



SH: 190 /2017-18

March 16, 2018

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
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Dear Sir,

Sub: Intimation of Credit rating

Pursuant to Regulation 30 and Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the credit rating letter issued by CARE Ratings Limited dated March 15, 2018.

This is for your kind information.

Thanking you,

Yours faithfully,

Santosh Kumar Barik
Company Secretary

CARE/CRO/RL/2017-18/1732

Mr. G. Sreeram
Managing Director & CEO
Dhanlaxmi Bank
P. B. No. 9, Dhanalakshmi Buildings,
Naickanal,
Thrissur – 680 001
Kerala.

March 15, 2018

Confidential

Dear Sir,

Credit rating for proposed Basel III compliant Tier II Bond issue

Please refer to your request for rating of proposed Basel III compliant Tier II Bond issue aggregating to Rs.150 crore of your company. The proposed bond would have tenure of upto 7 years.

2. The following rating has been assigned by our Rating Committee:

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Tier II Bond issue (Basel III compliant)	150 (Rs. One hundred and Fifty crore only)	CARE BB+; Stable (Double B Plus; Outlook Stable)	Assigned

3. The rationale for the rating will be communicated to you separately.
4. Please arrange to get the rating revalidated, in case the proposed issue is not made within a period of **six months** from the date of our initial communication of rating to you (that is March 9, 2018).
5. In case there is any change in the size or terms of the proposed issue, please get the rating revalidated.

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

6. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors
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7. Kindly arrange to submit to us a copy of each of the documents pertaining to the NCD issue, including the offer document and the trust deed.
8. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 12, 2018, we will proceed on the basis that you have no any comments to offer.
9. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
10. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to

publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

11. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
12. CARE ratings are **not** recommendations to buy, sell or hold any securities.

If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,

Yours faithfully,

Tej Kiran
Tej Kiran G
Analyst

tej.kiran@careratings.com

R. Ravisankar
Ravi Shankar R
Deputy Manager
ravi.s@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

Annexure
Press Release
Dhanlaxmi Bank Limited

Ratings

Instruments	Amount (Rs Crore)	Rating ²	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

Key Rating Weaknesses

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.

²Complete definitions of the ratings assigned are available at www.careratings.com

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 5.62% (PY: 7.02%) and 3.15% (PY: 3.04%) as on June 30, 2017 primarily on account of slippages. Net NPA to Networth ratio stood at 26.96% (PY: 41.03%) as on March 31, 2017 and 25.91% as on June 30, 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

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.

Analyst Contact:

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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; 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	-	-	-	-