WTM/RKA/CFD/ 09/2012

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

IN THE MATTER OF PROPOSED ACQUISITION OF SHARES OF IDBI BANK LIMITED – APPLICATION FILED UNDER REGULATION 11 (1) OF SECURITIES AND EXCHANGE BOARD OF INDIA (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 2011.

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1. IDBI Bank Limited (hereinafter referred to as "IDBI Bank or the target company") is a banking company, having its Registered Office at IDBI Tower, WTC Complex, 3rd Floor, Cuffe Parade, Colaba, and Mumbai-400 005. The equity shares of the target company are listed on the Bombay Stock Exchange Limited (hereinafter referred to as 'BSE') and the National Stock Exchange of India Limited (hereinafter referred to as 'NSE').

2. IDBI Bank, on behalf of the Government of India (hereinafter referred to as "GoI" or "the acquirer"), vide letter dated March 9, 2012 filed an application under regulation 11(1) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (hereinafter referred to as 'the Takeover Regulations') seeking exemption from the regulation 3(2) of the Takeover Regulations.

3. The GoI is the promoter of the IDBI Bank. It has been stated in the application that the Central Government, vide letter dated November 22, 2011 has granted in-principle approval to subscribe to equity share capital of the IDBI Bank by way of conversion of Tier I Bonds of IDBI Bank of the value of Rs.2,130.50 crore held by the GoI. Accordingly, the GoI would be issued 188,556,509 equity shares at Rs.112.99 per share for conversion of the said Tier I Bonds. After said issue of equity shares to GoI, the shareholding of GoI in the IDBI Bank would increase from 65.13% to 70.73%. This proposed acquisition of shares would be in excess of the creping limit (5%) permitted in regulation 3(2) of the Takeover Regulations and unless the acquisition is exempted under

regulation 11, it would trigger mandatory open offer obligation for GoI. The exemption has been sought for reasons given below:

a. The GoI and the Reserve Bank of India had given a loan of Rs.2, 130.50 crore to IDBI Bank in the late 90s when IDBI was a Public Financial Institution. This loan was converted into Tier I Bonds, in order to get these funds to qualify as Tier I Capital. This augmented the capital of the IDBI Bank and helped it to meet the prudential norms set under Basel I.

b. With the onset of Basel III norms, the IDBI Bank needs to strengthen its core equity and hence the GoI has consented to convert these bonds into equity shares. The increase in shareholding is a mere outcome of the conversion of loan , which is being done to provide the IDBI Bank with a platform to leverage and grow, which will in the long run be beneficial to the shareholders.

c. The conversion of Tier I Bonds into equity shares will not involve any separate infusion of funds and is being done to strengthen the IDBI bank which will not only help it to meet the norms, but will also provide it with sufficient room to grow its business.

4. The shareholding pattern of the target company (before and after the proposed allotment) as per the aforesaid application is as under:-

Shareholders' category	Number of registered shareholders as on date of application	Before the proposed acquisition		After the proposed acquisition	
		Number of shares/ total voting rights held	% of shares/ total voting capital held	Number of shares/ voting rights	% of shares/ voting rights
Promoter group (GoI)	1	641,287,110	65.13	829,843,619	70.73
FIs/ Banks	83	68,831,470	6.98	68,831,470	5.87
FIIs/ NRIs/ OCBs	8,070	40,124,657	4.06	40,124,657	3.42
Public & others	449,032	234,377,140	23.83	234,377,140	19.98
Total	**457,186**	**984,620,377**	**100.00**	**1,173,176,886**	**100.00**

5. The application was referred to the Takeover Panel under regulation11 (5) of the Takeover Regulations. After examination of the facts and circumstances stated in the application, the Takeover Panel vide its report dated March 21, 2012 recommended as under:

> *"The panel deliberated on the matter and observed that the capital adequacy of IDBI Bank Ltd. is a key requirement to protect the interest of its customers as well as public shareholders who have invested in its capital. The panel also observed that GoI is agreeable to convert Tier I bonds into equity shares of the bank to enable the bank to meet the prudential norms set under Basel I, as also to provide it with sufficient room, to grow its business. It was also observed that the bonds are being converted at a price of Rs.112.99 per equity share as per pricing worked out in accordance with SEBI pricing formula for preferential allotment. Considering all these aspects, the panel found the proposal in the interest of the public shareholders and other stake holders of the bank and accordingly recommended the grant of exemption under regulation 11(1) from the applicability of regulation 3(2) of Takeover Regulations, 2011."*

6. I have considered the application, the abovementioned recommendation of the Takeover Panel and other material available on record. I note that the GoI /RBI had given a loan of Rs.2130.50 crore to the IDBI, which was a Public Financial Institution. This was converted into Tier Bonds in the year 2002, in order to get these funds qualify as Tier Capital of the target company. Further, under the Basel III norms, the IDBI Bank needs to strengthen its core equity capital. I agree that the capital adequacy of the IDBI Bank is a key requirement to protect its small customers as well as public shareholders who have invested in its equity. I also note that pursuant to the proposed acquisition of 188,556,509 equity shares, the increase in shareholding of GoI (from 65.13% to 70.73%) would not result in change in control as the GoI is already in control of the target company. It is also observed that the equity shares on preferential basis shall be allotted upon conversion of Tier I Bonds in accordance with pricing for preferential issues under the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009.

7. I, therefore, agree with the observations and recommendations of the Takeover Panel and consider the present case as a fit case to grant exemption from the obligation to make an open offer for acquiring shares under regulation 3(2) of the Takeover Regulations.

8. In view of the above findings, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 11(5) of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, hereby grant exemption to the acquirer, Government of India from complying with the requirements of regulation 3(2) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 with regard to the proposed acquisition of 188,556,509 equity shares by conversion of Tier I Bonds.

9. The above exemption is granted subject to the following conditions:

    a. The proposed acquisition shall be in accordance with the relevant provisions of the Companies Act, 1956, the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009, the Listing Agreement and other applicable laws;
    b. The acquirer/target company shall ensure compliance with the statements, disclosures and undertakings made in the application and subsequent correspondence;
    c. This exemption is limited to the requirements of making open offer under regulation 3(2) and shall not extend to other obligations (e.g. disclosure requirements under Chapter V of the Takeover Regulations, the Listing Agreement or any other law) of the target company and the acquirer.

DATE: March 26th, 2012
PLACE: MUMBAI

RAJEEV KUMAR AGARWAL
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA