WTM/PS/37/CFD-DCR-1/MAR/2013

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

In the matter of proposed acquisition of equity shares of Central Bank of India - Application filed under regulation 11(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

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1. Central Bank of India (hereinafter referred to as "the Target Company") is a public sector bank, incorporated on December 21, 1911, having its registered office at Chandermukhi, Nariman Point, Mumbai - 400 021. The shares of the Target Company are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited.

2. The Target Company, filed an application dated February 15, 2013 on behalf of the Government of India (hereinafter referred to as "the GoI" or "the proposed acquirer") 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 applicability of regulation 3(2) of the Takeover Regulations, with respect to the proposed acquisition of 308,461,538 equity shares of the Target Company by the GoI. In the application, it was *inter alia* stated that :

(i) The Target Company's authorised capital is ₹3000 crore and the paid-up capital is ₹2353.12 crore [₹736.12 crore as equity and ₹1617 crore as Perpetual Non-Cumulative Preference Shares (PNCPSs)]. The GoI is holding 79.15% equity share capital and 100% of the PNCPSs.

(ii) GoI desires that all public sector banks should maintain minimum 8% Tier I Capital to Risk-weighted Assets Ratio (CRAR). The Tier I CRAR under BASEL II of the Target Company as on March 31, 2012 was 7.79% and the CRAR (total) was 12.40%.

(iii) The Target Company has raised ₹500 crore upon issue and allotment of 5,000 Perpetual Debt Instruments (PDIs) of ₹ 10 lakh each on September 29, 2012.

(iv) As on December 31, 2012, the Tier I CRAR as per BASEL II was 7.02% while total CRAR was 10.75%. Since the Target Company is away from reaching 8% Tier I CRAR as on December 31, 2012 and with probable increase in risk weighted assets as on March 31, 2013, it requires capital infusion. It has also been submitted that since PNCPSs is proposed to be outside the common equity and to be treated part of additional Tier I Capital, it is desirable to consider equity rather than PNCPSs as a long term plan.

(v) The Target Company has head room for issuing equity shares for a value of ₹646.88 crore.

(vi) GoI, through the Ministry of Finance, vide letter dated January 17, 2013 has informed that it has decided to infuse capital to the tune of ₹2406 crores in the Target Company against preferential allotment of equity in favour of GoI.

(vii) Pursuant to the same, the Board of Directors of the Target Company in their meeting held on January 30, 2013, approved raising of additional equity capital to the extent of ₹2406 crore by way of issue of equity shares in favour of the GoI on preferential basis, subject to the approval of the Reserve Bank of India, the shareholders and other statutory authorities. The Board has also called for an Extra-Ordinary General Meeting (EGM) of shareholders on March 18, 2013 to pass necessary resolution for issue of shares to the GoI.

(viii) GoI, vide letter dated February 12, 2013, has also conveyed its approval under section 3(2B) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 to increase the paid-up capital of the Target Company in order to increase the paid-up capital on account of preferential allotment of equity shares to the GoI.

(ix) The entire process of raising capital by way of preferential allotment must be completed on or before the end of this financial year in order to improve CRAR as on March 31, 2013, factoring the effect of additional capital to be infused by GoI through the preferential issue.

(x) The relevant date fixed for ascertaining the price is February 15, 2013. The issue price has been fixed at ₹78/- per equity share, which is calculated as per regulation 76 of the SEBI (issue of Capital and Disclosure Requirements) Regulations, 2009 ("the ICDR Regulations"). Based on the issue price and the issue size of ₹ 2406 crore, the total number of shares offered to GoI is 308,461,538 equity shares.

Accordingly, the post issue shareholding of GoI would be 891,096,964 equity shares (i.e. 85.31%).

(xi) The acquisition of shares would increase the shareholding of GoI by more than 5% during the financial year 2012-2013. Therefore, exemption is sought from the applicability of regulation 3(2) of the Takeover Regulations.

3. I have considered the application of the Target Company and the annexures attached thereto and other material available on record. The GoI, presently, holds 58,26,35,426 shares in the Target Company, which constitutes 79.15% of the total number of equity shares (73,61,15,416 shares). GoI is a shareholder under the category 'Promoter and Promoter Group' in the Target Company. The Target Company has submitted that the GoI desires that all public sector banks should maintain a minimum of 8% Tier I CRAR. The Target Company, being a public sector bank, was able to achieve Tier I CRAR of 7.52% (total CRAR of 11.51%) as per BASEL II, as on September 30, 2012. The Target Company has also submitted that as it has not fully achieved the 8% Tier I CRAR and with an increase in the risk weighted assets as on March 31, 2013, capital infusion is necessary.

