

## Dhanlaxmi Bank Limited

December 24, 2021

### Rating

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Tier II Bonds (BASEL III) <sup>§</sup>	150	<b>CARE BB+; Stable</b> (Double B Plus; Outlook: Stable)	<b>Reaffirmed</b>
<b>Total Long-Term Instruments</b>	<b>150</b> <b>(Rs. One hundred fifty crore only)</b>		

*Details of facilities in Annexure-1*

<sup>§</sup> 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's 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 has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

### Detailed Rationale & 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. The rating also takes note of the moderation in asset quality and moderation in profitability during FY21 (refers to the period April 01 to March 31) and H1FY22 (refers to the period April 01 to September 30) due to combination of fall in core spread and increase in operating expenses. The rating, however, favourably factor in the long track record of operations with a well-established presence of the bank in Kerala, adequate capitalization levels and comfortable liquidity profile.

GNPA and NNPA increased from 5.90% and 1.55% as on March 31, 2020 to 9.23% and 4.76% respectively as on March 31, 2021 on account of impact of COVID-19 induced economic slowdown. During H1FY22, with grant of relief measures such as OTR and ECLGS, GNPA improved to 8.67% as on September 30, 2021. However, the bank has restructured portfolio stood at Rs.173 crore and loans under ECLGS stood at Rs. 150 crore as at the end of September 2021.

In terms of profitability, NIM decreased from 3.15% in FY20 to 2.64% in FY21 majorly due to increase in NPAs. Cost to income increased from 66.67% in FY20 to 77.69% in FY21. With decline in NIM and increase in operating expenses, ROTA declined from 0.56% in FY20 to 0.30% in FY21. During H1FY22, the bank reported a profit of Rs.10 crore on a total income of Rs.513 crore as against PAT of Rs.20 crore on a total income of Rs.529 crore during H1FY21. Going forward, arresting further slippages in advances and growing the advances to improve the profitability while maintaining adequate capitalisation will remain key monitorable.

#### 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 a 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

#### 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 and which accounted for 58% of the total branch network of 245 branches as on September 30, 2021. Also, Southern States (Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Telangana) contribute to around 83% of the total branches. DBL is one of the small-sized banks in India with total advances of Rs. 6,787 crore and total assets of Rs. 12,907 crore as on March 31, 2021.

##### Moderation in Asset quality during FY21

With increased slippages and less recoveries, GNPA and NNPA increased and stood at 9.23% and 4.76% respectively as on March 31, 2021 as against 5.90% and 1.55% as on March 31, 2020. However, with increase in recoveries and with grant of

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

relief measures such as OTR and ECLGS, GNPA and NPA stood at 8.67% and 4.92% as on September 30, 2021. During FY21, Slippage ratio stood at 5.92% (2.73% during FY20) and 5.10% during H1FY22.

Total restructured portfolio under Covid-19 Resolution Framework 1.0 and 2.0 stood at Rs. 173 crore as on September 30, 2021 (3% of gross advances as on September 30, 2021). Total gross stressed assets to advances (Standard restructured asset + Security receipts outstanding + GNPA) stood at 13% as on September 30, 2021 (12% as on March 31, 2021 and 8% as on March 31, 2020). Bank has also disbursed ECLGS loans aggregating to Rs.150 crore which stood at 2 % of gross advances as on September 30, 2021 and Net stressed Assets (Standard restructured asset + Security receipts outstanding + NNPA) to Net worth stood at 72% as on March 31, 2021 as against 38% as on March 31, 2020. Bank reported provision coverage ratio of 74.18% as on September 30, 2021 as against 89.32% as on September 30, 2020.

### **Moderate Growth in Business in FY21 and H1FY22**

During FY21, total Business (net advances+ deposits) of the bank grew by around 6% to Rs. 18,499 crore as on March 31, 2021 as against Rs. 17,400 crore as on March 31, 2020 (Rs. 18,614 crore as on September 30, 2021).

Net advances of the bank grew by 4.38% and stood at Rs. 6,787 crore as on March 31, 2021 as against Rs. 6,496 crore as on March 31, 2020. (Rs. 6,696 crore as on September 30, 2021). Total Deposits grew by 7% and stood at Rs. 11,712 crore as on March 31, 2021 as against Rs. 10,904 crore as on March 31, 2020 (Rs. 11,918 crore as on September 30, 2021). CASA ratio improved to 33.37% as on March 31, 2021 as against 29.80% as March 31, 2020. As on September 30, 2021, CASA ratio stood at 33.53% as on September 30, 2021.

