

PROJECT IDLI-DOSA

Cooked Over Curd Rice & Khichdi

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Mumbai: On a pleasant November evening when Rajiv Lall was contemplating life after a broken engagement with Shriram Capital, the thought of the giant of Indian banking — KV Kamath — flashed across his mind. And with that, the man who he was introduced to years ago, V Vaidyanathan.

A moment after, Lall dialled Vaidya, and a courtship began even before the bitter aftertaste of a divorce with Shriram left his mouth.

Both knew it was a marriage of convenience. Capital First's Vaidyanathan, who built his empire in the past decade by giving loans to retail and small businesses,

knew all too well that long-time survival in financial services is assured only for banks.

And IDFC Bank was desperate to get someone who could build a retail franchise, especially when talent was hard to come by.

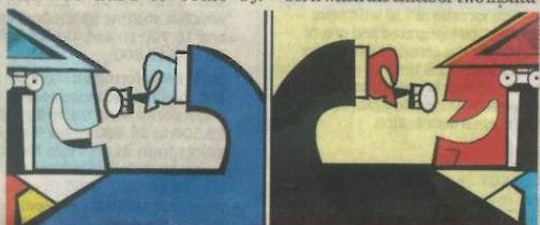
Vaidyanathan, who built ICICI Bank's retail business and later repeated the success at Capital First — a non-banking finance company — fitted the bill.

So, the project — Idli-Dosa — was born when the chiefs of two institu-

tions began discussions of a possible merger at central Mumbai's Four Seasons hotel which didn't have many prying eyes unlike at the picturesque South Mumbai's Taj or the Oberoi.

The first understanding was that they would neither walk in nor walk out together, and that there would be no investment bankers in the picture. But how did they pull it off?

"There's a deep trust in what Vaidya has done," said Lall. "Actually, we spent more time discussing the ethos, culture and the longevity of the institution rather than numbers," chipped in Vaidyanathan.



ET Q&A Rajiv Lall & V Vaidyanathan ►► On Money Matters

Continued on ►► MONEY MATTERS

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►► From ET Markets Page 1

One thing they were clear about was to avoid complications, thanks to Lall's experience with the Shriram episode. For Vaidyanathan, who sold stock broking and foreign exchange at Capital First to focus on retail lending, the mantra was clear: "keep it simple".

As the two were determined to maintain secrecy, the five or six meetings they held were invariably late in the evenings, and even the menu was simple and repetitive.

Vaidyanathan would nibble at his curd-rice, a favourite of most Tamilians, and Lall just stuck to Khichdi in all these meetings.

A dialogue was possible, thanks to Warburg Pincus' decision to prune its stake in Capital First to 34% from nearly 60%. That cleared the

biggest obstacle that would have faced regulatory hurdle. With such a huge stake for a private equity firm in a bank, convincing the Reserve Bank of India would have been a Herculean task.

The status of both as operating companies without any other associates, or subsidiaries, to be dragged along helped them stitch the alliance quickly.

It is normal to believe that valuations and executive positions consume more time in any merger talk, but in this case it was the easiest part, with Lall choosing to be the chairman leaving the CEO's role to Vaidyanathan.

But there is still one unsettled issue between the two — what are they going to name the new born? Will it be First IDFC Bank, or IDFC First Bank? Probably, it would need some more curd rice and khichdi before they come up with a name.