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Destination India

They may lack the aura of a Citi or an HSBC (at least in India), but for a clutch of global banking majors, an India sojourn may have only just begun. By Anand Adhikari

After over two decades in India, in 2002 Deutsche Bank of Germany quietly folded its single-branch Indian retail banking operation. Around the same time, French Bank BNP Paribas was hogging the headlines in India for retrenching hundreds of employees at its retail banking division. These two events in early 2000 flashed a cautionary message to international bankers to go slow on India. But little did they realise that a dramatic turnaround was in store, which forced Deutsche Bank to re-launch its India retail banking operations in India in October 2005.

In the same month, BNP Paribas too returned with a 49.9 per cent stake in Sundaram Asset Management Company. Just two months back, BNP inked a deal with south-based Geojit Securities Ltd for a 33.3 per cent equity stake. BNP is still scouting for more such opportunities. Perhaps the duo had earlier misjudged the retail boom in India or the thought of finding alternative growth avenues (other than by bringing in foreign direct investment or by setting up branches, both of which are restricted) never occurred to them.

Deutsche and BNP Paribas aren't the only foreign banks that limited their presence and remained virtually mute spectators in India, even as the big boys like Citi, Standard Chartered and HSBC went about consolidating their presence. Call them the second rung of foreign banks in India-although they're powerhouses in their own right on the global stage-but along with Deutsche and BNP, banks like Societe Generale (SG), DBS Barclays and Bank of Nova Scotia are finally stirring up on domestic shores, after years of a truncated, tentative India presence. And joining them in their quest for a large Indian footprint are new entrants like Macquarie Bank of Australia. The opportunities are manifold, beginning right with corporate banking, and small & medium enterprises (SMEs), to retail banking and consumer finance via non-banking finance companies (NBFCs), to wealth management, asset management and investment banking. Much of the action in these spaces is taking place via the inorganic route.

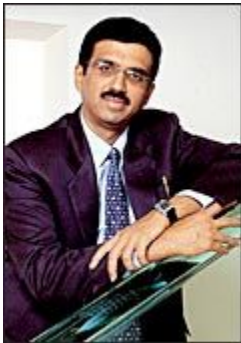


"India is a long-term story for us. It's not a five year business, but a 25-yr one or even more"

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CCO, Societe
Generale Bank

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The heightened level of interest can be gauged from the number of global bank CEO visits to India. Daniel Bouton, Chairman of the France-headquartered SG (the same bank that was one of the advisors to L.N. Mittal in the Arcelor buyout), was in India in November-end, along with a dozen of his senior management team. Never in the history of SG has such a high-level delegation spent a week in a single country. Says Eric Dhoste, Chief Country Officer (India) at SG, who is just three months young in India: "The capital invested in India is a token money. As we expand and regulation allows branch expansion, we will put in more money." Ditto for the rest of the foreign bank pack, which has signed small cheques and remains happy with fledgling operations. "India is a long-term story for us. It's not five-year business, but a 25-year one or even more," adds Dhoste, echoing the sentiment of the foreign banking community. In March, Macquarie launched its Indian operations at the hands of none other than Australian Prime Minister John Howard, who was in India on an official visit. Steve Waugh, former Australian cricket captain, also added to the glamour (Waugh is ambassador for Macquarie's banking and property group).



"We will leverage our existing India relationships as well as our global relationships with MNCs"

Samir Bhatia
MD, Barclays
India

Acquisitions and Alliances

The strategy for the Indian B-team of foreign banks is to scale up operations organically and look for alliance opportunities wherever possible, in the arenas of NBFCs, asset management, broking and insurance. "Our aspiration is to become a material commercial bank in India," says Pranam Wahi, Chief Executive Officer at DBS, which is the largest Singapore bank. Last June, DBS acquired a 37.5 per cent equity stake in Cholamandalam Investment & Finance Company, which operates from 120 locations. In one stroke, DBS also gained access to three other Chola subsidiaries with interests in asset management, retail broking and third-party distribution of financial products. "We expanded the NBFC business from solely a truck financier to pure consumer loans. That's our vehicle for consumer finance in India," says Wahi, who came on board just two-and-half-years back from HSBC, where he worked for over two decades. DBS has put itself on a platform, which can be scaled up very fast as soon as it gets fresh licences. "It's a mix of opportunities within

the banking platform coupled with our partnership with Chola for consumer finance," says Wahi, whose bank has two branches in Delhi and Mumbai with 200 people. Apart from corporate banking and consumer finance, DBS' immediate new priorities in India include

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building a wealth management business for the mass affluent and a custody business (where it is looking at capitalising on its Asian linkages).

