

# Unitus Partner Spotlight - Ujjivan Raising Capital

February 2009

UJJIVAN, a pioneer in urban microfinance in India, offers a full range of financial services to the urban and semi-urban poor. In November 2008, in the midst of the global financial crisis, Ujjivan announced that it had successfully raised USD 19 million in its fourth round of private equity funding. Originally planned for USD 15 million, the oversubscribed equity round made Ujjivan the fourth-highest capitalized MFI in India. Ujjivan's equity infusion demonstrated that MFIs have the ability to raise capital even during the financial crisis. Ujjivan attributes its ability to raise capital to three factors: choosing the right investors, setting the right expectations with investors, and offering holistic services.

**RIGHT INVESTORS.** Choosing the right investors at the right time is critical. Ujjivan's first investors were friends and colleagues who believed in Ujjivan and trusted the promoters from inception. For the second round, the organization sought contributions from social investors focused on microfinance. Finally, Ujjivan approached market equity investors familiar with the microfinance industry who saw the great financial opportunity in the sector. Ujjivan learned that because microfinance is a very capital-hungry sector, organizations with ambitions for scale must attract all segments of investors. MFIs must also ensure that the goals of the different types of investors are met while striving for a balance between the financial and social bottom line. A very large proportion of Ujjivan's financing comes from existing investors. As a result, Ujjivan benefits from the luxury of being very selective in choosing new investors. Even with this selective process, however, Ujjivan knows that it is prudent to anticipate problems with new investors that may delay the final closing. Ujjivan learned the difficult lesson that it is better to drop an investor if there is uncertainty, regardless of who it is.

**RIGHT EXPECTATIONS.** Ujjivan has sought to set expectations with investors by creating a clear calendar for investment, communicating often, and ensuring good governance and transparency. **Clear Calendar:** Ujjivan's long-term business plan incorporates a clear calendar for raising capital. As a result, raising equity is not an ad hoc exercise; rather, Ujjivan and its investors have built it into their plans. **Frequent Communication:** Ujjivan also recognized early on that it is essential to be in continuous communication and develop a deep relationship with investors. The organization sends a monthly update that keeps investors informed and provides an opportunity for dialogue even when not raising equity. Effectively engaging institutional investors during board meetings is also very important. **Good Governance:** Highly valued by investors, good governance and transparency are at a premium, especially in times like these. Ujjivan has built these basic tenets into the organization's DNA.

**HOLISTIC SERVICES.** Finally, the mission of poverty alleviation cannot be achieved alone. Rather, it requires interventions in healthcare, education, vocational training, and community development. Holding the view that these are best served through not-for-profit organizations, the founders separated these activities between Ujjivan, which is a for-profit company that solely focuses on microfinance, and Parinaam Foundation, which undertakes all of the microfinance "plus" interventions with customers. The two organizations are independent and yet synergize their activities to achieve the goal of poverty alleviation. Offering holistic services thus enables Ujjivan to deliver on its social objectives.

**CONCLUSION.** Ujjivan has seen that choosing the right investors, setting clear expectations, and offering holistic services are crucial factors in raising capital. The right investors will continue to support Ujjivan as long as the organization delivers on its business, financial, and social objectives. Together, Ujjivan and its investors believe that serving India's 600 million poor provides the opportunity to develop multiple sunrise industries. Organizations who can effectively serve this market have unlimited scope for profitable growth in the next couple of decades. This current crisis is only a blip on the journey.

Written by: Mr. Samit Ghosh, CEO/MD Ujjivan

Published in The Accelerator, Volume II, Issue 1, February 2009 (Quarterly magazine from Unitus)