AUGUST 04, 2016

CARE REVISES THE RATING ASSIGNED TO THE UPPER TIER II BOND ISSUE OF DHANLAXMI BANK LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Upper Tier II Bonds	27.50 (Rupees Twenty Seven crore and Fifty lakh only)	CARE D [Single D]	Revised from CARE BB [Double B]

The rating of Upper Tier II Bonds takes into account its sensitiveness to the bank's Capital Adequacy Ratio (CAR) and profitability during the tenure of the instrument. The ratings for the hybrid instruments factor in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute an event of default as per CARE's definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared to conventional subordinated debt instruments.

Rating Rationale

The revision in the rating assigned to the Upper Tier II bond issue of Dhanlaxmi Bank Limited (DBL) is on account of non-payment of interest due to invocation of lock in clause following fall in CAR below regulatory requirement. As per the terms of instrument, the issuing bank shall not be liable to pay either interest or principal in the event of CAR falling below regulatory requirement. The bank reported a total Capital Adequacy Ratio (CAR) of 7.51% as on March 31, 2016, which was below the regulatory requirement of 9.625%. Tier I CAR stood at 6.12% as on March 31, 2016 and regulatory approval for payment of the interest has not been obtained.

Background

DBL is a Kerala-based small-sized private sector bank with its headquarters at Thrissur. Total assets of the bank stood at Rs.12,426 crore as on March 31, 2016. The bank's shares are listed and are widely held.

During FY16 (refers to the period April 1 to March 31), DBL reported after tax loss of Rs.209 crore on a total income of Rs.1,281 crore. The loss was primarily on account of provision towards NPA and provision for superannuation benefits relating to the VRS implemented in the years 2000 and 2004. Gross NPA and Net NPA stood at 6.36% and 2.78% respectively as on March 31, 2016. The bank is in the process of mobilizing fresh equity to improve its capital adequacy level and expects to complete the process by August 2016.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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