Capital Market Landscape

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The year gone by has been an eventful one from the economy as well as market perspective. Fading concerns on the COVID front, thanks to rapid vaccinations, and consequent return to normalcy resulted in a strong rebound in all major economies in 2021, further aided by strong fiscal and monetary policy support. This, however, was pulled down by persistent supply-side bottle-necks—that got accentuated by the Russia-Ukraine conflict later in the year, as well as China's "Zero-COVID" policy.
Sharp spike in inflation to record-high levels forced central banks to withdraw policy support towards the end of 2021.

India has been no different. The economy recovered meaningfully and grew by 8.7% in FY 2021-22 following a steep contraction in the previous year. This was despite the deadlier second wave of COVID-19 that resulted in a high number of casualties, reflecting the impact of continued policy support, targeted measures to curb infections and rapid pace of vaccinations. In fact, India was among the fastest growing economies last year that demonstrated its strength and resilience.

Financial markets are the backbone of a country's economic development. NSE has maintained its stance as a leader both domestically as well as globally for yet another year. NSE continued to be the largest derivatives Exchange in the world based on number of contracts traded for the third year in a row. In the capital markets segment, NSE maintained its position as the fourth largest exchange globally in terms of number of trades.

Following a strong FY 2020-21, equity markets across the world witnessed heightened volatility in FY 2021-22, particularly in the second half. Accelerating pace of vaccinations, robust economic recovery, strong corporate earnings, and relaxation of COVID-related restrictions made sure that advanced market equities got off to a solid start to the new fiscal year as well, despite resurgent waves, persistent supply shortages, rising inflationary pressures and consequent worries about premature withdrawal of easy monetary conditions. Emerging equities had a tough start to the year, weighed down by rising infections, laggard pace of vaccinations, dollar strengthening and surging global bond yields.

The global rally, however, lost some footing in the second half accompanied with a surge in market volatility, triggered by regulatory developments in the technology sector and rising stress in the property sector in China. Subsequently, strengthening expectations of a faster-than-expected monetary tightening by the US Fed in the wake of intensifying inflationary pressures and consequent spike in bond yields, followed by the Russia-Ukraine conflict that accentuated price pressures and supply-side bottlenecks added to the market woes. Indian equity market moved broadly in tandem with major global equity markets, even as it meaningfully outperformed the broader emerging market pack. This was primarily led by limited economic ramifications of the second and third waves, robust corporate performance, continued policy support and a steady pickup in the pace of vaccinations. The benchmark Nifty 50 Index ended the year 19% higher, following a 71% return in the previous year. This was significantly higher than the 9% return and 13% loss generated by the MSCI Developed Market Index and MSCI Emerging Market Index respectively.

Market turnover also witnessed a modest jump in the financial year, with average daily turnover in equity cash and derivative markets (premium) rising by ~8% and 20% respectively. Adverse global developments, however, weighed on investors' risk appetite, leading to foreign capital outflows. The fiscal year FY 2021-22 saw foreign investors pulling out US$18.5 Bn (~Rs 1.4 Trn) from Indian equities, after injecting record money in the previous year on a net basis. This, however, was more than made up by direct foreign investments into India that stood at a record high of US$83.6 Bn (gross) in FY 2021-22, indicating that India remains a preferred investment destination for global investors.

Domestic institutional investors remained net buyers of Indian equities for the whole of FY 2021-22, with net inflows of ~Rs2.2 Trn, far exceeding net foreign capital outflows, helped by a surge in retail participation through the SIP (Systematic Investment Plan) route. After some moderation during the first two months of the fiscal — thanks to renewed growth concerns in the wake of the deadlier second wave of COVID-19 — SIP inflows picked up meaningfully from June, translating into average monthly inflows of Rs 104 Bn in FY 2021-22, higher than Rs 80 Bn in the previous year. At the same time, direct retail participation remained broadly stable during the year—continuing new investor additions and steady retail ownership of NSE-listed companies.

On the capital raising front, an amount of Rs 8.5 Trn was raised through debt (including public and private placement) as well as equity from the primary market during FY 2021-22. In the equity market, the total amount raised was Rs2.4 Trn whereas the amount raised in debt market was Rs6.0 Trn.

The last few years have been challenging, not just for India but for the entire world. Emerging from the pandemic, high inflation weighs on a nascent recovery. Countries like India remain positioned for growth in an uncertain scenario, thanks to robust economic fundamentals and a conducive policy environment.

Indian capital markets have done well in the last two years and have seen rising retail participation. Such trends are likely to stay with the support of enablers like technology and rising incomes.