

DCB Bank

BUY

Healthy Performance; Liability repricing lifts NIM

Summary

DCB Bank delivered a strong Q3 FY26 performance, reflecting healthy growth momentum, improving profitability and stable asset quality. Advances grew ~18% YoY, driven by traction in secured retail products, co-lending and construction finance, while deposits rose ~19% YoY, supported by improvement in granularity and a stable retail-to-bulk mix. PAT increased ~22% YoY, despite a one-off regulatory expense related to new labour codes. Asset quality improved sequentially, with GNPA declining to 2.72% and NNPA moderating to 1.10%, aided by controlled slippages, recoveries and higher provisioning coverage. Adjusting for the one-off wage provision, underlying profitability metrics are stronger, reinforcing the bank's return trajectory. We reiterate our BUY rating with a target price of Rs. 220, valued at 0.7x FY28E P/BV, underpinned by strong growth visibility, improving return ratios and a capital-efficient business model.

Key Highlights and Investment Rationale

- **Diversified growth remains intact:** Loan growth of ~18–20% is driven by secured retail, co-lending and construction finance, with deposits growing ~20% YoY. Management remains confident on sustaining growth, supported by branch expansion, deeper Tier 2–6 penetration and higher organic sourcing.
- **Stable earnings with improving asset quality:** NIMs stood at 3.27%, with upside from deposit repricing and lower high-cost borrowings. Asset quality trends are encouraging, with low slippages, PCR at ~75% and management targeting NNPA below 1% over the medium term.
- **Outlook:** The outlook remains constructive, supported by strong balance sheet growth, improving asset quality and a clear focus on consistency. Normalised RoA is ~1%, with management targeting further improvement and ROE of 13.5–14.5% over FY27–28. We remain bullish on DCB Bank, given its scalable franchise and improving growth-return profile.

TP	Rs.220			Key Stock Data	
CMP	Rs.183				
Potential upside/downside	20%				
Previous Rating	BUY				
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	5.2	15.5	60.8		
Rel to Sensex	9.7	18.7	53.8		

Financial snapshot (Rs mn)					
Year	FY2024	FY2025	FY2026E	FY2027E	FY2028E
NII	19,279	21,066	24,770	29,473	35,467
Change (yoY, %)	12%	9%	18%	19%	20%
Net Profit	5,360	6,153	7,553	8,991	10,818
Change (yoY, %)	15%	15%	23%	19%	20%
EPS (Rs)	17.1	19.6	24.0	28.6	34.4
Change (yoY, %)	15%	14%	23%	19%	20%
ABV (Rs)	152.4	167.8	189.5	212.6	246.6
PER (x)	10.7	9.3	7.6	6.4	5.3
P/ABV (x)	1.2	1.1	1.0	0.9	0.7
ROE (%)	11.1	11.4	12.5	13.2	14.0
ROA (%)	0.9	0.9	0.9	0.9	1.0
GNPA (%)	3.3	3.0	3.0	3.0	3.1
NNPA (%)	1.1	1.1	1.0	1.0	0.8
CAR (%)	16.6	16.8	15.9	15.1	14.5

Source: IDBI Capital Research

Sweta Padhi

Sweta.padhi@idbic平台.com
+91-22-4069 1819

Smit Shah

Smit.shah@idbic平台.com
+91-22-4069 1819

Conference Call Highlights

Operational Performance

- Despite lower employee count (10,981 vs 11,339 YoY), the bank delivered strong growth in advances and deposits, reflecting productivity gains.
- Cost control initiatives include higher organic sourcing vs DSA-led business, vendor renegotiation, digitalisation and increased use of AI, which have helped contain operating costs.
- In mortgages and other products, the bank has reduced reliance on DSA sourcing, increased ticket sizes and shifted towards own-originated loans, citing lower acquisition costs and better customer longevity versus DSA-sourced accounts.
- Management highlighted that DSA-sourced customers tend to prepay early, often before recovery of acquisition costs, reinforcing the shift toward organic sourcing.
- The bank plans to increase investments in people and branch expansion, with branch count expected to reach ~500 next year.

Advances

- Advances grew 18.5% YoY, supported by growth across retail and SME segments.
- In SME (higher ticket size), the bank has recently started fresh acquisition after putting teams in place; operations are currently active in four locations, with six additional locations to be added, and management expects a meaningful impact over the next 3-4 quarters.
- Management highlighted strong demand in the SME segment, with increased log-ins across regions, though competition remains intense and conversion remains conservative; customers are receiving multiple offers, resulting in higher churn if disbursements are delayed.
- In the SME self-employed segment, the bank is seeing traction in installment loans, while CC/OD growth remains muted; the SME book has been largely stagnant at ~₹2,200 crore, reflecting execution and capacity constraints rather than lack of demand.

- Mortgage disbursements have seen an increase in average ticket size from ~₹27 lakh to ~₹32 lakh, translating into ~19% growth, broadly in line with overall bank growth.
- For the merchant OD product, management indicated that scale-up has been slower than expected and may take 12-18 months, given the need for relationship building and cross-selling.
- On co-lending, management stated that the co-lending book stood at ~16% of total assets in Q3 (vs 16.22% in Q2) and is targeted to be ~15% or lower by March-end; the portfolio is largely gold loan-led across multiple originators. Growth in co-lending is expected to track overall loan growth from FY26 onwards, after a sharp ramp-up phase (108% growth last year, ~60–65% currently), with the new CLM1 co-lending regulations effective January 1 now factored into operations.

