

March 24, 2026

Dhanlaxmi Bank Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Basel III Tier II bonds	150.00	150.00	[ICRA]BBB- (Stable); reaffirmed
Total	150.00	150.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in Dhanlaxmi Bank Limited's long-standing track record in the banking sector and its established presence in South India, especially in Kerala. The rating also takes note of the bank's comfortable capitalisation profile for its current scale of operations, which had improved following the capital raise of Rs. 297.5 crore in February 2025 via a rights issue. With the increase in gold prices in recent periods, the share of gold loans in the loan book increased to 38% as on December 31, 2025 from 31% as on March 31, 2025. This helped Dhanlaxmi expand its loan book, which stood at Rs. 13,912 crore as on December 31, 2025 compared to Rs. 11,959 crore as on March 31, 2025. Despite the increase in scale and persisting weak operating profitability, the capital position remains comfortable, supported by the lower risk-weighted assets (RWA) density of gold loans.

Dhanlaxmi's profitability has remained weak over the past several years, even after exiting the prompt corrective action (PCA) framework in February 2019. This is due to the relatively low net interest margin (NIM) and suboptimal scale of operations, leading to high operating expenses. This resulted in low capital buffers and impacted the bank's ability to grow its loan book. Its net advances had decreased to Rs. 6,289 crore as on March 31, 2019 from Rs. 9,065 crore as on March 31, 2011 due to advisories/restrictions under the Monitorable Action Plan (MAP) and the PCA, resulting in a decline in its market share. With the growth rate gradually picking up afterwards, net advances stood at Rs. 13,912 crore as on December 31, 2025, increasing at a compound annual growth rate (CAGR) of 12.48% during March 2019-December 2025. Nevertheless, the overall scale of operations continues to be modest and Dhanlaxmi's ability to grow the same steadily remains monitorable.

While the bank's fresh non-performing advances (NPA) generation rate has moderated and the headline asset quality metrics have improved over the years, the same remains monitorable. Moreover, the ongoing geopolitical concerns, including the West Asia conflict, can impact the bank's borrowers and hence its asset quality, given its sizeable presence in Kerala, which has high linkages with the Gulf countries. Dhanlaxmi's ability to absorb credit costs due to asset quality shocks remains constrained by its weak operating profitability. Further, the likely impact of the transition to the expected credit loss (ECL) framework on profitability and capital buffers would remain monitorable. Additionally, the bank's top 20 exposures remain concentrated in relation to its capital while the liability base also continues to be concentrated with the top 20 depositors forming 24.50% of total deposits as on March 31, 2025. ICRA, however, notes that a sizeable share of the deposits from the top depositor is non-callable with a staggered maturity profile, reducing the liquidity risk to an extent. ICRA also takes note of the presence of two Reserve Bank of India (RBI) appointed directors on Dhanlaxmi's board.

The Stable outlook on the rating reflects ICRA's expectation that the bank will be able to maintain a steady credit profile with improving asset quality as well as stable profitability and capitalisation.

Key rating drivers and their description

Credit strengths

Long-standing track record and established presence in South India – Dhanlaxmi has an operational track record of more than 97 years and has established a retail franchise in southern India. It had a network of 261 branches as on December 31, 2025, with more than 80% in the southern states of Tamil Nadu, Andhra Pradesh, Telangana, Kerala and Karnataka. Kerala alone has

147 branches, i.e. 56% of the total branches. The bank has a healthy share of retail deposits, which supports its overall liquidity profile. ICRA also notes that a sizeable part of the deposits from the top depositor is non-callable, reducing the liquidity risk to an extent.

Comfortable capitalisation profile – The bank reported comfortable capitalisation ratios (excluding interim profits) with a Tier I capital ratio and a capital-to-risk weighted assets ratio (CRAR) of 14.47% (Rs. 1,223 crore) and 17.19% (Rs. 1,453 crore), respectively, as on December 31, 2025. While it has reported low capital cushions in the past due to weak profitability and a delay in raising capital, the capital raise of Rs. 297.5 crore in February 2025 via a rights issue has helped improve its capital position. The recent rally in gold prices has supported loan book growth in the current fiscal, while the lower RWA density on gold loans helped the bank’s capital position remain comfortable. ICRA expects Dhanlaxmi’s internal accruals to remain modest in the near-to-medium term. Thus, its ability to meaningfully improve its market position will depend on the raising of fresh capital in the future.

Credit challenges

Modest profitability – While Dhanlaxmi has remained profitable since FY2019, its profitability metrics continue to be weak. This is due to high operating costs, although the operating cost to income ratio improved slightly to 83.41% in 9M FY2026 from 89.79% in 9M FY2025. The bank’s net credit-to-deposit ratio increased steadily to 77.99% as on December 31, 2025 from 74.68% as on March 31, 2025 (70.69% as on March 31, 2024), which helped improve its NIMs to 3.07% in 9M FY2026 from 2.88% in FY2025. However, its high operating cost keeps its operating profitability weak. Despite benign credit costs, its return indicators remain modest with annualised return on assets (RoA) of 0.42% in 9M FY2026 (0.40% in FY2025). The bank’s ability to bring down the operating cost to income ratio will be driven by its ability to scale up the assets while containing slippages. This would remain critical from a profitability perspective.

