

Steady Quarter; Improving Profitability with Balanced Growth Levers!

Est. Vs. Actual for Q3FY26: NII – **INLINE**; PPOP – **INLINE**; PAT – **MISS**

Changes in Estimates post Q3FY26

FY26E/FY27E/FY28E (in %): NII: -0.6/+1.2/-0.2; PPOP: +1.0/+6.1/+4.3; PAT: -1.5/+1.4/-0.6

Recommendation Rationale

- **Margins Supported by Lagged Repricing Tailwinds; Improvement Momentum Intact:** In Q3, DCB reported a 4bps improvement in NIMs, despite a higher yield compression of 13bps vs a 10bps CoF improvement, and was supported by the partial impact of the CRR cut and lower borrowings. **Going ahead, though the CRR impact is not fully priced in and should reflect in Q4 margins, the impact of the Dec'25 repo rate cut is yet to flow through and would be visible on Q4 yields.** However, TD repricing is expected to meaningfully flow through till Q2/Q3FY27. The bank is actively working on replacing borrowings with low-cost granular deposits with a concurrent reduction in dependence on wholesale funding. On the asset side, yields continued to see a lagged impact of rate cuts, with the full transmission of the 50 bps cut taken in Jun'25 visible in Q3, and continued monthly repricing occurring as fixed-rate loans transition to floating. The strategic initiative undertaken by the bank continues to show encouraging results. **BL continues to account for 60+% of incremental sourcing, with the share of BL now improving to >50% in the mortgage portfolio. This, along with continued TD repricing, should support margins going forward. We expect NIMs to improve to ~3.4% (+/-5bps) over FY27-28E vs 3.2% in FY26E.**
- **Fee Income Growth Sustainable:** In Q3, fee income growth was robust at 29/15% YoY/QoQ, driven by TPP distribution, healthy growth supporting processing fees. The management highlighted that Q4 is a seasonally strong quarter for both TPP distribution and loan growth, **lending confidence that fee income momentum will remain robust.** DCB's fee income profile is largely an outcome of its liability franchise with TPP income, trade finance, remittances, and forex fees anchored around deposit traction. Going forward, core fee income is expected to grow broadly in line with business growth, with the **management reiterating its confidence in consistently maintaining fee income of atleast 1% of average assets.**
- **Asset Quality Trajectory Improving:** In Q3, DCB's asset quality improvement continued with GNPA/NNPA down 19/11bps QoQ and at multi-quarter lows. Slippages continued to remain steady QoQ, with the slippage ratio at 2.9% vs 3.4/3.0% YoY/QoQ. The management reiterated its intent to bring down NNPA to <1% over the foreseeable future. The higher credit costs in Q3 are not linked to ECL implementation, and the management is highlighting that the impact of ECL implementation will not be damaging. Overall, **asset quality metrics continue to trend positively, with slippages and bounce rates declining, alongside a reduction in SMA levels, giving confidence in the trend's sustainability. Going ahead, credit costs are expected to remain under control with no major asset quality challenges visible.**

Sector Outlook: Positive

Company Outlook: DCB is well-positioned to deliver steady profitability improvement, led by (1) margin tailwinds from lagged liability repricing and a strategic shift towards better-yielding BL; (2) gradual decline in opex ratio improvement driven by operational efficiency and tech-led initiatives, (3) Fee income profile strengthening and sustainable delivery of ~1% of avg. assets and (4) Encouraging asset quality trends, with declining slippages and well-contained credit costs. We expect RoA to improve to 1% by FY27 and sustain or marginally improve thereon. DCB's RoA/RoE profile is expected to improve to 1%/14-15% over FY27-28E vs 0.9/11.9% in FY26E. We expect a healthy Credit/Deposit/NII/Earnings growth delivery of 18/18/21/27% CAGR over FY26-28E.

Current Valuation: 1.0x Sep'27E ABV; Earlier Valuation: 0.95x FY27E ABV

Current TP: Rs 225/share; Earlier TP: Rs 200/share

Recommendation: We maintain our **BUY recommendation** on the stock.

