

**Headline:** The leading lady of the bourses

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# THE SMART CEO

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Chitra Ramakrishna, MD & CEO, NSE

**CHITRA RAMAKRISHNA REMINISCES HER JOURNEY AT THE  
NATIONAL STOCK EXCHANGE RIGHT FROM ITS FOUNDING DAYS**

GROWTH MECHANICS INFOMEDIA





COVER STORY

# THE LEADING LADY OF THE BOURSES

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Chitra Ramakrishna, currently the MD & CEO, National Stock Exchange, was part of the initial team that setup the exchange. In this story, Chitra, a Chartered Accountant, takes us through the finer nuances of building and scaling an entity like NSE.

POORNIMA KAVLEKAR

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## COVER STORY

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She is not a stock market investor, but she leads one of the largest stock exchanges in the country. Meet Chitra Ramakrishna, Managing Director and the CEO of National Stock Exchange (NSE).

From helping set up the exchange in 1992, Chitra has played an instrumental role in growing the exchange to the level it is today and has become its chief. A chartered accountant by qualification, Chitra embarked on her career with IDBI in 1985. During her early days in the organisation, she was fortunate enough to get a wide range of experience in different industries and public policies. "One always had an opportunity to do something different in IDBI and it moulded my thinking in a big way," recalls Chitra. In fact, she became a part of the early Securities and Exchange Board of India's (SEBI) team and that was her first exposure to the stock market. "Those couple of years, I probably gained more than what they gained institutionally," she says. Chitra was also involved in drafting the legislative framework of SEBI, India's capital markets regulator.

During this period, Chitra got an opportunity to further sharpen her knowledge on the financial markets, with an exposure to the resources and treasury department and deep discount bonds. With this track record, it's no surprise that she was one of the few people chosen to set up the National Stock Exchange by the late S. S. Nadkarni, who was the chairman of IDBI in the early 1990s.

Set up by leading institutions in November 1992 to provide a modern, fully screen-based trading system, NSE has been largely responsible for bringing about transparency, speed and efficiency in the market, with technology playing a key role in its operations. It has

also been responsible for many innovations in products and services like demutualisation of stock exchange governance and introduction of debt and derivative instruments.

Some of its current shareholders (under the public category) include foreign investors like Tiger Global and Norwest Ventures; financial institutions like IFCI, insurance companies like LIC and so on. Under the non-promoter and non-public category, the shareholders include corporates like Stock Holding Corporation of India, SBI Capital Markets, financial institutions like SBI and IDBI Bank, to name a few.

Today, the exchange has grown well with a combined daily average turnover of over Rs. 3 lakh crore. If you rewind to March 1995, the exchange then had 135 companies listed in it with a daily average turnover in the cash segment at Rs 17 crore. Today, it has 1811 companies and the average daily turnover has touched Rs 17,431 crore. The derivative segment has given it a significant fillip as is evident from the numbers. Over the last 16 years, NSE's average daily turnover for derivatives increased to Rs 2.94 lakh crore from Rs. 11 crore in 2001.

While the factors driving the growth remain dynamic, the exchange is all set to enter its next important phase – an initial public offering and Chitra and her team are gearing up for it.

In this free flowing chat with The Smart CEO, Chitra takes us through her power-packed journey at the NSE and talks about some key phases of the organisation and the things she and her team did right, for it to reach where it is today.



### ◀ Phase 1: The Big Picture (1992 to 2003) ▶

Rewinding to the early days, Chitra recollects that it was an interesting point in time when the Government decided to set up NSE. "They wanted to truly internationalise our markets and attract capital," she says and quickly adds, "I don't mean to say that it was our only goal, but at the end of the day you build a market infrastructure, so that more capital can be raised and more savings can be channelized in to the market."

When NSE was mandated to start a nationwide exchange, it forced the team to think about new models, technology and a different way of providing a transparent and fair market, as it was clear to them that the existing paradigm could not serve that purpose fully. "Markets in the 1990s suffered from an image of it being a broker's club – for and run by them – and hence, NSE was set up as a demutualised exchange. This brought in professionalism in the exchange industry and segregated ownership and the running," says Chitra.

This apart, transparency delivered through technology to every investor was a very important turning point for the stock market.

These factors helped the team to create an exchange that was completely different from what was there at that point of time. Chitra says, "What really helped was that there was really a deep need for a change. In fact, we were a child of competition, born to compete with 23 well-entrenched exchanges. Sometimes, I like to think that a new model worked because we were all outsiders." The team from IDBI did not have much exposure to the market and hence, brought in some fresh thinking. She believes that leaders like Dr. Nadkarni and R H Patil were very comfortable taking risks with a new model.

