

Transcript

Lakshmi Vilas Bank

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Presentation Session

Moderator: Good morning ladies and gentlemen, I am Maumita, moderator for the conference call. Welcome to Lakshmi Vilas Bank 1QFY17 conference call. At this moment all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Renish Patel from Antique Stock Broking. Over to you sir.

Renish Patel: Good morning everyone. On behalf of Antique Finance I welcome you to the first quarter FY17 earnings call of Lakshmi Vilas Bank. We have with us today the senior management team of LVB presented by the MD and CEO Mr. Partha Mukherjee, Executive Director, Mr. N. S. Venkatesh, and CFO Mr. Palaniappan. Mr. Partha Mukherjee will now take us through the highlights of the quarter gone by after which we will open the floor for question and answers. Over to you sir.

Partha Mukherjee: Yes sir. Thank you friends and ladies and gentlemen, welcome to the earnings call here on behalf of Lakshmi Vilas Bank. I have with me my colleagues, the Executive Director, Mr. Venkatesh and Mr. Palaniappan our CFO. May I start by saying that we had a good quarter? Obviously there are challenges in the environment, but considering everything, the bank has actually put in a great effort and it is reflected in the numbers that have come out. The net profit stood at 60.68 crores, which is 50.72% jump on a year-on-year basis. Operating profits was also robust and stood at 125.84 crores against a 107.56 number in the corresponding quarter of the previous year. Of course, most parameters of the bank has done well. The lending book has grown well. Deposits have been robust. What is of particular interest to us is that the CASA business has been growing well. We seem to be now generating adequate momentum in growing our CASA, which we hope over time will in fact reflect in better net interest income for the bank and a consequent impact also on our cost income ratios. And so I request Mr. Palaniappan to give you some broad outline of our numbers and then we will take your questions.

Palaniappan: Thank you sir, thank you. Friends, good morning. As you would have seen in our website, we have already put up the details, the presentation of our Q1 results. This first quarter, as our MD Mr. Mukherjee said, it was a very, very excellent and satisfying quarter, though the last third quarter and fourth quarter also we have done well, and last two years we have been consistently growing. This first quarter result has been excellent in all respects. If you take the net interest income, the growth was 22% and with a very strong growth in interest income and advances by around 15% in this kind of an environment, we have been able to show this kind of very good growth in net interest income. Supported by the growth in net interest income and also aided by

the increase in other income by way of our treasury profit and CBS income, our operating profit has shown a very healthy growth of 55% sequentially on year-on-year basis, 17%. This has reflected in the increase in the net profit by a very substantial 60% growth year-on-year and even on a sequential basis from last March to current June, it has shown a growth of 24%.

Coming to the expenditure part, expenditure has been quite under control. Only in respect of establishment expenses, you will find some marginal increase, that is mainly because last June '15 numbers contains the numbers prior to the revision of bipartite settlement, from July '15 we started revising the pay structure based on the bipartite settlement, that is why now June '15 and June '16 you will find an increase. But if you compare our Q2, Q3 or Q4 of last year, this June '16 establishment number is on par with that. In the coming quarters, staff expenditure will almost be on the same lines. Apart from that, we have also recruited some 400 people in the month of May to take care of the expansion in business and the increase in the network of franchise. So that has also added to some extent the establishment expenditure. Other operating expenditure has been under control. It is showing a very nominal increase of around 15% on year-on-year basis. There is no one off items here, so neither (audio break) side nor the expenditure, there is any one-off item. It is all on a very regular sustainable basis.

And coming to the provisions side, if you take the NPA provision, NPA provision has come down to 34 crores as compared to the March number, but if you compare with the Q1 of last year and Q1 of current year, the NPA provision has marginally increased to 34 crores from 29 crores. Depreciation on investment this time mark-to-market valuation, there has been an appreciation, so that is why there is a small appreciation of 2 crore in investments portfolio. Then the provision for taxes has gone up that is mainly because mark-to-market valuation has now shown any depreciation, because of that we could not take any tax advantage as we could do in the last financial year. So that is why tax burden is little higher at 30 crores. So, net profit after provision of tax comes to 60 crores. So, if you take PBT, profit before tax, that has increased substantially, it is at 90 crores. So we are very confident that in the period ahead this kind of healthy growth can be sustained and that definitely it will become more stronger.

