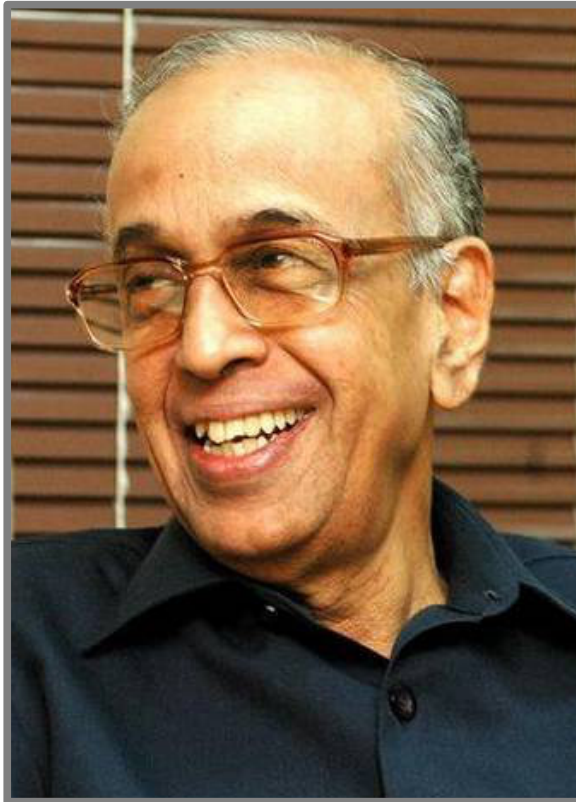




INTELLIGENT FANATICS CASE STUDY



R. Thyagarajan

Empowering People Through Prosperity

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R Thyagarajan

*If you want to find out what a man is to the bottom, give him power.
Any man can stand adversity—only a great man can stand prosperity.*

R Thyagarajan (or RT as he is affectionately known) is a remarkable human being. He created the Shriram group - a group worth more than \$10 billion today - out of a sense of responsibility to the community. For him, the quality of the business is determined by its usefulness to the community it serves. For RT, profits are not the end goal but the indication of the efficiency with which the business is serving the community – the more efficient the business, the better it can serve the community.

RT started Shriram in 1973, when he was employed with New India Assurance (NIA). He continued being an employee in NIA for 15 years before he finally quit, and became a promoter-consultant to Shriram businesses.

In the late 1990s, the RBI issued a press release cautioning people from depositing funds with Shriram as they doubted the integrity of the group. The RBI was mistaken - 15 years later, the Government of India awarded the 'Padma Bhushan' (the third highest civilian honour) to RT, in recognition of his integrity and his service to the community and the country.

And in the end, in a world driven by wealth and one's position on the 'richest' list, he gave it all away. He did not bequeath his ownership to his two capable sons, as is the norm in many businesses. He shared his ownership in the organisation he founded with long-term employees of Shriram. His reason - it is the employees who created the wealth since they ran the business, and hence they deserve it.

Early Life

RT was born on August 25, 1937 to a well-to-do agriculturist family. RT's grandfather was notorious for his spendthrift nature. Eager to achieve prominence, he spent a lot of money standing for local elections and helping other people in litigation. This profligate spending meant that on his grandfather's death, the family was stuck with a huge debt of around Rs. 3 lakhs (\$4,000) which around 1900 was a princely amount.

His father was however quite hard working and quit schooling quite early to repay this crippling debt. Rather than growing paddy on their land as was traditional then, RT's father chose to grow sugarcane which garnered more profits. By the time he was 21, through a series of shrewd business measures, RT's father had cleared all the debts. By the time RT was born, his family was quite well off, and it was known as one of the richest families in his village.

RT had a strongly developed sense of fairness and justice right from a young age. He was from a well-to-do family and recalls being embarrassed by his family wealth. During his childhood, when a tuition teacher was arranged for him, he argued against it as he did not think it right to have such an advantage over his classmates. When in college, he used to get down from his car at a certain distance and walk, as he was uncomfortable with his classmates seeing him in a car. This attitude towards wealth continues even today. He built his own home only at the age of 61, and that too at the insistence of his wife. He collects a salary of ₹65,000 per month (\$1,000), owns a basic car (~\$10,000), does not have a mobile, and spends less than ₹5,000 (<\$100) a year on his personal requirements like clothes.

Academically gifted as he was, schooling was not very difficult for RT. He excelled in school and joined the Vivekananda College to do Mathematics honours. The course was quite difficult but RT was able

to do well there due to his strategy of omitting a little and specializing in the rest. He compares it to the ABC strategy in materials management - where you focus on the 'A' item, costlier item to reduce the size of the inventory.

RT wanted to explore Mathematics further and joined ISI Calcutta, the premier institution for Statistics in India. Another reason for him joining ISI was that they provided a good stipend - he was keen on financial independence though he was not yet 20. His intelligence was evident from the fact that he was among the 5 or 6 people who got in from Tamil Nadu. It might sound strange but his attitude towards his personal finances was as lax as the risk management system he created for his businesses later. In ISI, he had a princely stipend of Rs 180 then (\$4) but he claims he could not save any money. He mostly lent the money to his classmates. His father was quite convinced that RT was more like his grandfather and that money would not stay with him.

After ISI he joined New India Assurance (NIA), which was into general insurance, as they were offering a higher pay and were looking for management trainees. NIA was then run by BK Shah, who influenced RT tremendously. RT considers the organization run by Mr. Shah to be world class - before NIA's nationalization in 1973. He copied some of the strategies implemented by Mr. Shah in NIA when he built the Shriram group later. For example, in NIA care was taken to ensure that candidates were selected not only by their merit but also by the region of the country they represented. Given that insurance is a national business, Mr. Shah's belief was that NIA needed presence and acceptance from every part of the country. Similarly, in Shriram as well, when entering a new region, RT ensured hiring of local employees who understood the culture of the region well. Another initiative of BK Shah which RT copied was that Mr. Shah empowered his sales officers to commit the company by issuing insurance policies which then had generally been the prerogative of the branch managers.

It was while he was in NIA that RT started many of his commercial vehicle (CV) lending institutions. His bosses at NIA actually encouraged him in it as it benefited the company.

After his stint at NIA, RT also spent more than a decade at JB Boda and Co, another company in the business of insurance. Mr. Boda, he recalls, evoked affection, regard and respect rather than admiration, and used to manage people with love and affection. However, in late 1980s, around 15 years after the birth of Shriram group, RT quit JB Boda and Co. As Shriram group became more popular, his visibility in the marketplace was going up, and he quit as he felt this might embarrass his superiors in JB Boda.

A Consultant Who Loves Entrepreneurs

RT's biography is called '[I am not an entrepreneur](#)' due to his emphatic belief that he is not an entrepreneur. For him, an entrepreneur is someone who comes up with an idea and takes great pain to make that idea work. For him, entrepreneurs are people like Bill Gates, Narayana Murthy and partners (Infosys), Chandramogan (Hatsun) and Anil Agarwal (Vedanta).

His constant refrain is that running a financial business did not require entrepreneurial capabilities - all it required was some amount of shrewdness and business acumen. In RT's words:

"You do not become an entrepreneur knowing how to do risk evaluation. I have been able to assess risks in money lending quite well, intelligently, maybe with a certain amount of acumen. That does not make me an entrepreneur. That helps me make money in money lending. I won't call it entrepreneurship because I know that business well."

And that is true - his love for Mathematics, coupled with his understanding of the customer from his stint in NIA and his understanding of the human nature rendered him uniquely capable of assessing risks in the lending business. His love for Mathematics is so deep that he has been a generous contributor to premier Mathematics focused educational institutions in India like Chennai Mathematical Institute and the Hyderabad-based CR Rao Advanced Institute of Mathematics and Statistics. And his faith in the importance of statistics and mathematics in business is such that he intends to hire from these institutes into the business with time.

RT has considerable sympathy, empathy and affection for people who wanted to make it on their own. Indians, a few decades back, had very few options to become prosperous given the license raj, and

paucity of well-paying jobs. Many Indians were self-employed, driven by the circumstances and by their desire to be self-made. But even in this effort of theirs, many of the self-employed were severely exploited by local moneylenders. It was this plight of the small entrepreneur that RT wanted to improve. While entrepreneurship and self-employment may not produce happiness, RT firmly believed that it could resolve the suffering that resulted from poverty.

Driven by this deep passion for entrepreneurship, RT has started hundreds of businesses for various would-be entrepreneurs. All the businesses he started were because someone he knew wanted a better quality of life and, in his assessment, possessed entrepreneurial skills. He would assist in the setting up of a business, help arrange capital, provide guidance for the person running the business and then move on.