"It also helped that expectations were very low. No one really thought that a bunch of bankers will come up with something interesting. But that gave us the energy to think a little differently and put a model together," adds Chitra.

**Key Goal:** *Ensuring fairness, transparency and global benchmarks, as the exchange was setup*

### We think that being the CEO of NSE is different from being the CEO of a normal corporate? Do you agree?

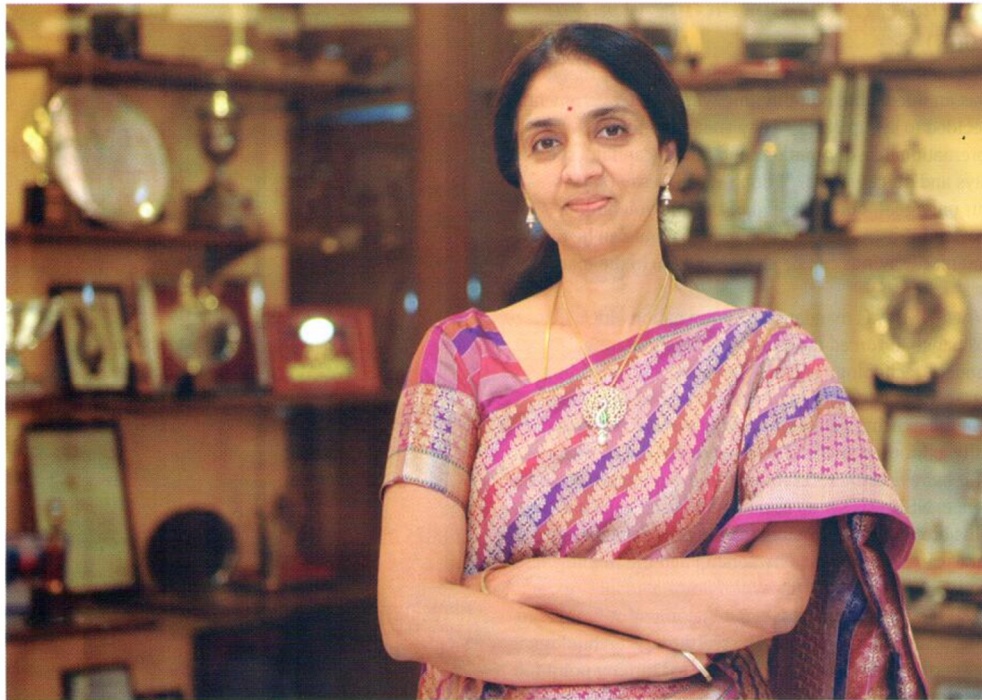
You are right. The reason for that is we play a quasi-regulatory function. We have a twin role with the customers: we regulate them and also seek business from them. Whether it is the broker intermediary or a corporate who listed with us, being a frontline regulator makes our role a little different from a normal corporate that has just a business development role. In some sense, we are evolved as regulatory entities in the last so many years. If anything, it is the business role that has come on to us.

So it is always a balance that you have to strike between not compromising on the health and governance and the practices of the business that you run, as ultimately there is one factor we all stand out for and that is trust. At the same time, one should not lose the ability to create new products and different customer needs and must spend enough time and effort in educating and being aware of people's needs.

For the entire market, it is a fine balancing act and that's what makes it very interesting.



## COVER STORY



### **Key progress:**

- The NSE team also decided to give entry to a large number of first-generation professionals who were keen to get into the broking industry. “Until then, those who traded on the floor were people who got the membership by virtue of it being handed over,” says Chitra. According to her, this worked in two ways: one, to get a new set of players into the industry and, two, help in professionalising it.

- The exchange set up a truly inclusive infrastructure; It decided to break away from just the top 20 cities and enter 100s of cities in India, with the help of technology.

- NSE focussed on financial education. Three years before it launched the derivatives market, the exchange started educating the market about it through annual seminars, not just for broking intermediaries and their employees, but also for customers. “The seeds for financial education, which is a larger effort today, was sown then,” recalls Chitra.

### **All in the game**

“It is a bit clichéd, but I would say that challenges have

always given us the right opportunities,” opines Chitra. When NSE started its operations, one of its biggest challenges was the paper-based settlement process and unpredictable clearing and settlement cycles. The answer to this, of course, came in the form of a depository – National Securities Depository Limited (NSDL) – which NSE along with IDBI and Unit Trust of India set up in 1996.

