

Financial Express – January 9, 2008

Why Indian banks don't figure

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Posted online: Tuesday , January 08, 2008 at 2357 hrs IST

Chief executives of financial institutions with high market capitalisations sit on an uneasy perch. The market is very irreverent of their past achievements. If you were to review the world's top ten banks by market capitalisation in 1990, 1998 and 2007, you will find this in spades. Every seven to eight years, the pecking order changes almost completely. Who would remember that back in 1990 there were no US banks in the top ten? Nine of the top ten banks in 1990 were Japanese. By 1998, the Japanese banks disappeared, and eight of the top ten banks by market capitalisation were US banks. But the league tables have changed again, and dramatically at that. In 2007, there is an even representation of European, US and Chinese banks. There are three US banks (BankAm, Citibank and Chase), three European banks (HSBC, UBS and Royal Bank of Scotland), three Chinese banks (ICBC, Bank of China and China Construction Bank) and one Japanese bank which has reappeared (Mitsubishi Financial Group). The largest one is ICBC from China. Yet, in all this turmoil, one thing remains constant—there is no Indian bank.

Many believe that the future world order will be shaped by four large economic blocks—the US, Europe, China and India—and maybe Japan and Brazil. By 2035, people believe India will be the third largest [Economy](#). Already, India has a GDP of over a trillion US dollars, and ranks as the tenth or eleventh largest world [Economy](#). By 2012, it will clearly rank in the top ten, and yet our banks remain pygmies in the world arena even as Chinese banks top the league tables. Even in 2012, unless something miraculous happens, we won't see an Indian bank in the top ten by market capitalisation.

This annoys me for several reasons. The Indian Sensex is a daily demonstration of global excitement about India. Market multiples of Indian [Companies](#) is very high and international capital is easy to access for them. In fact, global banks and private equity funds are lining up to fund our [Companies](#) in their ambitions. Indian [Companies](#) have taken advantage of this liquidity, and, given the high currency of their stock, started to make acquisitions abroad. Last year, they spent \$35 billion and acquired [Companies](#) many times their size. Remember Corus by Tata and Novelus by Birla? This year, again, the Tata group appears set to acquire Jaguar.

Bank stocks in India have done very well, and yet no Indian bank has been able to acquire anything substantial abroad. Second, the Indian financial market is the fastest growing incremental revenue pool in the world. Every global financial institution is evaluating entry into the Indian market with interest. Currently, however, they look at Indian banks not as predators, but prey. Third, Indian

bankers are globally well respected. They occupy top positions in many financial institutions, and Vikram Pandit has just taken over as CEO of Citibank. Finally, banks from countries smaller than India are in the top twenty of the league tables but not Indian banks.

Why is this so? There are two reasons. The first is the structure of the Indian banking market. The state-owned sector, which represents about 65% of the market field, is out of bounds both in terms of getting acquired and from acquiring. As a result, the local market is not allowing individual players to acquire any real scale through acquisition. Only SBI and ICICI have over 10% market share. There are at least another 65 players all with less than 5% share. Second, access to international capital by banks is restricted. As a result, acquisitions abroad become difficult despite high multiples. So our banks, despite being present in one of the fastest growing economies and the most attractive global banking market, are unlikely to sit on the high table of the international market capitalisation league tables. Sad, but true.

The author is managing director, The Boston Consulting Group, India. These are his personal views