"Lakshmi Vilas Bank Limited Q2 FY20 Earnings Conference Call"

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MANAGEMENT: MS. S SUNDAR – PRESIDENT & CHIEF FINANCIAL OFFICER, LAKSHMI VILAS BANK

Moderator: Ladies and gentlemen, good day. And welcome to the Lakshmi Vilas Bank's Q2 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 conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand conference the over to Mr. Sundar – CFO. Thank you, and over to you, sir.

S Sundar: Thank you. I am Sundar, CFO of Lakshmi Vilas Bank. And I have with me other two Presidents and top level executives. Good evening, ladies and gentlemen. I welcome you all to the Lakshmi Vilas Bank Q2 Results Meet. We have already uploaded the SEBI publication and the performance highlights. And I am sure you would have gone through it.

As maybe seen, the Bank's performance continues to be affected primarily by high level of NPLs. This has affected our income generation and the eroded the capital availability as well quarter-after-quarter. Accordingly, the bank is continuing with its joint objectives of capital optimization till enough capital is raised, along with cleaning up wishful lending book.

During the quarter ended 30th September 2019, the Bank has raised equity capital of Rs. 188.16 crores, by a preferential placement to Indiabulls Housing Finance Limited. As you are aware, the bank raised Rs. 459.59 crores of equity capital in March 2019 under a QIP route. Together, if you see, the Bank has raised equity capital of Rs. 1,430 crores, including premium, in the year 2018 and so far in the year 2019.

In the AGM held in August this year, the shareholders of the Bank have approved enabling the solutions for raising CET1 capital of Rs. 1,000 crores and debt capital of Rs. 500 crores, simultaneously increasing the authorized capital of the Bank from Rs. 500 crores to Rs. 650 crores. We are engaging with investors and may seek appointment of merchant bankers too, depending upon the progress.

The bank has rebalanced and reduced its risk weight assets from Rs. 17,957 crores to Rs. 17,166 crores. It continues to concentrate on assets like gold loans, deposit loans, which carry nil risk weights. The Bank has initiated reductions in interest rates on its term deposits and savings bank accounts. We reduced the cost of deposits which remain the same **(Inaudible) 03:52.2** the benefits of which shall be seen in the following quarters.

The Bank's yield on standard assets improved to 11.78%. Continued the efforts to reduce dependence on bulk deposits which now stands low 7% of its total deposits. And the Bank maintains its focus and drive towards recovery of NPLs.

However, there were certain happening which were not favorable to the Bank. Number one, the MD & CEO of the Bank, Mr. Parthasarathi Mukherjee has submitted his resignation and was accepted with effect from 31st of August. He cited personal reasons for quitting.

Secondly, the Religare issue, as you are well aware of, the Bank had in 2016 extended to deposit loans on grounds to the group companies from Religare. As the loans were not paid, the Bank finally adjusted the deposit process with the loan outstanding during February 2018. However, Religare Finance Limited, from where the deposits have come, filed a suit against the Bank in May 2018. And the matter is still sub-judice.

However, based on SEBI's orders, they were advised to recover various amounts, including the loans given by LVB to the Singh Brothers and their group companies directly from them, including interest. And the FIR was filed against the Singh Brothers and other company executives.

In continuation with it, they have also filed an FIR against the Bank's Director, some of the executives and unspecified persons during this quarter. The Bank has amply replied, clarifying its position to Economic Offences Wing with whom the FIR is filed. Extended, promising the maximum cooperation, fullest cooperation rather from the Bank in inquiries.

Thirdly, the Bank has been put under PCA by Reserve Bank of India during the end of September. As you might have observed, in the PCA the Bank is refrained from increasing its loans to large corporates, and the bank is advised to improve the capital adequacy and to reduce the NPA levels.

In addition, Bank has been asked to improve its profitability by reducing various operating expenses. Bank cannot open new branches and all. You might have seen the Bank has welcomed RBI's stance and in fact, the Bank has been following all these prescriptions all along. The bank has not opened any branch in the last one year, has been continuously working for cost reduction, the efforts of which shall be seen in the subsequent quarters.

The Bank has been on a recovery drive for reducing its NPA. And the Bank has also been increasing the capital, and as such, the PCA does not force any decision on the regular or normal activities of acceptance of deposits and lending to various sectors, MSME, other priority sectors, small loans, except they have only asked us to restrict large corporate loans.

Then next comes the position regarding the merger of Indiabulls Housing Finance Limited and ICCL, this into LVB. You are all aware that the Bank's Board had approved the merger in May, and application was submitted to Reserve Bank of India. This application has not been considered, though the CCA has approved, Reserve Bank said, the application has not been considered favorably. This came just after the quarter end, it came on and the letter was dated 9th October.

Then another one. During this March 2017, the Reserve Bank observed that two accounts for about Rs. 169 crores have not been properly classified as NPA, and accordingly it imposed a penalty of Rs. 1 crores on the bank, the order of which was dated 14th October 2019. So, these are the happenings not favorable to the Bank, that has happened in the quarter and immediately after.

Now I shall turn to the numbers. The business mix of the bank stood at Rs. 47,117 crores against Rs. 55,162 crores on year-on-year basis. The lending book was Rs. 19,251 crores, against Rs. 20,556 crores at the end of the previous quarter. The Bank has been engaging in reducing its risk weight assets and concentrating on nil risk weighted assets like gold loans, deposit loans, etc. As I told earlier, the Bank's risk weighted assets came down from Rs. 17,957 crores as at the end of March 2019 to Rs. 17,166 at the end of quarter, and further **(Inaudible) 12:07.0** crores at the end of September.

The Bank's yield on standard assets, as I told already, improved 11.78% from 11%. The deposits got reduced by 10% to Rs. 27,864 crores. The silver lining is that the CASA **(Inaudible) 12:43.3** by 5.72% on average basis and the ratio of CASA to total deposits stood at 25% at the end of September. The Bank has vastly reduced its dependence from bulk deposits, as told earlier, the bulk deposits as a percentage of the total deposits stood low at 6.79% at the end of Q2 FY2020.

The cost of deposits has almost remained stagnant at around 6.75 for the last six quarters. At the end of September, or for the quarter ended September, the cost of deposit was 6.77. As I told you already, taking shift to reduce the interest rate offered on time deposits as well as savings bank deposit, the benefit of which shall be seen in the coming quarters. Their credit deposit ratio at the end of September stood at 69%.

The total revenue of the Bank for this quarter stood at Rs. 167.67 crores as converted Rs. 176.79 crores for the previous quarter. The operating expenses marginally higher at Rs. 208.04 crores against to Rs. 202.35 crores at the end of June, for the quarter ended June. The incremental expenditure mainly related to higher depreciation on the IT related assets and some various arrears to be paid for the watchman as per the directions given by various state governments.

And as a result of all this, resulted in a marginal operating loss of Rs. 40.36 crores for this quarter as compared to Rs. 25.55 crores for the previous quarter. The net interest income for this quarter was Rs. 110 crores versus Rs. 123.57 crores in the previous quarter. The reduction mainly arose because of fresh NPAs as well as reduction in loan assets.

The net interest margin was lower at 1.47 as compared to 1.65 in June. The Bank had booked other income of Rs. 58 crores as compared to Rs. 53.22 crores in Q1. The Bank had a recovery of Rs. 3.57 crores from bad loans and had a higher third party sales income of Rs. 4.68 crores as compared to a meagre amount in Q1.

Coming to provision contingencies, the Bank had totally provided Rs. 317 crores for this quarter as compared to Rs. 211.70 crores from the previous quarter. Of which, the breakup for the bad loans was 312.36 and depreciation on investments mainly arising from corporate bonds and a small portion on the government securities on the back of higher rising yields, and the depreciation was 13.95 and the reversals on the restructured loans, totally the provisions came in at Rs. 317 crores for this quarter.

And the gross NPA at the end of September was 21.25% and the net NPA was 10.47%. The Bank would maintain its PCR at 62.28% as compared to 63.08% at the end of previous quarter. The Bank after these provisions incurred a net loss of Rs. 357.18 crores for this quarter as compared to Rs. 237.25 crores in the quarter ended June 2019.

Coming to slippages, the first slippages during the quarter was Rs. 672 crores, of which there were certain SECI accounts about Rs. 160 crores arose from that coffee grower's account which we had already disclosed in the June publication. We have been recovering amounts in the account, and we continue our efforts to recover more in this and the next quarter.

The real-estate account accounts for Rs. 178.33 crores of NPA. There was a home finance company in Mumbai, exposure to that company of Rs. 49.6 crores of NPA. And then a tours and travel operators in Mumbai which has gone at NCLT also, which has gone to Rs. 35.12 crores. Then offshore drilling company account which turned NPA for Rs. 31.23 crores, and a trading account in Mumbai for Rs. 25.03 crores. These are all the larger value accounts which turned NPA during this quarter.

However, the Bank continues its efforts to recover the maximum amounts. During this quarter, the total recovery from NPA accounts were Rs. 136.30 crores, of which Rs. 56.30 crores was cash recoveries and another Rs. 80 crores are from upgrades. The Bank has identified for recovery of Rs. 250 crores in NPL, already Rs. 70 crores have been recovered. And one time settlements have been sanction for Rs. 135 crores in various accounts. And some major recoveries are expected from real-estate accounts.

In all, the Bank targets to recover close to Rs. 700 crores to Rs. 900 crores in the ensuing two quarters.

Coming to the cost income ratio, the cost income ratio of the bank stood at 124% against 114.45% last quarter. As you may be observing, there is not much increase in the cost, the ratio has gone up because of the lower income that I explained in the NIA on account of lower advances, as our inability to grow on advance were constrained for want of capital and the attrition to NPAs.

Looking at the capital adequacy, the capital adequacy ratio at the end of last quarter was 6.46 with the Tier 1 of 4.46. Subsequently, we raised around Rs. 188.16 crores in July by way of preferential allotment to Indiabulls Housing Finance. And capital adequacy ratio at the end of September was 5.56%, of which the CET1 stood at 3.56%. The return on assets and return on equity continue to be negative on the back of net losses.

And the bank has Rs. 571 branches, including two personal bank branches, 1,045 ATMs across nine states, to retail asset center. As I told earlier, there are no major expansion envisaged by the Bank under the PCA. The prime focus continues to revolve around recoveries. The entire machinery of the Bank has been put the recoveries. As they told already, Rs. 70 crores have been recovered in the month of October itself. We are continuing with our efforts to recover more.

And prime focus continues to be on growth in jewel loans or deposit loans which call for nil risk weight assets and other priority sector advances. As also to contain the CAPEX and the cost income ratio.

I think l covered all the important things in my presentation. I think we can now address your queries. Myself and my colleagues will be pleased to answer your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Singh from B&K Securities. Please go ahead.

Amit Singh: Sir, first a request. Our investor presentation is yet not out, while we had declared our results on Saturday, the investor PPT is yet not out. So just a request on that front.

Management: We will ensure that it is given as soon as possible. We are not aware that it was not put, we will just ensure that it is there.

S Sundar: I told in my presentation, before coming here I verified, it was very much available on the web page. In our Investor Relations corner, under performance highlights we have put it on. And the SEBI publication also has been uploaded. Even before coming, before two hours back I verified, it is there.

Amit Singh: Okay, my bad. Secondly on the divergent front, sir, where exactly where these accounts? I mean, we have reported a divergence of around 570 million in NPAs. So if you can throw some light on that front?

S Sundar: So, there is no divergence of Rs. 570 crores. What I said was, for the year ended 31st March, 2017, RBI in their inspection observed divergence in two accounts for Rs. 169 crores. These accounts have subsequently been classified as NPA. And as per ARC norms they are being provided for. But because RBI observed divergence as on 31st March 2017, they imposed a penalty of Rs. 1 crores now in October this year, then the letter was received.

