

#CAPAM2021

18th Annual Capital Market Conference

Beyond India@75: Accelerating Growth
through Capital Market

The Experts' Voice

A compendium of articles

28-29 July 2021

Foreword

This year, FICCI's 18th Capital Market Conference puts the spotlight on how the capital market can fuel the growth aspirations of the Indian economy, weakened by the ongoing pandemic. The theme for the year is **BEYOND INDIA@75: ACCELERATING GROWTH THROUGH CAPITAL MARKET**.

The Conference has been curated with the intent of encouraging discussions on how the capital market can bolster economic growth, gaze firmly set at the \$5 trillion milestone. Deliberations would focus on the outlook for the next five years and envisaging the fundamental changes required in the functioning of the market for seizing opportunities for growth. Forward looking sessions on new initiatives like digitisation of financial assets for diversification and broadening of investors, creating a vibrant gold eco-system, sustainable finance as well as infrastructure financing, disinvestment, mutual funds would draw recommendations for policy makers and other stakeholders.

On this occasion, we are pleased to present CAPAM 2021 Knowledge Paper, 'The Experts' Voice', a compendium of articles contributed by members of FICCI's National Committee on Capital Markets. With a focus on how the Indian capital market could play a catalyst in imparting greater momentum to growth, the articles delve into interventions required to be put in place for vibrant and mature capital market. The articles also capture the recent reforms in the domain, their impact, challenges and puts forth possible solutions to ease out such challenges. McKinsey & Company, India has contributed a seminal paper on recent performance of India's capital markets and focussed on two amongst six future opportunities for growth - digitizing gold and sustainable finance.

We would like to take this opportunity to thank the Regulators, senior bureaucrats and government officials for their participation in CAPAM 2021 and also for their support to the initiatives of FICCI Capital Markets Committee through the year.

We also express our appreciation for the members of FICCI's National Committee on Capital Markets who have contributed their valuable time and inputs over the years to strengthen FICCI's policy advocacy. FICCI's representations to the Government and SEBI and a glimpse of Committee's activities over the last one year are appended. A special thanks to all the members who have contributed to this compendium.

We do hope you will find this publication insightful.

Sunil Sanghai
Chairman

Vijay Chandok
Co-Chair

Himanshu Kaji
Co-Chair

FICCI Capital Markets Committee

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Beyond India @75: Accelerating Growth Through Capital Markets

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Introduction

Capital markets play a crucial role in India's sustained and fast-paced economic growth. They provide affordable funding at scale to the country's most productive sectors, and diversified, attractive long-term investment opportunities to investors. In 2020, India's capital markets issuances rounded out at approximately \$250 billion. By 2030, its capital markets could triple in size to approximately \$700 billion in issuances.¹

This article for FICCI's 18th annual capital markets conference, Beyond India@75: Accelerating Growth Through Capital Markets, looks at the recent performance of India's capital markets and six future opportunities for growth, among which we focus on two opportunities: digitizing gold; and sustainable finance.

The stability and health of India's capital markets is essential to support sustainable economic growth. Healthy capital markets strengthen financial systems, increase the availability of funding to businesses, and enable companies to increase their investor bases. Developed capital markets help economies build greater resilience to shocks and help diffuse losses.

Well-developed capital markets also provide an alternative and often more attractive and reliable source of funding. Through access to a wider investor base, capital markets can open doors to better lending terms and rates, reducing reliance on bank lending. For relatively higher-risk activities, where banks can often be reluctant to lend,

borrowers could leverage capital markets for funding. Healthy capital markets also improve overall economic productivity by allocating commercial capital more efficiently. A wider variety of financial instruments with different risk and return characteristics allows for scarce financial resources to be allocated efficiently to the most productive sectors. Finally, developed capital markets provide investors with the opportunity to look at a wider range of diversified long-tenor investment products for a secure retirement. For investors, it provides an opportunity to match their risk appetite to their earnings, especially important in the context of falling interest rates.

To accelerate India's capital markets development, its stakeholders could focus on underlying growth drivers and regulatory enablers. We hope that this article will meaningfully contribute to a unified understanding among stakeholders of how they can make this happen.

Accelerating India's capital market performance

Compared to other Asian countries, India's capital markets have shown steady improvement over the past five years on McKinsey's Asian Capital Markets Development Performance Index. The Index is a unique proprietary tool that compares the performance of emerging capital markets with that of more developed markets. It measures performance on two parameters:

- **Funding at scale** (60 percent of the total score): measures the availability of diversified, long-tenor

¹ The data for this analysis by McKinsey was sourced from Dealogic, Prequin, SEBI, World Bank, WFE, McKinsey Global Banking Pools, EIU, BIS, CPIS Survey, IMF, Bloomberg

² Further details on the key constituents of the McKinsey Asian Capital Markets Development Performance Index are available in the Appendix.

funding in the currency of choice, while simultaneously measuring the ability of the market to provide affordable funds through a diverse set of investors.

- **Investment opportunities** (40 percent of the total score): measures the availability of a wide variety of investment products across key asset classes to suit investor risk profiles, while also measuring risk-adjusted returns and secondary market liquidity.²

In 2020, India's ranking in Asia rose by a point to ninth position on the same index (Exhibit 1).

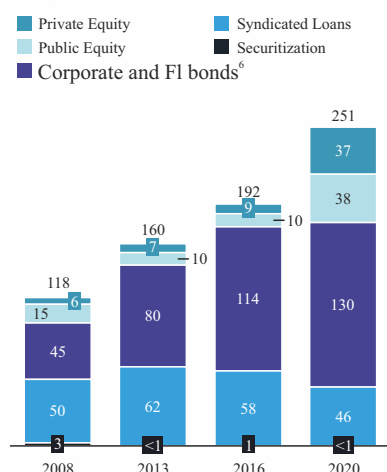
capital is available for high-quality deals. Investors have focused primarily on consumer technology, information technology (IT), and IT-enabled services, including software as a service (SaaS) companies, which have demonstrated the highest return on invested capital over the last five to six years.

Corporate bond issuances crossed \$100 billion in 2020.⁴ Companies could access an additional \$100 billion in funding by reducing their reliance on bank lending. While the Indian bond market is underdeveloped compared to its global peers, it has grown steadily, from

Exhibit 1

In 2020, India moved up to rank 9th in the Asian Capital Market Index

Capital Markets issuances in India US\$ Billion



1. Weight allocated: 60% while arriving at total score

3. Includes Taiwan

5. Includes India, China, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Vietnam and Lanka

7. Index does not include DCM private placements

McKinsey Asian Capital Markets Development Performance Index 2020⁷

Country	Funding at scale ¹	Investment Opportunities ²	Total score (out of 5)
1 Australia			4.3
2 Singapore			4.0
3 Hong Kong			4.0
4 Japan			3.6
5 Malaysia			3.0
6 Mainland China			2.9
7 South Korea			2.8
8 Thailand			2.7
9 India			2.5
10 Philippines			2.2
11 Indonesia			2.1
12 Sri Lanka			2.0
13 Vietnam			1.8
14 Pakistan			1.2
World			2.9
Asia ³			3.6
Developed Asia ⁴			3.5
Emerging Asia ⁵			2.3

2. Weight allocated: 40% while arriving at total score

4. Includes Australia, Japan, Singapore, South Korea and Hong Kong SAR

6. Bond issuances (Source: Dealogic), includes Private Placements (Source: SEBI)

Source: Dealogic, Prequin, SEBI, World Bank, WFE, McKinsey Global Banking Pools, EIU, BIS, CPIS Survey, IMF, Bloomberg

McKinsey & Company

The improvement in India's capital markets performance on this index is driven by the following defining trends:

Private Equity (PE) has a growing role in capital formation in India. PE investments have quadrupled in the past five years, reaching \$37 billion in investments in 2020.³ The number of annual deals in India rose from 588 in 2016 to 917 in 2020 – an increase of approximately 60 percent. At the same time, the total number of “unicorns” – startup companies with a value of over \$1 billion – more than tripled from 10 in 2016 to 36 in 2020, and India-focused “dry powder”—cash reserves and liquid assets—remained healthy at \$8 billion, indicating that

\$56 billion in 2015 to over \$100 billion in 2020. Despite the economic repercussions of the COVID-19 pandemic, the volumes of outstanding corporate bonds and corporate bond issuances are rising. The value of outstanding corporate bonds rose from over \$175 billion in March 2013 to approximately \$468 billion in March 2021. The mobilized amount of corporate bond issuances rose from approximately \$47 billion in the 2013 financial year to \$102 billion in the 2021 financial year, while the number of Issuers increased from 270 to 699 in the same period.

This growth can be attributed to regulatory reforms, improved demand–supply dynamics, robust economic

³ All data analysed by McKinsey and presented in this paragraph is sourced from Prequin, AVCJ Research, Venture Intelligence, VCCEdge, and McKinsey Principal Investor Practice analysis

⁴ All data analysed by McKinsey and presented in this paragraph is sourced from the Securities and Exchange Board of India (SEBI)

growth, and the channelling of money from pension funds, insurance, and mutual funds. In parallel, the COVID-19 pandemic and the Government of India's resultant economic stimulus package have reduced yield, which has encouraged many firms to issue bonds. In the case of corporate bonds, the number of retail investors participating indirectly in financial markets (e.g., through debt funds), has also increased during the pandemic, which is an encouraging sign for the development of India's financial sector. For example, the number of mutual fund folios for debt funds increased from 4.5 million at the beginning of the pandemic to 5.4 million by March 2021, while the value of debt fund assets under management from retail clients increased from \$48 billion to \$57 billion in a similar period.

While companies in India are more dependent on bank lending than on capital markets funding, this trend is not unique to India. Except for the United States and a few developed capital markets, companies in the rest of the world continue to rely disproportionately on bank lending. In 2020, 68 percent of India's \$1.5 trillion funding consisted of bank lending and the remaining 32 percent of corporate bonds.⁵ By comparison, the United States had 69 percent in corporate bonds and the remainder in bank lending to comprise their \$33 trillion in funding. By reducing their reliance on bank lending, Indian companies

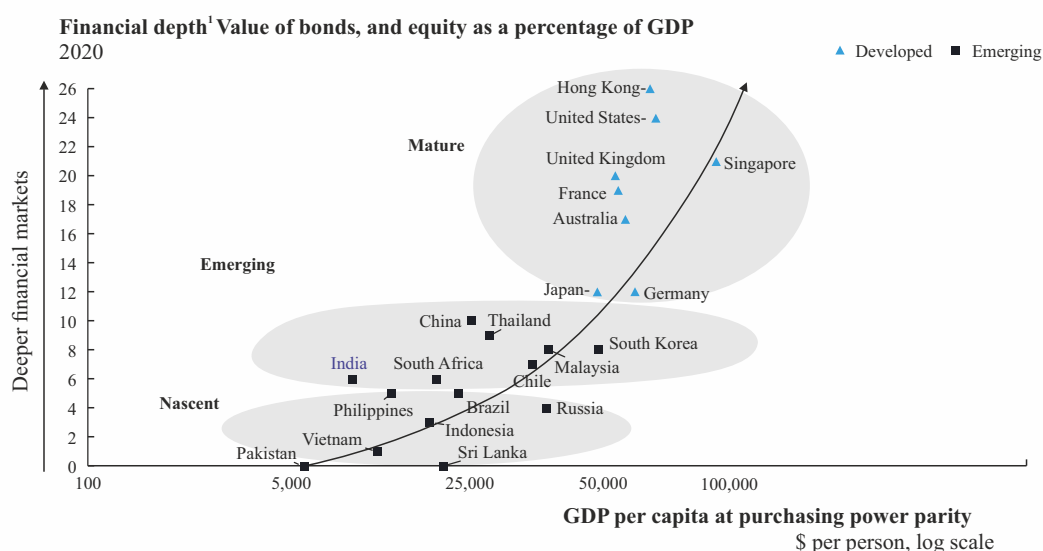
could gain access to an additional \$100 billion to \$120 billion in capital markets funding.

Growth in the mutual funds and equity markets has propelled a rise in the financialization of assets. Access to more information online is enabling individuals to make better-informed investment decisions, and digital channels are making it easier to transact. Individual investment is increasingly making its way to capital market instruments, e.g., bonds, funds, and equity markets. In spite of this, in 2019, Indians still held 63 percent of their personal financial assets in the form of cash, deposits, and savings accounts, compared to 16 percent in the United States and 35 percent in Europe.⁶ India has an opportunity to attract new capital, currently available in the form of savings and deposits within Indian households, by extending the reach of its capital markets into tier 2 and tier 3 cities; and continuously innovating on products, including financial products that can replicate returns of physical assets, such as gold and real estate.

India is the largest recipient of foreign portfolio investor (FPI) flows in emerging markets.⁷ FPIs invested \$23.7 billion into Indian equities between December 2019 and December 2020, while all other emerging markets witnessed equity outflows. Between April 2020 and March 2021, FPIs invested a record \$35 billion in Indian stocks. Unlike other emerging market

Exhibit 2

Indian capital markets have significant room for growth



1. Financial Depth - Issuances of - public equity, corporate bonds, FI bonds, syndication and securitization as a % of GDP

Source: Dealogic, Prequin, World Bank and EIU

⁵ All data analysed by McKinsey and presented in this paragraph is sourced from McKinsey's Global Banking Pools, Bureau of Indian Standards

⁶ All data analysed by McKinsey and presented in this paragraph is sourced from McKinsey Global Wealth Pools

⁷ All data analysed by McKinsey and presented in this paragraph is sourced from the National Securities Depository Limited (NSDL) and CLSA

⁸ Data analysed by McKinsey is sourced from Prequin, Dealogic, SEBI.

peers, India remains a preferred choice for FPIs due to an expected economic recovery supported by various innovatively designed stimulus packages. India's government and regulators have also undertaken major policy initiatives directed at improving the investment climate and ease of access for FPIs in the recent past.

The performance of India's capital markets over the past decade is a positive indicator that India has the potential to further deepen capital markets to over \$700 billion in issuances by 2030.⁸ Currently at 5.2 percent, India could further grow and mature to match the financial depth of capital markets in developed economies (Exhibit 2).

The capital markets of most developed economies have a financial depth over 2.5 times that of India's,⁹ with sophisticated capital markets in which corporations and governments could raise more funds for productive investments.

Deepening India's capital markets

India's capital markets show relative stability, which opens the possibility to develop the market further by experimenting and take on more risk without suffering crises of volatility or liquidity. Deepening India's capital markets could entail six broad strategies:

1. **Sustain the long-term growth of mutual funds:** The mutual fund industry grew five times its size from \$96 billion in 2010 to \$480 billion in 2020.¹⁰ The industry's long-term growth can be sustained by further widening mutual fund distribution, particularly to tier 2 and tier 3 cities through technology-led, cost-effective distribution and collaborative partnership opportunities with non-traditional distributors, such as retail franchises and e-commerce firms. Continuing to innovate with new products and structures will also help further diversify investor portfolios and meet their risk and investment profiles. For example, funds that focus on investments in high-rated ESG securities and international securities, and financial products that match the returns of physical assets such as gold and real-estate could be offered. An implementation program that includes education and awareness-building about the benefits of investing in capital market products could bring more investors into India's capital markets via mutual funds.
2. **Enhance the role of private capital:** With its unprecedented growth, India's PE market has been the posterchild for India's capital markets. PE firms headquartered in India are still in their nascency as

compared to global players, and at their current growth rate, could grow to several times their size in the next decade. For this to happen, PE firms could craft a well-defined product strategy, i.e., low volatility fixed income-oriented products for traditional institutional investors, and high risk-return products for ultra-high net worth (UHNW) individuals, such as a long-short equity strategy, distressed assets, mezzanine debt, etc. They could also build a high-quality talent pool of fund managers, functional experts on specific strategies, and researchers, and enhanced risk management infrastructure. Globally, there has been a proliferation of digital platforms (e.g., Axial, Venovate, iSTOX) connecting private companies with institutional and accredited individual investors. Indian banks and intermediaries could explore building such platforms organically or rapidly building these through partnerships.

3. **Accelerate the rate of disinvestment in public sector companies:** India has already made tremendous progress in disinvestments, accelerating from \$15 billion between 2004 and 2014 to \$40 billion between 2014 and 2019.¹¹ This is likely to increase further, with many large disinvestment projects in the pipeline, e.g., in aviation and insurance. In the short term, funds raised from disinvestments could be leveraged by government for growth and social initiatives. In the long term, disinvestment could lead to improvements in efficiency, accountability, governance, and professionalism in disinvested companies. The current momentum of disinvestment could be sustained by identifying a strong pipeline across sectors for disinvestment, creating an efficient process to fast track approvals, engage early with trade unions, build consensus with relevant ministries, and appoint professional firms (e.g., law firms, consultants, investment banks) to efficiently manage the whole process.
4. **Expedite infrastructure financing:** In 2019, the Indian government announced a National Infrastructure Pipeline (NIP)—a project to propel national economic development and provide world-class infrastructure to its citizens.¹² As a part of the NIP, \$2 trillion worth of almost 8,000 specific projects across 34 sub-sectors have been planned, taking a bottom-up approach. The government's decision to set up a national infrastructure-focused development bank has been a significant step towards expediting

⁸ Dealogic, Prequin, World Bank and Economist Intelligence Unit

¹⁰ Association of Mutual Funds India. <https://www.amfiindia.com/indian-mutual>

¹¹ All data in this paragraph is sourced from: <https://www.theweek.in/news/biz-tech/2020/04/18/strategic-disinvestment-of-psus-are-we-missing-the-big-picture.html>

¹² All data and facts in this paragraph are sources from the Government of India's website: <https://dea.gov.in/>



infrastructure financing. Executing the NIP on time and within budget requires excellence in three areas of an infrastructure project's lifecycle: (a) Identifying bankable projects in each sector, based on size, cost, economic benefit and ease of implementation. Subsequently, creating an institutional framework such as a bankability cell in each ministry, to continuously identify and monitor priority projects; (b) Improving the process of project structuring and development with a project task force to monitor and remove bottlenecks in high-priority projects, empowered investor cells in central regulatory agencies to implement best practices in governance and communications, and a faster dispute resolution process, etc.; and (c) Accelerating project financing and monetization through access to the funds of large domestic institutions (e.g., LIC, EPFO) and foreign funds, leveraging innovative financing measures (e.g., zero-coupon bonds), rapidly setting up the Credit Guarantee Enhancement Corporation (CGEC), and enabling asset recycling across sectors by reducing the minimum holding period for concessionaires.

5. **Digitizing financial assets:** This presents a huge opportunity for India, particularly in physical asset classes such as gold.¹³ Gold had an estimated market value of \$1.6 trillion in India as of December 2020. Gold monetization could release up to \$100 billion in liquidity, which can then be used for long-tenor and affordable funding, such as infrastructure projects. In addition, gold e-commerce could help India reduce its yearly import bill by \$4 billion. Capturing this significant opportunity requires: (a) creating a well-defined regulatory architecture and set of standards that provide clear direction and supervision, while simultaneously promoting market development (e.g., tax incentives); (b) establishing a world class market-infrastructure and technology, potentially in

partnership with leading infrastructure players and global gold leaders (e.g., Singapore, Dubai); and (c) promoting buyer and seller participation through innovative product structures, and offering incentives to distributors.