This trait of being able to move on has been characteristic of him since an early age. Here is his recollection of a commercial vehicle business he helped start, *“I was involved from promotion, identification of people, to building the business. But I quit the business after a difference of opinion over risk management.”* A few years later, the business collapsed exactly the way RT predicted. And he was not happy over being proven right but instead just pointed out the importance of learning. *“Rather than bang my head against the wall, I move on and do something else.”* This ability to detach from something that has taken considerable portion of his time and efforts is remarkable.

For a man who is the brains behind the risk management of multiple financial entities, he claims in his personal life he is not very bothered about finances. It might sound strange but he claims to be good at making calculations of profit and loss and does it continuously for any business that he is involved in. But his personal accounts are managed by someone else. And this curious detachment towards personal finance carried over to ownership in businesses as well.

While starting a business, ownership was never a preoccupation. For him, his duty to the community always came first. He always backed his decisions by solid logic and a genuine desire to do well for the organization he was part of. RT considers his role in the business to be that of a consultant. All that he cared about when he offered his consultancy was that it should be of some benefit to the other. It was never for financial gain. What interest would financial gain have for someone who still draws just \$1,000 per month and has no interest in wealth.

Shriram Group - Random Beginnings

While RT had started multiple CV lending businesses early in his career, the first Shriram Group business was the Shriram Chits which began in early-1970s. Shriram Transport Finance was formed in 1979 (to fund primarily old trucks), while Shriram City Union Finance was formed in 1986.

There is a misconception (which I confess I used to have) that the journey of most entrepreneurs is a story-like straight line. Many people assume most entrepreneurs have journeys akin to the quote attributed to Julius Caesar - I came, I saw, I conquered. But nothing can be further from reality. Truth truly is far stranger than fiction.

Consider RT's initial motive to enter the moneylending business (Shriram was not his first financial services business). RT did not enter the commercial lending business to help the poor entrepreneur, nor did he do it out of his entrepreneurial ambitions. He did it to help his performance at his employment! This is how he puts it-

"I started lending money for commercial vehicle owners, more to better my New India Assurance job. I did not start the business to help him (the truck owner). We had the money, waiting to be deployed usefully somewhere. I knew he would repay the money. And the transaction will result in insurance premium which will further the career of my colleagues. In the process I too will get a good name in the organization by fulfilling my responsibility."

Consider, in his words the origin of Shriram Transport Finance Corp, the largest mono line NBFC (non-banking finance company) in India, which currently has a market cap of more than \$4 billion, and an AUM of more than \$12 billion.

"In 1979, Shriram Transport Finance was born to

help Lalgudi Jayaraman, a Carnatic violinist, who travelled a lot to perform at music concerts. I told to him that he should remain in Chennai and not waste his energies in travelling to earn an income.”

RT was a huge admirer of the renowned violinist Lalgudi Jayaraman. He wanted Mr. Jayaraman to spend more time on his art than on traveling to different locations to perform for sustenance. RT asked Jayaraman to contribute whatever he could and started STFC along with investments from some of his other friends and his own contribution.

While it has interests in both financial and non-financial businesses, Shriram is primarily known for its financial entities like Shriram Transport Finance Corp (STFC), Shriram City Union Finance (SCUF), Shriram General Insurance Corp (SGIC) and Shriram Life Insurance Corp (SLIC). These businesses together are worth more than \$9 billion today.

What is unique about the group is its target segment. While most well-known financial institutions in India like HDFC, Bajaj Finance focused on the urban middle class and the rich, Shriram’s focus since the beginning was firmly on those segments which were exploited by the local moneylender. RT articulates the progress of his entrepreneurial journey thus:

“If you simply look at my business history, you will see that I first started with truck finance, and I was clear that I was going to help the poorest in that category, so the focus was on used trucks; then came the chit fund [an instrument which functions as both a saving and lending instrument at the same time], again expanding the product portfolio to the rural poor that we were already serving. The chit fund had thousands of agents and so, to maximize their use and provide more products, we started public deposits and then

insurance. There has never been any grand vision, all a natural progression. We knew the people we serviced, we knew they needed help and we were giving them a service others were not.”

The CV lending business also did not focus on lending to new trucks – which was easier. Shriram focused on lending to people who purchased 10 to 15 year old trucks – to drivers who wanted to become small entrepreneurs. By tinkering over a long period of time, STFC was able to develop a strong system of doing credit assessment of its customers.

Shriram is probably among the first groups in India to have successfully and sustainably created wealth by focusing on the bottom of the pyramid. And even this was not by design.

“The promoters of the Shriram Group were not very well-to-do people. We felt comfortable with people who were similar or who had a similar economic background. We didn’t have much access to the affluent segment. We had to start with people whom we knew; people who were comfortable with us.

Later on we realized that we had incidentally done a good job of financial inclusion though we did not start off with the objective to work towards it. So, eventually in each segment of the overall commercial scenario, there is competition between different players. We happened to be operating in one area where the competition was less and probably because of that, our profits were quite steady. So, in a way we have been lucky. Our choice which was accidental turned out to be a good choice.”

Customer Focus

While the origin of his entry into the lending business was random, he was quick to spot the opportunity in this untapped segment of the market. His deep understanding of Mathematics and his experience of dealing with CV owners in NIA led him to believe this would be a profitable business.

In the financial service business it is risk management that matters the most. And the most important component in risk management here is the willingness and ability of the customer to repay the loan. RT understood the pain of the customer and understood that while the conventional wisdom then said the business segment was risky, he believed the small CV owner can be trusted to repay the money. He had a strong belief that there was no good or bad business, but a good way or a bad way to run a business.

While the business beginnings were random, RT soon became a champion of the small customers. He saw in them honest people who deserved a fair chance to succeed. Thus strangely, unlike most entrepreneurs who find their calling or an unmet need, and then start their business, RT started his business first and then found his calling.

RT was not bothered by any desire to conform. As long as he was convinced by the facts and figures behind his thinking, he did not care very much about what other players in the industry did.

The CV lending business focused on lending to the small under-served entrepreneur at rates much lower than the rates charged by the moneylenders. RT's long stint in NIA where he primarily dealt with commercial vehicle owners and drivers gave him a uniquely deep insight into the customer psyche. An example demonstrates his deep understanding of the customer.

RT was of the counter-intuitive opinion that Shriram should lend only to single truck owners and not fleet operators. His reasoning was

clear - if the corporate clients don't pay the fleet operators on time, they will end up not paying the lenders. On the other hand, a single truck operator is more likely to be careful about who he chooses as his customer as his livelihood depended on it.

A unique way in which Shriram focused on understanding the customer better was rather than waiting for the customer to come to them, Shriram went to the customer. STFC hired employees who were of the same social class as the customers. These employees then connected with the truck drivers at their place of business to understand their needs, their balance sheets, their cash flows, etc before coming out with their business model.

RT was adamant that the Shriram offices were as frugal as possible with no frills. This was done to ensure that the group remains as close to its customers as possible. Natarajan, a director in Shriram explained it best:

"We were taught the moment we joined that the only way we could succeed is if we are close to the people who take money from us and give us money. But when such a person comes to our office and sees all fancy westernized stuff, air conditioning everywhere, everyone in uniform, they are turned off, and we immediately put a barrier between them and us. How can we take money from them and yet have a lifestyle so different from them? The founder taught us that in order to truly serve the community, we must live their lives, like them."

Harnessing the power of velocity: The deep understanding of the customer allowed the Shriram group to design credit processes which allowed for quick decisions. This was also helped by the power of delegation, with the person disbursing money at the branch level allowed to decide on loan approvals. However, to ensure loan quality, the onus of recovery of the funds was also on the same person. The branch

manager directly interacted with the customers and took the final call. This system was inspired from his experience at NIA under BK Shah.

Consider this feedback from Narendra Salaskar, a trucker from Maharashtra, who has bought more than 40 trucks since 1987; each one through a Shriram loan.

'When I started, the banks did not trust people like me to give money to buy one truck. Now that I own several trucks, I could today go to a bank where I would get 3 or 4% less interest, but it would take a month or 45 days to get the loan. It takes about 48 hours for me to get a loan in Shriram. In our business, the timing of the loan is key. If I don't get the money on time, I am not on road. And every minute that I am not on the road, I lose money.'

Shriram's insurance business has a vehicle insurance turnaround time of a fraction of the industry average. Salaskar said one of the reasons he has stuck on with Shriram is also their turnaround time of insurance claims. The turnaround time is essential as old transport vehicles break down more frequently and if the insurance payment is delayed, it creates considerable hassle for the truck driver.

