India's Capital Markets: The Engine Behind Economic Growth

Sriram Krishnan
Chief Business Development Officer
National Stock Exchange of India Ltd.,The

India's economic transformation over the past few decades is a narrative of rapid growth and evolving financial landscapes. Central to this story is the rise of its capital markets, which have become instrumental in driving innovation, investment, and broader participation. As the nation aspires to become a developed economy by 2047—a vision encapsulated in "Viksit Bharat 2047"—the role of capital markets has become critical.

The Indian economy has expanded at a remarkable compounded annual growth rate (CAGR) of 12.6% over the past six decades, reaching an estimated ₹295 lakh crore (approximately US$3.6 trillion) in the fiscal year 2023-24. From ranking tenth in nominal GDP in 2010, India has ascended to fifth place in 2024, with projections placing it as the third-largest economy by 2030. Its contribution to global output has grown from 1.4% in 2000 to about 3.4% in 2023, underscoring its increasing significance on the world stage.

A pivotal moment in India's financial evolution was the establishment of the National Stock Exchange (NSE) in 1992.[1] This marked the advent of modern, fully automated, screen-based trading accessible nationwide. The dematerialization of securities in the late 1990s further enhanced market efficiency and transparency, laying a robust foundation for future growth. These developments brought about a more efficient and secure trading ecosystem, crucial for attracting both domestic and international investors.

The capital market's expansion is evident in the soaring market capitalization of listed companies, which reached the US$5 trillion mark (₹408.8 lakh crore) in May 2024.[2] This positions India as the fourth-largest market globally, behind only the United States, China (including Hong Kong), and Japan. The time required to add each successive trillion dollars of market capitalization has significantly shortened. While it took more than a decade to reach the first trillion dollar and nearly a decade for the next trillion dollar of market capitalisation, the jump from US$4 trillion to US$5 trillion occurred in under six months.

Transformative Reforms: Enhancing Market Efficiency

Recent reforms have played a crucial role in enhancing market efficiency and resilience. The reduction of listing timelines for newly listed companies—from T+6 to T+3—has further streamlined the capital-raising process.[3] In the secondary markets, the adoption of a T+1 settlement cycle has improved liquidity and reduced settlement risks. In a significant advancement, India introduced same-day transaction settlements (T+0) for 25 selected stocks starting on March 28th , 2024, further enhancing this scope to the top 500 companies (in terms of market capitalization) on September 30th, 2024.

The implementation of interoperability among clearing corporations in marked another stride toward efficiency. By allowing seamless transfer of trades across different clearing entities, this reform has enhanced capital and operational efficiency, improving overall market quality. To safeguard against unforeseen disruptions, the "DR45" framework was initiated in 2022, ensuring trading continuity through disaster recovery mechanisms and bolstering investor confidence.[4]

Regulatory advancements have kept pace with market growth, particularly in promoting transparency and sustainable practices. The Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) guidelines in 2021, and the BRSR Core framework in 2023, reiterating a strong commitment to environmental, social, and governance (ESG) principles. These measures have reshaped corporate governance, setting the stage for future targets in sustainability, diversity, and ethical business practices.

Empowering the Retail Investor

One of the most striking developments has been the surge in retail investor participation. Since March 2020, the registered investor base at the NSE has more than tripled—from just over three crore to exceeding 10 crore by August 2024—covering 99.84% of all pin codes in India. Remarkably, while it took over 25 years to reach four crore investors by March 2021, each subsequent addition of one crore investors has occurred in roughly six to seven months, with the latest crore added in just over five months.

Investors can access the markets through multiple brokers, leading to more than 19.8 crore total accounts—a significant increase from 2.2 crore in the fiscal year 2014. Additionally, mutual funds are now held by more than four crore unique investors. As of June 2024, individual households—through direct and indirect non-promoter investments—account for nearly 19% of the market, valued at ₹81.4 lakh crore, representing about 28% of the FY24 GDP.

