BUY (Maintain)

CMP: **INR 143** Target Price: **INR 175** ▲ 22%

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17 June 2025

India | Equity Research | Company Update

DCB Bank

Banking

CXO 1X1: Praveen Kutty, MD&CEO

We met Mr Praveen Kutty, MD&CEO of DCB Bank (DCB). Highlights: 1) Management is re-orienting DCB towards being customer-centric, as opposed to being product-centric earlier. Over the medium term, management believes this should ideally enable higher customer engagement, enrich depth of relationship, improve cross-selling, lower cost of acquisition and scale benefits and in whole, position the bank better vs. competition. 2) Co-lending share has grown swiftly to ~13% of overall loans; growth here is now likely to be similar to overall loans. Co-lending is slightly NIM dilutive, but has significantly higher RoE. 3) Given the lead-lag on interest rate, NIM may experience pressure, but DCB expects fee/treasury gains and contained opex to cushion the impact. 4) While a large part of the rise in gross slippages (vs. pre-Covid-19) is related to gold loans (minimal impact on credit costs), the bank aims to further tighten its underwriting. Maintain **BUY.**

In this report, we also examine the reasons for the significant de-rating of DCB post Covid-19. It is perhaps the only banking stock (without material MFI exposure) where current valuations are similar or lower than pandemic levels. We highlight that DCB has seen a significant rise in gross slippages, though net slippages or credit costs levels have seen little or no differences. The loan growth, even excluding co-lending, has consistently been strong and one of the highest across peers. The heavy-lifting phase on investment in branch/headcount too seems over; RoA improvement could come through once the NIM cycle reverses in FY27. On balance, we maintain **BUY** with an unchanged TP of INR 175, valuing the stock at ~0.8x FY27E ABV. Key risks: Slower-than-expected operating efficiencies; and higher-than-expected NIM pressure.

Sharp de-rating post-Covid-19; perhaps the only banking stock trading at Covid-19 valuations

DCB's stock has seen a sharp de-rating post pandemic. For the around five-year period, pre-Covid-19 (2015–20), the stock averaged ~2x multiple on a 1-year forward basis. Excluding the three months of peak crisis, it averaged just 0.8x forward book in the last ~5 years. This is a banking stock (barring banks with MFI exposure) that is still trading at multiples similar to the pandemic.

Surge in gross slippages post pandemic; net NPA higher….

Gross slippages were consistently low at <2% in the pre-Covid-19 phase. DCB saw a surge in slippages to ~6%/5% levels during the Covid-19 phase in FY22/23. Post pandemic, slippages trended lower but for FY25 are still elevated at ~3%.

Financial Summary

Y/E March	FY24A	FY25A	FY26E	FY27E
NII (INR bn)	19.3	21.1	23.6	29.0
Op. profit (INR bn)	8.6	10.4	12.4	16.2
Net Profit (INR bn)	5.4	6.2	7.2	9.7
EPS (INR)	17.2	19.6	22.8	31.0
EPS % change YoY	14.8	14.3	16.4	35.8
ABV (INR)	142.0	158.2	178.6	207.5
P/BV (x)	0.9	0.8	0.7	0.6
P/ABV (x)	1.0	0.9	0.8	0.7
Return on Assets (%)	0.9	0.9	0.9	1.0
Return on Equity (%)	11.8	12.1	12.5	14.9

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Market Data

Market Cap (INR)	44bn
Market Cap (USD)	517mn
Bloomberg Code	DCBB IN
Reuters Code	DCBA.BO
52-week Range (INR)	149 /101
Free Float (%)	84.0
ADTV-3M (mn) (USD)	3.1

Price Performance (%)	3m	6m	12m
Absolute	35.5	8.3	9.2
Relative to Sensex	25.0	8.7	(0.3)

ESG Score	2023	2024	Change
ESG score	NA	67.8	NA
Environment	NA	49.8	NA
Social	NA	62.2	NA
Governance	NA	80.8	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
EPS	1	1

Previous Reports

05-06-2025: Quarterly results review
26-04-2025: Q4FY25 results review

Clearly, there is a surge in gross slippages vs. the pre-Covid-19 period, which has impacted investor sentiment. This is also relevant as systemic slippages have moderated for most banks. At the same time, the net NPA ratio has been stable for the last 2–3 years at 1.1%, but are much higher than 0.7–0.8% pre-Covid-19. This is again at odds with peers and broader system where net NPA levels are multi-years low.

...but net slippages/credit costs broadly unchanged

While a rise in gross slippages is concerning, it is important to note that there is no material change in the net slippages/credit costs' trajectory. Part of the rise in gross slippages can be attributed to surge in gold loan slippages, which tend to be recovered fast with minimal eventual credit costs. As against gross slippages of ~3.6%/3% in FY24/FY25, gross slippages excluding gold loans, were ~2.3%/2.1%. Similarly, there is a sharp rise in recoveries as well within overall recovery/upgradation. While we acknowledge that DCB has reasonable scope to improve its underwriting, the credit quality is not as bad as reflected by gross slippages.

In fact credit costs have been at quite comfortable levels of ~0.4–0.5% for FY24–25. The reason for muted credit costs is a commensurate rise in recoveries in parallel. Thus, net slippages have remained similar or comfortable at ~0–0.8% range in the last three years with FY25 at ~0.6%. We model net slippages of ~0.6–0.7% for FY26–27E along with comfortable credit costs of ~0.5% each in the same period.