6. **Grow sustainable finance:** As world leaders commit to “net zero” greenhouse gas emissions and improve environmental, social, and corporate (ESG) governance over the next decade, India too has set sustainability targets for 2030. As a result, India's sustainable funding requirements could top \$2 trillion by 2030—calling for new ways to consider financing and investing in ESG initiatives. India can help achieve its ESG targets by: (a) simplifying ESG fund origination through a well-defined and standardized ESG taxonomy, reducing ESG funding costs by lowering risk-weight assets (RWA) ratios for ESG loans, and mandating public funds to enhance exposure to ESG securities; and (b) enhance and systematize ESG performance management and investment decisions by simplifying regulatory reporting, aligning India's domestic reporting with global reporting frameworks, and broadening ESG reporting to smaller and mid-size companies.

Of these six strategies, we spotlight two that offer the greatest potential to accelerate capital markets growth and unlock enormous value: digitizing gold and growing sustainable finance.

Digitization of gold

Monetizing just one-third, i.e., 1500 tonnes of India's existing stock of 5000 tonnes of gold bullion could create up to \$100 billion in liquidity to be used for affordable long-tenor funding. For example, that sum could fund approximately 5 percent of India's National Infrastructure Plan until 2025.

India buys 900 tonnes of physical gold each year, of which 250 tonnes is gold bullion. If just 60 tonnes (or 25 percent) of India's annual bullion purchase was bought through e-gold platforms and Sovereign Gold Bonds (SGB), India could reduce its yearly gold import bill by \$4 billion.¹⁴

The World Gold Council estimates that gold alone has a market size of \$1570 billion in India.¹⁵ However, market penetration of online purchases remains under 2 percent of annual purchases,¹⁶ providing tremendous scope for digitization to deepen capital pools.

Gold can be financialized through digitization, expanding the size of formal markets, and allowing a greater number

¹³ See Appendix 2 for full details about the scope of digitization across all asset classes

¹⁴ McKinsey analysis based on data from World Gold Council

¹⁵ <https://www.financialexpress.com/market/commodities/shining-bright-indias-household-gold-reserves-touches-25k-tonne-over-40-of-gdp/1583058/>

of individual investors to make more frequent smaller ticket purchases (i.e., fractionalization), rather than large one-off investments.

Several avenues could accelerate the digitization of gold. These include:

- **Spot bullion exchange:** India's spot bullion exchange, when functional, can provide a trusted and efficient ecosystem to trade in gold and its physical delivery.
- **Gold monetization scheme:** Gold bullion is an idle physical asset that digitization can monetize to unlock a significant amount of capital, as well as reduce the import of gold.
- **Gold e-commerce platforms:** E-commerce platforms trade in gold bullion with the option for buyers to receive physical vaulted gold in smaller fractions 24/7.
- **Sovereign Gold Bonds:** SGBs enable longer-tenor financial investments in gold through securities, while simultaneously offering interest income and other taxation benefits.
- **Gold derivatives exchange:** With futures and options contracts, gold derivative exchanges help market participants hedge against gold price risks and take proprietary positions on price movements.

Actions across three key areas could help to accelerate the digitization of gold:

1. Create a well-defined regulatory architecture and set of standards

Between them, financial regulators could clearly define regulatory responsibilities across all the avenues available to accelerate the digitization of gold. They could also rethink supervision along matrix-based guidelines (i.e., both activity- and entity-focused) versus only entity-focused, given the evolving capital markets and entry of new market participants (e.g., Fintechs).

To prevent market manipulation for the gold market in particular, it is important that regulators define standards for all market participants and create a framework that provides clear guidance about who can participate as a buyer, seller, or infrastructure provider for each of the avenues. AI-enabled technologies could monitor market activity in real-time to improve compliance.

Creating a new set of market development policies and test environments could give a boost to the nascent digitized gold financial market. Consider incentives such as tax exemptions, GST waivers, commodity transaction



tax waivers, and import duty waivers, to encourage more market participation. Regulators could also consider "sandboxes" where Fintechs entering the market can test out their product offerings in a safe environment before launching commercially.

2. Establish world-class market infrastructure and technology

India could potentially partner with global gold leaders such as Singapore and Dubai to develop world-class gold market infrastructure, creating investor confidence in the e-gold market. Such an infrastructure might include a gold vault facility, certified gold-melting operators and assessment/certification providers, a central clearing counterparty clearing (CCP) to manage counterparty credit risks, and centers for physical gold delivery.

Encourage a vibrant spot and derivatives exchanges with the active participation of intermediaries who act as trading and clearing members, brokers, and market-makers. Particularly for Sovereign Gold Bonds (SGBs), it's important to build liquidity in secondary market, potentially by having market makers who can provide 2-way quotes.

Enable a technology backbone that can host the latest technology to speed up the growth of India's gold market infrastructure. For example, blockchain technology enables real-time invoicing, automatically acts as CCP, and speeds up trade clearing and settlement. Several exchanges and e-platforms globally are testing new technologies, and market participants could consider partnering with them to expedite infrastructure build-up.

3. Promote buyer and seller participation

Create innovative product structures to help increase market participation; for example, offering interest on gold purchased on an e-gold platform, or selling smaller fractions of gold. Implementing safety guidelines, including mandatory hallmarking from authorized centres, will build trust amongst buyers.

¹⁶ <https://www.ibef.org/industry/gems-jewellery-india.aspx>

Offer sufficient incentives and sourcing commissions to intermediaries and distributors, including banks, non-banking financial institutions, and Fintechs, to help meet their operational costs and encourage them to promote gold schemes. For banks in particular, regulators could ensure that additional barriers for distribution are removed. These could include operational risks, and increased CRR/SLR requirements.

Implementing many of these reforms is a complex task, given the number of regulators and market participants. The gold market could form a market leadership syndicate comprising major participants, including the World Gold Council, to consistently provide thought leadership, engage with regulators to find ways to deepen the market, and work with market participants to support the implementation of new initiatives.

Growing sustainable finance

Environmental, Social, and Corporate Governance (ESG) has rapidly gained importance across markets globally. McKinsey's Global Sustainability Survey, published in 2019, showed that company leaders are incorporating ESG into their mission and values, with 96 percent of CEOs responding that sustainability issues should be fully integrated into the strategy and operations of their companies. India, too, has set out aspirational but achievable sustainability targets for 2030, buoyed by market support. As a result, India's sustainable funding requirements to mitigate climate change could top \$ 2 trillion by 2030¹⁷—calling for new ways to consider financing and investing.

Four trends are driving the growth of ESG globally:

- One hundred and thirty-one countries have made “net zero” commitments to reduce greenhouse gases

(GHG) by 2050.¹⁸ Many global multinationals have followed suit. For example, 53 banks from 27 countries—representing almost 25 percent of banking assets globally—are part of the United Nations-convened Net-Zero Banking Alliance committed to transitioning all lending and investment portfolios to net-zero emissions by 2050.¹⁹ As alliance members redefine their portfolio strategies, banks everywhere are likely to feel the ripple effect of their actions, irrespective of whether or not they have set their own net zero targets.

- Environmental and social activists, ESG-focused non-government organizations, a new generation of investors, and a growing number of socially and environmentally aware investors are mounting pressure on governments and companies to comply with ESG best practices. For example, millennials, who are poised to receive \$30 trillion in inherited wealth, have shown the most interest in applying ESG principles to their financial decisions, resulting in projected growth in sustainable investments.²⁰
- ESG investments are increasing and outperforming the broader markets. For example, in 2020, global sustainable investment assets were \$35 trillion, growing at 13 percent CAGR since 2012. Similarly, issuances of sustainable bonds and loans reached \$465 billion in 2019 as compared to \$5 billion in 2012.²¹
- Corporates with higher ESG ratings are showing superior financial and non-financial performance. For example, sustainability markets and products showed an additional 10 to 20 percent growth rate over conventional ones; companies with a higher ESG rating had a 10 to 20 percent higher valuation multiple and better funding availability and terms; and



¹⁷ ORF, NDC, IFC

¹⁸ <https://www.un.org/en/climatechange/net-zero-coalition>

¹⁹ <https://www.unepfi.org/net-zero-banking/>

²⁰ Oppenheimer Funds

²¹ <https://www.livemint.com/market/mark-to-market/esg-investing-gains-momentum-globally-us-leads-with-highest-share-of-sri-assets-11626842463385.html>

companies with a higher ESG rating had employees who experienced a feeling of purpose at work, and were four times more engaged than employees who did not.

India has set its own aspirational targets as a commitment to the Paris Climate Goals and Sustainable Development Goals (SDGs). India has committed to reduce the emission intensity of its GDP by 33 to 35 percent²² by 2030 under the Paris climate agreement.²³ It has also committed to replace 40 percent of installed power capacity to be run on non-fossil fuel energy sources by 2030. Finally, it has committed to a carbon sink of 2.5 to 3.0 billion tonnes of carbon dioxide through the planting of trees and increasing forest cover by 2030 (Exhibit 3).

the cost of funding reduced by one to two percentage points compared to the broader market, as there is a lower RWA for ESG funding with policy changes to the credit risk approach.

As a result, four out of five Nifty50 firms have voluntarily made their ESG compliance data public. Many now participate in global indices such as MSCI and Sustainalytics.²⁵ In 2020, Indian capital markets saw \$2.3 billion in sustainable bond issuances, which were primarily green bonds.²⁶ As they realize its tangible benefits, India's largest corporate houses have made a strong commitment to ESG and are setting ambitious targets to move towards net-zero emissions.²⁷

Market infrastructure: Regulators are making policies

Exhibit 3

The pace of ESG adoption in India has accelerated with support from government, investors, shareholders, and corporates



Environmental

- Government push to electrical vehicles and renewable energy resources
- Paris Agreement
- National Air Quality Index
- Waste management rules
- Pollution emission standards
- Industry effluent standards
- Discontinuation of 15-year-old vehicles



Social

- 2% corporate social responsibility (CSR) mandate
- Free education for children
- Minimum girl/woman reservation quota for gender balance in education
- Rural area development
- Affordable housing scheme
- Lower stamp duty for women home buyers



Governance

- Independent director norms
- Independent audit committee
- Women director representation
- Insolvency and Bankruptcy Code
- Whistle-blower policy
- Management remuneration norms



India's commitments to the Paris Climate Goals and Sustainable Development Goals (SDGs) along with an evolving and conducive policy framework provides a step in the right direction to achieve a sustainable future

Source: McKinsey Analysis, Crisil ESG report

McKinsey & Company

Issuers, market infrastructure, regulators, policymakers, investors, and other financial institutions already support India's move towards achieving its sustainability targets.

Issuers: India ESG indices have shown that ESG leaders have lately outperformed the broader market by one to two percentage points.²⁴ Globally, ESG leaders are also seeing

to strengthen ESG reporting and compliance. For example, the Business Responsibility and Sustainability Report (BRSR) will be mandatory for India's top 1000 listed companies from FY2023.²⁸ Several sustainability-focused indices have also launched in India to track ESG market performance, including the Nifty100 ESG Sector

²² Relative to emissions in 2005

²³ All data in this paragraph is sourced from: <https://www.thehindu.com/news/national/india-has-achieved-21-of-emissions-intensity-target-claims-javadekar/article33307259.ece>

²⁴ National Stock Exchange, CRISIL Research

²⁵ <https://www.livemint.com/companies/news/regulators-shareholders-nudge-companies-to-boost-esg-scores-11624820356251.html>

²⁶ CRISIL ESG Compendium 2021

²⁷ <https://www.businesstoday.in/magazine/industry/story/the-defenders-295645-2021-05-12>

²⁸ <https://timesofindia.indiatimes.com/business/india-business/business-responsibility-reports-mandatory-for-top-1000-listed-companies-sebi/articleshow/72146106.cms>

Leaders Index,²⁹ MSCI India ESG Leaders Index, and the S&P BSE 100 ESG Index. Intermediaries such as CRISIL have also begun to report on ESG ratings to support investment decisions.³⁰

Investors and other financial institutions: Leading public and private funds with significant India exposure have committed a shift to ESG-focused portfolios, sharply increasing ESG assets under management. International socially responsible investment (SRI) funds to India increased from \$13 billion in 2012 to \$28 billion in 2019 and are likely to reach \$60 billion by 2025. India-focused asset managers are also preparing to launch ESG-focused funds, with several already in the market.

India's sustainable funding requirements could be higher than \$2 trillion by 2030³²—calling for new ways to consider financing and investing. Companies seeking finance or seeking to invest in ESG initiatives could focus on the following areas to systematize and enhance their respective mandates to simplify ESG compliance.

1. Simplify ESG fund origination

Two of the biggest ESG implementation challenges identified by Indian companies are: a lack of clarity about the type of projects or economic activities that can be considered ESG compliant, and consequently, taxonomies that differ from global standards.³³ By engaging with all key ESG market participants, regulators could provide well-defined, standardized ESG taxonomies that allow both issuers and investors to take appropriate funding and investment decisions respectively.

Issuers need a set of critical benchmarks, for instance, ESG league tables or an ESG pricing curve, to select intermediaries and products. Given the lower risks associated with funding ESG, regulators could attract more ESG funding from banks by prescribing lower RWA weights. This in turn would lead to consistently lower pricing of funds and better terms for ESG leaders.

Regulators could also mandate investment funds, starting with public funds, such as pension and provident funds, to allocate a certain percentage of their portfolio in ESG securities and make ESG allocation and compliance public. Incentives such as tax concessions or securities transaction tax waivers could also attract higher ESG inflows across equity and debt products.

For ESG to reach critical mass in India, companies that have adopted ESG must build awareness of its benefits,

including financial benefits such as superior stock performance, and lower cost of funds, and non-financial performance such as more engaged and satisfied employees. Amplifying the benefits of ESG could encourage more companies to follow suit. ESG awareness could be built through industry bodies, regulators, and relevant ministries. Public-private collaborators could also establish ESG training institutions for company representatives to learn how to build their own ESG capabilities and expertise.

2. Enhance and systematize ESG performance management and investment decisions

Issuers cite an onerous ESG data collection process and multiple reporting as a key challenge, while investors say that a lack of consistent, comparable, and accurate ESG ratings data is a key challenge to making investment decisions.³⁴ Regulators could simplify regulatory reporting by developing a set of measurable KPIs for each aspect of ESG.

They could also align India's domestic reporting framework with global reporting frameworks to standardize reporting and make it easier for Indian companies to appear on global ESG rankings. For example, SEBI's business responsibility and sustainability report (BRSR) could be aligned with the Sustainability Accounting Standards Board (SASB). Issuers could also make reporting easier and more efficient through accredited third-party service providers who can collect, analyse, and report ESG data.

Broadening ESG reporting to include smaller and mid-size companies could expand the ambit of ESG investing by investment managers. Finally, making available ESG indices from leading market-data providers to benchmark ESG fund performances against the broader market could create transparency and attract more ESG fund inflows.

The stability and steady growth of India's capital markets show that it is ready to innovate. It is now critical to build on the momentum that India's capital markets have achieved and accelerate new initiatives for growth. By mapping out a strategy and a clear action plan for these key initiatives, India's capital markets players and regulators could not only sustain economic growth, but also transform the nation's economic and social well-being.

The authors wish to thank Vidushi Sathoo and Aman Jhington for their contributions to this article.

²⁹ CRISIL ESG India Leadership Summit 2021

³⁰ <https://www.crisil.com/en/home/newsroom/press-releases/2021/06/crisil-launches-esg-scores-of-225-companies.html>

³¹ CRISIL ESG India Leadership Summit 2021 Report

³² ORF, NDC, IFC



³³ CRISIL ESG Compendium 2021

³⁴ CRISIL ESG Compendium 2021

Appendix 1

Exhibit 4

Constituents of McKinsey Asian Capital Markets Development Index

Theme	Sub-theme	Metric	Description
Funding at scale 60% 	Availability	① Financial depth of primary market	Issuances of private and public equity, corporate and FI bonds, syndicated loans and securitised products, as percent of GDP, 2020
		② Availability of long-term debt	Ratio of long-term (>10 years) to short-term (1 to 5 years) debt issuances, vis-a-overall size of the debt market
		③ Foreign Currency Funding	% of bonds issued in foreign currency issued to exports % of GDP
	Diversity of sources	④ Availability and stability of foreign investment	Stock of Foreign Portfolio Investment (FPI) as percent of stock of bond (corporate and FI) and equity (public and private), vis-a-vis 5 year standard deviation of FPI flows
	Affordability	⑤ Competitiveness of cost of capital	Cost of equity and adjusted for inflation
Investment opportunities 40% 	Availability	⑥ Availability of investment opportunities across asset classes	Stock of all capital market assets (comprising outstanding public and private equity, corporate and FI bonds, syndicated loans and securitized products) as a percentage of GDP
	Return	⑦ Appropriate risk-adjusted returns	7-Year Sharpe ratio, 2013-2020, for investments in cash equity products
	Liquidity	⑧ Velocity of equity and bond trading	Trading volume as percent of stock of all bonds and equity (outstanding private and public equity, corporate bond, FI bonds)

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Appendix 2

Exhibit 5

Digitization of gold, real estate and debt presents a large addressable opportunity in India

Illustrative Key asset classes	Market size and attractiveness, USD, 2020	Benefits of digitization to buyers and sellers	Availability of market infrastructure and intermediation	Scope of digitization	Overall attractiveness for digitization
Public equity	2,180 bn	<ul style="list-style-type: none"> Creates a transparent price discovery mechanism Broadens reach to less penetrated geographies, and enables universal accessibility Simplified and faster allotment of securities Digital reporting will lead to higher compliance, and real-time analytics on performance Easier to offer unique innovative products for diversification and regular investments Optimises intermediation and market-infrastructure costs given use of latest technology 	<ul style="list-style-type: none"> Well established market infrastructure- exchanges, CCPs, custodians, depository, data providers etc Presence of leading banks & brokers for intermediation 	<ul style="list-style-type: none"> Issuance process by banks is highly manual and non-transparent Active e-trading available in small tickets and fast clearing & settlement Securities are stored in dematerialized form 	
Bonds / Debt	470 bn	<ul style="list-style-type: none"> Reduces trading latency, and accelerates payments and settlement cycle 	<ul style="list-style-type: none"> Gradually improving infrastructure comprising exchanges, e-platforms, market data providers, credit rating agencies, CCPs etc Presence of leading banks to facilitate issuance and OTC trading 	<ul style="list-style-type: none"> Issuance process by banks is highly manual and non-transparent Govies are highly digital-dedicated platform (NDS-OMS) for trading Credit secondary market is illiquid - primarily OTC 	
Vanilla Funds ¹	320 bn		<ul style="list-style-type: none"> Well-established market infrastructure incl transfer agents, market data providers, rating agencies etc. Presence of leading fund managers offering wide-variety of products to clients Emergence of at-scale Fintechs with far-reaching distribution 	<ul style="list-style-type: none"> Securities issued and stored in Digital form e-platforms to buy and sell fund units fast clearing and settlement 	
Alternate Funds	30 bn ⁴	<ul style="list-style-type: none"> Broadens investor base, particularly accredited investors, through fractionalization Creates a secondary market for liquidity and price discovery 	<ul style="list-style-type: none"> Presence of leading fund managers offering several products 	<ul style="list-style-type: none"> Securities are stored in dematerialized form No secondary trading Lack of transparency on portfolio, performance etc 	
Precious Metals/ Gold	1570 bn ²	<ul style="list-style-type: none"> Creates a transparent price discovery mechanism Broadens reach to less penetrated geographies, and enables universal accessibility Enables financialization of physical assets Becoming a price setter vs taker Lowers the underlying risk of storage Enables secondary market liquidity, and faster clearing & settlement 	<ul style="list-style-type: none"> Several avenues for financial trading in Gold, and under implementation (e.g., Spot Bullion trading exchange) Presence of leading banks to facilitate trading in physical and financial gold 	<ul style="list-style-type: none"> Several avenues for financial trading with optionality for physical delivery but penetration is low (1-2% of annual purchases via e-channels) SGB investments have picked-up recently (~Rs 25K crores of investments, ~50-70 tonnes of Gold, <1% of India's Gold stock) 	
Real Estate	200 bn ³	<ul style="list-style-type: none"> Creates a transparent price discovery mechanism Broadens reach; universal accessibility Enables financialization of assets Enables secondary market liquidity, and faster clearing & settlement⁴ Diversification of portfolio without owning and managing a property Enables buying in smaller tickets 	<ul style="list-style-type: none"> Presence of banks to facilitate issuance and trading in financial assets Ownership of Commercial RE with large credible players, and looking to monetize their holdings 	<ul style="list-style-type: none"> Only 3 REITs issued so far and available for trading on exchanges; many more in-pipeline Some Fintechs offering fractional real-estate financial assets 	

1. Includes mutual funds and ETF; 2. Refers to only Gold; 3. Includes commercial and residential property. Expected to be USD 1tn by 2030

4. Alternative Investment Funds (AIF category 1-3); funds as of March 2021

Attractive for digitization Low Med High

Source: Public Equity (WFE), Bonds/Debt (SEBI), Vanilla Funds (AMFI), Alternate Funds (SEBI), Private Equity (Preqin), Gold (World Gold Council), Real Estate (IBEF)

Entrepreneurship Supported by Private Equity Capital

Sunil Sanghai, *Chairman, FICCI National Committee on Capital Markets, Founder & CEO, NovaDhruva Capital Pvt. Ltd*

Corny capitalism, lack of capital and leveraged capital are terminologies we would often hear in conversations a few years back. Over time, the scenario has significantly changed in the country. The change was initially ushered in by venture capital funds providing capital to start ups. Today, long-term private equity firms and buyout firms are promoting and supporting the growth of entrepreneurship in India. This remarkable shift is also supported by public markets and the market regulators.

As our public markets have matured, private capital has also evolved. Private capital, though a single terminology, takes on various forms for investing as well as for exits. There are mainly three forms of the investment - venture capital, minority private capital and buyout capital. Private capital is more long term/ permanent than public capital, however this is also not perpetual. Therefore, private capital requires exit at an appropriate time from their investment. Over time private capital has explored different forms of exits such as minority sell down, block sale in the public markets if the investee company is a listed company, strategic sale in cases of control transactions and private equity to private equity sale. We have also witnessed other modes of exits like a controlling stake being sold in the public market, sale from one fund to another fund within the same group and exit through SPAC process.



More recently, we see the new trend of private equity exiting through public market. This new concept has been successfully tried by private equity investors, where they exit by way of an Initial Public offering (IPO) of the company.

Buyout firms had long believed that strategic investors pay more value than public market. The rationale behind this is that strategic investor can combine their businesses and derive synergies. In addition, since they would control the entire cashflow of the business, they have an additional incentive to acquire the business. As a result, there is a general perception that a strategic investor will pay premium valuation. Contrary to this belief, the new alternative of public markets has started offering much



better valuation. This is because there is higher confidence in the adequacy of governance framework of a company which is owned by professional investors. With comfort around professional management, higher corporate governance, absence of related party transactions etc. the public markets are also paying full value.

This new trend of making private public is very significant as it gives a boost to entrepreneurship. Let me explain the concept. If there is an entrepreneur who sets up a business or has an idea, a venture capital can fund the idea/ business. Once the business is established, the venture capital investor will exit by selling their stake to a private equity investor - the private capital will either buy the

entire stake solely or a group of private equity investors could together invest. Once the business grows further, the private equity investor will want to exit. Eventually, they will sell either to a strategic investor or through public market. Sale to a strategic investor curtails the involvement of original entrepreneur. However, if the private capital gets an exit through the public markets, then the entrepreneur can continue to run and control the business so long as he or she has the confidence of the Board.

I would say that this is a big change that will bring in a new age business model with professional capital, professional management and professional entrepreneur. The good part is that the regulator is also playing the role of a key enabler. The recent consultative paper of SEBI proposing to change the present provision of promoter to the concept of controlling shareholder is a move that would make it easier for entrepreneurs and private investors to access public markets. Identification of promoter, promoter group and relatives of the promoter; and minimum promoter's contribution/ shareholding/ lock-up

requirements have been a challenge for the new age companies and businesses. The concept of controlling shareholder and the proposed change in the current lock-in requirements will resolve some of these issues. Further, with the role of independent directors getting strengthened, the interests of larger public shareholders will be protected from a governance perspective.

To my mind, all ducks are in a row for a combination of Laxmi and Saraswati in the form of capital and capability to give us a lot more Unicorns!



Need for a Digital Currency – A Timely Discourse!

Sunil Sanghai, Chairman, FICCI National Committee on Capital Markets, Founder & CEO, NovaDhruva Capital Pvt. Ltd

On November 8, 2016 just prior to demonetization, India had approximately Rs. 17.97 lacs crore cash in circulation. Immediately post demonetization, while the new notes were still in the process of being introduced, this amount is estimated to have come down to approximately Rs. 3.49 lacs crore. The remaining cash – demonetized currency – should have returned to RBI through the banking channel. Interestingly, the cash in circulation at present is approximately Rs. 27.7 lacs crore. This equation indicates that over the last 4.5 years approximately Rs. 24 lacs crore of net cash has been pumped into circulation and likely withdrawn through the banking channels. In any case, net addition to currency in circulation is Rs. 10 lac crores over this period. Of course, the economy has also grown over this period.



Post demonetization and post-covid, digitization has been reshaping the economy and the way people pay. While this has caused a shift in the payment habits of people, cash still seems to be a popular mode of payment. This increased currency usage has happened despite the concentrated push by the government towards electronic payments – almost all forms of digital payments are free of charge; despite the brilliant technological platform of UPI built by NPCI; and despite India having 56 crores internet subscribers (second largest in the world), 53 crores Whatsapp users, 45 crores YouTube users, 41 crores Facebook users, 21 crores Instagram users and 1.75 crores twitter users.



To further boost a less cash economy, there is a new global discourse to make the **currency digital**. A recent survey shows that around 80% of the central banks around the world are engaged in preliminary work on digital currency. In wake of the rapid growth of digital economy, digitization of currency as a basic infrastructure and core variable of modern economic finance is being globally accepted. In fact, with the integration of the modern digital technologies such as the internet, artificial intelligence, and blockchain amongst others, the concept of money itself is becoming increasingly vague, showing a tendency of redefinition. I am sure our Reserve Bank of India (RBI) would also be evaluating this.

Central Banks of different countries are working on different solutions – there are different ways currency in digital form can be issued. Broadly there are three categories of digital currencies that have potential impacts on the international monetary and financial system: the first is encrypted digital currency represented by **Bitcoins and Ethereum**, the second is private coins such as Libra and, finally the third kind is digital currency is directly issued by the Central Banks.

The most authentic digital currency under discussion at present is the Central Bank Digital Currency (CBDC). The concept and design of CBDC is being investigated by many Central Banks for some years now. Although different Central Banks have different concepts of CBDC depending on their country-specific requirements and utilization, I believe these will converge at some point of time.



One of the methods of CBDC assumes that Central Bank could issue digital currency as a parallel currency to the country's existing currency. One can keep this currency either in a distributed ledger of the central bank or in a wallet as token. This may converge with normal currency over time. At present CBDC is still at R&D stage in various countries and at pilot stage in China. While there are still many issues about CBDC to be studied and proofed, some of its obvious benefits are that it can:

1. improve the competitiveness, efficiency, and resilience of payment systems in the face of increasing concentrated levels of payments in the hands of some of Internet giants.
2. help advance financial digitization and inclusive finance. This will further help in reducing the cash in circulation in the system.
3. greatly reduce the issuance and transaction costs of the monetary base/ currency in circulation, such as printing, transportation, storage, and maintenance.
4. track the full cycle of movement of currency and can record data which will improve the accuracy of the currency issuance and prevent, and control financial risks caused by shadow banking.
5. can also use existing digital marketing channels to achieve universal distribution and to provide a complete ecosystem for digital-technology-based economic and financial activities.
6. ensure a complete the contactless economy.
7. realize a closer integration of monetary and fiscal policy, to achieve a more efficient macro-policy regulatory system and in the long term may enrich and improve monetary policy.

While there are a lot of benefits of CBDC, several challenges and risks cannot be ignored. Given the anonymity and un-traceability of cash today, it would be a challenge to make CBDC completely acceptable. Further, there are 2 potential risks that I foresee – firstly, the risk of a wide scale run on bank savings by CBDC as the Central bank's credit rating would be a notch above that of commercial banks which may cause a disruption to commercial banks if there is any distrust. Secondly, if there is any interest payment on CBDC, it is likely that it will impact the existing monetary policy instruments. To overcome the potential risks, there are safeguards which could be considered such as interest rate of CBDC should be lower than and linked to the bank rates. CBDC and bank deposits are managed as two distinct systems, the two are not automatically fungible therefore, there is no guaranteed convertibility of bank deposits to CBDC on demand.

Given the headstart India has on digital payments compared to many other nations, we must ensure that we keep the edge on digital currency. It is surely time for our central bank to explore and to initiate the discourse of Central Bank Digital Currency.

Golden Step for Gold

Sunil Sanghai, *Chairman, FICCI National Committee on Capital Markets, Founder & CEO, NovaDhruva Capital Pvt. Ltd*

India is the second largest consumer of gold globally with an average annual gold demand of ~800 to 900 tonnes over the last decade. Indians are known to park a part of their savings in gold – mostly as physical coins or in the form of jewelry. Further, a large quantity of gold is held by some religious trusts and temples who receive them as donations. Our affinity towards the yellow metal, and continuous demand for it, makes us of the most significant players in gold globally.

Despite being second only to China in terms of gold consumption, India remains a price-taker for gold in global markets. One of the reasons for this is that gold is held in physical form in our country as there is no real opportunity of electronically holding it or trading in it. Lack of an organized gold trading platform and transparency in gold transactions is significant drawback preventing India from being a price-setter.

In the Union Budget 2021, the government had announced setting up of a new regulated gold exchange and had notified SEBI as the regulator for the same. SEBI had later quickly swung into action by setting up two working groups to suggest the right framework for electronisation of gold and the entire ecosystem around trading and physical delivery of gold.

SEBI has now released a consultative paper on the proposed framework for Gold Exchange in India which aims to infuse efficiency and transparency in domestic price discovery, ensure quality assurance, promote delivery standards, augment gold recycling, and create a vibrant gold ecosystem in the country. It is proposed to set up a Gold Exchange to facilitate trading in gold and to create a transaction ecosystem which would have three tranches: first, conversion from physical gold to Electronic Gold Receipts (EGRs); second, trading of EGRs on gold exchanges; and third, conversion back from EGR to physical gold. Drawing an analogy from the equity markets, the first tranche is very similar to the dematerialization of shares. The second tranche is akin to the stock exchanges for stock trading – likewise, there will be a clearing corporation to clear and settle the trade. And finally, the third tranche is similar to rematerialisation of share certificates.

An entire ecosystem around vaulting and issuance of EGRs is proposed to issue EGRs against physical gold and vice versa, with set quality standards. The standard operating guidelines would ensure appropriate measurement, quality standards and storage facility. Electronic receipts will be easily tradable and can be delivered.

The entire framework of Electronic Gold Receipts and Gold Exchange can significantly reposition India in the global market and the Indian gold market can be then linked to the global market. It would bring in the much-needed transparency in the Indian gold market and people across the country, including in the remotest areas, will have a standard market price for their gold. It would greatly benefit the economy if some part of the gold hidden in Indian households becomes a part of the mainstream economy. The trading itself will facilitate



overall economic activities linked to the capital markets. For individuals and retail investors, financing against the security of gold would become easier and faster. In future, like in the stock market, trading in gold may not only be restricted to spot transactions, and could be extended to derivatives like future and options.

As is always the case while implementing a massive project of this magnitude, there would be several challenges in execution. Issues like whether there should be a new trading exchange for this, the denomination and validity period of the EGRs, inter-operability issues in case of multiple vault managers, number of delivery

centers, vaulting charges, logistics and taxations will have to be addressed.

Once implemented, this will certainly have a similar impact as was felt when the stock exchanges were electronised and dematerialization of stock was

implemented. It had transformed India into one of the largest global stock markets. Am sure our gold market is all set in the similar direction - this initiative will certainly help marketability of gold and turn bullion into an asset class that operates mainstream.



Expediting Infrastructure Financing to Build New India

Himanshu Kaji, Co-Chair, FICCI National Committee on Capital Markets and Executive Director, Edelweiss Financial Services Ltd and
Subahoo Chordia, Senior EVP, Edelweiss Alternate Assets Advisors Ltd.

As India celebrates its 75th Independence Day, it is placed at a unique junction. It is simultaneously both a septuagenarian and a child with dreams and aspirations for new future. This vision for a new India is that of a greener, cleaner, digitally savvy, and well connected nation which is able to take care of the infrastructure needs of its own populace as well as serve as an example to the global community on infrastructure build-up and financing.

The Government has laid out plans and targets for various infrastructure segments to ensure that the above vision is realized. Some of these include:



- **Green Energy:** To support the continued growth of the economy and with the aim of providing power to all, India has set ambitious targets to grow its power generation capacity to 817GW with 450GW being from renewable energy (installed capacity as of 31 Mar 2021 of ~382GW of which ~94GW is from renewable sources). India's per capita power consumption is only around 1,200 units as compared to the global average of ~3,300 units while US and China have ~13,000 units and ~4,900 units. This incremental power capacity addition will not only improve the availability of power, but also in the process help India exceed its Paris Climate Agreement commitments of 40% of installed capacity from non fossil fuels by 2030.
- **Water and Sanitation:** The government is targeting piped water to all rural homes by 2024 under the Har

Ghar Nal Se Jal programme. To meet this requirement as well as for cleaning the Ganga, interlinking rivers to redirect water to water-scarce regions and irrigation projects, significant infrastructure spend and financing will be required.

- **Digital Infrastructure:** With a vision to transform India into a digitally empowered society and knowledge economy, the Government has launched the flagship program of Digital India. As internet and digital communication grow and occupy a larger share of people's lives, it is vital that adequate spend on growth and development of digital



infrastructure in the form of data centers, telecom towers, optical fiber cables, broadband connectivity etc is undertaken. This is of particular significance given the post pandemic scenario, where remote working has further accelerated the pace of internet and smartphone adoption.

- **Roads & Highways:** Since the launch of the NHDP programme in the 1998, India's road sector has witnessed massive growth in terms of road network and its quality. However, to continue to improve connectivity especially in the hinterland, the country needs to spend.

To achieve the target of US\$ 5tn GDP and continue its growth journey well beyond 75th Year of independence, India needs to undertake massive investment in infrastructure at fast pace. However, achievement of this



rapid growth in infrastructure investment will be dependent upon the availability of adequate financing.

Equity financing

India has allowed for 100% FDI investments in infrastructure sub-sectors like roads, railways, renewable energy, and airlines. There have been substantial inflows of FDI in the infrastructure sector. Between April 2018 and December 2020, construction (infrastructure) activities witnessed USD 11.4bn FDI inflows which is ~8% of total FDI inflows during the same period.

However, these amounts continue to pale in comparison to estimated equity requirements of infrastructure sector over the course of next few years.

Accordingly, India has to continue on its path to attract additional long-term capital from pension funds, insurance companies, sovereign wealth funds and other form of long-term capital. Further, private, and international capital needs to be supplemented by the budgetary allocations by government.

Debt financing

Lack of long-term debt Infrastructure financing continues to remain one of the key impediments to growth of infrastructure in India. Banks continue to be the primary provider meeting significant share of infrastructure finance requirements with an outstanding exposure of INR ~10.85 lac crores to infrastructure sector, which constitutes ~ 10% of the gross bank credit. Infrastructure finance companies (IFCs, excluding REC and PFC), Infrastructure debt funds (IDFs) initiatives have not yet achieved levels to create any significant impact in the market.

For the purpose of development of entire infrastructure debt financing ecosystem, a multipronged strategy is required. Some key initiatives that can be considered are:

- **Quick operationalization of New DFI with well laid out lending criteria.**

The government has announced the setting up of a new Development Finance Institution (DFI) in order to provide long-term funding to infrastructure projects. The Union Budget has allocated INR 20,000cr to capitalize the DFI, which is expected to create a lending portfolio of at least INR 5 lakh crore in about three years. The DFI will provide boost to long-term infrastructure financing and ease the burden from banks which typically do not have the bandwidth to provide such long-term capital. However, it is very important to operationalize this DFI at the earliest and ensure it provides long term sustainable debt to the projects.

- **Increased support to IDFs and IFCs to ensure their success can be replicated at bigger scale**

IDFs have proven to be an efficient mechanism for developers to lower the cost of debt funding once the project is operational and it has helped reduce banks' ALM mismatch by allowing them to reduce the ALM mismatch inherent in the infrastructure sector lending. However, these IDFs still form only a small part of infrastructure lending. In order to increase their lending to the sector, IDFs need additional support like ability to lend to InVITs, ability to raise higher share of borrowing for lower than 5 years term. Further, requirement of ownership by only IFCs/banks is acting as a bottleneck for launch of news IDFs.

IFCs are able to develop deep understanding across infrastructure sector, which enable them to underwrite under construction projects with relatively better efficiency. IFCs need additional support in form of tax benefits (like IDFs), preferential access to termination payments like IDFs have in case of road and clarity on ability to lend to InVITs.



- **Encouragement to Infrastructure AIFs**

Alternative Investment Fund (AIF) are emerging as important vehicles to channelize both domestic and international savings to Infrastructure sector. It allows investors to take exposure to Infrastructure sector with diversified allocation to various projects and remove concentration risk. Further, there are large pools of global capital which being smaller in size don't participate in international markets (such as India) directly and prefer investing by being investors in infrastructure funds such as Infrastructure AIFs. Governmental support to Infrastructure AIFs including providing the same tax benefits as InvITs will make them attractive to such investors and would lead to additional capital flows into the country for the infrastructure sector

- **Development of bond market with special dispensation to infrastructure sector bonds**

Indian bond market continues to lack depth and liquidity for long term debt of infrastructure projects is extremely low and developers find it very



difficult to raise long term fixed cost debt funds from the bond market. Government can consider first loss guarantee fund/mechanism for eligible infrastructure projects' bonds to enable such projects to improve their credit ratings and acceptability in the bond market.

- **Allowing PF and insurance companies to invest more in infrastructure:**

The total Assets Under Management (AUM) for the insurance sector and pension funds is estimated at over INR 50 trn. A 1% additional investment of their combined AUM in infrastructure sector will therefore lead to an incremental funding of INR 50,000Crores to the infrastructure sector. Government can also consider special allocation for infrastructure sector akin to priority sector in banks for long term investors like insurance companies, pension funds, provident funds etc. to allow this market to deepen and develop.

- **Creating a listed infrastructure debt provider, which can attract more pools of debt capital**

Providing long term debt capital through listed vehicles is gaining momentum globally. Foreign investors may be more amenable to lend to infrastructure projects, if such a vehicle was available and the same can be explored.

