'We're Adding 50,000 Borrowers Every Month to Capital First'

ET Q&A

Small and medium enterprises (SMEs) will become more bankable as a result of the government's decision to withdraw high-value currency notes, said **V Vaidyanathan**, chairman of non-banking finance company Capital First. In an interview to **Shilpy Sinha**, he said Capital First exercises great diligence in lending, but the method of lending is different from traditional ways. Edited excerpts:

A large part of your portfolio comprises SMEs, which were said to be the hardest hit by demonetisation. What's been your experience?

The circulation of cash got jammed during the period. It was temporary. Businesses in India have existed for several decades. In a month or two businesses do not collapse. I think SMEs have a lot of resilience. In India, we all have informal networks to fall back upon. We pushed for more electronic collections (web and wallets collections soared 400%), hence we managed October-December quarter well. Our NPA (non-performing assets) stayed below 1%. SMEs will tremendously benefit if the process continues for some more time. I am not talking about those who want to deal in cash. Now, lenders will be able to see the cash flow rather than imagining the cash flow. They will become more bankable. Also, MSMEs will benefit hugely from tax break given in the budget.

Have things returned to normal?

Cash in circulation has come back faster than expected. Companies that accepted cash as the main means of collection got affected. Consumption is doing fine. In India, stress tests keep happening once in a while. India's best stress test was between 2010 and 2013. Because interest rate was rising, GDP growth was coming down every quarter and inflation was going up. RBI had tightened liquidity. In 2013, there was a time when currency was under severe pressure and RBI increased MSF (marginal standing facility rate) by 300 bps (3 percentage points). Next, it was rising oil prices. Now it's demonetisation. Such stress tests are good for the business.

Capital First's NPAs have fallen, credit costs dropped and margins improved in the past few years. It has attracted investments from GIC Singapore, Ashmore and Goldman Sachs. What is the mantra?

We exercise great diligence in lending, but our method of lending is different from traditional ways. Generally, people ask for income-tax statement and bank accounts. Instead we started a newer model, an alternative means of lending. It was the founding idea of this company. We started exploring new markets. Usually lenders want to check the credit bureau record. Who would be the first lender if everybody is looking for credit score? We add 50,000 customers every month to the system. When you assess a person, there are many variables other than past record. Today, close to 93% of

our portfolio is retail and out of these close to 75% is entrepreneurs or self employed – it's diversified.

There are many NBFCs in consumer durables and SME sectors. How do you create new market segments?

We like businesses that are underpenetrated, where technology can play a key role, scale up fast and can be profitable for sustainability. Unknown or undefined market is multiple times bigger than the defined market. If a small entrepreneur wants to paint his office, change lights or buy carpet, no one will lend to them. There is an unbelievably large market we are working on in this space. What we see as salaried people is a small market. It is only 6% while unorganised is 94%. People who file returns are only three crore while those who don't are far more.

Do you expect to continue to grow 20-25% given that you have reached a sizable book of about Rs 20,000 crore? What are the challenges of writing small-ticket loans?

It is a very reasonable expectation for us to grow at 20-25% over the next five years. In terms of lines, lending to the unstructured need is more exciting than lending to the structured needs. I believe experimentation is the juice of business. We lend as low as Rs 15,000. Checks and control is coming from asset diversification, cash flow and scorecard using analytics. Also, we focus on governance and make provision at the right time for bad loans so that it does not balloon on us.

In 2012, private equity firm Warburg Pincus came in and now owns about 62% in the company. There are rumours of Warburg selling part stake. Is there a time frame for Warburg to offload its stake?

The fact is that they really like the company and want to stay invested. Their stake has come down with new equity investments by new investors like Goldman Sachs, One North, HDFC Life, Birla Sunlife, GIC Singapore and Ashmore. When Warburg was talking to us the share price was Rs 100; when talks reached an advanced stage it was 130; they paid Rs 162. It was a concept then, now the company is established. They own 62% in the company. There is no time frame, but whenever it happens, the set of people who will come in will be large players since the size of the cheque is large.