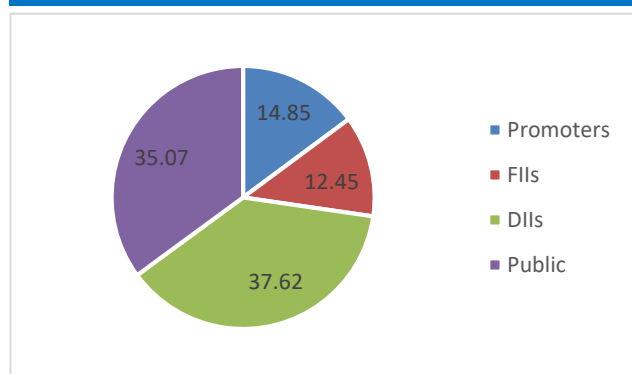


August 2022

VALUE PARAMETERS

Face Value (Rs.)	10.0
Mrk.Cap (Rs. in Cr)	2,628
52-Week High/Low	105/67.8
EPS	11.3
P/E Ratio (TTM)	7.48
Book Value per share (Rs)	130
Industry P/E	7.48
P/B Ratio (calc at CMP)	0.66
Dividend Yield (%)	1.17
Enterprise value (Rs in Cr)	38,774

SHAREHOLDING PATTERN



FINANCIAL PERFORMANCE

Y/E March	FY22	FY23E	FY24E
NII (Rs. Cr)	1357.5	1550.0	1827.5
Op. Profit	797	885.2	1064
PAT	287.5	389.8	505
EPS (Rs)	9.2	12.5	16.2
DPS (Rs)	1.01	1.3	1.6
NIM	3.5	3.5	3.6
P/E	9.6	7.1	5.5
P/BV	0.7	0.7	0.6
P/ABV	0.8	0.7	0.6
RoE	7.8	10.1	12.2
RoA	0.7	0.8	0.9

Asset quality remains stable; strong deposit growth

Our Recommendation: DCB Bank's earnings came in as surprise with PAT crossing Rs 97 Cr, (+187% YoY) driven largely by strong traction in loan growth (+17%) and lower provisions. PPOP missed due to lower NII as margin declined QoQ despite healthy loan growth of 17% YoY. Slippages increased sharply to Rs 5.7b which was Rs 3.8b in 4QFY22, but better upgrades led improvement in GNPA/NNPA ratios. On the backdrop of asset-quality risk abating and planned doubling of balance sheet in coming 3-4 years, we recommend BUY in price range Rs. 75-80 with target price Rs 100 (upside 25%).

Investment Rationale:

About Company: DCB Bank Limited is one of the emerging private sector banks in India. The services offered by the bank include saving accounts, deposit scheme, current accounts, personal loans, housing loans, phone banking facility, mutual funds, Demat account, life and general insurance etc. DCB Bank Limited has 352 branches across 19 states and 3 union territories. It is a scheduled commercial bank regulated by the Reserve Bank of India.

Q1FY23 Results: Robust increase in PAT aided by lower provisions and by strong traction in loan growth (+17%).

- DCB's PAT increased by 187% to Rs 97.1 crore from Rs 33.8 crore in the same quarter of the previous financial year.
- Net interest income (NII) rose 21.1% YoY to Rs 374 crore from Rs 308.7 crore in the same quarter from previous financial year.
- Net Interest margins (NIM) increased by 30 bps on YoY basis but reduced by 32 bps sequentially.
- DCB Bank reported GNPA/NNPA of 4.2%/1.8% (Q4FY22: 4.3%/2%). Slippages increased sharply to Rs 5.7b.

Asset quality remains stable: Asset quality ratios improved during the first quarter but slippages stood elevated that were supported by healthy recoveries and upgrades. Slippages are due to Gold Loans and AIB portfolio. Collection efficiency was stable over 1QFY23 and will healthy going ahead.

Business pace is improving: Loan book grew by 18% on year-on-year basis and 2.5% QoQ led by healthy disbursements across mortgages. Corporate book portion was stable at 10%. Deposits growth stood at 15% YoY, led by a 51% growth in CASA deposits. CASA mix grew by 182 basis points QoQ to 28.6%.

Opex to be on higher side: Opex for Q1FY23 increased by 31% YoY due to increase in employee expenses of 26% YoY and other opex by 38% YoY. Management expects opex will be on higher side in near term as branch expansion and technology spending would continue.

