

DCB Bank

Least preferred pick > 4 years ago, DCB returns a CAGR < 5%; Sequential uptick for now

Our view – Asset quality and margin both improve sequentially

Asset Quality – Slippages declined on sequential basis as underlying stress eased: Gross NPA additions amounted to Rs 4.01bn in 2Q (Rs 5.80bn in 1QFY26), implying an annualised gross slippage ratio of 3.2%. Fresh slippages declined sequentially in 2Q, driven by easing stress in the MFI, unsecured DA, and secured small-ticket LAP segments. The management expects slippages from these portfolios to moderate further going forward. Gross slippage ratio, excluding the gold portfolio, stands at 2.5%, and the management aims to reduce it to below 2%. Recoveries and upgrades amounted to Rs 3.28bn for 2QFY26, implying net NPA addition of Rs 0.6bn for the quarter. Provisions were Rs 0.61bn, down by -47% QoQ but up 33% YoY, translating to calculated annualised all-inclusive credit cost of 50bps. The management reiterated that credit costs are expected to remain below 45bps going forward.

Net Interest Margin – NIM inched up sequentially as management called a bottom: NIM at 3.23% was up/down 3bps/-4bps QoQ/YoY. For 2Q, yield on advances was down -13bps QoQ while cost of deposits was down -16bps. Management expects NIMs to have bottomed out in 2Q and anticipates a recovery from 3Q, provided there are no rate cuts. The impact of TD rate cuts will flow over a period of 12-15months.

Balance sheet growth – Growth outcomes continue to be reasonably healthy: Advances grew 3.4%/19.1% QoQ/YoY, driven sequentially by Corporate Banking, Co-lending and Gold loan segments. The bank has issued IBPC of Rs 15.85bn in 2Q. Co-lending book was at Rs 85.93bn, up by 10% QoQ and 39.3% YoY. The management targets to double the loan book over the next 3–3.5 years.

We maintain a less-than-bullish 'ADD' rating on DCB with a revised price target of Rs 150: DCB was among the bottom 2 names in our [Sector Initiation Report dated June 2021](#). We value the bank at 0.6x FY27 P/BV for an FY26/27/28E RoE profile of 10.0/11.9/13.3%.

(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 61.2% was up/down by 118/-311bps QoQ/YoY and the Cost to assets was at 2.4% down by -9/-18bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.8%, up/down 11/-2bps QoQ/YoY.

Exhibit 1: Result table

(Rs mn)	Q2FY26	Q1FY26	% qoq	Q2FY25	% yoy
Total Interest Income	18,228	18,136	0.5	15,684	16.2
Interest Expense	(12,265)	(12,331)	(0.5)	(10,592)	15.8
Net Interest Income	5,962	5,804	2.7	5,092	17.1
Fee Income	1,580	1,340	17.9	1,390	13.7
Non-fee Income	281	1,021	(72.5)	656	(57.2)
Total Non-Interest Income	1,861	2,361	(21.2)	2,046	(9.1)
Total Income	7,823	8,166	(4.2)	7,138	9.6
Employee Expense	(2,432)	(2,510)	(3.1)	(2,351)	3.4
Non-employee Opex	(2,352)	(2,386)	(1.5)	(2,236)	5.2
Total Operating expenses	(4,784)	(4,897)	(2.3)	(4,587)	4.3
PPOP	3,039	3,269	(7.0)	2,551	19.1
Provisions	(605)	(1,151)	(47.4)	(456)	32.7
PBT	2,434	2,118	14.9	2,095	16.2
Tax	(595)	(545)	9.2	(541)	10.0
PAT	1,839	1,573	16.9	1,555	18.3

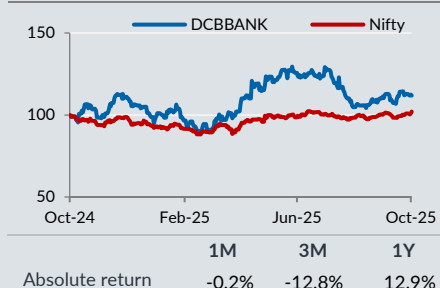
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 130
Target Price	: Rs 150
Potential Return	: +15%

