

CMP	: INR 115
Reco	: BUY ↔
Target Price	: INR 150 ↔
Target Price Change	: No Change
Target 1HFY26 BV (x)	: 0.8
EPS Change FY24/ 25	: 1%/1%

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Market data	
Sensex	: 63,875
Sector	: BANKS
Market Cap (INR bn)	: 35.8
Market Cap (USD bn)	: 0.430
O/S Shares (mn)	: 311.9
52-wk HI/LO (INR)	: 141/97
Avg. Daily Vol ('000)	: 1,684
Bloomberg	: DCBB IN

Source: Bloomberg

	FY24e	FY25e	FY26e
EPS (INR)	17	20	22
BPVS (INR)	152	170	189
P/E (x)	6.9	5.7	5.1
P/BV (x)	0.8	0.7	0.6
NIM (%)	3.8	3.7	3.7

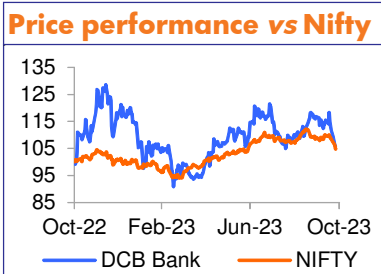
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	(8)	(6)	8	6
Relative	(5)	(3)	3	2

Source: Company, Antique

Shareholding pattern	
Promoters	: 15%
Public	: 85%
Others	: 0%

Source: Bloomberg



Source: Bloomberg, Indexed to 100

2QFY24 RESULT REVIEW

DCB Bank

In-line earnings; low credit cost, PCR declines QoQ

DCB Bank (DCB) reported in-line PAT of INR 1.3 bn (13% YoY; RoA of 0.9%). NII grew 16% YoY (in-line) and NIM contracted by 14 bps QoQ at 3.7%. Fee income growth was strong at 29% QoQ which along with contained opex (14% YoY) led to core PPP growth of 25% YoY (9% higher than estimate; 1.4% of average assets). Slippage ratio was elevated at 5% (vs. 4.6% in 1QFY24) as there were additions from the restructured pool into NPLs. Net slippages was at 1.4% (vs. 1.8% in 1QFY24) as upgrades during the quarter were higher. Credit cost remained contained at 27 bps, however, PCR declined 1.3% QoQ (-5.4% in 1HFY24) to 62.8%. Loan growth was healthy at 5% QoQ/ 19% YoY and deposits grew 23% YoY/ 6% QoQ led by TD growth of 7% QoQ. While NIM has moderated and credit cost can increase from its lows, operating leverage benefits would help the bank to post a RoA of 0.9%. We largely maintain our FY24/ 25 earnings estimates and introduce FY26 estimates. We maintain BUY with an unchanged TP of INR 150 (0.8x 1HFY26 BV) and before we raise the valuation multiples would wait for the gross slippages to subside.

In-line core operating performance

NII grew 16% YoY/ 1% QoQ (in-line). NIM contracted by 14 bps QoQ at 3.7% on account of a 15 bps QoQ increase in the cost of funds while the yield on loan was largely stable. Management has stated that the cost of deposits is expected to remain higher in the next two quarters before it stabilizes and maintains its NIM guidance of 3.7%–3.8% in FY24. Fee income growth was strong at 26% YoY/ 29% QoQ (0.7% of average assets) while other non-core income declined by 53% YoY. Opex growth was contained at 14% YoY (2.6% of assets vs. 2.8% QoQ). Core PPP grew 25% YoY/ 13% QoQ (1.4% of assets). Credit cost was contained at 27 bps (34 bps in 1QFY24) which supported PAT growth at 13% YoY, RoA of 0.9% (stable QoQ).

Slippage ratio was elevated while higher recoveries and upgrades led to a decline in net slippages

The annualized slippage ratio increased to 5% (vs. 4.6% in 1QFY24) due to an increase in NPLs from the restructured pool and mortgage portfolio. However, recoveries and upgrades were strong which has led to a decline in net slippages at 1.4% (vs. 1.8% in 1QFY24). GNPL/ NNPL increased marginally from 3.3%/ 1.2% to 3.4%/ 1.3% respectively. PCR decreased from 77% to 76% QoQ. NPL ratio increase was from mortgage, gold, and SME portfolio. Net restructured loans declined from 4.1% to 3.6% QoQ.

