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Government Insecurity

By Leslie Norton

Investors in India's state-owned banks, which dominate that nation's banking industry, took freight recently as the government seemed to backtrack on buyback proposals. Specifically, investors had expected India to reduce its holdings in banks by selling equity back to them at a cheap price and shrink shares outstanding.

But Cherian Verghese, chairman of state-run banks shouldn't expect the government to sell its stakes below the market. Another expectation was government would buy back high-interest bonds banks had invested in, as part of a strategy to reduce debt costs. Now some analysts worry that may take longer than expected.

We checked in for perspective with Jon Thorn, who runs India Capital Fund. "This is a very interesting transition event for an emerging market," he says. "What we have is a bunch of very cheap, mainly government-owned owned assets starting to be privatized. And banks, of course, are especially dear to socialist hearts, so the break to private sector is hard to make." Thorn quotes Smith Barney statistics that the government will forgo $1 billion by buying back the equities and bonds at par. "That's a lot of money for India."

India banks have had a huge run, he continues, but "almost of all of these gains have been made by a few local funds, many of whom have small positions in these banks." And many of the banks, he adds, are "not well-run businesses." The best, at least in Thorns view, are Bank of Baroda, Oriental Bank of Commerce, Andhra Bank and State Bank of India.