DCB Bank Limited
April 7, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities	300 (Rs. Three Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the short term bank facilities of DCB Bank continues to take into account 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.

Key Rating Sensitivities

Positive Factors

- Improvement in CASA levels on as sustained basis
- Substantial increase in size of business
- Improvement in cost to income ratio

Negative Factors

- Deterioration in asset quality on a sustained basis
- Deterioration in profitability over a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capitalization levels

The bank had comfortable capital adequacy ratio due to strong growth over the years and regular profits. At the end of FY19 (refers to period from April 01 to March 31), the bank's Tier I CAR stood at 16.81% [Tier I CAR: 13.10% wholly comprised of CET1 capital] as against 16.47% [Tier I CAR: 12.72%] on March 31, 2018. As on December 31, 2019, the bank reported CAR of 15.80% with Tier I CAR (entirely CET I) of 12.30% (excluding profits for 9MFY20). The bank has been raising equity capital to fund its future growth and is expected to maintain comfortable capitalisation levels in the medium term.

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.35,703 crore as on March 31, 2019. The bank's advances profile is largely focused on SME and MSME lending and has grown at a CAGR of 22.5% over the last 5 years. The bank also has a grown its deposit franchise which has grown at a similar CAGR of 22.5% 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.

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 with a diversified loan book, largely SME driven

The bank's advances grew at a robust Compounded Annual Growth Rate (CAGR) of 24% between FY11 to FY19. In 9MFY20 (refers to period from April 01 to December 31), the advances further grew by 8% over March 2019 levels. As of December 31, 2019, the bank's advances book was fairly diversified and granular, with mortgage loans accounting for 41% (largely Loan Against Property), Agriculture & Inclusive Banking lending at 21%, Corporate lending at 12%, SME and MSME 11% and others accounting for balance 15%.

Moderate asset quality parameters
The asset quality parameters of the bank have remained moderate with rise in slippages during FY19 and 9MFY20. The bank reported Gross NPA Ratio of 1.84% (P.Y.: 1.79%) as on March 31, 2019 with Net NPA Ratio of 0.65% (P.Y.: 0.72) on account of high provisioning. Its Net NPA to Net worth ratio stood at 8.75% (P.Y.: 3.23).
The bank witnessed the stress in loans to agriculture and allied services and gold loans.
During 9MFY20, the bank saw incremental slippages in the SME & MSME loans, Gold Loans and Commercial Vehicles (CV) loans as well as a large ticket size corporate loan resulting in Gross NPA ratio of 2.15% while the Net NPA ratio remained at 0.65% and Net NPA to net worth stood at 7.91% as on December 31, 2019.

Adequate profitability
During FY19, the bank's total income grew 25% over FY18 levels supported by a rise in interest income led by advances growth of 16%. The bank's NIM declined to 3.59% [P.Y.: 3.71%], despite a 15% growth in the bank's net interest income. However, as the bank's cost to income ratio reduced to 56% from 60% in FY19, the bank reported growth in net profit of 33%. The bank reported PAT of Rs.325 crore on a total income of Rs.3,392 crore for FY19. The bank's return on total assets (ROTA) increased marginally to 0.99% in FY19 as against 0.91% in FY18. 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, operating costs are expected to stabilize. In 9MFY20, the bank reported net profit of Rs.269 crore, registering a y-o-y growth of 18%, on a total income of Rs.2,916 crore.

Key Rating Weaknesses
Moderate size of operations
With an advances portfolio of Rs.25,438 crore and deposit base of Rs.29,735 crore as on December 31, 2019, the bank's scale of operations are relatively smaller in comparison to its peers. The bank had a network of 334 branches across 19 states and 3 Union Territories and 501 ATMs as on December 31, 2019. 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, 2019. The deposit base is also fairly distributed with CASA and retail term deposits together accounting for 83% of total deposits. Deposits of the bank are fairly granulated with the top 20 depositors contributing around 8% of total deposits as on December 31, 2019. Going forward, raising longer term deposits at competitive rates would help the bank in reducing the mismatches in the ALM profile of the bank.

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

Liquidity Profile: Adequate
As per the bank's ALM profile as on December 31, 2019, 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. However, the bank's average deposit rollover rate was around 75%. The bank typically maintains over 3% in excess of SLR. The bank also has committed lines which provide additional comfort to the liquidity profile. As on January 31, 2020, the bank had fund based limits of Rs.200 crore and non-fund based limits of Rs.200 crore from multiple banks to meet any liquidity requirements. Further the bank has access to LAF and MSF facility in case of any liquidity requirements. The bank reported Liquidity Coverage Ratio of 107.74% as on December 31, 2019. Further, the bank also has been accessing refinance facilities from financial institutions like SIDBI and NHB.

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 14.89% stake in DCB Bank as on December 31, 2019. 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 334 branches across 19 states and 3 union territories as on December 31, 2019. 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.
At the end of FY19, total tangible assets of DCB Bank stood at Rs.35,703 crore as against Rs.29,894 crore as on March 31, 2018, registering a growth of around 19%. In FY19, deposits of the bank grew by 18% and stood at Rs.28,435 crore.
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)
Total Income	2,723	3,392
PAT	245	324
Total Tangible Assets	29,894	35,703
Net NPA (%)	0.72	0.65
ROTA (%)	0.91	0.99

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-Short Term	ST	300.00	CARE A1+	1)CARE A1+ (01-Apr-19)	-	1)CARE A1+ (27-Mar-18)	1)CARE A1+ (31-Mar-17)

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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