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Banco Daycoval S.A.

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Banco Daycoval S.A.

Ratings Score Snapshot

Issuer Credit Rating
BB-/Stable/B
Brazil National Scale
brAA+/Stable/brA-1+

SACP: bb- → **Support: 0** → **Additional factors: 0**

SACP: bb-		
Anchor	bb+	
Business position	Moderate	-1
Capital and earnings	Moderate	0
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BB-/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Profitability metrics consistently better than the banking industry average.	Challenging conditions for SME loans in Brazil amid high interest rates.
Track record of solid management, resilient operations, and expertise in credit to small and midsize enterprises (SMEs).	Rising competition from large banks and new players.
Sound asset quality metrics.	Reliance on wholesale investors for funding.

Our rating on Banco Daycoval S.A. continues to reflect its track record of resilient profitability and solid performance in credit to small and midsize enterprises (SMEs), and its somewhat concentrated revenues sources. Daycoval's business position benefits from its sizable and successful operations in collateralized loans and credit to SMEs in Brazil, its growing share of loans to larger corporations, and its relevant operations in payroll and auto loans. The bank's profitability has generally outperformed those of its peers due to solid net interest margins and manageable credit losses. In addition, because of its experience in the business, Daycoval has generally been resilient during times of credit distress in corporate loans. Nonetheless, the bank has a sizable exposure to the SME niche, which tends to be more sensitive to economic swings.

Daycoval's profitability has remained higher than the industry's average. Due to its proven history in its lending niches, Daycoval has been able to generate substantial net interest income relative to its cost of risk. This, combined with improved efficiency, fueled above-average profitability metrics for several consecutive years. Between 2017 and 2024, Daycoval's average return on average equity was 24%, much higher than the overall financial system's 15% average for the same period. Additionally, Daycoval has been gradually increasing revenues diversification, with a growing asset management department, debt capital market services, derivatives, and foreign exchange services. As so, fee income grew to about 8% of the bank's operating revenues in 2024, up from 4.3% in 2017.

Difficult year ahead for SMEs amid high interest rates, but we expect Daycoval to navigate well due to its resiliency and solid expertise. Daycoval should decelerate its credit growth this year to guard against anticipated credit challenges. We foresee challenging economic conditions as Brazilian policy rate could reach its 20-year peak in 2025. As so, corporations, and particularly small and mid-sized companies, could face some turmoil, some of which could turn into defaults. Nevertheless, Daycoval has historically been extra prudent when conditions are more challenging, leading to resilient profits. So, we project its return on equity (ROE) to remain at 18%-22% this year. While this is lower than the bank's five-year average of almost 25%, it is still higher than what we expect for the industry average.

We expect credit losses to remain stable as Daycoval tightens its lending standards amid challenging credit conditions. We forecast that nonperforming loans (NPLs) will be 2.0%-2.5% by the end of 2025--at the end of 2024, they amounted to 2.3% of the bank's gross loan book. There are downside risks for SME loans in general, as interest rates in Brazil increase and as conditions are more challenging. However, we think that Daycoval's tight underwriting standards, sound collateral management, and flexibility to adjust its growth and restructure loans will protect the bank's balance sheet from headwinds.

Immaterial Impacts from New Regulatory Standards for Loan Loss Reserves in Brazil. As all banks operating in Brazil, Daycoval will start reporting credit loss provisions in accordance with the Brazilian central bank's Resolution 4,966/21, which incorporates an adaptation of the International Financial Reporting Standards (IFRS 9) for provisioning. We do not expect material impacts to the bank's credit loss provisions, its regulatory capitalization ratios or its RAC ratio. According to Daycoval's latest earnings release, the bank estimates a reduction of about than 1.5% on its loan loss reserves as a result of the new provisioning norms.

Outlook

The stable outlook on Daycoval reflects our expectation of no rating changes in the next 12 months. We foresee challenging conditions for SME loans in Brazil this year amid high interest rates. However, we expect Daycoval to continue reporting above-average financial performance and sound asset quality metrics due to its resiliency and solid expertise in that segment.

Upside scenario

Prospects for raising our ratings on Daycoval would depend on the bank's ability to consistently outperform its peers while it diversifies its revenue base and maintains manageable asset quality metrics and stable capital ratios.