### **Moderation in profitability during FY21 and H1FY22**

With decrease in yield on advances on account of higher slippages being reported in FY21, NIM declined to 2.64% in FY21 from 3.15% in FY20. Non-interest income as a percentage of total assets improved to 1.13% (PY: 0.95%) on account of improvement in profit on sale of investments. Treasury income as a % of total income improved to 6.93% in FY21 from 2.25% in FY20. Opex% (to average total Assets) has increased from 2.74% during FY20 to 2.93% during FY21. Pre-Provision Operating profit decreased to Rs. 105 crore during FY21 from Rs. 162 crore during FY20. Credit cost reduced to 0.50% in FY21 from 0.98% in FY20. With decrease in NIM and increase in operating expenses, ROTA declined to 0.30% in FY21 from 0.56% in FY20.

During H1FY22, the bank reported profit of Rs. 10 crore on a total income of Rs. 513 crore as against PAT of Rs.20 crore on a total income of Rs.529 crore in H1FY21. Impacted by second wave of covid-19 induced pandemic and subdued operations, DBL's ROTA stood at 0.16% in H1FY22 as against 0.32% in H1FY21. With increase in net NPA, the ageing provisions of the bank is expected to impact the profitability but the same can be limited through recoveries from the NPA accounts.

### **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 in the State of Kerala with extensive presence in the rural and urban markets. As on September 30, 2021, the bank has presence across 14 States and 1 Union Territory through 245 branches, 258 ATMs and 17 BCs with an Employee base of 1,644.

#### **Adequate Capitalization for the current level of operations**

CAR and Tier I CAR improved to 14.47% and 11.31% as on March 31, 2021 from 14.41% and 10.69% as on March 31, 2020 mainly because of the increase in Net worth owing to internal accruals during FY21.

CAR and Tier I CAR stood at 13.64% and 10.98% as on September 30, 2021. The capital adequacy looks adequate for current level of operations and for limited growth envisaged by the bank. However, once the bank starts focusing on growing advances, infusion of capital remains a critical factor.

#### **Impact of Covid-19**

Business performance has been moderate in H1FY22, on account of subdued operations impacted by second wave of covid-19. As on September 30, 2021, the total restructured portfolio under Covid-19 Resolution Framework 1.0 and 2.0 stood at Rs. 173 crore. (3% of gross advances as on September 30, 2021). Bank has disbursed ECLGS aggregating to Rs. 150 crore which stood at 2% of gross advances as on September 30, 2021. Improvement in recoveries and reduction in slippages remains a critical factor for the bank.

#### **Liquidity: Adequate**

ALM profile of the bank as on September 30, 2021 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 Rs.2,349 crore as on September 30, 2021 to meet contingencies.

Term Deposit rollover rate of 74.17% during FY21 also provides comfort. DBL's liquidity coverage Ratio remained comfortable at 1095.25% as on September 30, 2021 against the minimum regulatory 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, 2021, the bank had a presence across 14 States and 1 Union Territory through 245 branches, 258 ATMs and 17 BCs with an Employee base of 1,644. 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 67.98% as on September 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	H1FY22(P)
Total Operating Income	1,100	1,072	513
PAT	66	37	10
Interest Coverage (Times)	1.26	1.17	1.15
Total Assets	12,069	12,907	13,232
Net NPA (%)	1.55	4.76	4.92
ROTA (%)	0.56	0.30	0.16

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 instrument / facility:** 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 Facility/Instrument**

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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (28-Dec-20)	1)CARE BB; Stable (03-Jan-20)	1)CARE BB; Stable (04-Jan-19)
2	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (03-Jan-20)	1)CARE BB+; Stable (04-Jan-19)
3	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (04-Jan-19)
4	Bonds-Tier II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (28-Dec-20)	1)CARE BB+; Stable (03-Jan-20)	1)CARE BB+; Stable (04-Jan-19)

\* Long Term / Short Term

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

Tier-II bonds (Basel III)	Detailed explanation
<b>Non-Financial covenants</b>	
i. Conditions for exercise of call option	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

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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](mailto:care@careedge.in) for any clarifications.

## Contact us

### Media Contact

Name: Mr. Mradul Mishra  
Contact no.: +91-22-6837 4424  
Email ID: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact 1

Name: Mr. P Sudhakar  
Contact no.: 044-2850 1000  
Email ID: [p.sudhakar@careedge.in](mailto:p.sudhakar@careedge.in)

### Analyst Contact 2

Name: Mr. Ravi Shankar R  
Contact no.: - 044-2850 1016  
Email ID: [ravi.s@careedge.in](mailto:ravi.s@careedge.in)

### Relationship Contact

Name: Pradeep Kumar V  
Contact no.: +91-98407 54521  
Email ID: [pradeep.kumar@careedge.in](mailto:pradeep.kumar@careedge.in)

### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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