

# In a hurry to grow

15 January 2018 | By [Una Galani](#)

An Indian financial tie-up will help both sides come of age. India's Capital First, a fast-growing provider of loans to consumers and small businesses backed by buyout firm Warburg Pincus, said on Saturday it would sell itself in a \$1.5 billion all-share deal to infrastructure lender IDFC Bank. The buyer upgrades its retail business and brings a highly rated executive on board. The seller gets the bank licence it always wanted.

Capital First's market value has grown ten-fold in the five years since it rebranded. Chairman V. Vaidyanathan, who earlier built the successful retail business at ICICI Bank, has grown a \$3.5 billion loan book extending small sums to entrepreneurs and the emerging middle class. Net profit has grown at an impressive 40 percent compound annual rate for five years, and net non-performing loans are around just 1 percent of the overall book.

IDFC Bank simply doesn't have the same gleam. At 6 percent, it earns half the return on equity of Capital First, and so trades at half the valuation, at a price of 1.4 times forward book value. The buyer scrapped a fiddly merger last year with part of Ajay Piramal-backed Shriram Group, which would have accelerated the growth of its retail business.

Vaidyanathan, who will become chief executive of the enlarged group, is probably more interested in gaining a bank licence than in lending to infrastructure projects. It would have taken several years to secure a licence and get his own deposit-taking operation up and running. A merger will lower Capital First's funding costs, and offers it a more stable future no longer reliant on wholesale financing, which is less reliable in times of market stress.

Capital First shareholders will hold nearly 29 percent of the combined group, Breakingviews calculations show. A 12 percent premium to Friday's closing price looks a touch light given Capital First's track record and growth potential, but the shares have run up sharply recently. And investors, including sovereign funds from Norway and Singapore, may be hoping the market will accord the larger, more rounded, outfit a higher valuation. These Indian lenders, both in a hurry to grow, are banking on it.

## Context News

India's IDFC Bank will buy non-bank financial firm Capital First in an all-share deal valued at about \$1.5 billion.

According to terms of the deal announced on Jan. 13, shareholders in Capital First will receive 139 shares of the bank for every 10 shares held. Capital First's founder and chairman, V. Vaidyanathan, will become chief executive of the combined entity.

IDFC Bank was spun off from infrastructure financier IDFC Ltd in 2015 and relies heavily on wholesale lending.

Warburg Pincus owns more than one-third of Capital First. Other shareholders include Singaporean sovereign fund GIC.

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