Chapter-IV

Profile of the Study
CHAPTER-IV

PROFILE OF THE STUDY

Profile of the Banking Industry

Banking is basically a public utility and a key service industry, hence its functioning has an important bearing both direct and indirect on the economic activities of the nation and hence it affects the process of economic development. Nationalization of banking sector implies that the indirect devices of control over business and industry are strengthened. Industrial policy resolution of 1956 also favored public control over banking industry. Since bank create and influence money supply is required that they should be in the hands of the government.

Indian banking industry is going through the transition from the traditional approach towards the contemporary competitive approach past yr has been a turning point for Indian banking. There are several reasons for the dramatic changes. Internally, banks have used the profits arising out of sale of govt securities to clean up their balance sheet and brining down of NPA’s. Externally a number of policies have made a crucial difference, especially on recoveries. At the same time, with interest rates at record low’s, banks has to rework their lending strategies. In many ways the driving force behind the retail revolution in Indian banking has been technology.
PROFILE OF THE LAKSHMI VILAS BANK LTD

Industry structure and developments

Banking industry consists of Nationalized banks, old private sector commercial banks, new private sector commercial banks. Co-operative banks, Regional rural banks and foreign banks. Our bank established in 1926 as banking company and has been classified as scheduled commercial bank by the reserve bank of India. During the year the banking industry despite faced by severe competition and strain on profitability and compulsion to adhere stricter prudential norms, has performed well. Continual failure of monsoon in the major parts of the country and slow growth of economy affected the business growth.

Opportunities and threats

The continual failure of monsoon, substantially affected the agricultural and allied activities. Sluggishness in economy affected industrial growth.

Supreme Court upheld the constitutional validity of the security securitizations and reconstruction of financial assets and Enforcement of security interest Act, 2002. The judgment will have for reaching effect on NPA management and recovery mechanism of banks.

Sequel to successful entry and performance of Bank assurance model, Bank generated additional revenue during the year by entering into tie up with Royal Sundaram Insurance for sale of general insurance products and with
Reliance Mutual fund for sale of mutual fund products and plans to tap the potential available in the coming year.

**Business segmentation**

**Table No.I**

**Deposits**

<table>
<thead>
<tr>
<th></th>
<th>DEPOSITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amt in (crores of Rs.)</td>
</tr>
<tr>
<td>1) Demand</td>
<td>409.99</td>
</tr>
<tr>
<td>2) Savings</td>
<td>437.73</td>
</tr>
<tr>
<td>3) Terms</td>
<td>2448.09</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3295.81</strong></td>
</tr>
</tbody>
</table>

Source: Annual Report
Table No.II

Advances

<table>
<thead>
<tr>
<th>Advances</th>
<th>Amt in (crores of Rs.)</th>
<th>Percentage to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Manufacturing sector (SSI, medium and large industry)</td>
<td>901.62</td>
<td>44.22</td>
</tr>
<tr>
<td>2) Trade and service Sector</td>
<td>560.08</td>
<td>27.47</td>
</tr>
<tr>
<td>3) Agricultural Sector</td>
<td>183.06</td>
<td>8.98</td>
</tr>
<tr>
<td>4) Housing Sector</td>
<td>188.36</td>
<td>9.24</td>
</tr>
<tr>
<td>5) Transport / NSFCS</td>
<td>35.02</td>
<td>1.72</td>
</tr>
<tr>
<td>6) Personal segment</td>
<td>98.67</td>
<td>4.84</td>
</tr>
<tr>
<td>7) Others</td>
<td>71.89</td>
<td>3.53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2038.70</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Sources: Annual Reports

Out look

The Indian economy is expected to register Gross Domestic Product growth rate of 6.5 Percent to 7.0 Percent over the next year with expected good monsoon and increase in demand for bank credit.

Risk and concerns

Government of India has enhanced the foreign direct investment in the private sector bank upto 74 Percent of the paid up capital of bank which might trigger take over bids on well performing private sector banks. The new
entrants in the market with the support of sophisticated latest information technology might lead to diversion of cream of business to such banks.

**Internal controls**

Banks has a separate Audit and inspection department which subject all the branches including international division, investment cell, currency chest, service branches and every department of Administrative Office to regular inspection. Key branches including investment cell at Mumbai are under concurrent audit which covers almost 65 Percent of the bank’s business. All computerized branches are subjected to a separate security-audit regularly; management audit of controlling offices was done by external agency during the year.

Audit committee of the board has been constituted in line with reserve bank of India guidelines. To meet the requirement of clause 49 of the listing agreement, the Audit committee and compliance function, including the policies, procedures, techniques and other regulators requirements.

**Human resources development/Industrial Relations**

To face the competition in the industry and never challenges, the bank continues its focus in the area of training. Against this backdrop, the bank runs a full-fledged training college with skilled and experienced faculty to impart job-oriented training at frequent intervals to its staff at various levels. Wherever needed specialized courses were conducted at the college with
external faculty. Our officers were also deputed to courses at reputed training colleges and programmes.

The industrial relations remained cordial throughout the year. The number of permanent employees on the rolls of the bank as on March 31, 2004 was 1946 including part-time employees.

**Discussion on financial parameters with respect to operational performance**

The bank continues its emphasis on "Operating profit Approach", the bank could record moderate to good performance in terms of various key financial parameters.

- Deposit increased by 19 Percent
- Advanced increased by 16 Percent
- Total income increased by 5 Percent
- Total net revenue increased by 11.71 Percent
- Net interest income increased by 22.31 Percent
- Operating profit increased by 14 Percent
- Net Profit increased by 20 Percent
- Net worth increased by 18 Percent
- Number of branches increased to 224 from 215
- Number of staff 1946
### Branches of Lakshmi Vilas Bank Ltd

#### Table No.III

**Number of Branches**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Place</th>
<th>No.of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Metropolitan</td>
<td>33</td>
</tr>
<tr>
<td>2.</td>
<td>Urban</td>
<td>55</td>
</tr>
<tr>
<td>3.</td>
<td>Semi-urban</td>
<td>93</td>
</tr>
<tr>
<td>4.</td>
<td>Rural</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>224</strong></td>
</tr>
</tbody>
</table>

*Sources Annual Report*

#### BRANCHES

**ANDHRA PRADESH**

- Adoni
- Chittoor
- Eluru
- Gajuwaka
- Gopalapatnam
- Guntur
- Hyderabad
- Bank street
- Hubsiguda
- Malkajgiri
- Kothapeta
- Secunderabad
- Kakinada
- Kukatpally
- Nandyal
- Nellore
• Ongole
• Prodattur
• Rajahmundry
• Suryapet
• Tanuku
• Tirupati
• Vijayawada
• Vijayawada II
• Visakapatnam
• Visaka patnam
• Warrangal

GUJARAT

• Ahmedabad
• Anand
• GandhiNagar
• Gandhidham
• Jamnagar.
• Rajkot
• Surat
• Vadadora

KARNATAKA

• Bangalore
GandhiNagar  Jayanagar
Cantonment  Jalahalli
City market  Ulsoor
Bellary
Chitradurga
Davangere.
Hospet
Hubli
Koramangala
Mandya
Mysore
Raichur
Ranebennur
Shimoga

KERALA
Calicut
Cochin
Palakkad
Thrissur
Thrivandrum

MAHARASHTRA
Nagpur
• Andheri  Mumbai
• Borivali  Mumbai
• Fort  Mumbai
• Matunga  Mumbai
• Vashi  Mumbai
• Pune

