International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

WHY INVEST IN INDIAN EQUITIES IN 2024

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21GSOB1110041

ABSTRACT :

This study examines the reasons for why one should invest in the Indian equities in the year 2024. India's equity market outlook for 2024 appears promising due to several factors:

Macroeconomic Strength: Despite global challenges such as geopolitical conflicts and inflation concerns, India's growth has been positive. The government's focus on infrastructure development has boosted core sector industries like steel and cement.

Manufacturing and Renewable Energy: India's manufacturinsg sector is on a strong medium-term growth trajectory. Factors like rising power demand, localization efforts, and global supply chain adjustments are driving capacity additions.

Banking System Preparedness: The banking system is well-prepared to support credit growth in 2024.

Valuations: While India's positive fundamentals are encouraging, it's essential to consider valuations. Currently, the Nifty trades at 19.8x one-year forward price-to-earnings (PE) based on consensus earnings.

Keywords: India, equities, macroeconomic, manufacturing, banking system, valuations

Overview of the Indian equity market :

The Indian equity market has a prominent place in India's financial sector as it is quite developed and modern on par with international standards. Over the years, the Indian stock market has grown exponentially and has featured among the world's largest in terms of market capitalization, turnover and number of listed companies.

FY22 witnessed a boom in IPOs listing on the exchanges with corporate raising highest ever funds through IPOs. This was accompanied by the strong domestic flows of funds in terms of increased retail participation despite dwindling FPI flows in equities. There were broadly three drivers of this exemplary performance of the equity market:

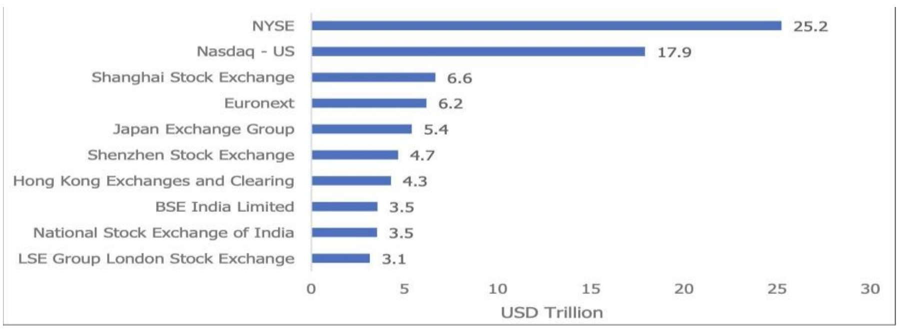
1. The prevalence of easy monetary policy and lower interest rates which made investing in stocks an attractive option for higher returns.
2. Technological developments facilitating easy access to the market.
3. Easy availability of data and internet.

India's share in global market capitalisation (m-cap) has been rising over the years. India now ranks 5th in the world market capitalisation only behind developed nations like US, China,

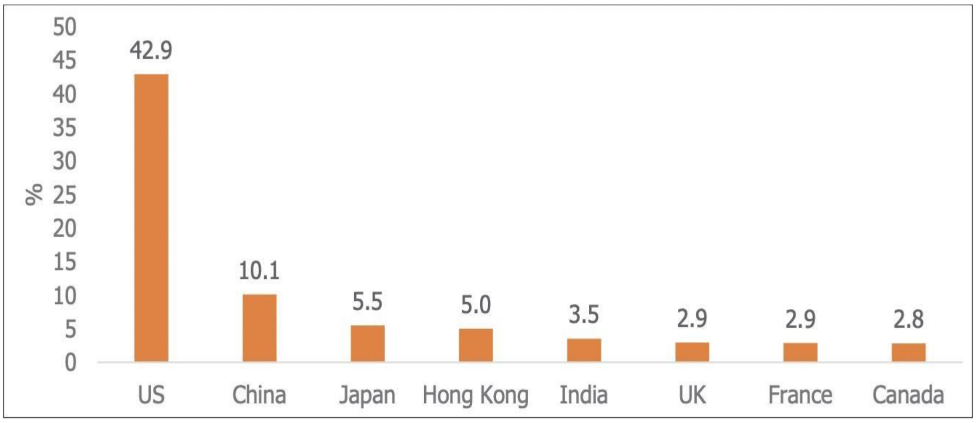
Japan, and Hong Kong. As of November 2022, **Indian stock exchanges feature among top 10 in the world in terms of market capitalisation**. Currently **India's market capitalisation** is about USD 3.5 trillion which is almost **equal to India's GDP**. If we look at the USA for comparison, the market cap of the USA (USD 42 trillion) is nearly double of its GDP. If India's GDP is to reach USD 40 trillion in 2047, to achieve the USA 2:1 ratio of m-cap to GDP, India's market capitalization needs to grow to USD 80 trillion. This implies a CAGR in market capitalisation of about 14% in the next 24 years.

