DCB Bank Limited

March 27, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities	300 (Enhanced from Rs.200 crore)	**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 post equity capital infusion of Rs.379 crore through Qualified Institutional Placement (QIP) during 9MFY18 (refers to period from April to December), 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.
Bank's 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.

Stable growth in advances
The bank's asset base grew from Rs.7,357 crore in FY11 to Rs.23,739 crore by the end of FY17 at a Compounded Average Growth Rate (CAGR) of around 22%. The bank's deposits grew at a CAGR of 18% over the past 5 years, while its net advances registered a CAGR of 19% over the same period.

Adequate capitalization levels
The bank has maintained adequate capitalization levels to support growth over the last few years. During FY17, the bank raised Tier II capital of Rs.150 crore and reported Capital Adequacy Ratio (CAR) of 13.76% [Tier I CAR: 11.87%, entirely comprising Core Equity Tier I (CET 1) capital] as against CAR of 14.11% [Tier I CAR: 12.79%] as on March 31, 2016.
During 9MFY18, the bank raised Rs.378.80 crore through QIP and additionally raised Rs.450 crore by way of Tier II Bonds up to January 2018. The bank reported CAR of 15.77% (Tier I CAR: 12.54%, wholly comprised of CET1 capital) as on December 31, 2017.

Comfortable asset quality
The asset quality parameters of the bank have been comfortable in spite of a marginal increase in slippages during FY17. The bank reported Gross NPA ratio and Net NPA ratio of 1.59% [P.Y.:1.51%] and 0.79% [P.Y.: 0.75%] respectively. Net NPA to tangible net worth ratio stood at 6.56% [P.Y.: 5.73%]. The bank saw incremental slippages during 9MFY18, primarily in its gold loan portfolio, mortgage loans and the Agri and Inclusive Banking segment. As a result, reported Gross NPA and

Net NPA ratio deteriorated further and stood at 1.89% and 0.87% respectively as on December 31, 2017; while Net NPA to net worth stood at 6.63%.

Moderate profitability

During FY17, the bank's total income grew 22% over FY16 supported by a rise in interest income led by a 22% growth in advances. The bank's Net Interest Margin (NIM) improved to 3.73% [P.Y.: 3.53%]. However, due to ongoing branch expansion, the operating cost remained elevated resulting in high cost to income ratio of 60% for FY17 and increase in provisioning due to higher slippages. As a result, the bank reported 2.65% increase in net profit for FY17. Consequently, return on total assets (ROTA) declined to 0.93% in FY17 as against 1.11% in FY16. With further expansion in business, operating costs may take some time to stabilize. In 9MFY18, the bank earned a net profit of Rs.181 crore registering a y-o-y increase of 23% on a total income of Rs.1,989 crore.

Diversified advances book albeit largely mortgage and SME driven

The bank's advances grew at a robust CAGR of 19% between FY11 to FY17. In 9MFY18, advances further grew by 18% over March 2017 levels. As of December 31, 2017, the bank's advances book was fairly diversified, with mortgage loans accounting for 42%, Agriculture and Inclusive lending at 17%, Corporate lending at 17%, SME and MSME 12% and others accounting for balance 12%.

Key Rating Weaknesses

Moderate size of operations

With an advances portfolio of Rs.18,595 crore and deposit base of Rs.21,296 crore as on December 31, 2017 , the bank's scale of operations are relatively smaller in comparison to major private sector banks in India. The bank had a network of 311 branches across 19 states and 3 Union Territories and 530 ATMs as on December 31, 2017. The bank predominantly operates in Maharashtra, Madhya Pradesh, Gujarat, Andhra Pradesh, Telengana, Punjab, Chhattisgarh, Tamil Nadu, and Rajasthan.

Moderate liquidity profile

The bank's liquidity profile as on December 31, 2017 remained moderate. 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.

Moderate CASA proportion

The bank's CASA proportion is at 26% as on December 31, 2017 which is relatively low in comparison to its peer banks. The deposit base is also fairly granulated and distributed with retail deposits accounting for 77% of total deposits.

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]
[Rating Methodology: Factoring Linkages in Ratings]

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 15% stake in DCB Bank as on December 31, 2017. 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 311 branches across 19 states and 3 union territories as on December 31, 2017. 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 450,000 customers.

At the end of FY17, total assets of DCB bank stood at Rs.23,739 crore as against Rs.19,026 crore as on March 31, 2016, registering a growth of around 25%. In FY17, deposits of the bank grew by 29% and stood at Rs.19,289 crore. Retail deposits comprised 77% of Total Deposits at the end of FY17, while CASA deposits constituted 24%.

The bank is headed by Mr. Nasser Munjee, Chairman, and Mr. Murali M. Natrajan, the MD & CEO of the bank.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	1,919	2,326
PAT	195	200
Total Assets	19,026	23,739
Net NPA (%)	0.75	0.79
ROTA (%)	1.11	0.93

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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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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-Short Term	ST	300.00	CARE A1+	-	1)CARE A1+ (31-Mar-17)	-	-

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