

**[Vidya Mahambare]** (1:05 - 3:17)

Welcome to What Shapes Us, a production of the Great Lakes Institute of Management. I'm your host, Vidya Mahambare. In this series, we discuss what truly really shapes our lives.

Is it luck? Is it our hard work? Is it nature or is it nurture?

But all of us know life is not that simple. It's complex, and it is the interlinkages of all these that matter. Hence, in this series, with the help of our guest, we unravel this mystery using the five E's framework.

These E's are Endowment, Environment, Education, Effort, and Equality of Opportunity. My guest today to talk about this and more is Sajith Pai. Sajid is a venture capitalist and partner at Bloom Ventures, India's leading homegrown early-stage VC firm.

He says he moved into venture capitalism by accident, but I'm sure he's not an accidental writer. He is a writer VC. He decided to write for the public. His substack Sajith Pai's newsletter, if I remember correctly, is very widely read.

He's also the leading author and driving force behind the Indus Valley Annual Report, known for its incisive analysis and commentary on India's startup ecosystem, which is again widely read and cited. Before coming to venture capitalism, around 2018, Sajid spent two decades almost in the media with India's Times of India group.

Maybe on the surface, it may appear there is nothing common in the two of them, but I think both media firms and any startups, I guess we have to produce goods or services that many people want, many people are ready to pay and pay very frequently. So there is some commonality.

We'll discuss this and more as we go along. Thank you very much, Sajith, for taking the time to speak with us. And thank you for hosting us in Bloom Villa.

**[Sajith Pai]** (3:18 - 3:20)

Thank you, Vidya. It's a pleasure. Pleasure to have you here.

**[Vidya Mahambare]** (3:21 - 4:14)

Thank you. So let us begin with the first E: endowment. By endowment, I mean, you know, essentially birth lottery.

What we are born with, the place, the family, the social structure, maybe inherited traits, you know, genetic abilities, maybe some raw talent, sheer stamina, sometimes simply good, you know, health. Some people are born with a lot of immunity. If you see all these factors of endowment, and if you look back, in hindsight, which of these endowments do you feel mattered?

I understand you were born in Kerala, if I'm not wrong. So maybe that place, how did all this affect you as you grew up?

**[Sajith Pai]** (4:15 - 7:10)

Yeah, this is a fascinating question. And it's a very interesting framework and structure. So when I was born, and of all the five E's, I do believe that endowment is very critical, because endowment sets the initial conditions and the rest of the E's really follow from the path dependence of that initial E.

And when I was born, I think I won three lotteries all at the same time. As a male, as an upper caste, and from a reasonably progressive place in India, Kerala. We weren't rich by today's standards, but I think we are well off; we never starved.

For the India of that era, I was born in 1975. I think our family was definitely in the top decile, but India was an extraordinarily poor country then. And so I would say that even for us who are probably in the top 10% or maybe top 20, but definitely not below that, things were a little harder.

Like, for example, we had to wait for our scooter; we didn't have a telephone till 1994. Such a poor country. But the fact that I was male, as an upper caste, and thanks to being in Kerala, a relatively progressive state, my mother was educated.

And that was important as well, because my mother was educated and she understood the power of education. In the late 70s, early 80s, I was growing up in a city, not even a city actually, a small town called Koellam, then called Koilon, very sleepy town. She went around to a lot of our relatives and family friends, and because you're from that milieu, our community was relatively more progressive and wealthy.

They had English books, and she could go around and hunt for those English books. And there is a sixth E in India, I believe, and that sixth E is English. English gives you extraordinary advantages.

And I was always the better English speaker in school, better English speaker everywhere. That's given me a huge advantage too. But really, these, when it comes to endowment, I think I benefited hugely from the birth lottery that I won.

**[Vidya Mahambare]** (7:10 - 8:24)

There is a large academic literature in economics on how even the vocabulary that is spoken around you in your first two to three years of life, you talked about English books and so on, how much it matters in eventual life outcomes. So, if I talk about myself, English did not come naturally to me. I was in a Marathi-medium school, and there was a substantial effort required, you know, afterwards.

But you nicely acknowledge the role of endowment in your success, but if we ask people in general, which of these endowments, if you feel people under-acknowledge, because most of the time, you know, emphasis is given on like effort, which do you think really matters? If you had to subtract one, which one of them would have made the biggest difference?

Of different types of endowment, you are born with some say, natural talent or something or born in a particular family where parents are educated, which kind of endowment or well, you know, relatively well-off family, which kind of endowment do you think matters the most in India, which people do not acknowledge in their success?

**[Sajith Pai]** (8:25 - 12:11)

I feel gender matters a lot in India, but I would say that almost on, in fact, I would say maybe on par with gender and maybe because if you are reasonably upper caste, then you can get away with being a female, but if not, then I think caste matters a lot, caste is not acknowledged.

So, you spoke about how growing up in an environment in a milieu, vocabulary, for instance, plays a role and when I look at the startups that are back and the founders that we back, a majority of the founders who start up in India fall in this category that I call NIMBLE, it's an acronym for **North Indian Male Baniya Likely Engineer**, it's a moniker that I've coined.

So, if you look at Dipinder Goel, if you look at, for example, the Snapdeal founder, Rohit Bansal, if you look at Bhavish Agarwal, if you look at Binny and Sachin Bansal, they are all North Indian Male Baniya Likely Engineers and when I talk to these founders and increasingly, I think more than 10% of the people who pitch to me and sing will be like Agarwal or Gupta or Jain, like Bansal, Agarwal, Gupta, Jain and it's not an accident.

