Lakshmi Vilas Bank Analyst Meet at Mumbai

May 05, 2016

Moderator: Good Afternoon, Ladies and Gentlemen, I Welcome you all to the Analyst Meet of Lakshmi Vilas Bank. Before we begin the proceedings, let me introduce you to the members on the dice. In the center we have Mr. Parthasarathi Mukherjee – Managing Director and CEO; to his right we have Mr. Palaniappan -- Chief Financial Officer; to his extreme left we have Mr. Vidyasagar -- President Retail Banking; to his extreme right we have Mr. Meenakshi Sundaram – he Heads the Wholesale Banking; along with these gentlemen we also have Mr. R. K. Gurumurthy – Senior Vice President, Treasury and Mr. Sudhir Kaushik – he is Senior Vice President and he heads region Mumbai.

I would like to welcome you all and begin the proceedings. Our CFO will make Investor Presentation. We will round of question-and-answers towards the end of the presentation. Sir.

Palaniappan Manickam: Good Evening to all of you. We are very happy to meet all of you once again here. As we did in the last March 2015, I think many of you have attended the meeting what we had in March 2015, the same Nariman Point Trident.

Every quarter we have been answering the various queries raised by the analyst and investors over conference calls. For the annual year end result we thought it is better to meet in person so that, one to one discussion will be more frank and will give you a lot of more confident about the happenings in the bank. That is why we have again made it point to meet you here. We released our results on 27th, in fact we had originally planned to have this meeting on 29th but unfortunately, because of non-availability of the venue the meeting got postponed by few days.

First, I will give you a small presentation on the financial results and also on some other points. In case, you have any questions you can just make a note and after that you can raise the questions. All of us will be in a position to answer you, to your satisfaction.

This is the introduction which all of you will be familiar, the Bank was started in 1926 and this is the 90th year of the bank and in another ten years, we will be celebrating our centenary year. Right now we have 460 branches out of which in this year we open 60 branches, last year we had 400 branches and this year we opened another 60 branches so totally we are 460 branches and 910 ATMs.

Business size has grown by nearly 18%, CAGR if you take it is 17% year-on-year it is annual growth of 18% reaching total figure of Rs. 45,200 crores and deposits grew by 16% and advances grew by 18%.

In the current year, the Bank registered an operating profit of Rs. 407 crores and a PAT of Rs. 180 crores. As you will find from the graph, the CAGR it is 17% on the business side and on the key efficiency parameters you will find that NIM despite the volatile interest regime, it has been almost stable FY14 it was 2.87 and FY15 it was 2.72 and marginally it went up to 2.78. As we know the main reason for increasing the margin despite a successive reduction in our lending rates it is mainly because of our increase in the CASA percentage, number one; number two, we have been taking steps to control our high cost deposits and also successive reduction in the deposit rates also.

Capital adequacy ratio you will find that Tier-I it is at 8.69 compared to FY15 it has come down because of the increase in the volume of business it has come down to 8.69% and as you will recall, in FY15 we had a rights issue by which we mobilized 406 crores because of which Tier-I was comfortable in FY15 at 9.33. Now, during this year since we have not raised any further capital and neither in Tier-I or Tier-II it stands at 8.69 and Tier-II at 1.98. So both put together the total is 10.67.

Net NPA on annualized basis if you find from 2015 to 2016, FY15 it was 1.85 and now it has come down to 1.18%. Similarly, gross NPA ratio also has come down from 2.75% to 1.97%. You will see in the subsequent slides compared to the first three quarters fourth quarter there has been an increase which you will see in the subsequent slides. Business per employee there has been I mean a consistent increase; FY15 it was Rs. 108 million which has gone up to Rs. 124 million.

This is statement of our vision and mission. To be a sound and dynamic banking entity providing financial services of excellence with the Pan India presence that is our vision. Accordingly, the mission has also been defined.