Deposits

- Deposits grew 19.5% YoY, supported by balance-sheet expansion.
- Management acknowledged that current account deposit growth has been weak for an extended period, which remains a concern from a cost-of-funds perspective despite benefits from term deposit repricing.
- Driving current account growth has been identified as a priority, with dedicated senior management bandwidth deployed to improve traction in this segment.
- Fee income growth continues to be closely linked to deposit-led businesses, reinforcing management's focus on strengthening the liability franchise.

Asset Quality

- Management reiterated its intent to bring NNPA to 1% or below at the earliest, supported by improving asset quality trends and stable performance of recent vintages. The bank added ₹73 million of floating provisions during the quarter.
- In the SME segment, management noted that post-pandemic vintages have shown strong performance, with recent quarters being among the best in terms of repayment behaviour.

Margin Management

- Operating expenses included a one-off regulatory impact of ₹26.87 crore related to the new labour code; despite this, cost-to-income stood at 61.84%.
- Excluding the one-off regulatory expense, PAT would have been ₹205 crore, with RoA at 1.01% and RoE at 11.0%.
- Fee income grew 15% YoY, driven largely by third-party distribution fees, processing fees linked to asset growth and other liability-linked fee streams; management indicated that fee income of ~1% of average assets is sustainable on a consistent basis, with current levels at ~1.1%.
- Core fee income is viewed as less linked to loan growth and more linked to deposits and liability-led businesses, including third-party distribution, trade finance, FX/remittances, ATM fees and penalties.
- On margins, management highlighted mixed moving parts, with the full impact of CRR not yet flowing through (positive for Q4), while the full impact of the 25 bps repo cut will be seen from Q4 onwards; deposit costs declined by ~10 bps QoQ, and borrowing costs are expected to reduce sharply.
- Given the long duration of term deposits, benefits from repricing are expected to accrue gradually through Q2-Q3 of next year; management expects NIM expansion to continue into Q1-Q2, barring further repo rate actions.

Future Outlook / Guidance

- Management reiterated its guidance of 18-20% YoY growth and RoE of 13.5% for FY26-FY27 and 14.5% for FY27-FY28, which remains unchanged.
- Core fee income is expected to grow consistently, barring any adverse regulatory changes.
- Margin trajectory is expected to remain supportive into Q1-Q2, with gradual benefits from deposit and borrowing repricing flowing through over the next few quarters.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Interest Income	18,609	16,711	18,228	11.4	2.1
Interest Expenses	12,362	11,282	12,265	9.6	0.8
Net Interest Income	6,247	5,429	5,962	15.1	4.8
NIM (%)	3.27	3.30	3.23	-3 bps	4 bps
Non-Interest Income	2,214	1,841	1,861	20.3	19.0
Operating Income	8,461	7,269	7,823	16.4	8.2
Staff Cost	2,695	2,312	2,432	16.6	10.8
Other Op Exp	2,537	2,246	2,352	12.9	7.9
Total Operating Expenses	5,233	4,558	4,784	14.8	9.4
<i>Cost to Income (%)</i>	61.8	62.7	61.2	-86 bps	69 bps
Operating Profit	3,228	2,711	3,039	19.1	6.2
Provisions	741	672	605	10.3	22.4
PBT	2,487	2,039	2,434	22.0	2.2
Tax	640	525	595	21.9	7.6
<i>-effective tax rate</i>	25.7	25.7	24.4	-1 bps	129 bps
PAT	1,847	1,514	1,839	22.0	0.5
EPS (Rs)	6	4.8	5.8	21.5	0.5
BV (Rs)	201	174.9	189.5	15.2	6.3
Deposits	6,77,540	5,66,780	6,47,765	19.5	4.6
Advances	5,66,000	4,77,800	5,29,745	18.5	6.8

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY24	FY25	FY26E	FY27E	FY28E
NII	3.3	3.0	3.0	3.0	3.1
Fees	0.8	0.8	0.9	0.8	0.8
Other Income	0.1	0.3	0.2	0.2	0.2
Net Revenue	4.2	4.1	4.1	4.0	4.1
Op.Exp	2.7	2.6	2.4	2.5	2.4
Op.Profit	1.5	1.5	1.6	1.6	1.8
Provisions	0.2	0.3	0.4	0.3	0.5
PBT	1.3	1.2	1.2	1.2	1.3
Tax	0.3	0.3	0.3	0.3	0.3
ROA	0.9	0.9	0.9	0.9	1.0
Leverage (x)	12.0	13.0	13.8	14.2	14.6
ROE	11.1	11.4	12.5	13.2	14.0

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)

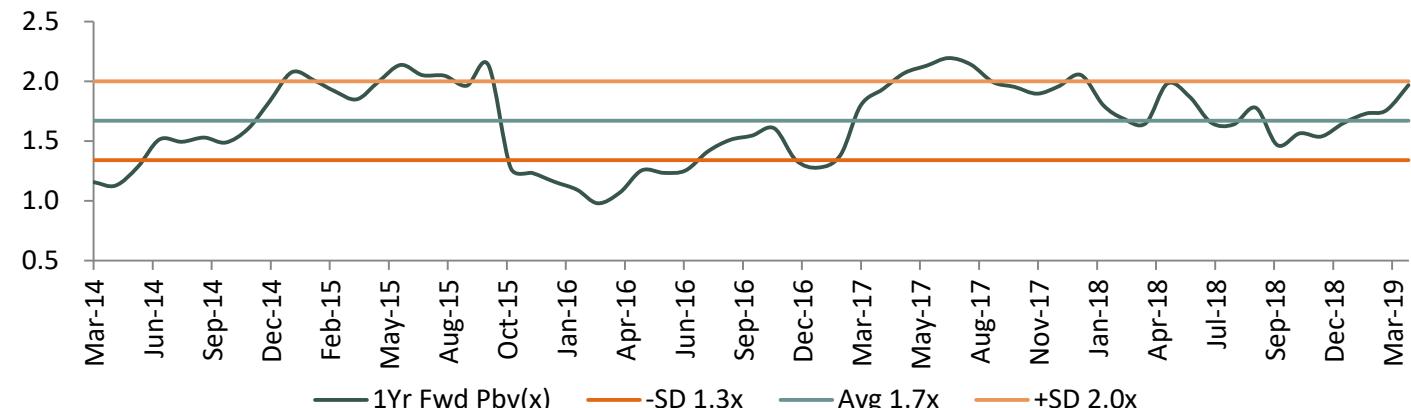


Exhibit 4: One-year forward P/ABV (2021-2026)