Downside scenario

We could lower the ratings on Daycoval if its risk-adjusted capital (RAC) ratio drops and stays below 5%, which could happen if there's faster-than-expected loan growth or eroding asset quality. Our base-case scenario considers that Daycoval will keep its asset quality metrics slightly better than the system's average and that its profitability will continue to exceed industry average, therefore providing capital build-up that will keep capitalization stable even when the bank expands its lending portfolio.

Key Metrics

Banco Daycoval S.A.--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2023a**	**2024a**	**2025f**	**2026f**	**2027f**
Growth in customer loans	0.0	11.5	0.0-5.0	10.0-15.0	10.0-15.0
Growth in total assets	10.6	17.9	2.5-7.5	10.0-15.0	10.0-15.0
Net interest income/average earning assets (NIM)	7.3	8.2	7.25-7.75	7.5-8.0	7.5-8.0
Cost-to-income ratio	52.5	46.6	47.5-52.5	45.0-50.0	45.0-50.0
Return on average common equity	18.6	25.6	18.0-22.0	20.0-25.0	20.0-25.0
Return on assets	1.5	2.0	1.5-1.75	1.6-2.0	1.7-2.1
New loan loss provisions/average customer loans	2.3	2.4	2.25-2.75	2.0-2.5	2.0-2.5
Gross nonperforming assets/customer loans	3.3	2.3	2.0-2.5	2.0-2.5	2.0-2.5
Net charge-offs/average customer loans	1.2	2.1	1.25-1.75	1.25-1.75	1.25-1.75
Risk-adjusted capital ratio	6.8	6.6	6.5-7.0	6.0-7.0	6.0-7.0

All figures include S&P Global Ratings' adjustments. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'bb+' For Banks Operating Only In Brazil

We classify the banking sector of Brazil in group '6' under our Banking Industry Country Risk Assessment. The anchor for banks operating only in Brazil is 'bb+'.

In our opinion, Brazil's low-income levels and the government's weak fiscal position constrain the country's economic resilience. We expect real GDP growth of 1.9% in 2025 and 2.1% in 2026. Fiscal stimulus will keep household consumption high for the rest of 2024, continuing to propel growth. This has also contributed to increasing inflation expectations, prompting the Brazilian central bank to restart interest-rate hikes. We expect interest rates to rise into early 2025, until inflation expectations start to return toward the central bank's 3% target.

Higher-for-longer interest rates will likely strain borrowers in Brazil, potentially weakening asset quality. Our expectation is that this will raise the debt burden on individual and commercial borrowers, which will have to cope with higher financing costs for longer. This, in turn, is likely to weigh on business volumes, asset quality, and financing conditions. We also think small and midsize companies will face continued pressure and bankruptcy filings, which have already reached record-breaking levels in 2024. We see that extending into 2025.

Although the banking industry's profitability has remained stronger than those of its international peers thanks to high provisioning coverage and a diversified revenue mix, it will likely slip as provisioning needs increase. Our industry risk assessment also reflects Brazil's well-developed regulation of banks (which is broadly in line with international standards) and the regulator's good track record (which helped the financial system withstand the last economic downturn). The Brazilian banking system has an adequate funding mix with a large, stable core customer deposit base.

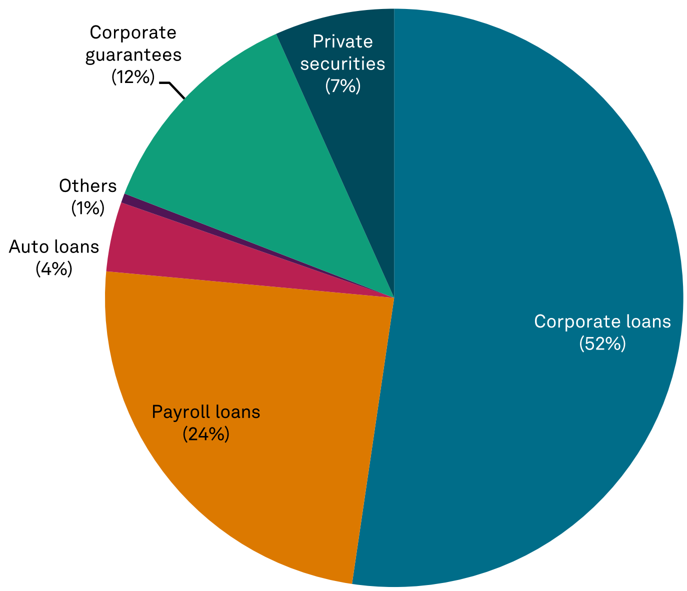
Business Position: Revenues Concentrated On Corporate Credit But With Solid Expertise and Collateral Management

Daycoval's large collateralized credit operations to Brazil's SMEs, along with a growing exposure to larger corporations and a relevant portfolio of payroll-deductible loans and auto loans continue to support Daycoval's business position. However, despite its record of above-average profitability and resilient operations, we think that Daycoval's revenue base is somewhat less diversified than some of its peers, which constrains its business position. Our assessment also reflects Daycoval's limited market share of domestic loans: its credit portfolio represented about 0.6% of total loans in the Brazilian financial system as of September 2024.

Daycoval's operations have historically been tilted toward credit to SME, which generally tend to be more sensitive to economic swings. However, Daycoval has been growing its exposure to larger corporations in recent years. Additionally, over the years, the bank has had sound performance in its corporate loan portfolio, even during challenging conditions. We believe this reflects Daycoval's expertise in this segment, its extra care when economic conditions are more turbulent, and its effective collateral management policies (a relevant portion of its corporate loan book is collateralized by trade receivables.) In addition to corporate exposures, Daycoval has historically had relevant operations in payroll-deductible loans granted mostly to public servants and retirees, and used auto loans, which, combined, correspond to about one-fourth of the bank's extended credit portfolio.

Chart 1

Extended credit portfolio composition



Parallel to its credit activities, Daycoval has been gradually exploring other income venues, such as its asset management department, debt capital market services, derivatives, and foreign exchange. Growth in some of those venues has been boosting the bank's fee income, expanding it vigorously in recent years. In 2024, fee income represented about 8% of the bank's operating revenues, up from 4.3% in 2017.

Due to its extensive lending niche record, Daycoval can generate substantial net interest income relative to its cost of risk. This, combined with improved efficiency, fueled above-average profitability metrics for several consecutive years.

Capital And Earnings: RAC Ratio To Remain Between 6.0% And 7.0%

We base our capital and earnings assessment on our forecast average RAC ratio of 6.0%-7.0% in 2025-2026, slightly above the ratios we expect for most rated banks operating in Brazil. Our projection is in line with Daycoval's five-year average RAC ratio of 6.4%. This projection balances the effects from our expectation that Daycoval will resume credit growth in 2026, after being more careful in 2025, and that ROE will be of 18%-22% in 2025, and 20%-25% in 2026, with dividend payments at about 45% of profits. In addition, the bank's total regulatory capital--its reported Basel ratio of 12.5% as of December 2024--remains above the regulator's minimum capital requirement.

To evaluate banks' capitalization level, we apply globally our risk-adjusted capital framework (RACF), regardless of regional regulations and banks' internal risk measures. Our RAC ratio compares our definition of total adjusted capital (TAC) to our risk-weighted assets, reflecting a risk metric that's globally more comparable than regulatory ratios. The main difference regarding our methodology and local regulation is that we apply charges to sovereign bond exposures based on our ratings on a country, while the Brazilian regulator applies a 0% risk weight.

Our RAC forecast considers our base-case scenario assumptions, which include:

- Real GDP growth in Brazil of 1.9% in 2025 and 2.1% in 2026;
- Overall annual loan portfolio growth of 0.0%-5.0% in 2025 and 10%-15% in 2026;
- A modest contraction in net interest margins as Daycoval shifts to higher quality loans amid a challenging year for corporate loans;
- NPLs hovering between 2.0%-2.5% in the next few years, close to levels observed in December 2024; also, we expect net new loan-loss provisions to remain between 2.0% and 2.75% of the loan portfolio;
- ROE of 18%-22% in 2025 and 20%-25% in 2026; and
- Dividend payouts of 45% of net income in the coming years, in line with historical figures.

Risk Position: Collateral Management And Low Customer Concentration Offset SME Risks

Daycoval's risk position reflects its overall solid loan book performance, good collateral management, and adequate customer diversification within its portfolio, which partly offset higher risks related to its sizable exposure to the middle-market segment.

