DCB Bank

Plugging away at traditional handicaps; Upgrade to BUY

DCB Bank (DCBB) hosted an analyst meet highlighting its recent operating performance and a medium-term strategy to fix its traditional handicaps around: a) elevated opex intensity, and b) lack of deposit-side pricing power. Over the past 6 months, under a new leadership team, DCBB has demonstrated early signs of pricing discipline and improvement in operating metrics while also growing at ~20%, a combination that the bank has struggled with in the past. We take comfort in DCBB's sustained efforts at cost rationalization and self-origination, reflecting in early signs of operating leverage gains and greater control over asset quality outcomes. We believe that the bank's journey to sustainably reflate its ROA > 1% is contingent on its ability to build further on these gains, and simultaneously deliver on deposit granularity, margins, and asset quality. We raise our FY27E/FY28E by ~4%/~5% driven by lower cost of funds and better operating efficiencies. We upgrade to BUY with a revised TP of INR220 (1.0x Sep-27 ABVPS) (earlier INR160).

- **Addressing the liabilities gap**: DCBB is solving for its pricing handicap by improving its product proposition (secured credit cards, overdraft facility) and engagement with customers. DCBB has witnessed a steeper reduction in funding costs (33bps) during H1FY26, compared to its peers, while growing its deposits at a higher pace and has guided for a 15-20bps NIM reflation to 3.4% on the back of lagged deposit re-pricing over the next 3-4 quarters.
- **Building sustainable operating efficiencies:** DCBB is focused on sweating its existing resources through tighter monitoring and digitization efforts. DCBB is also looking to leverage its cross-sell potential with ETB customers (76% of customers have only a single product with the bank) and Niyo card customers (0.5mn) to improve its operating efficiencies.
- **Sustaining growth trajectory with stable asset quality:** The bank has guided for an 18-20% medium-term loan CAGR, on the back of mortgages (higher proportion of LAP), and MSME, while capping the co-lending mix at 15%. While gross slippages have remained elevated, LGDs have historically been lower owing to strong recoveries on a high secured loan mix. We believe DCBB might need to shore up its provisioning buffer given higher early-stage provisioning requirements under the proposed ECL norms.
- **Plugging away at efficiency; critical to 1%+ ROA:** With opex-to-assets (2.4%) improving and better deposit pricing while sustaining growth, we see early signs of productivity and efficiency gains kicking in. We believe the bank is likely to sustain 1%+ ROA on the back of improving operating leverage, while simultaneously driving better deposit granularity and asset quality outcomes.

Financial Summary

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	17.2	19.3	21.1	25.4	30.7	37.0
PPOP	7.9	8.6	10.4	13.6	16.4	20.9
PAT	4.7	5.4	6.2	7.7	9.6	12.2
EPS (INR)	14.9	17.2	19.6	24.4	30.6	38.9
ROAE (%)	10.8	11.1	11.4	12.5	13.8	15.3
ROAA (%)	1.0	0.9	0.9	0.9	1.0	1.1
ABVPS (INR)	134.8	148.0	162.9	187.3	210.5	251.4
P/ABV (x)	1.3	1.2	1.1	0.9	0.8	0.7
P/E (x)	11.7	10.2	8.9	7.2	5.7	4.5

Source: Company, HSIE Research

BUY

CMP *(as on 14 Nov 2025)*	INR 176
Target Price	INR 220
NIFTY	25,910

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 160	INR 220
EPS %	FY27E	FY28E
	4.3%	5.3%

KEY STOCK DATA	
Bloomberg code	DCBB IN
No. of Shares (mn)	315
MCap (INR bn) / ($ mn)	55/623
6m avg traded value (INR mn)	381
52 Week high / low	INR 177/101

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.0	24.8	54.6
Relative (%)	40.1	20.8	45.6

SHAREHOLDING PATTERN (%)

	Jun-25	Sep-25
Promoters	14.7	14.7
FIs & Local MFs	31.8	31.9
FPIs	11.7	10.5
Public & Others	41.8	42.9
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Akshay Badlani
akshay.badlani@hdfcsec.com
+91-22-6171-7325

Exhibit 1: Change in estimates

(INR bn)	FY26E			FY27E			FY28E		
	New	Old	Δ	New	Old	Δ	New	Old	Δ
Net advances	609	608	0.2%	724	722	0.3%	847	845	0.3%
NIM (%)	3.3	3.3	3 bps	3.4	3.3	10 bps	3.5	3.4	14 bps
NII	25.4	25.1	1.1%	30.7	29.7	3.1%	37.0	35.5	4.2%
PPOP	13.6	13.3	2.4%	16.4	15.8	4.0%	20.9	19.5	7.1%
PAT	7.7	7.6	0.7%	9.6	9.2	4.3%	12.2	11.6	5.3%
Adj. BVPS (INR)	187.3	187.1	0.1%	210.5	210.6	0.0%	251.4	250.4	0.4%

