

Dhanlaxmi Bank Limited

December 19, 2024

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

Details of instruments/facilities in Annexure-1.

\$ Tier-II Bonds under Basel III are characterised 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 despite improvement in FY24 and H1FY25, and moderate capitalisation levels. The rating also takes note of continuation of moderate profitability with increase in the cost to income ratio to 90% in H1FY25. However, the rating favourably factors in the long-track record of operations with a well-established presence of the bank in Kerala, growth in business, and adequate liquidity profile.

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 capitalisation levels of the bank.
- Improvement in the scale of operations and 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 capital adequacy ratio (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 key rating drivers:

Key weaknesses

Regional concentration and small size of operations

The bank's business is largely concentrated in Kerala, which accounted for 56% of the total branch network of 261 branches as on September 30, 2024. Also, the southern states (Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Telangana) contributed to ~81% of the total branches. DBL is one of the small-sized banks in India with gross advances of ₹11,018 crore and total assets of ₹16,149 crore, respectively, as on September 30, 2024.

Asset quality remains moderate despite improvement witnessed in FY24 and H1FY25

The gross non-performing assets (GNPA) witnessed improvement from 5.19% as on March 31, 2023 to 4.05% as on March 31, 2024 and further to 3.82% as on September 30, 2024. Net non-performing assets (NNPA) stood stable at 1.12% as on September 30, 2024 against 1.16% as on March 31, 2023. However, the net stressed assets / net worth has witnessed significant decline from 59.64% as on March 31, 2023 to 19.31% as on September 30, 2024 with profit accretion also supported by decline in

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

stressed asset position with decline in restructured assets and security receipts. Bank's standard restructured portfolio outstanding also stood lower at ₹48 crore as on September 30, 2024 (September 30, 2023: ₹199 crore) which represents 0.44% of gross advances as on September 30, 2024. Provision coverage (reported) stood stable at 88.80% as on September 30, 2024 against 89.11% as on September 30, 2023.

Moderate profitability

Bank's yield on advances witnessed increase with focus on gold loan and retail loan portfolio, however, cost of deposits witnessed increase by 84 bps in FY24. Consequently, DBL's net interest margin (NIM) witnessed decline from 3.34% in FY23 to 2.99% in FY24. Non-interest income witnessed increase of 104.7% in FY24 aided by profit on revaluation of investments of ₹21 crore reported in FY24 against losses of ₹40 crore in FY23. Non-interest income was also supported by higher recoveries from written-off accounts amounting to ₹30 crore in FY24 against ₹14 crore in FY23. However, operating expenses/ average total assets witnessed increase from 3.00% in FY23 to 3.54% in FY24 mainly considering the increase in employee cost owing to 17% increase in salary revision as part of industry-wide bipartite wage settlement leading to one-time expense of ₹46 crore incurred in FY24. Hence, PPOP stood lower at ₹69 crore in FY24 against ₹123 crore in FY23. Provisions stood lower at with writeback of ₹11 crore against provisions of ₹74 crore in FY23 leading to increase in profit after tax (PAT) from ₹49 crore in FY23 to ₹58 crore in FY24. Return on total asset (ROTA) continued to remain moderate at 0.38% in FY24 (FY23: 0.35%).

With decline in NIM and continued high operating costs, ROTA witnessed decline to 0.22% in H1FY25. In H1FY25, the bank reported PAT of ₹18 crore against net profit of ₹51 crore in H1FY24. The profits were majorly supported by non-interest income and low credit cost in H1FY25.

Moderate capitalisation levels

CAR witnessed improvement with bank reporting profits in FY24 and H1FY25 together with bank focusing on gold loans which is less capital intensive. CAR and Tier-I CAR stood at 13.06% and 12.10%, respectively, as on September 30, 2024 against 12.32% and 10.55% as on March 31, 2023. Bank has received board approval for raising ₹300 crore by way of rights issue. Timely mobilisation of equity capital remains critical for the growth and to improve the profitability going forward.

Key strengths

Long-standing track record

DBL has a long-standing track record of over 97 years. Over the years, the bank has established a strong presence in Kerala, with extensive coverage in the rural and urban markets. As on September 30, 2024, the bank has presence across 15 states and one Union Territory through 261 branches, 282 ATMs and 17 BCs with an employee base of 1,725.

Growth in business in FY24 and H1FY25

The bank's total business grew by 6.4% in FY24 to ₹24,687 crore as on March 31, 2024 against ₹23,206 crore as on March 31, 2023 and stood at ₹25,649 crore as on September 30, 2024. Total net advances of the bank grew by 6.9% and stood at ₹10,102 crore as on March 31, 2024 against 9,452 crore as on March 31, 2023 (₹10,717 crore as on September 30, 2024). Total deposits grew by 7% and stood at ₹14,290 crore as on March 31, 2024, against 13,352 crore as on March 31, 2023 (₹14,631 crore as on September 30, 2024). Current account Savings Account (CASA) ratio stood at 31.66% as on September 30, 2024.

Liquidity: Adequate

Per asset liability management (ALM) statement submitted by the bank as on September 30, 2024, liquidity stood adequate with no negative cumulative mismatches upto one year. DBL has liquidity backup in the form of excess SLR investments of ₹332 crore as on September 30, 2024, to meet contingencies.

DBL's liquidity coverage ratio remained comfortable at 136% as on September 30, 2024, against the minimum regulatory requirement of 100%.

Applicable criteria

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)
[Policy on Default Recognition](#)
[Financial Ratios – Financial Sector](#)
[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)
[Bank](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

Established in 1927, DBL is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on September 30, 2024, the bank has presence across 15 states and one Union Territory through 261 branches, 282 ATMs, and 17 BCs with an employee base of 1,725. 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 54.81% as on September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1,146	1,360	719
PAT	49	58	18
Total tangible assets	14,903	15,745	16,149
Net NPA (%)	1.16	1.25	1.12
ROTA (%)	0.35	0.38	0.22

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review on the basis of best available information and continues to place the rating of Dhanlaxmi Bank Limited under Issuer Not Cooperating category vide its press release dated July 11, 2024.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument/facility: Annexure-3

Complexity level of 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 (₹ crore)	Rating Assigned and 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 for 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 2024-2025	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
1	Bonds-Tier-II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (21-Dec-23)	1)CARE BB+; Stable (22-Dec-22) 2)CARE BB+; Stable (22-Dec-22)	1)CARE BB+; Stable (24-Dec-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

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

Annexure-5: Lender details: Not applicable

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

Contact us

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About us:

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