

DCB Bank

Refer to important disclosures at the end of this report

Loan growth and margins dip; maintain Sell

- Amid slower loan growth (16% yoy) in Q4FY19, DCB Bank reported subdued NIMs (down 5bps qoq to 3.78%). However, lower opex/provisions led to higher PAT at Rs963mn (up 50% yoy). For FY19, the bank reported profits of Rs3.3bn (up 33% yoy) and RoA of 1%.
- Despite an expected margin compression, it aspires for RoA>1% on better fees and lower cost-income ratio, in turn, led by slower branch expansion (15-20 p.a.) and improved employee productivity (business per employee of Rs110mn vs. Rs80mn currently).
- Near-term loan growth could be subdued, but the bank maintains its long-term stance of doubling its balance sheet every 3-3.5 years. With adequate Tier I at 13.1%, the bank would look to raise capital after six-nine months, depending on growth trajectory.
- We revise our earnings estimates by 3% for FY21, factoring in lower opex. Maintain Sell with a TP of Rs170 (based on 1.5x FY21E P/ABV) due to expensive valuations for a sub-optimal RoA of 1%. Instead, we prefer City Union Bank in small and mid-cap space.

- Loan growth and margins dip:** Loan growth slipped further to 16% yoy/3% qoq from a high of 29% a year ago, with slowdown across business verticals and more so on the corporate front due to unwinding of short-term loans. The bank expects near-term growth to be subdued, given an increased focus on risk adjusted returns vs. growth, but guides for doubling its balance sheet over the next 3-3.5 years. NIMs declined 5bps qoq/29bps yoy to 3.78%, mainly due to slower loan growth and higher cost of funds. The bank expects NIMs to slip further to 3.7-3.75% in FY20 due to likely MCLR reset and an elevated cost of funds.
- Asset quality improves qoq:** Fresh slippages remain elevated at Rs1bn (1.9% of loans), however, higher reductions led to lower GNPA to 1.84%. DCB's GNPA ratio in the vehicle loan segment grew to 2.9% vs. 2.5% a year ago, while in SME, it rose to 1.5% from a low of 1.3%. The GNPA ratio in mortgages has now stabilized at 1.7%. DCB Bank believes that NPA ratios should settle around the current levels as GST/demonetization impact recedes.
- Outlook and valuations:** We remain concerned about the bank's loan portfolio which is heavily skewed toward a relatively high-risk LAP. DCB has also considerably slowed down its opex growth to reduce cost ratios. However, in our view, the bank needs to rigorously invest in expanding liability franchise and sweat its vintage network to improve the otherwise weak liability profile. We believe that the stock is trading at expensive valuations (2.0x/1.8x FY20/FY21E ABV) for a relatively lower RoA of 1%. Key risks include higher-than-expected RoAs, led by lower margin compression, and better operating leverage.

Please see our sector EAP (Page 7): [Emkay Alpha Portfolio – BFSI-Banks](#)

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net income	10,465	13,057	14,995	17,495	21,062
Net profit	1,997	2,453	3,254	3,996	4,939
EPS (Rs)	7.0	8.3	10.5	12.9	16.0
ABV (Rs)	64.9	82.0	90.1	100.3	112.8
RoA (%)	0.9	0.9	1.0	1.0	1.0
RoE (%)	10.0	9.9	11.0	12.2	13.5
PE (x)	28.8	24.5	19.2	15.7	12.7
P/ABV	3.1	2.5	2.2	2.0	1.8

Source: Company, Emkay Research

CMP	Target Price
Rs 202 as of (April 18, 2019)	Rs 170 (■) 12 months
Rating	Upside
SELL (■)	(15.8) %

Change in Estimates

EPS Chg FY20E/FY21E (%)	-(2.4)
Target Price change (%)	0.2
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates		
	FY20E	FY21E
Emkay	12.9	16.0
Consensus	13.6	17.6
Mean Consensus TP (12M)	Rs 210	

Stock Details

Bloomberg Code	DCBB IN
Face Value (Rs)	10
Shares outstanding (mn)	310
52 Week H/L	209 / 140
M Cap (Rs bn/USD bn)	63 / 0.90
Daily Avg Volume (nos.)	2,066,329
Daily Avg Turnover (US\$ mn)	5.6

Shareholding Pattern Mar '19

Promoters	14.9%
FIIIs	26.0%
DIIIs	25.1%
Public and Others	34.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	9	26	3
Rel. to Nifty (2)	1	12	(8)	

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actuals vs. Estimates

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,002	4,012	4,052	0%	-1%	Missed estimates due to lower margins
PPOP	1,853	1,730	1,746	7%	6%	PPoP beat due to higher other income/lower opex
PAT	963	836	875	15%	10%	Beat due to better PPoP and lower provisions

