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4. Emerging Trends in Capital Markets in India

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Abstract:

India is by far one of the countries most impacted by the COVID-19 pandemic. Businesses were either shut down or were not performing well which led to many ramifications. Though it was difficult for companies to raise capital under such circumstances, the constant efforts from Central Government by infusing huge capital in our economy have surely proved a vital step.

Whatever needs to be done, ought to be done so that we attract even more and more capital which is directed towards even further boosting economic activity. Economic growth and financial buoyancy should not be seen in isolation. Data is an asset that can serve as a key differentiator for capital markets firms. Increasing volumes continue to increase the value of data, providing competitive advantage to those who can unlock its potential within capital markets. The important divisions of the capital market are stock market, bond market and primary, secondary markets.

Keywords: *Primary Markets, Secondary Markets, Securities, Insolvency and Bankruptcy Code, Initial Public Offering.*

4.1 Introduction:

India being an emerging economy needs reforms in the financial markets. Reforms not only add value in the existing market system but also lead to decrease in the cost of capital and mitigate the risk exposure of the capital market instruments. There has been a revolutionary change over a period of time. The important divisions of the capital market are stock market, bond market and primary, secondary markets. Primary markets deal with the trade of new issues of stocks and other securities.

Secondary market deals with the exchange of existing or previously issued securities (Jency[1], 2017). Capital markets are financial markets that bring buyers and sellers together to trade stocks, bonds and other financial assets. A capital market is where individual and companies borrow funds using shares, bonds, debentures and debt instruments, etc. the most common example is a stock exchange, trading shares from different companies amongst investors. Capital markets describe any exchange marketplace where financial securities and assets are bought and sold. Whereas a stock market is a particular category of the capital market that only trades shares of companies.

It as a system of transactions for the purchase and sale of financial assets, the purpose of which is to satisfy capital requirements or increase capital. Capital markets recognise and drive capital to the best ideas and enterprises. Coupled with the free flow of capital, innovation is an integral component to a country for supporting job creation, economic development and prosperity. Markets facilitate the transfer of funds from those who seek a return on their assets to those who need capital and credit to expand. Capital market is the part of financial system which is concerned with raising capital funds by dealing in shares, bonds and other long-term investments. (Sifma.org[2]).

4.2 Five Things to Watch in Capital Markets:

India is by far one of the countries most impacted by the COVID-19 pandemic. This virus has not only impacted the lives of the people but has also ruined their businesses in different sectors. Businesses were either shut down or were not performing well which led to many ramifications.

Though it was difficult for companies to raise capital under such circumstances, the constant efforts from Central Government by infusing huge capital in our economy have surely proved a vital step. Not only infusion of capital has helped, but many incorporations into our laws such as amendments in Companies Act, 2013, SEBI relaxations, Insolvency and Bankruptcy Code (IBC) amendments in respect to distressed entities, has widely helped our stressed investors to deal with this uncertain crisis in a better manner.

The stock market is expected to witness significant growth once the crisis is over. Initial Public Offering (IPO) activity has not only grown in India or the USA but also many countries. Even after these challenges in raising funds, India exchanges experienced the highest IPOs operation as the country announced 90 IPO releases, which raised USD 3.9 billion in the first half of this year, while the USA witnessed 101 IPOs in the first half of this year. (Rachit Garg[3], 2021). The five measures regarding capital market reforms.

The five measures are: (a) Establishment of SEBI, (b) Setting up of Private Mutual Funds, (c) Opening up to Foreign Capital, (d) Access to International Capital Markets, and (e) Banks and Capital Markets. Nilesh Shah, MD, Envision Capital said that it is better if the spending is focussed a lot more on asset creation rather than just putting money in the hands of the consumers.

A good mix of the two also is pretty fine, but it should have a nice balance between spending on asset creation as well as spending on boosting the purchasing power of the consumer. (Nilesh Shah[4], 2022). Whatever needs to be done, ought to be done so that we attract even more and more capital which is directed towards even further boosting economic activity. Economic growth and financial buoyancy should not be seen in isolation. For a fast growing large economy like India, both have to move hand in hand and the budget is one of the great platforms to ensure that the policy moves forward to further encourage and boost private investment in the economy and in our markets.

4.3 Indian Capital Markets Followed International Trends:

The market value of assets under management stood at Rs. 6, 81,655 crore and increases throughout the year.

