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Government changes its mind, to retain over 52% in IDBI Bank

By [Sidhartha](#), TNN | Updated: Jan 14, 2016, 12:00 PM IST

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NEW DELHI: The government has decided to let [IDBI Bank](#) remain a public sector lender by retaining its shareholding above 52%, at least for the moment. The government wanted to rope in investors and model the financial institution-turned-bank on the lines of [Axis Bank](#), where it did not directly hold shares.

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Unlike other public sector banks, IDBI Bank is not covered by the [bank nationalisation](#) laws and there is no legal restriction on the government holding less than 51%. This had prompted suggestions that the Mumbai-based lender be a test case for the government to shed its stake below 51%. Even a decade after conversion into a bank, IDBI Bank is grappling with its retail operations and legacy issues, burdened with mounting bad debt. The bank recently announced its plan to raise close to Rs 3,800 crore through a qualified institutional placement.

Sources said following the transaction the government would cut its stake to around 65%. The government holds an 80% stake in IDBI.

The lender is said to be in talks with other players such as [LIC](#), which already hold a shade under 14%, for a possible increase in stake, the sources said. The move comes at a time when IDBI Bank is reducing its shareholding in [IDBI Federal Life](#), where it currently holds 48%. The stake sale, following the increase in the foreign investment limit, will help the beleaguered entity mop up some funds and also follow the government diktat of paring stake in non-core activities.

The bank is said to be in talks with other players, including World Bank arm International Financial Corporation, to offer shares through the QIP issue. Sources said that there are several other international investors with whom talks have been initiated. A higher stake for LIC would still make it possible for the government to model IDBI on the lines of Axis Bank, where the public sector life insurer had pitched for controlling stake a few years ago, only to be rebuffed by RBI. The regulator had pointed out that Axis Bank (earlier called UTI Bank) had been given a licence under the private bank category.

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