Loan growth remained healthy led by mortgage and AIB

Loans grew 5% QoQ and 19% YoY, led by 4% QoQ/ 24% YoY growth in mortgages (44% of portfolio), 6% QoQ (30% YoY) growth in agriculture, and inclusive banking portfolio. Corporate book growth was strong at 9% QoQ. SME book declined 17% YoY (+4% QoQ). The bank maintained its expectation of doubling the loan book in 3–4 years. Deposits grew by 6% QoQ and 22% YoY led by 2% QoQ growth in CASA and 7% QoQ increase in term deposits. CASA ratio declined from 26% to 25% QoQ. The loan to deposit ratio is near the optimal level and was at 82%. RWA to assets and Tier I stood at a comfortable 52% and 15%, respectively.

Investment Summary

Having gone through challenging times in the past two years, the bank is coming back on track towards normalization; however, gross flow of slippages remains high, which is still not comforting and we would keep monitoring. NIM has come off from its peak of 4% to 3.7% and credit cost which is running at its low can gradually rise; operating leveraging benefits to help the bank report RoA of 0.8x 1HFY26 BV drives and RoE closer to 13%. Healthy capitalization (Tier I of ~15%) and low valuations of 0.7x FY25 BV drives our BUY rating.

Quarterly Earnings

Profit and Loss (INR mn)	2QFY24	2QFY23	YoY %	1QFY24	QoQ %	2QFY24E	Deviation (%)	1HFY24	1HFY23	YoY %
Net Interest Income	4,757	4,111	15.7	4,707	1.1	4,733	0.5	9,464	7,850	20.6
Other Income	1,074	992	8.2	1,069	0.4	1,200	-10.5	2,143	1,916	11.8
Reported Fee income	970	770	26.0	750	29.3	850	14.1	1,720	1,418	21.3
Core Income	5,727	4,881	17.3	5,457	4.9	5,583	2.6	11,184	9,268	20.7
Other non-core Income	104	222	-53.4	319	-67.6	350	-70.4	423	498	-15.1
Operating Expenses	3,725	3,278	13.7	3,690	1.0	3,744	-0.5	7,415	6,280	18.1
Employee	1,889	1,717	10.1	1,951	-3.1	1,970	-4.1	3,840	3,268	17.5
Others	1,836	1,561	17.6	1,739	5.6	1,774	3.5	3,575	3,012	18.7
Core Operating Profits	2,002	1,603	24.8	1,767	13.3	1,839	8.9	3,769	2,988	26.1
Operating Profits	2,105	1,826	15.3	2,087	0.9	2,189	-3.8	4,192	3,487	20.2
Provisions	397	310	28.0	377	5.2	501	-20.8	774	660	17.3
PBT	1,708	1,516	12.7	1,709	-0.1	1,688	1.2	3,418	2,827	20.9
Taxes	441	392	12.4	440	0.1	427	3.2	881	732	20.3
PAT	1,268	1,124	12.9	1,269	-0.1	1,261	0.6	2,537	2,095	21.1

Source: Company, Antique

We largely maintain our earnings estimates

INR bn	Old		New		Var (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	19.2	21.5	19.5	22.2	1.5	3.1
Other Income	4.9	6.1	4.6	5.8	-7.1	-5.1
Total Income	24.2	27.6	24.1	28.0	-0.3	1.3
Operating Expenses	15.2	16.9	15.3	17.2	0.4	1.4
Operating Profits	8.9	10.7	8.8	10.8	-1.4	1.2
Provisions	2.1	2.4	1.9	2.5	-8.9	1.7
PBT	6.9	8.3	6.9	8.4	0.9	1.1
Tax	1.7	2.1	1.8	2.1	0.9	1.1
PAT	5.1	6.2	5.2	6.2	0.9	1.1