Amit Singh: Alright. And sir, secondly on the capital raise front. Now that we do not have any MD & CEO as well, so how this process is going on without having any MD & CEO?

S Sundar: The process of selection of MD & CEO has been nearing completion. A committee has been entrusted with the job, Committee of Directors has been entrusted with the job. It is almost nearing completion. As such, we don't find any difficulty from this front in raising capital.

Amit Singh: I mean, first would be, I mean, our first preference would be towards selecting an MD & CEO and then go for capital or how the process would go about?

S Sundar: Simultaneously.

Amit Singh: Alright. And secondly, one more thing on this SMA2, if you could share the absolute number of SMA2.

S Sundar: Our SMA2 of our first time continues to be around in the range of about Rs. 450 or so, of which there is a core portion will be some sensitive portion. Other things keep coming in SMA2 then on payment it goes back to SMA1. The point which are there are about some Rs. 145 crores, that will be the core portion which remain and pays a critical amount, it continues. Anyway, we are taking care of it.

Amit Singh: Sir, this Rs. 450 crores, if you could compare it with Q-o-Q or Y-o-Y as well as that critical portion of Rs. 145 crores, how has it moved over the quarters or over the years?

S Sundar: If you look at over a period of time, in last quarter we had around Rs. 600 crores of SMA2. And they are not able to do direct completion of percentage of SMA2 turning into this one. You will not be able to make out extrapolation for these numbers. We continue with our efforts till the last moment. And effort fails and the economy also doesn't help the borrowers to realize their unit and pay the dues, it gets into NPA. I don't find a direct relationship between the accretions to NPA and the SMA numbers.

Amit Singh: And sir one last question. Sir, I mean, do we have any internal watch list?

S Sundar: Surely.

Amit Singh: Sir, if you could just give a qualitative idea how exactly that watch list is and what would be the impact?

S Sundar: See, the internal watch list can be nothing other than the SMA2 accounts itself. That is as I told, the Rs. 145 crores is continuous, arbitrarily speaking, and we have been continuously engaged with the borrowers for recovery or upgradation. It has not slipped into NPA **(Inaudible) 30:16.7** doesn't slip into NPA, our concentration is fully there. See, while on one hand we have been concentrating on recovery of the existing NPA accounts, we have been equally concerned in recovering the critical amounts in the SMA2, SMA1 accounts. A committee is there, it's periodically reviewing this position.

Amit Singh: And sir one last question, sir, if we could share some of our exposure to groups like Suzlon or anything in Essel Group, do we have anything there?

S Sundar: No.

Amit Singh: Okay. So we do not anything in Suzlon or the Essel Group, or anything in fintech?

S Sundar: No.

Amit Singh: And Altico, do we have anything there?

Management: We do have but it has been serviced till the last instalments, and then they have promised that they will be doing it.

Amit Singh: Okay. Sir, if you could just quantify the amount that we have in Altico, the outstanding amount.

Management: Rs. 38 crores.

Amit Singh: And apart from Altico, do we also have anything in Vodafone-Idea?

S Sundar: No, don't have any.

Amit Singh: And nothing there in Indiabulls or CG Power?

S Sundar: No, there's nothing. That Altico is also lying in the 145.

Management: All the stress in total within the corporates for the Bank we expect, even for next quarter, till March also Rs. 145 crores.

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

Siddharth Purohit: Sir, while in the process of capital raising certainly whether it's a private equity or any investor, we need to probably give them some confidence that what is the worst case scenario that come up for in terms of write-up and everything. So, no doubt you have mentioned about the SMA2 and all. But going by the past whatever number we have discussed in previous quarters, there has been negative surprises in most of the quarter. So, what is the worst that we can see? And accordingly, probably you will also have to hit the market and approach investors. So, if I assume what could be the quantum of write-off that the bank might look forward for the next two quarters?

