"Lakshmi Vilas Bank Limited Q4 FY20 Earnings Conference Call"

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MANAGEMENT: MR. S. SUNDAR - INTERIM MD &CEO, LAKSHMI VILAS BANK

Moderator: Ladies and gentlemen,good day and welcome to the Lakshmi Vilas Bank Limited Q4 FY20 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Sundar, Interim MD and CEO of Lakshmi Vilas Bank. Thank you and over to you, sir.

S. Sundar: Ladies and gentlemen, good evening to all of you. I am Sundar, the MD and CEO, interim rather, of Lakshmi Vilas Bank. I have with me the President and Chief Operating Officer and the CFO and I welcome you all to this Lakshmi Vilas Bank Q4 results analyst meet. We already uploaded the SEBI publications and performance highlights in the bank's website. I am sure that you would have gone through already.

And some of the highlights of this quarter has been that the bank has recorded operating profit of 70 crores, perhaps of the 10quarters continuously making losses and bank has also made a net profit of 93 crores for this Q4. Our CASA increased to 26.6%, marginally up from 25.67 in the last year. Our concentration was mainly on the retail deposits with the bulk deposits constituting around 4.86% of the total deposits only. The bank has very good liquidity coverage of 273% and as provided, another important indicator is that our provision coverage ratio, PCR, stands high at 71.25%.

And before I go into the details of the Q4 performance and other matters, I would like to share that we could achieve these things despite a lot of adverse things that have happened to the industry and also to our bank. To name a few, our MD, Mr. Parthasarathi Mukherjee resigned from the bank services sometime in August last year on personal reasons and this was followed by the moratorium placed on the Urban Cooperative Bank in Maharashtra, that has affected the sentiments of the depositors at large, not only with the bank, many other private sector banks. Then immediately after that, we received a communication from Reserve Bank of India that bank has been placed on PCAbecause the threshold have been breached. And we had sent one amalgamation proposal of Indiabulls Housing with the bank that was also not considered by Reserve Bank of Indiasometime in October last year, and there were a lot of adverse media publicity with regard to Religare matter. And you know recently, about 3 months back, another private bank was placed on moratorium. That again had a ripple effect on our bank'sdepositor sentiments rather. And despite all that, the COVID pandemic and all that, that has affected growth in business and collections was up to the extent, collection of the NPA which we have been heavily looking for. And with all that, the bank could achieve some good results in Q4.

I will move to certain important things. As I told you the liquidity position, the bank is quite comfortable with an LCR of, liquidity coverage ratio of 273% where minimum stipulated is 100% by Reserve Bank of India and the bank does not have any asset liability mismatch. Most of our assets as well as liabilities are of the same duration of mostly one year. So bank does not have much of interest rate risk consequent upon the asset liability perfect match. So that is about the liquidity and the interest rate sensitivity.

Coming to capital raise, one important thing that we are looking for is the capital raise and you know the bank in the last 5 years has raised 2,002 crores in capital from August 2015 to May 2020. So bank has been always in the capital market raising funds through rights issue, QIPs, to Rights on preferential allotment, all the things happened in the last 5 years. So this time also we have been trying for capital raise that should happen. And in the meanwhile while searching for this capital, we have signed a letter of intent with Clix Group for amalgamation of the latter with our bank and letter of intent has been signed and we have intimated to Reserve Bank also about this particular activity and as per the letter of intent, both the parties have to do some due diligence. They will do due diligence on us and we have to do due diligence on them and a 45-day timeframe has been agreed to for both of us. That process has been initiated and is going on. And at the completion of the process, we have to workout other details like swap ratio and also boards have toclear the proposal, then it should go to Reserve Bank of India. So these are basically, so going on as per the schedule.

