AXIS SECURITIES

Pick of the Week

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- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our "Pick of the Week" report.
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
DCB Bank Ltd	5,767	186	213	15%	**BUY**

** Note: Investment horizon Approx. 6-9 months., CMP as on 10th Jan, 2020.*

DCB Bank Ltd

CMP (Rs.)	Target (Rs.)
186	213

MARKET DATA

No. of Shares	: 30.9 cr
Market Cap	: Rs 5,767 Cr
52-week High / Low	: Rs 245/165
BSE Code	: 532772
NSE Code	: DCBBANK

DCB Bank (DCBB) is a modern emerging new generation private sector bank based in Mumbai, with presence across Retail, MSME, Agri and Corporate banking serving mainly towards self-employed clients. Mr. Murali Natrajan is the current MD and CEO (since 2009) and has driven structural changes in the bank. As on March 2019, the bank had a network of 333 branches and 504 ATMs.

Investment Rationale

- **Niche focus in mortgage financing with granular loan book:** DCB Bank has created niche in mortgage financing (~40% of total advances) with emphasis on small ticket loans (ticket size ~30-35lac) to self employed in Tier II-VI cities. Bank's core target segment is MSME/SME with customer profile largely including self employed/small businessmen. It has deliberately chosen to have limited presence in the salaried segment on account of significantly higher competition from large banks. The portfolio is well diversified and granular with greater reliance on secured lending (~96% of the total loans are secured).
- **Operating leverage benefits post expansion to drive RoA:** Post aggressive branch expansion of doubling its branch count from FY15 onwards, operating leverage has kicked in and DCCB has been able to bring in a gradual and continuous reduction in cost to income ratio to ~58% in FY19. We expect cost benefits to sustain in the long run supporting improvement in ROAs.
- **Positive outlook on conservative approach, stable margins and cost controls:** DCBB has transformed itself into a strong retail franchise over the past years with focus on secured and granular business. It has done a successful shift from consolidation to growth and investment. DCBB chose to create a niche in self-employed segment, which has relatively limited competition enabling the bank to improve its NIMs significantly. We believe DCBB's comparatively conservative approach towards lending will help the bank tide over the loan growth slowdown and slippage concerns in the near-term.
- We recommend a **BUY** with TP of Rs. 213.

Financial Summary

Y/E March	NII (Rs. Cr)	PAT (Rs. Cr)	EPS (Rs.)	EPS Change	BVPS (Rs.)	ROE (%)	RoA (%)
FY19	1,149	325	10.4	32.0	100.7	12.1	1.0
FY20E	1,304	393	12.5	20.9	108.7	12.2	1.1
FY21E	1,532	510	16.0	27.9	124.8	13.6	1.2
FY22E	1,860	637	21.7	35.6	142.1	14.4	1.2

Source: Reuters consensus estimates.

Performance

No of Stocks Matrix		
No of Stocks	9m	15m
Met Target	20	38
Not Met Target	20	28

Performance Matrix		
% Return	9m	15m
Met Target	13.02	12.44
Not Met Target	(6.77)	(12.06)

Benchmark Performance Matrix		
% Return	9m	15m
Met Target	1.51	2.90
Not Met Target	3.92	6.67

Note : Performance of the pick of the week is calculated for stocks recommended from Apr-19 to Dec-19 for 9 Months and from Oct-18 to Dec-19 for 15 Months.

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