

Institutional Equity Research

DCB Bank

BFSI | India

3QFY19 Result Update | January 17, 2019

CMP* (Rs)	181
Upside/ (Downside) (%)	11
Bloomberg Ticker	DCBB IN
Market Cap. (Rs bn)	56
Free Float (%)	85
Shares O/S (mn)	309

BUY 

Target Price: Rs202

Improving Capital Consumption to Aid Returns; Maintain BUY

DCB Bank continued to deliver a stable set of numbers in 3QFY19 with 26% YoY growth in non corporate advances, stable sequential margins, continued QoQ improvement in C/I ratio and better capital consumption. The bank also increased floating provisions further to Rs730mn, after providing additional Rs55mn during the quarter. Increased focus on better capital usage resulted in sharp improvement in risk weighted assets to total assets ratio, which declined by 400 bps since the end of FY18 to 65%. Marginally higher slippages during the quarter were supported by elevated upgrades and recoveries, resulting in marginal sequential increase in GNPA ratio to 1.92% from 1.84%.

Key Quarterly Highlights

- ▶ Small ticket loans helped higher recoveries with Rs2bn in recovery and upgrades during 9MFY19 vs. Rs1.4bn in 9MFY18.
- ▶ Slippages at 2.2%(annualised) of advances were marginally higher over previous quarter owing to a Rs124mn fraud in AIB book, for which 77% provisioning has been made, while the rest is to be amortised over the next three quarters. The same was a commodity funding exposure in Gujarat.
- ▶ NIM remained sequentially stable with high yields on advances being compensated by increased cost of funds. The Management expects NIM to remain in 3.7-3.8% range on sustainable basis.
- ▶ The Management reiterated its intent to double the Bank's book every 3 years or so and plans to add 15-20 branches next fiscal.
- ▶ DCB entered the personal loans segment recently, where current book stands at ~Rs1bn, mainly catering to its existing customers. The segment's share expected to be capped at 3-4% of advances.

Outlook & Valuation

We believe that continued focus on low-ticket granular loans, efforts towards cost rationalization, comeback of pricing power amidst decline in NBFC disbursements, low corporate stress and improved capital consumption should hold DCB in good stead and support its return ratios. Additionally, impeccable asset quality in the last down cycle helped the Bank to garner above industry average valuations despite the weak return ratios. Though the positives are largely factored in, we believe the stock will continue to be a favored conservative play amidst any volatility in markets. The Management's ability to strengthen its non fund based core income should be the next trigger for a re-rating in our view. With FY20E RoA/RoE at 1.1% and 13%, the stock trades at 1.8x FY20E. Factoring in lower overall advances growth for FY19 and improved capital consumption, our earnings estimates have been revised marginally. **We maintain our BUY recommendation on the stock with a Target Price of Rs202 (based on 2.0x FY20E adjusted book value, marginally above its 4-year average P/ABV of 1.8X).**

Quarterly Performance					
Particulars	3Q FY19	3Q FY18	% yoy / bps	2Q FY19	% qoq / bps
Net Interest Income	2,936	2,505	17.2	2,818	4.2
NIM (%)	3.8	4.1	-29.0	3.8	-
Other Income - Total	945	749	26.1	735	28.6
Net Operating Revenue	3,881	3,254	19.3	3,553	9.2
Total Opex	2,143	2,029	5.6	2,092	2.4
Pre Provision Profits	1,738	1,225	41.8	1,461	18.9
Provisions & Contingencies - Total	401	343	17.2	319	25.8
Profit Before Tax	1,336	883	51.4	1,142	17.0
Reported Profits	861	570	51.0	734	17.2

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	13.3	8.0	(6.1)
Relative to Nifty	13.5	5.1	(7.8)

Shareholding Pattern (%)	Sep-18	Dec-18
Promoters	14.9	14.9
Institutions	48.7	49.0
NBFC & Bodies Corporate	11.6	11.6
Retail	24.8	24.5
Total	100	100

Key Financials			
(Rs mn)	FY18	FY19E	FY20E
Loan & Adv	203,367	252,175	315,219
NII	9,954	11,958	14,570
PPP ex Except.item	5,250	6,688	8,215
RPAT	2,453	3,335	4,314
P/E (x)	22.8	16.8	13.0
Adj. BV	77.7	87.0	98.8
P/ABV (x)	2.3	2.1	1.8

Change of Estimates		
(% Change)	FY19E	FY20E
Net Operating Revenue	(3.7)	(7.3)
Pre Provision Profits	(2.4)	(10.6)
PAT	1.7	(1.8)
Target Price		(20.0)



Note: * CMP as on January 16, 2019

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Risks to the View

- ▶ Higher credit loss from core client group of SME/MSME.
- ▶ Lower-than-anticipated performance of new branches may increase C/I ratio.
- ▶ Any major deterioration in macroeconomic environment may impact the Bank's growth plan and asset quality as well.