4. I note from the letter dated January 17, 2013 (*letter from the Ministry of Finance, GoI to the Target Company*) that the GoI has decided to infuse capital to the tune of ₹2,406 crores into the Target Company through preferential allotment of equity shares of the Target Company in its favour. The GoI has also approved the increase in the paid-up capital of the Target Company in terms of section 3(2B) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980. I also note that the Board of Directors have approved raising of additional equity capital to the extent of ₹2,406 crore by way of issue of equity shares in favour of the GoI on preferential basis and have also called for an EGM of shareholders on March 18, 2013 to pass necessary resolution for issue of shares to GoI. It has been submitted that the infusion by GoI would also give additional leverage to the Target Company to raise further equity capital from the

public by way of rights/follow-on public offer or from Qualified Institutional Placement (QIP/GDR) at a later date, as and when the need arises.

5. The present shareholding of GoI in the Target Company and the shareholding/voting rights after the proposed acquisition of equity shares through preferential issue, as mentioned in the application is given below in the table :

Shareholding pattern in the Target Company				
Category	**Before the proposed issue of equity**		**Post issue of equity through proposed preferential issue to GoI**	
	No. of shares	**Percentage**	**No. of shares**	**Percentage**
Promoter Group (GoI)	58,26,35,426	79.15%	89,10,96,964	85.31%
FIs/banks	7,50,62,797	10.20%	7,50,62,797	7.19%
FIIs/NRIs/OCB	1,92,98,250	2.62%	1,92,98,250	1.84%
Public	5,91,18,943	8.03%	5,91,18,943	5.66%
Total	**73,61,15,416**	**100%**	**1,04,45,76,954**	**100%**

6. I note that the GoI would be infusing capital to the tune of ₹ 2406 crores in the Target Company and the Target Company has proposed to create, issue and allot upto 308,461,538 equity shares of ₹10/- each to the GoI on preferential basis at a price of ₹78/- per equity share (*premium of ₹68/-*). Pursuant to the proposed preferential issue of equity shares, the shareholding/voting rights of the GoI would increase from 79.15% to 85.31% in the Target Company. Since the increase is in excess of 5% of voting rights, GoI through the Target Company has sought exemption from the applicability of regulation 3(2) of the Takeover Regulations.

7. I note that the infusion of funds by the GoI would enable the Target Company to achieve the 8% Tier I CRAR in accordance with the BASEL II guidelines. Higher CRAR is a factor that represents that a bank or a financial institution has sufficient capital in order to keep it out of financial difficulty and protect the interest of its depositors and in turn the economy. Further, the issue price of ₹78/- per equity share is found to be in accordance with regulation 76 of the ICDR Regulations. The Target Company has also undertaken that the capital raised through the preferential allotment to GoI would not be used by it for making

investment in whatever form, in any of its subsidiaries, joint ventures etc. I also note that even after the increase in the shareholding of GoI in the Target Company pursuant to the proposed preferential allotment, the minimum public shareholding would be maintained in the Target Company in terms of rule 19A(3) of the Securities Contracts (Regulation) Rules, 1957. Considering the proposed allotment in the light of the reasons stated by the Target Company and the observations made above, I am of the considered view that this is a fit case to grant exemption under regulation 11 of the Takeover Regulations to the GoI from the obligation to make an open offer under regulation 3(2) of the Takeover Regulations with respect to its proposed increase of shares/voting rights pursuant to the preferential issue of 30,84,61,538 equity shares.

8. In view of the foregoing, 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 the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, hereby grant exemption to the proposed acquirer, the Government of India, from complying with the requirements of regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 with respect to its proposed acquisition of 30,84,61,538 shares, which would increase the shareholding/voting rights of the Government of India in the Target Company, the Central Bank of India, from 79.15% to 85.31%.

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

(i) The proposed acquisition shall be in accordance with the relevant provisions of the Companies Act, 1956, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Listing Agreement and all other applicable laws.

(ii) The GoI/Target Company shall ensure compliance with the statements, disclosures and undertakings made in the application and its annexures.

(iii) The exemption is only limited to the requirements of making open offer under regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and shall not extend to other obligations (e.g. disclosure requirements under Chapter V of the said Takeover Regulations, Listing Agreement or any other law) of the GoI/Target Company.

10. Accordingly, the application dated February 15, 2013 filed by the Central Bank of India, on behalf of the Government of India, is disposed off.

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Date : March 11, 2013
Place : Mumbai