The Lakshmi Vilas Bank Limited (Revised)

October 11, 2019

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

@ 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 March 31, 2020, and 6.125% on and after March 31, 2020, 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

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

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.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the various debt instruments of The Lakshmi Vilas Bank Ltd factors (LVB) in the increased level of uncertainity associated with timely mobilization of fresh equity capital in view of recent developments including placing of the bank under Prompt Corrective Action (PCA) by RBI. The rating also takes note of non-approval of the proposed scheme of amalgamation with Indiabulls housing finance Limited and Indiabulls commercial credit limited with LVB.

The rating is constrained by weak asset quality, weak capitalization levels, weak financial performance as reflected in losses in FY19 & Q1FY20, moderate size of the bank and its regional nature of operations.

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 has been removed from rating watch with non-approval of scheme of amalgamation of lndiabulls Housing Finance Limited (IBHFL) and lndiabulls Commercial Credit Limited (ICCL) with The Lakshmi Vilas Bank.

LVB's ability to raise capital in timely manner, scale up the recoveries and improve its asset quality, profitability would be the key rating sensitivities. 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 expectation of the incremental provisions further impacting the profitability and capital adequacy levels of the bank. Timely mobilisation of significant amount of equity is critical to meet RBI guidelines on capital adequacy. The outlook may be revised to stable in the event of improvement in these parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Long Standing Operational track report

Established in 1926, LVB is one of the old private sector banks based out of Tamilnadu with a track record of more than 90 years. LVB now has a wide spread shareholder base with promoters' holding of 7.11% as on June 30, 2019. As on March 31, 2019 the bank had a network of 569 branches and 1046 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. CASA improved from 21.06% as on March 31, 2018 to 25.67% as on March 31, 2019 and further improved to 27.12% as on June 30, 2019. Though there was decrease in overall deposits, CASA deposits have seen improvement on absolute terms also. On absolute terms CASA deposits improved by 5% from Rs.7,015 crore as on March 31, 2018 to Rs.7,515 crore as on March 31, 2019 and further to Rs.7,858 crore as on June 30, 2019.

Liquidity Profile: Adequate

As on June 30, 2019 LVB had no cumulative mismatches up to 5 years' time bucket. The liquidity coverage ratio remained at 247.14% as on June 30, 2019 (165.79%) as against the regulatory requirement of 100%. Rollover rate of deposits stood at 63% in FY19 which will provide additional comfort.

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 advances consciously in view of the constrained capital adequacy level. During FY19, Advances declined by 22% from Rs. 25,768 crore as on March 31, 2018 to Rs. 20,103 crore as on March 31, 2019. As the advances declined, the bank has reduced its bulk deposits and was not growing its deposits which resulted in decline in overall deposits also. Deposits declined by 11% from Rs. 33,309 crore as on March 31, 2018 to Rs. 29,279 crore as on March 31, 2019.

During Q1FY20, Advances declined to Rs. 18,539 crore as on June 30, 2019 whereas total Deposits declined to Rs. 28,890 crore as on June 30, 2019.

Weak Asset Quality

The asset quality witnessed deterioration in FY19 and Q1FY20. GNPA and NNPA increased from 9.98% and 5.66% as on March 31, 2018 to 15.30% and 7.49% as on March 31, 2018. On absolute terms GNPA increased from Rs. 2,694 crore as on March 31, 2018 to Rs. 3,359 crore as on March 31, 2019. Net Slippages during FY19 stood at Rs.665 crore as against Rs.2053 crore in FY18.

Standard restructured assets declined from Rs.76 crore as on March 31, 2018 to Rs.40 crore as on March 31, 2019. LVB had outstanding security receipts of Rs.330 crore on March 31, 2019 (Rs.339 crore as on March 31, 2018). Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) stood at Rs. 3,729 crore as on March 31, 2019 as against Rs. 3,109 crore as on March 31, 2018. Provisions coverage ratio stood at 62.08% as on March 31, 2019 (PY: 55.07%).

The trend in deterioration of asset quality continued in Q1FY20. GNPA and NNPA as on June 30, 2019 stood at 17.30% and 8.30%. Provision coverage ratio as on June 30, 2019 stood at 63.08%.

