



“The Lakshmi Vilas Bank Limited  
Q1 FY20 Earnings Conference Call”

August 07, 2019



**MANAGEMENT:**

**MR. P. MUKHERJEE – MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER – LAKSHMI VILAS  
BANK**

**Moderator:** Ladies and gentlemen good day and welcome to Lakshmi Vilas Bank Limited Q1 FY2020 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that 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:** Thank you. Good afternoon ladies and gentlemen. Welcome to the results discussion. You would be having the press release with you and would be aware of the results by now. The bank’s numbers continue to be impacted by the capital constraints that we face. In the meanwhile, the bank has continued with joint objectives of capital optimization along with cleaning up of the lending book and quite a lot of that has happened during the quarter. The bank’s capital raising initiatives continue and I will try to address those at the end of the discussion, but first the numbers.

I will go through the numbers. The business mix of the bank stood at Rs.49536 Crores against Rs.58600 Crores on a year-on-year basis. The balance sheet size did reduce to Rs.32438 Crores against Rs.38407 Crores. We had reduced the lending book to Rs.20556 Crores as against Rs.26127 Crores a year ago. In the process, we have tried to reduce high risk weightage assets from the book. We have been also focusing on increased non-fund based limits and by adding capital free accounts yielding marginal returns thereby rebalancing the book. The risk weighted assets of the bank has reduced from Rs.17957 Crores as on March 31, 2019 to Rs.17166 Crores as of the end of June. At the end of last June it was Rs.23063 Crores.

The yield on the performing book of advances has actually risen to 11% today and that is up from 10.32% at the end of the previous quarter. However, the yield on the gross book largely owing to NP as of course is still at 8.99%. Year-on-year deposits have reduced by 10.76% to Rs.28980 Crores as the bank as planned reduced its dependence on bulk deposits and has been concentrating on building pure retail and CASA deposits. CASA grew 12.85% to Rs.7859 Crores. The CASA ratio for this bank is at an all time high of 27.12%. If viewed on a daily average basis as we do internally within the bank, the CASA book grew 10.87% year-on-year. Obviously our numbers are still small, but we do take a lot of satisfaction from the progress that we are making on CASA and it must also be noted that the actual reduction in bulk term deposits has been quite substantial during the year. We are down to Rs.2350 Crores from a level of Rs.9811 Crores a year ago.

The CD ratio of the bank stood at 70.93% as against 74.99% in the previous year and 80.46% a year ago. Total revenue for the quarter came in at Rs.176.79 Crores against

Rs.190.72 Crores. This is net of interest expenses. Operating expenses were at Rs.202.35 Crores against Rs.183.96 Crores a year ago, but I must mention that operating expenses are down from Rs.218 Crores in the previous quarter. It may also be noted that incremental expenditure is mainly on account of higher depreciation provided on estimated basis for the quarter due to incremental IT assets added upon implementation of the upgradation of the CBS software and replacement of computers and provision for wage arrears. Consequently therefore there is a marginal operating loss of Rs.25.55 Crores.

Net interest income for the quarter was Rs.123.51 Crores against Rs.130.20 Crores a year ago. This is mainly due to the inability to underwrite fresh assets as we have been careful in building assets at this moment. The net interest margin at 1.65% is marginally lower from the 1.73% of March 2019 and marginally improved from 1.48% a year ago. We booked other income of Rs.53.22 Crores compared to Rs.60.51 Crores a year ago. This is partly reflecting the reduced level of lending businesses also. The previous year's number also included of course some trading losses, which of course were not there this year, but the main difference in other income really is on reduced processing fees from loans rather than the other businesses, which have been quite buoyant.

Our income from the sale of third party products continues to grow. You may note that this is an annuity based income. Our premium collections last year for this period were Rs.0.71 Crores, which has risen to Rs.1.11 Crores this year. Transaction banking revenues however have been stagnating. We have reported revenue of Rs.5.57 Crores against Rs.6.68 Crores last year in transaction banking.

I will now come to provisions. The total provisions came in at Rs.211.70 Crores for the quarter. This is comparing with Rs.243.24 Crores after DT. The previous quarter's number was Rs.478.79 Crores. I will give you a breakup of the provisions for this quarter. Depreciation on investments came in at Rs.6.98 Crores. Provisions for bad loans were Rs.156.71 Crores. We have separately provided additionally for contingent liability to the extent of Rs.50 Crores. That largely takes care of the provisions that we have. My sense is the provisions for the next three quarters could come in at somewhere between Rs.300 and Rs.350 Crores accumulatively for the next three quarters.