On the NPA side, if I have to give you the numbers, you will find there is a marginal increase in the NPA. Net increase is about 41 crores. On the net NPA, there is an increase of 29 crores. This quarter there has been no slippage of any bigger account, any corporate account, these slippages have been only from smaller accounts of (audio break), which is from one or two textile accounts, from our local Coimbatore area. Other than that there has been no other slippages. And even these smaller accounts, which is well secured and we are confident maybe in another one or two quarters, we know these accounts will get upgraded.

Partha Mukherjee: So that's broadly it and I would be glad to discuss the specific points that you could raise with us.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to

withdraw your request, you may do so by pressing * and 1 again. Sir, our first question comes from Mr. Kedar Wagle from May Bank Asset Management. Please go ahead sir.

Kedar Wagle: Thank you and thanks for this call. I had two questions, the first, could you share the number for the standard restructured loans at the end of the first quarter, I could not find that number in the presentation unlike in the previous quarter. And second, can you talk about the outlook for slippages going forward? You mentioned earlier that you only had slippages of smaller accounts, what is the outlook for the rest of the year?

Partha Mukherjee: Let me give you hints of how things have panned out. First of all, the answer to your question is 793 odd, is the amount of standard restructured, which I have, as end June. And outlook, well, as I have been explaining to a lot of people, because these are all small accounts, it becomes very difficult to give out a guidance of how much would fall. The bank's effort is very clear, we are not going to be (ever greening) anything and at the same time we are not going to be preponing the fall of an account. And our experience has been that a lot of these small entities as is the case with large ones, they are also stressed quite a bit, but they manage to survive at the end of the quarter, they scramble around and collect. This time our experience was, in fact, and as Mr. Palaniappan mentioned, most of the slippages were small accounts. Out of the total amount that slipped, around gross amount of 62 odd crores that slipped, I must tell you the largest single slippage is about 5.19, so these are all small entities. They were obviously not able to clear their irregularities and they were treated as NPLs. Having said that, most of these are very well collateralized and I have adequate comfort that a whole lot of it will actually be recovered. And some could be probably recovered very soon. I am unable to give you a sense of the total slippages that you could see during the current year, but what I have done is and I have been telling analysts, is that I am assuming that over the year I will probably have to provide anywhere between 200 and 225 crores for slippages. You will appreciate that I provided about 180 last year. So I have actually kept a margin for myself. If you ask me on what I have based it, I cannot tell you, because this is just a sort of a rule of thumb calculation that I have done. As far as the restructured advances are concerned, from a cursory look that I have had at the books, my sense is in the normal course over time, maybe 25% would slip. But I am not saying that they are slipping today or tomorrow or for that matter during the current financial year at all. But I have assumed that about 25% might slip.

Kedar Wagle: Okay. And just to double confirm this 793 crores for standard restructured loans that corresponds to 899 crores at the end of March '16.

Partha Mukherjee: March '16 standard was 749, that has risen largely on account of some additional disbursements made on some of these accounts. It could have been FITL disbursements and so on. 749 has now become 793. NPA, which was at 241 in March 2015 has risen to 247, 6 crores is the addition. So total restructured book as of March, it was 991, now that has gone up to 1041. So, in terms of percentage, standard restructured advances constitutes 3.93% and ATA constitutes 1.23%, so total restructured book constitutes 5.16%.

Moderator: Thank you sir. Our next question comes from Neha Hari Ramani from BI Square Management. Please go ahead.

Neha Hari Ramani: Yeah. Thank you for the opportunity. My question is on the broader outlook, you know, regarding the expansion plans, so lot of small banks are looking at expanding aggressively, in terms of branch expansion and, you know, their customer base, and all. So, what is Lakshmi Vilas looking at, what are we looking at over next two to three years?

Partha Mukherjee: If you are asking me about two to three years, which is quite broad brass, I would imagine my network of 460 branches today would over the next three years possibly be in the region of about 700 branches.

Neha Hari Ramani: Okay. And (audio break) that you are looking at, I mean, the current greatest growth, I mean...

Partha Mukherjee: The branch expansion is obviously based on our estimation of the way the business will grow. You will appreciate that we are largely located in the south and I would imagine during the current year that trend would continue and then subsequent years we would look to grow more in other regions.

Neha Hari Ramani: Okay. So what are the other regions that we are focusing on, I mean, have you already started laying out the plans or we are...are we doing that?

Partha Mukherjee: No, no. We have plans for this year and for the current year, as I said, we are likely to be focusing mostly on the south, because that's where my strengths lie. I am known mostly in this part. I am hopeful that over the years, with adequate information going around about my bank, there could be some sort of media effort put in by us towards the end of the year and next year onwards we would look to grow in other regions. For the current year I would imagine the bulk of our growth would be in the states of Andhra, Telangana, Karnataka, and to some extent in Tamil Nadu itself.

Neha Hari Ramani: Okay. So, south we are focusing on corporate lending or we are mainly looking for the MSME and the rural kind of lending?

Partha Mukherjee: Our DNA actually lies in servicing SMEs and retail clients, and I would imagine that we need to focus a lot more on that. And you would find that going forward, our focus will be largely to grow the SME and retail book, to some extent corporate lending, of course, would be there.

Neha Hari Ramani: Okay. So, corporate lending overall would be, like, you know, just 2%, that this quarter we have been seeing the growth, it will continue to be the same?

Partha Mukherjee: It is like this, over the next few years, my expectation is we will bring down the proportion of corporates from the present number of about 45% down to somewhere in the region of closer to 25 and hopefully SME and retail would have a larger share, between them of about 60% or so.

Neha Hari Ramani: Okay. That was very helpful. Thank you so much. I will join the queue if I have further questions.

Moderator: Thank you. The next question comes from Mr. Shivakumar from Unify Capital. Please go ahead sir.

Shivakumar: Thank you for the opportunity and congrats for a great set of numbers sir.

Partha Mukherjee: Thank you.

Shivakumar: Sir, any sense of the loan book target, which you will be targeting for the end of the year? Now that you have notched 22% year-on-year in Q1, what will be the ballpark number, which you are targeting for March '17?

Partha Mukherjee: Internally we have been saying that we would be happy to see an overall growth of about 20%.

Shivakumar: And essentially that would be from the SME book, sir?

Partha Mukherjee: Hopefully, I mean, that is our hope, SME and retail. You will increasingly find retail also contributing.

Shivakumar: Alright. Sir, and just your sense again, sorry for coming back to the same question, just your sense on the asset quality on how you see it moving forward given the slight deterioration in Q1?

Partha Mukherjee: As I mentioned to you that our sense, I gave you a sense about the sort of provisioning that I will be doing this year.

Shivakumar: Actually sir around 200 crores...

Partha Mukherjee: That was clearly indicated to you that I am anticipating a slight worsening of the ratios, but having said that, I am not anticipating a very sharp deterioration and obviously going forward we will be seeing an uptake. You will also appreciate that going forward overall cycle is turning around and I would imagine that would be reflected in my book quite adequately.

Shivakumar: Right sir. Sir, I just wanted to confirm that you had said that from your internal calculations you have assumed that around 200 to 220 crores is your provision estimate for FY17.

Partha Mukherjee: 200 to 225 for this FY, yes.

Shivakumar: Thank you sir. That was it.

Moderator: Thank you sir. The next question comes from Mr. Jignesh Shail from Quaint Capital. Please go ahead sir.

Jignesh Shail: Thank you for the opportunity. Just needed to check first on the data points side, did you have any (not clear) during this quarter, any assets (not clear).

Partha Mukherjee: None.

- Jignesh Shail:** None. And any 5:25 or (not clear)?
- Partha Mukherjee:** This quarter nothing was there, but as of the end of quarter, we have two accounts under 5/25, which were earlier, but this quarter nothing was there.
- Jignesh Shail:** But what would be the quantum of outstanding 5:25 (not clear)?
- Partha Mukherjee:** About 120 crores is the total outstanding of these two accounts.
- Jignesh Shail:** And SDR?
- Partha Mukherjee:** SDR we have only one account, that is about 48 crores.
- Jignesh Shail:** That was also not in the current quarter, right?
- Partha Mukherjee:** No, not in the current quarter.
- Jignesh Shail:** Now sir, on the strategy side I am seeing, the CASA, I mean, although (not clear) growth has been stronger, so the quarter in CASA has been declining and so is the margins. So, now, considering if you want to improve your ROA, which actually had improved, but if you want to reach 1% kind of an ROA in your target, how do you see the margins trajectory moving and how you feel...if you want to build up your CASA what is your strategy or otherwise what will be your strategy for the margin improvement?
- Partha Mukherjee:** I must admit that my CASA has done rather well and while we shared the YOY numbers, for your information, even sequentially if I talk about QOQ, on a daily average basis, my CASA has grown 11%. Q4 FY16 and Q1FY17, is grown 11%, which is quite satisfying actually. So let me tell you that CASA seems to be quite robust, the growth, and on a daily average basis, I have grown by about 400 crores over just one quarter, which gives me the comfort that we will actually do well. Now, as far as (audio break) I am very clear that any benefit that accrues to me on account of reduced cost of funds, I would focus more on improving my lending book quality, though I am not really going to rush to improve my NIMs, I would much rather pass that on to my borrower and go up the value chain, so to say. So, you will find my NIMs for the present hovering between 2.75 and at the most 3, I wouldn't really be in a hurry to take my NIMs higher, I would much rather focus on improving the quality of my lending book.
- Jignesh Shail:** Okay. And you are saying your focus remains on the SME and retail...
- Partha Mukherjee:** That's correct.
- Jignesh Shail:** So, any (not clear) portfolios especially on the retail side whether that is coal or auto or say housing loan, which portfolio probably you will be focusing going forward?

