

Eyeing fee income, public sector banks target investment banking

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MUMBAI

A clutch of public sector banks are poised to make their first efforts to build a presence in the investment banking space, seeking to boost fee income.

Corporation Bank, Union Bank of India, Central Bank of India and UCO Bank Ltd have moved to either set up separate units or build specialized in-house divisions to spearhead their plans for the investment banking and loan syndication business.

Traditionally, these state-run banks have shied away from the investment banking segment as they lacked the executive talent, global network and infrastructure to compete with bigger, deep-pocketed domestic and global banks. The fee income, as a percentage of total income, for these banks is 2-7%. That's much lower than the 20% share fee income typically has in the revenue of bigger rivals.

Increasing fee income—risk-free income generated from commissions and processing charges for transactions—is critical as banks face the challenge of low deposit growth and resultant liquidity issues, and a rise in the cost of funds.

Mangalore-based Corporation Bank plans to convert its existing subsidiary **CorpBank Securities Ltd** into a full-fledged investment banking arm, focusing on loan syndication, advising clients on mergers and acquisitions, and equity capital market transactions. The subsidiary was originally formed as a primary dealer to trade in government securities.

"We will soon appoint a chief executive officer for the subsidiary and will start business by June 2011," said Asit Pal, executive director at Corporation Bank.

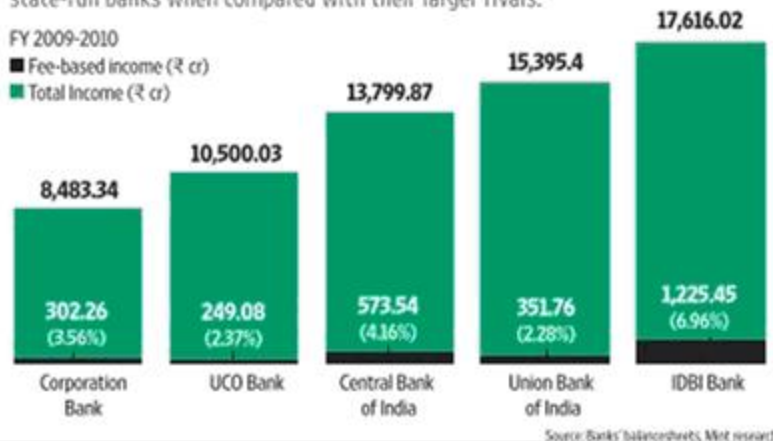
The bank, which was active only in loan syndication, has helped raise ₹800 crore for companies since the second half of

GROWTH POTENTIAL

Fee income as a percentage of total income is much less for these state-run banks when compared with their larger rivals.

FY 2009-2010

■ Fee-based income (₹ cr)
■ Total Income (₹ cr)



Source: Banks' balance sheets, Mint research

Yogesh Kumar/Mint

fiscal 2010. Fee income made up only 4% of its revenue in the fiscal ended March 2010.

"We want to grow (fee income) more than six times to anywhere between 18% and 20% over the next one year," Pal said.

Central Bank, which set up a subsidiary for investment banking in July, roped in John Mathew as the chief executive from Export-Import Bank of India. A fresh team will join by December for the debt and equity capital market business, says Mathew.

He has hired B. Dhal, a banker with three decades of experience, from **Royal Bank of Canada** to head the bank's advisory business.

"Our headcount will rise to around 20 by December," said Mathew, adding that a subsidiary can attract talent with no restrictions on pay. Compensation for bankers at public sector banks are regulated by the Reserve Bank of India. Central Bank has raised ₹7,000 crore for Indian companies this year.

"There is a big gap in compensation," says Charul Madan, a partner at management consultancy firm **Executive Access India Pvt. Ltd.**

Even middle-management trainees in private organizations earn salaries "in the range of ₹20-30 lakh, which even a senior official in a state-run entity may not get", Madan said.

Union Bank, which set up a large corporate division nearly

18 months ago, recently formed an advisory division to handle merger and acquisition transactions, and hired around 25 bankers. The bank said it may even consider a subsidiary to house its investment banking business.

"It would be ideal to set up a separate subsidiary for investment banking as state-run banks are constrained in terms of properly compensating specialized bankers on par with the competitors," said an official at the bank who didn't want to be named.

The lender was part of a consortium of banks to raise ₹10,000 crore debt for 27 companies in the past two years. In this fiscal, the bank has 12 mandates to raise around ₹6,500 crore, he said.

The loan syndication market is dominated by **SBI Capital Markets Ltd**, **ICICI Bank Ltd**, **Axis Bank Ltd** and **IDBI Bank Ltd**.

During January-September 2010, **State Bank of India** was the market leader with a 39% share from 47 deals worth \$23.9 billion (₹1.08 trillion), followed by IDBI Bank (\$11.9 billion), Axis Bank (\$6.078 billion) and ICICI Bank (\$4.613 billion), according to *Bloomberg* data.

Kolkata-based UCO Bank is in the process of hiring 200 managers in specialized areas, Arun Kaul, chairman and managing director, said.

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