

DCB Bank

Margin seems to have settled at a lower level

Our view – Slippages moderated sequentially, but margin remains the key monitorable

Balance sheet growth – Loan growth remains healthy with co-lending driving growth for the quarter: Advances grew 6.8%/24.7% QoQ/YoY, driven sequentially by Co-lending, Commercial Vehicle and 'other' loans segments. The Co-lending book was at Rs 66.36bn, up by 23% QoQ and 116% YoY. The management has indicated that the co-lending growth will be slower in FY26 as compared to FY25 and will be in line with the overall loan growth. Consequently, the organic book will contribute higher to the overall loan growth next year.

Net Interest Margin – NIM has stabilized but future rate cuts can have an adverse impact: NIM at 3.29% was down -1bp/-33bps QoQ/YoY. The Cost of deposits in 4Q was at 7.28%, up by 16bps QoQ and 20bps YoY. NIM for 4Q has stabilized despite a 25bps repo rate cut. The company has reduced the savings account, bulk deposits and retail TD rates to manage the impact of rate cut. While the savings account rate cut will immediately impact the cost of funds, the benefit of retail TD rate cut will be visible slowly over a period. The management indicated that its ability to reduce savings account rate in response to future rate cuts will be limited.

Asset Quality – Slippages declined on sequential basis but the slippage ratio continues to be somewhat elevated: For the quarter, Gross NPA additions had amounted to Rs 3.66bn (Rs 3.96bn in 3QFY25), implying an annualised gross slippage ratio of 2.9%. Recoveries and upgrades amounted to Rs 3.03bn. Provisions were Rs 0.67bn, flat QoQ but up 179% YoY, translating to calculated annualised credit cost of 54bps. The MFI portfolio for the bank is very small and it has not seen any improvement yet.

We maintain a less-than-bullish 'ADD' rating on DCB with a revised price target of Rs 145: DCB was among the bottom 2 names in our [Sector Initiation Report dated June 2021](#). We value the bank at 0.7x FY27 P/BV for an FY26/27E RoE profile of 10.8/13.0%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 60.7% was down by -202/-300bps QoQ/YoY and the Cost to assets was at 2.5% down by -5/-13bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.9%, up 7/10bps QoQ/YoY.

Exhibit 1: Result table

(Rs mn)	Q4 FY25	Q3 FY25	% qoq	Q4 FY24	% yoy
Total Interest Income	17,419	16,711	4.2	14,446	20.6
Interest Expense	(11,839)	(11,282)	4.9	(9,371)	26.3
Net Interest Income	5,580	5,429	2.8	5,075	9.9
Fee Income	1,610	1,410	14.2	1,180	36.4
Non-fee Income	578	431	34.3	182	217.3
Total Non-Interest Income	2,188	1,841	18.9	1,362	60.6
Total Income	7,768	7,269	6.9	6,437	20.7
Employee Expense	(2,314)	(2,312)	0.1	(2,119)	9.2
Non-employee Opex	(2,400)	(2,246)	6.8	(1,981)	21.2
Total Operating expenses	(4,714)	(4,558)	3.4	(4,100)	15.0
PPOP	3,054	2,711	12.6	2,338	30.7
Provisions	(672)	(672)	0.1	(241)	179.2
PBT	2,382	2,040	16.8	2,097	13.6
Tax	(611)	(525)	16.4	(540)	13.2
PAT	1,771	1,515	16.9	1,557	13.7

Source: Company, YES Sec-Research

For important information about YES Securities (India) Ltd. and other disclosures, refer to the end of this material.

