Chitra Ramkrishna: I am not a merchant banker or an advisor. I am a catalyst

In a wide-ranging interview, NSE chief Chitra Ramkrishna talks about the changing trends in the market, the role of technology and getting new firms into the ambit of the exchange. On the latter, she emphasises that companies should come to the market only when they are ready for it

Chitra Ramkrishna, managing director and CEO of the National Stock Exchange

Having helped set up the National Stock Exchange (NSE) in the early nineties, Chitra Ramkrishna, its 51-year-old managing director and CEO, is today busy helping the country's largest bourse keep pace with the changes in the Indian and global markets. Groomed in her early years by icons like SS Nadkarni and RH Patil, the seasoned Ramkrishna is clear about the role of the stock exchange: It is essentially that of a catalyst, she says with some emphasis.

In a freewheeling interview with Forbes India, Ramkrishna, the winner of 2013's Forbes India Leadership Award for Woman Leader of the Year, talks about the NSE's global plans and how the exchange is helping the growing ecosystem of entrepreneurship and new companies in their hunt for capital. Excerpts:

Q. You recently said technology is still work in progress, though the NSE has made major leaps on that front. What are the areas in which technology still needs to keep up on?

Actually, I make this comment more from a generic perspective because we have to see everything in context. Ultimately, it [technology] is one of the enablers. But we must look at technology holistically. Now, the world over, this entire risk mitigation and resilience around technology and security is on top of everyone's mind. Everything else is a given— performance, speed. But if you've done all this, there's something else to be done, which is around resilience, security and so on. This is what I mean when I say it is work in progress, and not unique to India. The reason I make that comment is for us not to be complacent. You not just have to keep pace—you also have to be a little ahead of the curve.

Q. On a macro level, as the country's largest exchange, what is your sense about the economy, the hunger for capital, new investments, etc?

As an exchange, it's great that we are the largest and counted among the top in the world. But there's a lot of work to be done, which is really about domestic savings translating into markets and the ability for more issuers to raise more risk capital from the markets, and to also raise more debt, and the ability for infrastructure to raise those large capital requirements. So what we have is a great launch pad, and it's the place from where we can actually build all these blocks. The domestic growth story, whether it's debt or equity, small-, mid-cap or large [cap], there's a good amount of work to be done to actually have economic impact. India today, in relative perspective, is looking very good and from what we hear in investment conferences, there's a good sense for India and people are looking at it very positively. India can stake its claim as an international market. Today we are still in an EM (emerging markets) bucket. It's not that I can say that in 2016, we're going to achieve this. But our sights are pitched and should be pitched higher. All that the government is doing at this point, whether it's 'Make in India' or the kind of structural reforms that you've seen in the budget, I think these have the ability to be the building blocks for that transformation. This is where I feel the exchange has to focus in the next three to five years. There are tremendous organic growth possibilities domestically as well as internationally, and we play a small role in that.

Q. Specific to international markets, is there any particular plan you're drawing up? What's the next frontier for NSE overseas?

For example, today, Nifty is the proxy for Indian investment. We have to make Nifty approved and accepted in many more markets. And we can't stop at Nifty. We need more broad-based indices which are reflective of Indian investment which we can make available to the international investing class. All investors won't necessarily register and invest in India. So you will have ETFs (Exchange Traded Funds), you will have funds on Indian assets. We already have a start in that, whether it's Japan, the US and so on. We have to build on that because there'll be a lot of investors in each of these countries who will still have an appetite for India. And they could be not necessarily the large institutions… [they can be] semi-institutional and so on. We will be able to attract that kind of investment through these proxy assets.

Q. By when would we see the first signs of that?

We are already making progress. That should definitely happen in the next 12-18 months. You will always find Asia as a very good testing destination. Nifty is today in a few destinations. We would like to take it to more places. First it would be Nifty, and then Nifty plus [others].

Q. Are you happy with the growth of ETFs? Overall, the bulk of money in the US and in the developed markets is going into ETFs. Is there a role for the exchange to make ETFs more popular in India and grow them as a philosophy?

I am so happy you asked me this because we have not just believed in this but have done exactly this for the last five years. We have believed in ETFs as a product even before there were any manufacturers. In fact, there was only one manufacturer [Benchmark] and even today, there's only one significant manufacturer, though there are others. We genuinely believe that ETF as a class is the right vehicle for retail savings to come into the market—the first-time investor that you're talking about, the five percent of savings coming into the market. The small investor wants small ticket, regular savings, month on month and he wants to be stress free. He doesn't want to think about this product in a complicated way. Passive investment is the only way he can do it. ETF on an exchange leverages the distribution network of the exchange. All the two lakh points of presence, the 1,500 brokers, everyone can distribute an ETF eventually.