Source: Company, HSIE Research

Annual Report Dashboard

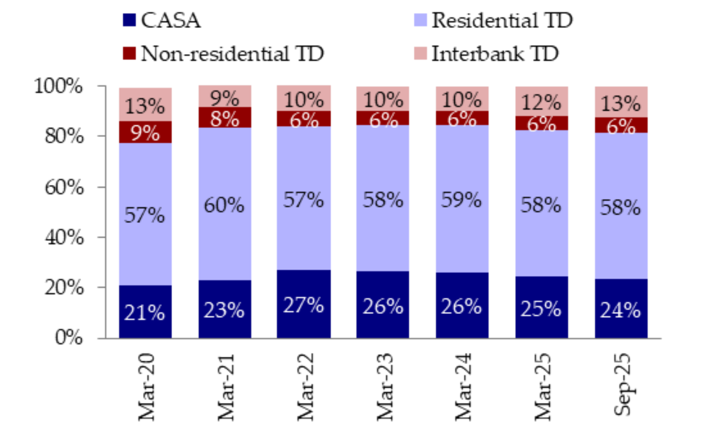
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Concentration metrics											
% Share of Top 20 advances	10.0%	8.1%	7.1%	6.6%	6.0%	5.1%	5.0%	5.0%	4.3%	4.3%	3.5%
% Share of Top 20 exposures	9.7%	8.0%	8.4%	6.7%	6.0%	5.2%	5.6%	5.6%	6.2%	5.2%	4.6%
% Share of Top 20 depositors	15.5%	14.0%	13.8%	14.9%	12.0%	9.3%	7.0%	6.3%	7.0%	6.6%	6.6%
% Share of Top 20 NPA a/cs	NA	NA	NA	NA	NA	NA	NA	12.5%	23.3%	18.1%	14.5%
Sector-wise GNPAs (% of sector-wise net advances)											
Priority Sector	1.3%	1.1%	1.4%	1.8%	2.0%	3.0%	4.7%	3.7%	3.3%	3.8%	3.5%
Industrial credit	1.4%	1.7%	0.6%	1.5%	1.6%	3.6%	3.9%	1.8%	4.1%	5.1%	4.1%
Credit for services	1.2%	0.7%	1.3%	1.6%	2.0%	3.2%	5.8%	3.7%	4.4%	4.7%	4.0%
Agricultural credit	1.2%	1.5%	2.7%	2.9%	2.7%	2.8%	4.6%	5.7%	4.1%	4.1%	5.1%
Personal loans	1.0%	0.7%	1.4%	1.5%	1.5%	1.9%	2.6%	3.0%	1.1%	2.3%	2.0%
Non-Priority Sector	2.1%	1.8%	1.7%	1.8%	1.6%	1.8%	3.1%	4.9%	3.1%	2.6%	2.5%
Industrial credit	3.7%	4.2%	3.7%	3.3%	2.7%	2.9%	4.3%	7.1%	11.2%	9.8%	10.2%
Credit for services	1.3%	0.9%	0.9%	1.1%	1.0%	1.2%	2.5%	6.5%	3.5%	2.5%	2.4%
Agricultural credit	NA	NA	NA	1.0%	2.2%	NA	NA	NA	NA	NA	NA
Personal loans	1.1%	1.2%	1.4%	1.8%	1.5%	1.7%	3.4%	3.0%	1.4%	1.8%	2.1%
GNPA Mix %											
Sub standard	69.8%	38.2%	60.7%	51.5%	53.4%	60.9%	61.0%	52.0%	43.5%	41.8%	40.0%
Doubtful 1	11.7%	51.5%	9.2%	25.2%	23.6%	26.4%	26.2%	27.7%	26.2%	25.6%	24.0%
Doubtful 2	13.9%	8.4%	29.6%	18.2%	15.7%	10.6%	11.3%	17.6%	29.5%	26.3%	25.3%
Doubtful 3	3.9%	1.2%	0.3%	4.8%	7.2%	1.0%	1.4%	2.4%	0.9%	5.7%	10.4%
Loss	0.8%	0.7%	0.3%	0.2%	0.0%	1.1%	0.0%	0.3%	0.0%	0.6%	0.4%
Bancassurance - % of Total Fee	7.8%	7.1%	11.1%	13.0%	13.5%	13.5%	12.8%	15.7%	16.1%	27.2%	30.4%
PSLC Bought (% of prior year loans)	NA	NA	NA	NA	NA	0.5%	4.4%	0.0%	0.4%	0.0%	0.2%
PSLC Sold (% of prior year loans)	NA	NA	NA	NA	NA	21.2%	31.6%	21.6%	14.3%	10.0%	9.4%
Operational Risk											
Frauds reported (#)	NA	NA	NA	NA	NA	NA	NA	54	22	146	176
Amt. involved in frauds (INR mn)	NA	NA	NA	NA	NA	NA	NA	35	155	110	57
Provision for fraud (INR mn)	NA	NA	NA	NA	NA	NA	NA	34	10	109	34
Provision for fraud (% of PPOP)	NA	NA	NA	NA	NA	NA	NA	0.4%	0.1%	1.3%	0.3%
Real Estate Exposure (% of Real Estate Exposure)											
Secured by residential mortgage	43%	50%	45%	50%	62%	69%	73%	71%	73%	76%	76%
Individual housing loans	14%	19%	17%	18%	27%	30%	35%	35%	31%	30%	26%
Secured by commercial mortgage	46%	43%	47%	39%	28%	24%	22%	21%	21%	19%	20%
Exposure to NHBs and HFCs	10%	7%	8%	11%	10%	7%	5%	7%	6%	5%	4%
LCR Disclosures											
LCR %	NA	NA	NA	NA	90%	112%	138%	125%	130%	121%	126%
RSBD (% of total deposits)	NA	NA	NA	NA	47%	58%	67%	64%	62%	62%	58%

Source: Company, HSIE Research

Gradually plugging away at the liabilities handicap

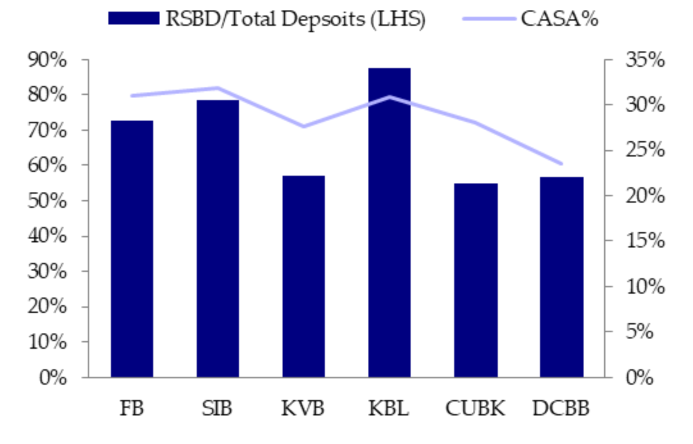
- **Addressing the high-cost deposit handicap:** DCBB has historically suffered from a sub-par deposit franchise with its low granularity (and high price-sensitivity), reflecting in lower mix of retail/CASA deposits and higher cost of funds compared to peers. DCBB is looking to address the same by improving its product proposition and higher engagement with its existing customers. The bank aims to scale secured credit card (for low credit score customers) and overdraft facilities (for higher ticket sized SME customers) services, thereby extracting higher transaction flows to shore up CASA balances. While we believe the move to improve the quality of the deposit franchise is in the right direction, we will continue to monitor how DCBB sustainably executes this strategy without compromising on growth.

Exhibit 2: Deposit mix



Source: Company, HSIE Research

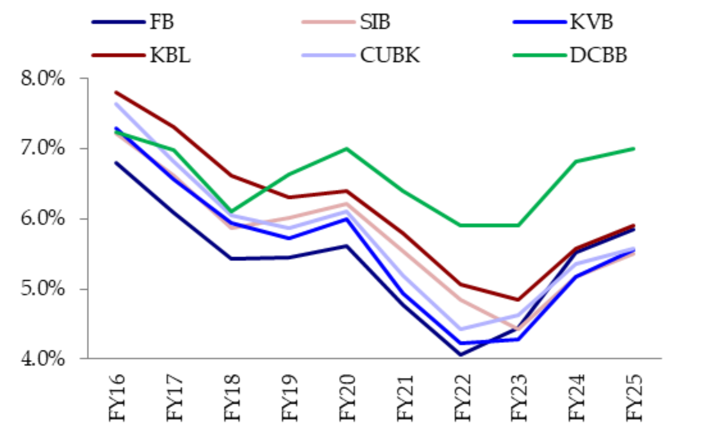
Exhibit 3: RSBD/Total deposits (cal.)



