Govt's IDBI Bank move may hold a clue for future of public sector banks

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KOLKATA: **Life Insurance Corporation of India** got all the attention in this **budget**. **IDBI Bank** became a footnote. Once a million-pound gorilla in its own way, now looks like a pigmy. But what the government does with the pigmy may well become a signboard for the future of some state-run banks.

Dilution of holding in banks has been a long cherished desire of successive governments, despite it being a controversial one. Selling down the remaining 47% shares in IDBI Bank may be just a trickle, for now.

Given the government's over 90 per cent ownership in several lenders, it may not immediately need to beat the drum about bringing them below the contentious 51 per cent level, but divestment may become the order of the day.

"Sale of IDBI Bank shares may not elicit huge response from the market immediately given its current financial stress. But the intent is clear that the government cannot hold on to shares perpetually. I see this as a symbolic gesture to all stakeholders as to how the future of banking may take shape," said Kuntal Sur, financial services partner, PwC India. "However, I don't expect the government to say anytime in the next one year that it would bring down its holdings in public sector banks below 51 per cent.''

IDBI Bank has already been re-categorised as private sector bank by **Reserve Bank of India**, after Life Insurance Corporation of India acquired 51 per cent in the loss-making lender in January 2019 and becoming the majority owner.

Consolidation of government-owned banks is already a work in progress. And, the absence of further capital infusion into the banking sector shows that the government is averse to putting more money in leaking boats, especially when its own finances are stressed and fiscal deficit exceeds 3.8 per cent of the Gross Domestic Product. The government has invested more than Rs 3 lakh crore in the past few years without much to show in return.

“This (the absence of recapitalization) points to business-as-usual progress on the deleveraging process, intermittent concerns over institutional strength as well as modest pace of dispute resolution,” DBS economist Radhika Rao said.

Burden of revenue generation falls on non-tax receipts, particularly divestment where the target has been raised to Rs 2.1 lakh crore (0.9 per cent of GDP) in FY21 vs Rs 80000 crore (0.3 per cent) in FY20, she said. This is likely backed by a) five strategic stake sales announced last year, b) plans to table part of the national insurance company public, c) plans to sell the entire 47% stake in IDBI Bank as announced in Union Budget.

“In the last few years, the government has taken concrete steps to bring our banking system to be robust. However, there is a need for greater private capital,” finance minister **Nirmala Sitharaman** said in budget speech, where she has proposed to sell 46.5% holding in IDBI Bank to private, retail and institutional investors through the stock exchange.

IDBI stake sale would be keenly watched on what kind of interest it draws.

"It's important who buys shares in IDBI Bank. If any other public sector undertaking buys it from the government, then there is no real point and may not be any change in IDBI's credit rating," a senior official with a rating company said.

IDBI and **LIC**, ``demonstrate the will to take courageous measures & will enable disclosures of investment and loan portfolios and better governance, with greater transparency and accountability,'' said L Viswanathan, partner, Cyril Amarchand Mangaldas.

To be sure, the government may not end with just this.

“There is a need to take further steps to bring in transparency and greater professionalism in public sector banks. The government will take appropriate measures,” Sitharaman had said.


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