

DCB Bank

BUY

NIMs stable; Strong fee income supported profitability

Summary

DCB Bank's NIM improved by 3bps QoQ to 3.3% led by increase in yield on assets. Management believes that margins have bottomed out thus will show an upward trajectory going ahead. Asset quality improved with GNPA at 3.11% vs 3.29% QoQ led by higher write offs. Banks deposits growth remained strong at 20% YoY; credit growth too witnessed strong growth at 23% YoY. We expect 18% CAGR (FY25-27) credit growth. NII grew by 15% YoY led by decline in margins. Core fee income grew by 44% YoY; also management guided for sustainability which will drive return ratios higher. PPOP grew by 28% YoY led by higher non-interest income. PAT grew by 20% YoY led by higher provisions (up 64% YoY). We largely maintained the estimates and rolled over to FY27E. We maintain 'BUY' with a TP of Rs.170 valuing it at 0.8x P/ABV FY27E.

Key Highlights and Investment Rationale

- **Credit growth remains strong:** Loan growth stood at 23% YoY Q3FY25 (vs 20% YoY Q2FY25) led by strong growth in core segment. Management guided for doubling the balance sheet in next 3-3.5 years. Deposits grew by 20% YoY led by growth in term deposits (up 21% YoY); CASA ratio stood at 26% vs 25% YoY.
- **NIMs improved QoQ:** NIMs improved by 3bps QoQ to 3.3% led by rise in yields (up 5bps QoQ) while cost of funds remain stable at 7.2% QoQ. Cost of funds is expected to stabilize over the course of next 2 quarters.
- **Higher write offs supported asset quality; restructured assets at 1.8%:** Net restructured assets stood at Rs8.6bn (1.8% of advances vs. 4.5% in FY23). Bank GNPA declined to 3.1% QoQ, NNPA at 1.18% vs 1.17% QoQ.
- **Outlook:** RBI approved Praveen Kutty as MD of the bank who has been part of bank leadership team for past 16 years; thus ensures continuity of the strategy. Valuation is quite comfortable at 0.5X FY27E ABV.

TP Rs.170

CMP Rs.114

Potential upside/downside 49%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.2)	(2.4)	(16.1)
Rel to Sensex	(4.3)	1.6	(23.9)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	19.7	22.0	28.9
Consensus	19.2	23.0	29.0
% difference	2.4	(4.5)	(0.4)

Key Stock Data

Bloomberg / Reuters	DCBB IN/DCBA.BO
Sector	Banking
Shares o/s (mn)	314
Market cap. (Rs mn)	35,657
3-m daily avg Trd value (Rs mn)	10.8
52-week high / low	Rs146 / 108
Sensex / Nifty	76,190 / 23,092

Shareholding Pattern (%)

Promoters	14.7
FII	10.9
DII	20.3
Public	54.1

Financial snapshot

(Rs mn)

Year	FY2023	FY2024	FY2025E	FY2026E	FY2027E
NII	17,170	19,279	21,239	25,229	29,776
Change (yoy, %)	26%	12%	10%	19%	18%
Net Profit	4,656	5,360	6,147	6,879	9,038
Change (yoy, %)	62%	15%	15%	12%	31%
EPS (Rs)	14.9	17.1	19.7	22.0	28.9
Change (yoy, %)	62%	15%	15%	12%	31%
ABV (Rs)	139.4	152.4	169.1	185.5	208.1
PER (x)	7.6	6.6	5.8	5.2	3.9
P/ABV (x)	0.8	0.7	0.7	0.6	0.5
ROE (%)	10.8	11.1	11.5	11.5	13.5
ROA (%)	1.0	0.9	0.9	0.9	1.0
GNPA (%)	3.3	3.3	3.1	3.2	3.2
NNPA (%)	1.0	1.1	1.0	1.1	1.1
CAR (%)	17.6	16.6	15.6	14.3	13.7

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance

- Given the macro headwinds, the bank reported a 20% YOY growth in deposits and 22% YoY in loans.
- The bank has been growing the balance sheet by 18-20% in the last 4-5 quarters and this is expected to continue going forward.
- Despite cost of funds inching up, the NIM has increased aided by improvement in yields.
- The company has been conscious of improving the productivity and is visible in terms of the reduction in manpower.
- On the employee front, the bank has reduced the count and improved the productivity.
- For income from sale of investments, a decent portion would come from equity by way of IPO. However, it is difficult to predict the number of IPO that may come into the market going forward.
- Income from cross sale of products is improving as the bank is tapping the existing old customers, especially on the asset side.

Advances and Deposits

- Loan growth excluding the co-lending have showed a similar growth in Q3.
- One of the biggest co-lending partner has started originating business again after a brief respite.
- The bank lends to MFI customers through direct channel and via Business Correspondents.
- The MFI loans via BCs is to individuals, while the other MFI loans are given to institutions.
- Because of the microfinance slowdown, there is a surge in gold loan demand, which is helping both the natural organic book as well as co-lending book.
- The average ticket size of LAP product is about Rs.2.5-2.7mn.
- As a short term strategy, the bank moved from Housing Loan to Business Loan which also helped in the improving the yield.

