

Dhanlaxmi Bank Limited [Revised]

December 28, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Tier II Bonds (BASEL III Compliant) [§]	150	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Upper Tier II Bonds	-	-	Withdrawn
Total	150 (Rs. One Hundred fifty crore only)		

Details of facilities in Annexure-1

[§]Tier II Bonds under Basel III are characterized 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 debt instrument of Dhanlaxmi Bank Limited (DBL) continue to factor in the relatively small size of operations, moderate asset quality and regional concentration of its operations. The ratings, however, favorably factor in the long track record of operations and a well-established presence of the bank in Kerala, adequate capitalization levels & liquidity profile and improvement in profitability during FY20 (refers to the period from April 01 to March 31).

CARE has withdrawn the rating assigned to the Upper Tier II bonds of Dhanlaxmi Bank Limited with immediate effect, as the bank has repaid the aforementioned bonds in full and there is no amount outstanding under the issue as on date.

Rating Sensitivities*Positive factors*

- Improvement in the scale of operations along with improvement in asset quality and profitability

Negative factors

- Moderation in asset quality parameters
- Weakening of profitability and capital adequacy levels

Credit Risk Assessment**Key Rating Weaknesses****Regional concentration and small size of operations**

The business of the bank is largely concentrated in the state of Kerala and which accounted for 58% of the total branch network of 245 branches as on September 30, 2020. Also, Southern States (Kerala, Tamilnadu, Andhra Pradesh, Karnataka, and Telangana) contribute 84% of the total branches. With total advances of Rs. 6,720 crore and total assets of Rs. 12,713 crore as on September 30, 2020, DBL is one of the small-sized banks in India.

Moderate Asset quality

GNPA and NNPA has improved from 7.47% and 2.41% as on March 31, 2019 to 5.90% and 1.55% as on March 31, 2020 mainly because of the technical write-off of Rs.102 crore. However, slippage has increased from 2.41% during FY19 to 2.73% during FY20. On absolute terms, GNPA stood at Rs.401 crore as on March 31, 2020 as against Rs.496 crore as on March 31, 2019. DBL reported a provision coverage Ratio of Rs.89.87% as on March 31, 2020 as against 84.72% as on March 31, 2019.

DBL has started focusing on recoveries and the bank has a separate recovery team for one time settlement for technically written off accounts. Recoveries and Upgradation increased from Rs.113 crore in FY19 to Rs.159 crore in FY20.

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

Standard restructured assets stood at Rs.35.73 crore as on March 31, 2020 as against Rs.43.89 crore as on March 31, 2019. Gross Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) to Advances stood at 7.93% (PY: 9.72%) and Net stressed Assets (Standard restructured asset + Security receipts outstanding + NNPA) to Networth stood at 37.84% as on March 31, 2020 (PY: 51.48%).

With the new additions of Rs.74 crore during H1FY21, GNPA and NNPA stood at 6.36% and 1.66% as on September 30, 2020 respectively. On absolute terms, GNPA stood at Rs.449 crore as on September 30, 2020. Provision coverage ratio remained at 89.32% as on September 30, 2020. Considering 28% of advances in moratorium as on August 31, 2020, impact on asset quality post moratorium remains to be seen.

Slight improvement in overall business during FY20 and H1FY20; However, size continues to be relatively small

During FY20, overall business (net advances + deposits) improved from Rs.16,893 crore as on March 31, 2019 to Rs.17,400 crore as on March 31, 2020 and it further improved during H1FY21 to Rs.18,156 crore as on September 30, 2020.

During FY20, the bank reported 3% increase in advances and 3% in deposits. Net advances increased from Rs.6,289 crore as on March 31, 2019 to Rs.6,496 crore as on March 31, 2020. Deposits increased from Rs.10,603 crore as on March 31, 2019 to Rs.10,904 as on March 31, 2020. Deposit and Advances as on September 30, 2020 stood at Rs.11,436 crore and Rs.6,720 crore respectively.

CASA (%) moderated from 32.01% as on March 31, 2019 to 29.80% as on March 31, 2020 and the absolute value of CASA deposits has moderated from Rs.3,394 crore as on March 31, 2019 to Rs.3,249 crore as on March 31, 2020. However, As on September 30, 2020, CASA improved to 31.23% (Rs.3,571 crore).

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 September 30, 2020, the bank has presence across 14 States and 1 Union Territory through 245 branches, 256 ATMs and 17 BCs with an Employee base of 1,672.

Adequate Capitalization

CAR and Tier I CAR improved to 14.41% and 10.69% as on March 31, 2020 from 13.75% and 10.57% as on March 31, 2019 mainly because of the increase in Networth owing to internal accruals during FY20.

CAR and Tier I CAR stood at 13.72% and 10.62% as on September 30, 2020. The capital adequacy looks adequate for current level of operations and for limited growth envisaged by the bank. However, once the bank starts focusing on growing advances, infusion of capital remains a critical factor.