Recommendation : **ADD**

Current Price : Rs 127

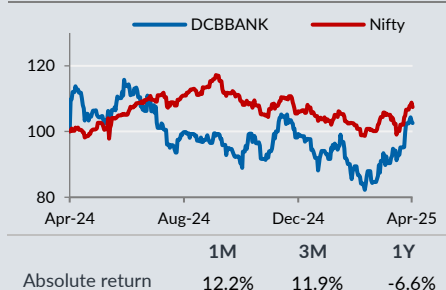
Target Price : Rs 145

Potential Return : +14%

Stock data (as on April 25, 2025)

Nifty	24,039
52 Week h/l (Rs)	146 / 101
Market cap (Rs/USD mn)	40543 / 475
Outstanding Shares (mn)	314
6m Avg t/o (Rs mn):	148
Div yield (%):	1.1
Bloomberg code:	DCBB IN
NSE code:	DCBBANK

Stock performance



Shareholding pattern (As of Dec'24 end)

Promoter	14.7%
FII+DII	38.8%
Others	46.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	145	134

Financial Summary

(Rs mn)	FY25	FY26E	FY27E
NII	21,066	25,374	31,514
PPOP	10,370	11,648	15,459
Net Profit	6,154	6,557	8,966
Growth (%)	14.8	6.6	36.7
EPS (Rs)	19.6	19.9	27.2
BVPS (Rs)	181	197	222
P/E (x)	6.5	6.4	4.7
P/BV (x)	0.7	0.6	0.6
ROE (%)	11.4	10.8	13.0
ROA (%)	0.9	0.8	0.9
Tier-1 (%)	14.3	13.3	12.5

Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	NA	19.9	27.2
EPS (Old)	NA	22.4	28.4
% change	NA	-11.3%	-4.4%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 3.66bn for 4QFY25, translating to an annualized slippage ratio of 2.91% for the quarter (Gross NPA additions had amounted to Rs 3.96bn during 3QFY25.)
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 3.03bn for 4QFY25, implying net NPA addition of Rs 0.63bn for the quarter.
- **Provisions**
 - Provisions were Rs 0.67bn, flat QoQ but up 179% YoY, translating to calculated annualised credit cost of 54bps.
 - The credit cost for Q4 was 36bps and for FY25 was 31bps (presumably based on NPA provision only)
 - There were no write offs in 4QFY25.
 - **Credit cost guidance**
 - For the bank's business model, the credit cost should range between 45-55 bps.
- **Restructured book**
 - The standard restructured loans stood at Rs 9.45bn or 1.82% of gross advances.
- **NPA ratios**
 - GNPA ratio stands at 2.99%, down -12bps QoQ and -24bps YoY while NNPA ratio stands at 1.12%, down -6bps QoQ but up 1bp YoY.
- **Microfinance**
 - The company has a small MFI book and it has not seen any improvement in asset quality yet.

Loan growth

- The advances for the bank stood at Rs 510 bn, up 6.8% QoQ and 24.7% YoY.
- **Co-lending**
 - The Co-lending book was at Rs 66.36bn, up by 23% QoQ and 116% YoY.
 - **Guidance**
 - The growth in co-lending book will be slower in FY26 as compared to FY25 and will be in line with overall balance sheet growth.
 - Consequently, organic loan growth will contribute higher to the overall loan growth.
 - **RBI Draft Guidelines**
 - The reduction in co-lending growth is not a response to the RBI draft guidelines.
- **Gold Loan**
 - The processes followed by the company is in line with the draft guidelines and there is no impact on business.
- **Mortgages**
 - Incremental sourcing of LAP is higher than Home Loans within mortgages.

(Con call takeaways continue on the next page)

- The capital requirement is higher for LAP but the higher yield offsets the incremental capital requirement.
- **PMAY Guidelines**
 - The maximum interest rate is 11.5% and maximum ticket size is Rs 2.5 mn.
 - The customer will stay with the company for 5 years and there is huge incentive for the customer to remain non-delinquent.
 - The company is comfortable with new to credit customers.
 - Further, the ticket size is a sweet spot for the company.

