ET Q&A **V VAIDYANATHAN**
Founder, Capital First

I Count on Dr Lall to Keep Books Clean, Make Provisions


ET ARCHIVES

Vaidyanathan built Capital First into a ₹30,000-crore retail franchise from scratch with funding from Warburg Pincus. The former ICICI Bank hand now prepares for a big role as the chief executive of the merged IDFC Bank-Capital First, which is yet to get a new name. In an interview with Shilpy Sinha and Saloni Shukla, Vaidyanathan describes what lured him into this deal and how he intends to build the bank. Edited excerpts:

Why do you need a bank when you are valued better at 3.5 times the book and a bank that is less than half of that?

It is not about price to book, but about longevity. Well-run banks also command fantastic premiums. I am very confident of the synergies a bank brings which is diversified, deep relationship, composite in terms of product suite and will last long. NBFCs are fantastic in identifying the niche and doing a great job at that. Funding for NBFC is at the end of the day largely wholesale. I do believe having a diversified source of savings is a must for lending. At some stage when assets reach ₹70,000 crore or ₹1 lakh crore, you would wish your deposit base, independent of any large institution, paid for it. We are a little too early in the game. We could have waited 3 to 4 years for the story to play out. Sometimes opportunities like these don't come every day.

How do you build a deposit base in such a competitive market?

If we have the right products and the right technology which suits the new generation of people and new kind of ecosystem that India has, we will get the deposits. Even the new banks like Bandhan have all got deposits. It is not that only the big boys get deposits. Our loan book itself is growing at 27-30%. That story on the lending side can continue for the next few years. Our challenge will be to raise liabilities. It is expensive, it is micro, it is hard work. But I don't worry about that. The good thing is it is low cost, stable and perennial.

track. I want to make companies which are black swan free.

Which is the best peace-of-mind bank which stands out as an example for you to emulate?

HDFC Bank is a peace-of-mind bank. What we are saying is there is peace of mind in other fronts. We want peace of mind in credit loss. I am looking to create peace-of-mind institution and that comes with retail. Wholesale lending is an important piece. We have to see, are we financing power plants, steel plants? If I have to lend today and predict the price of steel five years from now, I am scared of that. But if I am financing cash flow of a large institution, I am okay with that. If we do wholesale, we will do it for top-rated corporates with visible cash flows. Retail never blows you out.

ON WORKFORCE SYNERGY

We are more in a hiring mode than looking at people synergies. We want to make it explicitly clear that everybody has a job

Now that the rates are hardening, have you caught the best time to insulate yourself against it?

It is not a interest rate game. Interest rates going up by 50-80 basis points does not change anything for NBFCs. We have NIMs upwards of 8%. If interest rates go up by 50 basis points, it is only incremental borrowing and does not move the needle much. It is playing ahead of the time to get banking.

Did you look at other banks?

This was the first bank. It was spontaneous combustion. I am always thinking about how to build an institution that will last very long. For that, it has to be a bank. If I create a bank which is retail, growing at 25% per annum, return of equity of high teens, then it is sustainable.

So, will it be largely a retail bank?

The first thing that comes to my mind is long term; second, diversification; third, relationships; and fourth is sustainable profitability. Retail is going to be an important part of the story. What the existing institution has built is inheritance from the IDFC parent that migrated into bank. It is giving you a headstart into some profitability. Long-term future is diversified retail franchise. I get peace of mind running Capital First. In no quarter do I have to worry about a black-swan event. We can predict profitability of the next quarter with reasonable efficiency. When the leader has peace of mind, then the shareholders have it too. Our profitability is one-way

But we have seen retail blowing up and many including foreign banks burning their fingers?

In retail, there are largely four kinds of lines -- mortgages, auto, personal credit to salaried segment – these did not have problems. In one or two years, in unsecured business, if there was a cycle, it was a learning curve for the industry. India's retail business has done really well if you look at the composite. You should take a niggle for 2008-09, but if you look at the 25-year cycle, it has never blown up. In the US or the UK, you will see advertisements asking people with bad credit scores to come to a particular lender. In India, they say you have a problem, don't come to me.

In any merger, human resources is the trickiest one. How would you handle it?

It is not tough for us. As far as people is concerned, two entirely complementary teams are coming together. We are carrying a large book of retail. IDFC Bank is more wholesale. We felt there was no overlap. We are more in a hiring mode than looking at people synergies. We want to make it explicitly clear that everybody has a job.

You are quite allergic to wholesale corporate finance, while IDFC Bank's book is made of that. How did you convince yourself to go with it?

When we looked at the book as part of financial diligence, the book is well provided for. There is good corporate governance that exists. It is a wholesale business, so I can never have a complete peace of mind. I will not be surprised if there is a blow-up tomorrow morning. I am counting on Dr Lall to keep the book clean and keep making provisions. The story is not about how wholesale book is, but are we getting into a liability platform that is stable and low cost? Are we looking at perennial organisation so that availability of funds is perennial? The answer is yes. Are we seeing runway for growth in India for growth opportunity in consumption side, the answer is yes.