Loan growth has been consistently strong; we estimate ~18% CAGR for FY25-27

DCB has a strong track record of nearly doubling its loan book in 36–42 months on a consistent basis, which was impacted during the pandemic. Loan growth remained muted in single-digits for the pandemic period. Post this, the bank regained its mojo and has delivered strong loan growth over the last three years (FY23-25). In fact, DCB was the fastest growing bank with FY25 loan growth at ~25% YoY. We also highlight that the bank has been posting loan growth >18% for the last 10 consecutive quarters, perhaps the only bank.

Co-lending has emerged as the key growth driver for DCB. The share of co-lending has jumped to 13% as of FY25 vs. ~7%/7.5% in FY23/FY24, suggesting strong growth contribution. Excluding co-lending also, growth has been healthy at ~17% YoY in FY25 – still one of the highest across peers. Going ahead, the bank expects co-lending book growth to be similar to overall loans. We model ~18% CAGR in loans for FY25–27E.

Differentiated SA strategy; rates' lead-lag may hit NIM

DCB has managed to deliver strong deposits growth despite systemic headwinds. The bank has a differentiated savings strategy, wherein it offers graded savings rates. Interestingly, DCB has the lowest card rates, at 1.5%, for balances up to INR 0.1mn and also the highest card rates of 7.25% (down from 8% recently) for balances between INR 20mn to INR 30mn.

DCB reported FY25 NIM of 3.31%, down 34bps YoY. On calculated basis, NIM slipped ~38bps YoY – one of the highest across peers. We highlight that the bank has seen a broadly similar rise in calculated cost of funds at ~20bps YoY in FY25; though yields on loans outcomes were different. DCB was one of the few banks that saw higher pressure on calculated yields on advances (down 16bps), which in part could be due to focus on higher growth and change in penal interest accounting.

Ahead, the bank intends to improve its share of high-yielding LAP within mortgage and working capital loans. It also has a reasonable share of fixed-cum-floating loan rates, which should help cushion the yields in a falling rate cycle. As per DCB, the co-lending book is not materially NIM dilutive. We see ~20bps YoY dip in calculated NIM for FY26E and a similar rebound for FY27E.

Heavy lifting on investment phase seems over

The bank embarked on a strong headcount addition spree and hired ~3,500 employees over FY21-23 period. This represented ~50% jump from FY21 levels. The net head-count increased further by ~14% in FY24. Similarly, the branch count also increased ~32% in the FY21–25 period. Due to strong investments in branches and capacity, opex growth was ahead of revenue growth; thus, cost to income ratio jumped from ~<50% in FY21 to ~64% in FY24. DCB, however, now intends to extract operating leverage and headcount has reduced in the last few quarters. Cost to income ratio, also, took a breather and eased marginally in FY25.

Over the last few quarters, there is a surge in fee income, also aided by treasury gains. Core fee income growth too has gathered momentum – further aided by penal charges now being grouped in fee income vs. NII earlier.

The bank acknowledges pressure on NII growth given lead-lag on interest rate, though it aims for strong treasury gains, granular fee and tight opex to cushion operating earnings. We model, cost to income ratio of ~63% in FY26 but a marked improvement to <60% by FY27E.

1% RoA by FY27; customer-centric focus, possible game changer

After a couple of years, revenue growth in FY25 has outpaced opex growth. Investment in employee headcount is likely to be calibrated and should yield operating leverage, in our view. Credit costs are likely to remain muted at ~50bps for FY26–27E. However, NIM has been a bit under pressure in FY25 and may remain so in FY26E due to the lead-lag in interest rates. We estimate overall RoA to remain stable at ~0.9% for FY26, with softness in NIM to be offset by better operating leverage and healthy treasury gains. For FY27E, DCB could deliver 1% RoA led by NIM expansion and continued operating leverage.

We highlight that DCB intends to sharpen its focus on being customer-centric (product-centric earlier). Management is hopeful that the focus is trickling across the organisation. Over the medium term, this should ideally enable higher customer engagement, depth of relationship, cross-sell, lower cost of acquisition, scale benefits along with better positioning vs. competition.

