



“Lakshmi Vilas Bank Limited Q4 FY18 Results
Conference Call”

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EXECUTIVE OFFICER
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MR. RM MEENAKSHI SUNDARAM – HEAD (CORPORATE
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MR. PP NARAYANAN – HEAD (MSME)
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Moderator: Ladies and Gentlemen, Good day. And welcome to the Lakshmi Vilas Bank Limited Q4 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. P Mukherjee – MD & CEO, Lakshmi Vilas Bank. Thank you and over to you sir.

P Mukherjee: Good afternoon Ladies and Gentlemen and welcome to the Lakshmi Vilas Bank Earnings Call. I have with me here my colleagues to assist me Mr. S Sundar – Chief Financial Officer, Mr. RM. Meenakshi Sundaram – the Head of Corporate Banking, Mr. Narayanan – Head of MSME and Mr. R. M. Kumarappan – the Head of Recovery. They will assist me in the call today.

The last year has obviously been one that has seen banks being moving around quite a bit and it has been rollercoaster ride for the entire industry. We started the year on a positive note with a lot of good work done being in the after math of demonetization, the RERA overall and the GST implementation, but industrial production continues to nose dive, and this has affected the primary as well as ancillary industry. Along with stock the flow in terms of assets book has increased and this has affected the regulated credit ecosystem. Top side was of course the orientation towards digitalization of economy which I am sure will reap benefits in the years to come.

I will come to some of the numbers straight away. I imagine that the press release is with you already and you would have the results. The business mix of the bank stood at Rs. 60,314 crores against 54,512 crores last year. The balance sheet size stood at Rs. 40,429 crores. The lending book was at 27,005 crore reflecting growth of 12.07% over the corresponding period in the previous years. Deposits grew 9.02% to Rs. 33309 crores out of this CASA grew 20.14% to Rs. 7015 crores which is a growth of 21.06% and I must also say this is a yearend number. On a daily average basis, the CASA for the year was at 19.39%. It may be noted that the daily average number for the corresponding quarter of the previous year was 17.50%. The total revenue for the quarter came in Rs. 740.90 crores against Rs. 864.99 crores in the previous year this is a drop obviously of 14.3%.

Some of you would recollect that earlier last year I had specifically indicated that we had two major areas of focus. One was the credit watch list and the other was the CASA balances. Thanks, in very large measure to the events over the last one year. A very large part of the watch list has now slipped. I had indicated to you at the beginning of the year that our watch list was at Rs. 2500 crores. As I had said these were restructured accounts as well as S4A, SDR and so 525 and so on. I must tell you that out of that watch list about 2100 crores have now slipped during the year. If at all I were to look at that watch list today it consists of about 19 accounts adding up to about Rs. 400 crore. None of these accounts are of Rs. 100 crore or more.

I think I had now reached the stage when I can confirm to you that for the bank the worst is now behind us. Incremental stress is likely to be very small. The operating profit fell very sharply resulting in an operating loss of Rs. 69.25 crore for the quarter. Net interest income for the quarter came in at Rs. 120.47 crores against 227.81 crores in the previous year. Our net interest margin for the year was 2.38% for the year. Other income dropped to Rs. 38.28 crores against Rs. 131.43 crores in the corresponding quarter of the previous year. This is mainly on account of loss from the investment portfolio. Operating expenses for the quarter grew 26% to Rs. 228 crores. I now give you some number on provisions. Provisions other than tax for the quarter were Rs. 921.41 crores.

This is a sharp rise from the number of 108 crores in the corresponding period of the previous year. Obviously, the combined impact of the fall in income and the additional provisions have severely impacted the bottom line. We are reporting a net loss of Rs. 622.25 crores for the quarter as against profit of Rs. 52.16 crores in the previous year. The gross NPA is 9.98%. Sequentially it is up from 5.66% in December. Net NPA is at 5.66% up against from 4.27% in December. However, the provision coverage ratio which is at 55.07% and down from 59.51% last year but improved from 46.75% in December last year.

