Dena Bank (Revised)

March 5, 2018

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Tier II Bonds (Basel III compliant)	*780.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds - Series XI	200.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds – Series XII	1200.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Perpetual Bonds	125.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Basel III Compliant Additional Tier I Perpetual Bonds	1000.00	CARE BBB+;Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Basel III Compliant Additional Tier I Perpetual Bonds	400.00	CARE BBB+;Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Tier II Bonds (Basel III compliant)	400.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total	**4,105 (Rupees Four Thousand One Hundred and Five crore only)**		

Details of instruments/facilities in Anneuxre-1

*The amount is reduced on account of withdrawal of Rs. 20 crores

Detailed Rationale & Key Rating Drivers

The rating takes into account significant deterioration in the asset quality and profitability parameters which has impacted the overall financial position of the bank. The rating also considers
RBI placing the bank under Prompt Corrective Action Framework. The rating continues to factor in the majority ownership and expected support by the Government of India (GoI). Continued ownership and support from GoI, capital adequacy, asset quality and profitability are the key rating sensitivities.

Outlook: Negative

The outlook reflects the expectation of continued stress on asset quality and profitability parameters of the bank leading to further pressure on the bank's capital position which may erode if revival measures are not resorted to. The outlook may be revised to 'Stable' in case of sustainable improvement in bank's asset quality and earning profile.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and capital support by GOI

The bank's credit profile derives strength from its strong parentage and expectations of support from GoI in the times of stress. The rating derives further comfort from regular equity infusions from GoI and GoI owned dominant insurer - Life Insurance Corporation of India (LIC). During FY17, GoI infused equity capital aggregating to Rs.1,046 crore (Rs.446 crore in September 2016 and Rs.600 crore in March 2017). In addition, LIC and General Insurance Corporation (GIC) infused equity capital of Rs.172.33 crore and Rs.20 crore.

Moderate Capitalization Levels

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

Capital adequacy at the end of FY17 as per Basel III stood at 11.39% (11.0%) & Tier I CAR stood at 9.05% (P.Y.: 8.59%) as against the regulatory requirement of 10.25% (inclusive of capital conservation buffer of 1.25) and 7% (For Tier I). This has improved on account of equity infusion and deceleration in advances book. The CET1 CRAR is 7.24% as against the regulatory requirement of 6.75 % (ie 5.5% for CET-1 and 1.25 capital conservation buffer). Thus, the Bank has been able to maintain adequate Capital Adequacy Ratio under Basel III norms. As on Dec 31, 2017, total CAR (Basel III) stood at 11.48% and Tier I CAR at 8.97%.

Comfortable Liquidity

The bank's liquidity profile as on March 31, 2017 shows positive mismatches upto 3 months. The bank has an excess SLR of around 10 % ie Rs 3,400 Crores (approx.) as on 31st March, 2017 which provides comfort.

Key Rating Weakness

Deterioration in profitability parameters

In FY17, interest income growth has decelerated to -4.35% (P.Y.: -1.09%) on account of lower advances growth & interest reversals on incremental NPAs. Cost of deposits has reduced primarily due to increase in CASA Ratio and reduction in the number of Term Deposits. Higher Decline in yields on advances compared to lower decline in cost of deposits resulted in decline of NIM during FY17 which stood at 1.87%. Lower growth in operating income coupled with increase in provisioning costs has led to losses in FY17. However losses have been lower in FY17 as compared to FY16 on account of increase in non-interest income inspite of higher provisioning costs during the year.This is the second consecutive year in which bank has suffered loss. ROTA declined to -0.67% during FY17 (P.Y.: -0.72%). In 9MFY18, The Bank continues to report loss of 697 Crores. Also ROTA stood at -0.85% as on 31st Dec, 2017.

Deterioration in asset quality parameters

As on March 31, 2017, GNPA and NNPA ratios increased to 16.27% (P.Y.:9.99%) and 10.66% (P.Y.:6.35%) respectively with net NPA/ net worth being 159.40.7% (P.Y.:105.72%). The Net Advances has increased from Rs.5230 Crores in FY16 to Rs. 7735 Crores in FY17 which is almost 48% y-o-y. Thus, Substantial additions to NPA's without corresponding recoveries has led to increase in GNPA and NNPA. Total stressed assets to advances (Gross NPA plus std. restructured assets plus Security Receipts as a percentage of gross advances) increased to 21.53% as on March 31, 2017 as compared to 16.09% as on March 31, 2016. At the end of 9MFY18, asset quality has further deteriorated as Gross and Net NPA increased to 19.56% and 11.52% respectively.