Stock data (as on October 17, 2025)

Nifty	25,710
52 Week h/l (Rs)	151 / 101
Market cap (Rs/USD mn)	41726 / 474
Outstanding Shares (mn)	321
6m Avg t/o (Rs mn):	222
Div yield (%):	1.1
Bloomberg code:	DCBB IN
NSE code:	DCBBANK

Stock performance



Shareholding pattern (As of Jun'25 end)

Promoter	14.7%
FII+DII	43.5%
Others	41.8%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	150	145

Financial Summary

(Rs mn)	FY26E	FY27E	FY28E
NII	25,284	31,130	37,503
PPOP	11,465	14,620	18,217
Net Profit	6,089	8,096	10,214
Growth (%)	-1.0	33.0	26.2
EPS (Rs)	18.5	24.5	31.0
BVPS (Rs)	196	218	246
P/E (x)	7.0	5.3	4.2
P/BV (x)	0.7	0.6	0.5
ROE (%)	10.0	11.9	13.3
ROA (%)	0.7	0.8	0.8
Tier-1 (%)	13.2	12.3	11.5

Δ in earnings estimates

Rs.	FY26E	FY27E	FY28E
EPS (New)	18.5	24.5	31.0
EPS (Old)	18.0	24.0	30.2
% change	2.4%	2.4%	2.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 4.01bn for 2QFY26, translating to an annualized slippage ratio of 3.17% for the quarter. (Gross NPA additions had amounted to Rs 5.81bn during 1QFY26.)
 - **More on Slippages**
 - Fresh slippages declined sequentially in 2Q, driven by easing stress in the MFI, unsecured DA, and secured small-ticket LAP segments. The management expects slippages from these portfolios to moderate further going forward.
 - Gross slippage ratio, excluding the gold portfolio, stands at 2.5%, and the management aims to reduce it to below 2%.
 - During the quarter, the AIB segment recorded the highest net addition to Gross NPAs at Rs 0.23bn, primarily driven by stress in the BC-MFI book. However, all these exposures are fully secured.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 3.28bn for 2QFY26, implying net NPA addition of Rs 0.6bn for the quarter.
- **Provisions**
 - Provisions were Rs 0.61bn, down by - 47% QoQ but up 33% YoY, translating to calculated annualised all-inclusive credit cost of 50bps.
 - The reported credit cost for Q2FY26 was 31bps and 45bps for 1HFY26. (presumably on NPA provisions only)
 - **Write Offs**
 - PCR (incl. TWO) for 2QFY26 was 74.15%, up 11bps QoQ.
 - **Credit cost guidance**
 - The management reiterated that credit costs are expected to remain below 45bps going forward.
- **Restructured book**
 - The standard restructured loans stood at Rs 8.5bn or 1.58% of gross advances.
- **NPA ratios**
 - GNPA ratio stands at 2.91%, down -7bps QoQ and -38bps YoY while NNPA ratio stands at 1.21%, down -1bps QoQ but up 4bps YoY.

Loan growth

- The advances for the bank stood at Rs 530 bn, up 3.4% QoQ and 19.1% YoY
- The bank has done IBPC of Rs 15.85bn in 2Q.
- **Guidance**
 - The management targets to double the loan book over the next 3–3.5 years.
- **Break-up of Unsecured Book**
 - MFI institutions- Rs 7.41 bn
 - JLG loans through BC- Rs 4.64bn
 - Personal Loan- Rs 2.21bn

(Con call takeaways continue on the next page)

