

JIGNESH SHAH/MCX-SX

'We will take equities, bonds to *tehsil* level'

ABHJIT BHATLEKAR/MINT

BY RAVI KRISHNAN &
MOBIS PHILIPOSE

MUMBAI

At a time when the trading volumes of stock exchanges are coming down drastically and foreign institutional investors are pulling out money from Indian equities, MCX-SX, a bourse for currency futures, remains ambitious: It wants to start trading in equities.

The promoters of MCX-SX, Multi Commodity Exchange of India Ltd (MCX) and Financial



Exchange scheme: *Jignesh Shah.*

ALSO SEE

>MCX-SX's stock exchange proposal
revives governance concerns

>P8

TURN TO PAGE 3 ▶

We will take equities, bonds to *tehsil* level, says Jignesh Shah

► FROM PAGE 1

Technologies (India) Ltd, run 10 exchanges across the world for various asset classes, including bullion, crude, currency and power. They come with impressive credentials: MCX has at least an 80% share of the commodity trading market in India and MCX-SX controls about half of the currency futures trading here.

In an interview, Jignesh Shah, vice-chairman of MCX-SX, explains why he wants to start equity trading, for which the firm is awaiting approval from markets regulator Securities and Exchange Board of India (Sebi), and how the market can be developed. Edited excerpts:

You want to start equities trading on your stock exchange. What can you bring to the table?

We are a full-fledged stock exchange like the Bombay Stock Exchange and the National Stock Exchange.

There are multiple geographies (to be serviced) and multiple instruments needed in the Indian markets today. For instance, no one is servicing the SMEs (small and medium enterprises). There are many other missing markets such as interest rate derivatives, corporate bond market, securities borrowing and lending...

The total number of demat accounts—which is the minimum qualification to participate in the capital market—is one crore, less than 1% of India's population. If you look at active unique client ID (identification) on the system on any given day, it's not more than 10 lakh, or 0.1% (of the population). So the first target is to reach at least 10% penetration.

How do you do that?

For that, product innovation is a must. Our commitment is to take different equity and bond products to the *tehsil* level. No one has covered this India model so far. We target 40-50% (of population) pene-

mint INTERVIEW

tration. This is the benchmark of developed markets. We want to develop those segments which are missing today.

How long will it take to get the Sebi approval?

We have to follow a process. We don't see any roadblocks.

One of the concerns among policymakers is the area of governance—particularly the regulatory role of stock exchanges. Your thoughts?

It's a little surprising. We had mutual exchanges and exchanges had to depend on member ticket (physical) sales. From there, the demutualized model has evolved. Stock exchanges are now a corporate entity and there is no financial dependency on its members.

Look beyond exchanges. Look at banking, telecommunications or even electricity—they are all regulated businesses. And they have been performing very well. Product innovation has happened because of them.

There are very clear road maps and proven models. Are we worried about our own regulating abilities? There is an Act (of Parliament) and there is a regulator which has regulated 25 exchanges before. I think competition is trying to oversensitize the issue. Those who want to protect their turfs are saying this.

In your case, there is no separation between the ownership and management. Isn't that an issue?

There is no issue. We are a duly recognized stock exchange by Sebi, conforming to all compliance norms. Sebi has given us the recognition after proper scrutiny. We have a strong professional team with domain knowledge to run the business. In fact, that's our USP.

Is equity the most lucrative in the exchange business? Why are you entering this segment?

It's not the most profitable...it's like any other business like banking—a special-

ized business.

The equity markets are down. So, are you applying for this segment to push the valuation up, as you would need to dilute stake by October?

As a stock exchange if you have been given the licence, after all the due diligence and process has been followed, you would not end up doing only one (segment). So, I personally feel that you're jumping to that conclusion (of pushing up valuation) and this is not fair.

I have put in Rs150 crore as capital. That's not just for currency (derivatives). The point is if you are a stock exchange you should do everything. Existing exchanges are not innovating enough to seize the India opportunity.

What is this India model you talk about?

India has household savings of about \$330 billion. Can't 10% of this, \$33 billion, be channeled by a credible, transparent, world-class infrastructure for industrial development? Can't we target that much? We all as exchange chiefs should be ashamed if we can't do that—if not in the first year, at least over a period of time. It's doable.

Credit markets haven't developed beyond our cities. Enterprise and entrepreneurship in India is limitless. There are some 14 million SMEs in India. At least 1% of these will have a class balance sheet—triple-A rated. They require growth capital. Can't we arrange a fantastic market infrastructure for them?

In both commodities and currency, where you have businesses, it was a greenfield entry. Here you have well-entrenched competition in the NSE. How will you compete?

The opportunity is infinite. Look at banking. There are 100 banks. Still 600 million people in India are unbanked and the government is talking of financial inclusion.

Even this (exchange space) is hugely underdeveloped. There can be 10 more exchanges.

ravi.k@livemint.com