When you grow up in that milieu, your parents talk business and are very comfortable with risk-taking. I, of course, admire that community, and I'm looking for, for example, there is this series of books called the Bengalis, the Tamilians, the Gujaratis. I went and picked up the book on Gujaratis because they're a fascinating community for me.

The book that I'm really looking for and I wish someone would write is the Baniyas and I would love to kind of read everything I can about the Baniya. It's a community I deeply admire and like to look forward to because that's my core customer base, that's my core, what we call Ideal Customer Person or ICP.

So, I think caste is not acknowledged and caste plays a very powerful role and the way caste played a role in and our community, I mean they call it Gaud Saraswat Brahmins (GSBs), like I mean depending on where they are on the west coast, they have certain status because they are, I would say like they're one of the few Brahmin communities which eat non-veg fish and because of that they have varying statuses depending on where, because they're not strictly vegetarian. So, in Pune, for example, they would like, they would probably not rank among the uppermost of the Brahmin castes, but if in Kerala it was again questionable, like you know, but parts of the west coast they have seen as, they're of course a progressive caste, very popular for being,

I would say banking. Canara Bank, Syndicate Bank, Corporation Bank, Saraswat Bank, North Canara, JSP Bank, all these banks are started by us (GSBs). So, I think I grew up in that milieu, comfortable with finance to a certain degree, never uncomfortable, economic times was home because my father was working in a bank, the times of India was always home, Hindu was always home, English was comfortable, I mean not that they spoke it really well, but there was an importance given to English and all of this really played that reinforcing role, I would say.

**[Vidya Mahambare]** (12:12 - 13:09)

Yeah, so wonderful the way you talked about not only the role of the caste in terms of, in your life, but also in your work, most of the innovation or startups, how they come from the

Baniya community, but this, in that case, the ecosystem of startup or Indus Valley as you know, you call it, can anything be done to make it, innovation spread through more into different, you know, not restricted to Baniyas because other young people do not have that advantage, right, they are not born into Baniya, but we need innovation coming from everywhere in the society. So, what can be done? Can we create an environment in such a way that there is a raw talent, but they do not have all this background, they did not grow up with a business family, is the ecosystem doing something specifically for these kinds of young people?

**[Sajith Pai] (13:10 - 16:27)**

Yeah, I do feel that while I do think Baniyas have a certain natural advantage, they are hardworking and they value education and if you at it, for example, I always look at, for example, all the IIT, CEA, medical results and I think more than a third to a half are Baniyas, right, like, and it is not accidental because it is a community which values learning and success, that does not mean that other communities are not successful, like you have, for instance, the more privileged communities, playing a bigger role and that is not accidental because startups are about risk taking.

If you are the first in your family to go to college, which means that you come from relative poverty, then do you want to work in a high-risk startup, you probably do not, do you want to take up that TCS job, that enforcers job, that government job, you come from a milieu where the Lalbati is seen as a very positive symbol. So, for example, there is a founder of mine from Bihar, who gave the IAS exam, didn't score a very high rank and persuaded his parents that he would **join, go to IMB and become an** operator and now founder.

So, I would say that it is not necessary that you have to be from that community, but if you look at what made that community successful, one of the factors, apart from the fact that they are into business, is the fact that they are relatively successful and privileged, so they can take risks.

Similarly, as other communities get richer and there will be more and more members from that community coming out to kind of take up startup roles, because it's fundamentally about being privileged, you can't be extremely underprivileged and then want to start up, It's hard, like because how can you take risks and how can you take the risk of failure, when you don't have a safety net, you need a safety net, you need a comfortable safety net, you need the privilege to shrug off a failure and then bounce back, you can't do that, if you are the first in your generation to kind of go to college, etc.

Perhaps, there are one or two extraordinary individuals who are able to do that too and they are very impressive, but the majority of the founders are very privileged economically and socially and well, not to all Baniyas, a significant number are. So, I think it's changing thanks to, for instance, more and more business podcasts, more and more celebration of Startup India, and more and more of it, with the osmosis in the air. Today, I think more and more people are comfortable starting out, you don't have to be from a certain background, you don't need to be highly educated, you need to be privileged, all of that helps, you need to economically and socially, but that apart, I don't think any community, one community has a lock-in on this, but these other conditions have to be met.

**[Vidya Mahambare]** (16:27 - 17:10)

Yeah, you mentioned about the, the failure and failure rates will be higher in startup by very nature, but how do you create, and I think you have talked about it somewhere else as well, how do you create an atmosphere that there is no stigma attached to failure because survivorship bias tends to be like very high and those who survives are celebrated, right, and we forget.

How do you create in, maybe in Bloom Ventures or through your writings or something, how do we, how can we address because in general, as you say, large part of the Indian society is less risk taking, you know, more risk cover simply because they do not have safety net and so on. So, how do you increase the, you know, acceptance of failure?

**[Sajith Pai]** (17:10 - 18:46)

Yeah, so, the startup world emerged primarily from the US, right, and that's where it took birth and the US is a nation that's, for various reasons, comfortable with risk taking and able to shrug off failure and because the startup worlds and ecosystems globally are very representative of the US and take inspiration from the US, all of us to varying degrees are able to kind of not attach too much weight to failure. So, India: a lot of the Indians who are starting up have exposure to that world; some of them have even gone and worked there and come back.