Q. But why is it that the distributor doesn't know about it even after over a decade of it being introduced in India?

That is correct. But I always say this: To grow products, you have to be very patient. Especially if you're growing a simple, mass retail product, you've got to be very patient because distributors have to first see merit in pushing the product. In the last three years, even when the market was on a downturn, the only marketing awareness programmes we were doing were on ETFs. And believe me, all those people who had invested in ETFs then would be very happy with themselves now (laughs). Putting money into an ETF is a habit. In the last two years, a lot of the large retail houses have created programmes with us to encourage and push SIPs [Systematic Investment Plans] on ETFs. The Gold ETF had a very interesting fallout. As a product, it brought a lot of first-timers into the market. So it gave you a new client base. Today, it may not be a fancied product, but the first-time investor has come in through the ETF route. Most interestingly, if you see the CPSE ETF, for example, it has become a very interesting product to talk about for everybody. And on the back of the disinvestment programme, it will help bring new people into the market. So there are many pieces that are moving which will now bring greater ground-level interest. Large retail houses are adopting ETFs now because they understand the power of the SIP on the ETF. Real multiplication will also happen when we see large manufacturers come up with ETFs.

Q. We now have a whole new world of startups and ecommerce players raising large amounts of capital. What is the role NSE can play in this? Also, private equity has become serious competition for you, since many now prefer not to list on the markets and offer stakes to PE/VC firms instead. How do you view that?

We have to play a catalyst's role to ensure there are enough suppliers of capital for the different seekers. I am very happy if this environment has brought in so many PEs and venture capitalists (VCs) who want to directly invest in these companies. It's absolutely fine. It's not competition. They [companies] should come to the market when they are right for the market and when they see value in the market. Our job is to provide a value proposition. Yes, many times, we will also engage with them to show them that value proposition. But ultimately, the seeker of capital has to see value. We cannot make him come to the market ahead of the curve. It will be a disservice to him. So I am absolutely happy that there are suppliers of capital who are willing to engage even without a formal market structure.

Q. …At a certain stage in the lifecycle of the company.?

Yes, yes… at a certain stage [in the lifecycle]. And that will always work because the supplier of capital knows whether he has the patience or maturity to last through that lifecycle till he gets an exit. They are all seasoned investors. And for the companies also there is a role intermediaries can play. Who are they? Maybe bankers, advisors and exchanges like us.

In fact, our SME story has been so interesting. Three years ago, when we started this effort, it was very important for us to come to first principles. What is it that we are trying to do? After engaging with hundreds of SMEs across India, it was very clear that our role cannot be getting them to list. It's not a race for numbers. It's a disservice to the company and investors. What was fascinating was the gap between where they [the companies] are and where they will engage with shareholders; there's so much which needs to be done. As an infrastructure player, am I seeing it as my mandate to do that? If I don't do it, somebody else has to. I may not be able to do it, but I have to create an environment where we will make this available to them. That gap has to be bridged.

Q. How are you doing that?

The biggest challenge for them is advisory. How do they know they are getting the right advice? How do they build the skill sets within their organisation to cope with seeking capital from the public? Some of them are doing such phenomenal work in their businesses but aren't able to showcase it to the world outside. Some of them are supplying to the biggest names in the world, but that's disconnected from their brand because their brand is little known. When they come to the market, they are not able to leverage this. We feel if we have created an environment… if we are able to showcase 50 of the best in engineering, chemicals, pharma, as 'This is India' by listing them on the exchange, I think that is fulfilment of what we set out to do. It cannot be that I want to list 500 companies.

If I have to do this, I have to engage with their advisors, their staff, and this is what we are doing today. I cannot advise, but I have to seek enough people to be interested in this task and connect the companies to them. Similarly, look at the brand endorsement part. When these companies come out to raise money, they are little known except in their sector. But investors are going to be from everywhere. One of the things we found was if we get them to a rating, a due diligence, it automatically gives a certain confidence level to the investors. We sought and built bridges with institutions who normally invest in small companies. Their feedback also was that if we can find a way to credit-enhance these companies by rating or due diligence, they would be happy to look at them. So in all our SME listings hitherto, institutions have taken a significant share, and we have facilitated this. I am not a merchant banker or an advisor, but I am a catalyst.

