

Dhanlaxmi Bank Limited

October 5, 2017

Ratings

Instruments	Amount (Rs Crore)	Rating ¹	Remarks
Lower Tier II Bonds	117.70	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Upper Tier II Bonds	27.50	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE D (Single D)
Total Facilities	145.20 (Rupees one hundred forty five crore and twenty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating of the upper tier II bonds factors in the improvement in capital adequacy levels consequent to mobilization of fresh equity of Rs.84 crore during FY17 (refers to the period April 01 to March 31) & Rs.120 crore in Q1FY18 (refers to the period from April 01 to June 30) and regularisation of coupon payments of upper tier II bonds.

The ratings continue to be constrained by relatively small size of operations, moderate asset quality & profitability parameters and regional concentration of its operations.

The ratings, however, favourably factors in the long track record of operations and a well-established presence of the bank in Kerala and its comfortable liquidity profile.

The ability of the bank to maintain its capitalisation levels above regulatory requirement, improve asset quality and show improvement in performance on sustained basis are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate Profitability with decline in overall business of the bank during FY17

During FY17, the bank registered 7% decline in advances and 1% decline in deposits. Corporate advances declined by 18% to Rs. 1,098 crore as on March 31, 2017 from Rs. 1,347 as on March 2016. Net Interest Income grew by 9% and Net Interest Margin improved from 2.28% in FY16 to 2.68% in FY17 with decrease in the cost of deposits with no change in the yield on advances.

During FY17, the bank reported an operational profit of Rs.94 crore as against operational profit of Rs.0.5 crore in FY16 majorly due to increase in treasury income from Rs. 5 crore in FY16 to Rs.35 crore in FY17 and decrease in employee expenses.

Moderate asset quality

Asset quality ratios of DBL improved during FY17 as Gross NPA and Net NPA have improved along with decline in advances. Gross NPA improved from Rs.449 crore as on March 31, 2016 to Rs.316 crore as on March 31, 2017 whereas Net NPA improved from Rs.193 crore as on March 31, 2016 to Rs.166 crore as on March 31, 2017 due to write offs of Rs.189 crore during the year.

Gross and Net NPA ratios improved from 6.36% and 2.78% as on March 31, 2016 to 4.79% and 2.58% as on March 31, 2017. Gross and Net NPA ratios moderated to 5.62% (PY: 7.02%) and 3.15% (PY: 3.04%) as on June 30, 2017 primarily on account of slippages. Net NPA to Networth ratio stood at 26.96% (PY: 41.03%) as on March 31, 2017 and 25.91% as on June 30, 2017.

Prevention of any fresh slippages in the current year will be critical for the prospects of the bank.

Regional concentration and small size of operations

The business of the bank is largely concentrated in the state of Kerala, which accounted for majority of the branch network as on March 31, 2017. With total advances of Rs.6,446 crore and total assets of Rs.12,296 crore as on March 31, 2017, DBL is one of the small sized banks in India.

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 extensive presence in the rural and urban markets in the state of Kerala. As on March 31, 2017, total branches stood at 260 with majority of the branches in Kerala and total ATMs stood at 371.

Improvement in capital adequacy levels subsequent to mobilisation of fresh equity in FY17 and Q1FY18

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

During September 2016, the Bank had raised capital to the tune of Rs.84 crore by preferential allotment at a price of Rs.25.98 per share (including premium of Rs.15.98 per share) and CAR improved to 10.26% as on March 31, 2017(PY: 7.51%). Also the bank has raised capital of Rs.120 crore by preferential allotment at a price of Rs.27.80 per share (including a premium of Rs.17.80 per share) during Q1FY18 and CAR increased to 12.01% as on June 30, 2017. Given the regulatory requirement of Total CAR of 10.875% as on March 31, 2018, timely mobilization of additional capital is critical for the bank to grow its advances at higher rate.

Liquidity profile

ALM profile of the bank as on March 31, 2017 was comfortable with no negative cumulative mismatches up to the one year time bucket. Also, DBL has liquidity backup in the form of excess SLR investments of Rs. 1,072 crore as on June 30, 2017 to meet contingencies.

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](#)

About the Company

DBL is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on March 31, 2017, the bank had a presence across 644 customer outlets comprising 260 branches, 371 ATMs and 14 processing centres. The bank's shares are listed in BSE and NSE and are widely held.

DBL reported net profit of Rs.12 crore in FY17 as against net loss of Rs.209 crore in FY16. For Q1FY18, DBL reported net profit of Rs.8 crore over total income of Rs.287 crore

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	1,281	1,200
PAT	(209)	12
Total Assets	12,426	12,296
Net NPA (%)	2.78	2.58
ROTA (%)	(1.57)	0.10

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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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	20 Jan 2012	11%	20 July 2018	10.00	CARE BB+; Stable
Lower Tier II Bonds	29 May 2012	11.9%	29 Apr 2018	54.50	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	11.9%	3 May 2018	29.30	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
Lower Tier II Bonds	24 Jan 2013	11.9%	24 Oct 2018	1.00	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 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 (28-Oct-15) 2)CARE BB+ (18-Sep-15)	1)CARE BBB- (12-Jan-15) 2)CARE BBB- (Under Credit Watch) (30-Jun-14)
2.	Bonds-Upper Tier II	LT	27.50	CARE BB	-	1)CARE D (04-Aug-16)	1)CARE BB (18-Sep-15)	1)CARE BB+ (12-Jan-15) 2)CARE BB+ (Under Credit Watch) (30-Jun-14)
3.	Bonds-Lower Tier II	LT	107.70	CARE BB+; Stable	-	1)CARE BB+ (13-Oct-16)	1)CARE BB+ (18-Sep-15)	1)CARE BBB- (12-Jan-15) 2)CARE BBB- (Under Credit Watch) (30-Jun-14)
4.	Bonds-Lower Tier II	LT	10.00	CARE BB+; Stable	-	1)CARE BB+ (13-Oct-16)	1)CARE BB+ (18-Sep-15)	1)CARE BBB- (12-Jan-15) 2)CARE BBB- (Under Credit Watch) (30-Jun-14)

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