DCB Bank Limited
April 01, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities	300	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**300 (Rs. Three Hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The rating continues to take into account DCB Bank's comfortable asset quality, stable growth in advances, comfortable capitalization levels, and the expectation of continued support from its promoter, the Aga Khan Fund for Economic Development (AKFED). The ratings also factor in the bank's experienced and stable top management team, moderate profitability and its diversified loan portfolio. The rating, however, remains constrained by the bank's elevated cost to income ratio, its modest size of operations in view of its branch expansion, moderate Current Account Savings Account (CASA) base and moderate liquidity profile.
Asset quality, profitability, liquidity and capitalisation are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths
Experienced and stable management team
DCB Bank has an experienced management team with seasoned professionals occupying key managerial positions. The Board of Directors of the bank is headed by Mr. Nasser Munjee who has been the Non-Executive Chairman of the bank since 2005. Prior to joining DCB Bank, Mr. Munjee was the Managing Director & CEO of IDFC. He began his career with HDFC Ltd. in February 1978. In March 1993, he joined the board of HDFC Ltd. as Executive Director.
Mr. Murali M. Natrajan is the Managing Director & Chief Executive Officer (MD & CEO) of the bank since April, 2009. Mr. Natrajan is a Fellow Member of the Institute of the Chartered Accountants of India and has been associated with Standard Chartered Bank, Citi Bank, and American Express in his 26-years of work experience.

Comfortable capitalization levels
The bank's capitalization levels remained comfortable supported by regular capital infusion to fund growth. The bank raised equity capital of Rs.378.80 crore through a Qualified Institutional Placement (QIP) in FY18 (refers to period from April 01 to March 31) which helped the bank improve its core equity and the bank reported Tier I Capital Adequacy Ratio (CAR) (entirely Common Equity Tier I (CET-I) capital) of 13.76% as on March 31, 2018 [P.Y.: 11.87%]. DCB Bank also raised Rs.450 crore by way of Tier II Bonds which further helped the bank's capitalization as the bank reported Total CAR of 16.47% [P.Y.: 13.76%] as on March 31, 2018. As on December 31, 2018, the bank reported CAR of 15.45% with Tier I CAR (entirely CET I) of 11.93%.

Stable growth in advances with a diversified loan book, largely SME driven
The bank's advances grew at a robust Compounded Annual Growth Rate (CAGR) of 25% between FY11 to FY18. In 9MFY19, the loan book further grew by 13% over March 2018 levels. As of December 31, 2018, the bank's advances book was fairly diversified and granular, with mortgage loans accounting for 40% (largely LAP) Agri & Inclusive Banking lending at 19%, Corporate lending at 15%, SME and MSME 12% and others accounting for balance 14%. The bank's tangible asset base grew at a CAGR of 22% over between FY12 and FY18.

Comfortable asset quality
The asset quality parameters of the bank have been comfortable in spite of a rise in slippages during FY18. The slippages during FY18 were Rs.348.91 crore as against Rs.261 crore during FY17, resulting in the bank reporting Gross NPA ratio of 1.79% [P.Y.: 1.59%] as on March 31, 2018. However, on account of aggressive provisioning, the bank reported Net NPA ratio of 0.72% at the end of FY18 as against 0.79% as on March 31, 2017. The bank witnessed the most stress in loans to agriculture and allied services (2.90% GNPA to total advances in the sector), and gold loans (3.05% GNPA). Net NPA to tangible net worth ratio stood at 5.92% [P.Y.: 6.56%] as on March 31, 2018. The bank saw incremental slippages during 9MFY19, predominantly in the Agri & Inclusive Banking (AIB) segment, SME & MSME loans, and CV loans. Incremental NPAs in the AIB segment was partly on account of a fraud reported in the segment of Rs.12.44 crore. The unamortised balance in the account was Rs.2.87 crore as on December 31, 2018 which the bank would amortise over the following

period. Reported Gross NPA ratio deteriorated further and stood at 1.92%, while the Net NPA ratio remained constant at 0.71% as on December 31, 2018; while Net NPA to net worth stood at 6.03%.

Moderate profitability

During FY18, the bank's total income grew 17% over FY17 levels supported by a rise in interest income led by advances growth of 29%. The bank's NIM declined marginally to 3.71% [P.Y.: 3.73%], despite a 24% growth in the bank's net interest income. However, as the bank's cost to income ratio remained stable at 60%, the bank reported growth in net profit of 23%. The bank reported PAT of Rs.245 crore on a total income of Rs.2,723 crore for FY18. The bank's return on total tangible assets declined marginally to 0.91% in FY18 as against 0.93% in FY17. The bank's operating cost continues to remain high in comparison to its peers, as the bank has been rapidly expanding its branch network over the years. With moderation in the bank's expansion phase, operating costs are expected to stabilize. In 9MFY19, the bank earned a net profit of Rs.229 crore, registering a y-o-y growth of 27%, on a total income of Rs.2,465 crore.

