

Strong Quarter, Balanced Growth & Compelling Valuations; Reiterate BUY!
Est. Vs. Actual for Q2FY26: NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q2FY26
FY26E/FY27E/FY28E (in %): NII: +2.7/-0.1/-0.9; PPOP: +4.4/+1.1/+1.0; PAT: +12.4/+1.1/-0.3

Recommendation Rationale

- **NIMs Well-managed; Improvement Visible Hereon:** In Q2FY26, DCB reported a surprise 3 bps improvement in NIMs, driven by a sharp 16/17 bps QoQ improvement in CoD/CoF. The management has indicated that NIMs have bottomed out and will continue to improve hereon, barring any further rate cuts. NIM expansion should be led by (a) a focus on the higher-yielding LAP segment versus mortgages, and (b) continued downward repricing of term deposits. Some portion of DCB's loan book transitions from fixed rate to floating rate, which could impact yields; however, the bank does not foresee any pressure on incremental yields. Moreover, the bank has proactively reduced the proportion of borrowings, and incremental borrowings are being availed at more competitive rates. **We expect DCB's margins to improve over the next few quarters, with CoF/CoD improvement outpacing yield compression. We expect NIMs to settle at 3.3–3.4%, marginally lower than historical levels.**
- **Asset Quality Improving, Credit Costs Under Control:** In Q2, the pace of slippages slowed down sequentially, with the slippage ratio at 3.1% vs. 4.5% QoQ. The management indicated that the pace of slippages in the unsecured LAP/SME and MFI segments has been on a declining trend and expects this trend to continue. DCB aspires to bring down the slippage ratio (ex-gold) to below 2% versus 2.5% currently. While this will not materially impact credit costs, it will enable DCB to reduce opex through lower collection efforts. While the bank has not quantified the impact of the ECL circular, directionally, it does not expect any material impact on credit costs. **The management has reiterated its confidence in containing credit costs at sub-45 bps for FY26, and our estimates are in line with the management's guidance.**
- **Growth Buoyancy to Continue:** The bank has been clocking healthy credit and deposit growth over the past few quarters, largely led by co-lending, while the core mortgage/SME book growth has taken a breather. Hereon, DCB will look to cap the co-lending portfolio at a 15% portfolio mix (versus ~16% currently). The slowdown in the mortgage segment can be attributed to its strategic shift towards sourcing LAP incrementally (the mix in incremental sourcing now stands at 65% versus 50% earlier). It has also moved up the ladder in terms of average ticket size (ATS), without compromising on yields. Furthermore, the bank has tightened sourcing through DSAs and their payouts, and will focus on improving volumes through direct sourcing. **DCB aspires to improve customer wallet share by offering multiple products and serving as a one-stop shop for its customers.** The bank has also forayed into the Rs 3–10 Cr SME business segment and will look to ramp up the portfolio in a calibrated manner. **It aims to double this portfolio over the next 3–3.5 years. We pencil in credit growth of ~20% CAGR over FY26–28E.**

Company Outlook: Positive

Company Outlook: DCB remains well-positioned to deliver its aspirational RoA of 1% by FY27, supported by (1) Improving NIMs; (2) A strengthening fee income profile; (3) Gradual moderation in the opex ratio driven by improved efficiency and productivity; (4) Range-bound credit costs. We expect its RoA/RoE to improve to **1%/14–16% over FY27–28E**, compared with **0.9%/12.5% in FY26**. At current valuations, we believe the risk-reward remains favourable. **Sustained strong performance across key operating metrics should drive a re-rating in the stock.**

Current Valuation: 0.8x FY27E ABV; **Earlier Valuation:** 0.8x FY27E ABV

Current TP: Rs 170/share; **Earlier TP:** Rs 165/share

Recommendation: We maintain our **BUY** recommendation on reasonable valuations.

Financial Performance:

Operational Highlights: Disbursements grew by +13/8% YoY/QoQ. Advances growth was strong at 19/3% YoY/QoQ (Mortgages +17% YoY, AIB +14% YoY, and Corporate growth picked up and stood at 13% YoY). Deposits growth was in line with credit growth and stood at 19/4% YoY/QoQ, led by both TDs, which grew by 22/4% YoY/QoQ and CASA Deposits, which grew by 9/5% YoY/QoQ. CASA Ratio was maintained at 23.5% vs 23.3% QoQ. C-D Ratio stood at 81.8% vs 82.6% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	596	+2.7	+17.1	571	+4.4
PPOP	304	-7.0	+19.1	280	+8.6
Net Profit	184	+17.0	+18.3	144	+27.3
NNPA (%)	1.2	-1 bps	+4 bps	1.1	+11 bps
RoA (%)	0.9	+13 bps	+1 bps	0.7	+21 bps

