

HeadLine: BoB will participate in alternative investment funds: CEO Jayakumar

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PS Jayakumar, MD and CEO, Bank of Baroda (BoB), talks about participation in alternative investment funds. Edited excerpts.

What is the financial interest in the asset management company (AMC)? Are you privy to private equity funds or foreign institutional investors (FII) or anybody who is interested in funding the AMC?

The AMC by itself requires limited capital so that is not really the point of discussion. The large part of the fund, all of the material fund is going to be raised in the alternative investment funds (AIFs). So the issue then is whether the AIF will be able to raise the funds. There have been discussions and testing of the market and the response is reasonably positive. Therefore, on that ground we feel that there is a possibility for the funds for AIF to then be able to buy out the assets. This is an open architecture. It doesn't involve one AMC, one AIF. So we expect that there will be several participants. We have created a framework by which decisions can be made and a logical process of bringing it to AMC AIF to happen. So that is what it is. So there is a fair amount of confidence, the funding is available.

Will BoB also be putting in some money AIF?

Let me put it this way that all money will be institutional money. We expect domestic funds to participate. We also expect foreign funds to participate. As far as individual banks are concerned it's up to them. There are set of rules on participation in AIF and within the context and within the risk appetite Bank of Baroda will certainly participate, but I do not want to go into specifics of the amount and as things will roll out we will know.

What is the corpus that is being envisaged for the first AIF? The bankers concerned — Sunil Mehta and people like you and Rajnish Kumar of SBI spoken to the funds. Are you all looking at \$10,000 crore AIF, \$20,000 crore AIF any ballpark number that you will first work with for the first AIF?

As I said it's an open architecture. There will be participation by this particular AIF as well as with others. We will



P.S. Jayakumar, managing director and chief executive officer, Bank of Baroda.

take it as it comes but if you look at it from a theoretical point of view, keeping the total size of assets between the larger size assets that are concerned which is about 1.1 lakh crore and assuming 40% valuation, 40% is the fair value. We are looking at about 1.2 lakh crore. This will come in stages and I want to say that fair amount of confidence that it will happen, but specifically we are going to start with \$100 million. As we get to the drawing plan, we will do that.

You envisage that it will be incorporated in the month of July itself. Is the CEO or some lead management team will be ready?

Yes, we have to move fast on this so the preparatory steps are under way and we will be quick to come to market. Now whether it is July or August we will work the details out but very much there is a process under way. Now that the report has been accepted or rather been discussed with the government, I think now it's time to move to the next block of action.

You don't have much time, the 12 February circular set the clock starting from 1 March and by September 15, the amount of \$2,000 crore are not resolved they have to be marched to the NCI. You think a substantial part of these \$2,000 crore plus loans will be marched into the AIF before September?

The point is that to tackle

the existing number we have to come up with a plan early and certainly have some action plan by end of August, but this is an ongoing issue and it's going to be an ongoing issue it's not the end of it. As the businesses roll forward and as we go into the future we will need this type of

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framework to deal with stressed assets as a group. So it's both for immediate as well as for the long term. Specifically you ask me whether all the assets will be provided for. I do not know but we will do our best.

You hope at least some of them will have entered the AIF by September or is there a plea to ask the Reserve Bank of India to push back the 1 September deadline by a bit?

We will take it as it comes. As of now we are not dependent upon a particular dispensation for this programme to move forward. It is within the extent rule that we have currently but we will take it as it comes along.

Will your provisioning requirement fall at all? You know after the 12 February circulars, investors made some projections of the kind of provisioning PSU banks and corporate banks have to make. Does that change at all because of the AIF?

I think the coverage provision for the system is around 55-57%. So an adequate amount of coverage a provision has already been made. Now it will be asset specific how much more we would need and that is a judgment we have to make. But what is per-

ment to mention is because of the levels of provision that is already under way we can today discuss of a program as the current one which probably may not have been possible if you had looked at it say 24 months before or 12 months before.

Well, actually, three years ago Arunhat Bhattacharya was talking about a stressed assets fund as well something which will not be government owned, so to that extent the conversation is kind of a repeat. But let me come to the other bank led under \$500 crore lead bank led sale of assets that one should take quickly? Can you update us on what has happened there?

So we are now working to get the inter-creditor agreement (ICA) in place and over the course of the next week between now and for the next 7 to 10 days we will try to get a closure on the ICA. Once the inter-creditor agreement is done then that provides a logical framework for a lead bank to take responsibility for the resolution of that particular account. So the drafts are already there, the discussions have started and then it is a process that can be concluded quite early.

I am still confused about the first step in the AIF process? I mean who incorporates it? Is it the government of India that incorporates it, will all the banks get together set up a JV company in which each of you have probably 10% stake what is the first legal step here

participate and we probably will get foreign institutional investors are concerned. As far as the first tranche is concerned there is reasonable conviction, we can raise that kind of funds.

So what you envisage is that if 10 banks have loans to say GMR Chhattisgarh or GMR Rajasthan or some GVK Airport you will transfer the asset to the AMC and the AMC runs it but in your looks you all would have provided for it is that the way we should understand it?

No, let me try to explain it the way it is. There is the AMC and ARC which are the management part of it. There is a fund that holds the asset. So, the plan is that whichever assets are there it is an open architecture, many people can bid for it and whoever bids for it the best would end up buying the asset. But whoever takes it will pay us, pay the cash amount for settlement and that would be settled in 60 days' time. That is what we envisage, so the transfer of assets will take place and the bank will get the funding and so the transactions will get completed. Now if there are some steps discussed about that are going to mature or there are going to be some incremental steps by which the banks will get update then those will happen at that point of time. But what is envisaged is a pure settlement by cash, so the balance sheet assets go off the balance sheet. The cash amount is received and whatever additional provisions that are need to be taken are taken. Conversely if you have released a provision that could also happen. Your concern really is who is going to pay the money in AIF.

Yes, where is the cash coming from? There are investors, both domestic and international, banks can also participate. But it is not expected the banks are going to fund this and there is a cap. I think about 10% banks can participate in any AIF. Within that scheme of things some banks will participate. Those who participate get the upside on the asset as they get sorted out and so there will be some bank participation, there will be other domestic institution participation, there will be other forms of private participation and there will be investors coming in. But what we also envisage is other ARC's will team up in a similar manner and raise adequate amount.

As the businesses roll forward and as we go into the future we will need this type of institutional framework to deal with stressed assets as a group?

Let me again clarify there are two elements to it—there is an asset management company which is fundamentally capital light, there is an AIF which has a corpus of funds. So therefore there are two different sets of fundraising as it is. You asked me the question relating to AMC. So I said it is not a very large amount that ball can be set rolling. Now as far as AIF is concerned the expectation is domestic institutions will par-

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In this AIF? So as far as the AMC is concerned there is absolutely no government involvement of any sort. Now we are talking about a fairly small sized capital for the AMC. So the sense is therefore it should not be difficult to raise the fund. I think the larger question is a talent pool in the AMC and getting them and getting a quality team in place that can then help and roll out this process. I think that is a larger challenge than setting up the AMC or raising the \$200 crore of capital or \$100 crore of capital whatever that initial number be.

I am surprised why you are saying that capital is low? If you have to transfer GMR Chhattisgarh or GMR Rajasthan or you know RSK Energy these are all large companies. I mean \$6,000-7,000 crore at least so a capital of about \$2,000-3,000 crore should be ready? Who incorporates that fund?

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