



LAKSHMI VILAS BANK

Secretarial Department

CIN L65110TN1926PLC001377

Ref/Sec/205 & 266/64/2018-2019

June 06, 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: (i) INE694C08047, INE694C08054, INE694C08062 & INE694C08070
(ii) Our Letter Ref/Sec/205 & 266/60/2018-2019 dt. June 4, 2018

In compliance with the applicable regulations of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, we had informed about the revision in rating assigned by the Credit Rating Agency, M/s. Credit Analysis and Research Limited (CARE) vide letter dated 01.06.2018 from "**CARE A-**" (**Single A Minus**) to "**CARE BBB+**" (**Triple B Plus**) 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 and Rs.100 crores respectively vide our letter dated June 4, 2018.

In line with the same, the rating rationale provided by the rating agency for downward revision of rating is enclosed.

Thanking you,

Yours faithfully,

N Ramanathan
Company Secretary



Encl: As above.

The Lakshmi Vilas Bank Limited

June 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Lower Tier II Bonds	50.50 (reduced from 250.00)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Tier II Bonds (Basel III Compliant) –I	78.10	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Tier II Bonds (Basel III Compliant) –II	140.10	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Tier II Bonds (Basel III Compliant) –III	100.00	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
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 higher than expected deterioration in the asset quality parameters during FY18 (refers to the period April 1 to March 31) and its impact on the profitability. Same resulted in capital adequacy ratio (CAR) declining below statutory requirement as on March 31, 2018 despite bank mobilising fresh equity of Rs.787 crore in January 2018. The bank reported GNPA and NNPA of 9.98% and 5.66% respectively as on March 31, 2018 as against 2.68% and 1.76% respectively as on March 31, 2017. With higher provisions for NPA of Rs.1,302 crore, the bank reported a net loss of Rs.585 crore during FY18 and CAR moderated to 9.81% as on March 31, 2018 as against the regulatory requirement 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 and relatively low proportion of current account & savings account (CASA) deposits.

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

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.

Outlook: Negative

The negative outlook on rating reflects the expectation of the incremental provisions impacting the profitability and capital adequacy levels of the bank. In view of the same, timely mobilisation of capital is critical in the near term. 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 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 8.99% as on March 31, 2018. As on March 31, 2018, the bank had a network of 548 branches and 1020 ATMs.

Growth in business during FY18

During FY18, advances grew by 9% from Rs. 23,729 crore as on March 31, 2017 to Rs. 25,231 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. Credit deposit ratio stood at 77.36% as on March 31, 2018. The proportion of current account and savings account (CASA) is relatively low but has improved in FY18. 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.

Key Rating Weaknesses**Net loss reported in FY18**

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, increase in operating expenses and decline in non-interest income 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 incremental provisions on existing NPA accounts along with fresh slippages during the year and remaining provisions to be made on MTM losses on investments is expected to have an impact on profitability in the near term.

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), RBI referring few accounts to NCLT, 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 during the year. 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

Capital adequacy below regulatory requirement

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 during January 2018. With the bank reporting higher than expected loss during Q4FY18, LVB reported a capital adequacy of 9.81% as on March 31, 2018 as against the regulatory requirement of 10.875%. However, the Tier I capital stood at 8.05% as on March 31, 2018. In view of low capital adequacy levels and phased increase in minimum CAR (Total CAR of 11.50%) as per regulatory requirement, timely mobilisation of capital to augment its capital adequacy 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.

For Y.E./ As on March 31,	FY16(A)	FY17(A)
Total Income	2,873	3,349
PAT	180	256
Net Advances	19,644	23,729
Net NPA (%)	1.18	1.76
ROTA (%)	0.68	0.81
Capital Adequacy Ratio	10.67	10.38

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.careratings.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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	10-02-2012	11.40%	10-02-2022	50.50	CARE BBB+; Negative
Bonds-Tier II Bonds	24-03-2014	11.80%	24-03-2024	78.10	CARE BBB+; Negative
Bonds-Tier II Bonds	30-09-2015	11.50%	30-09-2025	140.10	CARE BBB+; Negative
Bonds-Tier II Bonds	09-06-2017	10.70%	09-06-2024	100.00	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 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 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 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 A-; Stable (07-Jul-17) 2)CARE A-; Stable (09-Jun-17)	-	-

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