Initiating Coverage

DCB Bank Ltd

04th Feb 2026

Sector	Ratings
Bank	BUY
Current Price	**Target**
Rs. 193	Rs. 270
Potential upside	**Holding**
40%	18 months

Stock Information	
Sensex/Nifty	83,818 / 25,776
Bloomberg	DCBB:IN
M-Cap (Rs Cr)	6,198
52-wk High/Low (Rs)	203.6 / 101.3
Face value (Rs)	10
Equity shares (Cr)	32.17
2-wk Avg Volume (Qty)	49,43,720

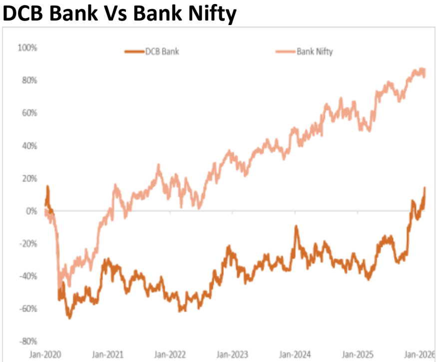
Shareholding pattern %

Particulars	Jun-25	Sep-25	Dec-25
Promoter	14.7	14.7	16.2
FIIs	11.7	10.5	11.9
DIIs	31.8	31.9	32.1
Public	41.8	42.9	39.7

Financial Summary (Rs. Crs.)

Year Ended	FY26E	FY27E	FY28E
NII	2,384	2,937	3,682
NIM (%)	3.17	3.41	3.48
PPOP	1,274	1,644	2,080
PAT	713	996	1,272
EPS (Rs.)	22	31	40
BV (Rs.)	199	230	270
PBV (x)	0.97	0.84	0.71
ROE (%)	11.78	14.43	15.82
ROA (%)	0.86	1.02	1.10
GNPA (x)	2.41	2.32	2.33
NNPA (x)	0.75	0.67	0.69

DCB Bank Vs Bank Nifty



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DCB Bank (DCB) is a new-generation private sector bank with a pan-India presence across most States and Union Territories, focused on serving self-employed customers, individuals, and businesses. Incorporated in 1995 through the reconstitution of Development Co-operative Bank Ltd., it operates 469 branches with total business of about Rs. 1,24,000 crore. DCB remains well positioned to achieve its aspirational RoA of 1.1% by FY28E, supported by improving NIMs, a strengthening fee income profile, gradual moderation in the opex ratio through enhanced efficiency, and range-bound credit costs. RoA/RoE are expected to improve to 1%–1.3% / 14.4%–15.8% over FY27–28E, compared with 0.9% / 11.4% in FY25.

Investment Rationale:

a) The bank aims to grow the loan book in the range of 18–20% going forward, driven by secured segments (LAP, SME, co-lending, etc.). b) ~76% of customers have only one product with the bank, providing an opportunity for cross-sell. c) Key driver of NIM going ahead will be repricing of deposits and changes in the asset mix. d) ~27% of Niyo customers who have used the card abroad keep less than Rs 1,000 in their savings accounts, representing an opportunity to garner deposits. e) Going forward, the cost-to-asset ratio is expected to remain range-bound between 2.4 to 2.5% due to continued investments in technology and employees. f) Further improvement in RoA will be driven by a lower cost of deposits.

With improving operational efficiency, strong NIM visibility, and strategic focus on cross-sell and secured lending, DCB is well-positioned for sustainable RoA improvement. **We recommend a "BUY", valuing the stock at PBV of 1x on FY28E book value of Rs. 270, which implies a target price of Rs. 270 and a 40% upside from the current market price.**

From Single-Product Customers to Full-Service Engagement: DCB Bank's Strategy to Unlock Untapped Value

DCB's transition from a traditional lender to a full-service banking provider is underpinned by the significant untapped potential within its existing customer base, where 76% of clients currently hold only one product. The bank's strategy focuses on increasing products per customer and enhancing wallet share through tailor-made solutions across lending, trade finance, and insurance, moving away from standardized offerings. Its savings account base presents targeted opportunities: low-balance, low-bureau score customers can be cross-sold gold loans and secured credit cards, mitigating risk through collateral, while low-balance, high-bureau score customers are ideal for term deposits, deepening engagement and deposit stability. Additionally, by leveraging UPI transaction flows, the bank can capture incremental float and strengthen customer interactions. What may appear as dormant or low-value accounts is in reality a hidden reservoir of profitable, risk-adjusted opportunities, enabling DCB to enhance customer stickiness, expand cross-selling, and accelerate its evolution into a full-service banking model.

Investors are advised to refer disclosures made at the end of the research report.

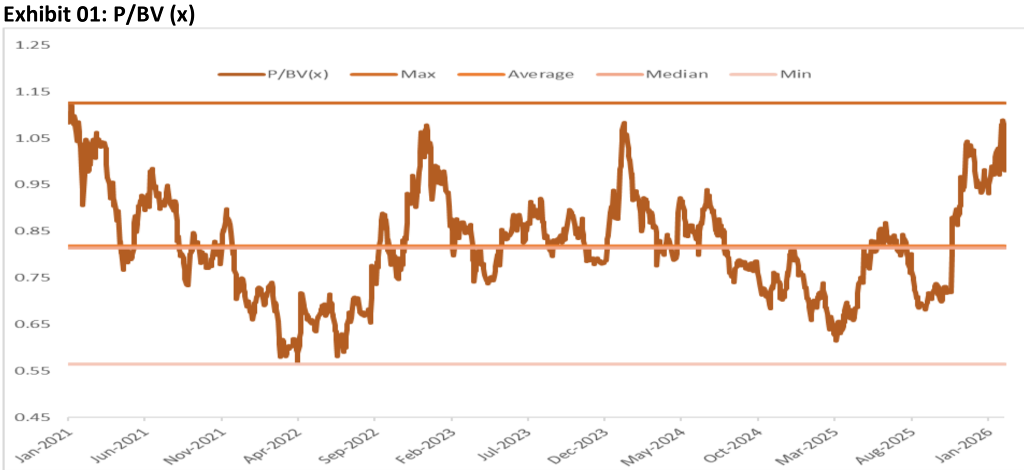
The NiYo Opportunity: Driving Deeper Engagement and Liability Growth for DCB

The NiYo franchise has built a customer base of 50 lakhs, yet many users remain sparingly engaged with DCB. Currently, only ~27% of NiYo customers who use their cards abroad maintain less than Rs 1,000 in their DCB savings accounts. Most NiYo customers continue to primarily bank with larger private and PSU banks, presenting a clear opportunity for DCB to attract these customers as liability clients. With ~60 bps a deposit rate advantage compared to peers, DCB can incentivize higher deposit engagement. Additionally, the introduction of secured credit cards offers a strong avenue to deepen relationships, enhance customer retention, and strengthen the franchise's overall liability base.