- **Co-lending**
 - The Co-lending book was at Rs 85.93bn, up by 10% QoQ and 39.3% YoY.
 - Co-lending accounted for 16.22% of the loan book excluding IBPC and 15.7% of the total overall loan book.
 - **Guidance**
 - Co-lending book will be less than 15% of total loan portfolio by the end of FY26.
- **SME and MSME**
 - The SME and MSME book was at Rs 23.1bn, down -3.6% QoQ.
 - The bank plans to hire new personnel to focus on secured MSME loans of ticket size between Rs. 30–100 mn.
 - The company aims to build a high-quality book of secured MSME loans (Rs. 30–100 mn ticket size), targeting ₹2–3 bn in the first year.
- **Mortgages**
 - Mortgages are around 54% of total loan book. Management expects to stay at same level going forward.
 - The Bank has managed to raise the ticket size for mortgages.
 - Incremental sourcing of LAP is higher than Home Loans within mortgages, increasing to 65:35 in favor of LAP compared to 50:50 between Home Loans and Business Loans earlier.
- **Construction Finance**
 - The construction finance book was at Rs 21.9bn, down by -0.82% QoQ.

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.23%, up 3bps QoQ but down -4bps YoY.
 - There were no one-offs during the quarter in NII.
 - **NIM guidance**
 - Management expects NIMs to have bottomed out in 2Q and anticipates a recovery from 3Q, provided there are no rate cuts.
- **Yield on advances**
 - The yield on advances in 2Q was at 11.11%, down by -13bps QoQ and -28bps YoY.
- **Cost of deposits**
 - The Cost of deposits in 2Q was at 6.96%, down by -16bps QoQ and -13bps YoY.
 - **TD Rate Cuts**
 - The impact of TD rate cuts will flow over a period of 12-15months.
 - The bank has a long tenure TD book with most of it being in the 15-18 months bucket.
- **Loan to deposit ratio (LDR)**
 - The loan to deposit ratio was at 82%, down by -77bps QoQ but up by 24bps YoY.

Operating expenses

- **Total opex**
 - Opex, at Rs. 4.78bn, is down by -2.3% QoQ but up 4.3% YoY.
 - Cost/income ratio came in at 61.2%, up by 118bps QoQ but down -311bps YoY.

(Con call takeaways continue on the next page)

- **Cost to assets**
- The cost to assets was at 2.4%, down by -9bps QoQ and -30bps YoY.
 - **Guidance**
 - Cost to asset ratio will be in the range of 2.4–2.42%.
- **Employee expenses**
 - The staff opex is down by -3.1% QoQ but up 3.4% YoY.
 - The sequential increase in employee cost is attributable to lower headcounts and seasonality.
 - **Headcount**
 - The number of employees has reduced to 10,792 as of Sep-25 from 11,910 in Sep-24.
 - **Guidance**
 - The company plans to hire employees across various segments going forward to support its expansion strategy.
- **Non-employee expenses**
 - Other opex is down -1.5% QoQ but up 5.2% YoY.
 - **Branches**
 - The company has opened 3 branches in 2Q, taking the total branch count to 468.
 - **Guidance**
 - The company expects to add 20 branches in FY26.

Fee income

- The core fee income for the quarter was at Rs 1.58bn, up 17.9% QoQ and 13.7% YoY.
- Significant portion of Core fee income is coming from third party distribution, branch banking and cards.
- Core fee to average assets was at 0.8%, up 11bps QoQ but down -2bps YoY.
- **Reasons for increase**
 - QoQ and YoY growth was driven by strong traction in third-party distribution, trade finance, and the cards segment.
 - Management believes that a greater contribution from repeatable segments in core fee will offset the one-off treasury fee in 1Q going forward.
- **Guidance**
 - The Bank is confident of growing core fee income in line or slightly lower than balance sheet growth.

Deposits growth

- The deposits were at Rs 648 bn, up by 4.4% QoQ and 18.8% YoY.
- The share of top 20 depositors was at 6.86%.
- **CASA deposits**
 - CASA ratio was at 23.52%
 - CASA deposits were at Rs 152bn, up by 5.3% QoQ and 9.1%YoY.

Return ratios

- The RoA for 2Q was at 0.94% and RoE was at 13.2%.
- **ROE Guidance**
 - Management expects ROE at 13.5% in FY27 and 14.5% in FY28.

