SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

In the matter of proposed acquisition of equity shares of Indian Overseas Bank - Application filed under regulation 11(1) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

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1. **Indian Overseas Bank** (hereinafter referred to as "the **Target Company**" or "the **Bank**") is a public sector bank, having its registered office at Central Office, 763, Anna Salai, Chennai – 600 002. The shares of the Bank are listed on the Bombay Stock Exchange Limited ("BSE") and the National Stock Exchange of India Limited ("NSE").

2. The Bank filed an application dated September 04, 2015 [*read with the Bank's letter of even date, mentioning therein the justification for seeking exemption*] with the Securities and Exchange Board of India (hereinafter referred to as "the **SEBI**"), on behalf of its promoter, the Government of India (hereinafter referred to as "the **GoI**"), under regulation 11(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (hereinafter referred to as "the **Takeover Regulations**"), seeking exemption for the GoI from the applicability of regulation 3(2) of the Takeover Regulations in respect of the proposed acquisition of 48,56,17,597 equity shares by the GoI through a proposed preferential allotment. The following were *inter alia* stated in the application:

(i) The authorised capital of the Bank is ₹3,000 crore and the paid-up capital of the Bank is ₹1235.35 crore. Presently, the GoI is holding 91,17,10,848 equity shares.

(ii) The GoI desires that all public sector banks should maintain minimum 8% Tier I Capital to Risk-weighted Assets Ratio (CRAR). As on March 31, 2015, the Bank's Tier 1 CRAR under Basel III was 7.30% and the total CRAR was 10.11%. Bank is away from reaching desired 9.625% Tier 1 CRAR and with probable increase in risk weighted assets as on March 31, 2016, Bank requires capital infusion. Bank has head room for issuing equity shares in this regard.

(iii) GoI, through the Ministry of Finance (MoF), vide letter dated August 19, 2015 has informed its proposal to infuse equity capital to the tune of Rs.2009 crore in the Bank against preferential allotment of equity shares in favour of GoI.

(iv) Pursuant to the same, the Board of Directors of the Bank in their meeting held on August 22, 2015, approved the raising of additional equity capital to the extent of ₹2009 crore by way of issue of equity shares in favour of GoI on preferential basis subject to approval of the Reserve Bank of India ("RBI"), shareholders and statutory authorities. Extra-Ordinary General Meeting (EGM) of the shareholders would be convened shortly to pass necessary resolution for the proposed issue of the equity shares to the GoI on preferential basis.

(v) The relevant date for ascertaining the price is August 24, 2015 and the issue price has been fixed at ₹41.37/- per equity share, calculated in 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 ₹2009 crore, the total number of shares that would be offered to the GoI would be 48,56,17,597 equity shares. Thus, the post issue shareholding of the GoI would be 139,73,28,445 equity shares.

(vi) As the proposed acquisition of shares would increase the shareholding of the GoI by more than 5% during the financial year 2015-2016, hence exemption was sought from the applicability of regulation 3(2) of the Takeover Regulations.

3. Vide letter dated September 18, 2015, the Bank *inter alia* submitted that –

(a) The Capital Adequacy Ratio as on June 30, 2015 was 9.75% with Tier 1 CRAR at 7.06% and Tier II CRAR at 2.69%.

(b) It was estimated that as on March 31, 2016 percentage of CRAR ratio by way of Tier I capital would be 8.625% based on the projected growth of business volume and retained earnings. Thus, for maintaining a desired level of CRAR ratio i.e. 9.625%, a shortfall in capital to the extent of ₹4000 crore is to be augmented for the financial year 2015-16. The Bank requires a total capital of Rs.26054 crore over a period of next five years including the current year requirement.

(c) The Bank has examined various options of raising capital viz., QIP, FPO and Rights issue. However, the prevailing market conditions and the share price quoted in the market are not conducive enough to approach the market for raising capital.

(d) Raising Tier I capital through issuing Basel III compliant Additional Tier I Perpetual Bonds in accordance with RBI norms was also considered. However, the numbers did not support a better credit rating of investible grade at present from the Credit Rating Agencies.

(e) The Bank has taken various corrective steps to improve profitability in order to improve the internal generations. However, due to moderation in asset quality parameters during the Financial Year 2015, high provisioning, consequent moderation in profitability and relatively low capital adequacy level, the Bank was left with negligible surplus for internal generation of capital funds to support its operations.

