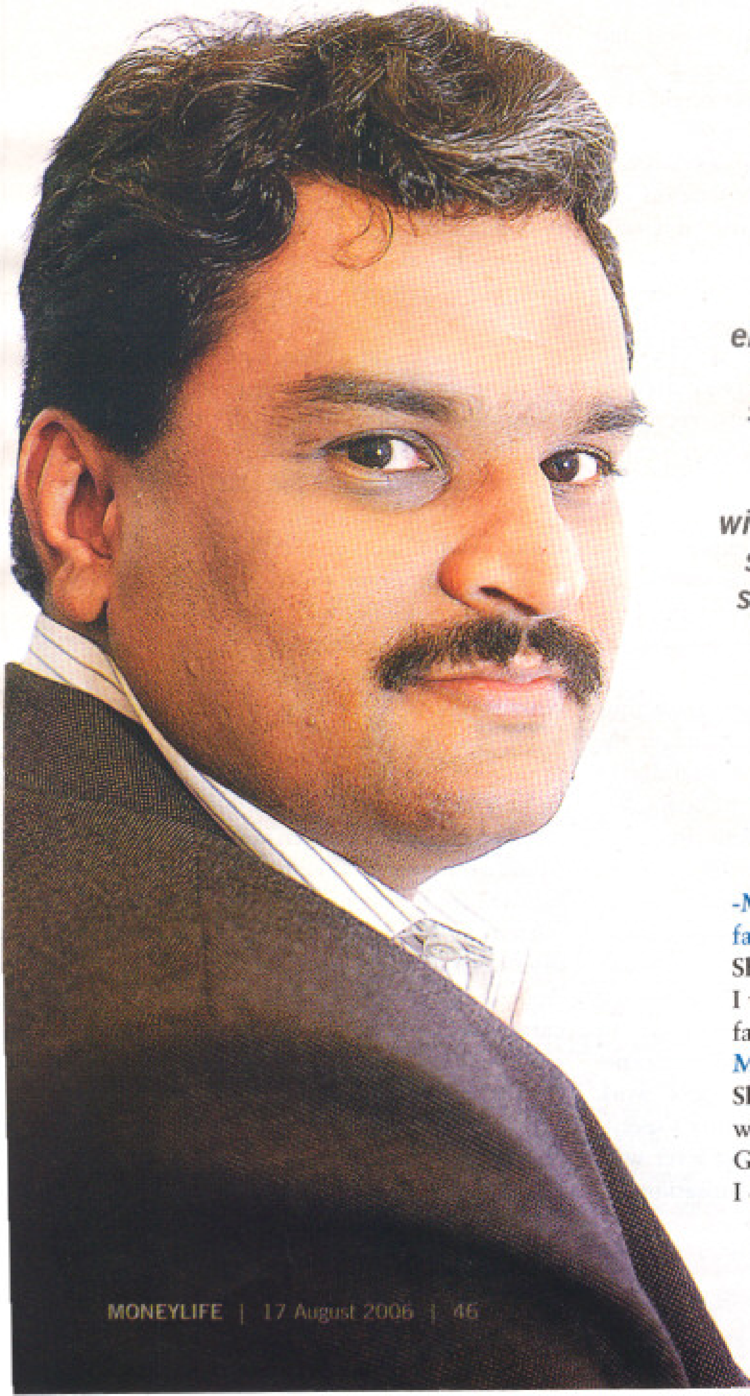
# "We were like the Indian cricket in the 1983 World Cup. One article said: the odd one in the list of promoters permitted to set up exchanges is Jignesh Shah, who is neither a trader nor a banker"



*Ten years ago, Jignesh Shah was an employee of the Bombay Stock Exchange. Three years ago, he was running a small software company. Today, at 36, he runs the one of the 10 largest commodity exchanges in the world. In an interview with **Sucheta Dalal** and **Debashis Basu**, he shares the story of his incredible growth, strategy and vision. Here are the excerpts from an extremely inspiring interview*

**-ML:** Let's start from the beginning. Tell us about your family background and your formative years.

**Shah:** I am from a very conventional business family, but I was very clear that I would not want to go in for my family businesses.