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.29%, down -1bp QoQ and -33bps YoY.
 - NIM for 4Q has stabilized despite a 25bps repo cut.
 - Any further rate cut may hurt the bank in terms of margin.
- **Yield on advances**
 - The yield on advances in 4Q was at 11.54%, up by 10bps QoQ but down -17bps YoY.
 - The company will not get into unsecured products or higher yielding products outside its risk framework.
- **Cost of deposits**
 - The Cost of deposits in 4Q was at 7.28%, up by 16bps QoQ and 20bps YoY.
 - The company has opportunistically picked up higher cost deposits during the last two quarters to support loan growth.
- **Rate Cut Impact**
 - The company has taken a saving account rate cut in 4Q.
 - Bulk deposits rate have come down substantially post 31st March 2025.
 - Retail TD rates have also reduced slightly but the impact will be observed slowly.
 - The ability of the bank to reduce savings account rate in response to future rate cuts will however be limited.
- **Loan to deposit ratio (LDR)**
 - The loan to deposit ratio was at 85%, up by 73bps QoQ and 211bps YoY.

Operating expenses

- **Total opex**
 - Opex, at Rs. 4.71bn, is up 3.4% QoQ and 15% YoY.
 - Cost/income ratio came in at 60.7%, down by -202bps QoQ and -300bps YoY.
 - **Cost to assets**
 - The cost to assets was at 2.54%, down by -5bps QoQ and -13bps YoY
- **Employee expenses**
 - The staff opex is flat QoQ but up 9.2% YoY
 - **Headcount**
 - The number of employees has reduced to 11,057 as of Mar-25 from 11,910 in Sep-24.
 - **Guidance**
 - The company will add employees in FY26 but it will be lower than the maximum headcount in FY25.
- **Non-employee expenses**
 - Other opex is up 6.8% QoQ and 21.2% YoY

(Con call takeaways continue on the next page)

- **Branches**
 - The company has opened 7 branches in 4Q, taking the total branch count to 464.

Fee income

- The core fee income for the quarter was at Rs 1.61bn, up 14.2% QoQ but up 36.4% YoY.
- Core fee to average assets was at 0.9%, up 7ps QoQ and 10bps YoY.
- **Reasons for increase**
 - Q4 is seasonally good for third party distribution.
 - There was a 5bps impact of movement of penal interest to penal charges.
- **Guidance**
 - Fee income in Q1FY26 will be higher YoY.

Deposits growth

- The deposits were at Rs 600 bn, up by 5.9% QoQ and 21.6% YoY.
- The share of top 20 depositors was at 6.61%.
- **CASA deposits**
 - CASA ratio was at 24.52%
 - CASA deposits were at Rs 147bn, up by 14.6% YoY.

Return ratios

- The RoA for 4Q was at 0.95% and RoE was at 13.57%.

Capital Adequacy

- The RWA to total assets was at 49.43%.
- The tier I capital ratio was at 14.30%, up 76bps QoQ but down -23bps YoY.
- **Capital raise**
 - The current tier-1 capital ratio is above the go to capital raise situation.
 - The company will wait for few more quarters to go for capital raise when it believes that the market prices reflect the intrinsic value.
- **Capital infusion**
 - The capital infusion from the promoters can come by Q2FY26.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q4FY25	Q3FY25	% qoq	Q4FY24	% yoy	Q4FY25*	chg qoq*	chg yoy*
Advances	510,469	477,800	6.8	409,246	24.7	100.0	0bps	0bps
Corporate banking	29,097	30,101	(3.3)	31,103	(6.4)	5.7	-60bps	-190bps
AIB	117,918	112,761	4.6	103,539	13.9	23.1	-50bps	-220bps
CV	5,615	4,778	17.5	1,637	243.0	1.1	10bps	70bps
Gold Loans	17,356	16,245	6.8	12,687	36.8	3.4	0bps	30bps
Mortgage	222,565	212,621	4.7	183,751	21.1	43.6	-90bps	-130bps
SME and MSME	26,544	25,323	4.8	24,145	9.9	5.2	-10bps	-70bps
Co-Lending	66,361	53,991	22.9	30,693	116.2	13.0	170bps	550bps
Other Loans	25,013	21,979	13.8	21,690	15.3	4.9	30bps	-40bps
Total Deposits	600,310	566,780	5.9	493,530	21.6	100.0	0bps	0bps
CASA	147,210	142,220	3.5	128,420	14.6	24.5	-57bps	-150bps
Term	453,100	424,560	6.7	365,110	24.1	75.5	57bps	150bps
RWA	379,660	353,670	7.3	328,340	15.6	NA	NA	NA
Investments	201,499	179,630	12.2	162,109	24.3	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	28.3	27.3	98bps	28.4	-7bps	NA	NA	NA
Borrowings	91,152	73,890	23.4	62,195	46.6	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	13.2	11.5	165bps	11.2	199bps	NA	NA	NA

Source: Company, YES Sec – Research, * Share in Total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q4FY25	Q3FY25	chg qoq	Q4FY24	chg yoy
Net interest margin	3.29	3.30	-1bps	3.62	-33bps
Yield on advances	11.54	11.44	10bps	11.71	-17bps
Cost of Deposits	7.28	7.12	16bps	7.08	20bps
Loan to Deposit ratio	85.0	84.3	73bps	82.9	211bps
Non-interest income/Total income	28.2	25.3	285bps	21.2	701bps
Fee Income to Avg. Total Assets	0.9	0.8	7bps	0.8	10bps
Cost to Income	60.7	62.7	-202bps	63.7	-300bps
Opex to Avg. Total Assets	2.5	2.6	-5bps	2.7	-13bps
Credit Cost	0.5	0.6	-4bps	0.2	30bps
RoE^	13.6	12.0	159bps	13.5	9bps
RoA^	1.0	0.9	9bps	1.0	-7bps
Annualised Slippage Ratio*	2.9	3.4	-46bps	3.2	-26bps
Provision Coverage	63.2	62.9	30bps	66.4	-320bps
Gross NPA	3.0	3.1	-12bps	3.2	-24bps
Net NPA	1.1	1.2	-6bps	1.1	1bps
Capital adequacy ratio	16.8	16.3	48bps	16.6	18bps
Tier I capital ratio	14.3	13.5	76bps	14.5	-23bps

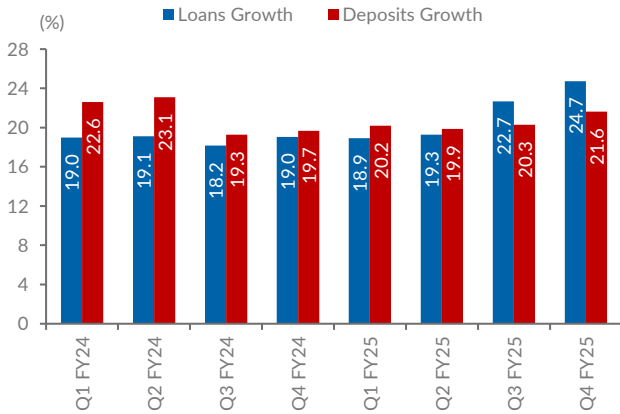
Source: Company, YES Sec – Research, ^Annualised, *Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q4FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	5,580	5,710	(2.3)
Pre-Prov. Operating Profit	3,054	2,878	6.1
Profit After Tax	1,771	1,662	6.5

