

Tightening the leash

Excessive NBFC regulations will stifle innovation

VP NANDAKUMAR

After the IL&FS debacle, NBFCs have come under the microscope of regulators, investors, analysts and the wider public. Predictably, there are calls for further tightening of regulations in the belief that it will somehow improve matters.

To get to the crux of the issue, let's begin by asking, why do NBFCs exist? After all, it should theoretically be possible for banks to take over this space. But then, the banking system's coverage has well-known gaps that exclude large sections, precisely the failing that has allowed non-banks to thrive.

A case in point is loans against second-hand trucks, by logic a troublesome asset to finance. It depreciates rapidly and you cannot pinpoint the location of the asset for sure. A regulator evaluating this business would see red flags everywhere. And yet, Shriram Transport Finance plunged headlong and triumphed by learning the nitty-gritty of the trade and building an entire eco-system around it.

Regulations are a product of rational thought, whereas innovations emerge from out-of-the-box thinking. Innovations cannot thrive under a heavy hand; they require a higher tolerance for failure.

In banking, failures come at a high cost, and so there is a need for rigorous regulations to prevent downsides. That's why NBFCs have been at the forefront of innovations in financial services, which banks go on to adopt later. Any attempt to prevent downside risks by tighter regulations will stifle innovation.

Besides, regulators also have a fiduciary responsibility to facilitate NBFC growth. After all, NBFCs have led the way in innovations. Lending against gold was for long ignored by banks, pushing borrowers to moneylenders and pawnbrokers. The entry of NBFCs redefined the category with innovations that brought millions into the ambit of institutional credit.

Regulations must evolve with the times. For example, in the era of di-

gital lending, making gold-loan NBFCs seek prior approval before opening new branches serves little purpose. There's a need to strike a balance between preventing downside risks and allowing businesses to grow to their potential. Surely, the time is right for introducing risk-weighted capital requirements for NBFCs at par with banks.

Existing rules prescribe a uniform 100 per cent risk-weight across all assets irrespective of the tenor. If lenders taking on excessive risk is the worry, risk-based capital norms are the way to go. Only those who understand the risks and have the capital to bear the consequences will remain in the fray.

Likewise, moving away from blanket caps on loan-to-value (LTV) ratios towards risk-weighted capital will catalyse innovations in the risk underwriting process. As loans go further above a base LTV, regulators may prescribe higher capital. The current LTV cap of 75 per cent on gold loan amounts to a one-size-fits-all approach. It pushes small borrowers back towards informal sources and constricts product innovations by withdrawing the lender's incentive. Also, it is an anomaly that one can borrow any amount without security under personal loans, but not when furnishing liquid security.

Does the case against tighter regulations and for greater tolerance of failure mean we should resign ourselves to more fiascos like IL&FS? Not necessarily. IL&FS had drastic repercussions because India's financial markets are still a work-in-progress and there's a dearth of alternatives to bank funding, especially for the long term.

Our bond markets are still undeveloped, compelling NBFCs to borrow more from the banking system. Therefore, a good start will be to have on-tap public issue of bonds directly to investors, enabling NBFCs to raise funds regularly at lower issuance cost.

The writer is MD and CEO of Manappuram Finance Ltd. Views are personal



BOOK REVIEW

A worm's-eye view of Flipkart

A breezy, yet detailed, account of the journey of the e-commerce major and its founders

AARATI KRISHNAN

If there is one sliver of India's commercial sector that is seemingly immune to the ups and downs in the economy and consumer sentiment, it is online retail. Amid a consumption slowdown where conventional firms have been complaining about consumers economising on glucose biscuits and inner-wear, e-commerce majors clocked sales volumes of nearly \$3 billion (₹19,000 crore) in their recent six-day festival jamboree.

Established industrial houses have struggled to raise equity in the last five years, but Indian start-ups have had access to a gusher of private capital with over 30 of them having attained Unicorn status (a \$1 billion valuation) by 2019.

How do wet-behind-the-ears IIT graduates manage to not only conceive, but also rapidly scale up e-commerce platforms that shake up the established names? Why do India's Internet start-ups have venture capital investors lining up at their doors, when MSMEs in other sectors walk over hot coals to get a fraction of their funding? The book *Big Billion Startup: The Untold Flipkart Story* by journalist Mihir Dalal provides answers to such questions.

Though the book presents an insider's account of Flipkart's journey and has rich detail on events within the company, it isn't an official biography. Dalal makes it clear in his acknowledgements that Flipkart and its founders declined to participate in the production of this book.

As a result, he pieced it together from over 250 interviews, emails, news reports and video interviews, tapping into the sources he cultivated at Flipkart during his five-year

stint as a journalist covering start-ups.

This is in fact a good thing. Steering clear of the hyperbole that usually characterises corporate biographies in general and start-up writing in particular, the author manages to paint a vivid word picture of Flipkart's journey without air-brushing its mis-steps.

The IIT factor

The initial chapters of the book present a charming account of how Sachin and Binny Bansal, considered only middling students in the rarefied atmosphere of IIT Delhi, cobble together an unlikely Internet book-selling business with a princely capital contribution of ₹4 lakh despite active scepticism from their peers.

