Citigroup's slide in India M&A deals shows rise of local bankers

Jan 21: Citigroup is no longer India's top investment banker. A local firm that ended a partnership with Morgan Stanley more than eight years ago became No. 1 in 2015, marking the decline of foreign advisers who've led the market for more than a decade.

After topping the M&A league table in the prior two years, the US lender tumbled down to the fourth position, dislodged by JM Financial Ltd. and Axis Capital Ltd. The two Mumbai-based firms captured a combined 68% of the market in 2015 as deals surged to a five-year high, thanks to firms scrambling to cut debt by paring assets.

India-based investment banks have been honing their skills in forging mergers and acquisition deals at a time their overseas rivals have either closed their businesses in the South Asian country or have been cutting senior positions. Royal Bank of Scotland Group Plc shut down its India advisory unit, while Morgan Stanley, UBS Group and Bank of America Corp. scaled back their operations in the last five years.

"We are like the Goldman Sachs of India," Vishal Kampani, managing director of JM Financial, said in an interview earlier this month. "Having a team which saw almost no churn for 15 years helped us institutionalise relationships and gives bandwidth to deliver on complex deals on the ground unlike foreign players."

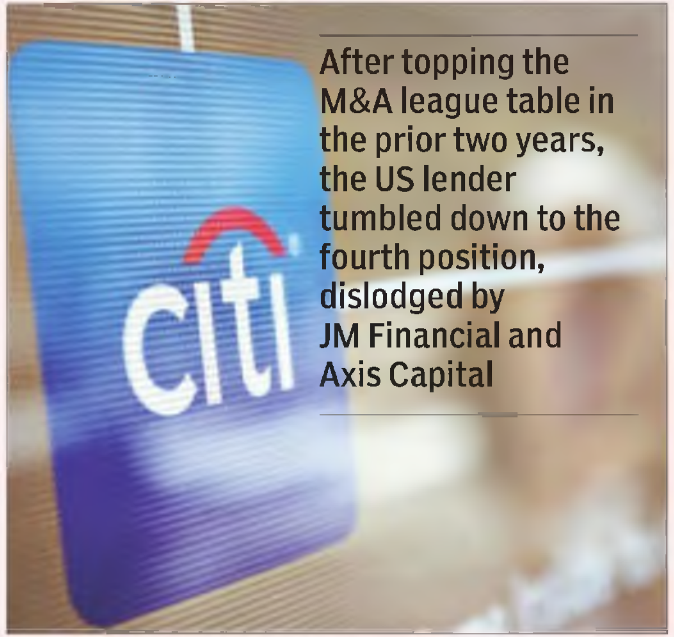
M Financial also ranked first in domestic institutional share sales followed by Axis Bank in 2015, according to data compiled by Bloomberg. Indian companies raised 189 billion rupees ($2.8 billion) through institutional share sales last year, down 41.2% from the previous year.

Following the global financial crisis of 2008, deals and equity offerings by Indian companies slowed as economic growth cooled. Some advisers lowered their fees to chase work. Deal volume fell 28.2% to $51.4 billion in 2008 from a year earlier, data compiled by Bloomberg show, while initial public offerings almost halved to 186 billion rupees.

Long-term ties

Many foreign banks' advisory units responded by reducing workforce and flying in senior bankers from Hong Kong and Singapore when needed, Dharmesh Mehta, chief executive officer and managing director of Axis Capital, said in an interview in his office on January 13. As business picks up, clients are turning to experienced bankers on the ground, with whom they've had long-term relationships, he said.

"Competition from foreign banks is decreasing day by day," he said. "We don't see any foreign bank dominating the market this year."



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Fees were at $516 million in 2015 versus an average $580 million in the five years starting 2011, according to data provided by Freeman Consulting, a New York-based research firm. That is just 4 percent of the $12.9 billion investment banks generated in the rest of Asia excluding Japan in 2015, Freeman estimates.

"In fundraising, advisers are now being paid based on their performance," Mehta said. "The leading domestic banks are beginning to get paid more than the others now as the lead bankers are getting almost 80 percent of the fees compared to the earlier practice of equally sharing it." While the fee pool has not been expanding, JM Financial refrained from transactions where the fees were low during the last four years, Kampani said. Kampani's JM Financial ended its seven-year joint venture with Morgan Stanley in 2007 by buying its equity in the venture's investment banking unit for $20 million. The breakup impacted JM Financial's both equities and advisory businesses in the short term.

"The global financial crisis happened after our split and we got two years to build our business," Kampani said. "It was lucky for us."

JM Financial's shares rose 1.1% to ₹36.35 as of 1:55 pm in Mumbai, trimming this year's loss to 23%. The S&P BSE Sensex, the country's benchmark equity index, has declined 7.9% this month. Deal making in the country is predicted to grow further in the current year as stressed Indian companies restructure businesses and dispose of assets to bolster their balance sheet. Companies like Reliance Communications, controlled by billionaire Anil Ambani, and Jaiprakash Associates are among those looking to pare debt. The wireless operator has signed a non-binding pact to sell its cellular towers across India to private equity firms Tillman Global Holdings LLC and TPG Asia.

Flavour of Season

Last year "was dominated by a few large intra-group restructurings amounting to over $23 billion of M&A deal value in India," Ravi Kapoor, head of corporate and investment banking for Citigroup in India said in an e-mail. Citigroup is among the leading takeover advisers in India, with 13 announced deals valued at about $8 billion in 2015, most of which were focused on M&A transactions between unrelated parties aggregating about $6 billion, he said.

Morgan Stanley and Citigroup were involved in over $12 billion of restructuring of billionaire Anil Agarwal's Vedanta group companies in 2012, making them the top two deal makers that year, according to data compiled by Bloomberg. In 2015 Citigroup was an adviser to the proposed merger of Cairn India Ltd. and Vedanta Ltd., both controlled by Agarwal. "Stressed companies selling off assets and restructuring operations remains flavor of the season and we have an edge over foreign firms there," JM Financial's Kampani said. *Bloomberg*