

GIVING INVESTMENT BANKING A SOCIAL TWIST

With Mr. Abhijit Ray, Co-Founder & Director, Unitus Capital

Executive Summary

Despite the growth in the Indian economy and sustained government efforts to reduce the poverty in our country, the benefits of change have been unevenly distributed and the corresponding costs have been disproportionately borne by particular groups. Still, the third sector is recognized as an important advocate for, and service provider to, marginalized groups and communities. The large majority of third sector organisations are fragile – they are under-resourced, under-capitalized and they lack an effective infrastructure relative to their objectives. Besides when it comes to raising finance, social enterprises face many difficulties similar to the small and medium-sized enterprises (SMEs). Although the gap in SME funding has closed over the past few years, social enterprises continue to face additional barriers to investments.

However there is a positive side to this story. Companies investing in this sector increasingly believe that all people have intrinsic economic and social value. They promote investment in products and services that can unlock this value, enabling disconnected communities to create opportunities for them. Furthermore, according to the CXOs of social investment banks such as Unitus Capital, what will thrust social investments in this sector are the entrepreneurs who are customer and execution orientated, and the private equity funds that can strengthen the power of this market by playing upon the fundamentals driving the community and social enterprises. What is required is the need of identifying, understanding, developing and catalyzing investments in business models that engage the poor in socially beneficial markets. The ultimate mission is to drive knowledge and actions that create meaningful and sustainable impact in society. In this free-wheeling interview Mr Abhijit Ray, Unitus Capital has shared with us similar sentiments with respect to this sector and social investment banking, which he believes is a tool for change.

On Motivation For Social Investment Banking

Tejas: In the present scenario, how conducive is the Indian environment for investments in business models dedicated to benefitting the bottom of the pyramid?

Abhijit Ray(AP): I would say that the environment is suitably conducive, but practically no models are there. Also, the investors that are looking at this space are less in number. Any

business that is profitable and has a sustainable model will be of interest to investors regardless of whether or not it has a social impact. I think the bottom of the pyramid has still got a long way to go in terms of investments.

Tejas: What are the challenges that financial services firms like Unitus Capital face in supporting business models of social entrepreneurs? Also tell us how different Unitus Capital is from other microfinance institutions?

AP: Unitus Capital is a boutique investment bank that invests mostly in social businesses, so we are not a microfinance institution at all. Unitus raises capital for the businesses that have a social perspective and impact the life of people; so among other things, we look into healthcare, education, agriculture, technology and water risk management. The major challenges that we face by investing in these companies are that many of them are in an early stage of development, hence the investors that are interested in them are very limited. Second, we have seen that promoters are not well equipped at piloting their product well. They face problems in marketing their business plan; the overall impression is that they don't do their homework really well but move in to the market to raise capital. Third, there is a difference between the person's perception of demand for the product and the actual demand of the product in the market. There are a no. of other factors that we need to look into apart from funding. These include understanding the affordability of the product; its acceptability & convenience of use and also the awareness of the product. The other thing that we should consider is that the early stage entrepreneur should look for a mentor or a guide. A group of people can be formed who brainstorm and build upon the ideas from the early stages.

On Impact Investments As A Tool For Change

Tejas: Investment banking at the bottom of the pyramid is still a growing phenomenon in India. How do you find the potential in a particular business model and select it for investment? What is the typical capital structure of such business and how do you fund it?

AP: Yes, investment banking at the bottom of pyramid is still a growing phenomenon in India; most of the investment bankers are trying to do the larger deals, be a part of the large corporates where the deals are fast. On the other hand, convincing an investor for the small deal or an innovative business that is not institutional takes a lot of time which is why many of the investor bankers don't focus on this market or this type of business. So, very few banks are operating in India. I think in terms of the potential of the business model, the promoter should do some initial due diligence on the potential of the business and come up with a plan that can be pitched to an investor. In terms of capital structure, these firms are funded by debt and equity, so these firms should be profitable and sustainable. Also the

model should be profitable; otherwise the investor would not come in. The business plan should show both profit and growth.

Tejas: We would like to know about a business model for which Unitus Capital has been the key to success and where the business has had a huge impact on the people? What are the key learnings that you would like to share with other potential social entrepreneurs?

AP: One of our portfolio companies, Forus Health, a Bangalore-based, affordable medical technology and solutions company devised a unique product, 3nethra. It can detect cataract, glaucoma, diabetic retina, refraction and cornea problems – diseases that contribute to 90% of the avoidable blindness in India. The unique point of the device is that it was developed after a lot of research and its cost is one-eighth of the comparable machines in the market. Hence it is more affordable in terms of serving the rural markets. The process followed by the machine saves time on each patient; people can get their eyes tested for Rs 30 or Rs 40 or even lower. So the device operates in the shortest possible time at the lowest price.

This is one organisation which is going to have a huge impact on the lives of the people, especially in rural areas where poor people think that blindness is fait-accompli. The problem is especially acute among young people. But if the same could be detected at an early stage, blindness & cataract can be reduced. The economic effect of this is that if a person does not become blind, he is no longer a burden on the family and can add to the family income that will also have a direct effect on mitigating poverty.

As far as the key learnings are concerned, do as much research in the business as possible. Come with a pilot test of the product before talking to the investor and build a plan to see whether the business can survive through internal funding. I feel that if you can show the strength to survive for the first few years, then the investor would gradually start coming in. Ultimately it's not about the money but about the passion to make a difference.

On The Road Ahead

Tejas: There has been a lot of talk regarding inclusive growth in the country. Working at the center of this space, what is your take on India's growth story in next ten years in terms of social and financial inclusiveness?

AP: I believe that for any sector, inclusive growth is required. There are plenty of opportunities and there is scope for innovative business models. But in order to achieve inclusive growth, it has to be the effort of all the stakeholders, be it government, local administrator, regulator, incubators or entrepreneurs. What is important is that everyone participates in the inclusive growth story of the country.

Tejas: How are you planning to bridge the financial gap? Do you see a rise in the no. of firms like Unitus Capital coming up in India?

AP: In this space, the gap is manifold and comes from early stage investors, incubators, and environment conduciveness. I think investment in the bottom of the pyramid is a new category and there is a financial gap in availability of local as well as international funds. What we need is that more personal investors who take interest in the profitable ventures should come up. There are plenty of ideas that may be profitable but what is holding us back is the availability of investors who look more aggressively towards this space. The perception is that the social business might not give returns on investment and that's why they don't invest. But as against this perception, in fact, social businesses have produced much more returns. We should highlight those businesses and convince them that returns are much higher and market opportunities are indeed there. I think we should come together and work to encourage investors.

Conclusion

Mr. Abhijit Ray discussed with us the challenges in the growth of social enterprises from investment perspective. Raising capital for such organisations has been a major concern since investors or private equity funds primarily focus on profitability and sustainability of business models. Also, it is imperative for a social entrepreneur to do the homework well before pitching the business plan to an investor. Social Investment banking in India still has a long way to go but should be positively looked forward to as the returns and market opportunities are high in this space. According to Mr. Abhijit Ray, commitment and passion to make a difference will be the key for social enterprises as well as for the growth of social investment banking in India.

Profile

Abhijit Ray is the Co-Founder & Director at Unitus Capital. At Unitus, he has worked with MFIs on debt and equity arranging transactions, along with providing financial advisory services. Prior to joining Unitus, Abhijit had 13 years of diverse experience encompassing development finance, commercial banking and microfinance. He was also the AGM with the Small Industries Development Bank of India (SIDBI) where he oversaw SIDBI's microfinance portfolio in the state of Andhra Pradesh, and also acted as the business development manager for SME projects. Abhijit has appraised more than 50 MFIs in India for debt funding and has assessed capacity building needs of more than 35 MFIs, spearheading most of the assessments. Abhijit holds a Bachelors degree in economics from Kolkata University and is a Certified Associate (CAIIB) of the Indian Institute of Banking and Finance. He has also attended the School of Applied Microfinance Programme

(Mombasa, Kenya) and the Strategic Leadership Programme in Microfinance at the Harvard Business School.

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