Ref/Sec/205 /154/2018-2019 October 4, 2018

To

The General Manager

Department of Corporate Services,
The National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai 400 051.
Company symbol: LAKSHVILAS

Dear Sir,

Sub: Revision in Credit Rating

Ref: INE694C08047, INE694C08054, INE694C08062 &INE694C08070

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In compliance with the applicable provisions of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, it is hereby informed that the Credit Rating Agency, M/s. CARE Ratings Limited (CARE) has revised the rating from "CARE BBB+" (Triple B Plus); Outlook: Negative to "CARE BBB" (Triple B; Outlook: Negative) for our Unsecured Redeemable Non-Convertible Subordinated Lower Tier II Bonds - Series VII (Option B), VIII , IX, X of Rs. 50.50 crores, Rs. 78.10 crores, Rs. 140.10 crores and Rs.100 crores respectively.

The rating and the detailed rationale dated 04.10.2018 provided by the rating agency is enclosed.

Thanking you,

Yours faithfully,

N Ramanathan
Company Secretary

THE LAKSHMI VILAS BANK LTD. Secretarial Department Corp. Office, Chennai 32

Encld: As above.

The Lakshmi Vilas Bank Limited

October 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds	50.50	**CARE BBB; Negative (Triple B ; Outlook: Negative)**	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Tier II Bonds (Basel III Compliant) –I	78.10	**CARE BBB; Negative (Triple B ; Outlook: Negative)**	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Tier II Bonds (Basel III Compliant) –II	140.10	**CARE BBB; Negative (Triple B ; Outlook: Negative)**	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Tier II Bonds (Basel III Compliant) –III	100.00	**CARE BBB; Negative (Triple B ; Outlook: Negative)**	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Total	**368.70 (Rupees Three Hundred Sixty Eight crore and Seventy lakh only)**		

Details of instruments/facilities in Annexure-1

Tier II Bonds under Basel III are characterised 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.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the debt instruments of Lakshmi Vilas Bank Limited (LVB) takes into account the significant losses during Q1FY19 (refers to the period April 1 to June 30) resulting in further deterioration in capital adequacy levels. LVB reported capital adequacy of 9.45% as on June 30, 2018 against regulator prescribed level of 10.875%.

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 rating factors in the moderate size of the bank, its regional nature of operations, weak asset quality parameters, weak capitalisation levels and relatively low proportion of current account & savings account (CASA) deposits.

LVB's ability to raise capital, improve its asset quality and profitability would be the key rating sensitivities. In view of current capital adequacy levels and phased increase in minimum capital adequacy ratio (CAR) as per regulatory requirement, timely mobilisation of capital to augment its CAR is critical in the near term.

The negative outlook on the rating reflects the expectation that the incremental provisioning during rest of FY19 (refers to the period April 01 to March 31) arising from higher NPAs and MTM losses on investment book likely to result in losses and further deterioration of capital adequacy. 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 including mobilisation of fresh equity.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing operational track record

Established in 1926, LVB is one of the old private sector banks based out of TN with a track record of more than 90 years. LVB now has a wide spread shareholder base with promoters' holding of 8.98% as on June 30, 2018. As on June 30, 2018, the bank had a network of 561 branches and 1031 ATMs.

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

Business growth witnessed during FY18; however growth remained stagnant during Q1FY19 due to capital constraint
During FY18, advances grew by 9% from Rs. 23,729 crore as on March 31, 2017 to Rs. 25,768 crore as on March 31, 2018, whereas deposits grew by 9% from Rs. 30,553 crore as on March 31, 2017 to Rs. 33,309 crore as in March 31, 2018.
With the bank reporting CAR below regulatory requirement, advances declined to Rs. 24,802 crore as on June 30, 2018 from Rs. 25,768 crore as on March 31, 2018. During the same period deposits have also declined to Rs. 32,473 crore as on June 30, 2018 from Rs.33,309 crore as on March 31, 2018.

Improvement in CASA proportion; however continues to be relatively low
The proportion of low-cost current account and savings account (CASA) is relatively low but has improved in FY18 and Q1FY19. CASA improved to 21.06% as on March 31, 2018 from 19.11% as on March 31, 2017 thereby lowering the overall cost of deposits in FY18. As on June 30, 2018, CASA stood at 21.45%. Saving deposits grew by 30% from Rs.3,924 crore as on June 30, 2017 to Rs.5,093 crore as on June 30, 2018 whereas current accounts deposits grew by 5% from Rs.1783 crore as on June 30, 2017 to Rs.1870 crore as on June 30, 2018. The bank was able to decrease the bulk deposits (deposits greater than Rs.1 crore) from 43.27% of total term deposits as on March 31, 2017 to 41.10% as on March 31, 2018. Bulk deposits further reduced to 37.20% of total deposits as on June 30, 2018.