Source: Industry, Antique

DuPont Analysis: RoA expected to be at 0.9% over FY24/ 26E

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest Income	3.5	3.5	3.7	3.7	3.5	3.4	3.3	3.2	3.5	3.4	3.3	3.3
Fee income	0.9	0.9	0.8	0.9	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Fees to core income	20.0	20.0	18.1	18.9	18.5	17.1	14.5	16.4	16.2	16.9	17.5	18.3
Core Income	4.4	4.4	4.5	4.5	4.3	4.1	3.9	3.8	4.2	4.1	4.0	4.0
Operating expenses	2.7	2.8	2.9	2.9	2.6	2.4	2.2	2.4	2.8	2.7	2.6	2.5
Core PPP	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.4	1.5	1.4	1.4	1.5
Non interest Income	1.1	1.3	1.2	1.1	1.1	1.1	1.1	1.1	0.8	0.8	0.9	0.9
Operating profits	1.9	2.0	1.9	1.9	2.0	2.0	2.3	1.9	1.6	1.5	1.6	1.6
Provisions	0.5	0.5	0.5	0.5	0.4	0.7	1.1	1.0	0.3	0.3	0.4	0.4
PBT	1.4	1.5	1.4	1.4	1.5	1.3	1.2	0.9	1.3	1.2	1.2	1.2
Tax	0.1	0.4	0.5	0.5	0.5	0.4	0.3	0.2	0.3	0.3	0.3	0.3
RoAA	1.3	1.1	0.9	0.9	1.0	0.9	0.9	0.7	1.0	0.9	0.9	0.9
Leverage (x)	10.9	10.7	11.7	12.1	12.2	12.3	11.6	11.5	12.0	12.8	13.4	13.8
RoAE	14.4	11.8	10.8	10.9	12.0	11.2	10.0	7.8	11.5	11.5	12.5	12.4

Source: Company, Antique

Conference Call Highlights

- The bank continues to maintain its guidance of doubling the book in 3–4 years. Looking to grow at 20% YoY.
- Rise in cost of funds/ deposits impacted NIM during the quarter, which is expected to continue for the next two quarters before it stabilizes.
- As per the bank's business model, NIM is expected to be in the range of 3.65%–3.75% in FY24.
- Home loan portfolio is expected to reprice in the coming months and quarters.
- Cost to average assets to come down in the medium to long term because of growth and productivity.
- The bank will continue to add 25–30 branches in a year.
- Share of LAP to increase vs. home loans for better yield even though home loans have lower risk weights.
- Top 20 depositors constitute ~7% of the total deposits.
- Loan book continues to stay granular with 85% loans below less than INR 30 mn.
- Slippages were higher in mortgages and from customers coming out of moratorium. Slippages excluding gold loan were at 2.7%.
- Targeting PCR to reach 70% over time from the current 63%, although still ahead of RBI norms of provisioning.
- The bank continues to hold provisions of 10%–15% on restructured book.

Detailed quarterly performance

Profit and Loss (INR mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)
Net Interest Income	3,233	3,450	3,805	3,740	4,111	4,460	4,860	4,707	4,757	1	16
Other Income	977	1,183	1,148	924	992	954	1,223	1,069	1,074	0	8
CEB	614	630	663	648	770	700	910	750	970	29	26
Total Income	4,211	4,634	4,953	4,664	5,103	5,414	6,083	5,777	5,831	1	14
Operating Expenses	2,459	2,645	2,744	3,002	3,278	3,473	3,643	3,690	3,725	1	14
Employee	1,322	1,380	1,463	1,551	1,717	1,796	1,865	1,951	1,889	-3	10
Others	1,138	1,266	1,282	1,451	1,561	1,677	1,778	1,739	1,836	6	18
Operating Profits	1,751	1,988	2,208	1,661	1,826	1,941	2,439	2,087	2,105	1	15
Provisions	863	970	676	350	310	407	525	377	397	5	28
PBT	888	1,019	1,532	1,311	1,516	1,534	1,915	1,709	1,708	0	13
Taxes	239	265	398	340	392	396	493	440	441	0	12
PAT	649	754	1,134	971	1,124	1,139	1,422	1,269	1,268	0	13
Asset Quality											
GNPA	12,849	13,398	12,899	12,885	12,492	12,233	11,228	11,814	12,813	8	3
NNPA	7,070	6,965	5,732	5,436	4,829	4,532	3,569	4,238	4,764	12	-1
GNPA (%)	4.7	4.7	4.3	4.2	3.9	3.6	3.2	3.3	3.4		
NNPA (%)	2.6	2.5	2.0	1.8	1.5	1.4	1.0	1.2	1.3		
PCR (Calculated, %)	45.0	48.0	55.6	57.8	61.3	63.0	68.2	64.1	62.8		
PCR (Reported, %)	60	62	68	69	73	75	79	77	75		
Slippages	4,166	4,575	3,781	5,710	4,550	4,030	2,690	3,420	3,950	15	-13
Slippage Ratio (%)	6.7	7.2	5.9	9.0	6.8	5.8	3.7	4.6	5.0		
Ratios (%)											
Yield on loans	10.7	10.7	11.0	10.7	10.8	11.0	11.7	11.6	11.6		
Cost of deposits	6.2	6.1	6.0	6.0	6.0	6.1	6.4	6.7	6.9		
Margins	3.4	3.6	3.9	3.6	3.9	4.0	4.2	3.8	3.7		
Fees to Total Income	14.6	13.6	13.4	13.9	15.1	12.9	15.0	13.0	16.6		
Cost to Core Income	63.9	64.8	61.4	68.4	67.2	67.3	63.1	67.6	65.0		
Tax Rate	26.9	26.0	26.0	25.9	25.9	25.8	25.7	25.7	25.8		
RoA (Reported)	0.6	0.7	1.1	0.9	1.0	0.9	1.1	0.9	0.9		
RoE (Reported)	6.8	7.7	11.4	9.5	10.8	10.5	12.7	11.0	10.7		