(f) Under these circumstances, it had approached the GoI and presented its assessment for additional capital requirement. In view of the present sluggishness in the capital market and to support the Bank's operations, the GoI has agreed initially to infuse capital to an extent of Rs.2009 crore on a preferential basis.

4. Thereafter, vide letter dated September 29, 2015, the Bank informed that the GoI has conveyed their sanction for release of funds and approval under section 3(2B)(C) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 to increase the paid-up capital. The Bank further stated that it shall endeavour to raise capital from different options and shall –

(a) ensure that the public holding in the Bank is atleast increased to 25% within a period of 12 months in order to comply with the provisions of rule 19A(2) of the Securities Contracts (Regulation) Rules, 1957 ("SCRR");

(b) approach the market for different options at appropriate time and work towards reduction of GoI holding progressively.

5. I have considered the application of the Bank on behalf of the GoI, the documents submitted therewith, the information/material forwarded subsequently and the material available on record. The GoI is a shareholder of the Bank under the category 'Promoter and Promoter Group' and is the proposed Acquirer. The GoI presently holds 91,17,10,848 equity shares in the Target Company, which constitutes 73.80% of the total number of equity shares. I note that the GoI has decided to infuse Rs.2009 crore in the Bank to support the Bank's operations. The Board of Directors of the Bank have approved the raising of additional equity capital to the extent of ₹2009 crore through the issue of equity shares in favour of GoI on preferential basis.

6. The issue price for the proposed allotment has been fixed at ₹41.37/- per equity share, calculated in as per regulation 76 of the ICDR Regulations, taking into consideration August 24, 2015 as the *'relevant date'*. The proposed allotment of 48,56,17,597 equity shares to the GoI on a preferential basis would increase the shareholding of the GoI more than 5% in the financial year mandating an open offer under regulation 3 of the Takeover Regulations. Accordingly, the Bank on behalf of the GoI, has sought exemption from the applicability of the said regulation.

7. As per the explanatory statement to the EGM notice, the Bank needs to raise capital in order to comply with BASEL III requirements relating to capital adequacy. Government of India (GoI) proposes to infuse additional equity capital into the Bank as part of its commitment to strengthen the government owned financial institutions and banks. The Bank has represented that the capital raised would be utilized to shore up the capital adequacy of the Bank and to fund the general business needs of the Bank. In this regard, I note that such capital infusion against the proposed allotment would also help the Bank to sustain the credit growth and provide additional leverage to raise further equity capital at a later date, as and when the need arises. I note that the capital adequacy of the Bank is a requirement to protect its small customers as well as the public shareholders who have invested in its equity. Further, there would be no change in the management control in the Target Company. The Bank has assured that it would take steps to comply with rule 19A(2) of the SCRR within a period of 12 months. The GoI, vide its letter dated October 07, 2015, has advised the Bank to take necessary steps to increase the public shareholding of the Bank to 25% thereby diluting the GoI's shareholding to 75% in compliance with SCRR, within a period of 12 months as per SEBI guidelines.

8. Considering the proposed allotment of equity to the GoI in the light of the reasons stated by the Bank 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 with respect to its proposed increase of shares/voting rights in the Target Company, pursuant to proposed preferential issue and allotment of 48,56,17,597 equity shares.

9. 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 open offer requirements with respect to its proposed acquisition of 48,56,17,597 equity shares of Indian Overseas Bank by way of preferential allotment. The above exemption is subject to the following conditions in the interest of investors and the securities market:

(a) The proposed acquisition shall be in accordance with the relevant provisions of the Companies Act, 1956, the Companies Act, 2013, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Listing Agreement, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and all other applicable laws.

(b) The GoI/ Target Company shall ensure compliance with the statements, disclosures and undertakings made in the application and in subsequent correspondence.

(c) The exemption is only limited to the requirements of making open offer and shall not extend to other obligations (e.g. disclosure requirements under Chapter V of the said Takeover Regulations, Listing Agreement/ Regulations or any other law) of the GoI/ Target Company.

(d) The public shareholding in the Bank shall be increased to 25% within a period of 12 months.

10. Accordingly, the application filed by Indian Overseas Bank vide letter dated September 04, 2015 on behalf of the Government of India is disposed off.

Date : October 16th, 2015
Place : Mumbai

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA