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Lakshmi Vilas Bank

MARKETPERFORMER

Sector: Banking /Mid-Cap | Earnings Update – 4QFY18

29 May 2018

Background: Lakshmi Vilas Bank Limited is old-gen private bank with total business of INR 603bn (4QFY18); predominant focus on Retail – 8%, SME – 24% , and Corporate – 51% and Agri – 17% lending in South India especially in the state of Tamil Nadu. LVB's network entails 548 branches with 1020 ATMs & 3550+ employees. Deposits are largely retail dominated comprising CASA – 21.1%, with working capital focused loan book.

Sensex	34,949
Nifty	10,633
Price	INR 104
Target Price	INR 111
Recommendation	MARKETPERFORMER

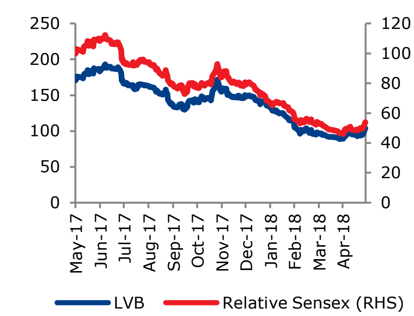
52 Week High/Low	INR 195/88
Bloomberg / Reuters	LVB IN / LVLS BO
Equity (shares in mn)	255.99
Mkt. Cap in mn	INR 26,661/ $ 393
Avg. Daily Vol. ('000)	849.35
Avg. Daily Vol. (mn)	INR 88.46 /$ 1.30

Shareholding	**Mar-17**	**Dec-17**	**Mar-18**
Promoters (%)	9.05	9.04	8.99
FII (%)	4.94	6.86	6.64
DII (%)	2.48	3.70	3.68
Others (%)	83.53	80.40	80.69
Pledge (% of promoter holding)	42.55	43.18	38.13

Valuation Summary (INR bn)

Y/E March	**2018E**	**2019E**	**2020E**
Net Interest Inc	7.9	11.8	14.5
Other Inc	3.5	6.4	7.5
Pre Prov Profit	3.6	9.4	11.9
PAT	-5.8	4.6	5.0
EPS	-22.4	18.0	19.4
EPS growth (%)	-261.8	-180.4	7.9
PE	-4.7	5.9	5.4
P /BV	2.1	1.7	1.3
Div Yield (%)	3.0	3.2	3.2
ROA (%)	-1.6	1.1	1.1
ROE (%)	-36.2	31.6	27.2
Tier – 1 (%)	11.5	10.8	10.1
CAR (%)	9.4	8.8	8.0

Performance %	**1M**	**3M**	**12M**
LVB	16.0	-0.7	-38.8
Sensex	0.6	2.9	13.3



Decline in yields coupled with surge in provisions; resulting in a net loss of INR 6.2bn

- LVB's advances grew 37% YoY (7%QoQ) to INR 271bn, supported by growth in corporate segment. However, the management has reiterated that the future growth in advances will be led by segments like Retail (more particularly home loans & vehicle loans) and MSME. The management also highlighted that going ahead, advances will grow by ~20% in FY19E.
- In 4QFY18 deposits grew 9%YoY to INR 333bn supported by growth of CASA deposits by 20.1%YoY. The current CASA ratio stands at 21.1% (vs 19.1% at 4QFY17) up by 195bps on YoY basis. Credit to Deposit ratio stands improved at 81.1% vs 78.4% in 4QFY17.
- Yield on funds saw a decline of 210bps YoY (-138bps QoQ) and stood at 7.03%. As a result, NIMs plunged by 176bps YoY (-129bps QoQ) to 1.34% in 4QFY18. Net Interest Income de-grew by 47.1% YoY (-45.2% QoQ) to INR 1.21bn, led by de-growth in interest income (-4.2% YoY).
- Asset quality deteriorated with GNPA increasing sharply 731bps YoY (432bps QoQ) to 9.98% and NNPA increasing by 390bps YoY (139bps QoQ) to 5.66%. In absolute terms, GNPA increased by 88% QoQ to INR 26.9bn and NNPA increased by 37.5% QoQ to INR 14.6bn. The slippages are mainly on account of shifting of some of the restructured accounts to substandard status as well as normal slippages that have happened in the course of the year, which were almost entirely out of the watch list created by the bank. The bank's watch list has now come down to INR 4bn from INR 25bn earlier. PCR stood at 55% as against 59.5% in 4QFY17.
- Other income tanked by 71% YoY to INR 382mn, owing to trading losses from the fixed income book. The bank reported a operating loss of INR 693mn vs. a profit of INR 1.78bn in 4QFY17. Going forward, the management has highlighted that, with the capital infused in January through rights issue, the bank should pick up momentum in credit growth and as a result of this, growth will also be seen in fee income and ~ 40% growth could be seen in sale of third party products in FY19E.
- Cost/income ratio has surged to 143.7% vs 50.4% in 4QFY17, owing to higher opex (up by 26% YoY) and fall in other income. This coupled with an upsurge in provisions to INR 9.2bn (up from INR 1.08bn in 4QFY17), resulted in a net loss of INR 6.2bn in 4QFY18, vs. a net gain of INR 522mn in 4QFY17.

Valuation:

Post capital infusion, the loan book is expected to grow ~20%, with major share being contributed by MSME & retail segments. However, asset quality remains a cause of concern due to continued concentration of corporate segment in the loan book. Going forward, falling yields coupled with the impact of provisioning cost may drag the PAT for the coming quarters. The stock is currently trading at 1.3X FY20E P/BV and 5.4X P/E FY20E. We maintain our MARKETPERFORMER rating and revise the target price of INR 111, assigning a FY20E P/BV of 1.4X.

Risk: Weakness on the asset quality from the SME division, lower than expected recoveries in the corporate book and sustained high operating & provisioning costs.

Results Summary 4QFY18

Y/E March (INR bn)	**4QFY18**	**4QFY17**	**YoY Growth**	**3QFY18**	**QoQ Growth**
Net Interest Income	1.20	2.28	-47.1%	2.20	-45.2%
Other Income	0.38	1.31	-70.9%	0.27	39.9%
Pre Provisioning Profit	-0.69	1.78	-138.9%	0.46	-250.2%
PAT	-6.22	0.52	-1293.0%	-0.39	1486.1%
Cost / Income (%)	143.66	50.35		81.33	
Gross NPA (%)	9.98	2.67		5.66	
Net NPA (%)	5.66	1.76		4.27	
Prov Coverage ratio (%)	55.00	59.51		46.75	
CAR (%)	9.81	10.38		9.75	

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