Improvement in profitability during FY20

During FY20, DBL reported profit of Rs.66 crore on a total income of Rs.1,100 crore as against a PAT of Rs.12 crore on a total income of Rs.1,024 crore during FY19. Pre-Provision Operating profit improved to Rs.162 crore during FY20 from Rs.95 crore during FY19.

Net interest Margin improved to 3.15% during FY20 from 2.92% during FY19 mainly because of the improvement in Yield on Advances from 10.23% during FY19 to 10.86% during FY20. Cost of Deposit remained at 5.48% during FY20 as against 5.53% during FY19.

Non-Interest income improved from Rs.53 crore in FY19 to Rs.113 crore in FY20 with improvement in profit on sale of investments from a loss of Rs.34 crore in FY19 to a profit of Rs.25 crore in FY20. Opex (to average total Assets) has increased from 2.55% during FY19 to 2.74% during FY20 and credit cost has increased from 0.70% during FY19 to 0.98% during FY20. However with improvement in NIM, Other income and tax reversal (Rs.20 crore during FY20), ROTA improved to 0.56% during FY20 as against 0.10% during FY19.

During H1FY21, the bank reported profit of Rs.20 crore on a total income of Rs.544 crore as against a PAT of Rs.42 crore on a total income of Rs.534 crore during H1FY20.

Appointment of Committee of Directors

The resolution for appointment of Shri. Sunil Gurbaxani as Managing Director & CEO was not approved by the Shareholders at the 93rd Annual General Meeting of the Bank held on September 30, 2020.

Consequent to this, Reserve Bank of India has approved (as requested by the Board of Directors) an interim arrangement for formation of a Committee of Directors to exercise the powers of Managing Director & CEO till such time a new MD & CEO takes charge. The Committee of Directors is constituted with Shri. G. Subramonia Iyer as Chairman and Shri. G. Rajagopalan Nair and Shri. P.K Vijayakumar as Members.

Impact of Covid-19

As on August 30, 2020, 28.28% of the total portfolio is under moratorium as against 31.03% as on March 31, 2020. DBL has made additional provisions of Rs.45.96 crore (Rs.37.88 crore in Q4FY20, Rs.7.97 crore in Q1FY21 and Rs.0.11 crore in Q2FY21) for the impact of Covid-19 as on September 30, 2020. Any slippages from the moratorium book is expected to impact asset quality and profitability going forward.

Liquidity: Adequate

ALM profile of the bank as on September 30, 2020 was adequate with no negative cumulative mismatches in any of the time bucket. DBL has liquidity backup in the form of excess SLR investments of Rs.1,718 crore as on September 30, 2020 to meet contingencies. Term Deposit rollover rate of 61.86% during FY20 also provides comfort.

DBL's liquidity coverage Ratio remained comfortable at 664.23% as on September 30, 2020 against the minimum regulatory requirement of 100%.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Banks](#)

[Rating framework for Basel III instruments](#)

[Policy on Withdrawal of Ratings](#)

About the Bank

Established in 1927, Dhanlaxmi Bank Ltd. (DBL) is a Kerala-based small-sized private sector bank headquartered at Thrissur. As on September 30, 2020, the bank had a presence across 14 States and 1 Union Territory through 245 branches, 256 ATMs and 17 BCs with an Employee base of 1,672. 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 58.53% as on September 30, 2020.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	1,024	1,100
PAT	12	66
Interest Coverage (Times)	1.02	1.08
Total Assets	11,622	12,069
Net NPA (%)	2.41	1.55
ROTA (%)	0.10	0.56

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

Complexity level of various instruments rated for this company: Please refer Annexure-3

Covenants of rated instrument / facility: Please refer Annexure-4

Annexure-1: Details of Facility/Instrument

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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Bonds-Upper Tier II	-	-	-	-	0.00	Withdrawn
Bonds-Tier II Bonds	INE680A08081	March 29, 2018	11.00%	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Upper Tier II	LT	-	-	-	1)CARE BB; Stable (03-Jan-20)	1)CARE BB; Stable (04-Jan-19)	1)CARE BB; Stable (05-Oct-17)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (03-Jan-20)	1)CARE BB+; Stable (04-Jan-19)	1)CARE BB+; Stable (05-Oct-17)
3.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (04-Jan-19)	1)CARE BB+; Stable (05-Oct-17)
4.	Bonds-Tier II Bonds	LT	150.00	CARE BB+; Stable	-	1)CARE BB+; Stable (03-Jan-20)	1)CARE BB+; Stable (04-Jan-19)	1)CARE BB+; Stable (16-Mar-18)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Tier II Bonds	Complex
2.	Bonds-Upper Tier II	Complex

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities

	Detailed explanation
i Conditions for exercise of call option	Bank can exercise Call Option to redeem the Bonds at par at the end of 5th Year from the Deemed Date of Allotment. Exercise of Call Option is subject to prior approval of RBI

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.

Disclaimer

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