In view of the constraint position relating to capital and the resultant impact on fresh growth, we have reported a net loss of Rs.237.25 Crores. This is against a loss of Rs.264 Crores reported in the previous quarter and a loss of Rs.123.87 Crores in the previous year. As the book has shrunk and there was a small increase in the NPLs, the gross NPL position now stood at 17.30% up from 10.73% a year ago and 15.30% in the previous quarter. The net NPLs were at 8.30%, up from 5.96% a year ago and 7.49% in the previous quarter. However, I must mention here that the provision coverage ratio has marginally improved to 63.08% up from 62.08% in the previous quarter and quite decisively 55.80% in the previous

year. The absolute numbers for gross NPLs at this moment stands at Rs.3556 Crores. Similarly the net NPLs stand at Rs.1539 Crores.

I will talk about slippages that we saw in this quarter. I must start by mentioning that the slippages are particularly because of the impact of the forbearance granted on reorganization of NPLs in the MSME sector earlier, which have now been recognized and largely based on that the total slippages this quarter were Rs.310 Crores, out of which the MSME entities were about Rs.244 Crores. About Rs.42 Crores were in the corporate side and Rs.24 Crores on retail. As I had mentioned in the previous quarters, again the slippages have been largely granular in nature and the largest single NPL was for Rs.24 Crores and a whole lot of smaller entities had fallen as in the previous quarter. The largest single item was as I said Rs.24 Crores, which is actually relating to an NBFC for financing and it was against their investments in bonds relating to an infrastructure company earlier and other than that all the others were relatively small items and most these are between Rs.1 Crores and Rs.10 Crores and possibly even less. The NPLs are across sectors so I cannot really pinpoint any single sector really of slippages.

This was not a good quarter as far as our recoveries were concerned and a lot of the recovery transactions are still work in process and it is our expectation that a lot of the failed recoveries of the first quarter will be completed in the second quarter and the total recoveries during the quarter came in at Rs.79.50 Crores. The cost to income ratio for the quarter was 114.45%. The capital adequacy tier one ratio is now at 4.46% and this does not take into consideration the capital raised recently, which was completed in the first week of July. Had that been built in, then the tier one would have been about 5.56%. We have 569 branches as we had earlier and we have 1047 ATMs across 19 states and one union territory.

Just a word on the amalgamation process as it is well known the bank has applied to the regulator for approval to amalgamate with India Bulls Housing Finance Limited. Our application is still with the regulator and we await feedbacks. There was a reference in the media to the bank's exposure to Café Coffee Day. I must mention here that the bank does not have an exposure to Café Coffee Day, but it does have exposure to other entities in the group and these are backed by collaterals of fixed deposits, land, fixed assets and guarantees. Some of the guarantees were that of the Late Mr. V. G. Siddhartha. The bank is engaged with all parties concerned to understand its position. The outstanding as of June 30, 2019 were all standard. I will stop there at this moment and I will be happy to answer any questions that you might have.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankit Chaudhury from B&K Securities. Please go ahead.

- Ankit Chaudhury:** Sir my first question is regarding the CCD, so in our BSE filing we had mentioned, so we have given the loans to suppliers of coffee beans to CBGS and apart from that we have funded Kumergode Estate and apart from that this lady Malavika Hegde, who is the wife of Late V S Hedge so if you can just let us know what is the exposure we have put altogether, my first question is that?
- P. Mukherjee:** Well in the normal course, we do not mention specific customer exposures so it would be difficult for me to specify anything, but as I mentioned these accounts were all regular as on date and I must mention also that some of these have been repaid also subsequently.
- Ankit Chaudhury:** What is the status post June on these accounts so they were standard as of now?
- P. Mukherjee:** Yes that is correct.
- Ankit Chaudhury:** So post June so how are things panning out there?
- P. Mukherjee:** These are being serviced.
- Ankit Chaudhury:** On the slippages, which you have mentioned so in this corporate you have mentioned it was around Rs.42 Crores right, so whether any large entities?
- P. Mukherjee:** The total corporate exposure slippage was Rs.42 Crores and that is out of two entities. One was Rs.24 Crores and the other was about Rs.17 Crores.
- Ankit Chaudhury:** Understood. These recoveries, which you have mentioned over year so we have done a recovery around Rs.79 Crores so that includes upgrades also right?
- P. Mukherjee:** That does.
- Ankit Chaudhury:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Singh from B&K Securities. Please go ahead.
- Amit Singh:** Thanks for this opportunity. Sir I wanted to understand about the ongoing case of this Religare Finvest where we have around Rs.800 Crores of exposure, so Sir recently even the health of this group has been quite bad, so Sir what is our expectation of recoverability even if the case, which is ongoing, even if we win that case Sir, what is our likelihood of recovering this money Sir?