Partha Mukherjee: Going forward, clearly the intention is, we brought in a new head of consumer lending, and he is coming from one of the top housing finance companies. And our intention is of course to start with focusing largely on retail mortgages, then as a sort of second phase, move into two-wheeler, four-wheeler financing, and when we have the appropriate level of confidence in ourselves, we will probably get into unsecured, including personal loans. So that is the sort of road map we have chalked out for our self.

Jignesh Shail: Okay. And I heard it correct, earlier you were saying that you would bring your SME, retail portfolio, close to 60% over a period of time.

Partha Mukherjee: That's right.

Jignesh Shail: Okay, all the best. Thanks a lot.

Partha Mukherjee: Thank you.

Moderator: Thank you. Sir, the next question comes from Mr. Kunal Fadnis from VEC Investments. Please go ahead sir

Kunal Fadnis: Congrats on a great set of numbers. I just wanted to clarify one thing that the total provision for NPA is 34 crores, out of which 22 crores is for the shortfall on the account of sale to ARCs.

Partha Mukherjee: Right, you are right.

Kunal Fadnis: So, apart from that, the provisioning on the current book is just 12%. And we expect to say the estimate of 200 to 225 crores, most of the provisioning should be valid.

Partha Mukherjee: Well, it is like this. Look, I said right at the beginning, that this is a number I have sort of picked out of a hat, it doesn't mean that necessarily I will have to achieve that entire number, I might do better than that also. I just kept that in margins, because I have...we are trying to get a hang on the numbers really and in case one or two large accounts, which are consortium accounts, were to slip at some point, I might have that.

Palaniappan: Now, out of this 225 kind of an estimation what we have, as you said this ARC sale, we are carrying over the balance provision that will account for about 50 crore in the current financial year. We still have a carryover of 76 crore as you would have observed from the notes on our results. Out of the 76 crores, 50 crores will have to be accounted in the current year. So, out of 225, the 50 will go, remaining will be the additional provisioning, which will be required for new slippages.

Kunal Fadnis: Right, great. That was helpful. And any news on capital raising? The timeline and...

Partha Mukherjee: Well, by now, the entire market is aware, I mean, thanks to the media noise that has been made that at some point we will have to raise capital. You have seen my capital adequacy numbers, so clearly I need today capital sooner rather than later and we have the necessary enablement in place, the approvals are in

place. So, we are in this with the investors, we have met investors from time to time and at some point in the near future we need to raise capital.

Kunal Fadnis: Right. Thanks.

Moderator: Thank you sir. Next question comes from Vibha Batra from (not clear). Please go ahead.

Vibha Batra: Yeah. My question is on tier 1 capital, how much is your core tier 1 capital?

Palaniappan: 8.53.

Vibha Batra: Okay. And second question is on the retail assets, sir, what is the distribution on your retail assets?

Partha Mukherjee: Our retail lending is very small at this moment. And it is a mix of individual gold loans and mortgages.

Vibha Batra: Just home loans or loan against property?

Partha Mukherjee: Largely home loans and bit of loan against property too. The book, at the moment, is small.

Vibha Batra: Okay. And risk wise on this book for three months lesser than your cost ratio book...

Partha Mukherjee: That's right.

Vibha Batra: And you would want to grow inside in the home loan book, you have recruited someone.

Partha Mukherjee: Yes, that is right.

Vibha Batra: So, does that mean that home loan is not done out of all of your branches right now, it will be done from.....?

