

August 20, 2010

**CARE UPGRADES RATING OF LOWER/UPPER TIER II BONDS OF
DHANLAKSHMI BANK LTD.**

CARE has revised the rating assigned to various outstanding Lower Tier II Bonds of Dhanalakshmi Bank Limited aggregating to Rs.180 crore from 'CARE A-' [Single A Minus] to 'CARE A' [Single A]. CARE has also revised the rating assigned to the Upper Tier II Bonds of Dhanalakshmi Bank Limited aggregating to Rs.200 crore from 'CARE BBB+' [Triple B Plus] to 'CARE A-' [Single A Minus].

CARE has also retained the existing 'PR1+' [PR One Plus] rating assigned to the Certificate of Deposits programme of Dhanalakshmi Bank Ltd (DBL) of Rs. 250 crore.

Instrument	Amount Rated (Rs. crore)	Rating
Lower Tier II Bonds	180	'CARE A' (upgraded from 'CARE A -')
Upper Tier II Bonds	200	'CARE A-' (upgraded from 'CARE BBB+')
Certificate of Deposits	250	'PR1+'

Rating Rationale

The revision in rating takes into account the recent capital infusion resulting in near doubling of network and shoring up of capital adequacy levels to support its future business growth.

The rating also factors in increased ability and willingness to diversify and expand business to geographies outside Kerala and to new business segments, strong business growth witnessed in FY09 and FY10 and improvement in operational & strategic processes brought in by the new management having diverse experience in the financial sector. The rating is however constrained by geographic concentration of its branches and the bank's relatively small size, limited track record of DBL in the new sectors / geographies to which it is expanding. Key rating sensitivities are DBL's ability to successfully implement new business strategies, its ability to maintain long term profitability and its ability to manage credit & *operational risks*.

CARE has rated the aforesaid Upper Tier II Bonds one notch lower than the Lower Tier II Bonds in view of their increased sensitiveness to DBL's capital adequacy ratio, capital raising ability and profitability during the tenure of the instruments. The ratings factor in the additional risk arising due to existence of lock-in-clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause would constitute as an event of default, as per CARE's definition of default and as such these instruments may exhibit somewhat sharper migration of rating, as compared to conventional subordinated debt instruments.

Company Profile

DBL is a Kerala based small sized private sector bank with its headquarters at Thrissur, Kerala. Owing to capital constraints the bank's branch network had remained almost stagnant in the last few years and the total number of branches stood at 181 as on Mar. 31, 2009. In FY09 with the change in top management and infusion of capital through rights issue, DBL has re-organised its business with separate verticals catering to corporate, SME and retail clientele. Since induction of the new management, strategic emphasis has been on manpower recruitment, building a pan-India footprint, de-risking the asset book and augmenting fee product portfolio. DBL historically had a larger proportion of retail portfolio; however with the new management coming in there has been a shift in the bank's strategy and it has diversified into corporate lending. However, going forward the bank plans to have a balanced mix of large corporate, SME and Retail portfolio. The number of branches increased to 270 as of March 31, 2010.

During FY10, the bank reported Profit after Tax (PAT) of Rs.23 crore on income of Rs.626 crore. The advances portfolio of the bank stood at Rs.5006 crore with a deposit base of Rs.7098 crore as on March 31, 2010. The Capital Adequacy Ratio (CAR) stood at 12.99% (Basel II) as on March 31, 2010. Bank's Gross NPA and Net NPA ratio stood at 1.54% and 0.84%, respectively as on March 31, 2010.

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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.

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 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.

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