- However, as the final PMAY guidelines kicks in, the bank may look to ramp up Housing Loan business.
- The bank is comfortable with the growth of co-lending book and the yield it gets from the book.
- The bank wants to co-lend with partners who are not in the same product, segment, or location, where the bank operates.
- Deposits have grown while keeping the share of top 20 depositors less than 7%.
- The deposit that the bank used to book three years back when it gets repriced is fairly at a similar kind of rate.
- The bank's cost of funds increased during the quarter due to increase in tier-II capital as well as tightening liquidity conditions.
- The company is engaging with existing loan customers for other products in order to increase the overall revenue from the customer.

Asset Quality

- The company saw higher slippages from the BC MFI book as well as unsecured DA book during Q3.
- Recoveries have been trending similar to the previous quarter.
- The company is closely watching the increased slippages in the mortgage portfolio on a QoQ basis. However, the current bucket bounce rates are improving.
- The company reached 99% collection efficiency in the zero bucket for the first time in the LAP portfolio.

Future Guidance

- Discipline in cost and productivity is expected to yield continued results in the coming quarters as well.
- There has been a series of cost measures undertaken by the management team, which should give a continued discipline on the cost front.
- The promoters of the bank is likely to infuse capital in Q4FY25.
- The bank will make disciplined approach in terms of controlling the cost and improve the opex and CI ratio going ahead.

- NII growth should reflect the topline growth in the coming quarters. Margins will expand going forward as the NII continues to grow in double digits.
- The bank aims to bring down cost to average asset ratio below 255 bps in the near term.
- The strategy of the bank is always to grow deposits more than loans. The bank will bring back the CD ratio to lower levels.
- Though microfinance NPA is new phenomenon, the bank will continue with multiple levels of collection strategy, including legal, feet on street, among others, before writing off from the book. While these are not necessarily NPAs, the bank may see some of it flowing over 2 years.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Interest Income	16,711	13,741	15,684	21.6	6.5
Interest Expenses	11,282	9,001	10,592	25.3	6.5
Net Interest Income	5,429	4,740	5,092	14.5	6.6
NIM (%)	3.30	3.48	3.27	-18 bps	3 bps
Non-Interest Income	1,841	1,237	2,046	48.8	(10.1)
Operating Income	7,269	5,977	7,138	21.6	1.8
Staff Cost	2,312	1,984	2,351	16.5	(1.7)
Other Op Exp	2,246	1,878	2,236	19.6	0.5
Total Operating Expenses	4,558	3,862	4,587	18.0	(0.6)
<i>Cost to Income (%)</i>	<i>62.7</i>	<i>64.6</i>	<i>64.3</i>	<i>-191 bps</i>	<i>-155 bps</i>
Operating Profit	2,711	2,115	2,551	28.2	6.3
Provisions	672	410	456	63.9	47.3
PBT	2,039	1,705	2,095	19.6	(2.7)
Tax	524.9	439	541	19.5	(2.9)
<i>-effective tax rate</i>	<i>25.7</i>	<i>25.8</i>	<i>25.8</i>	<i>-2 bps</i>	<i>-6 bps</i>
PAT	1,514	1,266	1,555	19.6	(2.6)
EPS (Rs)	4.8	4.1	5.0	19.0	(2.7)
BV (Rs)	174.9	157.4	170.7	11.1	2.5
Deposits	5,66,780	4,71,200	5,45,317	20.3	3.9
Advances	4,77,800	3,89,510	4,44,652	22.7	7.5

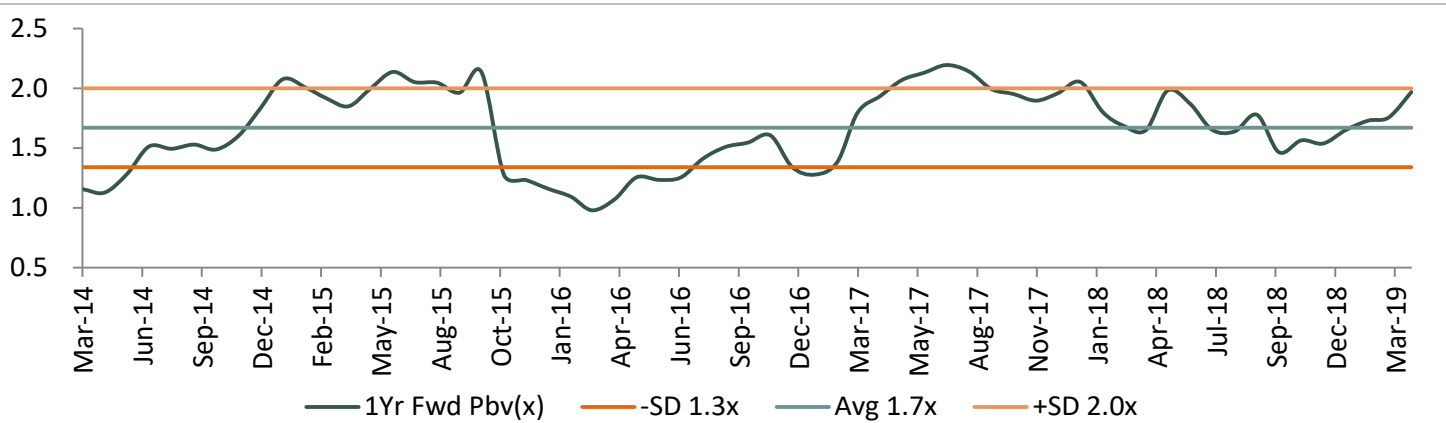
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24E	FY25E	FY26E	FY27E
NII	3.5	3.3	3.1	3.1	3.2
Fees	0.8	0.8	0.8	0.8	0.8
Other Income	0.0	0.1	0.2	0.1	0.1
Net Revenue	4.4	4.2	4.1	4.1	4.1
Op.Exp	2.8	2.7	2.6	2.6	2.5
Op.Profit	1.6	1.5	1.5	1.5	1.6
Provisions	0.3	0.2	0.3	0.3	0.3
PBT	1.3	1.3	1.2	1.1	1.3
Tax	0.3	0.3	0.3	0.3	0.3
ROA	1.0	0.9	0.9	0.9	1.0
Leverage (x)	11.3	12.0	12.8	13.5	13.9
ROE	10.8	11.1	11.5	11.5	13.5

