

This Woman Helped Build A New Indian Stock Exchange. Now She Runs It



Chitra Ramkrishna, managing director & chief executive officer of the National Stock Exchange of India Ltd. (NSE).

Bloomberg

It's rare that a woman runs a stock exchange -- there are just three in the world. Even rarer to find one who was chosen 23 years ago for the crack team that created it and then climbed the ranks to become its chief executive officer in traditionally patriarchal India.

Chitra Ramkrishna, 52 and head of the National Stock Exchange of India, wants to retain the startup culture of her early days that helped grow the NSE into the world's third-largest bourse by number of trades and the leader in India with an 82 percent market share that dwarfs the 140-year-old Bombay Stock Exchange, or BSE. When the NSE needs something new, it creates a team: Currency trading, bond futures and exchange-traded funds are the fruits so far. Another team is now working on bond innovations to go beyond the current 10-year product.

"There is a huge level of energy and can-do attitude that is in a startup culture which we shouldn't lose," Ramkrishna said in an interview last month at the NSE's squat, glass-fronted headquarters in Mumbai. "For the rest, there is huge focus on processes and discipline that we have to bank upon. We try to get the best of both the worlds."

Ramkrishna, an upper-caste Brahmin who calls Mahatma Gandhi her role model, wants to make stock markets accessible to India's middle classes using the exchange-traded baskets of securities known as ETFs. "I'm sure even he would have bought my ETFs!" she said.

ETF Push

Getting living Indians to buy them is another story. Last year, the NSE held more than a dozen public financial awareness programs and continued a marketing push to get banks and brokerages to encourage investors to put their money into ETFs. Domestic investment can cushion imbalances created by overseas hot money flowing in and out of India. Less risky than individual stocks, they can be a way for people to invest for retirement.

Just an estimated 1.5 percent of Indian households own equities, compared with 10 percent in China and 18 percent in the U.S. Still, domestic investors, fueled by optimism over the election of Prime Minister Narendra Modi, channeled \$6.7 billion into Indian equity mutual funds including the NSE's 42 ETFs in the fiscal year ending in March. The NSE's CNX Nifty Index rose 27 percent in that period before dropping 3 percent since April 1.

"I'm driven by the belief that more ordinary people should be able to prosper and benefit from the stock market boom in India," said Ramkrishna, whose father and grandfather were accountants.

Grown Up

Ramkrishna, who took over as CEO in April 2013 after serving as co-managing director, has "grown up with the exchange," said S.B. Mathur, the bourse's chairman. "She knows the nitty-gritty of the operations, the technology and risk-clearing, since she has been with the place from day one."

Ramkrishna was working at the state-run Industrial Development Bank of India, or IDBI, after earning degrees in commerce and an accountancy in Mumbai, where she was brought up after being born in Chennai. In 1992, she and four other technocrats were selected to join a team to build the first nationwide bourse. Ramkrishna was the

only woman, picked because of her experience at IDBI in the 1980s working on a blueprint for a national regulatory agency that led to the creation of the Securities and Exchange Board of India.

The NSE team was mandated to develop technology to move trading from open-outcry to electronic, untested in India at the time. They were going up against a Goliath, the Bombay Stock Exchange, that had been entrenched since its creation in 1875.

'Enormous Freedom'

"People were really skeptical about us when we started," Ramkrishna said. "It gave us enormous freedom, there were no expectations. We were able to question a lot of existing paradigms. We could even be irreverent about it."

They worked out of a tiny, leased office in a part of central Mumbai known for its defunct textile mills. The average age of the team was 25 -- only because its leader, R.H. Patil, was around 60 at the time and used to joke that he skewed the average upward, Ramkrishna recalled. They all worked intensely with a startup mindset, and they had a blast, she said, "a party every evening."

Investors, freshly bruised by India's worst-ever stocks scam, were receptive to change. In 1992, a rogue trader, Harshad Mehta, had funneled money borrowed from banks into equities on the BSE, pushing up stock prices and earning the moniker "Big Bull." When the \$2 billion fraud was discovered, it caused a market crash.

The NSE team identified an inefficiency at the BSE that allowed in only select brokers. Ultimately, its creation ended the open-outcry trading system, where brokers in the pit used hand gestures to find buyers or sellers and cut deals.