If you ask me what is the special advantage I derive from this particular proposal, Clix Capital is having 1900 crores of capital and their loan assets are about 4600 crores. Assuming that they may need around 400 crores of capital funds to fund these assets, there will be surplus capital of 1500 crores, so that should be available to the bank on merger. If you see the advantages, they are high on capital funds; we are high on assetsliabilities, customer franchise, branch network, so we are a scheduled commercial bank, they are an NBFC. I think the merger should give enough strength and viability for themerged entity to grow in size and make profits. So these are basics of the proposal and it is going on as per the schedule. And in consultation and mutual consultation, we may try for infusing some more capital also. This brings me about 1500 crores, I may need some more. So perhaps in consultation with them, we can get in some more investors also. As and when something materializes, we will put it on the public domain and share the information.

Now, what we have done to improve the profitability. The bank has taken enough steps to reduce the costs. Last year, the reduction of the cost of funds was marginally from 5.91, it came to 5.51 this year. But this year onwards, we have cut the fixed deposit rates and that should give me enough reduction in the cost of funds and cost of deposits to improve my NIM and the cost of funds which have been of the order of about 26% and we are planning to increase by another at least 3-4 basis points during the current year. And one biggest advantage is I have got averylow amount of bulk deposit,constituting around 5% of the total deposits only. Of the total of say 20,000 odd crores, only 1400 is the bulk deposit. And as I told you, we have rationalized fixed deposit rate against various matures**.** They are at par with our peer banks to give me the edge on NIA and NIM.And to reduce another one, my interest yield on the standard assets are close to 11%. So on the other hand, I have a good standard assets portfolio that gives me a good return and with the cost of deposits coming down, I should be making good NIA and margins.

And turning to establishment cost and other operating costs, see, we always believe that employee should be rewarded well and at the same time, productivity also should take place and we should be helping both. And keeping these things in mind, we have done some reorganization and if you could see, that training and other process are going on and we introduced a VRS for the employees, about 69 employees opted for the VRS and some 300 employees have chosen to pursue other careers. So to that extent, my employee cost should come down. And we have also withdrawn the mandate given to IBA for the 11thbipartite that has been going on since November 2017. So these are all the things. By going away from the IBA doesn't mean that I am cutting down the cost. See, bank for the time being has to strengthen its position and only then future load is not there by coming out of IBA. In the same direction you would see in my balance sheet also in the last few yearswhatever I have provided was wage arrears, as I have come out of IBA I have reversed the amounts in my balance sheetas I have no liable to pay the wage arrearsfrom IBA.

And coming to other operating costs, we have been going through the reduction of the number of branches or merger of branches and all that, so that the nearby branches are merged to have the optimization of cost and 6 such branches were merged during last year where all the customers were shifted to the nearby branches, so that customers are not inconvenienced, at the same time branch gets the benefit on rent and other operating expenses. And our ATM, we have gone for OPEXmodel from CAPEX model, almost all the ATMs have been converted except about 4, 5. Of the 915 odd ATMs, we already done close to 910 or so. This is the latest state of technology, state-of-art of the ATMs with windows 10 perhaps for the first time, having all the security repairmentsbanks have been asked to provide by Reserve Bank of India and the vendors have promised to keep the uptime also quite high. And more than on the cost point of view, we see the vendors take up all, for a fixed job, they are undertaking all the maintenance, AMC, cash loading, everything they will do and e-surveillance is put in place. So this helps me in removing the security guard. Unless it is mandatory by the respective state government in places where the state government says I should have a physical guard, I will have. Otherwise, I can depend on the e-surveillance to monitor the movements in the ATM to that extent I can remove the security guards that have been placed so longthat gives me quite a bit of cost advantage going forward. Even the existing AMCs also, we are renegotiating for reduction. And leaserentals of the branch, leaserentals also, we are renegotiating with the landlords, we have some cut and reduction. Right now, there has been a reduction in rentals across various sectors including residence areas. Accordingly, we are also making use of this one and our position also needs where we have stress on profitability, we are also requesting them, they are also cooperating. I should honestly admit, they are also cooperating in reducing the leaserentals.

