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LVB crisis deepens as shareholders vote out current management

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Out of the 15 resolutions proposed by the bank, eight were rejected including appointment of some directors and the auditor.

Synopsis

Voting results released late on Saturday night showed that seven of the ten directors proposed to be reappointed by the bank in its

BANKING AND FINANCE

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93rd annual general meeting (AGM) held on Friday were rejected by the shareholders by a comfortable majority of more than 60% of votes polled.

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ET Bureau

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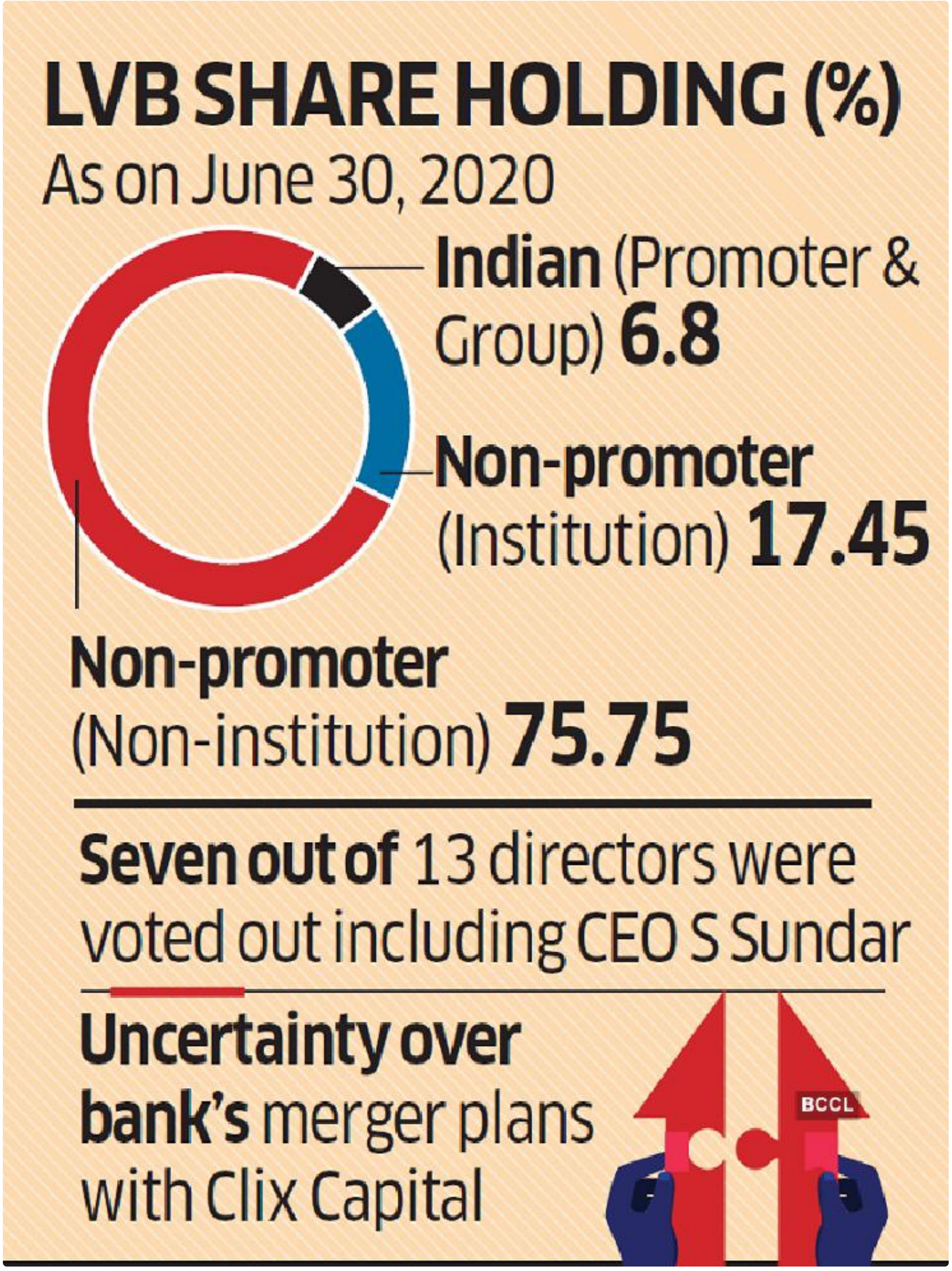
KOLKATA/MUMBAI/BENGALURU: Shareholders of tiny, struggling **Lakshmi Vilas Bank** created history last Friday by voting out seven directors including both its promoters in what is being seen as a dramatic strike against persistent bad governance and mismanagement. **LVB**'s newly appointed CEO S Sundar was also voted out with the shareholders rejecting his appointment.

The coup has left the bank completely leaderless and investors, depositors and employees are likely to face a few anxious days as the banking regulator Reserve Bank of India and the capital markets regulator Securities and Exchange Board of India grapple with this uncertainty. This comes at time when the works on bank's proposed merger with the Clix group entered a critical stage.

At the bank's annual general meeting held Friday, shareholders voted against the appointment of chief executive officer S Sundar and reappointment of other six directors including N Saiprasad and KR Pradeep who are also promoters. Nearly 100% institutional investors voted against these directors. Even,19% of promoters' votes went against them. Shareholders also rejected the reappointment of statutory auditors.

