DCB Bank Limited

Instrument/Facility	Amount in INR Crores	Rating Action (January 2016)
Basel III Tier II Debt Programme	200.00	[ICRA]A+(hyb) (Stable) Assigned

ICRA has assigned the rating of [ICRA]A+(hyb) (Stable) (pronounced ICRA A plus hybrid with a stable outlook) for the Subordinated Debt Programme of DCB Bank Limited(DCB)†. The letters "hyb" in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à-vis conventional debt instruments. The rated Tier-II bonds are expected to absorb losses once "Point of Non Viability" (PONV) trigger is invoked. ICRA also has a rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding against the Short Term Fixed Deposit Programme of the Bank.

The rating factors in the continued improvement in profitability and asset quality matrices of the bank over the last few years, its stable top management team and the low exposure of its loan book to sensitive sectors. The rating also notes the adequate capitalization of the bank at 13.04% as on December 31, 2015 with Tier I of 12.33% and the high concentration of portfolio towards the mortgage segment, a relatively safer asset class. The bank's ability to protect its profit margins, improve its CASA profile while maintaining sound asset quality indicators will be a key rating sensitivity.

In Q3FY2016, the bank's loan book grew by ~24% YoY and ~5% QoQ to Rs 11,736 Crores supported mainly by the growth in the Mortgages and Agriculture & Inclusive Banking portfolios (AIB). The share of Mortgage portfolio remained at 45% however the share of the AIB segment increased to 17% vis-a-vis 15% as on March 2015. The Corporate Banking segment of the bank contracted to 17% of the overall portfolio as compared to 23% as on March 31, 2015 as the bank increased its focus on lower ticket sized loans. The SME/MSME segment kept pace with the growth of overall book and its share was maintained at 12%. Within the mortgages segment, around 80-85% of the accounts are loans against property. In the corporate segment, the company caters mainly to "AA+" and below rated companies since, the management believes, the yields are healthy for such customers. The total Advances book of the Bank is well diversified across sectors with a relatively low exposure to sensitive sectors such as Infrastructure, Construction and Commercial Real Estate.

The total Deposits of the bank have increased by ~19% YoY and ~4% QoQ to Rs 14,084 Crore in Q3FY2016. In order to fund the high growth of its loan book, the bank has mainly resorted to term deposits causing the CASA% to consistently decline over the years (CASA% declined from 35% in FY2011 to 23% in FY2015). The CASA deposits of the bank de-grew by ~2% QoQ in Q3FY2016 while term deposits base grew by 6% QoQ causing the CASA% to decline from 23.40% as on March 2015 to 22.85%. Going forward, the bank's ability to beef up its resource profile by mobilising adequate amount of low-cost CASA deposits remains a key rating sensitivity.

The asset quality metrics have shown robustness over the past couple of years but there was a marginal deterioration in the 9M ending Dec-15 with the Gross NPA% inching up to 1.98% vis-a-vis 1.76% in FY2015. Incremental slippages, during this period, were witnessed primarily in the Mortgages, SME/MSME and the AIB segments. The provision coverage ratio declined to 72.76% in the 9M ending Dec-15 from 74.66% in FY2015 as a result of which the Net NPA% increased to 1.12% from 1.01% in FY2015.

Owing to the re-pricing of deposits due to the rate cuts initiated by the RBI, DCB's NIMs improved marginally to 3.96% in the 9M ending Dec-15 from 3.72% in FY2015 even as yields on advances declined during this period (from 12.63% in FY2015 to 12.34% in the 9M ending Dec-15). Subsequently, NII increased by ~7% QoQ and ~32% YoY to Rs. 451 crore in the 9M ending Dec-15. However, the bank's cost-income ratio continues to remain at elevated levels (of 58.7%) as on December 31, 2016 and is expected to inch up even further given the bank's plans to significantly

† For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications.

increase its branch count over the next two years. In addition to elevated cost structures, DCB's profitability was also impacted by higher credit costs (Provisions/ATA rose to 0.46% in 9M ending Dec-15 from 0.23% in FY2015) and a higher tax rate causing the PAT to decline to Rs 124.9 Crores in 9M ending Dec-15 (Annualized RoA of 0.99%) vis-a-vis Rs. 191 Crores (RoA of 1.3%) in FY2015. With the bank needing to pay full tax FY2016 onwards (as compared with MAT in the recent past due to accumulated losses), ICRA expects pressure on net profitability to continue over the medium term.
The bank reported a comfortable CRAR of 13.04% (Tier I at 12.33%) as per Base III on December 31, 2015 compared to a CRAR of 13.63% (Tier I = 12.93%) as per Basel III as on September 30, 2015. In the near to medium term, the bank's capitalization levels remain adequate to fund its branch expansion plan. The management has indicated that the bank would maintain a CRAR of ~13%, going forward.

About the Bank

Incorporated in the year 1995, DCB Bank was formed by the merger of Ismaila Co-operative Bank Limited and the Masalawala Co-operative Bank. Aga Khan Fund for Economic Development (AKFED) and group companies is the largest shareholder in the bank as on December 31, 2015 with a stake of 16.27% while Foreign Institutional investors and Foreign Portfolio Investors held 16.53% stake in the bank. As on Dec-15, the bank operated out of 176 branches and 397 ATMs. The Bank reported a PAT of Rs 191.18 Crore in FY2015 over a Total income of Rs 1588.14 Crore compared to a PAT Rs 151.36 Crore over a Total Income of Rs 1266.91 Crore in FY2014. The Total Assets of the bank stood at Rs 16,132 Crore as on March'15 with a Networth of Rs 1,537 Crore.

Recent Results

During Q3FY2016, DCB reported a PAT of Rs. 41.2 Crore with a Net Interest Income of Rs. 160.5 Crores vis-a-vis a PAT of Rs. 36.9 Crores with a Net Interest Income of Rs. 150.0 Crores during Q2FY2016. The bank maintained its asset quality with Gross NPA% of 1.98% and a CRAR of 13.04% as on Dec-15 as compared to Gross NPA% of 1.99% and a CRAR of 13.63% as on Sep-15.

January 2016

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