From the improvement fee income side if you see, as I told you we are moving over to OPEX model of ATM, that keeps the uptime very high about 90% to 95% and we should be able to get the fee income. And digital products, we have been quite aggressively pushing and new digital products are also being undertaken for implementation. With all that, I feel that digital istwo-fold; on onemy digital income goes up; secondly the operating cost, I can cut down the size of the branch, that also will come down, I can cut down the staff strength, my operating cost will come down. With reduction in the size of the branches where more customers are going towards the digital channels, I will be able to get the benefit on other aspects of cost also. These are all being actually perceived. And onething that you may all be aware that yields have softened in the last few months and going forward, there is a very possibility that yields may soften further or may not increase at this present time. That gives me, for the banking industry and me also, to make trading profits from the securities trading and all that. So these are all the advantages that I have to improve the fee income going forward in the current year and we continue to be responsible to the society to ensure that safety and wealth under the COVID lockdown conditions and sanitization and maintaining hygienic, social distancing, everything is adhered to at all branches, offices and all that, they are following government guidelines of reduced number of staffs attending city offices and we have distributed even face masks to customers free of cost as a gestureof goodwill to our customers.

And as I told, the operational resilience during the lockdown period, our digital products and all, they were up to 99%, the branches remained 99% operational, 90% of ATMs remained operational, digital channels had a very high uptime of close to 99.5% and customers are using extensively. These are all the good things that have happened in COVID times also. And as a matter of consideration of capital, the bank has,in a way it has beenrebalancing and this year also we rebalanced and brought down the risk-weighted assets from close to 18,000 crores last year to about 13,200 crores at the end of March. And now, as I told you, I have surplus liquidity, but my capital adequacy ratio is low. How to match it, we found that gold loans that are having increased demand at these days and we have picked up the gold loan products and aggressively selling that product which does not call for a capital allocation. And similarly, government introduced the guarantee backed loan, we call it Lakshmi Guaranteed Emergency Credit Line by which our Credit Department has been very active in selecting the customers, not only selecting, locating the customer and extending the benefits. We have around preapproved of 662 crores and we have sanctioned about 25% of it, 143 crores have been sanctioned also. This is also another thing beneficial that this is guaranteed by the government and does not call for any capital allocation. It suits us well where I have surplus liquidity and capital is needed. That product suits me well, so I am pushing it very aggressively. This should add to my profit to a large extent.

And coming to the numbers of the fourth quarter, you already have seen, you would have seen from this right, and deposit mix stood at about 38,116 crores and lending book stood at 16,673 crores and as I told, my yield on the standard assets was close to about 11% and my reduction in deposits has been happening there, those are things that I already mentioned in the beginning of the one, not applicable to my bank alone, all the private sector banks in general are feeling. But I could retain my CASA ratio well. It is 26.6, up by at least 1% as was in December 2019. And one biggest advantage during this difficult time is that my bulk deposit ratio is very low, mostly our retail deposit, bulk deposits constitute only 4.86% of the total deposits, is the biggest advantage I am enjoying right now. And as I told, the cost of deposits has been coming down compared to Q3, it has come down. For the March quarter,my cost of deposit was 6.44, for the whole year last year it was 6.75, for the whole of this year it was 6.57. And this year particularly, we had slightly kept the rates higher because of the problems associated withprivate banks. This year onwards, we have started reducing and we have almost brought it down to the levels of peers. We could see good improvement in the reduction in cost of deposits to augment the profitability. And yield on advance, I always told you,my standard advances are yielding close to 11%. Then, my CD ratio also is quite good at 77.76%, up from 74% last year. The total revenue for this quarter was 243 crores against 191 during last quarter. The operating expenses are 173 crores versus 211 in Q3 and in the operating expense you will see that as I was telling you that we had come out of IBAand because of that, that provision that we made for wage arrears, we could reverse as there was no liability subsisting as on date having come out of the IBA. And other things as I told in the establishment, VRS and people, all these should give me a benefit over this year slowly as we proceed. As I told you already that we have introduced e-surveillance in our ATMs and salary to gurkhas and all that should come down substantially.

