



# LAKSHMI VILAS BANK



## ABOUT THE BANK

Lakshmi Vilas Bank (LVB) might not be the most popular name among the banking elites, but it does have a rich legacy. The company was established way back in 1926, by seven people from Tamil Nadu trying to cater to the financial needs of small businesses in their city. In 1958 they received a banking license and by 1970 it already had a pan India presence.

LVB has recently been in the headlines due to their bad loans fiasco, management reshuffling and the consequent controversies with the RBI.

## SERIES OF TROUBLES

### RELIGARE CONTROVERSY

During the turn of the last decade, something changed. LVB pushed for growth by extending large loans to big corporates. But soon enough, the unpaid loans began to pile up.

It loaned Rs 720 crore to Malvinder Singh and Shivinder Singh, the former promoters of Ranbaxy, Fortis and Religare, which turned out to be a bad loan.

Religare Finvest had placed ₹750 crores in four Fixed Deposit accounts with the bank. However, only 6 months later, Religare was notified that the bank had moved the money and debited ₹723 crores. It sued a Delhi branch of LVB to recover the money and accused that the bank invoked to recover loans to the Singh brothers. The bank, in turn, was forced to set aside 200 crores if the court ruled against them in the matter.

### PROMPT CORRECTIVE ACTION (PCA)

RBI placed LVB under prompt corrective action (PCA) due to which the bank was not able to issue fresh loans or open a new branch anywhere. The PCA has not been revoked till date.

#### WHAT IS PCA?

It is a framework under which banks with weak financial metrics are put under watch by the RBI.

If the bank has:

Net NPA > 10%

CRAR < 10%

Return on Assets < 0.25%

Then RBI can put effective restrictions on:

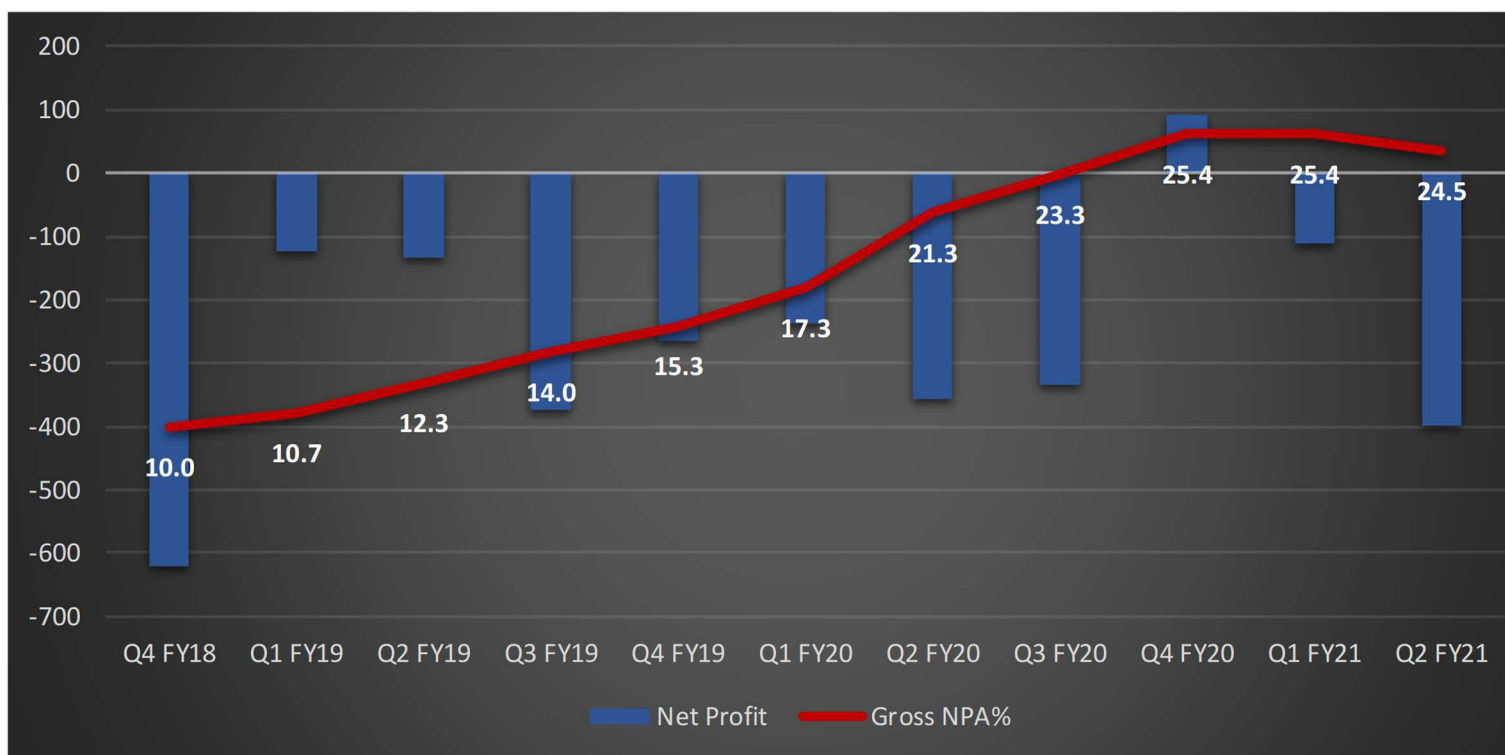
- Management Salary and hiring staff
- Issue new loans
- Deposits that bank can accept
- Dividend distribution
- Branch expansion

