

Entrepreneur

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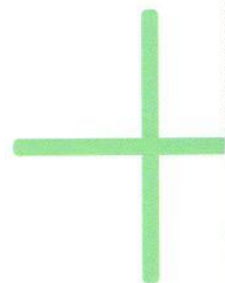
DEEP IMPACT

Doing Good, Making Money, Changing India

A bunch of people are using **innovation** to power their ventures and bring about **social change**

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Naganand Murty (left) and **Rahul Panicker** of Embrace Innovations, makers of low-cost warmers for premature babies



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The social sector and business can co-exist. Many entrepreneurs have built a business model around the social sector benefitting the target audience and being profitable too. *Entrepreneur* looks at success stories of some people who have created innovation and technology-based businesses ranging from infant warmers, potable drinking water for rural India, to increasing yield of sugarcane by reducing the use of water, and many more.

By Shruti Chakraborty

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Social entrepreneurship is not frowned upon anymore given the fact that many entrepreneurs want to and are venturing into this space. However, the ones who have been around haven't been able to garner investor attention and a lot more needs to be done

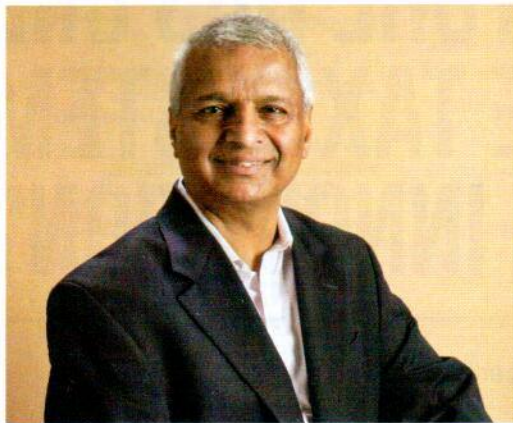
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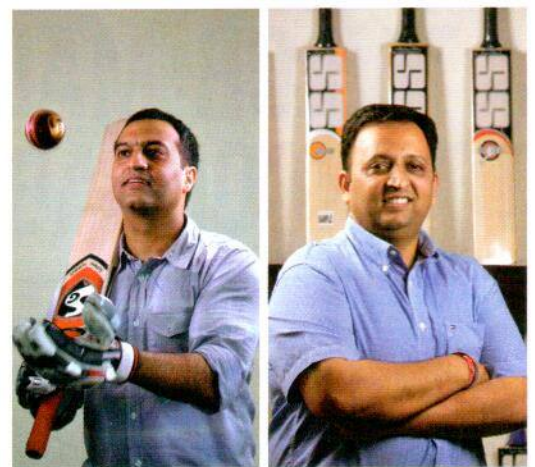
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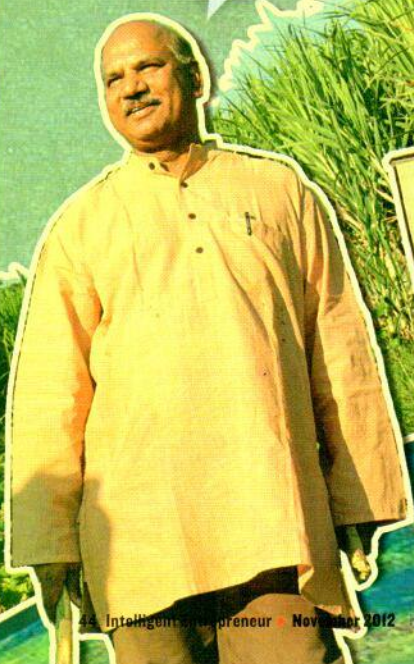
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THE GOOD PEOPLE*