The slippages are mainly on account of shifting of some of the restructured accounts to substandard status as well as normal slippages that have happened in the course of the year. Out of the slippages NCLT cases come to around Rs. 584 crores. There is one account in the gems and Jewelry sector of about Rs. 30 crores which was declared as a fraud. As a consequence of the drop-in income the cost to income ratio for the quarter was 143.62% and for the year came to 68%. We ended the year with CET one common equity Tier-1 at 8.05% within the overall capital adequacy of 9.81%. Some statistics of course routine the number of branches is now 548 and we have 1020 ATMs across 19 states and union territories.

Before I end, I must mention here that the year has obviously seen terrible toll being taken on the lending book, but the comforting factor now is that the bulk of the stress is now behind us. We do also expect to see during the current year significant recoveries from the slippages that we have seen in the immediately preceding year and we have necessary comfort that a fair part of the slippages will in fact be recovered. Recoveries are obviously likely to be from various sources some through direct recovery from the borrowers, some through sale through ARCs and some through NCLT resolutions that will happen. My sense is as I said earlier that the worst now is behind us.

The bank is focused on raising fresh capital. We are engaged with some investors and at some point, to time when we are close to solution we will of course be making the appropriate announcements. It is my sense that this year significant amount of capital would be raised and that should serve us for the next couple of years as we focus on our business plan for the next three years. I will stop here, and I would be glad to answer any questions that you might have.

Moderator:

Ladies and Gentlemen we will now begin the question and answer session. We have the first question is from the line of Ravikant Bhatt from Emkay Global. Please go ahead.

- Ravikant Bhatt:** Sir, could you share how much of interest you might have reversed during the quarter?
- P. Mukherjee:** 96 crores odd.
- Ravikant Bhatt:** I missed your comment on the watch list, what did you say I mean most of what you had identified has slipped or is there anything left to slip?
- P. Mukherjee:** My watch list is now down to about 400 crores.
- Ravikant Bhatt:** You still have 400 crores if I recollect correctly you had said that you would expect all of it to slip entirely does that still hold I mean?
- P. Mukherjee:** I cannot say that at all times because times might change and some of these might actually escape so get upgraded in due course. So, I would not deliver judgment that way, but one always has to keep a very close watch on these, so they continue to be in the watch list.
- Ravikant Bhatt:** You expressed optimism on the recoveries in during FY19, if you could just throw some more color where is this hope coming from the same accounts which slipped during FY18 you said?
- P. Mukherjee:** Many of these would be account that would have slipped in FY18 some that might have slipped earlier. Some of these are also are once where I have significantly provided for and there seems to be a lot of interest now amongst ARCs and others to buy assets and I must say that I have had significant success in selling a lot of assets purely in cash during the previous year. So, I do hold out a lot of hope there and my sense is that this could be a great year for us as far as assets sales are concerned. I do expect to significantly reduce my stock of NPL.
- Ravikant Bhatt:** Sir, one last question on the fees, if you could just talk net off trading profit I think there were lot of low hanging fruits that you are hopeful of you know converting into fee opportunities where you had talked about relationship where you had lending relationships, but not much of fee relationship, what kind of progress you have made on that and how do you see these particular line item in FY19 to evolve?
- P. Mukherjee:** I must tell you that other than fees other than treasury were relatively flat during the year, but that is primarily on account of the fact that my credit book as such did not grow much. You will appreciate that for large parts of the financial year I was hobbled as far as capital was concerned and the capital that I raise in the right issuance was affectively booked only in the first week of January this year. So for at least three quarters I had no opportunity to really aggressively grow the book. We began growing the book in January and to that extent we were at least not able to book as much of business as we could have. But nevertheless, what is comforting is that scope has changed and today a lot more of LCs and guarantees are being seen. These proposals we never used to see earlier.
- Similarly, of course I find that there is a lot more traction as far as sale of third party product is concerned where I think we grew about 40% last year.