This democratisation of the markets has been supported by robust investor protection measures. The implementation of running account settlements ensures that unused funds are periodically returned to investors, preventing the misuse of idle capital. Further, several measures — such as pledge re-pledge of shares, peak margin rules, segregation and monitoring of clientele funds upstreaming & downstreaming of clientele funds — have been put in place to safeguard client assets. All these measures have positively impacted in growing investor confidence and supports a more dynamic and responsive investment environment.

Investor education and awareness have been fundamental in empowering retail participants. Market Infrastructure Institutions have established multiple Investor Services Centres across the country, serving as hubs for learning and interaction. These centres offer information on various investment products and provide grievance redressal and query resolution services. The NSE alone conducted 5,889 Investor Awareness Programmes, reaching 3.64 lakh participants in FY24.

Challenges and the Road Ahead

The formation objective of an exchange is capital formation for the growing companies and provide efficient price discovery mechanism. The Indian capital markets ecosystem could be broadly seen as having three stakeholder classes (three "I's") - Issuers (Companies), Investors, and Intermediaries, *viz.*, stockbrokers, lead managers, clearing members, depository participants. The journey has been as remarkable till now, but we have a lot of work to do to ensure our country's journey to "Viksit Bharat".

As of August 2024, India has nearly 17.6 lakh active companies, and to achieve the vision of Viksit Bharat, it is essential that these companies can raise capital to support their expansion and contribute towards job creation, and overall development for the country.[5] Currently, there are just over 2,500 companies listed on the NSE Main Board and a little more than 500 companies on SME Emerge, emphasizing the need for more companies—independent of size—to access both equity and debt.

The complexity of the investment landscape presents another hurdle. Investments in mutual funds and shares or bonds are held in separate accounts, complicating the investor experience. Additionally, there is limited interaction between institutional and retail investors in government bonds, suggesting room for simplification and efficiency gains. Addressing these issues could make the markets more accessible and appealing to a broader spectrum of investors.

To sustain momentum, it is imperative to review the current tax scheme and enhance the ease of doing business from the retail investor's perspective. Building infrastructure to support the growing capital markets—such as facilities for the physical delivery of commodities like crude oil or natural gas in derivatives trading—could further enhance India's competitiveness. Such initiatives would not only attract more participants but also deepen the market, making it more robust.

India's journey over the past three decades has been remarkable, but the road ahead requires sustained focus and collaboration. By addressing existing challenges and leveraging emerging opportunities, the Indian capital markets can continue to be a cornerstone of the nation's economic ambitions. The promise of Viksit Bharat is not just a vision; it is a feasible objective that, with concerted effort, can be achieved.

The collective efforts of regulatory bodies, market participants, and the government will be crucial in realizing the full potential of India's capital markets. As the country advances toward its goal of becoming a developed nation by 2047, the capital markets stand ready to play a pivotal role in powering economic growth, fostering innovation, and creating opportunities for millions of investors.

Strategic partnerships with global financial institutions offer additional avenues for growth. Collaborations like the one between the NSE and the Singapore Exchange at GIFT City provide access to global investors, multi-currency fundraising options for international projects, and lower listing costs compared to other international exchanges. Engaging specialized, industry-specific investor classes can also lead to better valuations and drive progress.

As India continues to integrate with the global economy, the emphasis on creating an equitable, resilient, and environmentally sound ecosystem will serve as a strong foundation for sustainable growth. The capital markets, reflecting the dynamism and potential of the Indian economy, are poised to propel the nation into its next phase of development, turning aspirations into tangible outcomes.

[1] NSE was incorporated in 1992 while it was recognised as a stock exchange by SEBI in April 1993. It commenced electronic, screen-based trading in equity and wholesale debt market in 1994.

[2] Market capitalization of companies listed on the NSE is US$5.6 trn/ Rs 471.2 lakh crore as on October 1st, 2024.

[3] SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated: August 09,2023.

[4] The DR 45 Initiative is providing availability of NSE's trading systems by having an identical setup available at NSE's Disaster Recovery Site.

[5] https://www.mca.gov.in/bin/dms/getdocument?mds=ihJkCr130Vw26PiiMYCyHg%253D%253D&type=open