Financing India's burgeoning entrepreneurs

V. Vaidyanathan (Executive Chairman, Capital First) talks of the differentiated business model underlying his success

Capital First has blossomed into becoming a favorite of FII's. How has this been made possible?

>> From what I understand FIIs look for companies with high corporate governance, high growth, high profitability, and in a niche area. We meet all these requirements growing by over 25% per year. Maybe that's why the foreign interest in our company is so high.

How did the idea of Capital First emerge?

>> When I was at ICICI, I used to think what a wonderful business we can create if we made a bank exclusively focussed on financing the small entrepreneurs and Indian consumers. To get a greenfield bank licence was tough, bank licences opened up once in ten years so I thought of applying for a greenfield NBFC. The next best option was to buy a stake in an existing NBFC, convert it to retail, raise capital from markets or PE, and hope to convert to a bank someday. I followed this path. We built some such concept in the NBFC and presented these to many PE firms in 2011-12 to win their backing.

So are you looking to convert to a bank?

>> Right now we are focussed on building a strong business model and creating a customer franchise. There are many benefits in the current model too, we'll think about it some stage later.

What are the developments that will enable such a business?

>> Over the last 5 years, the ecosystem has changed- the mobile phone plus internet revolution. Last year for example Indian population went up by 1.2% but internet connections went up by 30%- that tells a story. Then there is the evolution of AI and machine learning. Couple this with biometric Adhaar. You see the opportunity.

Capital First has a fascinatingly unique proposition based on using algorithmic lending as opposed to a cash flow evaluation. Could you shed some light on this for us?

>> Yes its very interesting, but it's not analytics based alone. We started greenfield by giving small loans to customers and then compared their performance on various attributes- we figured it out by hit and trial. The traditional model was income tax return based lending. For larger loans say Rs. 5 lac and thereabouts, we still do traditional checks apart from automation. We don't do corporate loans above a Crore or so, banks deal with that space.

What is the size of the opportunity?

>> From day one in 2010, our theme has been to finance entrepreneurs and emerging mid-income salaried class with the help of contemporary technologies. All businesses we do broadly meet this cut. India is so large and vibrant, there are opportunities everywhere. But the space of financing entrepreneurs and consumers is particularly underserved. IFC and other research talk of billions of dollars. Whatever the number it is very large, the exact number is unknown and academic, seen from our small base.

What are the downsides or challenges of this business?

>> These businesses have traditionally been difficult to do as the ticket sizes are small, the tenor of the loan is short, there are misrepresentations, income is uneven and often in cash, credit losses can be high. We all know the NPA for MSME financing in the banking system-its high.

How do you see competition in this area?

>> Even today the bulk of the loans in the Indian financial system, by value, is large corporate loans. This area needs a lot more players and lot more competition.

There are a large number of banks in India already. How you do see your role?

>> Undoubtedly, banks, both private and public, have made a lot of progress in financing the small customers over the last few decades. But one issue is that 70% of Indian banks has a single owner- the government. Since the ownership is the same, they have the same credit criteria and address the same market segments. We need more banks with diverse shareholders who will specialise in different parts of the chain and come up with different schemes.