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Market Watch

# Indiabulls, Lakshmi Vilas deal in limbo with RBI yet to take a call

BY SUGATA GHOSH, ET BUREAU | SEP 06, 2019, 07:49 AM IST

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The deal to merge Indiabulls Housing Finance (IBHF) and [Lakshmi Vilas Bank \(LVB\)](#) hangs in balance with the proposed transaction turning out to be a waiting game for various parties.

The Reserve Bank of India (RBI), which received the application for voluntary amalgamation almost four months ago, has not reached a decision on the proposal. While one of the financial services regulators has given its noobjection to the deal, the Enforcement Directorate (ED) and income tax department are yet to share their findings.

On July 30, RBI had requested ED to share any “adverse information available” with the agency on the conduct of IBHF, Indiabulls group, and promoter entities by August 16.

“If ED and IT say there are no pending or ongoing probe, it will strengthen the case for Indiabulls and the bank. Still, RBI will have the last word,” a source told ET.

“RBI is looking at various issues: whether such a merged entity would be adequately ring-fenced from promoters, whether Indiabulls Housing will be able to reduce its commercial real estate exposure to a comfortable level, and most importantly, whether Indiabulls is the right candidate for the merger given the financial position of LVB.. The regulator has not reached a conclusion,” said the person.

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**Regulator wanted** information by August 16

**RBI is looking at whether...**

**Merged entity** would be adequately ring-fenced from promoters

**Indiabulls Housing** will be able to reduce its commercial real estate exposure to a comfortable level

**Indiabulls is** right candidate for merger given the financial position of LVB



Indiabulls is trying to address these concerns. It is cutting down exposure to builders; promoter [Sameer Gehlaut](#) has assured the RBI that he will give control and lower the promoter group shareholding below 10% in the proposed bank. Two institutional shareholders of IBHF have also evinced interest to raise stake in the merged entity above 5% — a move that would infuse equity as well as dilute Gehlaut’s stake. The promoters currently hold 21.5% in the IBHF.

An RBI spokesman refused to comment on the subject while an Indiabulls Housing spokesman said, “We are currently going through detailed inspection by RBI in both Indiabulls Housing Finance and Indiabulls Commercial Credit which are proposed to be merged with LVB.. This is on expected lines and we hope to know the decision of RBI in due course.”

RBI has allowed Indiabulls to invest Rs 250 crore in bonds to be issued by LVB to shore up its [capital adequacy ratio](#). However, since these bonds would be cancelled on merger, Indiabulls is likely to finalise its decision on the investment once the merger application is approved by the banking regulator.

Even if the RBI insists on additional conditions for the merger — like extra [capital requirement](#) or composition of board and management — it is yet to indicate it. There are different views within the RBI on the proposal which, according to regulatory officials, may encourage other NBFCs to take the merger route to obtain a banking licence.

RBI, said a person, is carrying out a “snap inspection” of Indiabulls Commercial Credit, a subsidiary of IBHF which would also be merged with the private sector bank.

“This inspection is largely with a focus on the merger proposal and sections feel this indicates a sense of urgency on the part of the regulator. [National Housing Bank](#) has also sought details from Indiabulls Housing on its cash reserves,” he said.

RBI will have to take a decision on LVB. Its capital adequacy level has fallen and if the bank fails to lower bad loans and raise capital, the regulator will have to consider invoking prompt corrective action on the bank to correct the financials,” said another source.

Under the circumstances, shareholders and management of LVB are awaiting the regulator’s decision. The bank has raised capital this year by issuing shares to institutional investors and will seek the shareholders’ approval at its AGM this month to raise additional equity. LVB is currently headless and may have to soon consider appointing an interim CEO. One of the independent directors of LVB may be considered for the job.

“Indiabulls has said that its free cash will significantly shore up the bank’s capital. Its officials, some of whom are former RBI officials, have been trying to put across the case with the regulator. The Indiabulls team is pursuing the matter at various levels,” said one of the sources.

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