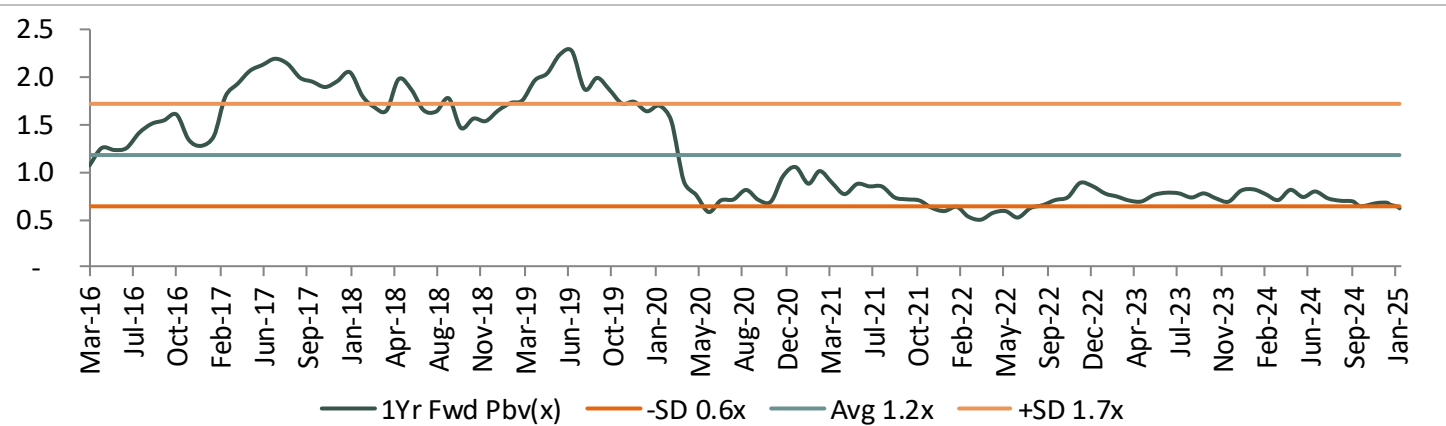
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



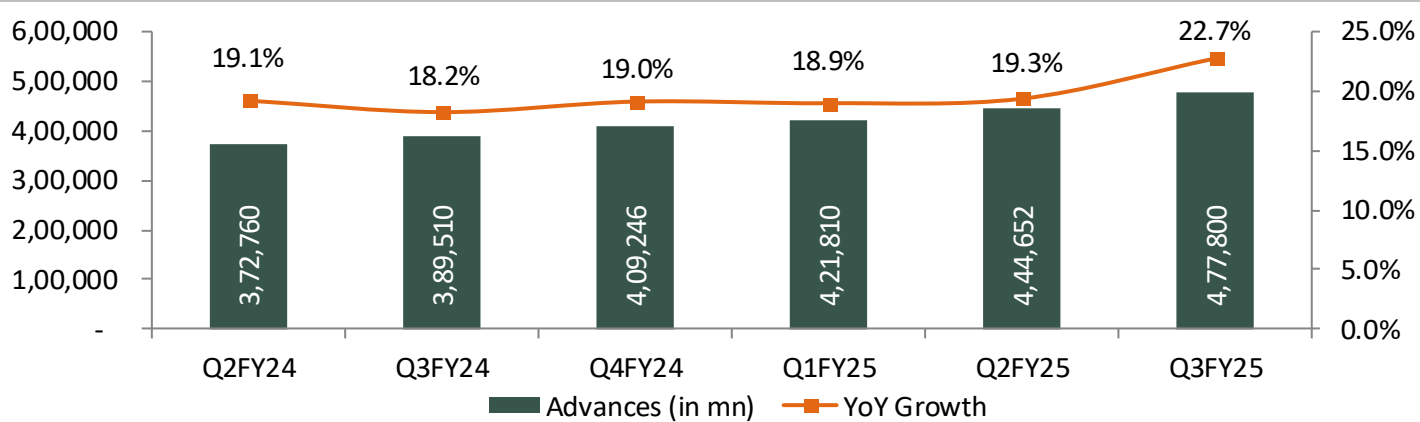
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY16-25)