To conclude, infrastructure spend is one of the most efficient ways to turbocharge the economy, given its multiplier effect as well as create infrastructure that support and grow the rest of the economy. A way to expedite financing and spend on the sector will be vital to the new India that we collectively as a nation are dreaming of.

Digitisation of Financial Assets for Diversification and Broadening of Investor Base

Vijay Chandok, Co-Chair, FICCI National Committee on Capital Markets and Managing Director and CEO, ICICI Securities Ltd.

India is witnessing a transformation in digital finance space

An active capital market and financial system, well entrenched financial access and an aware investor base are cornerstones of a well-oiled machinery to allocate capital optimally towards nation building. India has made substantial progress on enhancing penetration and reach in the last decade. Some of the crucial factors that have helped:

● Growth of the digital infrastructure

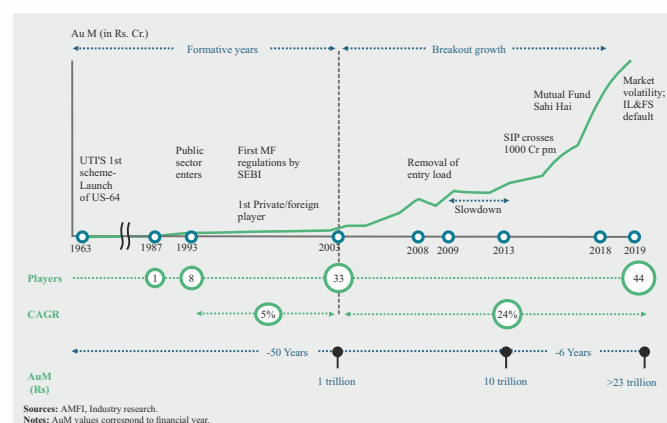
One of most crucial development of the last decade has been the propulsion into a mobile and digital nation. 43% of Indians (622 million users) now have access to internet and 79% of Indians (1.2 billion users) have access to mobile phones. Data access for Indians is now 5% of what it was in 2013. Availability of reliable data with 4G at low cost coupled with growing smart phone penetration has made access to information and digital services including digital financial services possible for larger Indian population. Further, with initiatives like **BharatNet**, the government is trying to modernize the rural parts of the country, which can then use technology for their commerce, information and accessing financial instruments and markets.

● Enabling and progressive regulatory push

Aadhaar'i'sation, Jan Dhan and Direct Benefit Transfer (DBT): Aadhaar, world's largest identity initiative with over one billion enrollments, that's ~95% of the population of one of the most populous country in the world, has been a key enabler for India moving to a digitally empowered, cashless and knowledge economy. It has helped open more than 42 crores Jan Dhan bank accounts with a cumulative balance of ₹1.4 lakh crore in March 2021, adding new potential investors to the pool. The DBT approach adopted now as compared to the earlier subsidy based approach is putting cash benefits in the hands of these new potential investors.

Support extended by Financial sectoral regulators and industry bodies: The financial sector regulators, SEBI, RBI, IRDAI, PFRDA and industry bodies and

associations like AMFI, GIC, LIC, NBA etc. have played a pivotal role in enhancing penetration and enabling digital. To name a few examples, SEBI encouraged mutual fund penetration in B30 cities and more recently enabled digital account opening for demat account holders, IRDAI enacted enabling provisions to promote digital insurance for life insurance and non- life insurance for on-boarding as well as digital policy warehousing through eIA initiative. AMFI's 'mutual fund sahi hai' initiative has helped spread awareness. A case study of the impact of such initiatives coming together towards growth of mutual fund industry is set out in the chart below (source BCG, AMFI research)



● Partnership by Corporate sector

The private sector contributed to this inclusion agenda in many ways. Right from making investments into the digital infrastructure to creating distribution models to reach last mile through phygital models. Private banks contributed in reaching the priority sectors and opening Jan Dhan accounts, similarly insurance companies reached out to rural and social sectors and mutual fund distributors created distribution in the B30 cities.

Fin tech revolution, with lot of startups and niche tech players working towards innovations in a part or whole of the value chain, also played its part. They helped by providing low cost access to markets as well as knowledge and information. Further, some of these fin techs are

hitting the markets for IPOs, thereby creating their own investor base.

● Acceleration by COVID

Digital adoption by masses received a further impetus out of the necessity that arose during pandemic. Access to basic services like grocery, medicines, continuity of education etc. required adoption of digital models of commerce and engagement. Once the divide towards adopting digital for commerce was bridged, it was natural for the behaviour to trickle to financial transactions as well.

Case in point, in FY21, CSDL (Central Depository Services Ltd) and NSDL (National Securities Depository Limited) added over 1.42 Cr new accounts, nearly 3 times the new accounts opened in FY2020.

Needle is moving but there's still time to the hour

● Impact on penetration

While the investor base is growing in India but the penetration still has a lot of head room. The mutual fund client base has grown almost 2X between 2017-2021 and as at June end was at ~2.4 crs. Similarly, the demat accounts have almost doubled between march 2018 and march 2021 to cross 5.5 crores. Despite such growth, the penetration is still very low. Mutual fund penetration at ~2%, demat penetration at ~4% and insurance penetration of less than 4%, pale in comparison to global benchmarks. For example, the penetration of 4% in demat accounts is substantially lower than say 11% for some of our Asian peers and more than 30% for some global peers. Similarly, the current AUM/GDP ratio for Mutual fund stands at 15% for India, whereas the global average is 75%.

Clearly there is progress made and also some task ahead to continue on the path.

● Benefits have started to accrue to various stake holders

Investors: Joining the financial ecosystem digitally is helping investors appreciate the ease of high quality access to knowledge, to financial products and various asset classes and have a better control on their personal finance priorities.

Policy makers: Enhancement of penetration, financial awareness at individual level and transparency & efficiency of financial ecosystem are some of the definite outcomes for the policy makers, Government and regulators. Financialisation of household savings ensures

that capital gets deployed in the productive sectors thereby helping in nation building.

Corporates: These initiatives have also helped create large domestic institutions like AMCs, Life Insurance companies etc. These domestic institutions have been key providers of capital in the primary market e.g. by investments into public issues, deepening corporate bond market etc.

The second fall out of the entire digitization journey for corporate India has been that business models built on digital finance, various fintechs and other capital providers like the telecom sector have started witnessing economic benefits of scale. This augurs well for continued



progress, innovation and availability of capital for this sector going ahead.

Providing Sustainability to Capital Markets: The rapid growth of the domestic financial institutions in the recent past has led to a diversification of the investor base in the capital market. Domestic Institutional Investors (DIIs) provide a stabilising effect to the capital markets complementing the flows from Foreign Institutional Investors thereby providing insulation from global geo-political and macroeconomic environment related vagaries. For example, in fiscal 2020, the FIIs were net sellers with flows of -0.6 bn USD but DIIs invested USD 17.9 bn.

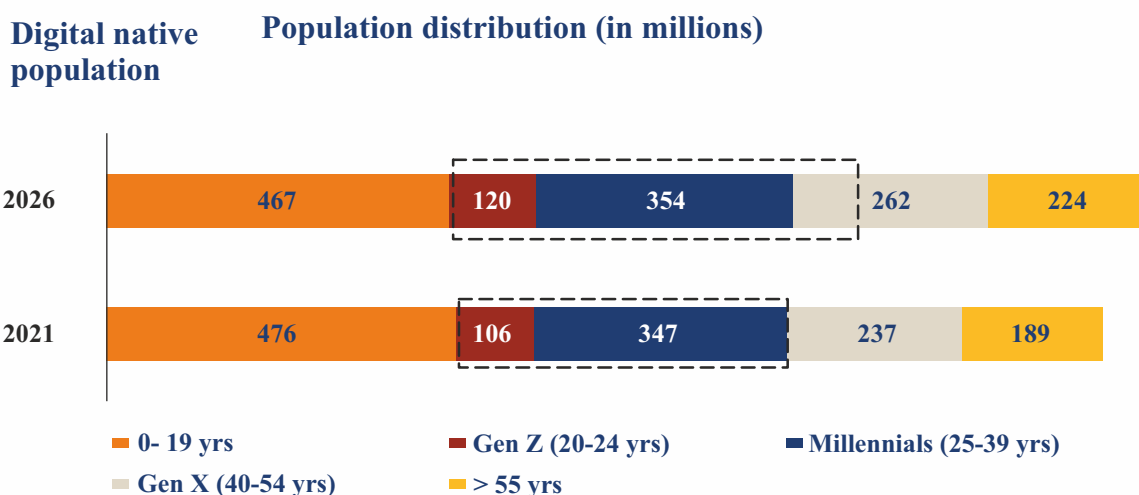
Road ahead and imperatives

It will be important to understand how the current priorities, the evolving environment and the technology

landscape is emerging to draw a road ahead for moving from inclusion and access to promoting financial awareness, spreading knowledge, ensuring simplified onboarding processes and simple products.

- **Emergence of new customer pools: imperative to deliver simple products digitally**

Innovative ways of providing similar quality of service to a highly distributed investor base would be required. One savior though is technology. The broking industry, with more than 50% of the incremental accounts from tier II and III cities, has been able to extend reach by using technology. Advances in AI/ML and data sciences as well



Digital natives comprising GenZ and Millennials are expected to increase by 15 mn - 20 mn annually for next 10 years¹

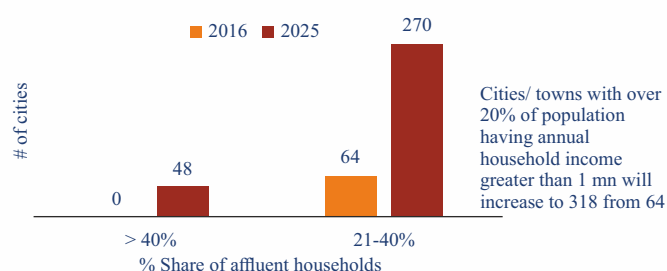
Large customer cohorts with different needs and preferences are emerging and expected to contribute significantly over the next decade. Chart below shows GenZ and millennials, are expected to contribute approximately 15-20 million new investors each year for the next decade. These investors are digital natives. They value simplicity, ease of transacting, intuitive experience, instance access to market and knowledge. Solutions would need to be devised to nurture and cater to these emerging segments.

- **Growing affluence: imperative to adopt technology to personalise at scale**

Growing affluence, including in tier II and III cities, will require a different architecture to reach these investors. The chart below indicates that number of cities with > 20% households having >₹ ten lakhs of income would grow from 64 currently to 318. This segment is looking not only at smart access, but knowledge, on tap information and most importantly a personalized experience.

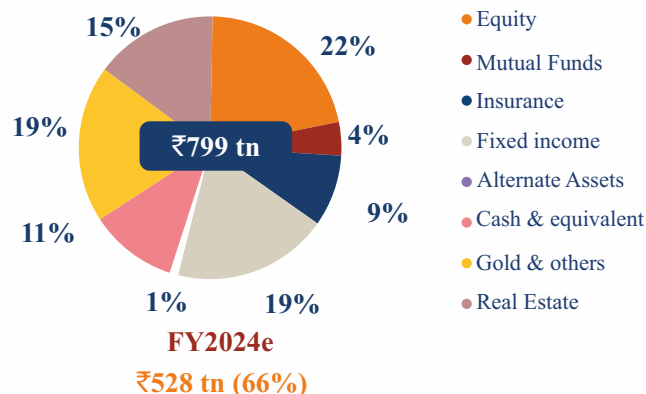
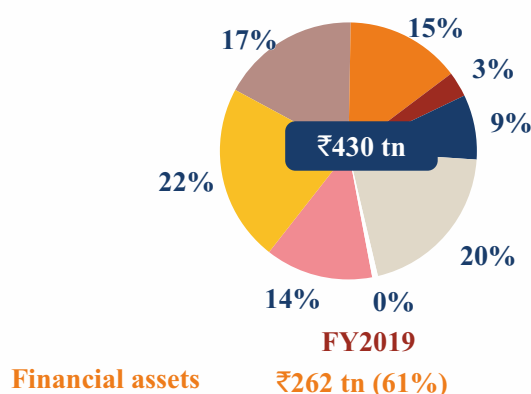
Traditionally, a specialized and curated experience has been delivered but not beyond metros and Tier I.

as a vernacular approach need to be leveraged to meet the need of this cohort of investors. Digital personalization at scale and digital delivery are the key action points going forward.



- **Expected financialisation over the next 5 years**

Over the last few years, the contribution of financial assets has grown being 61% for FY2019 and expected to grow to 66% (refer chart below; source: industry research reports). Within financial assets, the contribution of equity, MF and alternatives is also expected to grow. The industry will have to continuously innovate to deliver simple propositions across these asset classes digitally.



● Resourcing participation: imperative to enhance knowledge and awareness

Despite the expansion of access, a cross section of investors is reluctant to initiate digital finance journey for want of knowledge and trust. The occasional cases of online fraud and misuse make the job of instilling trust harder. Second aspect of knowledge is basic financial literacy or awareness for various instruments, awareness about the concept of goal based saving and personal finance. For unlocking the value of Indian middle class, it is imperative for the industry to devise ways to enhance this awareness in a manner that connects. Vernacular content, regional call support, simplified product concepts are initiatives in that direction.

● Policy makers' agenda

The regulatory environment has been conducive to the progress so far. Regulatory enablement would continue to be a strong support for driving the diversification of investor base. Some of the crucial items in the agenda for policy makers could be as follows:

Simpler on-boarding norms: Currently, there are distinct requirements across KRAs, CKYC and eKYC for different financial products across lending, insurance and investments. While there is growing appreciation of the benefits of leveraging KYC across sectors and attempts also have been made in this direction, there are still some tweaks required across sectoral regulations to move towards one nation, one KYC approach. A unified approach across regulators would benefit all sectors and by smoothening onboarding process and thereby enhancing penetration.

Attracting NRI remittances for investments: Another crucial segment which can do with a lot of simplification is the NRI segment. NRIs have strong affiliations with India and remit close to 60-80 billion USD annually however this has not made way to secondary market investment as much primarily because the requirements for onboarding and investing are very cumbersome as of now. There is some scope for simplification for which sectoral regulators will need to come together to adopt a unified approach.

Promoting digital formats across asset classes: Equity as an asset class has benefitted from dematerialized (digital format for storing and transacting). Similar benefits could possibly come through if a larger adoption of demat in Mutual fund is encouraged. Similarly, eInsurance Account (eIA) initiative of insurance industry could be encouraged to enhance digital format of participation. A road map for 100% digital format across asset classes could be efficient and transparent.

Incentivizing expansion of new investor base:

Incentives such as direct, indirect taxation, remuneration norms etc. are potent levers at the hand of the policy makers. Incentivizing distribution to drive penetration in B15/B30 cities has yielded growth in these cities. Similar approach could be adopted for new investor base. Taxation norms also have a wide implication on penetration of a product category. Capital gains, STT, GST etc. can be leveraged to incentivize industry to get new customers or new assets into financial eco-system.

Regulatory Tech: New age technologies such as block chain, machine learning and artificial intelligence can help a self – governance based regulatory supervision mechanism. This has potential to bring down operating costs. The industry and regulator should work cohesively to create such solutions. Case in point being commendable initiative taken by SEBI, IRDAI and RBI to create a Regulatory Sandbox, where fin techs can test their products or solutions before seeking regulatory approvals for a mass launch.

In conclusion

India is at an exciting phase of transformation on many fronts, economic, demographic, technological and financial. It is the right stage from which to accelerate onwards. A lot has been done by adopting a very well thought out and collective approach co-opting all stakeholders. Continuous efforts from all stakeholders, the industry, the policy makers and market participants will lay the foundation for us to realise the true potential of what are capable of.

Boards in India Need to be 'Woke'

Amit Tandon, Founder and Managing Director, Institutional Investor Advisory Services (IIAS)

A bill in the state of Georgia in the US, innocuously titled SB 202 was passed on 25 March 2021. It is creating ripples as it threatens to upend the decades old cozy relationship between business and the Republican party. It is also set to change the equation between business and politics in times to come. What message does this carry for Indian companies and boards?

President Donald Trump lost the state of Georgia in the November 2020 presidential ballot - the first republican candidate to do so since 1992. With the gubernatorial elections looming in 2022, the Republican party swung into action and legislated changes to their voting laws. These include a shorter timeline for mail-in absentee ballots - from when you can ask for it, to when you need to submit it. A more rigorous identity check for those using

passed into law: the governor signed the bill with undue haste, the very day it was passed by both the houses. Clearly, it is never too early to begin campaigning - irrespective of in which country you are seeking office.

After some murmur by voting right activists, the first major salvo was fired by 72 Black CEO's who signed an open letter published in a full-page ad in The New York Times on 31 March, within a week of the bill becoming law. "This is a nonpartisan issue; this is a moral issue," Kenneth Chenault, the ex-CEO of American Express told The Wall Street Journal. James Quincey, the CEO of Coca Cola, told CNBC that Coca Cola was always against the bill as it riles 'against the principles we have always stood for', and voiced it stance publicly when the bill was signed into law. Ed Bastion, the CEO of Delta Airlines, which too has a large presence in the city sent a memo to his staff in

which he said, "this bill was based on a lie: that there was widespread voter fraud in Georgia in the 2020 elections."

But it was all talk, till Major League Baseball announced that it is pulling out the all-star baseball game from Atlanta because of the new laws. This is the equivalent of pulling an IPL cricket final from Eden Garden because of a law passed by the West Bengal Legislature.

As expected, the Republican have dug their heels in,

complaining of a cancel culture and citing that the bill is being misunderstood. At the time of writing, this story is three weeks old, and still unfolding. And with elections looming over the horizon, the stake for politicians on both sides of the divide are high, and they will do all it takes to win. We must wait and watch to see how this will end.

As events unwrap, the question to ask is: Are Indian Boards too docile when dealing with the State? Should



this mail-in route. Fewer places where these ballots will be collected with restrictions regarding when these drop-points will be accessible to the voter. And many more. Although some changes have merit, like printing these ballots on security paper or asking for the ballot papers to be dropped in early to ensure that all votes get counted in time, most believe these changes will make it more difficult for the 'under-represented communities' and blacks who largely support the Democrats while voting. In a pattern, all too familiar to us, the bill was hurriedly

they be more vocal regarding policy? Rajiv Bajaj speaking out cannot be taken as proof that Indian business has a habit of speaking truth to power. And a company's claim that its CSR spends show that it has a conscience, is missing the woods for the trees.

I do not expect companies - nor am I asking them to wade neck-deep into political issues. They have their shareholders to think about and the State controls far too many levers, for them to risk doing so. But corporations do speak, albeit in closed rooms on policies that narrowly impact their business and publicly when they litigate against the government on tenders, contracts and policies that affect them. So they can certainly speak on issues that affect the society in which they operate. The pandemic - masking, social distancing and vaccinations is one issue,



on which many business leaders have weighed in. But there are many others: the size of the fiscal deficit, spend on healthcare, quality of education, police reforms, capacity building in judiciary, regulators, and bureaucracy, speeding up the courts. Such issues will impact our civil society and our polity for generations - to say nothing of bolstering business competitiveness.



The mandarins will push back. They have a tradition of listening only to their own. Politicians are prickly when in power - they always have been and always will be. But this cannot be an excuse for holding back. Companies owe it to the future generations to speak-up. To quote Abraham Lincoln, they 'cannot escape the responsibility of tomorrow by evading it today.'

