

News monitored for: Kotak Investment Banking

Economic Times - Russia & India Report



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Banking on the African dream

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The alliance aimed to use Renaissance's franchise in Russia, Africa and the former Soviet Union and Kotak's Indian experience to help big companies from those countries buy into each other's markets, the two companies said.

It's clearly a win-win deal and was firming up after well thought-out calculations.

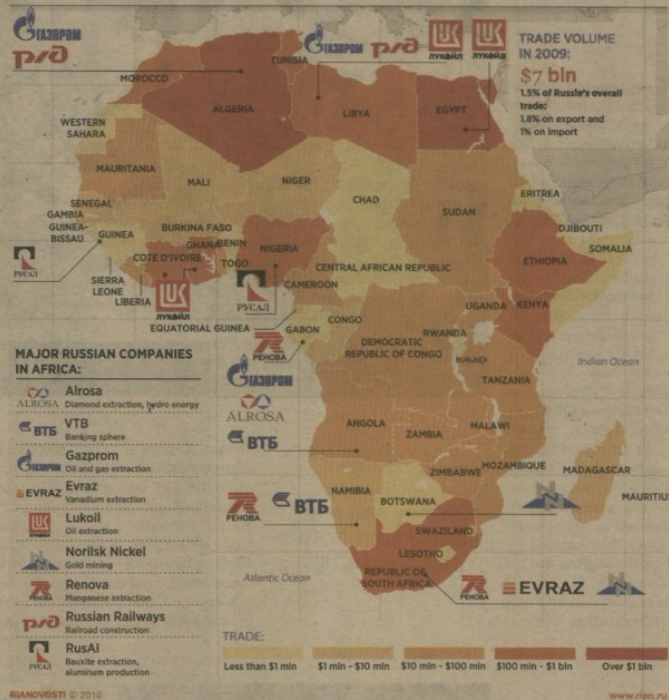
Kotak was looking for a new partner after Goldman Sachs pulled out of a joint venture in 2006 and opened its own offices in Mumbai. "We wanted a partner to facilitate cross-border deal flows, but we have no ambitions to open our own offices overseas - keeping pace with India is already a big challenge," say Kotak managers.

Finally, they zeroed in on Rencap, backed by Russian billionaire Mikhail Prokhorov, as they were looking for someone with experience in important sectors for India such as mining, minerals, oil and gas, but most importantly a bank that could open boardroom doors to the biggest companies in these fast growing economies. "Rencap was strong in these areas, but also in Africa. That is an important market too but we didn't want to do a string of deals with players at the country level as we need to jointly market ourselves, go on road shows and so on. You need one partner that can do all this with you." At first glance, a bank with Kotak's standing in India could have joined forces with any top-notch international investment banks, but Hasnen Varawalla, deputy head of IBF and head of corporate finance who is in charge of the Renaissance Capital side of the joint venture, says a BRIC-based investment bank has more to offer. "Who is our competition?" asks Varawalla. "All the major international investment banks are present in the emerging markets, but some 60-80 pc of their business remains in the developed markets of Europe and the Americas. They pay lip service to the emerging markets but they don't have many people on the ground. We offer international standard investment banking service but delivered locally. This is not 'suitcase banking'."

What is Africa?

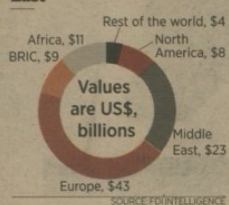


Trade and economic relations of Russia and African states



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Most African FDI comes from Europe and Middle East



The lure of new opportunities in Africa acted as an additional spur to compel Kotak to focus on emerging markets. Initially, when Indian companies went global a decade ago when Tata bought Britain's Teatley Tea, there was a tendency to snap up premium brands or look for companies to boost their reach to international consumer markets. But now the focus has shifted to emerging markets. "The problem with the developed markets is there is too much competition and the Indian companies don't want to compete head-on. It makes more sense to go to the emerging markets, which are smaller, but have higher growth rates and less competition,"

says Falguni Nayar, Managing Director & CEO, Kotak Investment Banking. Renaissance Group CEO Stephen Jennings said in an interview in May that he was planning a big push to expand its footprints in Africa to include 21 countries by the end of this year and up the contribution to the bottom-line from the current 15 pc to 25 pc over the next two years. Rencap started working in Africa in 2007 with only six countries. Last year, Rencap was the most active bank on the continent with 18 deals in 10 countries, including the headline-hogging \$955 mn sale of Central African Mining to Kazakhstan's Eurasian Natural Resources Corporate.

Much of the work Rencap and Kotak have done together has focused on India-Africa deals. "We continue to see ourselves as mainly a Russian/African investment bank, but we also see valuable cross border flows between the emerging markets," says Varawalla.

And the game seems headed this way, with a growing recognition of huge untapped business opportunities between India and Russia, a point underscored by Russian Prime Minister Vladimir Putin during his visit to India in March. Putin vowed to boost banking cooperation with India through joint ventures, identified IT and telecom as future areas of economic co-operation and resolved to scale up \$7.5 bn bilateral trade to \$20 bn by 2015. "We should think about the future," Putin said prophetically. Keeping this in mind, Varawalla says the partners are working on a string of deals that he hopes will be announced "in the near future."

The main attraction is Indian and Russian economies almost perfectly complement each other: Russia has the raw materials and India is rich in talent, entrepreneurship and ICT. Still, the Russia-India partnership is lagging behind that of the Chinese. China has become a key player in Russia's future, as its business foray is being pushed by the politicians who are backing up their policy with tens of billions in investment capital. "The state plays a significant role in Chinese investment overseas. The Chinese have also shown themselves to be able to move quickly," says Varawalla.

India's ties with Russia, on the other hand, are being forged primarily by the private sector and is more deliberate, which does facilitate stable and long-term relations, says Varawalla. "India is very diverse. There is no central agenda like there is in China and Russia. Instead it is the collective action of many firms that are all being drawn to the market," says Nayar. The future perhaps lies in this mutual synergy, diversity and private enterprise which makes for ideal conditions for investment banks to flourish.