Coming to the presence of the branch network, you will find a little above 50% is concentrated in Tamil Nadu. Out of 460 branches, 257 branches is concentrated in Tamil Nadu. Next to Tamil Nadu you will find Karnataka and Andhra Pradesh, these two come very closer, Andhra Pradesh 48 and Karnataka 47. If you take the combined Andhra that is Telangana and Andhra Pradesh it will be 77 so, the third largest will be Karnataka. This year also we will be expanding our branches and about our future plan our, MD & CEO – Mr. Parthasarathi Mukherjee he will be talking to you and the future expansion plan. And coming to the business size region wise you will find again Tamil Nadu tops 50% of the business comes from Tamil Nadu. Next is Karnataka 15% we have then Maharashtra about 13% we have then the other states around 5% and 6%.

Coming to the category of branches, 17% remains in metro, urban 28%, semi-urban 32% and rural 23%. In a similar way almost in a similar way we will find the customers also it is spread over we have in metro about 14%, urban we have same 28% as the size of the branches, semi-urban we have 41% and rural we have 17%.

This is the shareholding pattern as of 31st March, 2016. Largely it is held by the public that is 74% is held by public. Promoter's share it continues to remain at the same 9.66%, FII holding remains at 11.64% and institutional holding is a smaller amount 4.38%. The book value is nearly Rs. 89. If you take the adjusted book value it will be Rs. 78, EPS Rs. 10.5.

About our highlights, I think you are all familiar with this, it is a very strong South India focused Bank. Our brand loyalty is so strong in the southern part even if the interest rate is a little competitive with other banks our customers will not move to those branches so that is the kind of loyalty we have on the southern side.

Similarly, the business and growth record you will find that in last eight decades we have been able to show a continuous consistent growth without much fluctuations. With the well diversified retail book, we are able to show a good growth in retail and also MSME business. Last two years we have shown a good growth in retail and MSME.

In risk management control, we have made a lot of improvements and the risk control has been appreciated by the regulator also. Similarly, on technology platform, you will find all new latest products are available with us. Any kind of new thing like mobile banking, mobile banking we launched this year so, all sorts of technological improvements we have ensured that it is available with the bank. And we have strong management expertise apart from the LVB own employees we also brought in experts from other banks who have very strong expertise and depth of knowledge in certain specified areas because of that leadership we are able to show a good progress in the respective areas.

Coming to CASA, you will find that there has been consistent growth, as you will find from FY12 to FY16 from 14.9% it has gone up to 17.4%. Of course the numbers what we have shown here is the year end level. Apart from this the average level has been fluctuating, average level may not be to this level but even then average level have also improved correspondingly.

Cost of deposits as I mentioned a little earlier, continuously it has come down for two reasons, one is the CASA improvement; another one the reduction in deposit rates along with a control on high cost deposits. Cost of deposits it has come down to 8.2%, but our new MD&CEO is repeatedly telling this 8.2 is also too high and he has drawn plans to bring down this substantially so that, we are able to compete in the lending regime.

Coming to the geographic break-up of deposits. It is almost on the same size I mean as we saw the total business here also you will find from Tamil Nadu we get over 50% nearly 51% comes from Tamil Nadu combined Andhra and Telangana will be around 10%, Karnataka 14% and Maharashtra next it comes around 14%. CD ratio you will find there has been a sharp increase this time it has gone up to 78% because of the tight control on the surplus funds we have and reduction in high cost deposits we have been able to reduce the inflow of deposits and with some refinance we have been able to show a good growth in advances. So the CD ratio has gone up from 75% to 78%.

If you take only savings deposits, there also you will find that the growth is so good the CAGR growth rate is around 19%. From Rs. 1,382 crores in FY12 it has gone up to Rs. 2,779 crores that is over a period of five years it has doubled. Similarly, in current deposits also the CAGR growth is 23% from Rs. 722 crores in the FY12 it has gone up to Rs. 1,636 crores in FY16. And in the term deposits also you will find retail term deposit has shown a very good growth. Retail deposit contributes well to the accretion of deposits. In the deposit mix you will find, retail term deposits, 64% is the share of retail term deposits. Bulk term deposits, it constitutes 18%. Savings bank 11% and current account 6%.

Coming to advances, the CAGR growth comes to 18%. Here also you will find the major contribution is from Tamil Nadu nearly 46%, Karnataka 15%, and Maharashtra 13%. Here you will find, the composition of advances you will find agriculture 16%, SME 28%; SME it has shown a very good growth, retail 13% and wholesale 43%.

