance sheet growth, branch expansion to augment CASA & improving asset quality by FY18E. We believe the proven track record of the management to deliver results in a tough environment going ahead. At the CMP stock trades at 2x & 1.7x FY17E & FY18E adjusted book value (ABV) respectively. DCB Bank is well capitalized for future growth opportunities, thus we maintain "Buy" rating on the stock for revised target price of Rs 140 (valuing at 1.9x its FY18E ABV).

## Q2FY17 Results

Rs in Mn	Q2FY17	Q2FY16	% Chng YoY	Q1FY17	% Chng QoQ
Interest Income	5063	4162	21.6%	4706	7.6%
Interest Expense	3160	2662	18.7%	2936	7.6%
<b>Net Interest Income</b>	<b>1903</b>	<b>1500</b>	<b>26.9%</b>	<b>1770</b>	<b>7.5%</b>
Other Income	616	487	26.5%	601	2.5%
Operating Expenditure	1511	1206	25.3%	1444	4.6%
<b>Operating Profit (PPOP)</b>	<b>1009</b>	<b>781</b>	<b>29.2%</b>	<b>927</b>	<b>8.8%</b>
Provisions	265	217	22.2%	205	29.0%
<b>PBT</b>	<b>744</b>	<b>564</b>	<b>31.8%</b>	<b>722</b>	<b>3.0%</b>
Tax	259	195	-	252	-
<b>PAT</b>	<b>485</b>	<b>369</b>	<b>31.3%</b>	<b>470</b>	<b>3.1%</b>
GNPAs	2554	2243		2313	
GNPAs%	1.8%	2.0%		1.7%	
NNPAs	1209	1302		1157	
NNPAs%	0.8%	1.2%		0.9%	
PCR	75.4%	72.2%		75.3%	
Advances	144362	111809		133369	
% YoY Gr	29.1%	27.2%		27.9%	
Deposits	176846	135573		157796	
% YoY Gr	30.4%	24.4%		18.9%	
CASA Ratio%	22.0%	24.1%		23.0%	
CD Ratio%	81.6%	82.5%		85.1%	
CI Ratio%	60.0%	60.7%		60.9%	
Yield on Advances%	12.0%	12.5%		12.2%	
Cost of Funds%	7.2%	7.8%		7.3%	
NIMs%	4.0%	3.8%		4.1%	
CAR%	11.9%	13.6%		13.2%	
RoA	0.9%	0.9%		1.0%	
RoE	10.4%	8.9%		10.4%	

Source: Company, FQ Research

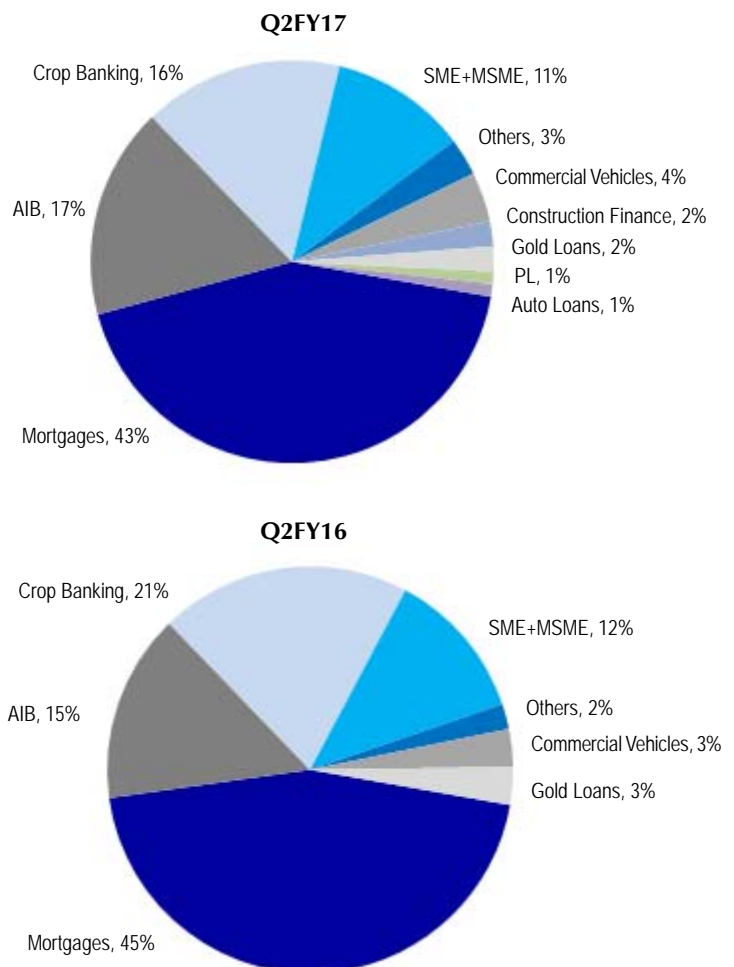
**Business Growth**



Source: Company, FQ Research

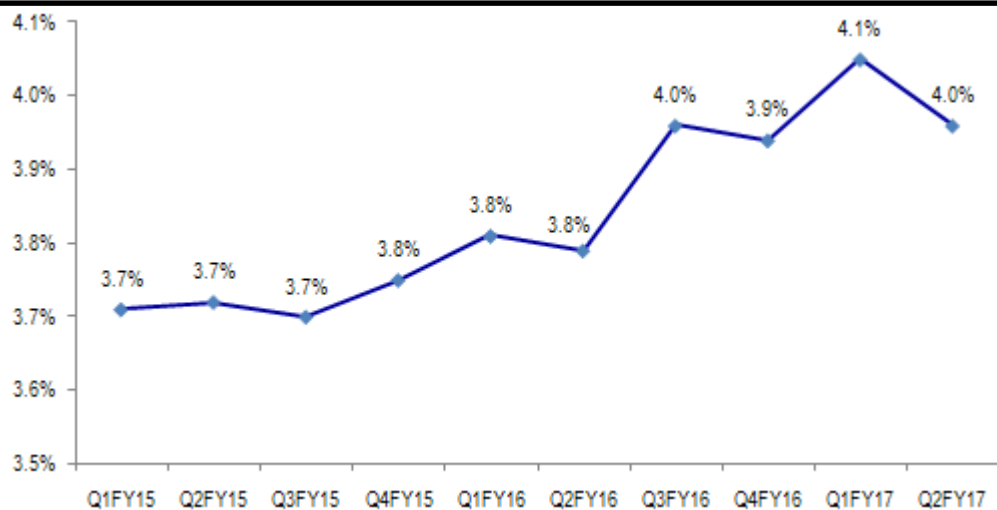
AIB, SME, Mortgages and CV segment were the main contributors to credit growth as AIB, Mortgages and CV portfolio grew by 50.4%, 24% and 111% Y-o-Y in Q2FY17 respectively. We expect advances to grow by 26% CAGR over FY16-18E. Also DCBB is expanding its branch network which will help to garner more deposits in coming future. We estimate deposits to grow by 25% CAGR during FY16-18E.

