



SECRET DIARY OF AN ENTREPRENEUR

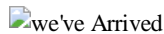
"As an organisation, we must hold ourselves to high standards"

Secret Diary of Rashesh Shah Part-2

N Mahalakshmi Published 7 years ago on Jul 29, 2016 • 9 minutes Read

Photograph by Soumik Kar

Express Towers was nothing short of Mount Everest for us those days. I used to look at the building in 2000, thinking we would never be able to afford it. Until 2000, we were still in that tiny 500-sq feet office.



I truly felt on top of the world sitting on the 15th floor of the Express Tower office. We had thrown a big party that evening, invited clients and friends and opened up the office. Drinks flew freely, the music was in full blow, tube lights were off, candlelights on. 15,000 sq ft of space, an entire floor to ourselves, the sea view — oh, my god! It was surreal! We had arrived. The clients felt we had scaled up. It was not cheap though — we

were paying about Rs.15 lakh a month at the rate of Rs.100 per sq ft, as opposed to Rs.1.5 lakh four years ago. I had goosebumps thinking about that — could we really justify it?

It's never been a one-way street though. At Edelweiss, growth has always come in spurts, bringing along challenges. In 2004, when we got to know that our franchisee in Anand had stolen shares worth Rs.2 crore from clients, there was pandemonium. I didn't know what hit us. No one did. The amount was huge. We argued it was not our problem — if the clients handed over the demat slips to the broker, and the broker ran away with the shares, it's their problem.

But I was enraged because right from the Prime days, I was very clear that we would never lose money because of poor risk controls. I still remember the early days. We used to sit together on the last Saturday of the month and track all the shares — those were the days when every single broker would have some lost shares at the end of the year — all lost in transit.

Everyone laughed when I coaxed broker Prakash Shah and went to the trading ring every day for a whole week to understand the system — undha badla, contango, ring system, vandha — it was fascinating but it was unbelievable that the whole system was so inefficient. We did so many changes at the back office after that. Our front office and back office didn't follow the caste

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 Rashesh Shah with family

system, which was the norm those days... and we never ever suffered a loss for any reason other than a wrong trade.

Now this Rs.2 crore loss, right under my nose! How could I reconcile to that? Could we have avoided it? It wasn't important what we thought eventually as the Board said it was our remisier, who committed the crime, so we could not abdicate responsibility. The question was who to

compensate and who to leave out because we knew quite a few of those complainants were in cahoots with the brokers. As days passed, I thought our initial reaction was unjustified. As an organization, we had to hold ourselves to slightly higher standards than individuals.

 Rakesh Shah bungee jumping

It's a lesson I had learnt in economics long ago but never applied in real life. Total utility maximisation — when what you give up is of greater utility to the recipient, you maximise utility. It's a good trade to make. The day we paid all claims we raised a toast for Anurag Madan, I tipped the bar tender heartily — tipping well is again about asymmetric pay-offs. We may have ordered an additional drink, may not have even finished it, we wouldn't have cared but that

additional tip probably meant a lot more to the waiter.

It's all about asymmetric pay-offs. It applies equally in real life and in business. Asymmetric pay-offs is also at the heart of stock market success. It's the framework we look at when we evaluate any business — what's the incremental cost, what's the total benefit?

In 2006, I recall meeting Uday Kotak at his office in Bakhtawar building in Nariman Point. I asked him which way Edelweiss should move. He said something that made me reflect seriously on how to steer the company forward. "*Rasheshbhai, bank banijao!* When you are doing only capital markets, it's like milking a cow every day. But when you have a credit business, it's like owning a dairy."

Once a credit book is there, it's earning money for you every day. I kept thinking this over, mulling everything that Uday said. A quote I came across only reaffirmed his view. "Capital markets is a weekday business, but credit is weekend business..." It's true — the day the markets are closed, you don't make any money, but when you loan out funds, you are earning interest on weekends too. We had to work towards becoming a bank someday...

But I didn't want to jump into something I wasn't ready for. It would have been a repeat of what happened during the family holiday at Queenstown. That's where bungee jumping started originally, so we all wanted to see it. Vidya was clear she didn't want to try it, saying "it's a mad thing to do". Avanti was under-age and not eligible. Neel was not too keen either and I was afraid of heights. We went to Kawarau river bridge, from where you jump, out of sheer curiosity. We went, saw people attempting it and it started growing on us. Neel looked at me, I looked at him. He said, "Should we try?" I wanted to be brave for Neel. Both of us were shit scared, but we decided to go for it anyway.

