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Source: Forbes India	**Date:** 18 August2017

Corporate Account

VIKRAM LIMAYE

The Problem Solver

*It is déjà vu for veteran banker **Vikram Limaye**, who will have to draw from his experience of navigating IDFC out of troubled waters to face uncannily similar challenges as NSE's new boss: An organisation beset with top management exits and, yet, preparing to go public*

BY SALIL PANCHAL & PRAVIN PALANDE

On July 17, 2017, a confident-looking Vikram Limaye walked through the lobby of the National Stock Exchange (NSE) in Mumbai's busy BKC commercial hub—files, papers and a bag in hand—to take charge as managing director and CEO of the exchange. His confidence would appear misplaced to most.

The 50-year-old veteran banker has a daunting, possibly even unenviable, job at hand—to turn around the fortunes of a now-troubled exchange. The NSE has seen two high-profile exits at the top management level and is facing a probe from market regulator Securities and Exchange Board of India (Sebi) for allegedly giving preferential access to some brokers for its co-location servers for algorithm trades—this has even delayed NSE's plans for a listing.

Certainly, a furrowed brow would not seem out of place.

There was none of that. Nor was there any over-exuberance. Instead, there was purpose. Limaye had been preparing for this role since early February, after having been chosen NSE chief by a selection panel and approved by the board of the exchange. The final clearance from Sebi came in June.

The few months in the interim helped him hit the ground running. Take his Day One: The new CEO shot an email to all NSE employees, saying he was optimistic about the future of the institution and that despite the challenges it faces, he was confident that these issues will be overcome. This was followed by a meeting with senior business heads; a two-hour town hall with all employees, a quick interaction with the media, a meeting with Sebi (to discuss improving trading volumes at the GIFT City, the under-construction smart central business district in

Vikram Limaye insists that his selection as managing director and CEO of NSE by an independent panel was purely on merit

JOSHUA NAVALKAR

Gujarat) and then another exchange meeting to discuss internal processes.

A flurry of activity isn't new to Limaye. In fact, the circumstances in which he has taken charge at NSE are similar to those when he joined IDFC as executive director in March 2005. "There was a management void at IDFC and there was a requirement to take IDFC public due to a shareholder agreement," Limaye says. Now, he adds, "There is a management void at the NSE, there are some credibility issues which need to be addressed and the institution needs to be taken public."

Limaye, a chartered accountant, had come back to India in 2004 after a decade in the US, first doing an MBA at Wharton, and then working on Wall Street for eight years with Credit Suisse First Boston in a variety of roles in investment banking, capital markets, structured finance and credit portfolio management.

He returned to Mumbai where his daughter was going to start attending school. "When I came back, I was trying to see if I could commit time to work with the government towards something of national importance, beyond just working with a corporate," Limaye tells *Forbes India*. India, in 2004, was on nobody's radar with sluggish growth and bearish stock markets. This would start to change only 2005 onwards.

Limaye met the then ruling Congress government and Bharatiya Janata Party (BJP) leaders, including Arun Shourie and Pramod Mahajan, but little was working out. Limaye also toyed with the idea of working with a state-owned company such as IDBI and met HDFC Chairman Deepak Parekh in connection with his aim to work in areas of larger national interest. "Parekh told me to work with him at IDFC [which he had founded] and I agreed," Limaye says. He did so without knowing what his designation, compensation or role would be.

"Limaye was introduced to me through a common friend. When I first spoke to him, he was in the US, but signalled his wish to come back and work in India," recalls Parekh. "A lot of people who come to meet me come to check [for opportunities], but few take the plunge. I thought initially that Limaye was just fishing, but he came back and was serious about what he wanted to do. When I met him later, he did not come across as a typical US-return banker—he was this middle-class Maharashtrian, conservative in style, focussed on work and easy to deal with." (Limaye still resides at his family home in Shivaji Park.)

The mandate of IDFC, which started operations in 1997, then going with its full name of Infrastructure Development Finance Company, was policy advisory to developing infrastructure and also a catalyst to lead private sector capital into infrastructure development. When Limaye joined in early 2005, along with Rajiv Lall (who had formerly worked at Warburg Pincus and Morgan Stanley Asia), IDFC was a small project finance firm, operating out of two floors at Ramon House in Churchgate, South Mumbai. Also, at the time Lall and Limaye came on board, IDFC was going through some turmoil. The BJP-led National Democratic Alliance government, which was in power between 1998 and 2004, had been upbeat about infrastructure lending. But when Limaye joined IDFC, it had a relatively small balance sheet with assets of around ₹4,000 crore, its net worth ₹1,200 crore and profit ₹200 crore (mainly through treasury operations) and a staff strength of around 90.