Small scale of operations – Dhanlaxmi has a small scale of operations with a net loan book of Rs. 13,912 crore as on December 31, 2025, translating into a loan book market share of 0.2%. It has witnessed limited growth in its balance sheet over the years due to advisories/restrictions under MAP (CY2011-CY2014) and PCA (CY2014-CY2019), resulting in a decline in the loan book to Rs. 6,289 crore as on March 31, 2019 from Rs. 9,065 crore as on March 31, 2011. Even after exiting the PCA framework in February 2019, Dhanlaxmi’s loan book growth has been modest due to weak internal accruals and a delay in raising capital. Moreover, it has not been able to expand its branch network over the years due to restrictions by the regulator amid high operating costs. Nonetheless, the infusion of fresh capital in FY2025 helped improve loan book growth to 18.39% in FY2025 from 6.88% in FY2024. The momentum has continued in the current fiscal, though this was supported by the increase in the gold loan portfolio, given the significant rise in gold prices. Consequently, the bank reported YoY growth of 25.68% as on December 31, 2025. However, the elevated reliance on gold loans, while supporting growth and capital metrics, led to increased portfolio concentration and the ability to sustain growth remains monitorable.

Asset quality remains monitorable – Dhanlaxmi reported a manageable fresh NPA generation rate (annualised) of 1.31% in 9M FY2026 (1.53% in FY2025, 1.63% in FY2024). This, along with high write-offs in 9M FY2026, helped it witness a reduction in its gross NPAs (GNPAs) to 2.36% as on December 31, 2025 from 2.98% as on March 31, 2025. However, the write off of highly provided for NPAs led to a reduction in the overall provisioning coverage ratio (PCR) to 53.63% as on December 31, 2025 from 76.30% as on December 31, 2024. Further, relatively lower provisioning on fresh NPAs led to an increase in absolute net NPAs (NNPAs), which, in turn, resulted in a rise in the NNPA percentage to 1.11% as on December 31, 2025 from 0.86% as on December 31, 2024. The GNPA percentage, including write-offs, stood at 7.45% as on December 31, 2025. Going forward, the trend remains monitorable, especially given the evolving geopolitical situation, which can impact its asset quality.

Moreover, the bank’s exposure remains concentrated with the top 20 exposures accounting for 14.40% of the total exposure (147% of Tier I capital) as on March 31, 2025. Additionally, the vulnerable book, consisting of SMA¹-1 and 2 and the standard

¹ SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

restructured book, was Rs. 124 crore (10% of Tier I capital) as on December 31, 2025. Given the weak operating profitability, Dhanlaxmi’s ability to absorb increased credit costs remains limited. The likely impact of the transition to the ECL framework on profitability and capital buffers would also remain monitorable.

Environmental and social risks

While banks like Dhanlaxmi do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for Dhanlaxmi as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as has been seen for other regulated entities in the recent past. While Dhanlaxmi has not faced material lapses over the years, high operating expenses could limit its ability to invest in information technology (IT) infrastructure. While it contributes to promoting financial inclusion by lending to underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Adequate

While the bank’s daily average liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of 126.41% and 145.48%, respectively, for Q3 FY2026, stand well above the regulatory requirement of 100%, liquidity remains constrained by the high concentration of depositors with the top 20 depositors accounting for 24.5% of the total deposits as on March 31, 2025. The liquidity position is supported by positive asset-liability mismatches (as per the structural liquidity statement as on February 15, 2026) in all the less-than-1-year maturity buckets. Dhanlaxmi can also avail liquidity support from the RBI (through repo against excess statutory liquidity ratio (SLR) investments and marginal standing facility mechanism) in case of urgent liquidity needs.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the bank is able to increase its scale of operations meaningfully while improving its profitability and maintaining adequate capital cushions over the regulatory levels on a sustained basis.

Negative factors – ICRA could downgrade the rating if there is a weakening in the earnings profile and/or a decline in the capital cushions to less than 2% in relation to the Tier I or CRAR regulatory levels on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA’s Rating Methodology for Banks and Financial Institutions
Parent/Group support	Not applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of Dhanlaxmi Bank. The bank does not have any subsidiaries.

About the company

Dhanalakshmi Bank Limited was incorporated on November 14, 1927 under the erstwhile Indian Companies Act, 1913. It became a scheduled commercial bank in 1977 under the Second Schedule of the RBI Act and its name was subsequently changed to Dhanlaxmi Bank Limited. The bank did not have any subsidiaries/associates as on December 31, 2025. It had a network of 261 branches and 282 ATMs, as on December 31, 2025, across India (mainly in South India).

Dhanlaxmi reported a net loan book of Rs. 13,912 crore and total assets of Rs. 20,034 crore as on December 31, 2025. It reported a net profit of Rs. 59 crore in 9M FY2026 (Rs. 67 crore in FY2025).

Key financial indicators (standalone)

Dhanlaxmi Bank	FY2024	FY2025	9M FY2026
Total income	613	639	546
Profit after tax	58	67	59
Total assets	15,803	17,778	20,034
CET I/Tier I	11.36%	15.25%	14.47%*
CRAR	12.71%	16.12%	17.19%*
PAT/ATA	0.38%	0.40%	0.42%^
Gross NPA	4.05%	2.98%	2.36%
Net NPA	1.25%	0.99%	1.11%

Source: Dhanlaxmi Bank, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Total income includes net interest income and other income (Excluding trading gains)

*Excluding interim period profits

^Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

Name of instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
			March 24, 2026	March 25, 2025	-	-
Basel III Tier II bonds	Long term	150.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Basel III Tier II bonds	Highly Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated	Current rating
					(Rs. crore)	and outlook
INE680A08099	Basel III Tier II bonds	April-06-2025	10.50%	April-06-2035 [^]	150.00	[ICRA]BBB- (Stable)

Source: Dhanlaxmi, ICRA Research; [^] Call option can be exercised by the bank at the end of five years after approval from the RBI

Key features of the rated instrument

The servicing of the Basel III Tier II bonds is not subject to any capital ratios and profitability. However, these bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. Further, the exercise of the call option on the Basel III Tier II bonds is contingent upon the prior approval of the RBI and the bank will need to demonstrate that its capital position is well above the minimum regulatory requirement, following the exercise of the said call option.

Annexure II: List of entities considered for limited consolidated analysis

Not applicable

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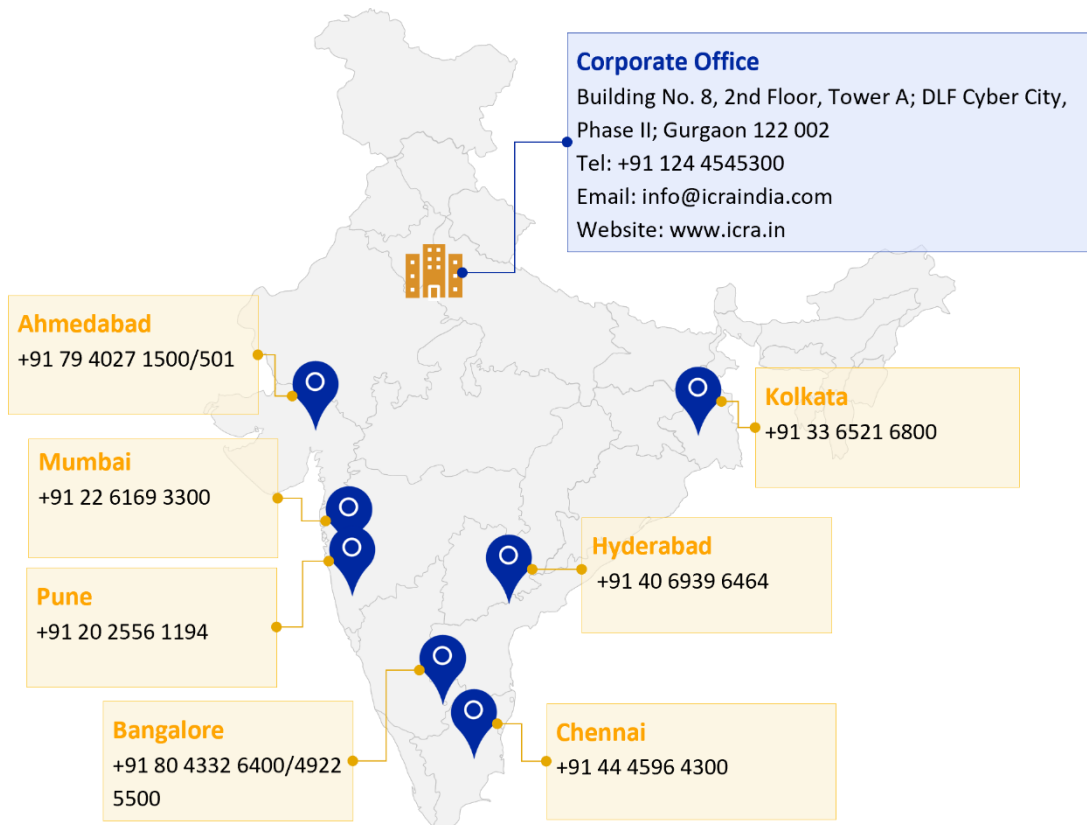
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