Exhibit 1: Income Statement Analysis

(Rs mn)	3Q FY19	3Q FY18	% yoy / bps	2Q FY19	% qoq / bps	9M FY19	9M FY18	% yoy / bps
Interest Inc. / Oper. Revenue	7,773	6,108	27.3	7,357	5.7	22,144	17,638	25.5
<i>Yield on Advances (%)</i>	<i>11.3</i>	<i>11.3</i>	<i>1</i>	<i>11.1</i>	<i>19</i>	<i>11.2</i>	<i>11.3</i>	<i>(7)</i>
Interest Expenses	4,219	3,603	17.1	4,538	(7.0)	13,042	10,321	26.4
<i>Cost of Fund (%)</i>	<i>6.7</i>	<i>6.4</i>	<i>32</i>	<i>6.6</i>	<i>15</i>	<i>6.6</i>	<i>6.5</i>	<i>13</i>
Net Interest Income	2,936	2,505	17.2	2,818	4.2	9,102	7,317	24.4
NII to Net Operative Income	75.7	77.0	(131)	79.3	(366)	78.4	76.4	200
<i>NIM (%)</i>	<i>3.8</i>	<i>4.1</i>	<i>(29)</i>	<i>3.8</i>	<i>-</i>	<i>3.9</i>	<i>4.2</i>	<i>(34)</i>
Adjusted NII	2,864	2,445	17.1	2,755	4.0	8,903	7,065	26.0
Commi., exchange and brokerage	594	567	4.8	559	6.3	1,752	1,569	11.7
Exchange transactions	57	36	58.3	52	9.6	158	103	53.4
Sale of investments	112	55	103.6	31	261.3	296	413	(28.3)
Sale of land, buildings & other assets	182	91	98.9	93	95.7	302	175	72.6
Other Income - Total	945	749	26.1	735	28.6	2,508	2,260	11.0
Other Income to Net Operative Income	24.3	23.0	131	20.7	366	21.6	23.6	(200)
Net Operating Revenue	3,881	3,254	19.3	3,553	9.2	11,610	9,577	21.2
Employee Expenses	1,103	970	13.7	1,102	0.1	3,291	2,796	17.7
Empl. Cost/Oper. Exps.	28.4	29.8	(139)	31.0	(259)	28.3	29.2	(84)
Other Opex	1,040	1,059	(1.7)	990	5.0	3,088	2,947	4.8
Other Opex/ Assets	0.3	0.4	(9)	0.3	1	1.0	1.2	(20)
Total Opex	2,143	2,029	5.6	2,092	2.4	6,379	5,743	11.1
<i>Cost to Income Ratio (%)</i>	<i>55.2</i>	<i>62.3</i>	<i>(712)</i>	<i>58.9</i>	<i>(366)</i>	<i>54.9</i>	<i>60.0</i>	<i>(502)</i>
Pre Provision Profits	1,738	1,225	41.8	1,461	18.9	5,231	3,834	36.4
Provisions & Contingencies - Total	401	343	17.2	319	25.8	1,053	1,000	5.3
NPA Provisions as % Operating Income	23.1	28.0	(485)	21.8	127	20.1	26.1	(595)
Profit Before Tax	1,336	883	51.4	1,142	17.0	4,178	2,834	47.4
Tax	475	313	52.0	408	16.6	1,292	1,023	26.3
<i>Effective Tax Rate (%)</i>	<i>35.6</i>	<i>35.4</i>	<i>14</i>	<i>35.7</i>	<i>(13.0)</i>	<i>30.9</i>	<i>36.1</i>	<i>(516)</i>
Reported Profits	861	570	51.0	734	17.2	2,886	1,811	59.3
<i>RoA (%)</i>	<i>1.0</i>	<i>0.9</i>	<i>17</i>	<i>0.9</i>	<i>11.0</i>	<i>1.0</i>	<i>1.0</i>	<i>(0)</i>
<i>RoE (%)</i>	<i>12.6</i>	<i>9.3</i>	<i>335</i>	<i>11.1</i>	<i>151</i>	<i>11.4</i>	<i>9.6</i>	<i>175</i>
Basic EPS	2.8	1.9	50.3	2.4	16.8	7.4	6.0	24.7
Diluted EPS	2.7	1.8	51.4	2.3	17.1	7.3	5.8	25.5

