

Govt weighs merger of Bank of Baroda, IDBI Bank, Oriental Bank, Central Bank

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The government is considering merging at least four state-run banks, including Bank of Baroda, IDBI Bank Ltd, Oriental Bank of Commerce and Central Bank of India, two people aware of the matter said. If the plan goes through, the merged entity will become the second-largest bank in the country after State Bank of India, with combined assets of ₹16.58 trillion.

With the merger, the government hopes to help stem the rise in bad loans in their books at a time when poor asset quality has crippled the lending ability of some of them. The merger will also allow the weak banks to sell assets, reduce overheads and shut money-losing branches.

The four banks that are being proposed to be merged are under pressure with combined losses of ₹21,646.38 crore in the year ended 31 March.

The department of financial services, under the finance ministry, is also simultaneously considering a 51% stake sale in IDBI Bank to a strategic partner, for ₹9,000-10,000 crore, the people said on condition of anonymity.

“Dilution of (government) stake in IDBI Bank could also be achieved through stake sale to private equity investors,” said one of the two people cited above. Queries emailed to IDBI Bank, Bank of Baroda, Oriental Bank of Commerce and Central Bank of India did not elicit any response.

On 21 May, IDBI Bank told the exchanges in a regulatory filing that a special resolution will be placed for further issue of capital at its board meeting of 25 May.

On the following day, IDBI Bank informed the exchanges about a scrutinizer report for an increase in the bank’s authorized capital from the existing ₹4,500 crore to ₹8,000 crore.

The increase in authorized capital could facilitate the sale of a stake of 51% or more, in the form of a preferential issue to investors.

Government officials declined to comment, saying the matter is highly market sensitive. In his 2016 budget speech, finance minister Arun Jaitley said that the government was considering reducing its stake in IDBI Bank to less than 50%.

The government had merged SBI with five of its associate banks and Bharatiya Mahila Bank in April 2017.

(Live Mint)