

Company Report

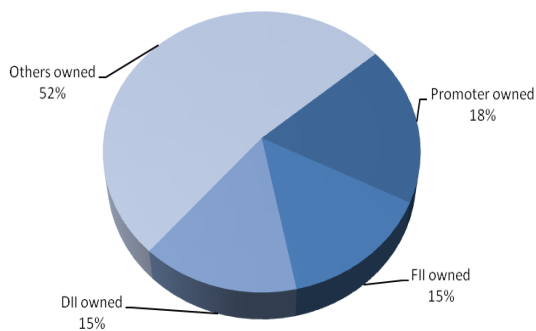
DCB Bank Ltd.

18th August, 2014**BUY**
CMP **Rs.81.40**
Target Price **Rs.120.00**

| | |
|---------------------|-------------|
| BSE Code | 532772 |
| NSE Code | DCBBANK |
| Market Cap (Rs Cr.) | 2040.24 |
| 52 Week High/Low | 88.40/38.05 |
| Industry | Bank |
| Face Value | Rs.10.00 |
| Shares O/S | 25.07 Cr. |

| | |
|------------|-------|
| EPS | 6.12 |
| Book Value | 46.10 |
| P/E | 13.30 |
| P/B | 1.77 |

Shareholding Pattern



Research Analyst: Sandeep Sharma
 research@hemonline.com

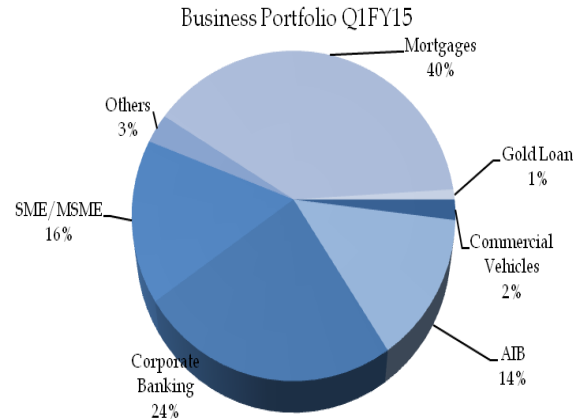
- DCB Bank Ltd has reported results in line with expectations for the quarter ending June 2014. The Net Interest Income grew by 31% to Rs.108.37 crores vs. Rs.82.88 cr. in the like quarter previous year. Pre provision profit climbed sharply by ~58.25% at Rs.81.23 crores as against Rs.51.33 crores in the previous year quarter. The banks adjusted net profit stood at Rs.44.64 crore for the quarter as compared to Rs.42.83 crores in the Q1FY14 and RS.39.07 crores in Q4FY14; registering a growth of ~4.23% on YOY basis and 14.26% on QOQ basis. The flat growth in adjusted PAT is on account of an additional provision of Rs.10 crores for specific standard assets. Cost Income ratio has witnessed a fall of 680bps at 53.18% as against 59.97% on YOY and 924bps as against 62.42% on QOQ. On the margins front, Net interest margin climbed about 25bps at 3.35% as against 3.10% in the previous year quarter.
- Going ahead, the bank is focusing on a branch expansion, which is estimated to rise from 134 in Q1FY15 to 185 in FY16. The management has guided at doubling the bank's balance sheet in three years time. The bank's balance growth on a YOY basis is 17%. According to management the Savings Account underlining growth has been approximately 19%. The banks CASA ratio stood at 25.40% in Q1FY15. The bank continues to rely on retail deposits including Term Deposits and about 79% of Deposits are in Retail. Advances growth year-on-year was 28% and Total Deposits growth was 27%.

Valuation

DCB has made a remarkable turnaround in a tough environment by focus on consolidation and steady improvement in most of the parameters. DCB is well-placed in terms of capital adequacy and asset quality, which are major concerns of the banking industry. We believe the bank is trading at an attractive valuation at 10.83x and 9.80x of FY15EPS of Rs.7.39 and FY16EPS of Rs.8.16. We initiate a 'BUY' on the stock with a target price of Rs.120 (appreciation of about 50%) with the medium to long term investment horizon.