Source: Company, RSec Research

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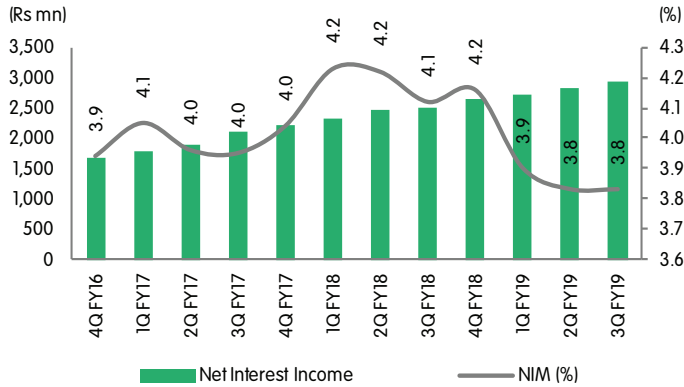
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Exhibit 2: NII Trend



Source: Company, RSec Research

Exhibit 3: Other Income Trend

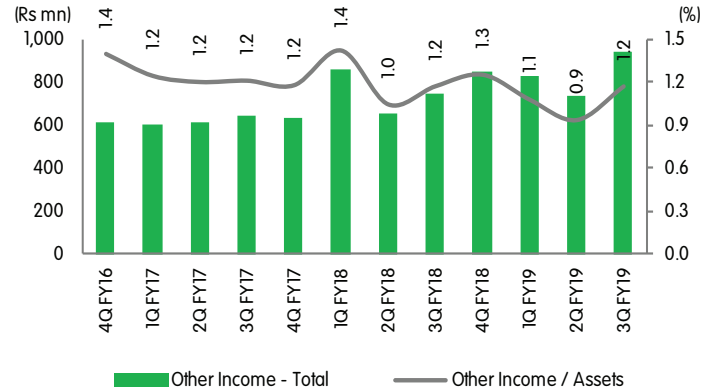
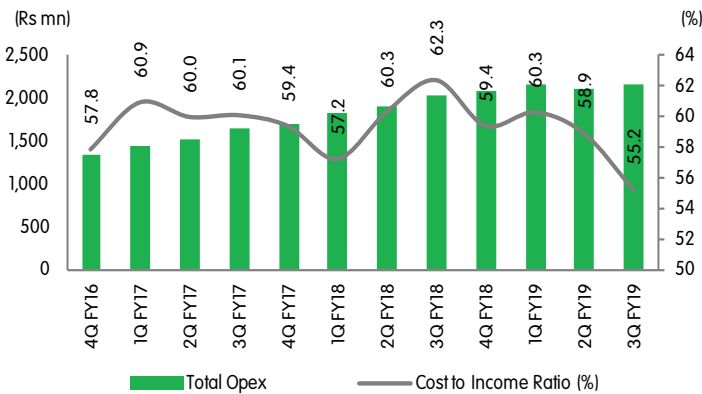


