

Outlier: Founder & CEO, Zerodha

People Involved:

- Interviewer – Mr. Pankaj Mishra
- Interviewee – Mr. Nitin Kamath

Duration of the Interview:

- 43 minutes and 11 seconds

Hi everyone. Welcome back to the outlier's podcast. I'm your host Pankaj Mishra and we are back with a new season of outlier's called the season of resilience. These are uncertain times, and everyone is trying to cope with uncertainties, anxiety and so many unanswered questions. We thought, we could be useful to all of you by doing a fresh series of conversations with outliers and some new guests. Please stay safe and I really hope all of us get out of this stronger and more resilient. Thank You.

Interview:

Pankaj: Today, I am really thrilled and of course sobered by what is happening around us to have this conversation with Nithin Kamath who has bootstrapped his start-up, Zerodha over few years and is looked upon by many as a role model when it comes to building a business without funding the way we know it in the ecosystem. So, welcome Nithin.

Nithin: Hey, thanks Pankaj for having me on the show.

Pankaj: How are you holding up Nithin with everything happening around?

Nithin: I mean today, you know, coincidentally is the worst day for stock markets in the last, I don't know how many decades. So, you know, we had a really bad day today on the stock exchanges, so, it's unreal right now. I mean, I still can't figure is it a dream, I mean is it nightmare or is it real, because it just feels like you're in a movie and you know, just don't know how it is. It's really tough, I think.

Pankaj: It's kind of a dystopian future playing in front of our eyes.

Nithin: It just feels like I am in a Netflix movie right now. It just feels like some movie I saw some few days back and somehow; I am in the middle of all of this and you know, it's happening so fast that it's still not sunk in, right. I have been working from home for the last 2.5 weeks now but still not sunk in. It just feels like it was just one day and it's still not over, you know, the day I started working from home till now. **I just hope, all of this gets over, I don't know how, I hope it all gets over fast.** I don't know about the business side, but at least, this whole social problems all of this will create, the economic problems, you know, I hope it goes away fast and I mean founders can always fight it through and cope up with all these challenges but you know, if the entire economy goes for a toss, fixing it will take a long time, you know. **It's quite unreal.**

Pankaj: Absolutely and I am with you completely in hoping that things get better. Let's start from the start Nithin since we are having this conversation for the first time in this podcast. Give me a sense of where you come from Nithin and give me a sense of growing up and then we can get into the Zerodha journey.

Nithin: The thing is, I got introduced to stock markets really-really early. My dad used to work for Canara Bank, don't really come from a business family. He used to take us around the country and eventually we landed up in Bangalore and I was doing my 9th & 10th standard and I used to live around this community of a lot of these 'Marwaris' and I got introduced to trading and call it lure of quick money so started trading really-really early and then I was doing my engineering at that time. By the time I finished my engineering, I had a trading capital, I had borrowed some money, etc. and I blew it all out, worked in a call-center for 3-4 years and then during those call-center days I used to trade during days, work in the nights. So, this was 2001 to 2005.

2005, I met a gentleman who asked me, dude, what do you do, and I showed him my trading account performance, he liked it, he said will you manage my money as well. So, he was my first customer, so I started managing his money in 2005. I became a franchisee of a bigger brokerage firm in 2005 as well and the customers, you know, performed well so new customers added, my younger brother joined me around 2007 as well.

In 2008, markets fell, and we made some money. 2009 I was feeling a little burnt out, you know, this **day trading is extremely stressful. It's almost like playing a T-20 game every day.** So, I thought I will take a break from trading for a bit and my younger brother, Nikhil, he was a better trader than I was, so we said, why don't you continue trading and essentially how Zerodha started. So, **when I wanted to take a break from trading, I didn't really know anything else to do in life other than trading and I always wanted to be a better broker.** I had used 12 different brokerage firms in India, and I thought there was an opportunity to be a better broker than what they were.

So, in 2010 is when we start the business. So, ya we are almost 10 years old now.

Pankaj: Great. If you were to look back at the journey, Nithin, of building Zerodha, over the last decade, and if you were to handpick 2-3 defining moments in the journey, both good and bad what would they be and can you go deeper in illustrating those events.

Nithin: See, the thing is, when we started the business as in, there was no tech. I come from no tech background or no one, Nikhil or the core team that we were, when we started in 2010, we were like a 5-member team, we were together for a long time before that as well. So, there was no tech, you know. It was essentially a better business idea and we used vendor platforms and we built a business on top of that.

So in 2013, Kailash, who heads our tech, I came across him and then I knew that by that time, 2013 you know, that I can't keep building this business on vendor products so we had to do something on products side as well as in that's the only way you can stay ahead of your competition. **So, I think the first defining moment for us was actually finding Kailash and getting him on-board.** He hates to be called a co-founder because he joined 3 years later but you know, he is as much as a co-founder for me than any other co-founder can be. So, 2013, finding him was one. Then, in 2015, because today, you know, what Zerodha is, we are not a brokerage firm. We are more a technology firm which is also essentially doing brokerage business. So that transition, he's been instrumental for that.

I think 2015 December, we had our first product that we built out by our trading platform. We launched it in early 2015 and in 2015 December, there was this whole wild idea that we had one day saying, we used to charge 20 rupees a trade for people who speculate as well as people who invest. People who invest in smaller trading volume versus people who speculate. **So, we said how about we make these 20 rupees, zero for people who invest because people who invest don't really bring too much risk to the business.** Like, for example, if you want to buy a lakh rupees of Reliance Industry stock, you will put your lakh rupees in your account, and you buy a lakh rupee of stock.

You don't really bring any kind of risk to the business, so we said why don't we just do it for zero and that was again, **like a turning point for us in the business, because as soon as we went zero, this whole virality kicked for the business. We added more accounts, I think, in one month in 2017 that what we added in the first five and a half years of our business. So, that was the second.**

And the third, big tipping point, it's probably the biggest, has been the demonetization, right. Because the biggest challenge for the business was on-boarding a customer. If you wanted to open a trading and demat account back in the day, you had to sign a 30-40-page document and attach I don't know how many proofs. Thanks to demonetization, people started using Aadhaar, they started using Aadhaar for KYC, Aadhaar for sign. **Now, you could offer a complete online on-boarding. So, most of business growth has happened after demonetization.**

These 3 were, you know, tipping points. These 3 are like those points, you know, which helped us significantly. Negatively, thankfully, there hasn't been too many. In this last 9-10 years of Zerodha, you know, there hasn't been too many such, actually not really any big bad moment as such as a business, you know. We have been quite lucky I would say. Let's see how this current situation plays out. But until now, with Zerodha at least there haven't been too many tough times.

Pankaj: Godspeed with that Nithin. But, one of the key things about your journey and Zerodha's journey is the model itself which is bootstrapping that kind of also negates some of the external factors that play out in a founder's journey most of the times. So, what has been your experience, it can even get lonely sometimes, right, bootstrapping?

Nithin: See the thing is, I don't know if investors are really your co-founders or friends, you know, investor has a different kind of mandate so I don't know you know **are you going to be lonely by not having any investor, I am not really sure. Of course, you will be lonely if you don't have a team who works closely.** I mean, then yeah. I don't know if bootstrapping really means that you're lonely but no, I think looking back when we started the business, we were very raw. I don't think, you know, I keep saying this, if I was a VC, I wouldn't have invested in a person like me. The reason was one 2010, was probably the worst time to start broking business. 2008-09 after the market crashed, every broking firm in the world was trying to diversify and do other things and there was this company, and you know, we were trying to start brokerage business, so, but then looking back last 20 years of my life doing business, I think, **is right place, right time, is more important than anything else.**

If you were to ask me in 2010, if you were to go ask 10 people, 9 people out of 10 would have said starting a broking business, way back in 2010 is foolish. But then, it worked out

really-really well for us. **It was not that we were super smart to think about it and start in 2010. It's just right place, right time and you know, I think there is a very thin line between passion and foolishness. If it works out, you are called passionate, if it doesn't you know, or you're called foolish. So, today it worked out, so people call me passionate and they look up to me, etc. but it very clearly, easily, could have not worked out as well. So, this whole bootstrapping again, you know, was not out of choice. Raising money was tough so that's how we started.**

But then we started the business and we started making some money and I started interacting with the ecosystem, started meeting with the other people who have raised money, etc., I never knew what money will bring for the business, so, one thing **I was very sure that I am not going to blow money to acquire a customer.** See the thing is our business is little different, I don't know if everyone whose listening can really just say I'll also do this. **See, in the business of money, right, when you save, you invest, you don't just trust a brand because of an advertisement.** Now, would you put your money say in Amaanat Co-operative Bank because they give 13% on their fixed deposit, you don't. For you, the brand's credibility is as important as how much return you make as well.

