kotak Securities

Pick of the week

29th June'20

DCB Bank Ltd

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹ 82	₹150	82.93%

Investment Argument

- DCB Bank reported a weak 4QFY20 with earnings declining ~30% yoy led by 3.5x growth in provisions. Revenue growth was slow at 8% while tight cost control resulted in 15% growth in operating profits. Loan growth has decelerated further to ~7.5%.
- In Q4FY20, Gross NPL ratio increased ~30 bps qoq to 2.5% while net NPL ratio increased 20 bps qoq to 1.2%. Provision coverage ratio stood at ~54% as of 4QFY20. Slippages were at ~2.4% of loans (~2.8% in FY20 & ~4.2% in FY19). KIE is building in higher slippages of ~3.5% for FY21-23E.
- In Q4FY20, Net interest margin (reported) was marginally down qoq at ~3.5% with yield on advances and cost of funds declining marginally qoq. KIE expects NIMs to stay ~3.6-3.7% over FY21-23E (from 3.6% in FY20) driven by reduction in both yield on advances and cost of funds.
- KIE likes the approach taken by DCB and believes that it would be able to tide through this challenging period even if the business conditions in the post Covid environment are different from what we have seen earlier.
- KIE expects Net Loan growth to be 6% in FY21, 12% in FY22 and 17% in FY23. It expects Net profit to de-grow by 2% in FY21E and then grow by 9% in FY22E and 46% in FY23E. KIE forecasts 12% CAGR growth in total deposits over FY19-23E and expects CASA ratio to gradually improve to ~29% over the medium term.
- KIE values the bank at 1.3x book and 13x March 2022E EPS for RoEs moving closer to 10% in the medium term. KIE cuts earnings sharply to reflect slower loan growth and higher provisions. Maintains BUY rating with a fair value of Rs.150.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 23rd May 2020 which is available on our website at: https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental