

Consistency intact

We retain BUY on DCB Bank (DCBB) with TP at Rs215. Q4'18 results were in-line with our estimates on revenue / profitability front. On the balance sheet side, the bank reported yet another quarter of strong loan growth (28.6% YoY/ 9.4% QoQ) and contained asset quality (slippages at 1.6% of loans / GNPA at 1.8%). The ratio of cost / average assets declined to 290bps (vs. 300bps+ for past several quarters). With improved productivity, we expect overall profitability to be on rise. We see return ratios - RoA / RoE for the bank scaling to 1.1% / 14.3% levels by end-FY20E. Valuations continue to remain attractive.

- **Q4FY18 results in-line:** DCB Bank Q4'18 NII at Rs2.64bn (+19.7% YoY) was in-line with our estimates and aided by strong 28.6% YoY growth in loans. Along the expected lines, NIM at 3.68% (calc) declined 5bps YoY / 10bps QoQ. Operating expenses were up 22.8% YoY; the ratio of cost / assets declined to 290bps (vs. 300bps+ for past several quarters). Operating profit came in at Rs1.4bn. Slippages came in at Rs814mn (1.6% of loans and below our expectations) and was primarily led by slippages from mortgage / gold loans and CV portfolio. The quarter saw bank resort to selling of NPA assets to ARC and adjusted for above GNPA at Rs3.7bn (1.79% of loans) grew 4.1% QoQ; NNPA at Rs1.5bn (0.8% of loans) declined 9.1% QoQ. Net profit at Rs642mn grew 21.5% YoY.
- **NIM (calc) declines; asset quality intact:** Q4'18 NIM at 3.7% (calc) declined 10bps QoQ (along the expected lines) and is following the contraction in lending yields on back of increased competition. We expect the trend in overall margins to remain under pressure and have factored the same into our estimates over FY18-20E. On the asset quality side, the quarter saw bank resorting to aggressive recovery / up-gradation, including asset sale to ARC. The granular nature of loan exposure will see slippages run-rate remain elevated. We however draw comfort in a) strong credit practices and b) recovery mechanism. Eventual credit-losses thus are expected to remain lower. The share of problematic loans (GNPA + restructuring) too remains limited at sub-2%.
- **Loan growth intact; underlying profitability on a rise:** Q4'18 loan growth at 28.6% YoY was led by strong traction across segments of retail / SME and corporate. Adjusted for the loan buy-out in Q4'17, the overall loan growth would have remained higher at 30% YoY in FY18. Though at nascent stage, our back of the envelope calculation suggest that the branches (added in the recent past) have attained break-even point. In our view, productivity acceleration therein will aid in improving overall profitability. This in addition to strong non-interest income and limited asset quality will enable the bank mitigate near term concern on margins. We expect RoA /RoE for the bank to scale towards 1.1% RoA / 14.3% RoE by end-FY20 (highest since FY16 levels). Capital position remains healthy with CAR / tier-I at 16.5% / 12.7%.
- **Valuation, view and key risks:** We have revised our FY19E/FY20E estimates marginally to factor the margin pressures. The same however is expected to be off-set by lower credit cost and decline in operating expenses. Valuations remain inexpensive. Retain BUY with TP at Rs215 (valued at 2x FY20E). Key risks: Lower loan growth, elevated operating costs or higher than expected NIM pressure.

Rs mn	Q4FY18	Q4FY17	% YoY	Q3FY18	% QoQ	Q4FY18E	% Var
Net Interest Income	2,637	2,203	19.7	2,505	5.3	2,608	1.1
Operating Profit	1,416	1,153	22.8	1,225	15.5	1,352	4.7
Cost/income ratio (%)	59.4	59.4	2bps	62.3	(296bps)	59.7	(28bps)
Reported PAT	642	529	21.5	570	12.6	605	6.2
GNPA (Rs mn)	3,690	2,542	45.2	3,545	4.1	3,765	(2bps)
NNPA (Rs mn)	1,467	1,244	17.9	1,615	(9bps)	1,385	6.0
PCR (calc - %)	60.2	51.1	918bps	54.4	580bps	63.2	(298bps)