Here, I have to give you a small explanation. See in this retail and wholesale some small changes have been this year as you will find from the data what we have given earlier and the present one there is a small change. Two changes - three changes have been made, one change whatever, whatever we had lend against deposits that is the loan against deposits earlier we had grouped the entire loan against deposits and the retail, because we have taken a view that there my exposure is against my own deposit not against anybody. For example, if I lend a loan, if I lend money against term deposit held by a corporate say let us say Reliance. I am not taking an exposure against Reliance, I am taking an exposure only against my own deposit. So whatever be the constituent or whatever be the borrower whatever be the status of the borrower, we had grouped the entire thing as an exposure and a retail.

Now, we have reclassified, if the loan has been taken by a corporate we will put it under wholesale. If a retail fellow has taken loan, we have put it under retail so changes happen there.

Another thing similarly on this Lakshmi Business Credit, a very successful product in our bank where we lend to business people with collateral 100% collateral security, there also we have made a change depending on the amount if the borrower is a corporate we will put it under wholesale, if he is not a limited company we will put it under retail or SME. Earlier, whatever was falling under MSME definition, we had grouped it under MSME so, to that extent there is a variation in the previous one and the present one.

Coming to yield and advances, as I said earlier there has been a continues reduction interest rates. This year loan we have reduced our base rate by 70 basis points so because of which there has been a continues fall in the yield from 12.8% in FY15 now it has fallen down to 12.2%. But despite fall in yield it has been compensated by a reduction in the deposits so that is why NIM has marginally gone up.

Here you will find the composition of working capital and term loan it remains almost the same level 64% of our advances is through working capital loans and only the 36% it constitutes term loans. Asset quality 98% of the assets are standard assets sub-standard is 1.08 and the remaining and all it is less than 1% doubtful one is just 0.21, doubtful two 0.34m doubtful three is almost nil, loss asset is 0.34.

Coming to advances distribution, you will find that it is very fairly distribution that is no concentration on any one particular industry. Here you will find that services it constitutes 35% so that is why a break-up is given there. Out of 35 trade constitutes 16%, commercial real estate 6%, NBFC 5% and the remaining are the residual category comes to 6%. Otherwise in the industry if you take the top most one it is infrastructure which accounts for 7% again, under infrastructure transport roughly 2%, energy 3%, others 2%. The next one is textile 4%, metal and metal products 4% remaining and all is around just 1%.

Coming to retail advances, you will find this is the distribution. The major part as I said it is Lakshmi Business Credit which is a very successful product in our bank and NPA I can say almost nil. We get good yield also here, here the loans collateralize deposits constitutes 30% which fall under retail definition. Remaining you will find a very smaller portion only, say for example you will find auto loan just 1.24%, housing 7%, gold loans which does not fall under agriculture definition it comes to 5.23%. Then wholesale advances, you will find there is an increase Rs. 6,174 crores to Rs. 7,090 crores. Agriculture we have been able to maintain the stipulated minimum requirement of 18%.

Coming to asset quality, you will find that gross NPA, quantum wise gross NPA from Rs. 454 crores it has come down to Rs. 391 crores, percentage wise from 2.7% it has come down to 2%. Similarly, net NPA from Rs. 302 crores it has come down to Rs. 231 crores, and 1.8% has come down to 1.2%.

Here if you take the industry wise grouping, the major share comes under metal and metal products it constitutes nearly 16%, food processing 13%, mining 12%, chemical 7%, textiles 3%, paper and paper products another 3% then remaining and all less than 2%. So here you will find gross NPA it has come down from 2.7 to 2. It is mainly because one is recovery, the recovery what we have made, up gradation what we have made apart from that to take tax benefit we have made some technical write-off because of that also there has been a reduction in the gross NPA level.

You will find the movement of NPA here, FY16 if you take the opening balance it was Rs. 454 crores additions was Rs. 196 crores. You can see the previous years FY13, it was Rs. 400 crores FY14 Rs. 668 crores, FY15 it was Rs. 256 crores, so FY16 I would not say 196 is nothing, but if you compare from the past 196 is less than whatever was the addition as compared to the earlier year.

