

# From collapse of family biz to becoming first factoring NBFC, Modani lives it all

Founder Of 121 Finance Is Now Looking To Raise \$25 Mn To Expand Portfolio For Lending MSMEs To Meet Their Working Capital Needs



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**B**orn in a family with an established business dating back to 1935, Ravi Modani lived a princely life in his former years. Their businesses ranged from manufacturing soaps to jute ropes for ships employing over 600 people. His father's generation witnessed a rift causing the families to separate in 1992 which led to an abyss loss to the businesses as well.

The fallout had a sobering impact. Modani vividly reminisces the shift with anecdotes around how his life went from being chauffeur-driven to school to seeing his father settle for a scooter as the family's mode of transportation.

"I would see the daily struggle at home, it made me want to take up education more seriously. I felt stranded with no business to fall back on. As a commerce graduate, I doubled down on reading financial papers of companies. The unused Jaipur Stock Exchange membership turned valuable when my father asked me to spend my hours at the JSE to explore more opportunities. My new-found interest in reading companies' balance sheets pushed me further into pursuing a PhD thesis," recalls Modani.

He has come a long way since then, his past taught him to work hard and value everything that he creates. Last month, his business-to-business focused NBFC, 121 Finance, became India's first NBFC-Factor after RBI announced their new regulations around Factoring. Explaining the business model Modani describes Factoring where an NBFC-Factor buys the rights of the invoices that sellers raise against buyers for any transaction. The NBFC-Factor pays the seller upfront and gets the payments from the



**NEGOTIATING A CHEQUERED TERRAIN:** Ravi Modani

buyer later, keeping a fee.

"MSMEs don't always have access to working capital. Typically, they need to wait for 1-3 months to receive the payments from their buyers. That's where we come in with capital and lend against the invoices and not collateral. That's how the MSME is able to work on the next cycle of production," says Modani.

With demonetization, GST rollout, and technology integration bringing in transparency and invoice authenticity, Modani says digital lending will explode in coming years. He has already witnessed the growth since he started 121 Finance in 2015.

"When we started in 2015, we made sure that underwriting was done and only the right people received the payments. Providing working capital was our main business. That meant we focused on people or businesses who generated high margins and served either government or reputed corporations. The rate of delinquency is almost negligible in such cases. That's how lots of government contractors or small manufacturers tapped us for their working

capital needs," says Modani.

Lending is always a sticky business, and a lot depends on underwriting skills. Modani's learnings are not limited to the failure of the family business. He wanted to understand the underbelly of his family business collapse. While pursuing his PhD, he did a few case studies and learnt about the perils of diverting good profits to unrelated industries, investing one's own money instead of raising it, and the issues with funding long-term growth with short-term capital.

In 1996, he decided to enter the quartz mining business with an old family lease. He ran it for three years but had to shut it down because of protest from the villagers as there was a massive pollution output.

"I decided to run a SWOT test on myself to understand what business suited my working style and personality. I understood the paper world (balance sheets) well already, I was able to identify that I am better suited for marketing, than I ever was for manufacturing. Fortunately, I had a friend who joined in as a manufactur-

ing partner. We got into the business together and became the largest exporter of quartz at one point of time," says Modani.

The export engagements took him all over the globe. One day he reconnected with a family friend running a plastic unit in South Africa who had decided to fold up the company owing to working capital constraints.

"I was asked if I would be interested and instinctively, I said yes and took it over. I realized that a business does not need working capital immediately. The business is required to pay staff after one month, same for electricity bills and other services. We get working capital with a credit period from the suppliers which can be used wisely. The same company did well, and we became the fourth largest manufacturer of plastic pipes, knobs, and other materials in South Africa. But I realized the bigger you become, the stronger the headwinds get. Operational cost rises sharply. So, I exited the business in 2014 with a decent return turning a dying business profitable," recounts Modani.

Modani is now looking to raise equity to fund the growth of 121 Finance. He has learnt the ways of digital lending and how it is the most wonderful solution for MSMEs. The opportunity that lies at the bottom of the pyramid is waiting to be explored. With their successful integration with GeM Sahay which enables any business or individual to apply and avail short term financing, 121 Finance commands a large share of lending already.

"The whole digital ecosystem is working in our favor. Currently, our disbursements stand at Rs 600 crore with Rs 50 crore as funds in use. We are planning to raise \$25 million equity to expand our lending portfolio," says Modani.