Time to Change the Putrid Underlying

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Short attention spans are creating floods of opportunities that turn into mirages as soon as 'earnings visibility' and expectations get translated into real numbers. Shorter investment horizons are creating whirlpools of immediacy, drowning logic and rationales behind that magic word 'return'. Shortest of all, technological innovations driven by an urge to increase the velocity of money to cross the light barrier are marrying never-seen-before gratifications of the instant.

Investing has become an amusement park, where the wide-eyed choose their entertainment on thousands of ticker-rides. Investors have turned into traders, seeking that small and quick margin to trigger an exit, undiscerning about quenching thirst by coloured water or fresh watermelon juice, their choices led by a manipulative mob, whose power decides the flavour of the day. Investment itself has been devalued into a casino, with distraction as the prime driver, speculation as its prime destination.

Underlying this animated dance of consumption are companies. A company is supposed to be an instrument that raises money from and creates wealth for its investors on the stock exchange. But since wealth creation needs time and the herd has none of it, the large companies and serious entrepreneurs aside, some speculators have turned to forming listed entities into another speculative theme park.

There is nothing wrong with speculation --- it imparts liquidity for investors to buy and sell. But so flitting is its nature that the Indian speculator hasn't been able to scale up. We had 1,529 listed companies in 1985. This was 7.5% of the entire world's listed companies, then totaling 20,519. Today, India has 5,835 listed companies or 13.4% of the world's total. In other words, almost every seventh listed company in the world holds an Indian passport. With such a large number of entrepreneurs in a single country hitting the stock exchanges, you would assume it will have a global footprint in terms of value. You would be wrong.

The market capitalisation of all Indian companies adds up to $1.6 trillion, a number that doesn't give it an entry pass to the world's Top 10 exchanges --- NYSE, NASDAQ, London, Tokyo, Shanghai, Hong Kong, Euronext, Shenzhen, Toronto and Frankfurt. But it's not just the bland value that's lagging; it is the scale of Indian firms. To put it in perspective, the Shanghai exchange, with half the number of listed companies, has a market capitalisation that's more than double India's. The value of the world's largest exchange, NYSE, is 12 times India's; London is four times larger.

When we examine the underlying, we find just seven companies in the Fortune 500 list. This does not add up with other related data. For instance, in the $2 trillion club of economies, give or take $500 billion, we find India's companies lagging, even though it is the world's 7th largest economy in nominal terms (the right metric for such analysis) and 3rd largest on purchasing power parity. Canada, with a GDP of $1.6 trillion and ranked 10, has 11 companies on the list; Italy has nine; France, with a GDP OF $2.4 trillion has 31 companies.

It is easy to hide behind the fact that economic reforms began only 25 years ago and so, India needs time to scale up. But how much? During this time, three megatrends have come and established themselves --- the reorganisation of society around information; instant access to that information through technologies; a change in global demographics that places India as one of the world's youngest nations (the youngest are in Africa and West Asia).

Barring a few, the best Indian companies are doing is mimicking. From online market places and related technologies to more efficient logistics solutions and easier access to information, venture funds are backing proven success stories of the West, Indianising them and offering those companies on the block, like a lottery. Fashion statements are driving valuations devoid of any revenues, leave alone profits. Serial entrepreneurs are cobbling together teams of technology, marketing and finance to create business models that look good and convincing to quick money.

Our 'innovation' is restricted to 'jugaad' or small-time band-aids that help individuals or communities. For some reason, we are unable to visualise and deliver scale. We are happy showing up an idea in fits and spurts in tiny bursts of energy that are not sustained and get dissipated before the might of the next idea. We celebrate the signing of small deals. The moment any entrepreneur dares to reach for the skies, the momentum of our misguided past catches up and declares that such ambition, leave alone its execution, is the work of a devil, not an entrepreneur.

As a society, we revel in the shaming of our wealth creators. We stamp the seal of sovereignty on their face with one worthless word: corruption. Not for us the daring of sky-high ideas, the creation of world-class facilities, the celebration of wealth. From the comfortable confines of our condominiums, we declare every wealth creator a criminal, every startup a loser. Pipelines of the inspector Raj ensure that when an entrepreneur attempts to build she meets an infrastructure of organised friction at every boiler, every financial deal, every step of the way. This condemnation, however, is reserved for Indian entrepreneurs only --- we celebrate the entrepreneurs of the West (the Googles, the Wal-Marts, the Chevrons) and the East (the PetroChinas, the Alibabas, the Gazproms). The men of action are being sacrificed at the altar of an ideology long discarded even by its creators.

When I explore global markets, I find not one information services company that places the Sensex or the Nifty on its home page. It is missing even on the 'Asia' page. If stock markets are a signal of future earnings, India is at best a playful statistic, now the fastest-growing, now the slowest. For all the gracious words global CEOs throw at us when they meet our leaders, India is a market that their companies will discover, expand and profit from. Indian investor will only follow these companies with support services as they serve Indian consumers and create wealth for their shareholders. And as we celebrate working for them, consuming their products and investing in their stocks, our entrepreneurs will continue to stand by the wayside.

For this to end, there is only one solution. As a nation --- government, consumers, workers, investors, citizens, philanthropists --- we need to stop spitting at our entrepreneurs. This is a cultural shift that Indian markets need. If India has to flourish, its entrepreneurs have to lead and we need to get out of their way. If poverty has to be ended, jobs and wealth creation has to be the government's top economic priority. Calling the world to come and Make in India is good; but not at the cost of Made by India. If Indian markets have to attain scale and stand on the global financial high table, India needs to shirk off the pall of negativity and inertia that has descended on its people, grab the opportunities before it with both hands, and change this putrid underlying culture once and for all.

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Views are personal.
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