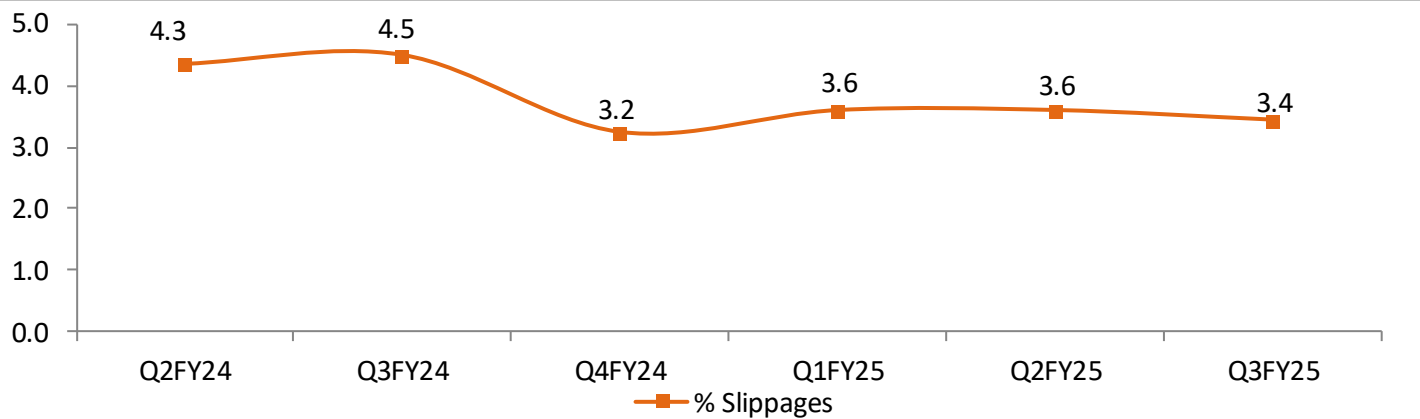
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth (YoY) improved further during the qtr



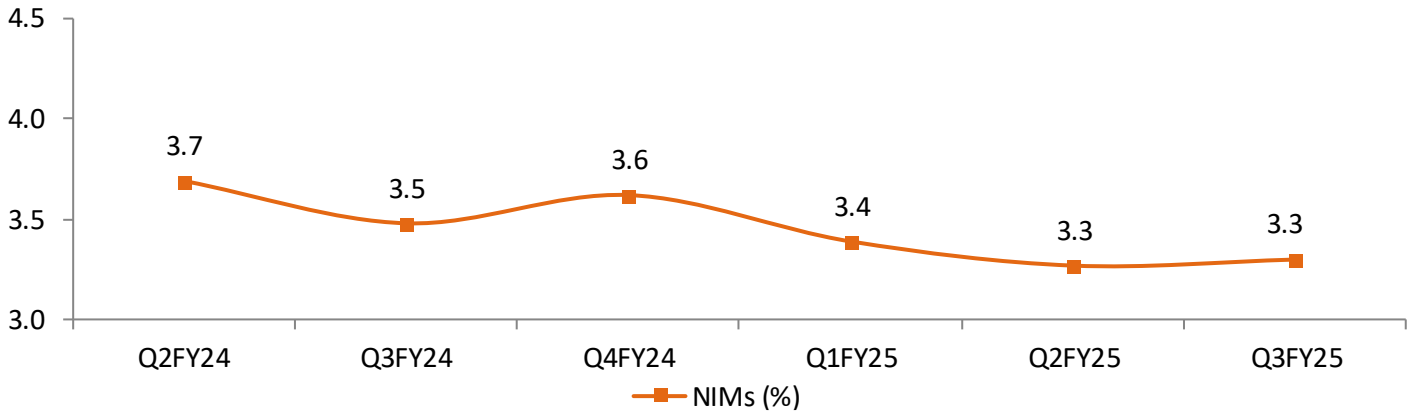
Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio (annualized) improved QoQ



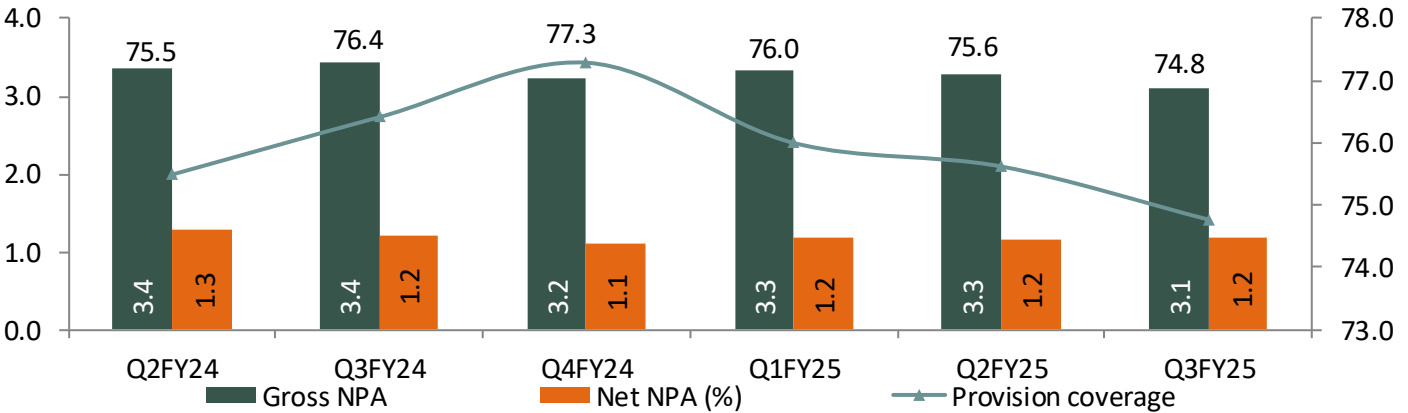
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins improved by 3bps QoQ