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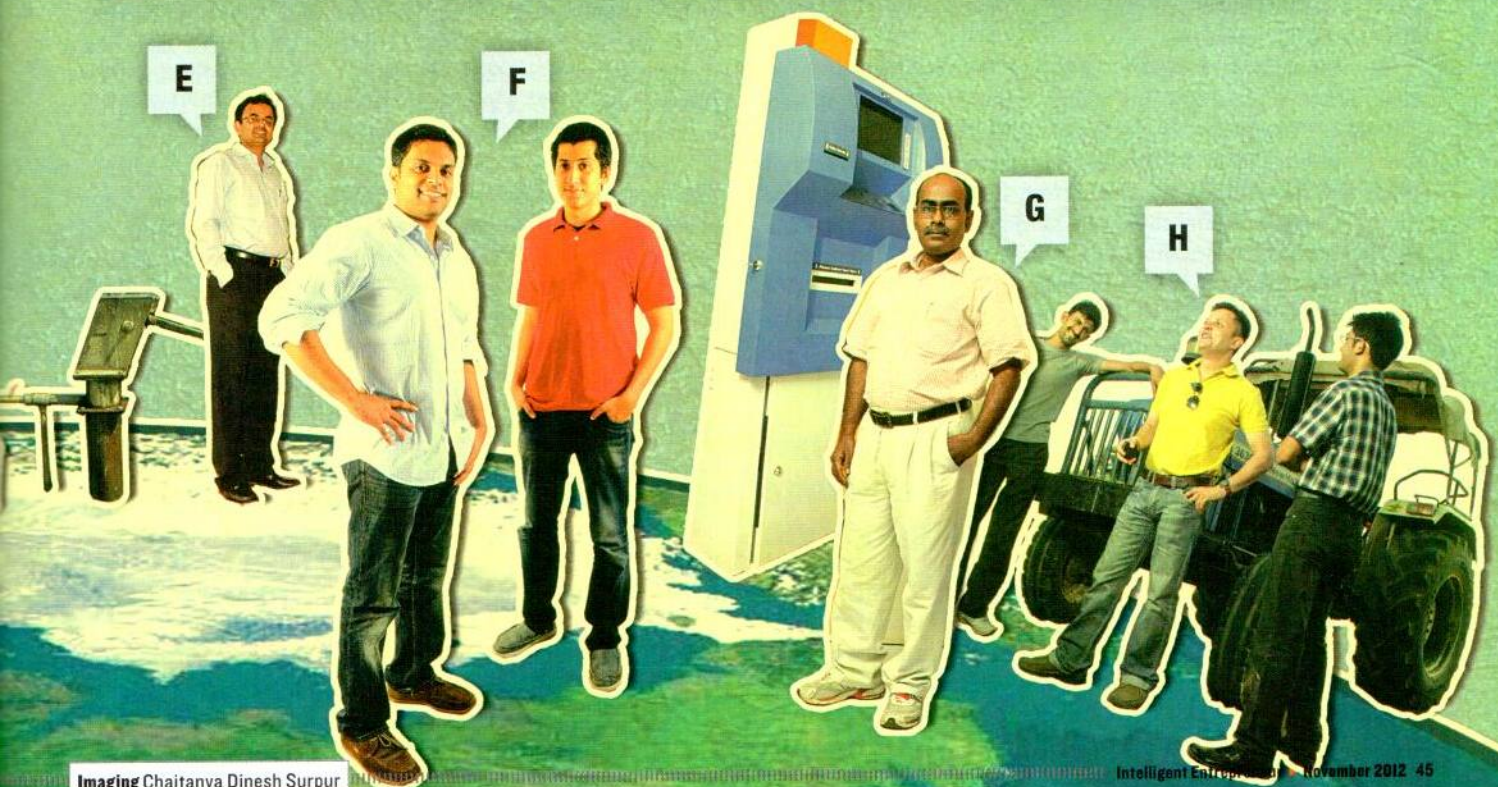
The American singer-surfer **Jack Johnson** asked in one of his more brilliant songs—**where'd all the good people go?** Well, by our account, **they are heading to India**, if not already here.

India's social sector is open for business. Some might cringe at associating social with business, but there is little doubt that change can be brought about as much by an entrepreneur as any non-profit entity. Over the last few years, we have seen first hand the growth of innovation-based businesses in India that have done more than their bit in changing the paradigm of rural life—be it by technology or innovative business models.

If you looked around, you would see how young entrepreneurs from India, and of course, around the world, are creating businesses far from the public eye that are pushing rural India towards a better tomorrow. We did. **HERE ARE EIGHT OF THEM.**

Shruti Chakraborty

With Shonali Advani and Avanish Tiwary





Cane done Right

LONG BEFORE FORMER MICROFINANCE poster boy Vikram Akula's stint with SKS Microfinance, he had spent some time as an intern at the Deccan Development Society in Hyderabad, being supervised by Biksham Gujja who was working at the NGO. Gujja is a water specialist who has worked for the World Wildlife Fund and in agriculture through an arm of the Food and Agriculture Organization, the International Council for Research into Semi-Arid Tropics. Gujja's interest in working with sugarcane stems from his interest in water.

"The agriculture sector is the biggest consumer of water and consumes a much higher proportion than industrial or domestic setups. Globally this is about 70 percent—in India, it is much higher," K. Sree Kumar, CEO of AgSri says. Within agriculture, the two crops that are most water-intensive to grow are rice and sugarcane. Gujja had been a part of the research initiatives that worked around developing rice-growing methods that would enable more efficient use of water. This led to a technique called System for Rice Intensification (SRI). Gujja also worked on similar research on growing sugarcane called Sustainable Sugarcane Initiative (SSI).

AgSri was formed in 2010 based on that very research on sugarcane. Akula and Gujja jointly invested ₹30 lakh in setting up the company. "The process has been in practice in bits and pieces in the past—AgSri has now created an integrated process. SSI is still a work-in-progress and is likely to undergo radical changes," Gujja says. Compared to rice, sugarcane is a relatively more commercial crop. This provides the company a larger opportunity to create impact. The basic process of

The Indian sugar industry anchors **45 million sugarcane growers, cultivating over 42 lakh hectares.** Sugar production for this year is estimated officially at **26-26.5 million tonnes**

Source: SSI report



Key Innovation:

Applying the Sugarcane Sustainability Initiative and building ecosystem around it

Sector:

Agriculture

Founded:

2010

Cost of using seedlings:

₹10,000 to plant one acre of land

Turnover:

₹2.8 crore for the year ended 31st March 2012

Hyderabad-based **AgSri** has brought a new model of growing sugarcane to farmers which is enabling them to grow the crop more efficiently

growing sugarcane under SSI reduces the use of water and also improves yield significantly, the company claims.

The farmers earlier used to hold back a portion of the previous year's yield to replant the next round of crops. Under the SSI-based method, the farmers plant seedlings instead that are grown from the bud of the sugarcane in a nursery.

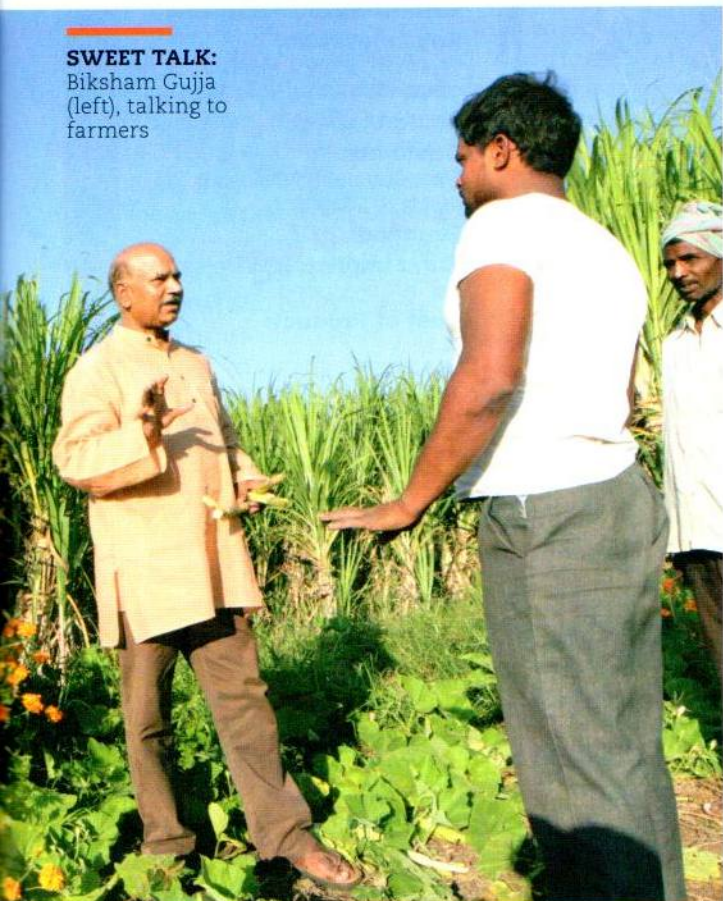
The sugarcane seedling takes a month-and-a-half to grow from the bud. Setting up the nursery requires significant investment that is unaffordable for many farmers—an investment of about ₹15 lakh. If run efficiently, though, the nursery can earn up to ₹30 lakh through selling seedlings. To facilitate this, AgSri works with demand aggregators like sugar mills and farmer cooperatives to fund the setting up of nurseries. The sugar mills, due to their interest in the plantations, were in the past supporting farmers by providing pesticides and fertilizers, Kumar shares. Explaining the model, Kumar

says the cost to the farmer to plant one acre of sugarcane using the nursery seedlings is ₹10,000 as opposed to withholding crops worth ₹15,000 to ₹18,000 for replanting. In its first year, AgSri earned revenues of ₹1 crore. Last year,

it clocked a turnover of ₹2.8 crore. The company currently has operations in Maharashtra, Orissa, Karnataka and a few other states. One of the challenges the company is facing is that the farmers are cash-flow sensitive. Instead of paying cash for the seedlings, they prefer to keep the crops that will be replanted like in the past. The company is, therefore, also

SWEET TALK:

Biksham Gujja (left), talking to farmers



working with mills to help extend credit to the farmers to buy seedlings to encourage the practice in the initial phase. AgSri also provides services to farmers to encourage them to take up the system. For example, they replace seedlings that die within a 30-day period, Kumar says.

Gujja adds that farmers are often too used to getting subsidies from the government and for them to adopt a new method requires a change in their mindset. "But they have now increasingly started to accept the new method. These farmers are going to be our advertisers," Gujja says confidently.

Another challenge for AgSri is that the buds and seedlings aren't easy to transport as they dry up. To combat that, the company is working to produce more types of seedlings. On the brighter side, as the seedlings need less water, the company has tied up with Driptech, a drip irrigation startup, for its operations in Andhra Pradesh. The company has not raised any investment so far, but will do so soon. Gujja says they are looking for an investor who shares their intent. Most investors ask whether the company has patented the technology. Gujja says the company is opposed to patenting and encourages farmers to grow the seedlings on their own. "This is almost a \$2 billion industry and we welcome competition." Gujja's ultimate vision? "In the next five years, the old method of growing sugarcane should become a thing of the past."



Teching Milk

SAM WHITE AND SORIN GRAMA first met as participants at Massachusetts Institute of Technology's \$100,000 Entrepreneurship Competition in 2007. Though the duo did not win the grant, they did win each other's friendship. The first thing they did after that was to travel to India in the summer of 2007. Their trip's aim was not, however, of the usual backpacker or spiritual discovery types. They wanted to travel across India to understand and explore the opportunity for clean technology in the country. "We were planning to focus on general electrification-related problems," White says. But technology they had in mind then wasn't relevant enough to the needs of the people, adds Grama.

It was back to the drawing board for the duo as they set about first identifying a market and then developing a relevant technology to resolve pain points. During this period, they met with the managing director of a dairy company who told them of the problem of milk collection in many milk-producing villages.

"He explained in great detail the process of milk collection from thousands of villages that often didn't have access to reliable electricity," White recalls. This lack of proper electrification results in a huge amount of spoilage as the milk cannot be cooled at the source and spoils in less than three hours after it is collected depending on the climate of the region—thereby causing substantial losses to the villagers.

The problem identified, the two went back to the US to develop a model that could help the system. The initial model they developed was based on delivery of ice from an offsite location using the very trucks that came in empty to collect the milk. But this was deemed impractical, much of it thanks to the logistical headache of ferrying ice.

They then began developing a technology based on solar power. Grama, who is an electrical engineer, developed the system, which was piloted in a village in South India. "We realized that the system based on solar technology was too expensive and complex. We had to bring the cost down so that it could be made affordable and we could scale the business," White says.

As it turned out, the solar power technology was not entirely waste. In its development, they also developed an energy storage device. "Solar power isn't a consistent source of power. So a technology had to be developed to store the power; this was the thermal battery. This turned out to be the key

Promethean
Power Systems
is working towards
**reducing
spoilage
and bringing
down costs
in the milk
collection
process**

For Goodness' Sake

India's social sector is booming, but how it will evolve in the coming years gives us much food for thought

Shruti Chakraborty

IT is a story that began with that one word—microfinance. It was in 1998 that a small financial services company started targeting rural consumers with micro-loans, starting from as low as ₹1000.

Charging interest rates of about 26 percent to 31 percent, this company wanted to help rural Indians, chiefly women, begin micro-businesses to earn better livelihoods. Their business boomed, as people saw it as a much better alternative to the local moneylender, who charged rates of 100 percent and asked for heavy collateral.

Time went by quickly. The small company was now not small anymore. Investors everywhere wanted a piece of it. Most similar businesses envied it. Mostly, all Indian entrepreneurs wanted to be like Vikram Akula, founder of SKS Microfinance—the small company that went on to define India's social sector.

And then it fell apart

In 2010, the company went public to expand its capacity to service its growing customer base. It was a bumper listing and the good news flowed on for a while—until the pressures of being a large, listed financial services company finally told on it. By the end of the same year, allegations were made against their loan recovery methods, linking them to a number of suicides in Andhra Pradesh. A change in regulations in the same state brought the company and the microfinance sector to a grinding, bloody halt.

But the 'demise of microfinance,' did not end the story. We are here to tell you that where the story of SKS and microfinance crumbled, a thousand others started.

It wasn't over

Like we said, there were many entrepreneurs who wanted to be like Akula—who had been inspired by his story and saw the potential of building a business in rural India and importantly, for rural India. If there is one thing that SKS did right, it was that it started a revolution, and not just one made up of microfinance companies.

While some of these entrepreneurs backed off for good from the social enterprise sector after they saw the SKS story reach its nadir—others just intelligently shifted focus.

Using their knowledge of different sectors, they unearthed other opportunities in the India which was being left out of the new economic boom. What many call the Real India. Some went into making energy products, others into building sustainable agriculture methods and yet others waded into healthcare and education.

It's not to say that work in those sectors wasn't already happening, but SKS' good days gave new hope for making that work profitable and sustainable. Investors too had been intelligent enough to see what SKS uncovered and not be distracted by where it eventually ended. Vineet Rai, Founder and CEO of Aavishkaar Venture Management Services, an early stage impact-investing fund, says that while the success of microfinance had opened the eyes of entrepreneurs and paved the way for for-profit models, its demise can be given credit for pushing the growth of other sectors. "Previously, for-profit was almost considered a bad word with respect to rural India," he says.

Paul Basil, Founder and CEO of Villgro, a Chennai-based incubator for social businesses says that before SKS, entrepreneurship



Vineet Rai of Aavishkaar

amongst the poor wasn't received very well. "People would ask how could you make money out of the poor, but microfinance changed things a lot."



Money brings money

It might be a bit of an oxymoronic statement, but the poor do have the money. In 2007, research supported by the International Finance Corporation found that in Asia, the base of the pyramid constituted of 2.86 billion people with a cumulative income of \$3.47 trillion. This market represented 83 percent of the region's population and 42 percent of the purchasing power.

The report stated that traditional approaches often focus on the very poor, proceeding from the assumption that they are unable to help themselves and thus need charity or public assistance. "A market-based approach starts from the recognition that being poor does not eliminate commerce and market processes: virtually all poor households trade cash or labor to meet much of their basic needs," the report said.

It was not surprising then that like entrepreneurs, investors also saw the potential in rural India. In 2001, when Aavishkaar was set up, it was the only major player in the country's social sector in India. By 2006-07, dozens of other similar funds came up.

A survey by JP Morgan and the Global Impact Investing Network (GIIN) in late 2011 found that 52 impact investors collectively intended to deploy \$3.8 billion of capital over the next one year—a chunk of which will flow to India.

It must be noted here that much of the money in the impact investing space in India, like the general venture capital space, is directed from overseas. Rita Soni, CEO of NASSCOM Foundation tells us that much like India had earned itself the label of being an IT hub two decades ago, it was now earning itself a new label of being a social entrepreneurship hub.



The road is not all smooth

Now that many such funds are operating in the country, there is much more engagement and introspection amongst them—they have commonly identified a few big challenges for the sector. Some of them are a lack of an investment pipeline for investors, limited investment-readiness of enterprises, a lack of seed funding for startups, a lack of local capital including debt, high transaction costs for investors to identify and undertake investment due diligence on enterprises, particularly outside the metros; a low scalability rate of enterprises due to shortages of finance, human resources etc., and most importantly—defining impact.



Neera Nundy of Dasra

Too many businesses that are not creating any significant impact want to take a bite out of the impact investing pie. A lack of any way to measure impact has fuelled this problem further. The concept of a double bottomline has been coined for socially relevant businesses, which is meant to measure financial returns as well as social returns. But there is still no definite way to measure that.

Also, JP Morgan and GIIN cited the lack of exits as the most significant challenge to industry growth in a survey.

A GIZ report from September 2012 also stated the same—that a limitation in options for exit, specifically in terms of initial public offerings in India, was hurting the sector, although the setting up of SME exchanges in the country has given some hope.

The report also says that with investment timeframes being longer than standard investments, India-based investors are raising questions about whether impact investors can be profitable and whether there is a bubble—yes, that dreaded word again—developing in the market.



Are the businesses ready?

Bubble or not, what has also been pretty evident in the recent past is that while many new ventures have come up, they haven't been around long or strong enough to become investment-ready. At least not for impact investors: there is still a need for more seed-stage investments.

It is not that they are not trying. Most social businesses work in sectors that have a slew of problems, like the connectivity to rural areas, a shortage of talent, the lack of funds to fuel innovation, and changing mindsets of rural consumers, amongst others.

Robert Gertner, Deputy Dean at the University of Chicago's Booth School of Business, says that scaling up is clearly one of the big challenges for social businesses in India.

"There are two ways to reach scale—have a business model which is sustainable and government help," he says. "Capital is a big constraint and social entrepreneurs, especially in the startup stage, find it very hard to find seed capital. Once you have something up and running, one might find social and philanthropic capital, but scale remains a tricky part."

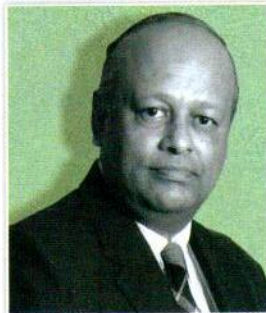
Aavishkaar's Rai says that social ventures have taken time to realize that the Indian rural consumer is extremely value conscious—their products and services have to be low cost and high quality.

Villgro's Basil says that entrepreneurs have to keep in mind that no matter what price you charge, the rural consumer will challenge that. "The rural consumers are very demanding and products have to be designed keeping affordability in mind," he points out.

A close understanding of what the rural consumers want is essential. Basil cites an example of one entrepreneur who was working on making water filters available to rural India. But despite the fact that the rural consumers had money, they would choose to buy a television set and a DTH connection instead of buying a filter.

This is because, he explains, while they need clean drinking water, they don't see the use of investing in a filter. And so a guy who sold clean drinking water directly was running his business successfully in the same space.

Neera Nundy of Dasra, a Mumbai based organization that works towards making social businesses investment-ready, remarks that social ventures need to work with non-governmental organizations (NGOs). "The investment that social ventures have to make in changing mindset adds to their cost and timelines. This elongates the time period they need to make significant returns."



Raju Bhatnagar of NASE

this and have built programs focusing on such kinds of innovation. Stanford University, in fact, has a program called the Entrepreneurial Design for Extreme Affordability.

A number of product innovation companies from the US are also working on designing companies for the rural poor. Companies like d.light that makes solar lanterns, or Driptech that has developed a low-cost drip irrigation system, are some examples.

Indian product innovations have found relatively lesser focus. But Raju Bhatnagar of the National Association of Social Entrepreneurs

(NASE) says that a lot of innovation takes place at the grass-root level. "What we call *Jugaad*, these innovators call just solving a problem. They don't look at it or realize that it is innovation."

This, he says, is one of the reasons why Indian innovations haven't come into the limelight. The challenges that a company like A Muruganatham's Jayashree Industries faced is another indication of what the problem that is preventing grassroots innovations from coming to the fore might be.

Aavishkaar's Rai says that the Indian rural market doesn't necessarily need product innovations. "Innovation in India happens more on the business, management or legal structures side." He also says that a lack of a technology innovations ecosystem has contributed to lesser product innovations coming out of India.



The role of innovation

To provide the services and products that the rural consumer demands, a whole new focus on innovation is needed, is what experts say. International academic institutions have learnt

THE RELATIONSHIP BETWEEN DIFFERENT TYPES OF MSMs AND INNOVATION



The GIZ report states that social enterprises with their inclusive business models are often associated with transformative innovation as they draw inspiration from emerging sustainability risks and opportunities that will shape the future. It results in the creation of new markets and hence 'transforms' the existing market through introducing not only a new product or service but also a new business model that addresses unmet needs with far-reaching social and economic effects.