Adequate Liquidity profile
LVB had no cumulative mismatches up to 6 months bucket. LVB had an excess SLR investments of Rs.471 crore (PY: 866 crore) as on June 30, 2018 which would support the liquidity position of the bank. Deposit rollover rate of 64% also provides comfort.

Key rating weaknesses
Deterioration in asset quality
During FY18, the asset quality parameters have witnessed deterioration with the bank reporting GNPA and NNPA of 9.98% and 5.66% as on March 31, 2018 as against 5.66% and 4.27% as on December 31, 2017 (GNPA and NNPA of 2.67% and 1.76% as on March 31, 2017). GNPA in absolute terms increased from Rs.640 crore as on March 31, 2017 to Rs.1,427 crore as on December 31, 2017 and subsequently to Rs.2,694 crore as on March 31, 2018. The increase in NPA levels is on account of slippages of standard restructured assets (including SDR, S4A, 5/25), NCLT accounts, accounts classified based on RBI circular on resolution plan dated February 12, 2018 and also from other standard accounts.
Standard restructured assets declined from Rs.965 crore as on March 31, 2017 to Rs.76 crore as on March 31, 2018 as majority of them slipped into NPA due to RBI circular on resolution plan dated February 12, 2018. LVB had outstanding security receipts of Rs.339 crore on March 31, 2018. Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) stood at Rs. 3,109 crore as on March 31, 2018 as against Rs. 1,954 crore as on March 31, 2017. Provisions coverage ratio stood at 55.07% as on March 31, 2018.
Asset quality has deteriorated further in Q1FY19 with bank reporting GNPA and NNPA of 10.73% and 5.96% as on June 30, 2018 with few slippages from MSME advances. The recoveries have significantly improved during Q1FY19 as compared with last financial year. During Q1FY19, the recoveries and upgradations together stood at Rs.266 crore as against Rs.590 crore in FY18. Considering the high quantum of NPAs, LVB needs to scale up the recovery efforts in order to improve the asset quality parameters.

Continuation of losses in Q1FY19
Interest income grew by 7% from Rs. 2,847 crore in FY17 to Rs. 3,042 crore in FY18. Non-Interest Income has declined from Rs.503 crore in FY17 to Rs.347 crore in FY18 mainly on the account decrease in profit from sale of investments from Rs.260 crore in FY17 to Rs.64 crore in FY18 with unfavourable movement in bond yields. During FY18, the bank reported an operating profit (Profit before provisions and tax) of Rs.355 crore (PY: Rs.634 crore) mainly on account of stagnant NII, decline in non-interest income and increase in operating expenses during the year. LVB has reported a loss of Rs.584 crore in FY18 as against profit of Rs.256 crore in FY17 mainly on account of higher provisions towards NPAs (Rs.1302 crore in FY18 as against Rs.235 crore in FY17).
The interest income during Q1FY19 has decreased from Rs.770 crore in Q1FY18 to Rs.727 crore in Q1FY19 mainly due to high quantum of NPAs. Non-Interest income declined to Rs.61 crore in Q1FY19 from Rs.157 crore in Q1FY18. Operating profit declined to Rs.7 crore in Q1FY19. The bank made provisions on depreciation of investments (MTM) of Rs.54 crore and Rs.109 Crore towards NPAs during Q1FY19 resulting in the bank reporting loss of Rs.124 crore during the period.
LVB has availed RBI dispensation to spread the provisions for MTM losses on investments. Accordingly the bank has provided provisions of Rs.33 crore in Q1FY19 for the MTM losses that bank incurred in Q4FY18. Also the bank has provided provisions of Rs.14 crore for MTM losses incurred in Q1FY19. The balance amount of Rs.66 crore and Rs.43 crore pertaining to Q4FY18 and Q1FY19 will be provided next two quarters and three quarters of FY19 respectively.
The incremental provisions on existing NPA accounts along with fresh slippages during the year and provisions to be made on MTM losses on investments is expected to have an impact on profitability in the near term.