Alternative BUY Ideas from our Sector Coverage Federal Bank (TP – Rs 320)

Financial Performance:

- **Operational Highlights:** Disbursements grew by +20/6% YoY/QoQ, with growth being broad-based. Advances growth was at 18/7% YoY/QoQ. Deposits growth stood at 20/5% YoY/QoQ, led by TDs, which grew by 23/6% YoY/QoQ, while CASA Deposits grew by 8/1% YoY/QoQ. CASA Ratio declined to 22.8% vs 23.5% QoQ. C-D Ratio stood at 83.5% vs 81.8% QoQ.
- **Financial Performance:** NII growth was healthy at 15/5% YoY/QoQ, supported by strong growth and a marginal NIM improvement of 4bps QoQ. NIMs stood at 3.27% vs 3.23% QoQ. CoF declined by 10bps QoQ, while yields declined by 13bps QoQ. Non-interest income was high and grew by 20/19% YoY/QoQ, supported by better fee income. Opex growth was higher (+15/9% YoY/QoQ), due to higher employee expenses (+17/11% YoY/QoQ). The bank has taken a provision of Rs ~Rs 27Cr for revised labour laws. C-I Ratio stood at 61.8% vs 62.7/61.2% YoY/QoQ. PPOP grew by 19/6% YoY/QoQ. Provisions came in higher than expected, with credit costs at 54bps (calc.) vs 46bps QoQ. Earnings growth was healthy at 22% YoY/flat QoQ.
- **Asset Quality** improved marginally, and GNPA/NNPA stood at 2.72/1.10% vs 2.91/1.21% QoQ, driven by steady slippages QoQ. Slippage ratio stood at 2.9% vs 3.4/3.0% YoY/QoQ. PCR stood at 75% vs 74% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q3FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	625	+4.8	+15.1	622	+0.5
PPOP	323	+6.2	+19.1	321	+0.6
Net Profit	185	+0.5	+22.0	196	-5.5
NNPA (%)	1.1	-11 bps	-8 bps	1.1	+1 bps
RoA (%)	0.9	-2 bps	+6 bps	1.0	-4 bps

Source: Company, Axis Securities Research

(CMP as of 23rd January, 2026)

CMP (Rs)	183
Upside /Downside (%)	23%
High/Low (Rs)	193/101
Market cap (Cr)	5,875
Avg. daily vol. (6m) Shrs.	29,40,671
No. of shares (Cr)	32.2

Shareholding (%)

	Jun-25	Sep-25	Dec-25
Promoter	14.7	14.7	16.4
FII's	11.7	10.5	11.8
MFs	21.8	21.5	21.4
Others	51.8	53.3	50.4

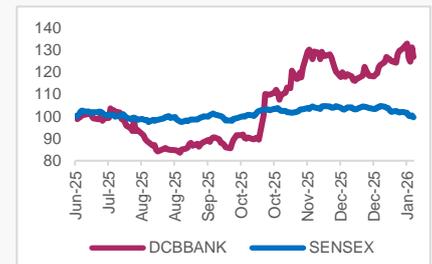
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	2,468	3,075	3,602
PPOP	1,312	1,744	2,073
Net Profit	729	992	1,181
EPS (Rs)	22.7	30.8	36.7
ABV (Rs)	182.2	207.9	237.8
P/ABV (x)	1.0	0.9	0.8
RoA (%)	0.9	1.0	1.0
NNPA (%)	1.0	1.0	1.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-0.6	+1.2	-0.2
PPOP	+1.0	+6.1	+4.3
PAT	-1.5	+1.4	-0.6

Relative Performance



Source: AceEquity, Axis Securities Research

Results Gallery

[Q2FY26](#)

[Q1FY26](#)

[Q4FY25](#)

[Q3FY25](#)

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Key Highlights

- **Granular Deposit Franchise Strengthens:** DCB has been working towards building a granular retail-led deposit franchise. The bank has seen improvement in concentration ratios with Top-20 depositors coming down to 6.61% vs 6.86% QoQ. Going forward, the management does not expect any significant shift in the mix of bulk and retail deposits, with the impact of rate cuts visible uniformly across both categories. The bank has seen peak retail rates, and the peak rates of the 6-largest Indian banks have narrowed to ~60 bps, indicating reduced support on pricing as a differentiator. On the contrary, the bank has shifted focus to sharpen its customer engagement, with over 3,000 employees focused on driving deposit accretion beyond rate-led competition.

