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## VP Nandakumar: Man with the Midas touch

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**I**t all started as a small pawn shop lending gold, in a small village called Valapad near Trissur in Kerala, way back in 1949. By the year 1986, it had grown to have a capital of about Rs 500,000 and assets of about Rs 20 lakh (Rs 2 million). The small pawn shop today has 2,600 branches all over India, with 26,000 people working for it. The turnover of the company is Rs 2,200 crore (Rs 22 billion) and assets about Rs 11,000 crore (Rs 110 billion).

It attracted private equity funds from international players like Sequoia Capital. All this has resulted in global recognition, with features in leading newspapers like The New York Times. The list of the achievements of the group only grows from here.

The man behind this miraculous growth is 57-year-old VP Nandakumar, the executive

chairman of Manappuram Group. He took over the reigns of the shop in 1986 when his father fell ill.

Here is the amazing success story of how Nandakumar made a small pawn shop that had a capital of Rs 500,000 into a company that is worth Rs 11,000 crore (Rs 110 billion).

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### The story begins with a small pawn shop in Valapad

**M**y memories go back to the days when I was a small boy of five. It being our business to lend money against gold, the entire family was involved in the pawn shop.

My mother was a primary school teacher, and used to help my father in accounting. From the age of 5, I started my job of messenger service! However, since the business wasn't large enough, I joined the Nedungadi Bank as a Probationary Officer after my post graduation.

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**I**n 1986, my father was diagnosed with cancer. This is when he asked me to resign from my job and take over the family business. He said he saw the capacity in me to develop the business. Though it was a tough decision for me, I still decided to take over the reins of my family business.



When I took over the business in 1986, the capital was just Rs 500,000 and assets, Rs 20 lakh. The first decision I took was to convert the business into a corporate structure. I wanted to implement what I had learnt in the bank, which is run by professionals. Today I am the only family member in the business, and rest of the staff include all professionals. I must admit that it is the goodwill and confidence my father enjoyed with the people of the area that helped me run the business and scale it up later. This helped me, when I took steps keeping in mind the future growth of the business. For instance, even before the banks in Kerala started computerising, I computerised my business. Click **NEXT** to read more...

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### A matter of choice

Later, as the business started growing I was faced with two options - one, to stop the gold loan business which was not challenging or risky at all. Second, start a non-banking finance company (NBFC). Since, I didn't have enough capital, I had to develop the same vertical and be a lender against gold. My father didn't want to expand the business as he was all alone. When I took over, I removed the artificial cap and decided to grow. In the next 5 to 6 years, the company reached an asset size of Rs 7 crore (Rs 70 million) with funding, but it remained a proprietary concern. Click **NEXT** to read more...

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### Starting a non-banking finance company (NBFC)

I also had this plan to expand other verticals. So, I decided to start an NBFC. At that time, NBFCs like Sundaram Finance, Sriram Finance, Chola Mandal, etc, did only vehicle loans and not gold loans. Even leasing was a green area. I decided to start vehicle financing and leasing. That's when the group initiated Manappuram General Finance and Leasing Company Limited, in the year 1992, with a capital of Rs 10 lakh (Rs 1 million). We started vehicle financing. That company also started growing parallel to the pawn shop at 30 to 40 per cent year-on-year. After this, I stopped concentrating on the gold loan business. Click **NEXT** to read more...



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### Kerala's first credit rated NBFC

I wanted to introduce complete transparency and that was how Manappuram became the first Kerala based NBFC to get itself rated by credit rating agencies.

In 1995, ICRA awarded its credit rating of "MA" (signifying adequate safety) to the company's Public Deposit programme. In fact, Manappuram has been continuously credit rated since 1995 and we have only been upgraded and today we have the highest short term rating of A1+ by ICRA and P1+ by CRISIL. Our Non Convertible Debentures are rated by CARE and Brickwork for high safety. Click **NEXT** to read more...



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### The public issue in 1995

I always wanted to move from a private limited company to a listed company. I decided to go to the market to raise capital with a public offer. However, I had to wait for 3 years as NBFCs statutorily required a minimum of Rs 3 crore (Rs 30 million) as paid-up capital to list at the BSE. I had started it with Rs 10 lakh in 1992. I used to add my money to the capital every year so that the capital grew.

We were around half of that, Rs 1.25 crore (Rs 12.5 million), and I did that with small investments from family members and friends. As a result, we were able to raise another Rs 1.75 crore (Rs 17.5 million). This was the kind of trust we had earned over the years.

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market capitalisation of the company is around \$1 billion.

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### One of my most difficult times as an entrepreneur

We listed our shares at the BSE in 1995 and, in hindsight; we were probably not ready for the challenges of being listed at a stock exchange. In the initial days, our share price slid from its face value of Rs 10 to as low as Rs 8, over the subsequent months.