Exhibit 4: Total OPEX Trend



Source: Company, RSec Research

Exhibit 5: Pre Provision Profit Trend

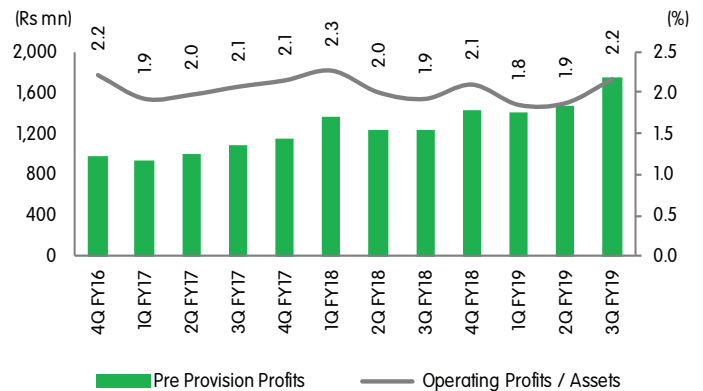
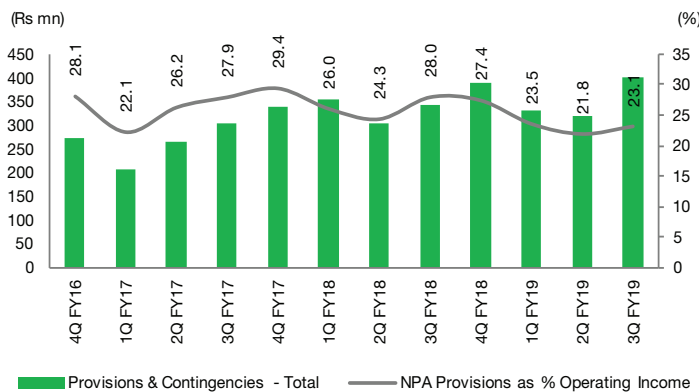
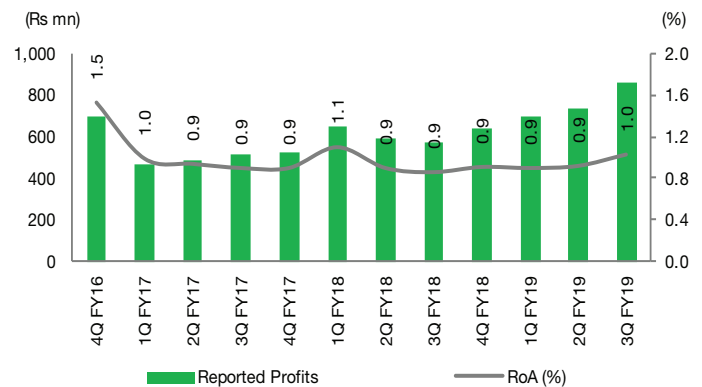


Exhibit 6: Provision Exp Trend



Source: Company, RSec Research

Exhibit 7: PAT Trend



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Exhibit 8: Balance Sheet Analysis

	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	QoQ % / bps	YoY % / bps
Net Worth	26,835	27,426	28,064	28,536	29,295	30,171	3.0	10.0
<i>RoE (%)</i>	8.8	9.3	10.2	10.4	11.1	12.6	151	335
<i>Tier 1 %</i>	12.9	12.5	12.7	12.0	12.0	11.9	(1)	(5)
<i>Total CAR %</i>	14.7	15.8	16.5	15.6	15.6	15.5	(1)	(2)
RWA - Total	187,017	192,553	207,554	219,952	220,322	221,891	0.7	15.2
Advances - Total	173,950	185,952	203,367	212,434	220,688	228,884	3.7	23.1
Investments	57,112	57,136	62,190	70,528	70,026	75,157	7.3	31.5
Total Assets	259,081	271,513	302,221	311,779	325,102	343,818	5.8	26.6
<i>RoA (%)</i>	0.90	0.86	0.91	0.90	0.92	1.03	12	20
Deposits	205,671	212,959	240,069	250,324	261,687	275,090	5.1	29.2
CASA Deposits	53,234	55,369	58,403	61,659	63,587	66,701	4.9	20.5
<i>CASA Ratio (%)</i>	26.0	25.7	24.3	25.0	24.3	24.3	(0)	(6)
Term Deposits	152,437	157,590	181,666	188,665	198,100	208,389	5.2	32.2
Interest Bearing Liabilities - Total	219,880	231,868	259,336	270,575	281,798	300,034	6.5	29.4