Shriram receives considerable praise from its competitors as well who credit RT for showing the others that the second hand truck finance business is viable. Srinivas Acharya, who has spent years leading Sundaram Finance, the major competitor of Shriram, said:

"Mr. Thyagarajan has run a campaign to bring down time taken to sanction loans and in vehicle insurance claims that has forced everyone to bring down the time. People have been trying to emulate his depth in connecting with the low income truck drivers to enter his business for a long time but no one has succeeded in this the way he has."

Internal Entrepreneurship Rather Than Internal Controls

Shriram executives are among the most empowered ones in the industry. Almost all leadership positions in the group are held by long term employees who handled different roles in different group businesses before their current role. Unlike most entrepreneurs RT had an upside down approach to business. Rather than identifying businesses to be in, he focused on people and their capabilities. Many of the businesses he helped start were when he identified people who wanted to be entrepreneurs; the people came first, and the business and the business model came later.

And once he chose the people and created the businesses, his philosophy is to give them considerable inputs and guide them to the best of his ability, but allow them to take their decisions and give them a long rope to succeed. It is a little known fact that he was employed at NIA when he started Shriram, and was employed for 17 odd years after Shriram group's birth. He achieved this via his approach of empowering people and sharing with them all he knew. He states that under his approach within six months, his team ended up doing things better than he could have done.

In fact, it would not be wrong to say that the business model of Shriram is delegation. RT articulated it thus:

“When we made people branch managers, we gave them total freedom to decide on the quantum of money to lend and the risk mitigation steps. I shared my opinion on what I thought, but the decision was theirs. When someone who runs a particular business disagrees with me I ask them to run it. I don't interfere. For instance, when we do a fixed deposit mobilization, the branch manager, will not just fix a

target for others; he will first take a target for himself. So, we never ask our colleagues to do something we ourselves could not do."

Part of empowerment involves allowing your team to make mistakes. And the team at Shriram are given full freedom to disagree with RT. For example, RT was particular that STFC would not finance new vehicles for two reasons - he wanted to use the available capital to help the second hand truck owners who would otherwise be at the mercy of moneylenders who would charge exorbitant interest rates, and also he believed that the new truck financing has lower margins due to higher competition. However, Umesh Revankar, the MD of STFC decided to begin funding new vehicles as well to increase volumes. And this is what he has to say about the experience:

"It soon became clear to me that not only was the space competitive but he was right about the fact that funding new vehicles was not lucrative business. But he will still allow you to make your mistakes as long as you learn from them."

And to ensure that this culture of failing fast continues to exist in the organization, RT was strongly against attempts to fix more accountability within the organization. He was always particular that all successes and failures be seen as a group effort. This is a part of his belief in the necessity of change. For change there needs to be experimentation, and in experimentation there can be failure. By removing individual accountability for failure, he was encouraging the culture of tinkering within the organization.

This empowerment of employees is a major reason for the success of Shriram. For a long period, RT was against credit ratings and STFC, the flagship entity went without credit ratings for a long period. His belief was that the credit rating agencies did not understand or appreciate the robustness of the business model. But in the larger interest of

the group he did not demur when R Sridhar, the then MD of STFC worked towards obtaining a credit rating for the company. STFC's credit rating moved from the BBB range to AA range as the agencies analysed the robustness of the operating model. This in turn reduced the cost of funds for the entity, which allowed it to spread its model even further.

In fact, Shriram was able to enter the insurance sector because of RT's philosophy of empowering employees. When the insurance sector opened for the private sector in 2001, the minimum capital requirement was 100 crores (\$14 million) which was unaffordable for the Shriram group at that point. However, this opening posed a problem for Shriram's chit fund business as private sector players were poaching Shriram's employees by offering 4x-5x the salary. R Duruvasan, who has been part of the Shriram group since 1979 and was then the head of the chit fund operations in Andhra Pradesh kept trying to convince RT to enter the insurance business as he was worried they would lose their best people.

RT was against it in the beginning as he believed insurance was about sales and marketing, and Shriram did not have the funds to invest the required amount in the beginning. Duruvasan told him he would bring the customers and the money for the business, and RT gave him a go ahead. It was then that Shriram entered the insurance business by selling life policies of AMP Sanmar to their chit fund customers. This evolved into a full-fledged entry into the insurance business in partnership with Sanlam from South Africa in mid-2000s. And as per RT, the insurance business of Shriram is worth around 6,000 to 7,000 crores.

It is also a little known fact that RT's desire to get complete consent from his team almost led to the failure of the deal with Piramal Enterprises. Ajay Piramal said:

"In between we decided to not go ahead with the deal. Because RT likes to get all his people in on the

decision-he likes to carry his team along. I think there was some uneasiness in the team whether we should invest or not. At one stage we decided we won't invest. Then we revived it again after a few months and went ahead."

In fact RT has designed Shriram to be among the most frugal companies in India. The reasons are two fold - one to remain close to the customers, and two to keep costs low so that they can serve the customers better. He kept both his and his employees salary low during his tenure there. In fact, the operations were so frugal that the PE players who came in were convinced initially that funds were being siphoned off somewhere! The rationale for keeping salaries was simple - if senior people took higher pay, that would have to percolate to the lower rungs of the employees as well. And in a financial services business, given people are the major costs, it would lead to the business becoming less competitive. And so, rather than increase salaries, retention was achieved by hiring quality people, giving them loads of freedom and sharing wealth with them.

In 2006, RT was supposed to have held 33% stake in the business. And in one move he reduced it to 2.5%. He did not bequeath his ownership to his two sons, as is the norm. He shared his ownership in the organisation he founded with a trust composed of senior employees. He helped set up the Shriram Ownership Trust where around 35 to 40 senior employees were chosen (based on their seniority in the group) and each were given stake ranging from 1% to 2.5%. His reason for this decision was, 'No one individual can create wealth; it is in partnership with others (that) we do it. It was only fair to share the wealth that was created in partnership with employees. Employees who helped build Shriram are partners in it.'

Tsunami

Post liberalization in 1991, a deluge of NBFCs began operations in India. The RBI did not have the power to regulate NBFCs in India during that period. Free from supervision, a huge number of fly-by-night operators started NBFCs and many of them raised huge deposits from the public promising high returns - basically many were ponzi schemes.

In 1996, the CRB Group, one of the largest NBFCs which was then rumoured to be a forerunner to get a banking license suddenly collapsed. At its peak, the CRB Group had 133 subsidiaries raising money from the public, and had raised ~\$130 million.

This triggered huge panic and the government had a predictably knee-jerk reaction. The RBI Act was amended overnight giving it overarching powers to regulate NBFCs. Given the environment at that time, RBI went overboard and initiated a series of stringent regulations which made business almost impossible overnight. NBFCs which took public deposits and were not in compliance with regulations were told to stop taking deposits overnight.

For Shriram, the bombshell was when the RBI issued a press release warning investors against investing in the fixed deposits of Shriram group companies as none of the entities were rated by credit rating agencies - which was a key guideline introduced by RBI. Credit rating agencies used a one-size-fits-all approach and considered Shriram's business model risky due to its exposure to what it assessed to be risky asset class. Due to this approach of the credit rating agencies, Shriram relied primarily on public deposits as the main source of funding as it was not able to raise wholesale deposits from the market.

Now, it is generally the death knell for a financial services company when the regulator positions itself against it. The way RT handled the crisis was remarkable.

Shriram had deposits of ~700cr (\$100 million) then. Given the nature of the business (raise deposits at lower rates and lend at higher rates), if there was a run, the institution would have been wiped out. The natural reaction for the organization would have been to shut shop and wait for things to calm down. But RT thought otherwise - he directed that all branches remain open. His rationale was this - *'We have spent 20 years being close to our customers. What do we have to fear? Let us see if people lose faith in us; open every office; return the money of anyone who asks. If people think we are cheating them, they will exit.'*

The reality is very few did. While companies around them were shutting shop left, right and center, Shriram became stronger by surviving and then taking market share.

RT's take on the regulators' over-compensation was this:

"As far as the regulator is concerned - well, sometimes, the regulator wakes up and punishes the good horses that have not bolted the stable since they cannot do anything about the horses that have bolted."

Partnership Led Growth **1+1=11** **Leveraging Reciprocity**

‘I cannot distrust people. I don’t start with suspicions. I would say we bend a little backwards to make the partnership work. We want our partners to prosper. These are all things that helped this organization build and develop partnerships.’

