

Headline: Business Lounge with NSE's Chitra Ramkrishna

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Corrections & Clarifica

feedback@livemint.com

The National Stock Exchange CEO and MD's surname in the story 'All competition inspires me,' published on page 8 of today's Mint Lounge, should have been spelt as Ramkrishna.



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RAMAKRISHNA** >Page 8

CHITRA RAMAKRISHNA

'All competition inspires me'

The MD of India's largest stock exchange on the challenges of running a complex system, competition, and managing people

BY MORIS PHILOPOSE & RAVI KRISHNAN

It's 9 on a Monday morning and we're slightly early for our appointment with Chitra Ramakrishna, CEO and managing director of India's largest stock exchange, the National Stock Exchange (NSE). The bustle at NSE's various markets is just about to resume after the weekend halt.

We look at our phones to ensure no flash crash or the likes of it will come in the way of our meeting. It has already been rescheduled once.

Our apprehensions are soon laid to rest. Ramakrishna is both punctual and gracious with her time. We're meeting at Sofitel's all-day diner, Pondicherry Cafe, at Mumbai's Bandra Kurla Complex. She sips for green tea, we order café latte.

Stocks and derivatives worth billions of dollars are being traded at a frenetic pace on NSE's systems just 5 minutes away, but the exchange chief is relaxed during our 80-minute meeting.

The NSE has been perched at the top among trading venues for quite some time. While its market share varies across segments, it accounts for over four-fifths of all profits earned by the country's five largest trading venues. Its consolidated net profit is about 6.5 times that of the Bombay Stock Exchange Ltd (BSE), with which it competes directly in all the segments it operates in.

Ramakrishna's elevation as chief executive officer and managing director in April 2013 came at a fortunate time for her. NSE's nemesis, Ignesh Shah, who once ran the country's largest commodity derivatives exchange, the Multi Commodity Exchange of India Ltd, and gave the NSE a run for its money in the currency derivatives segment, fell out of favour with both regulators and trading firms after a scam at one of his lesser-known ventures, the National Spot Exchange Ltd. We ask her if the competitive environment has eased with Shah's exit from the exchange space.

"For me, all competition is good, and all competition inspires me. So it doesn't matter," says the 52-year-old. "We seek it (competition)."

Ramakrishna has the pedigree to make that grand statement. She was part of the team that set up the NSE in

the early 1990s. The century-old BSE had a near monopoly on equity trading till then.

A chartered accountant by training, she got her first job in project finance with IDBI Bank in 1985. "I knew very little commerce in school. But I just wanted to build an independent financial career and so that brought me into commerce," she says.

At IDBI, she was deputised to the team that worked on a draft legislation for setting up the markets regulator Securities and Exchange Board of India. She returned to IDBI's treasury desk in 1990, before being asked to join NSE's founding team.

Those were exciting days, she says.

"Clearly, the mandate was to look at completely different paradigms for markets. So we had to go around seeing what the existing market structure was... what would be international best practices."

A small team meant that everyone had to do everything, be it information technology or human resources (HR). Ramakrishna considers this a "big plus point". She also brushes aside mention of the fact that she is only the third woman to head a stock exchange, saying that IDBI and NSE are gender-neutral employers. "I can only say that I had all the opportunities which everyone else has. And so no extra pressure constraints to worry about."

The early to mid-1990s were heady days. The markets were just recovering from their encounter with Harshad Mehta, the Dalal Street scamster who had manipulated stock prices, and foreign institutional investors were entering the Indian stock market.

The NSE expanded the market 10 times, says Ramakrishna. That it was a truly national market helped. She credits this to innovations such as real-time risk management, anonymous order matching (with the buyer and seller not knowing each other) and a demutualized holding structure, in which brokers or trading members aren't owners of the stock exchange.

The NSE has come a long way since. Notwithstanding NSE's dominance, Ramakrishna is not short of challenges. One of the delegations that visited the exchange before our meeting consisted of impatient shareholders demanding a public listing of NSE's shares. NSE's non-executive chairman, S.R. Modhur, told *Bloomberg* last month that they do plan to seek board approval for an initial share sale.