Daycoval has historically had sizable operations in the SME segment, which has intrinsically higher delinquency rates. However, the bank's profitability has consistently outperformed its peers, which signals that it's adequately pricing its loans relative to risk. Moreover, the bank's growing exposure to larger corporations in its corporate loan book and relevant operations in payroll and auto loans also help to mitigate its SME exposure.

Asset quality metrics for Daycoval remained healthy throughout 2024. As of December 2024, the bank's NPL ratio was 2.3%, above its five-year average of 1.9% (2020-2024) but in line with the banking industry. Additionally, Daycoval's charge-offs amounted to 2.1% of its average customer loan portfolio, slightly higher than its five-year average of 1.1% because of the charge-off of part of the exposure the bank had to a large retailer that defaulted in early 2023.

Daycoval's solid performance, tight underwriting standards, and sound collateral management has offset its exposure to SMEs. During periods of higher credit distress, like in 2023, Daycoval generally decelerates its credit origination to protect its balance sheet from rising delinquencies. However, when conditions are more benign, the bank takes advantage of its expertise and capacity to grow. In 2024, the bank grew its expanded loan book by 14%, up from a 3% growth in 2023. Daycoval also has low customer concentration. Its 20 largest customers' exposure hasn't surpassed 10% in the past five years.

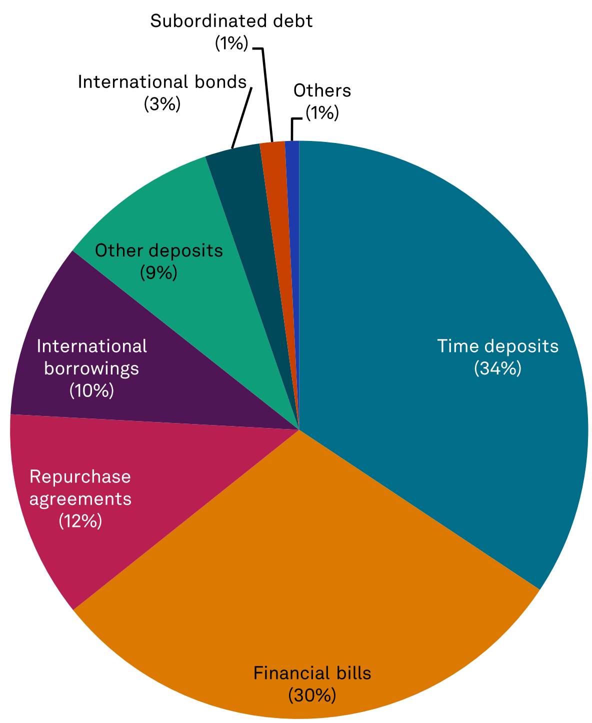
We expect Daycoval's NPL ratio to remain stable in 2025. We forecast a year-end NPL ratio of 2.0%-2.5% for the bank. We see downside risks for SME loans in general, as interest rates in Brazil increase, and as conditions are more challenging. However, we think that Daycoval's tight underwriting standards, sound collateral management, and flexibility to adjust its growth and restructure loans will protect the bank's balance sheet from a potential rise in systemwide NPLs for SMEs this year.

Funding And Liquidity: Wholesale-Oriented Funding Profile And Comfortable Liquidity Cushion

We view Daycoval's funding base as less stable and diversified than the industry average, because it consists mostly of wholesale deposits and institutional investors, which tend to be less stable than a diversified retail deposit base. Therefore, we think the bank still lacks broader depositor and funding source diversification compared to larger banks.

Chart 2

Funding composition



The bank's stable funding ratio (SFR) was 87% in December 2024. Daycoval has a good match between assets and liabilities and a positive maturity gap between its loans (average maturity of about 340 days) and funding sources (average maturity of about 560 days).

We view Daycoval's liquidity as comfortable. As of the end of 2024, its broad liquid assets covered 1.1x of its short-term wholesale funding, in line with its five-year average of 0.9x. Those assets also represented 27% of the bank's total assets as of December. Daycoval's time deposits don't have an early redemption option, according to the central bank. Its liquidity benefits from the short-term nature of its lending, which provides the bank with the flexibility to decrease its lending position if needed.

