15th February, 1996

BANKS QUEUE UP TO RAISE MONEY FROM CAPITAL MARKET

After a deluge of issues from the non-banking finance companies (which numbered 523 during calendar 1995), the turn now seems to be of banks to raise resources, and in much larger amounts, from the capital market according to Mr.Prithvi Haldea of the PRIME data base. Fortunately, this means better news for the investors as bank issues are backed by a track record and have an infrastructure to depend upon. Moreover, the previous bank issues have yiedded excellent returns for the investors.

Several public and private sector banks are already in the market to raise their capital through rights issues according to PRIME. The issues which are currently open include from 4 SBI subsidiaries : State Bank of Mysore (Rs.84 crore), State Bank of Travancore (82.50), State Bank of Bikaner & Jaipur (62.40) and State Bank of Indore (52.50). The others include Vysya Bank (46.26), Federal Bank (111.12) and Nedungadi Bank (20.40). Thus, a total of Rs.459 crore is being reised by these banks.

Earlier, most of these and other banks had announced major capital raising plans through a combination of public and rights issues. However, due to depressed market conditions, presently the safer rights issue route is being preferred. Interestingly, all these 7 issues are rushing up at this point of time to meet the 8 per cent capital adequacy norm by 31st March 1996 as stipulated by RBI as per Mr.Haldea.

All these 7 issues are obviously at a premium, the premia charged (calculated on a face value of Rs.10) being Vysya Bank (Rs.25), Federal Bank (140), State Bank of Mysore (25), State Bank of Indore (50.00), State Bank of Travancore (45), Nedungadi Bank (20) and State Bank of Bikaner & Jaipur (30).

In the case of Vysya Bank, it had made a preferential allotment of 6 lac shares to its management at a price of Rs.374.25 per share and to its employees at a price of only Rs.20 per share. However, as per the subsequent SEBI guidelines, the above preferential allotments were priced at Rs.573 per share. The present issue at a premium of only Rs.25 per share in the ratio of 5:1 is obviously a bonanza for the existing shareholders. The 5-time increase in paid up capital will lead to an equity base of 159 lac shares.

Federal Bank had in March 1994 come out with a public issue of Rs.31.90 crore at a premium of Rs.80 per share. Its present issue is at a premium of Rs.140. Though being the largest of the present issues, it entails only a 50 per cent hike in the paid-up capital from 148 lac to 222 lac shares.

State Bank of Mysore, which last made a rights issue way back in July 1988, is now seeking to triple its equity base from 12 lac to 36 lac shares. Its share has been quoting in the range of Rs.785 to 950 during 1995 while the present issue is only at Rs.250 per share. Significantly, 89 per cent of the shares are held by SBI.

The issue of State Bank of Indore aims at doubling the equity base from 8.75 lac to 17.50 lac shares. 97 per cent of the capital is held by SBI. The rights issue of State Bank of Travancore, however, is aiming at only a 75 per centincrease in its capital, up from 20 lac to 35 lac shares. SBI here too holds over 97 per cent of the equity.

The Nedungadi Bank's issue is seeking to triple its equity base from 34 lac to 102 lac shares. Set up in 1899, it is one of the oldest banks and is widely held. It had earlier made a public issue at par aggregating Rs.1.38 crore in 1992.

As per Mr.haldea, in the 1989-90 to 1994-95 period, only 3 public sector banks have gone public. This includes State Bank of India (Rs.1740 crore in December 1993), Federal Bank (Rs.31.90 crore in March 1994) and Oriential Bank of Commerce (Rs.360 crore in October 1994).

The private sector banks who have made public issues in the 1989-90 to 1994-95 period according to PRIME are Bank of Punjab (Rs.29.52 crore in March 1995), Global Trust Bank (Rs.26 crore in August 1994), HDFC Bank (Rs.50 crore in March 1995), Nedungadi Bank (Rs.1.38 crore in January 1992) and United Western Bank (Rs.6 crore in January 1994).

On the rights front, during the same period, issues have been made by Bank of Madura (Rs.50 lacs in October 1990 and Rs.75 lacs in November 1991), Bank of Rajasthan (Rs.10 crore in July 1994), Federal Bank (Rs.8.83 crore in March 1993), Karur Vysya Bank (Rs.7 crore in March 1995), Lakshmi Vilas Bank (Rs.3.85 crore in March 1993 and Rs.20.26 crore in January 1995), Nedungadi Bank (Rs.1 crore in January 1992) and State Bank of India (Rs.792 crore in January 1994).

During the current financial year, only 1 bank (Karnataka Bank) has made a public issue aggregating Rs.54 crore while rights issues have been made by Karnataka Bank (Rs.27 crore) and United Western Bank (Rs.72 crore).

The PRIME data base reports that there are at least another 26 banks who have announced plans to tap the capital market. This includes Bank of India, Bank of Madura, Bharat Overseas Bank, Canara Bank, Corporation Bank, Punjab & Sind Bank, Punjab National Bank, State Bank of Hyderabad, State Bank of Patiala, State Bank of Saurashtra, Syndicate Bank, Union Bank and Vijaya Bank. The Rs.300 crore public issue of State Bank of Patiala is in an advanced stage of floatation.

Among private banks, according to Mr.Haldea, those seeking to tap the public purse include Benaras State Bank, Catholic Syrian Bank, Centurion Bank, Dhanalakshmi Bank, Global Trust Bank, ICICI Banking Corp., Indusind Bank, J&K Bank, Lord Krishna Bank, Sangli Bank, South Indian Bank, Times Bank and UTI Bank.

In addition to banks, there has been a regular capital raising exercise by financial institutions - both at the central and state levels. While IDBI, IFCI, ICICI and SCICI have been active in mopping up resources, funds have also been raised by SIDBI and TFCI in the past. At the state level, in the current financial year, Haryana Financial Corporation has already made a Rs.20 crore public issue. Those waiting in the wings include APSFC, GIIC, PSIDC, SICOM and UPFC. Moreover, IRBI, ILFS, NCBI and NSIC are also actively considering to raise money from the public as per PRIME.