Ramakrishna dismisses suggestions that she is at loggerheads with shareholders on this issue as a matter of perception. "From an exchange's perspective, all our stakeholders are equally important, including our shareholders. So it would be remiss to say that we have different objectives here. We have exactly the same objectives as the shareholders," says Ramakrishna.



Pioneer: Chitra Ramakrishna was part of the team that set up the NSE in the early 1990s.

"As far as listing is concerned, we have never been averse to it. I think sometimes people's timelines are a little different. So maybe that is why you will find a criticism at one point of time; these are not sustained criticisms."

NSE's investors, however, complain too about a decline in return ratios, despite the exchange's dominance in terms of both market and profit share. About eight years ago, when a clutch of private equity investors bought a 15% stake in the NSE, the exchange's return on equity stood at 30%. It's now 20%. Ramakrishna again sees it more as a timing issue.

"Some of the things that you do may not reap rewards immediately. But if they are not going to reap rewards in the larger sense you wouldn't do it in any case, right?" she asks.

"And when I say reap rewards, it doesn't mean that the day after tomorrow, or two years from now, it's going to mean a very clear top line addition coming. But it may mean more customers for me. It may mean a better reputation for me, all of that very much contributes to the well-being of an enterprise. So I don't see these things as in conflict at all," she says.

The securities trading scenario has transformed over the past two decades, and Ramakrishna believes the next 20 years will be even more exciting. Take, for instance, high-frequency or algorithmic trading, which has come under scrutiny from regulators around the world.

We ask her if NSE's co-location system—under which brokers' servers are situated close to the exchange to reduce the time taken to transact—allows some users to get price information earlier than others. On 8 July, an article in the *Monocycle* magazine website alleged that some NSE staffers were leaking sensitive data to a select set of market participants so that they could trade faster than competitors.

On 21 July, the NSE said it had filed a defamation suit in the Bombay high court against a magazine for "unsubstantiated and misleading reports against the exchange".

Ramakrishna is quick to dismiss any suggestion of wrongdoing.

"I can assure you that our basis is (good governance)," she says. "There is no merit in the discussion per se. But instead of me giving you such a statement, I'm just saying that please do come and talk to my technology team and you will for yourself understand how the system works."

For Ramakrishna, the way ahead is clear. She wants to do "whatever we can do to improve allocations to India and get more investments into India". What does she make of one of the Prime Minister's pet projects, an international financial services centre in Gujarat? "Definitely it's a very interesting opportunity. We need to see how that is evolving... Once the framework is clear, it doesn't take too much time to actually gear up and put the systems and infrastructure in place and get started... but our business plan will become clearer once all of these details start to emerge."

Ramakrishna refuses to be drawn on the recent staff churn—a reshuffling of portfolios and exits from the top management. "We have a very proactive, and I would say engaging, HR policy and strategy. Some people will move on, some people will come in—that is all part of any organization's existence... All of this is part of HR development and a lot of my leaders really appreciate that."

The fact remains that many of the top officials in competing exchanges today are former NSE employees.

"We (NSE) have lent a lot of people to the industry. That is our role," says Ramakrishna. "In IT, as they say, Intel Inside, so here it's NSE inside."

Write to lounge@livemint.com

IN PARENTHESIS

Chitra Ramakrishna comes from a family of accountants. Her father is a chartered accountant (CA), her grandfather was a cost accountant. "So it looked like a good profession to look at and so I took up commerce, quite liked what I was doing, so I went into CA," she says. Her early years were spent in Chennai; she moved to Mumbai to complete the final years of her schooling. She went on to study commerce at the RA Podar College of Commerce and Economics in Mumbai. A fan of Carnatic music, Ramakrishna has talked about practising the veena. She says visiting Chennai during the December 'sabha' season is the "most efficient way of putting a little bit of the annual dose of (of music)".