For us, when we were building the business, we realized that in the business of money, advertisement in itself doesn't really bring big edge so we said you know, if you not going to really spend on marketing and advertising so what really is the cost of building a business but we took extreme amounts of efforts. **So, the education initiatives that we run, I think, I don't know, I must've answered 20,000 different people just on those places, so, today if you look at our education initiative I think after Investopedia, it's probably the largest in the world.** So, it's extremely engaging, there are tens and thousands of people who come and participate and **it's completely free. We don't even capture the lead. It isn't done with an intention to generate leads.** We are doing it saying that we want to grow the ecosystem, share the knowledge, etc. If you look, go, land in Varsity, for example, you wouldn't probably even find Zerodha logo anywhere. We've taken that kind of a stance, it's the hard way to grow the business but its more longer lasting.

So, once you build relationships, when people come, we are taking so much effort to help them out, it's a relationship that we are building. What we realized that it took us 5-6 years of that effort before we actually started seeing the results of it. It's just crazy sometimes like, this month, we have opened 150,000 new accounts and I'm wondering who these people are because we haven't done any marketing, we haven't done any advertisement. We charge an account opening fees for people who want to open an account with us.

So, I think, **it's those years of effort which cannot be quantified.** Now these things that you've done, it would have been extremely tough for us to do if, I think, the way investors think, etc. How do I go quantify my time and effort saying that the CEO of the people is spending 3 hours today and answering people on the forum? Now how do I justify to an investor that this is worthwhile doing it. It's very tricky, you know.

I think, as we grew the business, we realized that not having an investor is probably an edge we have over our competition. Just being, you know, nimble and just being really fast, like how Murdock had said, I think, today is the world of the fast beating the slow and not really

the big beating the small and to be fast, I think, all these enablers, **one of the enablers of being fast, you know, faster decision making is lesser people involved.** So, like for example, one of the big moments we had in our business was going zero brokerage on equity investing. **Now, that decision was taken, in an airport, over a beer when a flight was delayed. The decision was taken on a Friday evening, and on Saturday morning, we were zero brokerage and now, if I had to go convince that decision, the reasoning behind going zero brokerage at that point of time, I don't think anyone would have allowed it to happen, so, I think, it's instincts and all of these together helped us.**

You know, when I say this, should everyone try bootstrapping, I don't know because the thing is, I was just telling this the other day to someone that, if you, I think, **someone has really high core competency in a certain domain, I think, the odds of success will be higher in bootstrapping. You have such high core competence and you also know that money can't really help a competition catch up on you really fast.** Starting Zerodha was not an overnight decision. I had traded for 12 years before Zerodha and I used to run the largest trading communities in the country. I used to run the largest Yahoo messenger group where people used to come and talk about markets and all of that. So, all of that work had gone in before. So, Zerodha is not actually, a 10-year-old business. If I had to look at it, I think it is actually a 20-year-old business and I think, **what I have realized that you keep at it, and eventually, you know, you keep doing the right things, then at some point life hits and hopefully, good things happen.**

Pankaj: You make some very important points here Nithin. I think, the points you are making are about **long-term institution building** in many ways and I think, that's what I find very fascinating in terms of understanding the core building blocks of Zerodha.

The other aspect, Nithin, is so I understand what happened on the customer or the business side and the model itself that you have, how is it been, the journey of building the organization itself? What has is it meant for you as an individual, as a founder? What about the culture? How are those building blocks for you, which you believe will go, will kind of perhaps, outlive you?

Nithin: Looking back, **one of those things that I get really excited about is, the core team, out of the first 100 who joined the business, maybe 5 or 6 have left. Our tech team which has 30 people,** you know it's such a small tech team which is doing such incredible amounts of work is a 30 member team and **we've hardly any attrition as such.** I'm super excited knowing that somehow I'm able to keep all these people without, **it's not like you are doing something special for them, other than of course giving great environment and all of that.**

It's not that we pay more than the rest of the world and things like that. The fact that we are still able to keep everyone together is something that I get super excited about. So, while building the team the way we've gone about is, **try to find people who are young,** for example, **we've not hired a single person in any senior management role from outside the business. Every single person has grown organically from within the company** and I used to think before that **throwing people at problems will solve the problem but, slowly I've come to a realisation that smaller the teams the better it is.** One of the reasons for me to change my stance has been Kailash, who heads our tech. Now you know we work - the core team is small tiny and very closely bounded group, that has helped quite a bit.

In terms of culture, I think I generally like people who are like me, who believe that luck is a very important factor in life. You know the right place, right time. Who don't overemphasise on their skill set, only people who can stay non-volatile, people who don't react. I think in a business like ours where volatility is there every day, it's very important that people are not volatile. If you are volatile, markets are volatile then it's not a very potent kind of a combination.

So, 2-3 things we've done while building the team out is **1) hire young people who come with no baggage, I don't really care about education, background etc., I'm okay to take a chance as long as they show some intent to grow and show some basic skillset of having common sense, etc.** So, we've hired young people and we've slowly groomed people to do different things. And also, overall what we've also done as a business is **kept the business in itself very simple.** Typically, financial services businesses end up complicating the product, you know HNI products, low net worth product. With Zerodha, you know, we just have one single product. **We have 2 million customers today and every single person has just the same single deal,** it's almost like you are this company who sells only 'idlis', there is nothing else to sell. Everyone knows how to sell a plate of 'idli', so it's like that, **operationally the leverage you get by keeping a product simple is immense.**

I think one of those things we didn't get carried away in this journey was try to cater to every single customer. Be it with the trading platform itself or be it with in terms of the product. We are just saying we are going to build one thing and if customers don't like it they're going to use someone else. **We'll do this one thing well and that's kind of worked out okay for us.**

Pankaj: You mentioned something very interesting Nithin about the volatility of the business you are in. So, how do you stay sane? How do you maintain poise? Your business, like you clearly said is quite volatile.

Nithin: I'll give you an incidence. Last Monday, crude oil, I don't know if you track the markets but, crude oil opened down 30%. People who trade crude oil, trade through this product called futures and options, where the margin required to trade crude is 15%. What it means, if you had 1 lakh rupees and say you had somehow bought crude oil and crude oil went down 30%, you lost 2 lakh rupees, that means you lost 1 lakh more than the money you had in your account. If, 1 thousand of our customers lost 1 lakh rupees more than what they had in their account, so we've lost 1 crore rupees. Now it almost ends up like we have to recover that money from our customers, which as you know is extremely tough in India.

So, things like that happen all the time and also, you know the markets are open in a 6 hour window from 9 AM in the morning to 3:30 PM in the afternoon and we do between 4-6 million trades in that interim. All our trading happens on top of some underlying infra, the exchanges, the lease lines connecting to the exchanges. Unlike any other business in this country where you can be down and not have too much problem, in our case every second we are down it's a profit and loss for a person, a notional profit and loss. **So we can't afford to be down at all. One is the market volatility itself and two is managing all these moving pieces, it's extremely stressful.**

I think what helps me personally in all of this is, **1) since I've done this for so long, so now it's almost become like second nature,** this volatility is almost in me but, even looking back further behind in the journey I think one of the ways I've been able to remain same is actually back in the day when I used to trade, I blew out and I worked for 3-4 years. I think that is when I

probably matured a little as a person and **I think this whole realisation that if you don't make peace with your worst possible outcome, you'll end up being non-sane and in a position where you'll take irrational decisions.**

Over the many years, I've matured. So, today every single thing I do, before I do it, I know the worst possible outcome, I try to make peace with it saying, dude if you do this, this will happen. **Are you okay with it? Only if I'm able to make peace with it is when I go ahead and do it.**

So, now what happens is you know once you've made peace with this worst possible outcome **anything else that happens, it actually feels like a bonus.** That's the way I've been looking at my life and doing business because otherwise, it's extremely tough. Every time if you are expecting and your expectations are too high you keep disappointed, it's very tough as a founder to always keep leading a team, if you keep getting disappointed yourself with these humongous targets, which is very tough to achieve in the first place. So, I think it's probably a different way to look at it but, it helps me significantly. **People who know me closely, they'll vouch that I hardly ever get stressed because whatever I'm doing, I'm doing only when I've made peace with the worst possible outcome. Which is probably a decent way to lead this life.**

Pankaj: That's very well said, Nithin. Let's look at the scenario today which is unfolding, which seems to be getting worse day after day. When you as a founder or as someone who is building a company, looks at such massive thing unfolding in front of you, what do you think about it? What are some of the first things? What is your checklist?

Nithin: I mean the thing is what's happening right now, I'll be lying if I say that, **I mean this is beyond you know any checklist anyone can make.** I don't even know what founders can essentially do right know to, **of course other than you know just not panicking etc.** So, I think it's actually really like what is happening right now with this current scenario, I'm a little caught up as well in the sense, I'm thinking, last few days I've been thinking if this continues for say a month, the damage this can cause to the economy I think is going to be a lot worse than what the virus cause, in the sense not directly.

Right now I think all of us should just pray and hope that we find a vaccine or we find a new way of life where we get into this mode where we spot and quarantine people fast and not really let this affect the economy, just bring the whole country to a standstill like this. We have to do something in the next few weeks, I hope our government will take some stance on this. Not just our government, I think governments around the world.

What can founders do in times like these? **One thing I give some time for is myself because for you to be making the right kind of decisions you have to be in the right physical and mental health. So, I think it starts there.** Sitting, last two weeks of being at home I've realised that with all this negative news constantly, you just are listening to so much negativity from all across. You're sitting in your house, you're not in the same kind of a working environment that you've spent and you've been comfortable over many years. You've got family around, whom you maybe cannot show emotion to. When all of this happening it's even more important that we take care of ourselves. So, I always given importance to my health, be it physical or mental. **So, personally the first thing anyone should be doing right now is eat well, exercise, try sleeping well.** I know it's very tough to say sleep well at times like these but, at least try sleeping well, **you need to get the foundations right for you to be in the position to take rational kind of decisions.**

Second thing apart from that, I think it's important to get, the thing in business I've realised meeting a lot of business people is, people don't want to be wrong. They get stuck in this whole ego, saying I don't want to back this until I'm forced out of it. **So, I think, it's important to realise that ego is actually detrimental running a business. Especially in really tough times, like what we have today or what we'll see in the future.** Because if you look at what stock markets are doing, stock markets by its nature stock markets try to factor in the future. It's not really factoring just today it's actually factoring the future as well. **If you see the way the stock markets, the indices are melting it's actually factoring in a recession for some time. It's probably factoring in 1-2 years proper, serious recession. There is no more hiding away from this. I don't think we are in a position where we can say that all of this will go away and will be hunky-dory in 2-3 months. I doubt if that's going to happen.** Even if there is a vaccine, by the time the vaccine plays out etc. the economy comes back up, I think it's a 1-2 year like a minimum at least.

The first thing the founder has to do now is to sit and say dude do I have a runway for the next 1-2 year. It's like I said right, what I'm sitting and doing now is I'm saying if say our business makes 0 revenue for the next, you know till when am I okay to run at 0 revenue? And once I know the runway, I'm saying am I okay waiting till the economy turns around by the time my runway is over. That's my nature, I don't know how it works with everyone. I'm trying to see till what point am I okay, this whole worse possible outcome. So, I'm saying what could be the worst possible outcome?

I think people, **this is the time to go back to leading a monks life.** We all have to get through this problem so, wherever we can cut costs I think we have to cut costs. Wherever we've built these processes and products which don't really bring any revenue to the business or we did it just to please say 0.5% of our customers and if it's adding a big overhead, I think it's the time when you just go pull it back and be as lean as possible. **The leaner you are the longer you can last.** This is ambition, I don't know if I really have enough experience to be able to share saying what exactly can work but, the way I'm looking at right now is that this is a 2 year kind of a recession **so we are most likely going to degrow for the next 2 years in almost every business.** Maybe the online guy, online education etc. might do well but, I think apart from that everyone else is most likely going to degrow and **I don't think we should be waiting for that eventuality, I think we should be saying that this is going to happen there is no 2 ways about it, there is no point hoping for something else right now. So, what can we do best to make sure we have a good way to last through that lean period?** And if we can't, I think for some of the guys who've not been able to do well for some time till now, **I think it's a good time to pull back and just say "maybe this isn't it". I think the smart decisions are also decisions which are knowing when to stop.** It isn't just about, you know chill.

Pankaj: Very well said actually, I know of founders who are actually considering this event as kind of an opportunity to revisit whether they should pull the plug.

Nithin: The thing the problem is that in India just you know people, it's a very Indian thing that this whole ego you know he closed his business, poor guy, stuff like that. The whole social, friends, family, everyone, **people end up waiting for too long to pull the plug. If something is not working, I think it's a smart thing to pull the plug. The faster you pull the better you have the chance of actually pulling the plug. The longer you spend, the more money you spend, the more time you spend. People just keep postponing the decision of pulling the plug.** But, I think this situation currently is going to force people to pull the plug, but before it does it maybe makes sense, you know it's just starting now **we are just two weeks into it, this is**

going to last a really long time. So, if people are listening now, this is just the beginning. All of us, people who are building these businesses, founders etc., we have to be ready for the next 1-2 years of really bad times, it's just, **I don't think there is any getting away from this.**

Pankaj: So, well said Nithin and very well-articulated actually. The final question for you Nithin, if I were to look at the next decade of Zerodha, if you look at a 20 year or 30 years of company life, you know 1-2 years can be a bummer but, you are building something for longer. So, where do you think this will go for you? Forget this temporary crisis but, how are you looking at the next decade of Zerodha?

Nithin: Thing is if you would have asked me 10 years back when Zerodha had started it was a rupee number. What is the objective of starting this business? I would have been like "dude I want to make this much money" and then, when that much money is made you started making more than that, **I think after certain point money is not really what's moving you right. I think for me personally, it's been, a country like ours we depend so much on foreign capital to determine where our country goes.** If the stock market, FIIs for a lot of start-ups its VCPs who are bringing in foreign money and etc. But, India does have its own wealth which is sitting in real-estate, which sitting in bank deposits and which is sitting in gold etc. I think like if you would have asked me what is the **point of building Zerodha here, I think we want to be that catalyst to move that money from places which are not making our country grow to actually back entrepreneurs.** Be it through the stock market or you know, today it's indirectly in stock markets but, maybe it will be something else tomorrow but, **the idea is that you know the is to be a catalyst to move people's money from all these assets which are not really helping the economy to backing entrepreneurs because if you look at any, if you want to become a super economic power as a country you need local money to be backing local entrepreneur. We can't keep relying on this foreign money that decides to stop, come in or go out any time anywhere.** That's essentially what we are trying to do. We've done broking till now, we've applied for an asset management license, we'll figure all things but, everything is with that goal of doing that.

Also, until now as a business, we've tried to be an execution platform, we've tried to be an education platform in the sense if you have an intent to buy/sell stocks we wanted it to be the best place in the country. If you have an intent to learn how to buy/sell stock we wanted to be the best place in the country. **But, we've realised that being that is not enough. We need to somehow help people also take these decisions, so we're building this product which almost nudges people to do the right kind of things when trading.** So, that's something that I'm really keen about.

So, yeah we'll keep building, there is **no end goals** saying at the end of 10 years I want to be this. **It's just a journey, so you just keep doing whatever you are doing and you know what happens at the end of 10 years only time will tell. This whole right place, right time, luck all has to play out.**

Pankaj: So many life lessons Nithin, from your journey, both for business and individual. Really enjoyed. You know, stay safe, stay the way you are and Godspeed with everything.

Nithin: Cheers. Thanks for having me Pankaj.

Pankaj: Thank you, Nithin.

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