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Wed, Jan 30 2013. 09 17 PM IST

Ratnakar Bank finalizes PE investors

Ratnakar is set to raise ₹330 cr from a group of domestic, global PE investors by issuing 30 mn new shares

The equity addition in Ratnakar will increase foreign investment in the bank beyond 50%. Photo: Priyanka Parashar/Mint

Kolhapur-based **Ratnakar Bank Ltd** is set to raise `330 crore from a group of domestic and global private equity (PE) investors by issuing 30 million new shares, pegging its value at `2,500 crore.

Domestic investors Aditya Birla PE, **ICICI**'s Emerging India Fund, IDFC Spice, Ascent Capital and Faering Capital have confirmed they will invest in the bank, a top Ratnakar Bank official said, declining to be identified because the deal has not yet been sealed.

International Finance Corp., a member of the World Bank Group, and US-based **Argonaut Ventures Llc**. "are yet to confirm participation," he said.

Ratnakar Bank got shareholder approval for the sale of fresh shares at an extraordinary general meeting in Kolhapur on Tuesday. "Now only some paperwork is left, after which the bank will receive the money in the next couple of days," the bank official said.

Two other people briefed on the matter confirmed the investments, but they, too, declined to be identified.

PE deals in India are largely driven by the domestic consumption theme and BFSI or banking, financial services and insurance are a part of this broad strategy. PE investors have invested in some of the largest private financial institutions in India such as **Housing Development Finance Corp. Ltd** (HDFC), **ICICI Bank Ltd** and **Kotak Mahindra Bank Ltd**. Non-banking financial companies or NBFCs are another area of interest as they are expected to do well in India because banks haven't been able to meet the needs of all borrowers. Indian law limits any entity's investment in a bank at 5%; given this, NBFCs are an attractive alternative.

Emails sent to ICICI, IFC, Aditya Birla PE, Ascent and Faering did not elicit any response. IDFC declined to comment. An Argonaut spokesperson said, "We usually do not comment on our investments."

A top executive at one of these firms confirmed participation in the fund raising. "We are investing over `70 crore in the bank," this person said on condition of anonymity.

Faering, promoted by **Aditya Parekh**, son of HDFC chairman **Deepak Parekh**, is the only existing investor increasing its stake in the bank. HDFC owns a 3.94% stake, or 8.8 million of Ratnakar's existing 223 million shares.

Faering's stake in Ratnakar is below 4% and will increase closer to 5% after the share sale, the bank official said, adding that most of the other existing investors own less than 3% equity.

In 2010, Ratnakar raised `720 crore from HDFC and other PE funds including Faering, Norwest Venture Partners, Samara Capital, Beacon India Private Equity Fund, Cartica Capital and Gaja Capital Partners.

Ratnakar will use the fresh money to meet demand for credit. As of September, the bank had a loan book of `4,596 crore, up from `2,924 crore in September 2011, according to its website. Its capital adequacy ratio at 17.39% in September is almost double the Reserve Bank of India's minimum requirement of 9%.

The equity addition in Ratnakar will increase foreign investment in the bank beyond 50%, the bank official said. In December, the lender received approval from the Foreign Investment Promotion Board (FIPB) to increase the stake held by overseas investors in it to 55% from 43% now.

Investments by PE companies in financial services firms such as banks assure high returns for investors while providing growth capital for banks, said **Robin Roy**, associate director, financial services, at audit and consultancy firm PricewaterhouseCoopers.

“Return on equity for Indian financial services has been very good, (and) though non-performing loans have risen and many loans have been restructured the sector remains very healthy,” Roy said. “Small banks like Ratnakar provide these investors an opportunity to be part of the growth.”

Bad loans in the Indian banking system have spiked in the past few years because of a slowing economy. Gross non-performing assets, or bad loans as a percentage of total advances, of 40 listed Indian banks rose to `1.66 trillion in September, up 46.8% from a year earlier.

Total loans restructured by Indian banks under the so-called corporate debt restructuring route crossed `2 trillion in December. In the October-December quarter, banks restructured `24,584 crore of loans, up from `19,544 crore they recast in the previous quarter.

For banks like Ratnakar, PE funding is a good way of raising money when they are not ready to access the capital markets and are averse to bringing in a strategic investor, said Roy. “It fulfils their need for capital and the bank can also get a strategic input from the investors,” he said.

A Mumbai-based investment banker said at least half a dozen PE deals are in the making for banks and NBFCs. “These investments are showing good returns,” he said, requesting anonymity as he is involved in some of these deals.

In the largest investment sale in the sector last year, global PE firm Carlyle Group sold its remaining 3.7% stake in HDFC for nearly $841 million. Earlier that February, Carlyle had sold one-fourth of its stake in the mortgage lender for about $270 million.

The stake sales marked the PE firm’s exit from HDFC after nearly doubling its original 2007 investment of $650 million.

Financial services was the top sector last year in terms of PE exits, with 41 stake sales fetching $2.4 billion, according to data from VCCEdge, which tracks investment activity in the country.