

July 21, 2017

## DCB Bank Limited

DCB Bank Limited (DCB) has announced its Q1FY2018 results on July 14, 2017.

During Q1FY2018, the bank has reported a steady growth of 22% in advances on YoY basis, which is in line than the recent trends of 22% growth in advances during FY2017. The QoQ growth remained modest at 2.8% in Q1FY2018 as compared to a QoQ growth of 3.2% in Q1FY2017.

In-line with declining interest rate environment, the yield on advances declined to 11.2% during Q1FY2018 (12.2% in Q1FY2017 and 12.0% during FY2017) with a concurrent decline in the cost of funds to 6.6% during Q1FY2018 (7.0% in Q1FY2017 and 7.3% during FY2017). Accordingly the Net Interest margins (NIMs) (as % of average total assets – ATA) improved to 4.2% during Q1FY2018 (4.0% in Q1FY2017 and 4.1% during FY2017). With improvement in NIMs coupled with steady growth in advances, the Net Interest income (NII) witnessed a growth of 32% during Q1FY2018 (26% in Q1FY2017 and 31% during FY2017).

The asset quality weakened slightly with Gross NPAs (GNPAs) increasing to 1.74% at end Q1FY2018 (1.72% at end of Q1FY2017 and 1.59% at end of Q4FY2017) with slippages increasing in mortgage segment. With increase in slippage, the net NPAs (NNPAs) increased to 0.92% at end of Q1FY2018 (0.87% at end of Q1FY2017 and 0.79% at end of Q4FY2017). DCB also sold 1 account to ARC's for a consideration of Rs. 2.3 crore during Q1FY2018.

Despite an increase in credit cost and operating expenses to (as a % of ATA) 0.6% and 3.1% respectively during Q1FY2018 (0.4% and 3.0% respectively during Q1FY2017 and 0.6% and 2.9% respectively during Q4FY2017), the profit before tax (PBT) was higher on YoY basis because of growth in the NII of the bank. The higher PBT was also partially supported by higher treasury income of Rs. 21.4 crore during the quarter (Rs 10.4 crore during Q1FY2017). With improved PBT, the profit after tax / ATA (PAT/ATA) improved and stood at 1.1% during Q1FY2018 (1.0% in Q1FY2017 and 0.9% during Q4FY2017).

DCB raised Rs. 379 crore of equity capital during Q1FY2018 via qualified institutional placement (QIP) which led to the capital ratios (CET1, Tier 1 and CRAR) of the bank improving to (as % of risk weighted assets) 13.44%, 13.44%, and 15.25% respectively at end of Q1FY2018, which are strong in relation to regulatory levels. The solvency level remained strong with NNPAs/Net worth of 6.2% at end of Q1FY2018 (6.5% at end of Q1FY2017 and 6.4% at end of Q4FY2017), and is better than industry average.

- The results are broadly in line with expectations
- The key operating and financial metrics remain steady as compared to the previous year and the previous quarter
- The results reveal some pressure on asset quality, emanating from the mortgage book of the company. ICRA however takes note of the granular nature of the book and the impact of recent events including demonetization, implementation of Goods and Service Tax (GST), enforcement of Bharat Stage IV emission norms and the implementation of Real Estate (Regulation and Development) Act (RERA) which has led to some disruptions in the market. ICRA notes that these disruptions may be temporary as the economy transitions to comply with the new regulations and ICRA will observe trends post the ongoing transitory period, which may subside by H2FY2018.

ICRA currently has outstanding ratings of [ICRA]A1+ for the short term fixed deposit programme and [ICRA]A+(hyb) (stable) for the basel III tier II bonds programme of the bank.

The previous rating rationale is available on the following link: [Click here](#)

**Key Financial Indicators:**

	<b>FY2016</b>	<b>FY2017</b>	<b>Q1FY2017</b>	<b>Q1FY2018</b>
Net Interest Income	620	797	177	233
Profit before tax	252	270	55	72
Profit after tax	195	200	47	65
Net advances	12,921	15,818	13,337	16,266
Total assets	24,046	19,119	19,600	24,345
% CET 1	12.79%	11.87%	11.92%	13.44%
% Tier 1	12.79%	11.87%	11.92%	13.44%
% CRAR	14.11%	13.76%	13.155	15.25%
% Net Interest Margin / Average total assets	3.94%	4.04%	4.04%	4.23%
% Net Profit / Average total assets	1.14%	0.93%	0.99%	1.06%
% Return on Net Worth	11.59%	10.30%	10.35%	10.73%
% Gross NPAs	1.51%	1.59%	1.72%	1.74%
% Net NPAs	0.75%	0.79%	0.87%	0.92%
% Provision coverage incl technical write offs	77.55%	73.80%	75.25%	71.83%
% Net NPA/ Net worth	5.59%	6.39%	6.47%	6.23%

*Source: Bank's investor presentation and ICRA research; Amount in Rs. crore*

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