

SH:92 /2016-17

August 16, 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
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Dear Sir,

Sub: Compliance of Reg. 51 of SEBI (LODR) 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. The 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

Rating Rationale

Brickwork Ratings revises the rating from BWR BB+ (Outlook: Stable) to BWR BB (Ratings watch with Developing Implication) for Lower Tier II debt issue of ₹200 Crores 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 have revised the ratings of Dhanlaxmi Bank Limited's Bond issues as under:

Type of Instrument	Amount	Previous Rating (August 2015)	Rating ¹ (August 2016)
Lower Tier II Bond	₹ 200 Cr	BWR BB+ (Outlook:Stable)	BWR BB (Ratings watch with Developing Implications) [Revision]

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

Brickwork Ratings have relied on the Bank's results up to FY16, publicly available information and other information/clarifications sought from the Bank.

The rating revision, *inter alia*, factors deterioration in the overall risk profile of the bank on account of weak financial performance due to decline in business volumes, negligible operating profit, higher provisioning on account of deterioration in asset quality, and continued net loss for the third consecutive year in FY16. The Bank's capital adequacy levels have also fallen below regulatory minimum. The Rating is kept under watch with developing implications, considering the capital raising plans shared by the Bank, which will address this issue in the near future. Inability to accomplish this early will 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.

Mr. G Sreeram is the Managing Director and CEO of the Bank. The Bank has a network of 280 branches and 398 ATMs across 15 states. The Bank has total asset base of ₹12,463 Cr (₹14,352 Cr the previous year). The capital adequacy is below the regulatory requirement with CRAR at



7.51% (9.59% the previous year) and CET -1 at 6.12% (7.42% the previous year) total net worth is ₹508 Cr. (₹724 Cr the previous year).

Business Profile: Its total business dipped marginally from ₹ 20,051 Cr in FY15 to ₹ 18,307 Cr in FY 16, registering a decline by 8.70%. Deposits have declined by 8.30% from ₹ 12,382 Cr in FY15 to ₹ 11,354 Cr in FY16 and Advances by 9.35% from ₹ 7,670 Cr. in FY15 to ₹ 6,953 Cr in FY16.

The Bank continues to be under stress in terms of both capitalization and losses. The Management is taking steps to improve the business and reduce costs. They have shared with BWR their plans to raise further capital.

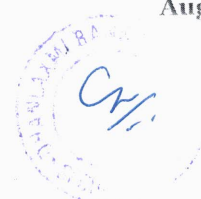
Earnings Profile: Total Net Interest Income for the bank increased to ₹ 305 Cr in FY16 and the Net Interest Margin was at 2.47%. With high provision cost, net loss was at ₹ 210 Cr (loss of ₹ 242 Cr in FY15). With this, ratios like ROA and ROE were also in the red.

Asset Quality: Asset quality continued to be stressed with Gross NPA at 6.37 in FY16 (7% in FY15) and Net NPA at 2.78% (3.29% previously) Details of restructured portfolio has not been shared by the Bank. As such BWR draws a negative conclusion about the overall Asset Quality of the Bank. The Bank's Provision coverage ratio for FY16 was 75.67% (FY15:67.82%), which is considered satisfactory.

Capital Adequacy: As on FY16, the Bank's capital adequacy is below the regulatory requirement with total CRAR at 7.51% (9.59% the previous year) and CET -1 at 6.12% (7.42% the previous year) total net worth is ₹508 Cr. (₹724 Cr the previous year).

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	2013	2014	2015	2016
Total Deposits	11,210	12,133	12,382	11,354
Deposit Growth (in %)		8.23%	2.05%	-8.30%
Total Advances	7,780	7,936	7,670	6,953
Loans Growth		2.01%	-3.35%	-9.35%
Total Business	18,990	20,073	20,051	18,307
Business Growth		5.70%	-0.11%	-8.70%
CASA Ratio %	22.48%	21.99%	24.34%	25.03%
Profitability Ratios (%)				
RoE	0.36%	-34.20%	-24.14%	-41.23%
RoA	0.02%	-1.86%	-1.77%	-1.61%
NIM	2.33%	2.27%	2.37%	2.47%
Net Interest Income (NII)	276	280	299	305
Non Interest Income	114	73	85	77
Operating profits	51	6	17	3
Provisions & Contingencies	48	257	267	209
PAT	3	-252	-242	-210
Cost to Income Ratio	87.00%	98.29%	95.68%	99.14%
Asset Liability Profile (%)				
Loans/Deposit Ratio	69.40%	66.92%	64.41%	63.57%
Gross NPAs to Advances	4.80%	5.98%	7.00%	6.36%
Net NPAs to Advances	3.40%	3.80%	3.29%	2.78%
Provision Coverage Ratio	NA	44.01%	67.82%	75.67%
Std Restructured Portfolio as a % of Gross Advances	na	na	0.62%	0.31%
Gross NPA% + Restructured (Stressed Advances)	4.80%	5.98%	7.62%	6.67%
CRAR	11.06%	8.67%	9.59%	7.51%
Tier 1	8.05%	6.93%	7.42%	6.12%
CET-I	NA	NA	7.42%	6.12%
AT-I	NA	NA	NR	NR
Tier II	3.01%	1.74%	2.17%	1.39%

na : not available; NA: Not Applicable; NR - Not Raised

Note: aforesaid as per BWR calculations

Rating Outlook

Fall in capital adequacy ratios below 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 minimizing losses.



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