Partha Mukherjee: Well, in theory, every branch can send in lease. It can be done out of any branch. All the branches can send in their lease. But the idea is, you will appreciate that I have a very large bank of customers and the intention is to leverage on my existing database and at my existing customer base. And we are using a fair degree of data analytics to see where our customers are today borrowing. So we hope to see a lot of this that then translates into loans for the bank.

Vibha Batra: Okay. You have fairly large number of branches, you know, so what is your sense.....?

Partha Mukherjee: My sense is if I really get going, home loan, fresh home loan book of 5 to 600 crores would come up very quickly.

Vibha Batra: Okay. So could you be conservative in that.....?

Partha Mukherjee: You know, home loan market is a very funny market, there are different price points, where different sorts of lenders are operating. So my sense is that I will be quite conservative in the segment that I

Vibha Batra: What would be your weightage currently?

Partha Mukherjee: My MCLR at the moment is 10.3.

Vibha Batra: Okay. So that.....

Partha Mukherjee: I will probably not be competing with HDFC. Secondly...

Vibha Batra: You would be targeting (not clear).

Partha Mukherjee: There are many other segments that the team is looking to target and the challenge is in using our network and we do have an extensive network in the state of Tamil Nadu and some of the states, where we are already seeing a lot of demand for home loans from...obviously the spreads for me would be relatively fine there, but the (not clear) for me would be that there are lot of attendant businesses that I will pick up along with these home loans. So I will be getting savings bank accounts, I will be getting (not clear) loans will be insured, there will be insurance sales and there will be other attendant benefits that will be accrued to me, so I am looking at it as a total relationship point of view. So, quite frankly, I am very excited with the opportunity that is before us.

Vibha Batra: Okay. Are you looking at boosting your tier 1 through any other capital efficiency measures or (not clear).

Partha Mukherjee: That is a constant...the team is entirely engaged on increasing efficiency within the system. So we constantly try to clean up the books to the extent possible. The CFO office is engaged with the branches and the businesses, we try to see where else we can save on capital, that's a constant effort and obviously you will appreciate that for a bank like mine where I am strapped for capital, I need to be constantly engaged on that.

Vibha Batra: Sir, how much would you have saved as a result of these efforts? Or have you actually measured the performance of these projects __02:43__.

Partha Mukherjee: It is difficult to quantify because some of this is absolutely qualitative work that has been put in to clean up the books and to ensure that expired guarantees have been extinguished and so on in the system, so that's a constant effort.

Vibha Batra: Okay, thank you sir.

Moderator: Thank you. The next question comes from Mr. Alok Shah from Centrum Broking. Please go ahead sir.

Gaurav Jani: Good morning sir, this is Gaurav Jani here, just had a question firstly on your CASA, so I believe the CASA is up 11% on a daily average basis QOQ, right?

Partha Mukherjee: That's correct.

Gaurav Jani: So, what has been driving this growth?

Partha Mukherjee: We have already a large branch network really in relative terms and all 460 branches have been energized into going after CASA business. We have changed the way we look at our targets, the TRAs for the teams are now based on the cumulative daily average basis, so they are obviously focused on ensuring that there is daily growth in the business. And we are now seeing granular growth in CASA, a large number of accounts are now being opened every day. Quite frankly, the number of accounts that are being opened now, are exactly double what was being opened a year back on a daily basis.

Gaurav Jani: Okay. This will largely be driven by, you know, our branch efficiency.

Partha Mukherjee: That is correct. This branch network helps and the sales executives' network also helps.

Gaurav Jani: Sure, sure. So, as I understand, retail and SME, or probably SME is embedded into our DNA, so how would you differentiate between the retail and the SME segment.

Partha Mukherjee: It is very simple. The retail segment is very simply the individual, the (not clear), and the retail trusts, all the others would be SMEs. Obviously there is an interlinkage also, after all the proprietor and the partners where personal funds are retail funds, whereas the business dealings are SME dealings.

Gaurav Jani: Sure, sure.

Partha Mukherjee: There is a clear intertwining, and I must tell you that that's quite alright. So when targets are given out to the teams here, the retail bank has given out payroll at loan targets and current account targets, to the SME team and to the corporate.

Gaurav Jani: So, if you could just help us understand a bit what has been driving this SME segment, how have you been able to grow it in a robust manner and how do you look at it going forward?