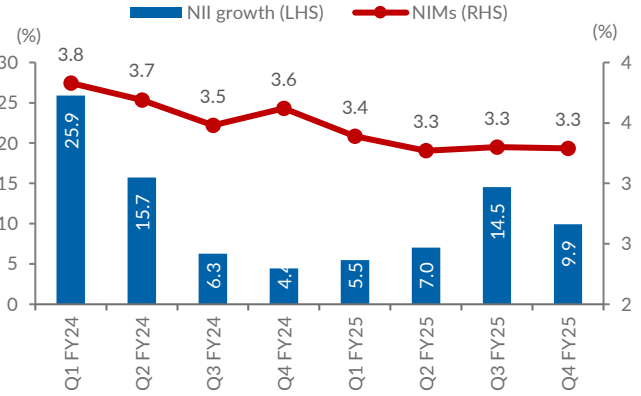
Source: Company, YES Sec – Research

Exhibit 5: Loans and Deposits growth (YoY %)



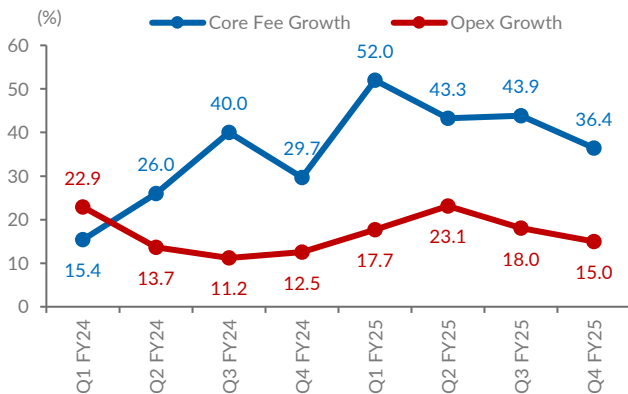
Source: Company, YES Sec – Research

Exhibit 6: NII growth (YoY %) and NIM (%)



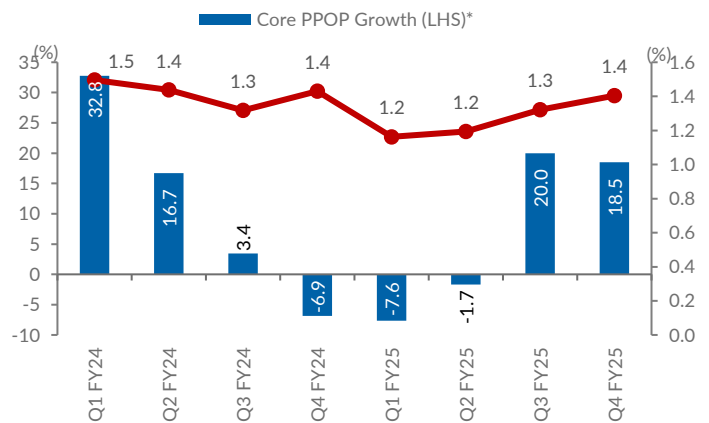
Source: Company, YES Sec – Research

Exhibit 7: Core Fee and Opex growth (YoY %)



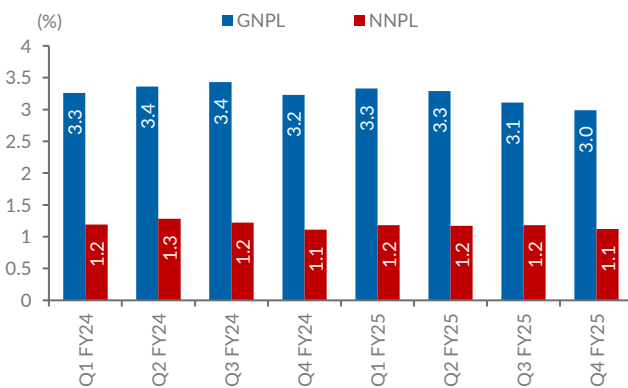
Source: Company, YES Sec – Research

Exhibit 8: Core PPOP growth (YoY %) and Core PPOP margin (%)