Environmental, Social, And Governance

ESG factors have no influence on our analysis of Daycoval, and we view these factors as broadly in line with those for the industry and domestic peers. Governance standards are consistent with domestic regulation, while environmental and social factors are not significantly relevant in our rating on the bank.

Key Statistics

Table 1

Banco Daycoval S.A. Key figures

	--Year-ended Dec. 31--				
(Mil. R$)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	90,924.2	77,096.7	69,704.8	61,931.3	49,159.4
Customer loans (gross)	52,942.7	47,501.8	47,504.2	40,741.8	32,518.0
Adjusted common equity	6,899.8	6,129.0	5,549.6	4,771.9	4,346.9
Operating revenues	6,778.1	5,534.1	4,824.3	4,760.7	4,071.6
Noninterest expenses	3,157.1	2,904.4	2,506.7	1,946.2	1,540.7
Core earnings	1,620.1	1,095.2	1,087.2	1,390.6	1,175.4

R$--BRL-Brazilian real. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

Banco Daycoval S.A. Business position

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Loan market share in country of domicile	N/A	0.6	0.6	0.6	0.8
Deposit market share in country of domicile	N/A	0.4	0.4	0.4	0.4
Return on average common equity	25.6	18.6	20.6	30.1	29.1

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Banco Daycoval S.A. Capital and earnings

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	12.5	13.9	12.9	13.0	14.0
S&P Global Ratings’ RAC ratio before diversification	N/A	6.8	6.7	6.3	5.5
S&P Global Ratings’ RAC ratio after diversification	N/A	6.0	5.7	5.3	4.7

Table 3

Banco Daycoval S.A. Capital and earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted common equity/total adjusted capital	87.0	85.5	84.2	82.8	93.6
Net interest income/operating revenues	88.0	86.6	87.1	90.0	90.9
Fee income/operating revenues	8.0	8.4	8.3	6.1	5.9
Cost to income ratio	46.6	52.5	52.0	40.9	37.8
Preprovision operating income/average assets	4.3	3.6	3.5	5.1	6.0
Core earnings/average managed assets	1.9	1.5	1.7	2.5	2.8

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Banco Daycoval S.A. Risk position

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	11.5	(0.0)	16.6	25.3	31.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	14.3	16.6	19.6	17.5
Total managed assets/adjusted common equity (x)	13.2	12.6	12.6	13.0	11.3
New loan loss provisions/average customer loans	2.4	2.3	1.5	1.2	2.3
Net charge-offs/average customer loans	2.1	1.2	0.8	0.5	1.0
Gross nonperforming assets/customer loans + other real estate owned	2.3	3.3	1.9	1.8	1.8
Loan loss reserves/gross nonperforming assets	153.6	133.7	190.1	219.0	256.7

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Banco Daycoval S.A. Funding and liquidity

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Core deposits/funding base	43.4	41.9	36.0	41.3	40.5
Customer loans (net)/customer deposits	162.3	173.5	226.9	194.2	197.4
Long-term funding ratio	71.3	66.9	67.9	76.4	67.0
Stable funding ratio	87.2	81.2	77.5	86.2	77.3
Short-term wholesale funding/funding base	31.9	36.9	36.0	26.4	37.1
Broad liquid assets/short-term wholesale funding (x)	1.1	0.9	0.7	1.0	0.7
Broad liquid assets/total assets	27.0	25.6	20.9	20.4	21.3
Broad liquid assets/customer deposits	77.9	75.3	72.1	62.6	66.8
Net broad liquid assets/short-term customer deposits	8.6	(22.3)	(51.4)	(3.0)	(79.4)
Short-term wholesale funding/total wholesale funding	55.0	61.7	54.6	43.5	61.5

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of February 27, 2025)*		
Banco Daycoval S.A.		
Issuer Credit Rating		BB-/Stable/B
Brazil National Scale		brAA+/Stable/brA-1+
Issuer Credit Ratings History		
18-Mar-2019		BB-/Stable/B
16-Aug-2017		BB-/Negative/B
23-May-2017		BB-/Watch Neg/B
18-Mar-2019	*Brazil National Scale*	brAA+/Stable/brA-1+
11-Jul-2018		brAA+/Negative/brA-1+
16-Aug-2017		brA+/Negative/brA-1
Sovereign Rating		
Brazil		BB/Stable/B
Brazil National Scale		brAAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.