The cumulative net assets under management by all mutual funds increased by 27 per cent to Rs. 16,50,011 crore in 2016 from Rs 12,95,131crore in 2015. Source: CDSL FIIs investment to equity was highest Rs. 140032.

Indian capital markets had an exceptional year in 2020. The COVID-19 pandemic initially had an adverse impact on Indian capital markets, as indices across size and sectors fell during the period from February 2020 to May 2020.

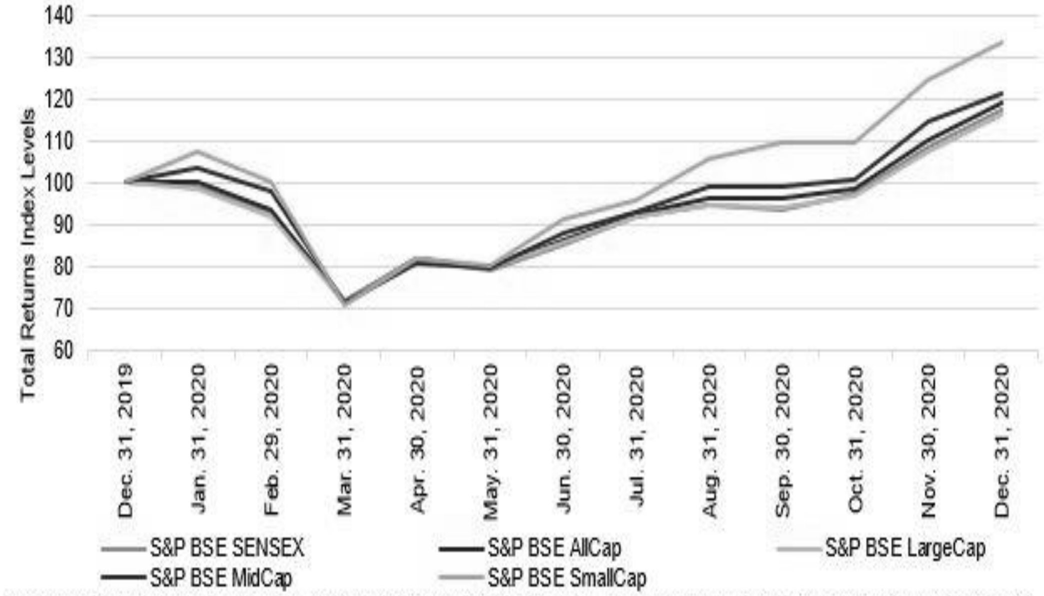
However, from June 2020 onward, all size and sectors indices had a bull run through the end of the year. The S & P BSE SENSEX TR increased from 60,211.40 on 31st December, 2019 to 70,543.23 on 31st December 2020, a one year absolute return of 16.31%.

Exhibit 1 and 2 showcase returns for India’s leading size indices in 2020.

Exhibit 1: One –Year Absolute Returns of Size Indices			
INDEX NAME	INDEX VALUE ON DEC. 31, 2019	INDEX VALUE ON DEC.31, 2020	ABSOLUTE RETURNS (%)
S&P BSE Small Cap	16,256.89	21,707.20	33.53
S&P BSE Mid Cap	17,898.57	21,712.66	21.31
S&P BSE All Cap	5,363.45	6,372.55	18.81
S&P BSE SENSEX	60,211.40	70,543.23	17.16
S&P BSE Large Cap	5,672.61	6,597.79	16.31

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2019 to Dec. 31, 2020. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Exhibit 2: Index Total Returns



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2019, to Dec. 31, 2020. Index performance based on total return in INR. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

From Exhibits 1 and 2, we can see that all five size indices performed well, and returns were promising for large, mid, and small-cap segments. The returns of the small-cap and mid-cap segments were better than those of the large-cap segment. The S&P BSE Small Cap and S&P BSE Mid Cap posted one year absolute returns of 33.53 percentages and 21.31 percentage respectively, while the S&P BSE Large Cap and S&P BSE SENSEX returned 16.31 percentage and 17.16 percentage respectively.

Mentioning the 'bull run' in the capital markets, the Economic Survey said that 2021-22 was exceptional for the markets. Between April and November 2021, Rs. 89,066 Crore was raised through 75 IPOs, which is much higher in the last decade.

*Start every business day with our analyses of the most pressing developments affecting markets today, alongside a curated selection of our latest and most important insights on the global economy*2020 has been overshadowed by the COVID-19 outbreak and the subsequent lockdown across the world. Capital markets have been negatively affected globally as well as locally in India. The lockdown in India began during the third week of March 2020 and has only recently been slightly relaxed.

The first half of 2020 was volatile for the capital markets in India. All size indices and most sector indices posted negative returns for the six-month period ending June 2020. The Indian capital markets fell sharply in the first quarter of 2020, especially in the month of March. However, there has been a recovery in the second quarter, although the six-month returns were still negative. (Ved Malla[5] 2020). During pandemic situation, the capital markets churned on. An alphabet soup of regulations, many delayed because of the COVID-19 pandemic, began pouring on the capital markets in 2021 and will continue through 2022 and 2023. The burdens that come with oversight of risk, resilience and environmental respect are being met with investments in talent, technology and technique.

As investors increasingly base decisions with regard to the environmental, social, and governance challenges of today, their actions could stimulate more accountability, greater regulatory scrutiny, and credible disclosure backed by better data. The evolution of the pandemic continues to be the main risk for sovereign ratings. A more fragile social context and political polarization will limit governments' capacity to implement revenue and spending rebalancing measures. This year is likely to be one of transition in terms of fiscal consolidation, which, if further delayed, could become a drag on ratings. Rising global interest rates will pose an additional challenge for emerging markets, more so for those heavy reliant on external funding.

4.4 Digitalized Capital Markets:

In the present scenario, digital has become the go-to answer for global markets firms looking to solve age-old problems and gain lasting efficiencies. The breadth of off-the-shelf solutions that have surfaced in the areas of cloud computing, robotics, intelligent automation and artificial intelligence promise cost optimization and growth in an industry that is still embracing the potential of digital. Use data and analytics to augment electronic customer-facing platforms to improve capabilities and automatically generate client leads or potential trades. (Capco[6], 2020). Organisations are re-assessing their global location strategies in the context of modern technology and the opportunities presented. These operating models will take into account the combined benefits of proximity and the technical evolution of distributed working environment. The operating models must be achieved by embracing the impact of artificial intelligence, natural language processing and machine learning to adapt the dichotomy of automated vs. manual as it relates to concentrations of resources. Given this backdrop and the recent technical changes and global challenges, it is important for global markets players to reassess their IT infrastructure to ensure that it is still fit for purpose and is modern enough to allow for the opportunities presented by cloud, artificial intelligence and data analytics. There are no quick fixes but having a clear roadmap to architecture modernisation and simplification is essential in order to remain competitive.

4.4.1 Data is a Key Factor for Capital Markets:

Data is an asset that can serve as a key differentiator for capital markets firms. Increasing volumes continue to increase the value of data, providing competitive advantage to those who can unlock its potential within capital markets. Whether a bank is providing bespoke client services, integrating external services, enabling decision-making, eliminating manual work, reducing operational risk or reducing time spent on low-value-frequency tasks, the future of value creation across the enterprise in rooted in data.

Banks are placing data at the core of their customer-facing electronic platforms to further increase their value proposition. Data is a key focus of regulatory efforts and being able to prove quality and provenance is critical. Leading banks will be investing heavily in data sourcing, analytical capability and use of external data sources. Operating models and location strategies for banks are always under review as the often mutually exclusive pressures and forces of customer intimacy, relationship management, and availability of talent, costs and regulatory concerns intersect and evolve. There is no 'one size fits all' model.

4.5 Conclusion:

Capital market is a vast domain and it is highly unlikely for anyone to cover all the aspects which could affect the Indian market in 2022. Growth lies where positivity is striven from negativity. Falling markets, businesses, occupations, companies and homes during these times prepare us for a better future in a safest possible way. There could be a third wave of novel coronavirus or could be something else tomorrow that might dismantle the essence of the market to the core but one thing we all could be confident of is that we will all be prepared for that. The economic revival has mostly been financed through money raised through the capital markets rather than bank credit. The commercial banking system has so far weathered the pandemic shock even if there are some looming impacts. The Economic Survey further said, “Accommodative money policy along with other regulatory dispensations, asset classification standstill, temporary moratorium and provision of adequate liquidity was put in place in order to provide a safety net to the system”.

4.6 Reference:

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