Source: Company, RSec Research

Exhibit 9: Earning Assets Mix & Incremental Contribution

	As on (Rs mn)				As % of Working Assets	YoY/ YTD growth (% / bps)			Incremental Contribution in Working Assets (%)		
	FY16	FY17	FY18	1H FY19		FY17	FY18	2QFY19	FY17	FY18	2QFY19
Mortgages	55,562	68,016	81,347	91,554	27.9	22.4	19.6	12.5	26.6	21.9	25.9
Commercial Vehicle	5,169	6,327	12,202	16,022	4.9	22.4	92.9	31.3	2.5	9.6	9.7
SME + Micro SME	15,506	18,981	24,404	27,466	8.4	22.4	28.6	12.5	7.4	8.9	7.8
Agri & Inclusive Banking	21,966	28,472	36,606	43,488	13.2	29.6	28.6	18.8	13.9	13.3	17.5
Corporate Banking	19,382	25,308	34,572	34,333	10.4	30.6	36.6	(0.7)	12.7	15.2	(0.6)
Other	11,629	11,072	14,236	16,022	4.9	(4.8)	28.6	12.5	(1.2)	5.2	4.5
Advances - Total	129,214	158,176	203,367	228,884	69.6	22.4	28.6	12.5	61.9	74.1	64.8
<i>Yield on Advances (%)</i>	12.5	12.0	11.4	11.3		(49)	(62)	(15)			
SLR	39,855	47,711	49,091	58,468	17.8	20	3	19	16.8	2.3	23.8
Non SLR	3,478	10,468	13,099	16,689	5.1	201	25	27	14.9	4.3	9.1
Investments	43,333	58,179	62,190	75,157	22.9	34.3	6.9	20.9	31.7	6.6	32.9
Cash & Cash Equivalent	8,916	11,925	23,720	24,626	7.5	33.7	98.9	3.8	6.4	19.3	2.3
Working Assets	181,463	228,280	289,276	328,667	100.0	25.8	26.7	13.6	100.0	100.0	100.0

Source: Company, RSec Research

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Exhibit 10: Funding Mix & Incremental Contribution

	As on (Rs mn)				As % of Total Working Fund	YoY/ YTD growth			Incremental Contribution YoY/ YTD Growth (%)		
	FY16	FY17	FY18	1H FY19		FY17	FY18	2Q FY19	FY17	FY18	2Q FY19
Deposits	149,260	192,892	240,069	275,090	91.7	29.2	24.5	14.6	97.2	87.9	86.1
CASA Deposits	34,899	46,892	58,403	66,701	22.2	34.4	24.5	14.2	26.7	21.4	20.4
Term Deposits	114,361	146,000	181,665	208,389	69.5	27.7	24.4	14.7	70.4	66.4	65.7
Borrowings	11,479	12,758	19,267	24,944	8.3	11.1	51.0	29.5	2.8	12.1	13.9
Interest Bearing Liabilities	160,739	205,650	259,336	300,034	100.0	27.9	26.1	15.7	100.0	100.0	100.0
Cost of Fund (%)	7.5	7.0	6.5	6.7		(54)	(49)	23			

Source: Company, RSec Research

Exhibit 11: Assets Quality Analysis

(Rs bn)	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	QoQ % / bps	YTD % / bps	YoY % / bps
Total Slippages	779	1,038	814	1,074	978	1,147	17.3	6.8	10.5
Slippages Ratio (%)	0.49	0.66	0.51	0.53	0.48	0.56	8	4	(9)
Gross NPA	3,158	3,545	3,690	4,006	4,100	4,451	8.6	11.1	25.6
Gross NPAs Ratio (%)	1.80	1.89	1.79	1.86	1.84	1.92	8	6	3
PCR - Calculated (%)	50.3	54.4	60.2	61.6	62.1	63.3	116	171	884
PCR - Inc. Tech w/o (%)	72.0	73.4	75.7	76.1	76.8	77.0	17	90	363
Net NPA	1,570	1,615	1,467	1,539	1,553	1,634	5.2	6.2	1.2
Net NPAs Ratio (%)	0.90	0.87	0.72	0.72	0.70	0.71	1	(1)	(16)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Int. Income / Opr. Revenue	20,761	24,130	29,953	36,771
Interest Expenses	12,791	14,176	17,995	22,201
Net Interest Income	7,971	9,954	11,958	14,570
<i>NIM (%)</i>	<i>3.89</i>	<i>3.85</i>	<i>3.72</i>	<i>3.69</i>
One-time Int Inc/ Exp Adj.	289	339	-	-
Adjusted NII	7,682	9,615	11,958	14,570
Core Fee Income	1,657	2,192	2,543	3,051
Exchange Income	104	139	215	274
Sale of Investments	454	454	522	585
Other Misc. Income	280	318	375	431
Other Income - Total	2,495	3,103	3,655	4,341
Net Operating Revenue	10,465	13,057	15,614	18,910
Employee Exp.	3,080	3,812	4,651	5,651
Other Opex	3,203	3,995	4,275	5,044
Total Opex	6,283	7,807	8,926	10,695
C/I Ratio	60.04	59.79	57.17	56.56
Pre Provision Profits	4,182	5,250	6,688	8,215
<i>PPP Growth (yoy %)</i>	<i>19.8</i>	<i>25.5</i>	<i>27.4</i>	<i>22.8</i>
Core PPP	3,893	4,911	6,688	8,215
Provisions & Contingencies - Total	1,115	1,388	1,477	1,476
<i>Credit Cost (As % of Op. AUM)</i>	<i>0.67</i>	<i>0.82</i>	<i>0.63</i>	<i>0.49</i>
Profit Before Tax	3,067	3,862	5,211	6,740
Tax	1,070	1,408	1,876	2,426
Effective Tax Rate	34.9	36.5	36.0	36.0
Reported Profits	1,997	2,453	3,335	4,314
<i>PAT Growth (yoy %)</i>	<i>2.6</i>	<i>22.9</i>	<i>35.9</i>	<i>29.3</i>