Cost of Deposits in Focus: DCB Poised for NIM Expansion Through Strategic Product Mix and Deposit Optimization

DCB has demonstrated a consistent upward momentum in Net Interest Margin (NIM), which rose sequentially from 3.20% in Q1FY26 to 3.23% in Q2 and reached 3.27% in Q3FY26. This improvement has been primarily driven by a strategic focus on reducing the Cost of Deposits (COD), which decreased from 7.12% in Q1FY26 to 6.86% in Q3FY26. The projected NIM expansion will be driven by a favorable shift in the product mix—particularly higher-yielding LAP loans within the mortgage portfolio (40.2% of advance) —and targeted efforts to optimize the cost of deposits (CoD). The bank has successfully increased its average ticket size (ATS) without compromising yields. The co-lending book (15.8% of advances in Q3FY26, +66% YoY) has emerged as a key growth driver, contributing positively to RoE while remaining non-dilutive to margins. DCB remains committed to prudent lending and does not plan to enter the unsecured segment to boost yields at the expense of asset quality. The primary lever for further NIM enhancement is calibrating the CoD. Currently, the CoD gap between DCB and comparable peers stands at 60 bps, having narrowed significantly from a peak of 127 bps. The bank maintains one of the lowest SA rates for balances below Rs 1 lakh at 1.5%, while rates for the Rs 25 lakh+ SA bucket remain relatively high at ~7%. Looking ahead, DCB will focus on mobilizing deposits at an optimal cost to further narrow the CoD gap with peers by at least 10 bps. Additionally, the management expects continued term deposit repricing over the next 3–4 quarters, supporting a projected NIM improvement to 3.50–3.65%.

Exhibit 01: P/BV (x)



Source: Systematix PCG Research

View & Valuation:

DCB remains well positioned to achieve its aspirational RoA target, supported by improving NIMs, a strengthening fee income profile, gradual moderation in the opex ratio through enhanced operating efficiency, and range-bound credit costs, with RoA/RoE expected to improve to 1%-1.1%/14.4–15.8% over FY27–28E from 0.9%/11.4% in FY25. The bank targets loan growth of ~18–20%, driven primarily by secured segments such as LAP, SME, and co-lending, while a largely underpenetrated customer base—where ~76% of customers hold only one product—offers meaningful cross-sell potential; additionally, ~27% of Niyo card users who transact abroad maintain savings balances below Rs 1,000, presenting an opportunity to deepen deposit mobilisation. Going forward, NIM expansion will be led by deposit repricing and a favourable shift in asset mix, while the cost-to-assets ratio is expected to remain range-bound at ~2.5% due to sustained investments in technology and manpower, with further RoA improvement driven by a declining cost of deposits. With improving operational efficiency, strong NIM visibility, and a strategic focus on secured lending and cross-sell, DCB is well placed for sustainable profitability improvement. **We recommend a “BUY”, valuing the stock at PBV of 1x on FY28E book value of Rs. 270, which implies a target price of Rs. 270 and a 40% upside from the current market price.**

Key Risks

Margin Risk: NIM expansion to 3.4–3.5% may be constrained by slow deposit repricing, intense competition, or limited pricing power in LAP and SME products.

Fee Income & Cross-Sell Risk: Non-interest income growth depends on successful cross-selling; slow adoption of trade finance, insurance, or digital products could limit diversification.

Asset Quality Risk: High credit growth (18–25%) increases vulnerability to slippages in SME, Agri, and LAP segments, especially under economic stress.

Deposit & Liquidity Risk: Competitive retail deposits or tight liquidity could raise funding costs, pressuring margins.

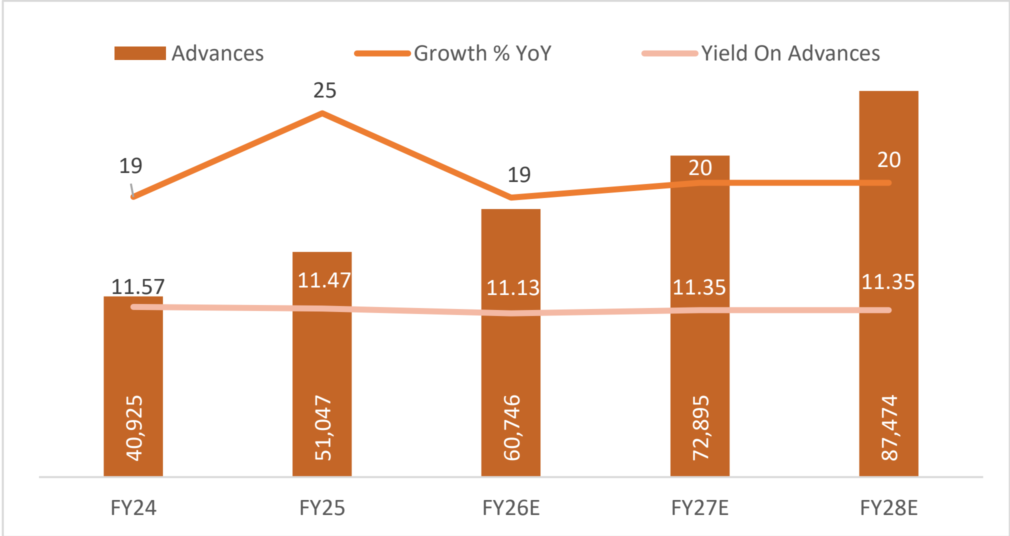
Operating Leverage Risk: Plan to add 25–30 branches each year may not deliver the expected productivity gains, leading to higher cost ratios.

Regulatory & Technology Risk: Regulatory changes or digital disruptions could affect growth, efficiency, and customer experience.

Loan and Advances: Growth Strategy, Portfolio Mix, and Structural Enablers

Since FY23, DCB has demonstrated a consistent and disciplined loan growth trajectory of 18–25%, aligned with its stated strategic objective of doubling the balance sheet in every 3–4 years. This growth has been largely organic, underpinned by a retail-focused, secured lending model and a calibrated expansion into select adjacent segments.