Weak capitalization levels
LVB reported a capital adequacy ratio (CAR) of 10.38% as on March 31, 2017 and subsequently the bank raised capital to the tune of Rs.787 crore through rights issue during January 2018. With the bank reporting higher than expected loss during FY18, LVB reported a capital adequacy of 9.81% as on March 31, 2018 as against the regulatory requirement of 10.875%. With the bank reporting losses in Q1FY19, capital adequacy further declined to 9.45% as on June 30, 2018. Considering the weak financial performance in Q1FY19, ageing provisions and fresh slippages during rest of FY19, LVB need to raise significant capital to maintain the CAR at prescribed level of 11.5% by the end of March 2019.

Industry prospects
Over the last three years, RBI which is the regulator for the sector has been focusing on cleaning of the balance sheets of banks and emphasised on adequate provisioning for stressed assets. The regulator has time and again provided banks with several schemes like Joint Lending Forum (JLF), 5/25 scheme, Strategic Debt Structuring (SDR), Scheme for Sustainable Structuring of Stressed Assets (S4A) and has also directed banks to file for Insolvency proceedings with National Company Law Tribunal (NCLT) against the large borrowers to resolve the issue of Non-Performing Assets (NPA) and manage the risk on the banks' books. In terms of Credit growth, the banking sector witnessed declining trend over the three years ended FY17 due to decline in economic activity leading to moderation in industrial output, leveraged corporate balance sheets and low capital expenditure (capex) plans resulting in decline in credit demand and asset quality overhang making banks cautious in lending. However during FY18, the banking sector has witnessed marginal improvement in advance growth of around 7% as against 4.7% during FY17 due to increase in bond yield resulted in shift in borrowings through banks from bond markets. Also the growth during FY18 witnessed towards services and retail segment while industry growth was muted. In terms of Asset quality, the asset quality of the banks continued to show deterioration in general during FY18. During FY19, the stress on the asset quality of banks is expected to continue with the absolute amount of NPA is expected to increase, however, the pace of incremental NPA would be lower. Due to deterioration in asset quality, banks, saw sharp decline in profitability over the last three years due to interest income reversal and higher provisioning requirements and has impacted the capital adequacy levels of the banks. Currently, the overall sector remains moderately capitalized, banks would continue to require further capital infusion to maintain regulatory capital requirement and fuel the credit growth in future.
LVB's ability to raise capital, improve its asset quality and profitability would be the key rating sensitivities. In view of current capital adequacy levels and phased increase in minimum capital adequacy ratio (CAR) as per regulatory requirement, timely mobilisation of capital to augment its CAR is critical in the near term.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook 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. As on March 31, 2018, the bank had a network of 548 branches and 1020 ATMs. LVB has a wide spread shareholder base with the promoters' holding of 8.99% as on March 31, 2018. As on March 31, 2018, the total advances stood at Rs.25,768 crore and deposits stood at Rs.33,309 crore.
During FY18, LVB reported loss of Rs.585 crore on total income of Rs.3,388 crore. During Q1FY19, the bank reported loss of Rs.124 crore on total income of Rs.788 crore.

For Y.E./ As on March 31,	FY17 (A)	FY18 (A)
Total Income	3,349	3,388
PAT	256	(585)
Net Advances	23,729	25,768
Net NPA (%)	1.76	5.66
ROTA (%)	0.81	NM
Capital Adequacy Ratio	10.38	9.81

Note: 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

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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****For detailed Rationale Report and subscription information, please contact us at www.carcratings.com**

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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	February 10, 2012	11.40%	10-02-2022	50.50	CARE BBB; Negative
Bonds-Tier II Bonds	June 09, 2017	10.70%	09-06-2024	100.00	CARE BBB; Negative
Bonds-Tier II Bonds	September 30, 2015	11.50%	30-09-2025	140.10	CARE BBB; Negative
Bonds-Tier II Bonds	March 24, 2014	11.80%	24-03-2024	78.10	CARE BBB; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (30-Aug-16)	1)CARE A- (09-Sep-15)
2.	Bonds-Lower Tier II	LT	50.50	CARE BBB; Negative	1)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)	1)CARE A- (30-Aug-16)	1)CARE A- (09-Sep-15)
3.	Bonds-Tier II Bonds	LT	78.10	CARE BBB; Negative	1)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)	1)CARE A- (30-Aug-16)	1)CARE A- (09-Sep-15)
4.	Bonds-Infrastructure Bonds	LT	-	-	-	-	-	1)Withdrawn (21-Mar-16)
5.	Bonds-Tier II Bonds	LT	140.10	CARE BBB; Negative	1)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)	1)CARE A- (30-Aug-16)	1)CARE A- (09-Sep-15)
6.	Bonds-Tier II Bonds	LT	100.00	CARE BBB; Negative	1)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17) 2)CARE A-; Stable (09-Jun-17)	-	-

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