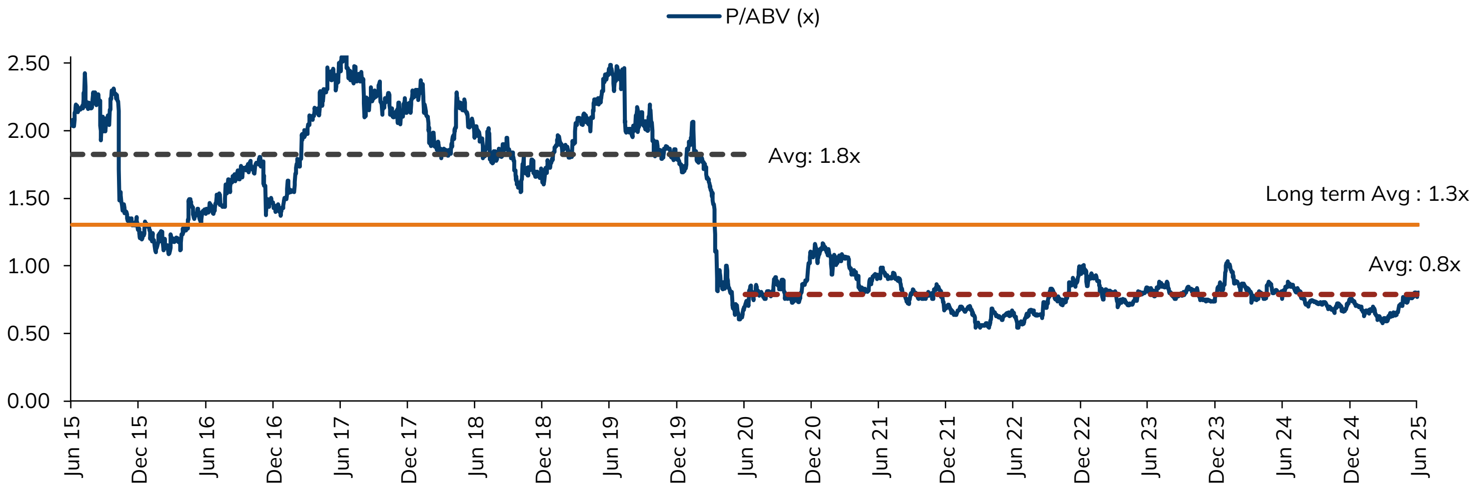
On a relative basis, within its peers (KVB, FB, SIB, CUBK), DCB has the highest cost of deposits. On the loans side, it has the lowest share of unsecured loans. Yet the loans' yields are reasonable; thus, the NIM differential is not stark. Focus on WC/OD/LAP should ideally improve yields ahead. However, the key difference is in lower fee and relatively higher opex. Customer centric focus can enable DCB to cross-sell more efficiently while keeping cost of customer acquisition in check.

Tier 1 healthy though may look to enhance dry-powder

Tier-1 stood at 14.3%, as of FY25. Despite ~25% YoY loan growth, the bank has consumed ~23bps of Tier-1 YoY, suggesting efficient capital consumption. The promoters' proposal to infuse token USD 10mn (22bps CET1) has been delayed due to procedural issues and unfortunate development at AKFED. However, DCB is hopeful of seeing fruition on this front in the next two quarters. The bank also intends to fortify its balance sheet and enhance dry powder for future capital.

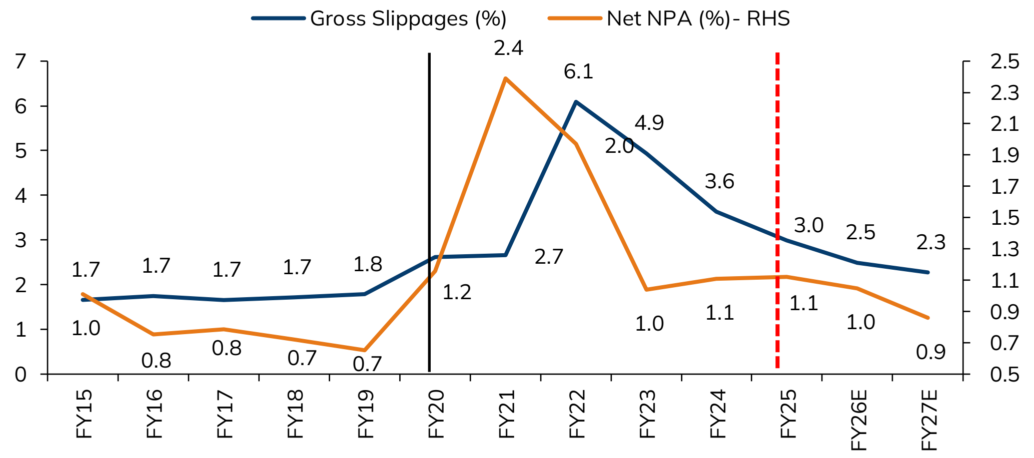
Story in charts

Exhibit 1: Sharp de-rating of DCB stock post pandemic. Stock traded at an average of ~1.8x 1 year forward basis pre-pandemic, which has slipped to 0.8x in the last ~5 years. We see strong risk-reward given attractive valuations



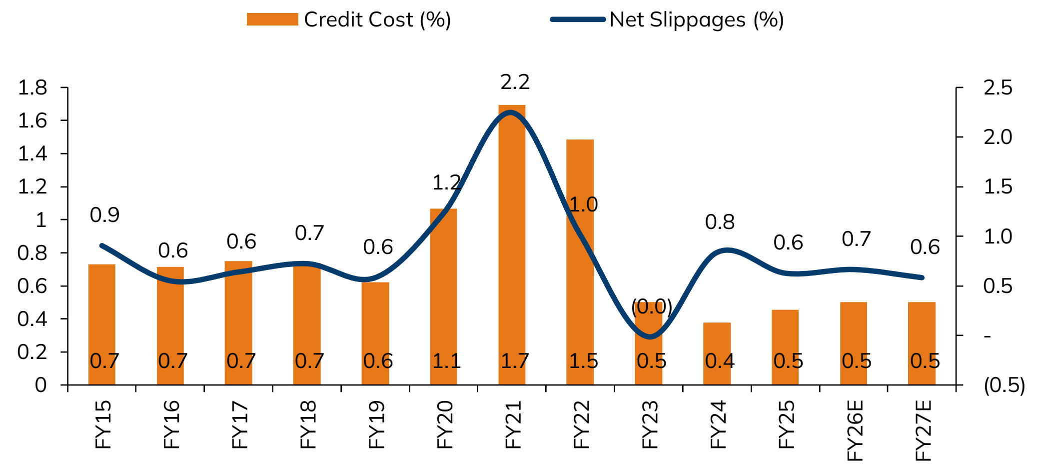
Source: I-Sec research, Company data

Exhibit 2: Slippages seems to have risen materially (and stayed elevated) post pandemic. Net NPA is also much higher than pandemic levels. Both issues seem to have weighed on investor sentiment.



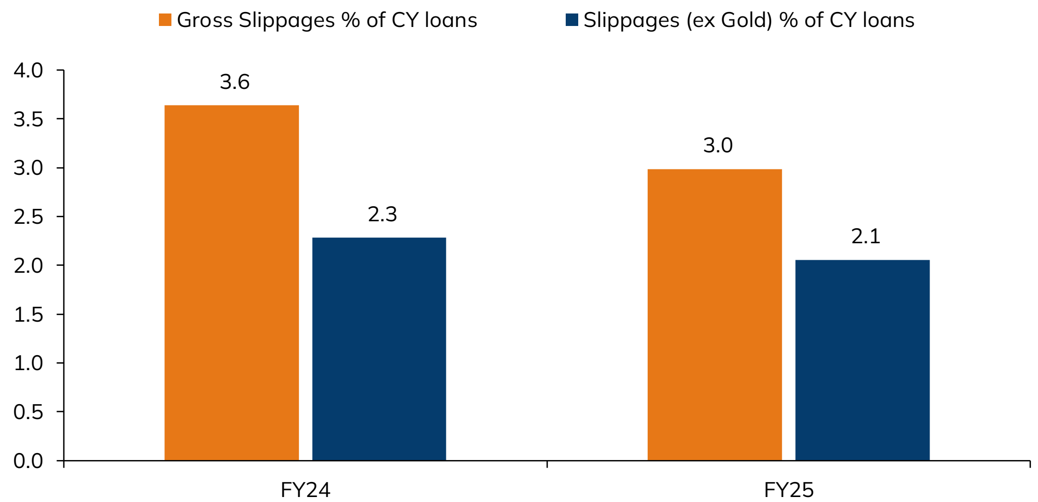
Source: I-Sec research, Company data

Exhibit 3: However, net slippages and credit costs are broadly similar and comparable suggesting gross slippages should be seen along net slippages.



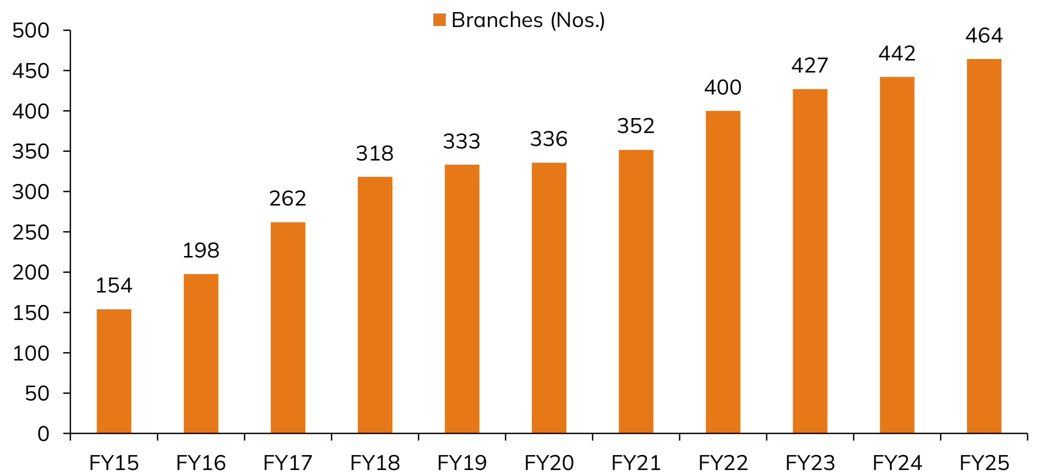
Source: I-Sec research, Company data

Exhibit 4: A large part of the gross slippage, in the last 2 years is driven by gold



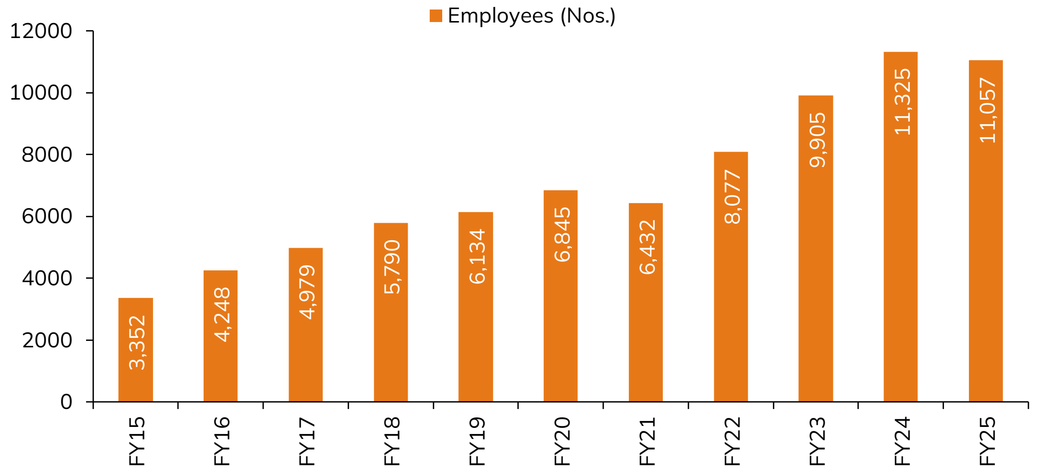
Source: I-Sec research, Company data

Exhibit 5: The bank has seen cumulative ~30% rise in branches over the last 4 years...