Source: Company, Centrum Research

Target Price	Rs215	Key Data	
CMP*	Rs190	Bloomberg Code	DCBB IN
Upside	13.2%	Curr Shares O/S (mn)	308.1
Previous Target	Rs215	Diluted Shares O/S(mn)	308.1
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	58.6/894.6
Price Performance (%)*		52 Wk H / L (Rs)	213/154.9
	1M	6M	1Yr
		5 Year H / L (Rs)	
DCBB IN	16.5	(0.1)	5.8
	Daily Vol. (3M NSE Avg.)		1436130
Nifty	3.3	2.9	15.1

*as on 16 April 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	15.0	15.0	15.0	15.0
FII	21.3	21.7	21.4	22.5
DII	21.2	28.8	20.3	18.6
Others	42.5	34.5	43.3	43.8

Source: BSE, *as on 16 April 2018

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	14,914	15,560	(4.2)	17,700	18,774	(5.7)
PPoP	6,189	6,424	(3.7)	7,923	8,129	(2.5)
PAT	3,385	3,222	5.1	4,410	4,186	5.3

BUY	SELL	HOLD	Bloomberg Consensus*		Variance (%)
			Target Price (Rs)	Centrum Target Price (Rs)	
14	2	6	209	215	2.8%

*as on 16 April 2018; Source: Bloomberg, Centrum Research Estimates

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Y/E Mar (Rs mn)	Net income*	PPoP	PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY16	8,400	3,490	1,945	1.7	6.8	15.5	57.8	1.8	1.1	11.9
FY17	10,465	4,182	1,997	2.6	7.0	16.4	63.9	1.8	0.9	10.8
FY18P	13,057	5,250	2,453	22.9	8.0	23.1	78.5	2.3	0.9	10.9
FY19E	14,914	6,189	3,385	38.0	11.0	15.8	87.8	2.0	1.0	12.5
FY20E	17,700	7,923	4,410	30.3	14.3	13.3	101.2	1.9	1.1	14.3

Source: Company, Centrum Research Estimates* net income denotes NII + other income. FY16-FY18 YTD have been valued on average market cap basis.

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Other highlights

- **Corporate, mortgage and AIB see a blip:** Q4'18 slippages at Rs814mn (1.6% of loans) were lower than expected and was primarily from the segments of mortgage, CV and gold loans.
 - The NPA from CV portfolio was more following near term concerns around GST implementation and factors that could impact the CV market. The overall underlying asset quality, however remains healthy. The NPA in the gold loan segment is following the seasonality factor.
 - Recoveries / up-gradations for the quarter stood at Rs667mn (highest in the past 5 quarters) which were largely granular in nature and the management is confident that this run-rate will continue in the near term.

Exhibit 1: Segment-wise GNPA

Rs mn	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Corporate	859	675	675	840	840
Mortgages	717	1,002	1,164	1,269	1392
SME + MSME	324	316	328	373	307
AIB	366	510	561	632	632
CV/CE/STVL	200	215	294	283	299
Gold Loans	22	65	56	69	107
Others	54	70	80	79	113
Total GNPA	2,542	2,853	3,158	3,545	3,690
% of loans	1.59	1.74	1.80	1.89	1.79

Source: Company, Centrum Research

- **Healthy credit growth at 28.6% YoY; management growth stance remains encouraging:** Q4'18 loan growth at 28.6% YoY / 9.4% QoQ beat our estimates and was mainly driven by corporate / MSME / AIB each growing by 36.6% / 28.6% / 28.6%. The management expects the loan book to double in 3-3.5 years which in our opinion does not seem challenging given its branch machinery is already in place and its continued focus on retail / SME. It expects the retail + SME segment to contribute ~70% (currently 65%) and the corporate segment to contribute less than 20% (currently 17%) to the loan portfolio. We envisage a 24% loan CAGR over FY18-20E.

