RBI’s Approval to Acquire IDBI Stakes

Why in news?

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Reserve Bank of India gives in-principle nod to LIC for acquiring majority stake in IDBI Bank.

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What is government plan’s on IDBI Bank?

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- Union government has proposed to sell around 40-43% stake in IDBI Bank to LIC, due to debt burdens.
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- The decision is based on LIC’s capacity, since it is currently the largest public shareholder of IDBI Bank with a stake of 10.82%.
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- If it buys another 43%, its total stake in the state-run IDBI bank will be around 55%.
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- The stake sale will fetch the government between Rs 10,000-Rs 11,000 crore. Click here to know more about the issue.
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What is the recent decision of RBI in this regard?

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- Reserve Bank of India (RBI) has given an in-principle nod to Life Insurance Corporation (LIC) for acquiring a majority stake in IDBI Bank.
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- LIC had sought the banking regulator’s nod before it had approached the Insurance Regulatory and Development Authority (IRDAI) for seeking regulatory approvals.
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- The Cabinet nod is required because the government's stake will be diluted below 51 per cent in IDBI Bank.
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- The government owned 85.96 per cent and LIC 7.98 per cent in IDBI Bank at the end of June.
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- After the Union Cabinet approves the proposal, the RBI will examine if LIC meets the "fit and proper criteria" for being a promoter with a controlling stake in IDBI Bank.
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- The insurance regulator has, however, asked LIC to bring down its stake in IDBI Bank over a period of five-seven years.
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What will be the outcomes of this move?

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- LIC is expected to pump Rs 100-130 billion into IDBI Bank through a preferential allotment of new equity shares at a price determined by a formula under SEBI's rules.
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- The deal will likely trigger an open offer, which LIC will make to IDBI Bank's shareholders.
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- By which LIC likely to get management control of debt-ridden IDBI Bank, at the same time LIC may have to pare down its stake in other banks below 10%
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- IDBI Bank will likely become a subsidiary of LIC on the lines of LIC Housing Finance, LIC Mutual Fund and LIC Pension Fund.
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- IDBI Bank will seek nod from its shareholders and SEBI by holding separate general meeting of its stakeholders on this matter.
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Source: Business Standard

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