



## Valuations Attractive!

We initiate coverage on DCB Bank (DCB) with a BUY recommendation and a Target Price of Rs 115/share implying an upside of 24% from CMP. We believe in the robustness of DCB's business model backed by its past performance of maintaining healthy asset quality despite multiple headwinds such as demonetization and GST roll-out which had impacted the bank's core customer base of self-employed borrowers. While growth has moderated in the past couple of years due to macroeconomic headwinds, DCB has managed to grow the book at 15% CAGR over FY16-21. The bank's minimal geographic concentration in contrast to most of its mid-cap peers highlights its balanced approach and is expected to bode well for its scalability perspective in the long term. Though near-term headwinds exist, we expect the bank to successfully sail smoothly through the prevailing tough period backed by 1) Retail-focused diversified and secured portfolio, 2) ROA expansion through cost rationalization efforts and 3) Gradual improvement in the asset quality led by strong recoveries.

FY21 was a turbulent year with impacted credit growth and heightened asset quality stress resulting in elevated credit costs. However, the bank was successful in generating a ROA of 0.9%, highlighting its resilient business model. Moving forward, while an improvement in the Collection Efficiency (CE) (after a sharp dip amidst COVID 2.0 led lockdowns) is encouraging, the heightened possibility of COVID 3.0 will continue to remain an overhang on the banks' near-term performance. **This is expected to push back credit growth pick-up to FY23E and against this backdrop, we value DCB at 0.8x FY24E ABV.**

## Investment Thesis

### Building on key competencies – SME/MSME and LAP

The niche market of self-employed customers that DCB caters to has acted as a key catalyst for the bank's growth over the past decade. While the underpenetrated and underserved SME segment provides ample opportunities for DCB to build a scalable loan book, the bank has been cautious in its lending approach given weak macroeconomic conditions. With COVID-19 pressures easing, we expect the bank to resume its growth momentum FY23E onwards and expect the book to grow at 14% CAGR over FY21-24E.

### Improving branch productivity to drive ROA

DCB's aggressive branch expansion drive is complete and it is looking to add 20-25 branches each year. The bank's improving branch level efficiency is a key driver for ROA expansion. We expect the Cost-Assets ratio (C-A) to remain stable at 2.3% over FY22-24E with Cost-Income (C-I) Ratio hovering around 50-52%. Driven by operational efficiencies and reduced asset quality stress, we expect the ROA to be maintained at 1-1.2% on a steady-state basis from FY23/24E onwards.

### Asset Quality improvement visible despite slight delays due to COVID 2.0

COVID 2.0-related regional lockdowns impacted the core customer base of DCB once again, resulting in a dip in its CE. However, most key segments (except CVs) have shown resilience and CE improved sharply as geographies unlocked in a phased manner. While asset quality stress is expected to persist in the near term with slippages remaining elevated, we expect the recoveries to improve (vs 0.4% in FY21), aiding asset quality improvement. Provisions are expected to remain elevated as the bank looks to shore up provision to strengthen the balance sheet and provide for the higher restructured pool and elevated slippages in the near term. Provisions are likely to taper as the macros normalize.

### Niche Lender; Initiate with BUY

DCB currently trades at 0.6x FY24E ABV, a steep discount to its closest peer – City Union Bank (CUB) (1.4x FY24E ABV). We believe the lower valuations factor in the near term risks, possible stress from the higher restructured book and the management's conservative approach. Furthermore, we expect the bank to gain lost ground as the COVID-19 headwinds recede. With valuations being undemanding, we believe DCB is eligible for a re-rating with macroeconomic conditions improving moving forward. We value the stock at 0.8x FY24E ABV basis and believe that our target multiple takes into consideration the near term risks, the secured nature of the book ensuring lower LGDs, gradually improving asset quality, and a competent management and leadership team. **We initiate coverage with a BUY rating and a target price of Rs 115/share (0.8x FY24E ABV), implying an upside of 24% from CMP.**

### Key Financials (Standalone)

| (Rs. Cr)  | FY21  | FY22E | FY23E | FY24E |
|-----------|-------|-------|-------|-------|
| NII       | 1,287 | 1,401 | 1,567 | 1,749 |
| PPOP      | 898   | 918   | 994   | 1,088 |
| PAT       | 336   | 339   | 435   | 546   |
| NNPA (%)  | 2.3   | 2.1   | 1.6   | 1.1   |
| EPS (Rs)  | 10.8  | 10.9  | 14.0  | 17.6  |
| ABV (Rs)  | 101.9 | 111.6 | 126.5 | 145.9 |
| P/E (x)   | 8.4   | 8.3   | 6.5   | 5.2   |
| P/ABV (x) | 0.8   | 0.7   | 0.6   | 0.6   |
| RoA (%)   | 0.9   | 0.8   | 0.9   | 1.0   |

Source: Company, Axis Research

(CMP as of Aug 31, 2021)

|                            |           |
|----------------------------|-----------|
| CMP (Rs)                   | 92        |
| Upside /Downside (%)       | 24%       |
| High/Low (Rs)              | 127/74    |
| Market cap (Cr)            | 2,873     |
| Avg. daily vol. (6m) Shrs. | 20,08,075 |
| No. of shares (Cr)         | 31.1      |

### Shareholding (%)

|          | Jun-21 | Mar-21 | Dec-20 |
|----------|--------|--------|--------|
| Promoter | 14.9   | 14.9   | 14.9   |
| FIIs     | 12.2   | 13.0   | 13.8   |
| MFs      | 27.0   | 27.4   | 27.5   |
| Public   | 45.9   | 44.7   | 43.8   |

### Financial & Valuations

| Y/E Mar (Rs. Cr) | FY22E | FY23E | FY24E |
|------------------|-------|-------|-------|
| NII              | 1,401 | 1,567 | 1,749 |
| PPP              | 918   | 994   | 1,088 |
| PAT              | 339   | 435   | 546   |
| EPS (Rs)         | 10.9  | 14.0  | 17.6  |
| ABV/Share (Rs)   | 111.6 | 126.5 | 145.9 |
| P/ABV (x)        | 0.7   | 0.6   | 0.6   |
| NNPA (%)         | 2.1   | 1.6   | 1.1   |
| RoA (%)          | 0.8   | 0.9   | 1.0   |

### ESG disclosure Score\*\*

|                             |     |
|-----------------------------|-----|
| Environmental Disclosure    | N.A |
| Social Disclosure Score     | N.A |
| Governance Disclosure Score | N.A |
| Total ESG Disclosure Score  | N.A |

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

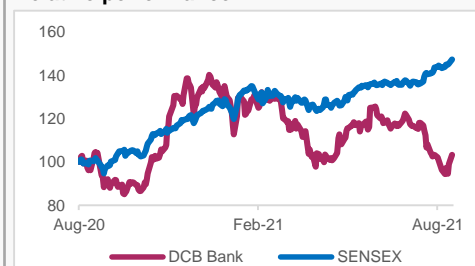
### Key Drivers (%)

| Y/E Dec      | FY22E | FY23E | FY24E |
|--------------|-------|-------|-------|
| NIM          | 3.6   | 3.6   | 3.5   |
| C-I          | 50.5  | 51.6  | 52.5  |
| Credit Costs | 1.7   | 1.4   | 1.0   |

### Axis vs Consensus

| EPS Estimates           | FY22E | FY23E | FY24E |
|-------------------------|-------|-------|-------|
| Axis                    | 10.9  | 14.0  | 17.6  |
| Consensus               | 10.8  | 14.8  | 17.1  |
| Mean Consensus TP (12M) |       |       | 119   |

### Relative performance



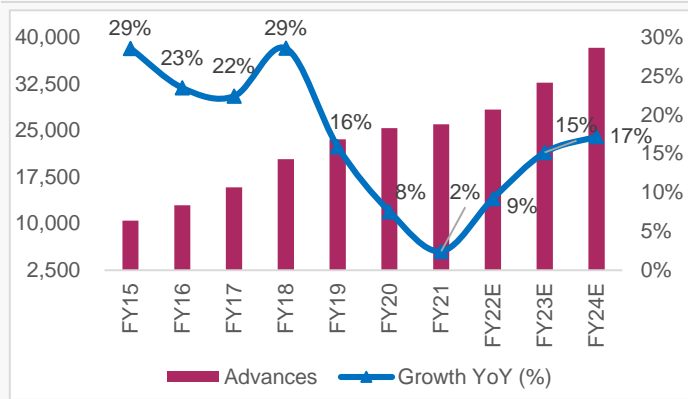
Source: Capitaline, Axis Securities

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 Research Analyst

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## Story in Charts

Exhibit 1: Loan Growth to pick-up as COVID 2.0 weakens



Source: Company, Axis Securities

Exhibit 2: Liability Franchise improvement

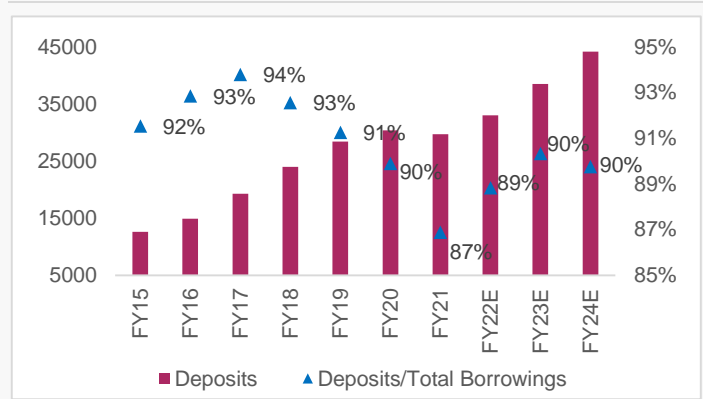
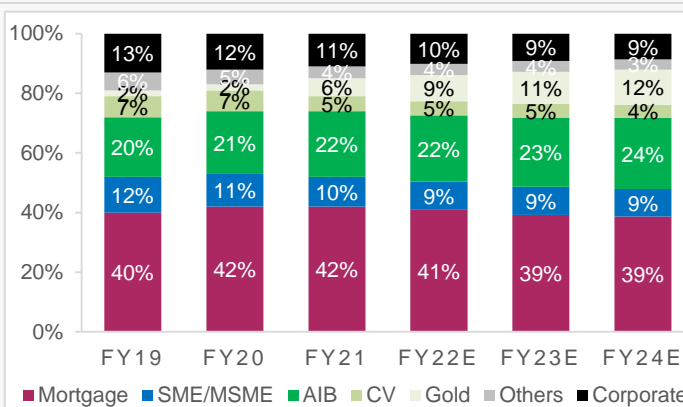


Exhibit 3: SME + Mortgage to dominate Loan Book



Source: Company, Axis Securities

Exhibit 4: Corporate Advances to decline further

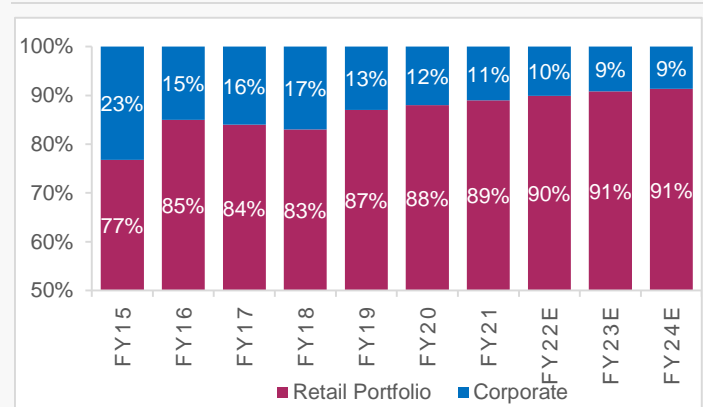
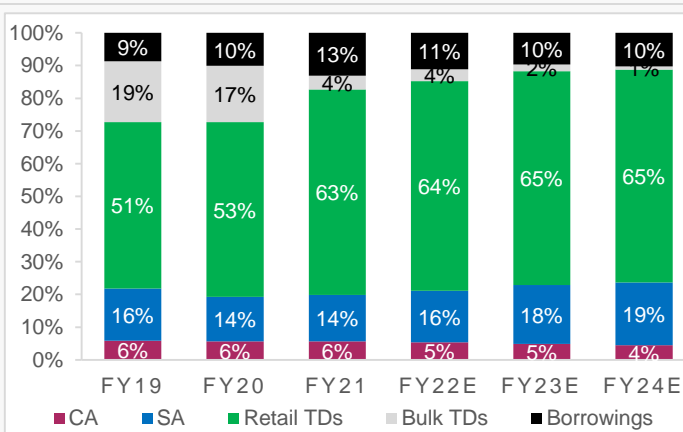
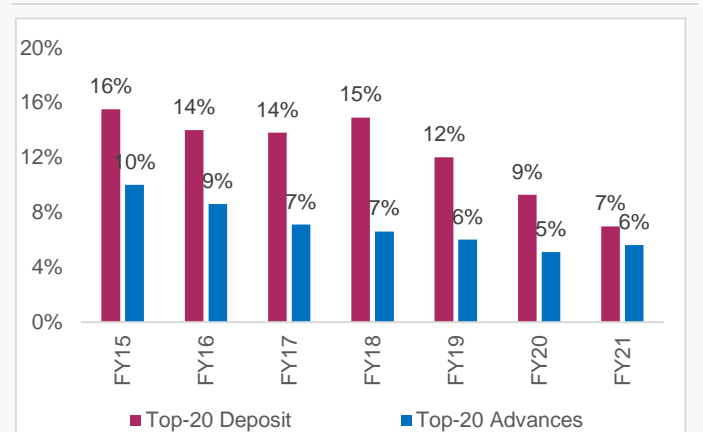