Source: Company, Emkay Research

Exhibit 2: Quarterly Summary

Rs (mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	yoy (%)	qoq (%)	FY19	FY20E	yoy (%)	FY21E	yoy (%)
Interest Earned	6,492	7,014	7,357	7,773	8,271	27	6	30,415	36,280	19	43,945	21
Interest Exp	3,855	4,285	4,538	4,837	5,262	37	9	18,922	22,786	20	27,602	21
Net Interest Income	2,637	2,730	2,818	2,936	3,009	14	2	11,493	13,495	17	16,343	21
Global NIMs (reported)	4.07	3.90	3.83	3.83	3.78	-29bps	-5bps	3.66	3.61	-4bps	3.61	0bps
Non-interest Income	849	828	735	945	994	17	5	3,502	4,001	14	4,719	18
Operating Expenses	2,070	2,144	2,092	2,143	2,150	4	0	8,529	9,473	11	10,922	15
Pre Provisioning Profit	1,416	1,414	1,461	1,738	1,853	31	7	6,466	8,022	24	10,140	26
Provision & Contingencies	388	332	319	401	348	-10	-13	1,401	1,875	34	2,541	36
PBT	1,028	1,082	1,142	1,336	1,505	46	13	5,065	6,147	21	7,599	24
Income Tax Expense (Gain)	386	387	408	475	542	40	14	1,812	2,152	19	2,660	24
Net Profit/(Loss)	642	695	734	861	963	50	12	3,254	3,996	23	4,939	24
Gross NPA (%)	1.79	1.86	1.84	1.92	1.84	5bps	-8bps	1.84	1.95	10bps	2.06	11bps
Net NPA (%)	0.72	0.72	0.70	0.71	0.65	-7bps	-6bps	0.65	0.69	4bps	0.73	4bps
Deposits (Rs in bn)	240	250	262	275	284	18	3	284	349	23	432	24
Net Advances (Rs in bn)	203	212	221	229	236	16	3	236	287	22	359	25

Source: Company, Emkay Research

Exhibit 3: Revision in estimates

YE Mar (Rs mn)	FY20E			FY21E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net income	17,993	17,495	-2.76%	22,525	21,062	-6.49%
PPOP	8,366	8,022	-4.11%	10,817	10,140	-6.25%
PAT	3,990	3,996	0.15%	5,071	4,939	-2.60%
EPS (Rs)	12.9	12.9	0.07%	16.4	16.0	-2.68%
BV (Rs)	102.1	104.5	2.40%	116.4	118.4	1.72%

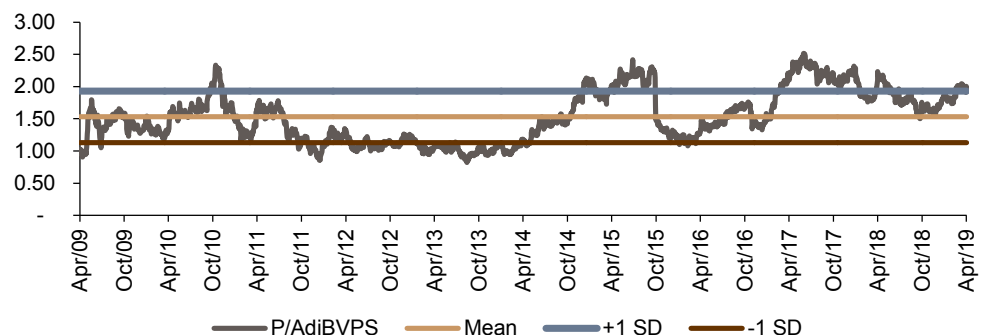
Source: Company, Emkay Research

We revise our earnings estimates by 3% for FY21, factoring in lower operating expenses.

Exhibit 4: Key Assumptions

Key Assumptions	FY19A	FY20E	FY21E
Loan Growth %	15.9	21.9	24.9
Deposit Growth %	18.4	22.6	23.9
NIM %	3.7	3.6	3.6
GNPA %	1.8	1.9	2.1
Credit Cost %	0.9	0.8	0.8

Source: Company, Emkay Research

Exhibit 5: The stock currently trades at 1.9x 1-yr forward ABV

Source: Company, Emkay Research

Exhibit 6: Key Financials

Particulars	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Loans Rs mn	158,176	162,657	173,950	185,952	203,367	212,434	220,688	228,884	235,680
Loan Growth yoy %	22.4	22.0	20.5	27.5	28.6	30.6	26.9	23.1	15.9
Loan Growth qoq %	8.5	2.8	6.9	6.9	9.4	4.5	3.9	3.7	3.0
Composition %									
- Corporate	16.0	15.0	17.0	17.0	17.0	17.0	15.0	15.0	13.0
- SME/BB	12.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
- Retail & Others	54.0	57.0	54.0	54.0	53.0	53.0	54.0	54.0	55.0
- Agri	18.0	17.0	17.0	17.0	18.0	18.0	19.0	19.0	20.0
Liability Profile & Margin									
CASA %	24.3	26.9	25.9	25.7	24.3	24.6	24.3	24.2	23.9
CA %	8.0	8.1	7.5	6.4	7.6	5.7	5.4	5.1	5.0
SA %	16.3	18.8	18.4	19.2	16.7	19.0	18.9	19.1	19.0
Branches	262	290	306	311	318	323	328	331	333
NIM (%)	4.05	4.23	4.22	4.12	4.07	3.90	3.83	3.83	3.78

