IDBI Bank: A dilemma of 'parallel sales'

A buyer of the government's stake will have to contend with simultaneous market sales by the other major shareholder, LIC

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In another era, the strategic sale of IDBI Bank would have attracted a lot of interest for the treasure trove of information it contains on the Indian financial sector. Not anymore. Now, there will be a different sort of interest in this sale — specifically, the game the strategic investor may have to play in the market to win this trophy.

Here's why. In January 2019, LIC, India's largest insurance company, had bought a majority 51 per cent stake in the bank by buying an additional 44 per cent stake to its existing holding of seven per cent. At present the Government of India holds 45.48 per cent in the bank, and LIC now holds 49.24 per cent. That LIC has been snipping its shares in IDBI Bank over the past two years so that its shareholding has dipped below 51 per cent was known. With cabinet approval, the insurer will now sell even larger chunks in the market before IDBI Bank meets its suitor.

So the road map ahead for IDBI Bank looks something like this. The government will hold on to its stake in the bank to offload only to a strategic investor. Meanwhile, LIC will steadily sell its stake in the market, creating a parallel process even as the government hunts for a suitor.

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This could push up costs substantially for the buyer of the government's stake. For any sale of shares in an Indian bank of 5 per cent or more, prior Reserve Bank of India (RBI) approval is mandatory each time. LIC should have no problems obtaining those approvals. Yet, every time it will sell tranches of those shares, possibly of 5 per cent or more, the costs for the strategic investor would almost certainly rise.

If the potential buyer of the bank waits on the sidelines, it means when it gets the government's stake of 45.28 per cent, it could potentially face a rival with a shareholding of almost similar size. Just buying the government stake does not offer the buyer a majority in the boardroom.

To forestall it, the buyer will have to demonstrate interest in public and pick up a large percentage of shares from the market. Also, any buyer of the bank will have to make an open offer to buy at least another 25 per cent from the market.

Both circumstances make it extremely lucrative for those with no strategic interests to bid up the price of the IDBI Bank share. The only way this scenario may not play out is if LIC and the Government of India both sell their holdings at the same time. This is unlikely to happen, because LIC is keen to divest its stake in IDBI Bank before it lists itself. Which means LIC will offload IDBI Bank shares through FY22.

This is partly why news of the government's plans saw IDBI Bank's share price rise 15 per cent on the day. There is little other reason for this jump. The bank has turned in a net profit of ₹1,359 crore for the first time in five years. It had posted a net loss of ₹12,887 crore in FY20. It entered the RBI's version of intensive care unit, the prompt corrective action (PCA) framework, only in March this year.

IDBI Bank's thin shareholding structure offers no clue to how this game will be played (*see chart: Holding pattern*). The 36 institutional shareholders hold 1.56 per cent of the shares, while non-institutional investors hold a 3.58 per cent stake. Expect more gyrations as this two-track disinvestment winds its way through the markets.

In fact, IDBI Bank appears to be a "Plan B" as far as the government's FY22 divestment target of ₹1.75 trillion is concerned. Recently, the finance ministry cleared access to the data rooms by interested bidders for state-owned oil refiner BPCL. The LIC public offer is expected to be close to ₹1 trillion and the BPCL strategic sale should fetch upwards of ₹50,000 crore, which means the finance ministry should be able to meet almost its full-year annual target from just these two transactions.

But IDBI Bank's divestment saga could be almost as interesting as the history of the bank or its predecessor, the development finance institution IDBI. Way before LIC became the go-to company for successive governments to bail out companies, IDBI performed the same function. The National Stock Exchange, the National Securities Depository Services Ltd, Stock Holding Corporation of India and plenty more have all been incubated by it. At one stage, there was also a plan to merge another long troubled state owned entity, IFCI, with it.

For these and other reasons, IDBI Bank has often remained the preferred appointment for the big names of the financial sector. M Damodaran moved to Sebi from the bank, while Mahesh Kumar Jain, MD and CEO, became deputy governor of RBI.

The bank began its life as a private sector entity in 1994 as an IDBI subsidiary and became a public sector bank once IDBI was merged with it in 2003. Once LIC acquired a majority stake in the bank, the RBI announced that IDBI Bank had become a private sector financial institution since January 2019. So the strategic disinvestment in the bank will not change its status again. But if the initial market interest in the announcement is any indication, it can be guaranteed to attract bidders in droves.