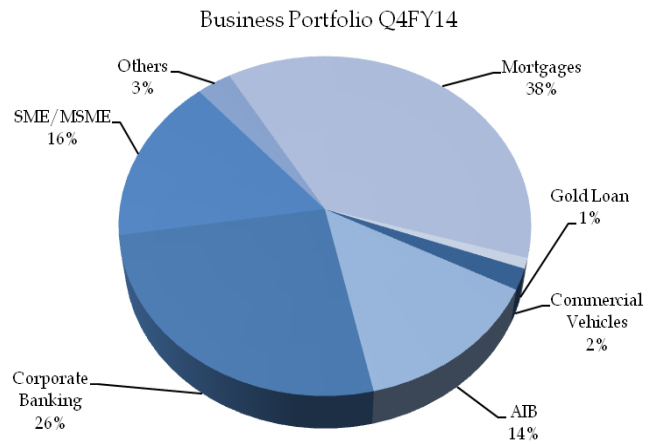
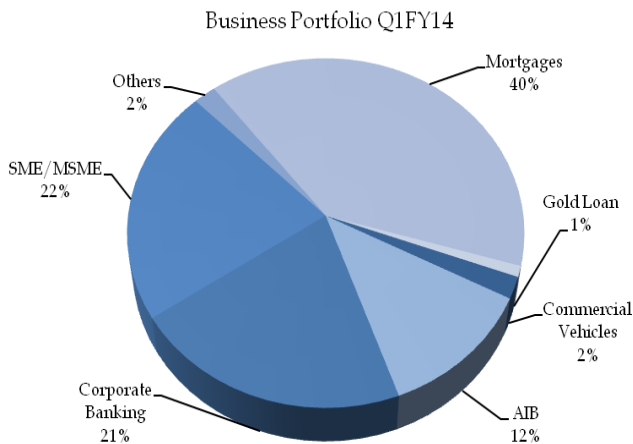
Business Details

DCB Bank is a modern emerging new generation private sector bank with 134 plus branches across 17 states and 2 union territories. Strong presence in Andhra Pradesh, Gujarat and Maharashtra resulting in sticky customer deposits from traditional customers. New branch expansions in Madhya Pradesh, Odisha, Punjab, Rajasthan. It is a scheduled commercial bank regulated by the Reserve Bank of India. It is professionally managed and governed. DCB Bank has contemporary technology and infrastructure including state of the art internet banking for personal as well as business banking customers.



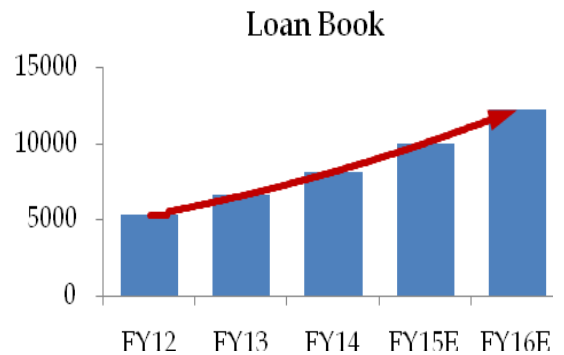
DCB Bank’s business segments are retail, micro-SMEs, SMEs, mid-Corporate, Agriculture, commodities, government, PSUs, Indian banks, co-operative banks and Non- Banking Finance Companies (NBFCs). The bank has Comprehensive range of banking products across all businesses.

DCB Bank has deep roots in India since its inception in 1930s. Its promoter and promoter group the Aga Khan Fund for Economic Development (AKFED) & Platinum Jubilee Investments Ltd holds over 18% stake. AKFED is an international development enterprise. It is dedicated to promoting entrepreneurship and building economically sound companies.



