

RATING RATIONALE

15 June 2022

Dhanlaxmi Bank Limited

Brickwork Ratings reaffirms ratings for the Basel III Tier II Bonds of Rs.150.00 Crs. of Dhanlaxmi Bank Limited (DBL) and places the ratings under watch on account of material events.

Instruments	Amount (Rs.Crs.)		Tenure	Rating*	
	Previous	Present		Previous 03-Mar-2022	Present
Basel III Tier II Bonds (Series XV -B)	150.00	150.00	Long Term	BWR BB+/Stable	BWR BB+/Credit Watch with Developing Implications
Total	150.00	150.00	Rs.One Hundred Fifty Crores Only.		

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

** Details of Bonds is provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has placed the ‘BWR BB+’ rating on the Basel III Tier II bonds of Dhanlaxmi Bank Limited (DBL or Bank) under Credit Watch with Developing Implications

The rating has been placed on credit watch on account of the ongoing concern raised by shareholders on 28.04.2022, that "The Bank is passing through a financial crisis as is evident from the results for the quarter ended 31/12/2021 and the Cost to Income Ratio has 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." BWR shall monitor the material event and Credit watch shall be reviewed post the outcome of 12 June Extra-Ordinary General Meeting which is being finalized.

The BWR BB+ rating for the bank continues to factor in, inter alia, steady growth in the business upto 31 Mar 2022. The bank’s total capital to risk weighted assets ratio (CRAR) was decreased to 12.98% as on 31 Mar 2022. The rating is, however, constrained by a moderate asset quality and earnings of the Bank

KEY RATING DRIVERS

Credit Strengths:-

- **Moderate Capitalisation:** The capital adequacy ratio of the bank remains comfortable with CAR of Rs. 12.98 % and CET-1 ratio of 10.31% as on 31 March 2022. The bank has a combined net-worth of Rs. 676 Crs as on 31 Mar 2022. Networth to Net NPA stood at 2.91 times as on 31 Mar 2022. BWR believes DBL will continue to maintain Moderate capitalisation over the medium term as the bank plans to raise additional capital during FY23. Some shareholders have however expressed concern at the decreasing CAR.
- **Steady growth in the business:** DBL is gradually increasing its business. The bank's business has increased to Rs. 20545 Crs as on 31 Mar 2022 as against Rs. 18834 Crs as on 31 Mar 2021. The deposits have increased to Rs. 12403 Crs as on 31 Mar 2022 against Rs. 11712 Crs as on 31 Mar 2021. Credit to Deposit ratio stood moderate at 68.08%. The corporate loan book of the company has improved from Rs.1710 Crs in 31 Mar 2021 to Rs. 2578 Crs in 31 Mar 2022.

Credit Risks:-

- **Moderate Asset Quality:** The asset quality had been improved in FY22 with GNPA of 6.32% as on 31 March 2022 against 9.23% as on 31 March 2021. SMA2 exposure which stood at Rs. 99 Crs as on 31 December 2021 has improved to 37 Crs as on 31 Mar 2022. As on 31 December 2021, retail NPA stands at Rs. 242.56 Crs followed by Corporate NPA of Rs. 206.99 Crs. The bank's collection and recovery strategy and its ability to improve the asset quality shall remain a key monitorable.
- **Pressure on Earnings:** The profitability of the bank fluctuating in the past 3 years continues to remain under pressure. In FY22 the profitability subdued to Rs. 35.90 Crs as against Rs. 37 Crs for FY21 on account of increased operating expenses though the Net Interest Income(NII) has increased to Rs.362.32 Crs for FY22 as against Rs. 329.65 Crs for FY21. Provisioning cost for FY22 stood at Rs. 98.40 Crs as against Rs. 48.64 Crs for FY21, the cost of funds continue to remain high at 4.64% for Q4 FY22 as against 5.28% for Q4 FY21. The bank needs a sustained and improved earnings profile to improve the balance sheet and for future growth.
- **Regional Concentration:** The bank has significant presence in Kerala (58%) followed by Tamil Nadu (14%), Maharashtra (8%). The bank has 245 branches and 258 ATMs across 14 states and 1 Union Territory with 142 branches in Kerala. However, the bank plans to widen its geography to other states in the longer run and Bank has received 'in-principle' approval from Reserve Bank of India for opening of 20 new branches and one administrative office. As part of its expansion plans, the Bank is planning to open 7 branches in Kerala, 4 branches in Tamil Nadu, 1 branch in Pondicherry, 3 branches in Karnataka, 3 branches in Andhra Pradesh and 2 branches in Telangana during the FY 2022-23. The new administrative office has started functioning at Hyderabad.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Basel III – compliant bonds are subject to guidelines /regulations of the Reserve Bank of India (RBI) and as detailed in the term sheet of respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments ; however, restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines shall be a key rating sensitivity.

RATING SENSITIVITIES

Upward: Profitable balance sheet growth, an improvement in asset quality and maintaining the improved levels of capital adequacy ratios would be the key positives.

Downward: A substantial deterioration in the asset quality from the current level and any major impact on the performance of DBL during FY23 will be a rating negative.

LIQUIDITY INDICATORS - Adequate

As of 31 Mar 2022, the bank had a liquidity coverage ratio of 476.49% and Basel III leverage ratio of 4.96%, above the regulatory requirement. It has cash and cash equivalent of Rs. 679 Crs. as on 31 Mar 2022. Hence, liquidity stands Adequate.

COMPANY PROFILE

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 520 touch points including 245 branches, 258 ATMs and 17 BCs across 14 States and 1 Union Territory. The bank focuses on customizing services and personalized relationships. It has around 1664 total Employees.

Bank is currently headed by the Managing Director and Chief Executive Officer Shri Shivan J. K. He is supported by experienced professional directors C.K. Gopinathan, one independent director G. Rajagopalan Nair and two RBI appointed Directors D. K. Kashyap & Jayakumar Yarasi.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY21	FY22
Result Type		Audited	Audited
Total Business	Rs in Crs.	18834	20545
Net Interest Income	Rs. in Crs.	330	362
Net interest Margin	%	2.82	3
Profit After Tax	Rs in Crs	37.19	35.90
GNPA	%	9.23	6.32
NNPA	%	4.76	2.85
CRAR	%	14.47	12.98
CET I	%	11.31	10.31

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.

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 2022			Rating History			
		Type	Amt in Rs.Crs	Rating	2022	2021	2020	2019
1	Basel III Tier II Bonds (Series XV-B)	Long Term	150.00	BWR BB+ CWDI	BWR BB+ (Stable) (Reaffirmed)	BWR BB+ (Stable) (01-Mar-2021)	BWR BB+ CWDI (9-Oct-2020) BWR BB+ (Stable) (17-Mar-2020)	BWR BB (Stable) Reaffirmed (08-Mar- 2019)
2	Lower Tier II Bonds (Series X-B, XI-B, XIII-B)	Long Term	-	-	-	-	Withdrawn on due redemption(17-Mar -2020)	BWR BB (Stable) (08 -Mar-2019)
	Total		150.00					



COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Capital Instruments Issued by Banks and Financial Institutions](#)

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Dhanlaxmi Bank Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (Bonds) 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			

ANNEXURE III

List of entities consolidated: NA



For print and digital media

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