Exhibit 2: Earnings revision, Valuation and view

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
NII + Oth income	14,914	14,805	0.7	17,700	17,916	(1.2)
PPOP	6,189	6,189	(0.0)	7,923	8,056	(1.7)
PAT	3,385	3,218	5.2	4,410	4,336	1.7

DCB Bank Q4'18 results were in line with our estimates on revenue / earnings front. Loan growth momentum remains intact; asset quality related risk remain limited. We have altered our FY19E/FY20E estimates to factor for the margin pressures. However, with reduction in loan loss provisioning, we expect overall profitability to remain intact

We see bank report 24.1% / 15.7% / 34.1% CAGR in loans / NII and profit over FY18-20E. RoA / RoE are expected to improve towards 1.1% / 14.3% levels by end-FY20E. Valuations continue to remain attractive. Retain BUY with TP at Rs215 (valued at 2x FY20E).

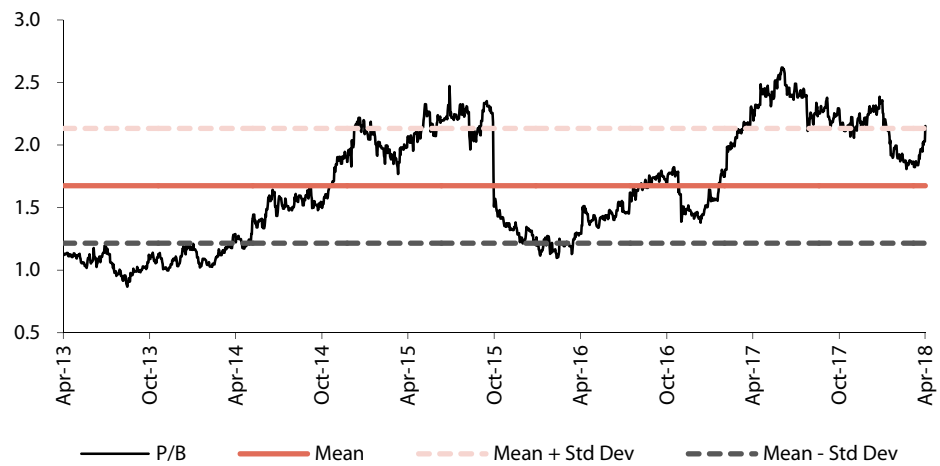
Sensitivity analysis & peer comparison

Exhibit 3: Sensitivity Analysis – impact of change in margins and credit cost on FY18PBT

%	Credit cost				
	+ 10bps	+ 20bps	' Current levels	- 10bps	- 20bps
- 5bps	(8.5)	(13.8)	(3.2)	2.0	7.3
- 10bps	(11.7)	(17.0)	(6.4)	(1.2)	4.1
NIM Current levels	(5.3)	(10.5)	-	5.3	10.5
+ 5bps	(2.0)	(7.3)	3.2	8.5	13.8
+ 10bps	1.2	(4.1)	6.4	11.7	11.7

Source: Company, Centrum Research Estimates

Exhibit 4: Rolling forward PB chart



Source: Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

	Mkt Cap (Rs mn)	CAGR (FY18-FY20E %)			PE (x)			ROA (%)			RoE (%)			P/BVPS (x)		
		NII + Oth inc	PPOP	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
DCB Bank*	58,582	16.4	22.8	34.1	23.1	15.8	13.3	0.9	1.0	1.1	10.9	12.5	14.3	2.2	1.9	1.8
City Union Bank *	1,19,784	10.1	7.6	15.9	21.3	20.3	17.5	1.6	1.6	1.6	15.4	15.6	15.7	3.0	2.9	2.5
Karnataka Bank*	47,067	15.6	17.0	60.3	10.3	5.8	4.1	0.5	0.8	1.0	6.4	11.0	14.2	0.7	0.7	0.6
Federal Bank	1,94,067	19.3	22.8	28.5	19.9	13.6	11.1	0.8	0.9	1.0	9.8	10.7	12.2	1.7	1.4	1.3
Karur Vysya Bank	76,462	11.4	15.0	55.5	21.4	10.6	7.8	0.6	0.9	1.1	7.9	11.3	14.1	1.5	1.2	1.1
South Indian Bank	45,492	15.5	15.2	57.1	15.4	7.0	5.4	0.4	0.7	0.8	7.0	12.2	14.3	1.1	0.8	0.7
RBL Bank	2,13,956	31.2	33.2	36.8	33.5	24.1	18.3	1.2	1.2	1.3	11.6	12.2	14.2	3.3	2.8	2.4

Source: Bloomberg consensus, *Centrum Research Estimates. FY18 and FY19E have been valued on average market cap basis.

Quarterly financials

Exhibit 6: Quarterly Financials

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Income statement								
Interest earned	4,706	5,063	5,502	5,491	5,660	5,870	6,108	6,492
Interest expended	2,936	3,160	3,407	3,288	3,329	3,389	3,603	3,855
Net interest income	1,770	1,903	2,095	2,203	2,332	2,481	2,505	2,637
Non-interest income	601	616	641	636	858	653	749	849
Total income	2,372	2,519	2,736	2,839	3,189	3,134	3,254	3,486
Operating expenses	1,444	1,511	1,643	1,685	1,825	1,890	2,029	2,070
PPOP	927	1,009	1,093	1,153	1,364	1,244	1,225	1,416
Provisions	205	265	305	339	355	302	343	388
PBT	722	744	787	814	1,009	942	883	1,028
Tax	252	259	274	286	357	353	313	386
PAT	470	485	513	529	652	589	570	642
Balance sheet items								
Equity share capital	2,846	2,847	2,850	2,854	3,072	3,078	3,079	3,081
Reserves & surplus	15,556	16,028	18,658	19,179	23,177	23,771	24,347	24,998
Deposits	1,56,796	1,76,846	1,88,395	1,92,892	1,91,548	2,05,671	2,12,959	2,40,069
Borrowings	10,649	12,305	12,155	12,758	13,658	14,209	18,909	19,267
Other liabilities	10,155	11,458	10,793	12,781	11,996	12,352	12,219	14,807
Total liabilities	1,96,002	2,19,483	2,32,851	2,40,464	2,43,451	2,59,081	2,71,513	3,02,221
Cash & Bank balance	9,433	10,655	14,317	11,925	12,125	15,155	15,726	23,720
Investments	43,815	54,634	60,650	58,179	55,839	57,112	57,136	62,190
Advances	1,33,369	1,44,362	1,45,844	1,58,176	1,62,657	1,73,950	1,85,952	2,03,367
Other assets	9,385	9,832	12,040	12,184	12,830	12,864	12,699	12,945
Total assets	1,96,002	2,19,483	2,32,851	2,40,464	2,43,451	2,59,081	2,71,513	3,02,221
Ratios								
Growth YoY (%)								
<i>NII</i>	26.1	26.9	30.5	30.6	31.7	30.4	19.6	19.7
<i>Non-interest income</i>	(4.7)	26.5	35.8	3.5	42.6	6.0	16.9	33.4
<i>Opex</i>	26.9	25.3	33.2	26.6	26.4	25.1	23.4	22.8
<i>PPOP</i>	3.4	29.1	29.7	18.9	47.1	23.4	12.2	22.8
<i>PAT</i>	0.4	31.2	24.5	(24.0)	38.7	21.5	11.1	21.5
<i>Loans</i>	27.9	29.1	24.3	22.4	22.0	20.5	27.5	28.6
<i>Deposits</i>	18.2	30.4	33.8	29.2	22.2	16.3	13.0	24.5
Margins (%) – calc.								
<i>Yield on assets</i>	10.7	10.7	10.8	10.3	10.3	10.3	10.2	10.0
<i>Cost of funds</i>	7.2	7.1	7.0	6.5	6.5	6.4	6.4	6.3
<i>Spread</i>	3.6	3.6	3.8	3.8	3.9	4.0	3.8	3.7
<i>NIM</i>	3.7	3.7	3.7	3.7	3.9	3.9	3.8	3.7
Key drivers (%)								
<i>Cost-income</i>	60.9	60.0	60.1	59.4	57.2	60.3	62.3	59.4
<i>GNPA</i>	1.7	1.8	1.6	1.6	1.7	1.8	1.9	1.8
<i>NNPA</i>	0.9	0.8	0.7	0.8	0.9	0.9	0.9	0.7
<i>Provision coverage (reported)</i>	75.3	75.4	75.6	0.0	71.8	72.0	73.4	75.7
<i>Tier I CAR</i>	11.9	10.8	11.4	11.9	13.4	12.9	12.5	12.7
<i>Tier II CAR</i>	1.2	1.1	1.9	1.9	1.8	1.8	3.2	3.8
<i>RoA</i>	1.0	0.9	0.9	0.9	1.1	0.9	0.9	0.9
<i>RoE</i>	10.4	10.4	10.2	9.7	10.8	8.9	8.4	9.3