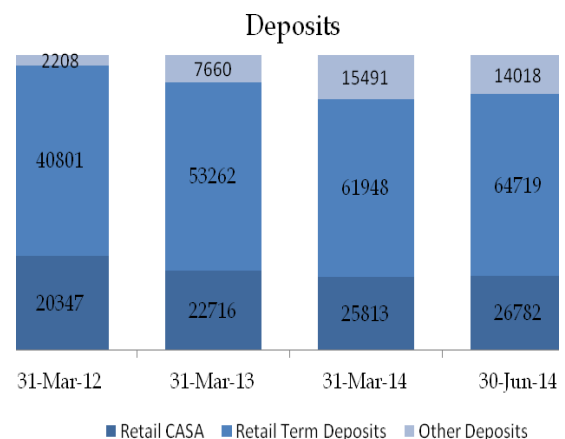
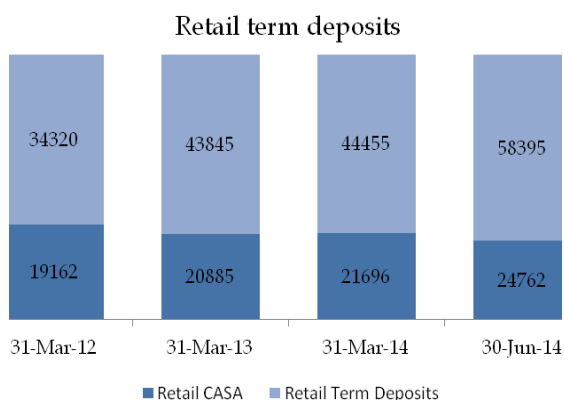
Strong growth in loan book

DCB has almost doubled its loan book in the last three years from Rs.4281.7 crore in FY11 to Rs.8140.2 crore in FY14 implying a CAGR of 24%. This growth can mainly be attributed to the mortgage segment, which contributed more than 50% (Rs.2048 crore) of incremental credit growth during this period. DCB's loan growth picked up to 28.12% YoY (1.86% QoQ) in Q1FY15 as the bank gained traction in agri & inclusive banking and corporate banking. Management continued to maintain a cautious stance on MSME book due to stress in this segment. Hence, DCB reshaped its strategy of refocusing on small-ticket loans. The bank continued to build granularity in loan book by focusing on secured lending like mortgages and reduced lumpy exposures. Going ahead, we expect DCB to further double its balance sheet in the next three years in sync with management guidance. We have factored in credit to grow at 23% to Rs.12245.30 crore by FY16. We expect all segments including agri, corporate, SME and retail to contribute towards this credit growth.



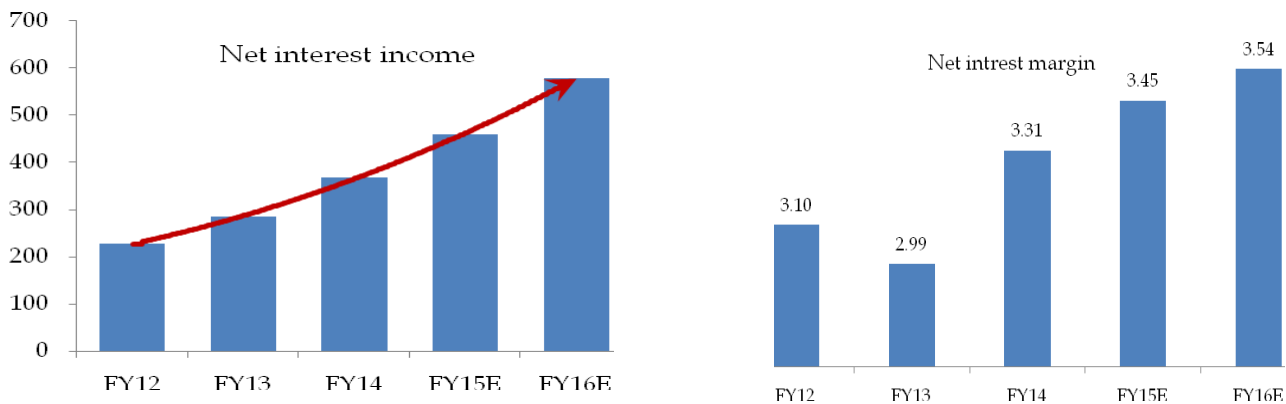
Strong deposit franchise

DCB has a healthy liability franchise as its dependence on bulk deposit is limited. About 79% (Q1FY15) of deposits consist of retail deposits, which are steady by nature and less subject to interest rate volatility. The bank aims to add thirty to forty branches each quarter from the current 134 branches, thereby enabling healthy retail deposit growth in the long term. Deposits increased 26.83%; while CASA deposits witnessed increase of 25.40% (Q1FY15). Improving CASA ratio remains a challenge for a company. However as the newly opened branches become operational, CASA ratio should witness improvement going forward. We expect retail deposits to continue to be maintained at its current proportion of 77% in the total deposit mix. We expect total deposits to grow at 22.75% from Rs.10325.16 crore to Rs.15555.20 crore over FY14-16E.



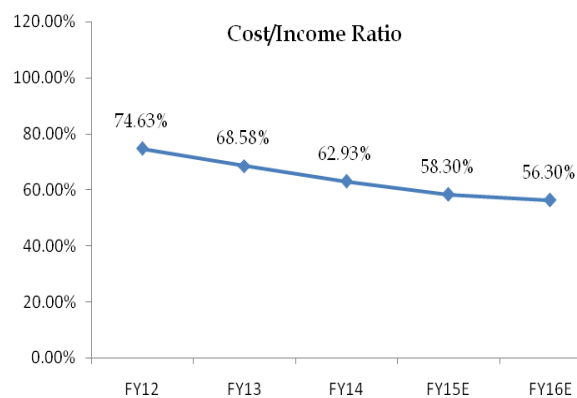
Stable growth in Net Interest Margins

NII grew 31% YoY at Rs.138.98 crores on back of one-off item (Rs.30.61 crores of interest on tax refund), excluding which NII would have grown at ~31% YoY during Q1FY15 on back of healthy NIM (3.35%) and strong loan growth (28.1% YoY). NIM stood at 3.35% Q1FY15; up by 24 bps YoY and 4 bps QoQ. For FY14, NIM stood at 3.31% as against 2.99% in FY13. NIM improved 24bps YoY (4bps QoQ) and came much ahead of management guidance (3.25%), as decline in cost of funds (14bps QoQ) was sharper than the decline in yield on advances (11bps QoQ).



