After precious metals, we will apply for energy contracts: Ashishkumar Chauhan, BSE

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*Sebi is slowly taking steps to ensure that delivery base derivatives contracts happen and they are connected to Indian prices rather than foreign prices, **Ashishkumar Chauhan**, MD & CEO, **BSE**, tells ET Now.*
Edited excerpts:

Why have equity market hours not been extended and how life will change now that BSE has got a nod for commodity trading?

We have a nod for commodities trading and we plan to start on October 1. We have applied for the contracts in precious metals now. We will also be applying for energy contracts and slowly you will see a lot of action on the BSE's commodity segment.

A very large number of members are interested in commodities trading on BSE and they have all given their interest to BSE and so commodities market is clearly on its way. Most of the regulatory compliances and licenses have been obtained and as and when the newer contracts are approved, we will keep on introducing them. We have also tied up with various warehousing agencies for ensuring that the settlements of those delivery contracts happen in commodities.

Effectively, commodity is something we have been ready for more than three-four years now. We also started trading in commodities in GIFT City Gandhinagar India International Exchange which is trading close to a billion dollars a day. It is larger than DGCX and NCDEX in some ways and although our media does not take notice, but slowly BSE is becoming very large in many of these areas and even in currencies, BSE is now the largest exchange in India. In interest rate futures also we are very large. We are also doing well in distribution markets like mutual funds, SMEs, IPOs and other things.

When commodity trading was introduced in India for the first time more than a decade ago, the proposition was that commodity markets are bigger than equity markets and they should grow in proportion with the growth of the underlying economy and underlying commodity market. The economy has reached to $2 trillion, but the commodity trading market in India is still dominated by two or three large categories – crude, gold and silver, why is that?

I agree with you. One of the reasons is that we have not connected the real commodities market with the futures or options market of commodities. They have stayed away from each other. In fact, we have also in the past gone for the settlement prices which are basically international exchange connected. So effectively, we have not connected it to Indian industry or Indian economy and that is where Sebi is slowly taking steps to ensure that the delivery base derivatives contracts happen and they are connected to Indian prices rather than foreign prices. But the journey would not be fast. It would take a little time for everyone to get used to the deliveries. It will also take time for everyone to get used to the Indian pricing and Indian standard deliveries and so on. All associations, all trade participants will have to agree to a particular way of doing things.

Over last three years, since Sebi has been merged with FMC, a lot of changes have happened and the players have become more complaint and now the government is keen to connect the futures market with the real markets and that is a very heartening thing.

From a duopoly in equities to a three-way tussle now in commodity derivatives, will this ensure liquidity and facilitate price discovery? How big a pie would you be happy to grab?

We work more on creating facilities for the investors and participants rather than worrying about market share. We are basically a regulatory organisation, a compliance organisation and that is the role we try to play rather than trying to compete unnecessarily. At the same time, if you give better quality of technology, better margining, better risk management and better deliveries, then naturally people will gravitate to you but how fast, nobody can predict.

Sometimes it happens faster than you think like what happened in the currency derivatives. Nobody give a chance to BSE. Even now, nobody is talking about it but BSE has become larger than other exchanges by miles now. But in equity derivatives, BSE has not done so well. So effectively, you cannot predict where you will be successful and how fast but you need to continue to work hard and that is what BSE will continue to do.

You are a big player in the mutual fund distribution platform, now the StAR platform. It has become one of the biggest in India. Commission structures have been reduced by Sebi earlier this week. It will have impact on distributors and on the way platforms like yours are making money or making the spreads. How will life change for your mutual fund distribution business?

Our mutual fund business is the largest distribution platform in the country now. In fact, the largest ones are actually riding on our platform. We are the backend to most of the large platforms now and last month we would have done 29.7 lakh transactions of mutual funds. Almost 40% of all new investors to mutual fund industry are coming from BSE, BSE StAR MF platform. In fact, BSE StAR MF platform is saving mutual fund industry Rs 300 per transaction that is what the estimate is.

Effectively, if the mutual fund industry goes through BSE StAR MF each time, they will save Rs 300 per transaction and that will help them meet the Sebi objective of reducing the cost and that is where overall the BSE StAR MF platform has a great future because it is automated. It has given comfort and convenience certainly to all the mutual fund investors -- the IFAs and everyone else that their transaction will be completed which was a very difficult framework earlier on in a manual basis, even now when you go manual as a mutual fund distribution, it is a very-very troublesome activity.

If you go through the BSE StAR MF, you get to sell all mutual funds, all schemes direct or indirect in electronic format and direct payment to client or through the broker and so we have given many facilities which brokers seem to be liking, the IFAs are liking and the investors are liking. Last financial year, we did Rs 1,75,000 crore of mutual fund distribution. In the first quarter of this year, we did more than Rs 50,000 crore of mutual fund distribution. So, effectively BSE StAR MF is the mutual fund distribution platform of India and being low cost and continuing to add much value to mutual fund industry, it will help them meet the Sebi objective of reduction cost to the investors.

Besides the mutual fund platform, you have got SME, you have got bond platform, you have got currency derivatives and now commodities as well. How much do each of these segments contribute to your profitability? Where do you see your revenue mix headed in the next one to two years?

Currently, the maximum revenue comes from the traditional businesses which is the listing and trading of equities. Currency derivatives have started contributing some portion of it, around Rs 10-15 crore. The mutual fund distribution will be probably Rs 25-30 crore this year and is continuing to grow. In fact, we started charging token sums this year only. Till last year, we were not charging mutual fund industry and we may increase the charges a little because it was a token charge and at the same time we will continue to save them more than Rs 300 per transaction. So, it should not be a problem in terms of minor increase that BSE may come out with.

Effectively, these are the current revenue streams which are going to grow in some ways like mutual fund, currency and all. We are very large in bond distribution. Last year, we distributed almost three crore of the corporate bonds through the BSE bond platform and the year before that, we did almost Rs 3.5-4 lakh crore and so effectively was it done that there is a large demand.

In fact, SEBI came out with a new regulation or decision to allow 25% of the new borrowings from the large borrowers through the markets and that is where the BSE bond platform is market leader by almost double the size of the next exchange. That is where we think slowly as and when time and market situation permit, we will be able to charge some reasonable sums. Currently, we are not charging much on our bond distribution. We are not charging much on other small platforms which are very large in terms of market share but not contributing much on the revenue part of it.

We also have the India International Exchange which is not charging at all but it is doing close to a $1-billion transactions a day. Similarly, we have an insurance distribution coming up where we are going to be a minority shareholder, but again it is going to be an interesting platform. We have also applied for a power trading exchange now with PTC and ICICI recently. There are many such initiatives in the pipeline currently but the revenues continue to be coming from the traditional revenue sources except that this year, the mutual fund and the currency derivatives have started contributing significantly.

Soon 20% plus of your revenue and approximately 15% plus of your PAT will come from revenue streams which did not exist two years ago?

It remains to be seen but our mutual fund distribution is growing at 8-10% month on month over the last several years. Of course, once you become large, probably the growth comes down but the absolute number goes up. Similarly, in commodities, I do not know how far we will be able to do things there in terms of the volumes as well as charges and bond distribution, but we are a significant player in many of these areas including currencies and interest rate derivatives. So, when they grow up and when we have market power, we may be able to charge some minor sums as and when we have the ability.

Currently, it is difficult to say when the new businesses will end up giving 20-30% revenues, but if they grow up very fast, then in the next two to three years. we may be able to see those days.

Your other income is very large. That is because traditionally you have been sitting on a lot of cash. What is stopping you from giving cash back?IT companies are considering a buyback, a lot of other companies which have surplus cash, have started giving cash back to their unit holders and shareholders. Are you thinking on those lines?

As a policy, all our operating revenues or operating profits are given out as dividends. Our dividend yield is one of the highest in the country today on the listed front.

Second, we completed a buyback recently and we almost had Rs 166 crore of buyback completed over a six-month period. We do continue to work on ensuring that our shareholders are kept satisfied. At the same time, we are a regulatory agency and a highly regulated entity. We need to have sufficient capital in our balance sheet so that the capital requirements in our subsidiaries like India Clearing Corporation, ICCL or India International Exchange, International Clearing Corporation and so on are also met.

So, effectively ours is a large regulatory capital business and there will be continuing need of money but anything additional we have, will certainly be slowly returned to the investors either by way of dividends through the profits route or by buyback as and when the board and the shareholders approve.