Barclays, which is the UK's largest bank, has trained its sights on corporate and commercial banking. It has poached Samir Bhatia from the second largest private sector bank, HDFC Bank, where Bhatia was heading the corporate banking portfolio. Barclays is now spreading its wings in areas like SMEs, supply chain management, structured trade finance, asset finance and cash management. Bhatia, MD (International Retail and Commercial Banking), Barclays Bank, says: "We have a huge pool of existing relationships in India. We will also leverage on the strength of our global relationships with multinationals. This, combined with a strong relationship of our corporate banking team, will help in building a strong business in India." Barclays has already announced an investment of \$150 million (Rs 675 crore) for expanding in investment banking, and a further \$70 million (Rs 315 crore) for its corporate and commercial banking business. Keeping financial inclusion in mind, "the bank is building a robust agri-business model," says Bhatia who has set up a team of 77 people in just six months. Bhatia reveals that the retail banking rollout will happen by the first quarter of next year.

Amongst the B-team pack, Barclay's balance sheet appears the healthiest. Profits have almost doubled in 2006 from Rs 62 crore to Rs 122 crore. What's more, the net profit of Barclays is more than that of many new generation private sector banks like Kotak Mahindra Bank, IndusInd Bank and Yes Bank. It's the possibility of such rapid growth that's prompted SG, which has traditionally been a corporate banking player in India, to eye the lucrative consumer finance business. "We need to build a brand first. Retail is a proximity business. You need critical mass," believes Dhoste. That's why the French bank has bought 75 per cent along with its partner Burman of Dabur in the Kolkata-headquartered Apeejay Finance, a 13-year-old NVFC. "We will also be increasing our footprint in businesses like structured finance, insurance, asset management, consumer lending and derivatives," adds Dhoste. SG also has a 300-seater BPO operation in Bangalore as well as a car fleet leasing business in India, both of which are in expansion mode.

Canadian Bank of Nova Scotia is yet another



"The NBFC business has been expanded to become our vehicle for consumer finance in India"

Pranam Wahi
Country Head,
DBS

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international bank looking to expand its Indian footprint. The bank, known for wholesale trading of gold, has just witnessed a turnaround in 2006 from a loss of Rs 12 crore in 2005 to a profit of Rs 32 crore (see How They Stack Up in India). The bank, which has been around for over two decades in India, now plans to approach the Reserve Bank for more licences to expand its retail, especially marketing of gold, as well as corporate banking operations.

The newest entrant, Macquarie, is testing Indian waters with an investment banking and equity sales arm. The banking foray may follow if the two new ventures deliver. "There is a huge opportunity in the M&A space and in the funds segment which is fast developing in India," says Varun Bajpai, Managing Director (Corporate Finance) at Macquarie India. Macquarie is eyeing the big-ticket real estate and infrastructure sectors.

Clearly, the NBFC route along with stakes in asset management and broking arms is emerging as a scalable model for foreign banks. At least for the time being. If the Central Bank does allow foreign banks to buy into their Indian counter-parts post-2008-according to a roadmap outlined-the ball game will change and the B-team will be better placed to take on the Citis and HSBCs of India by taking over under-capitalised Indian banks (and there are quite a few of them). They may be small today in India, but don't underestimate their global financial muscle. SG, for instance, recently made a bid for one of the China's largest banks, Guangdong Bank (Citi eventually bagged it). And Macquarie is in the news for making a takeover bid for Qantas Airways. Come 2009, the Indian B-team may find itself in the thick of similar action.