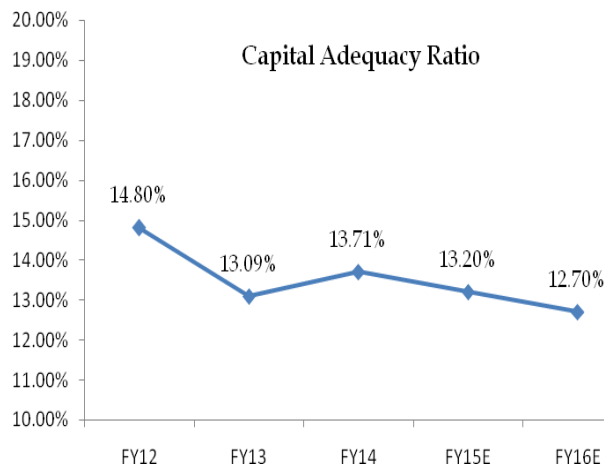
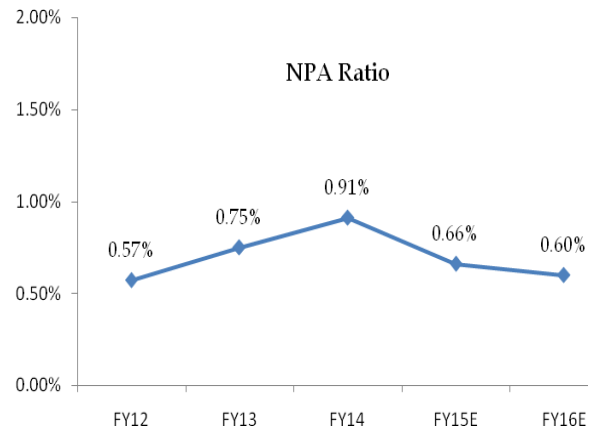
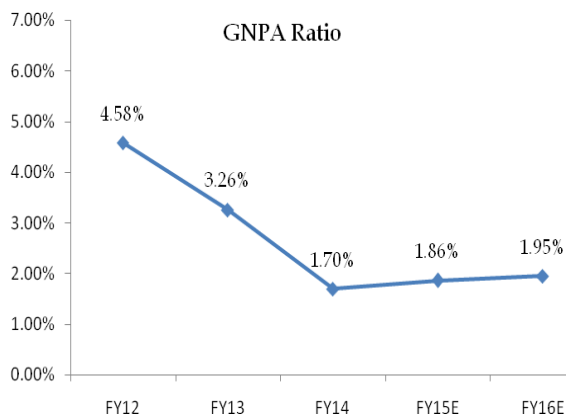
Improving cost to income ratio

The bank's cost-to-income ratio has been consistently improving; a testimony to DCB's focus on cost containment and improved productivity. The industry, however, operates at much efficient ratio and we believe DCB is on track to improve it by keeping a tight leash on costs despite plans to increase the branch network. We have seen consistent improvement in its cost/income ratio from 68.6% in FY13 to 62.9% in FY14. Bank has contained the C/I ratio at 53.2% in Q1FY15 as against 60% in Q1FY14 despite adding 33 branches during last one year. We are expecting C/I ratio to improve to 56% by FY16 as incremental branch expansion is taking place in tier 3-6 cities wherein operating expense is low.



Stable asset quality

DCB, withstanding macro headwinds, has been able to maintain stable asset quality. GNPLs dipped from over 11% in FY10 to 1.78% currently riding contained slippages and write-off of vintage personal and CV portfolio. In percentage terms, GNPA/NNPA ratio remained stable at 1.78%/0.97% in Q1FY15. Nonetheless, GNPA and NNPA grew 7.8% and 8.7%, respectively; it has performed better than its peers in an environment when others have reported steady increase in NPLs. Outstanding gross NPA of PL, CV/CE and corporate segments remained stable while SME/MSME continued to see higher delinquencies. GNPA of SME/MSME rose further to 6.7% of SME book while corporate and mortgage segments continued to do well with GNPA at 70bps/90bps of their respective portfolios. Management has indicated that deterioration in asset quality is largely attributed to slippage in small and medium enterprise accounts. Given the bank’s relentless focus on improving underwriting process and adequate collateral cover, we expect asset quality to be stable.



