

\$6 bn-plus foreign inflows make 2025 a watershed year for India's pvt banks

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The year 2025 turned out to be a watershed year for private lenders in India in attracting foreign investment. Domestic lenders received over \$6 billion and the stake sale of another one — IDBI Bank — is in the final phase and is expected to be sealed by the end of the financial year.

A combination of factors — including a favourable regulatory environment, banks' balance sheets cleaned up, the country's growth potential, and strong investor conviction in the long-term compounding prospects of mid-tier banks — has led to this investment bonanza, and the momentum is likely to continue next year, according to experts, as several mid-tier private banks still require capital to scale up, strengthen their balance sheets, and break out of their current growth constraints.

New York-based Blackstone, one of the world's largest alternative asset-management firms, proposed an investment of ₹6,196.51 crore in Federal Bank for a 9.99 per cent stake.

"Several of the banks that attracted capital were at a stage

where additional funding was essential to break through to the next phase of growth, creating a compelling opportunity for investors," said Harsh Dugar, executive director, Federal Bank. "At the same time, the regulatory stance has also been more accommodative than in earlier years, particularly with regard to permitting foreign banks to acquire sizable stakes in Indian banks. This has further facilitated the inflow of investment. Moreover, investors appear to be increasingly confident about the outlook for India's banking sector," Dugar said.

This year Japanese financial groups made a sizeable investment, starting with Sumitomo Mitsui Banking Corporation (SMBC), part of the Sumitomo Mitsui Financial group, (SMFG), acquiring more than 24 per cent in private-sector lender Yes Bank for over \$1.6 billion.

Additionally, Japan's Mizuho Financial group has said it will take a controlling stake of over 60 per cent in Avendus Capital through its subsidiary, Mizuho Securities, by buying out US-based private equity firm KKR.

Further, Japan-based MUFG Bank, a consolidated subsidiary of Mitsubishi UFJ Financial Group



Big deals

Foreign investments in India's banking space in 2025

	Acquirer	Amount (\$ bn)	Stake (%)
RBL Bank	Emirates NBD	3	60
Yes Bank	SMBC	1.6	24.21
Federal Bank	Blackstone	0.70	9.99
IDFC First Bank	Warburg Pincus & ADIA	0.87	14.58

Source: Company announcements

(MUFG), will put in ₹39,618 crore, or about \$4.4 billion — the largest foreign direct investment (FDI) ever in an Indian financial services company — to acquire 20 per cent on a fully diluted basis through a preferential issue of equity shares in Shriram Finance.

Entities from geographies that have friendly relations with India are at the forefront of investment.

A prime example of this is United Arab Emirates-based NBD Emirates, which has committed \$3 billion in RBL Bank for 60 per cent. This is one of the largest investments in India's private banking by a foreign bank or investor.

Earlier this year, US-based private equity firm Warburg Pincus LLC and the Abu Dhabi Investment Authority (ADIA) collectively put in ₹7,500 crore in IDFC First bank through a preferential equity issue for a 14.58 per cent stake.

Separately, Abu Dhabi-based International Holding Company (IHC) will put in \$1 billion for over 42 per cent in Sammaan Capital.

A change of the guard in Canada earlier this year has revived Fairfax's prospects of acquiring IDBI Bank, though there could be competition from a domestic lender.

According to Abizer Diwanji,

founder, NeoStrat Advisers LLP, India is seeing strong capital flows from Japan and West Asia. In Japan's case, as domestic interest rates rise and investors look for higher returns overseas, India has emerged as a compelling destination. Japanese investors are also comfortable taking minority stakes rather than seeking control, which aligns well with the needs of Indian banks and companies looking to scale up and raise growth capital.

Japan's central bank has raised its policy rate to the highest level in 30 years. "West Asia, meanwhile, is increasingly positioning itself as a key channel for global capital, directing meaningful flows into emerging markets. Indian mid-tier banks aiming to move up the growth ladder are natural beneficiaries of this trend," Diwanji said.

Experts also point to the fact that Indian banks' balance sheets are now largely cleaned up and, while there may be periodic asset-quality pressures, these are unlikely to be severe. This has helped restore investor confidence, with private-sector capital expenditure gradually picking up.

According to Nitin Aggarwal, research analyst, Motilal Oswal Securities, mid-size banks are gradually attracting a broader base of foreign institutional investors.

