

'Funding base becomes more diversified'

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In 2011-12, V. Vaidyanathan took control of the erstwhile Future Capital with support from private equity fund Warburg Pincus and launched Capital First. The market capitalization of Capital First has grown 10-fold since the buyout, from Rs780 crore on 31 March 2012 to over Rs8,000 crore. For Vaidyanathan, the deal with IDFC Bank is, therefore, a natural progression to becoming a bank. Edited excerpts:

How did the idea of merging with IDFC Bank come up?

Even publicly, we have been saying for a long time that our institution will become perennial in nature if it becomes a bank. I've been secretly looking around, and tossing over ideas



Capital First chairman
V. Vaidyanathan

on how to get there. So, it has always been part of our thinking process.

Have you entered into an exclusivity period with IDFC Bank? Is due diligence process over?

Both are RBI regulated entities. We'll need approval from RBI. Both are companies, so approval of shareholders is required. The

due diligence is done and that's how the deal was finalized. So talks are over, boards have approved it. Now it's going to shareholders for approval.

This deal will help you to get cheaper cost of funds. How else would you benefit from this deal?

This institution can now go on eternally by definition because of stable source of funds. The funding base becomes much more diversified as compared to borrowing from banks or mutual funds. That is the bigger benefit. As far as they are concerned, to build a retail lending machine takes decades. You need to build

with technology, research, processes, operations, scale, culture, network,

collection capability, etc. They get it readymade because they are largely an infrastructure corporate financing company.

They get this piece ready made.

But Capital First is primarily focussed on SME lending. How would IDFC benefit from this?

SME, personal credit, etc., ticket size could range from Rs2,00,000 to Rs2 crore. Sometimes, it's difficult to understand the true income of a shopkeeper, *kirana wala*. We have developed those capabilities. This should help the overall piece.

RBI had given the banking licence to IDFC Bank and Rajiv Lall. With management change, do you think RBI will be open to giving approval?

We will be submitting to RBI soon giving the rationale for merger, explaining how this will make sense for diversifying the combined balance sheet. We are quite hopeful they will see merit in this and approve it, but it's never done till its done.

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