MADHYA PRADESH
• Indore

NEW DELHI
Janpath
• Karolbagh

PONDICHERRY
• Ambagarathu
• Karikal
• Pondicherry

TAMIL NADU
• Alathur
• Ambilikkai
• Ambur
• Anbil
• Arakandanallur
• Ariyalur.
• Arni
• Attur
• Avalpoondurai
• Balasamudram
• Bhuvangiri
• Chinnadharapuram
• Chittode
• Oppanakara St
• Coimbatore
• Personal banking
• Coimbatore
• Ganapathy
• Ramanathapuram
• Gandhipuram
• R.S.Puram
• Kavaipudur
• Uppilipalayam
• Cuddalore
• Iyampalayam
• Cumbum
• Jalakandapuram
• Dharmapuri
• Kadambuliyur
• Dindigul
• Kallakurichi
• Erode
• Kancheepuram
• Gobichettipalayam
• Kandili
• Gopalapatti
• Kangayam
• Hosur
• Kanjampatti
• Idayakkottai
• Karaikudi
- Jawahar Bazaar
- Karur
- Karur West
- Vengamedu
- Kovilpatti
- Krishnagiri
- Kumbakonam
- Kurumbapatti
- Lakkapuram
- Laligudi
- Chennai
- Thambuchetty, st
- Adyar
- Cathedral Road
- G.W. St
- Kodambakkam
- Mountroad
- Mylapore
- Madukkur
- Palace road
- Thallakulam
- Mahadhanapuram
<table>
<thead>
<tr>
<th>Location</th>
<th>City</th>
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<tbody>
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<td>Manamedu</td>
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<td>Marandahalli</td>
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<td>Oddanchatram</td>
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<td>Panruti</td>
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<td>Podakudy</td>
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<td>Pollachi</td>
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<tr>
<td>Pollachi</td>
<td>Pugalur</td>
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</tbody>
</table>
C. pudupati
R. Pudupatti
Rajapalayam
Rajendram
Salem
Bazaar, st
C. K. St
Gugai
Shevapet
Seevalaperi
Sendaapatti
Sivakasi
Sundarpandiyam
Suriyampalayam
Tanjore
Tenkasi
Thiruvaiyaru
Thittagudi
Thottiyan
Tindivanam
Tiruchengode
Tirukoilur
Tirundaveli
Tirupur

47
Tiruvarur
Trichy
Big Bazaar st,
Sriangam
Thillainagar
Thirukadaiyur
Thiruthuraipoondi
Tiruvannamalai
Turaiyur
Tuticori
Udumalpet
Ulipuram
Unjalur
Vadugapalayam

Veeliyanai
Vellore
Velur
Velur (salem)
Vettavalam
Vilangudi
Villupuram
Virudhunagar
VirdhachalamVellakoil

WEST BENGAL

Kolkatta
BUSINESS PERFORMANCE

Performance

During the year, the Lakshmi vilas bank has registered Gross Income of Rs.372.82 crore and Gross profit of Rs. 99.89 crore. The Operating profit has increased from Rs.80.05 crore to Rs.91.00 crore. The lakshmi vilas bank has made a netprofit of Rs. 41.05 crore after making necessary provisions as against Rs.34.16 crore during the previous year.

During the year, the lakshmi vilas bank appointed m/s Deloitte touche Tohmatsu, consultants to articulate on long term objectives and advise on the re-structuring of the lakshmi vilas bank in the context of the changing banking environment. The strategic initiatives were approved by the board and are being implemented to give better customer focus and enhanced business opportunities. Consequently the concept of strategic Business Unit (SBU) has been put in place covering all operational areas of the lakshmi vilas bank.
### Appropriations

Appropriations from operating profit have been effected as detailed below.

#### Table No.IV

<table>
<thead>
<tr>
<th>Appropriations</th>
<th>(Rs. Incrores)</th>
<th>For the year ended</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Operating profit</td>
<td>91.00</td>
<td>80.05</td>
</tr>
<tr>
<td>Provisions or contingencies</td>
<td>49.95</td>
<td>45.89</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td><strong>41.05</strong></td>
<td><strong>34.16</strong></td>
</tr>
<tr>
<td>Profit brought forward</td>
<td>0.09</td>
<td>0.07</td>
</tr>
<tr>
<td>Amount available for appropriation</td>
<td>41.14</td>
<td>34.23</td>
</tr>
<tr>
<td><strong>Transfer to</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory Reserve</td>
<td>14.00</td>
<td>11.50</td>
</tr>
<tr>
<td>Capital reserve</td>
<td>5.43</td>
<td>3.90</td>
</tr>
<tr>
<td>Fluctuation Reserve</td>
<td>13.75</td>
<td>11.00</td>
</tr>
<tr>
<td>Other Reserves</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>5.75</td>
<td>5.75</td>
</tr>
<tr>
<td>Corporate dividend tax</td>
<td>0.74</td>
<td>0.74</td>
</tr>
<tr>
<td>Balance of Profit Carried forward</td>
<td>0.22</td>
<td>0.09</td>
</tr>
<tr>
<td><strong>Sources</strong>: Annual Reports</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Dividend

Banks are pleased to recommend dividend at 50 Percent on the equity shares of the lakshmi vilas bank, as approved by Reserve bank of India.

