Indian Capital Market 2020

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Capital markets play a pivotal role in the growth of an economy and development of the overall financial system. India remained in a bright spot among the emerging market peers. The Indian capital market has grown exponentially in terms of resource mobilization, number of listed stocks, market capitalization, trading volumes and investor base. With the technological advancement and good governance policies gaining ground in India, the overall environment for conducting business is becoming more conducive as well as investor friendly.

Growth in equity markets has kept pace with India's GDP growth and has provided a much needed impetus to the economy. As per the World Bank estimates, the Indian economy has grown at 6.8 per cent in 2016-17 and is expected to reach 7.7 per cent by 2019-2020. India with its favourable demographics is a leading growth engine for the world economy.

Technology will drive the business model in the Financial Services in coming years. The entire world is envisaged as drifting towards 'sharing economy' concept and this will be embedded in every part of the financial services/ financial system. Blockchain will capture important place in Financial Technology drifts. Digital has become mainstream in all financial business function.

Global trend

During July 2016 to June 2017, the major world indices have exhibited positive sentiment and have risen in the range of 11-28 per cent. The Indian flagship indices (Nifty & Sensex) have shown a reasonable growth of 14 per cent during the said period. As per the World Bank's South Asia Economic Focus, Spring 2016, India has made the most dramatic strides in reducing its macro vulnerabilities.

Transactions over the recent years

The total combined turnover of two major Indian indices (Sensex and Nifty Index) rose by 22 per cent during FY 2016-17 to Rs. 60.54 lakh crore and total market capitalization of both the indices stood at Rs. 241.33 lakh crore, a rise of 28 per cent over the same period.

According to Bloomberg data, about Rs. 65,650 crore has been raised through Indian equity capital market (ECM) deals, which include initial public offerings (IPOs), follow-on public offerings (FPOs), Qualified institutional placements (QIPs) and block deals. India attracted Rs. 3.91 lakh crore in foreign direct investments in the year to March 2017, up 8 per cent from the previous year.

Among the different investment options, mutual funds have the potential to grow the fastest as investors move away from traditional products and explore market-linked ones for long-term wealth creation. The Indian MF Industry has seen its assets under management (AUM) grow by about 35 per cent YoY. The Total AUM grew from Rs. 14.46 lakh crore in quarter ended June 2016 to Rs. 19.47 lakh crore in May 2017. The investments by Life insurance companies in the Indian Capital Market stood at Rs.25 lakh crore as on March 31, 2016 according to the IRDA report.

Asset management industry has achieved a critical mass both in terms of size and number of investors participating. With assets of Rs. 18 lakh crore spread over 54 million accounts mutual fund inflows have developed the ability to counterbalance foreign investment outflows. SEBI has also allowed Indian mutual funds to invest in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) to boost investor interest in such alternative investments avenues. Since the implementation of the regulations, 209 Alternative Investment Funds (AIFs) have been registered with India as on March 31, 2016. The total investments made by Alternative Investment Funds (AIFs) in 2015-16 were Rs.18,237 crore as compared to Rs.7,357 crore in the previous financial year. The cumulative net investment of Venture Capital Funds (VCFs) increased by 2.3 per cent in 2015-16 to Rs. 37,410 crore from Rs. 36,563 crore in 2014-15.

Foreign investors infused a little over Rs 49,000 crore in the Indian capital markets in 2016-17 after withdrawing a large sum in the preceding fiscal. Equities attracted net inflows of Rs.55,703 crore during the just concluded financial year. Debt instruments, on the other hand had net outflows of Rs.7,292 crore.

While retail participation in equity investments are gathering pace in the country, other asset classes including currency, interest rate and commodity derivatives, bonds and ETFs are also expected to witness a strong growth. There is vast untapped potential for investment in capital market from Indian households which currently stands around 3 per cent (direct equity) of the total population which is very low as compared to some of the developed economies. New players like EPFO and Pension fund will support long term market stability as evidenced post demonetisation.

Recent Government focus on reviving bond markets and encouraging Corporates to tap capital markets for bonds will also help create a Liquid bond market.

