DCB Bank Limited

February 01, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Short-term Bank Facilities	-	-	Reaffirmed at CARE A1+ and withdrawn
Total Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed the rating assigned to the bank facilities of DCB Bank to CARE A1+ and has simultaneously withdrawn it, with immediate effect.

The ratings factor in the bank's long track record of operations, comfortable capitalization levels and the expectation of continued support from its promoter, the Aga Khan Fund for Economic Development (AKFED), stable growth in advances with focus on SME lending, stable top management team, moderate asset quality and diversified loan portfolio.

The rating is constrained by the bank's elevated cost to income ratio and average profitability parameters, modest size of operations relative to its private sector peers, moderate Current Account Savings Account (CASA) base and moderate liquidity profile.

The rating withdrawal is at the request of DCB Bank and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

COVID-19 Impact:

In line with the RBI's regulatory package, the bank had provided moratorium to its eligible borrowers on payments of installments/interest falling due between March 01, 2020 and May 31, 2020 and were classified as standard even if overdue on February 29, 2020. Further, in line with the RBI guidelines announced on May 23, 2020, the bank granted the second three month moratorium on loan payments due between June 01, 2020 and August 31, 2020.

As on September 30, 2020, the bank held COVID-19 provisioning of Rs.143 crore and it did further provisioning of around Rs.86 crore during the quarter ended December 31, 2020 taking the total provision held to Rs.229 crore. Without considering the Hon. SC's order of not classifying accounts as NPA post August 31, 2020, the bank's GNPA ratio and Net NPA ratio would have been 3.70% and 1.92% respectively. The bank has made provision on these accounts which is in Rs.229 crore of provision held as on December 31, 2020.

The collection efficiency has improved and bank reported 89.8%, 94.1% and 80.4% collection efficiency in their business loans (LAP) book, home loan book and CV loan book respectively as on December 31, 2020.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capitalization levels

The bank has been maintaining comfortable capital adequacy levels over the years by raising timely equity capital and accretion of profit. The bank reported Capital Adequacy Ratio (CAR) of 17.75% and Tier I CAR (entirely Common Equity Tier I (CET I): 13.90% for year ended March 31, 2020 and CAR (excluding profit for the nine months) of 18.32% with Tier I CAR (entirely CET I) of 14.26% as on December 31, 2020. The bank has seen incremental lending to relatively lesser riskier asset classes like mortgage loans and gold loans resulting in better utilisation of capital resulting in improvement in capitalisation ratios.

Long track record and experienced and stable management team

DCB Bank was founded in 1930s as a co-operative bank and incorporated in 1995. In the last seven years the bank's asset base has grown from Rs.7,357 crore as on March 31, 2011 to Rs.38,174 crore as on March 31, 2020. The bank's advances profile is largely focused on SME and MSME lending and has grown at a CAGR of 18.34% over the last 5 years. The bank also has a grown its deposit franchise which has grown at a similar CAGR of 19.43 over the last 5 years.

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 36-years of work experience.

Stable growth in advances with a diversified loan book, largely SME driven
The bank's advances grew at a Compounded Annual Growth Rate (CAGR) of 22% between FY11 (refers to period from April 01 to March 31) to FY20. As of December 31, 2020, the bank's advances book stood at Rs.25,300 crore and was fairly diversified and granular, with mortgage loans accounting for 42% (largely Loan Against Property), Agriculture & Inclusive Banking lending at 21%, Corporate lending at 11%, SME and MSME 11% and others accounting for balance 15%. The top 20 exposure of the bank were at 4.94% of the total exposure as on December 31, 2020. The advances at ticket size of Rs.3 crore and below, constituted around 85% of the total advances as on December 31, 2020.

Moderate asset quality parameters
The asset quality parameters of the bank have remained moderate with rise in slippages during FY20 and 9MFY21 (refers to period from April 01 to December 31). The bank reported Gross NPA Ratio of 2.46% (P.Y.: 1.84%) as on March 31, 2020 with Net NPA Ratio of 1.16% (P.Y.: 0.65) on account of high provisioning. Its Net NPA to Net worth ratio stood at 9.49% (P.Y.: 4.97). The bank witnessed the stress in loans to mortgages loan, agriculture and allied services and CV loans.
During 9MFY21, the bank reported a Gross NPA ratio of 1.96% while the Net NPA ratio remained at 0.59% and Net NPA to net worth stood at 4.15% on back of recoveries and limited fresh slippages.

Adequate profitability
During FY20, the bank's total income grew 16% over FY19 levels supported by a rise in interest income led by advances growth of 8%. The bank's Net Interest Margin (NIM) declined to 3.44% [P.Y.: 3.52%], despite a 10% growth in the bank's net interest income as the average total assets grew by 13%. The bank's non-interest income grew by 12% to Rs.391 crore supported by 69% increase in profit of sale of investments to Rs.65 crore.
The bank's total income increased by 16% to Rs.3,928 crore for FY20 as compared to Rs3,392 crore for FY19.
The bank's cost to income ratio reduced to 55% from 57% in FY19 with its Pre Provisioning Operating Profit increasing by 16.46% during FY20.
However, significant increase in provisioning for NPA and Covid-19 related provisioning, the bank reported growth of around 4% in the net profit to Rs.338 crore as compared to Rs.325 crore for FY19..
The bank's return on total assets (ROTA) declined marginally to 0.92% in FY20 as against 1.00% in FY19.
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 and reduction in head-count to 6,168 employees from 6,845 in March 2020, operating costs declined 13% y-o-y.
In 9MFY21, the bank reported net profit of Rs.258 crore, registering a y-o-y decline of 4%, on a total income of Rs.2,946 crore as compared to Profit After Tax (PAT) of Rs.269 crore on total income of Rs.2,916 crore.

Key Rating Weaknesses

Moderate size of operations
With an advances portfolio of Rs.25,300 crore and deposit base of Rs.28,858 crore as on December 31, 2020, the bank's scale of operations are relatively smaller in comparison to its peers. The bank had a network of 347 branches across 18 states and 2 Union Territories and 471 ATMs as on December 31, 2020. 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 23% as on December 31, 2020. The deposit base is also fairly distributed with CASA and retail term deposits together accounting for 82% of total deposits. Deposits of the bank are fairly granulated with the top 20 depositors contributing around 7% of total deposits as on December 31, 2020. Also, the bank has been intentionally reducing bulk and interbank deposits and steadily growing retail term deposits.

Liquidity
As per the bank's ALM profile as on September 30, 2020, 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. The bank typically maintains over 3% in excess of SLR. The bank has reported Liquidity Coverage Ratio of 142.27% as on December 31, 2020. The bank has access to LAF and MSF facility in case of any liquidity requirements. Further, the bank has also been accessing refinance facilities of financial institutes like NHB and SIDBI.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Financial Ratios – Financial Sector
Rating Methodology – Banks
CARE's Policy on Default Recognition

About the bank
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 14.88% stake in DCB Bank as on December 31, 2020. 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 347 branches across 18 states and 2 union territories as on December 31, 2020. 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.
The bank is headed by Mr. Nasser Munjee, Chairman, and Mr. Murali M. Natrajan, the MD & CEO of the bank.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (A)
Total Operating Income	2,723	3,392	3,928
PAT	245	324	338
Total Tangible Assets	29,894	35,459	38,174
Net NPA (%)	0.72	0.65	1.16
ROTA (%)	0.91	1.00	0.92

A: Audited

Status of non-cooperation with previous CRA:
Any other information: Not Applicable
Rating History: Please refer Annexure-2

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	-	-	-	-	Withdrawn

Annexure-2: Past Rating History

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-Short Term	ST	-	-	1)CARE A1+ (07-Apr-20)	1)CARE A1+ (01-Apr-19)	-	1)CARE A1+ (27-Mar-18)

Annexure-3: Complexity level of various instruments rated for this company

Sr.No.	*Name of instrument*	*Complexity Level*
1	Fund-based/Non-fund-based-Short Term	Simple

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.

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