S Sundar: Okay. See, one thing is that my capital has been eroding because of provisions given to NPLs. Quarter-after-quarter when I made provisions were the NPLs resulting in net loss, my capital is getting eroded. That is the main reason, I told you that we are trying to recover as much as Rs. 700 crores to Rs. 900 crores in the remaining two quarters. The entire problem centers around our NPLs only. As we start recovering NPLs, and not only that future erosion is avoided, even the existing ones, any return of accounts coming back will enhance the capital availability to the bank. So, this all are taken into consideration while determining the repairmen of capital.

You yourself can know what will be the capital required in the capital adequacy requirement stipulated by Reserve Bank of India. We have over Rs. 16,000 crores of risk weight assets, you can open your own. But anyway, we are trying all. But there is one rising the capital in absolute terms and reducing NPAs and improving the profitability, thereby restoring the capital. So, these are two ways that we will be working on.

Siddharth Purohit: Any quantum of money that you intent, sorry if I missed it out, that you intend to raise maybe at the earliest? Because given the capital position, you will probably have to raise it to maintain the regulatory norms also. So, what is the quantum and any specific timeline that you would have kept internally to do it?

S Sundar: We may not be able to tell you the number and all that as of now for want of restrictions by SEBI. But anyway, if you look twice, at least about Rs. 1,000 crores of NPA, really also was telling always that he looks to raise about Rs. 1,500 crores in capital. We'll maintain that.

Moderator: Thank you. The next question is from the line of Raganand Vishwanathan from Unify Capital. Please go ahead.

Raganand Vishwanathan: There are some interest payments that are coming up for Tier 2 bonds in December, do we have to take any RBI approval to service those interest?

S Sundar: As per legal opinion that we have taken, no necessary.

Raganand Vishwanathan: And we would have cash to service it, right?

S Sundar: Sure. That's not much.

Raganand Vishwanathan: Yes, nevertheless, I just wanted to understand. Now that we are under PCA, do we have to take any additional approval?

S Sundar: In the initial coverage I have told what RBI has stipulated under PCA. Under PCA, once again, for want of clarity, by imposing PCA RBI itself said that first two primary thing is we have to look for raising capital to meet the capital adequacy requirements. Number two, we have to concentrate on recovery of NPLs which we have been doing, that capital raising we have been doing on, as I told you already, the last two years I raised Rs. 1,440 crores of capital, even as early as in July we raised, that is going up.

Second is, recovery of NPA. That also we have been consolidating, RBI said we have to recover NPA and bring it to below 6%, that is base norms. That also we are working on. Third, they said to turn into profitability, we have to reduce the cost and improve the income, both are underway. As told, we have been trying to reduce costs, though the costs are not very high still we are trying to reduce the cost. And in the sense, branch opening is not allowed, and we have not been opening any branch in the last one year also. We are already PCA norms are very much there, it is in the public domain. Only three parameters have been fixed, or four parameters have been fixed, capital adequacy, profitability in net NPA levels and the leverage ratio. So, all these things we are already trying to improve upon. And it is not anything that **(Inaudible) 38:45.8** restrains our we can freely operate, this does not cover or does not default payment of interest on my title bonds.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, I just wanted to understand, fundamentally we have a net worth of around Rs. 1450 crores, Rs. 1475 crores we reported, and we have a net NPA of Rs. 1700 crores. Now, if I just check based on 2Q numbers if I calculate the required CET1, which is minimum, then probably we will have to raise around Rs. 900 crores, and we have a market cap of less than Rs. 700 crores. So, A, how do you see, you know, what are the options available for the bank or is it like that we are just waiting from RBI to get merged with some other banks?

S Sundar: See, we have been trying our best to turnaround the Bank and I will say that we have taken steps. And unfortunately, as I told you right from beginning, the one problem we have been facing, and that is the main problem, is in NPLs. And not only that, the economy is not giving a helping hand for easy availability of the securities for converting NPLs in performing loans. Added to that, additions also keep coming. So in this difficult market conditions we have been finding it difficult to fight the NPLs. Anyway, our strategy and trust is on as I told you we have targeted Rs. 1,100 crores to Rs. 900 crores in the coming two quarters. And as it goes, we anticipate **(Inaudible) 41:24.4** the net additions to NPAs to turn negative. And definitely we will find the reserves going up, positivity coming in, and the growth start going up also. Where is your question of complete erosion or merger, we don't think on those lines.

