"There are risks and costs to action. But they are far less than the long-range risks of comfortable inaction" - John F. Kennedy

There are many inspiring stories of entrepreneurship, often created by first generation entrepreneurs of the successors who take it to greater heights. The story of Capital First captivated us because this is one of the rare stories of the risen of a new breed of professional entrepreneurs. For it is not common to come across wildly successful professionals leave their big jobs and start afresh on a much smaller scale with equity positions, recapitalise the company, get equity and debt backing, successfully build an institution and create value for self and shareholders. That's what Vaidyanathan Vembu has done with a new brand Capital First.

Born to a family of four siblings, with family income representing middle class means, he was the only one in his family to join the private sector. His siblings joined the Indian Air Force and the Indian Army like their father who associated with the Air Force too. He joined Citibank in 1990 in the Consumer Banking division financing car loans. In 2000 when ICICI, a leading Indian financial conglomerate was setting up retail businesses, he joined to spearhead it. By 2006 he built a retail business of over USD 20 billion and a large branch network and joined the Board of the bank at 38. He was the MD and CEO of ICICI Prudential life insurance company. But he did not rest there.

His entrepreneurial idea was built on a new retail lending institution afresh, but this time with ownership stakes. "I used to remark to my ICICI colleagues I wish 1 got a green-field bank license and build a new bank exclusively in retail banking." "But bank licenses were rare to come by in India so the next best option was to open a Greenfield NBFC." The idea he says, was "to provide loans to small entrepreneurs and consumers using new-age technologies."

"I believed we needed equity capital of at least Rs. 10.00 bn (USD 150 mn) to have a reasonable shot." he says "I was looking around for a Private equity to back me with such a sum, to start a company focused on consumer financing." While he was still looking around, he chanced upon a publicly listed company with a net worth of USD 100 mn, and whose shares had come down sharply from Rs. 1100 to Rs. 95 in 2 years because of the global crisis. The company was basically providing wholesale loans to real estate developers and was doing Forex, Broking, and Wealth Management. Non-performing assets were high at 5.4%. "I thought we could start new retail business using this platform, raise USD 50 million equity from the markets or by "Preferential route" from some Private Equity. Accordingly, he arrived at a deal with the promoters to won 10% of the equity of the company, who agreed to just be "investors", and whom he describes as "extremely graceful".

In the months following, he had many meetings with many mutual funds to raise equity through a process called QIP, where a company can place shares to institutional investors, but couldn't. Meanwhile, existing majority shareholders publicly expressed intention to sell out at the right price.

There needs to be some business model to demonstrate to a potential private equity. So he wound down the subsidiaries of Forex; wealth and broking, and instead built a top-notch retail team by offering stock options and acquired talent from professional institutions like Standard Chartered, ICICI, HDFC, Barclays and Citi. In order to produce a proof of concept on the basis of which prospective investors could be attracted, the team built some new and unique business. The company gave small loans of USD 500 to USD 1000 to customers using certain judgment criteria and then created champion-challenge strategies to compare one pool of loans against the other and teased out the value of key variables using regression analysis. Over time with more sophisticated tools, more data and more experience the technology based underwriting improved dramatically. Meanwhile the company built the credit lines of about USD 1 billion to fund these businesses.

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Having built these concepts in a prototype scale, he presented this concept to many leading private equity players. He assured them he could build a loan book of USD 5 billion in 5-6 years if he had their backing. To show personal commitment, he agreed to lock his entire stake, acquire more stale at market prices, and signed many other caveats, locking himself contractually.

The India economy turn rather weak during 2010-12. Inflation remained elevated at 10%, India's monetary authority Reserve Bank of India raised interest rates by 25 bps 16 times in 3 years in response to high inflation, and GDP growth rates dipped steadily from 9% in 2010 to 5% in a few years. Most important, business magazine cover stories were planting doubts in the investor community like "India-blackout nation, India-drifting into abyss”, corruption scandals, and so on.

Finally in 2012 after scouting for a year, he secured an equity backing of Rs. 8.10 billion (USD 150 mn). The company was reborn with a new set of shareholders, a new mandate, a new Board, a new Company name and a new Brand Capital First was created.

The retails business built on the company has crossed over USD 2.5 billion with 3.5 million customers in six years. What's better, the asset quality has stayed superior to the rest of the industry with NPA consistently below 1%. The company's capital has grown from hundred and USD 103 million in 2010 to USD 500 million with capital adequacy of over 21%, much above the regulatory requirements .

The share price of the company has moved from Rs. 120 in March 2012 to over Rs. 750 now, and market cap registered an astonishing increase from USD 125 million to over USD 1.0 billion, India's latest financial sector "Unicorn"

He believes all his team members, particularly his senior people have significant stakes and are playing entrepreneurial roles in the organization. He says that they are energetic motivated and very committed towards building an outstanding institution. For all of us, he says corporate governance is not a slogan; we want to practice it day in and day out. Talking of the future, he says the new emerging environment with high Internet penetration high speed data connectivity and the new instant mobile-based payment platforms provide an incredible opportunity for growth not just for Capital First but for the entire industry. The under penetration of finance that could not be solved for 75 years, can be resolved in the next 10 to 15 he says.

As we write this note, we hear that Vaidyanathan has sold about 1.5% stake in the company. On being asked whether it represents reduced confidence in his company, he is quick to clarify that he had availed a loan to acquire his stocks in the first place, but since the stocks have risen in value, he has sold a small percentage to square the debt. "It was part of the original plan". He retains about 11% and "we can grow for decades" he says "More important" he points out, that "the buyers are marquee and well informed investors like Goldman Sachs, Ashmore, and HDFC Life." Notwithstanding, such bold moves to break through the glass ceiling into entrepreneurship are quite uncommon around us.