

Dhanlaxmi Bank Limited

December 22, 2022

Rating

Facilities	Amount (₹ crore)	Ratings ¹	Remarks
Tier-II bonds (BASEL III) [§]	150.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	150.00 (₹ One hundred fifty crore only)		

Details of 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.

Detailed 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 rating takes note of the moderation in profitability during FY22 (refers to the period April 01 to March 31) and H1FY23 (refers to the period April 01 to September 30).

The capital adequacy ratio (CAR) and Tier-I CAR moderated to 12.98% and 10.31%, respectively, as on March 31, 2022, as against 14.47% and 11.31% as on March 31, 2021, with growth in advances during FY22. With losses reported during H1FY23 (refers to the period April 01 to September 30), CAR and Tier-I CAR further moderated to 12.32% and 10.08%, respectively, as against regulatory requirement of 11.50% and 9.50%, respectively. The rating, however, favourably factors in the long track record of operations with a well-established presence of the bank in Kerala, growth in business and comfortable liquidity profile.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations along with improvement in asset quality.
- Improvement in net interest income vis-à-vis opex and improvement in overall profitability.
- Significant capital raise.

Negative factors – Factors that could 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.

Detailed description of the key rating drivers

Key rating weaknesses

Regional concentration and small size of operations: The business of the bank is largely concentrated in the state of Kerala, which accounted for 57% of the total branch network of the 247 branches as on September 30, 2022. Also, southern states (Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Telangana) contribute to around 80% of the total branches. DBL is one of the small-sized banks in India with total advances of ₹8,444 crore and total assets of ₹13,608 crore as on March 31, 2022 (₹9,109 crore of advances and ₹14,498 crore as on September 30, 2022).

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 improvement in the recoveries and upgradations during FY22, the gross non-performing assets (GNPA) and net non-performing assets (NNPA) improved and stood at 6.32% and 2.85% as on March 31, 2022, as against 9.23% and 4.76%, respectively, as on March 31, 2021. The asset quality further improved with GNPA and NNPA of 6.04% and 2.32% as on September 30, 2022.

The total restructured portfolio stood at ₹412 crore as on September 30, 2022 (4.52% of gross advances as on September 30, 2022). The total gross stressed assets to advances (standard restructured asset + security receipts outstanding + GNPA) stood at 10% as on September 30, 2022 (12% as on March 31, 2022 and 13% as on September 30, 2021). The bank has also outstanding ECLGS loans aggregating to ₹170 crore which stood at 2% of gross advances as on September 30, 2022, and net stressed assets (standard restructured asset + security receipts outstanding + NNPA) to net worth stood at 85% as on September 30, 2022, as against 99% as on March 31, 2022. The bank reported provision coverage ratio of 83.25% as on September 30, 2022, as against 74.18% as on September 30, 2021.

Moderation in profitability during FY22 and H1FY23: With decrease in the cost of funds, the net interest margins (NIM) improved to 2.73% in FY22 from 2.64% in FY21. The non-interest income as a percentage of total assets improved to 1.28% (PY: 1.13%) on account of profit from revaluation of investments. The cost to income stood at 74.73% in FY22 as against 77.69% in FY21.

With marginal increase in the operating expenses from 2.93% in FY21 to 3.00% in FY22, DBL reported PPOP of ₹134 crore in FY22 as against ₹105 crore in FY21. Furthermore, with increase in the credit cost to 0.73% in FY22 from 0.50% in FY21, the bank reported return on total assets (ROTA) of 0.27% in FY22 as against 0.30% in FY21. DBL's profit after tax (PAT) remained constant at ₹36 crore in FY22 as against ₹37 crore in FY21.

During H1FY23, with continued decrease in the cost of funds, NIM improved to 3.33% in H1FY23 from 2.71% in H1FY21. The operating expenses (as a percentage of total assets) stood at 2.91% in H1FY23. The cost to income remained high at 87% during H1FY23. The non-interest income during Q1FY23 (refers to the period April 01 to June 30) was characterised by MTM losses in treasury income, which resulted in the bank to report net loss of ₹26 crore in Q1FY23. With improvement of the same in Q2FY23, the bank reported loss of ₹11 crore in H1FY23 as against a PAT of ₹10 crore in H1FY22. CARE Ratings expects profitability to improve gradually by end of FY23 provided there is no major impact on the treasury side.