Source: Company, Axis Securities Research

(CMP as of 17th October, 2025)

CMP (Rs)	129
Upside/Downside (%)	32%
High/Low (Rs)	151/101
Market cap (Cr)	4,137
Avg. daily vol. (6m) Shrs.	17,46,107
No. of shares (Cr)	32.1

Shareholding (%)

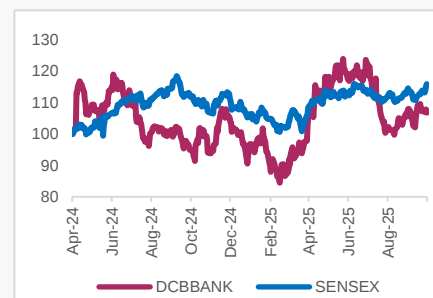
	Mar-25	Jun-25	Sep-25
Promoter	14.7	14.7	14.7
FII's	9.6	11.7	10.5
MFs	19.7	21.8	21.5
Others	56.0	51.8	53.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	2,526	3,091	3,708
PPOP	1,346	1,718	2,113
Net Profit	757	996	1,232
EPS (Rs)	24.1	31.7	39.2
ABV (Rs)	183.1	209.5	242.9
P/ABV (x)	0.7	0.6	0.5
RoA (%)	0.9	1.0	1.0
NNPA (%)	1.0	1.0	0.9

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	+2.7	-0.1	-0.9
PPOP	+4.4	+1.1	+1.0
PAT	+12.4	+1.1	-0.3

Relative Performance


Source: AceEquity, Axis Securities Research

Results Gallery
[Q1FY26](#)
[Q4FY25](#)
[Q3FY25](#)
[Q2FY25](#)
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Financial Performance(Cont'd):

- **Financial Performance:** NII growth was healthy at 17/3% YoY/QoQ, supported by healthy growth and a positive surprise on NIMs (up 3bps QoQ). NIMs stood at 3.23% vs 3.20% QoQ. CoF declined by 16bps QoQ, while yields declined by 11bps QoQ. Non-interest income was weak and decreased by 9/21% YoY/QoQ, primarily owing to lower treasury gains. Opex growth was under check (+4/-2% YoY/QoQ) mainly owing to lower employee expenses (-3% QoQ) while other opex was flattish QoQ. Slower non-interest income weighed on the C-I Ratio, which stood at 61.2% vs 64.3/60% YoY/QoQ. PPOP grew by 19/-7% YoY/QoQ. Provisions came in lower than expected, with credit costs at 46bps vs 90bps QoQ. Earnings growth was healthy at 18/17% YoY/QoQ.
- **Asset Quality** improved marginally and GNPA/NNPA stood at 2.91/1.21% vs 2.98/1.22% QoQ, driven by lower slippages QoQ. Slippage ratio stood at 3.1% vs 3.0/3.2% YoY/QoQ. PCR stood at 73% vs 74% QoQ.

Key Highlights

- **Opex Ratios to Trend Downwards:** DCB has been containing its C–A Ratio in the range of 2.4–2.5% over the past few quarters, considerably lower than its historical range of 2.6–2.7%. This improvement has been driven by enhanced productivity, technological interventions, and a reduction in employee headcount. Going forward, **the management intends to keep the C–A Ratio range-bound between 2.4–2.42% over the medium term.** The bank, however, will not shy away from investing in its franchise, as it plans to add 20 new branches to strengthen its liability base. This expansion will lead to an increase in employee headcount. Moreover, to strengthen and scale the Rs 3–10 Cr SME business vertical, DCB will look to augment its workforce further.
- **Strengthening Fee Income Profile:** While non-interest income benefited from healthy treasury gains in Q1FY26, DCB's Q2 non-interest income growth was primarily driven by healthy core fee income. This was supported by strong contributions from loan processing fees, third-party distribution income, trade finance fees, and card fees. The management remains confident of sustaining strong performance in core fee income, even in the absence of treasury gains.

Outlook

We factor in healthy business growth momentum and pen down Credit/Deposit growth of ~20/21% CAGR each over FY26-28E, thereby enabling the bank to maintain a steady LDR ranging between 84-85%. The strategic steps taken towards protecting NIMs have been yielding results. This, along with sustained CoF decline, should help DCB improve its NIMs to ~3.4% over FY27-28E. Factoring in better-than-expected performance on NIMs, controlled Opex growth and contained credit costs, we raise our NII/EPS estimates by 4/12% for FY26E, while broadly maintaining them over FY27-28E. We believe the walk towards the aspirational 1% RoA in FY27E is in sight and achievable. The management has guided for RoE delivery of 13.5/14.5% for FY27/28E. We expect DCB to deliver a healthy Advances/NII/Earnings growth of 20/21/28% CAGR growth over FY26-28E, with RoA/RoE delivery of 0.9-1%/13-16% over the same period. The capital infusion by the promoter leaves DCB with a healthy CRAR, adequate to fuel medium-term growth without equity dilution.