A modified version of this blog, titled 'A woke board for India' appeared in Business Standard on 20 April 2021. You can access it by clicking this link: https://www.business-standard.com/article/opinion/a-woke-board-for-india-121042000033_1.html

Indian Capital Markets – Anchoring the India Story

Arun Mehta, *Managing Director & CEO, SBI Capital Markets Ltd.*

Capital markets being the backbone of an economy, channelize surplus funds from savers to institutions, for investment in business and for economic growth. They facilitate in distributing risk in a financial system through widespread investing by promoting the usage of innovative and cost-effective financial instruments. For a growing economy, an efficient capital market helps in the effective allocation of financial resources for all sectors including infrastructure. The average fundraising through capital markets in the last few years has just been short of INR 10 trillion for equity as well as debt put together¹. Currently, Indian capital markets being at an all-time high even amidst the recurring waves of the COVID-19 pandemic, reflect the exceptional resilience shown by Indian corporates.

Government of India's (GOI's) structural reforms and sustained policy action in the past few years has resulted in improvements across both Corporate as well as Bank's balance sheets. The Insolvency & Bankruptcy Code of 2016, as amended from time to time, the GST reforms in 2017 and a tweak in the corporate tax rate in 2019, are all reforms that have strengthened the economy and induced greater issuer as well as investor confidence. Foreign investment has been, by and large, steady over the past few years, and India's position for attracting manufacturing investment has gradually improved. While these may appear to create a win-win on their own, there is also the strong element of Production-linked Incentive (PLI) to support the domestic industry. The existing competitiveness, therefore, now has a broader canvas



through the PLI scheme of Government of India. Added to this is a strong focus to discourage non-essential imports. Corporate earnings as well as the resurgence in the BFSI sector have amply demonstrated that the India growth story remains intact and the initiatives by GOI have brought India on the cusp of a sustained economic growth cycle. On the pandemic side, everything is dependent on the vaccination programme, where the Government is targeting to vaccinate a very substantial portion of the population by 2021 end.

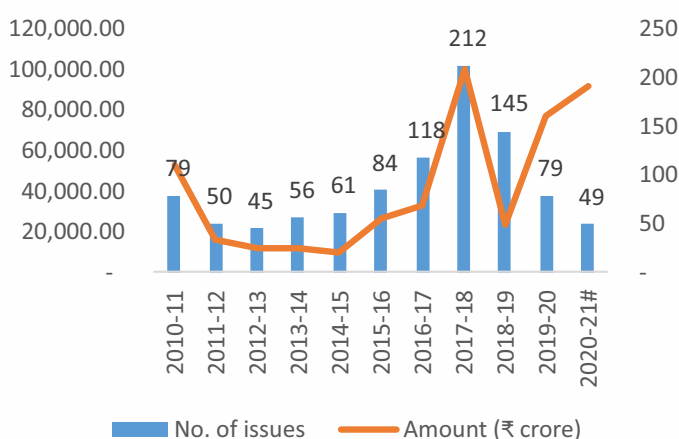
The corporate investment cycle continues to be subdued resulting in the Government shouldering the growth engine responsibility with an aspirational target of a \$5 trillion economy. The focus continues to be on developing world-class infrastructure with an eye on simultaneously fast-tracking economic growth. The National Infrastructure Pipeline (NIP) plan announced in August 2020 with an outlay of around INR 111 trillion over FY'20 to FY'25, is a major step in this direction. The funding of these projects through asset monetization, equity/ debt fundraising brings capital markets into sharp focus for generating capital to be invested to not only drive infrastructure development but also achieve sustainable long-term growth. When you add to this the focus on improving the operating environment in the form of corporate tax and labour reforms, the growth intent is more than abundantly clear. The market itself is very focused on the normalisation of the demand situation as well as the efficiency gains due to innovations to combat tough times. A higher influx of global capital and rapid



regulatory strides have consequently advanced Indian capital markets.

Indian corporates have a wide range of instruments at their disposal to raise both equity and debt capital. SEBI needs to be commended in this regard in constantly evaluating the regulatory regime and bringing in best practices. While the capital issued through public and rights issues have shown a marked recovery, in terms of capital issued, from FY'18 to FY'21, the number of corporates accessing capital markets has steadily declined from over 200 in FY'18 to less than 50 in FY'21 (till December 31, 2020). A similar trend is evident for qualified institutions placements as well.

Public and Rights Issue²



While some of the recent impact can be attributed to the pandemic, one must hasten to add that SEBI has been extremely proactive in terms of easing the regulatory regime so that corporates can raise much-needed capital to tide over the hard times.

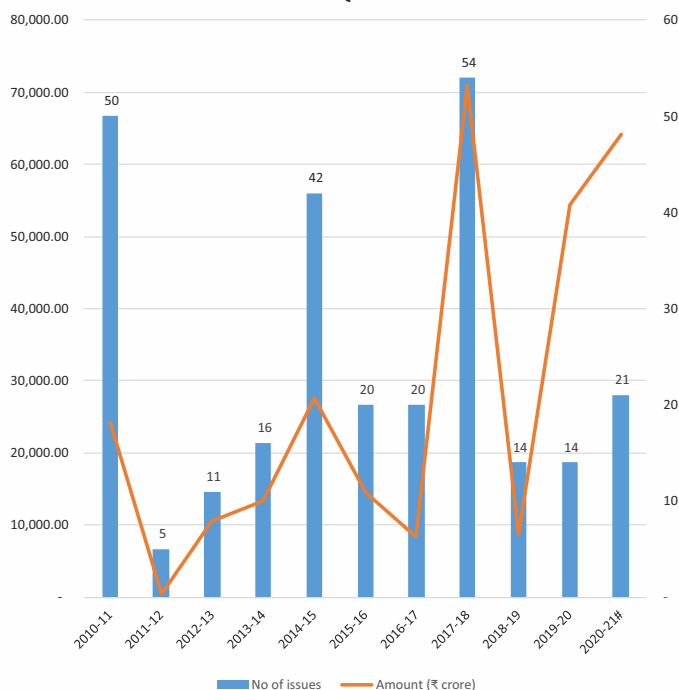
The fresh demand for capital is likely to emanate from:

1. Capacity utilization steadily increasing will result in private investment witnessing a pickup sooner rather than later. As demand picks up, companies in the manufacturing sector will look to the capital markets to fulfil their need for equity.
2. The GOI's focus on raising fiscal resources results in not only the investors getting a chance to own a piece of the large public sector giants but also gives resources in the hands of the Government to invest mainly in infrastructure projects, which have a multiplier effect on all sections of the economy.
3. India's mature and vibrant ecosystem harbours numerous start-ups and new-age companies that are coming of age. As and when these companies scale

up and go public, the demand for capital is likely to be humungous.

4. GOI's ambitious disinvestment plan includes the mega public issue of the Life Insurance Corporation of India, which could potentially be the largest initial capital issuance the Indian markets have ever seen.
5. Banks are also priming themselves for the credit requirement of the economy and have been raising capital from the markets, a trend that is expected to continue going forward.

QIP²



All of the above bodes well for Indian capital markets simply due to the scale of the requirement and the diversity of the issuers.

The next phase of growth requires greater use of technology to enhance the capabilities of market intermediaries, like the introduction and wider usage of UPI in public issuances.

1. SEBI has, as ever, been in the forefront of making Market friendly changes, which include inter alia the appointment of Independent Directors mandatorily through a special resolution and rationalizing the disclosure requirements for public and rights issues. While the former will bring out better Corporate Governance, the latter will reduce



the time taken by corporates to raise capital from the markets. Preferential issue, the most widely used method to bring in capital through private placement, has been further liberalized by providing a pricing formula for diverse situations which is a welcome departure from a 'one size fits all' approach. QIPs can now be a combination of fresh and offer for sale and are one of the modes to achieve minimum public shareholding.

2. Incidentally, SEBI's discussion paper with respect to reducing lock-in period, rationalizing definition of promoter group, streamlining disclosures for group companies, and replacing the concept of promoter with controlling shareholders, as and when notified, will bring the Indian regulatory regime closer to its global peers and will further enhance the attractiveness of Indian markets for foreign portfolio investors.
3. The Government's focus on opening various sectors to foreign direct investments, in terms of which limit has been raised from 49% to 74% in the insurance sector, also paves the way in a sector where there is a huge, untapped growth opportunity and requirement of substantial capital to fund growth.
4. Depository institutions - CDSL and NSDL, increased the foreign ownership limits for all listed companies to their sectoral limits and have started disclosing the foreign investment limits for Indian securities addressing the concerns on the timeliness, quality, and standardization of the data.

This is a big positive for India as its weightage will go up in the index funds.

The last couple of years have seen a declining trend in the number of issuers raising capital through SEBI prescribed modes. India has numerous small and midcap companies who are participating in the India growth story and have the potential to scale greater heights. Specific policy initiatives are the need of the hour to provide such companies with greater access to capital and ease of doing business. Focus on governance quality and auditing standards have long been recognised as imperative for wider investor participation.

Going forward, further work can be done in the following areas to develop the capital markets:

1. **REIT / INVIT** - SEBI has been taking gradual steps to enhance retail participation in REIT and INVIT.
2. **Listing of AIFs in India** – Regulatory framework can be revisited to popularise listing of AIFs. These would provide another avenue for investors to participate, based on their risk appetite.
3. **SPACs** – SPACs have been gaining popularity in the US markets. As the role of private equity funds is increasing in Indian companies, such innovative structures can be looked at to develop the public issue market.
4. **Making it easier for companies coming out of IBC to go public** – IBC has been successfully helping the Indian economy to deal with NPAs which have accumulated in the banking system. A framework that can facilitate breaks from the past in terms of compliance, consolidation and illiquidity needs to be put in place to enable such companies to raise capital.
5. **Privatisation of Public Sector Banks** – While the Government has announced its intention on the issue, a clearer path in this direction will help the market in ensuring a win-win for the Government as well as the investors.

India has a target to be a \$5trillion economy and efficient capital markets along with focused regulatory action will definitely help anchor this objective.

A Vision for Transforming India's Future

Ashishkumar Chauhan, Managing Director & CEO, Bombay Stock Exchange

Before Covid-19 impacted Indian economy, the Indian government rolled out initiatives to inspire growth in core sectors like finance, agriculture, health and education in the form of missions and schemes. The advent of Covid-19 and its subsequent second wave has been a series of unfortunate events not just for India but globally as well.

The COVID-19 outbreak, that made 2020 a year like no other for the entire world, has affected the calculations of GDP growth and need for recovery. India has done well in managing this worldwide crisis in infection per million and death per million, even compared to richer countries with 25 times more GDP per capita and tremendous resources. But these unprecedented times has forced humankind to take unprecedented actions.



New world, new perspective

The world dynamics are constantly changing and with fourth industrial revolution at its dawn it is almost a mandate that our nation breaks through and transform itself into a sustainable and developed economy. This can be achieved by transforming entire systems of production, distribution and consumption. Given, the natural and human resources that our country is gifted with it is paramount that we accelerate towards this common goal and achieve what our forefathers envisioned for us. As more countries are pushing towards self-sufficient and sustainable strategies of growth, India has positioned itself in the right way as we look to move ahead with the goal of 'Atmanirbhar Bharat'.



What needs to be done?

- *Global alliances and Free Trade Agreements*

While improving domestically, India should also promote and propel global alliances and partnerships. Maintaining strong relations with global organisations like WTO and also with individual countries at a quid pro quo capacity that is healthy, sustainable and in line with progress for both economies. A right step in this direction is the creation of IFSC at GIFT City. Opening of this avenue has created a whole host of new opportunities and with this change, good things are bound to happen.

- *Boost exports and Make in India*

The Chinese economy was built on the country's ability to export almost everything it produced. With the quality of resources India has both natural and human, we are set up in an optimum way to unlock India's capacity to export. 'Make in India' a concept turned initiative by the current government aims to achieve this but it can be a reality only when we as Indian's realise the importance of it. Self-sustenance will create the future we want.

- *Ease of Doing Business*

The country wide lockdown which was a result of Covid-19 pushed most organisations, from across the industries and sectors, to transform themselves

into digitised, functional units. What is now a crisis management tactic should become a norm for the future. Companies, institutions and government alike should look to reduce compliances simplify processes.

- *Separate Cell / Vertical and incentives to Promote Next - Gen Technologies*

Next-gen technologies such as artificial intelligence, internet-of-things, and robotics should be promoted to keep in line with the fourth industrial revolution. The recent unprecedented success of BSE can be attributed to this very fact, and the Sensex being a key indicator of the nation growth, it is clear that technology based industries (fin-tech, agro-tech, healthcare tech etc.) are the future.

India's ambitious goal of becoming a \$5 trillion economy is now more realistic than ever. Despite the pandemic, there was an increase in the number of investors, indicating that Indians are generally optimistic. BSE-listed firms also reached a market capitalization of \$3 trillion, demonstrating India's commitment to excellence. The Production linked incentive schemes (PLI) offers incentives on incremental sales for products manufactured in India has the potential to boost domestic

manufacturing. PLIs will surely have to play a major role in making India 'Atmanirbhar' in essential raw materials, commodities, and green technologies.

With a series of efficient and calculated measures and forming the right kind of partnerships focused at building the country's future, India can soon become a dominant world power. Movements like 'Make in India' is not just a current fad but in fact a key principle on which this country got its freedom. Although the past year and a half has been difficult for thousands of families around the country, it is our community's sheer determination and never-backdown mentality that has allowed us to not just survive but thrive.



Roaring Capital Markets to be the Wheels for Making Swift Strides Towards \$5 Trillion Economy

Atul Mehra, Managing Director & Co- CEO, Investment Banking, JM Financial Ltd.

India's capital market has grown at faster clip through the FY' 2021, a year marred by the raging Covid-19 pandemic. Arguably, the pandemic did upset every aspect of economic activity but the capital market may be the only space that remained immune to the viral infection through the whole fiscal. This was mirrored in the value of market capitalization overshooting the GDP or the size of the economy (M-Cap-to-GDP ratio) by almost 112% in the last count. Though there are different spins to the market cap-to-GDP narrative, a turbo charged capital market racing past its own past records on every other trading day will play out as an important driver (enabler) towards the goal of making India a \$5 trillion economy sooner than later.

Promising Macros

Stock markets have historically been considered as a barometer of the organised economy. To begin with, India continues to enjoy the status of one of the fastest growing larger economies in the world thanks to its structural strengths and resilience. The Corporate India balance sheet looks stronger and better, even post the second wave of the viral infection the consensus estimate shows that India will grow at a rate of 9.5% to 10% Y-o-Y in FY' 2022. Considering inflation level remained at the RBI's comfort zone of 6% Y-o-Y, this translates into a nominal GDP expansion of 14% to 15% in the current fiscal. This is a big positive for the stock market since what matters for markets is the nominal GDP growth because it means

higher earning visibility and profits for firms with adequate scope for margin expansion.

A money Tree called Indian capital market

From its lows in March last year, stock market has not only erased the losses it suffered due to the pandemic but came out on top of the emerging market pack during the last fiscal. From 36,000 levels in mid-July 2020, BSE Sensex has gained almost 47% to touch 53,000 levels in mid-July 2021 and is trending at that level. Similar gains are mirrored in broader NSE CNX Nifty-50 index as well.

Further, gains from the Indian stock markets have outpaced emerging markets (EMs) pack in the first six months of 2021. Benchmark indices-both Sensex and Nifty-rose 9.64% and 12.15%, respectively in the first six months of CY2021, compared to 6.42% gains by the MSCI Emerging Markets Index during the same period.

Retail Rage

What makes FY '2021 a defining year for Indian stock market is the never ever seen scale in participation by retail investors. Data from NSE shows approximately 90 lakh investors have joined the crowd of retail investors during the fiscal 2021. Add to this another 1.78 crore (17.8 million) new investors joining BSE till May 2021 (Y-o-Y.) the number looks staggering. Further individual demat accounts jumped by 14.2 million in the last fiscal, almost 300% increase over the previous fiscal. More importantly, retail investors accounted for almost 45% of the turnover on NSE in the last fiscal, the highest ever in the last 10 years.

The IPO Frenzy

The turbo charged sentiments in the secondary market indeed has its echo heard in the primary market with a record 64 companies raising \$29.7 billion in the CY'2020. Funds raised in the previous year amounted to \$15.4 billion only, in the current calendar year so far, 27 companies have raised capital through the IPO route mopping up a cumulative \$6.8 billion. What is more





important is the fact that recent IPOs have seen overwhelming participation from all categories of investors. For instance in the case of IPOs in the above Rs 100 crore bracket the average subscription rate for retail bucket has been c. 24x in FY21 as compared to 13x in FY20. Similarly, for IPOs above Rs 100 crore, the average subscription rate for HNI bucket has been 188x in FY 2021 compared to 127x in FY 2020.

This trend is likely to continue as we expect another record year for capital markets.

The Enablers

A bevy of factors are driving the stock market activity in the recent past and the first and foremost being the oft repeated theme of liquidity. However, this is not a sufficient explanation since return chasing capital can look elsewhere for opportunities and profit. A possible reason, therefore, may lie in the Low interest rates and returns from competing asset classes like Fixed Deposits & Yellow Metals - hitting a plateau or turning negative in real terms makes gains from stock market look irresistible for discerning investors.

Another reason is the stellar performance of recent IPOs which made both hefty listing and post listing gains. Average listing gains in FY 21 have been over 35% compared to 20% in FY20. Finally, there are lots of new economy companies - pure play digital and tech companies - about to hit the IPO market very soon. One important factor to be noted about these companies is that they have improved their financials in multiples through the pandemic times by scaling up unit level efficiencies. With solid market share to bank on, their cash flow position will only improve from here on as the pivot in consumer behaviour towards contactless and fast delivery is there to stay. Also these new generation internet

companies, though still in the red, have evolved as solid brands in the technology space and digital economy on the lines of celebrated FANG (Facebook, Amazon, Netflix, and Alphabet) in the US. Listing of these companies with high growth rates will provides investors an opportunity to double down on their growth and add promising brands to their portfolio.

Regulatory Vigilance

Any discussion about the enviable performance of India's capital markets will remain inconclusive if the due credit is not given to the enabling regulatory eco-system and the tight fisted but yet evolving standards followed by the stock market regulator Securities and Exchange Board of India (SEBI). SEBI has ensured that the stock market has performed sans any major incidents This is reassuring for first time investors while instilling confidence among aspiring stock market participants.

To sum up, the 'India Growth Story' just got exciting with 'goldilocks' markets paving the way for a 'goldilocks' economy' making the \$5 trillion GDP mark very much in sight and a big thanks should go to SEBI for making an conducive regulatory eco-system. A vibrant capital market provides firms a ready platform to mop up the much needed equity capital from the roaring primary market to fund their growth needs and to re-organise business. On the other hand the secondary market is playing out as a big boost for demand for goods and services produced by businesses as it puts more money into the hands of millions and growing market participants, who are also the consumers with a mind to spend more. With the conventional multiplier effect playing out at both sides of the economy - on the supply side and the demand side, it is only logical to argue that a roaring capital market will be the wheels for India's sprint towards a \$5 trillion economy.



Infrastructure Investment Trusts – The Road Ahead!