(Con call takeaways continue on the next page)

Capital Adequacy

- The RWA to total assets was at 49.08%.
- The tier I capital ratio was at 13.97%, down -23bps QoQ and -32bps YoY.
- **Capital infusion**
 - The Bank received the promoter's capital in October; post this, the promoter's shareholding increased to 16.27%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q2FY26	Q1FY26	% qoq	Q2FY25	% yoy	Q2FY26*	chg qoq*	chg yoy*
Advances	529,745	512,150	3.4	444,652	19.1	100.0	0bps	0bps
Corporate banking	34,433	31,753	8.4	30,681	12.2	6.5	30bps	-40bps
AIB	124,490	118,819	4.8	109,384	13.8	23.5	30bps	-110bps
CV	4,768	5,122	(6.9)	2,668	78.7	0.9	-10bps	30bps
Gold Loans	20,660	19,462	6.2	15,563	32.8	3.9	10bps	40bps
Mortgage	226,731	224,322	1.1	201,427	12.6	42.8	-100bps	-250bps
SME and MSME	22,249	23,047	(3.5)	26,234	(15.2)	4.2	-30bps	-170bps
Co-Lending	85,289	77,847	9.6	35,572	139.8	16.1	90bps	810bps
Other Loans	11,125	11,779	(5.6)	23,122	(51.9)	2.1	-20bps	-310bps
Total Deposits	647,765	620,390	4.4	545,317	18.8	100.0	0bps	0bps
CASA	152,350	144,690	5.3	139,630	9.1	23.5	20bps	-209bps
Term	495,415	475,700	4.1	405,687	22.1	76.5	-20bps	209bps
RWA	387,180	381,890	1.4	351,840	10.0	NA	NA	NA
Investments	204,961	199,480	2.7	182,049	12.6	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	27.9	28.0	-13bps	29.0	-115bps	NA	NA	NA
Borrowings	59,289	70,590	(16.0)	68,201	(13.1)	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	8.4	10.2	-183bps	11.1	-273bps	NA	NA	NA

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

Exhibit 3: Key quarterly ratios

(%)	Q2FY26	Q1FY26	chg qoq	Q2FY25	chg yoy
Net interest margin	3.23	3.20	3bps	3.27	-4bps
Yield on advances	11.11	11.24	-13bps	11.39	-28bps
Cost of Deposits	6.96	7.12	-16bps	7.09	-13bps
Loan to Deposit ratio	81.8	82.6	-77bps	81.5	24bps
Non-interest income/Total income	23.8	28.9	-513bps	28.7	-488bps
Fee Income to Avg. Total Assets	0.8	0.7	11bps	0.8	-2bps
Cost to Income	61.2	60.0	118bps	64.3	-311bps
Opex to Avg. Total Assets	2.4	2.5	-9bps	2.7	-30bps
Credit Cost	0.5	0.9	-44bps	0.4	4bps
RoE^	13.2	11.6	164bps	12.7	55bps
RoA^	0.9	0.8	13bps	0.9	1bps
Annualised Slippage Ratio*	3.0	4.5	-143bps	3.5	-48bps
Provision Coverage	59.2	59.7	-59bps	65.2	-601bps
Gross NPA	2.9	3.0	-7bps	3.3	-38bps
Net NPA	1.2	1.2	-1bps	1.2	4bps
Capital adequacy ratio	16.4	16.7	-25bps	15.6	86bps
Tier I capital ratio	14.0	14.2	-23bps	13.7	32bps

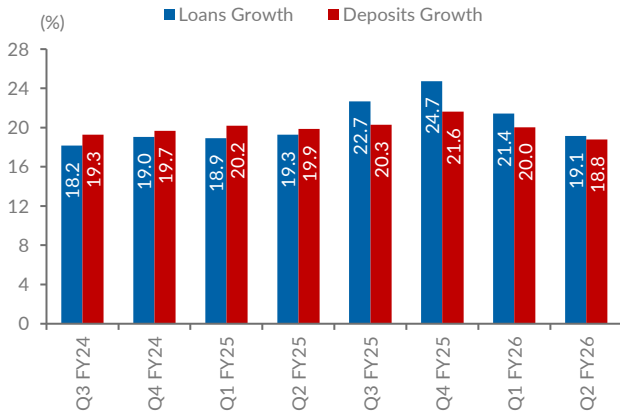
Source: Company, YES Sec – Research, ^Annualised, *Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY26 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	5,962	5,899	1.1
Pre-Prov. Operating Profit	3,039	2,598	17.0
Profit After Tax	1,839	1,484	23.9