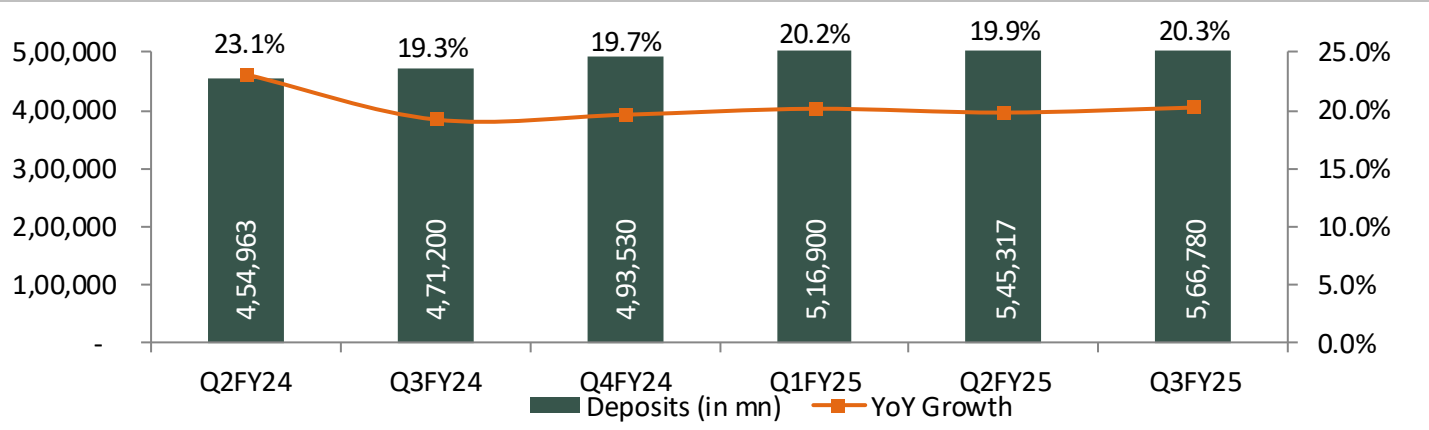
Source: Company; IDBI Capital Research

Exhibit 8: Asset quality improved during the qtr



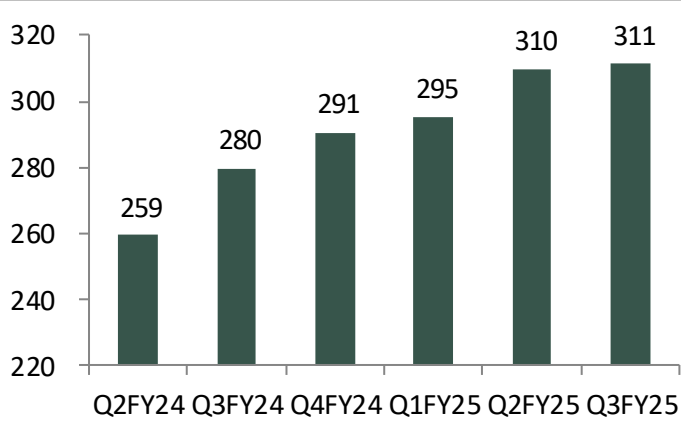
Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth YoY increased during the quarter



