

DCB Bank Limited

July 12, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------|------------------|---------------------|---------------|
| Certificate Of Deposit | 500.00 | CARE A1+ | Assigned |
| Fixed Deposit | Ongoing | CARE A1+ | Assigned |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the short-term fixed deposit and Certificate of Deposit (CD) of DCB Bank Limited (DCB) factors in comfortable capitalisation with sufficient cushion over the minimum regulatory requirement. The capital adequacy is supported by consistent profit generation and expectation of continued support from its promoter, Aga Khan Fund for Economic Development (AKFED). The rating also derives strength from experienced top management team, strong advances growth with focus on retail segment, targeting self-employed and SME/MSME segment, and stable asset quality.

However, rating strengths are partially offset by the bank's moderate resource profile with relatively lower current account saving account (CASA), average earning profile, and modest scale of operations relative to its private sector peers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable.

Negative factors

- Declining capital adequacy ratio (CAR) with cushion over the minimum regulatory requirement falling below 3.
- Deteriorating asset quality with net non-performing assets (NNPA) ratio above 3.0% on a sustained basis.
- Declining profitability with return on total assets (ROTA) below 0.5% on a sustained basis.

Analytical approach: Standalone.

Outlook: Not applicable.

Detailed description of the key rating drivers:

Key strengths

Comfortable capitalisation:

DCB's capital adequacy ratio (CAR) continues to be comfortable supported by regular accretion of profits and timely equity raise. The last round of equity was raised via qualified institutional placement of ₹379 crore in April 2017. The bank had also raised capital through Tier-II bonds of ₹300 crore in March 2023. The CET1 and CAR stood at 14.53% and 16.59% as on March 31, 2024, respectively, against 15.18% and 17.55% on March 31, 2023.

AKFED, the promoter, has supported the DCB bank in the past by infusing equity and has expressed its interest to further invest up to USD 10 million (₹83 crore) on a preferential basis, subject to the regulatory approvals including Reserve Bank of India (RBI).

CARE Ratings Limited (CARE Ratings) expects the bank to maintain sufficient capital cushions over the minimum regulatory requirements in medium term and would raise equity capital as and when needed.

Retail focused advance book with stable growth:

DCB's advances book is characterised by diversified and granular retail book targeting self-employed and MSME/SME retail segment with around 85% of loan book as on March 31, 2024, comprising small ticket loans of less than ₹3 crore. Moreover, around 95% of the advances are secured. The mortgages (housing loans and loan against property [LAP]) comprised 45% of the advances, Agri & Inclusive Banking (AIB) contributed 25% and corporate loans at 8% as on March 31, 2024. DCB also offers other products such as gold loans, SME/MSME lending, commercial vehicles, construction finance, and co-lending among others.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The advances of bank stood at ₹40,925 crore as on March 31, 2024 growing at compounded annual growth rate (CAGR) of 12.73% over the last five years. CARE Ratings expects the bank to continue to grow its advances at a stable pace in the medium term, led by the retail segment.

Stable asset quality:

DCB has been able to manage its asset quality to comfortable levels, despite having significant exposure to segments that are more vulnerable to an economic downturn. The gross NPA (GNPA) peaked in COVID-19 at 4.32% as on March 31, 2022, and has been steadily coming down helped by lower incremental slippages, higher recoveries, and upgradations. The slippage ratio remains high due to the category of the self-employed and MSME segments it is catering to.

The GNPA stood at 3.23% as on March 31, 2024 (March 31, 2023: 3.19%). The proportion of Gross Standard Restructured Advances has improved significantly, decreasing from 5.06% as on March 31, 2023 to 2.96% as on March 31, 2024. As a result, net stressed assets (NNPA + Gross Standard Restructured Assets + Gross Security Receipts) to net worth ratio improved from 52.91% as on March 31, 2023, to 37.04% as on March 31, 2024. Going forward, CARE Ratings expects the asset quality to improve further and stabilise with the reduction in the standard restructured book.

Experienced management team:

DCB has an established board and management teams. The board of DCB comprises 11 members, possessing extensive experience in the BFSI sector. The Board of Directors of the bank is headed by Mr. Farokh Nariman Subedar who is on the boards of various Tata companies and has been closely associated with several Non-banking finance companies (NBFCs).

Mr. Praveen Kutty, MD & CEO of the bank, has been a career banker with over 33 years of experience in all aspects of Retail & SME banking. He has been an integral part of DCB leadership team for the past 17 years. He is supported by various product and functional heads having a longstanding tenure at the bank possessing significant experience in their respective domains.

Key weaknesses

Moderate resource profile:

DCB's resource profile is moderate as CASA proportion stood at 26.02% as on March 31, 2024 (March 31, 2023: 26.42%), which is relatively lower as compared to peers. DCB primarily relies on retail deposits, including CASA and retail term deposit, which constituted around 71% and the top 20 depositors accounted for 6.57% of total deposits as on March 31, 2024. Bulk term deposits constituted around 29.45% of the overall deposits as on March 31, 2024. The overall deposit growth for FY24 has been close to 20% with CASA growing around 18%. Also, the bank has been intentionally reducing bulk and steadily growing retail term deposits. The bank also leverages long-term refinance options from institutions such as SIDBI, NABARD, and NHB. CARE Ratings believes the bank will continue to improve its liability profile with more reliance on retail deposits and calibrate asset growth in conjunction with growth in its deposit book.

Relatively average earnings profile:

DCB's net interest margin (NIM) is relatively lower due to modest yields on the secured loan book, whereas the cost of deposits is higher as resource profile consists of bulk deposits and savings account with high interest rates. However, the bank has an established fee income base bringing stability to the non-interest income. The bank's net interest income (NII) and pre-provisions operating profit (PPOP) for FY24 stood at ₹1,928 crore and ₹864 crore, respectively. DCB's NIM and PPOP to average total assets for FY24 were 3.37% (P.Y.: 3.57%) and 1.51% (P.Y.: 1.63%), respectively. The NIM fell year-on-year considering repricing of deposits seen across the banking industry. Cost to income is relatively high at 64.01% for FY24 as the loan book is almost entirely retail and the bank continued to invest in people and technology. Although operating expenses to total assets fell to 2.69% for FY24 as against 2.78% for FY23 due to faster increase in total assets.

The bank's credit cost declined to 0.25% of the average total assets in FY24 as against 0.33% for FY23 due to lower slippages. However, it is relatively higher because of the weak credit profile of its customers. The ROTA was at 0.94% for FY24 as against 0.97% for FY23. The ROTA has been stable and ranging between 0.90% and 0.97% in the last five years with the exception of FY22 due to COVID-19, which is slightly lower as compared to peer private sector banks.

Going forward, CARE Ratings expects the profitability to improve (above 1%) as the bank focuses on changing the loan mix to improve the NIM and reduce the opex (around 2.5%) as it attains scale, although the credit cost (0.45%) is expected to normalise (rise) over the medium term.

Modest scale of bank:

DCB is one of the relatively smaller PVBs with advances of ₹40,925 crore, deposits of ₹49,353 crore and an asset size of ₹62,608 crore as on March 31, 2024. The bank's market share in advances and deposits of the overall banking industry is marginal. Although the bank has plans to double the balance sheet every three to four years, it will still be a smaller player for a reasonable period of time. The bank had a network of 442 branches across 20 states and two Union Territories and 418 ATMs as on March 31, 2024. The bank has 57% of its branches in Metro and urban areas.

Liquidity: Adequate

The bank's liquidity profile is supported by its retail and CASA depositor base. According to the structural liquidity statement as on March 31, 2024, there were no negative cumulative mismatches in the time buckets up to six months. As on March 31, 2024, the liquidity coverage ratio stood at 120.66%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹2,904 crore as on March 31, 2024, which provides liquidity buffer, and the bank can borrow against it in case of liquidity requirements during contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. The bank also has access to systemic liquidity, including RBI's Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF), and access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), and the National Bank for Agriculture and Rural Development (NABARD), among others, and access to call money markets.

Environment, social, and governance (ESG) risks

Environmental

- Total number of trees planted till date: 709,106 trees.
- Waste recycled promoting circular economy: 2,522 metric tonnes.
- Rainwater harvested for sustainable livelihood: 56,059,985 litres.

Social

- Sustainable livelihood created through aquaculture farming and production in coastal Kendrapada district, Odisha: 130,000 direct and indirect beneficiaries.
- Promoting coastal ecosystem-based livelihoods via bee keeping for communities near mangroves in Uttara Kannada district, Karnataka: 250 direct and indirect beneficiaries.
- Household biogas plants and organic fertilizers for economically vulnerable rural families: 1,200 individuals as direct and indirect beneficiaries.

Governance

- 80% of the Board consist of independent directors.
- The Board of Directors meets at least 6x in a year.
- Most Board Committees consist of majority of independent directors.

Applicable criteria

[Definition of Default](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

About the company and industry

DCB 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 was thereafter 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 14.77% stake in DCB Bank as on March 31, 2024. AKFED is an international development enterprise, dedicated to promoting entrepreneurship and building economically sound companies.

DCB Bank is a new generation private sector scheduled commercial bank with a network of 442 branches across 20 states and two Union Territories and 418 ATMs across India as on March 31, 2024. The banks had 57% of its branches in Metro and urban areas. DCB Bank's business segments include Retail, micro-SME, SME, mid-Corporate, Agriculture, Commodities, Government, Public Sector, Indian Banks, Co-operative Banks, and NBFC. DCB Bank has approximately one million customers.

Industry classification

| Macro-economic indicator | Sector | Industry | Basic industry |
|--------------------------|--------------------|----------|---------------------|
| Financial services | Financial services | Banks | Private sector bank |

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) |
|----------------------------|--------------------|--------------------|
| | 12M | 12M |
| Total income | 4,610 | 5,836 |
| PAT | 466 | 536 |
| Total assets [#] | 51,909 | 62,608 |
| Net NPA (%) | 1.04 | 1.11 |
| ROTA (%) | 0.97 | 0.94 |

A: Audited.

Note: 'the above results are latest financial results available'

[#]Total assets and net worth adjusted by DTA, revaluation reserve, and intangible assets.**Status of non-cooperation with previous CRA:** Not applicable.**Any other information:** Not applicable.**Rating history for last three years:** Please refer Annexure-2.**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.**Complexity level of various instruments rated:** Annexure-4.**Lender details:** Annexure-5.**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-----------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Certificate Of Deposit (Proposed) | - | - | - | Upto 365 days | 500.00 | CARE A1+ |
| Fixed Deposit (Proposed) | - | - | - | Upto 365 days | 0.00 | CARE A1+ |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|----------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Fixed Deposit | ST | 0.00 | CARE A1+ | | | | |
| 2 | Certificate Of Deposit | ST | 500.00 | CARE A1+ | | | | |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|------------------------|------------------|
| 1 | Certificate Of Deposit | Simple |
| 2 | Fixed Deposit | Simple |

Annexure-5: Lender details: Not applicable.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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