This apart, telecom and technology during this phase was a big challenge and connectivity was a major issue, as well. “We introduced satellite technology which was rarely used for this kind of operation. But we went ahead and deployed it,” recalls Chitra.

### **Key lessons:**

- In the beginning, what you learn on the domain gives you the ability to understand and put the right rules in place. But, increasingly you realise your interdependencies and the need to continuously stay connected with various stakeholders.

- You cannot create something in a vacuum. So, one needs to gain the ability to get diverse views and understand how to filter them into a sensible solution.



## Technology and NSE

It is easy to get carried away and introduce the latest technology. But, that is not always the best solution, as technology sub serves business purpose and that was something we strongly recognised at NSE from the very beginning. As is often said, it is important to evaluate technology from what it is delivering for the business.

In each period of our lives, technology serves a different role. In the first 5 years, it played a huge role in inclusion and penetration. In the second few years, the functionality, richness, launching different types of products became a big thing. Then it was about performance, latency and so on. Today, the biggest role that technology is playing is how to secure your organisation better whether it is cyber resilience, robustness, backups or disaster planning. The era now is to see how technology can help build stronger organisations.

Technology is continuously redefining our businesses and the ability to understand and incorporate what is happening outside you in the technology world is important.

IN AN EXCHANGE, YOU CAN NEVER JUDGE A PRODUCT TOO SOON. ITS TIME HAS TO COME AND TILL THEN THAT PRODUCT CANNOT GROW. ONCE WE HAVE DONE OUR DUE DILIGENCE ON A PRODUCT THEN PATIENCE IS ESSENTIAL TO GROW THAT PRODUCT ON RIGHT CONSTRUCTS, WHICH IS SOUND EDUCATION, AWARENESS AND REGULATORY FRAMEWORKS

- At the end of the day when you take that step forward you don't know which one will succeed. But, if your customers see value and if their businesses grow, you automatically grow. In fact, the question often was, if there is transparency, you take away a lot of margins that intermediaries were hitherto earning. How did you succeed? You may have taken away the margins, but you have provided a model where their businesses have grown manifold.

### ◀ Phase 2: Seeds to sapling (2004 – 2015) ▶

While the seeds for the derivatives product were sown in early 2000, the product grew well only after 2004. "In an exchange, you can never judge a product too soon. Its time has to come and till then that product cannot grow," says Chitra. Unlike in other industries, where you will know the success or failure of a product within a few months of its launch, in an exchange, there will be products with long gestation periods, with many components to it like education of the end user or the right economic cycle. "Once we have done our due diligence on a product then patience is essential to grow that product on the right constructs, which is sound education, awareness and regulatory frameworks," explains Chitra. NSE's NIFTY 50 index is one such product which grew robustly (after 2004), after the right initial steps were taken.



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### **Going against convention**

Conventional wisdom suggested that stock exchanges are always for trading in equity and equity derivatives. But after the infrastructure was built and scaled to the level it is currently, the exchange felt that it could be leveraged to do so much more for financial inclusion, financial savings products and offer multi-assets on the exchange. As a result, debt and currency products came into the picture in 2008.

Also, facilitating easy access of currency to SMEs was a very important decision taken by NSE. "Many SMEs in India use currency for their import and export purposes and to get that currency exposure, they go to a bank," opines Chitra. She continues, "But RBI and SEBI at that point felt that they are seriously underserved by the banking sector." This is because typically when you are a small customer, you will not get the same rate as that of a large customer. This apart, access was also a challenge, as many SMEs are not necessarily in the metros.

### **Finding the right 'mass product'**

This has been a very important goal for NSE. While India is a strong savings-focused country, only a small proportion of that comes into stocks and contributes to capital formation. This apart, in the last 20 years, the markets have given good prosperity to its investors. But, not many common savers have benefitted from this prosperity. And hence, the exchange went about finding a mass product for which investors do not have to spend time on analysis and tracking company performance, but just follow the economic prosperity

of the market. In 2003-04, the whole construct for ETF commenced. "This is a stellar example of how products take time to mature. While Gold ETF was the one which caught everyone's fancy, in the last 3 years, the NIFTY ETF has become a very important product for people to invest in," opines Chitra.

### **Serving the SME ecosystem**

In 2012, NSE launched operations of its new trading platform for SMEs, called Emerge. "SME listing is very different from a main board listing and those who come to the main board already have a mature ecosystem supporting them. You cannot say that of the SMEs," says Chitra. The team realised that they needed a lot of awareness, handholding and, of course, the issue of high costs.