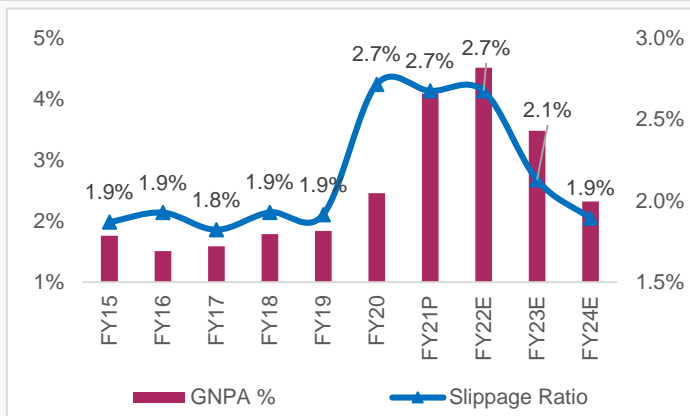
Exhibit 5: Gradually improving share of CASA Deposits



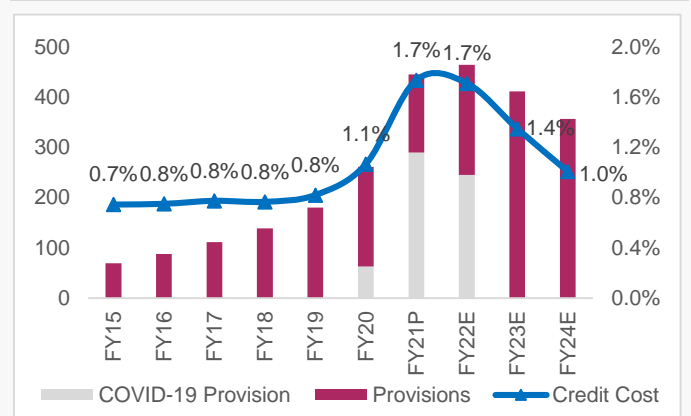
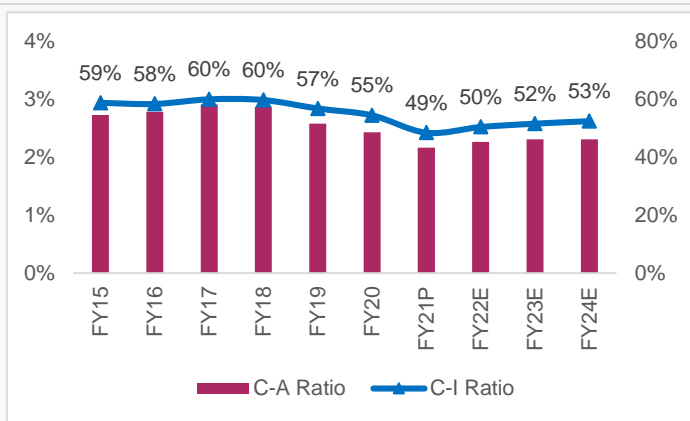
Source: Company, Axis Securities

Exhibit 6: Improving Business Granularity

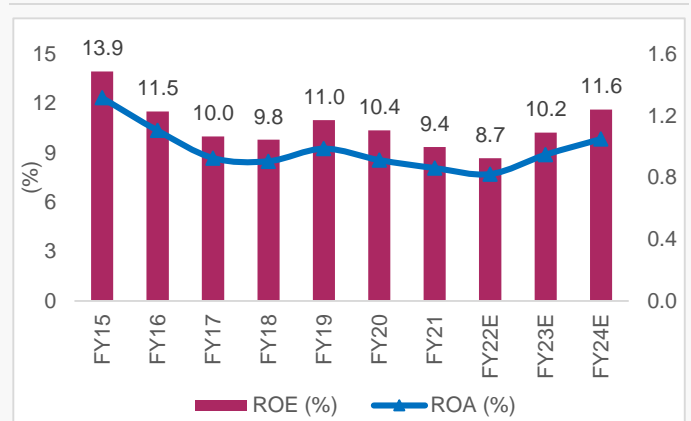


**Exhibit 7: Asset Quality improvement protracted marginally**


Source: Company, Axis Securities

**Exhibit 8: Credit costs likely to peak-out in FY22**

**Exhibit 9: Cost Optimization to drive ROA expansion**


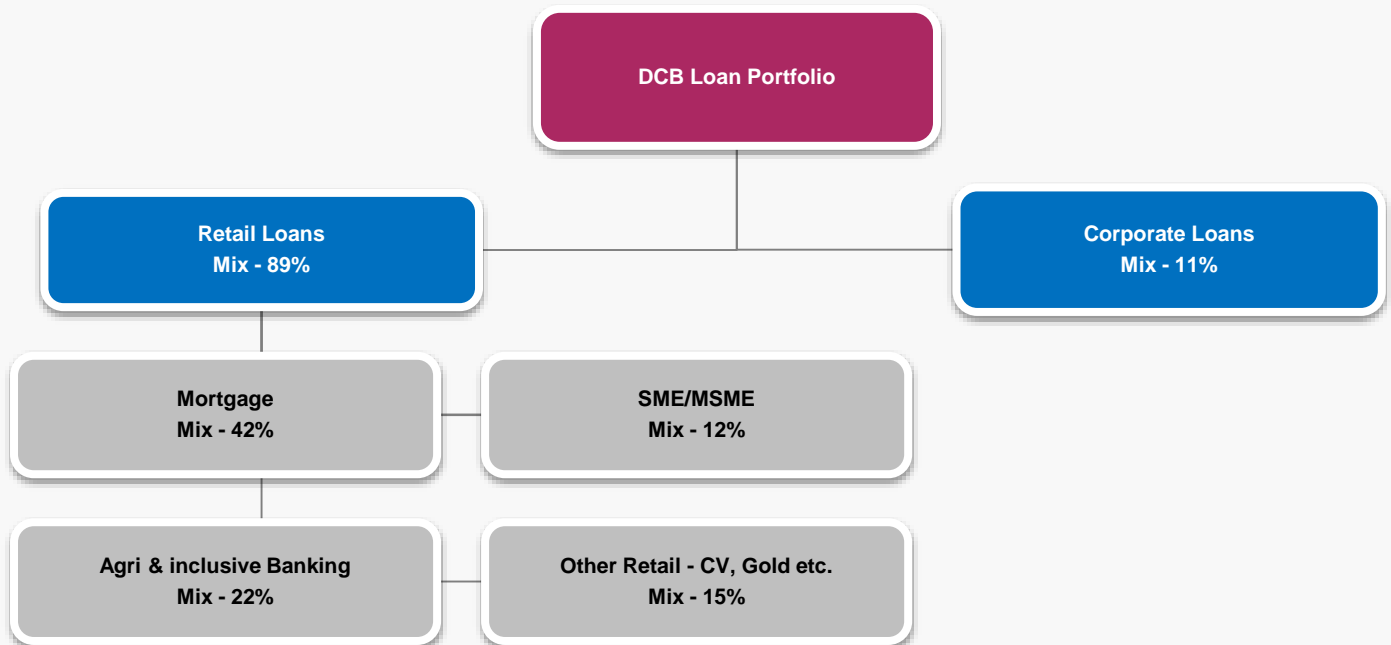
Source: Company, Axis Securities

**Exhibit 10: ROA and ROE to gravitate to pre-COVID levels**


## Company Background

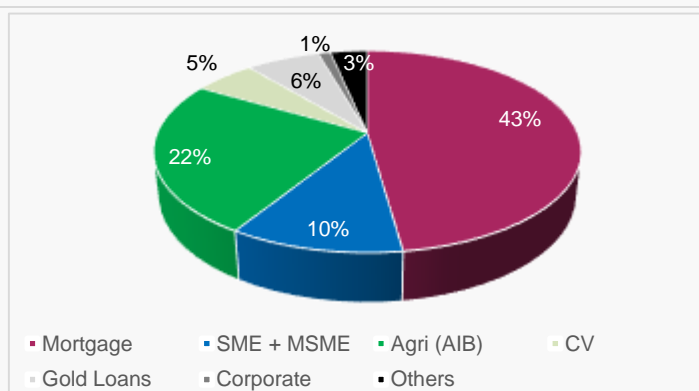
DCB is a retail-focused bank that offers a diversified suite of products, primarily catering to self-employed borrowers (80-90% of the customer base). The bank's portfolio is spread across segments such as Mortgage (mainly LAP), SME/MSME loans, Agri and Inclusive Banking, Gold loans, CV Loans, and Corporate loans. The total advances at Q1FY22 end stood at Rs 25,956 Cr. DCB has a pan-India network of 354 branches with ~55% of the branches in metro and urban cities.

Exhibit 11: DCB's diversified loan book



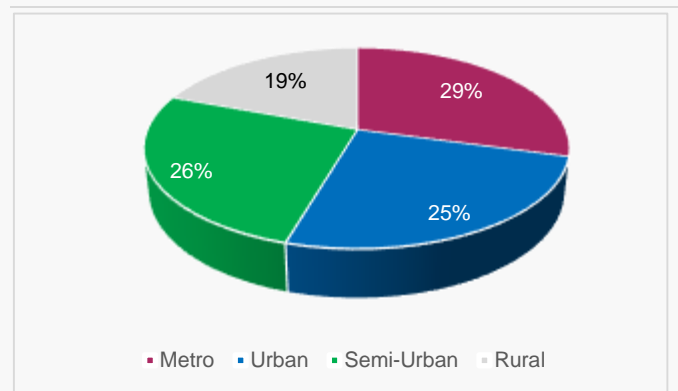
Source: Company, Axis Securities

Exhibit 12: Advances Mix (Q1FY22)



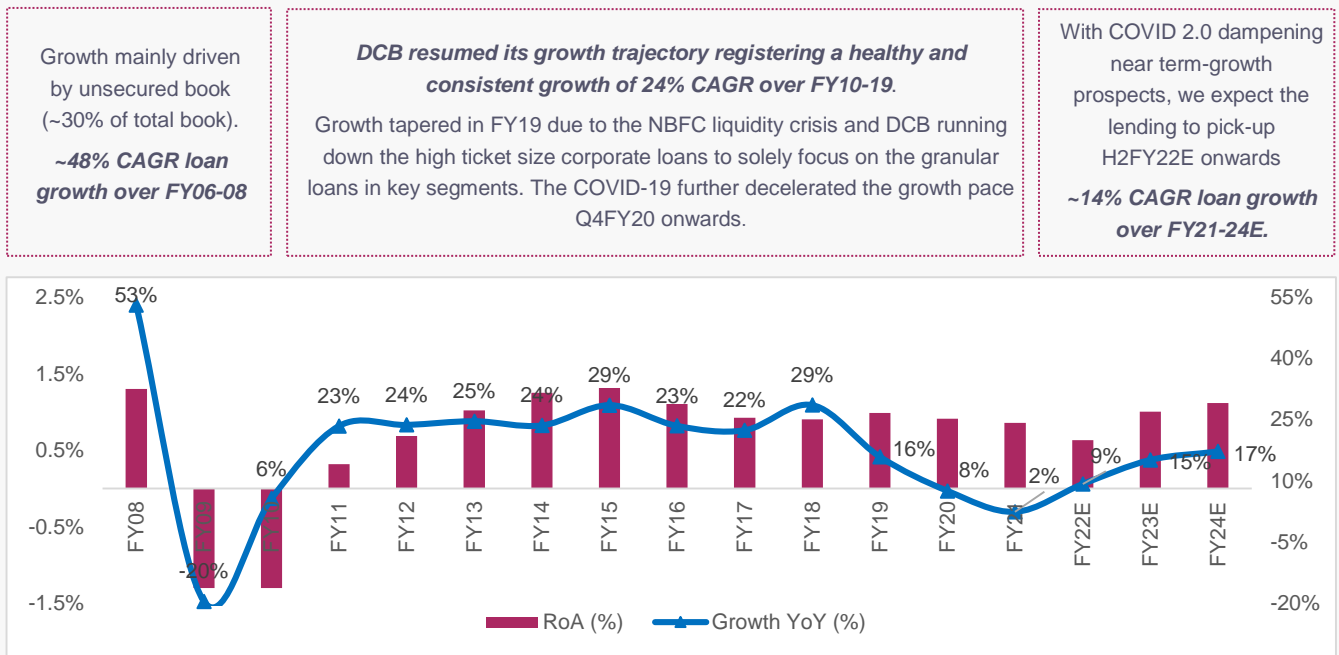
Source: Company, Axis Securities

Exhibit 13: Geographic Distribution – branch-wise (Q1FY22)