Consolidated Profit & Loss Account

Rs. Crore

| Particulars | FY12 | FY13 | FY14 | FY15E | FY16E |
|----------------------|--------|--------|---------|---------|---------|
| Interest Income | 716.97 | 916.10 | 1128.26 | 1400.57 | 1719.72 |
| Growth | | 27.77% | 23.16% | 24.14% | 22.79% |
| Interest Expenditure | 489.27 | 631.69 | 759.87 | 940.67 | 1140.89 |
| Net Interest Income | 227.70 | 284.41 | 368.39 | 459.90 | 578.83 |
| Growth | | 24.91% | 29.53% | 24.84% | 25.86% |
| NII Margin | 31.76% | 31.05% | 32.65% | 32.84% | 33.66% |
| Non Interest Income | 102.73 | 117.02 | 138.66 | 164.31 | 194.77 |
| Net Income | 330.43 | 401.43 | 507.05 | 624.21 | 773.61 |
| Net Income Margin | 46.09% | 43.82% | 44.94% | 44.57% | 44.98% |
| Operating Expenses | 246.61 | 275.29 | 319.09 | 363.92 | 435.54 |
| Pre Provision Profit | 83.82 | 126.14 | 187.96 | 260.30 | 338.07 |
| Provisions | 28.74 | 24.07 | 36.60 | 44.71 | 54.53 |
| PBT | 55.08 | 102.07 | 151.36 | 215.59 | 283.54 |
| Tax | 0.00 | 0.00 | 0.00 | 30.61 | 79.39 |
| Adjusted PAT | 55.08 | 102.07 | 151.36 | 184.97 | 204.15 |
| Growth | | 85.32 | 48.29 | 22.21 | 10.37 |
| Net Profit margins | 7.68 | 11.14 | 13.42 | 13.21 | 11.87 |
| Reported PAT | 55.08 | 102.07 | 151.36 | 184.97 | 204.15 |
| Equity Capital | 240.67 | 250.11 | 250.32 | 250.32 | 250.32 |
| Adjusted EPS | 2.29 | 4.08 | 6.05 | 7.39 | 8.16 |

Profitability Ratios

| Particulars | FY12 | FY13 | FY14 | FY15E | FY16E |
|----------------------|-------|-------|-------|-------|-------|
| Yield on Advances | 10.15 | 10.81 | 10.66 | 11.42 | 11.43 |
| Yield on Investments | 7.06 | 6.62 | 7.19 | 7.77 | 7.81 |
| Yield on Assets | 9.28 | 9.59 | 9.76 | 10.50 | 10.53 |
| Net Interest Margins | 3.10 | 2.99 | 3.31 | 3.45 | 3.54 |
| Cost of Funds | 7.39 | 7.03 | 7.43 | 7.53 | 7.57 |
| Cost of Deposits | 7.42 | 7.16 | 7.10 | 7.51 | 7.57 |
| Cost of Borrowings | 6.33 | 5.23 | 7.35 | 7.71 | 7.73 |
| Spread | 0.87 | 1.22 | 0.90 | 0.92 | 0.90 |
| Cost Income Ratio | 74.63 | 68.58 | 62.93 | 58.30 | 56.30 |
| Book Value | 35.79 | 40.10 | 46.10 | 53.49 | 61.64 |

Balance Sheet

Rs. Crore

| Particulars | FY12 | FY13 | FY14 | FY15E | FY16E |
|---------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Share Capital | 240.67 | 250.11 | 250.32 | 250.32 | 250.32 |
| ESOPs | 2.82 | 3.02 | 2.96 | 2.96 | 2.96 |
| Reserves & Surplus | 617.88 | 749.93 | 900.67 | 1,085.64 | 1,289.79 |
| Shareholders funds | 861.37 | 1003.06 | 1153.96 | 1338.92 | 1543.07 |
| Deposits | 6,335.56 | 8,363.84 | 10,325.16 | 12,674.60 | 15,555.20 |
| Borrowings | 1123.45 | 1525.62 | 860.16 | 958.07 | 1142.49 |
| Other Liabilities & Provisions | 356.48 | 386.31 | 583.86 | 671.89 | 787.37 |
| Total Liabilities | 7815.48 | 10275.76 | 11769.18 | 14304.56 | 17485.06 |
| Total Liabilities & Equity | 8676.85 | 11278.82 | 12923.14 | 15643.48 | 19028.13 |
| Advances | 5,284.42 | 6,586.09 | 8,140.19 | 9980.00 | 12245.30 |
| Cash & Equivalents | 456.55 | 883.25 | 689.57 | 854.27 | 1028.20 |
| Investments | 2517.76 | 3358.66 | 3634.22 | 4311.90 | 5212.55 |
| Fixed Assets | 184.64 | 239.45 | 238.64 | 265.37 | 296.07 |
| Other Assets | 233.47 | 211.38 | 220.51 | 231.95 | 246.01 |
| Total Assets | 8676.85 | 11278.82 | 12923.14 | 15643.48 | 19028.13 |