**ML:** What were these?

**Shah:** We were into trading of iron, steel and chemicals, which started in 1960 when my ancestors came in from Gujarat and based themselves at Kalbadevi, in Mumbai. I completed my schooling in Gujarati medium and always stood amongst the first five in the class. I was very clear that I would do engineering. I don't remember why, but I was very clear that I would do electrical engineering, after which I would go to the US, complete my MS, work there and later start my own business. This was more or less fixed in my mind at a very young age. If I look back at my school days, I can recall that I was a voracious reader and, I think, this is what has contributed to my success. Even today, I continue to read a lot. Among my priorities is to set up a great library. In my school days, the library we went to was open from 8-10 in the morning and 5-7 in the evening. I was the first to reach there in the morning. I would take a book, read it and then pass it on to my brothers because there was only one card among the three of us, and only one book could be borrowed on a card.

**ML: What kind of books did you read?**

**Shah:** Adventure books use to inspire me a lot and I used to read autobiographies of industrialists and innovators minutely. Even now, at least once a year, I re-read the biography of JRD Tata, written by RM Lala. I was in a trance for three days when I read it the first time. It had such a strong impact on me. The next book I re-read religiously is *Made in Japan* by Akio Morita. I read these two again and again to get a kick. If I can afford to, I will read for five hours and do business for three hours everyday. Reading increases your knowledge and my work in the office today is to translate knowledge into execution and business. I am fortunate enough to complete my higher studies, but when you study the lives of these great businessmen, it is as good as getting a Harvard degree. Unlike what many people say, theory is very important. I get the theoretical framework from books. Then I change it according to my needs. I need to change the implementation depending on the times, because what was practical in 1995 is not practical today.

To get back to my formative years, till 1984, there were only two colleges in Mumbai offering courses in electrical, mechanical and civil engineering. In 1984, a new college opened, offering computer science, instrumentation and electronics, and I felt that these were more important than the conventional electrical stream. I thought electronics was the umbrella and everything was below this umbrella, including computer science. It was a four-year course and only in the last six months, you get your chosen special elective: electronics; otherwise, for the first three years, the course is same for computer science and electronics. My specialisation was in the highly specialised area of digital designs of logics.

**ML: So, where did you work after you passed out?**

**Shah:** After I completed engineering, around 1989, Bombay Stock Exchange was starting their automation project. I was around 23. The main career options were to do MS abroad or join TCS and go on an H1 visa. But I read somewhere about this pan-India BSE project, which was budgeted to cost Rs. 100 crore. I felt that while I can do MS or join TCS later, this kind of opportunity to learn and implement will not come easily again. I applied for a job in BSE. They took me as an electronic engineer to set up the network. A 40-member team was selected in September 1990 and we were trained intensely by global specialists. But BSE brokers were apprehensive about losing out on commissions. They did not see that volumes would go up and more than compensate for lower commissions. Meanwhile, we felt that online trading will not work without automating other functions such as clearing, surveillance, listing, etc. We did about 14 pieces of automation. You would be surprised that I knew noth-

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ing about the stock exchange business till I joined BSE.

ML: Really?

**Shah:** Yes. Though I was hired for networking, I started taking an interest in the working of the exchange, how brokers transact, how liquidity is generated, the role of jobbers, etc. At that time, we were told that even if we do automation, we could not eliminate the jobbers. They had a powerful lobby. We were told to create neither a quote-driven nor order-driven system but something of a hybrid system. These discussions were going on and a system was being worked out, but the BSE did not implement things on time.

In 1992, after the Harshad Mehta scam, the government was very emphatic that things had to be automated. BSE created a team and send it abroad. I was part of it. We were told to study various systems in US, UK, Hong Kong, etc. and study their surveillance and trading systems.

Before that, let me talk about my earliest encounter with commodities. BSE had a library called Seth Chunnilal library. I would go there and read books after my work was over. I was also studying the business at that time. That is when I discovered that in 1969 we banned commodity futures markets and commodity brokers took BSE membership. So, the roots of trading were in commodities. One can trace back in history to 15th century when commodity trading was flourishing. I believe there were 300 commodity exchanges in India around the Second World War. The market was pan-India and we were highly linked with the global markets. I will give you an example - of cotton. Premchand Roychand, the big trader, had once issued a cheque of Rs. 11.5 crore. In 1994, when we calculated the present value, it worked out to Rs. 850 crore - a single pay-in cheque of that much.

ML: Where did you read about this?

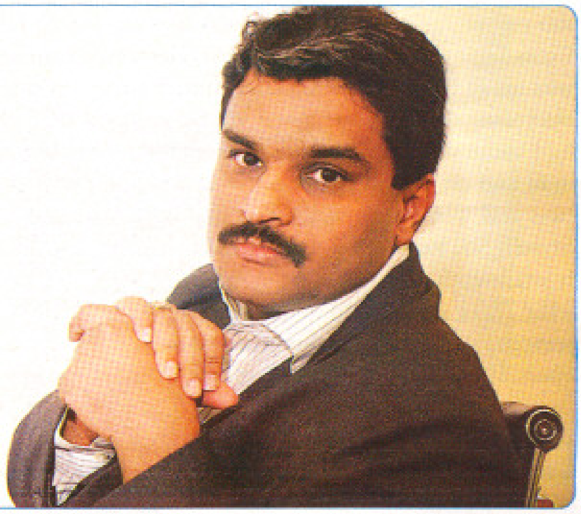
**Shah:** In the East India Cotton Association library. If you go to the New York Board of Trade (then known as NYCE), you will find a photograph of our Nagar Sheth of Indore in the museum gallery. And even at 11.30 in the night, one used to find a group of 2000 people at Kalbadevi waiting for the opening prices of the New York cotton market. This was the vibrancy of the market and there were 300 such markets.

ML: How would people communicate?

**Shah:** People used to communicate through telex and telephones. I read something really interesting about Premchand Roychand. I discovered that he had hired a person in Japan to send him data through the Morse code - one hour ahead! I was learning all this in 1991-92, discovering how great commodity markets around the world had developed. I came to strongly believe that apart from the US, India is the only country that has a great tradition and culture of option and futures. When traders did not have the money but they wanted to cover risks, they used options. They called it *Jota* and *Phatak*.

Coming back to 1992, I went abroad to study these world markets. Dewang Neralla, who was there with me (BE Computer Science), was an expert in writing code and was deputed to Tandem machines, which were very popular in those days. We came back after doing all that along with some courses here and there. I then had an offer from Merrill Lynch, while he had an offer from Tandem. My offer was for currency trad-

***I said neither finance nor technology is complete without the other. Technology for finance is the way to go and so we called our company Financial Technologies. We started with just Rs. 5 lakhs. Everybody was asking us to do body shopping, but we were very clear that the time for body shopping was 1981, when Mr. Narayana Murthy started. In 1995, I thought that if I start a business with body shopping as its DNA, I will be finished in three years.***



ing, and 1994 September was the time when we had to submit the blueprint to BSE, which we did. BSE awarded the job to CMC. I told Dewang that whatever we have learnt will not go in vain; and my ideas have changed. I said neither finance nor technology is complete without the other. Technology for finance is the way to go and so we called our company Financial Technologies. I left BSE and started the company on 1st January 1995 with four others: Dewang, Ghanshyam Rohira and two other programmers we had at BSE. Ghanshyam was the mastermind in digital communication, Dewang was expert in writing code for database and I had specialised in business logic. I said I would take care of all other things.