The management believes that NiYo's customer base (currently ~0.5 Mn customers) offers a sizeable opportunity to scale its deposit franchise. The customer segment is primarily affluent and HNI, and provides DCB a cross-sell opportunity for its savings and TDs. DCB's CA franchise growth has been unimpressive, and the management indicated that growth in this segment is limiting trade fee income and SME expansion. Thus, the bank has prioritised CA accretion by appointing a senior resource to lead the initiative.

- **Growth Buoyancy in Core Segment to Sustain; SME segment Building Growth Momentum:** DCB has seen a conscious slowdown in the mortgage segment growth with the bank pulling back growth through the DSA channel as it looks to step up growth through the direct channel, given better customer stickiness vs DSA-sourced accounts. In line with its strategic intent, the HL: BL mix has shifted in favour of BL, with HL now accounting for <50% of the mortgage portfolio, reflecting stronger momentum in BL sourcing. The management has guided for mortgage portfolio growth resuming from FY27 with a meaningful uptick in disbursement.

On the SME front, the bank indicated that the franchise is still in a nascent stage, with teams being built, and a tangible outcome would be visible over the next 3-4 quarters. The demand continues to remain buoyant in the SME segment of self-employed customers. The bank is making conscious efforts to limit the co-lending portfolio to ~15% of the total mix and remains confident of growth mirroring overall credit growth from FY27 onwards. **The management continued to guide for 18-20% credit growth over the medium term, and our estimates are broadly inline with management guidance. We factor in a strong ~18% advances growth over FY26-28E.**

- **Opex Ratio improvement to be driven by improving Efficiency:** While the impact of the revision in labour laws impacted the employee cost by ~Rs 27 Cr, the management has guided for a lower manageable impact of ~Rs 1Cr/quarter going forward. The bank's focus remains on improving operational efficiency and digitisation initiatives to drive cost ratio improvement. The bank will continue to invest in manpower and the distribution network to support growth. It plans to expand its branch network in FY27, taking the branch count to 500 vs 469 currently.

Outlook

We factor in healthy business growth momentum and pen down Credit/Deposit growth of ~18% CAGR each over FY26-28E, thereby enabling the bank maintain a steady LDR ranging between 84-85%. The strategic steps taken towards protecting NIMs have been yielding results. This, along with sustained CoF decline, should help DCB improve its NIMs to ~3.4% (+/-5bps) over FY27-28E. We broadly maintain our NII/Earnings estimates over FY26-28E with minor tweaks. We expect RoA to improve to 1% by FY27 and sustain or marginally improve thereon. RoE delivery appears to be in-line with management guidance of delivering RoE of 13.5/14.5% respectively in FY27/28E.

Valuation & Recommendation

The stock currently trades at valuations of 0.8x Sep'27E ABV, and we value the stock at 1.0x Sep'27E ABV and arrive at a target price of Rs 225/share, implying an upside of 23% from the CMP. **We maintain our BUY recommendation backed.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.
- Inability of the bank to mobilize deposits, which could potentially derail credit growth or hamper margins.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	2,468	3,075	3,602	2,481	3,038	3,608	-0.6	1.2	-0.2
PBP	1,312	1,744	2,073	1,298	1,643	1,988	1.0	6.1	4.3
Provisions	337	417	494	309	334	398	9.0	24.6	23.9
PAT	729	992	1,181	740	979	1,189	-1.5	1.4	-0.6

Source: Company, Axis Securities Research

Results Review (Standalone)

