# What the IDBI Stake Sale tells us

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The government wanted to ensure that the "delayed" transfer of IDBI to a private player goes through at any cost. While the sops it has offered to Fairfax make the latter a clear winner, the exchequer appears to have been short-changed.

The announcement by the BJP-led government of the sale of a 60.7 per cent stake in IDBI Bank to a Fairfax Holdings subsidiary for Rs.52,878 crore has triggered a controversy. Criticism of the decision rests on the leak of a 10-page note that describes the steps that led up to the final sale. A procedure-based exercise involving independent valuation of the company initially placed the reserve price at Rs.94.42, which was the floor price at which the sale should have been completed. But of the two financial bids for the company received through a parallel call, the best offer from Fairfax was a much lower Rs.75 per share. Since the bidders refused to respond positively to the government's request to match the minimum price set by its valuation, both bids had to be rejected, ending the stake sale proceedings.

But the government did not postpone the sale or opt for another call for bids. Rather, it went back to the two valuation agencies and directed them to review their methods in ways that would lower the reserve price. In fact, the Core Group of Secretaries on Disinvestment (CGD), which oversees the sale, required the valuers to ignore the market price of the share, which on average was much higher than the original, on the grounds that it was too volatile to be a reliable benchmark.

It also required the valuation process to ignore the share prices of comparable private sector banks and restrict comparison to that of public sector banks. Finally, it directed the agency assessing the value of IDBI's assets to provide an independent professional opinion rather than being guided by the bank's own estimates. Following these directives, in a telling outcome, the benchmark price per share was revised to a much lower Rs.75.99, or just a tad higher than Fairfax's Rs.75-a-share first offer.

Meanwhile, even before this second assessment from the valuers came in, the government received a "new" bid from Fairfax that was at Rs.81 a share. While higher than the earlier Rs.75 bid, it was still significantly lower than the first reserve price of Rs.94.42 per share. But with that reserve price having been dropped to Rs.75.99 a share, the government declared the revised Fairfax bid as successful.

This process was not as transparent as the government's own guidelines on public sector stake sales require—a double-blind procedure with bidders not knowing what the government's reserve price is, and valuation agencies setting the reserve price without knowing what the bids are. That was true in both stages of this sale effort as well, but the CGD, which was directing the revised valuation, was aware of the final bid that Fairfax had submitted, implicitly violating

the double-blind guideline. According to the government, its actions were proper because circumstances warranted intervention and because the guidelines are not rules.

**Why the concession?**

However, this alteration of procedure does call for an explanation. Clearly, the government wanted to ensure that what it sees as the delayed transfer of IDBI to a private player goes through at all costs. This seems to have led it to offer Fairfax a number of concessions. While the original reserve price was 24 per cent higher than the revised benchmark, the increase in the price offered by Fairfax was only 8 per cent higher than its original bid. That is, the government had provided Fairfax a large discount to ensure the acquisition.

Second, the sale was strategic, involving a transfer of more than 60 per cent of the equity in IDBI to Fairfax, giving the latter full control over the bank without having to advance the much larger sum needed for an outright purchase. The LIC and the government, which earlier held 49.24 per cent and 45.48 per cent of IDBI's equity, will still hold 19 and 15 per cent, respectively, but will not have board seats in the bank after the privatisation.

Finally, the government has indemnified Fairfax against any payments to tax authorities it may have to make if it loses out in pending tax disputes. While the government cites an "estimate" of Rs.697 crore that it has promised to cover through that indemnity, the actual sum could prove to be much larger when the dispute is finally settled.

In sum, the process of persuading Fairfax to acquire a majority stake in IDBI has required the government to substantially lower the net receipts that accrue to it and LIC as a result of the transaction. This challenges the government's own justification for the final outcome: fiscal stress resulting from increases in crude and fertilizer prices following the conflict in West Asia and revenue losses because of compensatory excise cuts on petrol and diesel. The government says that it needs the money stemming from the stake sale to ensure fiscal stability.

It bears noting that not all of the receipts from the sale will accrue to the government, since the Fairfax acquisition involves a transfer of shares from both LIC and the government. If receipts for the Budget were the prime driver, the emphasis should have been on maximising receipts from the sale rather than on placating Fairfax with financial concessions. Moreover, despite an earlier history of losses, IDBI in recent years has been recording robust and even rising profits. The government was also giving up a substantial part of an annual inflow of dividends into its coffers by pushing for privatisation.

The obvious emphasis on placating Fairfax suggests that while some immediate receipts for a strained Budget from the sale were a fallout, the principal motivation behind the stake sale was the privatisation of the bank irrespective of price. Ideology, rather than financial considerations, seems important. There may also be a larger motivation behind the move: that of preparing the ground for retrenching government ownership and control over the still dominant public banking system.

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