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Credible investor to get board seat in IDBI bank makeover

By [Deepshikha Sikarwar](#) & [Vinay Pandey](#), | Updated: Jan 04, 2016, 05:09 AM IST [Post a Comment](#)

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NEW DELHI: The government is ready to give a strategic role and a board seat to a credible investor in IDBI Bank **BSE -1.75 %** under a proposed transformation programme that was kick-started last week.



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The government has approved the bank's proposal to raise Rs 3,771 crore through a qualified institutional placement (QIP), which at current market capitalisation, translates into a more than 20% stake to new investors. ET had earlier reported that International Finance Corporation, the World Bank's private investment arm, was keen to pick up a stake in the bank, which the government is keen to change like [Axis Bank](#) **BSE -1.35 %**. "This (QIP) begins the transformation of IDBI Bank," minister of state for finance [Jayant Sinha](#) said, flagging the 'Indradhanush' programme to revamp public sector banks.

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IDBI Bank	-1.20 (-1.75%)
Axis Bank	-6.30 (-1.35%)

After a recent infusion of over Rs 2,200 crore as capital, the government owns over 80% stake in IDBI Bank, which is struggling with rising non-performing loans.

Transformation Begins

- IDBI Bank has approval for ₹3771-CR QIP
- This is 20% stake to new investors at current m-cap
- Govt currently holds over 80% stake in the bank
- Govt looking at high quality strategic investors
- These investors are expected to help transform the bank
- Govt willing to offer a board seat to some investors
- IFC has evinced interest in picking up stake in the bank

Depending on who the investors are & what stake they are willing to subscribe for, we are willing to discuss for them playing a more strategic role, which would potentially include a board seat. [Jayant Sinha](#), Minister of State for Finance

The bank posted a net profit of Rs 120 crore in the second quarter of this financial year, little changed from Rs 118 crore a year earlier. The level of gross NPAs widened to 6.92% from 5.72%. The government hopes to attract strategic investors capable of making IDBI Bank a top-class lender on the lines of Axis Bank, which was once majority-owned by the government's financial institutions. Axis Bank is today the third-

largest private bank with 45% foreign holding. The government has indicated it is keen to give IDBI Bank a private sector character with less than 50% stake for itself. IDBI Bank's share price increased over 70% to Rs 89.90 at the close on the [BSE](#) on Friday from a 52-week low of Rs 52.45 in August in anticipation of the proposed makeover.

"Depending on who the investors are and what stake they are willing to subscribe for, we are willing to discuss for them playing a more strategic role, which would potentially include a board seat as well," Sinha said, indicating the process could start soon.

Banking / Finance

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According to rules by the Securities & Exchange Board of India, in a QIP of over Rs 250 crore, at least five investors have to subscribe through a book-building process.

"Depending on market conditions, we could start the book-building relatively soon. In any case, we hope to do it soon," Sinha added.



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The minister said it's important to get the right kind of strategic investors and build a long-lasting relationship with them. The IDBI Bank recast is part of a wider plan to professionalise state-run banks and capitalise them well. 'INDRADHANUSH' PLAN

In August last year, the government announced a seven-point plan to revamp public sector banks struggling under mounting bad loans. Sinha said the plan proposes to address five major issues - governance, non-performing assets, capitalisation, management and overall government stake.

The gross NPAs of state-run banks rose to Rs 3.14 lakh crore at the end of September from Rs 2.51 lakh crore a year ago. "It is the most sweeping set of changes since bank nationalisation in 1969," Sinha said, outlining the goals of the makeover.

Operational autonomy enables them to put pressure on promoters through the strategic debt restructuring and corporate debt restructuring mechanisms and the joint lender's forum mechanism that the Reserve Bank of India has created, he said.

"So, public sector banks are thoroughly being transformed as a result of this," minister said. Sinha said apart from addressing NPAs, the capitalisation of banks is the other major element that the government is actively pursuing.

"We need to obviously make sure that our banks are thoroughly capitalised and are very robust with respect to any provisioning that they have to do and are comfortably ahead of the Basel-III norms," Sinha said adding that makeover of IDBI Bank is a part of that process.

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