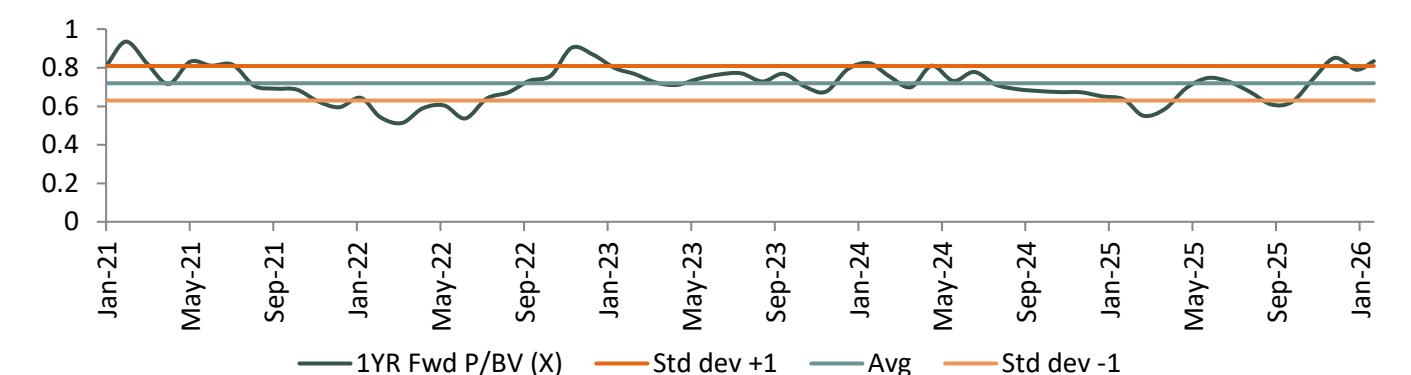
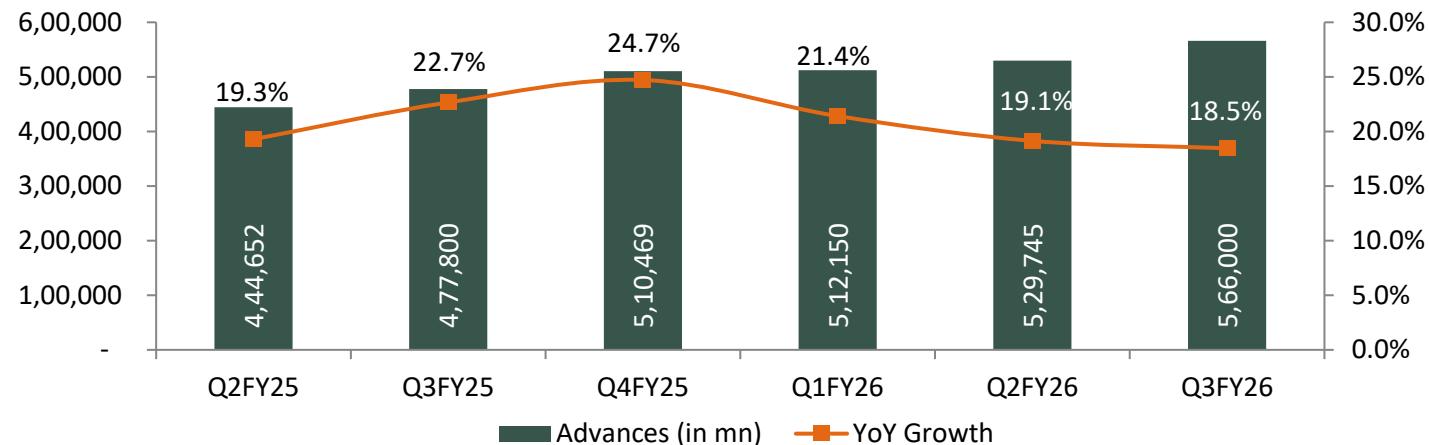
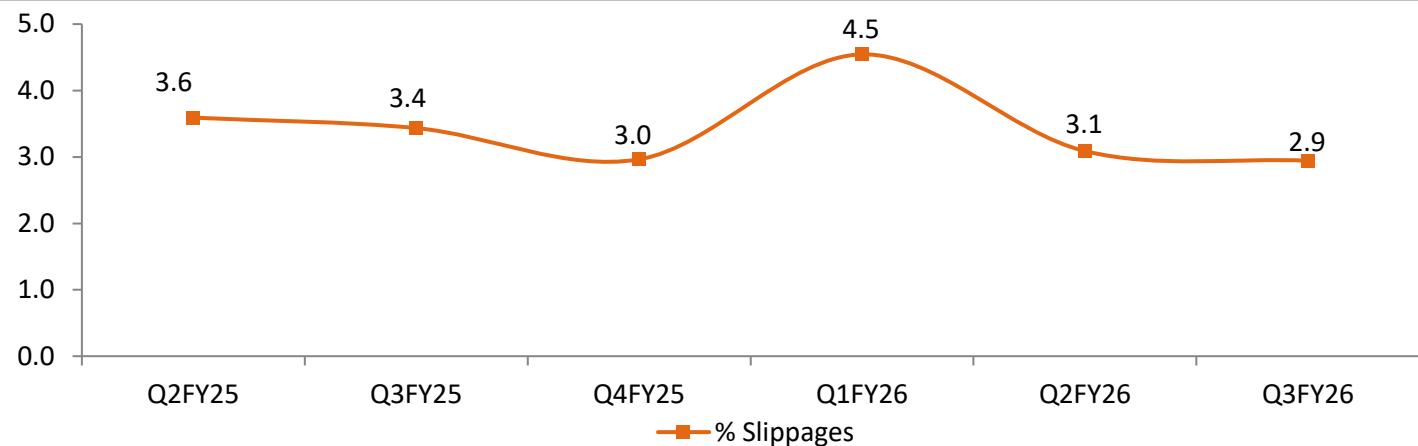


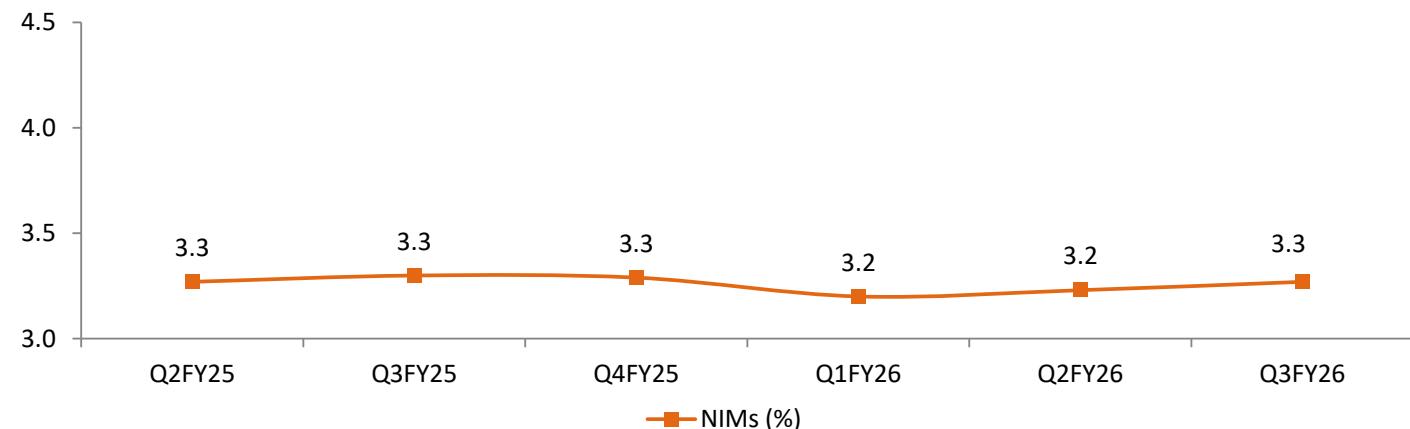
Exhibit 5: Advances growth decrease during the qtr


Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio (annualized) improved QoQ


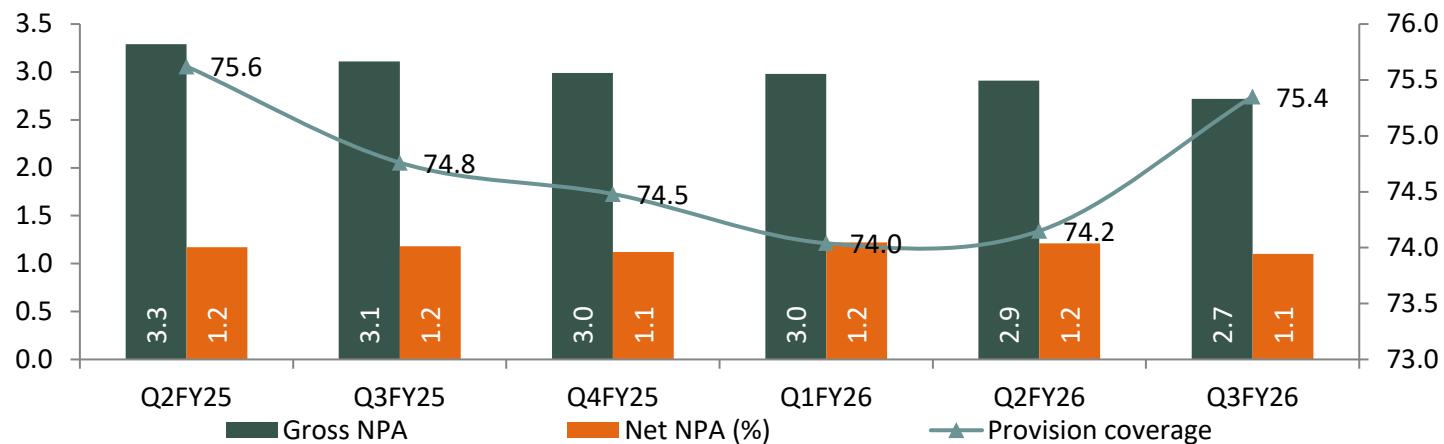
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins increased QoQ



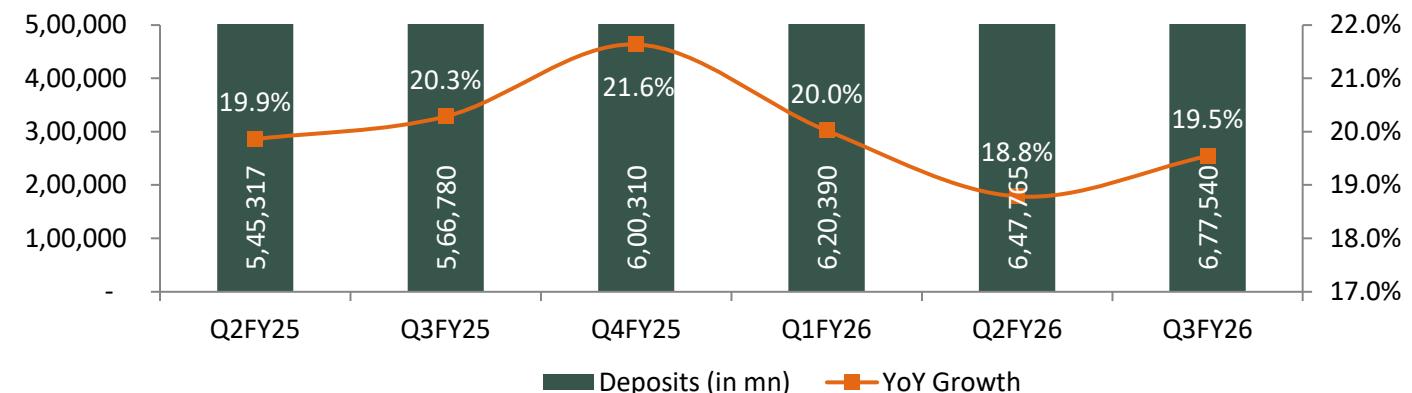
Source: Company; IDBI Capital Research

Exhibit 8: Asset quality improved during the qtr



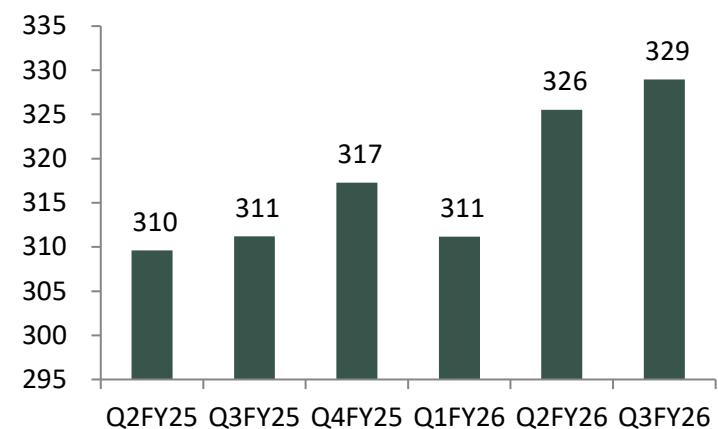
Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth increased on QoQ basis during the quarter



