

Dhanlaxmi Bank Limited

December 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Tier-II Bonds (Basel III) [§]	150.00	CARE BB+; Stable	Reaffirmed

Details of facilities in Annexure-1

[§] Tier II Bonds under Basel III are characterized by 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE Ratings LIMITED'S (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE Ratings has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

Rationale and key rating drivers

The rating assigned to the debt instrument of Dhanlaxmi Bank Limited (DBL) continues to factor in the regional concentration of bank with relatively small size of operations, moderate asset quality levels and moderation in capitalisation levels. The capital adequacy ratio (CAR) moderated to 12.32% as on March 31, 2023 as against 12.98% as on March 31, 2022, with growth in advances during FY23 (refers to the period April 01 to March 31). With further growth in advances during H1FY24 (refers to the period April 01 to September 30), CAR further moderated to 12.23% as on September 30, 2023 as against the regulatory requirement of 11.50%. The rating, however, favourably factors in the long track record of operations with a well-established presence of the bank in Kerala and growth in business. The rating takes note of the improvement in profitability during FY23 and H1FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Significant improvement in capitalization levels of the bank
- Improvement in the scale of operations along with improvement in profitability and Asset quality

Negative factors: Factors that could individually or collectively, lead to negative rating action/downgrade:

- Moderation in asset quality parameters impacting the profitability
- Weakening of capital adequacy levels below regulatory requirement of CAR and Tier I CAR of 11.50% and 9.50% respectively

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the bank will continue to benefit from the long track record of operations and shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers

Key weaknesses

Regional concentration and small size of operations: The business of the bank is largely concentrated in the state of Kerala which accounted for 58% of the total branch network of 253 branches as on March 31, 2023. Also, the southern states (Kerala, Tamil Nādu, Andhra Pradesh, Karnataka, and Telangana) contributed to around 79% of the total branches. DBL is one of the small-sized banks in India with gross advances of ₹9,854 crore and total assets of ₹14,903 crore as on March 31, 2023 (₹10,311 crore and ₹15,293 crore respectively as on September 30, 2023).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Asset quality remains moderate albeit improvement: With relatively lower slippages, the gross non-performing assets (GNPA) and net non-performing assets (NNPA) improved and stood at 5.19% and 1.16% as on March 31, 2023 as against 6.32% and 2.85% as on March 31, 2022. With slippages in H1FY24, asset quality witnessed moderation with GNPA and NNPA of 5.36% and 1.29% as on September 30, 2023. Slippage ratio stood at 1.27% in FY23 and 1.85% (annualized) for H1FY24. The total restructured portfolio stood at ₹380 crore as on March 31, 2023 (3.8% of gross advances as on March 31, 2023). Standard Restructured book stood at ₹306 crore (3.24% of gross advances) as on March 31, 2023. The total gross stressed assets to advances (standard restructured asset + security receipts outstanding + GNPA) stood at 8.8% as on March 31, 2023 (7.8% as on September 30, 2023) as against 11.9% as on March 31, 2022. The bank reported provision coverage ratio of 90.6% as on March 31, 2023 as against 80.6% as on March 31, 2022 (89.1% as on September 30, 2023).

Moderate profitability with improvement seen during FY23 and H1FY24: DBL's profit after tax (PAT) witnessed improvement to ₹49 crore in FY23 from ₹36 crore in FY22. With improved yields, net interest margin (NIM) witnessed improvement to 3.34% in FY23 from 2.7% in FY22. The non-interest income (as a percentage of total assets) declined to 0.52% in FY23 from 1.28% in FY22 on account of loss on sale of investments and loss on revaluation of investments. The cost to income stood at 77.6% in FY23 as against 74.7% in FY22. However, with lower credit cost of 0.6% in FY23 (0.7% in FY22), the bank reported return on total assets (ROTA) of 0.35% in FY23 as against 0.27% in FY22.

During H1FY24, the bank reported profit of ₹51 crore as against loss of ₹11 crore in H1FY23. NIM declined from 3.35% in H1FY23 to 3.20% in H1FY24. Non-interest income (as a percentage of total assets) improved to 1.01% during H1FY24 with treasury income and recovery from write-offs. The operating expense (Opex) stood at 3.12% in H1FY24 as against 2.93% in H1FY23. Credit cost improved from 0.59% in H1FY23 to 0.33% in H1FY24. Majorly with improvement in non-interest income, ROTA stood at 0.69% in H1FY24 against loss in H1FY23.