Then coming to my operating profit, as I already told, it was 70.32 crores versus 19.85 on QoQ and 21.18 loss year-on-year, Q4 of last year. Our net interest income was slightly lower this quarter as we had big agricultural account that sell NPA, that constitute, I will give you the slippage number. Of this, 50% came from one large agricultural loan, then the interest for close to 6 months had to be reversed, so that has pulled down the NIA or NIM for this quarter, but overall my NIM remained about 1.56 for the whole year as compared to 1.65 last year, about 9 basis points was the reduction in the NIM. And our other income was 174 crores, there was a good gain from treasury for about 70crores**,**trading profit for the third quarter was in fact, **sorry,** 78.75 croresand fee income and all, that compares well with the Q3.

Coming to the NPA slippages, I had 314 crores of slippage for the quarter as I had because of one large agricultural loan for about 150 or 160 crores, all other accounts constituteonly 150 crores and the recoveries during this difficult times, I could affect 162 crores of recovery. In fact, last quarter I said my recovery was in excess of slippage, but for this account, this has fallen, my recovery would have been higher, but because of the COVID restrictions, I could not pursue further recovery of vigorously on the other accounts. Anyway, we are pursuing for recovery. The current year I think we should be able to, we are targeting close to 1000 crores of recovery which should, they are at various stages and once the situation settles, I think we will be able to follow up vigorously and get this amount.

And coming on to the net profit, we made a net profit of 92 crores for this quarteras against loss of 92 crores for the quarter as against 334 crores one biggest thing is DTA, we have not made for first 3 quarters. Once we found the capital position is getting improved on account of Clix merger on the hope that, then we have provided for DTA for the fourth quarter and for the whole year, earlier every quarter we will make, in this year we have not made. We have made the entire provision for the fourth quarter. So accordingly, the third quarter is not quite comparable. If you see, the last year quarter, loss was 264**,** there also DTA was there as compared to we made a net profit of 92 crores for this year. My gross NPA was recently mentioned that it was 25.39% and the net was 10.04%, but we could improve the provision coverage ratio to 71.25% as compared to 68.7 in December. I think overall, the position has been under control. I already told you about Clix proposal and the other strategies that we are following to improve the income, both interest income as well as fee income, I think we should be on track, we should be able to make it in the current year. And the capital adequacy ratio, last as I said because of the DTA is also, DTA does not give me any benefit in the capital adequacy competition, though on the net profit tax credit is available. If you know,the DTA is reversal. Oncewe make the profit, it gets automatically reversed. That is why we take DTA as aprofit item in the P&L account but for capital adequacy as per the RBI guidelines, this has to be removed from the network of the tier 1 capital. Accordingly, the entire DTA has been removed from the capital funds. After that, my total capital adequacy was 1.12% including the tier 2 capital. These are foreign capital. The return on assets for this particular quarter was 1.28% which was negative in the earlier years and return onbecause net profit was 63% as of equity has also been low due to losses which was negative. The only positive point that we have started, posted a positive operating net profit this year and we have taken all measures to sustain that in the current year also.

As of now, we have 566 branches from 918 ATMs across 19 states**.** As I told already, we have consolidated 6 branches with neighboring branches and on all sides, we have taken enough steps tonot only address the current problems and to improve the performance of the bank. I think with sincere efforts from all our staff, I am confident that we should be able to meet the expectation of various stakeholders. With that, I will close my speech and I invite the comments from the analysts**.**

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Siddharth Purohit from SMC Global. Please go ahead.

Siddharth Purohit: Sir, two things. One thing, I couldn't understand the tax reversal part, if you could explain it? And another part is that have we done any sort of additional provisions for COVID specific?

