

Our Views

Paanch Prana for the capital markets

This year, on the Independence Day our Hon. Prime Minister gave a call for Paanch Prana from the ramparts of the Red Fort and set a target for the nation for the next 25 years. This prompted me to reflect on it from the capital markets perspective. In my earlier article titled as “Indian Capital Markets during Amrut Kaal”, I had talked about the expected growth of our capital markets during the Amrut Kaal. Our capital market has the potential to be closer to twice of our GDP in the next 25 years. As per various estimates, our GDP is expected to be around US\$ 25trillion by 2047 therefore capital markets could be app US\$ 50 trillion.

Given the massive growth potential of our capital markets during the next 25 years, I would like to discuss the five main areas which are required to be focussed on to facilitate this growth. These are like Paanch Pranas for the capital markets.

First Prana - increasing financialization in the country

On the lines of the Jan Dhan yojana wherein bank account of every Indian was opened, we need to deepen financial literacy and responsibly communicate the opportunities offered by the capital market across the country. There is a large potential to channel the untapped pools of financial capital invested in cash, bank deposits or gold into the capital markets. At present, only 5.5% of our population, that is ~7.7 crore retail investors participate in the capital markets. This number can potentially increase to almost 75 crores which would be ~45% of the country’s population in the next 25 years. Technology will have to be significantly leveraged to support such a massive inclusion drive. Technology-driven distribution solution, differentiated product strategy for different segments and ease of transacting including the KYC norms, will have to be the backbone of the market. Promoting growth and distribution of mutual fund across the country could be an answer to this.

Second Prana - the growth of private capital

India has seen attractive returns in both public and private markets. Over a period, our public markets have grown very well. We have a robust primary and the secondary market and the mutual fund industry is also growing. Indian public equity market has given a return of ~14% in the last 10 years whereas private market funds have earned ~16% median net returns. Over the next 25 years, there is an opportunity and a need to establish a strong private market ecosystem. Private market could include private capital (debt or equity), long term project financing, private trading, and providing liquidity to founders or employees against their shareholdings.

Again, technology and digital platforms can be used to connect private companies with institutional and accredited individual investors to reduce the time to market.

Third Prana - capital markets as a viable alternative to banks

We need to build our capital market as a potential alternative to deploy deeper pool of capital available in the form of savings and deposits with the Indian households. In the US, just 16% of personal financial assets are in the form of cash or savings accounts: in contrast, Indians still hold more than 60% of their wealth in the form of cash or savings account. This is our opportunity to drive savings into capital markets. We can achieve this by deepening the reach of the capital markets, offering products across different assets classes, providing a wider variety of market traded products, and driving massive investor education programs.

Our Views

Paanch Prana for the capital markets

Our corporates continue to be significantly dependent on bank borrowings. Also, financing for M&A activities and leverage buy outs is not permitted through the capital markets. Promoting financing of such corporates through the capital markets could lead to more competitive pricing in a regulated environment.

Additionally, equity capital is also needed for small size corporates which are currently unable to tap into the capital markets. Our markets, at present, have ~5000 large to medium size corporates. We believe there are another ~10000 plus medium to small size companies that are fully dependent on the bank financing and founders' capital. This number will only grow with a growing economy. These companies can be enabled to fund their growth through the capital markets within an adequate regulatory framework.

Fourth Prana - digitisation of most assets class

Our aim should be to digitise all assets which can then be listed/ traded publicly. Here, the first thing that comes to mind is gold. We should focus on the digitisation of the physical gold lying with the households and with various other institutions. Several initiatives are already under way to monetise gold. Gold can also be monetised through a gold derivative exchange supported by a robust infrastructure for the physical movement of the gold. The other class of new assets which can be digitised is real estate where experiment with REITs is already quite successful.

Fifth and final Prana - modernisation and harmonisation of regulation and supervision.

Regulatory framework is the backbone of any market. To capture the expected massive growth and complexity of the market for the next 25 years, we need two fundamental changes in our regulatory framework. First, we would need to harmonise various regulatory disciplines such as banking, insurance, pension, corporate laws, competition commission and capital markets. All these regulatory frameworks at some levels are linked to each other. One option could be to have an umbrella regulatory authority looking after all financial markets related regulatory framework. This will lead to harmonisation of the regulatory framework.

Further, we should modernise our regulations, governance, and surveillance system. A regulatory framework embedded with technology would be the solution to handle expected high volume.

In conclusion, we do want our capital markets to be one of the largest in the world in the next 25 years and we do have capacity and capability to do that. The five pranās are the building blocks required to make the foundation strong and to help achieve the target.

Sunil Sanghai
Founder & CEO
NovaaOne Capital Pvt. Ltd