Jai Mundra: Sir, and has the Board passed the capital raise proposal? I mean, what are the timeline. So you said you are looking to raise capital in the next two quarters. That is okay. But have we moved ahead with the plan that Board has approved x amount of capital raise and within that dilution? Because your dilution even if you were to go for Rs. 700 crores, Rs. 900 crores capital raise, has it already been permitted by Board or that could also be a bit of a handicap behavior?

S Sundar: See, here I will tell you one thing. The first thing is for raising capital you need approval from the shareholders, particularly for CET and that kind of appraisement. Our shareholders in the Annual General Meeting held in August have approved a raising of capital up to Rs. 1,000 crores. And equally, debt capital of another of Rs. 500 crores. So this is primary impairment, whether you go for preferential allotment, we have to take it separately to the shareholders and get their approval. That is okay. They are all inner, what AGM has done is enabling resolutions. But when you say a Board has to approve, specifics have to be there. I cannot take **(Inaudible) 43:16.0** general result has been taken from AGM. When I approach the Board, there has to be certainty or the amount we raise, Board will pass the resolution only for a definite amount. I cannot go to the Board and take a resolution for the amount.

Jai Mundra: So, how do you intend to, of course, the solution to all this problem is capital. Now, the only problem is that the quantum of capital at this moment looks a little bit higher, if it goes under Rs. 100 crores, Rs. 200 crores or as a percentage of net worth it not too big then it was not a problem. So how do you intend to raise capital? One investor may say okay to capital but getting Rs. 500 crores or Rs. 700 crores from one shareholder could be very difficult, as well as it could lead to massive dilution. So how do you intend to move up in terms of capital raising? And when you don't have an MD & CEO also, in your previous remark you said that probably both of these things would come together. Just wanted to the understand, I mean, would it be okay for you to do 25% dilution, x amount of capital, for a staggered manner or what is the thought process?

S Sundar: I can tell you my investor relations VP also will add. See, capital raising was not altogether a problem. We raised Rs. 459.59 crores through a QIP route in March 2019. Earlier to that we raised about Rs. 780 crores last year through a rights issue. Now in July 2019, we raised Rs. 188.16 crores for preferential allotment. If you look at the capital raising pattern, we have raised capital through various modes of capital rising, rights, QIP, and preferential allotment. So that is one aspect.

Second, see share prices are quite low. It will definitely look very attractive for many investors, that you cannot deny.

Jai Mundra: Correct. But then you should have a strategic vision that let's say as of now the fundamentals are weak or let us say the stress that we are seeing in NPA and low capital or low, but these are our plans as to this much crores of capital infusion can solve this much of pain.

S Sundar: I will tell you. See, what we look at this, that these problems were temporary in nature and we should be able to come out. And I told you already, once net additions to NPA turns negative, the entire scene changes. I start making progress, my network starts improving, valuations will gain. All the things are very much there. So it is not as if everything is shut.

Jai Mundra: Understood. So, as of now, we have the board enabling provision but we do not have a specific. As an when any specific comes it would be referred to board and then board will decide?

S Sundar: Very certain. So, having a definite tie-up I cannot go to board to take a resolution nor make it public. So it should be done as per the procedure.

Jai Mundra: And we are not in touch with RBI, I mean, RBI of course has put us under PCA. but that is it from RBI, they do not want us to do any accelerated capital raise or any other out of the box kind of a solution, they are they are okay with us being in PCA and they are okay for us having the two quarters timeline to do capital raise on our own?

S Sundar: Again, the parameters have been laid, as it told you; profitability, net NPA level, and capital. So we are short of all these impairments, and RBI wants us to improve, and we are trying. When I say I failed, then only matter goes to RBI.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

S Sundar: Thank you. Then we will close this call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Lakshmi Vilas Bank, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.