Exhibit 02: Loan and Advances (Rs. Crs) / Growth % / Yield on advances (%)



Source: Systematix PCG Research

Portfolio Composition and Segmental Drivers

The loan book remains well diversified and predominantly retail-oriented, with a clear focus on self-employed individuals and MSME/SME customers. Approximately 86% of advances comprised small-ticket loans below Rs.3 crore, evenly split between secured and unsecured exposures. No single geography contributes more than 20% of the portfolio, underscoring prudent concentration management.

Mortgages continue to anchor the balance sheet. Home loans and Loan Against Property (LAP) together accounted for 40.2% of total advances as per Q3FY26. Within this segment, management is consciously recalibrating the mix by moderating pure home loan growth in favour of higher-yielding LAP and business loan products, while maintaining asset quality discipline.

Agri and Inclusive Banking (AIB) has emerged as a key growth engine, contributing 23% of advances and expanding at a robust 15% YoY. Growth is being driven by well-established products such as Kisan Credit Cards (KCC), tractor loans, and microfinance. In light of emerging stress in parts of the MFI segment, the bank has strategically pivoted towards tractor financing—a secured, better-yielding product with comparatively lower credit risk—while simultaneously strengthening distribution to scale this book.

Corporate exposures remain modest at 6.4% of advances in Q3FY26, consistent with the bank's retail-first strategy.

Emerging Segments and Co-lending Strategy

DCB has built a Rs. 1,000 crore portfolio in school financing, with an average ticket size of Rs. 2–3 crore. These are secured loans, and management sees significant long-term potential in this segment, particularly in the context of the New Education Policy (NEP), which is expected to drive formalization and capacity expansion across the education sector. The bank extends these loans to educational institutions to meet their specific financing requirements. School finance falls under the bank's strategic focus on granular, secured lending with relatively high yields.

The bank has also leveraged co-lending partnerships to access new geographies and product segments, including gold loans and school finance. The co-lending portfolio doubled during FY25 and accounted for 13% (Rs. 6,636 Crs) of total advances at year-end, increasing further to 15.8% (Rs. 8,943 Crs) as of December 31, 2025. Importantly, management has articulated a clear intent to cap co-lending at ~15% of the overall book over the medium term, reinforcing its preference for strengthening in-house origination and underwriting capabilities rather than relying on inorganic growth.

Engagement Strategy and Operating Leverage

A central pillar of DCB's growth strategy is its "Engagement Strategy," which emphasizes Overdraft (OD) facilities and transactional products to enhance customer stickiness. By deepening primary banking relationships, the bank aims to increase cross-sell opportunities, improve wallet share, and drive sustainable growth in core fee income.

This strategy is supported by significant investments in technology, including upgrades to the Finacle core banking system and the FinOne lending platform. These initiatives are designed to improve operating leverage by sweating existing infrastructure, enhancing straight-through processing, and materially improving employee productivity as the balance sheet scales.

Yield on advances:

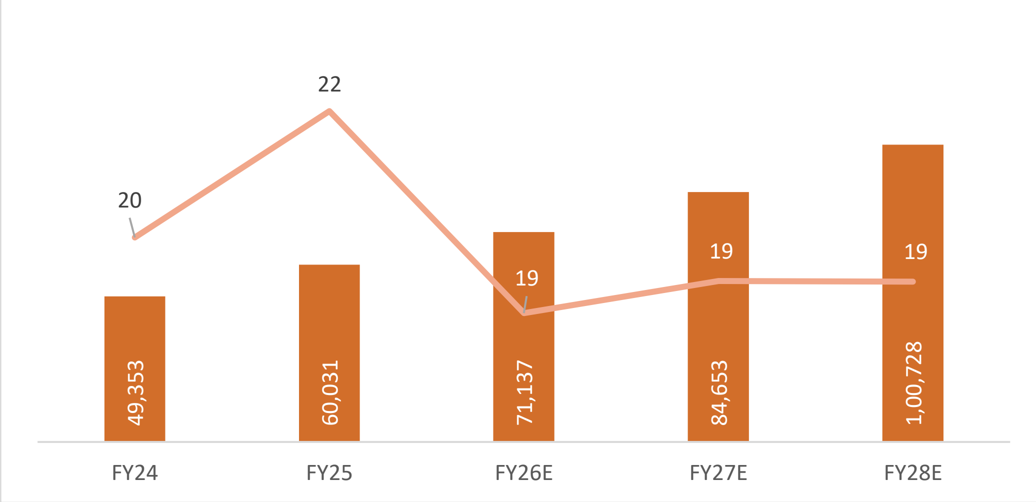
DCB yield on advances is hovering above 11% from last 3 years, to 11.11% in 9MFY26, that has direct positive implications for both NIMs and RoA. The ongoing shift toward higher-yielding LAP and Business Loans, coupled with increased penetration of OD/CC products, structurally lifts asset yields without a commensurate increase in funding costs, supporting NIM expansion. Additionally, hybrid pricing mechanisms enable faster repricing of assets during rate upcycles, further enhancing margin resilience.

From a profitability standpoint, even a 25 bps sustained improvement in asset yields—assuming stable cost of funds and credit costs—can translate into a ~10–12 bps uplift in RoA, given the bank's largely retail, secured balance sheet and improving operating leverage. As higher-yield products scale and PMAY-linked mortgages gain traction, earnings sensitivity to yield improvements remains favorable, positioning DCB for gradual but sustainable RoA expansion over the medium term.

Deposit Franchise: Granular Growth Anchored in Engagement and Retailization

DCB has sustained healthy deposit growth in the range of 17–22% YoY, with total deposits reaching Rs. 67,754 crore as of Q3FY26. The bank's liability strategy is anchored in building a granular, stable, and retail-oriented deposit base, with a strong emphasis on Savings Accounts and transaction-led customer engagement.

Exhibit 03: Deposit (Rs. Crs) / Growth %



Source: Systematix PCG Research

CASA Strategy and Customer Engagement

The bank's growth strategy is centered on deepening relationships within its core SME and self-employed customer segments through its "Engagement Strategy." This approach prioritizes transaction-led products to enhance customer stickiness and generate recurring core fee income through cross-selling. Key initiatives include products such as the "DCB Happy" savings account, which incentivizes usage through UPI cashback benefits, and the integration of GST and CBDT tax payment services. These offerings embed the bank into customers' daily financial workflows—particularly for SMEs—thereby supporting long-term liability franchise development.