Reduction during the year also it has come down a little Rs. 582 crores was in FY14, FY15 was Rs. 348 crores, FY16 Rs. 260 crores. Here FY14 and FY15 we had made a large amount of sales to ARC. In FY16, the sale was much less, in FY16 also sale was made but much less.

Then coming to restructured assets, we will find that the total amount it has come down from the standard restructured asset it has come down from Rs. 1,133 crores to Rs. 899 crores. In terms of percentage from 6.86% it has come down to 4.58%.

Sector wise if you take the restructured assets, as all of you can easily predict, iron and steel is the largest one; 24.47% is the largest one. Next is infrastructure 15.48%, then third one is metal and minerals 8.79%, engineering it comes to 6.83% then food processing 5%.

This is the NPA position category wise. The wholesale advances, the NPA at one point in FY14 it was 8.4% the very largest NPA contribution was from wholesale advances, that has gradually come down from 8.4% to 5.6% now it has still come down to 3.9%. Similarly, in retail also there has been continuous reduction from 1.6 it has come down to 0.9, 0.9 has come down to 0.6. SME also it has come down to 1.8 and agriculture almost nil, it is only half a percent.

Net interest income as you can see in the last four quarters of 2016 continuously there has been an increase from 145 it went up to 160 then 167 then it has gone up to 172. So every quarter there has been a growth. Profit after-tax also, all the four quarters there has been a consistent increase. So sequentially you will find a growth every quarter, Rs. 40 crores went up to Rs. 44 crores then it went up to Rs. 46 crores then it has gone up to Rs. 49 crores.

If we take ROA, ROA also every quarter there has been a good increase, 0.65; 0.71 and 0.70 and 0.72. Return on equity, you will find now it has gone up to 12.27, last year it was 11.64 so, this 12.27, I can say it is some sort of consolidation which will improve further. As I already mentioned, the NII has been continuously raising the CAGR, it accounts for 15% similarly, on the operating profit side also it has been continuously on the rise with a CAGR growth of 15%.

PAT only FY14 was dip, FY14 because of huge provisioning on the NPA side, the profit was very much down otherwise you will find there has been a good growth. Last year it was Rs.

132 crores now it has gone up to Rs. 180 crores. While CAGR is 14% this annual growth is 36%.

Fee income, you will find from another Rs. 119 crores, it has gone up to Rs. 147 crores. CAGR is 22% but still here we have a lot of plans to show a higher growth in this segment. NIM as we saw earlier from 2.7 it has gone up to 2.8.

Similarly, on the return on equity as we already saw from 11% it has gone up to 12%. Total net worth it has improved. This year you will find the total net worth there is small fall from 1,477 to 1,413, that is mainly because the sale what we made to ARC there is carry over loss which has kept aside Rs. 96 crores is kept aside which will amortized during the four quarters of the current year, that has been knocked off from the net worth so that is why there is a fall in the net worth. ROA we have already seen on an annualized basis from 0.61 it has gone up to 0.70, capital adequacy also we have already seen.

This is one disturbing number for our Bank cost to income ratio. Cost to income ratio, it has gone up from 53% to 57%. 53 itself is high, we wanted to bring it down to at least 50%, but this time it has gone up to 57%. For this mainly I can give you three reasons, one is on the employee side because of this bipartite settlement. While making the actuarial evaluation considering the increase in the basic pay the pension liability had gone up by Rs. 14 crores. So that Rs. 14 crores was a one-time hit.

Second one, last year when we changed the method of depreciation from written-down value method to straight line method following the change in Companies Act, 2013 we had a benefit of around Rs. 11 crores in the depreciation so, last year depreciation for the whole year was only Rs. 14 crores whereas this year currant year the depreciation was Rs. 37 crores. From Rs. 14 crores we have to take higher debt of Rs. 37 crores. These two I mean these cost alone have increased our cost-to-income ratio by around 4%. But for which we would have maintained almost at 43 but our plan was to bring it down to 50%. This year this one time hit of actuarial evolutional because 9th Bipartite Settlement Revision has been taken into account so again that kind of asset would not be there. But depreciation will continue to remain at s 37 crores this year also, because it is on the same method we are doing the depreciation. We are making a lot of efforts, we have made plans, in the 2016-2017 Corporate Plan, we have already taken this into account and our aim is to bring it down to 49% thought it appears to be a big challenge but certainly it will be possible. On the one hand we will reduce the expenditure but I can assume that expenditure side is almost under control once we are able to increase the fee-based increase and to some extent the net interest income we will be in a position to bring down this cost-to-income ratio certainly to 50% in this current year.

