Lakshmi Vilas Bank Limited
October 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds	50.50	**CARE BB-; Negative (Double B Minus; Outlook: Negative)**	**Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative)**
Tier II Bonds (Basel III Compliant) –I @	78.10	**CARE B-; Negative (Single B Minus; Outlook: Negative)**	**Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative)**
Tier II Bonds (Basel III Compliant) –II @	140.10	**CARE B-; Negative (Single B Minus; Outlook: Negative)**	**Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative)**
Tier II Bonds (Basel III Compliant) –III @	100.00	**CARE B-; Negative (Single B Minus; Outlook: Negative)**	**Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative)**
Proposed Basel III Compliant Additional Tier I Perpetual Bond issue #	250.00	**CARE B-; Negative (Single B Minus; Outlook: Negative)**	**Revised from CARE B+; Negative (Single B Plus; Outlook: Negative)**
Total	**618.70 (Rupees Six Hundred Eighteen crore and Seventy lakh only)**		

Details of instruments/facilities in Annexure-1

@ Tier II Bonds under Basel III are characterized 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.

CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds [Additional Tier I Bonds (Basel III)] after taking into consideration its key features as mentioned below:

• The bank has full discretion at all times to cancel coupon payments.

• The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of reserves representing appropriation of net profits, including statutory reserves and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].

• The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before April 1, 2021, and 6.125% on and after April 1, 2021, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI. Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a some-what sharper migration of the rating compared with other subordinated debt instruments.

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

Detailed Rationale & Key Rating Drivers
The revision in ratings assigned to the various debt instruments of The Lakshmi Vilas Bank Limited (LVB) factors in the sharp decline in networth due to significant losses reported in FY20 (refers to period from April 01 to March 31) and Q1FY21 (refers to period from April 01 to June 30) consequent to losses reported during these period. The bank reported total CAR and Tier I CAR of 0.17% and -1.83% respectively as on June 30, 2020.
The ratings continue to derive strength from the long-standing operational track record of Lakshmi Vilas Bank Ltd (LVB) and its established presence in Southern India. The ratings are constrained by LVB's regional nature of operations, weak asset quality parameters, weak capitalisation levels and continuation of losses in Q1FY21. The rating also takes note of decline in total business of the bank due to capital constraints and the recent changes in the board.
In view of current capital adequacy levels, timely mobilisation of capital to augment its CAR is critical in the near term.

Outlook: Negative
The negative outlook on rating reflects the likely continuation of negative networth in view of delay in mobilising fresh capital. Timely mobilisation of significant amount of equity capital is critical to improve capital adequacy levels. The outlook may be revised to stable in the event of improvement in capitalisation levels well above regulatory requirement.

Rating Sensitivities
Positive Factors: Factors that could, individually or collectively, lead to positive rating action/upgrade
- Significant Improvement in capital adequacy levels, asset quality parameters and profitability levels

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/downgrade
- Further delay in capital raise
- Any restriction on payment of coupon

