

SH: 154 / 2016-17

December 05, 2016

The General Manager, Department of Corporate Services, BSE Limited I Floor, New Trading Ring, Rotunda Building, P J Towers, Dalal Street Fort, Mumbai – 400 001	The Manager, Listing Department, National Stock Exchange of India Limited 'Exchange Plaza', Bandra – Kurla Complex, Bandra (E), Mumbai – 400 051
---	---

Dear Sir,


Sub: Compliance of Reg.51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, it is hereby informed that BrickWork has revised the rating on Lower Tier II Bonds of the Bank from BWR BB to BWR BB-. A copy of the credit rating letter issued by BrickWork is enclosed herewith.

This is for your kind information.

Thanking you,

Yours faithfully,


Santosh Kumar Barik
Company Secretary



BWR/NCD/HO/ERC/MM/0461/2016-17
November 28, 2016

Mr. G Sreeram
The Managing Director & CEO
Dhanlaxmi Bank Limited
Dhanalakshmi Buildings,
Naickanal, Thrissur - 680 001
Kerala.

Dear Sir,

Sub: Rating review of Lower Tier II Bonds of ₹200 Crores (INR Two Hundred Crores only) of Dhanlaxmi Bank Limited

Ref: Our letter BWR/NCD/HO/ERC/MM/0254/2016-17 dated August 10, 2016

On a review of your Bank's performance based on the information and clarifications provided by the Bank, as well as information available in public sources, Brickwork Ratings has revised the ratings of Dhanlaxmi Bank Limited's Bond issue as:

Type of Instrument	Amount	Previous Rating (August 2016)	Rating ¹ (November 2016)
Lower Tier II Bond	₹ 200 Cr	BWR BB (Ratings watch with Developing Implications)	BWR BB- (Negative) [Revision]

¹For Definition of ratings please refer our website www.brickworkratings.com

The Rating is valid for one year from the date of this letter subject to terms and conditions that were agreed in your mandates and other correspondence, if any and Brickwork Ratings standard disclaimer appended below. Brickwork Ratings would continue to conduct surveillance till maturity/redemption of the instrument. Please keep us duly informed of all relevant information that may affect your Bank's performance without any delay.

Best Regards,


Manjunatha MSR
Director - Ratings

Note: In case of all accepted Ratings, respective Rating Rationale is published on Brickwork Ratings website. Interested persons are well advised to refer to our website www.brickworkratings.com, if they are unable to view the rationale, they are requested to inform us on brickworkhelp@brickworkratings.com

Disclaimer: Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.

Brickwork Ratings India Pvt. Ltd.

Corporate Office: 3rd Floor, Raj Alka Park, Kalena Agrahara, Bannerghatta Road, Bengaluru - 560 076

Phone: +91 80 4040 9940 • Fax: +91 80 4040 9941 • 1-860-425-2742 | info@brickworkratings.com • www.BrickworkRatings.com

Ahmedabad • Bengaluru • Chandigarh • Chennai • Guwahati • Hyderabad • Kolkata • Mumbai • New Delhi

CIN: U67190KA2007PTC043591

Rating Rationale

Brickwork Ratings revises the rating from BWR BB (Ratings watch with Developing Implication) to BWR BB – (Outlook: Negative) for Lower Tier II debt issue of ₹200 Cr of Dhanlaxmi Bank Ltd

On a review of the Bank's performance based on the information and clarifications provided by the Bank, as well as information available in public sources, Brickwork **Ratings**¹ have revised the ratings of Dhanlaxmi Bank Limited's Bond issues as under:

Type of Instrument	Amount (₹ Cr)	Previous Rating (August 2016)	Rating ¹ (November 2016)
Lower Tier II Bond	200	BWR BB (Ratings watch with Developing Implications) [Revision]	BWR BB- (Outlook: Negative) [Revision]

Brickwork Ratings have relied on the Bank's financial results up to H1FY17, publicly available information and other information/clarifications sought from the Bank.

The rating revision, *inter alia*, factors the Bank's CRAR being below the regulatory minimum, and as a consequence, their inability to service coupon for Upper Tier II Bonds (not rated by BWR). BWR has taken note of some improvements in H1 FY17 in terms of profitability, but overall risk profile continues to be high due to decline in business volumes and higher provisioning. The Bank has informed of plans to raise further capital to meet the regulatory requirement as of March 31, 2017. Inability to accomplish this early could result in further rating action.

Background

Dhanlaxmi Bank Ltd (DLB) was incorporated in 1927 in Thrissur, Kerala. Traditionally, the bank has a long standing relationship with a large number of temple trusts in Southern India, which has given it a good deposit base.