- Moderator:** We have the next question is from the line of Jitendra Upadhyay from Bonanza Portfolio. Please go ahead.
- Jitendra Upadhyay:** Could you tell me how much of your slippages slipped outside of your watch list?
- P. Mukherjee:** Out of the total slippages I would have said about 200 crores would have slipped from outside the watch list. These are all tiny accounts that would have added up. There would have been a large number of accounts, but these would add up to about 200 crores.
- Jitendra Upadhyay:** What kind of gross NPA you are looking for next year by the end of next year?
- P. Mukherjee:** FY19 end I would have done a very bad job if I were not to bring it down by at least 200 basis points.
- Jitendra Upadhyay:** So you are looking for gross NPA of around 7%?
- P. Mukherjee:** That is right 7 to 7.5 the most should not be worse than that.
- Jitendra Upadhyay:** What kind of capital raising plans is there any amount you can share with me?
- S. Sundar:** I would not like to put a number but let me put it this way that the amount would be very significant in my sense. In terms of the engagement that I have had with investment bankers and with prospective investor. My sense is it would have to be a significant capital raise you can yourself estimate considering the sort of slippages that I have. So, sort of growth capital I would require. I hope in the near future we would be able to make some announcement, but at this present moment I am unable to specify anything.
- Jitendra Upadhyay:** In last few quarters you were telling about retail portfolio you want to increase your retail portfolio, what is the steps you have taken in last one year for to increase the sales?
- P. Mukherjee:** Let me mention some of the steps we have taken to grow the retail business. In the first place we have setup now separate teams that are handling the retail business. We have set up direct sales team for acquiring business. Our sense is as the business stabilizes about a third of the new acquisition will come through branches, about a third will come through the direct sales team and about a third will come through references and dealers and so on. And this is beginning to happen already, and we have setup retail assets centers in Bangalore and Chennai and we hope to set up three more very soon during this year. And separate retail assets management center will be created soon to handle the back end of operations for us so that the branches will be largely left to act as sourcing centers for us.
- Jitendra Upadhyay:** Is there any branch addition plans you have in mind?
- P. Mukherjee:** I intent to consolidate the business this year and I am not really focusing too much on adding branches, but what we will in fact be doing is remodeling a large number of our branches to take advantage of the digital revolution that is going through banking. A whole lot of branches

will in fact be converted to what will be affectively digital branches for us and the idea and the focus would be to increase the digital footprint of the banks. I must confess that today 2/3rd of the business is still non-digital route for us of only about a 3rd of the transactions are through the digital route the intention is to significantly improve upon that. So we will be putting in a lot of cash dispensers and cash deposit machines the recyclers effectively in the branches. Effort will be to move a lot more of the business away from the cash counter to the automated options and then that will also result in us not requiring large branch premises going forward.

- Jitendra Upadhyay:** Could you provide me what kind of credit growth you are looking for FY19?
- P. Mukherjee:** For FY19 my sense is our growth will be in the region of 20%.
- Jitendra Upadhyay:** Mostly from retail or corporate?
- P. Mukherjee:** Frankly I cannot ignore the corporate bank yet. So my sense is the corporate bank will continue to deliver the bulk of my growth so far.
- Jitendra Upadhyay:** So going forward corporate will lead the growth, right?
- P. Mukherjee:** Corporate will continue to leader for the present. What we are doing of course is limiting the size of tickets individual loan tickets should be made smaller and more manageable for us, but nevertheless the corporate bank will continue to be the main stay though, there will be obviously lot more increase focus on SMEs and retail.
- Jitendra Upadhyay:** You are planning to launch a credit card business, so what kind of steps you have taken for the same?
- P. Mukherjee:** The credit card will have to wait for a while, as you can understand those are personal loans and our sense is as far as retail is concerned our effort will be to gradually go up the risk curve. So we have started largely with home loans and LAP transactions, gradually we go up into two wheeler, four wheeler financing also and then get into consumer durables and then effectively into unsecured personal loans and that is roughly when you will see our credit card also coming. I cannot see that happening in the next three years.
- Jitendra Upadhyay:** So in next three years you will not see a credit card?
- P. Mukherjee:** Unlikely, that I will have my own credit cards. I could have relationships with others, but it is unlikely that it will be my own card.
- Jitendra Upadhyay:** What kind of CASA target you are looking for next year?
- P. Mukherjee:** My CASA should hopefully reach 23% next year end.
- Jitendra Upadhyay:** And NIM will be stable at this level?