God Knew

"How price discovery happened in those situations, only God knew," according to A. Balasubramanian, an early stock market investor and CEO of Birla Sun Life Asset Management Co., which manages about \$18.7 billion.

NSE's new screen-based trading started in 1994. Using a satellite, it displayed stock prices that could be accessed simultaneously at brokerages nationwide.

"We kept crossing our fingers on many days, but the good news is that when we switched it on, it worked!" said Ramkrishna.

The NSE introduced refundable membership for brokers, replacing BSE's earlier system of auctioning broker permits that restricted the number of participants and trading volumes. Antiquated "badla" contracts, an indigenous system using credit for stock purchases, were substituted with more sophisticated futures and options. Nearly 60 percent of NSE's broking membership in the early days came from cities other than Mumbai.

Old Boys

"It also benefited from the perception back then that BSE was run like a cartel, an old boys' club," said Balasubramanian. "NSE has been very nimble-footed."

The NSE's 82 percent share of India's trading over the BSE comes despite the older exchange having the largest number of publicly traded companies in the world: 5,625 versus 1,733 on the BSE, according to data from the World Federation of Exchanges. The NSE also introduced a range of indexes such as for mid-cap, small-cap and infrastructure stocks, giving investors greater choices, said Balasubramanian. NSE index options, in which the exchange leads the world in trading volume, track companies including those that make cigarettes and tractors or mine coal.

The NSE has spawned a generation of young, technology-savvy investors and brokers who led the stock market boom in the early 2000s, said R.K. Gupta, managing director at New Delhi-based Taurus Asset Management Co. "It shook the old boys' club, bringing in new technology, more speed and transparency," he said. "NSE was a disruptor."

Disappointed Shareholders

Not all are admirers. Shareholders who invested in the NSE and counted on an initial public offering have been disappointed that it hasn't followed in the footsteps of other regional exchanges, such as Hong Kong and Singapore that are publicly traded.

"I've been investing in India for over 12 years and have never seen such a blatant disregard for shareholder rights," said Ravi Adusumalli, a U.S.-based managing partner at SAIF Partners, a Hong Kong private-equity firm that owns 5 percent of the NSE. He called it "highly ironic" that India's largest exchange doesn't provide liquidity to its own investors.

Arindam Saha, an NSE spokesman, declined to comment on shareholders' concerns or a possible IPO.

Listing Decision

U.K. Sinha, the chairman of the Securities and Exchange Board, said last month that the regulator would decide whether to list India's bourses in six months, after completion of a merger of the capital markets and commodities regulators that will enable exchanges to offer securities and commodities trading on a single platform.

IFCI Ltd., a state-owned project lender, which owns a 5.55 percent stake in the NSE, has been in talks with two firms to sell 2.5 percent. Its previous attempts to sell attracted lower-than-expected offers, according to Malay Mukherjee, an IFCI managing director.

"We are unable to exit because the price we are getting in the market is very low," said Mukherjee, who said the lack of IPO plans have hurt buyer sentiment. "Nobody wants to put in money permanently. Everyone is looking at a horizon of two-three years."

The NSE has among the lowest dividend-payout ratios globally among exchanges, said SAIF's Adusumalli. This gives the bourse an "extremely bloated balance sheet" that has depressed its performance and decreased return-on-equity from 48.5 percent to 17.3 percent over the past five years, he said.

NSE spokesman Saha also declined to comment on dividends.

Corporate Governance

Investors worldwide are demanding more corporate governance, Ramkrishna said. In November, the regulator granted bourses legal power to enforce stricter disclosure standards and improve transparency. The NSE imposed fines totaling 77.4 million rupees (\$1.2 million) on companies last year for not complying with listing agreements, data compiled by Bloomberg show.

"It is inevitable that exchanges have to share some of that responsibility," she said, adding that the NSE is planning to expand its presence in North America and Asian markets, where it already has cross-listing agreements with Chicago's CME Group Inc. and a licensing pact with Singapore Exchange Ltd.

Ramkrishna's predecessor and the NSE's current vice chairman, Ravi Narain, said Ramkrishna has the tenacity and clarity of thought to ensure the exchange keeps its lead.

"She has a single-minded focus to build the best market possible in the world," he said.