Over time, we reached a context in which we do not ascribe too much importance to failure. Like, for instance, We've just backed a founder second-time and he's not the only one who lost a lot of money for us. We thought he would do very well, but for various reasons, it didn't work out and all of the money we invested went to zero. We are backing a second startup.

Because, like, you know, you already learned at our expense, why would we miss the chance to kind of, hopefully, get him to kind of use all of that learning? Another founder...

**[Vidya Mahambare]** (18:46 - 18:51)

Is this common in the VC firm that people back second time, third time?

**[Sajith Pai]** (18:51 - 18:54)

Third time, well, yeah, third time...

**[Vidya Mahambare]** (18:54 - 18:56)

No third chances, second chances you give.

**[Sajith Pai]** (18:56 - 22:37)

I would say that I know of a founder we backed his second startup, which didn't do well. His first startup did okay, like, not incredibly well, but reasonably okay. The second startup we funded didn't do well. Now the third startup we funded, it's again okay.

I think venture is very different from the normal world in the sense that we play long run infinite games or long run or infinite games and what it means is, for instance, I'll give you an example, like, today morning the founder had come and he meeting my colleague was also there, younger colleague and I was introducing to them, they both said they have met

and the younger colleague had been interviewed by this founder and today he was kind of telling the founder what you need to do, but in a previous rule, okay.

So, what it means is today if I behave very badly with, let's say, young founder, but then young founder could join a VC fund tomorrow, young founder could start another large company tomorrow and which may compete with another of my companies or it could well be that this founder who I treated badly, there is a person in his team who is wanting to start up and when that young founder comes to me, this older founder will tell him don't take money from Sajid, he treats everyone badly.

So, there are these, like I would say these infinite games, repeated games and which kind of play themselves out and VCs and founders are very cognisant of these repeated games, repeated infinite games and we hence know that the person who is hero today could be zero tomorrow, hopefully not, but the person who could be zero today could certainly be a hero tomorrow.

So, this is one reason why failure is not given too much importance because failures happen for many reasons and the other thing is why we are forgiving is all of this is good, there is one explanation, the other and more important explanation is or equally important explanation is ours is a power law business that by that means that if I invest in 10 companies and 8 don't do well, 2 do well, those 2 will pay up for all of the losses of the others.

So, typically when in a venture fund, one company does extraordinarily well or 2, second or third will do very well, and the remaining 27 may not do too well, some of them may be like what Ajit calls liquid oxygen startups, liquid tumhe kind of jeene nahi dega, oxygen tumhe marna hi nahi dega. So, they become like that, like zombie land and many die, but it's very natural for 2 to 3 to really cover up for all the failures, because of that, we understand that look, we have to take risks, and those founders are fundamentally taking that risk. A good example is to think of astronauts, as astronauts go into space, so many things are out of work, sometimes the rocket blows up.

So, we are like the NASA administrators and the astronauts or ISRO administrators and astronauts, are poor folks who go into the air; they have to take those risks, and once in a while, a rocket blows up, more than once in a while, that's reality.

**[Vidya Mahambare]** (22:38 - 23:25)

I totally agree, I was just trying to understand how it works because in general in our society failure is not well accepted, you know, there is a hard time people have when they fail. So, from that perspective, two slightly different questions about environment, one and you write about all of this a lot in your Indus Valley report, like overall economic or macroeconomic policy environment especially for startups and we have this make in India and manufacturing and all that push for 10 years plus now from 2014 and other hand we have services of course and we know the environments policy wise differ, do you see any change or are your majority of your startups, your backup are continue to be in services?

**[Sajith Pai]** (23:25 - 24:09)

Changing, started seeing more manufacturing place emerge, I know overall stats say that we have actually not increased manufacturing share of GDP, yeah, 15 percent, yeah, it's been stuck at that, yeah, it's not grown but in the companies we are funding, certainly seeing founders take those steps, we'll start seeing more and my feeling is that it may not go anywhere close to China's, you know, 30-35 percent but it'll get into hopefully into the later teens and if we get lucky the low 20s.

**[Vidya Mahambare]** (24:09 - 24:12)

Which are the manufacturing industries that you are seeing some traction?

**[Sajith Pai]** (24:13 - 25:18)

Yeah, electronics starting with mobile phone, mobile accessory systems is beginning to see considerable amount of interest, we're beginning to see toys, we've just backed a toy manufacturing company, beginning to see the help by the government diktat of banning this one, we are beginning to see, like I would say that I'll be honest and say that not everything is completely manufactured in Indi.

I would say in the supply chain, there are more than significant intermediates as well as primary things which are imported from China, but even certain chemicals, for instance, we're beginning to see manufacturing in India, and apparel has been a challenge. We've actually not increased as much as we expected, but these are some of the industries you're seeing: automotive and EVs are one area, but again, many parts are imported from China.

**[Vidya Mahambare]** (25:19 - 25:34)

So, slightly changing to your personal side but again on the environment, you were born in Kerala, then you moved to Goa, that is where you completed your first degree in economics, I believe from Chowgule College.

**[Sajith Pai]** (25:34 - 25:35)

That's right.

**[Vidya Mahambare]** (25:35 - 26:01)

Right, and then you moved to IIM Ahmedabad, one of the premier institutes, then that environment, then you joined the Times Group, you're in Mumbai, then to Delhi, and you frequently come to Bangalore, of course, because of the role as VC. All these different environments, how did they impact you differently or similarly and which one has had the most impact or different stages in life, different impact?

**[Sajith Pai]** (26:01 - 27:37)

Yeah, so I would say that between Kerala and Goa. There was Hyderabad where I spent seven, eight years and I think Hyderabad is where I kind of got to understand the importance of what's called the National Exams, that's where I first heard about the JEE because the 11th and 12th junior college I used to go to, it's called Little Far Junior College, one year send the maximum number of students to the IITs, IIT Madras, they sent 52 students the year I joined and that time I had only five IITs, it was a very large number.

So that's where I first heard about National Exams and while I was not interested in engineering and arts, there's no National Exam in Humanities. So, but that's where I really first heard that, oh wow, you can do this and there is a selection procedure and there's a

funnel and that sort of was fascinating and then of course, I did my undergrad, the standards in Goa were very poor, right, so that was an environment where I had to kind of really do everything on my own, it's a different era, maybe Goa has improved since then, but academic standards were very low.

Ahmedabad was, I would say, the single biggest influence because for the first time I went, with very good accounts in Ahmedabad, and the first term was scarily difficult, like I thought I would flunk out and it was very tough.

**[Vidya Mahambare]** (27:37 - 27:38)

Accounting?

**[Sajith Pai]** (27:38 - 31:37)

Accounting is barely, I had done one, yeah, I had done, no, 11th and 12th, I had done one accounting thing, even there I didn't do well enough to go beyond a B-minus, but quant was very tough for some reason, I just couldn't drop the thing, so they didn't have too much time to teach people like us and I struggled a fair bit and but yeah, all is well that ends well, but that was like a big reality check, for the first time I was and probably the only time I was in the bottom tier, bottom quartile of something and that taught me a lot of humility, but it also taught me that there are some areas where I am relatively better.

Ricardo's theory of comparative advantage and I decided to focus on them, that I thought was marketing and that's what led me to the Times Group, which I thought and also found it hard to get into FMCG jobs, my dream was to get into Unilever, they didn't take me, then Asian Paints, they didn't take me and finally Marico, they also didn't take me and finally I got into the Times (of India group).

And Times was very interesting because it's an incredible environment, a lot of people don't know this, but Times is one of the best run businesses in India, there were two brothers and now the brothers have split and the elder brother Sameer Jain is a genius, he is a business genius, he has a very unique way of looking at business and business models, he is the one for example who said newspapers should be priced cheaply, so that they proliferate and then we'll sell those eyeballs to advertisers, so I learnt a lot by being in the Times, working with him and also it was a unique place because you had very interesting people in the journalist.

I was never in the journalistic side, I was on the business side, I was someone who they could talk to, so straight from Jojo who heads editorial at the Times of India, Rajesh Singhal who used to then head editorial at Economic Times and then Bodhi now has taken over, all of them really kind of know me and this they always kind of enjoyed talking to me and because I was able to kind of translate some of their kind of perspectives to the business side, from the business side they always appreciated that I had a strong understanding of content and so on, so it was a great stint, I continued for two decades, every year till a certain point I learnt a lot, worked across multiple divisions, music, newspaper, TV.

I was actually employee number two and then Arunabh was employee number five and then kind of and so on and so forth, I would say that was the one and post that of course I have kind of moved to VC, which is a very different place, it took me a long some time to a

little bit of time to adapt but I have adapted and all this I also like I will be relocating to Bangalore in April and so I purposefully in the middle chose to go to Delhi so that I would kind of experience Delhi, kind of put myself in my comfort zone, my wife agreed thankfully and so all of these environments have taught me a lot but I think the thing is that the shift to Delhi and the shift to I would say venture really pushed me out of my comfort zone and that combined with the Ahmedabad one which was of course you have to get selected so it's not like I deliberately did it, I tried and I got lucky and I got in, these were three extreme environments which have kind of shaped me today to become what I am.

**[Vidya Mahambare]** (31:37 - 32:13)

So you talked about now towards and Bangalore and you're relocating to Bangalore, so if you talk about Bangalore environment and the startup we know and then maybe Hyderabad, I have lived in Chennai now for 10 years, what can, I am sure you have been asked this question, what can Chennai do not to become a next Bangalore per se because there are lots of other issues, traffic and so on and so forth but just in terms of the creating an ecosystem, does, how much really the environment of clustering, cluster matters and what can these other cities do?

**[Sajith Pai]** (32:14 - 34:27)

It's very tough to create a cluster once and you know in a particular industry to compete with another like a cluster which is already there, so what I mean to say is there's only one Bay Area in the world, Boston for example tried, it didn't succeed, same way in India, Bangalore is a preeminent cluster, there is what I call Scenius, S-C-E-N-I-U-S here

And even Bangalore, it's not the entire Bangalore, it's predominantly East Bangalore, that's a stretch starting from, I would say, Dhomlur, Indira Nagar, Koramangala, HSR, Belandur and some aspects of Whitefield and now some parts of JP Nagar, so I call this stretch Silicon Halli and to me if you go to Jaya Nagar, if you go to Basavan Gudi, if you go to Malleshwaram, if you go to Yashwantpur, if you go to Cooktown, you don't really have startup culture here, it's really these five and even in Delhi NCR, I would say Gurgaon is a little more clustered like you know but though it's spread across, so I think Chennai does have a small cluster of SAS but if anything there are more SAS founders in Bangalore than in Chennai, I think it's tough and it's tough for Hyderabad too, Hyderabad should focus on for example pharma or healthcare, they could try and become like the equivalent of Boston, generally being trying to be a generalist is no point, they should focus.

Delhi for example, NCR, Delhi NCR has great consumer brand startups, certain type of founder was very strong in operations, better than Bangalore, so there are far better consumer brand startups like Mama Hearts of the world in Delhi NCR than in Bangalore, I would say and not to say that Bangalore doesn't have but if you look at the like the quality of founders especially in consumer brands, NCR would be I would say preeminent.

**[Vidya Mahambare]** (34:27 - 34:38)

So are these founders from that area or they relocate to that area because Bangalore has many who would be relocating right here, but in this case, you are saying founders are only from the north. Nobody relocates to Delhi.

**[Sajith Pai]** (34:39 - 36:14)

So nobody relocates to Delhi. Delhi is hard because the city has certain perceptions, so it's not easy for a South Indian to really move and the weather is extreme, pollution is extreme. Delhi is hard mode right? So Bangalore is great weather, people are soft, so and you know, so Bangalore sees a lot more as one.

The other interesting trend is young people, when you look at very young people right, Bangalore is over-represented, the young people don't want to be in Delhi, like you know, so unless they have specific reasons. So when we had a Delhi office, all of the young folks, especially the women, just ran away, including people who were from Delhi, ran away to Bangalore, like you know, the first sight they got. So there are interesting, I would say, reasons for that.

I was actually coming, this book by, I forgot her name, Malini, I think Malini, I forgot the surname, she wrote a book called Bangalore Unbound, where she actually looks at like some of these trends and I spoke to her and she said that when it comes to, for example, the intermingling of sexes and all that, Bangalore is the easiest city, like you know, to kind of have that. Bombay is there, high trust, but it's difficult to kind of get personal space. Delhi, easier to get personal space, but it's lower trust.

So Bangalore has an ideal combination of both.

**[Vidya Mahambare]** (36:14 - 36:28)

So maybe Chennai can look at, since you were talking about the manufacturing earlier, maybe Chennai may get, have an advantage in manufacturing, creating a manufacturing ecosystem, because auto and you know, in many manufacturing industries, in general, Tamil Nadu has been better.

**[Sajith Pai]** (36:29 - 36:36)

Then again, I'll be candid about it, but I mean, you don't have to focus.

**[Vidya Mahambare]** (36:37 - 36:38)

You don't have to.

**[Sajith Pai]** (36:38 - 37:46)

I think Chennai, every time I go to Chennai, I love the city because it's a very comfortable city to live in and your city can be a good industrial hub without trying to be like, for example, like when I've travelled to the US and it's when you go to small town US, right, everybody goes to New York or everybody goes to the Bay Area and says wow, like whatever, but when you actually go to small town USA, Kansas City, Omaha, like a small town, Gainesville, Florida, when you see the wealth there, like and people are so happy and that's when you realise wow, that's what makes America, America, right, with that 80,000, 90,000 per capita income. So Chennai could be like that. In fact, people are talking about Tamil Nadu as a Vietnam-sized economy growing at 11%.

I mean Tamil Nadu, Madras could be like the Kansas City of or Atlanta of India, like you know, and it doesn't have to be a startup hub. You can be a successful city without being a startup hub, you know.

**[Vidya Mahambare]** (37:46 - 38:48)

Just make use of...innovations elsewhere, adapt it and grow very fast. In fact, Tamil Nadu has had a manufacturing-to-GDP ratio of 30% or more, you know, before. So, yeah, then the third E, which is education, and you touched on your education already at IIM Ahmedabad and at Goa, and how the two environments were very, you know, different.

But you also said you went there with good marks, and that you did so through the filtering system, right? So, how much of India's elite education institutions are really, you know, certifying as a signal because they already take people who are very good filters? So, it just becomes a signal to the market that these are the guys you pick up who are smart and how much are they really able to, you know, get or give access to people who do not come from similar endowments or environment.

Or what can be done? Maybe we know it doesn't happen. What could be done?

Other than, of course, the reservations and...

**[Sajith Pai]** (38:48 - 40:52)

Yeah, I would say that I think there's already winnowing of students and the top universities benefit from the fact that the students who select them are already of higher calibre or better human capital. And that definitely plays a role and even the IITians, for example, say that it's not like they were taught very differently, just that they were already very good. The universities benefit from that.

Certainly, I think reservations help to some extent improve access, and they reduce the importance of the endowment. And to that extent, it's helpful. With regards to what universities can do and, I mean, it's tough like, you know, in education, but what I would really say is increasingly, I would say, we are beginning to give, especially the startup world, higher signals to non-academic institutions.

So, for example, when I look at a founder and when I, specifically, when a founder pitches the first thing, I go to LinkedIn. But what I look for and give more importance to is where they've worked. For instance, if they have worked for four years in a high-growth startup, ideally a unicorn, like, for example, Urban Company.

Urban company, I know, is a, so it's a, they're tough task master. It's a difficult business, a good operational business. And you have worked from 2017 to 21, 22.

That's a great signal because those were the, like, fast growth years. You probably learned a lot, four years a lot, which means you got promoted thrice. That's a good sign.

**[Vidya Mahambare]** (40:53 - 40:59)

So, irrespective of where your education was from, if you have worked in this kind of environment, it sends a very good signal.

**[Sajith Pai]** (40:59 - 42:35)

Correct. That said, it's not like Urban Company will take anyone. They also look for, are you like one of the better bits, IIT or NIT?

Are you like, for example, MBB, like McKinsey, BCG, Bain, you know, stuff like that. But sometimes there are founders who come from, like, a founder whose company is acquired

by UC, or sometimes you get into a certain role and, through your sheer hard work and strength, you grow. And so, I give that a lot more weight.

To me, these 40-50 top companies are like educational brands in themselves, because in those three to four years, you learn a lot. And a lot of stuff which the startup world does, there's no curriculum equivalent place. There's no university which teaches that.

So, the second is doing, like, for example, your GitHub, your writing. In my case, I would say that, as powerful a signal as my IIMA, my website is where I've written. That is a far better signal of my capabilities than, for instance, my IIMA degree.

So, startups slash tech world slash Indus Valley, certainly doesn't give weightage only to academic signals, give weightage to these signals as well.

**[Vidya Mahambare]** (42:35 - 43:14)

So, in fact, I was going to ask you the same question. If we consider education as including informal education, and in that there will be writing, I suppose, you read a lot, you write a lot. I suppose that is a form of education as well for yourself.

How much of that, you know, or did you work in Times, your famous idea of product-market fit? And so, how, where did you get it? I'm sure it's not like a formal education system.

It would be through observations or while working at Times, or I don't know, through your writings when you're analysing, thinking deeply, how did that come about?

**[Sajith Pai]** (43:14 - 45:03)

Yeah, I think all growth comes from taking intellectual risks in public, in whatever form they may take. And the intellectual risk in public that I take is primarily investing, putting my money where my mouth is. And secondly, is really through writing, putting my view out into the world and making it open to criticism.

And even though you put out as much as you do, there's a lot I don't put out, but put internally. And there's a lot of debate on that. So, I would say that product-market fit, for instance, came from wanting to make myself useful to founders.

So, a lot of people think that venture is investing. I beg to differ slightly. Venture is actually, it's important to understand the two types of founders, the elite founders and less elite, less celebrated founders.

The more elite founders have more competition for, from investors to invest in them. So, there is more demand, less supply. It's the reverse way in less celebrated founders.

So, if I'm going to invest in a less celebrated founder, he or she doesn't have much choice. They have to take my capital, then I can dictate the terms. But with elite founders, like second-time founders, especially if that success in the past, they can choose...

Which we see they go. That is right. So, writing is a form of marketing.

I say that venture is less about investing and more about capital sales, where I'm selling my brand of capital and another VC is selling theirs. So, I'm selling the Bloom brand of capital to

elite founders and hence writing and marketing myself. So, writing is a way of marketing myself, writing is a way of thinking aloud, all of this.

**[Vidya Mahambare]** (45:03 - 45:44)

So, that brings us to the fourth thing: effort. I guess the way you explained, writing has been a deliberate choice and deliberate effort. That's something that you decided that you want to do, and there was a purpose behind it.

But when do you think you have come across in your life a situation where effort, there is a large sunk cost and we don't give up, sometimes because there is sunk cost involved and we just keep on going, even though we know that there is a dead end. Has that happened or how do we figure out that the sheer effort is not going to lead to anything in this particular venture or whatever we are doing?

**[Sajith Pai]** (45:45 - 47:29)

Yeah. So, I haven't had specific instances where I have overinvested in the wrong area, but some of my founders, I do tell them that you should not put too much effort into something beyond a point, because yeah, like maybe you hit a dead end. But even before that, I think the general principle I give is, it's where do you play and how do you win?

Like, both matter. Strategy is really where you play to win. For instance, if you have a kid and you want the kid to pick a sport, then it'd be, it's okay if you want the kid to just get fit, then you can let the kid play Khokho (an Indian sport).

But if you want the kid to succeed in life and make a lot of money, then you probably want to pick cricket. So, if it comes to a racket sport, it's better for your kid to pick tennis over badminton. The 50th-ranked tennis player makes more money than the 10th-ranked badminton player.

So, you put in the same effort and the tennis player will make more money. So, there are certain fields which have intrinsically better advantage. For instance, beauty as a category has much higher gross margins than logistics.

And if you're a founder who's looking to kind of decide where to play, then you want to pick the space where relatively less effort can get you similar returns.

**[Vidya Mahambare]** (47:30 - 47:50)

But you have to have passion also for that, that particular sport or something, right? So, for example, you know, things can change in Kabaddi. We have now pro Kabaddi league or something.

If you don't have passion, how do you sustain that effort? Because to succeed in anything, you know, you need huge effort. So, without passion, what do you do?

Yeah.

**[Sajith Pai]** (47:51 - 48:02)

Now, there are folks who say that, you know, trust your gut, follow your passion, etc. So, I come from the fact that when you put high effort into something, you get passionate about it.

**[Vidya Mahambare]** (48:03 - 48:04)

I see. Yeah.

**[Sajith Pai]** (48:04 - 49:11)

So, a lot of the people who, for example, you find that they're very good at something and you see people say, oh, how passionate they are. The passion came from putting in the effort and seeing success. And people, you know, saying, wow, well done, well done.

And they said, wow, I'm good at this. So, maybe I'm passionate about it. So, it's not the other way around.

I have passion and this. So, for example, like when you look at a swimmer and when you look at a 800 metre runner and you make them stand next to each other, the swimmer will have short legs and a very long torso. And the runner will have very long legs and a short torso to succeed in 800 metres or 1500 metres, etc.

If you have a swimmer's body, you will not succeed.

**[Vidya Mahambare]** (49:11 - 49:13)

So, that's where the endowment plays a big role.

**[Sajith Pai]** (49:14 - 49:42)

Endowment plays a big role. So, you want to align all the E's ideally, right? The most successful people have everything aligned, right?

Their endowment, their environment, their effort, education and whatever the 50 E's, equality, they all align. You don't want to put effort into an area where your endowment is weak.

**[Vidya Mahambare]** (49:42 - 49:42)

Is not.

**[Sajith Pai]** (49:43 - 49:46)

Right? So, I mean, you can.

**[Vidya Mahambare]** (49:46 - 50:49)

So, take advantage of, you know, what is positive in you and just, you know, where you have an advantage and make most of it, that kind of thing. So, then the last one is, you know, you have this famous India 1, 2, 3. Maybe you can, you know, talk about it a little bit, but in the context of what I'm asking: last is equality of opportunity, right?

And as I understand, like, you know, you correct me if I'm wrong, but India 1 is essentially the topmost elites who have a lot of wealth, and they are the ones who drive, you know, India, they are the ones who are the market for most of the startups and, you know, so on and so forth. At the other end, India 3 are really the very poor in India, which are like millions, right? So, that is where the last T comes, equality of opportunity, right?

Is India 3 essentially the prime example that we have, we have never been able to create sufficient access to opportunity for the majority of the Indians, and that's why, you know, such a high inequality continues.

**[Sajith Pai]** (50:50 - 54:07)

Yeah, the India 1, 2, 3 framework was stolen from Kishore Bani, first came across it in Kishore Bani's book, It Happened in India. But really, what I did was to take that moniker and then take statistics and clarify and define it very clearly. So, India 1 is 10% of India: 130-140 million people, 30 million households, per capita income of 10,000-12,000 dollars and above.

India 2 is about 300 million, 70 million households, per capita income of 3,000 dollars. So, if India 1 is like a Mexico-sized economy, India 2 is like a Philippine-sized economy, right? And then India 3, which is the next 1 billion, right?

Bottom rung, sub-Saharan Africa level per capita income. So, I think a fundamental challenge when I look at India is that India has, because of the nature of our country and it's hard for me to kind of give one reason for it, but multiple reasons each reinforcing each other, has struggled to grow per capita income because of the population, etc. And when you grow, these days we have started growing at 7-8%, but historically we have grown at very low rates and specifically in the 70s, 60s and 70s, we grew very, very slowly and that handicapped us.

And since the 80s, we grew a little faster. 90s, thanks to 91, we grew a little faster. Historically in India, we've struggled to create formal jobs.

And if you look at the fundamental rate-limiting factor is that we have not created formal jobs at a pace that will accommodate the growing population. And there are two growing populations. One is the growing population itself and the second is the people willing to leave agriculture.

And I dare say that if we had a very flourishing manufacturing sector, more people would have been willing to come out of agriculture, because agriculture is very high because it is disguised as unemployment. So, I would say that we have not created sufficient equality of opportunity. I don't think there's any doubt about it.

How has the startup world tried to? The startup world has tried to create the gig economy and gig workers. So, today, for instance, there are 12 million gig workers.

And the average gig worker earns between 18 and 25,000 rupees. And if you look at 25,000 rupees into 12 is 3 lakhs and 3 lakhs is more than India's per capita income. And so, what the startup world has done is create these 12 million jobs.

These are your Uber, Rapido, Zomato, Swiggy, Blinkit, Urban Co's of the world.

**[Vidya Mahambare]** (54:08 - 54:13)

Self-employment, but at a higher income levels compared to farming.

**[Sajith Pai]** (54:13 - 55:55)

India has always had this category of forced entrepreneurs. These are people who would ideally have been happy with a government job, but are forced to become like, you know, work in a chai shop or run a very small business, with limited capital, run a very small kirana. And what we are seeing is about 12 million, I would say, gig workers.

It's about 1% of India's population. And if you actually look at, for example, India's labour, that's about 2 per cent. 560 million is the labour force.

It's 2 per cent of India's labour force. I would say it's creditable because the last time a sufficient number like this was created was thanks to Mr. Narayan Murthy and his ilk. When India created a middle class, the white-collar middle class, parallel and almost as large as the government sector.

About, I would say about 16 million people entered the formal white-collar service class, which is about, I would say, 25 per cent of India's formal labour force. So, we haven't reached that achievement and that's a success of the IT industry. But I would say the startup world has been able to create this, if you want to call it equality of opportunity, whatever it is, I don't know.

But really the struggle has been that we haven't provided enough equality of opportunity, and that is definitely not been there.

**[Vidya Mahambare]** (55:56 - 56:30)

For me, it is more, you know, our northern belt, that's where I think the majority of your India 3 is. And that's where somehow, still, you know, all kind of this ecosystem, including gig work, still lacks. But now that we have talked about all five, you know, which is endowment, environment, education, effort and equality of opportunity, and it's not easy to rank.

But nonetheless, if you think about your story, and if you have to rank order, how would you do it? Or do you think it's impossible to rank order?

**[Sajith Pai]** (56:30 - 58:54)

Yeah, I would say that I don't think I particularly benefited, I don't know, it's hard to understand the specific equality of opportunity that was offered. I think I was able to take unfair advantage of opportunities because of the unfair advantage I had in endowment, education and my effort got undue advantage because of these two Es. I would say that endowment and education really set the initial conditions, especially endowment, for the rest to count.

In the absence of that, I would have been a very strenuous, like a very hardworking athlete playing Khokho. But now I am like playing tennis, and I am able to play, afford better coaches, and, you know, to the metaphor of tennis. So, I would say that definitely endowment is the single most important.

If you are born Dalit, female in Bihar, how much effort will it take to move you out of your milieu? It will probably move from bonded labour in a brick kiln to working as a nanny, even if you are extraordinarily good. However, like maybe with some degree of effort, you will

break through and get a reservation seat in some third-tier engineering college and you will get some low-end job.

But you will never become, I mean, you will struggle to break into India 1 in a decisive way. Maybe you will join the lower rungs of India 1. That is the extent to which it can act as a dead weight.

So, endowment is very critical. It enables access to the other things. When you are poor, when you lack sufficient nutrients, when you lack income and you have lacked clarity of the future, then you can't put continuous decisive compounding effort and take advantage of it.

Poor economics talks about how the extremely poor don't have a clear sight of the future and are not able to invest in their children or in themselves, even.

**[Vidya Mahambare]** (58:54 - 59:01)

Your cognitive functions simply don't work as well when you're not well fed, healthy, or have all the good endowments.

**[Sajith Pai]** (59:02 - 59:23)

Yes. So, I would say endowment matters a lot. Endowments and, of course, the environment is important.

I have not given as much importance to the environment because, to my mind, I kind of link it to endowment. Yes, they interact quite strongly. And education follows from that.

**[Vidya Mahambare]** (59:23 - 59:40)

So, in education, one thing I wanted to ask you, IIM Ahmedabad, formal education is one thing. But did the access to networks, because of IIM Ahmedabad, play a significant role? Means it's not directly education, but it's a by-product of going to IIM Ahmedabad that you may have had access to.

**[Sajith Pai]** (59:40 - 1:00:23)

Yeah, it does help. You also have the confidence. I think what happens is, thanks to all of this, I have extraordinary confidence to write to someone and like, you know, cold mail and know that 7 out of 10, 8 out of 10, they will reply back to me.

I am not scared to write to anyone because of the advantages I have. Yes, Ahmedabad has a very good network. And definitely that network, that access definitely matters.

I won't deny that. And the signal is the single most important thing. And sometimes there are invisible things, like people reach out to you because of that signal.

So, you don't even have to put effort into networking and they reach out to you. Life is intrinsically unfair.

**[Vidya Mahambare]** (1:00:24 - 1:00:35)

So, on that note, the last two questions, one counterfactual, which is, if you had to relive your 20s, is there anything that you would have done differently?

**[Sajith Pai]** (1:00:39 - 1:01:18)

I would have taken more risks. I think I worked too long in the times of India. I probably have, I should have kind of moved out of my comfort zone.

I should have married a little later. But then of course, I wouldn't have had the daughters that I've had. I wouldn't have had the wife that I've had.

But I think marrying early forces you not to take certain risks. I think it was more true of my time than now. Because folks now don't have that challenge anymore.

But I think marrying early was a major factor in my...

**[Vidya Mahambare]** (1:01:18 - 1:01:25)

I married at 27. When you were saying earlier, I thought it was like 23-24 you got married.

**[Sajith Pai]** (1:01:27 - 1:01:51)

But I felt like I didn't have the kind of savings to start up something, join a very risky place, and felt like I couldn't take a salary cut. So, counterfactual would be that, you know, I would probably take more risks and maybe get married later. But then I wouldn't have my daughters.

I wouldn't have the wife I have. So, maybe that's not a good thing to do.

**[Vidya Mahambare]** (1:01:52 - 1:02:16)

Okay. So, then the last one. For today's young people in their 20s, given that we are living in, you know, a world of generative AI and, all sorts of things, technology.

What is one counterintuitive piece of advice that you will give, especially for someone who is not from a metro background, like someone from a non-metro? Where should they invest most of their energy? What should they do?

**[Sajith Pai]** (1:02:17 - 1:04:16)

So, if you are from a non-metro background and you are coming into an AI world, I would actually say that AI will impact white collar jobs far more than, I would say, manufacturing or labour-intensive jobs, right, which are where physical labour is there. I would say that we are also moving to a world where more and more stuff in the digital space can be made by a machine. There is going to be more and more value to physical and handmade and products which embody human thing.

So, I would actually say that there is a craft that you can pick up? Is there something in the manufacturing line, the handmade line that you can pick up? Because those things will have extraordinary value and especially if you can tell a story about it.

So, if you are coming from a very underprivileged background, see, you are part of a tribe which has a very unique art form. Be an incredible practitioner of that and have the confidence to story tell and charge more and kind of, so, I would actually kind of say that in the world of AI, increasingly as AI improves, improves, improves, now a lot of the value is going to the margins. So, for example, let's take self-driving.

Until, let's say, self-driving comes 100%, if it comes to 99%, then the human being who validates that 1%, he or she will have huge value. In the same way like there is a writing, but

you have to vet it and send it out, that person has huge value and huge leverage now. So, I do believe that for some time to come, human beings will have huge value and you want to lean into what makes you human, what is physical.

This is my counterintuitive.

**[Vidya Mahambare]** (1:04:17 - 1:04:32)

Yeah, really counterintuitive because everyone is talking about technology and immerse yourself into technology and be complemented by technology. So, that's a wonderful advice. Sajith, thank you very much.

I have had a lovely time talking to you. I hope you did too.

**[Sajith Pai]** (1:04:32 - 1:04:35)

I enjoyed it too. Thank you. Thank you for these very interesting questions.

**[Vidya Mahambare]** (1:04:35 - 1:04:36)

Thank you so much.