DCB Bank Limited

November 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)	400.00	CARE AA-; Stable	Assigned
Certificate of deposit	1,000.00	CARE A1+	Reaffirmed
Fixed deposit	Ongoing	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of 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 small and medium enterprises (SME)/ Micro, Small & Medium Enterprises (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

- Improvement in profitability with return on total assets (ROTA) over 1.25% on a sustained basis
- Continuously improving scale of business, significantly increasing CASA proportion while maintaining asset quality parameters and capitalisation.

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% on a sustained basis.
- Declining profitability with return on total assets (ROTA) below 0.5% on a sustained basis.

Analytical approach: Standalone.

Outlook: Stable.

CARE Ratings Limited (CARE Rating) believes that DCB will continue maintaining its steady growth in advances and deposits over the medium term while maintaining stable asset quality and comfortable capitalisation levels.

Detailed description of 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. 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. CET1 and CAR stood at 13.65% and 15.55% as on September 30, 2024, respectively, as against 14.53% and 16.59% as on March 31, 2024, and 15.18% and 17.55% as on March 31, 2023.

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

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

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 86% of loan book as on September 30, 2024, comprising small ticket loans of less than ₹3 crore with 94% of advances book being secured. Mortgages (housing loans and loan against property [LAP]) comprised 45% of advances, Agri & Inclusive Banking (AIB) contributed 25%, and corporate loans at 7% as on September 30, 2024. DCB also offers other products such as gold loans, SME/MSME lending, commercial vehicles, construction finance, and co-lending among others. The advances of bank stood at ₹44,465 crore as on September 30, 2024 (₹40,925 crore as on March 31, 2024) compared to ₹34,378 crore as on March 31, 2023.

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 at comfortable levels, despite having significant exposure to segments that are more vulnerable to economic downturn. The Gross non-performing assets (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 self-employed and MSME segments it is catering to. The bank has relatively low unsecured advances and low micro finance exposure which has seen stress in recent times.

The GNPA and NNPA stood at 3.29% and 1.17%, respectively as on September 30, 2024 (3.23% and 1.11% as on March 31, 2024), compared to 3.19% and 1.04% as on March 31, 2023. The proportion of Gross Standard Restructured Advances has improved significantly, decreasing from 5.06% as on March 31, 2023, to 2.34% as on September 30, 2024 (March 31, 2024: 2.96%). 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 32.53% as on September 30, 2024 (March 31, 2024: 37.04%).

Going forward, CARE Ratings expects the asset quality to improve further and stabilise with reduction in the standard restructured book.

Experienced management team

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

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's 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 25.61% as on September 30, 2024 and 26.02% as on March 31, 2024 (March 31, 2023: 26.42%), which is relatively lower 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 6.89% of total deposits as on September 30, 2024. Bulk term deposits (=> 3 crore) constituted around 28.38% of the overall deposits as on September 30, 2024. The overall deposit growth on year-on-year (YoY) as on September 30, 2024 has been close to 20% with CASA growing around 23%. Also, the bank has been intentionally reducing bulk and steadily growing retail term deposits. Retail term deposits (<3 crore) as a percentage of total term deposits stood at 61.41% as on September 30, 2024 (62.19% as on March 31, 2024). The bank also leverages long-term refinance options from institutions such as Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), and National Housing Bank (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 y-o-y 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 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 against 0.97% for FY23. The ROTA has been stable and ranging between 0.90% and 0.97% in the last five years except for FY22 due to COVID-19, which is slightly lower compared to peer private sector banks.

DCB reported lower NIM of 3.07% for H1FY25 compared to same for H1FY24 due to repricing of deposits seen across the banking industry. Consequently, ROTA fell to 0.87% for H1FY25 against 0.93% for H1FY24.

Going forward, CARE Ratings expects the profitability to improve gradually (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 ₹44,465 crore, deposits of ₹54,532 crore and an asset size of ₹68,530 crore as on September 30, 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. The bank had a network of 451 branches across 20 states and two Union Territories and 428 ATMs as on September 30, 2024. The bank has 56% 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 September 30, 2024, there were no negative cumulative mismatches in the time buckets up to three months. As on September 30, 2024, the liquidity coverage ratio stood at 119.74%, against the minimum regulatory requirement of 100%. The bank 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 SIDBI, NHB, and 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

- 66.67% 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
Rating Basel III - Hybrid Capital Instruments issued by Banks
Rating Outlook and Credit Watch
Short Term Instruments

About the company and industry

Industry classification

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

DCB Bank

DCB Bank was founded in 1930s as The Ismailia Co-operative Bank Limited and the Masalawalla 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 14.73% stake in DCB Bank as on September 30, 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 451 branches across 20 states and two Union Territories and 428 ATMs across India as on September 30, 2024. The banks had 56% 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.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
	12M	12M	6M
Total income	4,610	5,836	3,405
PAT	466	536	287
Total assets#	51,909	62,608	68,530
Net NPA (%)	1.04	1.11	1.17
ROTA (%)	0.97	0.94	0.87

A: Audited. UA: Unaudited
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	1,000.00	CARE A1+
Fixed Deposit (Proposed)	-	-	-	Upto 365 days	0.00	CARE A1+
Tier II Bonds	-	Proposed	-		400.00	CARE AA-; Stable

Annexure-2: Rating history for 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+	1)CARE A1+ (18-Oct-24) 2)CARE A1+ (12-Jul-24)	-	-	-
2	Certificate Of Deposit	ST	1000.00	CARE A1+	1)CARE A1+ (18-Oct-24) 2)CARE A1+ (12-Jul-24)	-	-	-
3	Bonds-Tier II Bonds	LT	400.00	CARE AA-; Stable				

LT: Long term ST: Short term

Annexure-3: Detailed explanation of covenants of 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
3	Tier II Bonds	Complex

Annexure-5: Lender details: Not applicable.

Note on complexity levels of 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 clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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