The bank views its 50 lakhs Niyo customers as a significant growth opportunity. It is actively working to ensure that its 100,000+ mortgage customers and SME clients adopt DCB as their primary banking partner by opening Savings Account (SA) and Current Account (CA) relationships. The bank employs a differentiated interest rate framework, offering rates across a wide spectrum (approximately 1.5%–7%), enabling it to attract both transactional depositors and yield-seeking customers while maintaining discipline on overall cost of funds. Despite implementing calibrated rate cuts to improve margins, the bank maintained steady year-on-year savings account growth between 9.29% and 10.28% throughout the first three quarters of FY 2026

Current CASA Metrics and Peer Positioning

Despite strategic focus, CASA ratios have moderated in the near term. CASA stood at 22.77% as of December 31, 2025, compared with 25.09% as of December 31, 2024. The decline reflects muted demand deposit growth, a shift in customer preference toward term deposits in a higher interest rate environment, and relatively slower growth in savings balances compared to overall deposits. Consequently, DCB's CASA ratio remains one of the lowest amongst its peers.

On a YoY basis as of December 31, 2025, overall deposits grew by 19.5%, while CASA grew by approximately 8%, compared with 15% growth as of March 31, 2025. Management, however, continues to emphasize liability stability over headline CASA ratios.

Retailization and Deposit Granularity

DCB has been deliberately reducing its reliance on bulk deposits while steadily scaling retail term deposits. Retail term deposits (ticket size below Rs.3 crore) accounted for 61% of total term deposits, up from 60% as of March 31, 2025, indicating continued progress in deposit granularity.

Bulk term deposits (Rs.3 crore and above) represented around 29% of overall deposits, while concentration risk remains well contained. The bank's top 20 depositors represented 6.61% of total deposits for the nine-month period ending FY26. This figure is unchanged from March 31, 2025, underscoring a commitment to maintaining a diversified funding profile.

Distribution and Technology Enablers

The expansion of the deposit franchise is supported by technology investments and a calibrated physical distribution strategy. Digital platforms such as the Zippy onboarding system enable paperless, frictionless customer acquisition, while a network of over 469 branches provides on-ground reach for retail deposit mobilization. Together, these initiatives support the bank's long-term ambition to transition from a product-focused lender to a "full financial solutions provider" for its target customer segments.

Overall, while near-term CASA ratios have moderated due to external rate dynamics, DCB's deposit strategy remains structurally sound, focused on granularity, stability, and engagement-led growth, which should support funding resilience and margin stability over the medium term.

Cost of Deposits: Early Signs of Stabilization

DCB's cost of deposits has started to stabilize and trend downward, declining from 7.12% in Q3FY25 to 6.86% in Q3FY26, suggesting that the peak of the repricing cycle is likely behind. The earlier increase was primarily driven by retail term deposits—especially in the 15–24 month bucket—as lower-cost deposits matured and were renewed at higher prevailing rates. Tight systemic liquidity and intense competition further accelerated the shift of balances from CASA into higher-yielding term deposits.

In response, the bank has maintained a clear focus on liability stability and granularity, keeping the top 20 depositors below 7% of total deposits to limit reliance on volatile bulk funding. To protect Net Interest Margins, Bank has proactively reduced savings account rates and selectively cut rates on bulk and non-callable deposits, effectively positioning the liability book for faster transmission in the event of repo rate cuts.

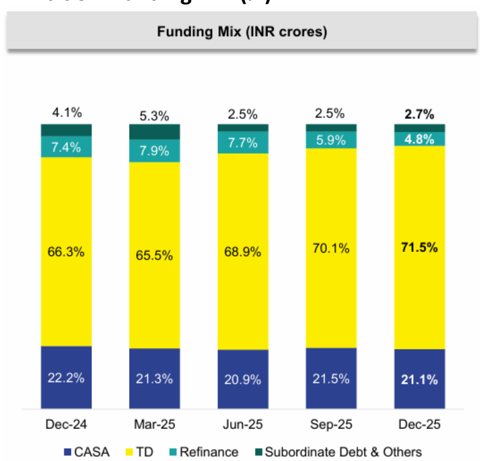
Overall, the DCB's disciplined pricing and franchise-led deposit mobilization strategy should support margin resilience as funding cost pressures ease.

Funding Mix: Disciplined Borrowings to Optimize Cost of Funds

DCB's funding mix is primarily anchored in refinance borrowings from development institutions such as NHB, SIDBI, and NABARD, supplemented by Tier-2 bonds and Certificates of Deposit (CDs). Total borrowings increased from Rs.4,118 crore in FY23 to Rs.9,115 crore in FY25, in line with the bank's balance sheet expansion strategy. NHB refinance remains a key funding source, efficiently supporting the mortgage portfolio through competitive pricing and better asset–liability matching.

The bank also selectively raises Tier-2 capital to strengthen capital adequacy, while CDs are used tactically to manage short-term liquidity requirements. Management has proactively focused on replacing high-cost liabilities with lower-cost refinance and incremental borrowings, leading to a 8 bps reduction in the cost of funds in Q3FY26. After peaking at ~7.3% in FY25, the cost of funds is expected to stay below 6.9% by FY28, supporting margin stability over the medium term

Exhibit 04: Funding mix (%)



Credit Rating

Instruments	CRISIL	CARE
Long Term – Subordinated Debt	AA-/Stable	AA-/Stable
Certificates of Deposits	A1+	A1+
Short – Term Fixed Deposits	A1+	A1+

Source: Company Presentation / Systematix PCG Research

Asset Quality: Improving Metrics Backed by Conservative Risk Management

DCB has demonstrated a consistent improvement in its asset quality, with the Gross NPA ratio declining to 2.72% and the slippage ratio reaching 3.08% by Q3FY26, both representing the lowest levels in 18 quarters. To proactively insulate the balance sheet, the bank has adopted accelerated provisioning, maintaining 100% provision cover on MFI and unsecured DA portfolios. This conservative stance, combined with a predominantly secured loan book (~85% of advances), has resulted in low Loss Given Default (LGD) and stable Net NPAs of around 1%, supported by a Provision Coverage Ratio of 75.35%. These initiatives resulted in credit cost benign at 0.37% in Q3FY26, which is significantly below the bank's internal target of 0.45%

Collections and recoveries remain a key strength. DCB operates a fully in-house collection team of approximately 1,000 personnel, enabling better customer engagement and recovery efficiency. This has translated into a healthy recovery-to-slippage ratio of 86% and better control over delinquency formation at early stages.