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Balance Sheet

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
Equity Share Capital	2,854	3,081	3,081	3,081
Reserves (ex Revel. Reserve)	16,614	22,479	25,536	29,478
Net Worth - Ex Revaluation	19,468	25,560	28,616	32,559
Revaluation Reserve	2,565	2,504	2,294	2,138
Equity Warrant & Other	16	14	15	15
Deposits	192,892	240,069	302,290	373,881
Borrowings	12,758	19,267	24,510	30,752
Interest Bearing Liabilities	205,650	259,336	326,800	404,633
Other Lia. & Prov.	12,765	14,807	9,750	11,079
Total Liabilities	240,464	302,221	367,475	450,425
Assets				
Cash & Cash Equivalent	11,925	23,720	27,696	33,187
Investments	58,179	62,190	73,657	87,052
Loan & Advances	158,176	203,367	252,175	315,219
<i>Growth (yoy %)</i>	<i>22.4</i>	<i>28.6</i>	<i>24.0</i>	<i>25.0</i>
Fixed Assets	4,886	4,940	5,142	5,326
Other Assets	7,298	8,004	8,805	9,641
Total Assets	240,464	302,221	367,475	450,425

Per Share Data

Y/E Mar	FY17	FY18	FY19E	FY20E
Face Value	10	10	10	10
Adjusted Share O/S - For Calculation	285	308	308	308
Earnings Per Share	7.0	8.0	10.8	14.0
<i>EPS (% YoY)</i>	<i>2.3</i>	<i>13.8</i>	<i>35.9</i>	<i>29.3</i>
P/E (x)	25.9	22.8	16.8	13.0
Book Value	68.2	83.0	92.9	105.7
<i>BVPS (% YoY)</i>	<i>11.5</i>	<i>21.6</i>	<i>12.0</i>	<i>13.8</i>
P/BV (x)	2.7	2.2	2.0	1.7
Adj. BV	63.2	77.7	87.0	98.8
<i>Adj. BV (% YoY)</i>	<i>10.0</i>	<i>22.8</i>	<i>12.0</i>	<i>13.5</i>
P/ABV (x)	2.9	2.3	2.1	1.8
Dividend / Share	0.5	0.8	1.0	1.0
<i>Dividend Yield (%)</i>	<i>0.3</i>	<i>0.4</i>	<i>0.6</i>	<i>0.6</i>