Networth And Capital Adequacy

Bank have proposed net transfer of Rs.34.55 crore to reserve which would increase the networth of this bank from Rs.192.09 crore to Rs.226.64 crore.

Our lakshmi vilas bank has raised Rs.50 crore by way of unsecured, redeemable, non-convertible subordinated bonds-series 111 rated “A” by CARE. Instruments with this rating are considered upper medium grade instruments and have many favourable investment attributes indicating adequate safety for principle and interest.

The lakshmi vilas banks capital adequacy Ratio (CRAR stood at a healthy 13.79 Percent as on March 31, 2006, well above the regulatory minimum of 9.00 Percent.

The Tier – 1 and Tier- 11 components of capital adequacy ratio were 8.49 Percent and 5.30 Percent respectively as on march 31, 2006.
Listing Agreement with Stock Exchanges

The lakshmi vilas bank shares are listed on the national stock exchange and madras stock exchange and the requisite annual listing fees have been paid. The entire across the country; no transactions were reported in the madras stock exchange.

In view of the above, the lakshmi vilas bank is proposing to delist the equity shares from madras stock exchange limited.

Resources and lendings

The overall performance during the financial year 05-06 remained good. The lakshmi vilas bank’s total business crossed Rs.5400 crores. Aggregate deposits reached Rs.3295.82 crores with net accretion of Rs.525.32 crores. Lakshmi vilas bank’s credit portfolio, net of provisions, increased to Rs. 2038. To crores from Rs.1763. To crores in the previous year.

Advances under priority sector during the year were at Rs. 815.06 crores, constituting 44.82 Percent of the adjusted net bank credit, as against the stipulated norm of 40 Percent.

Quality of Loan Assets

Concerted efforts on the recovery front initiated in the previous year by the lakshmi vilas bank, were continued with encouraging results. The recovery measures took the form of vigorous follow-up of the suit filed accounts with courts, Debt Recovery Tribunals and lok Adalat, judicious
resources to the provisions of the SARFAESI ACT and compromise settlement through negotiations.

As a result of all these efforts, the gross NPAs reduced from 11.47 Percent in the previous year to 10.15 Percent and the net NPAs from 7.15 Percent to 5.40 Percent.

Investment Operations

The Lakshmi Vilas Bank’s total investments expanded by Rs.302 crores from Rs.1036.58 crores as at 31st March 05 to Rs. 1338.17 crores as at end—march 06. Due to poor credit take—off owing to persisting sluggishness in the economy despite the downward movement of interest rates, the Lakshmi Vilas bank is continued to bestow greater attention, to efficient funds and investment management as an alternative to shore up declining margins. The Lakshmi Vilas bank’s investment cell at Mumbai thus generated an arbitrage profit of Rs. 24 crores during the year.

Forex Operations

The Lakshmi Vilas Bank’s merchant reporting as imports and Exports in foreign exchange transactions were at the level of Rs.1402.29 crores as compared to Rs.1222 crores during the previous year.
Network Expansion

The lakshmi vilas bank added 8 new branches during the year to its branch network. Three branches were converted into satellite branches rose to 224, spread across 9 states and the union Territory of pondicherry. Plans are a foot to open 6 branches in Gurgaon, Naida, Ghatgopar (E) , Ghatgopar(W), Anna nagar, Velachery, T.Nagar and karim Nagar for which licenses from Reserve bank of India have been received.

Information Technology

The year 05-06 was been a watershed in the technological front for the lakshmi vilas bank. A dedicated team of the lakshmi vilas bank is engaged in developing a core banking solution in association with m/s ICICI Infotech which is in the final stages of completion and will be rolled out at pilot branches shortly. The establishment of interbranch network to connect pilot locations at chennai is in full swing. The data clutre for locating the lakshmi vilas bank’s central server is ready and a remote management facility has been set up at the lakshmi vilas bank’s Divisional Office at Chennai.