Source: GIZ report, Enablers For Change



The way of the government

The realization that there is a need for innovation has well and truly hit home—even with our traditionally slow government. While there are already some quasi-government entities like the IIT-Madras Rural Technology and Business Incubator that focuses on rural innovations, the government has a lot more planned in the future.

In 2010, the Prime Minister set up the National Innovation Council under Sam Pitroda, Advisor to the Prime Minister on Public Information Infrastructure & Innovations. It has the mandate to formulate a roadmap for innovations promotion for 2010-20 with a focus on inclusive growth to spur the Indian innovation ecosystem. Furthermore, the government's 12th Five Year Plan has also emphasized the important role of social enterprises and innovation, firmly establishing these themes as priorities in the national policy agenda.

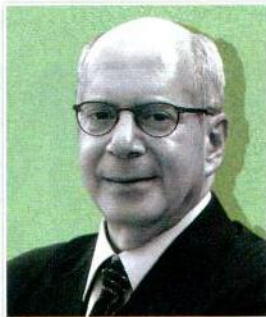
The National Innovation Council states that the challenge for India is to innovate to produce affordable and qualitative solutions that address the needs of people at the bottom of the pyramid, eliminate disparity, and focus on the inclusive growth model.

In its 12th Five Year Plan, the Planning Commission builds on this innovation focus and calls for a new paradigm of innovation, focused on producing 'frugal' cost solutions with 'frugal' costs of innovation in which India may be emerging as a global leader. The government followed it up with an announcement of a ₹5000 crore India Opportunities Venture Fund with the Small Industries Development Bank (SIDBI) in Budget 2012-13.

While the government is looking to encourage the innovation ecosystem, the impact of subsidies for rural India has been a cause for concern for social businesses. Biksham Gujja, Co-Founder of AgSri says that while taking their sugarcane growing solutions to the rural consumer, they are often faced by a question from farmers about whether the seedlings are subsidized. Jayant Sinha, Managing Director of impact investment firm Omidyar Network India Advisors, says that subsidizing kerosene for kerosene lamps results in a company like d.light having to compete with subsidized kerosene instead of higher cost solar lanterns alone.

Aavishkaar's Rai says that subsidies is a political game and another argument could be that subsidies put more money in the hands of the poor which they can, in turn, invest in buying products and services from social ventures.

Programs like the Mahatma Gandhi National Rural Employment Guarantee Scheme have also put more disposable income in rural India. A report brought out earlier this year by research group CRISIL found that for the first time in two decades, rural spending outpaced urban spending.



Robert Gertner of University of Chicago



In bits and pieces

Villgro's Basil says the Indian government has done significant work for social ventures. Not if you look at social ventures as a whole but if you look at sectors like agriculture separately. Sectors such as health and education are major priorities for investors and entrepreneurs. Rai says that it was seen that rural people are willing to spend on healthcare. Sectors that enable rural people to participate in the formal economy may receive focus. Livelihood-creating

businesses too have seen activity from investors and entrepreneurs. NASSCOM's Soni points to a term called 'Impact Sourcing' that has been coined for businesses that are sourcing their products or services from rural India. In future, Rai says that infrastructure, education, health and agriculture are likely to be the hottest sectors for social ventures.



Just one moment though...

Overall, perhaps, the greatest challenge for the social sector is to answer this one pertinent question—What in God's name is a social venture anyway? Due to the mindset prevalent for years owing to most of the work in the social sector being done by NGOs, there is still a notion that social businesses are either not making profits or not making returns at market levels. So, many entrepreneurs shy away from this term.

Rai says there is an idea that social ventures are high risk, don't make significant returns, and merely create developmental change. "But what it should be instead is that they take high risks, make significant returns and create developmental change. The high risk factor should contribute to a higher return." Booth's Gertner says the image is changing. "Many social entrepreneurs did not even know they were social entrepreneurs. Since the term has been coined, their activities have got a whole new meaning," he says. "What you need is for the society to perceive this as something valuable."

Rai says the definition needs to be broadened. Most agree that while all businesses probably have some form of relevant social impact, social enterprises are those that incorporate 'inclusive business models'. These business models are defined by the International Finance Corporation as those that contribute to poverty alleviation as well as expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways.

Interestingly, Gujja says companies that have probably created the most significant social impact are Vodafone and Airtel by making mobile telephony available to rural consumers. Who would've thought? ■

(With inputs from Shonali Advani and Pranbihanga Borpuzari)