Operating profit as a percentage to average working funds you will find from 1.7 it has come down to 1.6 that is mainly because again there is a change in the methodology, in the operating profit what we have done till last year or even till December 2015 the provision what we made for leave encashment we have been showing it as a provision. But late December SEBI issued a format for publishing the financial results where they have specifically made a foot note all employee related expenses should necessarily be clubbed with establishment charges only. So we have shifted this leave encashment provision from the provisioning that is below the line to establishment charges that is about Rs. 8 crores. So that will reduce the operating profit. Though net profit will not be affected in any way, operating profit will be affected that is one reason. Another one, average working funds have also gone up so that is why the operating profit as a percentage to average working fund it has come down from 1.7% to 1.6% or I can say almost at the same level.

Investments you will find the yield, we have been able to somehow protect the yield, current year yield is still above 8.02% despite a very volatile interest rates structure, we have been able to maintain this (+8) level.

So this only an abstract of our P&L and balance sheet, this is given in U.S. dollar.

So that is all I request our MD to speak further on this. I am very sorry because of bad throat, I was not able to speak fluently. Thank you all.

Parthasarathi Mukherjee: So you have seen the numbers and the broad outline given by Mr. Palaniappan and I must say that I have an opportunity to see the Bank over the last three months and have come to appreciate the immense strength that this organization brings to bear. If anything what has struck me is that the bank has been largely very conservative which has also allowed it to survive all these years and as in fact my colleagues on the board never fail to remind me that this is an organization that has paid dividend across all the 90 years of its existence.

The point that arises now is that where we will go next and the entire team has been working on that and during the day I expect to answer some of your questions on that. But I must tell you that I have been quite impressed by what has been put together by the team over the last one year and last couple of years under some very difficult circumstances overall for the banking system.

We will be open to questions that you might have. My colleagues and I would be glad to answer them.

Moderator: We will now have the Q&A. I would request the people have questions to first identify themselves with their name and organization numbers sorry, name the organization and the person's name.

Swaroop: Swaroop from Future Generali Life Insurance. Sir, one question on CASA like we have made some good improvement of around 300 basis points over last two years, so still like 17% is too low to bring down the cost of deposit. So what is your outlook on that and what the bank is doing, so this is number one? And my second question is on the asset quality, again I mean I mean if you could provide us also the total loans how much you have sold to assets reconstruction companies for this year and previous year? And so absolute terms the gross NPA has gone up somewhat quarter-on-quarter so, how do you see going ahead so I believe the AQR accounts also have been included in this quarter so, for next two quarters to three quarters on asset quality front, how do you see? Thank you.

Parthasarathi Mukherjee: Sure, well obviously there is no gain saying from the fact that my CASA performance is not the best in the industry. Very clearly there is a lot of work that we need to do that and the entire bank is now clearly focused on that. We have increased our efforts to grow CASA. Our branches are now increasingly focused only on CASA so, I expect that as you will observe in the quarters and the years to come, the CASA number will show dramatically different levels and I would imagine over the next three years to five years the CASA percentage will be significantly higher than what we have reported thus far. And in any as Mr. Palaniappan pointed out, the CASA number that you saw was that up to 31st March. On the daily average basis my CASA would have been even a bit lower than that. Going forward, the sense I have is that in about three years to five years I should definitely be showing you CASA in the region of 25% on a daily average basis and we intent to show substantially higher levels thereafter. Now, you raised a question about asset quality, you will give you the ARC numbers but before that a word of explanation as to what has happened and so on. You will appreciate that overall conditions particularly in corporate credit have not been conducive and the markets have been extremely difficult for us. Nevertheless, despite the best of efforts there had been instances of assets slipping and our NPL numbers have taken a beating largely on account of the fact that one asset or two assets have slipped from standard restructure status to NPL status so, that eat our numbers. But to that extent you would have also observed that our restructured books have actually reduced. And as analyst I am sure you would largely be focused on the sum of gross NPLs plus restructured where you will observe that numbers have actually dropped overall. The ARC sale numbers you would be able to give.

