

Sebi issues show-cause notice to RBL bank

The Securities and Exchange Board of India (Sebi) has issued a show-cause notice to RBL Bank over possible rule violations, which could hinder the 72-year-old lender's plans to raise an estimated Rs 1,450 crore through an initial public offering (IPO).

The bank can go ahead with the IPO only "after the show-cause notice is discharged," said a person familiar with the matter.

"Past violations are being examined," the regulator said on its website while updating the status of the public issue. RBL, formerly Ratnakar Bank Ltd, filed its draft offer document with Sebi on June 23, looking to raise money to fund expansion and modernization as it seeks to outgrow its origins as a small, community bank based in Kolhapur in Maharashtra.

The notice stems from share allotments under earlier management on three occasions to more than 49 investors, in possible breach of Sebi rules and the Companies Act on public offerings, which ET reported in July.

In 2003, it made a rights issue of 9.54 lakh equity shares at Rs 100 apiece. This was subscribed to the extent of 4.71 lakh shares. The unsubscribed 4.83 lakh shares were allotted to 2,591 investors, most of them from Kolhapur and customers.

In 2006, came another rights issue of 19.38 lakh shares at Rs 100 apiece, which was subscribed to the extent of 8.17 lakh shares. The unsubscribed 11.21 lakh shares were allotted to 1,969 investors.

Subsequently, stemming from the rights issue, the bank made a preferential allotment of 2.52 lakh equity shares at Rs 100 apiece to 352 persons.

According to section 67(3) of the Companies Act, 1956, which was applicable at the time of the allotments, any offer or invitation for subscription of shares made to more than 49 persons is deemed a public offering.

To make a public offering of securities, companies are required to comply with certain requirements under Sebi rules and the Companies Act, such as issue and registration of a prospectus with required disclosures. It also needs to make an application for listing of the securities on the stock exchanges.

"If a company has been in serious violations of rights issue and preferential allotment rules in the past, it is going to be very difficult for the regulator to give a go-ahead with an IPO to such companies," said Vaneesa Abhishek, Bombay High Court advocate.

This issue bears similarities with the Sebi-Sahara case in some respects. Sahara has been fined and asked to return money to investors.

However, RBL may find it difficult to resolve the matter even though a new management has taken over, Abhishek suggested.

Sebi is likely to initiate adjudication proceedings against the bank, according to sources.

RBL bank declined to comment on the story.

The lender has been upfront about the matter, said another person tracking the issue.

"RBL on its own had disclosed the violation upfront in the offer document," the persons said. "The resolution of the matter is underway. What final process Sebi will undertake is not known."

Law firms AZB and Luthra & Luthra are representing the bank before Sebi.

Former Bank of America executive Vishwavir Ahuja joined RBL in 2010 to transform it into a new age bank. He also hired professionals with several years of experience in the sector to strengthen the organisation.

(Economic Times)