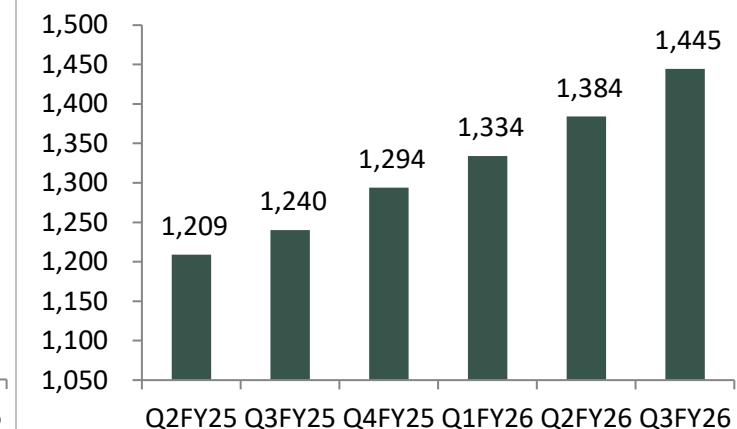
Source: Company; IDBI Capital Research

Exhibit 10: CASA per Branch

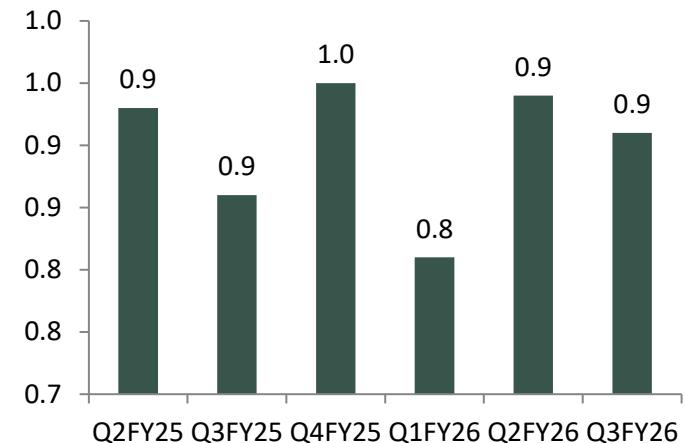


Source: Company; IDBI Capital Research

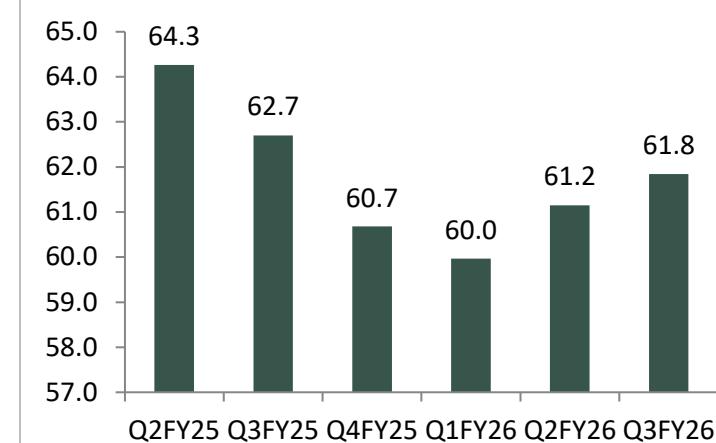
Exhibit 11: Deposit per Branch



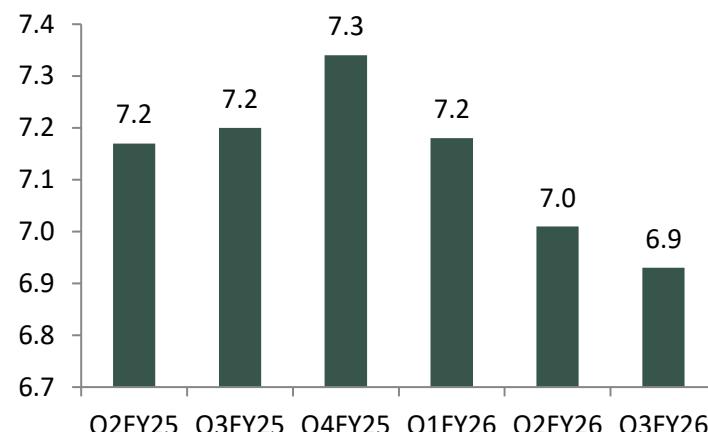
Source: Company; IDBI Capital Research

Exhibit 12: Return on Assets decreased QoQ

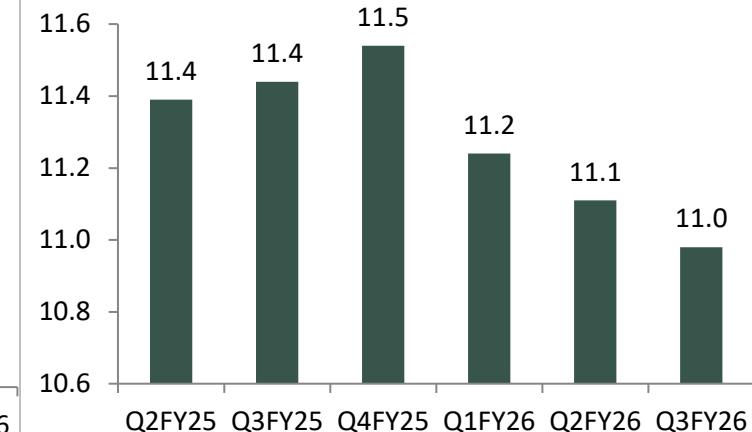
Source: Company; IDBI Capital Research

Exhibit 13: Cost to Income Ratio increased slightly

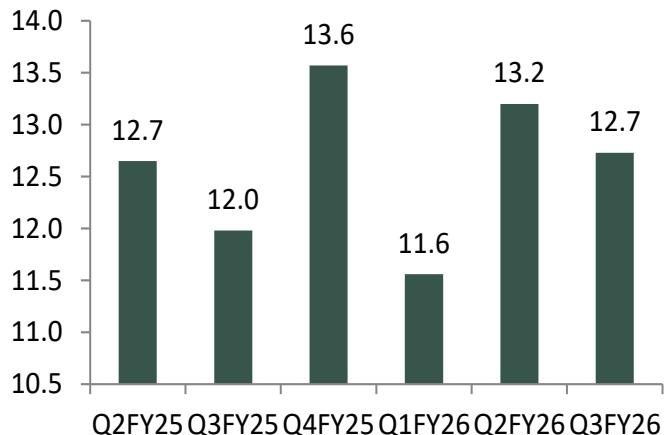
Source: Company; IDBI Capital Research

Exhibit 14: CoF declining sequentially

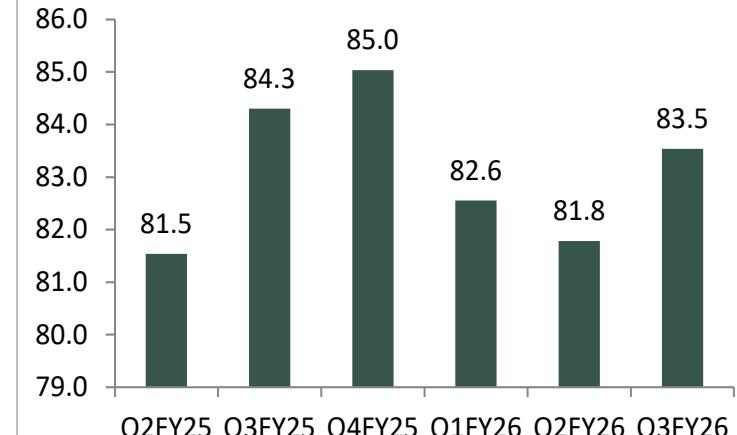
Source: Company; IDBI Capital Research

Exhibit 15: YoA decreasing sequentially

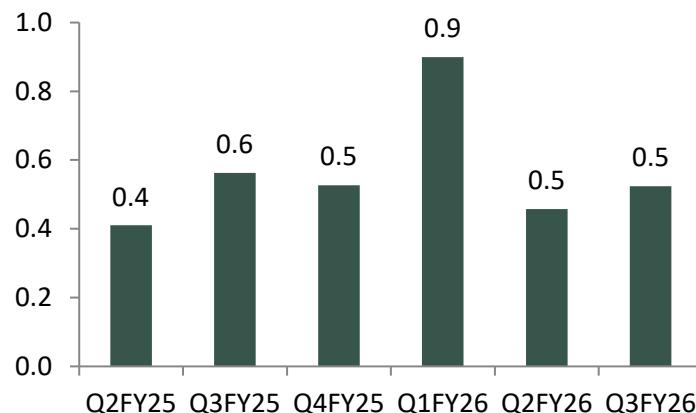
Source: Company; IDBI Capital Research

Exhibit 16: Return on Equity decreased QoQ

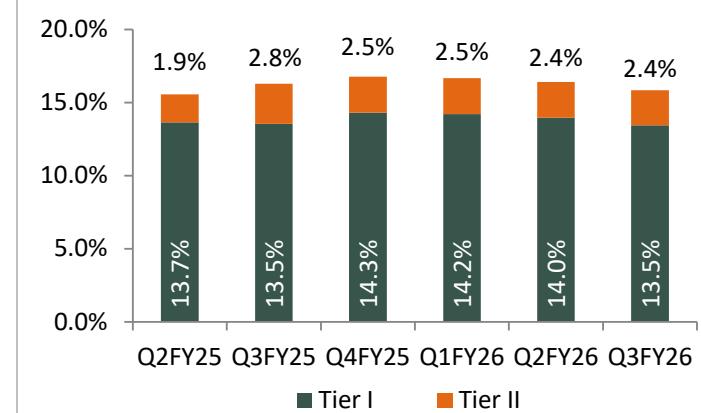
Source: Company; IDBI Capital Research

Exhibit 17: CD ratio increased sharply QoQ

Source: Company; IDBI Capital Research

Exhibit 18: Credit Cost (annualized) remained stable

Source: Company; IDBI Capital Research

Exhibit 19: CAR remained comfortable

Source: Company; IDBI Capital Research

Exhibit 20: Composition of Advances (Product Wise)

Product Wise Advances (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate banking	36,224	30,101	34,433	20.3	5.2
Agri & Inclusive Banking	1,30,180	1,12,761	1,24,490	15.4	4.6
Commercial Vehicle	3,962	4,778	4,768	(17.1)	(16.9)
Gold Loan	22,640	16,245	20,660	39.4	9.6
Co lending	89,428	53,991	85,289	65.6	4.9
Mortgages	2,27,532	2,12,621	2,26,731	7.0	0.4
SME and MSME	21,508	25,323	22,249	(15.1)	(3.3)
Others	34,526	21,979	11,125	57.1	210.4
Total Advances	5,66,000	4,77,800	5,29,745	18.5	6.8

Source: Company; IDBI Capital Research

Exhibit 21: Changes in Product Mix (Advances)

Product Wise Advances Mix (In %)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate banking	6.4	6.3	6.5	10 bps	-10 bps
Agri & Inclusive Banking	23.0	23.6	23.5	-60 bps	-50 bps
Commercial Vehicle	0.7	1.0	0.9	-30 bps	-20 bps
Gold Loan	4.0	3.4	3.9	60 bps	10 bps