Source: Company, Antique

Quarterly performance continued

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)
Balance Sheet (INR bn)											
Loans	269	277	291	298	313	330	344	355	373	5	19
Investments	86	86	91	99	105	109	126	134	147	10	40
Deposits	318	322	347	351	370	395	412	430	455	6	23
CASA Deposits	81	84	93	100	108	109	109	112	114	2	5
Borrowings	40	32	41	40	35	38	41	47	52	10	48
Total Assets	415	412	448	452	468	499	524	550	577	5	23
Loan Break Up											
Retail Banking	153.0	160.4	174.6	178.9	183.1	194.2	207.7	219.9	229.2	4	25
Mortgages	110.1	116.2	119.3	125.2	133.9	140.8	150.6	158.6	165.5	4	24
CV/CE/STVL	10.7	11.1	8.7	8.9	6.9	5.6	4.8	3.9	3.0	-24	-57
Gold Loan	16.1	16.6	14.5	14.9	15.0	13.8	13.1	12.8	12.7	-1	-16
Others	16.1	16.6	32.0	29.8	27.2	34.0	39.2	44.7	48.1	8	77
SME/MSME	26.9	27.7	26.2	26.8	29.7	30.0	28.9	23.8	24.6	4	-17
AIB (Agri and Inclusive Banking)	59.1	60.8	61.1	62.6	67.6	72.5	80.1	82.3	87.6	6	30
Corporate Banking	29.5	27.7	29.1	29.8	32.5	33.0	27.2	28.7	31.3	9	-4
Ratios (%)											
CASA (Reported)	25.0	26.0	26.8	28.6	29.4	27.6	26.4	26.0	25.0		
Loan/Deposit	84.5	85.8	83.9	85.0	84.7	83.4	83.4	82.5	81.9		
Tier 1 (%)	15.3	15.1	15.8	15.4	14.9	14.5	15.2	14.8	14.3		
Franchise											
Branches	356	367	400	405	410	418	427	436	439		

Source: Company, Antique

Financials

Profit and loss account (INR mn)

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Interest Income		35,128	42,003	53,333	61,796	71,165
Interest Expense		21,553	24,833	33,802	39,619	45,953
Net Interest Income		13,575	17,170	19,531	22,177	25,211
% NII Growth		5.5	26.5	13.7	13.5	13.7
Fee Income		2,380	3,030	3,757	4,433	5,320
Non-interest income		4,520	4,094	4,566	5,814	6,847
Net Revenue		18,095	21,264	24,097	27,991	32,058
Employees Expenses		5,391	6,929	7,899	8,689	9,558
Other Op. Expenses		4,734	6,468	7,373	8,479	9,836
Operating Profit		7,970	7,867	8,824	10,823	12,664
% OP Growth		-10.0	-1.3	12.2	22.6	17.0
Tax		1,021	1,620	1,761	2,127	2,366
Total Provisions		4,074	1,592	1,892	2,450	3,351
Net Profit		2,875	4,656	5,172	6,246	6,948

Balance sheet (INR mn)

