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## HEAD OFFICE

# Kinara Capital CEO Hardika Shah on the art of building MSMEs

Like the artwork in her office, Shah keeps her work style vibrant, uplifting, accessible and easy to grasp



Hardika Shah at her Bengaluru office (Omprakash)

By **Aparna Piramal Raje**

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Some offices are tight-lipped about their occupants' work style, but others wear it on their sleeve, or in this case, on their walls. A quote by US poet Maya Angelou, hand-drawn on a side wall of the office, greets me through my Zoom camera. It reads, "My mission in life is not merely to survive, but to thrive, and to do so with some passion, some compassion, some humour and some style." Other walls tell a story of the occupant's travel history: three curated artworks in the well-lit space, each from Australia, the US and India. A framed magazine cover on a wall behind the desk shows a photograph of the office's occupant, Hardika Shah. She's the CEO-founder of Bengaluru-based Kinara Capital, a 10-year-old socially inclusive non-banking financial company (NBFC), which provides unsecured business loans to micro-enterprises from across sectors. Most of its borrowers are accessing formal credit for the first time.

The magazine cover is the front page of the Columbia Business School magazine, published by her alma mater in 2014. The Australian painting is by an Aboriginal artist; the US one is a piece of “Americana”, a “hyperrealist” reflection of the US flag on a Harley-Davidson; and the Indian, depicting “digital India in a nutshell”, a watercolour by a Tamil artist showing a milkman with a mobile phone. “They are representative of me,” says Shah, 50, who has lived or worked in all three countries, as a former management consultant. Born and raised in Mumbai, Shah moved to the US for an undergraduate degree in computer science at the age of 17. In 2011, she gave up a 20-year consulting career, to return to India and set up Kinara Capital.

The Angelou quote “is a good reminder to find joy in work, and not get sucked into everything else that is on some days, menial and unimportant,” she smiles. The quote also provides the ideal framework to interrogate Shah’s approach to work, to leadership and to running her business.

## **Thrive, not just survive**

This element of the quote is a challenge for a lending business emerging from covid-19, whose customers were deeply affected by the lockdowns and, of course, the pandemic. Shah believes most customers are picking themselves up after the devastating second wave.

Kinara Capital’s numbers for the financial year 2021, however, show that although the company is profitable, its return on managed assets is in the low single-digits. According to a credit rating report by ICRA, its ratings are average at best.

Shah explains the business model: “Our average loan ticket size is around ₹4 lakh, our borrowers have annual revenue of less than ₹1 crore. We have disbursed ₹2,500 crore to date across 60,000 loans. Our book size is ₹925 crore as of September and our yields are 27-28%,” says Shah. “We are well capitalised, with reasonable leverage of 3-3.25x, so not over-levered but not under-levered either. Lower cost of capital, more technology and higher productivity of our field team will reduce operating expenses, resulting in better returns.” She expects return on assets to double in the future.

“There has been less than a percentage additional write-off due to covid. We are one of only 20 NBFCs qualified for a (government-credit guarantee) CGTMSE scheme because we provide unsecured loans to priority sector customers. This scheme covers 75% of the outstanding balance of a loan, if a customer becomes NPA (non-performing asset),” she says, outlining her measures to manage risk during precarious times.

Impacting the MSME sector is Shah’s passion. When Shah started Kinara Capital, she had been working on social enterprise projects as a mentor, for a decade, but she didn’t have any formal training in finance itself, or much professional experience in India. Her passion for the sector propelled her to create a fintech business that provides collateral-free loans, to a demographic that lacks collateral, using technology, data science and field insights, to build algorithms as the foundation of unsecured business lending.

“MSME are such a critical group that serve the economy, or that is the economy. By focusing on this segment, we have the ability to impact jobs, livelihoods and growth. The biggest gap is capital. Access to capital allows for sustainable growth of MSMEs, and all of the economic benefits that come out of it,” she says.

She cites the example of an early customer to illustrate the catalytic role of financing. A tier-3 auto components manufacturer borrowed ₹3 lakh from Kinara Capital for investing in manufacturing capabilities. The loan enabled the company to expand revenue 30 times in an eight-year period, generating additional employment and allowing it to access commercial bank capital for the first time. Even if not all customers demonstrate such a multiplier impact, Shah sees enough growth to remain committed to her mission.

And she is fulfilling this mission with compassion, with a demonstrated emphasis towards diversity and inclusion. Kinara Capital’s HerVikas programme offers discounted loans to businesses owned and operated by women entrepreneurs. These loans constitute 10% of her book, she says. Over 60% of management in her office are women, resulting in “more collaborative” conversations, she observes. Women constitute 16% of the entire workforce, including field roles as branch managers and regional managers, going to manufacturing sites, a relatively unusual phenomenon, given the inherent safety concerns.

The company is also trying to hire individuals with disabilities, and those from the queer community, for roles in the field, in the head office and in the call centre.

## Humour and style

Shah’s humour is evident through her resilience, as she describes the setbacks to the business in the past five years and her preparedness for the third wave. “Even before covid-19, we had ILFS, we had GST, we had demonetisation, and economic slowdown... all of those sucker punches. I think that we are all very well prepared. We have now seen the worst of it, and there is a high vaccination rate in the country. I think that while there might be some flare-ups of the third wave, we are mentally and physically ready for it.”

Finally, like the art in her office, Shah’s workstyle is vibrant, uplifting and accessible, easy to grasp. Shah herself projects a cheerful, open and transparent persona.

Kinara Capital’s customer segment and ticket size means its book size is small, for a 10-year-old NBFC. But Shah is ambitious. “I want us to be five times as big in the next three years. We think it’s possible.” For the ecosystem in general, it’s important she thrives, not just survives.

*Aparna Piramal Raje meets heads of organisations every month to investigate the connections between their workspace design and working styles.*