The Indian private banking space will **see a spate of mergers, acquisitions, and open offers in 2009** . The second phase of the Banking reforms would **enable significant de-bottlenecking and a number of regulatory relaxations** would assist foreign Banks to establish themselves in India.

In 2009 **wholly-owned subsidiaries of foreign banks will be allowed to list** in the Indian market and dilute their stake so that **at least 26 per cent of the paid-up capital of the subsidiary is held by resident Indians** . In this period, **foreign banks will be permitted to merge with and acquire any private sector bank and** would be treated on par with Indian banks.

Currently foreign banks face the following restrictions

1) Collectively **these banks cannot open more then 20 branches each year** . These approvals are accorded on a case by case basis. Recently Citibank got approval to open up a branch in Kolkata but they changed the location to Bangalore since that made more business sense. **After 2009 Citibank and any other bank will be able to open as many branches as it likes** and would not have to swap permissions.

2) The **voting rights of foreign banks in the local private banks are presently capped at 10%.** This ceiling will be lifted.

I have never been an advocate of holding a stock and waiting indefinitely for an open offer. Sometimes companies never get sold . Two such stocks that come to mind are **South Indian bank** and **Federal bank** . Investors have been recommending these Banks for over 10 years yet nothing has happened. On the other hand **Karur Vyasa Bank has gone up multifold without an open offer.**

When foreign Banks are given freedom to operate in 2009 they could do two things:

1) **Expand rapidly into newer areas** without having to swap permissions (Citibank example indicated above)

2) **Buy out any private/local/ regional bank** and get a head start without wasting any time

I would assume that the foreign banks would opt for option (2) above rather then waste time in expanding independently.

Looking at the Indian private banking space **the following events need to be revisited** in order to forecast what could happen in 2009.

1) **HSBC holds 4.99% stake in UTI Bank** . This is after the R.B.I. guideline compelled it to offload 7.19% of its stake into the open market. So we can know with reasonable degree of accuracy about the prospective bidder for UTI Bank.

2) Rana Talwar of Centurion Bank knows that a foreign partner would bring in **technology; processes and systems.** Earlier this year Centurion Bank merged itself with Bank of Punjab and thereafter took over Lord Krishna Bank. **Interestingly First India Capital a wholly owed subsidiary of Temasek the Financial arm of the Govt of Singapore is in exclusive association with Centurion bank for loan disbursements to the SME** (Small and medium enterprise) customers.

3) **JP Morgan Chase directly holds 19.27% in HDFC Bank. In addition to this it further holds 1.29% through its Asset management company.** So if HDFC Bank is sold out we would know who has a head start.

4) **Bajaj Auto holds 4.14% in ICICI Bank.** Incidentally Bajaj is the 2nd largest single shareholder in the Bank after the LIC and is not eager to sell his stake. **However market men have it that Anil Ambani would also be interested in the Bank as the acquisition would suit Reliance Capital's financial forays.** The junior Ambani is known for his take over bids and his proximity to the present management could help.

5) Rana Kapoor and Ashish Kapoor have built Rabobank International Holding from scratch. **The two Kapoors have been shown as promoters of YES Bank and they would like to increase the stake through Rabobank (of Netherlands) once guidelines permit.** Presently the shares are held by Ashish and Rana Kapoor (20.42%) while 4.99% is held by Rabo bank directly. Another entity **Rabo Bank International holdings holds 14.81%** and the name suggests that it is closely linked to the Rabo Bank.

The following is the market cap of the Foreign Banks and the five Indian private Banks

The predators	
HSBC	US $ 209.34 billlion
Citibank	US $ 243.63 billion
JP Morgan Chase	US $ 159.58 billion
Temasek	US $ 140 billion (Assets)
Standard Chartered	US $ 33.48 billion

A quick look at the market cap table suggests that foreigners are Gulliver's compared to the local Davids so getting into business would not be tough for them

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….. **and the preys**	
UTI Bank	US $ 0.2 billion
ICICI Bank	US $ 11.51
HDFC Bank	US $ 0.58 billion
Centurion bank	US $ 0.081 billion
YES Bank	US $ 0.052 billion

<u>Financials of these 5 Banks</u>

Details	**UTI Bank**	**Centurion bank**	**HDFC bank**	**ICICI bank**	**YES Bank**
C.M.P	Rs 342	Rs 25.50	Rs 853	Rs 597	Rs 89
Adjusted Book Value	111	7	212	264	24
Price to Adjusted Book	3.08	3.64	4.02	2.26	3.70
RoE	20%	14%	31%	14%	15%
Business per branch	Rs 1297	Rs 593	Rs 1633	Rs 4268	Not available
Interested parties	**HSBC**	**Temasek**	**JP Morgan Chase**	**Bajaj/ ADA Group**	**Rabo Bank**

Conclusion: Investors should **hold shares of those domestic banks that are more retail oriented and have strong fundamentals** . All the 5 banks recommended above fall into that category plus they **could be takeover targets**. I would suggest investors to take a pick from these companies or else **make a quasi Private banking takeover Index and hold all the five stocks.**