Recent developments & its impact

India is the second most populated country with favourable demographics, however for optimum utilization of young population, proper growth measures for skill development and employability need to be implemented. With a clear majority in the centre, implementation of the reforms seem to be on track and considering the 2017 state election results, the future Central elections may also follow the trend.

The passage of the Goods and Services Tax Acts is a step in the direction of improving the ease of doing business. This is likely to change the business environment in the country. As the biggest tax reform since independence, implementing the landmark Goods and Services Tax (GST) will promote the competitiveness and productivity of Indian companies which would again contribute to a growing market. One Nation One Market would allow seamless flow and accounting of funds and transactions which will result in the positive outlook towards Indian market by the global players.

The International Financial Services Centre set up in the state of Gujarat has registered 400 per cent jump in business volume to USD 4 billion covering banking, insurance and capital market services in the last six months.

Expected reforms, initiatives & effect

The unique concept, India Stack, has opened huge business opportunities for Indian capital markets leading to an era of presence-less, paperless and cashless service delivery. India is moving towards centralised database and avoiding multiple submission of same information. With India being the only country to mandate the "consent" of the concerned individual, makes it easier for the first timer investor to trust the system. The services such as Aadhaar based electronic Know Your Customer (eKYC) and eSign facilitates wider market penetration electronically. Unified Payment Interface (UPI) enables digital money transfer through Bharat Interface for Money (BHIM).

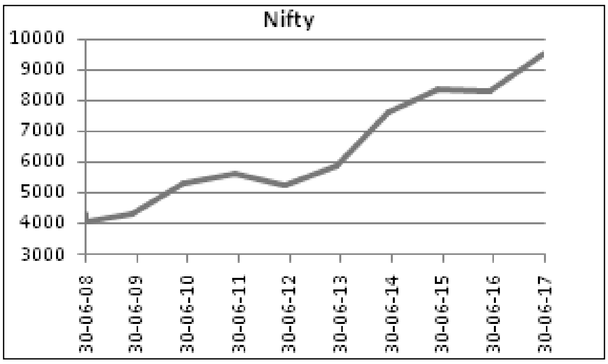
In order to ease FPI access to Indian Capital Markets, some of the measures proposed include; fully online process of registration with financial market intermediaries like MFs, Brokers, and Portfolio Managers etc. and single application form for registration, opening of bank account, demat account and issue of PAN.

The announcement of integrating the commodities and securities derivative markets by integrating the participants, brokers, and operational frameworks will open up the commodity markets for new products and new participants. Participation of institutions like mutual funds, foreign investors and banks if allowed, will deepen the markets, provide liquidity, decrease impact cost of participating and lower market volatility.

Different product categories like options, swaps, index derivative products and centralized clearing of OTC forwards facilities need to be introduced in the Indian exchanges to catch up with the opportunities available in the Indian commodity market. SEBI intends to introduce options contracts in commodity derivatives as a constructive measure which is expected to positively impact trading volumes and thus revenue generation opportunities.

As against the trend in developed economies, investments in Indian households have been mostly in the form of cash and deposits. The savings were also concentrated in gold and real estate. With the easing of inflationary pressure and stability in the capital market there is a visible change in this traditional mindset and households investments in other financial assets like mutual funds, direct equities, etc are on rise. With the financial literacy and government initiatives such as tax breaks and financial schemes, this surplus available at the disposal of Indian households would be attracted towards the sophisticated products like derivatives, insurance, mutual funds, direct equities, pension products, etc.

The Indian flagship index Nifty has grown at a CAGR of 12.52% over the last 5 years from 5279 level to 9521 as can be seen from the chart:



Going ahead, linking of over 100 crore UID accounts and roll-out of social security systems like Direct Benefit Transfer is expected to considerably boost consumer spending in the country. Further, proposed electrification of 100% villages by 2018 coupled with public wifi would open plethora of opportunities from massive untapped rural markets which would translate into robust growth rates. Therefore, in the next 3 year period, the uptrend in the Indian capital market is expected to gain momentum amid positive political scenario together with strong demographic outlook of the country. The flagship Indian indices are thus expected to exhibit a CAGR of about 12 -15 per cent over the next three years. Corporate earnings growth aided by lower interest rates, conducive socio-economic reforms, political stability and stable currency is expected to take Indian capital market to newer heights.