The short point is, if we are creating this kind of an environment, if we do 50 companies, the 51st company will need less of me. By that time, we would have also trained adequate financial advisors who will themselves be able to seek and do the job. A lot of the financial advisors in the case of SMEs are local. Nobody has sought them so far. They find this is a value for them and for the SMEs. This is patient work. I can't go and engage with advisors and expect that they will bring me 20 mandates tomorrow. I don't even want that. I want them to do a service to the SME. Capacity-building, creating the environment… I find this is all beginning to add up now. Already, one year or 15 months of effort and month on month we are getting prospectuses filed. But I am very happy with that pace. I don't want a rush of companies.

Q. What is the total number of companies you have in this segment now?
Including all DRHPs [draft red herring prospectuses], maybe around ten this year.

Q. Sebi and exchanges like yours have been working a lot on the area of corporate governance. What is your sense of the levels of governance in Indian companies now?
In jumps, India has moved significantly up that trajectory. Clause 49 was the first, the Listing Agreement tightening which happened on disclosures subsequently, and now the board evaluation framework are taking us very high up there. Even if you see it from an OECD (Organisation for Economic Co-operation and Development) framework, we would be largely compliant in terms of international practices. The listed company framework in India has worked. I definitely feel this improves our ability to attract international investors. They [new regulations] always come in a bunch so there's usually some discussion around how to cope with the changes. Again, we play the facilitator's role there. For example, practically every alternate month, we have compliance outreaches with companies. Our idea is to prepare them for the compliance rather than to find fault with them subsequently. Also in many of these, Sebi has been very proactive and has worked with us on these compliance workshops. Companies can then have an opportunity to come and ask, 'Is this okay, is this how it is to be done', etc. I think it's a very productive way of enforcement.

Q. What is your view on high-frequency trading (HFT)? There is a view that only the exchange gains from it because they give rack space etc.
(Laughs) The short point is, a lot of this criticism comes from international markets. What is the abuse? Why is it bad? The abuse is if some people gain from it while others are denied. Or, entry barriers are so high that many cannot afford or there are non-transparent things happening in the framework. These were the reasons perhaps why HFT was criticized in other markets.

Per se, nobody will complain about speed difference. Even in today's situation, somebody is on a satellite, somebody is on a leased line… there are differences. What people will find unacceptable if someone has a non-transparent advantage over someone else. That is what long-onlies have been complaining about in other markets. They will complain if this non-transparent access is by an agreement with exchanges or banks on the side which they are not aware of. In Indian markets that's not possible.

First of all – and I can definitely talk about us – we don't make huge rental premiums on rack space or do it non-transparently. It is the same for anybody who wants to come. Secondly, year on year we've been dropping the costs to make it affordable for everybody. So we don't have huge vested interest in keeping it a kind of a cosy club. Third, we don't have strange order types which other markets allow and some can sniff the order book. It will not go that way because our regulator was one of the first to have a framework for automated trading. In fact, subsequently, Australia and some other markets have subsequently taken some items which we have put on our regulatory framework.

Q. The conversation around growing and deepening the corporate bond market still continues. What are the NSE's thoughts on that?

You are absolutely right. For long we've been discussing what to do. There are two or three interesting developments. We can take some confidence from them and build on it. For example, the reporting end of the corporate bond market has become much more transparent. So your credit pricing has become more transparent. You can say it's only a reported market and it should be an anonymous, order-driven market. But very few countries around the world have an anonymous, order-driven market. So we need not criticize ourselves too severely on that count. We are not doing too badly.

Second, our challenge was that the issuance itself was very small. The percentage of issuance which was being traded is not very bad. It's around those numbers anywhere in the world. That brings us back to the basic question about a lot of credit being in loan form rather than in bond form. There's a very well documented set of reasons for that. So the issuances have to increase.

But I want to draw a parallel. If you see the government bond market, that has been quite active. We were struggling on how to provide a mechanism for the non-bank world to have an exposure to sovereign interest. The bond futures are a very good experiment. It has shown us that there can be an interest created outside the bank world for sovereign exposure. It made very modest start but the good part is, block by block, the different pieces have come together. You now have a lot of variety in the participation in that market. You also have good price discovery.

On this basis, you can confidently say there is a price point on the ten-year government bond which is accurate. It is probably a vote of confidence on this that the regulators have now said they want to see the five-year and the 15-year in this market. The five- and 15-year helps to plot the points across the yield curve now. If you have five and 15, then on the back of 10- and 15-year bonds, it is easier to price a longer bond as well. Nowhere else in the world, single bond futures have been done. But our regulators had the risk appetite to experiment and to say let's try this out. Because we tried it out, it's worked. I find these are very interesting signals, because if the sovereign yield curve develops like this, then the credit spreads can develop very well. Then the underlying market will get a lot of impetus.