Valuation & Recommendation

The stock currently trades at a valuation of 0.6x FY27E ABV, and we value the stock at 0.8x FY27E ABV and arrive at a TP of Rs 170/share, implying an upside of 32% from the CMP. **We maintain our BUY recommendation backed by compelling valuations.**

Key Risks to Our Estimates and TP

- A slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.
- Inability of the bank to mobilise deposits, which could potentially derail credit growth or hamper margins.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	2,526	3,091	3,708	2,459	3,093	3,740	2.7	-0.1	-0.9
PBP	1,346	1,718	2,113	1,289	1,699	2,093	4.4	1.1	1.0
Provisions	326	377	453	383	373	429	-14.8	0.9	5.7
PAT	757	996	1,232	673	985	1,236	12.4	1.1	-0.3

Source: Company, Axis Securities Research

Results Review (Standalone)

(Rs Cr)	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	H1FY26	H1FY25	% YoY
Net Interest Income	596	509	17.1	580	2.7	1177	1006	17.0
Non-Interest Income	186	205	-9.1	236	-21.2	422	348	21.5
Operating expenses	478	459	4.3	490	-2.3	968	893	8.4
Staff Cost	243	235	3.4	251	-3.1	494	460	7.3
Pre-provision profits	304	255	19.1	327	-7.0	631	460	37.0
Provisions and contingencies	61	46	32.7	115	-47.4	176	74	137.4
PBT	243	210	16.2	212	15.0	455	387	17.7
Provision for Tax	59	54	10.0	54	9.2	114	100	14.3
PAT	184	155	18.3	157	17.0	341	287	18.9
Business Update								
Disbursements	5,367	4,729	13.5	4,973	7.9	10,340	8,867	16.6
Net Advances	52,975	44,465	19.1	51,215	3.4	52,975	44,465	19.1
Deposits								
	64,777	54,532	18.8	62,039	4.4	64,777	54,532	18.8
CASA Deposits	15,235	13,963	9.1	14,469	5.3	15,235	13,963	9.1
CASA Ratio	23.5	25.6	-209bps	23.3	20bps	23.5	25.6	-209bps
Cost-Income ratio (%)								
	61.2	64.3	-311bps	60.0	118bps	60.6	66.1	-551bps
Yield on Advances	11.1	11.4	-28bps	11.2	-13bps	11.1	10.7	34bps
Cost of Deposits	7.0	7.1	-13bps	7.1	-16bps	6.0	6.1	-2bps
Cost of Funds	7.0	7.2	-16bps	7.2	-17bps	6.1	6.2	-5bps
NIMs (%)	3.2	3.3	-3bps	3.2	4bps	3.9	3.6	37bps
Asset Quality								
Gross NPA (%)	2.9%	3.3%	-38bps	3.0%	-7bps	2.9%	3.3%	-38bps
Net NPA (%)	1.2%	1.2%	4bps	1.2%	-1bps	1.2%	1.2%	4bps
PCR (%)	73%	76%	-232bps	74%	-74bps	73.3%	75.6%	-232bps
Capital Adequacy								
CRAR	16.4	15.6	86bps	16.7	-25bps	16.4	15.6	86bps
Tier I	14.0	13.7	32bps	14.2	-23bps	14.0	13.7	32bps
Tier II	2.4	1.9	54bps	2.5	-2bps	2.4	1.9	54bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	2,107	2,526	3,091	3,708
Other Income	751	903	1,033	1,184
Total Income	2,857	3,429	4,124	4,892
Total Operating Expense	1,820	2,084	2,406	2,779
PPOP	1,037	1,346	1,718	2,113
Provisions & Contingencies	208	326	377	453
PBT	829	1,019	1,341	1,660
Provision for Tax	213	262	345	427
PAT	615	757	996	1,232

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Share Capital	314	314	314	314
Reserves	5,376	6,081	7,007	8,154
Shareholder's Funds	5,691	6,395	7,322	8,468
Total Deposits	60,031	72,822	87,956	1,06,269
Borrowings	9,115	10,125	11,285	13,848
Other Liabilities & Provisions	1,973	2,450	2,922	3,526
Total Liabilities	76,810	91,792	1,09,484	1,32,111
APPLICATION OF FUNDS				
Cash & Bank Balance	2,699	3,492	3,778	4,565
Investments	20,150	22,987	27,236	32,907
Advances	51,047	61,830	74,316	89,627
Fixed Assets & Other Assets	2,914	3,483	4,154	5,013
Total Assets	76,810	91,792	1,09,484	1,32,111

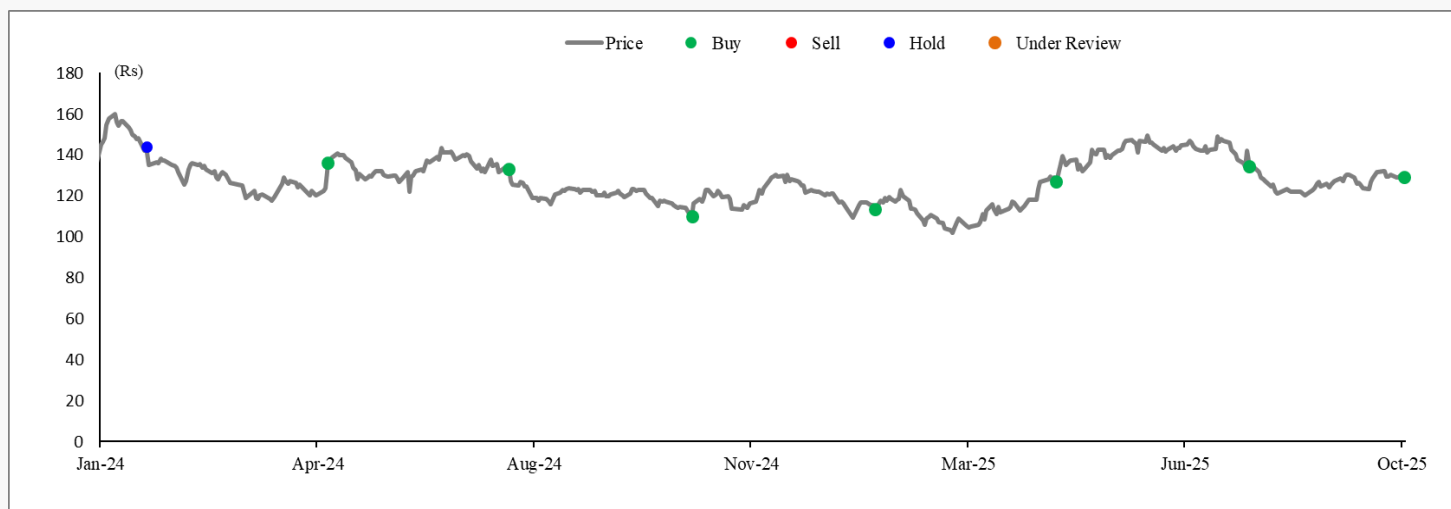
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	19.6	24.1	31.7	39.2
Earnings Growth (%)	0.1	0.2	0.3	0.2
BVPS	181.1	203.5	233.0	269.4
Adj. BVPS	162.9	183.1	209.5	242.9
ROAA (%)	0.9	0.9	1.0	1.0
ROAE (%)	11.4	12.5	14.5	15.6
P/E (x)	6.6	5.3	4.1	3.3
P/ABV (x)	0.8	0.7	0.6	0.5
PROFITABILITY				
NIM (%)	3.3	3.3	3.4	3.4
Cost-Income Ratio	63.7	60.8	58.3	56.8
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	24.7	21.1	20.2	20.6
Deposit Growth (%)	21.6	21.3	20.8	20.8
Equity/Assets (%)	7.4	7.0	6.7	6.4
Equity/Loans (%)	11.1	10.3	9.9	9.4
CAR	16.8	15.8	14.7	14.0
CAR Tier I	14.3	13.5	12.6	12.1
ASSET QUALITY				
Gross NPLs (%)	3.0	2.8	2.7	2.6
Net NPLs (%)	1.1	1.0	1.0	0.9
Coverage Ratio (%)	77.2	77.9	77.9	78.8
Credit Costs	0.5	0.6	0.6	0.6
ROAA TREE				
Net Interest Income	3.0	3.0	3.1	3.1
Non-Interest Income	1.1	1.1	1.0	1.0
Operating Cost	2.6	2.5	2.4	2.3
Provisions	0.3	0.4	0.4	0.4
Tax	0.3	0.3	0.3	0.4
ROAA	0.9	0.9	1.0	1.0
Leverage (x)	13.0	14.0	14.7	15.3
ROAE	11.4	12.5	14.5	15.6

Source: Company, Axis Securities Research

DCB Bank Price Chart and Recommendation History



Date	Reco	TP	Research
25-Jan-24	HOLD	155	Result Update
25-Apr-24	BUY	155	Result Update
25-Jul-24	BUY	150	Result Update
25-Oct-24	BUY	135	Result Update
27-Jan-25	BUY	140	Result Update
28-Apr-25	BUY	160	Result Update
01-Aug-25	BUY	165	Result Update
20-Oct-25	BUY	170	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.