Moderation in capitalisation with growth in advances: With relatively higher growth in advances, CAR and Tier-I CAR moderated and stood at 12.32% and 10.55% as on March 31, 2023 as against 12.98% and 10.31% as on March 31, 2022. CAR and Tier-I CAR further moderated to 12.23% and 10.56% as on September 30, 2023 with further growth in advances. However, it is to be noted that the growth in gold loan is relatively more than other segments, thus resulting in maintaining CAR levels above regulatory requirements. CARE Ratings expects that the circular on higher risk weights for non-banking finance companies (NBFC) exposure is expected to impact the capitalization levels of the bank as the bank has sizeable exposure to NBFCs.

The bank had planned capital raising during FY23; however, the same got delayed due to a legal case against the bank, which resulted in non-compliance of board composition as the bank was not able to appoint new board members. With the resolution of legal issue, the board is currently compliant and bank has passed the resolution for rights issue aggregating to ₹130 crore on September 29, 2023. However, the capital raise is yet to be materialized.

Timely mobilisation of equity capital remains critical for growth and to improve the profitability going forward.

Key strengths

Long standing track record: DBL has a long-standing track record of over 96 years. Over the years, the bank has established in the state of Kerala with extensive presence in the rural and urban markets. As on September 30, 2023, the bank has presence across 14 States and one Union Territory through 255 branches, 275 ATMs and 17 Business Correspondents (BCs).

Growth in business in FY23 and H1FY24: Total Business of the bank grew by 11% during FY23 to ₹23,206 crore as on March 31, 2023 as against ₹20,847 crore as on March 31, 2022. Total gross advances of the bank grew by 17% and stood at ₹9,854 crore as on March 31, 2023 as against ₹8,444 crore as on March 31, 2022 (₹10,311 crore as on September 30, 2023). Total deposits grew by 8% and stood at ₹13,352 crore as on March 31, 2023 as against ₹12,403 crore as on March 31, 2022 (₹13,817 crore as on September 30, 2023). The current account savings account (CASA) ratio moderated to 31.9% as on March 31, 2023 as against 34.39% as on March 31, 2022 (31.06% as on September 30, 2023). CARE Ratings expects the growth to be constrained by the capitalization levels of the bank.

Liquidity: Adequate

The asset liability management (ALM) profile of the bank as on September 30, 2023 was adequate with no negative cumulative mismatches upto one year. DBL has liquidity backup in the form of excess statutory liquidity ratio (SLR) investments of ₹509.4 crore as on September 30, 2023 to meet contingencies.

DBL's liquidity coverage ratio remained comfortable at 183% as on September 30, 2023 against the minimum regulatory requirement of 100%.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

[Bank](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Private sector bank

Established in 1927, Dhanlaxmi Bank Ltd. (DBL) is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on September 30, 2023, the bank has presence across 14 states and one Union Territory through 255 branches, 275 ATMs and 17 BCs with an employee base of 1,718. The bank's shares are listed in BSE and NSE and are widely held. DBL has no identifiable promoter and the share holding pattern is well diversified with major holding by resident individuals at 51.63% as on September 30, 2023.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	30-09-2023 (UA)
Total operating income	1,086	1,146	669
PAT	36	49	51
Interest coverage (times)	1.24	1.21	1.23
Total Assets	13,608	14,903	15,068
Net NPA (%)	2.85	1.16	1.29
ROTA (%)	0.27	0.35	0.69

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:

Brickwork Ratings has conducted the review on the basis of best available information and has classified Dhanlaxmi Bank Limited as "Not cooperating" vide its press release dated July 13, 2023

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier II Bonds (Basel III)	INE680A08081	March 29, 2018	11.00%	March 28, 2025	150.00	CARE BB+; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (28-Dec-20)
2	Bonds-Tier II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Dec-22) 2)CARE BB+; Stable (22-Dec-22)	1)CARE BB+; Stable (24-Dec-21)	1)CARE BB+; Stable (28-Dec-20)

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

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