Dena Bank
September 26, 2018

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Tier II Bonds (Basel III compliant)	780.00	CARE A+; (Single A Plus) (Credit watch with positive implications)	Placed on credit watch with positive implications
Lower Tier II Bonds - Series XI	200.00	CARE A+ (Single A Plus) (Credit watch with positive implications)	Placed on credit watch with positive implications
Lower Tier II Bonds – Series XII	1200.00	CARE A+ (Single A Plus) (Credit watch with positive implications)	Placed on credit watch with positive implications
Perpetual Bonds[@]	125.00	CARE A; (Single A) (Credit watch with positive implications)	Placed on credit watch with positive implications
Tier II Bonds (Basel III compliant)	400.00	CARE A+; (Single A Plus) (Credit watch with positive implications)	Placed on credit watch with positive implications
Total	**2,705 (Rupees Two Thousand Seven Hundred and Five crore only)**		

Details of instruments/facilities in Anneuxre-1

@CARE has rated the aforesaid Perpetual Bonds after taking into consideration their increased sensitivity to Dena Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as 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 with conventional subordinated debt instruments.

Detailed rationale and key rating drivers

The ratings assigned to various long term debt instruments of Dena Bank have been placed on 'credit watch with positive implications' following the announcement of merger between Dena Bank, Vijaya Bank and Bank of Baroda by Government of India. Although, the merger of the three banks is in initial stages and is subject to approval from the Board of Directors of the individual banks as well as regulatory and shareholders' approval, the merger is expected to have a positive impact on the credit profile of Dena Bank. CARE Ratings would continue to monitor further developments on the proposed merger and would review the ratings in accordance with the progress on the process.

The ratings of Dena Bank continue to factor in majority ownership and expected support by the Government of India (GoI). The ratings continue to factor in weak asset quality and profitability parameters which have impacted the overall financial position of the bank. The rating also considers RBI placing the bank under Prompt Corrective Action Framework.

Continued ownership and support from GoI, capital adequacy, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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

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 FY18, GoI infused equity capital aggregating to Rs.3,045 crore.

Moderate Capitalization Levels: Capital adequacy at the end of Q1FY19 stood at 10.60% (FY18: 11.09%) & Tier I CAR stood at 8.15% (FY18: 8.81%) as against the regulatory requirement of 10.875% (inclusive of capital conservation buffer of 1.25) and 7% (For Tier I). This has improved on account of equity infusion. The CET1 CRAR is 8.15% as on June 30, 2018 as against the regulatory requirement of 7.375 % (i.e. 5.5% for CET-1 and 1.875% capital conservation buffer).

Comfortable Liquidity*:* The bank is maintaining liquid assets to fulfil the requirement of Liquidity Coverage Ratio (LCR). The bank has maintained LCR of 146.85% as on March 2018 as against regulatory requirement of 90%.

Key Rating Weakness

Weak profitability parameters: In FY18, interest income growth has decelerated to -12.27% (P.Y.: -4.35%) 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. The lower Decline in yields on advances compared to higher decline in cost of deposits resulted in improvement of NIM from 1.87% in FY17 to 2.03% in FY18. The Company has repaid its AT1 bonds, perpetual bonds by exercising call options which has further reduced its interest cost. Lower growth in operating income coupled with increase in provisioning costs has led to losses in FY18. Furthermore the bank recognized MTM loss of Rs 203.79 crore in FY18.
During Q1FY19, the bank reported a loss of Rs.721.71 crore on a total income of Rs.2,410 crore.

Weak asset quality parameters: As on March 31, 2018, GNPA and NNPA ratios increased to 22.04% (P.Y.: 16.27%) and 11.95% (P.Y.: 10.66%) respectively with net NPA/ net worth being 153% (P.Y.:160%). A substantial addition to NPA's without corresponding recoveries has led to increase in GNPA and NNPA. The Bank has made a write off of RS 661 crore in FY18. As on June 30, 2018, Gross and Net NPA were 22.69% and 11.04% respectively.

