# LAKSHMI VILAS BANK

Secretarial Department CIN L65110TN1926PLC001377

Ref/Sec/205 & 266/103/2020-2021 October 07, 2020

| | |
|---|---|
| **The General Manager**<br>Department of Corporate Services<br>**National Stock Exchange of India**<br>Exchange Plaza, C-1-Block G<br>Bandra Kurla Complex, Bandra-E<br>Mumbai - 400 051<br>Company symbol: LAKSHVILAS | **The General Manager**<br>Department of Corporate Services<br>**BSE Limited**<br>Listing Department<br>Phiroze Jeejeeboy Tower<br>Dalal Street, Fort Mumbai - 400 001<br>Security code no: 534690 |

Dear Sir,

**Sub: Revision in Credit Rating**

*Ref: (i) INE694C08047*

*****

In compliance with the applicable regulations of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, as amended, this is to inform that the Credit Rating Agency, M/s. Brickwork Ratings India Pvt Ltd, vide their mail dated 07.10.2020 has downgraded the rating from **"BWR BB+" (Credit Watch with Developing Implications)** to **"BWR B+" (Credit Watch with Negative Implications)** for our Unsecured Redeemable Non-Convertible Subordinated Lower Tier II Bonds - Series VII (Option B) of Rs.50.50 Crores.

The rating rationale dated 07.10.2020 provided by the rating agency for downward revision of rating is enclosed.

Thanking you,

Yours faithfully,

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

N Ramanathan
Company Secretary

Encl: As above.

RATING RATIONALE

**07 October 2020**

**Lakshmi Vilas Bank**

**Brickwork Ratings downgrades the ratings to 'BWR B+'/ Credit Watch with Negative Implications for the long-term bonds of Rs.50.50 Crores of Lakshmi Vilas Bank.**

**Particulars:**

| Instruments | Amount (₹ Crs) | | Tenure | Rating* | |
|---|---|---|---|---|---|
| | Previous | Present | | Previous (October 2019) | Present |
| Long Term bonds [lower tier II bonds-basel II] | 50.50 | 50.50 | Long Term | **BWR BB+/**Credit Watch with Developing Implications | **BWR B+/** Credit Watch with Negative Implications **Downgrade** |
| **Total** | **50.50** | **50.50** | **INR Fifty Crores and Fifty Lakhs Only** | | |

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of instrument is provided in Annexure-I

## RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) downgrades the rating of the long-term bonds of Rs.50.50 Crs of Lakshmi Vilas Bank (LVB or the bank), as tabulated above. The rating downgrade necessarily factors in the rejection of seven directors of the bank, including the interim managing director and chief executive officer of the bank, by the bank's shareholders; the bank's substantially weak capital position; very high levels of gross non-performing assets (NPAs) and continuous losses reported by the bank for the past 10 quarters, except Q4FY20.

BWR has essentially relied on audited financials upto FY20 and LVB's unaudited financials of Q1FY21, developments in the bank during H1FY21, publicly available information and information/ clarifications provided by the bank's management.

The bank continues to be under the Prompt Corrective Action (PCA) framework by the Reserve Bank of India (RBI) from September 2019. The PCA is on account of high net NPAs,

insufficient CRAR and common equity tier-1 (CET-1), and negative return on assets (RoA) for two consecutive years, based on the on-site inspection under the risk-based supervision carried out for the year ended 31 March 2019. As of the end-Q1FY21, the bank's aggregated business reduced by 24% to Rs.37471 Crs, in deposits, as well as advances. The bank's capital adequacy ratios as of 30 June 2020 are way below the regulatory capital requirements, and asset quality continues to remain highly stressed.

BWR continues to place the rating on Credit Watch but with Negative Implications as timelines on raising substantial capital are uncertain for the bank to meet the regulatory capital adequacy requirements. As per the regulatory capital requirements, the banks need to have a minimum total capital adequacy ratio (CAR) of 11.5%, Tier -I ratio of 9.5% and CET-1 ratio of 8.0%, (including the capital conservation buffer of 2.5%) as of 30 September 2020. LVB has a total CAR of 0.17% and the Tier -I ratio and CET-1 ratio are negative, as of 30 June 2020.