We started with just Rs. 5 lakhs and I had taken the consent of my family that I will not be able to contribute anything. I did say sometime ago, what was right in 2005 may not be in 1995. Here is an example. Everybody was asking us to do body shopping, but we were very clear that the time for body shopping was 1981, when Mr. Narayana Murthy started Infosys. In 1995, I thought that if I start a business with body shopping as its DNA, I will be finished in three years. So I might as well join Merrill Lynch now. So, we decided neither to do body shopping nor any projects. What we had was technology and general business knowledge. So, we did products. Product means value for your innovation, which I will explain in a few minutes. We decided to create technology for markets and we did not restrict ourselves to equity because it was a high transaction density market and we had already worked in the equity market for five years. There were commodity, currency and bond markets. At that time, there was no depository, but we were determined to focus on electronic transfer of stock or any asset class. And now, I will tell you what we ideally wanted to do. In software, if we write the code and sell it like all project companies do, that's the end of it. I end up doing labour and more labour. But what is the edge in that? Nothing.

When you sell a product, you are selling intellectual property; so you can sell it to multiple customers, like Microsoft does. But again you are not fully exploiting the technology. The ideal model (and I have not discovered anything better) is doing something where your gain is linked to the value transacted. Nothing else can give you a higher return. Imagine a product that is sold to a bank for $5 million. Its market will be limited to the number of banks. Now, imagine a different selling model for the same product - the income from the product being linked to the transaction it processes. That is a totally different model. The problem is, as a tech company if I go to a banker and try to sell this, he will throw me out. Similarly, if I tell a broker that here is a product, trade on it and give us a tiny part of the transactions, no broker will agree. But exchanges are allowed to do exactly that - charge on transaction basis. So we needed to be an exchange. But nobody would allow a technology company to do this. So, we said, "Let's prove ourselves first". We researched for three years, and on 29th April 1998, we launched our first product, which allowed anybody to trade on the electronic exchange with pre-defined criteria of risk management, which the broker wants. Exchanges give a standard story for risk management, but it differs from broker to broker. So we said, "Let's do that".

**ML: How did you fund your business?**

**Shah:** We started with a 250 square feet office and that too on the mezzanine floor. It was like a research lab. Costs were not that high. In 1995, electronic trading was in, so brokers needed consultancy to set up the electronic dealing rooms and we did some of that. We had some small products too - to make orders fly on e-mail and on a modem. These were funding our business and whenever there was a gap I used to fund it myself. So, for three years it was mainly research-related work.

**ML: Three years is quite a long time. Were you not tempted to take up a job?**

**Shah:** If we had taken up a job, we would not have been able to do what we wanted to do; and if one were to do a job, it was best to go to America, an option we had already rejected.

**ML: What gave you the confidence against so much of uncertainty? There was nothing like an exchange for you on the horizon...!**

**Shah:** If certainties are high, one can define it on an excel sheet. That is the difference between a blue-chip business house, which will take a business call to venture into something with predictability vis-à-vis an entrepreneur who will go by gut feeling. My call was that you create technology and that technology should allow you to charge in a different way. Now assume that we did not get a permission to set up this exchange, how could we have achieved that model? It could have been something like taking over the complete IT infrastructure, the back office, the processing, even online trading and getting paid on a transaction basis for back office support. This is what happens abroad. Payments for the front office too are unlike what we have here. Here we sell licenses but abroad, they charge you on a per-month basis. So, I thought, even if I can't charge on a per-transaction basis, I will neither be earning on a dollar per hour basis nor even license fees. It will be something beyond. So, that was the starting point but our dream was very clear - to set up an exchange.

When we launched our product, there was a company called TIBCO, which created the first digital dealing room in America. It was started by an Indian called Vivek Ranadive, who later sold out to Reuters in 1995 for a 100% cash deal worth $100 million. Anyway, TIBCO was here to do automation and dealing room for UTI securities. After we demonstrated our product to both BSE and NSE, it was NSE, then headed by Dr. R.H. Patil, who gave us the first break.

