RBI to govt: Cut stake in top PSBs in 12–18 months

Proposal to prune stake to 51% in six banks may fetch over ₹43,000 crore

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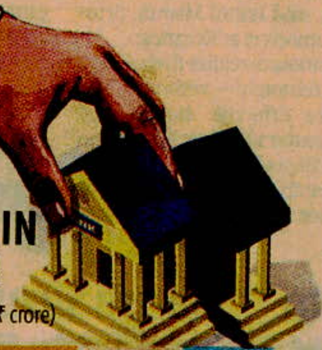
The Reserve Bank of India (RBI) has suggested bringing down the government's stake in six leading public sector banks (PSBs) to 51 per cent over the next 12 to 18 months. This, the regulator feels, will give a much-needed push to the government's disinvestment efforts.

State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BoB), Canara Bank, Union Bank of India, and Bank of India have been shortlisted for this. "The government has taken the suggestion positively," said a person in the know.

Sources familiar with the developments said during discussions on the government's move to monetise its holdings in PSBs, the RBI had expressed concern on complete privatisation in the immediate future.

The regulator's apprehension is that privatisation may end up being an exercise similar to the one in the case of IDBI Bank, where Life Insurance Corporation of India had to take a controlling stake of 51 per cent from the government, said a person aware of the development. At a recent meeting, the RBI expressed its view that the government must reduce its stake to 26 per cent in PSBs. But as that would take time, a timeframe has been suggested for stake sale in the leading PSBs.

A back-of-the-envelope calculation shows that stake sale in the six banks could fetch over ₹43,000 crore, though sources said ₹25,000 crore had been targeted. Stake sale, with the government not participating in it, should help bring down its stake to 51 per cent.



HUGE GAINS IN ORDER

(₹ crore)

	Centre's stake (%)	Bank's m-cap	Sale proceeds*	P/BV (x)
SBI	57.6	1,70,862	11,345	0.8
PNB	85.6	30,067	10,400	0.5
BoB	71.6	21,624	4,455	0.5
Union Bank	89.1	18,580	7,073	0.8
Canara Bank	78.6	14,797	4,076	0.5
Bank of India	89.1	15,434	5,880	0.4
TOTAL		2,71,364	43,229	

M-cap: Market capitalisation as of July 31; P/BV: Trailing 12-month price-to-book value; *Likely proceeds, assuming sale of shareholding in excess of 51% stake Source: Capitaline

"After the YES Bank crisis, investors are looking at PSBs favourably and if we demonstrate our ability to operate profitably, we should be able to raise money on our own," said a top executive of a PSB gearing up for capital raising.

According to the head of a foreign investment bank, enquiries for SBI and BoB have been rising. "But interests are not converting into 'buy' orders yet," he added. Efforts are underway to boost the valuations of these PSBs because all, including SBI, are trading at far below their book value.

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"Work is on to improve their asset quality," said a banker. According to sources, the six banks may not take on any lumpy credit exposure in the near term and will remain focused on cutting non-performing assets by at least a third by the end of 2020-21. "They will participate in the government's credit guarantee schemes," another highly placed source said. The Centre and the RBI are monitoring their asset quality.