

Indian Capital Markets during Amrut Kaal

This week the various ministries have been celebrating “Azadi ka Amrut Mahotsav”, the achievements of 75 years of independent India. Alongside, the roadmap is being planned for the 100th year of Independence@2047 being named as Amrut Kaal.

Being a part of some of these celebrations and deliberations, as an investment banker of over 3 decades, I have been reflecting on the growth of Indian Capital Markets over the years. We have witnessed quantum changes in our capital market over last 30 years.

First, in terms of the depth of our market, our market capitalisation in 1992 was <US\$50 bn and we didn't appear on any global ranking. Today, we are the 4th largest capital markets in the world with over US\$3.5 trn of market capitalisation. That's 75x growth in 30 years. I must add that bulk of this has happened in the last few years under the new leadership in India. Second, the comfort of foreign investors with India has grown significantly. Today, we receive >US\$82 bn as FDIs in a year as compared to < US\$100 mn three decades ago. This makes us one of the largest FDI recipient countries. In terms of FPI flows almost a fourth of our market capital constitutes investments by FPIs.

Further, the government's focus on creating an enabling environment has helped significantly. Looking back few years ago, there was no framework to enable startups. Today, we are the 4th largest startup country in terms of creating unicorns. Very shortly, we would be creating 1 unicorn every alternate day.

I will attribute most of this to the massive regulatory and governance transformation that has been undertaken over the past few years. There has been laser sharp focus to remove any kind of bottlenecks. Governance today is based more and more on new-age technology architecture, unparalleled anywhere in the world. We are adopting faceless and paperless in every possible aspect.

Crystal gazing into the Capital Markets at Amrut Kaal@2047 when we shall proudly celebrate 100 glorious years of our independence, I have arrived at the potential situation at that time. Given the strong reforms, as per FICCI estimates, India's GDP is forecasted at US\$ 30.0 tn in 2047 (average of the suggested range). This will be higher than the current USA GDP of US\$ 24.4 tn. Therefore, I have based my calculations on the current size of the USA capital markets.

The market capitalization of the USA today is almost two times that of its GDP. As against this, India's current market cap and GDP are almost the same. I expect India to reach the USA ratio of 2:1 for market capitalization to GDP in the next 25 years. With a target GDP of US\$ 30.0 tn, the Indian market capitalization would be ~US\$ 60 tn by 2047, growing at 13.6% annually.

The number of retail investors in India as a percentage of total population is 5.5%, whereas for USA, the number is as high as 45.2%. Assuming, in 2047, 45.2% of Indians invest in the equity market, the number of retail investors would grow from 77mn today to about 742 mn by 2047. This would mean an annual growth of 9.5%. Important to note that our literacy rate will be at par with that of USA, and this would be one of the great enablers for growth of retail participation in the market.

Our Views

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The mutual funds' assets under management (AUM) for USA is app 50% of its total market capitalization. The same for India currently stands at only ~16%. If India matches the same proportion as the USA by 2047, on the assumed market capitalization of US\$ 60 tn, the Indian mutual fund AUM would increase at an annual rate of 18% to reach ~US\$ 30 tn.

Considering our achievements in the last 3 decades as I have outlined earlier, I believe we are on track to become one of the largest capital markets in the world in the 100th year of independent India. Of course, to achieve this we will need certain building blocks which I call the "Seven Sutras":

1. Investment in technology infrastructure to handle the increase in volume
2. Investment in human resource to ensure trained manpower availability to handhold ~742 mn investors
3. Increase investor knowledge, awareness, financial literacy and trust in financial markets
4. Develop in-house high tech and data driven platform like Bloomberg and our own indices
5. Ensure availability of globally accepted investment products across all assets classes like equity, real estate, bonds, commodity, and currency
6. Regulatory infrastructure should envision and incorporate the increased volume in its framework
7. And lastly, while I may sound conflicted, we need to promote our own domestic large investment banks and other market intermediaries

To conclude, as we plan for the Amrut Kaal, I would say that India today is no longer the India of yesterday. It is the India of tomorrow where our government spends more time talking about technology, research, and innovation, and not of controls or limitations. With such a forward looking approach, I am confident that we would be one of the largest capital markets in the world when we celebrate 100 years of Indian independence.

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