Looking ahead, management aims to address asset quality at the “front end” through tighter underwriting and early intervention, targeting non-gold slippages below 2% (vs. ~2.24% currently). Over the medium term, the bank expects to bring GNPA and NNPA ratios below 2% and 1%, respectively, while minimizing the impact of the transition to the ECL framework.

Branch Network: Calibrated Expansion with Efficiency Focus

DCB operated a network of 469 branches across 20 states and two Union Territories as of December 31, 2025, with approximately 56% of branches located in metro and urban centers. This distribution aligns with the bank’s focus on SME, self-employed, and mortgage-led lending, where proximity and physical presence remain critical for origination and relationship management.

Over the past few years, the bank has undertaken extensive process transformation initiatives to reduce operating costs, minimize manual intervention, and improve overall efficiency across branch operations. These efforts have enabled the bank to scale its branch network without a proportional increase in operating expenses.

Looking ahead, DCB plans a calibrated branch expansion strategy, adding 25–30 branches annually, with the objective of exiting FY27 with approximately 500 branches. New branches are expected to be set up in close proximity to existing locations, allowing the bank to deepen market penetration, improve branch-level productivity, and enhance service coverage. Physical touchpoints will continue to play a key role in core products such as SME lending, LAP, and mortgages, even as digital capabilities support onboarding and transaction processing.

Cost-to-Income: Cost Ratios Improve on Operating Leverage and Process Optimization

DCB’s cost-to-income ratio improved meaningfully to 61.00% in 9MFY26 from 64.01% in FY24, driven by operating leverage from balance sheet growth and efficiency gains from process automation and technology investments. Operating expenses as a percentage of total assets also declined to 2.52% in 9MFY26 from 2.64% in FY25.

Through a deliberate management effort, the bank has eliminated non-producers from the frontline workforce. To enhance hiring efficiency, it now leverages AI and machine learning to identify demographic profiles of high performers, enabling more effective talent selection. In parallel, the modernization of technology—such as migrating front-end Loan Origination Systems (LOS) to mobile platforms—has reduced non-productive tasks and lowered operating costs. The bank has also optimized its sourcing mix by curtailing high-cost Direct Sales Agent (DSA) channels in favor of organic sourcing, which offers lower acquisition costs and greater customer longevity.

Financial Statement:

Exhibit 05: Income Statement

Income Statement (Rs.cr.)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	5,362	6,471	7,438	8,756	10,503
YoY Growth %	27.7	20.7	15.0	17.7	19.9
Less: Interest Expense	3,434	4,364	5,054	5,819	6,821
YoY Growth %	38.3	27.1	15.8	15.1	17.2
Net Interest Income	**1,928**	**2,107**	**2,384**	**2,937**	**3,682**
YoY Growth %	12.3	9.3	13.2	23.2	25.3
Other Income	474	751	896	1,018	1,171
Operating Income	**2,402**	**2,857**	**3,280**	**3,956**	**4,853**
Employee Cost	794	923	1,016	1,130	1,355
Other Operating Expenses	743	897	990	1,182	1,418
Total Operating Expense	**1,538**	**1,820**	**2,006**	**2,312**	**2,773**
Pre-Provision Operating Profit (PPOP)	**864**	**1,037**	**1,274**	**1,644**	**2,080**
PPOP Margin (%)	44.8	49.2	53.5	56.0	56.5
Provisions & Contingencies	142	208	318	298	361
Profit Before Tax	722	829	957	1,346	1,719
Taxes	186	213	244	350	447
Tax (%)	26%	26%	25%	26%	26%
Profit After Tax (PAT)	**536**	**615**	**713**	**996**	**1,272**
PAT Margin (%)	27.8	29.2	29.9	33.9	34.5

Source: Systematix PCG Research

Interest Income:

- Interest income growth is being driven by a more margin-accretive asset mix, with co-lending acting as a tactical bridge while core mortgage and SME portfolios scale up.
- Within mortgages, DCB has shifted sourcing toward higher-yielding Loan Against Property (LAP), which now constitutes ~65% of new mortgage originations versus ~35% for home loans, supporting yield protection within a secured framework.
- Co-lending has stabilized credit growth during periods of moderation in core segments; the book is ~90% gold loans, offering scalability, attractive risk-adjusted yields, and low credit volatility.
- The gold loan segment is expected to sustain ~20% growth, providing an additional earnings lever.
- Incremental growth is expected from SME portfolio, with a gradual move toward higher ticket sizes of up to Rs.10 crore, improving both yields and operating efficiency.
- Collectively, these drivers are expected to drive Net interest income from Rs.6,471 crore in FY25 to Rs.10,503 crore by FY28E a growth of 62%.

Interest Expense Management:

- DCB is actively managing interest expenses by calibrating its Cost of Deposits (CoD) and narrowing the spread relative to peers.
- The CoD gap versus comparable banks has reduced from a peak of 127 bps to 60 bps, with a near-term target to narrow it by another ~10 bps.
- Key levers include repricing of term deposits, as high-cost legacy deposits mature over the next 3–4 quarters and are replaced at lower rates.
- The bank is also leveraging its NiYo digital platform and transaction flows to convert light-engagement users into stable, low-cost depositors.
- While absolute interest expenses will rise with business growth—estimated at Rs.6,821 crore by FY28E—the cost of funds is expected to stabilize below 6.9%, supporting sustainable margin management.

Net Interest Margin (NIM):

- Growth in low-cost deposits, calibrated asset repricing, and digital engagement initiatives are expected to gradually support NIM expansion.
- The bank's fee income base provides additional stability to non-interest income, cushioning overall earnings against margin pressures.

Other Income: Growth Through Cross-Selling and Digital Engagement

DCB is strategically positioning its non-interest income to grow from Rs.751 crore in FY25 to ~Rs.1,171 crore by FY28E, as part of its transition from a pure lender to a full-service banking model.

- Cross-Selling Opportunities: Currently, 76% of clients hold only one product, highlighting significant untapped potential. Deepening product penetration across the existing customer base is a primary growth lever.
- Tailored Solutions: Shift from generic offerings to customized solutions in trade finance and insurance, enhancing client relevance and fee income potential.
- Digital Platforms: Leveraging NiYo and UPI franchises to increase float and capture digital transaction fees.
- Collateralized Products: Targeting existing savings account customers with secured offerings such as gold loans and credit cards, which deepens engagement while mitigating risk.
- Core fee income rose steadily in FY26, increasing from Rs. 134 crore in Q1FY26 to Rs. 182 crore in Q3FY26, driven by recurring sources such as third-party distribution, trade finance, remittances, loan processing, and digital/card fees. Management views this as a sustainable, relationship-led revenue stream to offset volatile treasury income and is targeting core fee income at ~1.0%–1.1% of average assets on a sustained basis.