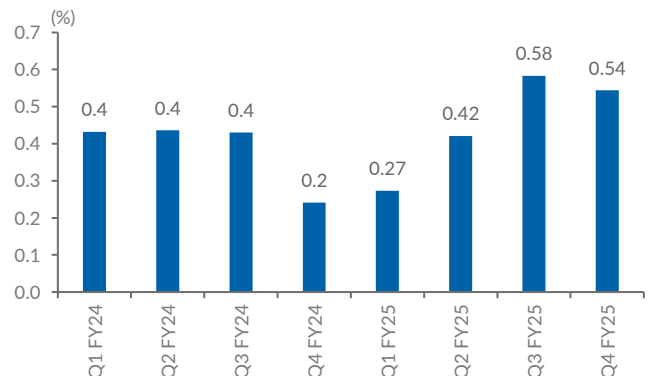
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 9: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 10: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 11: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 12: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

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Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Total cash & equivalents	23,684	30,659	26,986	55,131	66,157
Investments	125,825	162,108	201,499	235,844	276,499
Advances	343,807	409,246	510,469	612,563	735,076
Fixed assets	8,263	8,649	8,984	9,882	10,871
Other assets	22,080	19,708	20,160	20,563	20,974
Total assets	523,659	630,370	768,098	933,983	1,109,576
Net worth	45,661	50,713	56,907	65,041	73,156
Deposits	412,389	493,530	600,310	724,864	874,942
Borrowings	41,181	62,195	91,152	96,256	102,382
Other liabilities	24,427	23,932	19,730	47,821	59,096
Total liabilities incl. Equity	523,659	630,370	768,098	933,983	1,109,576

Source: Company, YES Sec – Research

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Interest income	42,003	53,620	64,706	78,182	93,912
Interest expense	(24,833)	(34,341)	(43,640)	(52,808)	(62,398)
Net interest income	17,170	19,279	21,066	25,374	31,514
Non-interest income	4,094	4,742	7,505	7,707	9,205
Total income	21,264	24,021	28,571	33,081	40,720
Operating expenses	(13,397)	(15,377)	(18,201)	(21,433)	(25,261)
PPoP	7,867	8,644	10,370	11,648	15,459
Provisions	(1,592)	(1,425)	(2,084)	(2,799)	(3,359)
Profit before tax	6,276	7,220	8,286	8,850	12,100
Taxes	(1,620)	(1,860)	(2,133)	(2,292)	(3,134)
Net profit	4,656	5,360	6,154	6,557	8,966

Source: Company, YES Sec – Research

Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY23	FY24	FY25	FY26E	FY27E
Interest income	8.6	9.3	9.3	9.2	9.2
Interest expense	-5.1	-6.0	-6.2	-6.2	-6.1
Net interest income	3.5	3.3	3.0	3.0	3.1
Non-interest income	0.8	0.8	1.1	0.9	0.9
Total income	4.4	4.2	4.1	3.9	4.0
Operating expenses	-2.8	-2.7	-2.6	-2.5	-2.5
PPoP	1.6	1.5	1.5	1.4	1.5
Provisions	-0.3	-0.2	-0.3	-0.3	-0.3
Profit before tax	1.3	1.3	1.2	1.0	1.2
Taxes	-0.3	-0.3	-0.3	-0.3	-0.3
Net profit	1.0	0.9	0.9	0.8	0.9

Source: Company, YES Sec – Research

Exhibit 16: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Interest Income	NA	25,374	31,514	NA	26,804	31,916	NA	(5.3)	(1.3)
Pre-Prov. Operating Profit	NA	11,648	15,459	NA	12,409	15,478	NA	(6.1)	(0.1)
Profit after tax	NA	6,557	8,966	NA	7,009	8,891	NA	(6.4)	0.8