S. Sundar: See, first one reversal, as I told you, see every bankgives a mandate to IBA to negotiate on behalf of the management with the unions and we had also given earlier when the bank was in profit and all that. Now, it has been decided to take back, withdraw and the agreement has not been concluded. It is still going on at the IBA level. So we have decided to come out of it. Two things, one you know we also thought our stocks should be adequately compensated, the kind of provision could be possible once we come out of the IBA. Secondly, having come out of IBA, as on date I don't have liability to pay**.** Ihave already provided in the books. If it needs to be reversed, it is normal, accordinglywhen I don't have liability to pay, it has come out of my profits only, it had to be reversed back with profits. So normal accounting function only, nothing extraordinary I would say rather and what was your second question?

Siddharth Purohit: Anyspecific provisions for COVID that we have done?

S. Sundar: We have not made any specific provisions for COVID, standstill clause applies for the accounts as on 29th of February. See, moratorium was given from 1st of March, any installment of due falling out of 1st March that gets deferred by 3 months, now it has been further deferred by another 3 months up to31st August. But what about accounts that have already overdue but not NPA say SMA1, 2 and all that as on 29thFebruary, so Reserve Bank came out and gave the guideline that these accounts can be treated under standstill clause. Theycontinue to be so for the moratorium period so that supposing and also that has completed 80 days from 29th February, so after 6 months again we will call it, it is overdue by 80 days. So that is the standstill clause given by Reserve Bank of India. And Reserve Bank said if in the normal course, if these accounts become NPA, you are not able to recover assume, then in the normal course you have to treat it as a substandard asset, you would have provided 15% against which the Reserve Bank said you have to provide 5% in March, another 5% in June. So this is the provision we have created, what was needed we have created as per that. Other than that, for the moratorium accounts, right now there is no need for making any provisions. We are not making any provisions either.

Siddharth Purohit: Sir, just one more thing on the asset quality front, if you can help with what were the slippages for the quarter and simultaneously the upgradation in write off also?

S. Sundar: See, my slippages this current quarter is 314 crores. As I told you, one big agricultural account constituted about 50% of it, 150 or 160 crores of the 314 crores. Then coming to my recovery part, acquisition, cash accrual, allput together came to 162 crores. So, but for this one account, my recovery would have been higher than the slippages. That was seen in Q3 also. We would have had a repeat performance in this year, but the recovery proceedings now could not be very effective particularly during COVID times and with all the difficulties, we could recover 162 crores. These numbers are for this quarter; slippages314, on the face of it, 314 is the slippage, 162 is the recovery.

Siddharth Purohit: And sir any write-off amount, if you can?

S. Sundar: Write off was only 16. Of the 162, 16 crores was only the write off. Cash recoverywas 95 crores, upgradation was 40 crores, another 9 crores we sold off.

Moderator: Thank you. The next question is from the line of Sagar Vaidyafrom Motilal Oswal**.** Please go ahead.

Sagar Vaidya: Sir, couple of questions. One, what is the risk-weighted asset as on March, if you can share that number?

S. Sundar: Risk-weighted assets, I think I covered in the presentation, for your benefit I will read out again. My risk-weighted assets as on 31st March were 13,198 crores to be exact. 13,198 down from 17,957 the same day last year, March last year.

Sagar Vaidya: What is our tier 1 capital?

S. Sundar: See, my capital adequacy ratio was 1.12%.

Sagar Vaidya: And this is the overall capital adequacy ratio. Can I get a split between tier 1 and tier 2 in terms of percentage…?

S. Sundar: I can tell you, it is not a problem. Tier 1 is minus 0.88, tier 2 is 2, total 1.12.

Sagar Vaidya: And any idea about the percentage of customers who have opted for moratorium?

S. Sundar: Of the total assets advances book, close to 55% may come under moratorium.

Moderator: Thank you. The next question is from Siddharth Purohit from SMC Global. Please go ahead.

Siddharth Purohit: Sir, with regards to the capital raising and the partner that you intend to like merge with, just one, since it is an unlisted entity, we don't know about their book, like what you say what are the verticals they operate in and everything? So like normally RBI will have its stand on the segment they lend to and which are the sectors they have right now advanced etc. So how much would be, like I know it will be at an early stage but like normally if it is very high towards mortgage and all, then in that case RBI might have a different stance. So if you can at this stage give some idea, what is the nature of their business with us?

