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Will realty-linked NBFCs get banking licence now?

BY **JOEL REBELLO**, ET BUREAU | APR 08, 2019, 07:58 AM IST

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MUMBAI: A private equity executive, with substantial stakes in the financial sector, fielded many calls from friends in India and overseas on Saturday. All the discussions were centred around **Indiabulls Housing Finance's** acquisition of **Lakshmi Vilas Bank (LVB)** and its implications for the banking sector.

Indiabulls **Housing Finance**, an NBFC with substantial exposure to the real-estate sector, will get a coveted **banking licence**. Does that mean that real-estate exposure is no longer frowned upon by the **Reserve Bank of India**? Will it open the doors for other NBFCs to acquire distressed banks and get a deposit-taking licence? Can large corporate houses, which have earlier been rejected by the RBI, seriously re-consider holding a banking licence?

"The financial corridors of Mumbai are abuzz with questions this deal raises. If this deal goes through, it is a regulatory shift. The RBI has to be prepared to deal with the questions this deal throws up and likely interest from other corporate groups, which always had intentions of owning a bank," said this executive.

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On-tap Banking Licence

These guidelines say that private sector groups, owned by resident Indians with a successful track record of at least 10 years, can qualify to apply for a banking licence

Such groups must have total assets of **₹5,000 crore** or more and the non-financial business of the group should not account for more than **40% of gross income**

The fact that two RBI nominees were present on the LVB board also raised questions whether that meant regulatory approval was a foregone conclusion, forcing the central bank to issue a clarification in a late-night statement. "It is clarified that the merger announcement does not have any approval of RBI at this stage. It is also clarified that the presence of additional directors nominated by the RBI on the board of LVB does not imply any approval of the RBI of the merger proposal. Moreover, the additional directors have clearly mentioned at the meeting that they have no view on the proposal," RBI said. The proposal will be examined according to guidelines as and when the central bank receives it, RBI said.

Banking executives are trying to understand how a company with high exposure to a speculative sector like real estate can own a bank.

"RBI has steadfastly disallowed companies from owning banks because of the risk that these pose in terms of quid pro quo lending and also price disruptions, which could throw the financial markets into a disarray. It is not that these risks have gone away. So, everyone is wondering how would this happen," said the CEO of a private sector bank.



In his interview to ET on Friday, Indiabulls MD Gagan Banga sounded confident. "Before making such a big move, we have spoken at levels at RBI and we have got some sense of comfort there informally. So, we have done our checking of the boxes and we are confident that this deal will go through," Banga had said.

He mentioned the 2016 RBI guidelines for on-tap banking licences as a reference point for banking applicants.

The 2016 guidelines were also pointed out for reference by former RBI deputy governor R Gandhi, who is of the view that real estate exposure does not on its own disqualify Indiabulls from getting a banking licence.

"Exposure to real estate and aversion to large companies were listed in the 2013 guidelines. In the updated 2016 guidelines, there is no mention of sensitive sectors like real estate and brokerages. The only qualification is for entities to have total assets of Rs 5,000 crore or more. So, specific to these two points, Indiabulls does qualify," Gandhi said.

Analysts say the ball is in the RBI's court depending on when Indiabulls and LVB apply for the central bank's approval.

"There are many other NBFCs who would like to buy banks and get a deposit-taking licence, especially after the crisis of confidence that we saw a few months ago. This deal raises many questions and it is only fair to see what decision the RBI takes because it will set the direction on the way forward," said Saurabh Tripathi, senior partner at BCG.

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