
Event Report

“Private Equity and India’s Supply Chain Opportunities”: A Presentation by Bindu Ananth

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On October 29, 2008, the School’s International Development Club (IDC) hosted Bindu Ananth, president and member of the Governing Council of IFMR Trust. IFMR Trust is a private organization based in Chennai, India, that seeks to ensure access to financial services among India’s rural population. Ms. Ananth’s discussion, titled “Private Equity and India’s Supply Chain Opportunities,” offered insight into the organization’s activities in Indian villages, which range from a rapid ramp-up of depositor bank branches and rural access to capital markets to direct investment in rural companies and ventures and in improvements in the supply chain. Despite headlines describing India’s reemergence as a global economic power, Ms. Ananth emphasized that poverty and rural isolation are a “systemic challenge” that continues to face the country. IFMR Trust seeks to drive a vast improvement in the country’s financial and physical infrastructure, without which India cannot harness the full power of its workers and maintain rapid growth in a global economy.

It is hard to imagine an organization that seeks to bring financial services to all of India’s rural villages as capable of “flying under the radar.” Yet during her presentation at Columbia Business School, Bindu Ananth of IFMR Trust used this phrase to describe the organization’s stance vis-à-vis the Indian government.

The government has announced a variety of plans for infrastructure and other improvements meant to enable the country to continue its strong growth and global competitiveness. Recent news, however, indicates that the government’s vast infrastructure-investment plan (under the *Eleventh Five Year Plan (2007–2012)* in India’s series of five-year plans) is likely to be scaled

back because of the global economic crisis. Thus, it stands to reason that a private organization might seek to fill the gap, particularly when its model is for-profit.

Microfinance, and the government’s position on it, is not without controversy. A state government body shut down a branch of the Grameen Bank, founded by 2006 Nobel Peace Prize winner Muhammad Yunus, under claims of bad lending practices. A massive deployment of microfinance in India might make the national government lose face. Thus, Ms. Ananth’s trepidation is not unfounded, and she intimated that with its stance the government was not fostering “a deep conversation on social impact.”

Yet her optimism about IFMR Trust’s positioning was plainly evident during the talk. The trust was formed, and remains funded by, the ICICI Bank, the largest private-sector bank in India. At its core, the trust is a trailblazing entity, and ICICI was the first Indian bank to list its shares publicly. The trust’s mission is nothing less than to bring financial services to every individual and enterprise in India. In a country where 400 million inhabitants still have no electricity, a mere 16 percent of the population has a bank account and only 1 percent owns an insurance policy, this is an enormous task.

Ms. Ananth described IFMR Trust’s plan for deploying what is in concept a hypermodern, fully digital banking service. To implement the banking infrastructure, the trust groups villages into catchment areas, at a level at which it can decide to build and deploy a branch. Each catchment area will service 10,000 people who live within a 10-kilometer radius of a central point. A branch is built at a cost of US\$1,500, then improved (including digitalization, which often requires adding electricity) and staffed with trained advisers, who operate exclusively in local languages. “There is no Hindi spoken, and no English,” Ms. Ananth said. They use the same Oracle core system, Flexcube, as Citigroup. The first branch was opened in June, and 14 have been opened since. IFMR Trust expects to break even on new branches within two to three years.

The branches will take deposits, make loans and be a vendor for third-party products, such as insurance. Branches are designed to follow a policy of moving away from cash to the extent possible, in order to minimize security risks and maximize the advantages gained by using gold-standard technology.

Similar to other aspects of change within developing markets (such as mobile phones), there is a sense that this level of banking will leapfrog or skip over several generations of innovation in the developed world. In India’s case, the paradox (and thus, perhaps, the opportunity) lies in the stark contrast between the emergence of technology and the lack of broad availability of basic

services. The branches are also expected to bridge the cultural learning needed on the part of customers. Advisers are trained to educate customers as they go—most of whom have never deposited money before, let alone borrowed it or invested it. Nonetheless, IFMR Trust seeks to maintain the traditional retail infrastructure, using a physical bank location as its base of operations, in preference to mobile transactions, which are spreading like wildfire through similar markets in Africa. As Ms. Ananth said, “The phone cannot replace the branch.”

A further piece in the development puzzle is being generated by IFMR Trust’s approach to banking: credit reporting. Since so many rural citizens and businesses have not had access to capital, they have had no reason and no ability to have a formalized credit standing. The Indian government also has no central ID, since no social security system exists. Thus, the bank tracks customers’ transactions digitally and creates a record, which it believes will later be salable, along the lines of Experian and other reporters in the United States. These records will “create basic economic trust,” which is still lacking, says Ms. Ananth says. In fact, one of the most central financial criticisms of microfinance is the fact that loans are made against no identifiable collateral with no records to screen potential customers. Ms. Ananth sees a solution in the making.

The state of Indian infrastructure is a hindrance to many emerging businesses in the country. Ms. Ananth sees IFMR Trust’s direct investments as fundamental to fostering the conditions for further growth in the basic need for financial services. The Trust’s activities in private equity are small by Western standards, as well as in comparison to the scale of their retail plan. Its first fund, the Network Enterprises Fund, is managing around US\$10 million, on its way to a target capital raise of US\$150 million. The fund’s investments will focus on “removing frictions in the supply chain.” These relate to business practices and technology, including the shared general mission of the Trust—access to capital—but also to very basic infrastructural components. Without these basics, it is hard to imagine banking becoming a priority in rural India. The top-down provision of financial services requires the bottom-up availability of even more basic daily services. IFMR Trust sees its mission firmly in the middle of providing a comprehensive solution. Its current investments span village-level activities from crafts and consumer goods to education and vocational training to energy distribution and clean water.

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