This is the first time that shareholders have voted out as many as seven board members including its promoters and the CEO who was appointed by the RBI. Sundar, 65, took over as an interim CEO from January 1, after Parthasarathi Mukherjee's resignation from the top position on August 31, last year. Sundar was chief financial officer in the bank between April 2018 and December 31, 2019.


LVB SHARE HOLDING (%)
As on June 30, 2020
Indian (Promoter & Group) 6.8
Non-promoter (Institution) 17.45
Non-promoter (Non-institution) 75.75
Seven out of 13 directors were voted out including CEO S Sundar
Uncertainty over bank's merger plans with Clix Capital
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A retired senior bank official had earlier moved the Madras High Court seeking the court to issue a direction to the Finance Ministry, RBI and Sebi to suspend the bank's board and appoint an administrator and ensure savings and investments made by investors and public shareholders in the bank are not misused.

The RBI has not so far offered a comment. A person familiar with the RBI's thinking said the regulator will wait for a communication from the LVB board before taking any action.

"The Companies Act will take precedence right now as it is a listed company. They have to comply with SEBI regulations. The bank will inform RBI by Monday based on which the next step will be taken. Even if there is no CEO there is a second tier management which can make sure the bank's operations are not impacted immediately," he added.

A senior executive at a private sector bank said the LVB board will have to get some additional directors with RBI's approval first and that of the shareholders next. "They will have to go for a rights issue or get a new investor, or a combination of both. Capital augmentation should be their first priority at this point, or a white knight will have to rescue it."

Capri Global Capital, which holds just 5% in the bank, was among the institutional investors to vote against the directors. Rajesh Sharma, managing director Capri Global said his company took the call based on the current state of the bank.

"This bank has been facing losses. There are allegations of fraud. Just last week the EOW arrested two former officials. The share price has fallen to Rs 20 from Rs 150. We have been watching all this for sometime. We have now taken the call and decided that the management cannot continue," Sharma said adding that his decision was an independent one.

Three directors, Shakti Sinha, Meeta Makhan and Satish Kumar Kalra were given another term with an identical 0.18% votes against each one of them. Sharma said the directors voted back were ones who were "neutral" and "professional."

"The bank continues to have a fully functional board with three independent directors, Shakti Sinha said late Sunday, issuing a statement on behalf of the board of directors. "The bank will continue the process of considering and evaluating the proposed amalgamation of the "Clix Group" with the bank," he said.

Delhi-based Clix Capital, which was in advanced talks to take over LVB is watching the developments and will decide in the next few days. "We knew some shareholders were unhappy with the way the bank was doing the current management and it looks like they have now got together," said a person familiar with the company's thinking.

LVB signed a preliminary, non-binding letter of intent (LoI) with Clix Capital Services and Clix Finance India on June 15 to discuss a possible merger. They failed to complete due diligence within an extended deadline of September 15 but maintained that the delay was because of Covid-related disruptions and the process is still on.

ET spoke with some shareholders who said unscrupulous lending, advances to low rated, doubtful corporates, and deviation from policy guidelines while lending landed the bank in the present mess. A forensic inspection, they said, could bring out the truth and clean up the bank.

Shareholders on Friday also rejected proposals to extend the term of independent directors Garinka Jaganmohan Rao, Raghuraj Gujjar, BK Manjunath and YN Lakshminarayana. Except the CEO, all were non-executive, independent directors. All of them ceased to be on board from September 25.

The pitch was set against the directors even before voting began on September 22. Institutional Investor Advisory Services (IiAS), a proxy advisory firm said that these directors lacked accountability considering the deterioration in the bank's financial health in the past couple of years.

"Many of these directors have rotated on-and-off. We believe that a part of the accountability for the bank's deteriorating performance over the last few years rests with its slate of non-independent directors," IiAS had said in its voting advisory to shareholders.

A prominent investor said they voted out the seven board members as shareholders have been "fed up" with mismanagement. "We want a good management in place of the present board which can identify potential investors and run the bank professionally. We are hopeful good things will happen in the next one year, but that will require constructive support from the RBI," he said.

Indiabulls Housing Finance, which had to abort its plan to acquire the Chennai-headquartered private lender after Reserve Bank of India refused permission, owns 4.99% in the bank. JM Financial Services holds 3.88% while Srei Infrastructure Finance and DHFL Pramerica Life Insurance hold 3.34% and 2.73% respectively. Promoters hold 6.8% in the bank.

The 94-year old bank, set up by a group of seven businessmen in Karur, Tamil Nadu, has been battling hard times for the past three years after a large chunk of its loans turned non-performing assets (NPA) forcing the RBI to put it under the prompt corrective action (PCA) framework. The bank's tier I capital adequacy ratio is a negative -0.88%, limiting its ability to lend barring a few exceptions including gold loans.

"Under The Companies Act two directors or 1/3 directors are enough for quorum. The bank now has six directors left and they can continue as a board and also nominate new members subject to later ratification by shareholders and provisions of the articles. The CEO however will have to be approved by RBI," said Shiju Veetil, Sr. partner, IndiaLaw LLP.