Key Highlights from Management Commentary:

- The management aims to double the balance sheet over next 3-4 years. SME/MSME, tractors, mortgage loans, and KCC will be the area on which the company will focus.
- Cost-to-income/cost-to-asset ratio may moderate gradually to 55%/2.4% in the next four-to-five quarters.
- NIM is expected to stabilize in the 3.65 to 3.75% range.
- The bank has disbursed Rs. 12.85 bn under ECLGS.
- The bank is investing in branches and on various products and expects operating cost to remain elevated in FY23 and over the next 5-6 qtrs. Cost to income ratio is expected to be around 55%.

Financials and Valuations

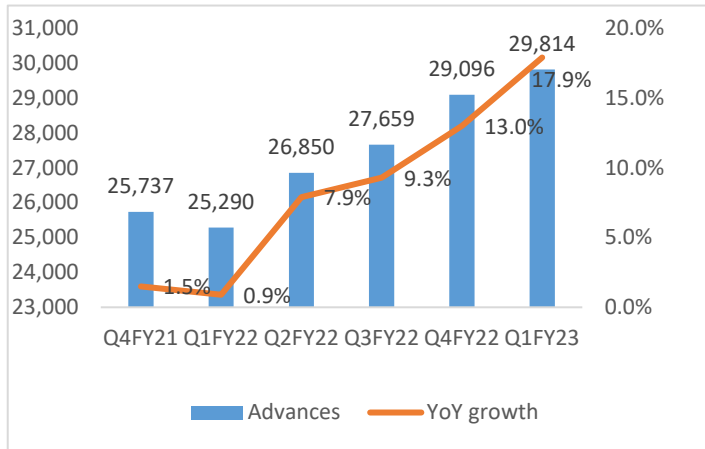
Q1FY23 Quarterly snapshot (Rs in Cr)

Income Statement (Rs Cr)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Interest Income	949.3	845.5	12.3%	920	3.2%
Interest Expended	575.3	536.8	7.2%	540	6.6%
Net interest income	374.0	308.7	21.1%	381	-1.7%
Treasury income	0.0	53.8	NA	0.3	NA
Other income	92.4	120.2	-23.1%	115	-19.5%
Total income	466.4	482.7	8.7%	496	-5.8%
Operating expenses	300.2	227.7	31.9%	274	9.4%
Staff expenses	155.1	122.7	26.4%	146	6.1%
Other expenses	145.1	104.9	38.3%	128	13.2%
Operating profit	166.1	201.2	-17.4%	221	-24.8%
Core Operating Profit	166.1	147.4	12.7%	221	-24.7%
Total provisions	35.0	155.5	-77.5%	67.6	-48.2%
PBT	131.1	45.7	187.0%	153	-14.4%
Tax	34.0	11.9	185.0%	39.8	-14.6%
PAT	97.1	33.8	187.0%	113	-14.4%
Key Matrices (Rs Cr)					
Deposits	35,081	30,602	14.6%	34,691.7	1.1%
Advances	29,814	25,496	16.9%	29,095.8	2.5%
Key Ratios (%)					
NIM	3.6	3.3	30	3.9	-32
Roaa	0.9	0.3	56	1.1	-17
Roae	9.8	3.7	612	11.6	-180
Asset Quality measures					
GNPA (Rs Cr)	1,289	1,269	1.6	1,289.9	-0.1
NNPA (Rs Cr)	543.6	7,190	-24	573.2	-5.2
GNPA ratio	4.22	4.87	-65	4.33	-11
NNPA ratio	1.82	2.82	-99	1.97	-15
Business Ratios					
CASA	28.6	21.7	688	26.8	182
Cost-income ratio	64.4	53.1	1,129	55.4	897
Credit deposit ratio	85	83.3	167	83.9	112

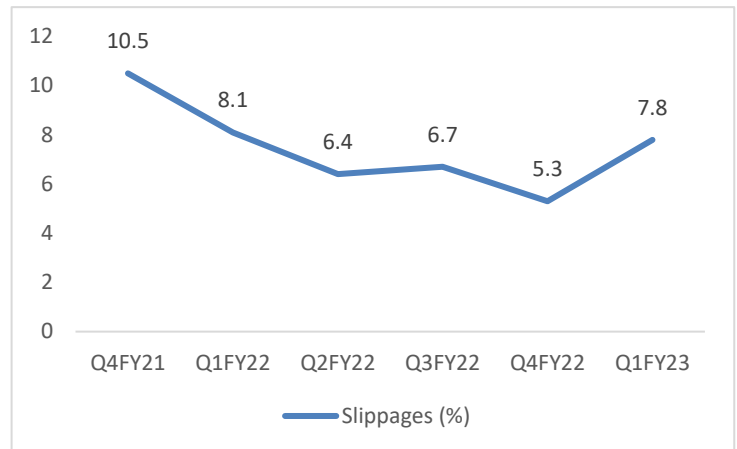
Retail has been key growth driver with 23% YoY growth

Advances break-up (Rs Cr)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Advances					
Retail	17,888.4	14,532.5	23.1	17,457.5	2.5
SME	2,683.3	2,549.6	5.2	2,618.6	2.5
Agriculture	6,260.9	5,609.0	11.6	6,110.1	2.5
Corporate	2,981.4	2,804.5	6.3	2,909.6	2.5
Total	29,814.0	25,495.6	16.9	29,095.8	2.5
Retail Loans break-up					
CV	894.4	1,274.8	-29.8	872.9	2.5
Mortgage	12,521.9	10,963.1	14.2	11,929.3	5
Gold	1,490.7	1,529.7	-2.6	1,454.8	2.5
Others	2,981.4	764.9	289.8	3,200.5	-6.8

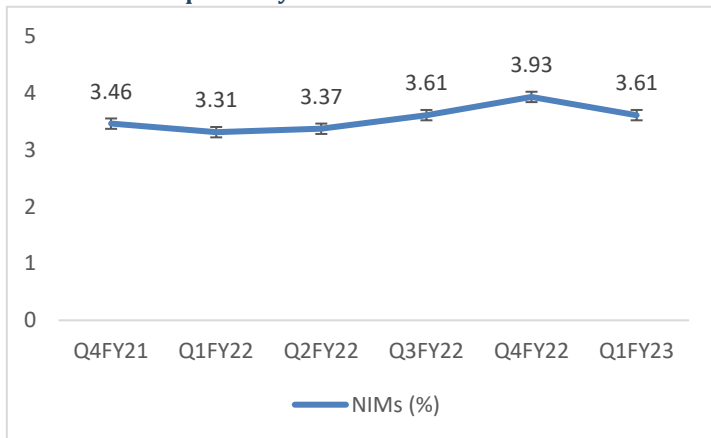
Advances growth spiked sharply (Rs in Cr)



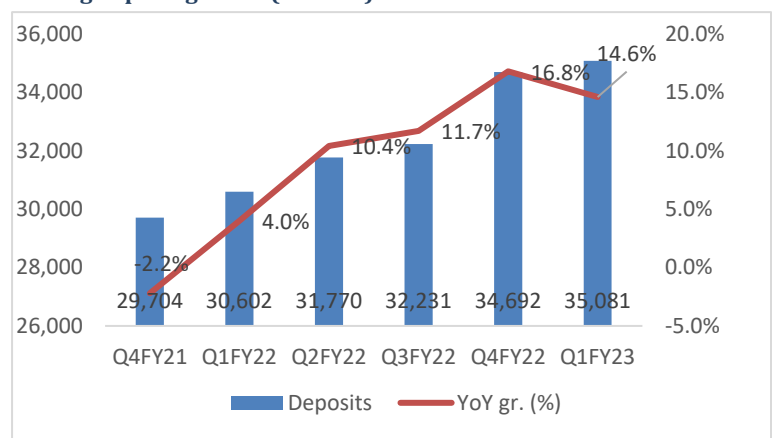
Slippage ratio is at elevated levels



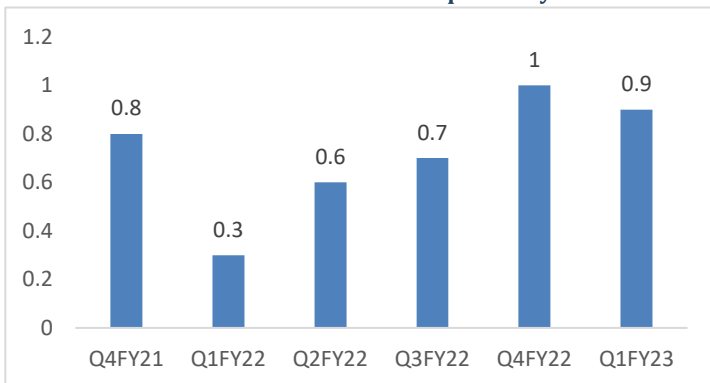
NIM reduced sequentially



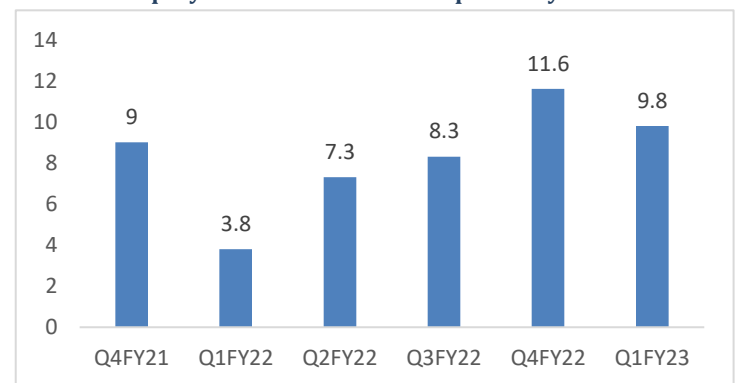
Strong deposit growth (Rs in Cr)



Return on Assets witnessed declined sequentially



Return on Equity witnessed declined sequentially



Income Statement (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Interest Income	2,413.0	3,041.5	3,536.6	3,458.2	3,512.8
Interest Expense	1,417.6	1,892.2	2,271.7	2,171.6	2,155.3
Net Interest Income	995.4	1,149.3	1,264.9	1,286.6	1,357.5
<i>Growth (%)</i>	24.9	15.5	10.1	1.7	5.5
Non-Interest Income	310.3	350.2	391.1	445.8	452.0
Total Income	1,305.7	1,499.5	1,656.0	1,732.4	1,809.5
<i>Growth (%)</i>	24.8	14.8	10.4	4.6	4.5
Operating Expenses	780.7	852.9	902.9	846.6	1,012.6
Pre Provision Profits	525.0	646.6	753.1	885.8	797.0
<i>Growth (%)</i>	25.5	23.2	16.5	17.6	-10
Core PPP	479.6	608.0	687.8	743.1	716.1
<i>Growth (%)</i>	32.1	26.8	13.1	8	-3.6
Provisions (excl. tax)	138.8	140.1	261.1	433.0	407.4
PBT	386.2	506.5	491.9	452.8	389.5
Tax	140.9	181.2	154.0	117.0	102.0
PAT	245.3	325.4	337.9	335.8	287.5
<i>Growth (%)</i>	22.8	32.7	3.9	-0.6	-14.4

Balance Sheet (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Equity Share Capital	308	310	310	311	311
Reserves & Surplus	2,498	2,805	3,111	3,447	3,737
Net Worth	2,806	3,114	3,421	3,758	4,048
Deposits	24,007	28,435	30,370	29,704	34,692
<i>Growth (%)</i>	24.5	18.4	6.8	-2.2	16.8
CASA Deposits	5,840	6,810	6,519	6,787	9,281
<i>Growth (%)</i>	24.5	16.6	-4.3	4.1	36.8
Borrowings	1,927	2,723	3,408	4,482	4,082
Total Liabilities	30,222	35,792	38,505	39,602	44,840
Current Assets	2,372	2,793	3,546	3,039	4,091
Investments	6,219	7,844	7,742	8,414	9,098
Loans	20,337	23,568	25,345	25,737	29,096
<i>Growth (%)</i>	28.6	15.9	7.5	1.5	13
Fixed Assets	494	526	546	569	661
Total Assets	30,222	35,792	38,505	39,602	44,840
ASSET QUALITY					
GNPA (INR Cr)	369	439.5	631.5	1083.4	1289.9
NNPA (INR Cr)	146.7	153.8	293.5	594.2	573.2
GNPA Ratio	1.8	1.8	2.5	4.1	4.3
NNPA Ratio	0.7	0.7	1.2	2.3	2
Slippage Ratio	1.93	1.92	2.72	2.69	6.46
Credit Cost	0.77	0.64	1.07	1.7	1.49
PCR	60.1	65	53.4	43.9	53.5

Key Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22
Per Share Data (Rs)					
EPS	8	10.5	10.9	10.8	9.2
BV/Share	86.7	96.3	106	117	126
DPS	0.72	1.05	0	0	1.01
Dividend Payout(%)	9%	10%	0%	0%	11%
Valuation Ratios					
P/E	11.2	8.5	8.2	8.2	9.6
P/BV	1	0.9	0.8	0.8	0.7
Return Ratios (%)					
ROE	10.9	12	11.2	10	7.8
ROA	0.9	1	0.9	0.9	0.7
Net Interest Margin	4	3.8	3.7	3.6	3.5
CAR	16.5	16.8	17.8	19.7	18.9
Tier I	12.6	13	14	15.5	15.8
Efficiency Ratios (%)					
Loans/Deposit Ratio	84.7	82.9	83.5	86.6	83.9
CASA ratio	24.3	23.9	21.5	22.8	26.8
Cost/Income	59.9	57	54.5	50	56
Cost/Assets	2.9	2.6	2.4	2.2	2.4
Quality and efficiency					
GNPA Ratio	1.8	1.8	2.5	4.1	4.3
NNPA Ratio	0.7	0.7	1.2	2.3	2
Slippage Ratio	1.93	1.92	2.72	2.69	6.46
Credit Cost	0.77	0.64	1.07	1.7	1.49
PCR	60.1	65	53.4	43.9	53.5

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Disclosure:

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