Cyril Shroff, Chairman, FICCI National Committee on Corporate Laws and Managing Partner, Cyril Amarchand Mangaldas & Co and **Yash J. Ashar**, **Kranti Mohan** and **Janhavi Seksaria**, Partners at Cyril Amarchand Mangaldas & Co

Infrastructure investment trusts or Invits were introduced in 2014. In this short span of existence, they have not only established their significance as an efficient tool for infrastructure financing, but have also increased the diversity and depth of Indian capital markets. Today we have, three Invits listed through public offer (i.e., public Invits), four Invits listed through private placement (i.e., private listed Invits) and two unlisted Invits.

Additionally, the assets comprised in these Invits cover very diverse infrastructure sectors, such as roads, electricity transmission networks, gas transportation pipeline, telecom towers, optic fibre network and renewable energy generation. It is, therefore, an appropriate time to evaluate the measures that might be implemented by the Government and various other stakeholders to further evolve and develop Invits. Furthermore, we have already seen a lot of activity by the existing Invits - including follow-on capital raising, acquisition of assets, further financing. It is also, perhaps, an appropriate stage to indulge in some crystal-ball gazing and consider the future of, and expectations from, Invits.

What is the importance of this product to the country? This product plays a very key role in deleveraging the balance sheet of the developers, allowing them to repay the loans provided by banks (which are largely the public sector banks) and ploughing fresh money back into the system. Its utility in assisting developers and the banks cannot be understated. And for the investors, the risk of project completion is taken away so they are able to enjoy moderate and regular returns. Any scepticism about the Government's trust in, and encouragement of, Invits



would have been alleviated by the announcements made in relation to Invits in this year's budget 2021 delivered by the Finance Minister, the DIPAM webinar (*Webinar with Experts and Stakeholders for Consultation on Budget Announcements*) addressed by the Prime Minister and the constant positive changes being made by the Securities and Exchange Board of India, based on a consultative process with various stakeholders.

The Budget 2021 resolved the longstanding concerns in relation to allowing the Invits to access the entire gamut of debt financing options by proposing amendments to the RDB Act, the SARFAESI Act, and the Securities Contracts (Regulation) Act, thereby, strengthening



security enforcement of borrowings by Invits. To remove any procedural hassles for foreign investors, the Government also exempted TDS on dividend paid to Invits. This was quickly amended in the Securities Contracts (Regulation) Act as well.

Further, the DIPAM webinar highlighted the prominence being afforded to Invits in the Government's plan for monetisation of infrastructure assets owned or operated by public sector enterprises.

Market participants' expectations from the Government are generally insatiable, so here are a few things the Government may consider doing:

- (a). Formalising the notification to permit foreign portfolio investors to invest in debt securities issued by Invits;

- (b). Liberalising structuring options and regulatory restrictions applicable to Unlisted Invits, similar to the regime for private unlisted companies,
- (c). Working with the concessioning/ regulatory/ governmental authorities towards easing transfer and ownership restrictions for transfer of assets by the developer to Invits,
- (d). Providing additional benefits to investors in Invits comprising social infrastructure assets (such as, educational and healthcare infrastructure), and
- (e). Allowing retail participation in public Invits.

With the recent proposal by SEBI in its meeting dated June 29, 2021, to reduce trading lots of units of an Invite to one unit, we believe this product will see more market traction. This change will democratise the market for Invits and investors looking for alternative investment options with reasonable risks will be able to participate in the market. Additionally, SEBI has also permitted listed Invits which have been in existence for less than three years to issue debt to sophisticated qualified institutional buyers on a private placement basis using the electronic bidding platform. This will allow Invits to use such financing towards retirement of existing debt and also, acquisition of further assets.



Infrastructure developers and professional advisors (such as, investment banks and tax/ structuring advisors) should consider structuring Invits with assets from other key infrastructure sectors, apart from roads and renewable energy generation and with an acute focus on social infrastructure. Additionally, considering the inherently malleable nature of Invits, stakeholders could consider using Invits for debt restructuring and insolvency

resolution, and have initiated processes. To the extent clarifications or changes in extant provisions of law are required, the advisors should seek inputs from the regulators and the Government pro- actively. Considering the Government's sustained encouragement of Invits for infrastructure financing and even monetisation of its own assets, the Government is likely to be facilitative in removing any genuine hurdles and assist with the growth of the infrastructure sector in India.

Apart from evolution that may result from Government's or regulators' (especially, SEBI's) initiatives, we expect natural evolution also to transform Invits further. Other than the prevalent infrastructure assets that are held by Invits, going forward, we are likely to see Invits holding a more eclectic portfolio of assets, such as warehouses, social infrastructure and hotels. While we have only one Invite today, whose investment strategy is to hold assets from multiple infrastructure sectors, one can expect to see more Invits with a mixed sector infrastructure portfolio, such as Invits with transmission and renewable energy assets, or roads and transmission assets. Further, with increased clarity on the regulatory framework, a wider variety of transactions may be undertaken by Invits, including buy-backs, open offers and de-listings. One can also expect some developments regarding enablement of participation by non-institutional investors in Invits listed through the private placement route, and migration of unlisted Invits to listed Invits. Invits may also increase M&A activity in some of the infrastructure sectors (such as, roads and highways and renewable energy) and may also become the preferred investment option for financial investors seeking investment in completed and revenue generating assets (or projects at higher stages of development, with minimal execution risk), some of whom are already looking at setting-up platforms on their own, or in collaboration with existing infrastructure developers. And of course, a lot of financing transactions with the continuous efforts towards opening new avenues for availing debt funding by InvITs.

Invits have arrived and they are here to help us through the long haul of economic development. However, their success and development is not only in the hands of the Government and the regulators, but also other stakeholders, such as developers, professional advisors and institutional investors. Invits are, and will continue to be one of the avenues for funding the infrastructure sector in India.

Pace Of Infrastructure Investment Planned to be Doubled in Next Five Years; Availability of Long-term Infrastructure Financing Continues to Remain a Challenge

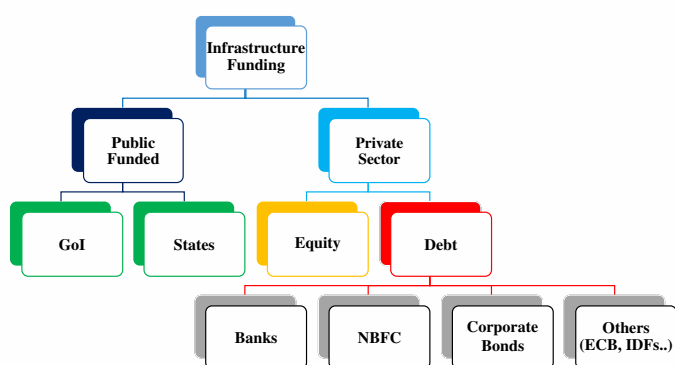
Ramnath Krishnan, President Ratings, ICRA Limited

Overview

Historically, over two-third of the infrastructure investment are public funded (Central and State Governments and public-sector enterprises) while the remaining was from the private sector. However, with private sector's contribution to the infrastructure investment reducing over the years, the requirement for Government to step-up capital outlay towards infrastructure has increased.



Exhibit 1: Funding sources of Infrastructure

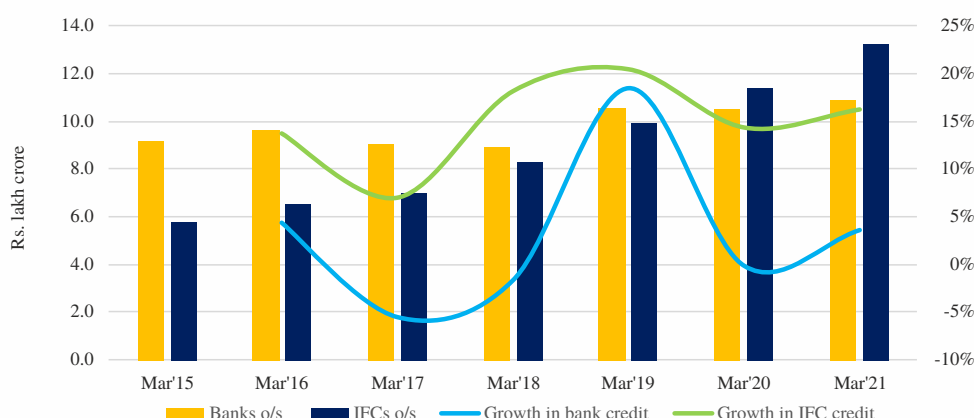


Infrastructure Credit in India dominated by Banks and NBFC-IFC

The key sources of debt for infrastructure sector are Banks, Non-Banking Financial Company (NBFCs),

External Commercial Borrowings (ECB), Mutual Funds, Pension Funds, Insurance Funds, Capital/Corporate Bond market, etc. Banks and Public-IFCs (Infrastructure Finance Companies) remain the major players in the infrastructure credit market, though Private-IFCs have also become sizeable over the years. Given the nature of long-term funding requirement of infrastructure sector, it is best suited to be financed by institutional investors which have matching long-term liabilities as well as risk appetite. At the current industry size, India's infrastructure credit penetration to GDP stood at ~11.1% as on March 31, 2020; Overall, infrastructure credit grew at a CAGR of 11% in period from FY2012 to FY2020 and further grew by 10% in FY2021 to Rs. 24.2 lakh crore as on March 31, 2021. Of this, banks have a share of 45% and infrastructure NBFCs (majorly public-infra finance companies like PFC, REC etc.) account for remaining 55%.

Exhibit 2: Trend in Credit to Infrastructure from Banks and NBFCs



Source: RBI, NBFC annual reports/Financial results, ICRA research

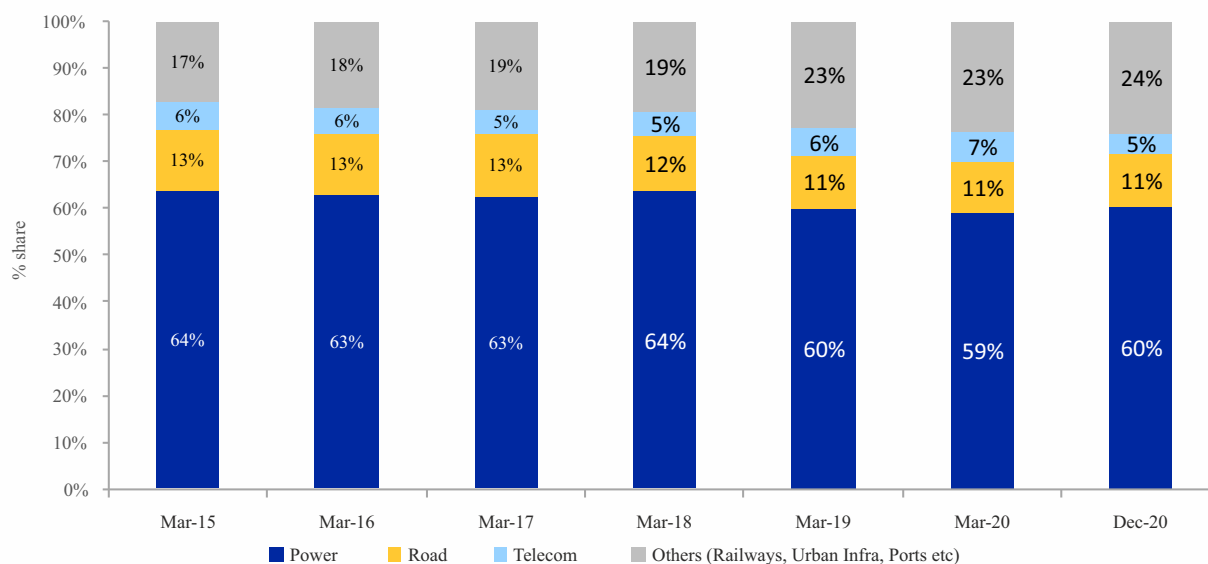
Credit from Banks: The public-sector banks have been the major sources of infrastructure project financing in India. The credit to infrastructure sector from banks has increased sharply from Rs. 2.0 lakh crore as of Mar-2008, to Rs. 9.3 lakh crore as of Mar-2015. However, the outstanding bank credit to infrastructure has slowed down in the last few years due to increasing NPAs, and sector specific constraints. The total bank credit to infrastructure sector stood at Rs. 10.9 lakh crore as of March-2021.

Credit from NBFCs: Amongst NBFCs, the Infrastructure Finance Companies (IFCs) which are dedicated for lending majorly to infrastructure sectors (a minimum of

institutions (DFIs) for infrastructure development, though only some of these have been successful - Tamil Nadu Urban Development Fund and Water and Sanitation Pooled Fund (Tamil Nadu), Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), Odisha Urban Infrastructure Development Fund (OUIDF). Hence, at State level infrastructure investment is done through budgetary support, or through loans raised by state or state undertakings.

Other sources: The other sources of debt-funding include corporate bond market, ECBs, Infrastructure Debt Funds (IDF), etc. However, contribution of these remains low in

Exhibit 3: Sector-wise Breakup of Infrastructure Finance Credit (including IDFs)



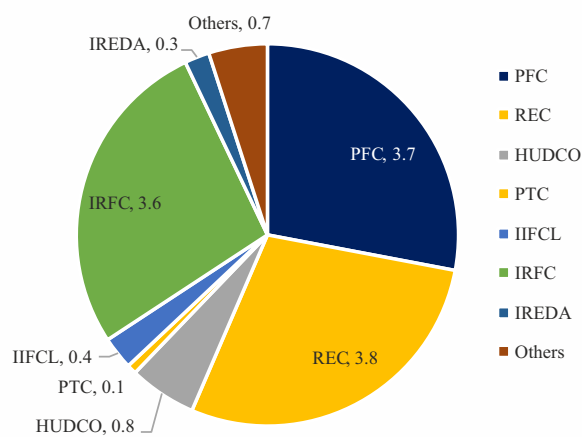
75% of total assets of IFCs should be deployed in infrastructure loans) also play a major role in providing credit to infrastructure entities. For NBFC's lending to Infrastructure, majority is from PFC/REC, IRFC, IIFCL, HUDCO, IREDA, PTC, L&T Infra Finance. These are primarily sector-focussed IFCs with exposure and has been instrumental in supporting capex in infrastructure. While the banking credit growth has slowed down, credit from NBFCs to Infrastructure has grown at a faster pace in last five years as IFCs have continued to lend to the sector. The credit growth for NBFCs stood at 15% during F2016-FY2021 as against 3% for banks.

Exposure to the power sector (including the renewable and transmission segments) continues to dominate the overall portfolio mix of banks and IFCs, accounting for 60% of their total loan books as on December 31, 2020. Other substantial exposures remain to the road (11%) and telecommunications (5%) sectors.

While there are multiple IFCs at the Centre's level, some States have also set-up such development finance

overall credit to the sector. Besides the above-mentioned sources, funding of some infrastructure projects is also from multilateral agencies like World Bank, International Finance Corporation, Asian Development Bank, Japan International Cooperation Agency, etc.

Exhibit 4: Key IFC-NBFCs and their loan book as of Mar-2021



Amount in Rs. Lakh crore; Source: NBFC financial results, ICRA research

Corporate bond market's role remains limited in Infrastructure financing

The participation of corporate bond markets in financing infrastructure in India has been miniscule; however, for debt-refinancing, bond markets have played a significant role over the last few years especially the operational projects opt for refinancing through this route. While the corporate bond market has grown considerably over the years, the depth still remains low with limited investors, and issuances dominated by financial institutions and public-sector entities. Further, the participation of bond market in project financing in India has been very low due to the higher risk perception during the project implementation stage. The high-risk perception stems from the experience of implementation delays, cost overruns, and issues faced in stabilisation in case of Infrastructure projects. This along with concentration on single asset cash flows, shorter debt tenure compared to overall economic life of the project, unpredictable ramp-up periods constrain project's credit rating. Some of the prominent investors like pension funds, insurance funds, which have long term funds matching the long tenure requirement of infrastructure sector, are constrained by regulations to invest in lower rated debt. The rating agencies have also devised a new expected loss based credit rating system as per the guidance of department of economic affairs which focuses on the recovery prospects for lenders. IRDAI in January 2021 directed Insurers to classify debt instruments issued by infra entities rated not less than 'A' along-with an expected loss rating of 'EL1' as approved investments. However, this is yet to gain traction.

Overall, availability of long-term infrastructure financing continues to remain a challenge given the twin problems faced by these lenders- asset-liability mismatch and increase in stressed assets.

Massive scale up of Infrastructure Investment: Pace of Infrastructure Investment planned to be doubled in next five years

The Central Government has set an investment target in infrastructure of over Rs. 111 lakh crore during FY2020-FY2025 under national infrastructure pipeline (NIP). Majority of the targeted Rs. 111 lakh crore infrastructure investment is planned towards transportation, energy, and urban infrastructure. The planned NIP would translate into an average annual investment of Rs. 18.5 lakh crore, which is a significant increase from the pace of

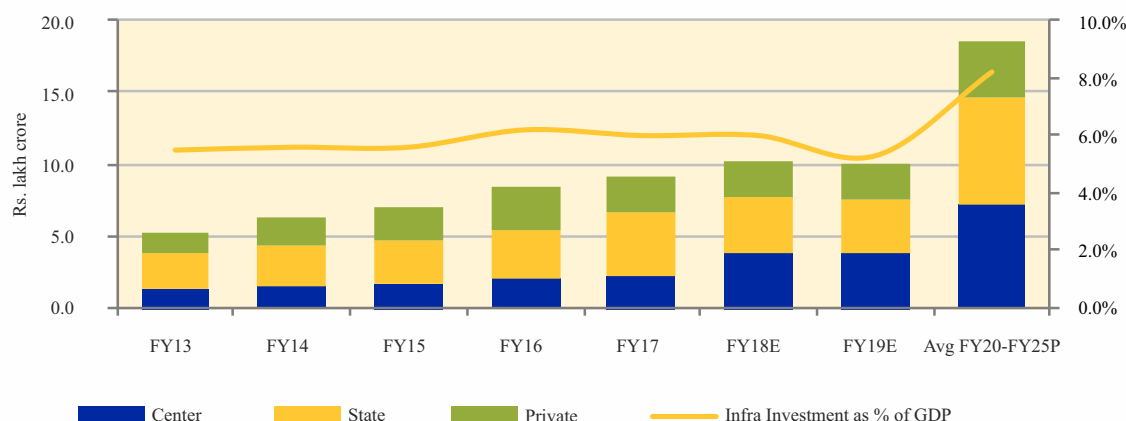


infrastructure investment of Rs. 10 lakh crore in FY2019. NIP had projected Infrastructure investment at Rs. 21.5 lakh crore in FY2021. While the target itself was ambitious, with the Covid-19 pandemic, achieving it has become almost improbable. Against the total infrastructure investment of Rs. 36 lakh crore in FY2020-FY2021, ICRA expects the actual investment of Rs. 22-25 lakh crore during this period. With slower than projected start to the NIP, achieving the target would require significant step-up in investments in the remaining four years (FY2022-FY2025) with average investment of over Rs. 21 lakh crore per annum. In the light of the huge funding requirements of NIP, the importance of availability of adequate financing avenues for infrastructure becomes even more critical now.