- R Thyagarajan

“He was always more than generous with all the partners and went that extra mile to do a lot more than they expected. He made them feel like the bigger partner irrespective of the stake they held. He used to tell us that we should give a lot more than we get and that our partners should feel so comfortable, they support us without asking.”

- GS Sundararajan, Director, Shriram Capital

RT’s qualities of integrity, willingness to trust and delegate attracted companies across the spectrum to Shriram. His openness to partnerships and the intense desire to ensure the partner was comfortable enabled Shriram to forge fruitful partnerships. In fact, Shriram’s history is an interesting journey of a series of tactical and strategic partnerships which were instrumental in scaling the organization to the next level each time.

The first major partnership was in 1990 when RT convinced Ashok Leyland and Tata Motors to buy stakes in STFC, and gave them seats on the board. But first some background. It is necessary to remember

here that what Shriram was attempting was unique. They took years to perfect the business model of lending for old trucks, and as there were no peers for the company, banks and other institutions found it risky to lend to them. And so, the company used to fund its operations through relatively shorter-term retail deposits. However, it wasn't easy convincing ordinary people to trust their savings with the company. Competitors were offering higher rates of interest and better commissions for intermediaries who brought in new depositors. It was in this context that RT was able to bring Ashok Leyland and Tata Motors on board, which were then and continue to be the largest CV manufacturers in the country. The presence of these marquee names increased the confidence of the public and STFC was able to convince more depositors to put their savings in it for a longer period of time.

Till about 1998, the major source of deposits was public deposits - funding from banks was less than 5% of that raised from the public. And then, the bombshell in the form of the RBI caution against Shriram hit. Once the short-term survival was taken care of, RT's focus moved to long-term sustainability of the business. And here his business brilliance came to the fore. Around this time, Citicorp Finance (the non-banking arm of Citigroup), through GS Sundararajan (who joined Shriram Group later) approached RT for a tie up to grow its lending business in India. Through its due diligence, Citicorp had figured out that STFC was operating in a niche segment and wanted to partner with the company.

Initially, RT was unsure as he was not sure of partnering with American banks. But then he went back to Citicorp who made it clear they were still interested but they wanted an exclusive tie-up. RT agreed to the exclusive tie-up, but with a caveat - Citicorp should pick up stakes in the listed entity in the Shriram group. This was a masterstroke. In one move, RT brought credibility to the Shriram group,

improved its potential funding profile and at the same time garnered enough equity for growth.

And then Shriram had a slew of partnerships with PE players. ChrysCapital, TPG and many others invested substantial sums into various group companies. At one point of time, Shriram group had the highest amount of PE inflow in India. The niche that Shriram operated in coupled with the integrity of the founder and transparency in operations were the reason many PE funds were open to partnering with the group. This funding infusion helped Shriram scale up and transport its models to more areas quickly.

As per RT, the reason PE players were comfortable with Shriram was:

“We treat all investors including minority investors as partners. We believe that all of them should benefit as much as we shareholders benefit. There is, therefore, a unique convergence of objectives leading to a win-win situation all the time.

PE firms also understand there can be no guarantee of returns. They say they will get into a venture only if they get 30% IRR (internal rate of return). I understand that’s how they should take decisions. We don’t guarantee them anything. We only say what we have done in the past. Whether you think it would give you the return or not is your decision.”

Tactical to Strategic: While the PE funds that invested in Shriram were pivotal in its growth in the 2000s, RT wanted to form more strategic partnerships which would provide more patient capital and improve the profile of the group at the same time.

One of the partners they found was Sanlam. Sanlam which started in 1918 as a life insurer has slowly developed over time, through organic and inorganic means, into a financial service business. Today, Sanlam is

a diversified financial services provider with an extensive product offering catering for all market segments. The Group has consistently grown its local as well as an international footprint - it now has a presence in more than 10 African countries, India, Malaysia, Philippines, the UK /Ireland, the US, Switzerland and Australia.

Given RT's long history in the insurance sector, a foray into insurance was always on his mind. But the capital requirements for the sector meant it was beyond Shriram's reach. Around the same time, Sanlam was scouting around India for their planned life insurance foray. The two parties met in mid 2000s, and Shriram Life Insurance was launched in 2006. As per the then CEO, Dr. van Zyl, Sanlam was unable to offer the price that other European players were offering Shriram, but Sanlam's experience of around 100 years in the life insurance space, and the similarities in focus on financial inclusion tilted the scales in their favor. Dr. Zyl said, *"At that stage we were allowed by regulations to invest only 26%, but he always treated us as an equal partner or even bigger partner and that created a lot of confidence."*

In fact, RT was so impressed with Sanlam, that he felt strongly that the Sanlam culture had to be deep-rooted in the life insurance business. The success in the life insurance business led to a natural progression with the two partners forming a JV for general insurance as well. An impressive fact is that both the insurance businesses have been profitable since inception, a feat which no other player in India has been able to replicate. With time, the confidence of Sanlam further increased, and it took a direct 26% stake in the holding company Shriram Capital for an amount of \$275 million. Today along with Piramal and Shriram Employees Trust, Sanlam is among the largest shareholders in the holding company.

Piramal: The partnership culture driven by RT at Shriram culminated with the appointment of Ajay Piramal as the Chairman of Shriram Capital. Over a period of two years, Piramal Enterprises,

driven by the chemistry between RT and Ajay Piramal, invested 10% each in STFC and SCUF, and 20% in Shriram Capital. An interesting point here is that Shriram is the only long-term investment of Piramal Enterprises where they do not have a controlling stake. Even this deal with Piramal was the coming together of many of RT's qualities including love for entrepreneurs, belief in the necessity of change for growth, detachment, integrity and the ability to trust.

The ultimate compliment to him was when, even after investing substantial sums in the Shriram companies, Piramal decided not to nominate a director on its board. "Thygarajan is our representative," Ajay Piramal said, although RT himself is not on the board of any Shriram company.

In 2017, this relationship culminated in Ajay Piramal being appointed as the Chairman of the Shriram Group. RT and his family today own not a single share in the Shriram Financial Services group. And when asked about his legacy and the Shriram group his response was – *"There has to be only one identity for Shriram: an enterprise driven and led by Ajay Piramal."*

Change and its Importance for Organizational Growth

RT is a fervent proponent of change, and firmly believes in the importance of leadership that believes in change. He believes that while avoiding mistakes can perhaps help in survival, for growth there has to be change. Perhaps no topic excites him as much as the topic of the necessity of change.

For example consider his comment of bringing Ajay Piramal into the group:

“Succession was always on my mind and I kept looking at possibilities. In the interest of the community, I feel that entrepreneurs should always run businesses because they are more likely to take risks that help the organisation scale to the next level. Professionals will run the organisation very efficiently. That’s it. To build something even bigger and more beneficial to the community, on what has already been created...I felt we don’t have a set of people to do that. Ajay Piramal’s role will support the larger interest of the organisation and the community. His entrepreneurial skills would help guide the extremely conservative group in future.”

The appointment of DV Ravi, the current MD of Shriram Capital (the holding company for the financial and insurance businesses) was also an outcome of his belief in the necessity of change. In 1992, Mr. Ravi was looking for a new role after five years in oil seeds business. He saw an ad from the Shriram Group where they were offering a senior position to a person with little experience. In his interview he made it clear that he had no experience in financial services. RT was apparently happy to hear this. He did not want an industry veteran with the same

old ideas, but wanted somebody without the baggage of being in the financial services business.

Conclusion

R Seshasayee, the former Chairman of Infosys calls him ‘a multifaceted diamond whose dazzling colours cannot all be captured by one individual and from one perspective alone.’

Puneet Bhatia, the India head of TPG Capital had this to say about RT:

“Over the course of a couple of decades of my meeting hundreds of founders, each of whom have been exceptionally gifted and driven, one individual who still shines the brightest is RT. His uncanny sense of finding a business opportunity that was compelling was trumped only by his burning desire to help embryonic entrepreneurs off the ground, which is what makes him unique. You have founders who could spot opportunities and execute flawlessly. And you’ll find individuals with highly altruistic motives. But the combination of these is what makes RT a giant in contemporary India.”

Ashish Dhawan, former MD of ChryCapital observed,

“There has long been a pseudo-religious element to RT’s following. The man is an icon. RT is a philosopher king. Like Gandhi, he is a simple man who can influence people by changing their mindsets. He gives his team freedom and has transformed them all into entrepreneurs. That makes him truly unique in the world of Indian business. Nobody in the finance industry or for that matter any industry, has made such a lasting impact on the community while creating value for employees and shareholders.”

While I have tried my best here to capture a few traits of RT, I urge the readers to pick up his biography to understand him better.

SCUF and STFC are two prominent listed entities of the Shriram Group. The stock price of STFC has increased from an average of Rs. 6.5 in 2001 to Rs. 1446 today, a 222 bagger. The share price of SCUF increased from an average of Rs. 15 to Rs. 2250 today, a 150 bagger. As compared to both, the index generated a 10 bagger over the same period.

NOTES

1. <http://www.forbesindia.com/printcontent/38835>
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5. Books: [I am not an entrepreneur](#), [Recasting India](#)
6. Others: STFC annual reports, SCUF annual reports, Youtube videos, News articles

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R Thyagarajan

*If you want to find out what a man is to the bottom, give him power.
Any man can stand adversity—only a great man can stand prosperity.*

R Thyagarajan (or RT as he is affectionately known) is a remarkable human being. He created the Shriram group - a group worth more than \$10 billion today - out of a sense of responsibility to the community. For him, the quality of the business is determined by its usefulness to the community it serves. For RT, profits are not the end goal but the indication of the efficiency with which the business is serving the community – the more efficient the business, the better it can serve the community.

RT started Shriram in 1973, when he was employed with New India Assurance (NIA). He continued being an employee in NIA for 15 years before he finally quit, and became a promoter-consultant to Shriram businesses.

In the late 1990s, the RBI issued a press release cautioning people from depositing funds with Shriram as they doubted the integrity of the group. The RBI was mistaken - 15 years later, the Government of India awarded the 'Padma Bhushan' (the third highest civilian honour) to RT, in recognition of his integrity and his service to the community and the country.

And in the end, in a world driven by wealth and one's position on the 'richest' list, he gave it all away. He did not bequeath his ownership to his two capable sons, as is the norm in many businesses. He shared his ownership in the organisation he founded with long-term employees of Shriram. His reason - it is the employees who created the wealth since they ran the business, and hence they deserve it.

Early Life

RT was born on August 25, 1937 to a well-to-do agriculturist family. RT's grandfather was notorious for his spendthrift nature. Eager to achieve prominence, he spent a lot of money standing for local elections and helping other people in litigation. This profligate spending meant that on his grandfather's death, the family was stuck with a huge debt of around Rs. 3 lakhs (\$4,000) which around 1900 was a princely amount.

His father was however quite hard working and quit schooling quite early to repay this crippling debt. Rather than growing paddy on their land as was traditional then, RT's father chose to grow sugarcane which garnered more profits. By the time he was 21, through a series of shrewd business measures, RT's father had cleared all the debts. By the time RT was born, his family was quite well off, and it was known as one of the richest families in his village.

RT had a strongly developed sense of fairness and justice right from a young age. He was from a well-to-do family and recalls being embarrassed by his family wealth. During his childhood, when a tuition teacher was arranged for him, he argued against it as he did not think it right to have such an advantage over his classmates. When in college, he used to get down from his car at a certain distance and walk, as he was uncomfortable with his classmates seeing him in a car. This attitude towards wealth continues even today. He built his own home only at the age of 61, and that too at the insistence of his wife. He collects a salary of ₹65,000 per month (\$1,000), owns a basic car (~\$10,000), does not have a mobile, and spends less than ₹5,000 (<\$100) a year on his personal requirements like clothes.

Academically gifted as he was, schooling was not very difficult for RT. He excelled in school and joined the Vivekananda College to do Mathematics honours. The course was quite difficult but RT was able

to do well there due to his strategy of omitting a little and specializing in the rest. He compares it to the ABC strategy in materials management - where you focus on the 'A' item, costlier item to reduce the size of the inventory.

RT wanted to explore Mathematics further and joined ISI Calcutta, the premier institution for Statistics in India. Another reason for him joining ISI was that they provided a good stipend - he was keen on financial independence though he was not yet 20. His intelligence was evident from the fact that he was among the 5 or 6 people who got in from Tamil Nadu. It might sound strange but his attitude towards his personal finances was as lax as the risk management system he created for his businesses later. In ISI, he had a princely stipend of Rs 180 then (\$4) but he claims he could not save any money. He mostly lent the money to his classmates. His father was quite convinced that RT was more like his grandfather and that money would not stay with him.

After ISI he joined New India Assurance (NIA), which was into general insurance, as they were offering a higher pay and were looking for management trainees. NIA was then run by BK Shah, who influenced RT tremendously. RT considers the organization run by Mr. Shah to be world class - before NIA's nationalization in 1973. He copied some of the strategies implemented by Mr. Shah in NIA when he built the Shriram group later. For example, in NIA care was taken to ensure that candidates were selected not only by their merit but also by the region of the country they represented. Given that insurance is a national business, Mr. Shah's belief was that NIA needed presence and acceptance from every part of the country. Similarly, in Shriram as well, when entering a new region, RT ensured hiring of local employees who understood the culture of the region well. Another initiative of BK Shah which RT copied was that Mr. Shah empowered his sales officers to commit the company by issuing insurance policies which then had generally been the prerogative of the branch managers.

It was while he was in NIA that RT started many of his commercial vehicle (CV) lending institutions. His bosses at NIA actually encouraged him in it as it benefited the company.

After his stint at NIA, RT also spent more than a decade at JB Boda and Co, another company in the business of insurance. Mr. Boda, he recalls, evoked affection, regard and respect rather than admiration, and used to manage people with love and affection. However, in late 1980s, around 15 years after the birth of Shriram group, RT quit JB Boda and Co. As Shriram group became more popular, his visibility in the marketplace was going up, and he quit as he felt this might embarrass his superiors in JB Boda.

A Consultant Who Loves Entrepreneurs

RT's biography is called '[I am not an entrepreneur](#)' due to his emphatic belief that he is not an entrepreneur. For him, an entrepreneur is someone who comes up with an idea and takes great pain to make that idea work. For him, entrepreneurs are people like Bill Gates, Narayana Murthy and partners (Infosys), Chandramogan (Hatsun) and Anil Agarwal (Vedanta).

His constant refrain is that running a financial business did not require entrepreneurial capabilities - all it required was some amount of shrewdness and business acumen. In RT's words:

"You do not become an entrepreneur knowing how to do risk evaluation. I have been able to assess risks in money lending quite well, intelligently, maybe with a certain amount of acumen. That does not make me an entrepreneur. That helps me make money in money lending. I won't call it entrepreneurship because I know that business well."

And that is true - his love for Mathematics, coupled with his understanding of the customer from his stint in NIA and his understanding of the human nature rendered him uniquely capable of assessing risks in the lending business. His love for Mathematics is so deep that he has been a generous contributor to premier Mathematics focused educational institutions in India like Chennai Mathematical Institute and the Hyderabad-based CR Rao Advanced Institute of Mathematics and Statistics. And his faith in the importance of statistics and mathematics in business is such that he intends to hire from these institutes into the business with time.

RT has considerable sympathy, empathy and affection for people who wanted to make it on their own. Indians, a few decades back, had very few options to become prosperous given the license raj, and

paucity of well-paying jobs. Many Indians were self-employed, driven by the circumstances and by their desire to be self-made. But even in this effort of theirs, many of the self-employed were severely exploited by local moneylenders. It was this plight of the small entrepreneur that RT wanted to improve. While entrepreneurship and self-employment may not produce happiness, RT firmly believed that it could resolve the suffering that resulted from poverty.

Driven by this deep passion for entrepreneurship, RT has started hundreds of businesses for various would-be entrepreneurs. All the businesses he started were because someone he knew wanted a better quality of life and, in his assessment, possessed entrepreneurial skills. He would assist in the setting up of a business, help arrange capital, provide guidance for the person running the business and then move on.

This trait of being able to move on has been characteristic of him since an early age. Here is his recollection of a commercial vehicle business he helped start, *“I was involved from promotion, identification of people, to building the business. But I quit the business after a difference of opinion over risk management.”* A few years later, the business collapsed exactly the way RT predicted. And he was not happy over being proven right but instead just pointed out the importance of learning. *“Rather than bang my head against the wall, I move on and do something else.”* This ability to detach from something that has taken considerable portion of his time and efforts is remarkable.

For a man who is the brains behind the risk management of multiple financial entities, he claims in his personal life he is not very bothered about finances. It might sound strange but he claims to be good at making calculations of profit and loss and does it continuously for any business that he is involved in. But his personal accounts are managed by someone else. And this curious detachment towards personal finance carried over to ownership in businesses as well.