**ML: How did it happen?**

**Shah:** Our product gave the broker a sophisticated trading system. Some would use it for big proprietary trading, some for huge analytics and some will use it for launching a large retail network. But to do anything, the exchange has to empanel the vendor, that is someone like us, based on technical skills, commercial standing and bank guarantee. At that time, they took Rs. 50 lakhs as bank guarantee from all the vendors. So, FT, TCS and Wipro were empanelled and we were the only company that was very specialised in this field. That was our edge. We implemented the system and I felt, "Let's first create many success stories of our customers so that we can demonstrate our capability. This will help us gain market share." So, while TIBCO was doing UTI securities, we went out and caught hold of these new professional brokers like CAs, who had taken NSE memberships.

**ML: Who was your first customer?**

**Shah:** The first customer was in Surat, called Growth

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Avenues. It does not exist now because I think it got merged with IL&FS Investmart. We gave them the first retail chain in Surat. They used to suffer from frequent interruptions of power, so they use car batteries to run this big network. We took ICICI to show them this system and then over a period we got break from ICICI, Sharekhan, etc. And then came the Internet boom and that was the real turning point. IBM and we were in the final shortlist for the business of ICICI Direct. Arvind Joshi of ICICI was the CTO who came from Goldman Sachs. There were marathon discussions and he said, "Jignesh, I can't consider you because whatever it is, you are a private limited company." I showed him my track record. At that time, Mr. K.V. Kamath had that 90 days target - he used to say that either a project is done in 90 days or it is not. So, Arvind told me that this is what Mr. Kamath says and I said, "If that is the case, I am the most suitable candidate. In 90 days IBM will just prepare a paper report and you want it to be launched." There was a big competition between ICICI Direct and Investmart to be the first to launch an Internet trading facility. So, I said, "Why don't you call both of us tomorrow morning at 10, and whoever can execute an order from his system should get the project." IBM couldn't even connect to the exchange. They had got a Belgium system. It normally does not work this way, because it is like transplanting a kidney to a person whose blood group does not match. Our order went through and we got the first break. I think that was a big step for getting recognised in the institutional market. By 2001, virtually every big name became our client and we became the No. 1 supplier.

**ML: And did this become the launching pad for the commodity exchange?**

**Shah:** Yes. In 2000, the government had given a mandate to a consortium to set up a commodity exchange, which included NSE, ICICI, Punjab Warehousing Corporation and M&M. For two years, nothing happened. Then they decided to invite corporates to do this and so we applied. You won't believe it, the announcement came out as a press note that anybody interested in setting up an exchange can apply. There were 17 criteria that were picked up from the best of international exchanges, NSE and BSE. There were 16 applications including all major stock exchanges and a consortium of ICICI, NSE, Nabard and LIC. The Forward Market Commission finally recommended four names: ICICI, us, NMCE Ahmedabad, headed by Kailash Gupta, and NBOT of Indore, which was the only regional exchange that was working. ICICI and ours were the only professional ones, without a commodity background. When the final list came, our proposal and ICICI's (that is today's MCX and NCDEX) were both thrown out.

***When the final list came, our proposal and ICICI's (that is today's MCX and NCDEX) were both thrown out. They said, "Yours is in the proposal stage," to which I said, "But you asked for proposals, you can't expect me to invest 30 crore without a license". They said, "No, we don't want to take risks."***

**ML: Why? What did they say?**

**Shah:** I went and asked the concerned officer and he said, "Yours is in the proposal stage," to which I said, "But you asked for proposals, you can't expect me to invest 30 crore without a license". He said, "No, we don't want to take risks." We aggressively followed up with the economic advisor, secretary, joint secretary and the minister. The World Bank consultant had also given a report that all four shortlisted ones should be allowed to create healthy competition, and finally on 14th February 2003, we made it. In the company, there were mixed views. They said NCDEX are giants, but I said it is good that such large players are in the field. A lot of industry development will happen.