Source: Company, HSIE Research

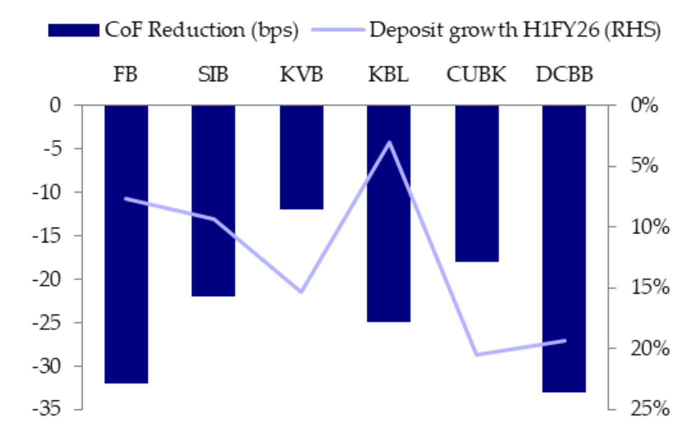
- **Early signs of showcasing better pricing power:** While growing at a healthy pace of ~20% during the past 8 quarters, DCBB has been able to gradually improve its pricing power on the deposit side. The bank has witnessed a higher reduction in cost of funds (33 bps) in H1FY26 compared to most of its peers while growing the deposits at a higher pace. The peak retail deposit pricing spread (with top 3 private and 3 PSU banks) stands reduced at 60bps as of Sep-25 (from 90bps in Jun-24). The bank expects the impact of TD re-pricing to kick in over the next few quarters to drive NIM reflation to 3.3-3.4%.

Exhibit 4: Cost of funds (calculated)



Source: Company, HSIE Research

Exhibit 5: Cost of funds movement (since Feb-25)

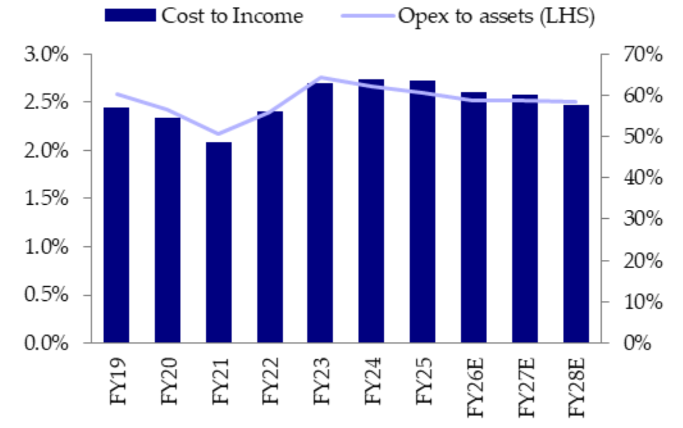


Source: Company, HSIE Research

Operating leverage key to earnings sustainability

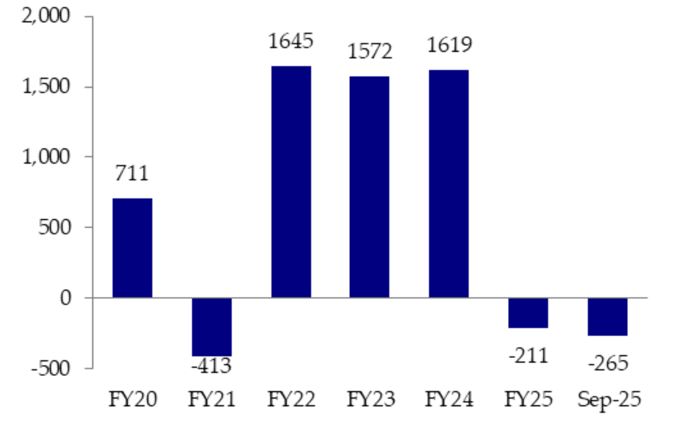
- **Opex rationalization underway:** DCBB traditionally has always had elevated opex intensity, especially when chasing higher growth. Coinciding with the change in leadership, there has been greater focus on sweating out existing resources (capital, deposits, employees, and branches). DCBB also reduced its employee headcount by 1,104 over the past 6 quarters, while sustaining a healthy business growth of 20%, resulting in productivity gains. While the cost-to-income has consistently reduced from ~66% band to 60-61% band over the past 6 quarters, sustainability and further improvement in opex ratios continues to be a key monitorable, given the franchise is expected to start re-investing in distribution, network and tech going forward. Given the early signs of higher productivity, alongside growth, we believe opex-to-assets is likely to sustain at ~2.5% with gradual reduction in cost-to-income ratios.

Exhibit 6: Opex intensity - Likely to sustain at current levels



Source: Company, HSIE Research, RBI

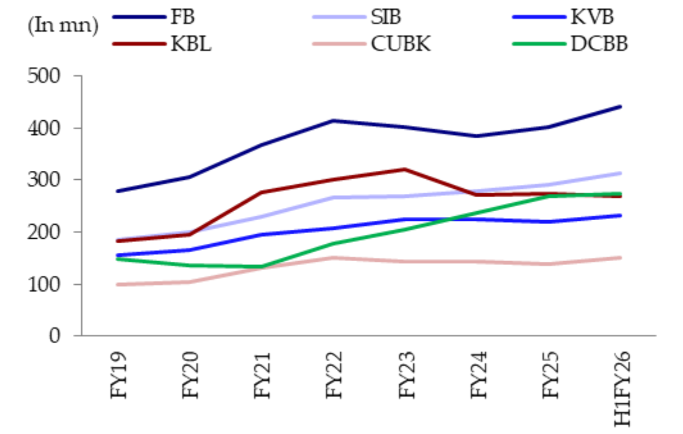
Exhibit 7: Rationalization in employee headcount over the past 6-8 quarters