Moderation in capitalisation with growth in advances: With relatively higher growth in advances, CAR and Tier-I CAR moderated and stood at 12.98% and 10.31% as on March 31, 2022, as against 14.47% and 11.31%, respectively, as on March 31, 2021. CAR and Tier-I CAR further moderated to 12.32% and 10.08% as on September 30, 2022, with losses reported in H1FY23. The bank had planned capital raising during H1FY23; 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 the capital is expected to be raised in the near term. It is to be noted that there was also an EGM called by the shareholder to suspend the powers of MD & CEO, and the EGM was cancelled by the shareholders subsequently. Timely mobilisation of equity capital remains critical for the growth and to improve the profitability going forward.

Key rating strengths

Long-standing track record: DBL has a long-standing track record of more than nine decades. Over the years, the bank has established itself in the state of Kerala with extensive presence in the rural and urban markets. As on September 30, 2022, the bank has presence across 14 States and 1 Union Territory through 247 branches, 263 ATMs and 17 BCs.

Growth in business in FY22 and H1FY23: During FY22, total business (net advances+ deposits) of the bank grew by around 11% to ₹20,545 crore as on March 31, 2022, as against ₹18,499 crore as on March 31, 2021 (₹21,510 crore as on September 30, 2022).

The net advances of the bank grew by 20% and stood at ₹8,142 crore as on March 31, 2022, as against ₹6,787 crore as on March 31, 2021 (₹8,762 crore as on September 30, 2022). The total deposits grew by 7% and stood at ₹12,403 crore as on March 31, 2022, as against ₹11,712 crore as on March 31, 2021 (₹12,748 crore as on September 30, 2022). The current account and saving account (CASA) ratio stood at 34.39% as on March 31, 2022, as against 33.37% as on March 31, 2021 (33.92% as on September 30, 2022).

Liquidity: Adequate

The asset liability profile (ALM) profile of the bank as on September 30, 2022, was adequate with no negative cumulative mismatches in any of the time bucket. DBL has liquidity backup in the form of excess SLR investments of ₹862 crore as on September 30, 2022, to meet contingencies. DBL's liquidity coverage ratio remained comfortable at 165.59% as on September 30, 2022, against the minimum requirement of 100%.

Analytical approach: Standalone.

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Rating Methodology – Banks](#)

[Financial ratios – Financial sector](#)

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

About the bank

Established in 1927, Dhanlaxmi Bank Ltd. (DBL) is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on September 30, 2022, the bank had a presence across 14 States and 1 Union Territory through 245 branches, 258 ATMs and 17 BCs. 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 59% as on September 30, 2022.

Brief Financials (₹ crore)	FY21(A)	FY22(A)	H1FY23(P)
Total Operating Income	1,072	1,086	522
PAT	37	36	-11
Interest Coverage (Times)	1.17	1.24	1.11
Total Assets	12,907	13,608	14,498
Net NPA (%)	4.76	2.39	2.32
ROTA (%)	0.30	0.27	-0.15

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4
Annexure-1: Details of facilities/instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Upper Tier-II	LT	-	-	-	-	1)Withdrawn (28-Dec-20)	1)CARE BB; Stable (03-Jan-20)
2	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (03-Jan-20)
3	Bonds-Tier-II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Dec-21)	1)CARE BB+; Stable (28-Dec-20)	1)CARE BB+; Stable (03-Jan-20)

* Long-term / Short-term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Tier-II bonds (Basel III)	Detailed explanation
Non-Financial covenants	
i. Conditions for exercise of call option	The bank can exercise Call Option to redeem the Bonds at par at the end of 5th Year from the Deemed Date of Allotment. Exercise of Call Option is subject to prior approval of RBI.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Bonds-Tier-II Bonds	Complex

Annexure-5: Bank lender details for this company

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.

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About us:

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