Balance Sheet Ratios

| Particulars | FY12 | FY13 | FY14 | FY15E | FY16E |
|------------------------|-------|-------|-------|-------|-------|
| Credit Growth | ----- | 24.63 | 23.60 | 22.60 | 22.70 |
| Deposit Growth | ----- | 32.01 | 23.45 | 22.75 | 22.73 |
| EA Growth | ----- | 31.11 | 15.11 | 21.52 | 22.05 |
| SLR Ratio | 27.11 | 24.60 | 25.10 | 24.64 | 24.47 |
| CASA Ratio | 32.12 | 27.16 | 25.00 | 24.10 | 25.10 |
| Loan- Deposit Ratio | 83.41 | 78.74 | 78.84 | 78.74 | 78.72 |
| Gross NPA Ratio | 4.58 | 3.26 | 1.70 | 1.86 | 1.95 |
| Net NPA Ratio | 0.57 | 0.75 | 0.91 | 0.66 | 0.60 |
| Capital Adequacy Ratio | 14.80 | 13.09 | 13.71 | 13.20 | 12.70 |

Quarterly Financial Highlights

Rs. Crore

| Particulars | Q1FY15 | Q4FY14 | Q1FY14 | YoY% | QoQ% |
|----------------------|----------|----------|---------|--------|--------|
| Interest Income | 321.59 | 307.70 | 260.50 | 23.45 | 4.51 |
| Interest Expended | 213.22 | 207.84 | 177.62 | 20.04 | 2.58 |
| NII | 108.37 | 99.86 | 82.88 | 30.76 | 8.52 |
| Other Income | 65.11 | 33.64 | 45.34 | 43.60 | 93.55 |
| Pre Provision Profit | 81.23 | 50.16 | 51.33 | 58.25 | 61.94 |
| Provisions | 22.93 | 11.04 | 8.50 | 169.76 | 107.70 |
| Adjusted PAT | 44.64 | 39.07 | 42.83 | 4.23 | 14.26 |
| NIM | 3.35 | 3.31 | 3.10 | ---- | ---- |
| Cost/Income Ratio | 53.18 | 62.42 | 59.97 | ---- | ---- |
| Gross NPA% | 1.78 | 1.69 | 3.41 | ---- | ---- |
| Net NPA % | 0.97 | 0.91 | 0.84 | ---- | ---- |
| Advances | 8291.40 | 8140.20 | 6471.50 | 28.12 | 1.86 |
| Deposits | 10551.90 | 10325.20 | 8319.60 | 26.83 | 2.20 |
| CD Ratio % | 78.58 | 78.84 | 77.79 | ---- | ---- |

Past Price movement of the stock



www.hemonline.com

research@hemonline.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL, SEBI REGISTERED CATEGORY I MERCHANT BANKER

MUMBAI OFFICE: 14/15, KHATAU BLDG., IST FLOOR, 40, BANK STREET, FORT, MUMBAI-400001

PHONE- 0091 22 2267 1000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

GROUP COMPANIES

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| <i>Disclosure of Interest Statement</i> | <i>Company Name</i> |
|--|---------------------|
| <i>1. Analyst Ownership of the Stock</i> | <i>No</i> |
| <i>2. Hem & its Group Company Ownership of the Stock</i> | <i>Yes</i> |
| <i>3. Hem & its Group Companies' Director Ownership of the Stock</i> | <i>Yes</i> |
| <i>4. Broking relationship with company covered</i> | <i>No</i> |

Analyst Certification

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