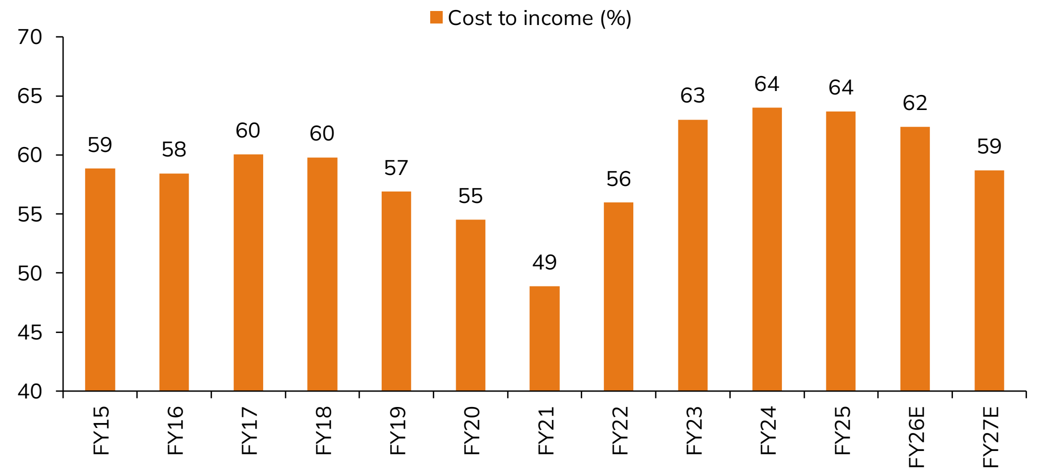
Source: I-Sec research, Company data

Exhibit 6: ...and an even faster rise in headcount over FY21-25, which now has already peaked



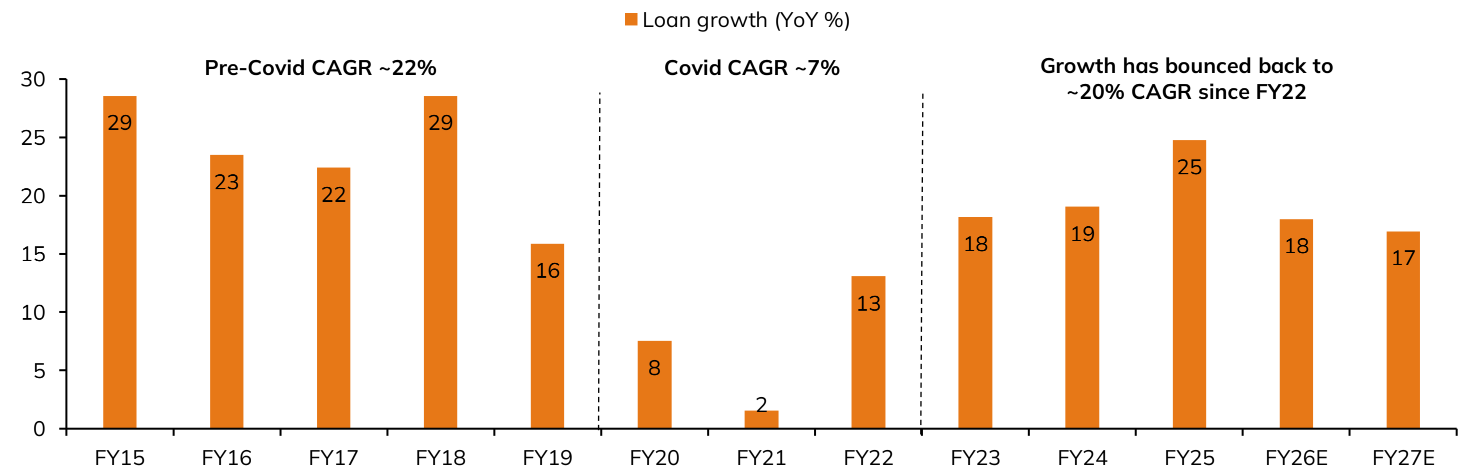
Source: I-Sec research, Company data

Exhibit 7: Cost to income has risen in the last 3 years but is likely to ease going ahead