## Transitioned from an unsecured lender to retail-focused secured lender

Exhibit 14: DCB's journey over the decade



Source: Company, Axis Securities

Exhibit 15: DCB's evolution from an unsecured to secured lender (FY09-19)

| Where did DCB falter?  | Course Correction  |
|--|--|
| <ul style="list-style-type: none"> <li>Frequent changes in the management was a reason for DCB to be a laggard in the then newly tagged "new generation private sector bank"</li> </ul>  | <ul style="list-style-type: none"> <li>With the management re-jig in FY09, the current MD &amp; CEO Mr. Murali Natrajan spearheaded the transformation drive. He streamlined the bank's strategy with primary focus changing to pursuing growth by building a low ticket size secured book instead of growing the unsecured book. While corporate lending took a back-seat, DCB focussed on granularising the loan book in the key segments of Mortgage, Agriculture (AIB) and SME.</li> </ul> |
| <ul style="list-style-type: none"> <li>The bank was aggressive in its lending approach and extended large ticket size corporate loans, unsecured retail, and CV loans.</li> </ul>  | <ul style="list-style-type: none"> <li>On the liabilities front, DCB reduced dependence on wholesale borrowings by increasing the share of retail liabilities in total borrowings (i.e. a higher incremental share of CASA and retail term deposits). The share of Top-20 depositors reduced from ~21% in FY10 to ~12% in FY19 and further to 9% in FY20.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Over FY03-06, DCB reported losses, led by higher slippages in the corporate segment. Peak GNPA stood at ~11.6% primarily due to slippages in the corporate book. This resulted in pressure on NIMs and elevated credit cost.</li> </ul> | <ul style="list-style-type: none"> <li>Improving operating performance on the asset and liability side, improved NIMs and return ratios, as DCB delivered a steady-state ROA of 1-1.3% and ROE of 11-13%.</li> </ul>   |

Source: Company, Axis Securities

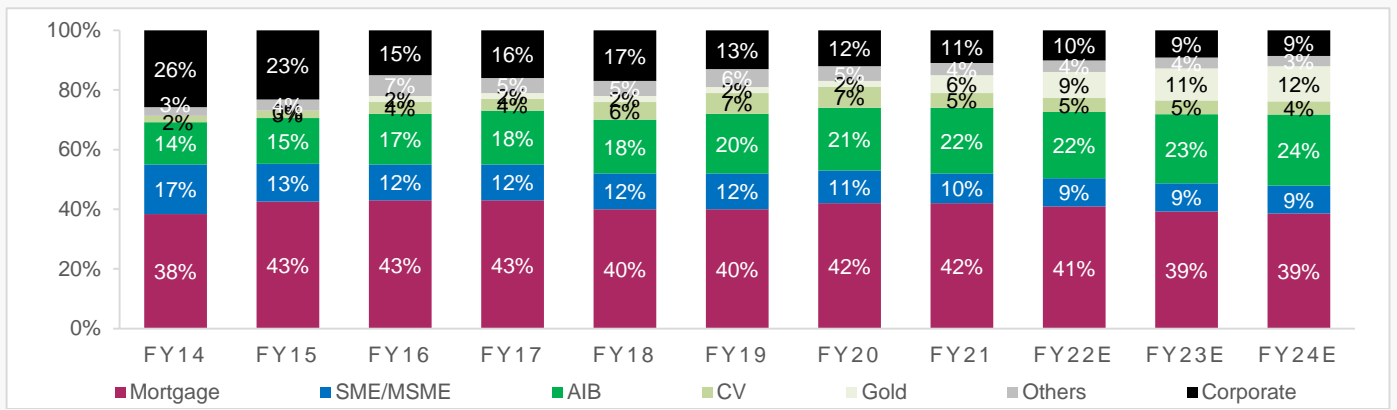
The bank's loan book mix has undergone a significant change since FY09 with the diversification strategy shifting focus to the mortgage, small & medium enterprises (SME), agriculture and priority segments. DCB's loan book is skewed towards retail lending (89% of the portfolio) with a large part of the book being secured, mainly by self-occupied house property (SOP) (~60-62% of the loans).

Over the past decade, the bank has registered a robust growth of ~20% CAGR despite facing various challenges that impacted the core customer base of self-employed borrowers. **We believe that the bank will regain lost momentum as the COVID-19 headwinds taper off. While the credit growth is expected to remain tepid in the near term, we expect it to pick up FY23E onwards. The management expects that as macroeconomic conditions normalize, the bank would look to double its loan book over the next 3-4 years. We expect the loan book to grow at 14% CAGR over FY21-24E, driven by the key segments.**

**Capitalising on the 'SME' opportunity will aid credit growth.**

**Loan Book expected to "double" over the medium term.**

Exhibit 16: Loan book Mix skewed towards Mortgage and SME/MSME



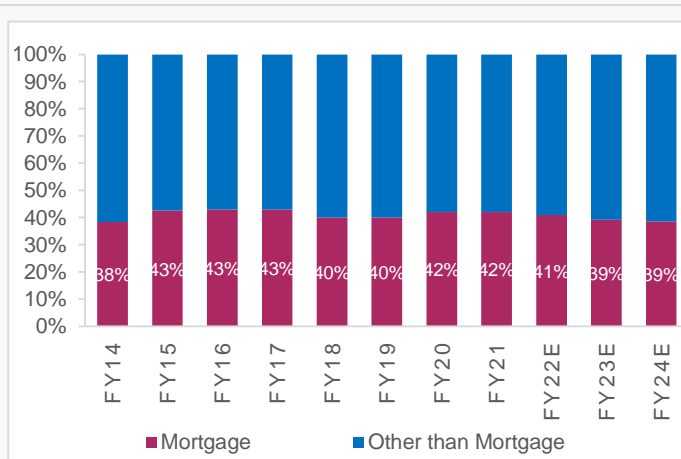
Source: Company, Axis Securities

### Retail portfolio

#### Mortgage Book | FY21 Mix 42% | FY21-24E Loan CAGR: 11%

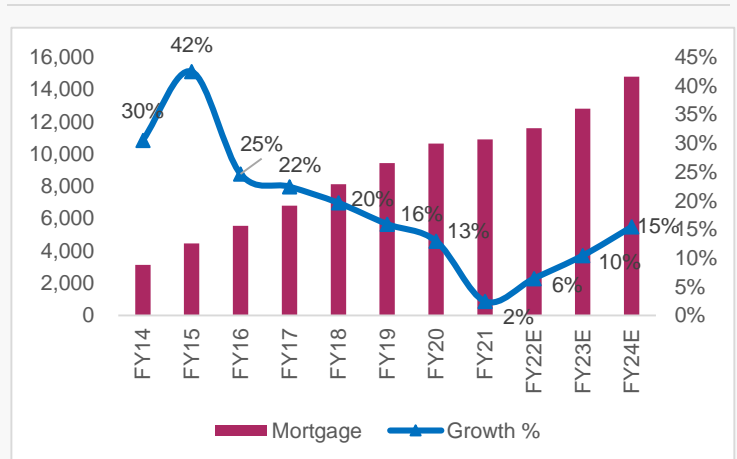
- DCB's mortgage book is skewed towards Loan against Property (LAP) which forms ~50-60% of the book while the balance book is housing loans. The portfolio is secured mainly against self-occupied properties (SOP), providing comfort and insulation against any default.
- LAP loans are extended mainly to meet the business funding requirements of the borrowers. The bank extends credit only after a thorough examination of the borrowers' cashflows with minimum criteria of 3 years of business experience. The bank is focused on providing low-ticket size loans and the key customer segment for LAP loans continues to remain the self-employed category.

Exhibit 17: Stable Share of Mortgage Portfolio



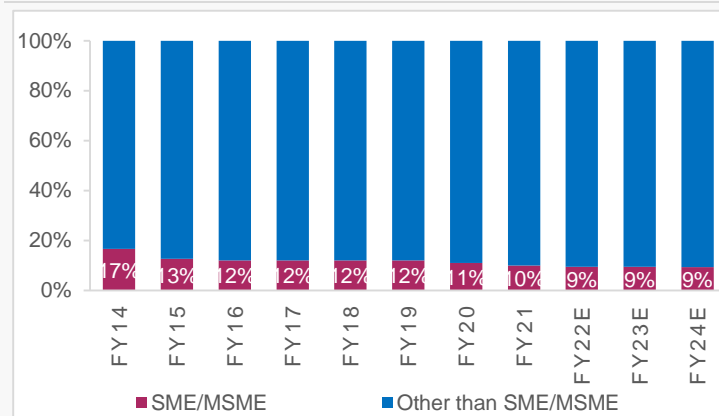
Source: Company, Axis Securities

Exhibit 18: Mortgage Book Growth to resume FY22E onwards

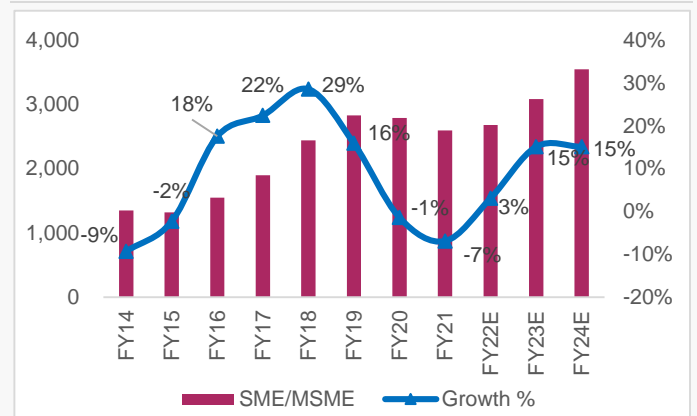


**SME + MSME Loans | FY21 Mix 10% | FY21-23E Loan CAGR 11%**

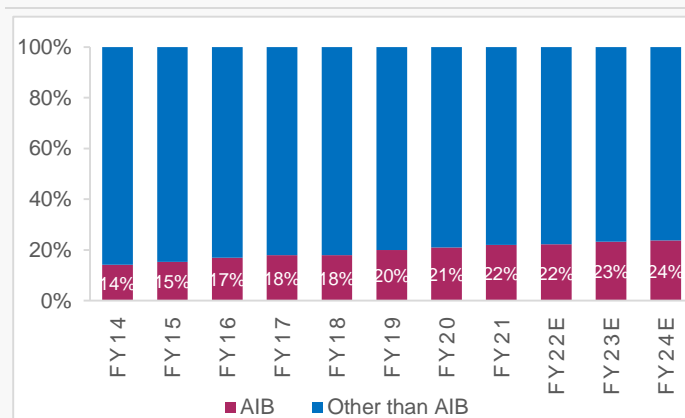
- DCB extends SME/MSME loans that are preferably backed by hard collateral mainly SOP/Commercial property rather than machinery/inventories. The nature of these loans is CC/OD rather than project funding. During the COVID-19 phase, the bank has observed the agility of the customers in adapting to the macro environment and modifying the business models to stay afloat.
- With the COVID-19 headwinds receding and the businesses gathering momentum, we believe the SME/MSME segment will pick up. The markets in which DCB has a significant presence, namely Maharashtra, Gujarat, Madhya Pradesh, and Rajasthan, are characterised by a high concentration of SME/MSME enterprises (cumulatively forming 21% of the total SME/MSME enterprises), providing the bank with an ample growth headroom.
- DCB's key focus segment remains to service small-ticket size customers with an average ticket size (ATS) ranging between Rs 30-35 Lc.