While starting a business, ownership was never a preoccupation. For him, his duty to the community always came first. He always backed his decisions by solid logic and a genuine desire to do well for the organization he was part of. RT considers his role in the business to be that of a consultant. All that he cared about when he offered his consultancy was that it should be of some benefit to the other. It was never for financial gain. What interest would financial gain have for someone who still draws just \$1,000 per month and has no interest in wealth.

Shriram Group - Random Beginnings

While RT had started multiple CV lending businesses early in his career, the first Shriram Group business was the Shriram Chits which began in early-1970s. Shriram Transport Finance was formed in 1979 (to fund primarily old trucks), while Shriram City Union Finance was formed in 1986.

There is a misconception (which I confess I used to have) that the journey of most entrepreneurs is a story-like straight line. Many people assume most entrepreneurs have journeys akin to the quote attributed to Julius Caesar - I came, I saw, I conquered. But nothing can be further from reality. Truth truly is far stranger than fiction.

Consider RT's initial motive to enter the moneylending business (Shriram was not his first financial services business). RT did not enter the commercial lending business to help the poor entrepreneur, nor did he do it out of his entrepreneurial ambitions. He did it to help his performance at his employment! This is how he puts it-

"I started lending money for commercial vehicle owners, more to better my New India Assurance job. I did not start the business to help him (the truck owner). We had the money, waiting to be deployed usefully somewhere. I knew he would repay the money. And the transaction will result in insurance premium which will further the career of my colleagues. In the process I too will get a good name in the organization by fulfilling my responsibility."

Consider, in his words the origin of Shriram Transport Finance Corp, the largest mono line NBFC (non-banking finance company) in India, which currently has a market cap of more than \$4 billion, and an AUM of more than \$12 billion.

"In 1979, Shriram Transport Finance was born to

help Lalgudi Jayaraman, a Carnatic violinist, who travelled a lot to perform at music concerts. I told to him that he should remain in Chennai and not waste his energies in travelling to earn an income.”

RT was a huge admirer of the renowned violinist Lalgudi Jayaraman. He wanted Mr. Jayaraman to spend more time on his art than on traveling to different locations to perform for sustenance. RT asked Jayaraman to contribute whatever he could and started STFC along with investments from some of his other friends and his own contribution.

While it has interests in both financial and non-financial businesses, Shriram is primarily known for its financial entities like Shriram Transport Finance Corp (STFC), Shriram City Union Finance (SCUF), Shriram General Insurance Corp (SGIC) and Shriram Life Insurance Corp (SLIC). These businesses together are worth more than \$9 billion today.

What is unique about the group is its target segment. While most well-known financial institutions in India like HDFC, Bajaj Finance focused on the urban middle class and the rich, Shriram’s focus since the beginning was firmly on those segments which were exploited by the local moneylender. RT articulates the progress of his entrepreneurial journey thus:

“If you simply look at my business history, you will see that I first started with truck finance, and I was clear that I was going to help the poorest in that category, so the focus was on used trucks; then came the chit fund [an instrument which functions as both a saving and lending instrument at the same time], again expanding the product portfolio to the rural poor that we were already serving. The chit fund had thousands of agents and so, to maximize their use and provide more products, we started public deposits and then

insurance. There has never been any grand vision, all a natural progression. We knew the people we serviced, we knew they needed help and we were giving them a service others were not.”

The CV lending business also did not focus on lending to new trucks – which was easier. Shriram focused on lending to people who purchased 10 to 15 year old trucks – to drivers who wanted to become small entrepreneurs. By tinkering over a long period of time, STFC was able to develop a strong system of doing credit assessment of its customers.

Shriram is probably among the first groups in India to have successfully and sustainably created wealth by focusing on the bottom of the pyramid. And even this was not by design.

“The promoters of the Shriram Group were not very well-to-do people. We felt comfortable with people who were similar or who had a similar economic background. We didn’t have much access to the affluent segment. We had to start with people whom we knew; people who were comfortable with us.

Later on we realized that we had incidentally done a good job of financial inclusion though we did not start off with the objective to work towards it. So, eventually in each segment of the overall commercial scenario, there is competition between different players. We happened to be operating in one area where the competition was less and probably because of that, our profits were quite steady. So, in a way we have been lucky. Our choice which was accidental turned out to be a good choice.”

Customer Focus

While the origin of his entry into the lending business was random, he was quick to spot the opportunity in this untapped segment of the market. His deep understanding of Mathematics and his experience of dealing with CV owners in NIA led him to believe this would be a profitable business.

In the financial service business it is risk management that matters the most. And the most important component in risk management here is the willingness and ability of the customer to repay the loan. RT understood the pain of the customer and understood that while the conventional wisdom then said the business segment was risky, he believed the small CV owner can be trusted to repay the money. He had a strong belief that there was no good or bad business, but a good way or a bad way to run a business.

While the business beginnings were random, RT soon became a champion of the small customers. He saw in them honest people who deserved a fair chance to succeed. Thus strangely, unlike most entrepreneurs who find their calling or an unmet need, and then start their business, RT started his business first and then found his calling.

RT was not bothered by any desire to conform. As long as he was convinced by the facts and figures behind his thinking, he did not care very much about what other players in the industry did.

The CV lending business focused on lending to the small under-served entrepreneur at rates much lower than the rates charged by the moneylenders. RT's long stint in NIA where he primarily dealt with commercial vehicle owners and drivers gave him a uniquely deep insight into the customer psyche. An example demonstrates his deep understanding of the customer.

RT was of the counter-intuitive opinion that Shriram should lend only to single truck owners and not fleet operators. His reasoning was

clear - if the corporate clients don't pay the fleet operators on time, they will end up not paying the lenders. On the other hand, a single truck operator is more likely to be careful about who he chooses as his customer as his livelihood depended on it.

A unique way in which Shriram focused on understanding the customer better was rather than waiting for the customer to come to them, Shriram went to the customer. STFC hired employees who were of the same social class as the customers. These employees then connected with the truck drivers at their place of business to understand their needs, their balance sheets, their cash flows, etc before coming out with their business model.

RT was adamant that the Shriram offices were as frugal as possible with no frills. This was done to ensure that the group remains as close to its customers as possible. Natarajan, a director in Shriram explained it best:

"We were taught the moment we joined that the only way we could succeed is if we are close to the people who take money from us and give us money. But when such a person comes to our office and sees all fancy westernized stuff, air conditioning everywhere, everyone in uniform, they are turned off, and we immediately put a barrier between them and us. How can we take money from them and yet have a lifestyle so different from them? The founder taught us that in order to truly serve the community, we must live their lives, like them."

Harnessing the power of velocity: The deep understanding of the customer allowed the Shriram group to design credit processes which allowed for quick decisions. This was also helped by the power of delegation, with the person disbursing money at the branch level allowed to decide on loan approvals. However, to ensure loan quality, the onus of recovery of the funds was also on the same person. The branch

manager directly interacted with the customers and took the final call. This system was inspired from his experience at NIA under BK Shah.

Consider this feedback from Narendra Salaskar, a trucker from Maharashtra, who has bought more than 40 trucks since 1987; each one through a Shriram loan.

'When I started, the banks did not trust people like me to give money to buy one truck. Now that I own several trucks, I could today go to a bank where I would get 3 or 4% less interest, but it would take a month or 45 days to get the loan. It takes about 48 hours for me to get a loan in Shriram. In our business, the timing of the loan is key. If I don't get the money on time, I am not on road. And every minute that I am not on the road, I lose money.'

Shriram's insurance business has a vehicle insurance turnaround time of a fraction of the industry average. Salaskar said one of the reasons he has stuck on with Shriram is also their turnaround time of insurance claims. The turnaround time is essential as old transport vehicles break down more frequently and if the insurance payment is delayed, it creates considerable hassle for the truck driver.

Shriram receives considerable praise from its competitors as well who credit RT for showing the others that the second hand truck finance business is viable. Srinivas Acharya, who has spent years leading Sundaram Finance, the major competitor of Shriram, said:

"Mr. Thyagarajan has run a campaign to bring down time taken to sanction loans and in vehicle insurance claims that has forced everyone to bring down the time. People have been trying to emulate his depth in connecting with the low income truck drivers to enter his business for a long time but no one has succeeded in this the way he has."

Internal Entrepreneurship Rather Than Internal Controls

Shriram executives are among the most empowered ones in the industry. Almost all leadership positions in the group are held by long term employees who handled different roles in different group businesses before their current role. Unlike most entrepreneurs RT had an upside down approach to business. Rather than identifying businesses to be in, he focused on people and their capabilities. Many of the businesses he helped start were when he identified people who wanted to be entrepreneurs; the people came first, and the business and the business model came later.

