BIG BUSINESS DEALS ON THE CARDS

IDFC Bank & Capital First to merge, manage ₹88k cr assets

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Mumbai: IDFC Bank and Capital First on Saturday agreed to a merger to form a combined entity that will have assets under management of Rs 88,000 crore and a branch network of 194 serving over five million customers. The announcement is in line with the bank's strategy of "retailising" its business and Capital First's stated intention to convert to a universal bank.

The boards also approved a share swap ratio of 139 shares of IDFC Bank for 10 shares of Capital First, a debt financing firm for small entrepreneurs. The merger will also result in V Vaidyanathan, currently chairman and managing director of Capital First, succeeding Rajiv Lall as MD and CEO of the merged entity.

Lall, who led IDFC Group from 2005 till now in various top positions, will step into the role of non-executive chairman of the merged bank. He will replace Veena Mankar, who will continue to remain on the board.

Going by the share prices at close on Friday, the merger ratio favours Capital First.

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According to the closing prices, the combined market capitalisation of the two entities is Rs 31,285 crore of which Rs23,019 (73.6%) comes from IDFC Bank and Rs 8,266 crore (26.4%) is from Capital First.

In terms of the swap ratio, Capital First's 9.89 crore shares will fetch 137 crore shares of IDFC Bank — that is 28.7% of the combined expanded equity of 477.72 crore shares. Original shareholders of IDFC Bank will have the remaining 71.22% equity.

"What we bring is the ability to reach many sections of the population. We have five million customers; two million have already repaid us and three million are still live. These are tiny loans ranging from Rs 20,000 to Rs 2 crore and a large part are priority sector loans," said Vaidyanathan.

He added that the merger will bring down the cost of funds for the retail business and Capital First's retail loans will increase the yield on advances for the bank.

Capital First brings with it a retail lending franchise with a loan book of Rs 22,974 crores (September 2017), a live customer base of three million customers; and a distribution network in 228 locations across the country growing at a five-year compounded annual growth rate of 27% on assets under management and 40% in profits, with gross and net NPA at 1.63% and 1.0% respectively.

Post-merger, the combined entity of IDFC Bank and Capital First will have an assets under management (AUM) of Rs 88,000 crores; PAT of Rs 1,268 crores (FY '17); and a distribution network comprising 194 branches (as per branch count of December 2017 of both entities), 353 dedicated business correspondents (BC) outlets and over 9,100 micro ATM points, serving more than five million customers across the country.