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# PE investors in NSE agitate against non-listing, small dividends

NSE refuses to go public, pays minimal dividends despite cash pile of nearly $1 billion, say investors


In the representation, the investors pointed out that the delay in initiating the process of getting NSE listed is not only against its interest as a competitive exchange in the Indian market, but also against the collective interest of all its shareholders. Photo: Hemant Mishra/Mint

**New Delhi:** Global private equity (PE) investors in National Stock Exchange of India Ltd (NSE) allege that the company which runs India's biggest exchange is delaying their exits and paying minimal dividends, despite having a cash pile of nearly $1 billion.

Global investors such as Norwest Venture Partners (NVP), NYSE Group, General Atlantic Llc, SAIF Partners, **Goldman Sachs**, Tiger Global, Morgan Stanley, Citigroup Inc. and Actis Llp together hold at least a 38% stake in NSE. Since 2007, they have invested nearly $1 billion in the company, at various times and at different valuations.

Executives from two of these firms, who asked that neither they nor their companies be identified, said they had been stuck as mere shareholders in NSE for many years now and that, despite repeated requests for a share sale, the management of the exchange says it sees no reason for a public offer. "We find this highly ironic given the business is an exchange and advocates listing for other companies. In our minds, a listing would not only provide over $4 billion in liquidity to shareholders, but also increase transparency dramatically," said one of the executives.

By not going public, NSE is trying to "create an area of non-transparency", this person added.

Both spoke to *Mint* on Monday.

On 12 June, on behalf of eight of NSE's investors—SAIF Partners, Actis, General Atlantic, IDFC Ltd, NVP, Tiger Global, Temasek Holdings Pte. Ltd and Beacon India Private Equity Fund—who collectively hold 27.79% of the shareholding in NSE, law firm Nishith Desai Associates sent a representation to NSE's managing director **Chitra Ramkrishna**, with a copy to the exchange's chairman **S.B. Mathur**, referring to a 23 April meeting of the investors with the NSE management and calling for "further action". *Mint* has reviewed a copy of the letter.

NSE declined to comment.

The spat marks another instance of relations souring between private equity firms and their portfolio companies (or companies in which they invest).

Set up by leading financial institutions, NSE was incorporated in November 1992 as a tax-paying company, unlike other stock exchanges in the country.

In the representation, the investors pointed out that the delay in initiating the process of getting NSE listed is not only against its interest as a competitive exchange in the Indian market, but also against the collective interest of all its shareholders.

"In the best interest of NSE and all its shareholders, NSE's management must make known to its shareholders its proposal for utilizing the incremental cash together with the reasonable timeframe within which management would complete or implement such proposal," the representation said.

It also pointed to the disproportionate representation of shareholders on NSE's board.

The investors sought undertakings on NSE's listing, appointment of additional shareholder directors on the board, and declaration of interim dividend for all NSE shareholders.

The two PE executives claim that no steps had been taken by NSE despite the joint representation.

PE investors in NSE can't enforce exits through a stake buyback by the company or other routes as most of the stake purchase was done through secondary sales—one investor buying another investor's stake. Also, since the shares aren't liquid, new investors are not too keen on buying stakes of the exiting investors, one of the two executives added.

The two also emphasized that shareholders do not have fair representation on the board of the stock exchange. Out of the 12 board members, only four represent shareholders.

"Shareholders' views and concerns therefore do not get adequate attention from the board and the board has not been receptive to shareholder representations," said the second PE executive.

Both said their requests to increase shareholders' representation have been denied without any explanation. Incidentally, many of NSE's directors are public interest directors appointed by the capital market regulator.

The two PE executives say that while exchanges globally offer very significant dividends to their shareholders, NSE pays them minimal dividends despite having a large cash pile of nearly $1 billion.

For example, **Singapore Exchange Ltd** offers a dividend payout of 94%, the New York Stock Exchange pays 67% and London Stock Exchange offers 29%. In contrast, NSE pays a 15% dividend.

"This has resulted in very poor return on capital metrics. The management has stilted multiple times at shareholder meetings that it will never make a large acquisition as they are inherently politically sensitive, but at the same time insists on hoarding cash to detriment of shareholders," said the first executive.

Salaries of the top management of NSE are another concern for these investors. In 2011-12, NSE's then managing director and chief executive **Ravi Narain**'s net salary rose to `4.1 crore from `3.85 crore, compared with the previous fiscal, as per the exchange's latest annual report. Narain's gross remuneration stood at `7.88 crore, compared with `7.35 crore in the previous year. The latest figures are not available.

"Compensation of NSE's management team is not linked to the financial performance of the exchange. It would be better to have performance-linked pay so that management's objectives are more closely linked to those of the shareholders," said the second PE executive.

The two executives also cite a non-conducive regulatory environment in reference to their investment in NSE.

"The regulatory regime has changed several times during the period of our investment in NSE," the second executive said.

When some of the PE firms invested, there was a move towards de-mutualization and listing of exchanges as per the recommendations of a committee headed by **M.H. Kania**, former chief justice of India.

Subsequently, a committee headed by former Reserve Bank of India governor **Bimal Jalan** came up with a completely different set of recommendations, including a prohibition on listing and imposition of return caps.

The Securities and Exchange Board of India subsequently dismissed the recommendations of the Jalan committee, and instead introduced a 25% 'tax' in the form of a transfer of profits to settlement guarantee funds.

"These frequent changes in the regulatory fabric are arbitrary and unfair to investors and create a lot of uncertainty," the second executive added.

Experts say more such tussles between investors and portfolio firms will surface in the near future as most investments done in 2006-07 are maturing now, at a time when exits are still elusive.

"About 5% of the investments will end in tussles," said the Mumbai-based India head of a global PE fund, who did not want to be identified. "Promoters in India don't respect PE capital and don't believe they are responsible for giving exits to the investors."

On 1 October, General Atlantic and India Equity Partners (IEP) filed a petition with the Company Law Board against their portfolio firm Fourcee Infrastructure Equipments Pvt. Ltd alleging forgery and wilful deceit.

**Rajesh Lihala**, chairman and co-founder of Fourcee, did not comment on the development at the time as he was abroad.

Earlier this year, SAIF Partners accused the promoters of kidswear brand Catmoss Retail Pvt. Ltd of siphoning off funds. SAIF Partners, which holds 49% in Catmoss, approached the Delhi high court to restrain the promoters from selling the company's assets.