Asset Quality

GNPA	1.6	1.7	1.8	1.9	1.8	1.9	1.8	1.9	1.8
NNPA	0.8	0.9	0.9	0.9	0.7	0.7	0.7	0.7	0.7
PCR	51.1	47.7	50.3	54.4	60.2	61.6	62.1	63.3	65.0
Slippages (Rs mn)	746	887	779	1,031	814	1,074	972	1,143	985
Upgrades/Recoveries	393	331	473	576	667	680	700	630	822
Write-Offs	90	245	1	75	2	78	184	166	241
Annualized Slippages %	2.3	2.7	2.2	2.8	2.1	2.6	2.2	2.5	1.9
Capital Adequacy %	13.8	15.3	14.7	15.8	16.5	15.6	15.6	15.5	16.8
Tier I %	11.9	13.4	12.9	12.5	12.7	12.0	12.0	11.9	13.1

ROE Decomposition % (on Total Asset)

NII	3.7	3.9	3.9	3.8	3.7	3.6	3.5	3.5	3.4
Other Income	1.0	0.9	0.9	1.0	1.1	0.9	0.9	1.0	1.0
Opex	2.8	3.0	3.0	3.1	2.9	2.8	2.6	2.6	2.5
PPOP	1.9	2.3	2.0	1.8	2.0	1.8	1.8	2.1	2.1
Provisioning Cost	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.5	0.4
PBT	1.4	1.7	1.5	1.3	1.4	1.4	1.4	1.6	1.7
RoA	0.9	1.1	0.9	0.9	0.9	0.9	0.9	1.0	1.1
RoE	9.7	10.8	8.9	8.4	9.3	9.8	10.2	11.6	12.6

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

YE Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net interest income	7,971	9,954	11,493	13,495	16,343
Other income	2,495	3,103	3,502	4,001	4,719
Fee income	1,657	2,192	2,400	2,856	3,427
Net income	10,465	13,057	14,995	17,495	21,062
Operating expenses	6,283	7,807	8,529	9,473	10,922
Pre provision profit	4,182	5,250	6,466	8,022	10,140
PPP excl treasury	3,728	4,796	6,080	7,597	9,694
Provisions	1,115	1,388	1,401	1,875	2,541
Profit before tax	3,067	3,862	5,065	6,147	7,599
Tax	1,070	1,408	1,812	2,152	2,660
Tax rate	35	36	36	35	35
Profit after tax	1,997	2,453	3,254	3,996	4,939

Balance Sheet

YE Year End (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity	2,854	3,081	3,096	3,096	3,096
Reserves	19,010	24,720	28,061	31,458	35,656
Net worth	21,864	27,801	31,156	34,553	38,751
Deposits	192,892	240,069	284,351	348,505	431,802
Borrowings	10,392	12,401	21,366	20,090	24,108
Total liabilities	240,464	302,221	357,918	425,778	520,204
Cash and bank	8,583	11,364	13,172	12,514	13,139
Investments	58,179	62,190	78,441	89,009	108,516
Loans	158,176	203,367	235,680	287,334	358,896
Others	7,298	8,004	10,603	11,664	12,956
Total assets	240,464	302,221	357,918	425,778	520,204

Key Ratios (%)

YE Year End	FY17	FY18	FY19	FY20E	FY21E
NIM	3.9	3.9	3.7	3.6	3.6
Non-ll/avg assets	1.2	1.1	1.1	1.0	1.0
Fee income/avg assets	0.8	0.8	0.7	0.7	0.7
Opex/avg assets	2.9	2.9	2.6	2.4	2.3
Provisions/avg assets	0.5	0.5	0.4	0.5	0.5
PBT/avg assets	1.4	1.4	1.5	1.6	1.6
Tax/avg assets	0.5	0.5	0.5	0.5	0.6
RoA	0.9	0.9	1.0	1.0	1.0
RoAE	10.0	9.9	11.0	12.2	13.5
GNPA (%)	1.6	1.8	1.8	1.9	2.1
NNPA (%)	0.8	0.7	0.7	0.7	0.7

