Centre readies plan to sell up to 20% in 5 PSBs

Govt may consider both OFS and QIP routes for diluting its stake

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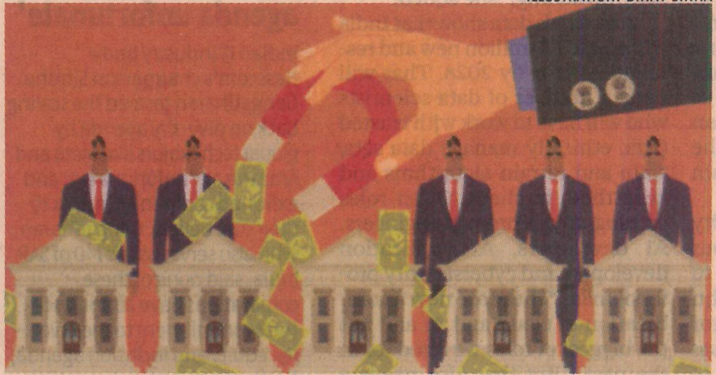
ILLUSTRATION: BINAY SINHA

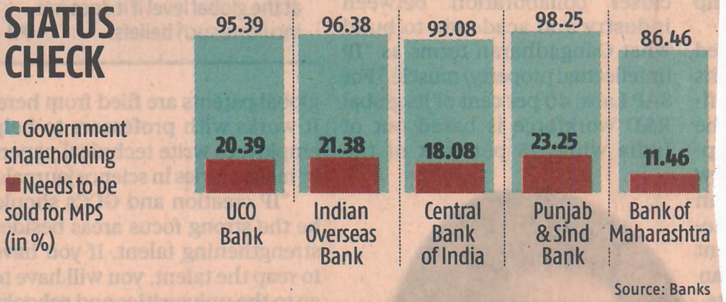


To dilute up to 20 per cent of its stake in each of five public-sector banks (PSBs) over the next four years, the Union government is developing a road map in consultation with the Department of Investment and Public Asset Management (Dipam), the Department of Financial Services (DFS), and state-run lenders, according to a senior government official.

"This will be done to comply with the Securities and Exchange Board of India's (Sebi's) minimum public-shareholding norms. While market conditions will be considered, the government plans to use both the offer for sale (OFS) and qualified institutional placement (QIP) routes for stake dilution," said the official.

The five banks are Bank of Maharashtra (current government holding 86.46 per cent), Indian Overseas Bank (96.38 per cent), UCO Bank (95.39 per cent), Central Bank of India (93.08 per cent), and Punjab and Sind Bank (98.25 per cent). In each case, shareholding is sought to be brought below 75 per cent.

Sebi's minimum public shareholding norms require listed firms maintain a free float of at least 25 per cent. A waiver was granted to state-owned banks, allowing them time until August 2026 to meet this requirement.



When a public-sector undertaking raises funds via QIP, money goes to the company because new shares are issued. In the case of OFS, the promoter, which in this case is the government, gets the money because it sells its own shares.

The source added the government's primary focus would be OFS.

"PSBs are well capitalised, and through OFS, the government can raise funds for other needs," the official added.

An email query sent to the finance ministry remained unanswered till time of going to press. Turn to Page 6 ▸

Two PSBs have raised ₹8.5K cr so far in FY25

Sanjay Agarwal, senior director, CareEdge Ratings, said: "During the post-AQR (asset quality review) period, the government had infused substantial equity to support credit losses of PSBs. With the banks turning around and having good profits, the government now has significant surplus equity stakes in some banks (vis-a-vis Sebi guidelines). This surplus stake at current values exceeds ₹43,000 crore. A part of the surplus would be used by banks for growth, while the government may look at offloading some of the balance in the secondary markets."

This financial year, so far, two PSBs together have raised ₹8,500 crore via qualified institutional placement (QIPs). They are Bank of Maharashtra (₹3,500 crore) and Punjab National Bank (₹5,000 crore) .

In FY24, five PSBs raised ₹17,500 crore. They were Bank of India (₹4,500 crore), Bank of Maharashtra (₹1,000 crore), Indian Bank (₹4,000 crore), and Union Bank of India (₹8,000 crore) through QIP, according to Prime Database. No PSB has raised capital through OFS either this financial year or the previous one.

On Monday, the government initiated the process of diluting its equity in select PSBs and public financial institutions (PFIs) by inviting bids from merchant bankers and legal advisors. Dipam has issued a request for proposal (RFP) for transaction advisors for three years, with the option of a one-year extension.

In her 2021-22 Budget speech, Union Finance Minister Nirmala Sitharaman had announced plans to privatise two PSBs, alongside IDBI Bank.