Palaniappan Manickam: The ARC sale, the current year we have sold 142 crores out of NPA, 142 crores is the total. Fourth quarter nothing was sold and in standard assets one account was sold that is SME-2 was sold that is about 45 crores. So if you add both put together it comes to 187 crores. Total 187 out of which 142 crores is the NPA.

Swaroop: Sir, on that going ahead on like AQR accounts are taken care…

Parthasarathi Mukherjee: Well obviously, we have covered everything and anything that has been provided applies to anything that is covered under AQR or otherwise. There has been no special AQR for us as such but we have covered all accounts that needed to be covered from our point of view.

Participant: Sir, about four concerns that have about LVB and just want your views as how do you look forward to resolve this or in fact what is your view over there. So one is the lower capital adequacy, so despite we are already running into very low Tier-I capital we chose to grow at about 20 odd percent for this year, so why so? And what are the plans to raise capital in next 12 months? Apart from that the second concern is about the loan portfolio if you look at, so we again very remain largely corporate banker despite look when we look at the players they would be on the retail side like we take an example of COB or for that matter even DCB would be largely into the retail or the SME or the micro SME kind of or business banking kind of a category loans whereas we have been largely into that corporate and the earlier CEO – Mr. Rakesh Sharma again he chose to grow on the corporate side which was very surprising, the moment he joined the bank. So what is your observation over there and you are also coming from the corporate background so what do you think over there? The third thing is that if you look at the asset quality so, good that we have recognized some pain in this quarter otherwise if you look at the run rate of the slippages that we were showing that was surprisingly very-very low and unbelievable. So do we have more stress in pipeline which we need to recognize or any plans to sell off some of these large exposures which we still carry on the books and which are also part of the lumpy exposures or some of the over leverage groups for the large banks, third. Four, is basically the frequent management changes that we have seen in the bank so what do you think about that? Why that happened and why it would not happen at least for next two years?

Parthasarathi Mukherjee: Good we will start, shall I start with number four first?

Participant: Yeah.

Parthasarathi Mukherjee: So I will choose not to answer if you do not mind. Now, point is frequent management change is till I move out I cannot tell you that I am moving out, you will appreciate. But more a serious plane, look I cannot speak for what has happened in the past. But what we can do is talk about the future. My team and I are quite enthused by the opportunity that we have before us. At this moment, I do not foresee a situation where I should be packing and coming back I have spent a lot of money moving from Mumbai to Chennai. I am trying to get use to Chennai in fact you should be asking me whether I am learning the local language yet, it is a bit tough actually but one will even try to. But I certainly have no plans immediately to call it quits out there. My background is that of a trader and treasury people do not quit easily. So I am not in hurry to quit. Now that is that, but let us come to the more difficult ones actually. Low capital adequacy and capital raising plans – yes, our capital adequacy is not comfortable clearly and our future growth would always be circumscribed by the level of capital adequacy that we maintain very clearly. We have growth plans, so very clearly we will need to raise growth capital. We are engaged in this and I have reasonable comfort that sooner rather than later we will raise capital. So I do not do not anticipate a situation where our growth plans will be affected by inadequacy of Tier-I capital. We will certainly be focused on that and I think I have reasonable comfort that it will come so, that will definitely happen. And clearly going forward I do not think we will even reach a stage where we will be hitting the threshold. The bank in due course we have plans to lay down our risk appetite which will include even issues like Tier-I capital threshold. We will never let our sales reach a situation where we will be so low so that we take care of. The loan portfolio and your question about large lending and my own background, well I must assure you, I will again not comment on what might have happened in my predecessors' time. I mean clearly the bank's act at different points of time different points of view but at this moment we are definitely focused on running a very profitable book. Our own understanding at this moment is that the bank has immense strength in the area of SME and retail. So going forward, our business plan is focused towards growing more on the SME side as well as the retail side. And I think, going forward when you see our numbers you will find that the tilt is very clearly on that side. Wholesale lending actually has many advantages and I dare say there is a tendency on the part of managements to tilt towards wholesale lending because it does tend to give you big tickets. So when I need to achieve my budgets at times one tends to go towards that but if one has a proper business strategy which will otherwise surprise one need not tilt towards wholesale lending. So, I think going forward, you will see lending less in the near future towards wholesale. I think I answered the most.

