



DCB Bank Limited

Instrument/Facility	Amount in INR Crores	Rating Action (October 2015)
Short Term Fixed Deposits Programme	-	[ICRA]A1+ (Reaffirmed)

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Short Term Fixed Deposits Programme of DCB Bank Limited(DCB)[†]. 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 13.63% as on September 2015 with Tier I of 12.93%. ICRA takes note of the bank's recent announcement of opening 150 branches in the next 24 months which is expected to suppress the bank's profitability metrics over the medium term. 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.

Incorporated in the year 1995, DCB Bank was formed by the merger of Ismailia Co-operative Bank Limited and the Masalawala Co-operative Bank. Aga Khan Fund for Economic Development (AKFED) and group is the largest shareholder in the bank with a stake of 16.30% of as on September 30, 2015. The bank is mainly into the mortgages and agri-banking segment catering mainly to self-employed borrowers.

In Q2FY2016, the bank's loan book grew by ~27% YoY and ~7% QoQ to Rs 11,181 Crores supported mainly by the growth in the Mortgages and Agriculture & Inclusive Banking portfolios (AIB). Consequently, the share of the Mortgages segment in its loan portfolio, as on September 2015, rose to 45% from 38% as on March 2014; for AIB segment the share grew to 15% from 14% during this period. The other key segments include Corporate (20%) and SME/MSME (12%) segments. 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. Going forward, the management expects the loan mix to broadly remain stable at its current levels.

The total Deposits of the bank have increased by ~24% YoY and ~2% QoQ to Rs 13,557 Crore in Q2FY2016 at a CAGR of ~20% over FY2010 levels. In order to fund the high growth of its loan book, the bank has mainly resorted to bulkier and costlier deposits causing the CASA% to consistently decline over the years (CASA% declined from 35% in FY2011 to 23% in FY2015). The growth in the bank's CASA base at ~7% QoQ in Q2FY2016 coupled with a marginal decline in retail term deposits base caused the CASA% to improve marginally to 24% in H1FY2016. 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 H1FY2016 with the Gross NPA% inching up to 1.99% in H1FY2016 vis-a-vis 1.76% in FY2015. Incremental slippages, during this period, were witnessed primarily in the Mortgages and the SME/MSME segments. The provision coverage ratio declined to 72.15% in H1FY2016 from 74.66% in FY2015 as a result of which the Net NPA% increased to 1.16% in H1FY2016 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 3.79% for H1FY2016 from 3.72% in FY2015 even as yields on earning assets declined during this period (from 12.63% in FY2015 to 12.50% in H1FY2016). Subsequently, NII increased by

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



~7% QoQ and ~14% YoY to Rs. 290 crore in H1FY2016. However, the bank's cost-income ratio continues to remain at elevated levels (of 60.7%) as on September 30, 2016) and is expected to inch up even further given the bank's plans to double its branch network over the next 24 months. In addition to elevated cost structures, DCB's profitability was also impacted by higher credit costs (Provisions/ATA rose to 0.48% in H1FY2016 from 0.23% in FY2015) and a higher tax rate causing the PAT to decline to Rs 83.8 Crores in H1FY2016 (Annualized RoA of 0.9%) vis-a-vis Rs. 191.2 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 13.63% (Tier I at 12.93%) as per Base III on September 30, 2015 compared to a CRAR of 14.27% (Tier I = 13.56%) as per Basel III as on June 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 with a stake of 16.33%, followed by Foreign Institutional investors at 13.71%. As on Jun-15, the bank operated out of 157 branches and 343 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 FY2015. The Total Assets of the bank stood at Rs 16,081 Crore as on March'15 with a Networth of Rs 1,537 Crore.

Recent Results

During Q2FY2016, DCB reported a PAT of Rs. 36.9 Crore with a Net Interest Income of Rs. 150.0 Crores vis-a-vis a PAT of Rs. 46.8 Crores with a Net Interest Income of Rs. 140.4 Crores during Q1FY2016. The bank maintained its asset quality with Gross NPA% of 1.99% and a CRAR of 13.63% as on Sep-15 as compared to Gross NPA% of 1.96% and a CRAR of 14.27% as on Jun-15.

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