- P. Mukherjee:** There is nothing for me to recover. There were deposits, which was setup against loans. They have disputed the setting of the deposits against the loans. The matter is presently in court. As far as I am concerned there is nothing to recover from anyone.
- Amit Singh:** Sir these deposits are still with us and not with the Religare Group as of now?
- P. Mukherjee:** The deposits were set off by us against the loans.
- Amit Singh:** Sir you mentioned that for the next three quarters around Rs.300 Crores to Rs.350 Crores of cumulative provision so Sir what is our basis for this provisioning number?
- P. Mukherjee:** It is a good question. Quite frankly it is purely on the basis of our portfolio approach that I have taken because there is not too much of large value NPLs that I am looking at, so based on the total portfolio of assets that I have and based on aging provisions on existing NPLs we work this figure out.
- Amit Singh:** Sir in that case Sir what is our expectation of slippages since you have mentioned around Rs.300 Crores to Rs.350 Crores of cumulative provisions so Sir what is expectation of slippages there?
- P. Mukherjee:** Again it is more of a portfolio look that I have. I have conservatively put at Rs.250 Crores for the next three quarters. Rs.250 Crores to Rs.300 Crores I would imagine. You will appreciate that in respect of small accounts and smaller SME accounts it is very difficult to gauge actually, but I am taking a portfolio approach there.
- Amit Singh:** Sir also there was some media articles where it was indicated that the bank has done some kind of SME financing like coffee loans in the garb of individual loans any updates on that Sir? Any clarification there?
- P. Mukherjee:** I think it was just mentioned in the previous call so it is more like a supply chain financing that the bank has done of suppliers of coffee beans to Coffee Day Global. It is in the garb of nothing. It is just individuals who are supplying coffee beans to Coffee Day Global and we have financed them. There is a clear understanding of how the financing happens and how the payments come and payments have been coming and these transactions have been happening for a few years actually. These have been regularly paid on time.
- Amit Singh:** Sir on the capital rate front, Sir what is our expectation by when the transaction would be completed and what is your sense there Sir?
- P. Mukherjee:** Well in the first place of course the main expectation of course is that the amalgamation with India Bulls Housing will go through and that of course is a matter of regulatory

approval at this moment. Quite frankly, I have no sense as to when that would come. It is purely up to the regulator to take a view and inform us. So on that I have really no idea at this moment, but since that is a matter of regulatory approval, I would nevertheless be going on trying to raise capital from the markets in the meanwhile and that is a process that is on.

- Amit Singh:** Sir thank you so much.
- Moderator:** Thank you. The next question is from the line of Ankit Chaudhury from B&K Securities. Please go ahead.
- Ankit Chaudhury:** Sir what is our outstanding SME 2 book?
- P. Mukherjee:** As of June 30, 2019?
- Ankit Chaudhury:** Yes as of June 30, 2019 because it was actually Rs.48 Crores last quarter?
- P. Mukherjee:** Rs.48 Crores, no it could not have been, but anyway my SMA book I do not have that number in front of me, but my sense is it should have been in the region, the total SMA book did you say or SMA 2?
- Ankit Chaudhury:** I was asking about SMA 2?
- P. Mukherjee:** SMA 2 would have been in the region of about Rs.600 Crores as of the quarter end.
- Ankit Chaudhury:** SMA1 would be Sir?
- P. Mukherjee:** All SMAs taken together would extend to about Rs.1200 Crores or so. SMA2 actually was Rs.520 Crores.
- Ankit Chaudhury:** Sir so basically the presentation is not out yet so just wanted to understand more on the advances front?
- P. Mukherjee:** The presentation is out there actually. The presentation has been put up. You could have a look at it please.
- Ankit Chaudhury:** I will have a look at it so just wanted to understand more is loan book breakup Sir, so how has that been changed within the quarter?
- P. Mukherjee:** In terms of proposition it has not changed much. It still remains largely the way it was in the previous quarter and corporate advances constitute at the present moment 35%. SME set of advances would be another 37%, agri would be about 18% and retail would be 10%.

- Ankit Chaudhury:** So more or less it has remained the same?
- P. Mukherjee:** Roughly the same.
- Ankit Chaudhury:** What will be the outstanding risk weighted asset?
- P. Mukherjee:** Rs.17166 Crores.
- Ankit Chaudhury:** Sir basically the capital is below the regulatory mark and we have been doing the losses since quite a couple of quarters so do we see the chance of getting into PCS if the India Bulls amalgamation does not happen on time?
- P. Mukherjee:** There would always be that risk.
- Ankit Chaudhury:** Continuing to the last question as per the last caller in case of the Religare if the judgment comes in your favor there is no loss so in case it does not come in your favor, do you have to return the money, which you adjusted the LAD?
- P. Mukherjee:** If the judgment goes against me I would need to make payment that is correct. That would normally be the case, but do appreciate also that this is a matter before the courts and it will take a lot of time to decide because even if we were to get an adverse opinion we would necessarily have to contest that because we do feel that we have a very good case, so it would be naturally contested further,
- Ankit Chaudhury:** Finally do we have any RBI rep on our board Sir presently?
- P. Mukherjee:** We have two of them.
- Ankit Chaudhury:** Can you name them?
- P. Mukherjee:** Mr. S Pathi and Mr. Rajnish Kumar. It is there in the presentation. You will be able to see it.
- Ankit Chaudhury:** Sure I will do that. Thank you.
- Moderator:** Thank you. The next question is from the line of Samir Alve who is an Individual Investor. Please go ahead.
- Samir Alve:** Good evening. Just a quick one so do we still maintain the guidance that we gave after March 2019 that we will report of it? There is a small one in FY2020?
- P. Mukherjee:** That is my hope shall we say. We are working towards that only.