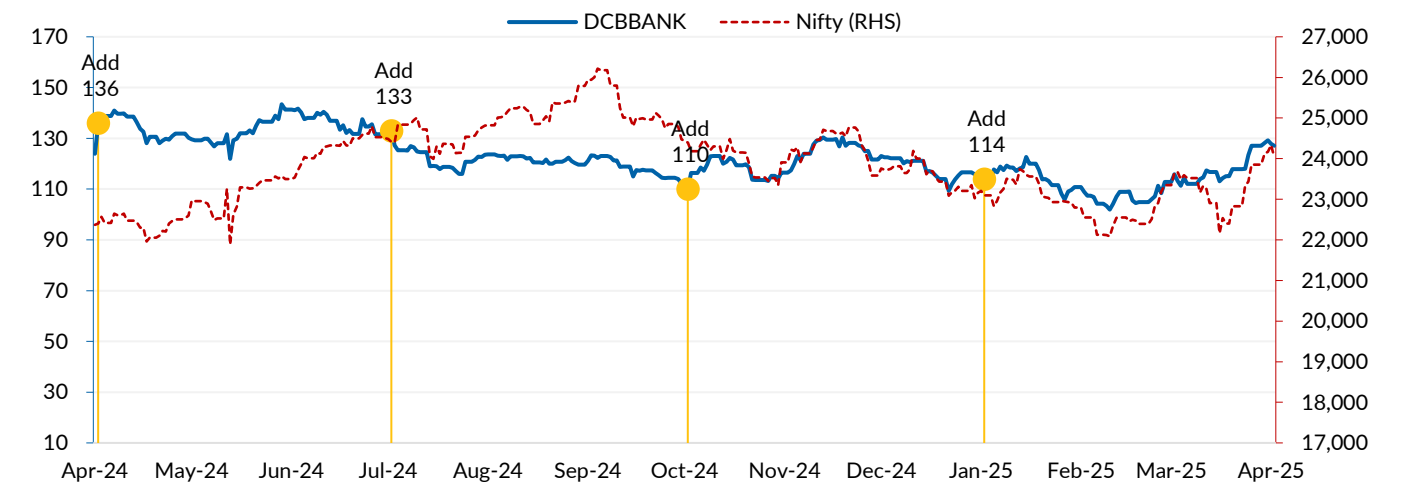
Source: Company, YES Sec – Research

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
Growth matrix (%)					
Net interest income	26.5	12.3	9.3	20.5	24.2
PPoP	-1.3	9.9	20.0	12.3	32.7
Net profit	61.9	15.1	14.8	6.6	36.7
Loans	18.2	19.0	24.7	20.0	20.0
Deposits	18.9	19.7	21.6	20.7	20.7
Profitability Ratios (%)					
Net interest margin	3.9	3.7	3.3	3.3	3.4
Return on Average Equity	10.8	11.1	11.4	10.8	13.0
Return on Average Assets	1.0	0.9	0.9	0.8	0.9
Per share figures (Rs)					
EPS	14.9	17.1	19.6	19.9	27.2
BVPS	147	162	181	197	222
ABVPS	135	148	163	173	189
Valuation multiples					
P/E	8.5	7.4	6.5	6.4	4.7
P/BV	0.9	0.8	0.7	0.6	0.6
P/ABV	0.9	0.9	0.8	0.7	0.7
NIM internals (%)					
Yield on loans	10.7	11.3	11.1	11.0	11.0
Cost of deposits	5.9	6.8	6.9	7.0	6.9
Loan-deposit ratio	83.4	82.9	85.0	84.5	84.0
CASA ratio	26.4	26.0	24.5	25.0	25.0
Opex control (%)					
Cost/Income ratio	63.0	64.0	63.7	64.8	62.0
Cost to average assets	2.8	2.7	2.6	2.5	2.5
Capital adequacy (%)					
Tier 1 capital ratio	15.2	14.5	14.3	13.3	12.5
Asset quality (%)					
Slippage ratio	5.4	4.0	3.3	2.7	2.7
Gross NPL ratio	3.2	3.2	3.0	2.9	2.9
Credit cost	0.5	0.5	0.4	0.5	0.5
Net NPL ratio	1.0	1.1	1.1	1.3	1.5

Source: Company, YES Sec – Research

Recommendation Tracker



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