- These initiatives are expected to significantly enhance non-interest income contribution, supporting overall profitability and complementing interest income growth.

Employee Cost & Operating Expenses: Managing Growth with Productivity and Technology

DCB is balancing its ambitions of becoming a “Full-Service Banker” with disciplined cost management, leveraging enhanced productivity and technological automation to contain employee and operating expenses even as the bank scales its operations.

Projections and Growth:

- Employee costs are projected to rise from Rs.923 crore in FY25 to Rs.1,355 crore by FY28E.

- Other operating expenses are expected to increase from Rs.897 crore in FY25 to Rs. 1,418 crore, primarily to support the planned expansion to 500 branches by FY27.

Efficiency and Cost-Control Measures:

- Headcount optimization: The bank implemented a 3.2% YoY reduction in employee base to 10,981 as of Q3FY26, while maintaining service quality.

- Digital automation: Modern platforms are being leveraged to eliminate manual effort, streamline processes, and reduce operating costs.

- Optimized sourcing: Reliance on high-cost Direct Selling Agents (DSAs) for mortgage origination has been reduced, lowering acquisition costs.

Outcome and Target Ratios:

- These measures are expected to keep the cost-to-average asset ratio stable in the 2.40–2.50% range, even as the bank scales operations and expands its team.

- The approach ensures that growth in employee and operating costs is aligned with revenue expansion, preserving profitability while supporting strategic objectives.

Provisions & Contingencies: Managing Credit Costs Amid Growth

DCB’s provisions and contingencies are projected to rise in absolute terms from Rs.208 crore in FY25 to Rs.361 crore by FY28E, in line with its targeted 18–20% credit growth.

Key Drivers and Strategic Measures:

- The bank is focusing on secured lending and quick-recovery assets, such as gold loans, which constitute ~90% of the co-lending portfolio, limiting their impact on overall credit costs.

- Exposure to volatile segments like Microfinance (MFI) and unsecured co-lending is being reduced.

- Capital is being redeployed toward tractors, school financing, and other secured SME products, which offer higher yields with lower NPA risk.

- Bank has guided to maintain GNPA below 2% and NNPA below 1% over the medium term.

- Early intervention and proactive collections are central to achieving these targets.

- Guidance for FY26 is to maintain credit costs below 45 bps; currently at 0.37% as of December 31, 2025.

- The bank is cross-selling secured products like gold loans and secured credit cards to low-bureau score clients, which deepens engagement while protecting the balance sheet.

Profitability & PAT Outlook: Strategic Transformation Driving Earnings Growth

DCB is projected to deliver strong PAT growth, rising from Rs.615 crore in FY25 to ~Rs.1,272 crore by FY28E, underpinned by its strategic shift from a traditional lender to a “Full-Service Banker”.

Key Drivers of Profitability:

Cross-Selling Potential: 76% of customers currently hold only one product, presenting a significant opportunity to increase revenue through higher-margin offerings such as trade finance, insurance, and collateralized lending.

Net Interest Margin Expansion: NIM is expected to improve to 3.4–3.5%, supported by: A favorable asset mix shift toward high-yielding Loan Against Property (LAP). Narrowing of the 60 bps deposit rate delta relative to peers, lowering funding costs.

Sustainable Growth Model: The combination of disciplined liability management, higher customer engagement, and efficient operations positions the bank to achieve a target RoA of ~1%, creating a balanced and scalable earnings engine.

Exhibit 06: ROA Tree

ROA TREE (%)	FY24	FY25	FY26E	FY27E	FY28E
Net Interest Income	3.34	3.01	2.87	3.01	3.19
Other Income	0.82	1.07	1.08	1.04	1.01
Operating cost	2.66	2.60	2.41	2.37	2.40
Provision	0.25	0.30	0.38	0.31	0.31
Tax	0.32	0.31	0.29	0.36	0.39
ROA	0.93	0.88	0.86	1.02	1.10

Source: Systematix PCG Research

About the Bank

DCB is a new-generation private sector bank with a pan-India presence, operating through branches across a majority of States and Union Territories. The bank positions itself as a national institution with a strong focus on catering to the self-employed segment, alongside individuals and businesses across the country.

The vision of DCB is to be the most innovative and responsive neighborhood bank in India. The bank aims to serve entrepreneurs, individuals, and businesses while ensuring strong governance standards, fostering a positive and inclusive working environment for employees, and maintaining a responsible approach towards society and the environment.

DCB has built a diversified and balanced business model with a strong focus on mortgage lending, MSME/SME financing, educational institutional loans, agri loans, and gold loans. The bank follows a granular and secured small-ticket lending approach and maintains a diversified portfolio across deposits and advances. Its operations are supported by a proven, capital-efficient business model, a stable and experienced management team, and a continuously expanding branch network. The bank is technology-driven and innovation-focused, offering cutting-edge products while maintaining efficient capital consumption and strong capital adequacy.

The bank is promoted by the Aga Khan Fund for Economic Development (AKFED) and Platinum Jubilee Investments Limited, which together hold a 16.24% stake. Institutional investors, including foreign institutional investors (FII) and foreign portfolio investors (FPI), hold 44.08% of the shareholding, with non-promoter institutional shareholding exceeding 30.66%.

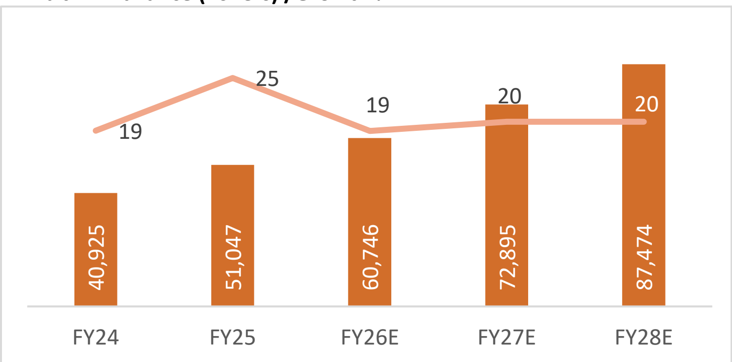
Experienced Team of Professionals

DCB is guided by a 10-member board with extensive experience in the BFSI sector, ensuring strong governance. Mr. Praveen Kutty, MD & CEO, brings over 35 years of banking experience across Retail, Agri, and SME banking and has been a key leader at DCB for 18 years. He is supported by long-tenured product and functional heads with deep expertise in credit, risk, operations, and digital banking.

