Riding The Retail Wave

India's retail banking segment is growing at a spectacular pace, and new private banks, such as Kotak Mahindra, are reaping a rich harvest. A team **India Now** report.

THE Jamnalal Bajaj Institute of Management Studies (JBIMS) in Mumbai is one of the most prestigious business schools in the country. Leading international and Indian companies send their teams with offers to students graduating from the 40-year-old institute.

This year was no different. Global majors including McKinsey & Co, Accenture, Bristlecone Consulting, IBM Consulting, Citibank, HSBC, Standard Chartered, JP Morgan Chase, Hewlett Packard, Intel, TCS, Infosys and Wipro came headhunting. Also in the fray were Indian banks such as the State Bank of India, ICICI Bank, Kotak Mahindra, and UTI Bank.

Expectedly, banks and financial institutions - Bajaj has a tradition of being the hunting ground for topnotch banking and financial whiz-kids - were the biggest recruiters, hiring 37 per cent of the batch of 2006.

The Indian retail banking industry, growing at a breathtaking pace, has indeed shown a huge appetite for MBAs graduating out of India's top business schools. With India's burgeoning middle-class, and a relatively young population - about 500 million Indians are below the age of 24 - there is growing hunger for credit cards, auto and consumer loans, and a host of other products.

And banks, especially the new crop of private sector institutions, have been feeding this monstrous demand for credit with a slew of innovative products. India's retail banking industry grew by a whopping 120 per cent in 2005, and total asset size has topped $65 billion.

According to McKinsey & Co, the retail banking business grew by a compounded annual growth rate of 30.5 per cent between 1999 and 2004. The industry is expected to continue growing at 30 per cent and above, and retail assets of lenders are likely to touch $300 billion by 2010.

The retail banking industry has attracted many international majors. GE Capital, a subsidiary of General Electric, aims to grow its business from $1.5 billion at present to $10 billion in about four years. But the biggest gainers from this retail banking boom have been private Indian banks like Kotak Mahindra Bank (KMB).

Says Uday Kotak, executive vice-chairman and managing director: "When we (the Kotak Mahindra group) set up the bank about three years ago, we had just 1,500 people. Today, we have 8,000, and by early next year, we will have a branch network of 110, and almost 10,000 people." This would be much higher than any other international bank in India.

For a three-year-old bank, KMB has done exceptionally well. It ranks No 3 in terms of market capitalisation (of about $2.1 billion), next only to ICICI Bank ($10.5 billion), and State Bank of India (about $5.3 billion).

KMB's net profit zoomed by 125 per cent during first quarter of the current fiscal (April-June 2006), way ahead of other competitors, including HDFC Bank (48.4 per cent), UTI Bank (30.14 per cent) and ICICI Bank (17 per cent).

Not surprisingly, the company's stocks have gained by 50 per cent since mid-June on the Bombay Stock Exchange, though analysts such as JP Morgan Stanley have cautioned that the current spike in prices is unjustified.

The Kotak Mahindra group, which was established in 1985, is today one of India's leading financial institutions, covering the entire gamut of services from commercial banking to stock broking, mutual funds, life insurance and investment banking. The group has a net worth of $600 million, offices and branches in over 250 Indian cities, besides a presence in New York, London, Dubai and Mauritius.

The group, which was started initially by Uday Kotak (later industrialists Harish Mahindra and Anand Mahindra of automobile major Mahindra & Mahindra Ltd, also bought stakes in the group), has had some interesting international partners, including Goldman Sachs and Ford Credit. Earlier this year, the group acquired the 25 per cent stake that Goldman Sachs had in it; last year, it had restructured the arrangements with Ford, both going their separate ways.

GOING GLOBAL: Uday wants to ultimately provide global products for global customers

Uday, 47, believes the time is ripe for Indian financial sector players to stride the international arena. "For the first time we are noticing a change in the mindset of Indian businesses," says he. "We are going away from incrementalism to a more aspirational role. We see a greater commitment to build scale and quality."

In the 1990s, many were scared of globalisation, but today an increasing number of Indian businesses have stated embracing globalisation, avers Uday Kotak. Indian corporates have realised that setting up an office or facility in Singapore or Dubai is no different from establishing a presence in Kolkata or Chennai.

There has also been a paradigm shift in international investor sentiments about India. "The India story is finally happening," he points out. "In a sense, India as an asset class has become centre-stage today, just as Japan became an independent asset class in the 1970s. And India as an asset class is no longer an option; it has become an integral part of an investor's global portfolio."

KMB sees tremendous opportunities in this new environment, and foresees a significant role for itself in three distinct areas: providing Indian products for Indian customers, Indian products for global customers (including foreign institutional investors and multinational corporations), and global products for Indian customers (including Indian companies setting up shop abroad).

Of course, Uday's ultimate aim is to provide global products for global customers, and he is confident this could happen in about five years. He sees the next big leap for the bank in enhancing its presence (or setting up operations) in cities across the globe, including London, New York, Dubai, Singapore and Tokyo.

American financial institutions have expanded globally as they pursued US-based companies in their overseas foray, notes Kotak. Similarly, with many Indian companies going in for international acquisitions, he envisages domestic banks to expand significantly abroad.

The Kotak group is planning to raise an additional $425 million - including $350 million from the overseas markets - for its real estate venture fund. It has already raised about $100 million and plans to make an aggressive foray into the business, promoting special economic zones, townships, shopping malls, and residential and office complexes.

With a phenomenal track record over the past two decades - an investment of $2,100 in 1985, when the group was established, would have expanded to a mind-boggling $26.5 million today, says Uday, who made it to the Forbes Billionaire's list earlier this year - KMB is now gearing up to ride the crest of the retail banking wave that will sweep across this country of 1.1 billion people over the coming years.