More at home with coding and Search Engine Optimisation, than finance or supply chain management, the Bansals (not related to each other in any way) start out with the simple credo of bagging customers first and figuring out how to cater to them later.

The book recounts how after listing a wide variety of books on their site and securing customer orders for them, the Bansals used to dash around Bengaluru book-stores trying to find these books, giving a new meaning to the phrase just-in-time.

The story of Flipkart's first few recruits is fascinating too — from Iyappa, the courier company employee who comes into his own after joining the firm and took on the role of its 'human ERP' system, to Tapas, a rolling stone who proved exceptionally talented at wooing and retaining customers.

In the account of Flipkart's journey from this rudimentary state to a venture viable enough to secure its first round of funding from Ac-



Title: Big Billion Startup: The Untold Flipkart Story
Author: Mihir Dalal
Pages: 272
Publisher: Macmillan
Price: ₹699

cel Partners, one also gets a glimpse into how the IIT old-boys-network sets up its new members for success. Many of the Bansals' initial breaks, whether in hiring talented engineers or getting meetings with venture capitalists, seem to have come from seniors and batchmates at IIT Delhi going out of their way to mentor the newbies.

From passion to valuation

While offering a rather sketchy account of Flipkart's financials, the book does a good job of marking the key tactical and strategic milestones that transformed it from an obscure online book-seller into the poster-boy of the start-up ecosystem.

In the initial years, it was the Bansals' customer obsession that powered its success. For instance, realising that card-only payments were keeping most consumers off the platform, the firm implemented cash-on-delivery though this stretched its working capital needs.

Recognising that the trust deficit that Indians had with Internet platforms was the biggest stumbling block to adoption, Flipkart

rolled out a liberal product return policy though it meant dealing with logistical nightmares.

Similarly, it was Flipkart's audacious pursuit of Motorola and Xiaomi for exclusive mobile phone deals that powered the ten-fold growth in its GMV (gross merchandise volumes) to the \$1 billion mark between 2011 and 2014. The story also makes it clear that it was when Flipkart abandoned this manic customer focus in its chase for size and valuation, that it ceded ground to Amazon.

Light on the founders

Though this book is mainly about Sachin and Binny Bansal — the key protagonists who made Flipkart click — it doesn't eulogise the founders. In the initial chapters, Sachin comes across as a geeky engineer, more comfortable with computer games than corporate power games, who is driven by his passion to build an e-commerce platform that is the toast of its customers.

But later chapters chronicle his transition into an abrasive CEO who makes strategic business decisions based on gut feel and confronts his senior management team with 'my way or highway' ultimatums.

Some of Flipkart's strategic mis-steps, such as the one to forcibly transition shoppers from its desktop site to its mobile app, or to discontinue the sales of electronics, are attributed to this intransigence.

One's main quibble with the book though, is that it is far too engrossed in profiling the personalities of every contributor — big and small — to the Flipkart journey and fails to trace the evolution of the firm in sufficient detail.

Despite its title, this book is more about the journey of Flipkart's mercurial founders than about the e-commerce platform. But the human-interest element makes it a breezy read, giving it a fiction-like quality.

NEW READS



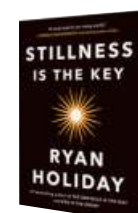
Title: In Defence of Open Society
Author: George Soros
Publisher: John Murray
Price: ₹550

In the backdrop of growing nationalistic trends, investor and philanthropist George Soros emphasises on the need for open societies with universal ideals of democracy, law and freedom



Title: Panjab: Journeys Through Fault Lines
Author: Amandeep Sandhu
Publisher: Westland
Price: ₹899

While trying to find a connection with his native State, the author discovers how present-day Punjab quietly suffers under agricultural distress, militancy and the aftermath of the Partition



Title: Stillness Is the Key
Author: Ryan Holiday
Publisher: Portfolio
Price: ₹499

A guide on how to remain steady while the world moves around you — an ancient art shared by some of the greatest leaders and pioneers through time

5 THINGS to WATCH OUT for TODAY

The next hearing in the RTC strike case will be taken up by the Telangana High Court. The court has asked the State government not to take any action on the plan to privatise about 5,100 routes that are currently operated by the Telangana State Road Transport Corporation. The court has also asked the Advocate General to file a counter to the petition filed by PL Vishweshwara Rao that challenged the move to privatise the routes.

The Odd-Even scheme will not be enforced in Delhi today and tomorrow due to the 50th birth anniversary celebrations of Guru Nanak Dev. Under the scheme, odd- and even-numbered vehicles ply on alternate days.

Tesla is likely to release its Made-in-China 'Model 3' sedan. Tesla is expected to focus on Model 3 production at its Shanghai automotive factory, where it plans to produce as many as 3,000 vehicles per week next year.

Mercury will pass directly between the Earth and the Sun, staging a rare celestial show. During the transit, Mercury will look like a tiny black dot gliding across the Sun's face. The event will be widely visible from the Americas, New Zealand, Europe, Africa, and western Asia. Mercury's next transit won't happen until 2032.