Partha Mukherjee: Between you and me, we haven't yet grown it enough, we need to do a lot more work. If there was a small shrinkage in the books during this period, in the last quarter, but let me tell you what we are planning to do. Our network is good. We are located in centers where there is a lot of business. What we have now done is we have put in place a network of relationship managers who are now going out acquiring businesses. We are also trying to deepen existing relationships by going after those corporates to ensure that they deal more with us than with others.

Gaurav Jani: Sure, sure. That's it from my side sir. Thank you sir.

Moderator: Thank you. Sir, the next question comes from Mr. Pankaj (not sure) from Athena Investments. Please go ahead sir.

Pankaj: Yeah. What is your capital adequacy ratio?

Palaniappan: At the present we are...at the end of June it is 10.52, tier 1 8.53, and tier 2, 1.99.

Partha Mukherjee: Core tier 1 is 8.53 and the total is 10.52.

Pankaj: Okay. And so your rates is 14 to 15 and usually it is around 10, any plans to reduce your rates by raising equity?

Partha Mukherjee: Yes it is, I will raise it. Thank you.

Moderator: Thank you. Our next question comes from Antara S. from Shubkam Limited. Please go ahead.

Antara S.: Hello?

Partha Mukherjee: Yes please.

Antara S.: Sir, what is your medium term outlook towards the maintaining your cost to income ratio and return on assets?

Partha Mukherjee: As far as return on assets is concerned, my sense is, I would be very happy if I could achieve a number between 1.5 and 1.7.

Antara S.: Okay. And on the cost to income ratio rate?

Partha Mukherjee: Cost to income ratio is something that our long term targets is to be somewhere in the region of 45 to 47%, but it will take a bit of time for me because we are in a growth phase at the moment. So, if I were to bring it closer to 50% I would be delighted.

Antara S.: And what is the amount of the capital raising, which you are planning...capital raising amount?

Partha Mukherjee: You know, my valuations are not all that great and I need to be fair to my existing investors, so I have been suggesting that we value to the extent at the most of about 15 to 20%.

Antara S.: Okay, thank you sir.

Moderator: Thank you. Sir, next question comes from Vishal Modi from May Bank Securities. Please go ahead sir.

Vishal Modi: Hello?

Partha Mukherjee: Yes, please.

Vishal Modi: Hi. Sir, my question is on your fee income side. It would be interesting to know your views on what are the current third party products that we are distributing and the future plans and where do we see this growing from maybe in like three years, what more do you want to add in this side of the (not clear)?

Partha Mukherjee: I would be very happy if I were to reach a stage where fees contributed at least 30% and (not clear) for us, we have been quite negligent there in the past and need to work a lot more. So fees will be broad-based, of course. Now, look at corporate bank. The corporate bank contributes to me in the form of processing fee, credit processing fee credit processing fees.. I would like more of transaction fees to come from there, which is what we are focusing on. More of (not clear) we will do much more of working capital accounts, so that is sort of bread and butter banking that we will see happening. Then you will see a lot more of a forex business happening now. We are focused on forex (not clear) considerably. Then you will see pure transaction revenues like from the cash management business improving fee numbers. The retail bank of course would be contributing a lot more from the issuance of debit cards. And last third party sales of insurance and mutual fund products. And then of course, we will also be benefiting from our ATM interchange charges. That we will see. So, I am quite hopeful that we will be able to broad base the fee income extensively.

Vishal Modi: Yeah, thank you, that was helpful sir. The second question is on your HR initiatives. So we have already put out a list of lateral hiring that we planned to do on (not clear), so what is the progress there? Where are we hiring from and what is the kind of compensation level? Is it at par with private banks and how are we building this middle management kind of level for the future?

Partha Mukherjee: Well, the bulk of the senior management is in place actually. So, if you ask me, the top management and senior management is (not clear). From time to time there would be retirements happening of course, ours is a matured bank which has had people serving it for years. So, you will see retirements happening and ultimately when retirements happen, we will be replacing them appropriately. Yes, we are focusing lot more on now building the second tier of leadership within the bank. So the middle management has to be strengthened further. And we do have a plan in place to recruit people. There will be a lot of promotions happening within the organization also that will fill vacancies that will fill positions. We are trying, each department or each business will have its own succession planning process also. All that will be great. So, my sense is over the next six months a huge amount of HR work will be in place.

Vishal Modi: And we are open to hiring from private banks and (not clear). What would be the...

