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## ECONOMICS

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# India's Stock Market: Strengthening Domestic Fundamentals and Global resilience

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 Mukul Asher (<https://myind.net/Home/authorArchives/2097>)



Among the many positive economic and financial trends being exhibited by India, changing dynamics of its stock markets is making a solid contribution strengthening macroeconomic fundamentals, while providing resilience in the new environment of weaponization of finance. This is elaborated below.

### Market Capitalization:

As on 25 March 2022, the market capitalization of the Bombay Stock exchange (BSE) was INR 258.7 trillion (USD 3.40 trillion, 1 USD @76). This is equivalent to around 110 percent of India's projected 2022-23 GDP of INR 230 trillion. There were nearly 3900 companies with listed equity capital which were available for trading on the BSE <sup>1</sup>.

The BSE market capitalization ranks easily among the top 10 among the global exchanges. India is poised to improve its ranking further as its solid fundamentals and structural reforms are likely to lead to higher-than-average growth in high income countries which have larger market capitalization than the BSE; and less favourable demographic profile.

India also has a second major stock exchange called the National Stock Exchange (NSE) established in 1992. Most companies list on both the BSE and the NSE. According to industry bodies, NSE is ranked as the largest derivatives exchange in the world, and the fourth largest exchange in cash equities by number of trades.

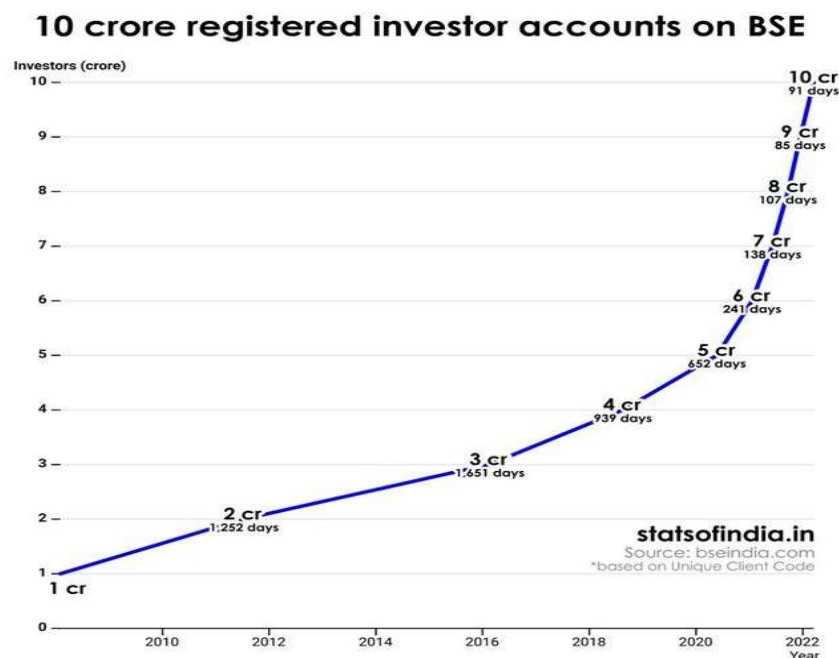
There is also NSE EMERGE which enables small and medium-sized enterprises and start-up companies from India to get listed on NSE without Initial public offering.

### Registered Investor Accounts:

These have exhibited rapid growth in overall numbers and ecogeographical locations of the investors is diversifying, creating more nodes for investment flows in the stock markets.

Figure 1

Trend in Registered Investor accounts on the Bombay stock exchange (BSE)



On the basis of data in Figure 1, the following observations may be made.