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Detail RoA Tree Analysis

Y/E Mar	FY17	FY18	FY19E	FY20E
Yields / Margins				
Yield on Advance	11.5	10.7	10.7	10.6
Yield on Funds	10.1	9.3	9.3	9.3
Cost of Funds (CoF)	7.0	6.1	6.1	6.1
Interest Spread	3.2	3.2	3.2	3.3
NIM's	3.9	3.8	3.7	3.7
Operating Ratios				
Interest Income / Assets	9.6	8.9	8.9	9.0
Interest Exp. / Assets	5.9	5.2	5.4	5.4
NII / Assets	3.7	3.7	3.6	3.6
Fee Income / Assets	0.8	0.8	0.8	0.7
Other Non Core Inc. / Assets	0.2	0.2	0.2	0.1
Other Income / Assets	1.2	1.1	1.1	1.1
Net Operating Income / Assets	4.8	4.8	4.7	4.6
Operating Ratios				
NII to Net Operative Income	76.2	76.2	76.6	77.0
Other Inc. to Net Operative Inc.	23.8	23.8	23.4	23.0
Empl. Cost/Oper. Exps.	49.0	48.8	52.1	52.8
Other Op. Exps./Oper. Exps.	51.0	51.2	47.9	47.2
C/I Ratio	60.0	59.8	57.2	56.6
<i>Provisions as % PPP</i>	<i>10.7</i>	<i>10.6</i>	<i>9.5</i>	<i>7.8</i>
<i>Credit Cost (As % of Op. AUM)</i>	<i>0.7</i>	<i>0.8</i>	<i>0.6</i>	<i>0.5</i>
Effective Tax Rate	34.9	36.5	36.0	36.0
Employee Exp. / Assets	1.4	1.4	1.4	1.4
Other Opex/ Assets	1.5	1.5	1.3	1.2
Total Opex / Assets	2.9	2.9	2.7	2.6
Operating Profits / Assets	1.9	1.9	2.0	2.0
Provisions / Assets	0.5	0.5	0.4	0.4
Profit Before Tax / Assets	1.4	1.4	1.6	1.6
Tax Expenses / Assets	0.5	0.5	0.6	0.6
RoA	0.9	0.9	1.0	1.1
Leverage (x)	12.4	11.8	12.8	13.8
RoE	10.0	9.8	11.3	13.1
Adj. RoA	0.9	0.9	1.0	1.1
Adj. RoE	10.0	9.8	11.3	13.1

Balance Sheet Ratio

Y/E Mar	FY17	FY18	FY19E	FY20E
Credit / Deposit Ratio	82.0	84.7	83.4	84.3
Incremental C/D Ratio	66.4	95.8	78.4	88.1
Investment Deposit Ratio	30.2	25.9	24.4	23.3
Dom. SLR Investment / Deposits	24.7	20.4	19.6	19.1
CASA Ratio	24.3	24.3	25.6	26.5

Institutional Equity Research

DCB Bank

BFSI | India

CMP* (Rs)	181
Upside/ (Downside) (%)	11
Bloomberg Ticker	DCBB IN

BUY 

Target Price: Rs202

Credit Quality

Y/E Mar	FY17	FY18	FY19E	FY20E
Slippage Ratio	2.0	2.2	2.1	1.8
Gross NPA (Cl Bal)	2,542	3,690	4,538	5,537
<i>Gross NPAs Ratio (%)</i>	<i>1.6</i>	<i>1.8</i>	<i>1.8</i>	<i>1.8</i>
<i>PCR (%)</i>	<i>51.1</i>	<i>60.2</i>	<i>63.0</i>	<i>64.0</i>
<i>PCR - Inc. Tech w/o (%)</i>	<i>73.8</i>	<i>75.7</i>	-	-
Net NPA (Cl. Bal.)	1,244	1,467	1,679	1,993
<i>Net NPAs Ratio (%)</i>	<i>0.8</i>	<i>0.7</i>	-	-

Capital and Asset-Liability Profile (%)

Y/E Mar	FY17	FY18	FY19E	FY20E
Risk Weighted Assets	172,832	207,554	238,278	283,483
<i>RWA as % of Total Assets</i>	<i>71.9</i>	<i>68.7</i>	<i>64.8</i>	<i>62.9</i>
Total Shareholders' Equity to Assets	8.1	8.5	7.8	7.2
CET 1 Ratio	11.9	12.7	12.4	11.8
Tier 1 Ratio	11.9	12.7	12.4	11.8
Tier 2 Ratio	1.9	3.7	3.4	3.0
Total CRAR Ratio	13.8	16.5	15.8	14.8

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DCB Bank

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Rating History

Date	Reco	CMP	TP
22-Oct-18	BUY	157	207
17-July-18	BUY	163	207
17-Apr-18	BUY	190	247
18-Jan-18	BUY	184	223
18-Oct-17	BUY	198	223
18-Jul-17	BUY	198	223
17-Apr-17	BUY	173	207
16-Jan-17	BUY	121	144

Source: RSec Research

[PLEASE CLICK HERE FOR DETAILED REPORTS](#)**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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