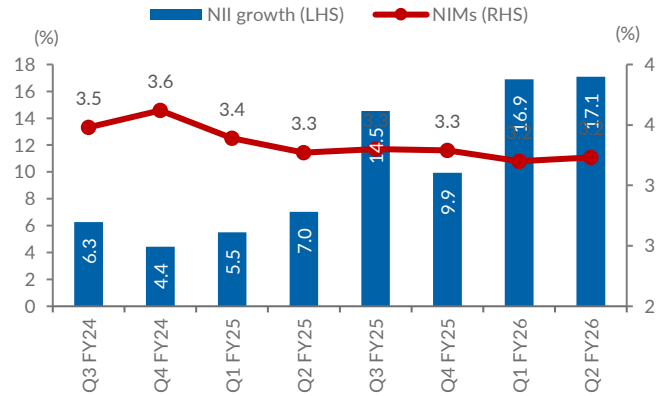
Source: Company, YES Sec – Research

Exhibit 5: Loans and Deposits growth (YoY %)



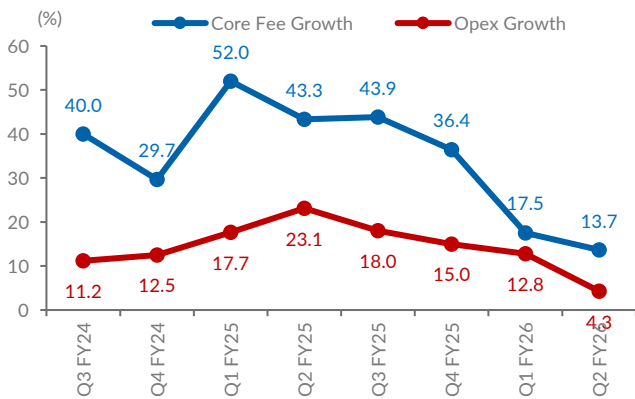
Source: Company, YES Sec – Research

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



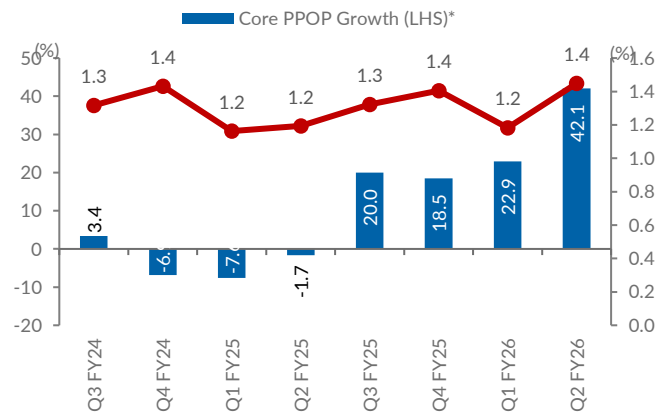
Source: Company, YES Sec – Research

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



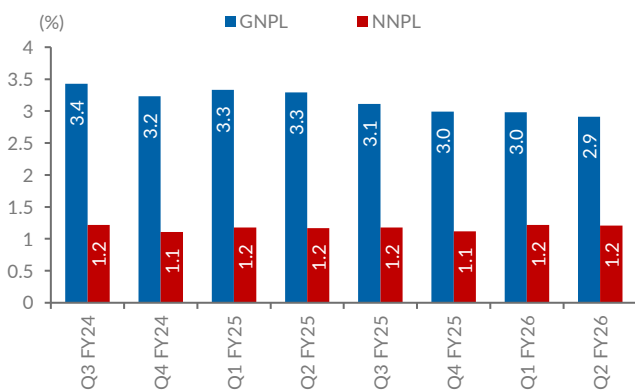
Source: Company, YES Sec – Research

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



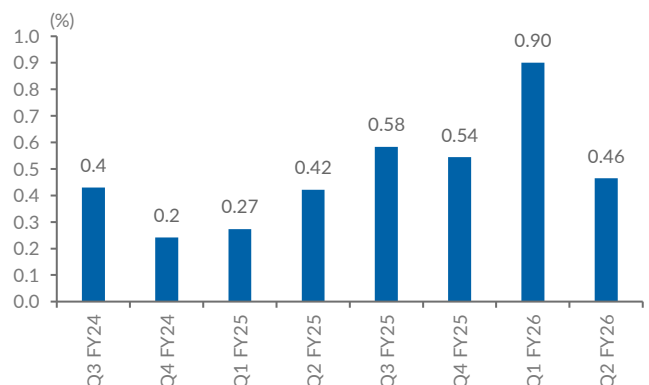
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

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)	FY24	FY25	FY26E	FY27E	FY28E
Total cash & equivalents	30,659	26,986	55,131	66,157	79,388
Investments	162,108	201,499	228,968	268,935	316,201
Advances	409,246	510,469	612,563	735,076	882,091
Fixed assets	8,649	8,984	9,882	10,871	11,958
Other assets	19,708	20,160	20,563	20,974	21,394
Total assets	630,370	768,098	927,107	1,102,012	1,311,031
Net worth	50,713	56,907	64,617	71,944	81,188
Deposits	493,530	600,310	724,864	874,942	1,055,035
Borrowings	62,195	91,152	96,256	102,382	109,733
Other liabilities	23,932	19,730	41,369	52,744	65,074
Total liabilities incl. Equity	630,370	768,098	927,107	1,102,012	1,311,031

Source: Company, YES Sec – Research

