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RBS deal to help Ratnakar Bank expand, improve brand visibility

But absorption of RBS' employees might prove to be a challenge

Somasroy Chakraborty & Manojit Saha | Kolkata/Mumbai August 12, 2013 Last Updated at 10:16 IST

It is extremely rare (if not the first time) for an old-generation private sector bank in India to buy assets of a foreign bank that has presence in more than 40 countries. But Ratnakar Bank can now hardly be described as an old-generation bank.

The Kolhapur-based lender, which prefers to describe itself as 'one of India's fastest growing banks', is led by team of professionals recruited mostly from foreign and private banks. Its chief Vishwavir Ahuja is the former CEO of Bank of America's India business, head of strategy and markets Rajeev Ahuja joined from Citi and head of corporate and institutional banking R Gurumurthy has worked with Standard Chartered Bank. The senior leadership team also consists of professionals who have worked with Deutsche Bank, Bharti AXA Life Insurance and YES Bank.

The private lender is backed by a host of domestic and global investors – HDFC, Norwest Venture Partners, Aditya Birla Private Equity and Samara Capital, to name a few – and is probably as aggressive as some of its new-age rivals.

On Friday, Ratnakar Bank said it has agreed to buy Royal Bank of Scotland's (RBS) business banking, credit cards and mortgage portfolios in India. The move followed RBS' failure to close a deal with Hongkong and Shanghai Banking Corporation (HSBC) to sell these assets after negotiating for almost two-and-a-half-years. Other private sector banks including Axis Bank, YES Bank and IndusInd Bank were initially interested in buying the portfolios after RBS and HSBC scraped their deal.

So, what are the benefits Ratnakar Bank is looking for from this deal?

The bank believes the transaction will complement well with its existing businesses and help it add strength in the desired product and customer segments. The deal will shift over 120,000 customers of RBS India to Ratnakar Bank, which currently services 5,00,000 clients. According to bankers, this will help the old-generation private sector bank to improve its brand visibility, something they say is essential for the private bank before it gets listed on the stock exchanges.

It is learnt that the deal is not capital intensive and is unlikely to stress the financial position of Ratnakar Bank, which has a capital adequacy ratio of over 17% (at the end of March, 2013) and had raised Rs 324 crore earlier this financial year.

A banker familiar with the developments, on condition of anonymity, said the transaction suits the Indian private bank as it will gain access to the credit card market. While prior to this acquisition Ratnakar Bank did not have a credit card portfolio, RBS had a portfolio of over 89,000 credit cards at the end of June, 2013.

"The quality of RBS' cards portfolio is not very bad, the pricing made sense, so why not? Sometimes the inorganic route is better than building a business from the scratch," the banker said.

The transaction will also help Ratnakar Bank to scale up its existing home loan business. At the end of 2012-13, the private lender's direct loan exposure in residential mortgages was only Rs 67.32 crore.

Another reason to secure the deal was probably the lure of low-cost deposits. RBS' business banking portfolio is believed to have a large number of current account customers, who will now shift to Ratnakar Bank. The private lender has been finding it difficult to expand its current account savings account (CASA) deposits with its CASA ratio narrowing to 19.7% in 2012-13 from 21.5% a year earlier. It is one of the few banks that is offering more than four% interest on savings deposits to attract customers.

Ratnakar Bank has also decided to absorb the employees of RBS associated with the businesses that are being acquired and according to bankers this is likely to be one of the few challenges that the lender has to overcome.

Typically, employee unions of old-age private banks resist fresh recruitments and the pay-scale of most RBS' staff is likely to be higher than many of the employees of Ratnakar Bank. Vishwavir Ahuja had ensured that there was no union unrest when he and his team took charge of the bank in mid-2010 and he will need to mirror that success once more.