We were like the Indian cricket team of 1983 in World Cup. I remember an article at that time saying that the odd one in the list is Jignesh Shah, who is neither a trader nor a banker. The article was written without even talking to us. Though we were good in electronic trading on the equity side, people would write us off as an exchange, saying you need size, track record, etc. Ideally, it is the way you manage process, which is important. I was very clear that the moment I get the permission, I would employ the best professionals (like Joseph Massey) who have run exchanges and were my clients.

**ML: What else contributed to your success?**

**Shah:** Two or three strategic ideas. The fist one was treating stock market and commodity market, as two different things. Stockbrokers will not be able to create a commodity market. They will come when the market is created and will make it bigger. So, even before starting, I tied up with major commodity trade bodies.

Second was the contract design itself. We never copied foreign contracts. Everybody wanted to be the bullion exchange of India. We said, "Rather than copying the famous 999, let's study what gold is being imported the most," and we found out that it was 995; so we created a contract for 995. Then we went to Zaveri Bazar in Mumbai and Meena Bazaar in Delhi. We stayed there to market and promote it. The idea was to create an electronic system, which is very affordable and yet offered all the things that are best at NSE. Initial success came that way.

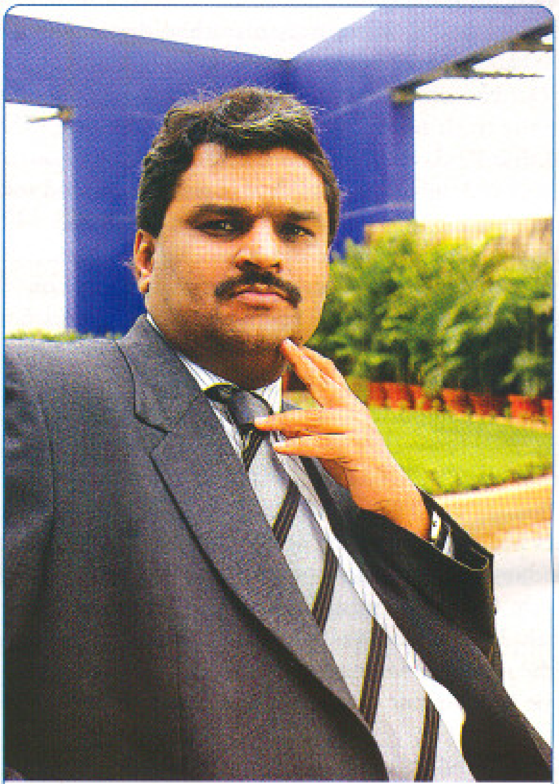
**ML: Who were your first members?**

**Shah:** There were 60 commodity business people and 40 stockbrokers.

**ML: What was the motivation for the commodity people to come?**

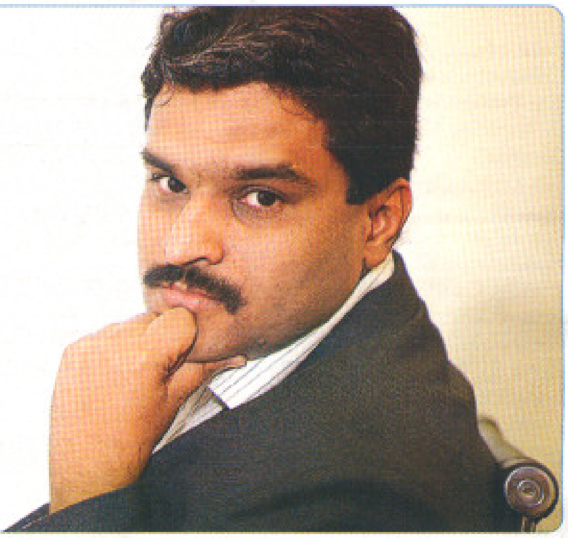
**Shah:** In any association, 20% of people are forward looking. They have seen the world and they understand the importance of modern markets. At the same time they are powerful, doing big business and have money. We took the trouble to go to them. If you ask me what is the difference between the competition and us: this is one factor. We have really taken pains to go to leaders of each segment, meeting them and giving them due respect, but at the same time convincing them that this is the way forward. My main competitor is a band of institutions with great parentage. They announced that they are 'so and so' and are opening a membership and every NSE member became a member there.

