Change in ☑ Estimates ☐ Rating ☑ Target

Q4 FY16

IIFL
India Private Clients

DCB Bank

Healthy performance and comforting valuations

CMP: Rs88 1-yr Target: Rs98 Upside: 11.7%

Accumulate

Sector: Financials
Sector View: Positive

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Stock Data

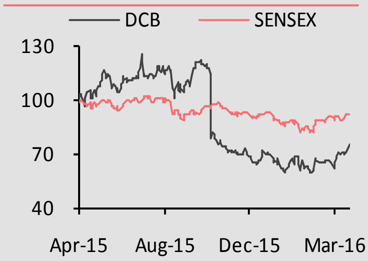
Sensex:	25,816
52 Week h/l (Rs):	151/69
Market cap (Rscr) :	2,507
6m Avg t/o (Rscr):	11
Bloomberg code:	DCBB IN
BSE code:	532772
NSE code:	DCBBANK
FV (Rs):	10
Div yield (%):	0

Prices as on Apr 18, 2016

Shareholding Pattern

	Sep-15	Dec-15	Mar-16
Promoters	16.3	16.3	16.2
FII+DII	41.1	35.6	36.9
Others	42.6	48.1	46.9

Share Price Trend



April 20, 2016

Result Update

- ✧ NII growth marginally better than estimates; PAT growth surpasses estimates on lower tax outflow
- ✧ Advances growth continues to witness strong momentum; corporate banking de-grows
- ✧ Headline asset quality lower on sale to ARCIL
- ✧ Full year NIMs stood at 3.94%; expect some correction going forward
- ✧ Valuation captures the impact of new strategy; maintain Accumulate rating

Result table

(Rs cr)	Q4 FY16	Q3 FY16	% qoq	Q4 FY15	% yoy
Total Interest Income	448	430	4.2	379	18.2
Interest expended	(279)	(269)	3.7	(249)	12.2
Net Interest Income	**169**	**160**	**5.1**	**130**	**29.7**
Other income	61	47	30.2	46	33.6
Total Income	**230**	**208**	**10.8**	**176**	**30.7**
Operating expenses	(133)	(123)	7.9	(108)	23.3
Provisions	(27)	(21)	30.0	(14)	94.6
PBT	70	63	10.2	54	28.9
Tax	(0)	(22)	(99.0)	9	(102.5)
Reported PAT	**70**	**41**	**68.8**	**63**	**9.8**
EPS	**9.8**	**5.8**	**68.4**	**9.0**	**8.8**
Ratios	Q4 FY16	Q3 FY16	chg qoq	Q4 FY15	chg yoy
NIM (%)	**3.9**	**4.0**	**(0.0)**	**3.8**	**0.2**
Yield on advances (%)	12.5	12.3	0.2	12.6	(0.1)
Cost of Funds (%)	7.5	7.4	0.1	7.9	(0.3)
CASA (%)	**23.0**	**23.0**	**-**	**23.4**	**(0.4)**
C/D (%)	**86.6**	**83.3**	**3.2**	**83.0**	**3.6**
Non-interest income (%)	**36.4**	**29.4**	**7.0**	**35.4**	**1.1**
Cost to Income (%)	**57.8**	**59.4**	**(1.6)**	**61.3**	**(3.5)**
Provisions/Avg.Adv (%)	0.9	0.7	0.2	0.6	0.3
BV (Rs)	59.6	56.0	6.4	52.6	7.0
RoE (%)	15.9	9.7	6.2	16.3	(0.3)
RoA (%)	1.5	1.0	0.6	1.6	(0.1)
CAR (%)	**14.1**	**13.0**	**1.1**	**15.0**	**(0.9)**
Gross NPA (%)	**1.5**	**2.0**	**(0.5)**	**1.8**	**(0.3)**
Net NPA (%)	0.8	1.1	(0.4)	1.0	(0.3)

Source: Company, India Infoline Research

NII growth marginally better than estimates; PAT growth surpasses estimates on lower tax outflow

