

CII urges govt to shed stake in PSU banks to 33%

OUR BUREAU

PRINT · T+

Tweet

Share

Says PSU banks may look at re-issuing recapitalisation bonds to public

Mumbai, December 17: In order to achieve the objectives of recapitalising public sector banks (PSBs) and meeting financing needs of the economy, industry body CII has made a host of recommendations including re-issue of recapitalisation bonds by PSBs to the general public, and government shedding stake in most of these banks to 33 per cent over the next 2-3 years.

Even as it backed the government's proposed move to issue recapitalisation bonds to the tune of Rs. 1.35 lakh crore, CII suggested an alternative whereby public sector banks (PSBs) could re-issue these bonds to the general public.

"These bonds (which will be held by banks) have de-facto sovereign guarantee. This will enable the banks to raise necessary funds (by re-issuing them to the general public)," said the Confederation of Indian Industry (CII).

Potential buyers

Potential buyers of recapitalisation bonds could be pension funds, insurance companies, other institutional investors, both global and domestic, and retail investors.

Injecting capital into PSBs via recapitalisation bonds entails two steps — one where the government issues bonds to banks and mops up resources; and two, the government uses these proceeds to buy shares of banks through rights issue and banks get the necessary capital.

Recapitalisation bonds are part of the government's Rs. 2.11-lakh crore front-loaded capital injection plan for PSBs to help them clean up bad loans and ensure credit growth.

Lower govt stake

PSBs, said CII, should be encouraged to go for public issue and use this capital to write off debt. This will increase their equity capital, it added.

As a quick measure, whatever margin is available to them over 52 per cent may be liquidated in the capital market, suggested the industry body. In this regard, it observed that many PSBs have a much higher government equity holding at over 80 per cent, while only four have brought down the share to 58 per cent as of March 2017.

"Over the next 2-3 years, the government should consider bringing down its stake in most PSBs to 33 per cent. It could retain a larger share in the State Bank of India in order to meet priority needs.

"However, smaller banks that are in poor condition require to be managed with greater efficiency," CII said.

One challenge in offloading shares, the industry body felt, could be the poor return on assets and equity that currently characterize some PSBs.

Infrastructure debt funds

Given that the infrastructure sector is a major source of bad assets for PSBs, and there is a mismatch between the relatively short-term nature of bank liabilities and the long-term tenure of infrastructure loans, the CII said a viable option for addressing this mismatch is required. Thus, banks may look at re-financing their infrastructure portfolio through Infrastructure Debt Funds (IDFs).

IDFs are investment vehicles where institutional investors such as insurance and pension funds can invest and refinance existing debt of infrastructure companies. Offloading such advances disbursed to successful infrastructure projects could open up space for new credit growth.

CII recommended that securitisation of good/performing loan portfolio and selling the units to investors may enable PSBs to raise funds to capitalise their books.

“Over the next 2-3 years, the government should consider bringing down its stake in most PSBs to 33 per cent. It could retain a larger share in the State Bank of India in order to meet priority needs.”

(This article was published in the Business Line print edition dated December 18, 2017)