

Saying **YES** to Innovation

India's youngest greenfield bank has aggressive growth plans, both in corporate and retail banking. Yes Bank, which has state-of-the-art technology and a highly skilled workforce, aims to be different from other Indian banks, writes **N.B. Rao**

INDIA'S banking sector may appear crowded, with nationalised banks, old and new private sector banks, international majors, and even cooperative banks jostling for market share in an increasingly competitive sector. But the country's youngest bank — and the first greenfield one to be set up in 12 years — is gung-ho about the future. It is already drawing up ambitious expansion plans, not just at home but also internationally.

Yes Bank began operations in August 2004. It had a successful Initial Public Offering (IPO) in June 2005, when its issue was oversubscribed about 25 times. Today, it has managed to carve a niche for itself in areas like cross-border deals and currency strategies.

Says Rana Kapoor, founder of the bank, and its managing director and CEO: "Our total assets have already topped the \$1 billion mark. Our balance-sheet will double every year over the next two to three years." The bank has about 30 branches at present; it plans to have 100 branches by March 2008, and between 200 and 250 branches two years later.

Yes Bank — Yes is not an acronym for Yen-Euro-\$, insists Kapoor — focuses on three distinct segments: corporate and institutional banking, business and transactional banking, and retail banking and wealth management.

The wholesale (corporate and institutional) banking division made waves this year when it spearheaded two major over-

seas mergers and acquisitions (M&A) deals on behalf of its Indian clients. Its investment bankers helped stitch up the second-largest Indian cross-border acquisition, when Pune-based Suzlon, the world's fifth largest wind turbine maker acquired Belgium-based Hansen Transmissions International NV, the world's second largest wind turbine gearbox maker, for \$560 million.

The other major overseas M&A deal it was involved in this year was on behalf of United Phosphorous, which acquired Advanta Netherlands Holding BV for almost \$120 million. Leading international financial data and news provider,

Bloomberg, recently ranked Yes Bank No 1 in the M&A Outbound cross-border transactions category, and No 5 in the M&A "overall" category.

"We have 20 professionals in our cross-border M&A banking team, and we see terrific potential in this business," says Kapoor, a veteran banker with more than 25 years' experience, both in India and abroad.

The focus of its corporate division, explains the Yes Bank CEO, is on knowledge-driven banking, which will be the key differentiator from others in the industry. He envisages the bank in the role of a 'money doctor' for its domestic and inter-



RANA KAPOOR: Playing the role of 'money doctor'



RETAIL FOCUS: Creating a delightful experience

national clients, pursuing a diagnostic approach, with strong emphasis on prognosis and prescriptions.

The bank has built up specialised domain knowledge and understanding in some key sectors, including food and agribusiness, life-sciences, telecommunications, media and technology, infrastructure, and select manufacturing industries including textiles. Kapoor points out that the bank has recruited 'technocrat bankers' — with engineering and MBA backgrounds — who can offer in-depth insights into these sectors to its clients.

The bank has also invested considerably in its treasury practise and aims to ultimately emerge as a rupee bank. Kapoor believes that the rupee will become fully convertible on the capital account in about two years. The Reserve Bank of India, the country's central bank, has already appointed a committee to chalk out a

Full convertibility
will send out a
strong economic
signal that we as a
nation can stand
up to the vagaries
of economic ups
and downs.

roadmap for full convertibility, after Prime Minister Manmohan Singh asked it to revisit the issue.

"This (full convertibility) will send out a strong economic signal that we as a nation

can stand up to the vagaries of economic ups and downs," notes Kapoor. And when full convertibility happens, he wants to position Yes Bank as a leading, cutting-edge, rupee house, able to deal with other global currency firms.

With Indians spread across the globe, Kapoor sees tremendous potential for dollar-rupee, euro-rupee and yen-rupee transactions. He also expects the Indian rupee to emerge among the leading traded currencies.

In the corporate finance segment, Kapoor says Yes Bank's strengths are in structured lending programmes, longterm funding for infrastructure projects, funding of acquisitions, and financial restructuring. The bank is also looking at distressed companies.

One sure-fire segment of the corporate world, offering tremendous potential for growth, is "Emerging Indian companies".

THE ART OF ACQUISITIONS



ADITYA SANGHI: country head (investment banking) Yes Bank

ADITYA Sanghi is just 34. In his short career of 12 years, he has seen the evolution of the mergers and acquisitions (M&A) business in India.

When Sanghi, an alumnus of St Stephen's College, Delhi, and the Indian Institute of Management, Bangalore, got into investment banking in the early 1990s, there were very few Indian companies that had the capability, the funding, or even the inclination to acquire a foreign firm.

There was also a plethora of government regulations that made it highly improbable for an Indian business group to even consider acquiring a foreign entity. But things have changed dramatically since then.

As country head (investment banking) at Yes Bank, Sanghi has spearheaded several cross-border acquisitions on behalf of his Indian clients. "We have done close to \$800 million of cross-border acquisitions for our clients over the past year," he remarks. They include the \$560 million acquisition of a Belgian firm for Suzlon, and a \$120 million acquisition of a Dutch company for United Phosphorous.

Sanghi, who travels abroad extensively, says the bank is now well networked in about 30 to 40 international markets, and accesses a lot of information about firms that are on the block. It then passes this information on to prospective

buyers in India, conducts negotiations on their behalf, and carries the entire process through.