For a detailed analysis of the financial performance of the Bank as of FY16, a reference may please be made to our Rating Rationale of August 16, 2016.

As of September 30, 2016, the total business has declined marginally by 2.23% from ₹ 18,307 Cr in FY16 to ₹ 17,898 Cr. Deposits have declined by 1.29% from ₹ 11,354 Cr in FY16 to ₹ 11,208 Cr in H1FY17 and Advances by 3.78% from ₹ 6,953 Cr in FY16 to ₹ 6,690 Cr in H1FY17. Total Net Interest Income for the bank increased to ₹ 170 Cr in H1FY17. The Bank has achieved an operating profit of ₹ 45 Cr and Net profit of ₹ 12 Cr after a higher provision of ₹ 33 Cr for H1FY17. Cost to income ratio continues to be high for the bank. Asset quality continued to be

¹ Please refer to www.brickworkratings.com for definition of the Ratings

stressed with Gross NPA at 6.86 in FY16 (6.37% in FY16) and Net NPA at 2.52% (2.78% in FY16). Details of restructured portfolio have not been shared. The Bank's Provision coverage ratio for H1FY17 was good at 79.24% (FY15:75.67%). During the second quarter of FY17, fresh capital of ₹ 84 Cr was infused. As on September 30, 2016, the Bank's capital adequacy with total CRAR at 9.03% (7.51% on March 31, 2016), though improved, is below the regulatory requirement.

In terms of regulations, the regulatory CRAR requirement for March 31, 2016 is 9.625% (including capital conservation buffer requirement)-, Tier I is 7.625% and CET-1 is 6.125% (including capital conservation buffer requirement of 0.625%) respectively.

In terms of regulations, the regulatory CRAR requirement for March 31, 2017 is 10.25% (including capital conservation buffer requirement)-, Tier I is 8.25% and CET-1 is 6.75% (including capital conservation buffer requirement of 0.625%) respectively.

Dhanlaxmi Bank - Key Parameters

KEY Parameters	2014	2015	2016	H1FY16	H1FY17
Total Deposits	12,133	12,382	11,354	12,020	11,208
<i>Deposit Growth (in %)</i>	8.23%	2.05%	-8.30%		-6.76%
Total Advances	7,936	7,670	6,953	6,830	6,690
<i>Loans Growth</i>	2.01%	-3.35%	-9.35%		-2.05%
Total Business	20,073	20,051	18,307	18,850	17,898
<i>Business Growth</i>	5.70%	-0.11%	-8.70%		-5.05%
CASA Ratio %	21.99%	24.34%	25.03%	na	na
Profitability Ratios (%)					
RoE	-34.20%	-24.14%	-41.23%	na	4.18%
RoA	-1.86%	-1.77%	-1.61%	(-ve)	0.19%
NIM	2.27%	2.37%	2.47%	na	2.84%
Net Interest Income (NII)	280	299	305	154	170
Non Interest Income	73	85	77	31	60
Operating profits	6	17	3	18	45
Provisions & Contingencies	257	267	209	40	33
PAT	-252	-242	-210	-22	12
Cost to Income Ratio	98.29%	95.68%	99.14%	102.35%	96.42%
Asset Liability Profile (%)					
Loans/Deposit Ratio	66.92%	64.41%	63.57%	56.82%	59.69%
Gross NPAs to Advances	5.98%	7.00%	6.36%	8.75%	6.86%
Net NPAs to Advances	3.80%	3.29%	2.78%	4.14%	2.52%
Provision Coverage Ratio	44.01%	67.82%	75.67%	66.94%	79.21%
Std Restructured Portfolio as a % of Gross Advances	na	0.62%	0.31%	na	na

Gross NPA% + Restructured (Stressed Advances)	5.98%	7.62%	6.67%	na	na
CRAR	8.67%	9.59%	7.51%	9.69%	9.03%
Tier 1	6.93%	7.42%	6.12%	7.74%	7.94%
CET -I	NA	7.42%	6.12%	7.74%	7.94%
AT-I	NA	NR	NR	NR	NR
Tier II	1.74%	2.17%	1.39%	1.95%	1.09%
<i>na : not available; NA: Not Applicable; NR - Not Raised</i>					

Note: aforesaid as per BWR calculations

Rating Outlook

Inability to increase the capital adequacy ratios above the regulatory minimum affects the Bank's capability to service certain payment obligations in terms of RBI's extant guidelines, and hence, it is critical that the Bank raises further capital to comply with these norms. Any delay in this will be adverse for the rating. The rating is also sensitive to effective execution of Bank's business plans in terms of improving asset quality and margins, reducing operating expenses, and improving profits.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

Disclaimer: Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.