This experienced leadership team provides strategic continuity, operational capability, and strong governance to drive DCB’s growth and full-service banking transformation.

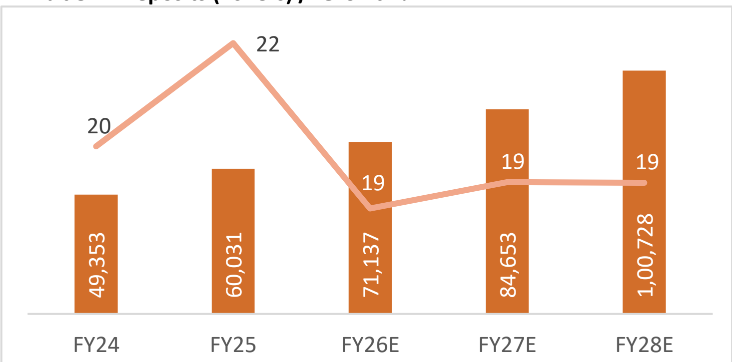
Story In Charts

Exhibit 7: Advance (Rs. Crs) /Growth %



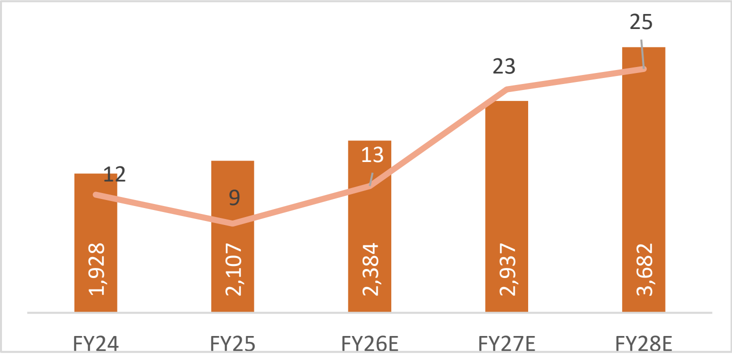
Source: Systematix PCG Research

Exhibit 8: Deposits (Rs. Crs) / Growth %



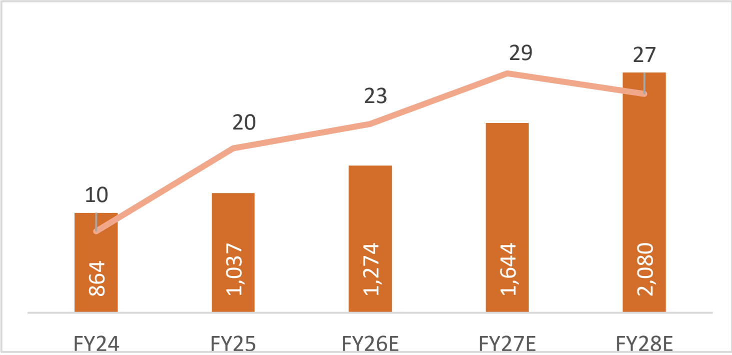
Source: Systematix PCG Research

Exhibit 9: NII (Figures Rs. Crs) / Growth %



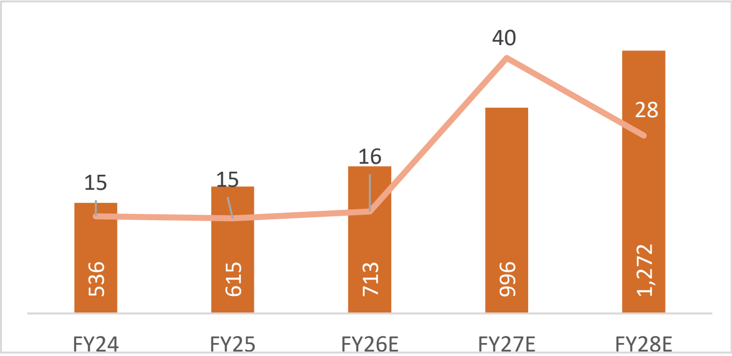
Source: Systematix PCG Research

Exhibit 10: PPOP (Figures Rs. Crs) / Growth %



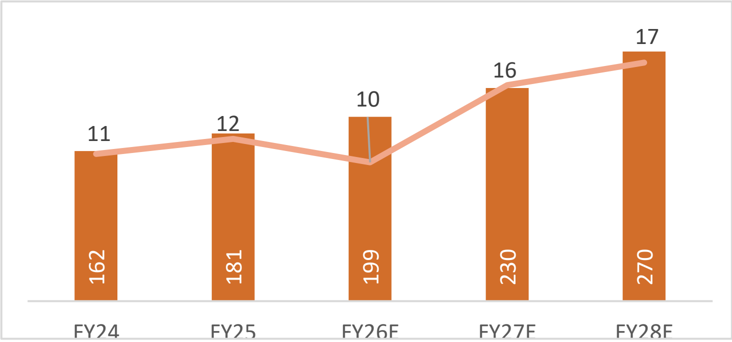
Source: Systematix PCG Research

Exhibit 11: PAT (Figures Rs. Crs) / Growth %



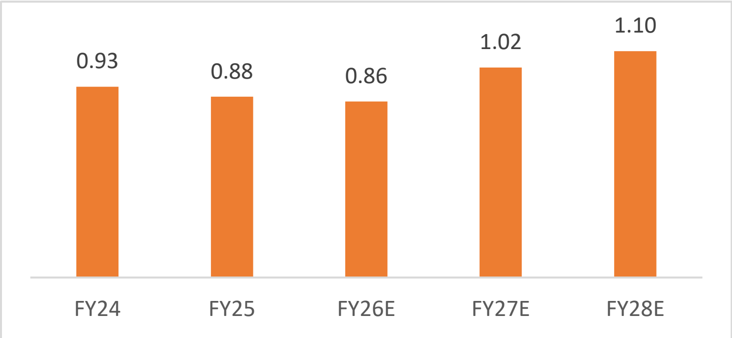
Source: Systematix PCG Research

Exhibit 12: Book Value per Share (x) / Growth %



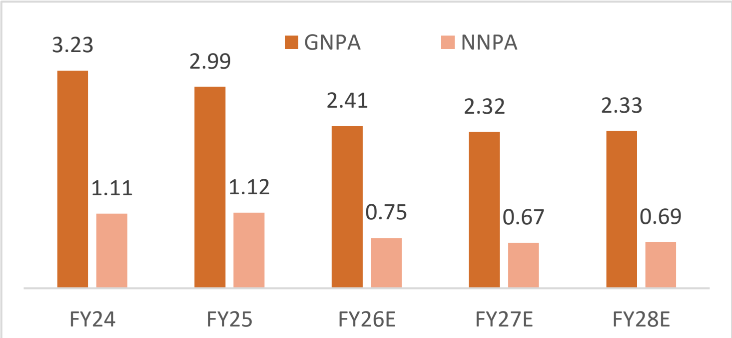
Source: Systematix PCG Research

Exhibit 13: ROA (%)