**Exhibit 19: Share of SME/MSME Loans to remain stable**


Source: Company, Axis Securities

**Exhibit 20: MSME loans to pick-up as macros normalize**

**Agri & Inclusive Banking (AIB) | FY21 Mix 22% | FY21-24E Loan CAGR 17%**

- AIB loans are extended to enhance the bank's rural and semi-urban presence, the majority of which help the bank meet its PSL requirements. While the business is operated through 155 branches, the AIB portfolio comprises loans towards MFIs, Tractor loans, Kissan Credit Card, and Retail Agriculture Loans.
- The bank will continue to focus on the tractor loans in light of buoyant demand for tractors witnessed across the country. The expectations of a normalised monsoon are expected to further aid segmental demand.
- DCB also undertakes MFI lending (3% of the total loan book) under the AIB portfolio and has no exposure to the troubled states of Assam and West Bengal.

**Exhibit 21: Agri loans to be driven by tractor and KCC**


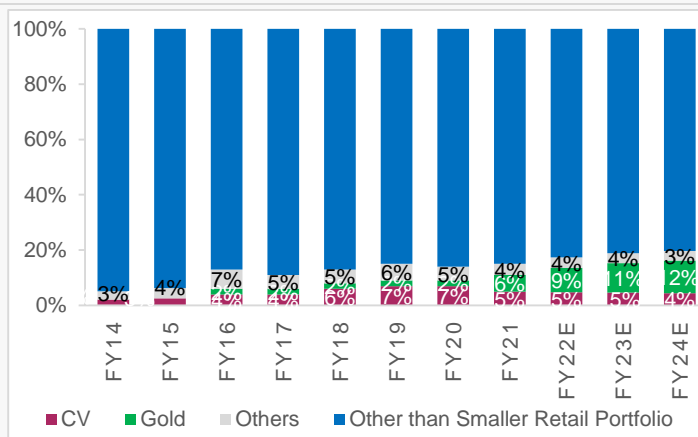
Source: Company, Axis Securities

**Exhibit 22: MSME AUM and Growth**


**Other Retail Loans – Gold, CV and Others | FY21 Mix 15% | FY21-24E Loan CAGR: 43%**

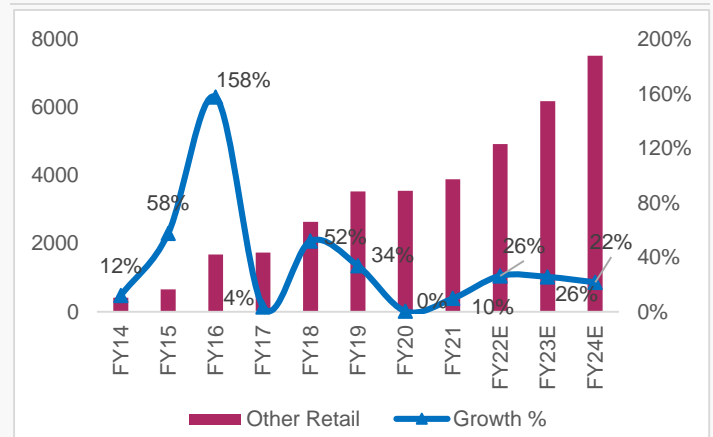
- **CV Loans** – DCB undertakes both used and new CV financing. The bank does not serve small fleet owners but focuses on individual CV owners. The bank de-focused on this segment as the CV cycle took a downturn in FY19. While the demand in this segment is expected to improve with the pick-up in the economy, we believe the share of CV loans in the portfolio to remain low.
- **Gold Loans** – While the share of gold loans has been stable at 2% over the past years, the bank has seen a strong uptick in the demand for gold loans in FY21, primarily due to the pandemic. The gold book grew by 172% YoY during FY21, improving the share of gold loans to ~6% vs a steady-state mix of ~2% of the total portfolio. **Gold loans will continue to remain a key growth driver for DCB on account of favourable attributes such as the spike in the gold prices, relatively safer collateral, easier NPA recoveries, and low capital consumption. We expect the share of gold loans to improve further by FY24E.**
- **Other Loans** – Other loans include construction finance where the bank extends loans to builders/developers having a strong track record and primary focus on the affordable housing segment. DCB takes on limited exposure per customer/project and has created credit processes to monitor utilisation and completion. Other loans also include personal loans.

Exhibit 23: Gold loans to drive growth; CV Loans to remain muted



Source: Company, Axis Securities

Exhibit 24: Healthy growth in the medium-term, on a lower base

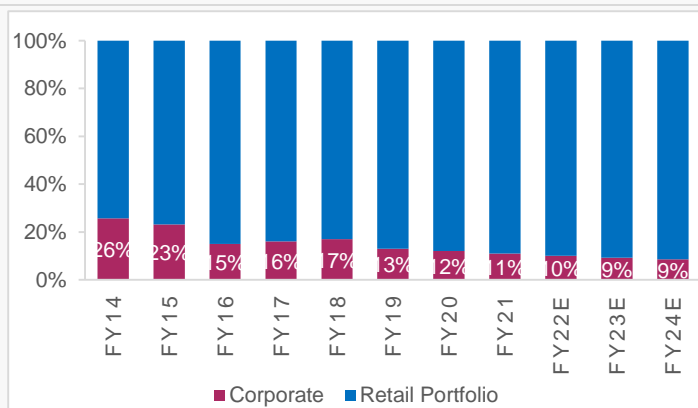


**Corporate Portfolio**

**Corporate Loans | FY21 Mix 11% | FY21-24E CAGR: 5%**

- DCB focuses on mid-corporates with the home market for these loans being Maharashtra (mainly Mumbai). The bank does not have a concentration of any specific sector in the corporate lending segment. Loans are given to meet the short-term funding requirements of the borrowers who are generally A/AA rated by leading rating agencies.
- The bank targets corporate loans which generate a minimum ROE of 14%. The risk weights assigned to the corporate loans are high and hence may not be able to meet the minimum return criteria. We believe that the bank will continue to focus on the retail secured business verticals, resulting in the share of corporate loans declining further.

Exhibit 25: Small & Mid-Corporate Loans mix to shrink



Source: Company, Axis Securities

Exhibit 26: Small & Mid Corporate AUM & Growth



### Recovery likely H2FY22E onwards with COVID 2.0 weakening

The COVID 2.0 related lockdowns impacted Q1FY22 disbursements which remained significantly below pre-COVID levels. However, with a gradual unlocking across geographies Jun'21 onwards, we are likely to witness some recovery from Q2FY22. H2, being a seasonally strong period for the banking industry in general, we expect the disbursements and credit growth to pick up and inch towards pre-COVID levels in H2FY22E and onwards. **While COVID 3.0 poses a key risk, protracting credit demand recovery, DCB expects to double the loan book over the next 3-4 years assuming macroeconomic conditions to normalize by FY23E.**

While Gold and Tractors would be key growth drivers in the near term, **we believe the bank would revert to its key competence in Mortgage and SME/MSME Financing to aid growth as the business environment improves.** Tractors and Gold financing would continue to lend support to these key segments. **We do not expect any major change in the portfolio mix which will continue to remain dominated by retail lending.**

**DCB will look to 'double' the book as macroeconomic conditions normalize FY23E onwards**

### Liability franchise granular, Focus on 'retail'ization

DCB has been successful in granularising the deposit base by bringing down the concentration of Top 20 deposits from 17% in FY14 to a shade below 7% in FY21. **The management looks to bring it down further to ~5% over the next 12-18 months.**

Historically, a large chunk of bulk deposits was sourced from cooperative banks and was considered sticky. Considering the dependence on inter-bank deposits, any redemption pressure of bulk deposits could lead to the immediate need for substitute funds from other sources. The bank is thus concentrating on replacing these inter-bank deposits with long-term TDs. The share of interbank deposits too has been witnessing a downtrend and currently stand at ~8.5% vs 15% in FY14.

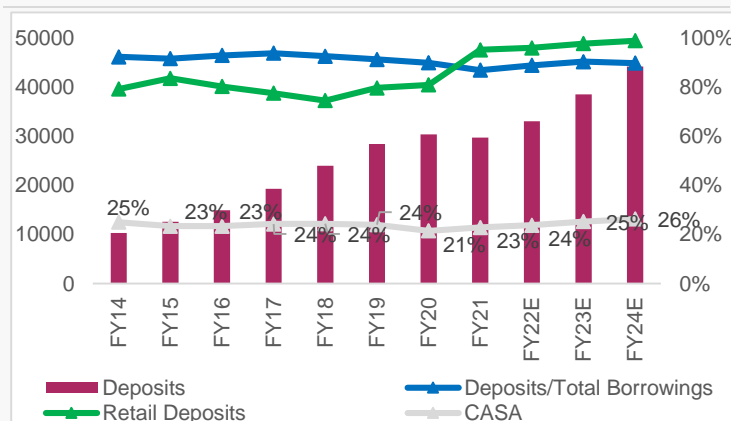
**Focus remains on making deposit base more granular and retail dominant**

**Top 20 deposits reduced to 7% vs 9% in FY20**

The bank, however, has lagged in garnering the low-cost CASA deposits. CASA Ratio stands at 21.7% in Q1FY22 vs 21.9% in Q1FY21 and 22.8% in FY21. DCB has been unable to breach the CASA Ratio it achieved during demonetization (ranging between 25-26% during Dec'16-Jun'17). This is in contrast to most of its peers who have successfully improved their CASA deposits, especially during COVID-19. DCB also offers a higher rate of interest on SA deposits vs most peers but the bank has not been able to make a significant improvement on the SA front. We believe that the geographical presence of the bank is the main hindrance in ramping up CASA deposits. **The majority of DCBs peers are South-India based where the penetration of deposits/CASA is comparatively higher, making the CASA deposits improvement a more tedious job for DCB.**

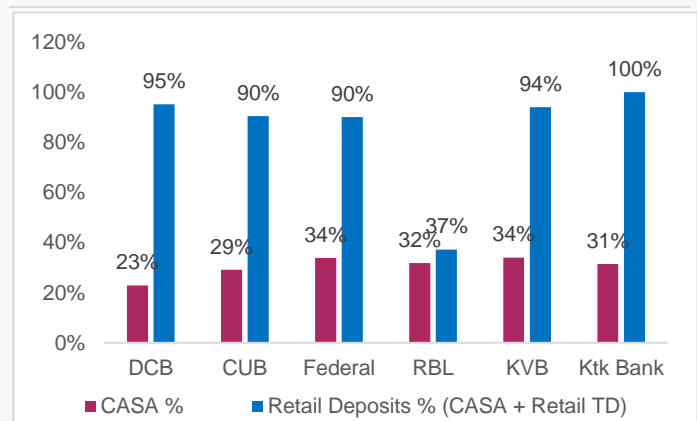
**In our opinion, CASA deposit accretion would be moderate over the medium term as DCB faces increased competition not only from new-generation SCBs but also from SFBs which have been aggressive in deposit garnering. We expect the CASA Ratio to improve to 26.3% by FY24E.**

Exhibit 27: DCB CASA growth to remain moderate

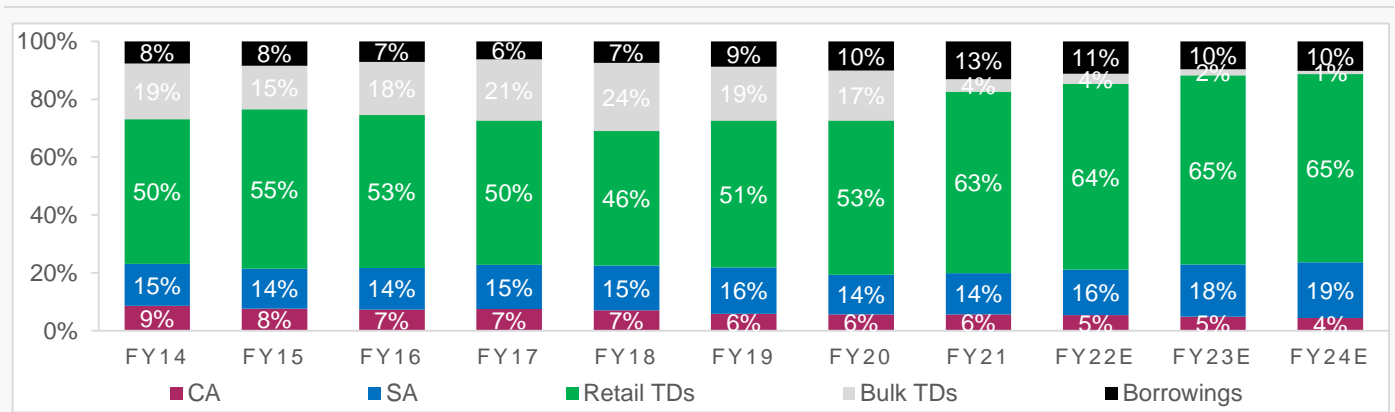


Source: Company, Axis Securities

Exhibit 28: DCB lags in CASA (%) amongst peers (FY21)



**The management has indicated that as part of the deposit strategy, DCB has intentionally chosen to improve the retail deposits as overall costs are higher for CASA customers over the medium term. The customer segment, especially in the mortgage and SME/MSME segments, also provides DCB cross-selling opportunities enabling it to ramp up the retail deposits.**

**Exhibit 29: CASA Deposits to remain stable, Retail TDs to dominate borrowing mix**


Source: Company, Axis Securities

**Exhibit 30: Retail TD Rates – Year-wise vs peers**

|                   | DCB          | Federal Bank | CUB   | RBL   | KVB   | Karnataka Bank |
|-------------------|--------------|--------------|-------|-------|-------|----------------|
| 1 Year Retail TDs | <b>5.70%</b> | 4.40%        | 5.00% | 5.50% | 4.25% | 5.10%          |
| 2 Year Retail TDs | <b>6.40%</b> | 5.10%        | 5.25% | 6.10% | 5.25% | 5.20%          |
| 3 Year Retail TDs | <b>6.50%</b> | 5.35%        | 5.00% | 6.10% | 5.50% | 5.50%          |

Source: Company, Axis Securities **\*\*Note:** Rates are latest interest rates and effective dates vary for each bank.

**Exhibit 31: SA Rates – slab-wise vs peers**

|                   | DCB          | Federal Bank | CUB   | RBL   | KVB   | Karnataka Bank |
|-------------------|--------------|--------------|-------|-------|-------|----------------|
| < Rs. 1 Lakh      | <b>3.25%</b> | Repo - 1.5%  | 3.00% | 4.25% | 2.25% | 2.75%          |
| Rs. 1 Lakh – 1 Cr | <b>4.00%</b> | Repo - 1.5%  | 4.00% | 6.25% | 3.00% | 3.50%          |
| Rs. 1 Cr – 5 Cr   | <b>6.75%</b> | Repo - 1.5%  | 4.00% | 6.00% | 3.25% | 4.50%          |
| Rs. 5 Cr - 10 Cr  | <b>6.75%</b> | Repo - 1.5%  | 4.00% | N.A   | 3.25% | 4.50%          |
| > Rs. 10 Cr       | <b>6.50%</b> | Repo - 0.2%  | 4.00% | N.A   | 3.25% | 4.50%          |

Source: Company, Axis Securities **\*\*Note:** Rates are latest interest rates and effective dates vary for each bank.

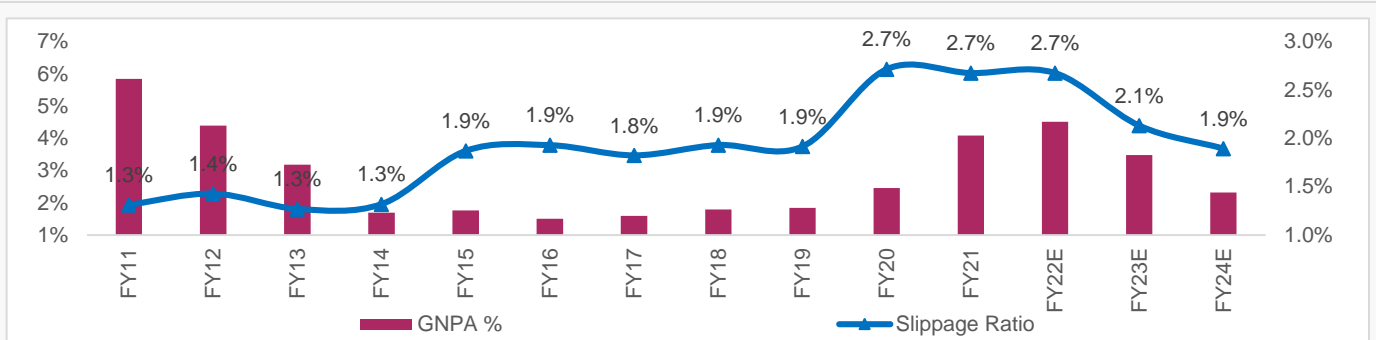
## COVID 2.0 to marginally delay asset quality improvement

Notwithstanding initial asset quality hiccups, the bank's track record in managing asset quality has been commendable. This was seen in the difficult macroeconomic environment witnessed during demonetization and GST roll-out events that had negatively impacted the bank's core customer segment. **The bank has seen credit costs remain sub-1% over FY12-20.**

As the management re-aligned the advances mix, DCB witnessed significantly lower slippages of 1.3-1.5% over FY11-14 vs historical levels of 5-8%. Moreover, the asset quality improved and remained stable at sub-2% over FY14-19 despite operating in a higher-risk self-employed segment. An exemplary track record highlights the management's conservative approach of not compromising on asset quality at the expense of growth. The stringent credit screens, robust risk management framework, and a strong collection mechanism have enabled DCB to maintain asset quality and will also help it tide over the COVID-19 headwinds comfortably.

**Improvement in asset quality will be aided by improving recoveries**

Exhibit 32: Improving Asset Quality post COVID 2.0 headwinds



Source: Company, Axis Securities

DCB witnessed a deterioration in asset quality in Q1FY22 with GNPA inching up to 4.9% vs 4.1% in FY21 due to elevated slippages led by COVID-19 disruptions and lower recoveries. Despite a dedicated team working on recoveries, the regional lockdowns are delaying the recovery process. In FY21, recoveries were at a multi-year low of 12% of opening GNPA vs an average of ~40% over FY15-20. **We expect the recoveries to improve in FY23E and onwards, which in turn, will aid in GNPA improvement.**

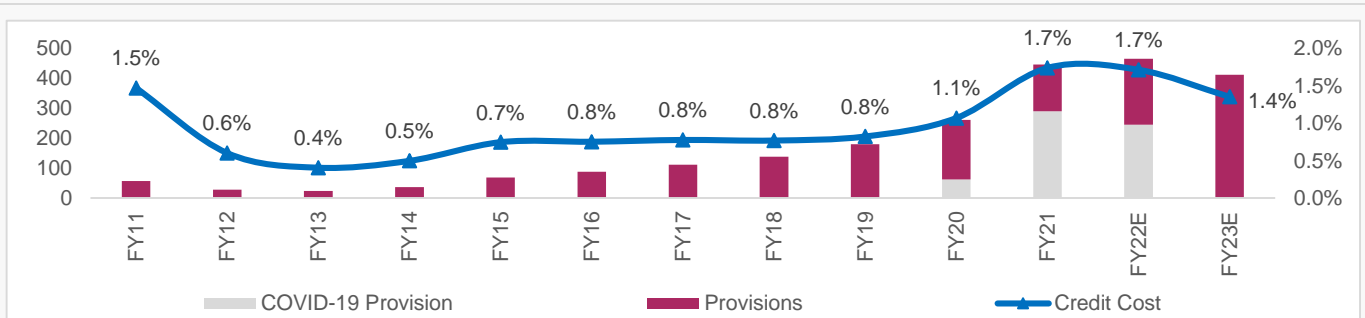
DCB indicated that 0.78% of Business loans, 1.48% of Home loans, and 2.95% of the CV portfolio customers are yet to pay a single instalment at the end of Q1FY22. **We expect slippages to remain elevated in FY22E with NPA accretion mainly from the restructured book. We also foresee slippages for FY22E to remain flat YoY at 2.7% and taper as macroeconomic conditions normalise. We expect GNPA to improve to 2.3% by FY24E from 4.9% currently.**

While pre-COVID credit costs have been stable at sub-1%, the bank has conservatively provided for the potential impact of COVID-19 in light of its impact on the borrowers' cash flows. The restructured book (net) stood at Rs 1,374 Cr (5.4% of advances). The management has indicated that the restructuring requests have come down and it continues its selective approach to restructure loans. Mortgages, Commercial Vehicles, and SME/MSME are the major contributors to the restructured book, which is backed by strong collateral. The bank holds provisions of Rs 189 Cr against the restructured book (~14% of the restructured book).

**We expect the credit costs to remain elevated in the near term owing to the increased disruption possibilities by COVID 3.0 as well as due to the bank's focus on strengthening the balance sheet (PCR at 49% in FY21) and a possible uptick in the quantum of restructuring in Sept'21 under Restructure 2.0 scheme.**

**Credit Costs likely to stay elevated in FY22E and to improve there-on**

Exhibit 33: Credit Cost likely to have peaked out and improve here-on



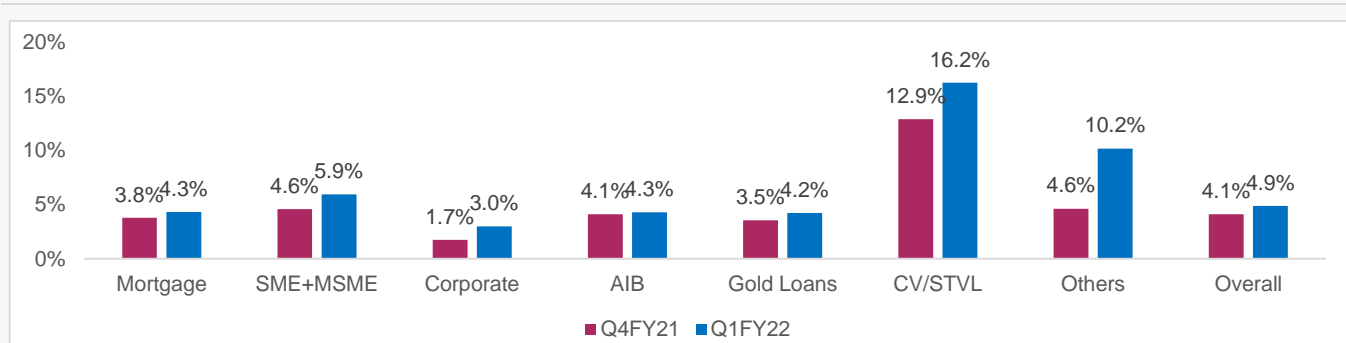
Source: Company, Axis Securities

The **SME and the Mortgage portfolio** is secured and collateralised by house property, with a large part being self-occupied property. LGDs in these segments have been historically low. The management had also indicated that DCB will use SARFAESI as a pressure tactic on the customers and most cases would be settled going ahead.

- CV loans have been the largest contributor to the asset quality stress with ~16% GNPA. While elevated NPAs are a result of non-functioning assets, the management is confident that the NPAs in the CV book will decline with the bank adopting a cautious approach in extending credit to this segment. The management also indicated that as the economic activity picks up, recoveries will improve as has been the case in Jul'21, which in turn, will bring down the NPAs.
- While **Gold Book** NPAs appear optically higher, the management indicated that the stress is manageable and the bank would be in a position to e-auction/sell the gold to recover the loan amount. The average LTV in this book is 75%.
- The **Corporate book** witnessed a spike in NPAs as a couple of corporate accounts were downgraded and slipped into NPA. The management is confident of recovering the amount over the next 3-4 months.

**Segmental stress to remain well managed over the medium – long term**

Exhibit 34: Stress escalates across segments, with CVs leading the pack



Source: Company, Axis Securities

### COVID 2.0 to impact near-term Collection Efficiency

The collection efficiency (CE) witnessed a strong bounce back with the bank channelising its resources and efforts to improve collections post the end of the moratorium as well as during the unlock phase. This resulted in CE improving across segments. While Business loans and Home Loans witnessed CE near pre-COVID levels, the CV portfolio continued to report sub-par CE as DCB exited FY21.

Most geographies faced stringent restrictions and lockdowns with the resurgence of COVID-19 cases which impacted the CE across segments. However, the management anticipates the cashflows of the bank's borrowers touching 70-80% of pre-COVID levels would require 3-4 months. Keeping this in view, DCB has been cautious in its lending approach and has curtailed lending to any borrower having no substantial evidence of normalising cashflows.