Decline in advances: The bank's advances (net) saw a de-growth of 9.64% during FY18 to Rs.65,581 crore as on March 31, 2018 from Rs.72,575 crore as on March,31, 2017. The advances (gross) portfolio primarily comprised large corporates (36.12%), retail advances (17.83%), agriculture (17.98%) and MSME (14.68%). During FY18, MSME and Large corporate book declined by 12.52% and 4.06% respectively whereas retail advances declined by 0.5% y-on-y to Rs.13,240 crore. Within direct retail credit, housing loans collectively accounted for 63% of the portfolio. Advances to the priority sector declined by 2.8% to Rs.35,949 crore as on March 31, 2018. The gross advances stood at Rs.69,917 crore as on June 30, 2018.

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. Under PCA, the Bank has been advised to focus on recovery thereby reducing NPAs, rationalize the cap expenditure and manpower expenses, restrict further opening of branches etc. Furthermore, the bank has also been restricted from assuming fresh credit exposure and recruitment of staff.

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 Policy on Default Recognition
CARE's Rating Methodology For Banks
Bank - Rating framework for Basel III instruments (Tier I & Tier II)

[Financial ratios - Financial Sector](#)
[Factoring Linkages in Ratings](#)

About the Bank
Dena Bank is a mid-sized public sector bank with an asset base of Rs.1,14,807 crore as on June 30, 2018. GoI's stake in the bank stood at 80.74% as on June 30, 2018. As on June 30, 2018, the bank had 1858 branches and 1646 ATMs of which roughly 58% of branches are located in rural and semi urban areas.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	11433	10095
PAT	(863)	(1923)
Total Assets	126781	116764
Net NPA (%)	10.66	11.95
ROTA (%)	-0.67	-1.58

*A: Audited; T*he ratios has been calculated as per CARE's methodology.
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument
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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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 (Series XI)	29.01.2009	9.50	29.01.2019	200.00	CARE A+; (Credit watch with positive implications)
Bonds-Perpetual Bonds	28.05.2009	9.00	-	125.00	CARE A; (Credit watch with positive implications)
Bonds-Lower Tier II (Series XII)	25.06.2012	9.23	25.06.2027	850.00	CARE A+; (Credit watch with positive implications)
Bonds-Lower Tier II	-	-	-	350.00	CARE A+; (Credit watch with positive implications)
Bonds-Tier II Bonds (Series XIII)	26.02.2014	9.86	26.02.2024	780.00	CARE A+; (Credit watch with positive implications)
Bonds-Tier II Bonds (Series XIV)	20.09.2016	8.76	20.09.2026	400.00	CARE A+; (Credit watch with positive implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	200.00	CARE A+; (Credit watch with positive implications)	-	1)CARE A+; Stable (05-March-18) 2)CARE A+; Stable (05-Feb-18) 3)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)
2.	Bonds-Perpetual Bonds	LT	125.00	CARE A; (Credit watch with positive implications)	-	1)CARE A; Stable (05-Mar-18) 2)CARE A; Stable (05-Feb-18) 3)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)
3.	Bonds-Lower Tier II	LT	1200.00	CARE A+; (Credit watch with positive implications)	-	1)CARE A+; Stable (05-Mar-18) 2)CARE A+; Stable	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)

						(05-Feb-18) 2)CARE A+; Negative (10-Aug-17)		
4.	Bonds-Tier II Bonds	LT	780.00	CARE A+; (Credit watch with positive implications)	-	1)CARE A+; Stable (05-Mar-18) 2)CARE A+; Stable (05-Feb-18) 3)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)
5.	Bonds-Tier I Bonds	LT	-	-	1) Withdrawn (29-05-2018)	1)CARE BBB+; Negative (05-Mar-18) 2)CARE BBB+; Negative (05-Feb-18) 3)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)
6.	Bonds-Perpetual Bonds	LT	-	-	1) Withdrawn (29-05- 2018)	1)CARE BBB+; Negative (05-Mar-18) 2)CARE BBB+; Negative (05-Feb-18) 3)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)
7.	Bonds-Tier II Bonds	LT	400.00	CARE A+; (Credit watch with positive implications)	-	1)CARE A+; Stable (05-Mar-18) 2)CARE A+; Stable (05-Feb-18) 3)CARE A+; Negative (10-Aug-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (16-Sep-16)	-

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