



RATING RATIONALE

13 July 2023

Dhanlaxmi Bank Limited

Brickwork Ratings downgrades and migrates the long-term ratings for the Basel III Tier II Bonds of Rs.150.00 Crs. of Dhanlaxmi Bank Limited (DBL) to the Issuer Not Cooperating* category, and resolves the rating watch.

Particulars:

Instruments**	Amount (₹ Cr)		Tenure	Rating#	
	Previous	Present		Previous (15 June 2022)	Present
Basel III Tier II Bonds (Series XV -B)	150.00	150.00	Long Term	BWR BB+/Credit Watch with Developing Implications	BWR BB /Stable Issuer Not Cooperating*/ Downgrade/ Resolution of rating watch
Total	150.00	150.00	Rs. One Hundred and Fifty Crores Only		

*Issuer did not cooperate; based on best available information.

**Details of Bonds provided in Annexure II

#Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION

Brickwork ratings (BWR) took up with Dhanlaxmi Bank Ltd (DBL or the 'Bank') to provide the required information over emails and through telephonic communication. Despite the best efforts of Brickwork Ratings to get at least the minimum required information for a review, the Bank has not provided the same.

In absence of adequate information from the issuer and continued lack of management cooperation, Brickwork Ratings is unable to assess the issuer's financial performance and its ability to service its debt and maintain valid ratings. The Bank has not been submitting NDS to BWR since January 2023.

Based on inadequate information, non-submission of NDS regularly and continued lack of management cooperation, Brickwork Ratings has downgraded the long-term rating of Dhanlaxmi Bank Limited to 'BWR BB /Stable' and migrated the rating to the Issuer Not Cooperating* category.

BWR had put the long-term rating of 'BWR BB+' under Credit Watch with Developing Implications on 15th June 2022 as the Bank was passing through a brief financial crisis during FY 2022 and H1FY2023. During this period, the strength of the Board had depleted to 5 with the exit of 2 directors. Former directors had approached the Kerala High Court seeking representation on the Bank's board alleging unjust disapproval of their appointments.



The following was discussed at the EGM held on 12 June 2022:

“The Bank was passing through a financial crisis as was evident from the results for the quarter ended 31 Dec 2021 and the Cost to Income Ratio had risen to alarming proportions. The Bank is not having any effective control over expenditure especially Legal and Administrative. The Bank is going to start new branches and recruit fresh personnel even though the CAR of the Bank has been adversely commented upon by the RBI. A detailed discussion on the financial position of the Bank, especially the abnormal increase under expenditure has to be initiated by the Bank.”

During FY 2023, 5 independent directors and an additional director were appointed to the Board bringing up the Board strength to 10 directors. The financial performance of the bank has also seen a steady growth during the financial year.

Based on the strengthening of the Board and improvement in the financial performance of the Bank, the rating watch is resolved and a stable outlook has been assigned.

LIMITATION OF THE RATING

Information availability risk is a key factor in the assessment of credit risk as generally, non-cooperation by the rated entities to provide required information for a review of the assigned rating may also be accompanied by financial stress. Users of the credit rating should therefore take into account possible deterioration in the credit quality of the rated entity arising from its non-transparency withholding of information required for a review of the rating.

COMPANY PROFILE (As available with BWR)

Dhanlaxmi Bank Limited was incorporated in 1927 at Thrissur, Kerala. Dhanlaxmi Bank has a major presence in states of Kerala (58%), followed by Tamil Nadu (14%), 7% in state of Maharashtra, 5% in Karnataka, 4% in Andhra Pradesh and 12% in other locations. It has around 541 touch points including 253 branches, 270 ATMs and 18 BCs across 14 States and 1 Union Territory. The bank focuses on customizing services and personalized relationships. Bank is currently headed by the Managing Director and Chief Executive Officer Shri Shivan J. K. He is supported by a non-executive director, six independent directors and two RBI appointed Directors.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

Basel III Tier II Bonds : Basel III Bonds of this nature are susceptible to loss absorbency features as per the terms of the issue and RBI's extant guidelines. The key distinguishing feature of these bonds is the existence of the Point of Non-Viability (PONV) trigger and occurrence of such a PONV trigger event may at the option of the RBI be temporarily or permanently written - off, resulting in permanent loss of the principal to the investor and a default on the instrument to the investor. Basel III Tier II bonds are redeemable after 7 years from the deemed date of allotment with coupon servicing at annual intervals. The bonds are subject to the extant guidelines of the RBI applicable to Tier II Basel III-compliant bonds issued by banks.

KEY FINANCIAL INDICATORS (As available with BWR)

Key Financial Indicators	Units	FY21	FY22	FY23
Result Type		Audited	Audited	Audited
Total Business	Rs in Crs	18834	20545	23206
Net Interest Income	Rs in Crs	330	362	476
Net interest Margin	%	2.82	3.00	3.60
Profit After Tax	Rs in Crs	37.19	35.90	49.36
GNPA	%	9.23	6.32	5.19
NNPA	%	4.76	2.85	1.16
CRAR	%	14.47	12.98	12.32
CET I	%	11.31	10.31	-

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S.I no.	Facility	Current Rating 2023			Rating History		
		Type	Amt in Rs.Crs	Rating	2022	2021	2020
1	Basel III Tier II Bonds (Series XV-B)	Long Term	150.00	BWR BB (Stable) Issuer Not Cooperating*	BWR BB+ CWDI (15-Jun-2022) BWR BB+ (Stable) (Reaffirmed) (03-Mar-2022)	BWR BB+ (Stable) (01-Mar-2021)	BWR BB+ CWDI (9-Oct-2020) BWR BB+ (Stable) (17-Mar-2020)
2	Lower Tier II Bonds (Series X-B, XI-B, XIII-B)	Long Term	-	-	-	-	Withdrawn on due redemption (17-Mar-2020)
	Total		150.00				

COMPLEXITY LEVELS OF THE INSTRUMENTS - SIMPLE

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)
- [Capital Instruments Issued by Banks & Financial Institutions](#)
- [What Constitutes Non-Cooperation](#)

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Dhanlaxmi Bank Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS :

Instrument	Issue Date	Amount Rs. Crs	Coupon Rate	Maturity Date	ISIN Particulars
Basel III Tier II Bonds	29-Mar-2018	150.00	11.00% payable half yearly	29-Mar-2025	INE680A08081
	Total	150.00	Rupees One Hundred and Fifty Crores Only		

ANNEXURE III

List of entities consolidated : NA



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