Participant: Yeah. Can you just put some number to the capital raising plans that you have, anything that you have in your mind?

Parthasarathi Mukherjee: If you do not mind I am going to keep it reasonably vague for you, but my sense is sort of dilution up to 25% is possible.

Participant: And you would like to take the Tier-I capital closer to about 10% to 11%?

Parthasarathi Mukherjee: Hopefully.

Participant: Okay. And apart from that on the loan profile, so you said that wholesale book would come off and the retail and the SME book would grow. So any percentages that you have in mind from next two years to three years' perspective where you like these percentage to be?

Parthasarathi Mukherjee: The way I put it is that SME and retail will grow at relatively faster pace so it is not unlikely that you will find my SME and retail books growing at the rate of about 25% to 30% whereas, the wholesale book might be growing closer to 10%.

Participant: Okay. And again, on the management change, so since you have joined in now and you would have had in your mind like what has happened with the predecessors they have left for whatever reasons suited to them. So anything which is there binding that you have taken from the board or they have taken from your side or any term assurance that you have in the bank?

Parthasarathi Mukherjee: The board did ask me as to whether I was serious about staying certainly, and I gave them the same answer that I gave you that clearly I do not fool around much. So if I am taking the plunge it is clearly my intention to stay certainly. Subject to of course being us the management team being able to run the institution in our own way and I think we have that necessary comfort the board has been wholly cooperative. We are a property management-driven bank. The board governs us. We take immense inputs from the board but finally the management team is fully in-charge yeah, one trust that will allow us to take the bank forward.

Participant: Any other changes that you would like to make in the middle management team as such or you feel that you are...

Parthasarathi Mukherjee: Well I will put you this way, this Bank has a very large bank of loyal employees who have done their full career in this institution. So in the normal course you do have a lot of people retiring throughout the year. As and when people do retire they will have to be replaced, some of them will be replaced internally, some of them might have to be replaced from outside and there might be specific capability gaps we might identify from time to time which might have to be filled from outside, that is it.

Nitin: Hello, sir Nitin here. See last two years almost cost of deposit has decreased by half but your yield has fallen by 1% so there something is going? Either borrowers are very big enough to dictate or your bulk deposits are people who are dictating it at the higher rates. So if the corollary can you share the data also on quarterly repricing which are coming forward in coming two quarters - three quarters.

Parthasarathi Mukherjee: I am sorry, I am not carry quarterly repricing data but let me broadly answer your point and I think you are absolutely right. So clearly a bank that has a very low CASA is always prone to challenges on the pricing front, because very large percentage of their borrowings therefore would be bulk term deposit borrowings which of course would be dependent on market conditions. Similarly, lending rates often dictated by particularly if you are lending to better entities they tend to dictate pricing to some extent, I cannot deny that. The answer therefore is to in fact focus a) on increasing CASA substantially and b) also increase the retail term deposit base. The bank has accepted this point and in fact this year the prime focus at our branches is in fact on CASA and retail term deposits. We are going to really focus on this to ensure that we can insulate ourselves to a very large extent from movements in interest rates.

Nitin: So, may be can you share something some ROA numbers which you know like two years or three years down the line because that also has remained more or less flattish.

Parthasarathi Mukherjee: I agree my ROAs are not much to talk about actually and so we are talking about 0.7 odd number at the moment. My sense is over the next three years to four years if I were to show ROA of about 1% I would be quite happy.

Nitin: Can you share average working capital funds?

Parthasarathi Mukherjee: Do we have those numbers? Average working capital, average working funds. While he checks, I could answer other questions please. Yes, please.