The existing sources of financing would be able to meet 83–85% of the capital expenditure to be incurred between fiscals 2020 and 2025. The NIP task force recommends that a proportion of the financing gap could be met through establishing new DFIs and using asset monetisation as a tool to monetise operational assets by both the GoI and States. Nevertheless, a shortfall of about 10% remains, financing for which is not certain as of now. The setting up of a new development finance institution (DFI) with an initial allocation of Rs. 20,000 crore in the recent budget is a positive. For meeting the increased credit requirement, it is crucial to augment the institutions providing credit to the sector. The new DFI would in turn be able to leverage and fund infra projects worth around Rs. 2 lakh crore (assuming D/E of 9:1). The target is to have a lending portfolio of at least Rs. 5 lakh crore for this DFI in three years. It may be recalled that 3-6% of the overall NIP is envisaged to be funded by the new DFI.

With lower economic growth due to the Covid pandemic, it will be a daunting task to meet the funding requirements especially by State governments. With reduced revenues, many state governments could resort to a lower than

Exhibit 5: Infra investment (past and planned under NIP)



required infrastructure spending. This would put pressure on the Central Government which in itself is likely to face a stretched fiscal deficit position in the medium term. This is where higher participation from private sector (PPP projects) becomes important. At the same time, as private developers' ability and appetite for fresh equity commitment towards infrastructure project could be weak in near term, the National Investment and Infrastructure Fund (NIIF) can help in bridging this gap.

NIIF and InvITs can play an important role in increasing both equity and debt inflows for infrastructure projects

NIIF has entered into MOUs with some large investors and has secured funding commitment both from Government of India and other investors and is better placed to mobilize funds and invest in Infrastructure assets. The Union Budget has also provided Rs. 1,000 crore capital towards the NIIF Infrastructure Debt Financing Platform which could be leveraged to provide debt funding to the sector. The NIIF debt platform is targeting to build debt portfolio of Rs. 1 lakh crore by 2025 with the support of equity capital by the Government and NIIF Strategic Opportunities Fund.

Infrastructure Investment Trust (InvITs) have shown the potential of channelising long-term capital (like pension

and insurance funds) into the infrastructure sector. Insurance companies, mutual funds and pension funds have minimal presence in infrastructure. InvITs are expected to see healthy traction in the near to medium term, supported by the track record of entities which have already floated such structures, enabling regulatory developments and focus on attracting investments into the infrastructure space. With InvITs now recognised as borrowers under the SARFAESI Act, lenders to these trusts, shall have adequate statutory enforcement options, absence of which was earlier becoming a constraint to lend directly at trust level. Further, Insurance Regulatory and Development Authority of India (IRDAI) has recently allowed insurers to invest in debt instruments of InvITs rated AA and above as a part of their approved investments, which evidences growing comfort of investors around such structures. GoI for its national monetisation pipeline is also using these platforms for NHAI, PowerGrid and GAIL among others. NHAI and PowerGrid together are expected to monetise assets worth Rs. 25,000 crores through this route. The funds thus raised will be used towards funding new projects. Till date, assets worth Rs. 1.4 trillion have been floated through InvITs. The capital raising by InvITs is also aided by the favourable view that investors have taken on the long-term revenue generation potential of infrastructure assets in the country.

Beyond India@75: Accelerating Growth Through Capital Markets.

Shibani Kurian, Head-Research & Portfolio Manager, Kotak Mahindra Asset Management Co. Ltd.

Ensuring economic growth and development is a primary objective of all countries. According to the World Bank, an estimated ~USD4.0 trillion in annual investment is required for developing countries to achieve the Sustainable Development Goals (SDGs) by 2030. In light of these investment requirements, there is a greater need to develop and strengthen capital markets in order to mobilize commercial financing. The role that capital markets play in financing infrastructure development, large enterprises, and Small and Medium Enterprises (SMEs), and the links with economic growth, are increasingly coming to the fore.

In essence, capital markets help in mobilising savings and channelling it into productive investments for the development of commerce and industry. As such, the capital market helps in capital formation and economic growth of the country. Therefore, the development of a healthy capital market is essential from the perspective of financial stability and for the growth of a nation. For any government, prioritizing the growth of its capital markets as a core component can drive new growth. It will likely enable greater enterprise financing and reduced cost of capital, as well as offering a democratic vehicle for allocating wealth across different social segments.



Over the past few decades, globally there has been an upsurge in capital market activity, and emerging markets have accounted for a large amount of this boom. This suggests the growing recognition of the capital market as a tool for fast-tracking economic progress in developing

economies. India, too, has seen significant development over the last 75 years and our capital market is no exception.

The Indian capital market has a history of more than a century wherein it acted as a catalyst for the economic development of the country. Our domestic equity markets have also witnessed significant growth now can be considered at par with advanced economies in terms of efficiency, tradability, stability, resilience and maturity.

India's equity market can be traced back to early 1990's and since then it has grown exponentially in terms of number of listed companies and stocks, trading volumes, market capitalization, investors and resources mobilized. India has largest number of listed companies in the world on BSE exchange which is oldest stock exchange in Asia. India's stock markets hold place of pride in the country's finance sector. In terms of market capitalization and turnover, Indian stock exchanges features amongst the 15 largest in the world. Although banks continue to dominate the country's financial sector, the growth and development of India's equity markets have led to a transformation in the financial framework of its economy. They are increasingly been seen to be determining the pace and pattern of India's economic growth.

Equity market are useful barometer for the health and growth of the economy and can provide valuable signals of overall sentiment of the country. This in turns helps to bring in foreign funds that provide support to the balance of payments especially for emerging markets like India where foreign capital flows are necessary to balance the external account given our current account deficit. Well-functioning financial market are crucial for long term economic growth of a country. Over the years, India has witnessed a positive performance by benchmark indices, and there has been a consistent increase in fundraising from the capital market. Trading platforms of stock exchanges have become more and more accessible from any part of the country, which is a result of increased application of information technology.

Capital market provide a platform to raise funds for long term investment purpose at lower cost for the companies. This reduce the burden on banking system which is the primary source of finance. Regulators are also working on making corporate bond market more active by taking steps like retail participation in bond market. Consistent investment interest by domestic institutions and foreign investments are the factors contributing to the recent development in the corporate bond market. Worldwide, corporate bond markets have also become an increasingly important source of corporate finance, especially for non-financial companies. This means that policy makers, regulators and market participants need access to a comprehensive empirical overview of corporate bond market developments and an analysis of the structural issues that accompany these trends. The regulators have been working on making the corporate bond market more active while simultaneously widening the scope of the equity market as a right blend of debt and equity is required when financing investment that is required to propel the economy on the path of high growth in the years to come

Financing the needs of small business is a critical component of economic growth. In this context, SME Exchanges have been established to enable the small and medium sized companies to gain sufficient visibility and thereby attract trading in their securities. Through the SME exchange platform, these companies which otherwise have to rely on promoter funds and high cost debt, are able to raise the needed funds at a lower cost of capital. The dedicated SME exchange makes easier for small and medium enterprise to comply with listing norms and IPO process is simplified for them on this platform. Also, it makes it easier for interested investors to identify the SME stock on this exchange than on the NSE or BSE.

Last but certainly not the least, we must acknowledge the importance of Mutual funds in channelizing savings into the economy. Capital markets in general and mutual funds

in particular also help garner savings of households and serve as an alternative investment avenue for investors and provides an opportunity to investors to diversify risks. These markets also serve as a source that helps households earn consistent returns over a long term to fulfil their investment goals and needs. Mutual Funds are sophisticated investment vehicle for the retail investor to access capital markets. The AUM (Asset under management) of the Indian MF Industry has grown from INR7.31 trillion as on May 31, 2011 to INR33 trillion as on May 31, 2021 more than 4.5x fold increase in a span of 10 years (Source: AMFI). The mutual fund industry in India crossed a milestone of 100Mn folios in the month of May 2021. Mutual funds have played a twin role - one to provide adequate capital to listed companies and second helping create long- term wealth for retail investors.

In the rush to develop the capital markets and grow, one must not forget the retail investor and the minority shareholder in companies. In fact, one of key determinants of capital market development is the level of minority shareholder protection in publicly traded companies. Capital market development is more likely in countries with strong shareholder protection because investors do not fear expropriation as much. In this respect, the role played by The Securities and Exchange Board of India (SEBI), along with the Reserve Bank of India (the two regulatory authorities for Indian securities market) has been exemplary in terms of protecting investors and improving the microstructure of capital markets in India. The capital market regulator (SEBI) has also been on a continuous basis undertaking various measures and policies for the development and stability of the Indian securities market in terms of products, technology, participants, surveillance and enforcement with a view to both deepen and strengthen the markets. Global best practices are being adopted for Indian markets with the aim of enhancing the role of the Indian securities market for facilitating long term finance.

While we have traversed a long distance, there are miles to go before we sleep (in the words of the famous poet - Robert Frost). As a proportion of GDP, India's total equity market capitalisation is still much lower compared to the global countries such as US and China . Retail investors too constitute a low proportion of stock ownership in India. This indicates a strong potential for involvement of retail investors in Indian capital markets and contribute towards the country's journey of becoming a USD5trillion economy.



Indian Capital Markets in the New Normal

Sundeep Sikka, Executive Director & Chief Executive Officer, Nippon Life India Asset Management Ltd

Value creation in any economy is intricately linked to capital allocation. The right set of checks and balances and an informed investor base go a long way in not only creating collective value but also choosing better paths of growth for the country. An efficient and effective financial sector helps gather savings and

Post-COVID world has brought to the fore several new opportunities. De-risking of supply chains is likely to take place across the developed economies. Geo-political challenges and the US-China cold war could present timely opportunities to India. Raw material supply disruption from China could be the starting point for cascading effects across the world. Honorable Prime Minister has thus called for local manufacturing to make India more and more self-reliant.

In order to fight COVID related challenges and utilize structural opportunities, the Aatmanirbhar Bharat Abhiyan comprising Rs 20 trillion will be a big step forward. Structural reforms, largely geared towards improving the factors of production, form a substantial part of this. The various announcement made by the Government. It would be critical for us to implement reforms relating to Land, Labor and Capital to increase Make in India and also to attract FDI. The opportunity is huge. China's exports of above \$400 bn exports is to just three countries - US, Japan and Germany. Such kind of supply chain risk may no longer continue and major supply chain shifts are inevitable. The post-Covid world would be a very different one, with geopolitics, specifically driven by US-China tensions, occupying center stage. This could throw up interesting opportunities for us, but we will have to make do with competition from other contenders like Indonesia, Malaysia, Vietnam, Thailand, Bangladesh etc., who are also vying for a share in shifting Chinese manufacturing. In this changing geopolitical context, India's diplomatic relations are improving and could provide an impetus to our aspirations of attracting manufacturing FDI.

Mutual Fund Industry flows into Capital Markets

In the last 5 years, Mutual Funds have provided strong support in form of net cash flow into capital markets. This has been an important cushion against FPI flow volatility. Over the years, net investments made by mutual funds have been higher than that of FPIs, year after year which



allocated the capital for productive ventures. In the absence of such a system, projects with heavy front-loading of capital investments would wither, thereby harming the long-term potential of the country. Capital markets connect the monetary and real sector to facilitate growth and utilize savings.

In a post-COVID world, this is even more important. India needs to find its footing in the new normal where several significant financial and geo-political shifts are underway. The near breakdown of traditional international supply chains and faltering of several in-person industries such as hospitality have opened up several opportunities. The country with the most agile capital allocation will have an edge in the future - with Digitalization of industries likely to accelerate even further.

Aatmanirbhar Bharat

Aatmanirbhar Bharat is an important theme going forward - providing both competitive advantage and an edge for future expansion of economy. India is 75 years old post-independence and it is a momentous occasion to accelerate the journey of independent India.



has helped buttress our markets from the negative / muted FPI flows. This is largely thanks to the increased awareness about mutual funds amongst the investors. The Mutual Fund Industry, led by the Regulator SEBI, and the Industry Association, AMFI had taken several initiatives to promote mutual funds amongst domestic investors.

SEBI has taken many initiatives over the past decade to improve confidence levels in the Indian Capital markets space and also for the mutual fund industry. Measures have included registration and regulating intermediaries of the business like brokers, bankers, trustees, portfolio managers, investment consultants, recording and monitoring the work of custodians, depositors, participants, foreign investors and credit rating agencies. Also, SEBI on its own accord has carried out investor awareness and education programs. AMFI has been undertaking investor awareness programs nation-wide in order to promote proper understanding of the concept and working of mutual funds. AMFI had launched a popular media and communication campaign called "Mutual Funds Sahi Hai" with an aim of positioning mutual funds as a preferred investment option for potential investors.

Changing Trends - Looking to the Future

COVID impact resulted in acceleration of some trends while some others faced obstacles. Online shopping, virtual classrooms, medical advice through video chat, and adoption of net banking are not new trends. However, the lockdowns further accelerated these trends in a dramatic fashion. On the other hand, travel and its related industries came to near standstill for several months with far-reaching effects stretching into the future. The unique feature of the new trends was that lockdowns forced even the laggards into adopting digital services en masse.

Overall, digitalization is the key driving force for the new economy. The Mutual Fund Industry has been at the forefront with regard to Digital adoption. E-KYC, for

example, has removed huge amounts of paper work involved in adding new investors.

The Mutual Fund Industry has also taken a lot of initiatives to promote digitalization. The launch of e-KYC has removed the huge amounts of paperwork involved before making any investment. The Industry has seen increased digitalization, which is expected to further boost the AUM. With digitalization, the distribution reach across the country has expanded. Mobile phones and online applications are increasingly being used for transactions, as well as tracking portfolios. Increased smart phone usage provides opportunities to AMCs to directly reach the customers and build a direct interface. Robo-advisory firms, where automated online investment advice is provided based on the spending behavior, risk profile and future goals are also on the rise. Overall digitalization will continue to disrupt industries and yet keep accelerating growth.

Way Forward

India is well on its way to officially be termed a developed economy. However, the growth potential is very much intact, especially given the recent changing trends. For example - despite the significant growth in Mutual Funds and retail inflow into direct markets, key data indicate the future potential. Compared to USA at 120%, Indian MF as a percentage of GDP is only at 12%. In the overall capital market, roughly 4% of the population currently holds a demat account in India, compared to 32% in USA. On the whole, India still has a long way to go with regard to capital markets growth. However the tide is indeed turning as more and more people start entering capital markets and trigger all-round value accretion in Indian economy.



NSE: Fostering Innovation, Sustainability and Digitization in 2021

Vikram Limaye, *Managing Director & CEO, National Stock Exchange of India Limited*

Since its inception in 1992, NSE has kept technology, innovation and digitization at the heart of all its business operations. It is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. Over the years, NSE has played a vital role in strengthening the financial markets, spearheading the digital transformation of India's capital market and stimulating diverse market participation, especially catering to SMEs and retail investments. It is focused on contemporary services and products delivered through world-class technologies, evoking a recall for the highest standards of market integrity and governance. The exchange has co-created unique solutions through a blend of sectorial experience, market insights and understanding of emerging technologies. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. It also oversees compliance by trading and clearing members and listed corporates with the rules and regulations of SEBI and the exchange.

NSE is focused on being customer centric, agile, digitally driven, well equipped with strong capabilities to meet stakeholder expectations and trust while contributing to the overall financial wellbeing of people. In FY 2021, NSE retained its position as the largest derivatives exchange in the world and stood 4th in the world in the cash equities segment based on number of trades. Its inclusive and growth-oriented approach along with technological prowess enables the exchange to maintain a strong global presence and be a formidable entity for all financial market needs of investors, issuers, and intermediaries.

The Covid-19 pandemic has been one of the biggest challenges to have tested NSE's resilience and efficiency as an exchange. The onset of the pandemic led to major business disruptions and created ripple effects across sectors. The global economy in FY 2020-21 witnessed the worst recession since the great depression, and the first since the Global Financial Crisis, as the COVID-19-induced containment measures severely affected global business, consumption, and trade activity. The extent of contraction, however, was curtailed by an unprecedented, timely and effective fiscal and monetary policy support provided by governments and central banks across the



globe. The recently announced GDP data by the Ministry of Statistics & Programme Implementation (<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1723153>) showed that India's GDP grew by 1.6% in Q4FY21, indicating a positive movement, as the country recovers from the pandemic and related impact on economic activities.

Given, the economic climate of the nation, stock exchanges play a vital role in connecting the emerging financing gaps, mitigating impacts of credit crisis and efficient allocation of capital. Notwithstanding the huge macroeconomic shock caused by the COVID-19 pandemic, global equity markets rallied sharply, supported by a massive liquidity infusion by global central banks. A part of this global liquidity found its way into Indian equity markets, leading to record-high foreign capital inflows in FY 2021.

Adapting strategic interventions to the new normal - NSE has a robust operational model built on innovation, digitization, an inclusive approach, and strong governance systems that are the backbone of its strong position. The onset of the COVID-19 pandemic created a real-time stress test for the responsiveness and resilience of business models. NSE focused on accelerating the uptake of digital technologies across sectors, making strategic investments to augment its customer-centric approach and service capabilities. NSE's comprehensive Business Continuity Model rolled out numerous initiatives towards seamless operations of India's capital market while ensuring the safety of its employees. Its wide infrastructural base emerged as the life-line of India's capital market. NSE's telecommunication network

currently hosts over 3,000 leased lines. This wide network is backed by 2,000 servers, 900+ racks, 4 data centers and 11,000+ kVA power backup.

Digitization and Cybersecurity- The increasing reliance on digital has underscored the urgent need for companies to have robust cybersecurity systems. NSE has been at the forefront of adapting new age technologies; in FY 2021, NSE's cash spend on capital and operational expenses pertaining to technology has been approximately 900 crores, well supported by a strong technology workforce of approximately 1500+ people. Furthermore, in view of the emerging technology risks during the pandemic, as a result of the world going virtual, NSE emphasized on augmenting resiliency, technology management and cyber security capabilities. Its best-in-class technology and security infrastructure ensured that operations continued smoothly with necessary controls, targeted at mitigating emerging risks. Implementation of a zero-trust model with multi layered checks and balances ensured that the cybersecurity controls remained robust enhancing data and process security. NSE collaborates and co-creates unique solutions that are delivered through an amalgamation of its years of experience, market insight and keen understanding of emerging technologies. It continues to build its intellectual capital towards fostering a vibrant, inclusive, ethical, and digitally empowered marketplace.

SMEs are the growth engines of the economy - Facilitating access to capital for SMEs presents a multifold value proposition for the economy. Some key avenues of value creation through investments in SMEs include job creation, augmenting GDP growth, promoting innovation in the economy among other developmental opportunities. With the vision of facilitating access to capital and anchoring capacity building of SMEs, NSE had launched the SME EMERGE platform in year 2012. The platform has grown from strength to strength since its formation; the overall fund raising on the SME platform has been over INR 3,299 cr. Today, the platform not only enables easy access to capital for SMEs but also supports them to understand the dynamics of raising capital from the market efficiently. NSE also plays a critical role for promotion and financing of MSME sector in India through Receivables Exchange of India Ltd (RXIL), a joint venture with SIDBI. On a cumulative basis RXIL logged a throughput of more than ₹6,500 crore by way of discounting of invoices of MSMEs in FY21 and more than ₹10,000 crore since inception in 2017.

ESG commitment - The topic of environmental, social and governance (ESG) has gained momentum globally indicating that climate change requires immediate action with collective and multi-stakeholder involvement. As an exchange, NSE is fully committed to the development of

innovative tools, techniques, and methodologies that mitigate negative impacts on the environment. NSE's environmental policy articulates its commitments, actions and strategic intention in the area of environmental protection.