**Taking a cue from the previous experience during COVID 1.0 and the trend in the CE improvement post easing of lockdowns in Jun'21, we believe the bank will witness an improvement in CE in the near-term, though will remain marginally below pre-COVID levels. However, near-term pressure on collections is likely to persist with heightened chances of COVID 3.0.**

Exhibit 35: Collection Efficiency witness sharp improvement as lockdowns ease

|                | Feb20     | Mar20 | Apr20              | Jun20 | Jul20 | Aug20            | Sept20 | Oct20 | Nov20 | Dec20 | Mar21     | Apr21 | May21 | Jun21            | Jul21 |
|----------------|-----------|-------|--------------------|-------|-------|------------------|--------|-------|-------|-------|-----------|-------|-------|------------------|-------|
|                | Pre-COVID |       | COVID 1.0 Lockdown |       |       | COVID 1.0 Unlock |        |       |       |       | COVID 2.0 |       |       | COVID 2.0 Unlock |       |
| Business Loans | 97.7%     | 90.6% | 51.6%              | 58.8% | 59.4% | 61.2%            | 87.5%  | 85.3% | 91.5% | 89.8% | 95.2%     | 91.5% | 87.8% | 89.0%            | 92.2% |
| Home Loans     | 98.0%     | 93.2% | 56.9%              | 63.8% | 67.3% | 70.7%            | 91.3%  | 90.5% | 93.2% | 94.1% | 96.8%     | 94.5% | 91.7% | 92.8%            | 96.1% |
| CV Loans       | 89.4%     | 81.3% | 30.1%              | 37.4% | 39.3% | 40.1%            | 77.1%  | 75.9% | 77.5% | 80.4% | 86.0%     | 76.7% | 70.8% | 74.5%            | 75.6% |

Source: Company, Axis Securities

**Exhibit 36: Proportion of non-paying customers improving, though higher in CV portfolio**

|                      | Apr20 - Jun20 | Apr20 - Sept20 | Apr20 - Oct20 | Apr20 - Jan21 | Apr20 - Mar21 | Apr20 - Jun21 |
|----------------------|---------------|----------------|---------------|---------------|---------------|---------------|
| Business Loans (LAP) | 29.1%         | 11.5%          | 7.4%          | 1.3%          | 0.9%          | 0.8%          |
| Home Loans           | 21.2%         | 8.1%           | 5.4%          | 1.6%          | 1.4%          | 1.5%          |
| CV Portfolio         | 48.2%         | 19.2%          | 10.8%         | 3.2%          | 2.7%          | 3.0%          |

Source: Company, Axis Securities

In our opinion, the truly pan-India presence that DCB enjoys will help it mitigate the geographical concentration risk that most of its peers face. The majority of the mid-cap Pvt. sector banks have a large part of their branch network and business sourced from home geographies (CUB and KVB from Tamil Nadu and Karnataka Bank from Karnataka). **On the other hand, no state contributes more than 10-12% to DCB's business, thus reducing the asset quality risk arising from any geography-specific stress. Along with a diversified geographical presence, DCB is also characterized by no concentration to any specific sector or minimal exposure to stressed sectors such as metals, textiles, or infra.**

## Cost Optimization to drive ROA improvement

In Oct'15, DCB announced its plan to double its branch network by adding 150 branches over the next couple of years. This resulted in the branch network increasing to 318 branches in FY18 from 154 branches in FY15 as well as in a quantum jump in the Opex and pressure on the return ratios. As the branches matured over FY19-21, DCB witnessed an improvement in the business metrics with Opex trending downwards and the branch level efficiency improving. The management has highlighted that the employee expenses in the near term will rise as the bank is looking to strengthen its collection and recovery team.

**With no new plans of aggressive branch expansion and the addition of only 20-25 branches each year, we expect the Opex growth to remain range-bound between 12-15% over FY22/23E, resulting in the C-I Ratio remaining stable at ~50%. The management has guided for an improvement in C-A Ratio to 2.2% over the medium term driven by enhanced productivity and increased digitized operations. Improving branch level efficiency and the bank's cost optimization efforts are the key ROA drivers.**

**Improving branch productivity, moderate Opex growth to drive ROA expansion**

**NIMs to remain stable, range between 3.5-3.7%**

**Exhibit 37: Improving opex and lower credit costs to drive ROA expansion – DuPont Analysis**

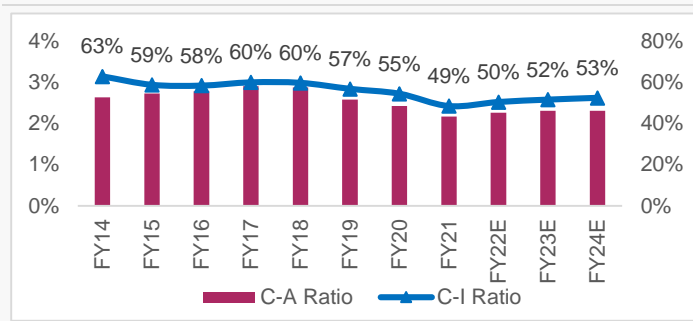
|              | FY15  | FY16  | FY17  | FY18 | FY19  | FY20  | FY21 | FY22E | FY23E | FY24E |
|--------------|-------|-------|-------|------|-------|-------|------|-------|-------|-------|
| NII          | 3.5%  | 3.5%  | 3.7%  | 3.7% | 3.5%  | 3.4%  | 3.3% | 3.4%  | 3.4%  | 3.4%  |
| Other Income | 1.1%  | 1.3%  | 1.2%  | 1.1% | 1.1%  | 1.1%  | 1.2% | 1.1%  | 1.1%  | 1.0%  |
| Total Income | 4.6%  | 4.8%  | 4.8%  | 4.8% | 4.5%  | 4.5%  | 4.5% | 4.5%  | 4.5%  | 4.4%  |
| Opex         | 2.7%  | 2.8%  | 2.9%  | 2.9% | 2.6%  | 2.4%  | 2.2% | 2.3%  | 2.3%  | 2.3%  |
| PPP          | 1.9%  | 2.0%  | 1.9%  | 1.9% | 2.0%  | 2.0%  | 2.3% | 2.2%  | 2.2%  | 2.1%  |
| Provisions   | 0.5%  | 0.5%  | 0.5%  | 0.5% | 0.5%  | 0.7%  | 1.1% | 1.1%  | 0.9%  | 0.7%  |
| PBT          | 1.4%  | 1.5%  | 1.4%  | 1.4% | 1.4%  | 1.3%  | 1.2% | 1.1%  | 1.3%  | 1.4%  |
| Tax Rate     | 0.1%  | 0.4%  | 0.5%  | 0.5% | 0.4%  | 0.4%  | 0.3% | 0.3%  | 0.3%  | 0.4%  |
| ROA          | 1.3%  | 1.1%  | 0.9%  | 0.9% | 1.0%  | 0.9%  | 0.9% | 0.8%  | 0.9%  | 1.0%  |
| Leverage     | 10.6  | 10.4  | 10.8  | 10.8 | 11.1  | 11.4  | 10.9 | 10.6  | 10.8  | 11.1  |
| ROE          | 13.9% | 11.5% | 10.0% | 9.8% | 11.0% | 10.4% | 9.4% | 8.7%  | 10.2% | 11.6% |

Source: Company, Axis Securities

DCB has an '**all branches-all products**' approach which helps the bank offer its diversified product suite across all branches. The branches break even and mature within 20-24 months, as witnessed from FY17, DCB has been able to improve the business per branch. With business momentum moderating in FY21 on account of COVID-19 headwinds, the business/branch moderated to Rs 158 Cr/branch from Rs 166 Cr/branch. However, with improvement in macroeconomic condition and expectations of credit growth picking up sooner than later, DCB is slated to witness an improvement in the branch productivity level.

It should also be noted that DCB is better placed than its closest peers CUB and KVB. DCB's business per branch stood at Rs 158 Cr/branch vs CUB's Rs 116 Cr/branch and KVB's Rs 149 Cr/branch.

Exhibit 38: Cost metrics to improve



Source: Company, Axis Securities

Exhibit 39: ROA/ROE to gravitate to pre-COVID levels

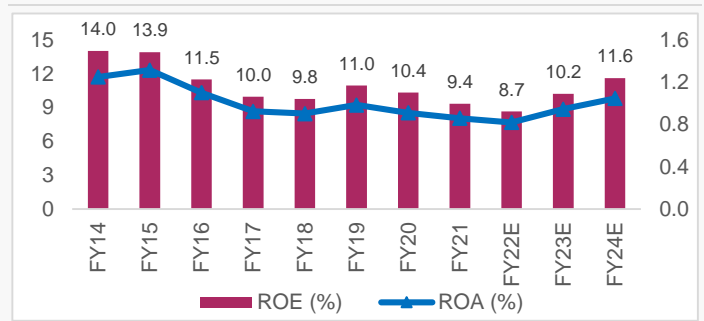
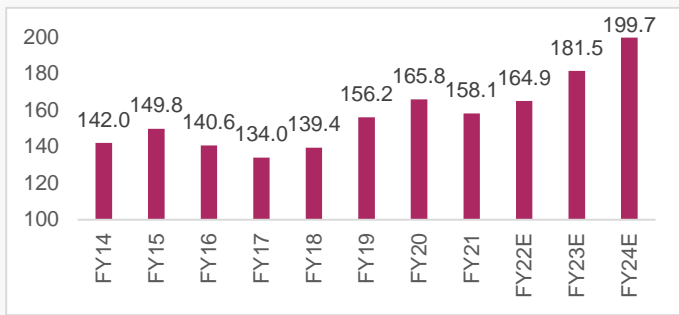


Exhibit 40: Improving Branch Productivity – Business/branch



Source: Company, Axis Securities

Exhibit 41: DCB vs Peers – Business/branch (FY21)

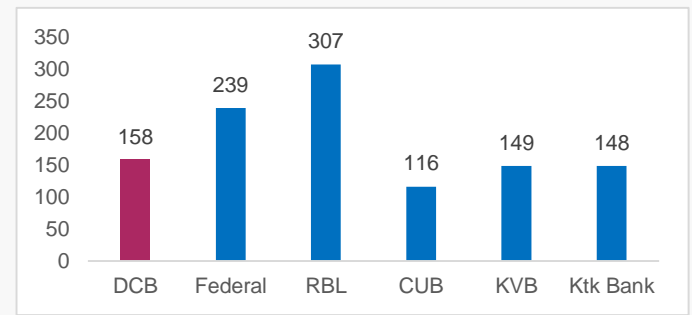
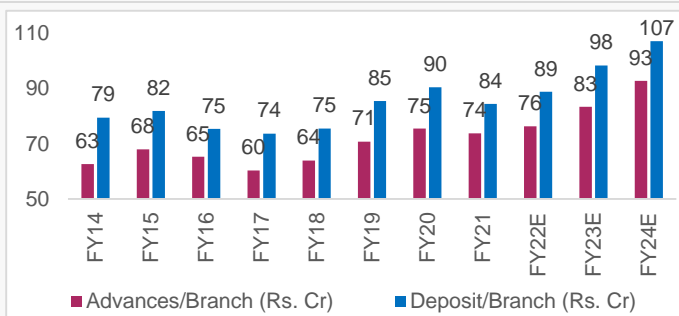
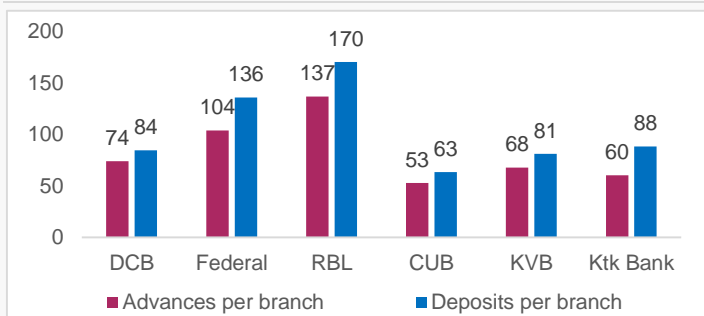


Exhibit 42: Improving Branch Level Efficiency



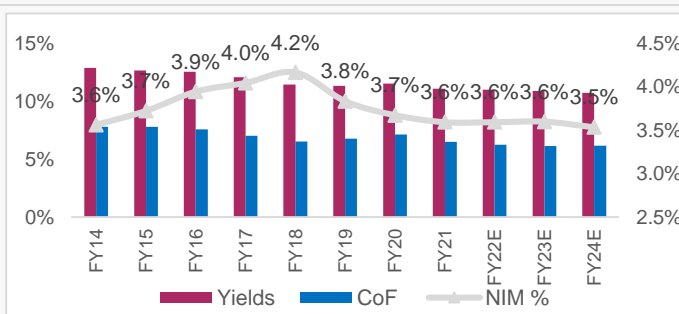
Source: Company, Axis Securities

Exhibit 43: DCB vs Peers – Branch efficiency (FY21)