I was also very clear that if agriculture prices go up, exchanges will be blamed, so before we really became this large, we went for the best of institutions as equity owners. I also decided to go for products that have global reference prices. So, we went into gold, silver, soya, crude, the prices of which are international.



***What is the difference between the competition and us? We have taken pains to go to leaders of each segment, giving them due respect, but at the same time convincing them that MCX is the way forward. My key competitor is a band of institutions with great parentage. They announced that they are 'so and so' and are open for membership and every NSE member became a member there.***

***Our competitor is really not NCDEX. In fact, I think, from the eastern part of the world, NCDEX and we should emerge as the biggest commodity exchanges. Tokyo is not there in the global map, Singapore could not develop their commodity exchange and exchanges in London are not expanding. India's domestic commodity base, technological skills, time zone advantage and trading instinct - on all fronts, India is best placed to regain its key position in the world of commodities***



Nobody can then point a finger at MCX prices. All this happened stage by stage and one and a half year after everything was in place, NSE and Nabard, investors in NCDEX, also took equity in MCX, which underlines our acceptability. People started taking us very seriously thereafter, even though, thankfully, our business model was already ahead volume wise. Seven nationalised banks, including Bank of India, Canara Bank, Union Bank, Bank of Baroda, and Corporation Bank, also came in.

Despite the fact that India has neither convertibility nor options, nor intangible settlement for contracts in foreign trades, FIIs can't come into commodities. MCX became the third largest exchange in the world in gold and the second largest in silver in terms of value (largest in the number of contracts, because our contracts are mini contracts, which were also one more innovation suited to India.)

Today, we have more than 1000 brokers and have reached more than 500 cities, thanks to the technology. This technology is very expensive abroad. If you take a technology product abroad, they will ask you one simple question: what is your home base? You cannot say, "I am a CMM level 5 or I have ISO." They will not buy. We can say that we have a 90% market share in our home country. We have the most premium product in our country, our products being costlier than that of TCS in our markets. This is what makes the foreigners interested.

**ML:** What about the future? What more are you planning and what will be your execution strategy?

**Shah:** MCX was a demonstration of what we can do and how value can be built. Today, we are among the first 10 exchanges globally and have tie-ups with the best of exchanges in the world, a great brand, created purely from scratch in three years. The story will be completed when MCX gets listed. As for future plans, we are launching National Spot Exchange for Agriculture Produce with Nafed, which will link agricultural markets through technology. Our first step is to create *Commodity Suchna Kendra*, which we will later enable with transaction capability. Anjani Sinha heads this project now. The second business is ATOM (Any Transaction On Mobile). I have CEOs running these projects. I keep a target of 1000 days for each company to be up and running - learning from Mr. Kamath's 90 days for project completion (laughs). And I don't take salary from MCX or have ESOP or sweat equity. My income comes from FT.

We want to be a global company in digital transaction for which we need global skill sets. We are recruiting the best of talent from around the world and offering them a mix of professional compensation and entrepreneurial opportunity. The best of people don't just work for money anymore. We offer money, challenge and a part of the ownership. With this strategy, I think, we can compete well. Our competitor is really not NCDEX. In fact, I think from the eastern part of the world, NCDEX and we should emerge as the biggest commodity exchanges. Tokyo is not there in the global map, Singapore could not develop their commodity exchange and exchanges in London are not expanding. India's domestic commodity base, technological skills, time zone advantage and trading instinct - on all fronts, India is best placed to regain its important position in the world of commodities.