# Axis board okays Enam unit buy and demerger

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Finally, the transaction — exactly 10 months after the deal was announced.

The board of Axis Bank, India's No.3 lender, on Friday unveiled a two-step operation where it will acquire the equities and investment banking business of Enam Securities and demerge it into a subsidiary, in accordance with the terms set out by the Reserve Bank of India.

As announced originally on November 18, 2010, the deal was to be all-stock, worth Rs2,067 crore, but the RBI frowned at it. Here's how it will now play out:

As pre-agreed, Enam shareholders will get 5.7 shares of Axis Bank for each they hold in the brokerage. In all, Enam shareholders will get 1.37 crore shares of the bank.

After the swap, Enam's financial services business will be demerged into Axis Securities and Sales Ltd, a wholly owned subsidiary of the lender.

Axis Securities will pay its parent bank Rs274 crore in cash, which represents the book value of the Enam financial services business.

"It's an accounting treatment mainly to comply with the regulations," a senior official at Enam Securities, who did not want to be named, told Reuters. "There are no structural changes to the deal, which we had announced earlier," he added.

Analysts said this is a positive development.

"They have confirmed the original announcement except for a small change which is how the transfer to the subsidiary will happen. This is a positive to the extent that there is no more speculation whether it will be an all-cash deal," said Vaibhav Agrawal, vice-president (Research), Angel Broking.

"The valuation in any case was on the higher side, which has been priced into the stock, but as a business, it's just a fleck considering the size of Axis Bank's balance sheet. So there's unlikely to be any material impact."

The arrangement is subject to approvals, including by the shareholders and creditors of the bank, Enam, Axis Securities, courts and regulators.

Siddharth Shah, head (corporate and securities practice), Nishith Desai Associates, said there will be no tax liability in the deal, because this is about the shares of a publicly traded entity.

"This is not covered under Section 56 of the Income Tax Act - to that extent there should not be a tax liability in the hands of the shareholders. Under Section 56 of Income Tax Act, it also says if a person acquires shares of a company at a price which is lower than the fair value (the fair value is determined as book value), then to that extent the difference is treated as other income in the hands of the recipient. So here on both counts it is outside the purview of tax liability," Shah said.

The deal is seen rounding off the service offerings of Axis.

"Axis already has an asset management company. This deal will give a broking business which major banks already have. World over this has been the trend where all the major banks have a securities division," said Nitin Kumar, deputy vice president (research), Quant Broking.

It will also help Axis cross-sell products. But, according to Kumar, this will not be substantial enough.

“This deal will give them capabilities on the equities side. It has already got it in their debt and syndication side,” said Kumar.

The Axis Bank share ended at Rs1,133.15, up 1.56%, on Friday.

Rajiv Mehta, analyst with IIFL, said the Axis share remains one of the brokerage’s top buys.

“We like the stock given the fact that the loan growth of the bank remains higher than the system. Net interest margin (NIM) should recover from second quarter onwards and asset quality has been resilient so far for the bank. We do not see that kind of deterioration in fundamentals happening.”

Angel’s Agrawal concurs. “For a long-term investor with a three-year horizon, I think it is good time to buy the stock.”

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