

# Betting on Vaidya Building a Bank that is Like no Other

In less than three months after snatching merger talks with Shriram Capital, IDFC Bank's chairman Rajiv Lall stitched up a deal with Capital First. In an interview with Sakant Shastri and Shilpy Sinha, Lall narrates the idea and hopes behind the deal. Edited excerpts.

**Where was this marriage made?**  
This marriage was made on earth. I reached out to him and told him why don't we have a chat and then one thing led to another.

**Why did Capital First and Vaidyanathan strike you when there are several other players?**  
All of you were asking me when I will get a retail head. Each time, I looked at the list of people running retail, his (Vaidyanathan's) name was on top of the list. So, this is perfect. Someone with Vaidyanathan's experience driving retail along with a full panoply of banking products, leadership qualities, building an institution - it's a very good package as far as our shareholders are concerned. Our stated strategy is to resolve realisation, so we then sent management left to drive it, and it deals elegantly with the issue of succession.

**Capital First shows only retail assets, but you needed deposits. How do you get that?**  
Acquiring liabilities is a marathon and it costs money to do it. You have to burn significant amounts of money to get a liabilities base. CASA (current account savings account) number is going up every quarter. We have good traction, but given the large size of our balance sheet, it will take time. The strategy dilemma that we faced at IDFC Bank was that while we were consistent of building this franchise over time, the reality was it would take time and we were a listed entity. We got listed very early in our journey, we would have had to withstand significant periods of depressed earnings because we would have had to constantly invest huge amount of our earnings which were under pressure because of our corporate franchise.



BY SAKANT SHASTRI

**What Capital First brings. Now, with these two things together, we have fused the entire range. We have now close to ₹3,000 crore exposure organically created towards Bharat Banking, and indirectly through acquisitions is even larger. With the use of technology, it is now possible to service much smaller ticket sizes in ways which are more profitable.**

**But what about liabilities...**  
Even on the liability side, it is my belief that it is possible to collect liabilities at much lower cost. If you are able to provide banking services at zero net cost, it is good for customer stickiness over time. I would wager that the 3 million happy customers of Capital First would give me a little bit of their money to put in a savings account. You need to first have a connect with the customer, then only you can start cross-selling. The most difficult thing today is to develop a connection with the customer.

## high-cost funds start getting repriced. In the interim, our emphasis will be to build CASA franchise

**So, couldn't wait to get there?**  
It is chicken or egg, right? To be able to invest and prepare for this marathon, we need to boost our earnings. You can also get liabilities by building a retail asset franchise that gives you higher NIMS, gives you good earnings, gives you customers to whom you can cross-sell. So that's the road we have strategically chosen. Capital First has 3 million active customers, close to 70 branches; we can expand that network and cross-sell our liabilities product to that customer base.

**How is this different from Shriram?**  
If you go back to the Shriram deal, this is the SCUF (Shriram City Union Finance) bit of the deal. So the intent was to go after SCUF, but it came with all kinds of arms and legs attached, and that added to the complication. Here it is so elegant. Our stated strategy was to get a retail earnings driver engine with customers. And it is trying to reach a customer segment, which most other banks find difficult. The Shriram deal was also a learning. It was kept under wraps until the intent was made clear - the idea being that the actual swap ratio would be negotiated after the intent was declared. So, I learnt from that and said that unless we have a deal, we are not going public. After the Shriram deal, we didn't want any complexity. Let's keep it simple, let's keep it straight forward, may be you won't get everything in one sweep, but one step at a time, and you build momentum.

**Where does this deal take you?**  
When we got our banking licence, we put a lot of importance on entering new customer segments and that is why the emphasis on Bharat Banking, which is one customer segment below

We overall require ₹5,000-6,000 crore as a result of this merger. We already have surplus CRR, SLR of about a little over ₹2,000 crore. So for us, to mobilise another ₹3,000-4,000 crore will not be a problem.

**Why are you paying a premium to Capital First when the bank licence is more valuable?**  
That is not how it works in a marriage. We are not asking ourselves how much you paid to me, and how much I am paying you. Kotak Mahindra Bank paid a premium of 21.5% for its deal with ING Vysya. This is a very fair deal.

**Will the merged entity be a retail bank, or another ICICI or HDFC Bank?**  
I have my view and Vaidya will have his. But I am betting on Vaidya building a bank that is like no other. Yes, you have a full range of businesses as a universal bank. But, I draw confidence and inspiration from the purpose which we ourselves, coming from the extreme end of the corporate spectrum, set out to do when we got the banking licence.

**Have you christened the new entity?**  
We have not yet finalised it but we have had conversations, and it is fair to say that the broad thinking that there is an opportunity here to bring the strength of both brands together and create something fresh.

**Have you worked out the financial synergies and how the book will look post the merger?**  
Financial synergies will emerge as high-cost liabilities gets repriced. In less than 36 months, our existing high-cost funds start getting repriced. In the interim, our emphasis will be to build CASA franchise. All these things will help systematically bring down the cost of liability.

**What next for you?**  
Immediate focus is to get the merger done and guide a well-organised transition process. I will also see the new bank has the best possible chance of sustaining the success, and delivers on my dream of leaving behind an institution.