Global slowdown: Impact on foreign operations of Indian banks

April 2, 2016: In the past decade, many Indian firms embarked on expanding their global footprint, taking an opportunity to expand their horizons. The Indian multinational companies expanded across diverse sectors from pharmaceuticals to automotive, textiles and engineering goods. The fundamental reasons behind Indian companies acquiring business including resource mining are to secure natural assets such as mines, oil fields, intellectual properties, etc. and to put up their presence in global markets. This truly described the global aspirations of Indian companies. Some of the examples of acquisitions made by Indian companies abroad includes Tata group's acquisition of Corus (United Kingdom) in 2006. In addition, ONGC acquired Imperial Energy corp. of UK and Tata motors Ltd. acquired Jaguar cars, Land rover of UK in 2008, Bharti Airtel acquired Zain Africa of Kenya and Reliance industries acquired Marcellus Shale and Eagle Ford shale gas field in 2010. In 2011, Indian companies completed major deals in Australia's coal industry. Year 2015 saw various buyouts by Indian drug makers. Out of which, Lupin Ltd.'s acquisition of US generic-drug maker Gavis Pharmaceuticals Llc was the largest.

Besides, M&A activity increased in 2014 with deals worth US$ 38.1 billion, compared to US$ 28.2 billion in 2013 and US$ 35.4 billion in 2012. There have been M&A deals worth US$ 28.8 billion in the first 10 months of 2015. This activity witnessed an increase in the inbound and domestic segments, which together contributed over 80 per cent of the total M&A values. Direct investments by Indian firms were US$ 1.85 billion in February 2016.

Indian bank's overseas branches saw robust growth overseas of 36.5 percent in 2013-14. Total fee income generated by 188 branches of Indian banks operating outside India moderated to Rs 8,960 crore (USD 1.5 billion) in 2013-14 from Rs 9,350 crore (USD 1.7 billion) in 2012-13. UK, Hong Kong, UAE, Singapore, Bahrain and the US were the major source countries of banking services provided by overseas branches of Indian banks. They accounted for 92.2% of the total overseas services of the Indian players. Indian banks operating overseas witnessed higher credit growth than their foreign counterparts in India.

Towards the end of 2015, however the scenario started changing. Several factors including reduction of international trade, shrinking of global markets and an element of protectionism seems to be in the air. Even the large developed markets are looking inwards and working towards closing their boundaries to protect the home industry. Complex laws and demanding regulations as well as the new order of taxation of global income is now creating a new and noticeable change. There are early signs of some leading Indian companies are now planning to sell their overseas investments to either repay debt or exit low yielding businesses. A case in point is Tata steel planning to sell off their UK steel plants, Reliance Industries Ltd. has already sold its Eagle Ford shale oil field in the US in June 2015 and Bharti Airtel Ltd. sold close to 8,300 telecom towers in seven African countries in October 2015.

In the above backdrop, let us analyze what the Indian banking is likely to do. The banking sector in India decided to participate in the above trend and by around 2006-07, one of their major strategies was to follow the corporates and expand their activities in those markets where the corporates had decided to invest or acquire businesses.

Suddenly towards the end of 2015 and the first quarter of 2016, the strategy is under serious reconsideration. With the Indian economy showing sluggish growth in the 2011-14 era, the quality of the banks' balance sheets particularly in loan assets has suffered substantially.

Now, for domestic credit, banks are becoming more vigilant. As liquidity squeezes globally and the margins in the markets where Indian banking put up a presence are under pressure, Indian banking has no option but to downsize its overseas presence.

Indian banks now seem to be facing new and complex challenges in overseas markets in terms of regulatory regime and restrictions on expansion opportunities. Country's largest private sector lender ICICI Bank sold its Russian subsidiary ICICI Bank Eurasia Limited Liability Company (IBEL). The constant on-off US liquidity coupled with euro zone problems has also made the international borrowing market difficult for banks.

In conclusion, the Indian banking will try to consolidate its presence in the domestic market, realize for their corporate investors who have invested cross border as much of recovery proceeds and downsize their overseas activities. One hopes that, the journey of NPA management and improved recovery will once again equip them to grow in the global markets a few years down the road.