Source: Systematix PCG Research

Exhibit 14: GNPA / NNPA



Source: Systematix PCG Research

Financial Summary

Income Statement (Rs.cr.)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	5,362	6,471	7,438	8,756	10,503
YoY Growth %	27.7	20.7	15.0	17.7	19.9
Less: Interest Expense	3,434	4,364	5,054	5,819	6,821
YoY Growth %	38.3	27.1	15.8	15.1	17.2
Net Interest Income	**1,928**	**2,107**	**2,384**	**2,937**	**3,682**
YoY Growth %	12.3	9.3	13.2	23.2	25.3
Other Income	474	751	896	1,018	1,171
Operating Income	**2,402**	**2,857**	**3,280**	**3,956**	**4,853**
Employee Cost	794	923	1,016	1,130	1,355
Other Operating Expenses	743	897	990	1,182	1,418
Total Operating Expense	**1,538**	**1,820**	**2,006**	**2,312**	**2,773**
Pre-Provision Operating Profit (PPOP)	**864**	**1,037**	**1,274**	**1,644**	**2,080**
PPOP Margin (%)	44.8	49.2	53.5	56.0	56.5
Provisions & Contingencies	142	208	318	298	361
Profit Before Tax	722	829	957	1,346	1,719
Taxes	186	213	244	350	447
Tax (%)	26%	26%	25%	26%	26%
Profit After Tax (PAT)	**536**	**615**	**713**	**996**	**1,272**
PAT Margin (%)	27.8	29.2	29.9	33.9	34.5

Balance Sheet (Rs.cr.)	FY24	FY25	FY26E	FY27E	FY28E
Fixed Assets	865	898	999	1,109	1,231
Investments	16,211	20,150	22,165	25,490	30,078
Loans & Advances	40,925	51,047	60,746	72,895	87,474
YoY Growth %	19.04	24.73	19.00	20.00	20.00
Cash and cash equivalents	2,867	2,507	3,300	3,663	4,139
Balance with banks	199	191	202	212	223
Other assets	1,971	2,016	2,026	2,127	2,212
Total Assets	**63,037**	**76,810**	**89,438**	**1,05,496**	**1,25,357**
Equity Capital	313	314	322	322	322
Reserves & Surplus	4,758	5,376	6,086	7,083	8,355
Networth	5,071	5,691	6,408	7,404	8,676
Deposits	49,353	60,031	71,137	84,653	1,00,728
YoY Growth %	19.68	21.64	18.50	19.00	18.99
Borrowings	6,219	9,115	9,513	10,564	12,848
Other liabilities & provisions	2,393	1,973	2,380	2,875	3,104
Total Liabilities	**63,037**	**76,810**	**89,438**	**1,05,496**	**1,25,357**

Basic Ratios (Rs.)	FY24	FY25	FY26E	FY27E	FY28E
EPS	17.13	19.58	22.16	30.97	39.54
Growth (%)	14.65	14.26	13.17	39.77	27.67
Book Value	162.12	181.07	199.17	230.14	269.67
Growth (%)	10.60	11.68	10.00	15.55	17.18
Adj. Book Value	153.41	170.15	190.69	220.96	258.46
Growth (%)	9.82	10.91	12.07	15.87	16.97
Valuation Ratios					
P/E (x)	11.24	9.84	8.69	6.22	4.87
P/BV (x)	1.19	1.06	0.97	0.84	0.71
Adj. P/BV (x)	1.26	1.13	1.01	0.87	0.75
ROE (%)	11.12	11.44	11.78	14.43	15.82
ROA (%)	0.93	0.88	0.86	1.02	1.10
Spreads (%)					
Avg. Yield on Loans	11.57	11.47	11.13	11.35	11.35
Cost of Funds	6.90	7.19	6.95	6.66	6.60
NIM	3.65	3.31	3.17	3.41	3.48
Business Ratios (%)					
Loans/Deposit Ratio	82.9	85.0	85.4	86.1	86.8
CASA Ratio	26.02	24.52	23.20	23.19	23.17
Cost/Assets	2.66	2.60	2.41	2.37	2.40
Cost/Total Income	64.01	63.70	61.15	58.44	57.13
Int. Expense/Int.Income	64.05	67.44	67.95	66.45	64.94
Empl. Cost/Total opex	51.66	50.72	50.66	48.86	48.86
Asset Quality (%)					
Gross NPA	3.23	2.99	2.41	2.32	2.33
Net NPA	1.11	1.12	0.75	0.67	0.69
Coverage Ratio	77.30	74.48	74.00	74.00	74.00
ROA TREE (%)					
Net Interest Income	3.34	3.01	2.87	3.01	3.19
Other Income	0.82	1.07	1.08	1.04	1.01
Operating cost	2.66	2.60	2.41	2.37	2.40
Provision	0.25	0.30	0.38	0.31	0.31
Tax	0.32	0.31	0.29	0.36	0.39
ROA	0.93	0.88	0.86	1.02	1.10
Efficiency Ratios					
Total Employees (No.)	11,325	11,057	11,006	11,106	11,206
Total Branches (No.)	442	464	484	504	524
Employee Per Branch (No.)	26	24	23	22	21
Staff Cost Per Employee (Rs. Crs)	0.07	0.08	0.09	0.10	0.12
CASA per Branch (Rs. Crs)	29.05	31.73	34.10	38.95	44.53
Deposits Per Branch (Rs. Crs)	111.66	129.38	146.98	167.96	192.23
Business Per Branch (Rs. Crs)	7.97	10.05	11.98	14.19	16.79
Profit Per Employee (Rs. Crs)	0.05	0.06	0.06	0.09	0.11

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