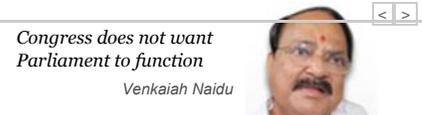


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# Govt may transfer IDBI Bank's bad loans to special entity

By [Dheeraj Tiwari](#), ET Bureau | Updated: Dec 17, 2015, 01.00 PM IST [Post a Comment](#)

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NEW DELHI: In an effort to get better valuation for IDBI Bank **BSE 2.07%** strategic stake sale, the government may transfer the bank's **bad loans** to a special entity. The government is looking to reduce its stake in the bank to below 50% to transform it into another Axis Bank. It currently holds 76.5% in it and is exploring all options, including strategic sales, to effectively privatize the bank. "Some suggestions have been made and they are being discussed. This looks like a plausible option given that such a move will enhance the chances of getting more investors for the proposed IDBI disinvestment," said a government official aware of the deliberations.

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| IDBI Bank | 1.45 (2.07%) |
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The move entails selling the non-performing assets (NPAs) of IDBI Bank to investment firms specialised in distressed debt and asset management. IDBI Bank had a gross NPA of Rs 14,758 crore at the end of September 2015, an increase of Rs 3,199 crore since September 2014.

"The bank's balance sheet gets cleaned and the government will also get some amount from the recovery of bad loans," said the official.

The bank's September quarter net profit remained almost flat at Rs 119.5 crore compared with Rs 118.49 crore in the year earlier. Net NPAs widened to 3.16% from 2.79% of loans in the year-ago period. If the government splits the bank assets, it will not be put out to existing asset reconstruction companies (ARCs) in India, the above quoted official said. "We may look at international companies, which have relevant experience and specialisation in this field," he added. ET had reported that the government is looking to offload 15% holding in the bank to International Finance Corporation, private **funding** arm of the World Bank.

IFC has a debt and asset recovery programme (DARP), which makes direct **investments** in businesses that need to restructure debt, in pools of distressed assets, and specialized companies that manage distressed assets. In the past, it had partnered with EOS Group of Hamburg, Germany, to co-finance the acquisition and resolution of distressed debt in Central and Eastern Europe.

The government is also examining the suggestions made by SBI Capital, which was

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engaged to draw up plans for the sale of a strategic stake in IDBI Bank. They have submitted an interim report, which primarily suggests bringing down the government stake in the bank in a phased manner. We are in discussions and no strategy has been finalised yet," said another government official, who did not wish to be named.



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"The first step is to restructure the bank's portfolio, bring down the exposure to corporate loans and address the problem of NPAs before it is put on the block," the official added. The bank is governed by the IDBI Act, which allows the government to lower its stake without having to approach the Parliament. This is in contrast to the position at other state-run banks, where the government has committed to retain a 52% holding at least.

The options under discussion include merger with any new bank, government having a golden share which gives its selective veto rights.

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