Neel wore the harness, looked at me, and just jumped. Done. Over.

When my turn came, I just stood there, with the harness, unable to let go. I could hear, “Come on, Rashesh, jump.” Those guys don’t push you, you have to fall on your own. A lot of people, who go there, harness themselves, get scared and just get back. “Paisa gaya to gaya, jump nahee karna.” I was blank. I thought I couldn’t do this. Then, “you have two more chances —Rashesh, come on.” “Rashesh, come on.” I finally let go.

My fear of heights has only become worse after that! That’s when I swore I wouldn’t do something I wasn’t ready for.

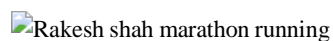


Back in 2005, we were really not sure what more we were capable of. But for that breakthrough workshop by Manford in 2005, I really wonder if we would have made the dash for such an audacious target. I don’t know how the three days flew by. The XY game was great, but the best part was the tower building exercise. Rujan was blinded-folded and was asked to build a tower with blocks using his left hand. We could only help with directions. We all tried independently and no one could build more than five floors independently — the whole thing was turning so wobbly.

No one could believe — Rujan finally built 21 floors! It was magic! Suddenly, it felt like we were underestimating ourselves. That got everyone excited about 10x10 — turnover of 10 times or Rs.1,000 crore by 2010. We got there even faster - in 2008. As they say, if you want to run a marathon, you have to run it in your mind first. You have to program your mind about the future. That 10x10 plan helped. The market more than helped.

Our yo-yo continued — we did the IPO in 2007 and set up the NBFC, but the markets turned bad after 2008 and growth became a struggle again. I wondered what happened to my projections? Rakesh, Akash, Prashant — all the people whose opinion I really value believed the same...that household savings would move into financial assets in a big way, and into equities — it’s far from it. I thought bond markets would take-off in a big way.... I really thought the tilt would be in favour of capital markets rather than banks. Banks still continue to dominate. I thought there would be lot more new-age entrepreneurs and incumbency in business will go away. But no, incumbency still plays a big role in India.

My greatest fear has always been for us to look back and say this great India growth story unfolded in front of us and we did not take those well-calculated risks and capitalise on it. Instead, we settled for small pay-offs. I was sure we could not lose out just because our assessment on capital market growth failed to materialise.



The market continued to test, but my anxiety to play for big stakes only grew. We continued to expand into other areas of financial services — commodities in 2008-09, retail finance in 2010 and in 2011, we started insurance. That was one period, Venkat used to often say, “you are getting too anxious, relax, I’ll take care of things.” Thank God, I started training for the marathon in real. Every morning after I came back after the run, I would feel like there was so much to do.

Mainly my preoccupation would be to frame situations — that’s one thing I learnt from Daniel Kahneman’s Thinking Fast and Slow. In fact, that’s something we have diligently done at Edelweiss. Good business people are those who have a good feel for direct, indirect and intangible costs. I have always leaned towards situations where you clearly see the indirect,

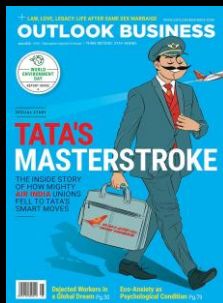
intangible costs and still have an asymmetric pay-off. When we were thinking about agri-services business, we thought if we spend about Rs.40-50 crore on setting up the business, it will throw Rs.100 crore after the fourth or fifth year. Then again, when we got into wealth management, we spent about Rs.25 crore and have already built assets under management of Rs.28,000 crore. Same with retail, home finance - Rs.10-15 crore a year for four years, I thought would lead us to a book of Rs.2,000 crore. We are already have a book of Rs.5,000 crore and are on course to make a Rs.100 crore PAT.

I started thinking on Uday's advice of becoming a bank seriously in 2010 — there was a lot of talk around issue of new bank licenses — and finally applied in 2012. Nothing ever was given on a platter to us, so the bank license not coming through did not shatter us.

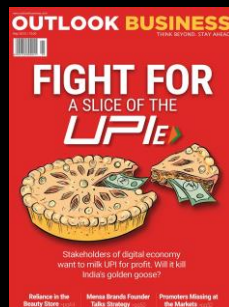
This is the second of a three-part series. You can read the first part [here](#) and the third part [here](#).

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