Per Share Data (Rs)	FY17	FY18	FY19	FY20E	FY21E
EPS	7.0	8.3	10.5	12.9	16.0
BVPS	67.8	85.3	93.4	104.5	118.4
ABVPS	64.9	82.0	90.1	100.3	112.8
DPS	0.5	0.8	1.0	1.3	1.7

Valuations (x)	FY17	FY18	FY19	FY20E	FY21E
PER	28.8	24.5	19.2	15.7	12.7
P/BV	3.1	2.5	2.2	2.0	1.8
P/ABV	3.1	2.5	2.2	2.0	1.8
P/PPOP	13.8	11.9	9.7	7.8	6.2
Dividend Yield (%)	0.2	0.4	0.5	0.6	0.8

Source: Company, Emkay Research

Growth (%)	FY17	FY18	FY19	FY20E	FY21E
NII	28.7	24.9	15.5	17.4	21.1
PPOP	19.8	25.5	23.2	24.1	26.4
PAT	2.7	22.9	32.6	22.8	23.6
Loans	22.4	28.6	15.9	21.9	24.9

Quarterly (Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
NII	2,637	2,730	2,818	2,936	3,009
NIM(%)	4.1	3.9	3.8	3.8	3.8
PPOP	1,416	1,414	1,461	1,738	1,853
PAT	642	695	734	861	963
EPS (Rs)	2.08	2.25	2.37	2.78	3.11

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoters	15.0	15.0	14.9	14.9	14.9
FIIIs	21.3	22.1	24.2	23.6	26.0
DIIIs	25.0	26.1	24.5	25.4	25.1
Public and Others	38.7	36.8	36.3	36.1	34.0

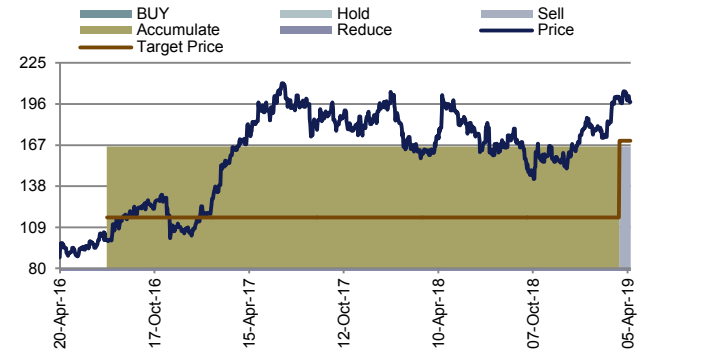
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Mar-19	199	170	12m	Sell	Anand Dama
18-Jul-16	100	116	12m	Accumulate	Sohail Halai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – **Kindly refer the Disclaimer page**, however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	EAP Weight (Normalised)	EAP Weight	BSE200 Weight	OW/UW (%)	OW/UW (bps)
BFSI-Banks	100.00	23.19	23.19	0.0%	0
Axis Bank	11.41	2.65	2.25	18%	40
AU Small Finance Bank	0.10	0.02	0.05	-58%	-3
Bandhan Bank	0.40	0.09	0.10	-7%	-1
Bank of Baroda	0.25	0.06	0.19	-70%	-13
Canara Bank	0.00	0.00	0.09	-100%	-9
City Union Bank	1.20	0.28	0.25	11%	3
DCB Bank	0.00	0.00	0.00	NA	0
Equitas Holdings	0.00	0.00	0.00	NA	0
Federal Bank	1.29	0.30	0.30	0%	0
HDFC Bank	38.00	8.81	8.38	5%	43
ICICI Bank	21.70	5.03	4.21	20%	82
Indian Bank	0.15	0.03	0.04	-8%	0
Indusind Bank	5.30	1.23	1.45	-15%	-22
Karur Vysya Bank	0.00	0.00	0.00	NA	0
Kotak Mahindra Bank	10.80	2.50	2.64	-5%	-14
Punjab National Bank	0.00	0.00	0.16	-100%	-16
RBL Bank	0.60	0.14	0.35	-60%	-21
State Bank of India	7.50	1.74	1.88	-8%	-14
Ujjivan Financial Services	0.00	0.00	0.00	NA	0
Union Bank of India	0.00	0.00	0.06	-100%	-6
Yes Bank	1.30	0.30	0.78	-61%	-48
Cash	0.00	0.00	0.00	NA	0

Source: Emkay Research

■ High Conviction-Strong Over Weight ■ High Conviction-Strong Under Weight

Sector portfolio NAV

Returns by EAP on rolling basis	NAV			3m	6m	12m
	1-Apr-19	16-Apr-19				
Performance						
BFSI-Banks	100.0	99.7				
BSE200 weighted	100.0	99.6				

*Performance measurement base date 1st April 2019

Source: Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 19 Apr 2019 03:16:01 (SGT)

Dissemination Date: 19 Apr 2019 03:17:01 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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