## FAILED MERGER WITH INDIA BULLS HOUSING FINANCE AND CLIX CAPITAL

The capital Starved, Lakshmi Vilas Bank was looking for potential mergers and began talks with India Bulls Housing Finance, a NBFC company. But just one month after being in the PCA framework, RBI refused the proposed merger. Its subsequent discussions with Clix Capital, part of a company owned by Mumbai-based private equity firm AION Capital, also did not come through.

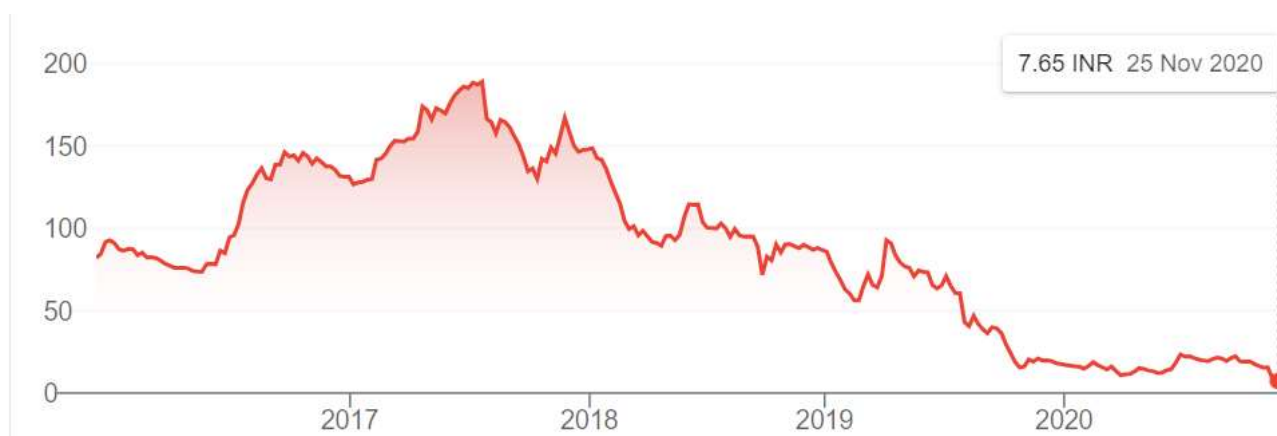
## FINANCIALS OF LVB

Lakshmi Vilas Bank had been underperforming for a while now. Increasing losses and increasing Non-Performing Assets has been a problem over the quarters.



## SHARE PRICES

In the last five years, the bank's share prices rose to Rs 189 in 2017 and slipped to less than Rs 10 in 2020.



## SHAREHOLDERS OUSTED DIRECTORS

In the 93rd Annual General Meeting of the bank held on 25 Sep 2020, shareholders voted against the 7 out of a total of 11 members from the senior management, including MD and CEO.

## THE RESOLUTION

The RBI on 17 Nov placed LVB under one-month moratorium, superseded its board and capped withdrawals at ₹25,000 per depositor. It also announced amalgamation of LVB with DBS. This is the first time the central bank has tasked a bank with a foreign parent to revive an ailing private lender.

With effect from 27 Nov 2020, LVB has been amalgamated with DBS Bank India Limited. The scheme of amalgamation is under the special powers of the Government of India and RBI under Section 45 of the Banking Regulation Act 1949. With the merger, there will no further restrictions on the depositors regarding the withdrawal of their deposit.

### WHAT HAPPENS TO LVB NOW?

- The entire share capital and reserves and the surplus will be written off. The value of Equity will be Zero.
- Fresh capital infusion of ₹2,500 crore.
- The RBI has also assured that the merger will provide stability and better outcomes to LVB's depositors, account holders and employees.
  - DBS India is willing to pay depositors of Lakshmi Vilas Bank fully if they do not wish to continue to remain with the lender post-merger.
  - All LVB employees will become part of DBS India. They might see revision in roles and salary structures.

### WHAT DOES DBS INDIA GET?

- Gross Advances around Rs 16,600 cr
- Deposits of around Rs 21,600 cr
- Around 320,000 borrowers and 2 million depositors
- 563 Branches and 974 ATMS

As per Finance Ministry, the speedy resolution was in line with the government's commitment to a clean banking system while protecting the interests of depositors and the financial system.