

Rating Rationale

Brickwork Ratings (BWR) assigns “BWR A” for the proposed Long Term Bond issue of ₹ 250 crore and reaffirms rating for the other outstanding issue of Lakshmi Vilas Bank rated by BWR

Brickwork Ratings has assigned and reaffirmed the rating of BWR A (pronounced BWR A) with a stable outlook for the following issues of Lakshmi Vilas Bank Limited:

Instruments	Amount	Rating	Issue Date	Maturity Date	Rating History		
					Review As on	Review As on	Rating As on
Long term Bonds	₹ 250 cr	BWR A (Stable) Assigned	NA	NA	NA	NA	NA
Lower Tier II (Subordinated) Bonds	₹ 100 Cr	BWR A (Stable) (Reaffirmed)	Nov 25, 2009	Nov 25, 2015	BWR A (Stable) Nov 2011	BWR A (Stable) Nov 2010	BWR A (Stable) July 2009

The rating “BWR A” stands for an instrument that is considered to have ADEQUATE degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk. Brickwork Ratings has relied upon the audited financials statement and information and clarifications provided by the issuer as well as those available in the public domain.

The rating, inter alia, factors the good growth in the total business and conservative policy for provision for NPAs. The rating is however constrained by very low level of CASA deposits, pressurized margins, increasing NPA’s, concentration of Branches in a single state and average liquidity profile.

Background

Lakshmi Vilas Bank Ltd. was incorporated on 3 November 1926 and is headquartered in Karur, Tamil Nadu. The bank was promoted by V S N Ramalinga Chettiar and six other businessmen of Karur. The bank has seen change in the top management in FY11. Mr. P.R.Somasundaram joined as MD and CEO in August 2010. The bank has also seen the top management induction from the private/ foreign banks. Under the new management, steps are being taken by the bank for strengthening the systems/ processes as well as de-risking of the credit portfolio by focusing on the expansion outside Tamil Nadu and increasing the exposure to the large and mid corporate segment.

The bank provides a wide array of services and products for retail and commercial banking including deposits, loans, NRI services, RTGS/ NEFT facility, debit card, kisan card, online banking, forex services etc. It also distributes mutual fund products and insurance products. It has a distribution tie up with LIC and Bajaj Allianz General Insurance.

Financial Performance

The bank attained a total business of ₹ 21,514 cr as on 30th September 2011 (as compared to ₹ 15,716 cr during H1FY11) registering an increase of 36%. Deposits have grown from ₹ 9,350 cr in H1FY11 to ₹ 12,813 cr during H1FY12 registering a growth of 37% and advances have grown from ₹ 6,366 cr in H1FY11 to ₹ 8,701 cr during H1FY12 a growth of 36%.

However the asset quality fell as Gross NPA increased from 1.93% in FY11 to 2.24% in H1FY12. The net NPAs have shown a similar trend and have increased from 0.90% in FY11 to 1.09% in H1FY12. The bank's provisioning levels stood at 73.86% in H1FY12 compared to 77.17% in FY11.

The banking sector has seen pressurized net interest margins in Q2FY12. The bank's net interest margins have decreased to 3.10% in September 2011 as compared to a NIM of 3.75% in September 2010. The bank has also seen very low levels of CASA deposits. CASA levels stood at 16.67% of total deposits as of September 2011. The bank's net profit has increased by 11.74% to ₹ 53.71 cr in H1FY12 as against ₹ 48.06 cr in H1FY11. The return on assets has also decreased from 0.92% in H1FY11 to 0.77% in H1FY12. The Cost to Income Ratio has increased to 48.61% in H1FY12 from 47.62% in H1FY11.

As on September 30, 2011, the bank has reported a total capital adequacy ratio of 11.59% as against 13.19% in FY11.

Overall, with the initiatives being taken by the bank, Brickwork Ratings expects the performance of the bank to be "Stable" over the next one year.

Analysts	Media
<p>Shilpi Agarwal – Lead Analyst shilpi.a@brickworkratings.com</p>	<p>Anitha G media@brickworkratings.com</p>
<p>Rachit Seth – Co-Analyst rachit.s@brickworkratings.com</p>	<p>Relationship Contact</p> <p>K.N.Suvarna Senior VP - Business Development kn.suvarna@brickworkratings.com</p>

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