

DCB Bank

Strong quarter; margin pressure to keep earnings muted

DCB Bank's (DCBB) earnings beat our estimates on the back of robust growth on both sides of the balance sheet, stable margins, and strong traction in fee income. Deposit growth (+22% YoY) was robust even as CASA ratio softened further to 24.5% (-57bps QoQ). Loan growth clocked in at ~25% YoY, driven by mortgages, gold loans, and co-lending. DCBB continues to invest in franchise-building activities such as technology and distribution to double its balance sheet over the next 3-4 years. We believe that the bank's journey to 1% RoA is contingent on its ability to improve its operating leverage, and simultaneously achieve granularity of deposits and stability in margins. Going forward, we anticipate pressure on margins in a rate cut cycle with higher proportion of floating rate book coupled with upward normalisation of credit cost. We maintain ADD with a revised TP of INR155 (0.8x Mar-27 ABVPS).

- **Healthy loan growth with stable margins:** DCBB reported loan growth at ~25% YoY, largely driven by mortgages, gold loans, and co-lending, while the MFI book continued to de-grow. NIMs were largely flat at 3.3% as the rise in cost of funds was offset by improvement in yields. While the management has guided for reflation in yields, going ahead, with a more favourable loan mix, we expect a 15bps NIM compression in FY26, with loans likely to re-price ahead of deposits.
- **Asset quality improving gradually:** Gross slippages reduced to 3% (Q3FY25: 3.4%), with improvement across portfolios barring microfinance (3% of loan mix). We believe credit costs are likely to inch up by 10-20bps over FY26-FY27 (FY25: 31bps), given the shift in loan mix towards higher-yielding segments such as LAP, business loans, and SME loans.
- **Operating leverage and margin reflation key to 1% RoA:** Although the cost-to-income ratio (64%) and opex-to-assets ratio (2.6%) improved, they remain elevated as DCBB continues to invest in distribution and collections. We expect operating leverage to start kicking in during FY27E. The journey to sustainable 1% RoA (FY25: 0.9%) is largely contingent on operating leverage, shift in loan mix while navigating the immediate pressures of downward rate cycle, and improvement in deposit granularity.

Financial summary

(INR bn)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY26E	FY27E
NII	5.6	5.1	9.9%	5.4	2.8%	21.1	23.9	28.7
PPOP	3.1	2.3	30.7%	2.7	12.6%	10.4	12.1	16.0
PAT	1.8	1.6	13.7%	1.5	16.9%	6.2	6.8	9.0
EPS (INR)	5.6	4.9	13.6%	4.8	16.9%	19.6	21.7	28.7
ROAE (%)						11.4	11.4	13.3
ROAA (%)						0.9	0.8	0.9
ABVPS (INR)						162.9	180.8	202.6
P/ABV (x)						0.8	0.7	0.6
P/E (x)						6.5	5.8	4.4

Change in estimates

(INR bn)	FY26E			FY27E		
	New	Old	Δ	New	Old	Δ
Net advances	607	559	8.6%	714	656	8.9%
NIM (%)	3.1	3.3	-19 bps	3.2	3.4	-15 bps
NII	23.9	23.6	1.2%	28.7	27.6	3.7%
PPOP	12.1	11.9	2.1%	16.0	15.4	3.8%
PAT	6.8	6.7	2.1%	9.0	8.5	5.5%
Adj. BVPS (INR)	180.8	177.7	1.8%	202.6	199.4	1.6%

Source: Company, HSIE Research

ADD

CMP (as on 25 Apr 2025)	INR 127
Target Price	INR155
NIFTY	24,039

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR140	INR155
	FY26E	FY27E
EPS %	2.1%	5.5%

KEY STOCK DATA

Bloomberg code	DCBB IN
No. of Shares (mn)	314
MCap (INR bn) / (\$ mn)	40/467
6m avg traded value (INR mn)	160
52 Week high / low	INR 146/101

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.9	9.2	(6.6)
Relative (%)	7.9	9.4	(13.2)

SHAREHOLDING PATTERN (%)

	Dec-24	Mar-25
Promoters	14.7	14.7
FIs & Local MFs	27.9	29.2
FPIs	10.9	9.6
Public & Others	46.5	46.5
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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