Market Capitalisation of the Largest Stock Exchanges

Source: World Federation of Exchanges; SEBI; *Data as on November 2022



Share in World Market Capitalisation*



Source: Bloomberg, *data as of November 2022

Indian primary markets

The primary equity market is a channel through which companies raise capital for investment by issuing fresh shares. The fresh issue of shares is commonly known as Initial Public Offerings (IPOs). Once these securities are offered in the primary market, they can be traded at different exchanges like BSE and NSE by getting listed. The primary equity market enables capital creation in the economy by providing a platform for resource mobilisation by bringing investors and issuers together.

The market has exhibited healthy buoyancy in the last few years with a rise in the IPO segment for fundraising.

Notwithstanding multiple pandemic waves, the primary equity market witnessed record-breaking IPO issuances in FY22 in India. The boom was led by investment in several growth-oriented tech startups. To encourage the listing of start-ups, SEBI eased eligibility and listing criteria on the **Innovators Growth Platform (IGP)**, a separate exchange venue for new age start-ups. Increased retail participation and positive market sentiment were the other key drivers.

A total of Rs 1.1 trillion were raised from the Indian equity market through listing of 120 IPOs in FY22.

Trend of IPOs in India

Source: SEBI; up to November 30,2022

Indian primary markets

In the last two years, strong economic fundamentals of the Indian economy and strong domestic participation have boosted the domestic equity market despite global uncertainties. In FY22, Indian equity benchmarks outperformed their global peers with both **Sensex and Nifty 50 touching multi-year highs** and ending the year with a **gain of more than 35%.**

Market capitalization to GDP ratio (also known as the Buffett Indicator) is used to measure the size of the capital market vis-à-vis the size of the economy during the year. The ratio has seen a **significant improvement in FY21 and FY22** compared to the pre-pandemic levels. This has been due to the rise in stock prices and new listings.

In FY22, BSE's market capitalisation to GDP ratio increased to a record high of nearly 112% from 103% in FY21. **A high m-cap to GDP ratio is an indicator of highly valued capital markets.** The ratio still remains above 100% and above its long-term pre-pandemic average of 78%.

Retail participation in equity markets has also seen a sharp jump in FY21 and 22 with greater involvement of tier-2 and tier-3 cities. The trend was driven by search of avenues for high returns by the investors in a low-interest rate environment and availability of high liquidity domestically and globally.

Indian investors opened a whopping 34.6 million demat accounts in FY22. This is nearly twice the number of accounts opened in FY21.

Also, a shift has been witnessed in terms of distribution of turnover across different client categories. The market share of individual investors rose to 45% in FY21, making up for nearly half of the market turnover at NSE. This was accompanied by a decline in the shares of corporates, domestic and foreign institutional investors. In FY22, the share of individual investors at 41% was above the pre-pandemic 5-year average of 37% but it declined from the peak of FY21. The fall continued this year as well accompanied by a rising share of foreign institutional investors. One explanation could be heightened selling by foreign portfolio investors which caused their overall turnover and share to rise.

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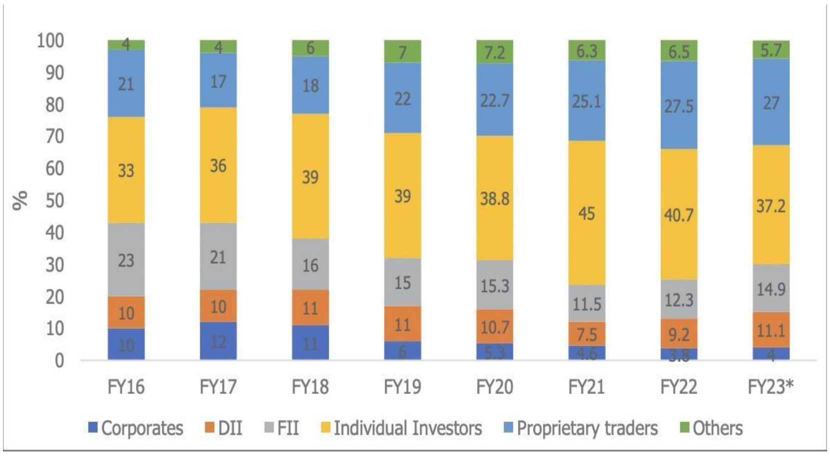
Share of client participation in total turnover at NSE (%)



Source: NSE

Recent Developments in the Indian Equity Market

A. Primary Markets

Revised OFS Framework (Effective from Feb 9, 2023:

Since SEBI modified the Offer for Sale (OFS) structure, non-promoter stakeholders can now sell their shares through the OFS process. With the intention of enhancing flexibility and efficiency in the OFS process, this amendment is applicable to businesses with a market capitalization of Rs 1,000 crore and above.