IDBI Bank: Holding pattern

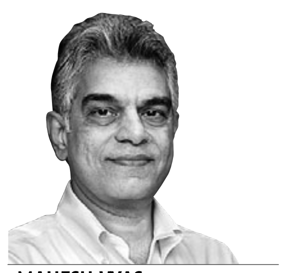
Shareholders as on Mar 21 (%)

PROMOTERS	
Government	45.48
LIC	49.24
NON- PROMOTERS	
Mutual Funds / UTI	0.04
Insurance Companies	0.12
FI/Bank	1.4
Other Institutions	0.12
NON-INSTITUTIONS	
Bodies Corporate	0.22
NRIs/OCBs	0.1
Individuals	2.92
Other Non-institutions	0.36
Grand total	**100**

Source: BSE

ON THE JOB

Job losses mount in April



MAHESH VYAS

April 2021 turned out to be worse than expected. We had anticipated labour participation rate (LPR) to stabilise at its March 2021 level. The LPR had already dropped sharply in March after a modest fall in February. But, it fell for a third consecutive month in April, to 39.98 per cent. This is the lowest LPR since May 2020, the month of a stringent nation-wide lockdown. The LPR in April 2021 is, therefore, the worst since the national lockdown. Perhaps, this fall is the result of the local lockdowns in several states. For example, Maharashtra, a state that imposed partial lockdowns, saw its LPR fall sharply from 44.2 per cent in March to 40.6 per cent in April.

The labour force shrank by 1.1 million in April 2021 to 424.6 million compared to 425.8 million in March. In spite of this smaller labour force looking for employment, a greater proportion failed to find employment. As a result, the unemployment rate shot up from 6.5 per cent in March to 8 per cent in April.

The employment rate fell from 37.6 per cent in March to 36.8 per cent in April.

The lockdowns could have denied people from seeking employment and caused a fall in labour participation. But, the economy also could not provide adequate jobs to those who sought them. So, the strain in the labour markets was not entirely because of the partial lockdowns. It was largely because the economy simply could not provide employment to large numbers who sought work.

While the labour force shrank by 1.1 million in April, the count of the employed fell by a much larger 7.35 million. This fell from 398.15 million in March to 390.79 million in April. Loss of employment during April is likely to have dejected more than a million workers sufficiently to force them to quit the labour force, at least temporarily. The count of the unemployed who were willing to work and were actively looking for work but unable to find any expanded by 6.2 million from 27.7 million in March to 33.9 million in April.

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People who left the labour markets in dejection did not leave entirely. They remained at the periphery as unemployed labour that was willing to work if work became available, although they were not actively looking for work. This set of unemployed people who were willing to work but were not actively looking for it swelled from 16.1 million in March to 19.4 million in April.

While the fall in the LPR can be attributed to the partial lockdowns, the fall in employment cannot. Most of the job losses are from the agricultural sector, which is not impacted by the lockdowns. Of the 7.35 million people who lost employment in April, 6 million were from the agricultural sector. April is a lean month for employment in the farms. The rabi crop is harvested by then and preparations for the kharif crop usually begin only in May. Agriculture employed 120 million in March. This dropped to 114 million in April.

Daily wage labourers and small traders saw a loss of employment of the order of 0.6 million in April. Some of these agricultural and daily wage labourers may have found work in the construction industry as this saw an increase of 2.4 million jobs during April. But, most of the 6.6 million released from agriculture and the daily wagers could have been left unemployed during the month.

Salaried employees saw a loss of 3.4 million jobs in April. This was the third consecutive month of a decline in coveted employment category. During these three months, the total loss of salaried jobs was a substantial 8.6 million. The cumulative loss of salaried jobs since the pandemic is even larger at 12.6 million. During 2019-20, there were 85.9 million salaried jobs. As of April 2021, there were just 73.3 million.

Salaried job losses were disproportionately located in rural India. While urban salaried jobs accounted for 58 per cent of total salaried jobs in 2019-20, they accounted for only 32 per cent of the job losses till April 2021. Rural salaried jobs that accounted for 42 per cent of the total on the other hand accounted for 68 per cent of losses.

This disproportionate share of rural salaried jobs in the losses indicates that the damage is mostly among the medium and small-scale industries that are located predominantly in rural India.

Prospects for jobs look bleak during 2021-22. The second wave of Covid-19 has stalled economic recovery. Professional forecasting agencies have been scaling back their projections for the year. New investments that could create jobs in large numbers are unlikely to be made during the year. Capacity utilisation was low at around 66.6 per cent, according to the Reserve Bank of India's OBICUS. This is unlikely to have improved since then. The government may be required to provide support under the Mahatma Gandhi National Rural Employment Guarantee Scheme once again this year to absorb some of the stress on livelihoods. In April 2021, 301 million persons were provided jobs under the scheme. This is more than twice the employment provided under the scheme in April 2020.