**Advance Breakup**



Source: Company, FQ Research

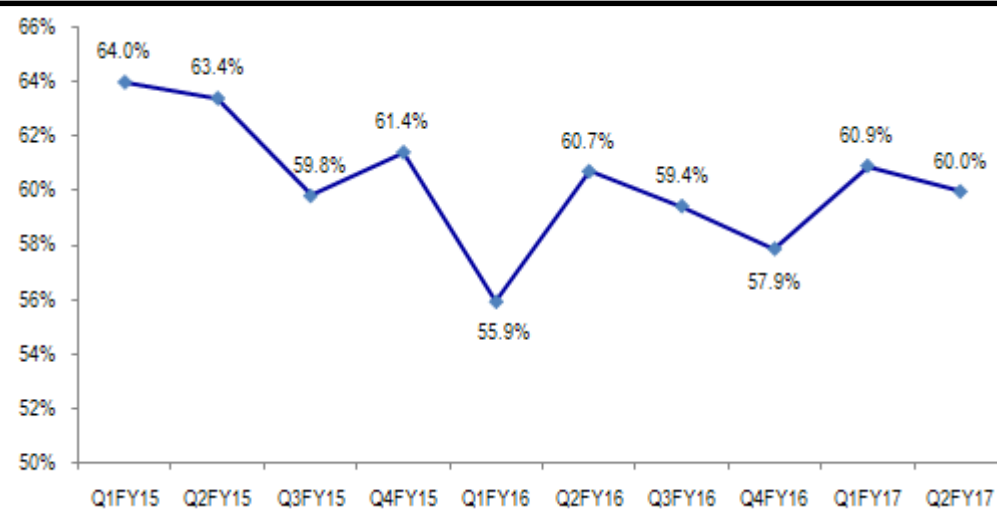
**NIMs**



Source: Company, FQ Research

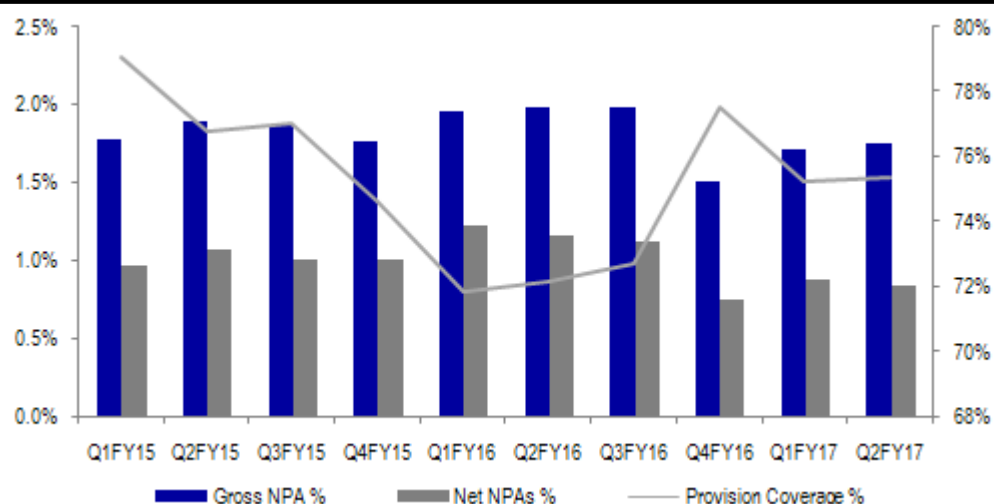
DCBB maintained CI ratio ~60% in Q2FY17 vs. 60.9% in Q1FY17. However on back of aggressive branch expansion we expect CI ratio to be ~62.7% in FY18E. Also as per the current business model, branches are expected to break even in 22 to 24 months depending upon size and location.

**CI Ratio**



Source: Company, FQ Research

### Asset Quality



Source: Company, FQ Research

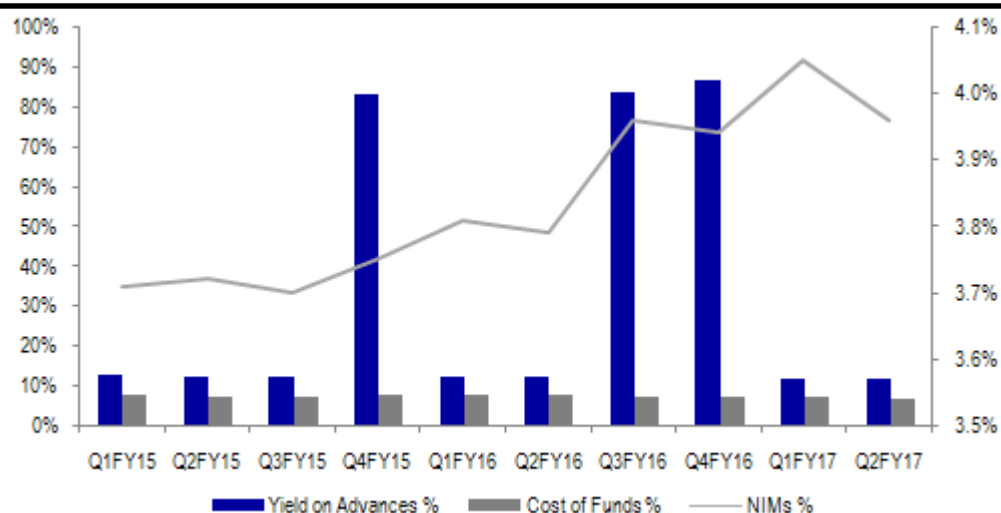
We expect DCB Bank to maintain GNPA's & NNPA's at ~1.6% & 0.8% in FY17E by focusing more on the recoveries.

### Sectoral breakup of NPAs

Rs in Mn	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Corporate	267	261	919	1016	919	861	861	861	861
SME + MSME	900	927	273	284	486	522	245	279	367
Mortgages	294	346	362	349	466	511	464	626	743
AIB	2	153	187	188	220	315	288	404	377
Gold Loans	60	25	28	156	76	49	22	28	55
Personal Loans	2	0	0	0	0	0	0	0	0
CV/CE/STVL*	60	76	88	70	74	89	92	111	134
Others	165	4	4	1	2	2	2	4	17
Gross NPA	1688	1792	1861	2064	2243	2349	1974	2313	2554
Net NPAs	943	952	1057	1270	1302	1310	975	1157	1209

Source: Company, FQ Research

### Improving Ratios



Source: Company, FQ Research

## Consolidated Financials

### Income Statement

Y/E March (Rs Mn)	FY15	FY16	FY17E	FY18E
Interest Income	14,224	16,985	19,905	24,338
Interest Expenses	9,142	10,790	12,242	14,980
<b>Net Interest Income</b>	<b>5,082</b>	<b>6,195</b>	<b>7,663</b>	<b>9,358</b>
Other Income	1,657	2,205	2,545	3,170
Operating Income	6,739	8,400	10,208	12,528
Operating Expenses	3,965	4,909	6,151	7,855
<b>Operating Profit</b>	<b>2,774</b>	<b>3,490</b>	<b>4,057</b>	<b>4,674</b>
Provisions and Contingencies	694	879	962	1,136
<b>Profit before Tax</b>	<b>2,080</b>	<b>2,611</b>	<b>3,095</b>	<b>3,537</b>
Provision for Tax	168	666	991	1,132
<b>Profit after Tax</b>	<b>1,912</b>	<b>1,945</b>	<b>2,105</b>	<b>2,405</b>

### Balance Sheet

Y/E March (Rs Mn)	FY15	FY16	FY17E	FY18E
Equity Capital	2,820	2,844	2,844	2,844
Reserves & Surplus	13,034	15,062	17,051	19,456
Net Worth	15,854	17,906	19,895	22,300
Deposits	126,091	149,260	185,082	234,129
Borrowings	11,638	11,479	12,734	15,242
Other Liabilities	7,708	12,525	15,563	19,276
<b>Total Liabilities</b>	<b>161,323</b>	<b>191,185</b>	<b>233,304</b>	<b>290,977</b>
Cash & Bank Balances	7,192	8,916	11,118	14,481
Investments	39,622	43,333	50,487	61,899
Advances	104,651	129,214	161,319	203,908
Fixed Assets	2,367	2,480	2,274	2,361
Other Assets	2,408	7,242	8,107	8,329
<b>Total Assets</b>	<b>156,239</b>	<b>191,185</b>	<b>233,304</b>	<b>290,977</b>

Source: Company, FQ Research

### Ratios

YE March (%)	FY15	FY16	FY17E	FY18E
<b>Growth Ratios</b>				
NII	38.0%	21.9%	23.7%	22.1%
Other Income	19.5%	33.0%	15.4%	24.6%
Opex	24.3%	23.8%	25.3%	27.7%
Operating Profit	47.6%	25.8%	16.2%	15.2%
Provisions	89.8%	26.6%	9.4%	18.1%
Net Profit	26.3%	1.8%	8.2%	14.3%
Advances	28.6%	23.5%	24.8%	26.4%
Deposit	22.1%	18.4%	24.0%	26.5%
<b>Operating Ratios</b>				
Yield on Advances	11.8%	11.6%	11.3%	11.3%
Yield on Investments	7.4%	7.4%	6.7%	5.9%
Cost of Deposits	7.3%	7.3%	7.1%	6.9%
Cost of Funds	7.2%	7.2%	6.8%	6.7%
NIMs	3.8%	3.9%	4.0%	3.9%
CASA Ratio	23.4%	23.4%	22.5%	23.0%
C/D Ratio	83.0%	86.6%	87.2%	87.1%
C/I Ratio	58.8%	58.4%	60.3%	62.7%
<b>Asset Quality</b>				
Gross NPAs	1.8%	1.5%	1.6%	1.4%
Net NPAs	1.0%	0.8%	0.8%	0.7%
<b>Profitability Ratios</b>				
RoAA	1.3%	1.1%	1.0%	0.9%
RoE	14.0%	11.5%	11.1%	11.4%
<b>Valuations Ratios</b>				
EPS	6.8	6.8	7.4	8.5
Book Value	56.2	63.0	69.9	78.4
Adj. Book Value	51.5	58.5	65.2	73.5
P/E (x)	18.9	18.7	17.3	15.1
P/BV (x)	2.3	2.0	1.8	1.6
P/ABV(x)	2.5	2.2	2.0	1.7

### Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	05-12-2014	105	Buy	131
Result Update (Q3FY15)	16-01-2015	119	Buy	131
Result Update (Q4FY15)	22-04-2015	120	Buy	146
Result Update (Q1FY16)	24-07-2015	134	Buy	159
Result Update (Q2FY16)	09-11-2015	83	Buy	113
Result Update (Q3FY16)	25-01-2016	72	Buy	113
Result Update (Q4FY16)	25-04-2016	95	Buy	113
Result Update (Q1FY17)	28-07-2016	100	Buy	113
Result Update (Q2FY17)	21-10-2016	128	Buy	140

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**BUY**

**More than 10% return**

**HOLD**

**Between 5-10% return**

**SELL**

**Less than 5% return**