Source: Company, Centrum Research

Financials

Exhibit 7: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Income	16,985	20,761	24,130	29,645	36,400
Interest Expense	10,790	12,791	14,176	18,369	23,077
Net Interest Income	6,195	7,971	9,954	11,275	13,323
Non-Interest Income	2,205	2,495	3,103	3,639	4,377
Fee & Other Income	1,405	1,657	2,192	2,743	3,427
Gains / (Losses) on Securities	423	454	454	431	453
Total Net Income	8,400	10,465	13,057	14,914	17,700
Total Operating Expenses	4,909	6,283	7,807	8,725	9,777
Employee Expenses	2,451	3,080	3,812	4,360	4,581
Other Operating Expenses	2,458	3,203	3,995	4,366	5,197
Pre-provision Profit	3,490	4,182	5,250	6,189	7,923
Provisions & Contingencies	879	1,115	1,388	1,137	1,341
Profit Before Tax	2,611	3,067	3,862	5,052	6,581
Taxes	666	1,070	1,408	1,667	2,172
Profit after tax	1,945	1,997	2,453	3,385	4,410

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Cash and balance with RBI	7,034	8,583	11,364	13,966	17,006
Inter-bank borrowings	1,882	3,342	12,356	5,772	10,939
Loans & Advances	1,29,214	1,58,176	2,03,367	2,51,402	3,13,425
Investments	43,333	58,179	62,190	72,583	86,667
Total Int Earning Assets	1,81,463	2,28,280	2,89,276	3,43,723	4,28,037
Fixed Assets	2,480	4,886	4,940	4,794	4,693
Other Assets	7,242	7,298	8,004	8,519	8,486
Total Assets	1,91,185	2,40,464	3,02,221	3,57,036	4,41,217
Deposits	1,49,260	1,92,892	2,40,069	2,88,619	3,64,629
Current	11,772	15,347	58,403	24,533	32,817
Savings	23,127	31,545		51,529	66,923
Term	1,14,361	1,46,000	1,81,666	2,12,557	2,64,890
Other Int Bearing Liabilities	11,479	12,758	19,267	19,834	20,429
Interest Bearing Liabilities	1,60,739	2,05,650	2,59,336	3,08,452	3,85,058
Other non int bearing Liabilities	12,540	12,765	14,807	17,611	21,124
Total Liabilities	1,73,279	2,18,415	2,74,143	3,26,063	4,06,182
Equity	17,906	22,049	28,078	30,972	35,035
Total Liabilities	1,91,185	2,40,464	3,02,221	3,57,036	4,41,217

