DCB Bank Ltd
March 31, 2017

Ratings

Instrument	Rated amount (Rs. crore)	Rating[1]	Remarks
Short term Bank Facilities	200 (Rs. Two hundred crore only)	**CARE A1+ (A One Plus)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The rating factors in bank's stable asset quality, comfortable capitalisation, 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 stable top management team and healthy interest margins. The ratings however remain constrained by banks elevated cost to income ratio, moderate 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
Credit Strengths

Experienced Management – DCB bank has experienced management team with experienced professionals occupying key managerial positions. Mr. Nasser Munjee has been the Chairman of DCB 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 was appointed as the Managing Director & CEO on April 29, 2009. In his 26-year work experience, he has worked in India, Hong Kong, South Korea, Singapore and Indonesia. The MD and CEO is assisted by heads of various departments in the day to day functioning of the bank.

Comfortable capital Adequacy – The bank has a comfortable capital adequacy ratio inspite of the strong growth over the years due to regular capital infusion. During 2006 bank raised Rs.186 crore by way IPO of shares. From 2005 Bank has received tier I capital infusion of Rs.1300 crore till December'16. As per Basel III, as on December 31, 2016, total CAR and Tier I CAR stood at 13.33% and 11.39%, respectively.

Stable asset quality – Asset quality of the bank is stable with Gross NPA (%) and Net NPA (%) at 1.51% and 0.75%, respectively as on March 31, 2016. Net NPA to net worth was at 5.73%. Standard restructured assets outstanding decreased from Rs.70 crore at the end of FY15 to Rs.45 crore as on March 31, 2016. In FY15 and FY16, there has been sale of weaker accounts and so the security receipts outstanding stood at Rs31 crore (FY15: Rs.16 crore) at the end of FY16. At the end of December 2016, Gross NPA and Net NPA ratio remained stable at 1.55% and 0.74%, respectively. Net NPA to net worth was at 5.02%.

Adequate Profitability – The bank's total income increased 21% in FY16 due to rise in interest income led by advances growth of 23.5%. However due to high cost to income ratio, net profit increased by 1.75% to Rs.195 crore in FY16. Consequently, return on total assets declined to 1.11% in FY16 from 1.32% in FY15. Net interest margin remained stable at 3.53% in FY16 as compared to 3.51% in FY15. In 9MFY17, the bank earned a net profit of Rs.147 crore which is a y-o-y increase of 17% on a 22% in total income to Rs.1713 crore.

Credit Weakness

High operating cost – The bank's operating cost is high which is reflected by the high cost to income ratio of 58.45% in FY16 as the bank has been rapidly expanding its branch network over the years. With further expansion in business, operating cost may take some time to stabilize.

Moderate CASA proportion– The bank's CASA proportion is at 26% as on December 31, 2016. The deposit base is also fairly distributed with retail deposits accounting 79% of total deposits.

Analytical approach: Standalone

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

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE Policy on Default Recognition]
[Bank - CARE's Rating Methodology For Banks]
[Financial ratios - Financial Sector]

About the Company
DCB bank was founded in 1930s. Its promoter and promoter group the Aga Khan Fund for Economic Development (AKFED) & Platinum Jubilee Investments Ltd. holds over 16.20% (as on February'17) stake. AKFED is an international development enterprise. It is dedicated to promoting entrepreneurship and building economically sound companies. DCB bank, incorporated in 1995 is a private sector bank with 248 branches across 18 states and 2 union territories. It is a scheduled commercial bank regulated by the Reserve Bank of India. DCB Bank's network of 248 plus branches are across the states of Andhra Pradesh, Bihar, Chhattisgarh, Delhi/ NCR, Goa, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, West Bengal and Union Territories of Daman & Diu and Dadra & Nagar Haveli DCB bank's business segments are Retail, 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.
As on March 31, 2016, the total assets of DCB bank stood at Rs.19,025 Crore as against Rs.16,071 Crore as on March 31, 2015, a growth rate of 18.5%. As on March 31, 2016, the Bank grew Deposits by 18% to Rs.14,926 Cr. Retail Deposits (including Agriculture and Inclusive Banking) were 81% of Total Deposits.

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.*

Analyst Contact:
Name: Anuj Jain
Tel: 022-67543451
Mobile: + 91-9892209428
Email: anuj.jain@careratings.com

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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.

withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	200.00	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based/Non-fund-based-Short Term	ST	200.00	CARE A1+	-	-	-	-

CONTACT
Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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