

YES Bank, L&T Finance independently testing regulatory waters

YES Bank and L&T Finance Holdings are independently testing the regulatory waters on what the Reserve Bank of India's stance could be on a possible merger or a stake purchase by one of the two in the other, said two people familiar with the development.

YES Bank chairman MR Srinivasan, who used to be with the RBI, met some officials of the banking regulator to get a sense of how it would react to a stake sale or a bank merging with a non-banking finance company (NBFC), said the people cited above, requesting anonymity.

The queries were said to be general in nature with no names mentioned. An L&T Finance representative is also said to have met officials at the regulator to find out whether the company could buy a stake of more than 5% in a bank.

"I have no information on this," said Rajat Monga, chief financial officer at YES Bank.

"As a policy we do not comment on speculation," said N Sivaraman, president and whole time director, L&T Finance.

L&T Finance didn't get a bank licence in the latest round that saw just two successful applicants and is keen to convert itself into a bank as that could lower its cost of funds. The company has been positioning itself in the past few years as a full-fledged financial services firm and includes a mutual fund and mortgage lending among its divisions.

YES Bank, which has been caught up in a legal row between two founders, may be looking for ways to put that behind it. The dispute is between Rana Kapoor and the widow of Ashok Kapur on the rights of the late Kapur's family to nominate a director on the board.

There is no precedent of an NBFC acquiring a bank and any such deal will have to pass strict RBI scrutiny. In 2004, RBI had approved the merger of Ashok Leyland Finance or ALF with IndusInd Bank, both promoted by the Hindujas.

Following this, the central bank made it mandatory for banks to take prior approval before acquiring an NBFC.

"The stake is up for sale and this is out in the market. No consultant is involved but senior officials from L&T Finance and YES Bank have met. The valuation expectations and regulatory clearances could be hurdles," said a financial consultant aware of the development.

Kapoor holds a 13.64% stake in YES Bank and Kapur 11.92%. Shagun Kapur Gogia, daughter of Madhu Kapur, denied talks of any stake sale.

Currently, L&T Unnati Finance Ltd holds a 4.59% stake in the old generation City Union Bank.

It had previously tried to acquire more than 10% in an old private sector bank but that was frowned upon by RBI, according to people aware of the development. Over the last few years, L&T Finance has diversified into several lines of business by acquiring companies such as housing finance company Indo Pacific, auto and two-wheeler financier Family Credit and Fidelity Mutual Fund to expand its portfolio.

(Economic Times)