Key Rating Weaknesses

Moderate size of operations

With an advances portfolio of Rs.20,337 crore and deposit base of Rs.24,007 crore as on December 31, 2018, the bank's scale of operations are relatively smaller in comparison to its peers. The bank had a network of 331 branches across 19 states and 3 Union Territories and 505 ATMs as on December 31, 2018. The bank predominantly operates in Maharashtra, Odisha, Madhya Pradesh, Gujarat, and Delhi where a host of other larger banks offer similar products and services.

Moderate CASA proportion

The bank's CASA proportion is at 24% as on December 31, 2018. The deposit base is also fairly distributed with CASA and retail term deposits together accounting for 74% of total deposits. Deposits of the bank are fairly granulated with the top 20 depositors contributing around 13% of total deposits as on December 31, 2018. Going forward, raising longer term deposits at competitive rates would help the bank in reducing the mismatches in the ALM profile of the bank.

Moderate liquidity profile

The bank's liquidity profile as on December 31, 2018 remained moderate with negative mismatches in certain time buckets up to 1 year. However, the bank typically maintains excess of SLR, has committed lines of credit and an average deposit rollover rate of 75%, which provide additional comfort to the liquidity profile. Further, the bank has access to borrowings by way of LAF and MSF from RBI and refinance from financial institutions.

The bank reported Liquidity Coverage Ratio of 80.31% as on December 31, 2018. In the past quarters, the Bank has been classifying certain deposits in a particular manner for the purpose of computing LCR. This was based on specific terms and conditions contained in the deposit receipts. During Q3FY19 (refers to the period October 01 to December 31), the Bank has re-classified the deposits referred above to a higher outflow category for the purpose of computing daily average LCR. Therefore, the LCR for the Quarter is lower compared to previous quarters. The Bank expects to improve this ratio in the coming months.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's policy on default recognition](#)
[CARE's methodology for Banks](#)
[Financial Ratios- Financial Sector](#)
[CARE's Policy on Short term Instruments](#)

Liquidity Profile

As per the bank's ALM profile as on December 31, 2018, the bank faced negative mismatches in certain time buckets up to 1 year. The mismatch was primarily owing to a mismatch in the maturity period of the bank's deposits and advances. However, the bank's average deposit rollover rate was around 75%. The bank typically maintains over 3% in excess of SLR. The bank also has committed lines which provide additional comfort to the liquidity profile. As on January 31, 2019, the bank had fund based limits of Rs.200 crore and non-fund based limits of Rs.200 crore from multiple banks to meet any liquidity requirements. Further the bank has access to LAF and MSF facility in case of any liquidity requirements.

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About the Company

DCB Bank was founded in 1930s as The Ismailia Co-operative Bank Limited and the Masalawala Co-operative Bank. In 1981, Ismailia Co-operative Bank Limited was amalgamated with Masalawalla Co-operative Bank Limited to form the Development Co-operative Bank Limited. Citi Cooperative Bank Limited later merged with Development Co-operative Bank Limited, which thereafter was converted into a joint stock banking company, the Development Credit Bank Limited on May 31, 1995.
Its promoter and promoter group the Aga Khan Fund for Economic Development (AKFED) & Platinum Jubilee Investments Ltd. hold approximately 14.93% stake in DCB Bank as on December 31, 2018. AKFED is an international development enterprise. It is dedicated to promoting entrepreneurship and building economically sound companies. DCB Bank is a private sector bank with 331 branches across 19 states and 3 union territories as on December 31, 2018. It is a scheduled commercial bank regulated by the Reserve Bank of India. DCB Bank's loan products cater to the retail segment, micro-SME, SME, mid-Corporate, Agriculture, Commodities, Government, Public Sector, Indian Banks, Co-operative Banks and Non-Banking Finance Companies (NBFC). DCB has approximately 600,000 customers.
At the end of FY18, total tangible assets of DCB Bank stood at Rs. 29,894 crore as against Rs.23,739 crore as on March 31, 2017, registering a growth of around 26%. In FY18, deposits of the bank grew by 24% and stood at Rs.24,007 crore.
The bank is headed by Mr. Nasser Munjee, Chairman, and Mr. Murali M. Natrajan, the MD & CEO of the bank.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	2,326	2,723
PAT	200	245
Total Tangible Assets	23,739	29,894
Net NPA (%)	0.79	0.72
ROTA (%)	0.93	0.91

A: Audited
Note: All Analytical ratios are as per CARE's calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-Short Term	-	-	-	300.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-Short Term	ST	300.00	CARE A1+	-	1)CARE A1+ (27-Mar-18)	1)CARE A1+ (31-Mar-17)	-

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CIN - L67190MH1993PLC071691