Dhanlaxmi Bank Limted

March 16, 2018

Ratings

Instruments	Amount (Rs Crore)	Rating[1]	Rating Action
Proposed Tier II Bonds (Basel III Compliant)	150.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Assigned**
Total Facilities	**150.00 (Rupees One Hundred and Fifty crore only)**		

Details of instruments/facilities in Annexure-1

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 rating assigned to the proposed Basel III compliant Tier II bond issue of Dhanlaxmi Bank Limited (DBL) is constrained by relatively small size of operations, moderate asset quality & profitability parameters and regional concentration of its operations. The rating also takes note of the loss reported during 9MFY18 (refers to the period April 1 to December 31).

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

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 6.96% and 4.08% as on December 31, 2017 primarily on account of slippages. Net NPA to Networth ratio stood at 26.96% (PY: 41.03%) as on March 31, 2017 and 41.57% as on December 31, 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

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

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.

Capital adequacy levels

The bank had raised capital to the tune of Rs.84 crore during September 2016 and Rs.120 crore by preferential allotment during Q1FY18 and CAR increased to 12.01% as on June 30, 2017. However, with losses reported during Q3FY18, CAR moderated to 11.15% as on December 31, 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.

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 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
Bank - Rating framework for Basel III instruments (Tier I & Tier II)
Policy on Withdrawal of ratings

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 9MFY18, DBL reported net loss of Rs.8 crore over total income of Rs.840 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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About CARE Ratings:

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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
Bonds-Tier II Bonds	-	-	-	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 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; Stable	1)CARE BB; Stable (05-Oct-17)	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+; Stable (05-Oct-17)	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+; Stable (05-Oct-17)	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)
5.	Bonds-Tier II Bonds	LT	150.00	CARE BB+; Stable	-	-	-	-

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