Source: Company, HSIE Research

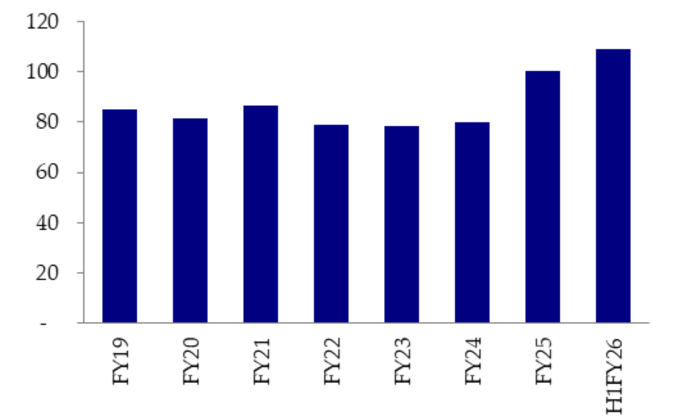
- **Tighter discipline to drive productivity:** The bank has lagged its larger peers in terms of productivity and efficiency historically. The new management is focusing on tightening discipline across the organization, early signs of which are visible in the productivity and efficiency metrics. Digitization of processes has also helped control costs and improve productivity through measures such as reduction in gold loan TAT to 30mins (from 150mins), paperless customer onboarding, and digital repository. We believe that sustained technology investments, alongside constant monitoring, is essential to drive further productivity gains.

Exhibit 8: SA/Branch - Narrowing gap with larger peers



Source: Company, HSIE Research

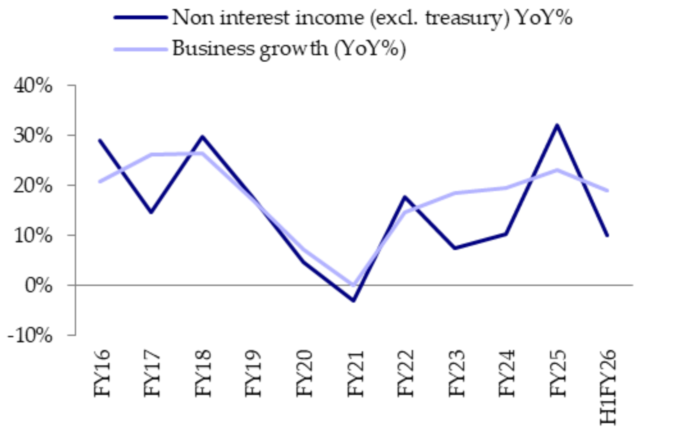
Exhibit 9: Business per employee (INR mn) - Sharp improvement over the past 6 quarters



Source: Company, HSIE Research

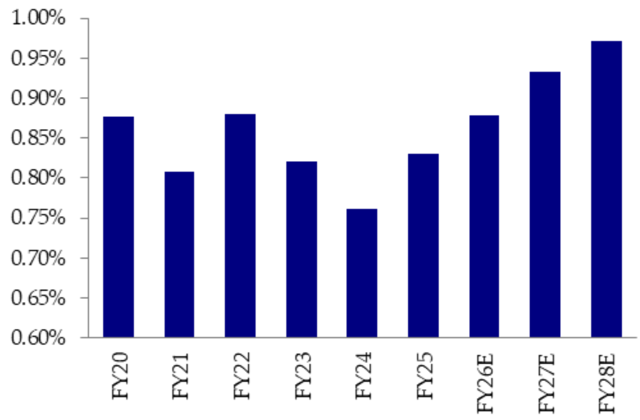
- **Fee income traction driven by third-party distribution:** Fee income to assets has been sub-par for the bank despite DCBB servicing a largely self-employed customer base and relatively higher-yielding asset classes. In the recent past, despite shift in loan mix towards LAP (from home loans), growth in fee income has lagged growth in business. The uptick in fee income in FY25 was driven by higher bancassurance income (30% of fees), which is relatively higher compared to industry average. We believe there is potential to increase the fee income from scaling up of asset classes such as large-ticket SME financing, education institution financing and secured credit cards apart from organic growth in existing asset classes.
- **High cross-sell potential:** During the analyst meet, DCBB flagged that 76% of its customers have only a single-product relationship with the bank, showcasing the bank's inability to emerge as a primary banker for large part of its customers. The Niyo card proposition, a zero-forex markup card linked to the customers' savings accounts, launched in 2018 and upgraded in 2024, has been a big hit for foreign transactions (accounting for 2.1% of Indian card international spends in Jun-25). However, 27% of the Niyo customers keep less than INR1,000 in their SA balances with DCBB. The bank aims to tap into these customer cohorts and improve its cross-sell metrics, especially in terms of greater balances (better flows).

Exhibit 10: Fee growth (YoY) lagging business growth (YoY) in recent times



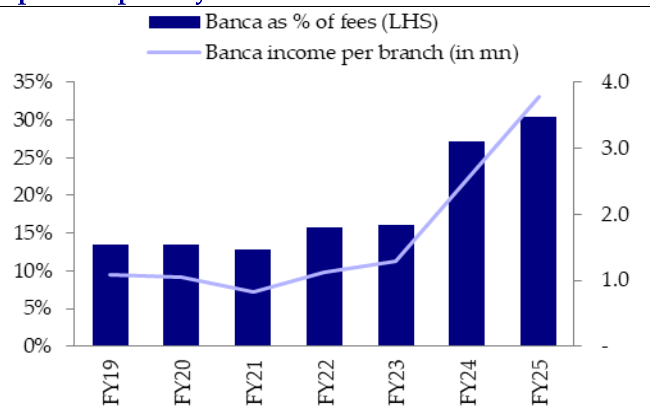
Source: Company, HSIE Research

Exhibit 11: Fee-to-assets to gradually inch up to 1%



Source: Company, HSIE Research

Exhibit 12: Banca contributing significantly to fees during the past couple of years



Source: Company, HSIE Research

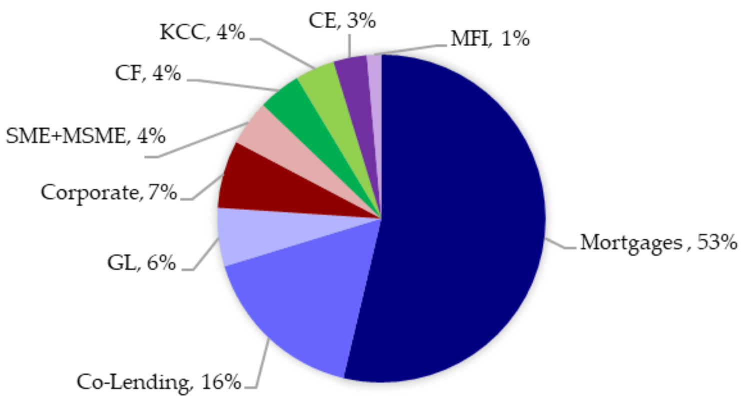
Exhibit 13: Cross-sell potential

Product	Customer loan outside DCB Bank (per every customer)
Gold Loan	1.7x
Home Loan	3.3x
Business Loan	1.7x
Overdraft loan	0.9x

Source: DCB Bank analyst day presentation, HSIE Research

- **Loan mix to remain largely secured; co-lending growth to moderate:** The bank has been growing at 20% for the past 12 quarters largely driven from growth in gold loans and co-lending (largely in gold loans as well) and business loans (LAP). The bank has increasing focused on shifting its loan mix from home loans to LAP (50:50% six quarters back, now 60-40%). The bank intends to keep a similar mix of HL & LAP going forward. The co-lending book (90% gold loans) scaled up significantly on the back of higher gold prices. However, the recent RBI circular on CLA guidelines scraps the CLM-2 model (predominantly prevalent model) and shifts the onus on to regulated entities (REs) towards tightening credit policies (due to irrevocable commitment) and reducing the degrees of flexibility available to both regulated entities. Going forward, the management has guided to cap the co-lending book at 15% of the loan mix, going forward. Additionally, the bank has guided on scaling its INR30mn-INR100mn SME book, secured credit card portfolio and loans to educational institutions. We believe the bank is likely to sustain its guided growth trajectory of 18-20% going forward, however the yields shall trend flattish with capping of co-lending and increasing floating mix.

Exhibit 14: Loan mix (Sep-25) - Shift from HL to LAP



Source: Company, HSIE Research

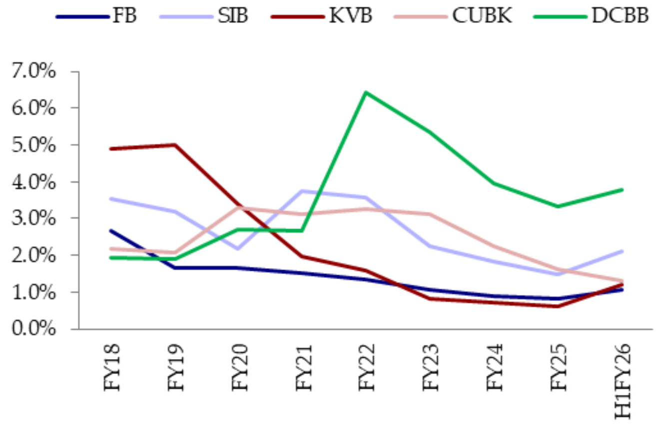
Exhibit 15: Interest rate range of loans contracted during Q2FY26

Product	Min RoI	Max RoI	Mean
Home Loan and Flexi loans	8.8	14.5	11.0
Business Loans	9.3	19.0	12.6
Gold Loan	9.8	17.0	13.1
IIFL Gold Loan	10.6	10.6	10.6
Muthoot Gold Loan	9.9	9.9	9.9
CV	11.3	18.3	14.0
New Tractor	12.5	16.0	13.9
Used Tractor	18.0	21.7	19.3
SME & MSME Loans CC	9.3	12.0	10.7
SME & MSME Loans TL	9.3	13.5	10.8
JLG Loans	26.0	26.0	26.0
Construction Finance	11.4	13.5	12.7

Source: Company, HSIE Research, Note: ROI - Rate of interest, Mean rate - Sum of rate of interest of all loan a/cs divided by number of all loan a/cs

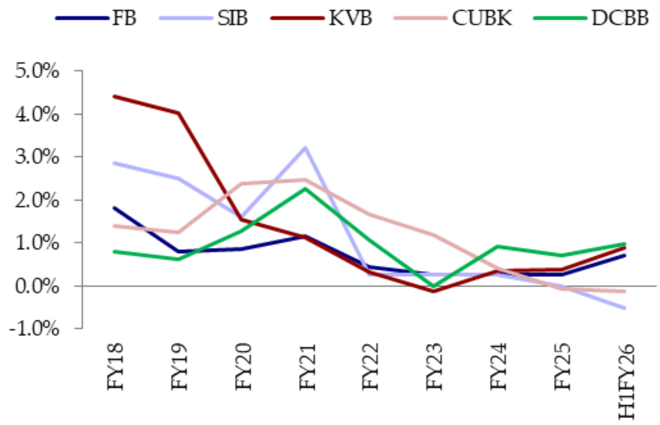
- **Elevated gross slippages a worry, but lower LGDs offer respite:** Gross slippages (H1FY26: 3.8%) have been significantly elevated compared to peers, even excluding the gold loan portfolio (H1FY26: 2.5%). These are largely arising from the gold loan, MSME, CV and agri businesses. However, historically, ~80% of these slippages tend to get recovered / upgraded, reducing the gap of net slippages with peers. This is especially evident in DCBB boasting the lowest mix of vintage NPAs (D3 + Loss assets that call for higher ageing provisions). The management aims to reduce the gross slippages through higher engagement with the borrower and early nudges. Credit costs have largely been under control on the back of higher recoveries. The management has guided for credit costs to remain at 40-45bps in the medium-term.

Exhibit 16: Elevated gross slippages



Source: Company, HSIE Research

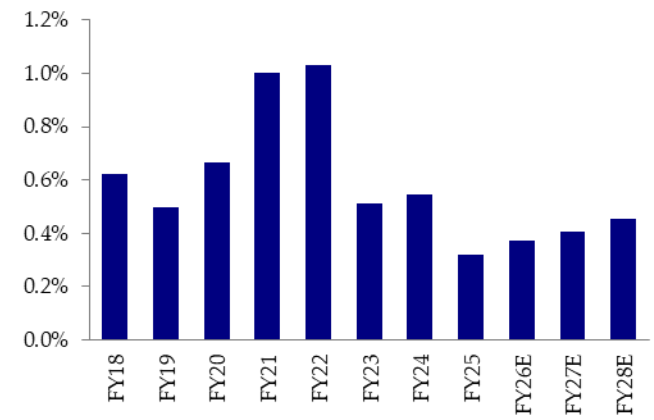
Exhibit 17: Net slippages - Gap narrows with peers owing to strong recovery run-rate



Source: Company, HSIE Research

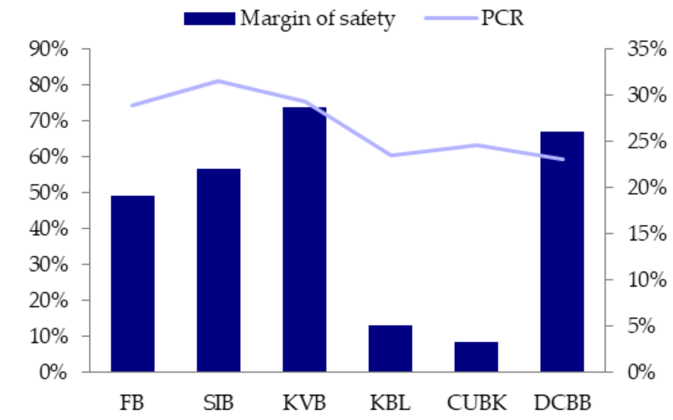
- **Low PCR; sufficient margin of safety:** DCBB carries relatively lower provisioning on NPA (H1FY26: ~60%) compared to its peers, resulting in significantly higher NNPAs (H1FY26: 1.2%). However, the margin of safety (18% as of Sep-25) i.e excess PCR over mandated PCR is at par with industry peers, indicating strong recoveries and lower loss given defaults. Given the higher gross slippages, we argue that DCBB might need to shore up its provisioning coverage, especially given the impending ECL transition during FY28.

Exhibit 18: Credit costs to inch up with ECL transition



Source: Company, HSIE Research

Exhibit 19: Low PCR; but high margin of safety



Source: Company, HSIE Research

Stable bank struggling with operating leverage

Our cross-cycle analysis suggests DCBB has been challenged by operating leverage, especially during the expansion phase. During FY05-10, DCBB struggled with legacy portfolio issues, resulting in higher impairment and losses. Between FY09 and FY23, the bank stabilized and maintained stable asset quality, even during the AQR (2016-2019) when the system was faced with distressed corporate assets. However, DCBB struggled with operating leverage, which is beginning to improve under the new leadership team. Going forward, we expect DCBB to sustain its growth trajectory and improve operating leverage, resulting in medium-term ROAs sustaining over 1%.

Exhibit 20: DCB Bank - A cross-cycle journey

DCB Bank	Units	FY05-10	FY10-15	FY15-18	FY18-22	FY22-25
Business						
Net advances CAGR	%	10%	25%	25%	9%	21%
Deposits CAGR	%	4%	18%	24%	10%	20%
CASA CAGR	%	20%	9%	26%	12%	17%
Net advances mkt. share	%	0.1%	0.1%	0.2%	0.2%	0.2%
Deposits mkt. share	%	0.2%	0.1%	0.2%	0.2%	0.2%
CASA Market share	%	0.1%	0.1%	0.1%	0.1%	0.1%
CASA %	%	29%	29%	24%	23%	26%
Margins						
Yield on advances	%	10.6%	11.4%	11.3%	11.0%	11.0%
Cost of funds	%	6.2%	6.9%	6.8%	6.5%	6.6%
NIM	%	2.6%	3.3%	4.0%	3.7%	3.6%
Operating ratios						
Opex to assets	%	3.6%	2.9%	2.9%	2.4%	2.7%
C/I ratio	%	87%	67%	59%	54%	64%
Branches	No.	13	74	164	82	64
Productivity ratios						
SA/Branch	mn	100	135	121	150	237
Deposit/Branch	mn	614	792	748	867	1,125
Banca income per branch	mn	NA	1.1	0.8	1.0	2.5
Business/Employee	mn	45	61	71	83	86
Asset Quality						
Gross slippages %	%	5.3%	1.4%	1.9%	3.4%	4.2%
Net slippages %	%	NA	0.5%	0.7%	1.3%	0.5%
Credit costs %	%	3.1%	0.6%	0.5%	0.8%	0.5%
RoA Tree (%)						
Interest Income	%	7.7%	9.0%	9.4%	9.0%	9.1%
Interest Expenses	%	5.4%	6.0%	5.8%	5.6%	5.8%
NII	**%**	**2.3%**	**3.0%**	**3.6%**	**3.3%**	**3.3%**
Other income	%	2.0%	1.3%	1.2%	1.1%	0.9%
Total Income	%	4.3%	4.3%	4.8%	4.4%	4.2%
Opex	%	3.6%	2.9%	2.9%	2.4%	2.7%
PPOP	%	**0.7%**	**1.4%**	**2.0%**	**2.0%**	**1.5%**
Provisions	%	1.9%	0.4%	0.5%	0.8%	0.3%
PBT	%	-1.2%	1.0%	1.4%	1.2%	1.2%
RoA	%	**-1.2%**	**0.9%**	**1.0%**	**0.9%**	**0.9%**
Leverage	%	16	11	11	11	12
RoE	%	**-21%**	**10%**	**10%**	**10%**	**11%**

Source: Company, HSIE Research, Average of ratios taken across cycles

- **Early signs of improvement:** While DCBB fares well on many key parameters compared to peers, the drag on the cost of funds and limited fee income traction has driven sub-optimal ROAs. DCBB has showcased early signs of improvement in deposit pricing, fee income and operating leverage, which is likely to sustain.

Exhibit 21: Q2FY26 Comparative Dashboard

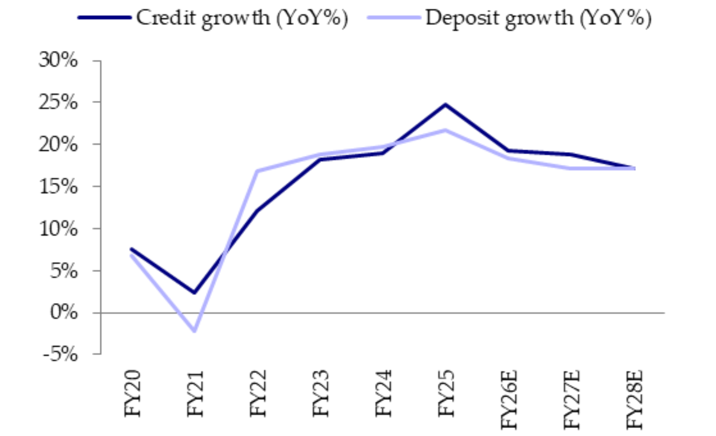
Q2FY26	Units	FB	SIB	KVB	KBL	CUBK	DCBB	CSB
Net advances	INR bn	2,447	902	922	722	567	530	343
Deposits	INR bn	2,889	1,156	1,105	1,028	695	648	397
% YoY								
Net advances	%	6%	10%	16%	-2%	19%	19%	29%
Deposits	%	7%	10%	15%	3%	21%	19%	25%
CASA	%	11%	10%	8%	3%	16%	9%	9%
NII	%	5%	-8%	19%	-13%	14%	17%	15%
% QoQ								
Net advances	%	1%	4%	4%	-1%	5%	3%	5%
Deposits	%	1%	2%	4%	0%	6%	4%	10%
CASA	%	3%	2%	4%	0%	9%	5%	-1%
NII	%	7%	-3%	17%	-4%	7%	3%	12%
Liabilities								
Cost of funds	%	5.6%	4.7%	5.6%	5.8%	4.8%	7.0%	6.5%
CASA ratio	%	31%	32%	28%	31%	28%	24%	21%
C/D ratio	%	85%	78%	83%	70%	82%	82%	86%
RSBDA/Total deposits	%	73%	78%	57%	88%	55%	57%	51%
SA/Branch	INR mn	441	314	232	270	152	274	79
% of loan book								
Corporate	%	33%	40%	14%	47%	9%	6%	23%
Retail	%	44%	28%	26%	53%	19%	NA	17%
Mortgages	%	17%	14%	17%	NA	5%	53%	NA
MSME/Commercial	%	19%	15%	36%	19%	41%	5%	13%
Gold Loans	%	13%	20%	28%	NA	28%	67%	48%
Operating ratios								
Yield on advances	%	8.9%	7.1%	9.8%	9.0%	9.7%	11.1%	11.0%
NIM (reported)	%	3.1%	2.8%	3.8%	2.7%	3.6%	3.2%	3.8%
C/I ratio	%	54%	60%	43%	58%	49%	61%	64%
Asset Quality								
PCR %	%	74%	81%	75%	59%	63%	59%	72%
Gross slippages	%	1.0%	0.9%	1.5%	1.4%	1.1%	3.1%	1.1%
Net slippages	%	0.5%	-0.7%	1.2%	0.9%	-0.7%	0.6%	0.3%
Credit costs	%	0.5%	0.3%	1.2%	0.1%	0.3%	0.5%	0.5%
D3+Loss in GNPA mix	%	27%	41%	28%	36%	43%	6%	24%
RoA Tree (Q2FY26)								
Interest Income	%	7.6%	7.3%	8.8%	7.5%	8.1%	9.3%	9.0%
Interest Expenses	%	4.8%	4.8%	4.8%	5.0%	4.8%	6.3%	5.6%
NII	%	**2.8%**	**2.5%**	**3.9%**	**2.5%**	**3.2%**	**3.1%**	**3.4%**
Other income	%	1.2%	1.6%	1.6%	1.2%	1.3%	1.0%	2.8%
Total Income	%	4.0%	4.0%	5.6%	3.7%	4.5%	4.0%	6.3%
Opex	%	2.2%	2.4%	2.4%	2.2%	2.2%	2.4%	4.0%
PPOP	%	**1.9%**	**1.6%**	**3.2%**	**1.6%**	**2.3%**	**1.6%**	**2.3%**
Provisions	%	0.4%	0.2%	0.9%	0.4%	0.3%	0.3%	0.5%
RoA	%	**1.1%**	**1.1%**	**1.8%**	**1.0%**	**1.6%**	**0.9%**	**1.3%**
Leverage	x	10	13	10	10	9	13	10
RoE	%	**11.0%**	**13.4%**	**18.4%**	**10.1%**	**13.3%**	**12.5%**	**13.2%**

Source: Company, HSIE research

Sustaining operating leverage outcomes remains key

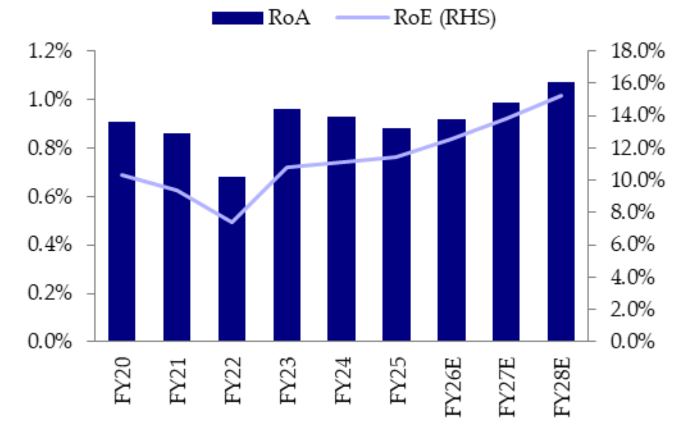
- **Operating leverage and better deposit pricing to drive earnings reflation:** With the onset of the new management, DCBB has witnessed early signs of improvement in operating leverage and liabilities management in the last 6 quarters, while sustaining a business growth of 20%. The bank is trying to solve for the deposit pricing handicap by improving its product proposition (secured credit cards, overdraft facility) and engagement with customers. DCBB is focused on sweating out more from the existing resources on the back of digitization and better monitoring while also cutting deadwood workforce, concomitantly tapping into is DCB Niyo card customer cross-sell potential. We flag high leverage (14x) of bank compared to peers highlighting the need for a fundraise. We find increasing comfort in DCBB's sustained efforts at cost rationalization and self-origination, reflecting in early evidence of operating leverage gains and greater control over asset quality outcomes. We raise our FY27E/FY28E by ~4%/~5% driven from lower cost of funds and better operating efficiencies. We upgrade from ADD to BUY with a revised TP of INR220 (1.0x Sep-27 ABVPS) from earlier INR 160.

