

Domestic institutions to play key role in Axis Bank share sale

he government might have to count on domestic institutions again to ensure the success of its coming stake sale in private lender [Axis Bank](#), held by the Specified Undertaking of UTI ([SUUTI](#)). This is because a cap on foreign institutional investments in private banks will restrict the extent of money foreign portfolio investors can put into the proposed share sale.

Though the total foreign investment limit in an Indian private bank is 74 per cent, foreign institutional investors (FIIs) cannot hold more than 49 per cent in these. As on December 31, 2013, FIIs held 43.18 per cent in Axis Bank. Shareholding disclosures on Axis Bank's website classifies the holdings under global depository receipts (GDRs) as foreign direct investment ([FDI](#)).

As the investment ceiling for FIIs is 49 per cent, these investors have room to buy just about 5.8 per cent. This means domestic institutions will have to buy about five per cent for the issue to be a success.

In December, the government had approved Axis Bank's proposal to raise its foreign investment limit from 49 per cent to 62 per cent, but had maintained the restriction on aggregate FII holdings at 49 per cent of the bank's equity share capital.

Investment banking sources said though most domestic mutual funds and insurance companies had agreed to invest in the share sale, Life Insurance Corporation ([LIC](#))'s deep pockets would be crucial to give subscription levels a push to the end. "Though the issue is good, limited FII participation is a problem. Domestic mutual funds and private insurers will put in money, but they have their limitations. LIC will have to come into the picture," said an investment banker in the know. As on December 31, 2013, LIC held 9.3 per cent stake in Axis Bank.

The government plans to sell about half of its 20.7 per cent stake in Axis Bank, valued at Rs 10,945 crore at its Friday closing price of Rs 1,125 a share. Sources said the share sale could be carried out next week, as bankers had wrapped up the road show with domestic institutions this week.

If the government sells 10.35 per cent, it would raise about Rs 5,500 crore. Even if FIIs invest Rs 3,200 crore in the issue, the upper limit, domestic institutions will have to buy shares worth about Rs 2,300 crore for the issue to sail through.

At the recent Rs 9,600-crore-share sale by State Bank of India to institutional investors, LIC had subscribed to about 33 per cent of the issue, as large FIIs had refrained from putting in money.

However, bankers said for the proposed Axis Bank share sale, many marquee FIIs such as the government of Singapore, Halbis Capital, T Rowe Price, Capital International, Deutsche Asset Management, Fidelity, Templeton and Aberdeen had evinced interest to buy shares.

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