- P. Mukherjee:** This year my NIMs have been affected on two counts really partly on account of the fact that the credit book was hobbled with NPLs since I am going to aggressively work on NPL recovery that will reduce the stress on the interest income to some extent. And moreover, we are trying to at least build assets right from the beginning. I would be happy if I were to report NIMs in the regions to 2.5 to 2.75.
- Moderator:** We have a next question from the line of Amit Singh from Batlivala & Karani Securities Limited. Please go ahead.
- Amit Singh:** Actually, I joined a bit late, so you can give me the number of slippages recovery, write-off, upgradation as well as the margin for this quarter?
- P. Mukherjee:** You are asking number of things. I will give you one by one. Let us get into slippages that a flavor of a season in any case. So we will handle that first. So this quarter I had total slippages of 1608 crores actually and there was recovery of 341 crores. And out of the 341 crores actually 215 odd crore was cash recoveries.
- Amit Singh:** Write-offs and upgradations?
- P. Mukherjee:** I have about 51.66 crores of upgradation and there was just one write-off of 6.40 crores.
- Amit Kumar:** What was the NIM?
- P. Mukherjee:** Quarter NIM was 1.34.
- Moderator:** We take the next question from the line of Alok Shah from Centrum Broking. Please go ahead.
- Alok Shah:** I have a couple of books keeping question, could you please help me with our RWA numbers?
- P. Mukherjee:** Risk-weighted-assets is 23923 crores.
- Alok Shah:** Sir, Tier-1 capital if you could help me that?
- P. Mukherjee:** My Tier-1 is 1926.
- Alok Shah:** We kind of talked about 1680-odd crores of slippages for this quarter and for full year we were at close to 2979 crores of slippages. Now if I try and break this down 2979 minus 2100 which is portfolio of 2500 crores of watch list or 2100 crore slipping into NPA you are talking about normalized slippage of 200-odd crores is that right?
- P. Mukherjee:** That is correct.
- Alok Shah:** That is actually a good number to look at, that number in your mind, what would be the slippage run rate that we will now envisage for FY19?

- P. Mukherjee:** It is like this Alok first of all, my watch list is now down to about 400 crores. This constitutes some 19 accounts and for obvious reasons you will realize that none of them are over 100 crores. As far as the watch list is concerned I have given up predicting when they will fall, they will fall when they will fall. Now leaving that aside on the SME and retail books slippages could always happen. So, what I will say is my sense is that it is not likely that this year total slippages could be unlike the previous year could be a more manageable number of say 350 to 400 crores.
- Alok Shah:** 350 to 400 crores annualize does it still match up because a good part here is that of that total slippage of 3000 odd crores for the year?
- P. Mukherjee:** I am expecting that not everything from the watch list will fall.
- Alok Shah:** You talked a very strong recovery this quarter of 341 crores of which 215 is cash recovery, what is the nature of that tell me because this is a good amount I understand slippage is there, but 215 crores of cash equivalent itself is a big number, was it more of granular account or how was it some sense of it?
- P. Mukherjee:** Well, actually it is mix of both. So there is one biggish number which is of course one famous steel accounts that the entire market is talking about. So leaving that aside, the other numbers some small number adding up.
- Alok Shah:** NCLT is 584 crores of cases, what is the number of cases and what is the provision has against this demand?
- P. Mukherjee:** Actually, I stand correct it 458 actually is pure NCLT. Some of those others are 12 February casualties.
- Alok Shah:** So what is that amount please?
- P. Mukherjee:** So that would come to about 126 crores and you asked me about provisions. Well I am quite happy to say that at least it should be 50% or more provided on this.
- Alok Shah:** On the NCLT cases.
- P. Mukherjee:** Yes.
- Alok Shah:** So this is one end to both right sir?
- P. Mukherjee:** That is correct.
- Alok Shah:** Sir just one thing we have always talked about watch list which also include SMA-2 is that understanding right?
- P. Mukherjee:** That is correct.