Detailed description of the key rating drivers
Key Rating Weaknesses
Decline in business due to capital constraint
With the bank reporting capital adequacy below the regularity levels, the bank has been reducing the advances/Risk weighted assets consciously in view of the constrained capital adequacy levels. As a result during FY20, Advances declined by 31% from Rs.20,103 crore as on March 31, 2019 to Rs.13,828 crore as on March 31, 2020. Deposits declined by 27% from Rs.29,729 crore as on March 31, 2019 to Rs.21,443 crore as on March 31, 2020.
Weak Asset Quality
The asset quality witnessed further deterioration in FY20. GNPA and NNPA increased from 15.30% and 7.49% respectively as on March 31, 2019 to 25.39% and 10.04% respectively as on March 31, 2020. On absolute terms GNPA increased from Rs. 3,359 crore as on March 31, 2019 to Rs.4,233 crore as on March 31, 2020. Net slippages during FY20 stood at Rs.874 crore as against Rs.665 crore in FY19.
Standard restructured assets declined from Rs.40 crore as on March 31, 2019 to Rs.1 crore as on March 31, 2020. LVB had outstanding security receipts of Rs.315 crore on March 31, 2020 (Rs.332 crore as on March 31, 2019). Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) stood at Rs. 4,550 crore as on March 31, 2020 as against Rs. 3,731 crore as on March 31, 2019. Provisions coverage ratio stood at 71.25% as on March 31, 2020 (PY: 62.08%).
GNPA and NNPA as on June 30, 2020 stood at 25.40% and 9.64% respectively. Provision coverage ratio stood at 72.58% as on June 30, 2020.
Continuation of losses in FY20 and Q1FY21
With the reduction in advances and increase in NPAs, Interest income has declined during the FY20 and Q1FY21. Interest income on advances declined by 23% from Rs. 2,163 crore in FY19 to Rs. 1,658 crore in FY20. Yield on advances stood at 9.77% in FY20 as against 9.43% in FY19. Cost of deposits remained at 6.71% in FY20 (PY:6.72%). Credit to deposit ratio (C/D) declined from 68.66% as on March 31, 2019 to 64.49% as on March 31, 2020.
Non-interest income has increased from Rs.250 crore in FY19 to Rs.351 crore in FY20 with profit on sale of investments of Rs.101 crore in FY20 as against loss on sale of investments of Rs.19 crore in FY19. Opex declined from Rs.822 crore in FY19 to Rs.795 crore in FY20. LVB reported operating loss of Rs.15 crore in FY20 as against an operating loss of Rs.12 crore in FY19. Provisions towards NPA stood at Rs.1002 crore during FY20 as against Rs.879 crore in FY19.
With decrease in Net Interest income and higher provision towards NPAs, the bank reported loss of Rs.836 crore in FY20 as against a loss of Rs.894 crore in FY19. Interest income decreased from Rs.624 crore in Q1FY20

to Rs.443 crore in Q1FY21. Non-Interest Income stood at Rs.96 crore in Q1FY21 as against Rs.53 crore in Q1FY20. LVB reported of operating profit of Rs.0.09 crore in Q1FY21. The bank made provisions on depreciation of investments (MTM) of Rs.30 crore and Rs.83 Crore towards NPAs during Q1FY21 resulting in the bank reporting loss of Rs.112 crore during the period.

Weak capitalization levels – Continuation of Capital adequacy below regulatory requirement with delay in mobilisation of equity

CAR and Tier I CAR stood at 0.17% and -1.83% as June 30, 2020 (1.12% and -0.88% as March 31, 2020) against regulatory requirement of 10.875% and 8.875%. Notwithstanding mobilization of fresh equity in FY19 and FY20, capital adequacy levels continues to be weak. In order to improve its capital adequacy levels, the bank has mobilized fresh equity of Rs.468 crore in FY19 via QIP and Rs.188 crore during FY20 by way of preferential issue of equity shares. However, on account of continuation of losses in Q1FY21 due to pre-provision loss and higher provisions, the bank reported total CAR of 0.17% which is below regulatory requirement of 10.875%. As per RBI guidelines, minimum CAR to be maintained as on April 1, 2021 is 11.5% (including counter cyclical buffer). In view of the same, to meet regulatory requirements, the bank is required to mobilise around Rs.1,421 crore based on risk weighted assets as on June 30, 2020. On account of higher NPA levels and absence of growth in advances, actual capital requirement is likely to be higher due to losses expected during next few quarters. In view of the same, ability of the bank to mobilise capital in timely manner is critical to meet capital adequacy requirement and grow its loan book. RBI has initiated Prompt Corrective Action during September 2019 for LVB on account of high net NPA, insufficient CAR and CET 1, negative ROTA for two consecutive years and high leverage.

