Landmark Year – India's time of reckoning!

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We all have big hopes for India and how India is on track to becoming an economic superpower in the new few years.

However, who would have thought as we ushered in a new decade 6 months back that the very first year itself will be a rude awakening. On one hand everything seems to be on a standstill and on the other, a new normal has emerged so fast much before people even realized to what extent they have been dislocated.

Companies over the last four months have seen a few distinct phases from shock and survival to adaption and bouncing back with vigour

a. From State of shock and being absolutely unprepared to deal with lockdown
b. To taking care of cashflow and short-term liquidity requirements
c. From redefining business model and restarting work with safeguard measures
d. To raising capital and using technology as key enablers

How the reverse migration of labour plays out will also have an impact on the timing and speed of companies to get to full capacity utilization.

I do believe, that from a capital markets perspective, 2020 will be a landmark year.

The immediate reaction to the country lockdown on account of Covid-19 saw markets hitting a 3.5 year low marked with high levels of intraday volatility. But since then, the Indian markets have given handsome returns of ~ 47%, amongst the best performing indices in the world in terms of last 3 month returns. In my view, a few factors have been responsible for this market rally

a. Strong domestic liquidity on back of sustained SIP flows – monthly flows for April to June have been largely unchanged with an average of ~ INR 8,150cr
b. Global liquidity flowing into India on back of falling interest rates and new money – FII flow in last 3 months has been ~ USD 4bn vis-à-vis an outflow of ~ USD 500mn in FY20
c. Average AUM for Mutual Fund industry has been stable around the INR 24-25tn mark
d. Strong participation from Retail / New Investors – Record 17.4% growth in Q1FY21 in demat accounts
e. FOMO - Qualitatively speaking, most investors missed the sharp bounce-back thereby leading to feeling of missing out, which in turn has attracted more capital

There has been sustained investor interest in large caps, companies with high quality management and governance practices and companies in business which are likely to see minimal impact on account of Covid-19 such as pharma, speciality chemicals, agri-chem, IT, etc.

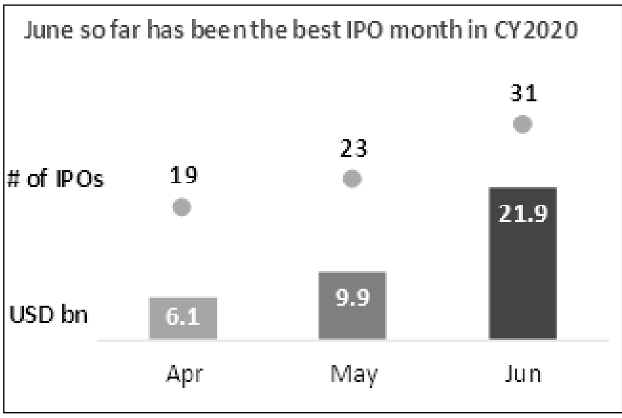
SEBI as the primary market regulator has been very procative in the current times. They have introduced various measures / given relaxations in the interim with a view to support capital markets and companies

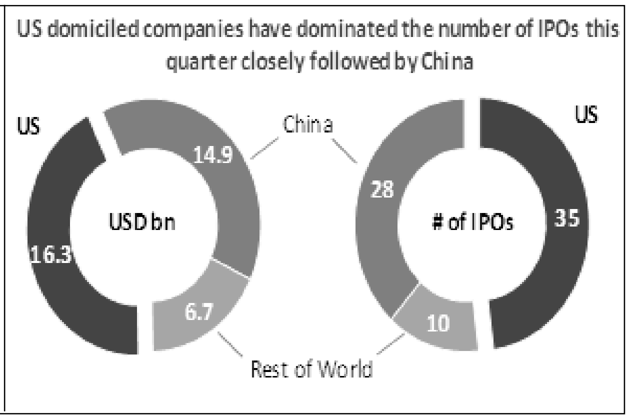
- Pref pricing – temporary flexibility in pricing and hike in creeping acquisition limit to 10% from existing 5%
- Buyback – reduction in cooling off period for fundraise post Buyback to 6 months from 12 months
- Rights Issue - reduction in minimum subscription from 90% to 75%; reduction in compliance requirement for being eligible for Fast Track Issuance
- Digitization of Process – 100% implementation of UPI mechanism for Retail Investors; listing and trading of Rights entitlement and temporary usage of digital signature for LODR compliance
- Extension in LODR compliance with respect to announcement of financial results, convening of AGM and waiver of penal provisions in case of delay in certain filings

SEBI has proactively been in discussion with various market intermediaries and various stakeholder to bring about temporary relaxations in regulations and compliance requirements to create a conducive environment for fundraising and compliance with requirements for listed companies.

Overall, with strong global and domestic liquidity and favourable policy framework, I do expect a mega fund-raising wave in the markets going forward.

Even globally, with liquidity on their side, investors have started looking beyond the near term and investing for the long term. For the period April to June 2020, globally there have been 70+ IPOs raising ~ USD 38 bn largely led by US and China in terms of quntam and number of issuances.





** Note: All IPOs above issue size of USD 100mn since April 1, 2020*

Source: Bloomberg

From a domestic market perspective, even historically, the last time the Indian markets saw a big crisis was the Global Financial Crisis in 2008-09 and that was followed by significant fund-raising activity between June 2009 to December 2010 led by Infrastructure and then spreading across industries. This time should be no different with large caps and BFSI leading the way for other sectors to follow.

There are clearly new benchmarks being set.

Reliance Industries has just done a INR 50,000cr+ rights issue (the highest in terms of size in India by a margin with second highest being ~ INR 25,000cr by Vodafone and Bharti Airtel done in the last 12 months) in the middle of lockdown and has positively surprised the street with another INR 150,000cr being raised in JIO Platforms, thereby raising INR 200,000cr+ in a span of 2 months.

LIC IPO, as and when it happens will be the largest IPO India has ever seen in terms of size and will directly place the company amongst the largest cos by market cap in India.

With Indian investors coming of age, we clearly see new age companies and Indian technology unicorns preferring to go public in the domestic markets.

After the initial lackluster performance of INVIT and REIT, with favourable regulatory amendments and improved product awareness, FY20 saw 5 deals worth ~ INR 13,000cr. We expect this product to become the primary mode of fundraise in asset heavy infrastructure and real estate companies.

Across Industries, I clearly see a trend of companies wanting to raise 'Confidence Capital'. This clearly has 2 big advantages – At one end, equity raise strengthens the balance sheet giving the company money for growth & expansion and deleveraging and on the other end, capital infusion at this stage gives confidence to the entire set of stakeholders from clients, suppliers and employees to rating agencies, bankers and all existing shareholders. A clear 'win-win'.