"Not everyone needs equity today. But, at some point we have to provide a platform that will offer a multitude of products to them and we need to prepare them when they want to raise equity," says Chitra. The exchange helped them with due diligence, strengthened their governance framework mechanism, created an ecosystem and enabled engagement with institutional investors and the entire broking community. For example, SMEs typically had challenges getting investment bankers. "There were only a handful of large investment bankers, which this group doesn't need. So we encouraged our broker intermediaries who were geographically in their location to expand into investment banking," recalls Chitra.

Today, the exchange has the ability, through its



intermediaries, to help SMEs when they start thinking about tapping the capital market.

Many SMEs used to request for simpler listing norms, compared to the ones for the main board. "We convinced them on the importance of not compromising on governance, which will eventually help them get the main board listing," says Chitra. However, the exchange always offered them all the support needed like providing them with the right set of people to help with due diligence. Also, while rating is completely voluntary, the SMEs found that it was easier to attract institutional investors if they were rated.

NSE also used its infrastructure in all the cities to help the SMEs with road shows so that they can reach out to brokers resulting in significant cost savings for them.

"We want the Emerge platform to be identified and understood as the growth stars of tomorrow and not the "also ran" category and be able to attract institutional investments," says Chitra, on her long-term vision for NSE Emerge.

#### **Key lessons:**

- The market dynamics have changed tremendously. Today, we are much more integrated globally, than we were in the last decade. This simply means we have to embrace this factor into our business model.
- Earlier everyone used to think about markets being volatile as something extraordinary. But today, it is the order of the day. You just learn to deal with the volatility and create systems that are able to respond in a constructive way.
- Markets have become more dynamic and integrated and that means that our systems and teams have to think differently.

#### **◀Phase 3: The path ahead ▶**

Chitra and her team are all set to capitalise on the large savings potential in the country. "The beauty of being an entity like NSE in a country like India is that – the potential is tremendous," states Chitra.

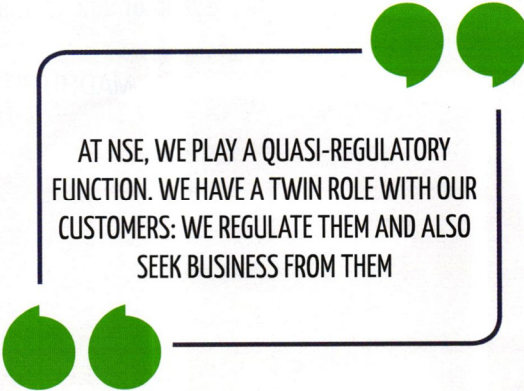
Out of the 30 per cent savings rate in the country, only 5 per cent is directed towards the market. "We need to be creative enough, to find relevant vehicles, to bring this savings into the market," says Chitra.

On the SME ecosystem, Chitra says, "If the last 15 to

20 years were well spent in creating a strong equity market, we can do a lot of work around creating a democratised finance infrastructure for SMEs in this country. Not only for equity but also for meeting all their financing needs."

Even today, the interest in India, in terms of overseas long-term money, is picking up. "We can play a big role in accelerating that and truly help Indian industry raise capital efficiently from overseas investors," believes Chitra.

Additionally, the exchange aims to introduce new categories of ETFs and new product offerings in the debt market. "Typically, worldwide, exchanges will be looking at 100 new products. Out of this, they filter out 15 to 20 which can be regulatory appropriate of which a handful may meet customer needs and then



**AT NSE, WE PLAY A QUASI-REGULATORY  
FUNCTION. WE HAVE A TWIN ROLE WITH OUR  
CUSTOMERS: WE REGULATE THEM AND ALSO  
SEEK BUSINESS FROM THEM**

you launch the product," says Chitra, explaining the methodology for choosing the right products.

Meanwhile, the exchange has set the ball rolling for its initial public offering last month and is planning to file the public offer document for listing by January 2017.

The market has also been on a positive trajectory over the last couple of years and this year it appears to be on a much stronger wicket with NIFTY 50 index trading in the range of 8528 as against 6987 point in February of this year. "In all the investor meets and road shows, we find significant uptick and optimism. People are actually thinking about investments into the country. So I see a lot of credibility that has been built up," shares Chitra. With such optimism around reforms and a strong governance, Chitra and her team are all set to capitalise on this opportunity and lead the exchange to become a much bigger force to reckon with.