Rafael Nadal will take on defending champion Alexander Zverev at the group stage of the ATP Finals. The Spaniard, who has never won the ATP Finals despite his trophy-laden career, dethroned Novak Djokovic from the top of ATP rankings last week. Nadal has won the French Open and US Open this year.

BY THE WAY DIPANKAR BHATTACHARYA looks at people and professions



EASY

ACROSS

- 02. One in speed event (5)
- 05. Movie (4)
- 07. Offensively self-complacent (4)
- 08. Helpless (8)
- 09. Whimsical, imaginative (8)
- 11. Attend to (4)
- 12. Graciousness to inferiors (13)
- 15. Scheme (4)
- 17. Create again (8)
- 19. Memorial structure (8)
- 21. Great show or display (4)
- 22. Hereditary unit in DNA (4)
- 23. In no way (5)

DOWN

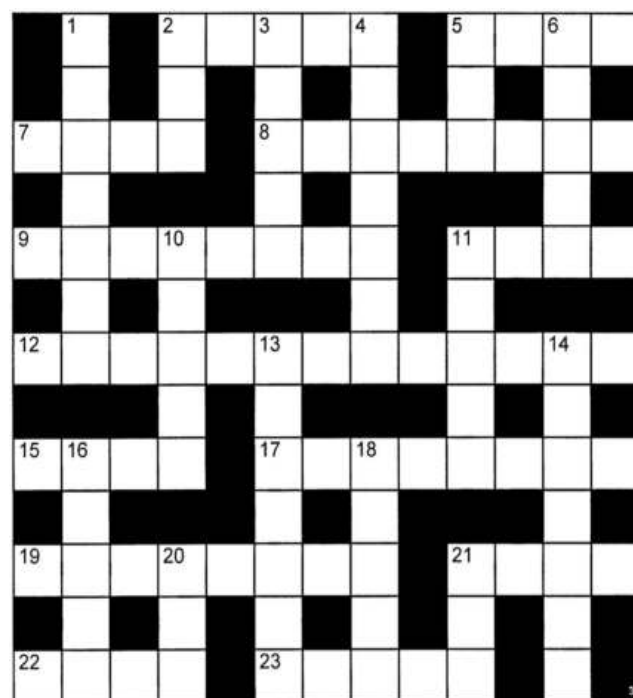
- 01. Painful back condition (7)
- 02. Fit with sails and tackling (3)
- 03. Main, principal (5)
- 04. Drive back (7)
- 05. Suitable (3)
- 06. Cavalry weapon (5)
- 10. Member of younger branch of family (5)
- 11. Inconsiderate speed (5)
- 13. Army, naval doctor (7)
- 14. Point at which condition is most favourable (7)
- 16. Unbound (5)
- 18. Get hold of (5)
- 20. Fact of serving a purpose (3)
- 21. Animal foot (3)

SOLUTION: BL Two-way Crossword 1482

ACROSS 01. Characterise 08. Omission 09. Belt 11. Eaten 12. Chapter 13. Turf 15. Gaga 19. Godetia 20. Bacon 22. Isle 23. Donation 24. Fiddle-faddle

DOWN 02. Hoist 03. Resent 04. Crouch 05. Inertia 06. Entertaining 07. Comes to grief 10. Wax 14. Raddled 16. Sty 17. Pay-off 18. Aboard 21. Chill

BL TWO-WAY CROSSWORD 1483



NOT SO EASY

ACROSS

- 02. Fast car is one one puts into reverse with hesitation (5)
- 05. Picture a layer of dust (4)
- 07. Pleased with oneself, sticks it back (4)
- 08. Powerless to make it, top men have to be shifted (8)
- 09. Imaginative use of cooler if clue isn't quite worked out (8)
- 11. Take notice out of the editorial (4)
- 12. Offensive patronising of science no don's responsible for (13)
- 15. A bit of land one can make a plan of (4)
- 17. Amuse oneself with a pastime and make it again (8)
- 19. Memorial to men miners' union put out (8)
- 21. Vain show of work shortly returned by man at Westminster (4)
- 22. It is found in DNA, to the embarrassment of the French (4)
- 23. It is not in any way to sound like specialised skill (5)

DOWN

- 01. The trouble with the back of the album might disappear (7)
- 02. The set of sails is boring where oil is concerned (3)
- 03. It's the principal church if it's around the East (5)
- 04. Drive off the Sappers with what beats (7)
- 05. Well, it's only a temporary attack (3)
- 06. Make it clean and cut it like a 13 (5)
- 10. The younger son is studying to be an officer (5)
- 11. Hurry with which he sat it out (5)
- 13. Sawbones might go out with nurse (7)
- 14. When condition is most favourable for MoT, I'm up to it (7)
- 16. Look-see finishes off the unattached (5)
- 18. The snag is, it's what the fisherman brings home (5)
- 20. Take advantage of it being in various experiments (3)
- 21. What animal puts to ground starts padding as well (3)