- Alok Shah:** That is where because I am just trying to look at 60, 80 crores of slippages for this quarter and then you will have 126 crores only which is not even 15% from RBI circular assuming 458 crores is the NCLT cases, so we have kind of also recognize a substantial part of SMA-2 portfolio in to NPA this quarter.
- P. Mukherjee:** Yes, a lot of it has happened.
- Alok Shah:** Could you put some number there as well because I know it is a moving stock?
- P. Mukherjee:** My challenge is that is difficult for me to put it that way and quite frankly it is a very large number Alok. It is not as if just one or two accounts that have slipped very large number have fallen actually in the process and it all sorts.
- Alok Shah:** Last question how is the stock of restructured portfolio now?
- P. Mukherjee:** Alok actually 76 crores is all I have.
- Alok Shah:** Just one thing you talk of that slippage of 400 odd crore for next year, is there some sense on how the recoveries will pan out?
- P. Mukherjee:** I would be very disappointed if I want to recover less than let say 1200 crores to 1300 crore next year.
- Moderator:** We have next question from the Kaustav Kakati from DHFL Pramerica. Please go ahead.
- Kaustav Kakati:** You had mentioned in your opening remarks that other income figure of 38 crores obviously contain the significant loss from investments which I am assuming is from the fixed income book, would you able to quantify that amount sir?
- P. Mukherjee:** The loss from the fixed income book yes, we can. Trading losses came to about 135 crores for the year.
- Kaustav Kakati:** What would be the corresponding figure for the quarter?
- P. Mukherjee:** Look I will correct that for Q4 the trading loss is 34 crores and for the year the number is 64 crores profit.
- Kaustav Kakati:** I had another question basically last time around you had sort of hinted that there was expected recovery of fraud account, so can we assume that has also been a part of the 300-odd crores that you recovered?
- P. Mukherjee:** No, I am afraid not. I have not been successful there.
- Kaustav Kakati:** So that is still pending?

- P. Mukherjee:** That is correct.
- Kaustav Kakati:** The recovery for the next year when you are talking about 1200 to 1300 crore, so we would be assuming that you will be accounting for this particular accounts also?
- P. Mukherjee:** Obviously, we build in all the numbers and that particular account was about 80 crores. It is all in the port you can understand.
- Moderator:** We have the next question from the line of Amit Singh from Batlivala & Karani Securities Limited. Please go ahead.
- Amit Singh:** Just wanted to know from which sector the slippages have come, any major sector?
- P. Mukherjee:** Primarily infra and metals were the main ones. So out of the total percentage terms if I were to give it to infra was 26% and metals was 22%, mining was 5 and textile was 5.
- Moderator:** Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. Mukherjee for closing comments. Over to you sir.
- Mukherjee:** Thank you once again. Well, it has been obviously a very difficult quarter, but the silver lining that I highlighted right at the beginning was the fact that now we can claim with some degree of confidence that the books are now relatively very clean. So, my business teams are now at least a less hobbled as they go into the market to starve for new business. We do hope to equip them with appropriate levels of capitalization very soon. So, we are in the process of putting together our plans and my sense sooner rather than later we will be adequately capitalized to serve our requirements for the next 2 to 3 years.
- Moderator:** Thank you very much sir. Ladies and Gentlemen on behalf of Lakshmi Vilas Bank Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.