AXIS SECURITIES

Pick of the Week

9th November, 2024

DCB Bank Ltd.

BFSI - Banks

BUY

Target Price

132

Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
119	132	11%

MARKET DATA

No. of Shares	31.2 Cr
Market Cap (Rs Cr)	Rs 3,736 Cr
52-week High / Low	163/109
BSE Code	532772
NSE Code	DCBBANK

Why DCB Bank Ltd?

- ✓ Strong growth delivery potential with intent to 2x Balance Sheet over medium-term
- ✓ NIMs bottoming-out
- ✓ Asset quality improving
- ✓ Eyeing RoA of 1% on sustainable basis

About the Company

DCB Bank (DCB) is a retail-focused bank that offers a diversified suite of products, primarily catering to self-employed borrowers (80-90% of the customer base). The bank's portfolio is spread across segments such as Mortgage (mainly LAP), SME/MSME loans, Agri, and Inclusive Banking, Gold loans, CV Loans, and Corporate loans. DCB has a pan-India network of 451 branches with a majority of the branches in metro and urban cities.

Investment Rationale

A. **Levers in place to improve NIMs:** DCB's NIMs contracted sharply owing to (i) One-offs owing to regulatory change which continued into Q2FY25, (ii) Reclassification of penal interest as penal charges, (iii) Conscious growth slowdown in the high-yielding microfinance book (~16% mix) owing to elevated sectoral stress and (iv) Pursuing opportunistic lending in lower-yielding lending. The management does not expect the one-off to repeat in H2FY25. Additionally, DCB is eyeing to improve the average ticket size in its overdraft proposition alongside improving the share of better-yielding LAP loans which should provide support to lending yields. Moreover, CoF/CoD have stabilised in Q2FY25 and are likely to remain stable going into H2FY25. Thus, the management believes that NIMs have bottomed out in the current quarter and should improve over H2FY25. The reclassification of penal interest to penal charges could have some impact; however, we expect DCB's NIMs to range between 3.3-3.4% over FY25-27E.

B. **Aiming for 1% RoA on a sustainable basis:** DCB is ambitiously eyeing to deliver a RoA/RoE slightly north of 1%/14% on a steady state basis. While the management has spelt out the roadmap for margin improvement, a key lever driving RoA improvement is cost-assets. The bank expects the C-A Ratio to improve by 15bps in FY26 with improvement driven by operational efficiency. Another key lever to enable the bank to deliver an RoA of 1% is strong and consistent growth in fee income. The bank has been making considerable progress on core fee income, which is expected to remain buoyant supported by enhanced customer engagement, ramp-up of third-party distribution, healthy growth and improving ticket size. We expect DCB to deliver RoA of 0.9-1% over FY25-27E.

C. **Asset quality to continue to improve:** The management indicated that some pockets in the mortgage book are showing signs of stress owing to the quality of customers sourced. The bank has refined its credit filters, and after a thorough assessment of norms alongside tinkering with LTVs, new customers have been behaving better. The management also alluded that the bank is not seeing any meaningful stress in the SME segment. As no major stress on asset quality is expected, credit costs are likely to be capped at 30-35bps on a normalized basis.

D. **Recommendation:** We recommend a BUY on the stock with a TP of Rs 132/Share, implying an upside of 11% from the CMP.

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY24	1,928	864	536	17.1	147.6	0.8	0.9	1.1
FY25E	2,024	921	566	18.1	161.9	0.7	0.8	1.1
FY26E	2,507	1,230	772	24.7	182.2	0.7	1.0	1.0
FY27E	3,016	1,568	995	31.8	205.7	0.6	1.0	0.9

Source: Axis Securities; CMP as on 8th November 2024

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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