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Capital		3,110	3,115	3,115	3,115	3,115
Reserves and Surplus		37,379	42,546	47,171	52,688	58,725
Deposits		3,46,917	4,12,389	4,94,867	5,74,046	6,65,893
Borrowings		40,818	41,181	53,417	58,609	64,295
Other Liabilities & Provisions		19,702	24,427	26,870	29,557	32,513
Total liabilities		4,47,926	5,23,659	6,25,441	7,18,015	8,24,541
Cash & Balances with RBI		31,075	20,306	29,497	36,617	45,057
Bal. with banks/ call money		9,833	3,378	7,423	8,611	9,988
Investment		90,507	1,25,825	1,48,473	1,63,320	1,79,652
Loans and advances		2,90,958	3,43,807	4,05,693	4,70,604	5,45,900
Fixed Assets		6,612	8,263	8,963	9,663	10,363
Other Assets		18,942	22,080	25,392	29,201	33,581
Total assets		4,47,926	5,23,659	6,25,441	7,18,015	8,24,541

Asset Quality

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Gross NPA (INR mn)		12,900	11,228	13,077	13,873	16,025
Gross NPA (%)		4.33	3.19	3.16	2.89	2.88
Net NPA (INR mn)		5,732	3,569	5,119	5,224	5,827
Net NPA (%)		1.97	1.04	1.26	1.11	1.07
% coverage of NPA		55.6	68.2	60.9	62.3	63.6
Delinquencies (%)		6.9	5.8	3.8	2.5	2.3

Source: Company, Antique

Capital Adequacy Ratio

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
RWA (INR mn)		2,43,128	2,82,210	3,43,992	3,94,908	4,53,498
Tier I (%)		15.8	15.2	13.8	13.4	13.0
Tier II (%)		3.1	2.4	1.9	0.8	0.7
Total CAR (%)		18.9	17.6	15.7	14.2	13.7

Business Ratios

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Credit / Deposit(%)		83.9	83.4	82.0	82.0	82.0
Investment / Deposit (%)		21.8	24.1	20.0	20.0	20.0
CASA (%)		26.8	26.4	24.0	24.1	24.2
RoA (%)		0.7	1.0	0.9	0.9	0.9
Core RoE (%)		7.8	11.5	11.5	12.5	12.4
Dividend Yield (%)		0.7	1.1	1.3	1.7	2.2

Key assumptions

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Deposits						
Deposit growth (%)		16.8	18.9	20.0	16.0	16.0
Cost of deposits (%)		5.9	5.9	6.8	6.8	6.8
Advances						
Advances growth (%)		13.0	18.2	18.0	16.0	16.0
Yield on advances (%)		10.3	10.7	11.3	11.3	11.4
Investments						
Investments growth (%)		7.6	39.0	18.0	10.0	10.0
Yield on investments (%)		6.8	6.5	7.4	7.2	7.2

Earnings Ratios

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Interest Inc. / Avg. assets (%)		8.3	8.6	9.3	9.2	9.2
Interest Exp./ Avg. assets (%)		5.1	5.1	5.9	5.9	6.0
NIM (%)		3.6	4.0	3.8	3.7	3.7
Int. exp/ Int earned (%)		61.4	59.1	63.4	64.1	64.6
Oth. Inc./ Tot. Inc. (%)		25.0	19.3	18.9	20.8	21.4
Staff exp/Total opt. exp (%)		53.2	51.7	51.7	50.6	49.3
Cost/ Income Ratio (%)		56.0	63.0	63.4	61.3	60.5
Prov./ Operating Profit (%)		51.1	20.2	21.4	22.6	26.5
Loan loss prov./Avg. loans (bps)		148.6	50.2	50.5	55.9	65.9

Per Share Data

Year-ended	March 31	FY22	FY23	FY24e	FY25e	FY26e
Book value per share (INR)		123	137	152	170	189
Adj. BVPS (INR)		110	129	140	158	176
Price/ Book value		1.0	0.9	0.8	0.7	0.6
EPS (INR)		9	15	17	20	22
P/E Ratio		12.4	7.7	6.9	5.7	5.1
DPS		0.9	1.3	1.5	2.0	2.5

Source: Company Antique

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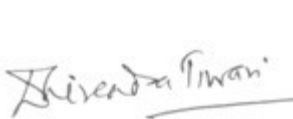
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