Exhibit 22: Business growth to remain in 18-20% band



Source: Company, HSIE Research

Exhibit 23: RoA & RoE trajectory



Source: Company, HSIE Research

Exhibit 24: Change in estimates

(INR bn)	FY26E			FY27E			FY28E		
	New	Old	Δ	New	Old	Δ	New	Old	Δ
Net advances	609	608	0.2%	724	722	0.3%	847	845	0.3%
NIM (%)	3.3	3.3	3 bps	3.4	3.3	10 bps	3.5	3.4	14 bps
NII	25.4	25.1	1.1%	30.7	29.7	3.1%	37.0	35.5	4.2%
PPOP	13.6	13.3	2.4%	16.4	15.8	4.0%	20.9	19.5	7.1%
PAT	7.7	7.6	0.7%	9.6	9.2	4.3%	12.2	11.6	5.3%
Adj. BVPS (INR)	187.3	187.1	0.1%	210.5	210.6	0.0%	251.4	250.4	0.4%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	42,001	53,620	64,706	75,250	87,162	102,018
Interest Expenses	24,832	34,341	43,640	49,871	56,484	65,055
Net Interest Income	**17,169**	**19,279**	**21,066**	**25,379**	**30,678**	**36,963**
Non-Interest income	4,092	4,742	7,505	9,237	10,401	12,408
Total income	21,262	24,021	28,571	34,615	41,080	49,371
Operating Expenses	13,394	15,377	18,201	21,004	24,676	28,516
Operating Profit	**7,868**	**8,644**	**10,370**	**13,611**	**16,403**	**20,855**
Provisions	1,592	1,425	2,084	3,384	3,571	4,542
PBT	6,276	7,219	8,286	10,228	12,832	16,313
Tax	1,620	1,860	2,133	2,557	3,208	4,078
PAT	**4,656**	**5,359**	**6,153**	**7,671**	**9,624**	**12,235**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,125	3,128	3,142	3,142	3,142	3,142
Reserves	42,513	47,585	53,765	62,411	70,410	83,721
Net worth	45,638	50,712	56,907	65,553	73,552	86,863
Deposits	**412,388**	**493,530**	**600,310**	**710,740**	**832,232**	**975,027**
Borrowings	41,181	62,195	91,152	100,234	112,770	128,731
Other liabilities & provisions	24,426	23,932	19,730	28,203	33,107	38,708
Total Liabilities & Equity	**523,633**	**630,369**	**768,099**	**904,729**	**1,051,662**	**1,229,329**
Cash and cash equivalents	23,683	30,659	26,986	43,049	47,366	51,145
Investments	125,822	162,108	201,499	219,146	242,600	287,660
Advances	**343,807**	**409,246**	**510,469**	**608,987**	**723,611**	**847,431**
Fixed assets	8,262	8,649	8,984	9,433	9,905	10,400
Other assets	22,079	19,708	20,160	24,113	28,180	32,693
Total Assets	**523,633**	**630,369**	**768,099**	**904,729**	**1,051,662**	**1,229,329**

Source: Company, HSIE Research

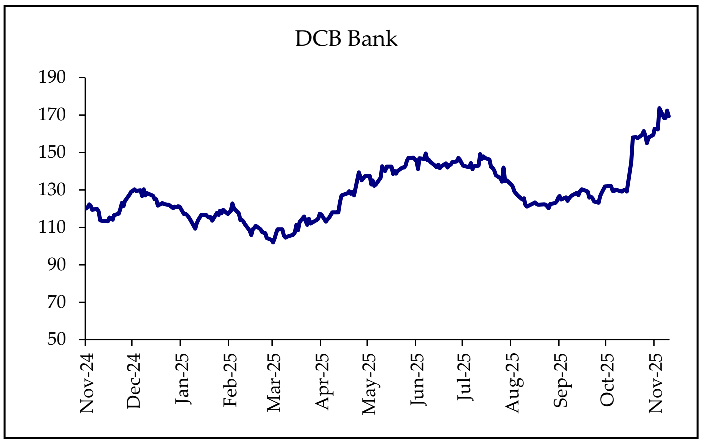
Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS						
EPS (INR)	14.9	17.2	19.6	24.4	30.6	38.9
Earnings Growth (%)	62%	15%	15%	25%	25%	27%
BVPS	146.5	162.8	181.1	208.6	234.1	276.5
Adj. BVPS	134.8	148.0	162.9	187.3	210.5	251.4
ROAA (%)	1.0%	0.9%	0.9%	0.9%	1.0%	1.1%
ROAE (%)	10.8%	11.1%	11.4%	12.5%	13.8%	15.3%
P/E (x)	12	10.2	8.9	7.2	5.7	4.5
P/ABV (x)	1.3	1.2	1.1	0.9	0.8	0.7
P/PPOP (x)	7.0	6.4	5.3	4.0	3.4	2.6
PROFITABILITY (%)						
Yield on loans	10.7%	11.3%	11.1%	10.7%	10.7%	10.7%
Cost of Funds	5.9%	6.8%	7.0%	6.6%	6.4%	6.4%
Cost of Deposits	5.9%	6.8%	7.0%	6.4%	6.3%	6.2%
Spread	4.8%	4.5%	4.1%	4.4%	4.4%	4.5%
NIM	4.0%	3.7%	3.3%	3.3%	3.4%	3.5%

	FY23	FY24	FY25	FY26E	FY27E	FY28E
OPERATING EFFICIENCY						
Cost to average assets	2.8%	2.7%	2.6%	2.5%	2.5%	2.5%
Cost-income	63.0%	64.0%	63.7%	60.7%	60.1%	57.8%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	18.2%	19.0%	24.7%	19.3%	18.8%	17.1%
Deposits Growth (%)	18.9%	19.7%	21.6%	18.4%	17.1%	17.2%
C/D ratio	83.4%	82.9%	85.0%	85.7%	86.9%	86.9%
Equity/Assets (%)	8.7%	8.0%	7.4%	7.2%	7.0%	7.1%
Equity/Loans (%)	13.3%	12.4%	11.1%	10.8%	10.2%	10.3%
CASA %	26.4%	26.0%	24.5%	23.5%	22.9%	22.4%
CRAR (%)	17.6%	16.6%	16.8%	15.1%	14.8%	15.0%
Tier I (%)	15.2%	14.5%	14.3%	13.0%	13.0%	13.5%
ASSET QUALITY						
Gross NPA	11,230	13,535	15,544	18,836	21,055	23,200
Net NPA	3,651	4,625	5,716	6,698	7,398	7,877
PCR	67.5%	65.8%	63.2%	64.4%	64.9%	66.0%
GNPA %	3.2%	3.2%	3.0%	3.0%	2.9%	2.7%
NNPA %	1.1%	1.1%	1.1%	1.1%	1.0%	0.9%
Slippages	5.4%	4.0%	3.3%	3.3%	3.1%	2.9%
Credit costs	0.5%	0.5%	0.3%	0.4%	0.4%	0.5%
ROAA Tree						
Net Interest Income	3.5%	3.3%	3.0%	3.0%	3.1%	3.2%
Non-Interest Income	0.8%	0.8%	1.1%	1.1%	1.1%	1.1%
Operating Cost	2.8%	2.7%	2.6%	2.5%	2.5%	2.5%
Provisions	0.3%	0.2%	0.3%	0.4%	0.4%	0.4%
Tax	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
ROAA	1.0%	0.9%	0.9%	0.9%	1.0%	1.1%
Leverage (x)	11.3	12.0	13.0	13.7	14.1	14.2
ROAE	10.8%	11.1%	11.4%	12.5%	13.8%	15.3%

Source: Company, HSIE Research

Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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HDFC Securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com