NSE has taken several initiatives in the areas of energy conservation, green / renewable energy which demonstrates our commitment towards minimizing our environmental impact. NSE has commissioned 6.25 MW Wind Power Plant at Satara which has generated 98,18,077 electricity units in the FY 2020-21. The Solar Power Plant installed in the building saved around 3,460 units and Lighting Transformers introduced in the lighting feeders has saved around 22,563 units in the FY 2020- 21. In addition, NSE has also conserved 20,324 KL water through recycling and converted 360 KG of waste into manure. NSE's internal mechanisms successfully monitor its environmental performance and identify consumption hotspots and opportunity areas to minimize its environmental footprint.

Responding to investors' demand to enhance ESG based investment, NSE Indices Limited presently maintains three ESG indices –Nifty100 ESG Sector Leaders Index, Nifty100 ESG, and Nifty100 ESG Enhanced Index. These indices are designed to track the performance of companies with low ESG risk and high ESG compliance. Additionally, these indices exclude companies engaged in the business of tobacco, alcohol, controversial defense weapon systems, and gambling operations and companies involved in any major environmental, social, or governance controversy.

Asset managers worldwide believe that COVID-19 may well be considered a turning point as investors are further prioritizing investing with a conscience. While ESG investing is at a nascent stage in India, the pandemic has also been an eye-opener for Indian investors following global trends. They are now beginning to realize that an ESG investment approach is no longer an option but an imperative for better risk-adjusted returns and long-term profitability, as companies with a strong commitment towards ESG tend to do well over the long haul. Access to such companies through the AMC route in the form of ESG Index funds may well be the next big investment trend to pick up steam in India.

The cornerstones of NSE's approach to enhancing its economic impact encompasses measures to ingrain good corporate governance practices, efficacy in market transactions, and stimulating market inclusion. This is vital to fulfilling its vision of catalyzing India's transition from a banking-based financing model to a capital market-based financing model, bolstered by innovative, market-driven products and deep and broad financial markets.

Use of Proceeds in IPOs: Well Regulated or Over Regulated?

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Introduction

Initial public offerings in India are generally undertaken through a fresh issuance of shares or through a secondary sale of shares by existing shareholders or through a combination thereof. In a fresh issue of shares, the proceeds go to the issuer company and in a secondary sale of shares, the proceeds from such sale go to the selling shareholders. While the utilization of the proceeds from a secondary sale by the selling shareholders in an initial public offering in India is hardly regulated and not much disclosure is required about it in the offer documents, the utilization of the proceeds from the fresh issue is highly regulated and requires a great deal of disclosures in the offer documents.

This article endeavors to critically analyze whether the laws regulating the utilization of proceeds from initial public offerings in India by issuer companies are well legislated or over legislated and also makes a few suggestions to rationalize the disclosure standards and the mechanism governing the utilization of proceeds in India.

It may be highlighted that this article deals with this topic only in the context of regulations governing initial public offerings in India and does not make any attempt to analyze any other modes of fund raisings such as rights issues, follow-on public offerings, qualified institutions placement or issuance of Indian Depository Receipts or fund raisings and listing by Indian companies in any other jurisdictions other than in India.

Current legal regime in India

Initial public offerings in India are primarily governed by the Companies Act, 2013 or the Companies Act and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 or the SEBI ICDR Regulations. It is also governed to a lesser extent by a number of other regulations, circulars and general orders issued by SEBI from time to time.

The SEBI ICDR Regulations and the Companies Act require a highly detailed disclosure about the objects towards which the proceeds of the IPO from the fresh

issue of shares will be utilized. SEBI has also been very vigilant in ensuring a high standard monitoring on such utilization post completion of the initial public offering. Currently, a company undertaking an initial public offering with a fresh issuance of shares aggregating to an amount equal to or above rupees one hundred crore is required to mandatorily appoint a public financial institution or a scheduled commercial bank as a monitoring agency which is required to monitor the utilization of the proceeds in line with what has been promised in the offer document during the initial public offer. SEBI has been very active in ensuring that fraudulent issuers or promoters are not able to raise public money and siphon them off for objects which are neither promised in the offer documents nor are in the interest of the issuer company and its public shareholders.

While so far SEBI has done a commendable job in ensuring performance against promises made by the issuer companies with detailed disclosure requirements and strict compliance mechanisms while utilizing the proceeds of the initial public offerings, the time has come to reevaluate and rationalize these requirements as the Indian capital market moves beyond its teenage and attains an age where it increasingly deals with matured investors, emerging companies and newer technologies.

Popular objects of the offer in Indian initial public offers

The most popular objects of the offer that are chosen by the Indian issuers include – (a) repayment of loan; (b) funding capital expenditure; (c) acquisition funding; (d) funding



working capital requirements; and (e) funding general corporate purposes.

Deleveraging the balance sheet, repayment of loan seems to be the most uncomplicated objects of the offer where the issuer selects certain outstanding loans which are proposed to be repaid from the proceeds of the offer. While this seems a fairly straightforward object, there are certain complications attached to it. The SEBI ICDR Regulations require that the statutory auditors must certify that the respective purposes for which these loans were availed by the issuer company were actually utilized towards the same purposes. However, often a term loan may have been availed for a tenure longer than three years and in some cases, the statutory auditors may not have audited the period in which a part of the loan may have been drawn-down and utilized. It becomes extremely difficult in such situations to obtain the loan utilization certificate from the current statutory auditors. In this requirement of obtaining this certificate, if the statutory auditors are replaced with independent chartered accountants (with a valid peer review certificate), this will ease the practical difficulties around it.

Funding capital expenditure has increasingly become the least favourite object of the offer because of the detailed disclosure and diligence requirements around it. If a project is proposed to be partly or fully funded from the initial public offer, an issuer needs to disclose detailed cost break-up based on a project report prepared by an external agency along with detailed cost of each equipment to be purchased based on quotations received from vendors and detailed disclosure about the different phases of setting up of the project and a yearly schedule of deployment of funds. The quotations are required to be current and to be obtained twice – once at the draft offer document filing stage with SEBI and again at the red herring prospectus stage. Obtaining quotations for each and every equipment to be used in the project often becomes a long-lead item and going through it twice almost becomes a logistical nightmare. Quotations are based on unit price for an equipment while the real cost while placing a bulk order are often very different at the execution stage which again creates issues with reporting of promise versus performance and dealing with the monitoring agency. An option must be given to the issuer that if an independent agency can provide a cost report or a project report which covers all the cost related to setting up such project, disclosure regarding cost of each equipment and quoted price should be done away with. This will make the process faster, will take away the need for a repeat exercise at the red herring prospectus stage as well as continue to preserve the sanctity of the total project cost being

certified by an independent specialist agency and is not based on internal management estimate. A provision must be added that such independent report must be approved by the board of directors prior to being disclosed in the offer document. SEBI should also do away with the schedule of deployment of funds for such capital expenditure as the construction of a project depends on a number of factors and the schedule of deployment is often required to be altered in order to respond to such external factors. Taking away such flexibility from the issuers while setting up a project by binding them with a cast-in-stone schedule of deployment can actually be counter-productive to both the issuer and its public investors. There is also a requirement regarding means of finance which mandates that if a project is not being fully financed from the proceeds of the initial public offer, at least 75% of the remaining cost must be tied up through firm arrangements of finance. We support this requirement and would want this to continue at the present.



One of the seldom chosen objects of the offer is acquisition financing. It is not chosen that often because of the stringent disclosure requirements around financing acquisition of a company or a business. SEBI requires that if the proceeds, fully or partly, directly or indirectly, is to be used for acquisition of one or more material businesses or entities, the audited statements of balance sheets, profit and loss, cash flow for the latest three financial years and the interim period, if applicable, prepared as per framework applicable to the business or subsidiary proposed to be acquired shall be included in the offer documents. An issuer will not gain control of the target company or the business unless such acquisition has been fully funded and unless the issuer has gained control of the target company or the business, it will not be able to disclose the financial statements of the target in the offer document either. And unless the initial public offer is completed, it cannot fully fund such acquisition either. Given SEBI does not permit recoupment of expenses (except repayment of a bridge loan), the entire situation becomes a circular impossibility. The only option



available to an issuer is then to finance the acquisition with a loan and use the proceeds of the offer towards repayment of such bridge financing. Issuers are forced to incur unnecessary finance costs by availing a bridge loan because of this requirement. Additionally, sometimes disclosing even the name of the target becomes impossible as the issuer probably has only entered into a confidential term sheet at the draft offer document stage which will consummate into a definitive agreement around the same time as the public offer is completed. However, the requirement of disclosing the financial statements of the target at the draft offer documents stage itself makes the acquisition process timeline incompatible with the initial public offering timeline. SEBI should rationalise the acquisition funding disclosure requirements by providing a choice to the issuer to name and disclose the financial information of a target only at the red herring prospectus stage. We understand that entering only into a confidential term sheet at the draft offer document stage does not make such acquisition certain and it may not materialise by the red herring prospectus stage. However, SEBI could provide certain checks and balances around it by specifying that an issuer can drop an acquisition financing object completely at the red herring prospectus stage so long as the size of the initial public offer does not change beyond a certain percentage. Further, SEBI should also specify that if proforma financial information is being provided in relation to acquisition of such target, there will be no requirement for separate disclosure of the financial statements of the target for last three years.

The other popular use of proceeds disclosure is funding working capital requirements. While this does give a level of flexibility to the issuers in terms of utilization of proceeds towards its operating expenses, an issuer has to disclose future working capital requirements along with justifications. However, currently the justifications are exclusively based on quantitative factors – holding days, margin money, etc. A growth of a company, specifically after realizing the benefits of listing, may not always be commensurate to its past growth. The industry opportunities, demographic growth factors and other business and commercial drivers which may primarily be qualitative in nature should also be considered as justification for projected working capital requirements of an issuer.

Emerging companies and unique capital requirements

We have discussed the classic objects of the issue that we often see in the offer documents. However, the Indian capital markets are soon going to be driven by Indian start-ups and emerging unicorns which are more technology driven, professionally managed and backed by marquee financial investors. Their need for growth capital, particularly for those companies which are engaged in technology driven sectors, will be unique and their appetite for innovation will make the current disclosure norms relating to use of proceeds unworkable. Such companies may need to raise capital for technological innovation, digital growth, organic and inorganic expansion on opportunity basis on a fast-track mode and tying up all their growth opportunities by iron-clad disclosure requirements in the offer documents may not bode well for India Inc. Accordingly, the time has come for SEBI to rationalize the utilization of proceeds disclosure standards for emerging companies and to provide greater flexibility to such technology driven, professionally managed companies. Some right steps towards this have already been taken with a few current initial public offerings but it is necessary to include these as part of the applicable SEBI regulations rather than making exceptions on a case by case basis to provide a stable, direct and transparent regulatory regime which is investor friendly as well as issuer friendly.

Initiatives of FICCI Committee on Capital Markets

1. Interaction with Mr Tuhin Kanta Pandey, Secretary, DIPAM, Ministry of Finance - 11th March 2021

FICCI had organized a Session (through video conferencing) with Mr Tuhin Kanta Pandey, Secretary, DIPAM, Ministry of Finance on 11th March 2021.

Members of the Capital Markets Committee were present at this closed-door interaction. Focused discussions were held on Government's disinvestment roadmap including privatization and monetisation of assets.



2. Interaction with Mr Injeti Srinivas, Chairman, IFSCA on SPAC Listing - 12th April 2021

An interaction of FICCI's Capital Markets Committee was organized (through video conferencing) with Mr Injeti Srinivas, Chairman, IFSCA on 12th April 2021. The interaction was led jointly by Mr Sunil Sanghai and Mr Cyril Shroff, Co-Chairs, FICCI Task Force on IFSC.

During the interactive session, discussions were held on IFSCA's Consultation Paper on Issuance and Listing of Securities



Regulations, 2021 w.r.t. its proposal to enable listing of SPAC. The interaction provided an opportunity to understand IFSCA's perspective on the proposal and allowed participants to offer suggestions on the proposed framework.

Subsequently, a detailed representation was submitted for consideration of the Regulator.

3. Interaction with Dr Ajay Bhushan Pandey, former Finance Secretary, Ministry of Finance, Government of India - 4th September 2020

FICCI organized a Special Interactive Session on Transparent Taxation, in collaboration with ET. Dr Ajay Bhushan Pandey, former Finance Secretary, Ministry of Finance delivered the Keynote Address at the Session.

Dr Pandey said that the move to a faceless system will lead to reduced compliance burden, lower cost of compliance, reduced litigation and significantly improve the ease of doing business.

Ms Sangita Reddy, President, FICCI lauded the faceless tax system as a milestone in the structural reforms initiated by the Government. She also mentioned that this initiative is a clear articulation of Government's commitment to honour and respect honest taxpayers and recognise their contribution towards realisation of the vision of 'Atmanirbhar Bharat'.



4. Interaction with Mr Injeti Srinivas, Chairman, IFSCA - 8th December 2020

FICCI had organized an interaction (through video conferencing) with Mr Injeti Srinivas, Chairman, IFSCA through video conferencing on 8th December 2020. The interaction was led jointly by Mr Sunil Sanghai and Mr Cyril Shroff, Co-Chairs, FICCI Task Force on IFSC.

Mr Srinivas highlighted the focus areas of IFSCA and spoke of the several opportunities to investors to set up businesses in the areas of banking, investments, especially green finance and social impact capital, insurance and reinsurance, capital market and asset management.



Policy Recommendations

● Relief measures sought from SEBI to reduce impact of COVID related issues on industry and capital markets

Detailed recommendations have been submitted to senior officials at SEBI highlighting the issues faced by industry and capital markets in view of COVID during the last one year, esp. during the second wave and resultant restrictions imposed by several state governments. FICCI gratefully acknowledges that our submissions as mentioned below have been accepted.

- Extension of timeline for submission of annual and quarterly audited financial results by listed companies
- Extension of timeline for submission of Annual Secretarial Compliance Report
- Extension of timelines for submission of Statement of deviation or variation in use of funds
- Permission to use digital signature certifications for filings
- Relaxations to RTAs in adherence to prescribed timelines for carrying out various shareholder requests and for other regulatory filings including processing of demat requests
- Relaxation to Trading Members / Clearing Members / Depository Participants / KYC Registration Agencies for compliance with timelines of regulatory requirements
- Exemption for Board of directors and Audit Committee from observing the maximum stipulated time gap between two meetings
- Relaxations in respect of sending physical copies of annual report to shareholders and requirement of proxy for general meetings held through electronic mode
- Prior intimation to stock exchanges reduced to 2 working days for Board meetings
- AGMs to be conducted through VC or other audio-visual means. Dispatch of physical copies of financial statements dispensed
- Relaxations relating to procedural matters –Issues and Listing
- Relaxation in timelines for compliance with regulatory requirements by Debenture Trustees, REITs and InvITs, AIFs and VCFs

● Roundtable Discussion with Mr Ajay Tyagi, Chairman, SEBI on Business Responsibility and Sustainability Reporting

SEBI had organized a discussion on its Consultation Paper on Business Responsibility and Sustainability Reporting on 15th January 2021. The meeting was chaired by Mr Ajay Tyagi, Chairman, SEBI. Senior officials from SEBI - Mr S K Mohanty, Whole Time Member and Mr Amarjeet Singh, Executive Director also guided the discussions.

Mr Subhrakant Panda, Vice President, FICCI represented industry's views at the meeting along with other senior industry leaders representing a wide spectrum of sectors such as chemicals, aviation, textiles, auto, power, constructions, metal, mining, cement, financial services, consumer goods and IT. The session was moderated by Mr Sunil Sanghai, Chairman, FICCI Capital Markets Committee.

It was highlighted by FICCI that a uniform applicability of the reporting requirements across industries may not result in meaningful disclosures, given the varying nature of businesses across industries and at times, within the

same industry. It was also suggested that voluntary applicability of the reporting format be extended for two years instead of the proposed one-year period.

- **Suggestions on Overseas Listing**

FICCI has submitted to the Government that in context of overseas listing, capital gains (on transfer of shares of Indian companies between non-residents) would need to be exempted from being taxed in India. Trading in depository receipts issued abroad has been exempted from such taxation. Hence, similar exemptions be extended to trading in Indian shares listed on foreign stock exchanges as well. It was also submitted to permit listing of shares in such jurisdictions where Depository Receipts are currently permitted to be issued.

- **Suggestions on applicability of the Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2020 and Press Note 3 dated April 17, 2020, to investments from Hong Kong**

FICCI had submitted a detailed note to Mr Piyush Goyal, Hon'ble Minister for Commerce & Industry and Secretary, DEA, Ministry of Finance highlighting concerns of foreign investors and industry in relation to the applicability of the Amendment Rules and the Press Note on investments from Hong Kong. It was submitted that including investments from Hong Kong within the ambit of the Amendment Rules and the Press Note would adversely impact the inflow of foreign investment via Hong Kong to India where foreign investors have used Hong Kong as a holding structure to route their investment to various countries including India. It was requested to consider issuing a clarification excluding investments via Hong Kong based entity only for cases where the direct investor is an entity from a non-Adjoining Nation and there is no linkage to Chinese entities or Chinese investor or Chinese citizens, and the beneficial owners are not from an Adjoining Nation, from the purview of the Amendment Rules and the Press Note.

- **Suggestions on SEBI (LODR) Regulations - Separation of role of Chairman and CEO/MD**

Based on concerns raised by industry, FICCI had earlier highlighted the challenges in mandatory separation of the roles of Non-Executive Chairperson and Managing Director/Chief Executive Officer for listed companies. Subsequently, this was deferred by SEBI till April 1, 2022. Given the pandemic and the resultant impact on industry, FICCI has again requested for a reconsideration of the provision in its representation to SEBI and the Government at the highest levels.

- **Suggestions on Consultation Papers issued by SEBI**

Based on inputs received from committee members, detailed submissions have been made through the year on the following Consultation Papers issued by the Regulator from time to time:

1. Recalibration of threshold for Minimum Public Shareholding norms, enhanced disclosures in CIRP cases
2. Review of LODR Regulations
3. Format for Business Responsibility & Sustainability Reporting
4. Review of requirement of Minimum Public Offer for large issuers in terms of Securities Contracts (Regulation) Rules, 1957
5. Disclosures pertaining to Analyst Meets, Investor Meets & Conference Calls
6. Applicability & role of Risk Management Committee
7. Review of regulatory provisions related to Ids
8. Re-classification of promoter/promoter group entities & Disclosure of promoter group entities in shareholding pattern
9. Review of SEBI (Delisting of Equity Shares) Regulations, 2009

10. Review and Merger of SEBI (Issue and listing of Debt Securities) Regulations, 2008 and SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 into SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021
11. Proposed framework for Gold Exchange in India and draft SEBI (Vault Managers) Regulations, 2021
12. Review of the regulatory framework of promoter, promoter group and group companies as per SEBI ICDR Regulations

- **Suggestions on SEBI Regulations**

Detailed representations were made to SEBI highlighting industry concerns on the following –

- ❖ Disclosures pertaining to LODR Regulations on –
 - Forensic audit
 - Analyst / institutional investor meets.
- ❖ Insider Trading Regulations
- ❖ Delisting Regulations
- ❖ Takeover Regulations (Encumbrances on promoters' shareholding)

- **Suggestions on Special Purpose Acquisition Company (SPAC) mechanism**

A note on SPAC was submitted to Chairman, SEBI and Secretary, DEA, Ministry of Finance. This comprised details on broad structure, market sizing of the product and current status of SPACs in USA.

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