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	53,620	64,706	76,887	92,292	110,324
Interest expense	(34,341)	(43,640)	(51,603)	(61,162)	(72,821)
Net interest income	19,279	21,066	25,284	31,130	37,503
Non-interest income	4,742	7,505	8,006	9,204	10,986
Total income	24,021	28,571	33,290	40,334	48,489
Operating expenses	(15,377)	(18,201)	(21,825)	(25,714)	(30,272)
PPoP	8,644	10,370	11,465	14,620	18,217
Provisions	(1,425)	(2,084)	(3,248)	(3,695)	(4,432)
Profit before tax	7,220	8,286	8,217	10,925	13,785
Taxes	(1,860)	(2,133)	(2,128)	(2,830)	(3,570)
Net profit	5,360	6,153	6,089	8,096	10,214

Source: Company, YES Sec – Research

Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	9.3	9.3	9.1	9.1	9.1
Interest expense	-6.0	-6.2	-6.1	-6.0	-6.0
Net interest income	3.3	3.0	3.0	3.1	3.1
Non-interest income	0.8	1.1	0.9	0.9	0.9
Total income	4.2	4.1	3.9	4.0	4.0
Operating expenses	-2.7	-2.6	-2.6	-2.5	-2.5
PPoP	1.5	1.5	1.4	1.4	1.5
Provisions	-0.2	-0.3	-0.4	-0.4	-0.4
Profit before tax	1.3	1.2	1.0	1.1	1.1
Taxes	-0.3	-0.3	-0.3	-0.3	-0.3
Net profit	0.9	0.9	0.7	0.8	0.8

Source: Company, YES Sec – Research

Exhibit 16: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	25,284	31,130	37,503	24,697	30,422	36,645	2.4	2.3	2.3
Pre-Prov. Operating Profit	11,465	14,620	18,217	11,270	14,366	17,882	1.7	1.8	1.9
Profit after tax	6,089	8,096	10,214	5,944	7,907	9,966	2.4	2.4	2.5