And once he chose the people and created the businesses, his philosophy is to give them considerable inputs and guide them to the best of his ability, but allow them to take their decisions and give them a long rope to succeed. It is a little known fact that he was employed at NIA when he started Shriram, and was employed for 17 odd years after Shriram group's birth. He achieved this via his approach of empowering people and sharing with them all he knew. He states that under his approach within six months, his team ended up doing things better than he could have done.

In fact, it would not be wrong to say that the business model of Shriram is delegation. RT articulated it thus:

“When we made people branch managers, we gave them total freedom to decide on the quantum of money to lend and the risk mitigation steps. I shared my opinion on what I thought, but the decision was theirs. When someone who runs a particular business disagrees with me I ask them to run it. I don't interfere. For instance, when we do a fixed deposit mobilization, the branch manager, will not just fix a

target for others; he will first take a target for himself. So, we never ask our colleagues to do something we ourselves could not do."

Part of empowerment involves allowing your team to make mistakes. And the team at Shriram are given full freedom to disagree with RT. For example, RT was particular that STFC would not finance new vehicles for two reasons - he wanted to use the available capital to help the second hand truck owners who would otherwise be at the mercy of moneylenders who would charge exorbitant interest rates, and also he believed that the new truck financing has lower margins due to higher competition. However, Umesh Revankar, the MD of STFC decided to begin funding new vehicles as well to increase volumes. And this is what he has to say about the experience:

"It soon became clear to me that not only was the space competitive but he was right about the fact that funding new vehicles was not lucrative business. But he will still allow you to make your mistakes as long as you learn from them."

And to ensure that this culture of failing fast continues to exist in the organization, RT was strongly against attempts to fix more accountability within the organization. He was always particular that all successes and failures be seen as a group effort. This is a part of his belief in the necessity of change. For change there needs to be experimentation, and in experimentation there can be failure. By removing individual accountability for failure, he was encouraging the culture of tinkering within the organization.

This empowerment of employees is a major reason for the success of Shriram. For a long period, RT was against credit ratings and STFC, the flagship entity went without credit ratings for a long period. His belief was that the credit rating agencies did not understand or appreciate the robustness of the business model. But in the larger interest of

the group he did not demur when R Sridhar, the then MD of STFC worked towards obtaining a credit rating for the company. STFC's credit rating moved from the BBB range to AA range as the agencies analysed the robustness of the operating model. This in turn reduced the cost of funds for the entity, which allowed it to spread its model even further.

In fact, Shriram was able to enter the insurance sector because of RT's philosophy of empowering employees. When the insurance sector opened for the private sector in 2001, the minimum capital requirement was 100 crores (\$14 million) which was unaffordable for the Shriram group at that point. However, this opening posed a problem for Shriram's chit fund business as private sector players were poaching Shriram's employees by offering 4x-5x the salary. R Duruvasan, who has been part of the Shriram group since 1979 and was then the head of the chit fund operations in Andhra Pradesh kept trying to convince RT to enter the insurance business as he was worried they would lose their best people.

RT was against it in the beginning as he believed insurance was about sales and marketing, and Shriram did not have the funds to invest the required amount in the beginning. Duruvasan told him he would bring the customers and the money for the business, and RT gave him a go ahead. It was then that Shriram entered the insurance business by selling life policies of AMP Sanmar to their chit fund customers. This evolved into a full-fledged entry into the insurance business in partnership with Sanlam from South Africa in mid-2000s. And as per RT, the insurance business of Shriram is worth around 6,000 to 7,000 crores.

It is also a little known fact that RT's desire to get complete consent from his team almost led to the failure of the deal with Piramal Enterprises. Ajay Piramal said:

"In between we decided to not go ahead with the deal. Because RT likes to get all his people in on the

decision-he likes to carry his team along. I think there was some uneasiness in the team whether we should invest or not. At one stage we decided we won't invest. Then we revived it again after a few months and went ahead."

In fact RT has designed Shriram to be among the most frugal companies in India. The reasons are two fold - one to remain close to the customers, and two to keep costs low so that they can serve the customers better. He kept both his and his employees salary low during his tenure there. In fact, the operations were so frugal that the PE players who came in were convinced initially that funds were being siphoned off somewhere! The rationale for keeping salaries was simple - if senior people took higher pay, that would have to percolate to the lower rungs of the employees as well. And in a financial services business, given people are the major costs, it would lead to the business becoming less competitive. And so, rather than increase salaries, retention was achieved by hiring quality people, giving them loads of freedom and sharing wealth with them.

In 2006, RT was supposed to have held 33% stake in the business. And in one move he reduced it to 2.5%. He did not bequeath his ownership to his two sons, as is the norm. He shared his ownership in the organisation he founded with a trust composed of senior employees. He helped set up the Shriram Ownership Trust where around 35 to 40 senior employees were chosen (based on their seniority in the group) and each were given stake ranging from 1% to 2.5%. His reason for this decision was, 'No one individual can create wealth; it is in partnership with others (that) we do it. It was only fair to share the wealth that was created in partnership with employees. Employees who helped build Shriram are partners in it.'

Tsunami

Post liberalization in 1991, a deluge of NBFCs began operations in India. The RBI did not have the power to regulate NBFCs in India during that period. Free from supervision, a huge number of fly-by-night operators started NBFCs and many of them raised huge deposits from the public promising high returns - basically many were ponzi schemes.

In 1996, the CRB Group, one of the largest NBFCs which was then rumoured to be a forerunner to get a banking license suddenly collapsed. At its peak, the CRB Group had 133 subsidiaries raising money from the public, and had raised ~\$130 million.

This triggered huge panic and the government had a predictably knee-jerk reaction. The RBI Act was amended overnight giving it overarching powers to regulate NBFCs. Given the environment at that time, RBI went overboard and initiated a series of stringent regulations which made business almost impossible overnight. NBFCs which took public deposits and were not in compliance with regulations were told to stop taking deposits overnight.

For Shriram, the bombshell was when the RBI issued a press release warning investors against investing in the fixed deposits of Shriram group companies as none of the entities were rated by credit rating agencies - which was a key guideline introduced by RBI. Credit rating agencies used a one-size-fits-all approach and considered Shriram's business model risky due to its exposure to what it assessed to be risky asset class. Due to this approach of the credit rating agencies, Shriram relied primarily on public deposits as the main source of funding as it was not able to raise wholesale deposits from the market.

Now, it is generally the death knell for a financial services company when the regulator positions itself against it. The way RT handled the crisis was remarkable.

Shriram had deposits of ~700cr (\$100 million) then. Given the nature of the business (raise deposits at lower rates and lend at higher rates), if there was a run, the institution would have been wiped out. The natural reaction for the organization would have been to shut shop and wait for things to calm down. But RT thought otherwise - he directed that all branches remain open. His rationale was this - *'We have spent 20 years being close to our customers. What do we have to fear? Let us see if people lose faith in us; open every office; return the money of anyone who asks. If people think we are cheating them, they will exit.'*

The reality is very few did. While companies around them were shutting shop left, right and center, Shriram became stronger by surviving and then taking market share.

RT's take on the regulators' over-compensation was this:

"As far as the regulator is concerned - well, sometimes, the regulator wakes up and punishes the good horses that have not bolted the stable since they cannot do anything about the horses that have bolted."

Partnership Led Growth **1+1=11** **Leveraging Reciprocity**

‘I cannot distrust people. I don’t start with suspicions. I would say we bend a little backwards to make the partnership work. We want our partners to prosper. These are all things that helped this organization build and develop partnerships.’

- R Thyagarajan

“He was always more than generous with all the partners and went that extra mile to do a lot more than they expected. He made them feel like the bigger partner irrespective of the stake they held. He used to tell us that we should give a lot more than we get and that our partners should feel so comfortable, they support us without asking.”

- GS Sundararajan, Director, Shriram Capital

RT’s qualities of integrity, willingness to trust and delegate attracted companies across the spectrum to Shriram. His openness to partnerships and the intense desire to ensure the partner was comfortable enabled Shriram to forge fruitful partnerships. In fact, Shriram’s history is an interesting journey of a series of tactical and strategic partnerships which were instrumental in scaling the organization to the next level each time.

The first major partnership was in 1990 when RT convinced Ashok Leyland and Tata Motors to buy stakes in STFC, and gave them seats on the board. But first some background. It is necessary to remember

here that what Shriram was attempting was unique. They took years to perfect the business model of lending for old trucks, and as there were no peers for the company, banks and other institutions found it risky to lend to them. And so, the company used to fund its operations through relatively shorter-term retail deposits. However, it wasn't easy convincing ordinary people to trust their savings with the company. Competitors were offering higher rates of interest and better commissions for intermediaries who brought in new depositors. It was in this context that RT was able to bring Ashok Leyland and Tata Motors on board, which were then and continue to be the largest CV manufacturers in the country. The presence of these marquee names increased the confidence of the public and STFC was able to convince more depositors to put their savings in it for a longer period of time.