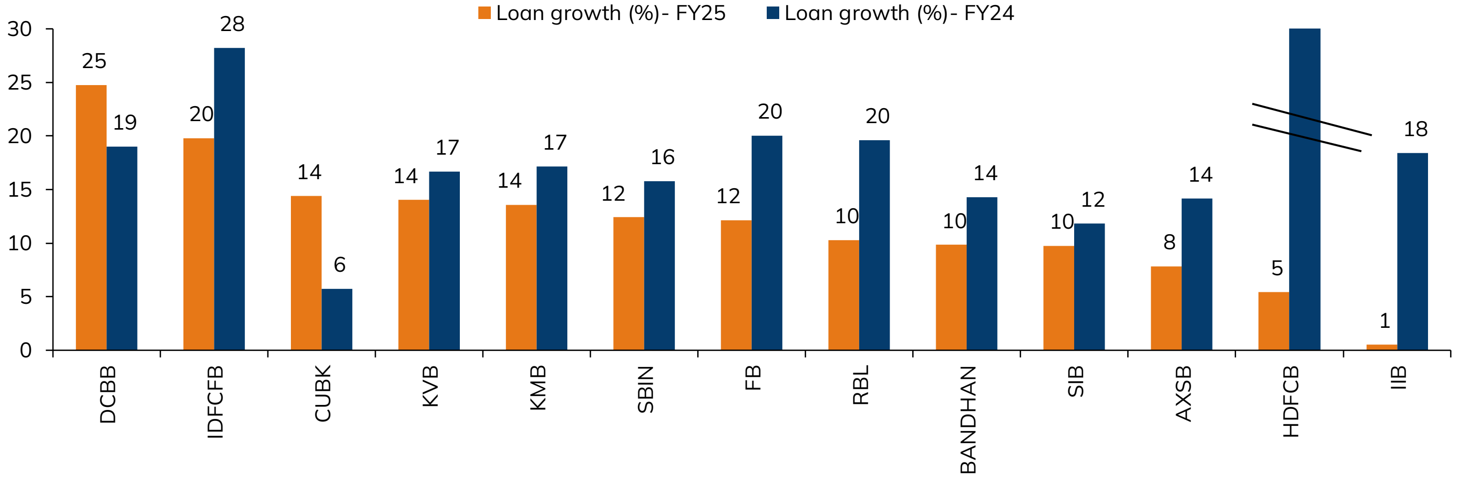
Source: I-Sec research, Company data

Exhibit 8: Loan growth has regained its mojo. The bank clocked ~25% YoY growth in FY25



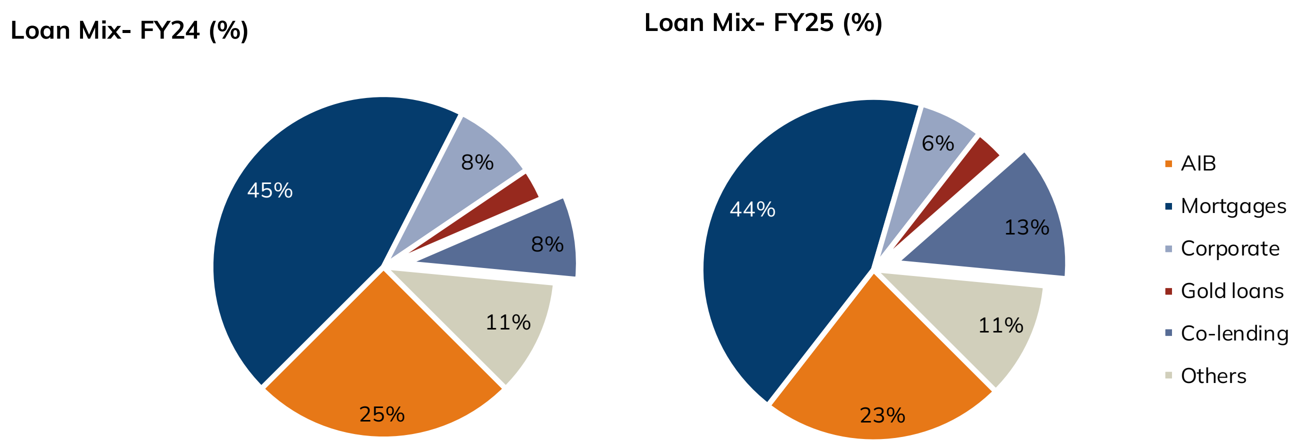
Source: I-Sec research, Company data

Exhibit 9: In fact, DCBB is the fastest growing bank in FY25



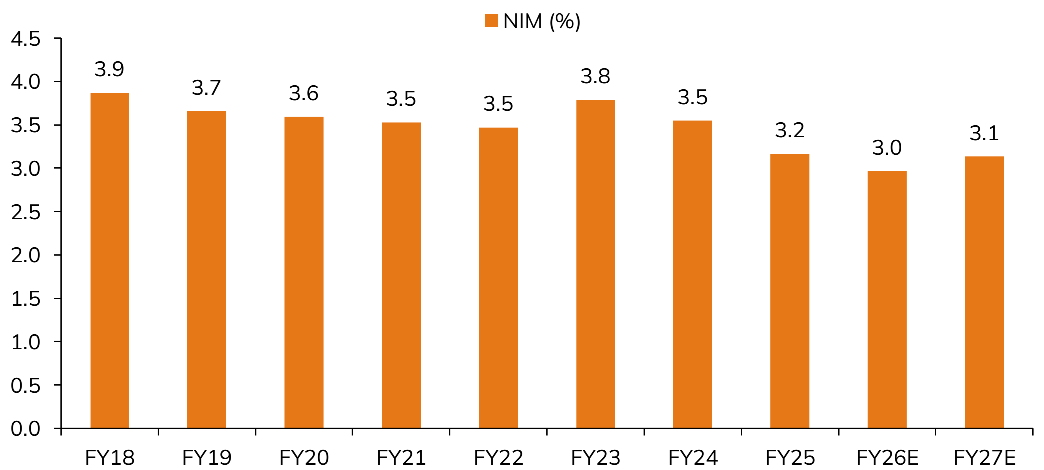
Source: I-Sec research, Company data
Note: HDFCB loan growth for FY24 is not comparable because of merger

