Secretarial Department
Ref/Sec/205 & 266/221/2019-2020

CIN L65110TN1926PLC001377
October 11, 2019

To

The General Manager	The General Manager
Department of Corporate Services	Department of Corporate Services
National Stock Exchange of India	**BSE Limited**
Exchange Plaza, C-1-Block G	Listing Department
Bandra Kurla Complex, Bandra-E	Phiroze Jeejeeboy Tower
Mumbai - 400 051	Dalal Street, Fort Mumbai - 400 001
Company symbol: LAKSHVILAS	Security code no: 534690

Dear Sir,

Sub: Revision in Credit Rating of our Unsecured Redeemable Non-Convertible Subordinated Lower Tier II Bonds and Additional Tier I Bonds to be issued by the Bank.

Ref: *INE694C08047, INE694C08054, INE694C08062 & INE694C08070*

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In compliance with the applicable regulations of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, it is hereby informed that the Credit Rating Agency, M/s. CARE Ratings Limited (CARE) has revised the rating from "CARE BBB- (Triple B Minus) (Credit Watch with developing implications) to CARE BB+; Negative (Double B Plus; Outlook: Negative) for our Unsecured Redeemable Non-Convertible Subordinated Lower Tier II Bonds - Series VII (Option B), VIII , IX & X of Rs.50.50 crores, Rs.78.10 crores, Rs.140.10 crores and Rs.100 crores respectively.

Further, the credit rating agency has reviewed the ratings assigned to the Proposed Basel III Compliant Additional Tier I Perpetual Bond Issue of the Bank from CARE BB- (Double B Minus) (Credit watch with developing implications to CARE B+; Negative (Single B Plus; Outlook: Negative).

The rating rationale dated 11.10.2019 provided by the rating agency is enclosed.

Thanking you,

Yours faithfully,

N. Ramanathan

N Ramanathan
Company Secretary
Encl: As above.

THE LAKSHMI VILAS BANK LTD
Secretarial Department
Corp. Office, Chennai

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the various debt instruments of The Lakshmi Vilas Bank Ltd factors (LVB) in the increased level of uncertainity associated with timely mobilization of fresh equity capital in view of recent developments including placing of the bank under Prompt Corrective Action (PCA) by RBI. The rating also takes note of non-approval of the proposed scheme of amalgamation with Indiabulls housing finance Limited and Indiabulls commercial credit limited with LVB.

The rating is constrained by weak asset quality, weak capitalization levels, weak financial performance as reflected in losses in FY19 & Q1FY20, moderate size of the bank and its regional nature of operations.

The ratings continue to derive strength from the long-standing operational track record of Lakshmi Vilas Bank Ltd (LVB) and its established presence in Southern India.

The ratings has been removed from rating watch with non-approval of scheme of amalgamation of Indiabulls Housing Finance Limited (IBHFL) and Indiabulls Commercial Credit Limited (ICCL) with The Lakshmi Vilas Bank.

LVB's ability to raise capital in timely manner, scale up the recoveries and improve its asset quality, profitability would be the key rating sensitivities. In view of current capital adequacy levels, timely mobilisation of capital to augment its CAR is critical in the near term.

Outlook: Negative

The negative outlook on rating reflects the expectation of the incremental provisions further impacting the profitability and capital adequacy levels of the bank. Timely mobilisation of significant amount of equity is critical to meet RBI guidelines on capital adequacy. The outlook may be revised to stable in the event of improvement in these parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Long Standing Operational track report

Established in 1926, LVB is one of the old private sector banks based out of Tamilnadu with a track record of more than 90 years. LVB now has a wide spread shareholder base with promoters' holding of 7.11% as on June 30, 2019. As on March 31, 2019 the bank had a network of 569 branches and 1046 ATMs.

Improvement in CASA proportion; however continues to be relatively low

The proportion of low-cost current account and savings account (CASA) is relatively low compared to its peers but has been improving over the past few years. CASA improved from 21.06% as on March 31, 2018 to 25.67% as on March 31, 2019 and further improved to 27.12% as on June 30, 2019. Though there was decrease in overall deposits, CASA deposits have seen improvement on absolute terms also. On absolute terms CASA deposits improved by 5% from Rs.7,015 crore as on March 31, 2018 to Rs.7,515 crore as on March 31, 2019 and further to Rs.7,858 crore as on June 30, 2019.

Liquidity Profile: Adequate

As on June 30, 2019 LVB had no cumulative mismatches up to 5 years' time bucket. The liquidity coverage ratio remained at 247.14% as on June 30, 2019 (165.79%) as against the regulatory requirement of 100%. Rollover rate of deposits stood at 63% in FY19 which will provide additional comfort.

Key Rating Weaknesses

Decline in business due to capital constraint

With the bank reporting capital adequacy below the regularity levels, the bank has been reducing the advances/Risk weighted advances consciously in view of the constrained capital adequacy level. During FY19, Advances declined by 22% from Rs. 25,768 crore as on March 31, 2018 to Rs. 20,103 crore as on March 31, 2019. As the advances declined, the bank has reduced its bulk deposits and was not growing its deposits which resulted in decline in overall deposits also. Deposits declined by 11% from Rs. 33,309 crore as on March 31, 2018 to Rs. 29,279 crore as on March 31, 2019.

During Q1FY20, Advances declined to Rs. 18,539 crore as on June 30, 2019 whereas total Deposits declined to Rs. 28,890 crore as on June 30, 2019.

Weak Asset Quality

The asset quality witnessed deterioration in FY19 and Q1FY20. GNPA and NNPA increased from 9.98% and 5.66% as on March 31, 2018 to 15.30% and 7.49% as on March 31, 2018. On absolute terms GNPA increased from Rs. 2,694 crore as on March 31, 2018 to Rs. 3,359 crore as on March 31, 2019. Net Slippages during FY19 stood at Rs.665 crore as against Rs.2053 crore in FY18.

Standard restructured assets declined from Rs.76 crore as on March 31, 2018 to Rs.40 crore as on March 31, 2019. LVB had outstanding security receipts of Rs.330 crore on March 31, 2019 (Rs.339 crore as on March 31, 2018). Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA) stood at Rs. 3,729 crore as on March 31, 2019 as against Rs. 3,109 crore as on March 31, 2018. Provisions coverage ratio stood at 62.08% as on March 31, 2019 (PY: 55.07%).

					(Under Credit watch with Developing Implications) (12-Apr-19)	Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)		
4.	Bonds-Tier II Bonds	LT	140.10	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17)	1)CARE A- (30-Aug-16)
5.	Bonds-Tier II Bonds	LT	100.00	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)CARE BBB (Under Credit watch with Developing Implications) (12-Apr-19)	1)CARE BBB (Under Credit watch with Negative Implications) (02-Nov-18) 2)CARE BBB; Negative (04-Oct-18) 3)CARE BBB+; Negative (04-Jun-18)	1)CARE A-; Stable (07-Jul-17) 2)CARE A-; Stable (09-Jun-17)	-
6.	Bonds-Tier I Bonds	LT	250.00	CARE B+; Negative	1)CARE BB- (Under Credit watch with Developing Implications) (10-Sep-19) 2)CARE BB (Under Credit watch with Developing Implications) (12-Apr-19)	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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