The Q4 FY16 NII growth for DCB came in at robust 30% yoy to Rs. 169cr, (which includes interest on income tax refund of Rs. 5cr) v/s our expectation of Rs. 166cr. The NII growth was backed by the continued march of the advances book, which grew 24% yoy as well as a drop in the cost of funds for the third consecutive quarter. DCB continues to deliver a 20%+ advances growth and on track to achieve its target of doubling the balance sheet size over the next three years. Other income grew by a robust 34% yoy and 30% qoq and stood at Rs. 61cr. The fourth quarter is seasonally a very strong quarter. Core fee income witnessed robust traction, growing by 18% yoy to Rs. 40cr. The strong momentum in core fee income is seen over the past five quarters now and this is likely to pick up as the bank adds to its product suite. Other factors that contributed to growth in other income were good recoveries of bad debt and healthy forex and treasury gains. Operating expenses growth, though elevated at 23% yoy, didn't witness the entire impact of the branch addition as much of the branches were opened during the last three months of FY16. We expect the entire impact to come in FY17. DCB has added ~40 branches in the last 6 months and will add the remaining 110 branches over the next 18 months. Tax paid in this quarter was negligible as DCB utilized DTA on provisions against standard assets and floating provisions, the effective tax rate for FY16 thus being 26%. However, next year, DCB will migrate to full tax rate of 34%. PAT for Q4 FY16 grew 10% yoy and stood at Rs. 70cr, much above out expectation of Rs. 48cr on the tax benefit.

Advances growth continues to witness strong momentum; corporate banking de-grows

The advances book has grown at a healthy pace of 24% yoy led by strong traction in Retail and Agri & Inclusive Banking (AIB) segments which grew 31% and 40% yoy respectively. On the other hand, we have seen a drop in the share of corporate loans for the firth quarter in a row now partly due to the switching of loans from DCB to other banks as well as de-focus by DCB towards this segment. We estimate DCB's overall advances book to grow at a CAGR of 25% over FY16-18 backed by a fast growing distribution network. Deposit growth lagged credit growth at stood at 18% yoy for Q4 FY16. Within the overall deposits, CASA ratio has been more or less stable at 23%. We expect this ratio to increase to 27% over the next couple of years as the distribution network expands rapidly.

Headline asset quality lower on sale to ARCIL

The headline asset quality number came in lower with GNPA ratio at 1.5% v/s 2% qoq. The main reason for the lower number was sale of NPAs to ARCIL. There were a mix of SME, Mortgage and AIB accounts worth Rs. 54cr gross book value and Rs. 34cr net book value that were sold to ARCIL, having an average ticket size of Rs. 1-1.5cr. In the absence of the sale to ARCIL, the Gross and Net NPA would have stood at 1.92% and 1.01% respectively. Slippages at Rs. 50cr (1.6% annualized) were broadly as expected with no negative shocks anticipated by the management in the foreseeable future.

Full year NIMs stood at 3.94%; expect some correction going forward

NIMs for FY16 stood at 3.94% v/s 3.72 in FY15. NIMs have been pretty strong during all quarters of FY16 on benefits of favorable asset mix and sharp rise in the credit-deposit ratio which is up from 83% to 87% during this period. DCB has been shedding off its lower yielding corporate advances throughout FY16. However, going forward, NIMs are expected to correct on the impact of MCLR and increasing competition in the LAP space. DCB has already reduced the base rate by 15 bps in December 2015 and the 1 year MCLR being 18 bps lower than the revised base rate as well. The management expects the sustainable range for NIMs at 3.5-3.75%.

Valuation captures the impact of new strategy; maintain Accumulate rating

RoAs were strong in Q4 FY16 at 1.5% mainly due to the negligible tax being paid. However, RoA for FY16 stood at 1.1%. While RoA is expected to drop from current levels to 0.8% in FY17 and marginally rise to 0.9% in FY18 due to the aggressive branch and employee addition, this is higher than our previous expectation of 0.7% RoA over FY17 and FY18. The current valuation of 1.3x FY18 P/Adj. BV fully factors the subdued RoA delivery anticipated over the next couple of years. We believe that investments planned during FY16-18 would start yielding healthy results thereby uplifting the return ratios post FY18. We continue to maintain our Accumulate rating on the stock with a revised 12-month target price of Rs. 98.

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16	FY17E	FY18E
Total operating income	675	840	1,003	1,248
yoy growth (%)	33.2	24.4	19.4	24.4
Operating profit (pre-provisions)	279	349	352	454
Net profit	193	195	176	235
yoy growth (%)	27.6	0.9	(9.6)	33.7
EPS (Rs)	6.8	6.8	6.2	8.3
Adj.BVPS (Rs)	50.6	57.7	62.1	70.1
P/E (x)	12.9	12.9	14.2	10.6
P/BV (x)	1.7	1.5	1.4	1.3
ROE (%)	14.6	11.9	9.6	11.6
ROA (%)	1.3	1.1	0.8	0.9
CAR (%)	15.0	14.1	13.6	13.2

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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