Exhibit 10: Loan growth has been aided by co-lending



Source: I-Sec research, Company data

Exhibit 11: We expect ~20bps decline in calculated NIM in FY26 and healthy rebound in FY27



Source: I-Sec research, Company data

Exhibit 12: Bank has differentiated savings rate with rates as low as 1.5% (in initial bucket) and as high as 7.25% (in higher buckets)

SA Balances	SA rate (%)
< INR 0.1 mn	1.50%
INR 0.1 mn- INR 0.5 mn	2.50%
INR 0.5 mn- INR 1 mn	4.50%
INR 1 mn- INR 5 mn	6.60%
INR 5 mn- INR 10 mn	7.00%
INR 10 mn- INR 20 mn	7.00%
INR 20 mn- INR 30 mn	7.25%
INR 30 mn- INR 500 mn	7.00%
INR 500 mn- INR 3 bn	7.25%
>INR 3 bn	5.50%

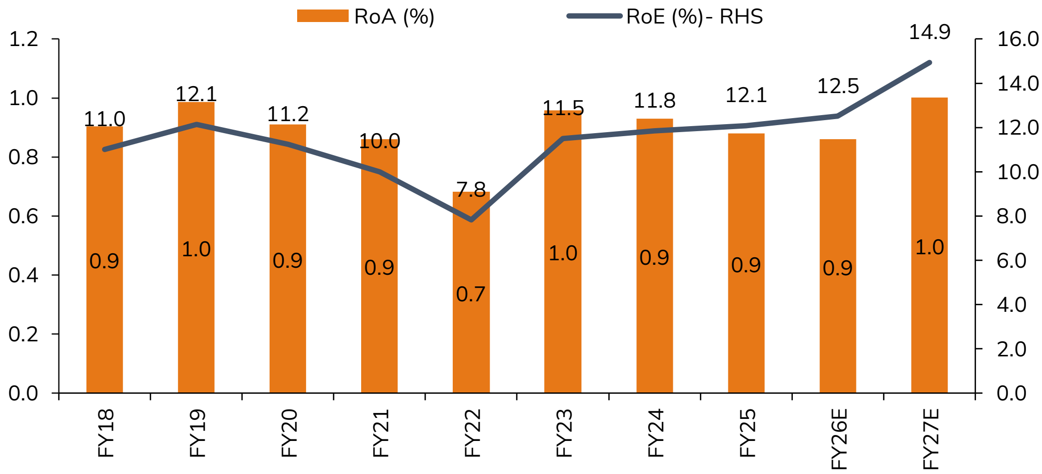
Source: I-Sec research, Company data

Exhibit 13: DCB has higher CoD and thus lower NIM. The bank also has lower fee and higher opex – which can be partly addressed by customer centricity.

FY25 RoAs Tree (%)	FB	RBL	YES	CUBK	IDFCBK	KVB	SIB	DCBB
Interest Income	8.0	9.8	7.5	7.9	11.4	8.6	7.7	9.3
Interest Expense	5.1	5.3	5.3	4.7	5.4	4.8	4.9	6.2
NII	**2.9**	**4.5**	**2.2**	**3.1**	**6.0**	**3.8**	**2.9**	**3.0**
Non-interest income	1.2	2.7	1.4	1.2	2.2	1.6	1.5	1.1
- Fee income	1.1	2.5	1.4	1.2	2.1	1.5	1.3	0.9
- Trading gains	0.1	0.2	0.0	0.0	0.1	0.1	0.2	0.2
Net Revenue	**4.0**	**7.2**	**3.6**	**4.3**	**8.2**	**5.4**	**4.4**	**4.1**
Opex	2.2	4.7	2.5	2.1	5.9	2.6	2.5	2.6
Reported PPoP	**1.9**	**2.5**	**1.0**	**2.3**	**2.3**	**2.9**	**1.7**	**1.5**
Core PPoP	1.8	2.4	1.0	2.2	2.2	2.8	1.7	1.3
Provisioning	0.2	2.1	0.3	0.4	1.7	0.6	0.4	0.3
PBT	1.63	0.47	0.76	1.91	0.59	2.30	1.44	1.19
Tax	0.4	(0.0)	0.2	0.4	0.1	0.6	0.4	0.3
ROAs	**1.2**	**0.5**	**0.6**	**1.5**	**0.5**	**1.7**	**1.1**	**0.9**
Leverage	10.6	9.4	9.2	8.3	9.1	10.2	13.4	13.7
RoEs	**13.0**	**4.6**	**5.4**	**12.6**	**4.3**	**17.7**	**14.3**	**12.1**

Source: I-Sec research, Company data

Exhibit 14: We expect RoA to remain broadly stable in FY26 but FY27 should see uptick to ~1% mark led by NIM rebound and operating leverage



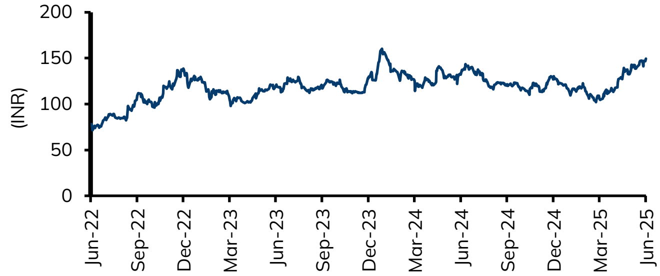
Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Sep'24	Dec'24	Mar'25
Promoters	14.7	14.7	14.7
Institutional investors	37.7	36.9	38.8
MFs and other	18.3	19.5	19.7
FIs/ Banks	1.1	0.8	9.4
FIIs	18.3	16.6	9.6
Others	47.6	48.4	46.5

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest income	53,620	64,706	75,336	87,738
Interest expense	34,341	43,640	51,747	58,692
Net interest income	**19,279**	**21,066**	**23,589**	**29,046**
Non-interest income	4,742	7,505	9,269	10,284
Operating income	**24,021**	**28,571**	**32,858**	**39,330**
Operating expense	15,377	18,201	20,497	23,088
Staff expense	7,943	9,231	10,276	11,407
Operating profit	**8,644**	**10,370**	**12,361**	**16,242**
Core operating profit	**8,298**	**8,820**	**10,511**	**14,742**
Provisions & Contingencies	1,425	2,084	2,784	3,267
Pre-tax profit	**7,220**	**8,286**	**9,577**	**12,975**
Tax (current + deferred)	1,860	2,133	2,413	3,270
Net Profit	**5,360**	**6,153**	**7,164**	**9,705**
Adjusted net profit	**5,360**	**6,153**	**7,164**	**9,705**

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Cash and balance with RBI/Banks	30,659	26,986	47,590	59,715
Investments	1,62,108	2,01,499	2,15,222	2,38,132
Advances	4,09,246	5,10,469	6,02,223	7,04,222
Fixed assets	8,649	8,984	10,368	11,612
Other assets	19,708	20,160	23,442	27,489
Total assets	**6,30,370**	**7,68,098**	**8,98,845**	**10,41,171**
Deposits	4,93,530	6,00,310	7,10,176	8,35,096
Borrowings	62,195	91,152	82,997	83,597
Other liabilities and provisions	23,932	19,730	42,190	50,164
Share capital	3,128	3,143	3,128	3,128
Reserve & surplus	47,585	53,764	60,354	69,186
Total equity & liabilities	**6,30,370**	**7,68,098**	**8,98,845**	**10,41,171**
% Growth	20.4	21.8	17.0	15.8

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	313	314	313	313
Adjusted EPS	17.2	19.6	22.8	31.0
Book Value per share	152.8	171.8	193.7	221.9
Adjusted BVPS	142.0	158.2	178.6	207.5
Valuation ratio				
PER (x)	8.2	7.1	6.1	4.5
Price/ Book (x)	0.9	0.8	0.7	0.6
Price/ Adjusted book (x)	1.0	0.9	0.8	0.7
Dividend Yield (%)	0.9	1.0	1.3	2.0
Profitability ratios (%)				
Yield on advances	11.3	11.1	10.7	10.8
Yields on Assets	9.3	9.3	9.0	9.0
Cost of deposits	6.8	7.1	7.1	6.8
Cost of funds	6.0	6.2	6.2	6.1
NIMs	3.5	3.2	3.0	3.1
Cost/Income	64.0	63.7	62.4	58.7
Dupont Analysis (as % of Avg Assets)				
Interest Income	9.3	9.3	9.0	9.0
Interest expended	6.0	6.2	6.2	6.1
Net Interest Income	**3.3**	**3.0**	**2.8**	**3.0**
Non-interest income	0.8	1.1	1.1	1.1
Trading gains	0.1	0.2	0.2	0.2
Fee income	0.8	0.9	0.9	0.9
Total Income	**4.2**	**4.1**	**3.9**	**4.1**
Total Cost	**2.7**	**2.6**	**2.5**	**2.4**
Staff costs	1.4	1.3	1.2	1.2
Non-staff costs	1.3	1.3	1.2	1.2
Operating Profit	**1.5**	**1.5**	**1.5**	**1.7**
Core Operating Profit	1.4	1.3	1.3	1.5
Non-tax Provisions	0.2	0.3	0.3	0.3
PBT	**1.3**	**1.2**	**1.1**	**1.3**
Tax Provisions	0.3	0.3	0.3	0.3
Return on Assets (%)	**0.9**	**0.9**	**0.9**	**1.0**
Leverage (x)	12.8	13.7	14.5	14.9
Return on Equity (%)	**11.8**	**12.1**	**12.5**	**14.9**
Asset quality ratios (%)				
Gross NPA	3.2	3.0	2.9	2.8
Net NPA	1.1	1.1	1.0	0.9
PCR	66.4	63.2	65.0	70.0
Gross Slippages	4.3	3.7	2.9	2.7
LLP / Avg loans	0.5	0.7	0.7	0.7
Total provisions / Avg loans	0.4	0.5	0.5	0.5
Net NPA / Networth	9.0	10.0	9.9	8.4
Capitalisation ratios (%)				
Core Equity Tier 1	14.5	14.3	13.5	12.9
Tier 1 cap. adequacy	14.5	14.3	13.5	12.9
Total cap. adequacy	16.6	16.8	15.8	14.8

Source Company data, I-Sec research

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