

Lakshmi Vilas Bank Limited
November 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Lower Tier II Bonds	50.50	CARE BB- (Double B Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Tier II Bonds (Basel III Compliant) –I @	78.10	CARE B- (Single B Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Tier II Bonds (Basel III Compliant) –II @	140.10	CARE B- (Single B Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Tier II Bonds (Basel III Compliant) –III @	100.00	CARE B- (Single B Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Proposed Basel III Compliant Additional Tier I Perpetual Bond issue #	250.00	CARE B- (Single B Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Total	618.70 (Rs. 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.

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various debt instruments of The Lakshmi Vilas Bank Limited (LVB) have been placed on credit watch with developing implications with the moratorium imposed by Government of India (GoI) on LVB, after considering an application made by the RBI. RBI's action comes on the backdrop of significant deterioration in the financial risk profile of the bank with weakened capitalisation levels and in the absence of a credible revival plan. The RBI has superseded the Board of Directors of the bank and appointed Mr. T N Manoharan (former non-executive chairman of Canara bank) as the Administrator and on November 17, 2020, RBI has published a draft scheme for amalgamation of LVB with DBS Bank India Limited (DBS). CARE will closely monitor the progress on the amalgamation scheme and will consider taking appropriate rating action in due course.

Rating Sensitivities

Positive Factors: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Improvement in the capital adequacy levels based on the proposed scheme of amalgamation

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/downgrade

- Any delay in the amalgamation process
- Any restriction on payments of coupon

Liquidity Profile: Poor

Post the moratorium put on the bank by RBI, restrictions have been imposed on banking operations and ability of the bank to meet all its commitments in timely manner is severely constrained. It is to be noted that in respect of Tier II Bonds (Basel III Compliant) –III, coupon payment is due on December 09, 2020.

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.

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

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

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- (Under Credit watch with Developing

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
						Implications)
Bonds-Tier II Bonds (Basel III Compliant) - I	NE694C08054	Mar 24, 2014	11.80	Mar 24, 2024	78.10	CARE B- (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds (Basel III Compliant) - II	INE694C08062	Sept 30, 2015	11.50	Sept 30, 2025	140.10	CARE B- (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds (Basel III Compliant) - III	INE694C08070	June 09, 2017	10.70	June 09, 2024	100.00	CARE B- (Under Credit watch with Developing Implications)
Bonds-Tier I Bonds (Proposed)	-	-	-	-	250.00	CARE B- (Under Credit watch with Developing Implications)

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- (Under Credit watch with Developing Implications)	1)CARE BB-; Negative (09-Oct-20)	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.	Bonds-Tier II Bonds	LT	78.10	CARE B- (Under Credit watch with Developing Implications)	1)CARE B-; Negative (09-Oct-20)	1)CARE BB+; Negative (11-Oct-19) 2)CARE BBB- (Under Credit watch with Developing	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB;	1)CARE A-; Stable (07-Jul-17)

						Implications) (10-Sep-19) 3)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	
3.	Bonds-Tier II Bonds	LT	140.10	CARE B- (Under Credit watch with Developing Implications)	1)CARE B- ; Negative (09-Oct- 20)	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- (Under Credit watch with Developing Implications)	1)CARE B- ; Negative (09-Oct- 20)	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- (Under Credit watch with Developing Implications)	1)CARE B- ; Negative (09-Oct- 20)	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)		
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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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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

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CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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