Ramesh Bhojwani: Sir, Ramesh Bhojwani from **(Inaudible) 52:22** Limited. The gross NPA on wholesale advances is the matter of concern which is at 3.9%. From your communication even on the media in the morning, your focus is to bring this level down in a calibrated manner. Going forward particularly help with a good monsoon, how are we looking at in this area that is number one? And number two is are we focusing in the retail lending and the micro finance segment because you appear to be very strong in the four southern states where micro finances mushroomed or grown exponentially at more than 100% for many of micro finance company.

Parthasarathi Mukherjee: So I will start from the beginning now. Yes, large lending has not done all that well in the past perhaps partly because of conditions prevalent at that time. There has been exposure to metals and so on a bit to infra. Now these obviously are affected, the construction has been affected and the metal sector is badly affected and that is reflected in my books at this moment. And as I mentioned earlier this morning, that I would expect these to run their course obviously there is nothing much I am going to do about it as long as the accounts get service they remain with me. And if they were to slip, they will slip. And the percentage I expect to see dropping for the very simple reasons that my book wholly in fact is growing and one does expect that these accounts will get serviced while they last and so that extend I do expect to fall in this percentage. Now, to come to the new lending that we are looking at the MFI sector as such I mean well we are open to lending various segments as far as the SME and the rural segment is concerned. The MFIs fall apart of that, I am not sure that we are going to have a specific focus on MFIs, I am sure there are others who are more capable of handling that but we would certainly be aligned with them and there are a lots of opportunities to work together.

Ramesh Bhojwani: Precisely, I wanted to mention that the MFI depend upon banks for their funding #3 MFI just went public, we are 8,000 people strong where only three people today are sourcing our money rest are only lending and the money is being soured from the bank so, it a huge opportunity where the growth rate is almost touching in access of 100%.

Parthasarathi Mukherjee: Well banks have been, including my bank we have been aligned with MFIs in the past and we will continue to do so and we will look to see how best to optimize the relationships.

Ramesh Bhojwani: Precisely.

Palaniappan Manickam: Average working funds for March 2016, it was 25,834, Rs. 25,834 crores, December Rs. 26,376 crores.

Kaushal: Kaushal from India Nivesh. Sir, again question on asset quality side. If we see our outstanding restructured book, no doubt in percentage terms and absolute terms it has reduced; however, even as of FY16 50% of it comes from steel, infra and metals so, these are the three sectors where we have seen maximum stress even in other banks for entire baking industry. So considering that fact it seems that even in next one or two years, we may see some slippages from this restructured account which will be significant because it is 50% of total restructured book so, your comment on that.

Parthasarathi Mukherjee: If that were to be the only slippages then of course I would be actually doing very well. In theory, there could be even more slippages but the way I see it and I think the broad guidance I can give you at this stage is that having scanned the book overall, the sense that I get is that our gross NPL numbers which we have reported at the level of what 1.97 at the moment should remain around here. I mean, as I mentioned, since our base is small one or two slippages here and there probably do create a spike here and there but my sense is overall should remain around here it could marginally move edge up if there were to be sharp movement. But I do not really anticipate a situation where that number will spike up significantly. So that is the broad guidance I can give you having seen the book. Yes, please.

Participant: Sir, the geographical breakup as far as lending goes so that there is a huge concentration in a few states. So going ahead any plans on diversifying so I mean any percentage in mind going ahead as far as region wise break-up is concerned?

Parthasarathi Mukherjee: Well you will appreciate one thing actually the diversification if any has partly worked out on account of a fact that I do have a bit of wholesale book were I to go mostly SME and retail then you would find that the concentration wise my position would worsen a bit because you tend to be more localized. For example, I might be doing a lot of wholesale lending out of Delhi and Mumbai whereas my branches are not all that many there. Whereas SME would be largely link to where I am present and since, I am present in a very large way in the South, you will find the concentration in the South would actually increase further. Having said that, while there is something that one has to cognizant of, I am not saying that that can be show stopper for my business a); b) going forward my sense is that my presence would diversify considerably so, I would expect that over time you will find that Lakshmi Vilas Bank's presence would be more national in nature and our dispersion of the book would be similarly positioned.

Moderator: On behalf of the management, I thank you all for joining us for the Analyst Meet. Please join us for some tea and snacks. Thank you.