BWR has noted recent developments in the bank and shall continue to monitor the developments on the proposed amalgamation with the Clix group. The bank had received investor interest from the Clix group, comprising Clix Capital Services Private Limited, Clix Finance India Private Limited and Clix Housing Finance Private Limited, in June 2020, and the mutual due diligence was completed as of 15 September 2020. The proposed amalgamation is expected to address the concerns on the bank's capital, reduce net NPAs and initiate efforts to exit the PCA required for its business growth. BWR shall also continue to monitor the bank for any restrictions by the regulator on the servicing of the coupon or debt obligations on any of its existing bond issues, and this shall remain a key rating monitorable. The bank has met its coupon servicing due on BWR-rated bonds due on 30 September 2020, and the debenture trustee has confirmed its payment.

## KEY RATING DRIVERS

## CREDIT WEAKNESS

**Rejection of reappointment of seven directors of bank**

In the bank's annual general meeting on 25 September 2020, the bank's shareholders rejected the reappointment of seven directors of the bank, including the interim managing director and chief executive officer.

The bank's performance has been weakening since it was placed under PCA by the regulator and the bank's capital position, asset quality and overall profitability continues to deteriorate. Furthermore, the bank's proposed amalgamation with the Indiabulls group did not work out, and the deposits ran down to Rs.23,565 Crs in Q3FY20 and Rs.21,443 Crs in Q4FY20 (from Rs.27,864 Crs in Q2FY20). However, the bank has received investor interest from the Clix group to address concerns on capital, stabilised its run down on deposits to Rs.21,161 Crs as of 30 June 2020 and maintained the gross NPA at 25% levels. Notwithstanding the aforesaid, the shareholders' concern on having a stable capital and improving the performance of the bank remained underachieved.

**Weak capitalisation**

As of 30 June 2020, the bank's total CAR was 0.17%, with negative tier-1 and CET-1 ratios, and the capital adequacy ratios are critical for the banks' financial strength. A substantial amount of capital infusion is essential to address the concern. BWR expects a substantial capital infusion of ~ Rs.1500 Crs on the risk-weighted levels of 30 June 2020 to meet the regulatory requirement. The bank's weakening performance, incremental slippages from the corporate book, its impact on profitability, as well as the risk-weighted asset portfolio of the bank, may further increase the capital requirement. The bank's shareholders have given their approval to raise the authorised share capital to Rs.1000 Crs from Rs.600 Crs, subject to the RBI approval. The proposed investor, the Clix group, has also concluded its due diligence on the bank and has submitted its report. However, the continued interest of the investor and early infusion of substantial capital shall remain a key rating monitorable.

**Concerns on asset quality and earnings profile**

The bank's asset quality has deteriorated since the bank was placed on PCA. Gross NPAs increased to 23.27% in Q3FY20 and 25.39% in Q4FY20 ( Q2FY20: 21.25%). The bank's advances comprise the corporate book of 37%, retail book of 12% and MSME-rural-commercial book of 51% as of 30 June 2020. The bank's exposure to certain segments in the corporate book of power, FMCG and certain segments under the MSME and commercial remain a concern, and may result in incremental slippages. Going forward, incremental slippages from the existing book are likely to impact the profitability either through higher provisions or write-offs.

For Q1FY21, additions to the NPA of Rs.17 Crs are substantially low (Q4FY20:Rs.314 Crs). SMA2 accounts was Rs.38 Crs of the total SMA accounts of Rs.192 Crs. As a measure to overcome the COVID-19 impact, the regulator allowed a moratorium extension from 01 March 2020 upto 31 August 2020 and also provided a government-guaranteed credit line. The bank is

also making efforts to increase its credit exposure to lower risk weighted assets of gold loans, and pre approved government backed loans (Lakshmi Guaranteed Emergency Credit Line) to improve upon its credit risk.

