India @100: Stock and bond markets vital for India's march to becoming a developed nation

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As we complete 75 years inf free India, we can look back proudly on the strides we have made in the economic sphere. India has surpassed UK as the fifth-largest economy and our per capita income, at $2,300, has almost doubled over the past decade. On key development parameters such as exports, literacy rate, healthcare and manufacturing capabilities, we have seen enormous improvements and progress.

With a supportive regulatory environment, capital markets have played a crucial role in India's growth story. Stock markets help in directing long-term savings from small individual households towards long-term investments. The market helps in moving common investors from hard assets to financial investments. Therefore, the stock market is critical for the financialization of an economy. In India, too, healthy stock markets have ensured that companies that raise capital allocate it to potentially rewarding businesses, which in turn helps investors gain from such investments over the long term in the form of robust returns. This virtuous phenomenon is seen from data generated over the years.

Capital markets promote an efficient financial system

Over the years, India has built a robust stock market that functions quite smoothly. The country's equity market capitalization is Rs. 272 trillion. It has grown 45 times over the last two decades. In March-2022, India was among the top five countries in terms of market capitalization, for the first time.

Corporates tap the stock market to raise funds for their operations and expansion via the initial public offering (IPO) route. Investors who invest in such stocks in the IPO, participate in the growth story of these companies. This helps them grow their investments manifold over years and decades.

In FY22, as many as 52 Indian companies raised a record Rs. 1.12 trillion from the stock markets. The amount raised was 3.5 times the money generated via IPOs the previous year (Rs.31,268 crore).

With India's IPO market maturing and start-ups here now being able to list easily, fund-raising in the private markets is becoming easier, too. Some well-known unicorns – companies with $1 billion valuation or more – that got listed in recent years include Paytm (One 97), Policy Bazaar (PB Fintech), Zomato and Nykaa.

That's not all. As mentioned earlier, the robust stock markets have also had a rub-off effect on private investment avenues – venture capital and private equity.

We now have more than 72,000 startups and 100-plus unicorns. India is now the third largest ecosystem for start-ups globally – after US and China. The Indian startup ecosystem has expanded quite rapidly, mainly through private investments, supported by incubators, accelerators, and government initiatives.

The country's bond market too has developed well over the past couple of decades. With a market value of ~Rs. 40 trillion, it has grown four-fold in just the past 10 years. However, there is still some ground to cover. Consider this: The size of the bond market is just ~15% of India's equity market capitalization and has a huge potential for growth and expansion.

Thriving markets bring new investors, but vast scope for growth

As markets rally and create wealth for investors, many new entrants seek to make gains, too. Retail investors have always played an important role in the shaping of markets. However, we still have only 9.6 crore demat accounts and ~3 crore unique mutual fund investors in a country of 140 crore. Broader retail investor participation in the capital markets in India still remains low as compared to developed nations. To put these figures in perspective, India has ~9.5% Investor accounts to population ratio, versus 46% for USA and 44% for China. Thus, there appears to be considerable headroom for bring new investors in droves.

India's household savings to GDP ratio has averaged ~19% over the past few years. Physical assets such as real estate and gold still account for bulk of ~59% of the savings mix, while financial assets account for the remaining 41%. Within financial savings too, capital market investments form less than ~3.5% of the assets. With a combination of established blue-chip and mid-sized companies, and new unicorns, India's capital markets have been maturing over the past few years, but we still have a very long way to go.

Catalysts that will propel the capital markets

Penetration level of the markets among Indians is set to increase, with several enabling infrastructural factors being in place.

Easy-to-use payment apps, trading platforms and smartphones

The country's robust digital infrastructure, with ubiquitous smartphones and excellent availability of internet connectivity at low cost has played a great part in connecting Indians. Today, India has ~ 69 crore active internet users. More than half of those users are from the rural pockets. Improved digital penetration has made access to information and digital services easier across the country. Payment apps, trading platforms and mobile banking have been adopted by vast sections of our population. Fintechs and digital players have played a key role in increasing retail participation in the stock markets.

Rising financial awareness

There has been great focus from various stakeholders to educate investors continuously. In this regard, investor awareness initiatives of regulators, industry bodies, and asset management companies (AMCs) have played a very important role in promoting investments in the capital market. Industry body AMFI's popular media campaign – "*Mutual Funds Sahi Hai*" – has been hugely popular and has played a critical role in getting many new sections of investors interested in mutual funds. The campaign resulted in adding as many as 50-lakh new mutual funds investors within 12 months. Incrementally, it is important to keep driving investor awareness initiatives to get higher retail participation in the capital markets.

Favourable Regulatory Functioning

Regulatory initiatives focused on protecting investor interest have worked well for the industry and should continue to do so in the future. Some of these regulations include registering and regulating intermediaries of the business, recording and monitoring the work of custodians, depositors, participants, foreign investors and credit rating agencies, progressive caps on expense ratios and regulator-defined scheme categorization. SEBI's "Regulatory Sandbox" framework will also encourage the adoption financial technologies, which in turn would have a positive impact on the development of the capital market.

Growing Affluence

Consumer affluence in India is undergoing a rapid shift, especially in smaller towns. Over the next few years, rising income levels could transform India from a bottom-rung economy to a truly middle-income led one, backed by technology and increased financial awareness. A confluence of these factors can lead to broader capital markets participation.

Tailor-made investment solutions amidst technological advancements

The rapid development of fintechs has meant that algorithm driven investment advice is now possible. Artificial intelligence and Machine Learning technologies enable investment platforms and distributors to offer hyper-personalized investment solutions to investors of all hues, at scale. This feature can help bring in more investors in to the purview of capital markets as they will be able to make informed choices. Also, it will help new investors manage their investment portfolios themselves, based on their personal requirements.

Last words and the big picture

Despite recent volatility, Indian markets have been on a roll for the better part of the past decade. Even as indices surge, there is still considerable room for growth and strong potential to achieve greater heights, especially in light of the prevailing trends mentioned earlier. Increased market participation and capital mobilization will create a conducive environment for India's economic growth. Buoyant and well-regulated markets can help corporates raise funds for fruitful deployment and help investors make gains. They also help in generating direct revenues for the government via taxes.

Thus markets are a vital cog in the overall economic machine that will help us in our march towards becoming a developed nation by 2047, as envisioned by our Prime Minister Shri Narendra Modi.

Strong domestic capital markets will reduce our dependency on foreign funds for growth and truly make us a self-sufficient / *atmanirbhar* nation, and play a key role in achieving *amrit* kaal.