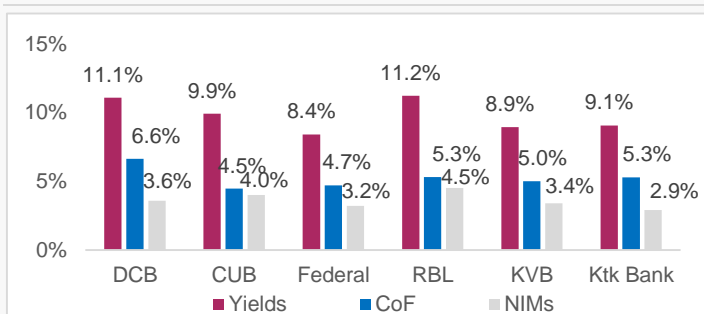
We believe that the core customer segment of self-employed borrowers is interest rate agnostic which helps DCB to enjoy better pricing power and thereby achieve better yields. Though the bank has witnessed good traction in the retail deposits, the lag in growing low-cost CASA deposits results in elevated Cost of Funds (CoF) amongst most peers. DCB is looking to replace the bulk deposits with long-term TDs and hence offers interest rates higher than its peers. (Refer Exhibit 30 and 31). **Though NIMs in FY21 were under pressure due to interest reversals, we expect the NIMs to gravitate to pre-COVID levels over FY22/23E and remain stable between 3.5-3.7%.**

Exhibit 44: NIMs to remain stable



Source: Company, Axis Securities

Exhibit 45: DCB vs Peers – Yields, CoF, NIMs (FY21)



## **Key Risk Factors**

### **Higher exposure to self-employed customers**

DCB's core customer base consists of self-employed borrowers. These category customers pose a higher default risk during disruptions as witnessed during COVID-19, given a negative impact on their cashflows. DCB has built its strength in servicing this segment and has a proven track record of maintaining robust asset quality and containing credit costs despite headwinds and challenging times. We believe the strong underwriting practices and a higher proportion of secured books with home properties as collateral (with a large part of them being self-occupied), insulate the bank from higher LGDs. Though the uncertainties created by the COVID 2.0 pose a potential risk to our estimates, we remain confident in the bank's ability to handle the stress and improve asset quality over the medium term.

### **Prevalence of COVID-19 headwinds**

The resurgence in the COVID-19 cases resulted in heightened restrictions and strict lockdowns across geographies. Consequently, this resulted in a drop in collections in Apr-May'21 and the borrowers' cash flows were adversely impacted with their businesses remaining non-operational. Even as COVID 2.0 recedes, the after-effects on the borrower cash flows continue to remain, specifically in the CV segment. We believe that the bank's cautious stance as witnessed in its lending approach and its effort to scale up the collection and recovery efforts by strengthening the collections team will help the bank maintain asset quality over the medium to long term. However, COVID 3.0 poses a risk to our credit growth and profitability estimates.

### **Shorter Tenure Extension of MD CEO Mr. Murali Natarajan**

With the RBI rules to the capping of the terms of MD CEO's of private banks to 15 years, DCB will now have to actively concentrate on the succession plan in the coming years. Mr. Murali Natarajan has completed over 12 years with the bank and the RBI has in Apr'21 granted an extension of 1 year (instead of a full 3-year term) to continue as the MD CEO. The shorter-term as MD CEO along with RBI's cap on the tenure adds a certain level of uncertainty in terms of leadership going ahead. We believe the bank will have to proactively look for a suitable candidate who has strong leadership qualities and thorough knowledge of business operations to bolster the bank's position in the highly competitive lending business, post the retirement of Mr. Natarajan.

## Peer Review

We have reviewed DCB against the private sector mid-cap banks. However, we believe that CUB and KVB would be the closest peers to DCB in terms of the loan book mix and customer profile.

Exhibit 46: Peer Valuation Matrix (FY21)

| Valuation        | ROA         |             |             |             | ROE         |             |              |              | P/E (x)    | P/BV (x)   |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|------------|------------|
|                  | FY21        | FY22E       | FY23E       | FY24E       | FY21        | FY22E       | FY23E        | FY24E        | FY24E      | FY24E      |
| City Union Bank  | 1.2%        | 1.2%        | 1.4%        | 1.4%        | 10.7%       | 11.1%       | 12.6%        | 13.0%        | 11.1       | 1.4        |
| CSB Bank         | 1.0%        | 1.3%        | 1.4%        | N.A         | 12.5%       | 13.9%       | 15.8%        | N.A          | N.A        | N.A        |
| Federal Bank     | 0.5%        | 0.9%        | 1.0%        | 1.1%        | 8.3%        | 11.1%       | 12.5%        | 13.3%        | 5.7        | 0.7        |
| IDFC First Bank  | 0.3%        | 0.3%        | 0.7%        | 1.2%        | 2.7%        | 2.3%        | 6.1%         | 11.5%        | 9.6        | 1.0        |
| Karnataka Bank   | 0.6%        | 0.5%        | 0.6%        | N.A         | 7.7%        | 6.4%        | 7.6%         | N.A          | N.A        | N.A        |
| Karur Vysya Bank | 0.5%        | 0.7%        | 0.9%        | 1.0%        | 5.2%        | 7.1%        | 9.9%         | 11.2%        | 3.7        | 0.4        |
| RBL Bank         | 0.5%        | 0.4%        | 1.2%        | 1.3%        | 4.3%        | 3.5%        | 12.6%        | 11.7%        | 5.6        | 0.6        |
| <b>Avg</b>       | <b>0.6%</b> | <b>0.8%</b> | <b>1.0%</b> | <b>1.2%</b> | <b>7.3%</b> | <b>7.9%</b> | <b>11.0%</b> | <b>12.1%</b> | <b>7.1</b> | <b>0.8</b> |
| <b>DCB Bank</b>  | <b>0.9%</b> | <b>0.8%</b> | <b>0.9%</b> | <b>1.0%</b> | <b>9.4%</b> | <b>8.7%</b> | <b>10.2%</b> | <b>11.6%</b> | <b>5.3</b> | <b>0.6</b> |

Source: Bloomberg, Company, Axis Securities

Exhibit 47: Peer Group Review – Operational Parameters (FY21)

|                  | Loan Book (Rs Cr) | NIM         | CASA Ratio   | C-I Ratio    | GNPA        | NNPA        | Restructured Book 1.0 | Loan CAGR FY21-24E | PAT CAGR FY21-24E |
|------------------|-------------------|-------------|--------------|--------------|-------------|-------------|-----------------------|--------------------|-------------------|
| City Union Bank  | 37,021            | 4.0%        | 29.1%        | 41.5%        | 5.1%        | 3.0%        | 5.0%                  | 15%                | 19%               |
| CSB Bank         | 14,438            | 4.8%        | 32.2%        | 54.3%        | 2.7%        | 1.2%        | N.A                   | 21%                | N.A               |
| Federal Bank     | 1,34,877          | 3.2%        | 33.8%        | 49.4%        | 3.4%        | 1.2%        | 1.2%                  | 11%                | 23%               |
| IDFC First Bank  | 1,11,758          | 5.0%        | 51.8%        | 78.8%        | 4.2%        | 1.9%        | 2.2%                  | 9%                 | 80%               |
| Karnataka Bank   | 51,694            | 2.9%        | 31.5%        | 45.7%        | 4.9%        | 3.2%        | 3.3%                  | 10%                | N.A               |
| Karur Vysya Bank | 52,820            | 3.4%        | 34.0%        | 58.2%        | 7.9%        | 3.4%        | 1.9%                  | 9%                 | 38%               |
| RBL Bank         | 58,623            | 4.5%        | 31.8%        | 47.1%        | 4.3%        | 2.1%        | 1.4%                  | 16%                | 51%               |
| <b>Average</b>   | <b>65,890</b>     | <b>4.0%</b> | <b>34.9%</b> | <b>53.6%</b> | <b>4.6%</b> | <b>2.3%</b> | <b>2.5%</b>           | <b>13%</b>         | <b>42%</b>        |
| <b>DCB Bank</b>  | <b>25,959</b>     | <b>3.6%</b> | <b>22.8%</b> | <b>48.5%</b> | <b>4.1%</b> | <b>2.3%</b> | <b>4.3%</b>           | <b>21%</b>         | <b>28%</b>        |

Source: Bloomberg, Company, Axis Securities

## Competent and Experienced Management Team

Exhibit 48: Key Management Personnel

| Name                    | Designation                                    | Role   |
|-------------------------|--|--|
| Mr. Murali M Natrajan   | MD & CEO                                       | Mr. Murali Natrajan is a fellow of the Institute of Chartered Accountants. He is the Managing Director & Chief Executive Officer of the Bank since Apr'09 and has 38 years of global experience in financial services in Standard Chartered Bank, Citibank, and American Express.  |
| Mr. Bharat Sampat       | Chief Financial Officer                        | Mr. Sampat is a Chartered Accountant and Cost Accountant along with a Post Graduate Degree in Law and has over 25 years of experience in senior positions with reputed organizations such as ABN Amro Bank, ANZ Grindlays Bank, Standard Chartered Bank, Hoechst India and Larsen & Toubro. He has worked in diverse industries such as Manufacturing, Banking, Finance and Shared Services with oversight for financial accounting, financial control and reporting, and management accounting. |
| Mr. Abhijit Bose        | Chief Credit Officer                           | Mr. Bose has over 26 years of experience in the Banking & Financial Services sector. He has managed Sales and Distribution, Products, Credit Risk Management and Audit in markets such as India, Asia Pacific, Middle East and Africa. Previously, he was with Standard Chartered Group and the last position held was as Risk Head - Consumer Banking for Southern African markets. Before which he has worked in Citibank, GIC Housing Finance Ltd & Eldeco Group.                             |
| Mr. Praveen Kutty       | Head - Retail & SME Banking                    | Mr. Kutty brings with him around 26 years of banking experience. He has worked with Citibank's Indian and international operations where he successfully managed multiple consumer banking businesses including Credit Cards, Personal Loans, Home Loans, Branch Banking, and Wealth Management.   |
| Mr. J. K. Vishwanath    | Head - Corporate Banking & SME                 | Mr. Vishwanath has over 19 years of rich experience in all aspects of Credit Risk Management. His prior expertise in managing the credit requirements of mid-Corporate, Retail, MSME, and SME customers helps the Bank drive the mid-Corporate Banking business vertical.  |
| Mr. Narendranath Mishra | Head - Agri & Inclusive Banking                | Mr. Mishra has over 21 years of experience in Agribusiness and urban banking. His expertise in the Agri and rural domain enables the bank to focus on customer experience at the branches and deliver banking products and services customised for the rural and semi-urban areas.   |
| Mr. Ajit Kumar Singh    | Head - Treasury & Financial Institution Group. | Mr. Singh has over 28 years of industry experience in Treasury Management, ALM and Credit. He has worked with banking institutions such as Axis Bank, ICICI Bank and Bank of India. Prior to DCB Bank, Mr. Singh was the Senior Vice President with oversight for Asset Liability Management with a bank in India.   |

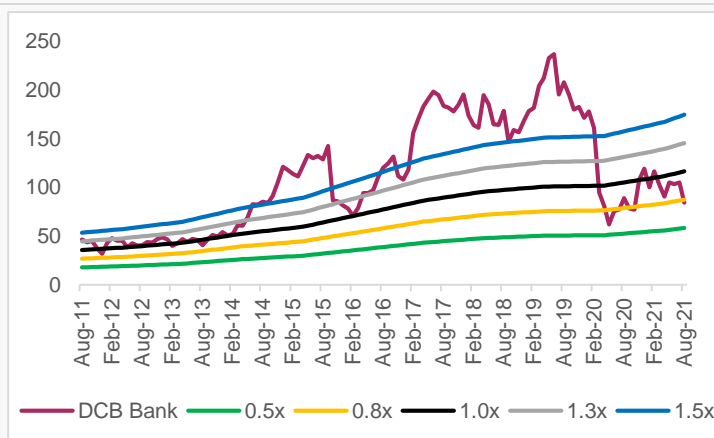
Source: Company, Axis Securities

## Valuation and Recommendation

Post the management re-shuffle over FY09-10, DCB transitioned into a retail-focused small ticket-size lender with a primary focus on the under-penetrated SME/MSME segment from an erstwhile unsecured lender. The shift in focus ensured a steady credit growth of 15% CAGR over FY16-21 despite facing multiple headwinds impacting the business operations of the core customer base. The bank has also maintained robust asset quality with both GNPA and slippage ratio being maintained at sub-2% levels on account of a largely collateralised book (~95% secured) ensuring steady recoveries and lower LGDs. Though COVID 2.0 headwinds and the possibility of COVID 3.0 leaves the near-term outlook hazy, we believe the bank's robustness of the business model, as well as its risk underwriting and risk management framework, will augur well and keep its long-term positive prospects intact.