People who had subscribed to the shares before the IPO based on my assurance that they would not lose money began queuing up for a buyback. I actually ended up buying back shares with a market value of Rs 8 at a price of Rs 10. It was not a wise thing to do, but I had to do that to keep my word and somewhere in always knew that it all could turn around, provided we kept our faith. Today, the sum of Rs10,000 that was invested in our IPO is worth Rs 23 lakh (Rs 2.3 million). The

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### The second most difficult period

In 1998, the government suddenly tightened the laws on NBFCs in the aftermath of the CRB scam. It became very difficult to raise deposits from the public. Almost overnight, we were straddled with a serious asset-liability mismatch. It was almost the end of the road for us. We had to fall back on gold loan business, which had taken a back seat.

With the asset-liability crisis, we were forced to rethink all our strategies. Thus, we decided to make our gold business a forerunner and put into our listed company (Manappuram Finance).

Now, the advantage is that gold loans are not risky like other loans. They could, and did, solve my asset-liability mismatch to a large extent.

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### Getting a loan

For the first time, we were able to attract institutional funding in a significant way. Till then, we were solely depending on public deposits. No bank funding was available.

The bank model was essentially in the nature of a "bilateral assignment" where loans originated by Manappuram were being booked by the bank. This went on to be known as 'ICICI Manappuram Model'.

ICICI Bank gave us Rs 25 crore (Rs 250 million), which was enhanced to Rs 100 crore (Rs 1 billion) in the same year.

By 2007, we had reached a size of Rs 100 crore. However, in 2006-07, ICICI Bank faced regulatory hurdles regarding securitisation and they were forced to pull out.

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### Tie-up with Temasek of Singapore

Around this time Temasek Holdings, Singapore government's sovereign investment fund wanted to enter the Indian financial sector in a big way through an NBFC. They came with a large capital to India.

A meeting was arranged in Singapore and I presented the ICICI funding model to them. After the presentation, they were interested in doing business with Manappuram. They decided to lend us Rs 500 crore (Rs 5 billion).

The Temasek investment had a good demonstration effect on other Indian banks like HDFC, Axis, etc, and they also gave us Rs 20 to Rs 25 crore (Rs 200 to 250 million) each.

In 2009, public sector banks also started funding

us. Using all the money, we grew very fast.

In 2006, we were a Rs 100 crore (Rs 1 billion) company. Now in 2011, we are an Rs.11,000 crore (Rs 110 billion) company. It shows the only constraint for growth was funding and when it came, we grew exponentially.

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### High point: Sequoia Capital invests in Manappuram

We became the first NBFC in Kerala to receive foreign institutional investment when Sequoia Capital and Hudson Equity Holdings together invested Rs 70 crore (Rs 700 million) into our equity in December 2007.

Later, there was a second tranche of foreign investment in November 2008, with Rs 108 crore (Rs 1.08 billion) coming in from four Private Equity funds (Ashmore, Alchemy and Granite Hill Capital joining Sequoia and Hudson).

Once this happened, we never faced problems again, as far as raising funds was concerned. Incidentally, Sequoia Capital, one of the earliest PE investors in the company, exited in April 2010 and this was one of their most profitable investments in India.

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### The road to expansion

From one shop in Valapad, we grew to have 2,600 branches all over India. We started growing when money started coming in as funds. We were aimed at opening 1 or 2 branches every year.

In 2006, we had around 70 branches. When money came in, we opened 300 to 500 branches every year.

The reason we could scale up so fast is because we had computerised our branches long ago. In gold loan, proximity to the customer is very important.

People come to us because we charge less; we charge at 12 to 24 per cent. We played a major role in the country by bringing interest rates down by at least 10-12 per cent in the unorganised

sector.

### Film stars as brand ambassadors

I want to be known as a local company and not a national company. In Tamil Nadu, I wanted to be known as Vikram's company and in Kerala, as Mohanlal's company. We opted for film stars because of the popularity they enjoy.

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### Diversification to gold retailing and healthcare

I take about 65-75 kilograms of gold as security everyday and disbursing loans to 60,000-65,000 customers a day and have 1 lakh transactions.

I found that 95 per cent of gold is sold as 22 carat (that is 91.6 per cent pure) but there is only 75 per cent purity, about 18 carat. In this transaction, the customers are often cheated.

That is why I entered jewellery retailing. I wanted to give highest quality gold jewellery to customers.



With an investment of Rs 300 crore (Rs 3 billion), I started Manappuram Jewellers Ltd with 17 stores and the stores are named Riti. Now, my plan is to have 100 stores in the next 2 years by investing another Rs 700 crore (Rs 7 billion). Click **NEXT** to read more...

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### Healthcare

I have the ambition to play a key role in the country's healthcare. Because the middle income group is growing, the healthcare sector offers a lot of possibilities. I am targeting the middle class and want to provide affordable healthcare to them.

To begin with, I have started state of art diagnostic centres and dental clinics. I have started the first one at Valapad and the next one is in Kochi.

### A word of advice for entrepreneurs

You should have a vision before you embark on an idea. Perseverance and hard work are essential, so also honesty and integrity.