Cross-border acquisitions are novel to the Indian corporate sector (and also to the banking industry). Until recently, only top business groups and large IT and pharmaceutical companies had the appetite for such deals. But things have changed today, and even mid-sized firms are looking at overseas acquisitions.

But unlike the major players, many of the others do not have an international management cadre, and have to depend on investment bankers. "In India, owners of companies are closely involved with these deals, unlike in the developed world where professional managers conduct negotiations," says Sanghi, explaining the differences in the M&A culture in India and abroad.

Investment bankers in India also have to do due diligence and thoroughly go over various documents, as in international acquisitions there are no indemnities and protection against later claims. In India, a buyer is protected by law, but most international deals are done on an 'as is where is basis', explains Sanghi. Does he see growing competition for Indian investment bankers from rivals in Europe and the US? Sanghi believes that the current size of overseas acquisitions - a majority is in the sub-\$1 billion category - does not interest most of the big international players. Of course, some have taken up deals on behalf of a few top Indian pharmaceutical companies. But by and large, most Indian companies going in for a foreign acquisition prefer Indian investment bankers.

Sanghi, who worked with KPMG Corporate Finance, Lazard India and Rabo India Finance before joining Yes Bank, has to his credit several prominent transactions, including the acquisition of the Tetley group by Tata Tea in 2000. Earlier, most of his deals related to the acquisition of Indian companies by international firms. But these days, Sanghi is increasingly seeing a reversal of roles, with Indian entrepreneurs aggressively buying companies abroad.

Kapoor describes these as companies in the \$10-100 million (turnover) bracket, with high-octane growth and energy. "They represent the winners of the future," he explains. "There are several companies, recording growth of 50-70 per cent annually, who are transforming their management make-up and putting in place superior governance structures."

Yes Bank hopes to play the role of 'money doctor,' providing a 360-degree approach, thanks to its domain knowledge and expertise in specific fields. Many of these mid-size companies have overseas expansion ambitions, and Yes Bank will be there to help them in acquiring other firms, or setting up overseas operations.

The bank will of course also be catering to large companies (with turnover exceeding \$100 million), and small and medium enterprises (in the \$1 million to \$10 million bracket).

Many of the new private sector banks that have come up over the past 10 years have focussed on the retail sector. Yes Bank too aims to tap this lucrative segment, but its retail focus will be on owners of tiny businesses and firms in the unorganised sector, and affluent individuals, with incomes exceeding \$10,000 annually.

There are about 12 million households in this category in India. Some can be found outside the metros and large cities and state capitals. There is growing affluence in smaller cities, places like Bhiwadi in Rajasthan, Surat and Rajkot in Gujarat, Nashik and Nagpur in Maharashtra, Vishakapatnam and Vijaywada in Andhra Pradesh, Hubli in Karnataka, Tirupur in Tamil Nadu, and Goa. Yes Bank will help the well heeled in these places analyse their financial needs and provide solutions, taking into account their risk profiles.

Kapoor believes that despite the growing emphasis on the retail sector, there is vast room for improvement in service standards. The bank, which has entered into alliances with best-of-breed technology partners - and has won awards from AC Nielsen (for Technology Innovation) and the National Association of Software and Service Companies (for IT innovations in Emerging India) - aims "to create a delightful experience" for its customers, and fill "the missing link" in the Indian banking sector.

The bank also offers wealth management services to both resident high net



NEW GENERATION BANK: Yes Bank hopes to emerge as a global player

worth individuals and for 'global Indians'.

Kapoor says that besides expanding its domestic network, the bank plans to open representative offices in at least two geographies within a year — in Singapore, to cater to South East Asia, and in West Asia, most likely in Dubai, to address the strong non-resident Indian (NRI) market.

The real foreign thrust will be later. Yes Bank does hope to emerge as a global bank — with a strong presence in countries with a significant ethnic Indian population. But in its first phase of expansion (till 2010) it will predominantly focus on building a strong home-country bank. Kapoor believes that with a critical mass of Indian companies expanding overseas into Europe and South East Asia, there is strong need for advisory services from Indian banks, and a very compelling case for their overseas presence.

Yes Bank was promoted by Rana Kapoor and Ashok Kapur — the non-executive chairman of the bank — with the financial support of Rabobank Nederland, and global private equity institutional

With a critical mass of Indian companies expanding overseas, there is need for advisory services from banks.

investors including CVC Citigroup, AIF Capital and ChrysCapital.

The Indian promoters have a 39 per cent stake in the bank, Rabobank has 20 per cent, and foreign institutional investors about 18 per cent. Kapoor says that there could be a further dilution in the promoters' equity stake, to meet the growing capital requirements.

Yes Bank also has ambitious diversification plans, including a foray into retail broking, the setting up of a mutual fund, and also an insurance venture — the last probably with an international partner. "We also have aspirations of setting up a technology outsourcing subsidiary, and a micro-finance institution," notes Kapoor.

Though the bank's key team helps other companies to acquire firms abroad, Kapoor says it has no plans to acquire banks or merge itself with other institutions. He sees organic growth ahead, and does not want to dilute the bank's quality systems by acquiring other banks.

As with many new generation banks, Yes Bank has significant fee-based activity. The bank also has the ability to effectively manage its capital, and follows prudent risk management systems.

The bank's mantra is to say 'yes' to offering innovative financial solutions, to adopting international best practices, to providing high standards of service, and to transparency in its operations. It needs all that for a minnow to make its mark. 🐟