Source: Company, Centrum Research Estimates

Exhibit 9: DuPont analysis

(% of avg assets)	FY16	FY17	FY18P	FY19E	FY20E
Interest income	9.6	9.6	8.9	9.0	9.1
Interest expenses	6.1	5.9	5.2	5.6	5.8
NII	3.5	3.7	3.7	3.4	3.3
Other income	1.3	1.2	1.1	1.1	1.1
Total income	4.8	4.8	4.8	4.5	4.4
Operating expenses	2.8	2.9	2.9	2.6	2.4
PPOP	2.0	1.9	1.9	1.9	2.0
Provisions	0.5	0.5	0.5	0.3	0.3
PBT	1.5	1.4	1.4	1.5	1.6
Tax	0.4	0.5	0.5	0.5	0.5
RoA	1.1	0.9	0.9	1.0	1.1
Leverage	10.7	10.9	10.8	11.5	12.6
RoE	11.9	10.8	10.9	12.5	14.3

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
B/S Structure Ratios (%)					
CD Ratio	86.6	82.0	84.7	87.1	86.0
Incremental CD Ratio	106.0	66.4	95.8	98.9	81.6
CASA Ratio	23.4	24.3	24.3	26.4	27.4
Growth Ratios (%)					
Loans	23.5	22.4	28.6	23.6	24.7
Deposits	18.4	29.2	24.5	20.2	26.3
NII	21.9	28.7	24.9	13.3	18.2
Opex	23.8	28.0	24.3	11.8	12.1
PPOP	25.8	19.8	25.5	17.9	28.0
Provisions	26.5	26.8	24.5	(18.1)	18.0
PAT	1.7	2.6	22.9	38.0	30.3
Operating Ratios (%)					
Yield on funds	10.6	10.5	9.7	9.8	9.8
Cost of funds	6.8	6.5	5.7	6.0	6.2
NIM	3.9	4.0	4.0	3.7	3.6
Non-int inc / Total income	26.2	23.8	23.8	24.4	24.7
Fee to avg assets	0.80	0.77	0.81	0.83	0.86
Cost/Income	58.4	60.0	59.8	58.5	55.2
Opex/ Avg assets	2.8	2.9	2.9	2.6	2.4
Provisioning cost	0.50	0.52	0.51	0.34	0.34
Effective tax rate	25.5	34.9	33.0	33.0	33.0
RoA	1.1	0.9	0.9	1.0	1.1
RoE	11.9	10.8	10.9	12.5	14.3
Credit Quality Ratios (%)					
Gross NPA	1.5	1.8	2.0	1.8	1.7
Net NPA	0.8	0.8	0.7	0.6	0.5
Slippage rate to op advances	1.7	1.7	1.7	1.6	1.5
NPA coverage ratio	49.1	50.0	59.4	60.7	65.3
Capital Adequacy Ratios (%)					
Total CAR	14.1	13.8	16.5	15.2	13.6
Tier I	12.8	11.9	12.7	12.0	11.1
Tier II	1.3	1.9	3.8	3.2	2.6
Assets/equity (x)	10.7	10.9	10.8	11.5	12.6
Per Share (Rs)					
BVPS	61.2	68.3	83.2	93.0	106.6
Adjusted BVPS	57.8	63.9	78.5	87.8	101.2
EPS – basic	6.8	7.0	8.0	11.0	14.3
Valuations Ratios *					
Price/BV (x)	1.7	1.7	2.2	1.9	1.8
Price/Adj. BV (x)	1.8	1.8	2.3	2.0	1.9
P/E (x)	15.5	16.4	23.1	15.8	13.3

Source: Company, Centrum Research Estimate. * has been valued on average market cap basis for FY16-FY19YTD.

Appendix A

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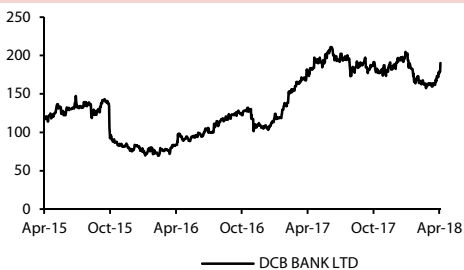
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DCB Bank price chart



Source: Bloomberg, Centrum Research

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