SEPTEMBER 18, 2015

CARE REVISES THE RATINGS ASSIGNED TO THE DEBT INSTRUMENTS OF DHANLAXMI BANK LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds	267.70*	**CARE BB+ (Double B Plus)**	Revised from CARE BBB- (Triple B Minus)
Upper Tier II Bonds	27.50	**CARE BB (Double B)**	Revised from CARE BB+ (Double B Plus)

*outstanding of Rs.117.70 as on June 30, 2015

Rating Rationale

The revision in ratings assigned to the bond issues of Dhanlaxmi Bank Limited (DBL) is primarily on account of continuation of losses in FY15 (refers to the period April 01 to March 31) and Q1FY16 (refers to the period April 1 to June 30), further moderation in asset quality and relatively low capital adequacy levels. Notwithstanding the improvement in operating profit in FY15 and Q1FY16, higher provisions resulted in loss during these periods. The various steps taken by the bank including increasing the share of low cost deposits, focus towards retail and MSME loans is expected to aid the bank in improving the profitability, in the long run. Ability of the bank to improve its capitalisation levels , asset quality and show improvement in performance on sustained basis are the key rating sensitivities.

The rating of Upper Tier II Bonds of DBL also takes into account its sensitiveness to bank's capital adequacy ratio and profitability during the tenure of the instrument. The rating factors in additional risk arising due to existence of lock-in clause in this instrument.

Background

DBL is a Kerala-based small-sized private sector bank with its headquarters at Thrissur. Total assets of the bank stood at Rs.14,315 crore as on March 31, 2015. Mr. G. Sreeram was appointed as the Managing Director (MD) & Chief Executive Officer (CEO) of the bank with effect from April 06, 2015. Presently, the board of DBL also consists of two additional directors from RBI. The bank's shares are listed and are widely held.

Credit Risk Assessment

During FY15, total income has seen marginal decline on y-o-y basis with yield on advances declining by 46 bps primarily on account of reduction in interest rate extended to borrowers on case to case basis and interest reversals due to NPAs. At the same time, cost of funds was lower by 57 bps in FY15 with bank's concentrated efforts to mobilize CASA and reduce high cost bulk deposits.

Though the bank has reported operating profit of Rs.26 crore in FY15, on account of higher provisions due to deterioration in asset quality, DBL reported after tax loss of Rs.241 crore (as against net loss of Rs.252 crore in FY14). Asset quality of the bank witnessed deterioration in FY15. The bank reported Gross NPA ratio of 7.00% and Net NPA of 3.29% as on March 31, 2015 as against Gross NPA of 5.98% and Net NPA of 3.80% as on March 31, 2014. It is to be noted that in respect of two accounts, though DBL was allowed to make provision over a period of 3 or 4 quarters as per RBI guidelines, it has made entire provisions in Q4FY15 itself. Higher provisions had resulted in bank reporting significant losses in FY15.

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

Notwithstanding continuation of operating profit, DBL has reported losses in Q1FY16 on account of provisions made towards fresh slippages and MTM losses on its investment portfolio. GNPA and NNPA further increased sharply to 8.45% and 4.22% as on June 2015. During Q1FY16, DBL reported after tax loss of Rs.23 crore against PAT of Rs.3 crore reported in Q1FY15. In order to improve its performance, DBL has taken various steps including improving operational efficiency, improving low cost funds by increasing share of CASA and reducing high cost deposits. On the advances side, it is expected to increase its focus on retail and MSME segments while taking cautious approach towards corporate lending.

On account of losses, Capital Adequacy Ratio (CAR) has declined to 9.20% (Tier I CAR of 7.29%) as on June 30, 2015 from 9.59% (Tier I CAR of 7.42%) as on March 31, 2015. In case of any further losses, timely mobilization of capital is critical to maintain the CAR above regulatory level of 9.00% (Tier I CAR of 7%). At the same time, given its performance over the past few years and volatile capital markets, mobilization of equity in timely manner is likely to be challenging.

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

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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