The lakshmi vilas bank has procured its own transaction processing switch for ATM transactions and is geared up to inter-connect its ATMs and branches after the inter branch network is established. The lakshmi vilas bank has installed SWIFT software at the designated international transactions; and has complied with all the stipulations laid out by Reserve bank of India with regard to implementation of RTGS.
A comprehensive I.T. Strategy was charted out in association with M/s KPMG, Reputed international consultant which envisages the I.T Road map for the lakshmi vilas bank. Various short and long-term goals have been fixed and the lakshmi vilas bank is in the process of implementation of the I.T.Strategy.

LBS 2001, the lakshmi vilas bank’s in-house developed total branch automation software was extended to another 49 more branches during 03-04, taking the total number of totally automated branches to 105. The partial branch automation software developed in-house has been extended to 99 branches and one extension counter.

**Human Resources**

Appreciating and recognizing the value of human resources, the bank continued to focus on training its employees on a continuing basis on-job and through training programs conducted with internal and external faculty to keep them abreast of the changing competitive environment. As on 31st March 2006, the lakshmi vilas bank has a staff strength of 1946 including 731 officers. Business per employee increased to Rs.228 lakhs from Rs.212.00 lakhs as act the previous year. During the year, as part of the continuous efforts of the lakshmi vilas bank to motivate and reward performing employees, 78 employees, in different cadres, were promoted Lakshmi Vilas Bank also directly recruited the required employees in specific fields and placed in appropriate position during the year. The relationship with staff has
been smooth and cordial. Lakshmi vilas bank has conducted campus interviews at the institute of chartered Accountants of India, Chennai and at management institutes at Mumbai.

Fee Based Ventures

The lakshmi vilas bank in tune with the market demand and as value addition to customers has diversified into distribution of products of life insurance business as corporate Agent for AVIVA life insurance company, which is yet another milestone in its commendable history. 42 insurance trained personnel of the lakshmi vilas bank are covering 115 branches in marketing the AVIVA’s customized insurance products. During the year under personal, about 4200 proposals have been procured for a coverage quantum of Rs. 36 crores. The lakshmi vilas bank has collected a gross insurance premium of around Rs. 3.50 crores and received a commission payment of Rs.40 lakhs, in the first year of operations. The lakshmi vilas bank has plans to activate insurance marketing in Andhra Pradesh and Karnataka in the year 04-05.

For distribution of a variety of general insurance products the lakshmi vilas bank has signed letter of intent with M/S Royal sundaram Alliance company lts., chenai, a joint venture of premier non-banking finance company of India, M/S.Sundaram, finance ltd and Royal & son Alliance inc, the largest general insurance company in the world, head quartered in UK, and Operating in over 40 countries. The lakshmi vilas bank has signed an mou with m/s Reliance capital asset management ltd., (the finance arm of m/s Reliance industries ltd), in march 04, to distribute the mutual fund products of the
company through the select branches of the lakshmi vilas bank, among the existing and prospective clients.

**Risk Management**

The steps initiated by the lakshmi vilas bank during the previous year in the area of risk management continued to receive focused attention. Particularly in the background of the financial sector reforms in the last decade, accentuated by competitive macro-economic environment and characterized by steep fall in interest rates and a host of other features. The lakshmi vilas bank has taken proactive steps to implement risk management best proactive in tune with the strategic perspective, size and complexity of lakshmi vilas bank’s business and Reserve bank of India guidelines.

The integrated risk management policy high lighting the risk management philosophy, risk measurement systems, risk quantification techniques, risk mitigation and regulatory compliance has been put in place during the year.

The integrated risk management committee (IRMC) of the board meets regularly at quarterly intervals to review the risk policies, and over see adherence to prudentials limits and laid down policy. The integrated risk management committee (IRMC) of executives is continuing to meet regularly at monthly intervals to review the risk profile of the lakshmi vilas bank, determine product pricing and review risk limits and initiate suitable remedial action.