Social Stock Exchange (SSE) Framework:

In addition to defining disclosure standards, this framework describes the requirements for Notfor-Profit Organizations to register with SSE. In order to support socially responsible investing and facilitate fundraising for social enterprises (SEs), existing stock exchanges have created the SSE section, which was approved by SEBI in September 2021.

Minimum Price Band in Case of Book Built Public Issues:

With effect from January 14, 2022, a new rule from SEBI requires a minimum 5% price differential between the lower and upper price bands for book-built public offerings. By adding a particular option for such price differential, this legislative amendment seeks to address the problem and provide consistency and transparency in the pricing of these issues on the Indian financial market.

Review of Allotment Methodology for Non-Institutional Investors (Nlls):

The allotment mechanism for NIIs as of April 1, 2022, has been reviewed by SEBI in order to give smaller NIIs a fair opportunity to participate in initial public offerings. One-third of the allotment was set aside by the market regulator for NIIs with applications costing between Rs 2 lakh and Rs 10 lakh. Furthermore, those with applications larger than 10 lakh have been given priority for two-thirds of the allocation.

Limits for Objects of the Public Issue:

If a company lists an objective for future inorganic expansion in its offer documents but has not yet identified any acquisition or investment targets, the amount for such objectives may not exceed 25% of the amount being raised by the issuer. Such objects and general corporate purpose (GCP) contributions cannot comprise more than 35% of the total funds being solicited.

Lock-in of Shares for Anchor Investor:

With effect from April 1, 2022, SEBI ruled that 50% of the portion allotted to anchor investors under a public offering would be locked-in for a period of 90 days (previously 30 days). For a further 30 days, the remaining amount would continue to be locked-in. This clause will take effect on July 1st, 2022, for large issues with an issue size greater than Rs 10,000 crore. The trust of other investors will increase with a longer lock-in for anchor investors.

Relaxation of Norms for Listing of Start-ups:

SEBI shortened the time limit for eligible investors to hold 25% of the pre-issue capital of the issuing company from the previous minimum of two years to one year in order to make the Innovators Growth Platform (IGP) more accessible to businesses in light of the changing startup ecosystem. The regulator also increased the open offer threshold trigger from the previous 25% to 49%. Companies now find it simple to relocate to the main board or delist.

Relaxation in Post-IPO Lock-In Requirements:

Many modern technology businesses will profit from SEBI's decision to reduce the post-listing lock-in requirements for promoters. The regulator has decided to reduce the minimum lock-in time for promoters from three years to eighteen months following the company's stock market listing. In cases where the promoter of the issuer firm is a corporate body, the definition of promoter group has been rationalised to exclude companies having common financial investors in order to decrease the disclosure obligations at the time of IPO.

Review of Superior Voting Rights (SR) Shares Framework:

The framework governing the issuance of shares with superior voting rights (SR shares) has been loosened by SEBI, which will benefit emerging technology firms. It said that, up from Rs. 500 crore, promoters with a net worth of over Rs. 1,000 crore can now enjoy superior voting rights in their enterprises. The minimum time interval between the issuing of SR shares and the filing of the red herring prospectus is also lowered from the previous requirement of six months to three months.

Review of Preferential Issue Norms:

SEBI loosened the price guidelines and lock-in criteria in an effort to make it simpler for businesses to obtain capital through preferential allotment of shares.

- Determining the floor price: For regularly traded securities, the volume weighted average price (VWAP) of the scrip over the prior 90/10 trading days to the relevant date must serve as the floor price for preferential issues. Previously, the VWAP of the most recent two weeks or the most recent 26 weeks, whichever was higher, was used as the pricing mechanism in a preferential allotment.
- Reduction in lock-in requirement: Promoters will only need to lock in for 18 months instead of the current three years in order to get allocations of up to 20% of the post issue paid-up capital. The lock-in period for allocations that exceed 20% of the post issue paid-up capital will be lowered from one year to six months. The lock-in period for allotments for non-promoters will be lowered from one year to six months.

B. Secondary Markets

Introduction of Blocking of Funds Facility for Trading in Secondary Market:

The SEBI has suggested to stop the practice of paying stockbrokers in advance before secondary market trades are made. The action is intended to protect investors' funds from stockbrokers' fraud and default.

Framework for Segregation and Monitoring of Client Collateral:

A framework for the segregation and monitoring of client collateral by brokers has been put in place in order to tighten the system of protection against broker misappropriation or misuse of client collateral and to ensure safeguard against broker and/or other clients' default.

Guidelines to Curb Misuse of Clients' Power of Attorney (PoA):

With effect from July 1, 2022, execution of a new document, Demat Debit and Pledge Instruction (DDPI), will be required for transfers of securities towards deliveries and settlements in order to prevent potential abuse of the Power of Attorney (PoA) issued by clients to stock brokers.

Disclosure of Investor Complaints:

Stock exchanges and clearing corporations have been ordered to post information about complaints made against them and how those complaints were resolved on their websites, at the latest by the seventh of the month following the month in which the complaint was made, beginning on January 1, 2022, in order to increase transparency in the investor grievance redressal process.

Securities Market Trainers (SMARTs) Programmes:

In 2020–21, SEBI introduced the Securities Market Trainers (SMARTs) program to improve its investor education and awareness initiatives. Over 1.8 lakh people participated in 1,797 investor awareness programs run by SMARTs in 2021–2022.

Investor Education Initiatives:

The main goal of the SEBI-launched App is to expand the reach of SEBI's investor awareness and financial education efforts to investors' mobile phones.

Investor Charter:

To encourage openness, raise investor awareness, trust, and confidence about the securities market, SEBI has published an Investor Charter. This charter was created to provide a more comprehensive understanding of the numerous rights and obligations of investors. The project also gains relevance against the backdrop of a sharp increase in the number of demat accounts opened and greater individual investor involvement in stock market trading and IPOs over the past two years.

Some Challenges and Recommendations

Low Percentage of Listed Companies:

Approximately 15 lakh active registered companies are registered at this time. However, less than 1% of all actively registered firms are listed on Indian markets like the BSE (5,414) and NSE (2,155). While larger companies find it simpler to list, small businesses find it difficult due to the direct and indirect costs involved.

Regulators must therefore make sure that the listing procedure is affordable for small players while also safeguarding investors' interests. The regulator should also concentrate on increasing the number of investors who participate in SMEs by lowering the minimum IPO application and trading lot size on SME exchanges and promoting anchor investor engagement in SME IPOs. Although SEBI has made some progress in this regard, much more work has to be done to increase the pool of investors for these businesses.

Investor Protection:

In recent years, simple account openings have been made possible by easier data accessibility, technological developments, and the provision of soft infrastructure (E-KYC, UPI, etc.). The increase in retail investors in the equity market is evidence of the same. Although this is a positive development, expanded market access carries some risk. Increased retail engagement is a concern because it is extremely volatile and frequently influenced by hearsay. This necessitates the investors making wise decisions based on their investigation. In order to boost both the quantity and quality of retail engagement, financial literacy will be essential. The exchanges and authorities have made numerous attempts in the past to encourage financial literacy. To improve investors' awareness, more focused effort is required. The regulators must promptly improve the framework for protecting investors in order to address the changing investor complaints. In the event of broker misbehavior or bankruptcy, the investors' protection fund should be strengthened and used effectively.

Market Hours of Trading in Exchanges:

In contrast to other Asian, European, and American markets, the Indian stock market's regular trading hours are lessened to 09:15 AM to 03:30 PM. By taking real-time changes in other markets into account, a broader trading window guarantees improved liquidity and better price discovery. The necessity for local and international markets to be aligned in terms of marketing standards and practices is due to the ever-increasing integration of the global markets. Thus, extending market trading hours for domestic exchanges could be a step in that direction.

Cyber Threats:

Markets are becoming more digital, which increases the risk of cyberattacks. Markets are susceptible to a variety of operational and financial hazards as a result of the growing reliance on technology and the quickening speed of electronification. Additionally, it can harm these markets' reputations and undermine investor confidence. Therefore, in order to strengthen the cybersecurity system, it is crucial for the MIIs to develop the appropriate infrastructure to quickly identify these threats. It should be guaranteed that all cyber security-related recommendations and advisories are being followed without any gaps.