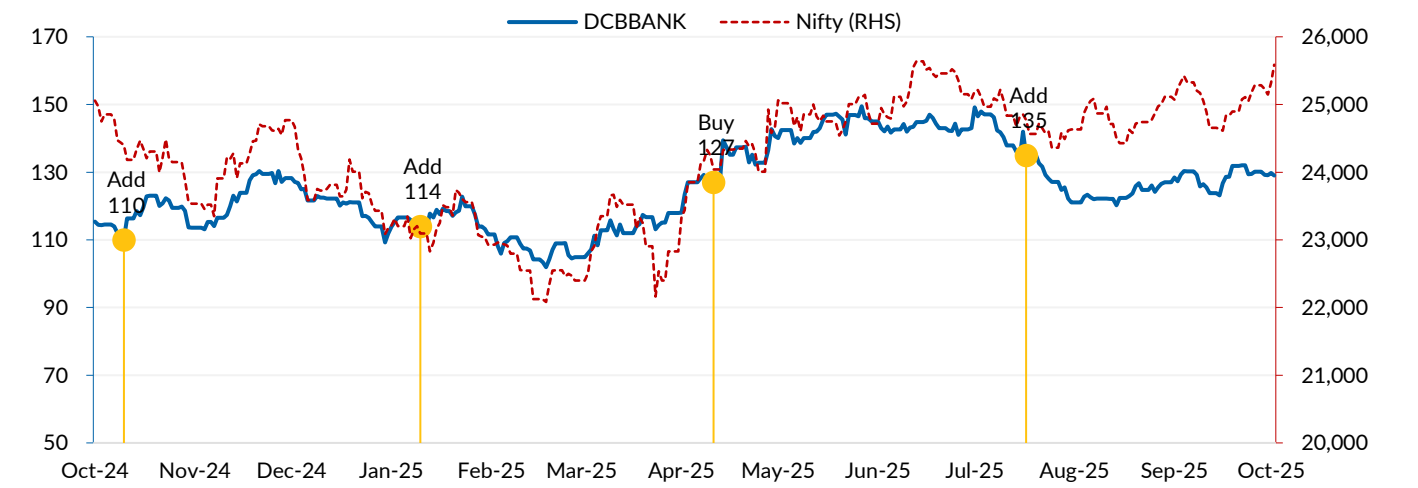
Source: Company, YES Sec – Research

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth matrix (%)					
Net interest income	12.3	9.3	20.0	23.1	20.5
PPoP	9.9	20.0	10.6	27.5	24.6
Net profit	15.1	14.8	-1.0	33.0	26.2
Loans	19.0	24.7	20.0	20.0	20.0
Deposits	19.7	21.6	20.7	20.7	20.6
Profitability Ratios (%)					
Net interest margin	3.7	3.3	3.3	3.3	3.4
Return on Average Equity	11.1	11.4	10.0	11.9	13.3
Return on Average Assets	0.9	0.9	0.7	0.8	0.8
Per share figures (Rs)					
EPS	17.1	19.6	18.5	24.5	31.0
BVPS	162	181	196	218	246
ABVPS	148	163	169	192	214
Valuation multiples					
P/E	7.8	6.9	7.0	5.3	4.2
P/BV	0.8	0.7	0.7	0.6	0.5
P/ABV	0.9	0.8	0.8	0.7	0.6
NIM internals (%)					
Yield on loans	11.3	11.1	10.9	10.9	10.9
Cost of deposits	6.8	7.0	6.8	6.8	6.8
Loan-deposit ratio	82.9	85.0	84.5	84.0	83.6
CASA ratio	26.0	24.5	25.0	25.0	25.0
Opex control (%)					
Cost/Income ratio	64.0	63.7	65.6	63.8	62.4
Cost to average assets	2.7	2.6	2.6	2.5	2.5
Capital adequacy (%)					
Tier 1 capital ratio	14.5	14.3	13.2	12.3	11.5
Asset quality (%)					
Slippage ratio	4.0	3.3	3.0	2.5	2.5
Gross NPL ratio	3.2	3.0	3.2	2.7	2.7
Credit cost	0.5	0.3	0.5	0.5	0.5
Net NPL ratio	1.1	1.1	1.4	1.2	1.2

Source: Company, YES Sec – Research

Recommendation Tracker



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