S. Sundar: As I told you the name of the group is Clix Group. And see, in fact as I told, their total advances are 4600 crores with a capital of about 1900 crores. So they are high on capital and low on assets, so that gives a benefit to the merged entity. Bank needs more capital and they have more capital. And they need more franchise, outlets, customers and products, we have all. We as a regular scheduled bank, we have regular advances, we have full-fledged category one Forex onthe Forex side and we have all liabilities products including running account, so many things. So any NBFC will have the benefit of selling, they have expertise in selling retail loans particularly and we have the franchise, we have got the ability to raise retail deposits. So retail deposits on one side, retail advances on the other that gives a perfect match between NBFC and a bank. If you see on the face of it, it is quite beneficial for the merged entity. Point number two, how do we see that this is a perfect match? See, they are having all retail products. They are not much into real estate. Mostly, they are all bank. They are also giving retail loans, auto loans and type of MSME loans. See we are also giving, that will be easy merger with the bank because there is not much of really, see not that you have to shy away from it, we are also permitted to do real estate, but within limits. So they have more of this in some small quantity of real estate, but I don't think it will be any problem for the merger. So I think on the product side of their assets or liability side if you take, there should not be any problems in the merger proposal.

Moderator: Thank you. The next question is from Alok Malpani from IDFC. Please go ahead.

Alok Malpani: Sir, I just have one question on your liabilities. Your overall deposits have gone down as compared to the previous quarter and we wanted to understand how much would be CASA out of this? What is the percentage of CASA in your overall deposits?

S. Sundar: Of the total deposit, I have 26% in CASA, I will tell you the exact number. My CASA is 5,712 crores **.** Of the total of 21,443 crores of deposits, 5700 crores is the CASA translating 26.64%.

Alok Malpani: Okay. My second question was linked to that this position is as on 31st March. Post that, there has been significant changes on the liability franchise as well led by COVID and all that. So the trend from March onwards has been negative, deposits are going down?

S. Sundar: Deposits have come down, advances also come down. The risk-weighted assets have come down from 17,000 crores to 13,000 crores. So to that extent whenever deposits come down, whenever advances come down, we will pay off, that is the bulk deposit also low for us. First we will figureretail deposit, we would like to retain all this. Bulk deposits might carry slightly higher rate of interest also, so we would pay back all the bulk deposits. So both the deposits and advances have come down and turned up.

Alok Malpani: And the slippages which you mentioned, 314 crores for fourth quarter, this is largely for corporate book or retail book?

S. Sundar: See, we don't do much of retail and what we have is my MRC, what we call as MSME and this one, even the large one was the agricultural loan. This is an agricultural term loan, they turned for about 50% of the total slippage came from that only. These are all not big corporates or anything. But of course they are, maybe classified as some as MSME, some under commercial, something like that.

Alok Malpani: But 50% has come from agricultural advances.

S. Sundar: That is a big account for about 160 crores or so, those are agricultural loans.

Alok Malpani: And this recovery of 162 crores, that is again from one-off accounts or there have been multiple accounts?

S. Sundar: No, various accounts, that consists of so many accounts, not from any single account. No bulk repayments. They are all from various, I don't have exact number of accounts, but it has come from various accounts. There is no single bulk account from which recovery was…

Alok Malpani: And sir, one last question of these, is there any update on that loan against deposit which we have given on Religare Finvest?

S. Sundar: I think better listed is better because it is subjudice. They have gone to the court, it is pending before court. So we are not supposed to talk on matters which are subjudice.

Alok Malpani: Understood your point. But sir, you haven't increased your provision on that compared to last quarter?

S. Sundar: No.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to Mr. Sundar for closing comments.

S. Sundar: Okay, sir. Thank you for the audience, all the analyst, I thank you once again.

Moderator: Thank you very much. On behalf of Lakshmi Vilas Bank Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.