

# Shubh Nivesh



CMP: ₹ 130

Target: ₹ 165 (27%) Target Period: 6-12 months

BUY

Dec 18, 2023

## Play on attractive valuation with steady performance...

**About the stock:** DCB Bank is a new generation private sector bank offering a comprehensive range of financial products and has a niche in mortgage lending.

- Mortgage forms ~44% of total loans while agri book contributes ~23%. Advances stood at ₹37276 crore as of September 2023
- The bank has 439 branches, 414 ATMs across 19 states, three UTs in India catering to large customer base with headcount at ~10,000

### Investment Rationale:

- **Returning focus on LAP to aid growth and margins:** DCB Bank has remained a niche focus on mortgages segment. During Covid, the bank has consciously lowered share of LAP. However, with normalization and improved customer data, management is planning to pedal growth in business LAP which is seen to aid credit growth as well as aid yields. Expect credit growth trajectory to be maintained at 17-18% in FY25-26E.
- **Near term cost pressure to keep margins in broad range:** Competitive intensity on liabilities accretion is expected to continue. Repricing of deposits and higher rates offered on large ticket saving deposits is seen to keep cost of funds elevated, partly offset by focus on LAP. Management has guided margins to remain broadly steady at 3.65-3.75%.
- **Slippages to remain elevated, moderate credit cost to continue:** Post uptick in slippages & restructured book, asset quality is expected to stabilize with GNPA (currently at ~3.2%) to decline below 3% & credit cost to remain benign. End of moratorium is seen to keep slippages from restructured book (at ~3.4%) elevated; revival in economy, intensified collection effort, PCR at ~63% & contingent provision (~12 bps of advances) provides comfort on provision trajectory to remain at 60-80 bps in FY25-26E.
- **Capital infusion by promoter amid MD succession:** Tenure of current MD & CEO – Murali Natarajan ends in April 2024. List of suitable candidates has been submitted to RBI; awaiting regulators response. Recently, promoter of the bank (AKFED) has expressed interest to invest upto ~USD10 million, to strengthen bank's capital position and support future growth. Such announcement in the midst of leadership succession provides comfort on commitment of the promoter.

### Rating and Target Price

- Pedalling healthy growth with selective approach is seen to aid margins. Investment in distribution to keep efficiency steady, moderation in credit cost is expected to aid achieving targeted RoA of ~1% and RoE of ~14%.
- At CMP, the stock is trading ~0.8x FY25E ABV which seems to capture uncertainties and still remains inexpensive. Thus, assigning a multiple of ~1x FY25E ABV, we ascribe target of ₹165 per share and a **BUY** rating

### Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY24-FY25E)
NII	1265	1287	1361	1717	11%	1933	2249	29%
PPP	753	886	801	787	1%	886	1111	18%
PAT	338	336	291	466	11%	511	626	47%
ABV (I)	93	94	104	125		140	161	
P/E	11.9	12.0	13.9	8.7		8.1	6.6	
P/ABV	1.4	1.4	1.2	1.0		0.9	0.8	
RoA	0.9	0.9	0.7	1.0		0.9	1.0	
RoE	11.3	10.0	7.9	11.5		11.1	11.9	

Source: Company, ICICI Direct Research

## DCB BANK

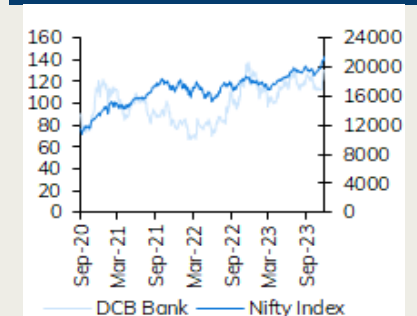
### Particulars

Particular	Amount
Market Capitalisation	₹ 4,052
52 week H/L	136/96.6
Networth	₹4784 crore
Face value	₹ 10
DII Holding (%)	39.0
FII Holding (%)	12.7

### Shareholding pattern

(in %)	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	14.9	14.8	14.8	14.8
FII	12.4	12.3	12.3	12.7
DII	39.4	39.9	39.7	39.0
Others	33.3	33.0	33.2	33.5

### Price Chart



### Recent Event & Key risks

- Credit growth maintained healthy at ~19% YoY
- **Key Risk:** (i) Uncertainty regarding leadership succession; (ii) Higher cost of funds and/or elevated opex

### Research Analyst

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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