India's then finance minister Jaswant Singh mooted the merger of IDFC with the State Bank of India, a plan which IDFC's then CEO, banker Nasser Munjee, did not agree with. Munjee quit IDFC in 2004, along with its then chief operations officer AKT Chari and Urjit Patel, its then chief policy officer and now Reserve Bank of India (RBI) governor, among others. The merger move was to fail. And that is the scenario in which Limaye made his entry into the company.

Déjà vu, indeed.

NSE is battling credibility issues and a management void because of two high-profile exits in the past year

IDFC, when Limaye came on board, was largely a non-banking finance company (NBFC), where much of the business was through lending in the form of project finance; it also focussed on investment banking through advising infrastructure clients on matters of acquisition of assets and capital raising. IDFC also played a key role in policy advisory, relating to the structure for road and port concessions agreements and the road map for civil aviation for the Naresh Chandra Committee report on aviation. By 2005, IDFC launched its IPO and in subsequent years, raised more funds successfully. The firm also focussed on alternatives investments, where through distinct verticals such as private equity, infrastructure equity and real estate, it managed funds on behalf of leading institutional investors across the world.

But if the organisation had to grow rapidly, it needed to do something different. The return on equity (RoE) of the lending business was always steady at around 10 to 12 percent. "If this had to be juiced up to 15 percent or more, the revenue model would have to be changed," Limaye recalls. Along with Lall, he created a new business model, one where the interest income of a lending company would be supplemented with a healthy non-interest (fee-based) revenue stream. This started with the acquisition of a 33 percent stake in the privately-held corporate finance and institutional securities firm SSKI from the Morakhia family in 2006, to help boost its investment banking business. This stake was increased to 67 percent in 2007 and the company became a wholly owned subsidiary by 2010.

In 2007, IDFC also acquired the asset management business of Standard Chartered Bank in India for $204 million. In just a couple of years, IDFC had become a diversified financial services business house, with Lall at the helm and Limaye, his trusted deputy.

One of Limaye's key contributions was making IDFC more client centric. Processes were introduced to make the organisation more outward-looking in its approach—with an emphasis on allocation of clients, how many calls were made, at what intervals and what was the impact. So, as IDFC's product lines expanded, so did its ability to cross-sell other investment products to its clients.

But at the macro level, in the infrastructure sector, the boom was turning into a bust and the listed company found itself focussed on a sector going through prolonged stress. Delays in project executions were increasing on account of delays in land and environmental clearances. Governance issues surrounding coal blocks and telecom licences caused further disruption, making the viability and serviceability of infrastructure assets weaker. Limaye cites this as a major "disappointment" during his 12-year tenure at IDFC. "The opportunity was so vast but there was underdevelopment on the promise."

"It became almost a fiduciary responsibility to shareholders... to find a strategic response to a changing macro [economic] landscape," Lall told *Forbes India* in an interview in 2016, recounting the genesis of their entry into the banking landscape. At the time, the RBI also felt that big NBFCs posed a systemic threat due to the high proportion of risky borrowers on their books. They were hence being encouraged to build a deposit franchise and convert themselves into banks.

IDFC decided to tap this opportunity and applied for a banking licence in 2013, for which it got an 'in-principle nod' in 2014 and started banking in 2015. IDFC demerged its financial services business into

THE NSE GAME PLAN

As at IDFC, Vikram Limaye has chalked out a strategy to bring NSE back on track. Besides dealing with the co-location issue and taking NSE public, Limaye wants to focus on strengthening stakeholder relationships, business development and expanding the exchange's non-exchange revenue streams which involve data analytics, index services, technology and education. Limaye wants to expand the fee-based revenue streams of NSE which include data as well as the further development of ETFs. While NSE has experimented with both these lines, unlike for foreign exchanges, the success has been limited so far. Across the developed world, ETFs are big business because active fund managers find it difficult to beat ETFs.

IDFC Bank. While Lall was at the helm of IDFC Bank, Limaye took charge of the core business of IDFC and also played a critical role in the transition of the organisation.

"There was a lot of instability at the people level, of whether different businesses were still relevant or had banking become the main business. We had a cohesive organisation at one point... but now the non-bank businesses were worried about what the transition meant," says Limaye. "It was important for me to retain talent and still keep businesses going. The crux in talent-intensive businesses like investment banking and asset management is people management and attracting the right type of talent."

IDFC (and the bank itself) has pulled through this tough phase. Today IDFC is a mega corporation, with a loan book size in excess of ₹117,000 crore, a net worth of ₹16,000 crore and profit of ₹700 crore.

IDFC Bank, on its own, after nearly two years of starting banking operations, is charting a new journey, with plans of creating a mega-universal bank, through a proposed merger with the Shriram Group, of which Ajay Piramal is the chairman.

Limaye's move to NSE had evinced much speculation. Reason: "I have never looked at any opportunity outside IDFC," he says. There is never a good time to leave an organisation, he points out, and "by definition there will always be an unfinished agenda". But Limaye says he is now "comfortable about what I am leaving behind, all businesses of the group are stable, almost two years since IDFC Bank started. There are no loose ends".

He rubbishes rumours that he landed the NSE job because a) IDFC had a stake in NSE and b) Lall was a close friend of one-time NSE CEO Ravi Narain, who quit the organisation in June. (At its highest, IDFC had around 8 percent stake in NSE in 2006. This has over the years reduced to 1 percent and lies in IDFC Bank, after the transfer of assets and investments from IDFC.)

"This is a stupid theory. My selection was through an independent panel, which was not driven by any other matter," says Limaye. When NSE's then CEO Chitra Ramkrishna quit on December 2, 2016, citing personal reasons, the exchange set up a panel comprising former Deputy RBI Governor Usha Thorat, Manipal Global Education Chairman Mohandas Pai, Dhruva Advisors' CEO and former KPMG Deputy CEO Dinesh Kanabar and Mahindra Group Chairman Anand Mahindra to select the new managing director and CEO at NSE. After two months of deliberations, they chose Limaye.

"Limaye is quiet, but he gets his work done. He empowers people, he simply oversees their functioning. I see him as a good leader for the NSE. It is a sensitive job, but I am sure he will be up to it," Parekh says. And true to reputation, Limaye has begun with the task of building employee morale and providing clarity on what the exchange needs to do to restore order, like the institution's early days. The NSE, for decades, seemed to have an edge over its nearest, but much older, rival, the BSE. It has been instrumental in changing the rules of the game at India's capital markets— by way of high levels of professionalism, cutting-edge technology (being a pioneer in introducing a demutualised exchange which offered screen-based trading in 1994) and constantly innovating product lines (it introduced index and stock derivatives in 2001).

Limaye is seen as an institution builder. He has begun building employee morale

But much of that sheen of a blemish-free journey has vanished over the past two years.

NSE had no leader for the past seven months—until Limaye took charge. In June this year, its vice chairman and Ramkrishna's predecessor Ravi Narain also quit on reports that he did not want to hinder an ongoing investigation which Sebi is carrying out on the exchange. The NSE has been charged with favouring certain brokers by giving them co-location facilities for high-frequency trading, that allowed them faster access to prices much in advance to the rest of the market players in the period between 2010 and 2014. Narain was managing director and CEO at the time of the alleged violations.

All of this has derailed NSE's plans for a much-awaited IPO. It had in December 2016 filed papers with the market regulator for a ₹10,000-crore IPO, which would offer exits to some of its earliest stakeholders. Now, NSE's previous IPO application stands stalled and it will have to file a fresh application with Sebi. This means further delay till the probe is completed.

The NSE has filed a consent application with Sebi to settle the co-location matter, by being willing to pay a penalty, without admission or denial of guilt. Sebi is reviewing the matter.

Limaye believes that NSE can play a crucial role "of broader national importance". "Unless we get market development right, it will be very difficult to fund the country's growth only on the back of capital from banks," he says. "All the other markets involving bonds, commodities and interest rate derivatives are in early stages of development and thus there is huge scope for them to grow."

Seen as an institution builder, Limaye has his work cut out: To bring NSE back to its glory days. But he has a track record that inspires confidence that is not quite unfounded.