



# Proxy Advisory Report Central Bank of India

BSE Code: 532885 | NSE Code: CENTRALBK | ISIN: INE483A01010

Sector: Banks | Meeting Type: Extraordinary General Meeting

e-Voting Platform: [CDSL](#)

e-Voting Period: From 08<sup>th</sup> May, 2017 to 10<sup>th</sup> May, 2017

Meeting Date: 11<sup>th</sup> May, 2017 at 11:00 AM

Cut-Off date to be eligible for voting: 05<sup>th</sup> May, 2017

Meeting Venue: 9th Floor at the head office of the Bank situated at Chandermukhi, Nariman Point, Mumbai- 400 021

Notice: [Click here](#) | Addendum of Notice: [Click here](#) | Annual Report: [FY 2015-2016](#)

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Bank Registered Office: 9<sup>th</sup> Floor, Chandermukhi, Nariman Point, Mumbai - 400 021

**REPORT SNAPSHOT****TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS**

S. No.	Resolution	Type	Recommendation	Concern <sup>#</sup>
1	Preferential issue to Government of India	S	<u>FOR</u>	-

*S - Special Resolution*

RESEARCH ANALYST: SAJID KHAN | SUDARSHAN SHETTY

**KEY OBSERVATION**

The current Public shareholding of the Bank stands at 18.72% as against the minimum Public shareholding requirement of 25%. Although, the law requires the Bank to ensure minimum public shareholding requirement of 25% by 21<sup>st</sup> August, 2017, the Bank instead of reducing the Promoter's shareholding to comply with the law, is resorting to preferential issue of shares to Promoter. This would further increase the Promoter's shareholding to 81.90%, thereby, reducing public shareholding to around 18.10%. The promoter's holding in the Bank is already at 81.28% i.e. above 75%. However, the Bank has stated that allotment of shares in excess of 75% to Government of India will be done only with the approval of SEBI in this regard. ([Read more](#))

## COMPANY BACKGROUND

TABLE 2 - MARKET DATA (As on 18<sup>th</sup> April, 2017)

Price (₹)	102.70	52 wk H/L	112.00 / 73.10	M Cap (₹ Cr.)	19,535.30	Net Worth* (₹ Cr.)	14,921.79	PE Ratio #	NA
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Standalone Data: Source: Capitaline

\* As on 31<sup>st</sup> March, 2016

# Negative EPS for FY 16

TABLE 3: FINANCIAL INDICATORS (STANDALONE)

(In ₹ Crores)	2016	2015	2014
Revenue	25,887.89	26,408.78	24,427.55
Other Income	1,938.79	1,894.23	1,922.58
Total Income	27,826.68	28,303.01	26,350.13
PBDT	2,342.42	3,559.12	3,238.04
Net Profit	-1,418.19	606.45	-1,262.84
EPS (₹)	-8.55	4.27	-11.10
Dividend per share (₹)	0.00	0.50	0.00
Dividend Pay-Out (%)	0.00	14.09	0.00
Face Value per share (₹)	10.00	10.00	10.00
NPM (%)	-5.48	2.30	-5.17

Dividend pay-out includes Dividend Distribution Tax. Source: BSE

TABLE 4: PEER COMPARISON (2016)

	Canara Bank	Bank of India
	44,022.13	41,796.47
	4,875.23	3,652.54
	48,897.36	45,449.01
	7,146.66	6,035.62
	-2,812.82	-6,089.22
	-53.61	-83.01
	0.00	0.00
	0.00	0.00
	10.00	0.00
	-6.39	-14.57

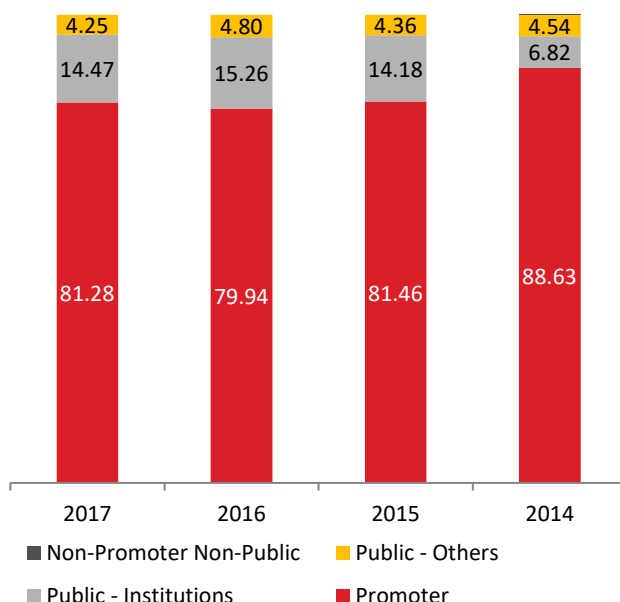
TABLE 5: MAJOR PUBLIC SHAREHOLDERS (MAR' 17)

LIFE INSURANCE CORPORATION OF INDIA	13.83%
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TABLE 6: MAJOR PROMOTERS (MAR' 17)

PRESIDENT OF INDIA	81.28%
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SHAREHOLDING PATTERN (%) (MARCH)



Graph 1: Yearly Shareholding Pattern

DISCUSSION (From 31<sup>st</sup> March 2016 to 31<sup>st</sup> March 2017)

- **Shares at the start of period:** 168,97,14,269
- **New Shares issued:** 21,24,56,695
- **Shares at the end of period:** 190,21,70,964
- During the year, the Bank has allotted 19,53,11,741 equity shares of face value ₹ 10 to the Government of India (The President of India) Promoter, and 1,71,44,954 equity shares to Life Insurance Corporation of India on preferential basis.
- The Promoter shareholding increased from 79.94% to 81.28% due to above issue.
- The shareholding of Public Institution decreased from 15.26% to 14.47% and that of Public Others decreased from 4.80% to 4.25%.
- **The Promoter has not pledged any shares.**

PROXY ADVISORY REPORT | FOR LIMITED CIRCULATION



**RESOLUTION ANALYSIS****RESOLUTION 1: PREFERENTIAL ISSUE TO GOVERNMENT OF INDIA**

To create, offer, issue and allot upto 5,59,76,956 upto Equity Shares of the face value of Rs.10/- each to President of India (Government of India) on preferential basis, at a conversion/ issue price of ₹ 104.15 per Equity Share including premium of ₹ 94.15 per equity share determined by the Board in accordance with Regulation 76 (1) of SEBI ICDR Regulations aggregating upto ₹ 583.00 crore (Rupees Five Hundred Eighty-Three Crore only) arising out of extinguishment of 5830 Innovative Perpetual Debt Instruments (IPDI) of the face value of ₹ 10.00 lac each held by Government of India and kept into Share Application Money Account.”

Further in Addendum to Notice issued by the Bank on 19<sup>th</sup> April, 2017 ([Addendum](#)), the Bank further proposes to create, offer, issue and allot upto 96,01,536 Equity Shares of the face value of ₹ 10/- each to President of India (Government of India) on preferential basis, for cash at an issue price of ₹ 104.15 per Equity Share including premium of ₹ 94.15 per equity share determined by the Board in accordance with Regulation 76 (1) of SEBI ICDR Regulations aggregating up to ₹ 100.00 crore in addition to the earlier resolution of raising equity capital of ₹ 583 crore.

**SES RECOMMENDATION**

The Bank's Capital Adequacy Ratio as per Basel III norms ([RBI notification](#)) stood at 9.99% as on 31<sup>st</sup> December, 2016 and the Bank is required to maintain minimum 10.25 % for the financial year ending on 31st March,2017. To further augment the capital adequacy, the Bank has proposed to raise capital funds by way of equity allotment on preferential issues to The Government of India (Promoter of the Bank). SES is of the view that only in such circumstances where there is urgent need for funds or a strategic investor is investing in the Bank should the Bank go for a preferential issue instead of a rights issue. However, currently, SES is of the view that keeping in mind recent issues of increasing NPAs, losses by PSU Banks etc., the Bank proposes to augment its capital adequacy in terms of Guidelines issued by RBI. Therefore, as a precautionary measure Bank needs to infuse funds urgently. Although against its stated policy, SES recommends that shareholders vote **FOR** the resolution as an exceptional case, taking into account possible failure to meet capital adequacy requirements, which may jeopardize reputation and credibility of the Bank

**SES RATIONALE**

Compliant with law. No major governance issue identified.

**SES ANALYSIS****DETAILS OF THE PROPOSED ISSUE**

**Securities to be issued:** Equity shares

**Proposed allottee:** The President of India (Government of India) Promoter

**Size of the issue:**

- upto 5,59,76,956 Equity Shares and,
- upto 96,01,536 Equity Shares (in Addendum to notice issued by the Bank on 19<sup>th</sup> April 2017)

Total: 6,55,78,492

**Price of the issue:** ₹ 104.15 per Equity Share including premium of ₹ 94.15 per equity share.

**OBJECTIVE OF THE PROPOSED ISSUE (AS STATED BY THE BANK)**

Bank is required to meet the business target and the Tier-I CRAR (including CCB) of 8.25% as per BASEL III for the financial year 2016-17. As per BASEL III, CRAR as on 31<sup>st</sup> March, 2016 was 10.41% with Tier I at 8.20% (CET1: 8.03%; AT1: 0.17%) and Tier II at 2.21%. As per BASEL II CRAR as on 31<sup>st</sup> March 2016 was 11.07% with Tier I at 7.44% and Tier II at 3.63%. As



on 31<sup>st</sup> December 2016, CRAR as per BASEL III was 9.99% with Tier I at 7.87% (CET1: 7.70%; AT1: 0.17%) and Tier II at 2.12%. As per BASEL II, CRAR as on 31<sup>st</sup> December 2016 was 10.37% with Tier I at 6.87% and Tier II at 3.50%. As the Bank had to meet its business target for financial year 2016-17 and with probable increase in Risk Weighted Assets as on 31<sup>st</sup> March, 2017, capital infusion was necessary. In order to meet a part of the required CRAR for the financial year 2016-17, the Bank had earlier raised ₹ 1,297/- crore capital on 8<sup>th</sup> September, 2016 by issuance and allotment of 12,38,06,796 equity shares of the face value of ₹ 10/- each to President of India (Government of India) on preferential basis, for cash at an issue price of ₹. 104.76 per equity share subsequent to passing of the Special Resolution by shareholders at Extraordinary General Meeting held on 18<sup>th</sup> August, 2016 and the approval of Government of India under Section 3(2B) (c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 to increase the paid-up capital vide letter dated 07<sup>th</sup> September, 2016 Bank on 05<sup>th</sup> December, 2016 had further raised ₹ 156.79 crore equity share capital from Life Insurance Corporation of India on preferential basis subsequent to passing of Special Resolution by shareholders at Extraordinary General Meeting held on 29<sup>th</sup> November, 2016.