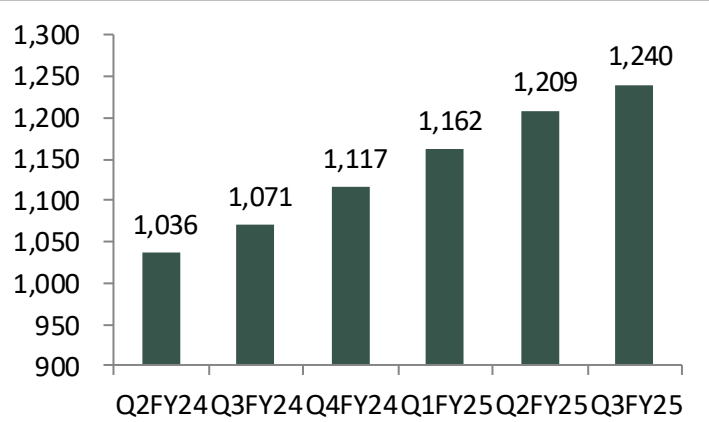
Source: Company; IDBI Capital Research

Exhibit 10: CASA per Branch

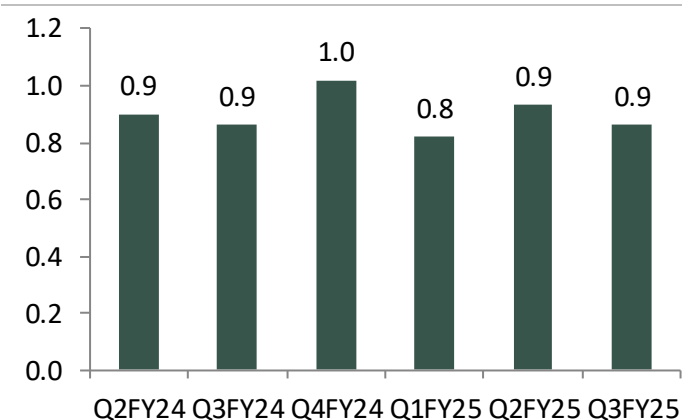


Source: Company; IDBI Capital Research

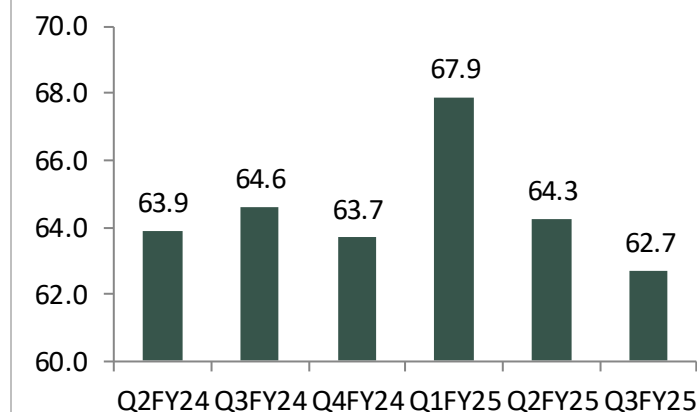
Exhibit 11: Deposit per Branch



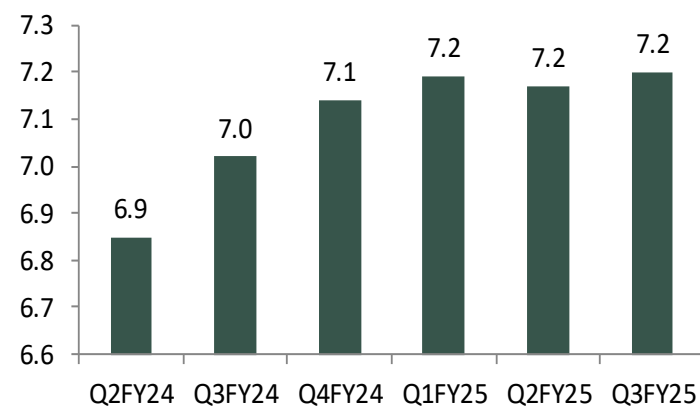
Source: Company; IDBI Capital Research

Exhibit 12: Return on Assets were stable QoQ

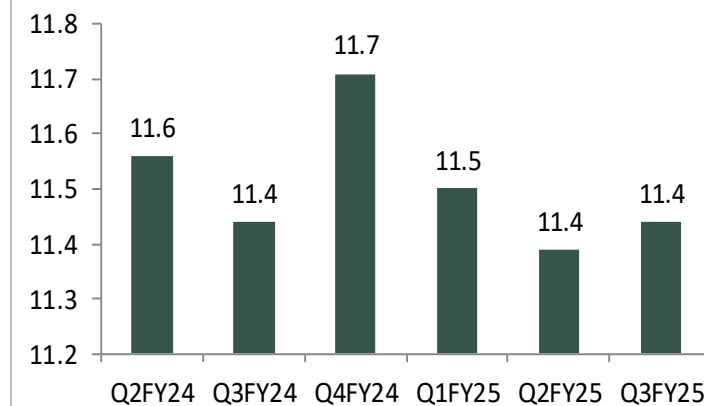
Source: Company; IDBI Capital Research

Exhibit 13: Cost to Income Ratio decreased sequentially

Source: Company; IDBI Capital Research

Exhibit 14: Cost of Funds remained largely stable during the qtr

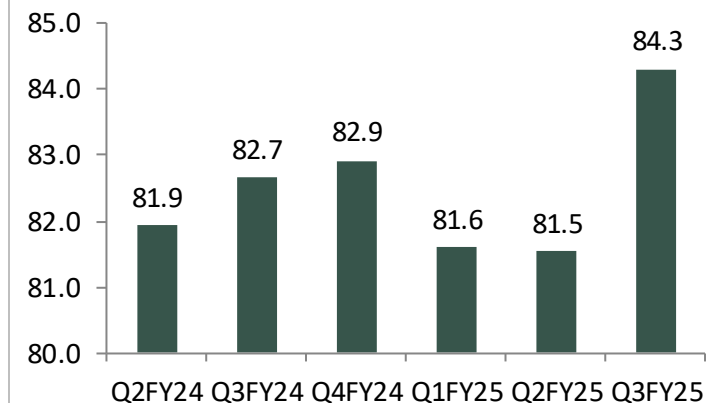
Source: Company; IDBI Capital Research

Exhibit 15: Yield on Advances saw slight uptick QoQ

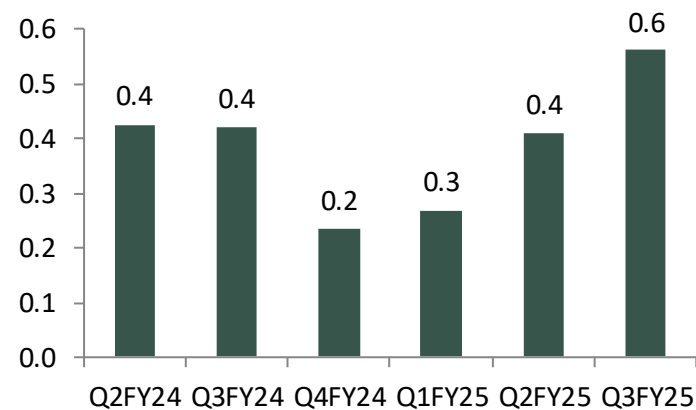
Source: Company; IDBI Capital Research

Exhibit 16: Return on Equity decreased QoQ

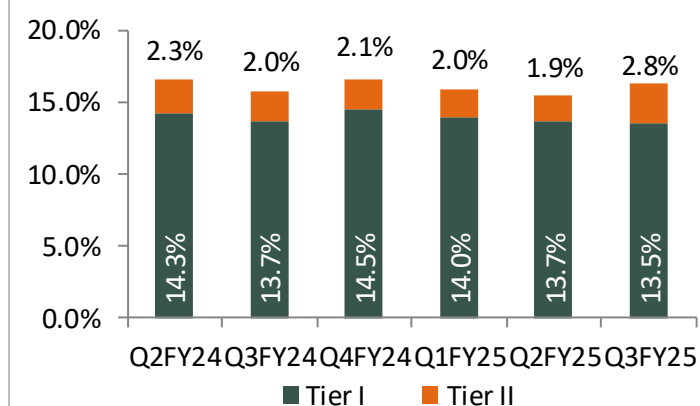
Source: Company; IDBI Capital Research

Exhibit 17: Credit Deposit ratio remained range bound between 80-85%, though increased QoQ

Source: Company; IDBI Capital Research

Exhibit 18: Credit Cost (annualized) increased sequentially

Source: Company; IDBI Capital Research

Exhibit 19: CAR remained comfortable

Source: Company; IDBI Capital Research

Exhibit 20: Composition of Advances (Product Wise)

Product Wise Advances (In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate banking	30,101	30,382	30,681	(0.9)	(1.9)
Agri & Inclusive Banking	1,12,761	93,093	1,09,384	21.1	3.1
Commercial Vehicle	4,778	2,337	2,668	104.4	79.1
Gold Loan	16,245	12,075	15,563	34.5	4.4
Co lending	53,991	33,498	35,572	61.2	51.8
Mortgages	2,12,621	1,75,280	2,01,427	21.3	5.6
SME and MSME	25,323	23,371	26,234	8.4	(3.5)
Others	21,979	19,476	23,122	12.9	(4.9)
Total Advances	4,77,800	3,89,510	4,44,652	22.7	7.5

Source: Company; IDBI Capital Research

Exhibit 21: Changes in Product Mix (Advances)

Product Wise Advances Mix(In %)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate banking	6.3	7.8	6.9	-150 bps	-60 bps
Agri & Inclusive Banking	23.6	23.9	24.6	-30 bps	-100 bps
Commercial Vehicle	1.0	0.6	0.6	40 bps	40 bps
Gold Loan	3.4	3.1	3.5	30 bps	-10 bps
Co lending	11.3	8.6	8.0	270 bps	330 bps
Mortgages	44.5	45.0	45.3	-50 bps	-80 bps
SME and MSME	5.3	6.0	5.9	-70 bps	-60 bps
Others	4.6	5.0	5.2	-40 bps	-60 bps
Total Advances	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Disbursement

Product Wise Disbursements (In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate Banking	6,620	7,440	6,340	(11.0)	4.4
Agri & Inclusive Banking	11,310	11,420	11,400	(1.0)	(0.8)
Gold Loan	5,670	3,410	6,080	66.3	(6.7)
Construction Finance	3,730	2,590	3,210	44.0	16.2
Mortgages	14,830	14,940	14,400	(0.7)	3.0
SME and MSME	5,410	3,270	5,860	65.4	(7.7)
Total Disbursements	47,570	43,070	47,290	10.4	0.6

Source: Company; IDBI Capital Research

Exhibit 23: Changes in Disbursement Mix

Product Wise Disbursement Mix(In %)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate Banking	13.9	17.3	13.4	-336 bps	51 bps
Agri & Inclusive Banking	23.8	26.5	24.1	-274 bps	-33 bps
Gold Loan	11.9	7.9	12.9	400 bps	-94 bps
Construction Finance	7.8	6.0	6.8	183 bps	105 bps
Mortgages	31.2	34.7	30.5	-351 bps	72 bps
SME and MSME	11.4	7.6	12.4	378 bps	-102 bps
Total Disbursements	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 24: Composition of Gross NPA

Product Wise GNPA(In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate Banking	1,780	2,280	1,920	(21.9)	(7.3)
Agri & Inclusive Banking	3,810	3,240	3,520	17.6	8.2
Gold Loan	250	320	330	(21.9)	(24.2)
Commercial Vehicle	1,170	1,570	1,420	(25.5)	(17.6)
Mortgages	5,690	4,200	5,320	35.5	7.0
SME and MSME	1,790	1,650	1,820	8.5	(1.6)
Others	680	420	640	61.9	6.3
Total Gross NPA	15,170	13,680	14,970	10.9	1.3

Source: Company; IDBI Capital Research

Exhibit 25: Changes in Gross NPA Mix

Product Wise Gross NPA Mix(In %)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Corporate Banking	11.7	16.7	12.8	-493 bps	-109 bps
Agri & Inclusive Banking	25.1	23.7	23.5	143 bps	160 bps
Gold Loan	1.6	2.3	2.2	-69 bps	-56 bps
Commercial Vehicle	7.7	11.5	9.5	-376 bps	-177 bps
Mortgages	37.5	30.7	35.5	681 bps	197 bps
SME and MSME	11.8	12.1	12.2	-26 bps	-36 bps
Others	4.5	3.1	4.3	141 bps	21 bps
Total Gross NPA	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	13,575	17,170	19,279	21,239	25,229	29,776
<i>Change (yoy, %)</i>	6%	26%	12%	10%	19%	18%
Fees	3,782	4,007	4,394	5,820	6,450	7,611
Other Income	738	87	348	1,222	977	1,092
Net Revenue	18,095	21,264	24,021	28,281	32,656	38,479
Operating expenses	10,126	13,397	15,377	18,148	20,984	23,476
Employee expenses	5,391	6,929	7,943	9,259	10,234	11,107
Other expenses	4,734	6,468	7,434	8,889	10,750	12,368
Pre-Provision Profit	7,970	7,867	8,644	10,134	11,672	15,004
<i>Change (yoy, %)</i>	-10%	-1%	10%	17%	15%	29%
Provision	4,074	1,592	1,425	1,919	2,479	2,925
PBT	3,895	6,276	7,220	8,215	9,192	12,078
Taxes	1,020	1,620	1,860	2,068	2,314	3,040
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
Net profit	2,875	4,656	5,360	6,147	6,879	9,038
<i>Change (yoy, %)</i>	-14%	62%	15%	15%	12%	31%
EPS	9.2	14.9	17.1	19.7	22.0	28.9
Return on Equity (%)	7.4	10.8	11.1	11.5	11.5	13.5
Return on Assets (%)	0.7	1.0	0.9	0.9	0.9	1.0

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	3,110	3,115	3,128	3,128	3,128	3,128
Reserves	37,365	42,515	47,551	53,308	59,717	68,208
Networth	40,475	45,630	50,679	56,436	62,845	71,336
Deposits	3,46,917	4,12,389	4,93,530	5,90,010	7,00,079	8,29,961
Current deposits	21,304	21,141	24,130	53,101	63,007	74,696
Saving deposits	71,507	87,815	1,04,295	1,06,202	1,26,014	1,49,393
Term deposit	2,54,106	3,03,433	3,65,106	4,30,707	5,11,058	6,05,871
Borrowings	40,818	41,181	62,195	77,520	72,031	75,982
Other liabilities	19,715	24,458	23,966	21,582	23,997	25,747
Total Liab. & Equity	4,47,925	5,23,659	6,30,370	7,45,547	8,58,952	10,03,025
Cash	40,907	23,684	30,659	36,413	43,142	51,081
Advances	2,90,958	3,43,807	4,09,246	4,93,141	5,81,906	6,86,650
Investments	90,507	1,25,825	1,62,108	1,87,083	2,03,549	2,33,422
Fixed Assets	6,612	8,263	8,649	8,216	8,627	9,059
Other Assets	18,942	22,080	19,708	20,693	21,728	22,814
Total assets	4,47,925	5,23,659	6,30,370	7,45,547	8,58,952	10,03,025

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth						
Deposits	16.8	18.9	19.7	19.5	18.7	18.6
Advances	13.0	18.2	19.0	20.5	18.0	18.0
NII	5.5	26.5	12.3	10.2	18.8	18.0
Pre-Provision Profit	(10.0)	(1.3)	9.9	17.2	15.2	28.5
Net Profit	(14.4)	61.9	15.1	14.7	11.9	31.4
Spreads						
Yield on Assets	9.4	9.7	10.2	10.2	10.1	10.1
Cost of Funds	5.9	5.9	6.8	7.1	6.9	6.9
NIM	3.6	4.0	3.7	3.4	3.4	3.4
CASA	26.8	26.4	26.0	27.0	27.0	27.0
Operating Efficiency						
Cost-to-Income	56.0	63.0	64.0	64.2	64.3	61.0
Cost-to-Assets	2.4	2.8	2.7	2.6	2.6	2.5
Asset Quality						
GNPA	4.4	3.3	3.3	3.1	3.2	3.2
NNPA	2.0	1.0	1.1	1.0	1.1	1.1
Provision Coverage	55.6	68.2	66.4	67.1	65.8	65.0
Credit Cost	1.5	0.5	0.4	0.4	0.5	0.5
Capital Adequacy						
CAR	18.9	17.6	16.6	15.6	14.3	13.7
Tier I	15.8	15.2	14.5	13.4	12.7	12.2
Valuation						
EPS	9.2	14.9	17.1	19.7	22.0	28.9
ABV	115.6	139.4	152.4	169.1	185.5	208.1
P/E	12.3	7.6	6.6	5.8	5.2	3.9
P/ABV	1.0	0.8	0.7	0.7	0.6	0.5
ROE	7.4	10.8	11.1	11.5	11.5	13.5
ROA	0.7	1.0	0.9	0.9	0.9	1.0
RORWA	1.2	1.8	1.8	1.7	1.6	1.8

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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