

There is a right way to build a company—the Ujjivan story

EXPERT VIEW

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It's 4am... my alarm rings. No hitting the snooze button today, I don't want to miss any part of the day's excitement. Ujjivan Microfinance lists on the National Stock Exchange in a few hours and there is no way I am going to miss the moment. I feel this strong need to celebrate with the Ujjivan team that I have become so close to over the past eight years.

The initial public offering is a milestone in this amazing journey, which started 10 years back with (Ujjivan founder-chief executive officer) Samit Ghosh's dream of creating a financial institution that serves the unbanked across India's cities. What started as a four-person team in a Bangalore garage today has 8,000 employees, three million borrowers, has disbursed loans worth ₹15,600 crore, has operations in every Indian state, and is soon to become a bank with diversified product lines. It takes longer than what most people think to build an enduring company... and you have to have the stomach for it.

It wasn't easy

In 2007-08, the world was going through a major financial crisis; large financial institutions and banks were teetering. In the midst of that chaos, we met Samit, who aspired to adapt Muhammad Yunus's microfinance model to serve India's urban poor. Like with most early-stage companies, there were more questions than answers. Would the banks provide debt to microfinance institutions (MFIs) to allow scaling? Would the urban poor prove to be credit-worthy? Would the regulators support this model? Given the low loan sizes and people-heavy operational model, would the economics ever work?

We have fond memories of the due diligence, where we visited borrowers' homes in remote villages and heard how they were using Ujjivan as a partner to get their families out of poverty. Some of these borrowers eventually became Ujjivan staff because they wanted others to experience what they had benefited from. Imagine that kind of passion in the workforce! Based on the massive need in the market and Sequoia's conviction in Samit and the founding team, the investment was made.

Two years later, the microfinance industry encountered the "perfect storm". The crisis in Andhra Pradesh, triggered by rules that reined in microlending, had everyone questioning the entire industry and its business practices. Many MFIs shut shop or went into a

financial spiral. Overnight, banks stopped lending to MFIs.

Ujjivan went into crisis mode where we were only able to cater to our existing customers; business shrank, given the capital crunch. We were up against the wall and running out of runway. We decided to get lean and mean in our cost structures and attacked branch-level profitability like never before.

In a strange way, the Andhra crisis was good for Ujjivan. It catapulted Ujjivan to the top 3 among MFIs and helped demonstrate that the 'Ujjivan way' was the 'right way' to build a business: grow sensibly, stay close to your customers, have the highest levels of ethics and governance and diversify across many geographies. Strong business fundamentals helped Ujjivan pull through and raise successive rounds of capital to keep the fight alive. They say what doesn't kill you makes you stronger and we certainly experienced that first-hand (though it wasn't fun when going through it).

We are often asked—what kind of entrepreneurs does Sequoia back? Let's just say Samit was not your typical Sequoia entrepreneur. He started Ujjivan in his 50s, usually wore a crumpled white kurta pyjama and displayed an understated demeanor. He founded Ujjivan to give something back to the masses and not for personal gain. Conventional wisdom would question whether he still had the drive or hunger to build something large. But once we scratched the surface, we saw a seasoned steel-willed entrepreneur who was mission-driven and looking to leave his mark on the world. Exactly the kind of person Sequoia loves to be in business with.

Building it the 'right' way

I still remember the one-year courting period when we met Samit over and over again to make him comfortable with Sequoia and its approach to building companies. Till then, his investors were primarily friends and family and social funds. Samit knew that to build Ujjivan, he would need to embrace capital from large funds, but was anxious that scaling the company should not take away Ujjivan's 'soul' and 'double bottom line' focus. It's a delicate balance to build a profitable enterprise while helping millions out of poverty. That's my single biggest learning from Ujjivan. You can build something of value and generate returns without having to sacrifice your ethics or ideals. In fact, financial returns and company ethics complement and feed off each other, not compete with each other.

Another learning for me was when Ujjivan designed its employee stock options (ESOPs) programme. Conventional wisdom has it that it is better to give more ESOPs to fewer employees to make sure they are meaningful and an effective retention tool. Samit had a dif-

ferent idea. Right from the start, he insisted that we give ESOPs to as many employees as we can while not once asking anything for himself (we had to literally force him to take ESOPs).

In retrospect, he was completely right. He wanted everyone to benefit as Ujjivan was built. As Ujjivan went public, 43% of the 8,000 employees were proud 'owners'. There are stories of how an Ujjivan driver in Kolkata called up the new human resources head and proudly announced that he owned a piece of Ujjivan. Priceless.

This employee/owner mindset will help the company immensely as it continues to scale.

Board dynamics

So much negative stuff has been written about the tenuous relationship between a founder and his investors on the board. I don't believe it is like that at all. It takes everyone's effort to build something worthwhile. There has to be a constant give between shareholders and the founder... that's the only way it works. But it all starts and ends with trust. If you don't have that, you are finished.

While it was still private, Ujjivan raised capital from 10-plus institutional investors. Each investor played a role (seed, early stage, growth capital) and then passed the baton to the next set of investors. On the board, we did have our share of differences and sometimes things did get sticky, but the principle for resolution was simple—"as a board, we do what's good for the company". Everyone was requested to leave their personal agendas at the door. Having a board-run company even when we were small and private really helped to ensure fair play and transparency. K.R. Ramamoorthy, chairman of the Ujjivan board, set the tone for this from day one and continues to provide a steady hand for the company.

The bonus of what we do: enduring friendships

While we started off with a professional partnership, inevitably the years you spend together allow for building enduring friendships. Over the years, we got to know Elaine (Samit's late wife) and Mallika (his daughter) who created Parinaam (an NGO that works side by side with Ujjivan). Elaine inspired many at Sequoia India to get involved with Parinaam and do their bit to help children get access to a better education. These linkages have created bonds that go way beyond the dollars that will be recorded from the returns Sequoia will generate by continuing to be an investor in Ujjivan.

Onward...

Mohit Bhatnagar is managing director at Sequoia Capital India Advisors, and sits on the board of Ujjivan, shares of which listed on NSE at a premium on 10 May.