In order to augment further equity capital and improve core capital (CET1), the Bank further proposed to convert entire 5830 Innovative Perpetual Debt Instruments (IPDI) of ₹ 10.00 lac each aggregating to ₹ 583.00 crore held by Government of India into equity share capital. Coupon on IPDI is benchmarked to 250 basis points over the 10-year-G-Sec yield, to be reset on annual basis. These IPDI capital were not being reckoned for 100% weightage under Additional Tier 1 (AT 1) Capital as per Basel III norms. Every year commencing from financial year 2012-13, 10% of ₹ 583/- crore are being disqualified for inclusion in AT 1 Capital. Till 31<sup>st</sup> March 2016, 40% of ₹ 583/- crore IPDI Capital i.e. ₹ 233.20 crore was disqualified and during the financial year 2016-17, an additional ₹ 58.30 crore worth of IPDI capital were to be disqualified, thus total disqualified IPDI capital by the end of March 2017 were to be ₹. 291.50 Crore. Accordingly, on request of the Bank, Government of India (GOI) vide letter dated 31<sup>st</sup> March, 2017 has conveyed its in principle approval to convert the entire IPDI capital of ₹ 583.00 crore held by GOI into equity share capital through preferential allotment in favour of GOI, at such conversion rate including premium, as may be determined in accordance with SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 subject to approval of Reserve Bank of India, Shareholders, Stock Exchanges and other statutory authority(ies), if any including Securities and Exchange Board of India. Based on the above said approval, the entire IPDI was extinguished w.e.f. 31<sup>st</sup> March, 2017 and necessary corporate action to debit the entire 5830 IPDI from demat account of the GOI maintained with CDSL (ISIN INE483A09237) was initiated. The resultant capital funds of ₹. 583.00 crore was kept in Share Application Money Account on 31<sup>st</sup> March, 2017 pending allotment of equity shares of ₹. 10 each to GOI at such conversion price including premium as may be determined as per SEBI(ICDR) Regulations.

Reserve Bank of India vide letter dated 6<sup>th</sup> April, 2017 has given approval for treatment of entire above said Capital funds of ₹ 583.00 crore kept in Share Application Money Account, as part of Common Equity Tier 1 (CET 1) Capital for the financial year ended 31<sup>st</sup> March 2017.

This conversion of IPDI capital would also give additional leverage to the Bank to raise further equity capital from the public/ financial institutions by way of Rights Issue / FPO/ Qualified Institutional Placement (QIP) at a later date as and when the need arises, subject to necessary approvals from statutory authorities, as may be required.

The capital to be raised through this preferential allotment of equity will not be used by the Bank for making investment, in whatever form, in any of its subsidiaries, joint ventures, etc.



**PAST EQUITY ISSUES**

Date	Capital Raised (₹ Crore)	Subscriber	No of shares	Issue price/share (₹)
05 <sup>th</sup> Dec, 2016	17.14	Life Insurance Corporation of India.	1,71,44,954	81.45
08 <sup>th</sup> Sep, 2016	123.81	President of India (Government of India)	12,38,06,796	94.76
12 <sup>th</sup> May, 2016	71.50	President of India (Government of India)	7,15,04,945	64.82

**DILUTION TO SHAREHOLDING**

Issue up to 5,59,76,956 Equity Shares to Govt of India

Class of Shareholder	Pre-allotment of shares		Post-allotment of shares	
	No of shares	% of paid up capital	No of shares	% of paid up capital
President of India (Government of India), Promoter	154,61,39,179	<b>81.28</b>	160,21,16,135	<b>81.82</b>
Other Shareholders	35,60,31,785	<b>18.72</b>	35,60,31,785	<b>18.18</b>
<b>Total</b>	<b>190,21,70,964</b>	<b>100.00</b>	<b>195,81,47,920</b>	<b>100.00</b>

Issue up to 96,01,536 Equity Shares to Govt of India

Class of Shareholder	Pre-allotment of shares		Post-allotment of shares	
	No of shares	% of paid up capital	No of shares	% of paid up capital
President of India (Government of India), Promoter	160,21,16,135	<b>81.82</b>	161,17,17,671	<b>81.90</b>
Other Shareholders	35,60,31,785	<b>18.18</b>	35,60,31,785	<b>18.10</b>
<b>Total</b>	<b>195,81,47,920</b>	<b>100.00</b>	<b>196,77,49,456</b>	<b>100.00</b>

 Outstanding Shares (As on 31<sup>st</sup> March 2017): 190,21,70,964

Size of issue:

- up to 5,59,76,956 Equity Shares, and
- up to 96,01,536 Equity Shares (in Addendum to notice issued by the Bank on 19<sup>th</sup> April 2017)

Total: Equity Shares issue: 6,55,78,492.

Approximate Dilution: 3.33%

**OTHER DISCLOSURES**

**Change in control:** The existing promoters of the Bank i.e. the President of India (Government of India) will continue to vest their control over the Bank and there will not be any change in the management/control on the Bank as a result of the proposed preferential allotment

**Lock-in period:** The equity shares proposed to be issued and allotted on preferential basis to President of India (Government of India) shall rank pari-passu with the existing equity shares of the Bank. The same shall be locked-in from the date of allotment till a period of three years from the date of trading approval granted for, as per regulation 78(1) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended till date.



**Timeline for allotment:** The allotment shall be made within 15 days of the passing of the resolution by the shareholders provided the time for allotment shall be extended by the time taken for obtaining approval for such allotment by any regulatory authority, if any.

**Certification from statutory auditors:** A Certificate from the Statutory Auditors shall be placed before the Extra-Ordinary General Meeting of the Shareholders, considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of the SEBI ICDR Regulations. A copy of the said certificate will be made available for inspection at the Extraordinary General Meeting on 11<sup>th</sup> May, 2017

**Shareholders' Rights:** In terms of the provisions of Section 3(2E) of the Act, no shareholder of the corresponding new Bank, other than the Central Government, shall be entitled to exercise voting rights in respect of any shares held by him/her in excess of ten per cent of the total voting rights of all the shareholders of the Bank. Subject to the above, as per Regulation 68, each shareholder who has been registered as a shareholder shall have one vote on show of hands and in case of a poll shall have one vote for each share held by him.

**Exercise of Rights of Joint Holders:** As per Regulation 10 of the Regulations, if any share stands in the names of two or more persons, the person first named in the register shall, as regards voting, be deemed to be the sole holder thereof. Hence if shares are in the name of joint holders, then first named person is only entitled to attend the meeting and is only eligible to vote (by poll or by show of hands) in the meeting.

**Directors' interests:** None of the Directors or Key Managerial Personnel of the Bank is concerned with or interested in the resolution of the notice except to the extent of their shareholding in the Bank in their individual capacity or as nominee of Government of India.

**Buyback or capital reduction in past:** There has been no buyback of shares or capital reduction in past by the Bank.

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## SES VIEW

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The Bank's Capital Adequacy Ratio as per Basel III norms (**RBI notification**) stood at 9.99 per cent as on 31<sup>st</sup> December, 2016 and the Bank is required to maintain minimum 10.25 % for the financial year ending on 31<sup>st</sup> March, 2017. To further augment the capital adequacy, the Bank has proposed to raise capital funds by way of equity allotment on preferential issues to The Government of India (Promoter of the Bank).

SES is of the view that preferential issues have a negative dilution effect on the minority shareholders' equity. Therefore, SES is against preferential allotment of shares to a particular shareholder or class of shareholders. SES believes that to raise equity capital, the Bank should first go for a rights issue to avoid any dilution on existing shareholder's equity. In the proposed resolutions, the allotment of equity shares will lead to total dilution of 3.33% in existing shareholder's shareholding in the Bank.

SES is of the opinion that since the Bank has not met/ not likely to meet the minimum requirement of capital adequacy as per Basel III norms, it seems the Bank is in urgent need of funds.

However, currently, SES is of the view that keeping in mind recent issues of increasing NPAs, losses by PSU Banks, CRAR fall below the Basel III requirement. Therefore, as a precautionary measure Bank needs to infuse funds and therefore, SES is not raising any concern.

**DISCLAIMER****Sources**

Only publicly available data has been used while making the report. Our data sources include: BSE, NSE, SEBI, Capitaline, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

**Analyst Certification**

The analysts involved in development of this report certify that no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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All disputes subject to jurisdiction of High Court of Bombay, Mumbai.

**Concern terminology**

**C - Compliance:** The Company has not met statutory compliance requirements

**F - Fairness:** The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

**G - Governance:** SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

**T - Disclosures & Transparency:** The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

**Company Information**

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