Co lending	15.8	11.3	16.1	450 bps	-30 bps
Mortgages	40.2	44.5	42.8	-430 bps	-260 bps
SME and MSME	3.8	5.3	4.2	-150 bps	-40 bps
Others	6.1	4.6	2.1	150 bps	400 bps
Total Advances	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Disbursement

Product Wise Disbursements (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate Banking	10,450	6,620	11,450	57.9	(8.7)
Agri & Inclusive Banking	14,220	11,310	13,750	25.7	3.4
Gold Loan	10,030	5,670	7,450	76.9	34.6
Construction Finance	3,180	3,730	3,130	(14.7)	1.6
Mortgages	14,750	14,830	13,490	(0.5)	9.3
SME and MSME	4,400	5,410	4,400	(18.7)	-
Total Disbursements	57,030	47,570	53,670	19.9	6.3

Source: Company; IDBI Capital Research

Exhibit 23: Changes in Disbursement Mix

Product Wise Disbursement Mix (In %)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate Banking	18.3	13.9	21.3	441 bps	-301 bps
Agri & Inclusive Banking	24.9	23.8	25.6	116 bps	-69 bps
Gold Loan	17.6	11.9	13.9	567 bps	371 bps
Construction Finance	5.6	7.8	5.8	-227 bps	-26 bps
Mortgages	25.9	31.2	25.1	-531 bps	73 bps
SME and MSME	7.7	11.4	8.2	-366 bps	-48 bps
Total Disbursements	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 24: Composition of Gross NPA

Product Wise GNPA (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate Banking	1,440	1,780	1,460	(19.1)	(1.4)
Agri & Inclusive Banking	4,680	3,810	4,610	22.8	1.5
Gold Loan	290	250	270	16.0	7.4
Commercial Vehicle	640	1,500	800	(57.3)	(20.0)
Mortgages	6,430	5,690	6,380	13.0	0.8
SME and MSME	1,580	1,790	1,620	(11.7)	(2.5)
Others	620	350	540	77.1	14.8
Total Gross NPA	15,680	15,170	15,680	3.4	-

Source: Company; IDBI Capital Research
Exhibit 25: Changes in Gross NPA Mix

Product Wise Gross NPA Mix (In %)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Corporate Banking	9.2	11.7	9.3	-255 bps	-13 bps
Agri & Inclusive Banking	29.8	25.1	29.4	473 bps	45 bps
Gold Loan	1.8	1.6	1.7	20 bps	13 bps
Commercial Vehicle	4.1	9.9	5.1	-581 bps	-102 bps
Mortgages	41.0	37.5	40.7	350 bps	32 bps
SME and MSME	10.1	11.8	10.3	-172 bps	-26 bps
Others	4.0	2.3	3.4	165 bps	51 bps
Total Gross NPA	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

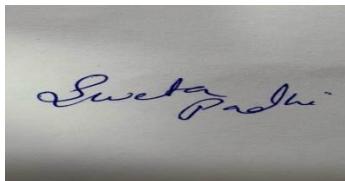
(Rs mn)

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net interest income	17,170	19,279	21,066	24,770	29,473	35,467
<i>Change (yoY, %)</i>	26%	12%	9%	18%	19%	20%
Fees	4,007	4,394	5,550	7,233	7,879	9,297
Other Income	87	348	1,955	1,677	1,630	1,858
Net Revenue	21,264	24,021	28,571	33,681	38,982	46,622
Operating expenses	13,397	15,377	18,201	20,187	23,938	26,655
Employee expenses	6,929	7,943	9,231	10,171	12,120	12,710
Other expenses	6,468	7,434	8,970	10,015	11,818	13,945
Pre-Provision Profit	7,867	8,644	10,370	13,495	15,043	19,967
<i>Change (yoY, %)</i>	-1%	10%	20%	30%	11%	33%
Provision	1,592	1,425	2,084	3,401	3,028	5,510
PBT	6,276	7,220	8,286	10,094	12,015	14,457
Taxes	1,620	1,860	2,133	2,541	3,024	3,639
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
Net profit	4,656	5,360	6,153	7,553	8,991	10,818
<i>Change (yoY, %)</i>	62%	15%	15%	23%	19%	20%
EPS	14.9	17.1	19.6	24.0	28.6	34.4
Return on Equity (%)	10.8	11.1	11.4	12.5	13.2	14.0
Return on Assets (%)	1.0	0.9	0.9	0.9	0.9	1.0

Balance Sheet							(Rs mn)
Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E	
Capital	3,115	3,128	3,143	3,143	3,143	3,143	3,143
Reserves	42,515	47,551	53,764	60,846	69,287	79,476	
Networth	45,630	50,679	56,907	63,989	72,430	82,619	
Deposits	4,12,389	4,93,530	6,00,310	7,10,571	8,40,679	9,94,207	
Current deposits	21,141	24,130	22,670	28,423	33,627	39,768	
Saving deposits	87,815	1,04,295	1,24,540	1,49,220	1,76,543	2,08,783	
Term deposit	3,03,433	3,65,106	4,53,100	5,32,928	6,30,509	7,45,655	
Borrowings	41,181	62,195	91,152	98,478	1,05,615	1,13,984	
Other liabilities	24,458	23,966	19,730	21,794	24,010	26,249	
Total Liab. & Equity	5,23,659	6,30,370	7,68,098	8,94,832	10,42,734	12,17,059	
Cash	23,684	30,659	26,986	44,023	52,046	61,514	
Advances	3,43,807	4,09,246	5,10,469	6,02,354	7,10,777	8,38,717	
Investments	1,25,825	1,62,108	2,01,499	2,17,854	2,47,779	2,83,091	
Fixed Assets	8,263	8,649	8,984	9,433	9,905	10,400	
Other Assets	22,080	19,708	20,160	21,168	22,226	23,337	
Total assets	5,23,659	6,30,370	7,68,098	8,94,832	10,42,734	12,17,059	

Financial Ratios (%)						
Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth						
Deposits	18.9	19.7	21.6	18.4	18.3	18.3
Advances	18.2	19.0	24.7	18.0	18.0	18.0
NII	26.5	12.3	9.3	17.6	19.0	20.3
Pre-Provision Profit	(1.3)	9.9	20.0	30.1	11.5	32.7
Net Profit	61.9	15.1	14.8	22.7	19.0	20.3
Spreads						
Yield on Assets	9.7	10.2	10.1	9.9	9.9	9.9
Cost of Funds	5.9	6.8	7.0	6.9	6.8	6.8
NIM	4.0	3.7	3.3	3.2	3.3	3.4
CASA	26.4	26.0	24.5	25.0	25.0	25.0
Operating Efficiency						
Cost-to-Income	63.0	64.0	63.7	59.9	61.4	57.2
Cost-to-Assets	2.8	2.7	2.6	2.4	2.5	2.4
Asset Quality						
GNPA	3.3	3.3	3.0	3.0	3.0	3.1
NNPA	1.0	1.1	1.1	1.0	1.0	0.8
Provision Coverage	68.2	66.4	63.2	66.9	66.8	74.0
Credit Cost	0.5	0.4	0.5	0.6	0.5	0.7
Capital Adequacy						
CAR	17.6	16.6	16.8	15.9	15.1	14.5
Tier I	15.2	14.5	14.3	13.6	13.1	12.6
Valuation						
EPS	14.9	17.1	19.6	24.0	28.6	34.4
ABV	139.4	152.4	167.8	189.5	212.6	246.6
P/E	12.2	10.7	9.3	7.6	6.4	5.3
P/ABV	1.3	1.2	1.1	1.0	0.9	0.7
ROE	10.8	11.1	11.4	12.5	13.2	14.0
ROA	1.0	0.9	0.9	0.9	0.9	1.0
RORWA	1.8	1.8	1.7	1.8	1.8	1.9

Source: Company; IDBI Capital Research



Dealing

(91-22) 6836 1111

dealing@idbic平tial.com

Key to Ratings Stocks:

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IDBI Capital Markets & Securities Ltd.**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbic平tial.com

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Note:

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2.3. The fee limits do not apply to a non-individual client / accredited investor.

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