Partha Mukherjee: We are talking to people from the private banks, including the CEO itself. So I (not clear).

Vishal Modi: Right sir. Okay, thank you sir, that's it.

Moderator: Thank you sir. Sir, the next question comes from Mr. Renish Patel from Antique Stock Broking. Please go ahead sir.

Renish Patel: Hi sir. Sir, just a clarification on 5:25 and SDR exposure. So you have mentioned that we have two accounts in the 5:25, roughly 120 crores, so these are the standard as on date or these are NPAs.

Partha Mukherjee: Yeah, standard as on date.

Renish Patel: And SDR also, 48 crores?

Partha Mukherjee: Standard as on date.

Renish Patel: Okay. And sir, how these accounts are behaving, I mean, so they are getting all their requirements, or there will be some deterioration?

Partha Mukherjee: Otherwise they would have been down by now.

Renish Patel: Sorry sir?

Partha Mukherjee: Otherwise they would have been down by now.

Renish Patel: Okay, okay sir. Got your point. And sir, secondly now we are (not clear), I think, last six months, (not clear) retail plus SME, but somehow this quarter has been muted as far as retail and SME growth is concerned and we have again grown in the corporate segment on QOQ basis. So, this is only one quarter phenomena or do you think that we will be, you know, in the rest of the nine months, we will grow more in retail, SME and that's how we will share our corporate share and total run rate.

Partha Mukherjee: You know, retail and SME business is grass roots business. It is not sort of a sitting on let things (not clear) and start flowing, it involves a huge amount of background work. So, clearly it takes a bit of time, so Q1 for us was perhaps a period when we were looking around to recruit our people and so on. I mentioned that the head of consumer lending has just joined this month. So he is working to set up his businesses and the first set of disbursements will happen from his side soon. My sense is, you will now see the pickup and I am not saying that Q1 (not clear) Q2 will be entirely retail and SME venture, but clearly the contribution from SME and retail will be a lot more in Q2 than what you saw in Q1.

Renish Patel: Okay. So basically it is right to assume that second half of '17 would have large incremental growth coming from retail, SME than first half?

Partha Mukherjee: That would be a fair assumption.

Renish Patel: Okay. Okay sir, that's it from my side. Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Dhaval Gada from Motilal Oswal. Please go ahead sir.

Dhaval Gada: Thank you sir and really good set of numbers. Firstly sir, on this medium term ROA plan that you have laid down, if you could dwell a little more on how this would get achieved, in terms of how much would be contributed from the top line, specifically from the medium term margin guidance and then how much would be

contributed by operating leverage from the existing business, existing infrastructure, and also the benefit from lower credit costs eventually. So, if you could just sort of help me understand how have you arrived at this medium term ROA number, that would be very helpful.

Partha Mukherjee: So, what I will do is, instead of giving you a breakup of where this will come from, I will give you individual breakups, but I will tell you these will come. Let's say first of all, I have extremely poor NII, my NII is very poor, actually if you ask me, I am not that worried about my NIMs. My NIMs are rather good really, under the circumstances. I feel that my NIMs could have, under normal circumstances, been a lot worse than what they are at this moment, considering my cost of funds. Now, what I expect to see is that NII will grow. So that will be the first booster. Secondly fees will grow. As far as my cost to income ratio is concerned, my sense is, more than the cost it is the income side, which is weighing me down. So we are boosting NII as well as other income. NIMs will help considerably. I am expecting also added boost coming from the fact that overall branch productivity will increase substantially as we go forward. Our branches are doing enough business. Now, that we are at least focusing on growing our branch businesses substantially, you will find that the branch productivity overall would grow quite a bit. So, all in all, these factors will very automatically raise my ROA. You would also appreciate that going forward a lot of noncredit-related businesses would happen. Cross selling is something that we haven't really focused upon in the past. Products for customers would increase substantially, each of the business group will carry targets for products for customer and the bulk of these will be noncredit-related products. I would imagine these would automatically push up margins.

Dhaval Gada: Sir, how much would be the benefit, firstly what is the medium term that we are looking at in terms of (not clear) and then secondly how much would be the benefit at the operating level and how much would be the benefit at the...so how much would be the reduction in credit costs that you assumed in these numbers, so yeah.

