Dhanlaxmi Bank Limited

January 04, 2019

Ratings

Instruments	Amount (Rs Crore)	Rating[1]	Remarks
Lower Tier II Bonds	22.90* (Reduced from Rs.117.70 crore)	**CARE BB+; Stable (Double B Plus;Outlook: Stable)**	**Reaffirmed**
Tier II Bonds (BASEL III Compliant)	150.00	**CARE BB+; Stable (Double B Plus;Outlook: Stable)**	**Reaffirmed**
Upper Tier II Bonds	27.50	**CARE BB; Stable (Double B;Outlook: Stable)**	**Reaffirmed**
Total	**200.40 (Rupees two hundred crore and forty lakh only)**		

Details of instruments/facilities in Annexure-1

** Outstanding amount is reduced as the bank has redeemed lower tier II bonds amounting to Rs.94.80 crore during the period from April 2018 to October 2018.*

Tier II Bonds under Basel III are characterised by a ‘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 ratings assigned to various debt instruments of Dhanlaxmi Bank Limited (DBL) continue to factor in the relatively small size of operations, weak asset quality & profitability parameters and regional concentration of its operations. The ratings, however, favorably factors in the long track record of operations and a well-established presence of the bank in Kerala, adequate capitalisation levels and comfortable liquidity profile.

The ability of DBL to improve its scale of operations while maintain its capitalisation levels above regulatory requirement, improve asset quality and profitability are the key rating sensitivities.

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, which accounted for 59% of the branch network as on March 31, 2018. With total advances of Rs. 5,941 crore and total assets of Rs. 11,792 crore as on September 30, 2018, DBL is one of the small sized banks in India.

Decline in overall business

During FY18, the bank registered 5% decline in advances and 3% decline in deposits. Advances declined from Rs. 6,446 crore as on March 31, 2017 to Rs. 6,111 crore as on March 31, 2018. The trend continued in H1FY19 with advances declining to Rs. 5,941 crore as on September 30, 2018.

Deposits declined from Rs. 11,294 crore as on March 31, 2017 to Rs. 10,920 crore as on March 31, 2018. With increased focus on retail deposits, CASA improved to 30.80% as on March 31, 2018 from 29.44% as on March 31, 2017. Deposits stood at Rs. 10,817 crore as on September 30, 2018.

Losses reported during FY18 and H1FY19

During FY18, NIM improved from 2.68% in FY17 to 2.82% in FY18 mainly on the account decrease in cost of deposits. Non-Interest income moderated to Rs.102 crore in FY18 from Rs.111 crore in FY17 with decline in profit on sale of investments from Rs.35 crore in FY17 to Rs.11 crore in FY18. Opex to average assets decreased from 2.82% in FY17 to 2.46% in FY18 mainly due to decrease in employee expenses.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com*

As a result of improvement in NIM and decrease in operating expenses, operating profit improved to Rs.146 crore in FY18 from Rs.94 crore in FY17. However, on account of higher provisions towards NPAs and provisions for depreciation on investments, the bank reported a loss of Rs.25 crore during FY18 as against a profit of Rs.12 crore during FY17.
During H1FY19, the bank reported loss of Rs.33 crore mainly on the account of loss on sale of investments of Rs.34 crore during the period. Provision coverage ratio stood at 82.50% as on September 30, 2018. With higher provision coverage, the incremental provisions towards NPAs are expected to be lower going forward.

Weak Asset quality
Asset quality has moderated during FY18, wherein the bank reported GNPA and NNPA of 7.35% and 3.19% as on March 31, 2018 as against GNPA and NNPA of 4.79% and 2.58% as on March 31, 2017. On absolute terms, GNPA and NNPA has increased from Rs.316 crore as on March 31, 2017 to Rs.469 crore as on March 31, 2018.
Standard restructured assets stood at Rs.29 crore as on March 31, 2018 as against Rs.19 crore as on March 31, 2017. As on March 31, 2018, Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) to gross advances stood at 9.52% (PY: 6.82%) and Net stressed Assets (Standard restructured asset + Security receipts outstanding + NNPA) to Networth stood at 46.75% (PY: 48.69%).
With the increased focus on recoveries, recoveries/upgradations improved from Rs.109 crore in FY17 to Rs.202 crore in FY18. DBL has also setup a separate recovery team for one time settlement for technically written off accounts.GNPA and NNPA as on September 30, 2018 stood at 7.81% and 2.92%. Any further slippage will have an impact on the profitability and capitalization levels of the bank.

Key Rating Strengths
Long standing track record
DBL has a long standing track record of around 90 years. Over the years, the bank has established in the State of Kerala with extensive presence in the rural and urban markets. As on March 31, 2018, total branches stood at 258 with majority of the branches in Kerala and total ATMs stood at 346.

Adequate Capitalisation
CAR and Tier 1 CAR as March 31, 2018 stood at 13.87% and 10.60% as against 10.26% and 9.01% as on March 31, 2018. The improvement in CAR is mainly on the account of mobilisation of fresh equity of Rs.120 crore though preferential share allotment and Rs.150 crore through Tier II bond issue during FY18.
Further, CAR improved to 14.16% as on September 30, 2018 due to decline in advances during H1FY19. The capital adequacy looks adequate for current level of operations. However, once the bank starts focusing on growing advances, infusion of capital remains a critical factor.

Comfortable Liquidity profile
ALM profile of the DBL as on September 30, 2018 was comfortable with no negative cumulative mismatches in any of the time buckets and with a liquidity coverage ratio of 288% as on September 30, 2018. Also, DBL has liquidity backup in the form of excess SLR investments of Rs.553 crore as on September 30, 2018 to meet contingencies. Deposit rollover rate of 75% also provides comfort.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Financial sector
Bank - CARE's Rating Methodology for Banks
Bank - Rating framework for Basel III instruments (Tier I & Tier II)

About the Company
Established in 1927, Dhanlaxmi Bank Ltd. (DBL) is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on March 31, 2018, the bank had a presence across 615 customer outlets comprising 258 branches, 346 ATMs and 11 processing centres. 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 52.75% as on September 30, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,200	1,116
PAT	12	(25)
Total Assets	12,296	12,249
Net NPA (%)	2.58	3.19
ROTA (%)	0.10	(0.20)

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

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
Upper Tier II Bonds	28 Jul 2010	10%	30 Jul 2025	27.50	CARE BB; Stable
Lower Tier II Bonds	29 May 2012	11.95%	29 May 19	14.20	CARE BB+; Stable
Lower Tier II Bonds	03 Aug 2012	11.95%	3 Aug 2019	3.70	CARE BB+; Stable
Lower Tier II Bonds	10 Dec 2012	11.95%	10 Dec 2019	5.00	CARE BB+; Stable
Bonds-Lower Tier II	-	-	-	0.00	Withdrawn
Tier II Bonds	Mar 29, 2018	11%	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 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	-	-	-	-	-	1)Withdrawn (28-Oct-15) 2)CARE BB+ (18-Sep-15)
2.	Bonds-Upper Tier II	LT	27.50	CARE BB; Stable	-	1)CARE BB; Stable (05-Oct-17)	1)CARE D (04-Aug-16)	1)CARE BB (18-Sep-15)
3.	Bonds-Lower Tier II	LT	22.90	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Oct-17)	1)CARE BB+ (13-Oct-16)	1)CARE BB+ (18-Sep-15)
4.	Bonds-Lower Tier II	LT	-	-	-	1)CARE BB+; Stable (05-Oct-17)	1)CARE BB+ (13-Oct-16)	1)CARE BB+ (18-Sep-15)
5.	Bonds-Tier II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (16-Mar-18)	-	-

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