- Samir Alve:** The second question from the nonperforming assets we have, do you expect any major resolutions this year or the rest of the three quarters that we have?
- P. Mukherjee:** Yes that is our expectation. You will appreciate that since some of these are relatively large in terms of being corporate assets the swing could be quite big, so if you ask me to give you an expected number I will give you a range and the range could be anywhere between Rs.600 Crores to Rs.1000 Crores of recovery this year.
- Samir Alve:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life. Please go ahead.
- Pranav Gupta:** Sir good evening just two questions, so you said that recoveries will be around Rs.600 Crores to Rs.1000 Crores right could you specify for the account that we are expecting a recovery and what is the quantum of those accounts?
- P. Mukherjee:** These frankly are a very large number of accounts and I am unable to give you a specific number per account, but as I said these are a relatively large number of accounts and the recovery team monitors them day by day and account by account. These numbers undergo changes depending on the progress or otherwise that we are making. These are monitored right up to my level. I constantly monitor these, but I am unable to give you a specific number per account or which account will get me how much, but definitely as I said it is a swing number partly because a lot of these are corporate accounts. Some of these are also probably at NCLT, so those are factors that will decide.
- Pranav Gupta:** What was I was trying to understand was, which are the one or two chunky accounts, which to expect might be recovered?
- P. Mukherjee:** Between you and me, my expectation is more from the non-chunky accounts and we do have the smaller accounts, which will get me a lot, so these will add up to a lot of accounts that will give me these numbers.
- Pranav Gupta:** So these smaller accounts will largely be SME and MMSE and the retail accounts is that right?
- P. Mukherjee:** Smaller you could call them mid corporate accounts and so on.
- Pranav Gupta:** Sir secondly you said that the total SMA is about Rs.1200 Crores could you give us a sense you said that you always monitor the portfolio and do see any slippages coming through, but even the SMA1 and SMA2 number is quite big? The math does not kind of work with

the number of provisioning that you gave, so could you just help us understand what is the thought process there?

**P. Mukherjee:** As you will appreciate that SMAs do not require provisioning.

**Pranav Gupta:** I understand that, but what I am getting at is that typically these accounts would slip going forward?

**P. Mukherjee:** I will put to you this way. For likely slippages I would be focusing more on the SMA2 obviously. The others quite frankly swing quite often between 0, 1 and so on and on the 2s the ones that are likely to be slipping are the ones that I have already built into my estimate of the slippages. The rest are likely to be there and will move between 0, 1 and 2.

**Pranav Gupta:** Any chunky accounts in the SMA2 book?

**P. Mukherjee:** There are a couple of accounts, but those accounts tend to service themselves at the appropriate time and they are well securitized, but yes we do have a few chunky and when I say chunky they could be in the region of say Rs.100 Crores or so each of them.

**Pranav Gupta:** So a couple of accounts around about Rs.100 Crores each?

**P. Mukherjee:** Yes that is correct.

**Pranav Gupta:** Great. I will join back in the queue thanks.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Mukherjee for closing comments.

**P. Mukherjee:** Well ladies and gentleman as I mentioned in my report, obviously this is a quarter, which was largely maintenance quarter for us. The effort really is now to rebuild the bank. The retail bank is focusing very largely on strengthening the retail liabilities base of the bank. We have been consciously keeping away from bulk deposits and you will appreciate that we have made significant progress out there reducing our dependence on bulk deposits very substantially. A year ago, the bulk deposits proportion in the bank was about 30%, which is now down to about 8% or may be a little less actually as we speak, so there has been significant work done. On the lending side, we are completely trying to reconstruct ourselves and our business profile and we are trying to obviously eliminate risk as much as we can from that book and of course capital is something that we will have to bring into the bank. There are various options available, I suppose including the MND transaction that is being discussed, so I am hopeful that in the quarters to come you will see significant



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improvement in the performance of the bank. I thank you all once again for having participated.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, on behalf of Lakshmi Vilas Bank Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.