Partha Mukherjee: (Not clear) with credit costs at these elevated levels. I would imagine it is only from FY19 that you will see my credit costs beginning to drop. So FY17 and '18 I would imagine would be periods when I would continue to have relatively elevated credit costs. And when I say elevated credit costs, we are talking of 80 to 90 basis points. From FY19 I am hopeful that my credit costs will drop, will begin to drop if I might say. And obviously from that period onwards it is the reduction in credit costs, which will also add (not clear) to the ROA.

Dhaval Gada: So this guidance would be for FY20, '21 kind of, right?

Partha Mukherjee: Right.

Dhaval Gada: Great sir. Thanks a lot.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our next question comes from Mr. Shivakumar from Unify Capital. Please go ahead sir.

Shivakumar: Thank you for the opportunity. Sir, can you just refresh on the key personnel who have joined the bank recently to head various initiatives sir? Just

to get a sense of where they are coming from and what is their experience and what division they will be heading? When you said the head of consumer lending has just joined up, just a sense of where he is coming from, what is his experience?

Partha Mukherjee: He has joined us from HDFC and he has about 15 years behind him in that institution. Executive director has about thirty three years' service and his last posting was as Executive Director and CFO of IDBI. Chief Risk Officer has joined up. His past experience was with State Bank of India and Axis Bank. He served with Axis for about 21 years. At Axis he has served in treasury and operations and audit. That's about it at the most senior most level. Thereafter we also have the Head of Corporate Relationship Management who has joined us. He joined us from RBL bank, prior to that he was with State Bank of India and Axis Bank.

Shivakumar: Right sir. Thank you sir. That was it.

Moderator: Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, the next question comes from Mr. Rakesh Kumar from Elara Capital. Please go ahead sir.

Rakesh Kumar: Yeah, thanks. Sir, just with regards to, you know, some news item, which was coming on the electronic media, about the private equity taking (not clear) the bank. So could you clarify on that news item?

Partha Mukherjee: Beg your pardon? I didn't quite get it.

Rakesh Kumar: Yeah, so some days back there was a news item on the electronic media that some of the private equity players would take a stake in the bank, in our bank, so if you could clarify on that?

Partha Mukherjee: Sure. Well, I must first of all say that clearly we have not contributed to that report that must have come from some statements in the markets. It might have stemmed from the fact that the bank has on and off met investors. As a normal part of investor relations, we have been meeting investors. We have been also trying to project the bank's recent performances. So we have had discussions with various investors of various sorts, funds, and private equity investors, but I can't say that we have really advanced in any direction.

Rakesh Kumar: Okay. And secondly, another question on the business front. So, overall in the southern states, how the SME performance has been in the last quarter or maybe, maybe in the last two quarters, how the performance has been of overall SME picture?

Partha Mukherjee: Overall performance I find it has been good actually. It has been quite good. There would be individual instances of stress here and there, but by and large (not clear) well, and I have been talking to people in other banks. They are all in agreement that overall SME sector in the south seems to be doing alright.

Rakesh Kumar: Any particular industry in the sector, like, you know, which you find that there are still you know, some stress left or...

Partha Mukherjee: Really construction companies continue to be at a stress and there is perhaps a ray of light as far as power and other sectors are concerned, but I am not particularly involved in that. The (not clear) sector also does continue to see stress. I am told that maybe things will start looking up in that sector, but the fact remains that (not clear).

Rakesh Kumar: And on the gold loans side, could you give us some understanding as to how that business is panning out? Has there been any positive change from the last six months or like, you know, have we increased focus in that area?

Partha Mukherjee: The focus, I will not say increased, I would say the focus continues and I will not say that we had a very good quarter as far as the jewel loans are concerned. My book grew quite a bit.

Rakesh Kumar: Okay. Like, how the ecosystem, how the environment is, you know, with respect to this loan product?

Partha Mukherjee: If it is gold product, gold prices being somewhat buoyant, this sector seems to have done well. Normally you do tend to see a bit of stress if gold prices start falling. But since our (not clear) are usually quite conservative and monitoring process is quite robust, we have not really had any challenges there.

Rakesh Kumar: Okay thanks, many thanks.

Moderator: Thank you sir. Now I hand over the floor to the management team of Lakshmi Vilas Bank for closing comments. Please go ahead sir.

Partha Mukherjee: Ladies and gentlemen, thank you very much once again for having taken out the time to be with us. I do hope I was able to...my colleagues and I were able to give you some light on what we have done over the last quarter. And we would be delighted to answer other questions off line, if you were to send them to us. Thank you very much indeed.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. We will disconnect your lines now. Thank you and have a good day everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.