Till about 1998, the major source of deposits was public deposits - funding from banks was less than 5% of that raised from the public. And then, the bombshell in the form of the RBI caution against Shriram hit. Once the short-term survival was taken care of, RT's focus moved to long-term sustainability of the business. And here his business brilliance came to the fore. Around this time, Citicorp Finance (the non-banking arm of Citigroup), through GS Sundararajan (who joined Shriram Group later) approached RT for a tie up to grow its lending business in India. Through its due diligence, Citicorp had figured out that STFC was operating in a niche segment and wanted to partner with the company.

Initially, RT was unsure as he was not sure of partnering with American banks. But then he went back to Citicorp who made it clear they were still interested but they wanted an exclusive tie-up. RT agreed to the exclusive tie-up, but with a caveat - Citicorp should pick up stakes in the listed entity in the Shriram group. This was a masterstroke. In one move, RT brought credibility to the Shriram group,

improved its potential funding profile and at the same time garnered enough equity for growth.

And then Shriram had a slew of partnerships with PE players. ChrysCapital, TPG and many others invested substantial sums into various group companies. At one point of time, Shriram group had the highest amount of PE inflow in India. The niche that Shriram operated in coupled with the integrity of the founder and transparency in operations were the reason many PE funds were open to partnering with the group. This funding infusion helped Shriram scale up and transport its models to more areas quickly.

As per RT, the reason PE players were comfortable with Shriram was:

“We treat all investors including minority investors as partners. We believe that all of them should benefit as much as we shareholders benefit. There is, therefore, a unique convergence of objectives leading to a win-win situation all the time.

PE firms also understand there can be no guarantee of returns. They say they will get into a venture only if they get 30% IRR (internal rate of return). I understand that’s how they should take decisions. We don’t guarantee them anything. We only say what we have done in the past. Whether you think it would give you the return or not is your decision.”

Tactical to Strategic: While the PE funds that invested in Shriram were pivotal in its growth in the 2000s, RT wanted to form more strategic partnerships which would provide more patient capital and improve the profile of the group at the same time.

One of the partners they found was Sanlam. Sanlam which started in 1918 as a life insurer has slowly developed over time, through organic and inorganic means, into a financial service business. Today, Sanlam is

a diversified financial services provider with an extensive product offering catering for all market segments. The Group has consistently grown its local as well as an international footprint - it now has a presence in more than 10 African countries, India, Malaysia, Philippines, the UK /Ireland, the US, Switzerland and Australia.

Given RT's long history in the insurance sector, a foray into insurance was always on his mind. But the capital requirements for the sector meant it was beyond Shriram's reach. Around the same time, Sanlam was scouting around India for their planned life insurance foray. The two parties met in mid 2000s, and Shriram Life Insurance was launched in 2006. As per the then CEO, Dr. van Zyl, Sanlam was unable to offer the price that other European players were offering Shriram, but Sanlam's experience of around 100 years in the life insurance space, and the similarities in focus on financial inclusion tilted the scales in their favor. Dr. Zyl said, *"At that stage we were allowed by regulations to invest only 26%, but he always treated us as an equal partner or even bigger partner and that created a lot of confidence."*

In fact, RT was so impressed with Sanlam, that he felt strongly that the Sanlam culture had to be deep-rooted in the life insurance business. The success in the life insurance business led to a natural progression with the two partners forming a JV for general insurance as well. An impressive fact is that both the insurance businesses have been profitable since inception, a feat which no other player in India has been able to replicate. With time, the confidence of Sanlam further increased, and it took a direct 26% stake in the holding company Shriram Capital for an amount of \$275 million. Today along with Piramal and Shriram Employees Trust, Sanlam is among the largest shareholders in the holding company.

Piramal: The partnership culture driven by RT at Shriram culminated with the appointment of Ajay Piramal as the Chairman of Shriram Capital. Over a period of two years, Piramal Enterprises,

driven by the chemistry between RT and Ajay Piramal, invested 10% each in STFC and SCUF, and 20% in Shriram Capital. An interesting point here is that Shriram is the only long-term investment of Piramal Enterprises where they do not have a controlling stake. Even this deal with Piramal was the coming together of many of RT's qualities including love for entrepreneurs, belief in the necessity of change for growth, detachment, integrity and the ability to trust.

The ultimate compliment to him was when, even after investing substantial sums in the Shriram companies, Piramal decided not to nominate a director on its board. "Thygarajan is our representative," Ajay Piramal said, although RT himself is not on the board of any Shriram company.

In 2017, this relationship culminated in Ajay Piramal being appointed as the Chairman of the Shriram Group. RT and his family today own not a single share in the Shriram Financial Services group. And when asked about his legacy and the Shriram group his response was – *"There has to be only one identity for Shriram: an enterprise driven and led by Ajay Piramal."*

Change and its Importance for Organizational Growth

RT is a fervent proponent of change, and firmly believes in the importance of leadership that believes in change. He believes that while avoiding mistakes can perhaps help in survival, for growth there has to be change. Perhaps no topic excites him as much as the topic of the necessity of change.

For example consider his comment of bringing Ajay Piramal into the group:

“Succession was always on my mind and I kept looking at possibilities. In the interest of the community, I feel that entrepreneurs should always run businesses because they are more likely to take risks that help the organisation scale to the next level. Professionals will run the organisation very efficiently. That’s it. To build something even bigger and more beneficial to the community, on what has already been created...I felt we don’t have a set of people to do that. Ajay Piramal’s role will support the larger interest of the organisation and the community. His entrepreneurial skills would help guide the extremely conservative group in future.”

The appointment of DV Ravi, the current MD of Shriram Capital (the holding company for the financial and insurance businesses) was also an outcome of his belief in the necessity of change. In 1992, Mr. Ravi was looking for a new role after five years in oil seeds business. He saw an ad from the Shriram Group where they were offering a senior position to a person with little experience. In his interview he made it clear that he had no experience in financial services. RT was apparently happy to hear this. He did not want an industry veteran with the same

old ideas, but wanted somebody without the baggage of being in the financial services business.

Conclusion

R Seshasayee, the former Chairman of Infosys calls him ‘a multifaceted diamond whose dazzling colours cannot all be captured by one individual and from one perspective alone.’

Puneet Bhatia, the India head of TPG Capital had this to say about RT:

“Over the course of a couple of decades of my meeting hundreds of founders, each of whom have been exceptionally gifted and driven, one individual who still shines the brightest is RT. His uncanny sense of finding a business opportunity that was compelling was trumped only by his burning desire to help embryonic entrepreneurs off the ground, which is what makes him unique. You have founders who could spot opportunities and execute flawlessly. And you’ll find individuals with highly altruistic motives. But the combination of these is what makes RT a giant in contemporary India.”

Ashish Dhawan, former MD of ChryCapital observed,

“There has long been a pseudo-religious element to RT’s following. The man is an icon. RT is a philosopher king. Like Gandhi, he is a simple man who can influence people by changing their mindsets. He gives his team freedom and has transformed them all into entrepreneurs. That makes him truly unique in the world of Indian business. Nobody in the finance industry or for that matter any industry, has made such a lasting impact on the community while creating value for employees and shareholders.”

While I have tried my best here to capture a few traits of RT, I urge the readers to pick up his biography to understand him better.

SCUF and STFC are two prominent listed entities of the Shriram Group. The stock price of STFC has increased from an average of Rs. 6.5 in 2001 to Rs. 1446 today, a 222 bagger. The share price of SCUF increased from an average of Rs. 15 to Rs. 2250 today, a 150 bagger. As compared to both, the index generated a 10 bagger over the same period.

NOTES

1. <http://www.forbesindia.com/printcontent/38835>
2. <https://medium.com/the-liberals/the-socialist-moneylender-104c8adb7c61>
3. <https://www.thehindubusinessline.com/2002/05/16/stories/2002051601830900.htm>
4. <https://economictimes.indiatimes.com/shriram-group-founder-r-thyagarajan-bets-on-math-and-mathematicians-for-business-success-not-that-much-on-b-school-grads/articleshow/13531446.cms>
5. Books: [I am not an entrepreneur](#), [Recasting India](#)
6. Others: STFC annual reports, SCUF annual reports, Youtube videos, News articles