Decline in Advances Profile

The bank's advances (net) saw a de-growth of 9.64% during FY17 to Rs.77,538 crore as on March 31, 2017 from Rs.85,811 crore as on March,31, 2016. The advances (gross) portfolio primarily comprises of large corporates (36.05%), retail (17.15%), agriculture (16.82%) and MSME (16.07%). During FY17, MSME and Large corporate book declined by 10.91% and 8.50% respectively. Retail advances grew 10.35% y-on-y to Rs.13,301 crore. Within direct retail credit, housing loans collectively accounted for 55% of the portfolio. Advances to the priority sector grew by 8.43% to touch Rs.36,992.32 crore as on March 31, 2017.

Initiation of Prompt Corrective Action by RBI

In June, 2017, RBI initiated prompt corrective action on the Bank because of the high net non-performing assets and negative return on assets. The Bank's NNPA stood at 10.66%(PY: 6.35%) and ROTA declined to -0.67% during FY17 (P.Y.: -0.72%). Under PCA, the Bank has been advised to focus on recovery thereby reducing NPA's, rationalize the cap exp and manpower expenses, restrict further opening of branches etc. However, no restrictions are imposed on further lending.

Prospects

The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory.

Analytical approach: CARE has considered the standalone business and financial profile of Dena Bank along with ownership and expected support from Government of India.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

CARE's Rating Methodology For Banks
Financial ratios – Financial Sector
Factor Linkages in Ratings

Background of Dena Bank Ltd.
Dena Bank is a mid-sized public sector bank with an asset base of Rs.72,574.62 crore as on March 31, 2017. GoI's stake in the bank stood at 68.55% as on March 31, 2017. As on 31st March 2017, the bank had 1874 branches (P.Y.: 1846) and 1538 ATMs (P.Y.:1471) of which roughly 60% of branches are located in rural and semi urban areas.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	10645	10181
PAT	-935	-863
Interest coverage (times)	0.81	0.83
Total Assets	131247	126791
Net NPA (%)	6.35	10.66
ROTA (%)	-0.72	-0.67

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	29.01.2009	9.50	29.01.2019	200.00	CARE A+; Stable
Bonds-Perpetual Bonds	28.05.2009	9.00	-	125.00	CARE A; Stable

Bonds-Lower Tier II	29.01.2009	9.50	29.01.2019	1200.00	CARE A+; Stable
Bonds-Tier II Bonds	26.02.2014	9.86	26.02.2024	780.00	CARE A+; Stable
Bonds-Tier I Bonds	25.06.2012	9.23	25.06.2027	1000.00	CARE BBB+; Negative
Bonds-Perpetual Bonds	18.03.2015	10.20	-	400.00	CARE BBB+; Negative
Bonds-Tier II Bonds	20.03.2016	8.76	20.09.2026	400.00	CARE A+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (07-Jul-14)
2.	Bonds-Lower Tier II	LT	200.00	CARE A+; Stable	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (10-Aug-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (16-Sep-16)	1)CARE AA- (25-Mar-16) 2)CARE AA (19-Nov-15)	1)CARE AA+ (15-Jul-14)
3.	Bonds-Perpetual Bonds	LT	125.00	CARE A; Stable	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (10-Aug-17)	1)CARE A; Negative (29-Dec-16) 2)CARE A (16-Sep-16)	1)CARE A (25-Mar-16) 2)CARE AA- (19-Nov-15)	1)CARE AA (15-Jul-14)
4.	Bonds-Lower Tier II	LT	1200.00	CARE A+; Stable	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (10-Aug-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (16-Sep-16)	1)CARE AA- (25-Mar-16) 2)CARE AA (19-Nov-15)	1)CARE AA+ (15-Jul-14)
5.	Bonds-Tier II Bonds	LT	780.00	CARE A+; Stable	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (10-Aug-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (16-Sep-16)	1)CARE AA- (25-Mar-16) 2)CARE AA (19-Nov-15)	1)CARE AA+ (15-Jul-14)
6.	Bonds-Tier I Bonds	LT	1000.00	CARE BBB+; Negative	1)CARE BBB+; Negative (05-Feb-18) 2)CARE BBB+; Negative (10-Aug-17)	1)CARE BBB+; Negative (29-Dec-16) 2)CARE BBB+ (16-Sep-16)	1)CARE BBB+ (25-Mar-16) 2)CARE A+ (19-Nov-15)	1)CARE AA- (16-Jan-15)

7.	Bonds-Perpetual Bonds	LT	400.00	CARE BBB+; Negative	1)CARE BBB+; Negative (05-Feb-18) 2)CARE BBB+; Negative (10-Aug-17)	1)CARE BBB+; Negative (29-Dec-16) 2)CARE BBB+ (16-Sep-16)	1)CARE BBB+ (25-Mar-16) 2)CARE A+ (14-Jan-16)	-
8.	Bonds-Tier II Bonds	LT	400.00	CARE A+; Stable	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (10-Aug-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (16-Sep-16)	-	-

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