The bank's earnings continue to remain weak with continuing losses over the last few quarters i.e. in Q1FY20 of Rs.237 Crs, Q2FY20 of Rs.357 Crs, Q3FY20 of Rs.334 Crs, though it earned net profits of Rs.93 Crs in Q4FY20; due to an increase in other income, the bank continued to incur net loss of Rs.112 Crs in Q1FY21. On an annual basis, the bank incurred a net loss of Rs.836 Crs for FY20, after a net loss of Rs.894 Crs in FY19 and net loss of Rs.585 Crs in FY18. BWR views that the restructuring of the existing asset book may prolong asset classification; however, concerns over its quality remain, which can impact the bank's earnings profile in the near to medium term.

## CREDIT STRENGTHS

**Adequate resources profile and liquidity**

The bank has a CASA deposits of 28% and retail term deposits of 68% of its total deposits as of 30 June 2020. The bank has reduced its bulk deposits by over Rs.5000 Crs on yoy basis as of 30 June 2020, and improved on its cost of deposits from 6.74% in June 2019 to 6.34% in June 2020. As per the bank's press release on 27 September 2020, the bank has an adequate liquidity, with LCR of 262%. As of 31 March 2020, the bank had LCR of 239.21%, cash and balances with the bank of Rs.1839 Crs, and gross investments of Rs.5749 Crs, of which SLR investments are Rs.4875 Crs.

**Coronavirus disease (COVID-19),** declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

## RATING SENSITIVITIES

**Positive:** The bank's ability to raise the regulatory required capital and exit from the PCA upon meeting the regulatory requirements shall be a rating positive for the bank.

**Negative:** A substantial decrease in the business as a result of any lending restriction and any further deterioration in the asset quality shall be sensitive for a further rating action. The recent exit of the top management and positions of prime importance lying vacant shall also be a rating sensitivity. Further, any restrictions on the bank by the regulator on the servicing of the coupon or debt obligations on any of its existing bond issues, shall also remain a key rating monitorable.

## LIQUIDITY INDICATORS: ADEQUATE

As per the bank's press release on 27 September 2020, the bank has a comfortable liquidity position, with an LCR of 262%, which is well above the regulatory requirement of 100%. As of 31 March 2020, the bank had LCR of 239%, cash and balances with the bank, of Rs.1839 Crs, and gross investments of Rs.5749 Crs, of which SLR investments are Rs.4875 Crs.

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

nil

## ABOUT THE BANK

**Background:** Lakshmi Vilas Bank, based in Karur (Tamil Nadu), was founded in 1926 and became a 'scheduled commercial bank' in August 1958. From 1974, it started expanding beyond Tamil Nadu. The bank has its corporate office at Guindy, Chennai. As of 30 June 2020, LVB had a network of 566 branches, 5 extension counters and 971 ATMs.

**KEY FINANCIAL INDICATORS** (in INR Crs)

| | Audited | Audited | Audited | UnAudited | Unaudited |
|---|---|---|---|---|---|
| **LVB-KEY Parameters** | **2018** | **2019** | **2020** | **Q1FY20** | **Q1FY21** |
| Total Deposits | 33,309 | 29,279 | 21,443 | 28,980 | 21161 |
| *Deposit Growth (in %)* | *9.02%* | *-12.10%* | *-26.76%* | | *-26.98%* |
| Gross Advances | 27,005 | 21,956 | 16,673 | 20,556 | 16310 |
| *Loans Growth* | *12.72%* | *-18.70%* | *-24.06%* | | *-20.66%* |
| Total Business | 60,314 | 51,235 | 38,116 | 49,536 | 37471 |
| *Business Growth* | *10.65%* | *-15.05%* | *-25.61%* | *-15.47%* | *-24.36%* |
| CASA Ratio % | 21.06% | 25.67% | 26.60% | 27.12% | 28.44% |
| Profitability Ratios (%) | | | | | |
| RoE | Negative | Negative | Negative | Negative | Negative |
| RoA | Negative | Negative | -2.59 | Negative | Negative |
| NIM | 2.38% | 1.65% | 1.56% | 1.65% | 1.58% |
| Net Interest Income (NII) | 791 | 560 | 428 | 124 | 91 |
| Non Interest Income | 347 | 250 | 351 | 53 | 96 |
| Operating Profits | 355 | -12 | -15 | -26 | 1 |
| Provisions (other than tax) & contingencies | 1306 | 1277 | 1147 | 212 | 112 |
| PAT | -585 | -894 | -836 | -237 | -112 |
| Cost to Income Ratio | 68.76% | 101.48% | 97.99% | 114.12% | 99.95% |
| Asset Liability Profile (%) | | | | | |
| Gross NPAs to Advances | 9.98% | 15.30% | 25.39% | 17.30% | 25.40% |
| Net NPAs to Advances | 5.66% | 7.49% | 10.04% | 8.30% | 9.64% |
| Std Restr. Assets as a % of Gross Advances | ** | 3.99 | ** | 0.19% | ** |
| Gross NPA% + Restructured (Stressed Advances) | 9.98%** | 19.29 | 25.39 | 17.49% | 25.40%** |
| Provision Coverage Ratio | 55.07% | 62.08% | 71.25% | 63.08% | 72.58% |
| CRAR | 9.81% | 7.72% | 1.12% | 6.46% | 0.17% |
| *Tier 1* | 8.05% | 5.72% | negative | 4.46% | negative |
| *Tier II* | 1.76% | 2.00% | 2.00% | 2.00% | 2.00% |

*** not available*

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -nil**

## RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

| S. No | Instrument | Current Rating | | | Rating History | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount (₹ Crs) | Rating | 2019 | 2018 | 2017 |
| 1 | Long Term bonds [lower tier II bonds under basel II] | Long term | - | - | - | Withdrawn on redemption (Rs.199.50 Crs) (24-Jul-2018) | BWR A-/ Stable Reaffirmed (31-Oct-2017) |
| 2 | Long Term bonds [lower tier II bonds under basel II] | Long Term | 50.50 | BWR B+/ Credit Watch with Developing Implications **Downgrade** | BWR BBB- / Credit Watch with Developing Implications Downgrade (21-Feb-2019)<br><br>BWR BBB- / Credit Watch with Developing Implications Reaffirmed (17-Apr-2019)<br><br>BWR BB+/ Credit Watch with Developing Implications Downgrade (09-Oct-2019) | BWR BBB+ /Stable Downgrade (24-Jul-2018) | BWR A-/ Stable reaffirmed (31-Oct-2017) |
| | **Total** | | **50.50** | **₹ Fifty Crores Fifty Lakhs Only** | | | |

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

**Hyperlink/Reference to applicable Criteria**

- General Criteria
- Banks and Financial Institutions
- Complexity levels of the Rated Instruments
- Basel III Compliant Instruments

| Analytical Contacts | Investor and Media Relations |
|---|---|
| Vydianathan R.<br>Director & Head - Financial Sector Ratings<br>Board:022-6745 6660<br>vydianathan.r@brickworkratings.com<br><br>Hemant Sagare<br>Primary Analyst<br>Board: 080- 4040 9999 Ext:333<br>hemant.s@brickworkratings.com | Liena Thakur<br>Assistant Vice President - Corporate Communications<br>+91 84339 94686<br>liena.t@brickworkratings.com |

# Lakshmi Vilas Bank
## Instrument wise details
## Annexure-1

| Type of Instrument | Issue Date | Amount Rs Cr | Interest Rate | Maturity Date | ISIN |
|---|---|---|---|---|---|
| NCD/Bonds<br>Long Term bonds<br>[Series VII - B]<br>(lower tier II bonds under basel II) | 10-Feb-2012 | 50.50 | 11.40% | 10-Feb-2022 | INE694C08047 |
| **Total** | | **50.50** | **INR Fifty Crores and Fifty Lakhs Only** | | |

**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings** : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.