By the time the country celebrates its 100th anniversary of independence in 2047, India might have one of the greatest equity markets in the world. A coordinated effort is required in this area, including investments in technology infrastructure and innovation, raising financial literacy levels, and making sophisticated investment products accessible to encourage worldwide participation in the Indian equity market.

Current Performance of the Indian Economy:

How are India's equity markets currently fairing?

- India's stock market is booming as investors take a chance on one of the few bright spots in a fragile global economy.
- The country's stocks are so hot that India is now home to the **world's fourth most valuable equity market**, behind only the United States, China and Japan.
- The total value of Indian equities has hit **$3.5 trillion**, greater than the value of Europe's two biggest stock markets, in the UK and France, according to data from Refinitiv.
- India's benchmark **Sensex** index has soared **10%** over the past three months prior to June 2023, while the broader **Nifty 50** index has jumped **11%** in that time.
- Both indexes hit **all-time highs** on July 20th, with the BSE Sensex hitting at Rs. **67,088.73**, while Nifty reached Rs. **19,829.55.**
- Both Indian indexes have recently **far outperformed their European peers**. Since late March, the **United Kingdom's FTSE 100 (UKX) has risen just 0.8%**, and **France's CAC 40 (CAC40) 2.9%**. The pan-European Stoxx Europe 600 index has climbed 2.9%.
- The Indian stock market has **outperformed major markets in the world** on a three year, five-year and 10-year basis. The Nifty large cap index has delivered a **10.9 percent annualised return over the past 10 years**, compared to **6 percent of the US index and 2.7 per cent of China's market**, according to a report by ASK Investment Managers.

Foreign Investor Sentiments:

- In 2023, Foreign Portfolio Investors (FPIs) became **net buyers of Indian debt** for the first time in four years, with the last instance of net buying recorded in 2019 when they invested around 24,058 crores in bonds.
- FPI's have been net buyers of Indian debt every month in FY23, except March.
- So far this year, FPI's have pumped **Rs. 28,216 crore** into the Indian debt market on a net basis, the **highest in 6 years.**
- The month of June saw the highest FPI inflows in debt, at Rs. 10,325 crore.
- The month of August was **expected to rise even higher** and almost double due to the optimism surrounding **India's inclusion in the Global Bond Indices** as well as the disappointing global economic scenarios, with investors looking to diversify. But August did not bear the same fruit, due to higher inflation concerts and the rising prices of crude oil.

Credit Rating Agencies Outlook:

- S&P Global Ratings has expressed optimism about India's economic outlook, attributing it to its sound economic fundamentals. They **anticipate real GDP growth rates of 6% in FY24 and 6.9% in FY25 and FY26**, driven by strong consumer and investment dynamics. However, they also expect the government to maintain high fiscal deficits and a substantial debt burden despite ongoing consolidation efforts.
- The International Monetary Fund expects India to **outperform all major emerging and advanced economies this year.**
- On April 11, The International Monetary Fund (IMF) released its latest World Economic Outlook report, projecting that the **Indian economy will grow by 5.9 per cent** in the current fiscal year, making it the **fastest-growing economy in the world**.
- The IMF's bi-annual report also observed that India's headline **retail inflation is expected to ease up**, from 6.7 per cent in the previous year to **4.9 per cent in 2023-24,** contributing to the expectation of increased growth in the coming FY.
- According to Morgan Stanley, India is benefitting from a combination of cyclical and structural tailwinds and is e**xpected to contribute 16 per cent of the global gross domestic product (GDP) growth over 2023-24.**
- As reported by Moody's, they expect India's GDP growth to moderate in FY 23/24, but **India's underlying growth potential is fundamentally strong,** which will support the financial sector's credit growth and asset quality.

Moody's maintained a **stable BAA3 rating**, but the agency said that the **country's economy is poised to grow strongly despite external challenges.**

Conclusion

In conclusion, investing in Indian equities in 2024 is a promising opportunity due to factors such as macroeconomic strength, growth in manufacturing and renewable energy sectors, preparedness of the banking system, and favourable valuations. The Indian equity market has shown resilience and growth, with strong domestic participation and record-breaking IPO issuances, making it an attractive option for investors seeking higher returns. The guidelines to prevent misuse of clients' Power of Attorney, increased transparency in investor complaint disclosure, and initiatives like SMARTs programs and investor education aim to enhance investor protection and market integrity. Challenges such as low listed companies and cyber threats require regulatory focus, while India's equity market performance, foreign investor sentiments, and credit rating agencies' positive outlook indicate a promising economic trajectory with strong growth potential.

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