Our Views

The Busiest December in Capital Markets

December is typically packed with social events, making it a busy month. However, this year, it has been even busier for professionals in capital markets, with much of their time spent in offices working on deals. The month has proven extraordinary, with 15 Initial Public Offerings (IPOs) listing on the mainboard within just 21 working days – a record-breaking achievement. This surge marks a remarkable conclusion to a landmark year for India's capital markets.

In the calendar year 2024 (CY24), the Indian capital markets saw an impressive 90 mainboard IPOs, reflecting a 50% year-on-year (YoY) increase. The combined issue size of these IPOs reached approximately USD 20 billion, contributing an estimated USD 200 billion to the overall market capitalization. This robust growth highlights the expanding depth and breadth of the market ecosystem. Further diversification came from the introduction of new asset classes such as Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), and corporate bonds.

Adding to this momentum, fundraising through Qualified Institutional Placements (QIPs) hit an all-time high in CY24, with 93 companies raising USD 16.4 billion—a staggering 132% increase compared to the previous year.

A One-Time Event or a Long-Term Trend?

This level of activity raises an important question: Is this a fleeting phenomenon, or can it be sustained? The Indian stock market's current capitalization stands at USD 5.2 trillion. With an anticipated 15% earnings growth over the next year, as per Bloomberg Consensus Estimates, combined with the continued growth in IPOs, QIPs, and new asset classes, the market is poised to add over USD 1 trillion to its capitalization each year. Additionally trading volume and value have also shown exceptional growth, with a three-year increase of 55% and 81%, respectively, between CY21 and CY24.

Given this trajectory, India is on course to become one of the top three largest stock markets in the world. In my opinion, this heightened activity is not a one-off event but rather the emergence of a new normal for India's capital markets.

Do we have the right capacity to deal with this growth?

The growth in market activity has been accompanied by a notable increase in the number of participants, including mutual funds, brokers, Alternative Investment Funds (AIFs), Portfolio Management Services (PMS), and Non-Banking Financial Companies (NBFCs). These players have contributed to creating a more resilient and diverse market ecosystem. Larger number of payers have helped creating higher capacity in the market.

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However, recent proposed amendments to regulations governing Merchant Bankers (MBs) could challenge this progress. The amendments restrict MBs to activities such as issue management, mergers and acquisitions (M&A) for listed companies, buybacks, delistings, underwriting, private placements of listed/proposed-to-be-listed securities, and advisory services tied to these activities. Notably, private placements, M&A, and restructuring for unlisted companies would no longer be classified as securities market activities, even though these currently fall within the scope of regulated MBs.

Additionally, the amendments propose significantly higher net worth and liquidity requirements for MBs.

Potential Consequences of the Amendments

These changes could have far-reaching implications:

1. **Higher Entry Barriers**: Increased compliance costs and capital requirements may drive smaller entities out of the market, reducing competition and potentially affecting the quality of services.
2. **Costlier Capital Access**: Fewer MBs could create a demand-supply imbalance, making it harder and more expensive for corporations—especially small and mid-sized companies – to access the capital markets.
3. **Market Consolidation**: The Merchant Banking sector could consolidate into the hands of a few large players, making the big, bigger. While large MBs would focus on larger clients, smaller and mid-sized companies will struggle to secure the services they need to access capital markets efficiently.

While the amendments aim to enhance professionalism and accountability, they risk undermining market dynamism. Regulatory frameworks must strike a balance between oversight and inclusivity, allowing both large and small players to thrive – similar to other market segments such as mutual funds and NBFCs.

A Promising Future

The record-breaking December and broader trends in CY24 underline the vast potential of India's capital markets. As we look to CY25 and beyond, we should brace for more "hot winters," where year-end buzz extends beyond festivities to include groundbreaking market action. India's capital markets are entering an exciting new phase – one that demands both cautious optimism and thoughtful regulation.

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