1. The number of individuals registered with the Bombay stock exchange reached 10 crore (100 million) in 2022. Even if those registered only on the National Stock Exchange (NSE) are omitted, this constitutes among the largest retail investor base globally.
2. In recent years, individual registered with the BSE have been rapidly increasing. Figure 1 suggests that it took 1252 days to increase the number of registered investors from 1 crore (10 million) to 2 crore (20 million). But it took only 138 days to increase the number of investors from 6 crore (60 million) to 7 crores (70 million); and only 91 days to increase from 9 crore (90 million) to 10 crore (100 million).
3. Among the states, Maharashtra dominates with more than one-fifth of the total registered investors. Other major contributors are Gujarat with 11 percent, and Uttar Pradesh with nearly 9 percent of the total. These three states account for about two fifths of the registered investors. Other significant contributors at between 5 and 6 percent of the total are Karnataka, Rajasthan, Tamil Nadu, and West Bengal<sup>2</sup>.

4. It is noteworthy that it is the relatively non-traditional states, which partly due to lower base, have shown the largest increase between March 2021 and March 2022 in the registered investors.

Thus, Assam, Arunachal Pradesh, Bihar, Madhya Pradesh, Odisha have registered more than 100 percent increase in registered investors between March 2021 and March 2022, in comparison with increase of 57 percent for India as a whole. The growth of investors in Assam at 270 percent is particularly remarkable. Such spread provides greater stability to the stocktakes.

Initiatives such as the recent Gulf Countries' Investment Summit in Srinagar designed to draw more investment to the Union Territory of Jammu and Kashmir are also likely to widen the individual investor base of the BSE.

### **Changing balance of Domestic and Foreign Investors**

The stock market investors are from domestic sources, individuals, pension, provident, and life insurance funds, companies, and others; and FIIS (Foreign Institutional Investors).

Till December 2021, FIIs had invested USD 253 billion in India's stock exchanges, in both debt and equity segments<sup>3</sup>.

By their nature, flows by FIIS into India's stock markets are more volatile than domestic investor flows. This is because global interest rates, Exchange rates, geo-political and other developments influence FIIs to a greater extent in their investment allocations among countries than is the case with the domestic investors.

Thus, net inflow of FIIs in India's stock market was USD 22.2 billion in 2027-18, but the low became negative USD 2.2 billion in 2017-18<sup>4</sup>.

Thus, any country needs long term stable institutional investors who can counterbalance FIIs volatile flows. India has been developing these capabilities.

Besides its over 100 million individual investor cohort, many of whom are using SIP (systematic Investment plan) resulting in steady flows in stock markets. Indian Mutual Funds in early 2022 had over 50 million SIP accounts through which investors regularly invest in Indian Mutual Fund schemes<sup>5</sup>.

Moreover, the stock market exposure of provident and pension funds in India are growing and so are their assets.

India's oldest provident fund organization, EPFO (Employees provident Fund Organization) has as of early 2022 assets under management of around 16 trillion (USD 210 trillion) (EPFO data quality and transparency has a lot of scope for improvement). EPFO has been investing in the stock markets in a small way, and it is considering how and whether to increase this share<sup>6</sup>.

As at end February 2022, the assets under management (AUM) of the National Pension System (NPS) was INR 7.17 trillion (USD 94.3 billion at USD 1 @76), and this amount is increasing rapidly as the NPS design preserves funds of members till retirement, permitting them to benefit from the advantages of compound interest. NPS already has at least 15 percent of funds allotted to the equities markets. There are discussions to increase the equity share in a prudential manner.

With the imminent listing on the stock exchange of the public sector LIC (Life insurance Corporation of India). The Government intends to divest around 5 percent of LIC, and this is expected to raise between USD 8 and 10 billion. Such corporatization of LIC is expected to raise professionalism with which LIC investments are managed, including those in the stock markets.

An indication of how domestic investors are helping to stabilize the Indian stock markets is that on March 25, 2022, FIIS sold equities on a net basis worth INR 15.1 billion, but domestic investors were net buyers worth INR 13.7 billion.

### Concluding Remarks

India's growing individual investor base, with diversified geographical base across India; rising AUMS of its provident and pension funds; growing proclivity of these funds to invest in India's stock markets to help address volatility of FII flows, are lending new dynamism to India's stock markets. This dynamism in part of India's solid economic fundamentals, and will help India reach the goal of USD 5 trillion economy before 2030.

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**Mukul Asher (<https://myind.net/Home/authorArchives/2097>)**

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