

Nationalisation of the Imperial Bank

H T Parekh

How are the shareholders to be compensated when the Imperial Bank and the State banks merge in the proposed State Bank of India? It will be inconsistent to have two different principles of valuation—market price of the shares in one case and the value of the assets in the case of the others.

In the case of the Imperial Bank, the analogy of the Reserve Bank is quite untenable, and considering the special character of the share-holding, present investors should be entitled to a fair, if not liberal, treatment. It will also be much the better policy, since the proposed State Bank may have to raise fresh capital.

THE Government notification of December 20 announcing the decision to exercise effective control over the Imperial Bank of India was the first step taken for implementing the recommendations made by the Committee of Direction of the All-India Rural Credit Survey. But it is already becoming apparent that Government move may take a different shape from that suggested in the Survey, and effective control will mean nationalisation through the Government taking over the shares of the bank held by private shareholders. The implications of this move may well be examined from the point of view of the shareholder on the one hand and the present depositors and the clientele of the Imperial Bank on the other.

While the Survey suggested the conversion of the Imperial Bank into the new State Bank of India by retaining the present shareholders, presumably with the right to dividend distribution undisturbed but with additional share capital owned by Government as a major partner to the extent of 52 per cent. Government appears to be proceeding to an outright purchase. This in one sense is more practicable because the Survey proposition would have created Government and private parties as two classes of shareholders, the dividend payable to the former being limited to 5 per cent while the latter, by implication, would go on earning the present rate of 16 per cent. Sooner or later Government would view such a situation unfavourably and may lower the dividend distribution of the private shareholders from 16 per cent, thereby prejudicing their interests.

BASIS OF COMPENSATION

But in another respect, the Survey recommendation may be more consistent than what Government proposes, if the State Bank of India is formed by a merger of the ten banks named in the notification of December 20. The Survey contemplated no cash compensation to the shareholders of the Imperial Bank while

the basis of compensation for the shareholders of the other banks was to be determined "after taking into account all the relevant considerations, including in particular the value of their part of the assets". The Rural Credit Survey Report suggested no meticulous valuation but it clearly indicated that the value of assets to be taken over should be the basis of compensation, which is quite different from the concept of market value of shares.

The Government proposal, however, starts with the market value of shares of the Imperial Bank as the basis for compensation. Should Government finally decide to the merger of other ten banks on the lines suggested in the Survey, then Government will be adopting two altogether different methods for determining the amount of compensation, viz, market price of shares for the Imperial Bank and net value of assets for the other banks. It is obvious that market price of shares cannot be adopted as the basis for other banks because some of these banks have no share capital with a market price, while the share of the others have an unduly low and misleading market price. It remains to be seen how Government proposes to overcome this hurdle while framing legislation for taking over these banks.

NO ANALOGY WITH RESERVE BANK

In fixing the amount of compensation for the shareholders of the Imperial Bank, it has been announced that, on the analogy of the Reserve Bank shares, market price of the share will be taken as the basis though how many years' average price will be considered for the purpose remains to be decided and is probably left to the Reserve Bank to recommend. The analogy of the Reserve Bank, however, must be regarded as inappropriate and unfair. Dividend on the Reserve Bank shares was limited to 4 per cent (taxable); shareholding in the Reserve Bank was restricted to 200 in one name; and all the surplus

profits of the Reserve Bank went to Government. In all these respects, the position of the Imperial Bank shares is entirely different. There is no limitation on dividend, nor on shareholding and its surplus profits have been freely ploughed back. Thus the Imperial Bank has operated as a commercial, private profit-making enterprise while the Reserve Bank always functioned as a State enterprise. That large secret reserves have been accumulated by the Imperial Bank over the years has been widely known; this has weighed heavily with the investor in Imperial Bank shares who has regarded them as near-gilt investment with an intrinsic value much higher than what the market price indicated. Moreover, charitable institutions, widows and other investors with whom these shares have been popular have counted on the income from their investment which has roughly been of the order of 6 per cent, after allowing for income-tax.

If compensation is paid to the shareholders of the Imperial Bank in Government bonds bearing 3½ per cent interest, a drop in income of nearly 50 per cent would result which would be most upsetting to this class of investors. In determining compensation, therefore, much avoidable hardship could be averted, if Government were to ensure that the fall in income to the investor is moderate and not excessive. This would be possible if the market price basis is somewhat liberally interpreted as an average of last 7 years price, i.e., from February 1948 when the late Shanmugham Chetty announced in Parliament the Government decision to nationalise the Imperial Bank. This would give a somewhat higher average. Further, if an alternative is given to the shareholders to accept cash or a long-term Government loan of about 20 years maturity on the ruling yield basis of 4 per cent, Government will be doing much to regain investors' confidence.

The case for a liberal rather than a harsh treatment to the investor has much to recommend it when it is realised that the declared object for nationalising the bank is to provide better remittance facilities and to establish a far more widespread network of banking in the interests of the cultivator. The Imperial Bank has always been regarded as a pillar of commercial banking, providing short-term credit to industry and trade and if, as a result of State policy, there is a major shift in its banking activity, the investor in the Imperial Bank shares should not* in fairness, be asked to pay for such reorientation. He is surely entitled to a fair deal. State action which seeks to retain the investor's faith and not to shatter it, is of much long-term value to Government. This is not tantamount to yielding to vested interests, at least in the case of shareholders of the Imperial Bank.

To strengthen the investor's confidence may also be useful in another way. The Survey has suggested increase in the share capital of the State Bank of India to a much larger figure. After the contemplated take-over of the Imperial Bank is completed and Government becomes the majority shareholder, the share capital of the bank could be increased in due course and public subscription invited with dividend limitation on lines suggested in the Survey in respect of Government capital. That would mean implementation of the Survey recommendations, though in a reverse order.

DEPOSITOR AND BORROWER

An impression is widely prevailing that the proposed change in its name will also imply change of function of the Imperial Bank, that it would in future provide credit mainly to agriculture instead of serving commerce and industry as it is doing at present. This view is unfair to the Survey which makes it clear at more than one place that provision of rural credit must remain the ultimate responsibility of the Reserve Bank and that the State Bank will facilitate remittances, set up more branches with that aim in view, thereby helping co-operative banking, but that the bank will continue to provide credit to trade and industry as at present on accepted banking principles.

The fear, however, that the bank may lose a large part of its deposits

after the change will not be shared by many; for a considerable part of its deposits is held by public and semi-public bodies and by leading commercial concerns. Such depositors are hardly likely to withdraw their accounts merely because the bank is reconstituted.

The average lending operations of the Imperial Bank are of the order of Rs 100 crores at present. This includes considerable credit to leading industries such as sugar, steel, etc. The large credit lines which

the Imperial Bank allows will be difficult to replace, for no other bank commands resources large enough for extending such facilities. -No shift need, therefore, be expected unless of course under the new set up, the bank wants to modify its lending policy in a different direction and change its existing pattern of lending. All this will depend largely on the new board of directors, *ie*, on the extent to which Government will be interested in maintaining continuity while nominating the directors.

THE HINDUSTAN CONSTRUCTION COMPANY LTD.

CIVIL ENGINEERS, BUILDERS AND CONTRACTORS

FOREMOST IN THE FIELD IN

Designing and construction of Dams for Multi-purpose Projects ;

Railway and Road Bridges with all types of foundations (including Caisson and monolith sinking) ;

Docks and Jetties ;

Water Supply and Drainage Schemes ;

Aerodromes and Hangars ;

Tunnels ;

Heavy Earthworks ;

Buildings — Industrial and Administrative ;

Marine and Land Pipe Lines ;

Road Constructions ;

Guniting, Core Drilling and Grouting ;

Sewage Purification and Public Health Engineering ;

Etc. Etc.

**WE ALSO UNDERTAKE PILING WORK
UNDER HINDUSTAN-ZEISSL SYSTEM**

Head Office

" CONSTRUCTION HOUSE ", BALLARD ESTATE, BOMBAY I.

Telephone : 26036

Telegrams : HINCON-BOMBAY.