(Rs Cr)	Q3FY26	Q3FY25	% YoY	Q2FY26	% QoQ	9MFY26	9MFY25	% YoY
Net Interest Income	625	543	15.1	596	4.8	1,801	1,549	16.3
Non-Interest Income	221	184	20.3	186	19.0	644	532	21.1
Operating expenses	523	456	14.8	478	9.4	1,491	1,349	10.6
Staff Cost	270	231	16.6	243	10.8	764	692	10.4
Pre-provision profits	323	271	19.1	304	6.2	954	732	30.3
Provisions and contingencies	74	67	10.3	61	22.4	250	141	76.9
PBT	249	204	22.0	243	2.2	704	590	19.2
Provision for Tax	64	52	21.9	59	7.6	178	152	17.0
PAT	185	151	22.0	184	0.5	526	438	20.0
Business Update								
Disbursements	5,703	4,757	19.9	5,367	6.3	16,043	13,624	17.8
Net Advances	56,600	47,780	18.5	52,975	6.8	56,600	47,780	18.5
Deposits								
	67,754	56,678	19.5	64,777	4.6	67,754	56,678	19.5
CASA Deposits	15,428	14,222	8.5	15,235	1.3	15,428	14,222	8.5
CASA Ratio	22.8	25.1	-232bps	23.5	-75bps	0.2	0.3	-2bps
Cost-Income ratio (%)	61.8	62.7	-86bps	61.2	69bps	61.0	65.0	-396bps
Yield on Advances	11.0	11.4	-46bps	11.1	-13bps	11.1	10.7	34bps
Cost of Deposits	6.9	7.1	-26bps	7.0	-10bps	6.0	6.1	-2bps
Cost of Funds	6.9	7.2	-27bps	7.0	-8bps	6.1	6.2	-5bps
NIMs (%)	3.3	3.3	-3bps	3.2	4bps	3.9	3.6	37bps
Asset Quality								
Gross NPA (%)	2.7%	3.1%	-39bps	2.9%	-19bps	2.7%	3.1%	-39bps
Net NPA (%)	1.1%	1.2%	-8bps	1.2%	-11bps	1.1%	1.2%	-8bps
PCR (%)	75%	75%	59bps	74%	120bps	75.4%	74.8%	59bps
Capital Adequacy								
CRAR	15.8	16.3	-45bps	16.4	-57bps	15.8	16.3	-45bps
Tier I	13.5	13.5	-9bps	14.0	-52bps	13.5	13.5	-9bps
Tier II	2.4	2.8	-36bps	2.4	-5bps	2.4	2.8	-36bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	2,107	2,468	3,075	3,602
Other Income	751	901	1,033	1,191
Total Income	2,857	3,368	4,109	4,793
Total Operating Expense	1,820	2,057	2,365	2,720
PPOP	1,037	1,312	1,744	2,073
Provisions & Contingencies	208	337	417	494
PBT	829	975	1,327	1,580
Provision for Tax	213	246	334	398
PAT	615	729	992	1,181

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Share Capital	314	322	322	322
Reserves	5,376	6,132	7,055	8,154
Shareholder's Funds	5,691	6,453	7,377	8,476
Total Deposits	60,031	71,916	85,265	1,00,850
Borrowings	9,115	9,513	10,564	12,848
Other Liabilities & Provisions	1,973	2,410	2,830	3,350
Total Liabilities	76,810	90,292	1,06,035	1,25,524
APPLICATION OF FUNDS				
Cash & Bank Balance	2,699	3,449	3,662	4,332
Investments	20,150	22,701	26,403	31,229
Advances	51,047	60,717	71,946	85,200
Fixed Assets & Other Assets	2,914	3,426	4,023	4,763
Total Assets	76,810	90,292	1,06,035	1,25,524

