

SBI plans to list two regional rural banks

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MUMBAI

State Bank of India (SBI) is planning initial public offerings (IPOs) of two regional rural banks in the next one year, the first such move by a public sector lender, two senior bankers aware of the development said.

Following the merger of five associate banks with itself, the country's largest lender is preparing the ground to list Andhra Pradesh Grameena Vikas Bank and Saurashtra Gramin Bank to create value and increase efficiency.

Of the 14 RRBs or state-owned banks serving rural communities sponsored by SBI, Andhra Pradesh Grameen Bank is the largest, with an asset size of Rs25,000 crore

and capital adequacy of 14%. Saurashtra Gramin Bank is relatively smaller with an asset size of Rs7,000 crore and capital adequacy of 10%.

Both RRBs have 250 branches each.

"We found that the financials of these RRBs are comparable to some of the recently listed private sector banks and small finance banks. Seeing the valuation that these private sector banks are able to fetch, we feel confident of taking these RRBs to the market," said Dinesh Kumar Khara, managing director (MD) of SBI.

However, the operational cost in these banks is very high and so is the level of local political interference, both of which SBI will look to address in the coming months, Khara added.

RRBs were set up in 1975

with a view to develop the rural economy and create a supplementary channel to the 'cooperative credit structure' in order to enlarge institutional credit for the rural and agricultural sector.

The decision to list the regional banks comes after Parliament amended the RRB Act in 2015, allowing these banks to raise capital from sources other than the government and sponsor banks.

The Act, however, states that the combined shareholding of both the central government and sponsor bank should not fall below 51% in the event of any capital-raising programme.

Under the current shareholding structure of RRBs, the central government holds 50%, the state government 15%, and the remaining 35% is held by the sponsor bank.

The department of financial services and National Bank for Agriculture and Rural Development (Nabard) are finalizing IPO rules for these banks. They are also considering further amalgamation within states where there is more

than one RRB.

Till date, RRBs have seen two rounds of consolidation, after which the number of banks dropped from 196 to 82 during 2005-2009, and further to the current level of 56 during 2011-2014.

"Modalities are under consideration by the government of India in consultation with Nabard and sponsor banks. Presently no specific RRB has been identified for the purpose," said R. Amalorpavanathan, deputy managing director, Nabard.

Analysts, however, believe that the business model of an RRB is subject to cyclical pressures.

"RRBs face significant growth challenges owing to their geographical concentration. Unlike small finance banks, these banks cannot do business beyond the particular state. Hence investors may not be really enthused by such offerings. Having said that, listing the RRBs will improve transparency and bring in more efficiency in these banks," said a banking analyst with Reliance Securities.