Losses reported in FY19 and Q1FY20
With the reduction in advances and increase in NPAs, Interest income has seen decline during the FY19 and Q1FY20. Interest income on advances declined by 7% from Rs. 2,331 crore in FY18 to Rs. 2,163 crore in FY19. Yield on advances stood at 9.43% in FY19 as against 9.42% in FY18. Cost of deposits increased from 6.23% in FY18 to 6.72% in FY19. Credit to deposit ratio (C/D) declined from 77.36% in FY18 to 68.66 in FY19. As a result of the increase in cost of borrowings, lower C/D ratio, NIM declined from 2.11% in FY18 to 1.56% in FY19.
Non-interest income has declined from Rs.347 crore in FY18 to Rs.250 crore in FY19. Though the overall business declined, Opex increased from Rs.782 in FY18 to Rs.822 crore in FY19. As a result, LVB reported operating loss of Rs.12 crore in FY19 as against an operating profit of Rs.355 crore in FY18. Provisions towards NPA stood at Rs.879 crore during FY19 as against Rs. 1,300 crore in FY18. With decrease in Net Interest income, non-interest income, increase in Opex and higher provision towards NPAs, the bank reported loss of Rs.894 crore in FY19 as against a loss of Rs.585 crore in FY18
Interest income decreased from Rs.727 crore in Q1FY19 to Rs.624 crore in Q1FY20. Non-Interest Income stood at Rs.53 crore in Q1FY20 as against Rs.60 crore in Q1FY19. LVB reported of operating loss of Rs.26 crore in Q1FY20. The bank made provisions on depreciation of investments (MTM) of Rs.7 crore and Rs.156 Crore towards NPAs during Q1FY20 resulting in the bank reporting loss of Rs.237 crore during the period.
Weak capitalization levels - Capital adequacy below regulatory requirement
CAR and Tier I CAR stood at 6.46% and 4.46% as June 30, 2019 (7.72% and 5.72% as March 31, 2019) against regulatory requirement of 10.875% and 9%. Notwithstanding mobilization of fresh equity in Q4FY19 (refer to period from January 01 to March 31) and July 2019, 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 Q4FY19 via QIP and Rs.188 crore in the month of July 2019 by way of preferential issue of equity shares. However, on account of continuation of losses in Q1FY20 due to pre-provision loss and higher provisions, the bank reported total CAR of 6.46%. Including equity mobilized in July 2019, CAR stood at 7.56% which is below regulatory requirement of 10.875%. As per RBI guidelines, minimum CAR to be maintained as on March 31, 2020 is 11.5% (including counter cyclical buffer). In view of the same, to meet regulatory requirements, the bank is required to mobilise around Rs.677 crore based on risk weighted assets as on June 30, 2019. On account of higher NPA levels and degrowth in advances in Q1FY20, 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.
Initiation of PCA by RBI
RBI has initiated Prompt Corrective Action for Lakshmi Vilas Bank Limited on account of high net NPA, insufficient CAR and CET 1, negative ROTA for two consecutive years and high leverage.
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, 2019, the bank had a network of 569 branches and 1046 ATMs. As on March 31, 2019 net advances stood at Rs. 20,103 crore and deposits stood at Rs. 29,279 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	3,388	3,090
PAT	-585	-894
Total Assets	39,797	32,005
Net NPA (%)	5.66	7.49
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	February 10, 2012	11.40	February 10, 2022	50.50	CARE BB+; Negative
Bonds-Tier II Bonds	NE694C08054	March 24, 2014	11.80	March 24, 2024	78.10	CARE BB+; Negative
Bonds-Tier II Bonds	INE694C08062	September 30, 2015	11.50	September 30, 2025	140.10	CARE BB+; Negative
Bonds-Tier II Bonds	INE694C08070	June 09, 2017	10.70	June 09, 2024	100.00	CARE BB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (30-Aug-16)
2.	Bonds-Lower Tier II	LT	50.50	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)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)	1)CARE A- (30-Aug-16)
3.	Bonds-Tier II Bonds	LT	78.10	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)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)	1)CARE A- (30-Aug-16)
4.	Bonds-Tier II Bonds	LT	140.10	CARE BB+;	1)CARE BBB-	1)CARE BBB	1)CARE A-;	1)CARE A-

				Negative	(Under Credit watch with Developing Implications) (10-Sep-19) 2)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	(Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	Stable (07-Jul-17)	(30-Aug-16)
5.	Bonds-Tier II Bonds	LT	100.00	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)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)	-
6.	Bonds-Tier I Bonds	LT	250.00	CARE B+; Negative	1)CARE BB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)CARE BB (Under Credit watch with Developing Implications) (12-Apr-19)	-	-	-

***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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