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How Bitcoin & Ethereum differ

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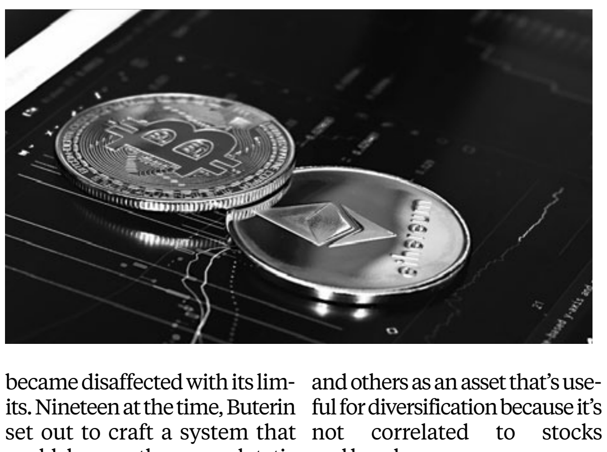

The two big names in the $2.2 trillion cryptocurrency market remain Bitcoin and Ether, the coin that fuels the Ethereum network. Bitcoin, the pioneer, has been on a tear, its value up about 500 per cent in the past year. Yet it's Ether that has been showing its older brother a thing or two, with a price jump of around 1,500 per cent over the same period. While the top two digital coins share some attributes, they are different in many ways. Here's the breakdown.

What's Bitcoin?

Bitcoin was the first digital currency to successfully create a way to transfer value between two people anywhere in the world. Its pseudonymous and still-unknown creator, or creators, Satoshi Nakamoto made a crucial breakthrough by creating a digital, time-ordered ledger, called a blockchain, to record every Bitcoin transaction. This solved the "double-spend problem" — it ensured that people couldn't send fake Bitcoin or Bitcoin that had already been sent to someone else. It also meant Bitcoin transactions take place independently from involvement — or interference by — typical financial intermediaries like governments, banks or corporations. Bitcoin was worth virtually nothing when it was first activated in January 2009. In April 2021, it reached a price of almost $65,000, its record at the time.

What's Ethereum?

Ethereum was invented by Vitalik Buterin, a Russian-Canadian teenager who released his white paper on the subject in late 2013. Buterin first fell in love with Bitcoin, but soon became disaffected with its limits. Nineteen at the time, Buterin set out to craft a system that could do more than record static quantities. His vision was of a blockchain that could host what came to be known as smart contracts, self-executing agreements in which a chain of actions could flow from defined conditions and contingencies. The only limit to the transactions that can run on Ethereum is the imagination of the developers who build Ethereum applications.

DECODED

The prices of both Bitcoin and Ether were relatively flat from early 2018 to the fall of 2020, a period known as the 'crypto winter' by oldtimers

How have they developed?

After spending much of its early years on the seedier side of the internet, as a tool for anonymous online transactions including drug purchases, Bitcoin has gained respectability as a form of "digital gold". That is, as an asset prized for its ability to be a store of value like the precious metal. Of course, Bitcoin is famously volatile and has seen enormous price drops over its history. But it interests some investors as a hedge against inflation, since its supply is limited by its founding algorithm, and others as an asset that's useful for diversification because it's not correlated to stocks and bonds.

How about Ethereum?

It, too, has gone through an evolution, but the changes stem from how its network can deploy new ways of doing traditional things in finance and other industries:

■ The first boom came in 2017 when initial coin offerings, or ICOs, became all the rage. Since many of the new coins were sold for Ether, and they all made use of the Ethereum blockchain, the price of Ether jumped to its then highpoint of about $1,200. It proved that Ethereum could be used to raise money for start-up development without a bank or venture capital firm being involved.

■ The next boom came in the summer of 2020 when decentralised finance, or DeFi, projects flourished. These were start-ups that offered to pay interest on Bitcoin or Ether deposits, that offered collateralised lending, or that would allow users to swap one of the thousands of new cryptocurrencies for another on what are called Dexes, or decentralised exchanges.

■ The latest and maybe wildest Ethereum development has been non-fungible tokens, or NFTs. They've been around since about 2017, and are usually a digital representation of an image or work of art that is linked to the Ethereum blockchain in a way that can be used to prove their uniqueness. That in turn can make them valuable to collectors, because unlike a song in an MP3 format, they aren't able to be copied infinitely.

What's going on with their prices?

The prices of both Bitcoin and Ether were relatively flat for a long stretch from early 2018 to the fall of 2020, a period known as the "crypto winter" by oldtimers. There are different reasons for each to have broken out of their doldrums so spectacularly.

■ Bitcoin has been gaining mainstream adherents who have been very public about their embrace of the digital currency. MicroStrategy Inc, a software and consulting company, had amassed about $2.2 billion of Bitcoin as of late February. Tesla Inc earlier that month disclosed it had bought $1.5 billion in Bitcoin. .

■ Ether has been propelled by the flurry of activity that is occurring on the world's most-used blockchain, as well as from a planned switch to how its network operates. Under the plan, set to go into place later this year, some of the Ether that must be used to complete every transaction on Ethereum would be destroyed during that interaction. This could cut the overall supply of Ether, putting upward pressure on its price.

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