Key Rating Strengths

Long Standing Operational track record

Established in 1926, LVB is one of the old private sector banks based out of Tamil Nadu with a track record of more than 90 years. LVB has a wide spread shareholder base with promoters' holding of 6.80% as on March 31, 2020. As on March 31, 2020 the bank had a network of 566 branches and 973 ATMs.

Improvement in CASA proportion; however continues to be relatively low

The proportion of low-cost current account and savings account (CASA) is relatively low compared to its peers but has been improving over the past few years mainly due to reduction in term deposit. CASA improved from 25.67% as on March 31, 2019 to 26.64% as on March 31, 2020 and further to 28.44% as on June 30, 2020.

Impact of Covid-19

As on August 31, 2020, around Rs.7351 crore of advances was under moratorium. The bank has already made provisions of Rs.20.26 crore as on June 30, 2020 for the impact of Covid-19. Any slippages from the moratorium book is expected to impact asset quality and profitability going forward.

Liquidity: Adequate

As on March 31, 2020 LVB had no cumulative mismatches up to 5 years' time bucket. The liquidity coverage ratio remained at 262% as on September 27, 2020 as against the regulatory requirement of 100%. Furthermore, the bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch 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)

About the Company

Established in 1926, LVB is one of the old private sector banks based out of Tamil Nadu. The business operations of LVB are geographically concentrated in South India particularly in Tamil Nadu. As on March 31, 2020, the bank had a network of 566 branches and 973 ATMs. As on March 31, 2020 net advances stood at Rs. 13,828 crore and deposits stood at Rs. 21,443 crore.

A:Audited

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	3,090	2,558
PAT	-894	-836
Total Assets	32,005	23,057
Net NPA (%)	7.49	10.04
ROTA (%)	NM	NM

Status of non-cooperation with previous CRA Not Applicable

Any other information Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	INE694C08047	Feb 10, 2012	11.40	Feb 10, 2022	50.50	CARE BB-; Negative
Bonds-Tier II Bonds (Basel III Compliant) - I	NE694C08054	Mar 24, 2014	11.80	Mar 24, 2024	78.10	CARE B-; Negative
Bonds-Tier II Bonds (Basel III Compliant) - II	INE694C08062	Sept 30, 2015	11.50	Sept 30, 2025	140.10	CARE B-; Negative
Bonds-Tier II Bonds (Basel III Compliant) - III	INE694C08070	June 09, 2017	10.70	June 09, 2024	100.00	CARE B-; Negative
Bonds-Tier I Bonds (Proposed)	-	-	-	-	250.00	CARE B-; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Lower Tier II	LT	50.50	CARE BB-; Negative	-	1)CARE BB+; Negative (11-Oct-19) 2)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 3)CARE BBB	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+;	1)CARE A-; Stable (07-Jul-17)

						(Under Credit watch with Developing Implications) (12-Apr-19)	Negative (04-Jun-18)	
2.	Bonds-Tier II Bonds	LT	78.10	CARE B-; Negative	-	1)CARE BB+; Negative (11-Oct-19) 2)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 3)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)
3.	Bonds-Tier II Bonds	LT	140.10	CARE B-; Negative	-	1)CARE BB+; Negative (11-Oct-19) 2)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 3)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)
4.	Bonds-Tier II Bonds	LT	100.00	CARE B-; Negative	-	1)CARE BB+; Negative (11-Oct-19) 2)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 3)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17) 2)CARE A-; Stable (09-Jun-17)
5.	Bonds-Tier I Bonds	LT	250.00	CARE B-; Negative	-	1)CARE B+; Negative	-	-

						(11-Oct-19) 2)CARE BB- (Under Credit watch with Developing Implications) (10-Sep-19) 3)CARE BB (Under Credit watch with Developing Implications) (12-Apr-19)		

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Lower Tier II	Simple
2.	Bonds-Tier I Bonds	Complex
3.	Bonds-Tier II Bonds	Simple

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.*

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