Overview of Indian Capital Markets

"Capital Market and Economy are the two sides of the same coin and cannot be separated"

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The Indian capital markets have seen an incredible surge although the world economy continues to contract with fragile growth and declining inflation. The Indian primary market since calendar year 2015 till date witnessed the best performance in last few years. There were in total 62 IPOs launched raising around INR 59,165 crore in the CY 2015, CY2016 and CY 2017 (till date) which is the highest since 2010. Further there has been a surge in QIP activity too with 31 listed companies tapping the market to raise around INR 38,624 crores. At the same time, the Global markets continue to remain sluggish with the impact of BREXIT, China Slowdown, US Political Saga and lower commodity markets.

Asset classes across the world witnessed volatile movements during the year with uncertainty rising from the Chinese slowdown and US unwinding of quantitative measures. Going forward, the Chinese rebalancing from an investment led economy to one driven by consumption apart from the US Fed rate movement would be closely watched by all stakeholders across the globe. We are of the view that the year is likely to remain a constrained year for global growth with hurdles emerging from the above mentioned factors and no scope for acceleration in growth in other major economies of the world.

However, the Indian economy bucked the trend when most of the emerging market economies witnessed significant external vulnerabilities owing to external balance and a stable government policy which include the recent hike of salaries of government employees. The rising NPAs in the banking system and growing uncertainties in the global economy will have an impact on Indian economy but it would be largely stable when compared to its peers. The second half of 2017 will be closely watched for the government's ability to implement the important and revolutionary reforms which include entering new tax treaties, GAAR and GST law. Further, the effect of demonetization should be seen diluting in the second half of 2017.

Macro Economy Acceleration Awaited

The Indian economy currently has a strong launch pad with the interest rate rolling downwards and continued push for introduction of new policies for ease of doing business. International agencies continue to remain positive on India with an expected growth pegged at more than 7 percent. India is likely to gain momentum in the year to come as the results of earlier measures are visible. The key factors which are likely to aid growth during the year are the impact of the executive action addressing systemic issues in key sectors like mining, railways, defense, banking, roads and power. Further, the hike in payouts for government employees coupled with soft commodity prices are likely to result in a consumption driven growth. The continued accommodative stance and look out for emerging room for more rates easing by the Apex bank is likely to bring in positive sentiments and scope for expansion of the economy. Nevertheless, the risk to our outlook remains primarily owing to the international market, which could have a spillover deceleration effect on emerging markets.

Bond Markets - Prospects are present, but tolerance is required

Bond markets witnessed significant volatility in the recent times despite relaxed limit for FPIs and rate cuts mainly because of increased supply of tax free bonds and other government bonds. However, investors with a short horizon witnessed gains as it responded to the rate cuts. Going forward, the Reserve Bank has kept reserved the options for rate cuts as and when room is available, which is likely to keep the bond market sentiments positive. However, the pace of US Fed rate hike and development in China are likely to keep the markets volatile and on fence. Nevertheless, strong domestic macros are likely to support the market in medium to long term. We strongly believe that the investors should set their investment horizon from a short to midterm as it is more likely to respond favorably in the case of a positive bias.

Equity Markets- Reforms Driven

Executive actions from the government across the infrastructure sector, defense, insurance, banking, etc. kept the market hopeful of the government's intent of improving the business scenario. The positive action from the government and falling energy prices helped the Indian economy to build stability during the year. Post demonetization there has been a surge in AUM for domestic investors who continued to show confidence in the Indian economy by showing a strong buy in Indian equities. While there has been considerable improvement in macro variables, the same has not yet favourably impacted the corporate earnings owing to lower rural demand, currency headwinds and delay in the revival of investment cycle. We do expect a pick up on corporate earnings with full transmission of interest rate and impact of lower commodity prices translates to lower input costs for corporate. Medium term risk in the form of global growth slowdown and slow movement of critical reforms to push through may continue to weigh on market sentiments. Nevertheless, we continue to remain overweight on equities as an asset class with expectations of improvement in corporate balance sheet and revival of investment cycle.

Business Trusts – Capital recycling model

Real estate and infrastructure development have been considered as the drivers/facilitators for economic growth in the country. To assuage the need for funds to such important sectors and also to provide an opportunity to investors to participate in the growing story in these sectors, SEBI has promulgated regulations providing the framework & structure for investments in the sectors. REITs and InvITs typically offer investors regular yields and a liquid method of investing in real estate and infrastructure projects. They would reduce the pressure on the banking system while also making available fresh equity to finance / refinance infrastructure projects. Further, they will also assist in un-locking tied up capital of developers, lowering domestic financial institutions' loan exposure and attracting foreign capital. Further, the Government, vide amendments to the income-tax law has provided for taxing the various income streams in hands of the respective stake holders. On account of the above efforts and quick positive reaction made by various regulators and stakeholder, India witnessed its first InvIT being IRB InvIT this year.

Conclusion

Indian market is a booming market but reforms in the Indian capital markets have long been overdue; it has scope of development in sectors like Pharmaceuticals, Retail industry, Automobiles, Education, etc. FDI should be allowed in sectors to attract the foreign investors though keeping our own economy stable of its own and not mostly dependent on global market. Inter and Intra terrestrial issues should be dealt with proper policy making and divestment of PSU's and inviting private players in sectors like Railways, Infrastructure should be done so as to boost the overall growth of the economy and thus the market as it is the market which drives the economy and vice-versa.

Further, liberalization of onerous disclosure requirements, better price discovery mechanism and entry of foreign companies in Indian markets would provide the necessary fillip for overall growth of the economy. An active market for foreign companies in India is likely to attract investment from wider avenues, both domestic & foreign and consequently be beneficial to domestic companies already listed or waiting to be listed on Indian bourses. Greater participation from global institutional investors also assures greater liquidity and enhanced reputation of the market, leading to better valuations for companies listed on Indian exchanges.