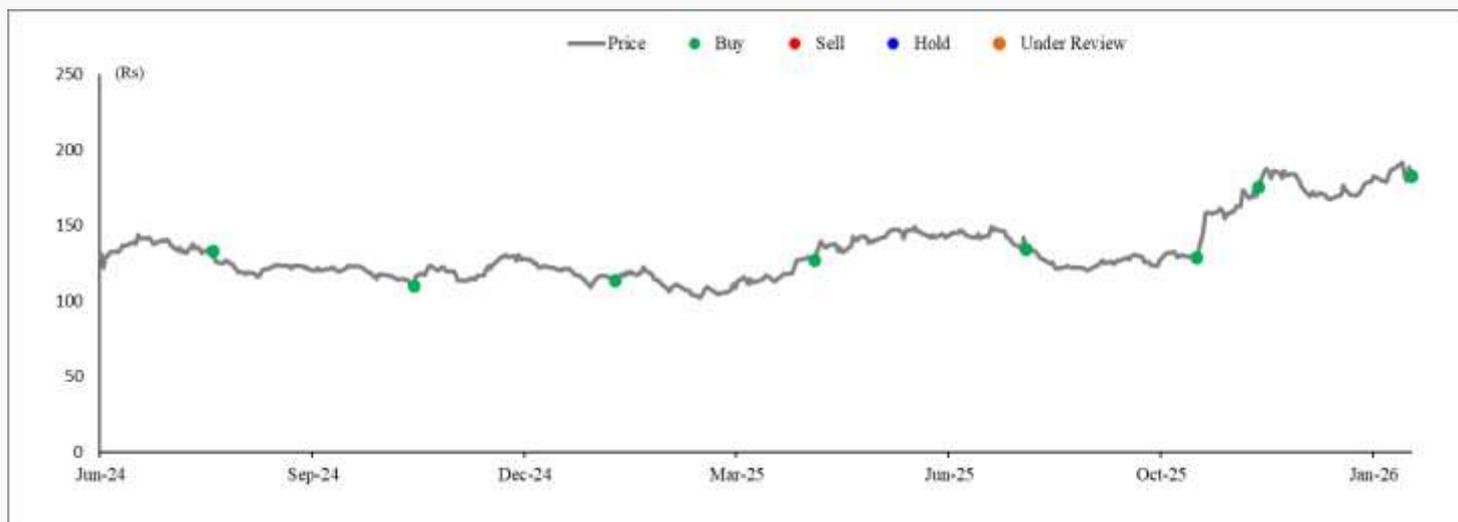
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	19.6	22.7	30.8	36.7
Earnings Growth (%)	0.1	0.2	0.4	0.2
BVPS	181.1	200.6	229.3	263.4
Adj. BVPS	162.9	182.2	207.9	237.8
ROAA (%)	0.9	0.9	1.0	1.0
ROAE (%)	11.4	11.9	14.2	14.8
P/E (x)	9.3	8.1	5.9	5.0
P/ABV (x)	1.1	1.0	0.9	0.8
PROFITABILITY				
NIM (%)	3.3	3.2	3.4	3.4
Cost-Income Ratio	63.7	61.1	57.6	56.7
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	24.7	18.9	18.5	18.4
Deposit Growth (%)	21.6	19.8	18.6	18.3
Equity/Assets (%)	7.4	7.1	7.0	6.8
Equity/Loans (%)	11.1	10.6	10.3	9.9
CAR	16.8	16.0	15.2	14.5
CAR Tier I	14.3	13.7	13.1	12.7
ASSET QUALITY				
Gross NPLs (%)	3.0	2.6	2.6	2.6
Net NPLs (%)	1.1	1.0	1.0	1.0
Coverage Ratio (%)	74.5	75.0	75.0	75.0
Credit Costs	0.5	0.6	0.6	0.6
ROAA TREE				
Net Interest Income	3.0	3.0	3.1	3.1
Non-Interest Income	1.1	1.1	1.1	1.0
Operating Cost	2.6	2.5	2.4	2.3
Provisions	0.3	0.4	0.4	0.4
Tax	0.3	0.3	0.3	0.4
ROAA	0.9	0.9	1.0	1.0
Leverage (x)	13.0	13.8	14.2	14.6
ROAE	11.4	11.9	14.2	14.8

Source: Company, Axis Securities Research

DCB Bank Price Chart and Recommendation History



Date	Reco	TP	Research
25-Jul-24	BUY	150	Result Update
25-Oct-24	BUY	135	Result Update
27-Jan-25	BUY	140	Result Update
05-May-25	BUY	160	Result Update
01-Aug-25	BUY	165	Result Update
20-Oct-25	BUY	170	Result Update
17-Nov-25	BUY	200	Analyst Meet Update
27-Jan-26	BUY	225	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

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