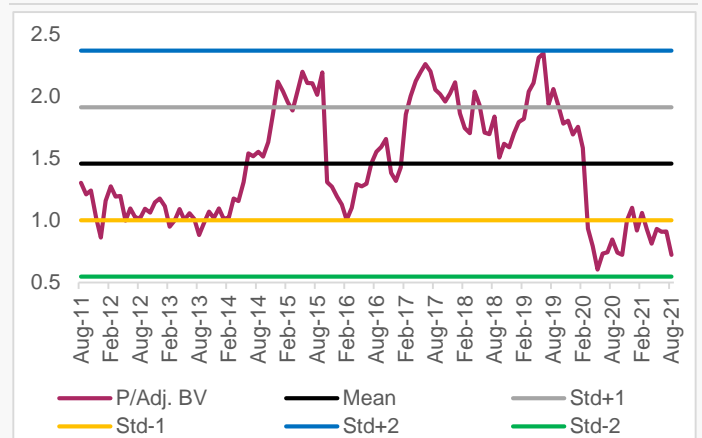
DCB currently trades at 0.6x FY24E ABV, a steep discount to its closest peer – City Union Bank (CUB) (1.4x FY24E ABV). We believe the lower valuations factor in the near term risks, possible stress from the higher restructured book and the management's conservative approach. Furthermore, we expect the bank to gain lost ground as the COVID-19 headwinds recede. With valuations being undemanding, we believe DCB is eligible for a re-rating with macroeconomic conditions improving moving forward. We value the stock at 0.8x FY24E ABV basis and believe that our target multiple takes into consideration the near term risks, the secured nature of the book ensuring lower LGDs, gradually improving asset quality, and a competent management and leadership team. **We initiate coverage with a BUY rating and a target price of Rs 115/share (0.8x FY24E ABV), implying an upside of 24% from CMP.**

Exhibit 49: DCB - 1-Yr Fwd P/ABV Band



Source: Company, Axis Securities

Exhibit 50: DCB – 1-Yr Fwd P/ABV Chart



## Financials (Standalone)

### Profit & Loss

(Rs Cr)

| Y/E March                    | FY20         | FY21E        | FY22E        | FY23E        | FY24E        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income              | 3,537        | 3,458        | 3,589        | 3,973        | 4,488        |
| Interest Expenses            | 2,272        | 2,172        | 2,187        | 2,405        | 2,739        |
| <b>Net Interest Income</b>   | <b>1,265</b> | <b>1,287</b> | <b>1,401</b> | <b>1,567</b> | <b>1,749</b> |
| <i>Change</i>                | 10%          | 2%           | 9%           | 12%          | 12%          |
| Non-Interest Income          | 392          | 458          | 453          | 488          | 543          |
| <b>Total Income</b>          | <b>1,657</b> | <b>1,745</b> | <b>1,854</b> | <b>2,056</b> | <b>2,292</b> |
| <i>Change</i>                | 10%          | 5%           | 6%           | 11%          | 11%          |
| Operating Expenses           | 903          | 847          | 936          | 1,062        | 1,204        |
| <i>Change</i>                | 6%           | -6%          | 11%          | 13%          | 13%          |
| <b>Pre-Provision Profits</b> | <b>754</b>   | <b>898</b>   | <b>918</b>   | <b>994</b>   | <b>1,088</b> |
| <i>Change</i>                | 17%          | 19%          | 2%           | 8%           | 10%          |
| Provisions                   | 261          | 446          | 465          | 412          | 358          |
| <i>Change</i>                | 45%          | 71%          | 4%           | -11%         | -13%         |
| <b>PBT</b>                   | <b>493</b>   | <b>453</b>   | <b>453</b>   | <b>582</b>   | <b>730</b>   |
| Tax                          | 154          | 117          | 114          | 147          | 184          |
| <b>Profit After Tax</b>      | <b>339</b>   | <b>336</b>   | <b>339</b>   | <b>435</b>   | <b>546</b>   |
| <i>Change</i>                | 4%           | -1%          | 1%           | 28%          | 26%          |

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

| Y/E March                | FY20          | FY21E         | FY22E         | FY23E         | FY24E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital     | 310           | 311           | 311           | 311           | 311           |
| Reserves & Surplus       | 3,112         | 3,448         | 3,749         | 4,147         | 4,637         |
| <b>Net Worth</b>         | <b>3,422</b>  | <b>3,759</b>  | <b>4,060</b>  | <b>4,458</b>  | <b>4,948</b>  |
| Deposits                 | <b>30,370</b> | <b>29,704</b> | <b>33,004</b> | <b>38,504</b> | <b>44,204</b> |
| <i>YoY Growth %</i>      | 7%            | -2%           | 11%           | 17%           | 15%           |
| <b>Borrowings</b>        | <b>3,408</b>  | <b>4,482</b>  | <b>4,065</b>  | <b>4,029</b>  | <b>3,848</b>  |
| Other Liabilities        | 1,305         | 1,657         | 1,823         | 2,005         | 2,206         |
| <b>Total Liabilities</b> | <b>38,505</b> | <b>39,602</b> | <b>42,952</b> | <b>48,996</b> | <b>55,206</b> |
| Cash & Bank balances     | 3,546         | 3,039         | 3,212         | 3,458         | 3,639         |
| Investments              | 7,742         | 8,414         | 9,084         | 10,406        | 10,620        |
| Loans                    | 25,345        | 25,959        | 28,356        | 32,649        | 38,265        |
| <i>YoY Growth %</i>      | 8%            | 2%            | 9%            | 15%           | 17%           |
| Fixed Assets & Others    | 1,872         | 2,190         | 2,299         | 2,483         | 2,682         |
| <b>Total Assets</b>      | <b>38,505</b> | <b>39,602</b> | <b>42,952</b> | <b>48,996</b> | <b>55,206</b> |

Source: Company, Axis Securities

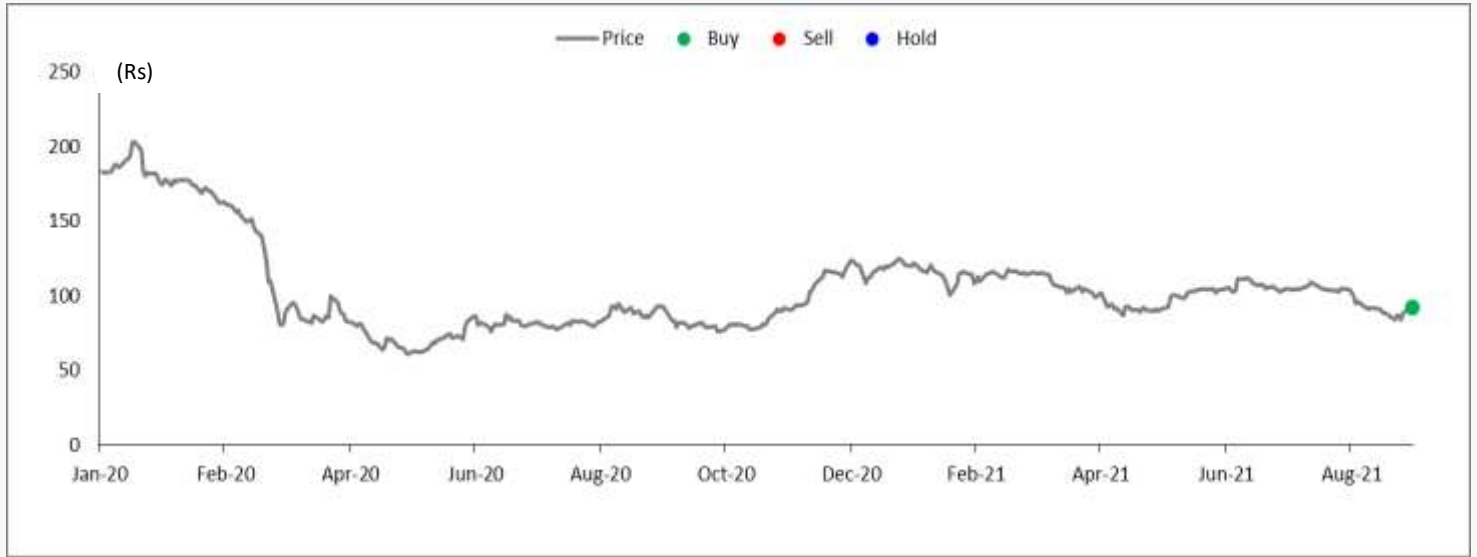
**Ratio Analysis**

(%)

| Y/E March                                    | FY20  | FY21E | FY22E | FY23E | FY24E |
|--|-------|-------|-------|-------|-------|
| <b>Asset Quality</b>                         |       |       |       |       |       |
| GNPA   | 632   | 1,083 | 1,305 | 1,160 | 906   |
| NNPA   | 294   | 594   | 594   | 529   | 417   |
| GNPA Ratio                                   | 2.5%  | 4.1%  | 4.5%  | 3.5%  | 2.3%  |
| NNPA Ratio                                   | 1.2%  | 2.3%  | 2.1%  | 1.6%  | 1.1%  |
| PCR  | 71%   | 62%   | 75%   | 75%   | 75%   |
| <b>Spread Analysis</b>                       |       |       |       |       |       |
| Yield on Advances                            | 11.5% | 11.1% | 11.0% | 10.9% | 10.7% |
| Cost of Borrowings                           | 7.1%  | 6.5%  | 6.2%  | 6.1%  | 6.1%  |
| Spread                                       | 4.4%  | 4.6%  | 4.7%  | 4.7%  | 4.6%  |
| Net Interest Margin                          | 3.7%  | 3.6%  | 3.6%  | 3.6%  | 3.5%  |
| <b>Profitability &amp; Efficiency Ratios</b> |       |       |       |       |       |
| RoE  | 10.4% | 9.4%  | 8.7%  | 10.2% | 11.6% |
| RoA  | 0.9%  | 0.9%  | 0.8%  | 1.0%  | 1.1%  |
| Cost to Income                               | 54.5% | 48.5% | 50.5% | 51.6% | 52.5% |
| CASA   | 21.5% | 22.8% | 23.7% | 25.3% | 26.3% |
| CAR  | 17.8% | 19.7% | 19.1% | 18.3% | 18.1% |
| Tier 1                                       | 13.9% | 15.5% | 15.1% | 14.6% | 14.5% |
| <b>Valuation</b>                             |       |       |       |       |       |
| BVPS   | 110.2 | 121.0 | 130.7 | 143.5 | 159.3 |
| <i>Change</i>                                | 10%   | 10%   | 8%    | 10%   | 11%   |
| Price-BV (x)                                 | 0.8   | 0.8   | 0.7   | 0.6   | 0.6   |
| Adj. BVPS                                    | 100.8 | 101.9 | 111.6 | 126.5 | 145.9 |
| <i>Change</i>                                | 5%    | 1%    | 10%   | 13%   | 15%   |
| Price-ABV (x)                                | 0.9   | 0.9   | 0.8   | 0.7   | 0.6   |
| EPS  | 10.9  | 10.8  | 10.9  | 14.0  | 17.6  |
| <i>Change</i>                                | 4%    | -1%   | 1%    | 28%   | 26%   |
| Price-Earnings (x)                           | 8.5   | 8.5   | 8.5   | 6.6   | 5.3   |
| Dividend Per Share                           | -     | -     | 1.0   | 1.0   | 1.5   |
| Dividend Yield (%)                           | 0.0%  | 0.0%  | 1.1%  | 1.1%  | 1.6%  |

Source: Company, Axis Securities

## DCB Bank Ltd. Price Chart and Recommendation History



| Date      | Reco | TP  | Research            |
|-----------|------|-----|---------------------|
| 01-Sep-21 | BUY  | 115 | Initiating Coverage |
|           |      |     |                     |

Source: Axis Securities

**About the analyst**

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**Sector:** Banks/NBFCs

**Analyst Bio:** Dnyanada Vaidya is M.M.S (Finance) with 4 years of research experience in the Banking/NBFC Industry.

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| <b>SELL</b>           | Less than -10%   |
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