

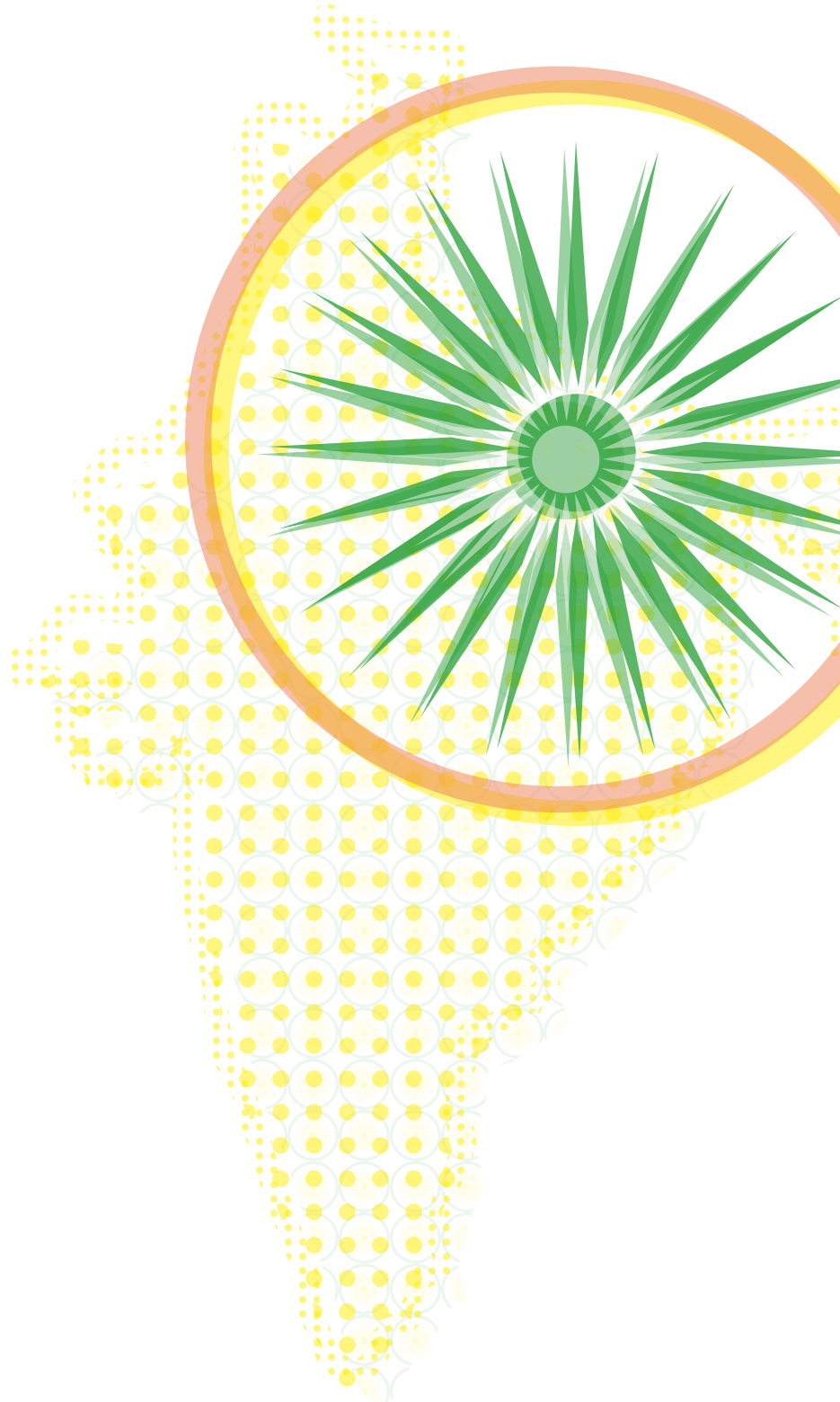


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REPORT

Destination India: an attractive opportunity for foreign banks



“Destination India: an attractive opportunity for foreign banks”

September 2011

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Special thanks to the clients and industry executives who have made themselves available for interviews.

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Destination India: an attractive opportunity for foreign banks

This report has been prepared by Value Partners India and gives a brief overview of the Indian market. The report also focuses on key opportunities for smaller foreign banks and new banks seeking entry into India.

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1 Executive summary

The Indian economy is largely driven by private consumption and the services sector, which highlights the potential of the domestic market and indicates the economy's resilience to global crises. The current low penetration levels of key financial products and services and limited banking reach suggest that there may be significant growth opportunities in both retail and corporate banking.

The Foreign Direct Investment (FDI) in Indian banks offers limited options for the expansion of foreign banks in India as the Reserve Bank of India (RBI) favours consolidation within Indian banks rather than acquisition by foreign institutions. In addition to FDI restrictions foreign banks in India are currently governed by strict regulations in relation to capital augmentation, funding options and the expansion of branch networks.

Given the regulatory constraints, foreign financial institutions have adopted different types of market entry strategies, which mainly leverage on banks and on non-banking financial companies (NBFCs). In addition to their traditional branches, foreign banks have a NBFC presence in India in order to overcome branch-opening limitations and to augment their network in semi-urban and rural areas. In the future the use of a wholly-owned subsidiary (WOS) may enable foreign banks to overcome some of the existing restrictions on branch expansion and on obtaining more efficient sources of funds. A conclusive analysis will however only be possible following the publication by RBI of its new regulations on the presence of foreign banks in India.

The product portfolio of the smaller foreign banks in India will be largely constrained by the limited branch network policy which restricts these banks from aggressively offering retail banking services. These banks should focus, therefore, on providing corporate banking services, in particular trade finance and corporate lending, where they could actively target the companies from their native countries with a presence in India, as well as SMEs in large, export-oriented clusters. Corporate banking could be further enhanced through the provision of services such as treasury, cash management, corporate finance advisory, loan syndication and project finance services.

There are some niche opportunities like NRI (non-resident Indian) services and retail finance for smaller banks in the retail segment. These banks will however need to heavily leverage partnerships with local banks and other companies with strong distribution networks in order to effectively target retail customers.

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