

Time is now, to reimagine and transform Indian capital markets to realize our dream



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India has dreamt to become USD 5 trillion economy and world's 3rd largest economy by 2025. To realize this, dream every quarter of the economy has to do its bit and financial markets have a gigantic role to play. With right reforms and initiatives, the growth and pace can be accelerated.

Covid crisis has opened up many new dimensions of the

India's economic growth. India which is largely agrarian and service economy can transform into a manufacturing powerhouse. This can make it one of the very few economies in the world with a balance mix of Agriculture, Services and manufacturing sector. On the another cut, it can be very balanced economy on consumption, investments and exports. All these are possible and financial markets have to play a very big role.

Intermediation between the providers of capital and users of the capital is one of the key roles of the markets. It has come long way since liberalization of 1992 but now it needs completely different dimension.

We need to re-imagine in view of what it will take in today's world where technology is changing rules of the game every day. Customer needs are evolving rapidly and all participants have to adapt rapidly.

Develop asset classes beyond Equities: Equities have come long way and one of the most successful asset class in India. SEBI & Government has done a great job in its development and but the other classes like Bonds, Commodities, currency and interest rates has hardly seen big focus and coordinated approach. India cannot imagine 5 trn economy without having a diversified asset class.

Bonds – our banking system is crippled and credit flow for the economy is abysmal. Credit flow is essential for investment in Infra and manufacturing. No economy can dream to become large in global scale without sufficient credit flow. Other alternative in most large economies is thriving Bond market. US bond market is 40 trn, almost 3 times the size of its GDP, 2/3 non treasury products. The domestic debt market in India amounts to about 67% of GDP while the size of India's corporate bond market is a mere 16% of GDP — compared with 46% in

Malaysia, and 73% in South Korea. We don't have price discovery mechanism. Lot of talks and discussion across the governments and regulators have happened over last 15 years but it is yet to become reality. This has acquired special important in light of the fact that sharp drop in the interest rates have created the need of paper for investors and corporate are also looking alternate source of capital.

Commodities: An efficient and thriving markets where different users can buy or hedge their commodities in a transparent way makes the manufacturing business lot more competitive. Lot of innovation can happen in terms expanding the product basket or making different kind of delivery mechanism which can cater to MSMEs. This will also help bridge gap users of commodities, producers of commodities and financiers of commodities.

Currencies: Indian corporate, specially MSMEs have no choice but to deal with banks for their currency needs, which is still quite opaque. SMEs struggle to find efficient rates in currencies and especially cross currency. Currency markets have picked up lot more can happen in terms innovation, be it spot delivery or cross currency transaction.

There are many more asset classes like REIT, INVEITs, CLOs, CMOs which surely helps to improve efficiency in the markets and enables flow of capital through various streams.

Develop Investor class: India today has very few classes of investors. For long, MFs played a key role in building institutional investor base but it has its own limitation and time has come to development various institutions. AIF recently was allowed and we have seen significant scale up of that as investor category. In less than 10 years we have built USD 20 bn+ industry. It is still small compared to its potential but at least started. This could have been achieved 5 years ago if we adopted a comprehensive approach to development.

Similarly, Pension funds, endowment funds are still far from being developed. Globally this is very large institutional money to enable growth. We don't even have public data for total AUM and its potential in next 5 years. These funds need yield and users need capital. India's infrastructure need can easily be met out of these funds. In all developed markets, it's a big community.

Development of capital structure: Indian corporate currently has only two classes namely Equity and Debt for raising capital. We need to create the infrastructure and environment for development of products which can

come in between two classes and meet better needs of investors and corporate. Convertible, warrants, exchangeable are few of many innovations possible across the capital structure.

Today, Innovation capital is hardly channelized from the market but it is need of the hour given India needs huge risk capital to solve our social problems in totally innovative ways.

We can create new platforms like P2P lending, which can be a big growth area and be financial super market for credit. OCEN kind of platform which Mr. Nilekani talked about can be game changing in democratizing credit.

India has had an incremental approach to reforms and build markets. Time has come that if we need to embark on a significant growth journey, we must think disruptive and innovate. We don't need to copy west. With technology innovation like block chain, infra like Aadhar, GSTN, CIBIL, capital markets need to be re-imagined. An integrated approach is required by the Government, Regulators and all market participants.

Impediments to development: One of the biggest historical impediments to development has been individualistic perspective by various participants and thinking in silos. Every participant, especially various regulators and government agencies have to come up in teams which can crack every problem through internal co-ordination. We have seen this happening many times in past, but happens only in crisis. Can we have an approach to development which is more voluntary than thrust upon? It is possible since we have capability and opportunity. We need a transformative mindset and environment across the board to reimagine our markets. Whenever we have applied ourselves best of our capability, we have created better than global standard infrastructure. Time is now, to reimagine and transform Indian capital markets to realize our dream of USD 5 tn economy by 2025.
