#CAPAM2020

17th Annual Capital Market Conference

Atmanirbhar Bharat: Role of Capital Market

The Experts' Voice

A compendium of articles

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Foreword

In alignment with the Hon'ble Prime Minister's vision of Atmanirbhar Bharat or Self-Reliant India, FICCI's 17th Capital Market Conference - CAPAM 2020 - focuses attention on the role of capital market in realising this target.

The outbreak of the COVID pandemic has radically altered the economic landscape and increased volatility in the capital markets -- both globally and in India. While it is an inescapable conclusion that the after-effects of such a pandemic will continue to show on the financial and capital markets for a substantial amount of time, the coordinated efforts of the Government of India and SEBI in proactive announcements of various relief measures to deal with such unprecedented circumstances have certainly helped in smooth functioning of the markets all along. Having said this, maintaining this resilience through constant regulatory support is critical for faster recovery.

On this occasion, we are pleased to present CAPAM 2020 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 to ensure realization of PM's dream of Atmanirbhar Bharat.

We would like to take this opportunity to thank the Regulators, senior bureaucrats and highly esteemed government officials for their participation in CAPAM 2020 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. 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

Himanshu Kaji
Co-Chair

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FICCI Capital Markets Committee

Contents

Articles

- **Capital markets for an AtmaNirbhar Bharat** **07**
  Sunil Sanghai, *Chairman, FICCI National Committee on Capital Markets, Founder & CEO, NovaDhruva Capital Pvt. Ltd*
- **Role of capital markets in making small businesses 'atmanirbhar'** **10**
  Himanshu Kaji, *Co-Chair, FICCI National Committee on Capital Markets, Executive Director & Group COO, Edelweiss Financial Services Limited*
- **Time to strengthen our own capabilities for a sustainable growth** **13**
  Vijay Chandok, *Co-Chair, FICCI National Committee on Capital Markets, Managing Director & Chief Executive Officer, ICICI Securities Ltd.*
- **Indian Economy through Covid-19 – Relief, Revival & Execution** **17**
  Ananth Narayan, *Associate Professor, Finance and Senior India Analyst, SPJIMR*
- **India's Stock Exchanges – A Vital Cog in India's Atmanirbhar Strategy** **20**
  Ashishkumar Chauhan, *MD & CEO, Bombay Stock Exchange {BSE}*
- **Rooting for an aatmanirbhar capital market** **24**
  Ashu Suyash, *Managing Director and Chief Executive Officer, CRISIL Limited*
- **Crisis is the right time to reimagine, reboot our financial sector** **30**
  Navneet Munot, *Executive Director & Chief Investment Officer, SBI Funds Management Pvt. Ltd.*
- **Atmanirbhar Bharat: Role of Capital Market** **34**
  Nilesh Shah, *Managing Director, Kotak Mahindra Asset Management Co Ltd.*
- **Self Reliant India** **37**
  R Govindan, *Executive Vice President – Corporate Finance & Chief Risk Officer, Larsen & Toubro Ltd*
- **Aatmanirbhar Bharat – Role of Capital Markets** **42**
  Sundeep Sikka, *Executive Director & Chief Executive Officer, Nippon Life India Asset Management Ltd.*
- **NARP – A Project to Ignite the Economy** **45**
  V S Parthasarathy, *President - Mobility Services Sector, Mahindra Group, Member of the Group Executive Board, Mahindra & Mahindra*

Initiatives of FICCI National Committee on Capital Markets **48**

Policy Recommendations **52**

Capital markets for an AtmaNirbhar Bharat

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

In the backdrop of a raging Pandemic, our Prime Minister has given a call for an AtmaNirbhar (Self-Reliant) Bharat. Reflecting on that, I believe, for a Self-Reliant India our capital markets which are extremely important for the economic growth of the country should also be Self-Reliant. To achieve this, we need some fundamental changes in our approach to build further depth, efficiency, and variation in the Indian markets. While our markets have evolved significantly over time, we still have some grounds to cover to be at par with the developed countries. Some of specific areas which require focus are -

1. **Variety of capital raising instruments -** Our regulatory framework does provide for a variety of capital raising instruments, though globally many other variations are routinely used. For example, while issuance of Warrants and Convertible instruments are permitted in India, our regulations are less flexible than other markets with regard to tenure, pricing, investor types, conversion structure, put/ call options, upfront payment, underlying securities, primary v/s secondary offerings, etc. As we know, warrants/ converts are one of the most popular instruments used globally for capital raising. It is important that our regulations provide for flexibilities which are in line with the international markets.
2. **Efficiency in the market -** Efficiency of time to execute a trade and cost involved in accessing and transacting is extremely important for a developed market. Our secondary markets are quite effective from this perspective. However, we could look for more efficiency in the primary markets, the mutual fund industry, and the overall regulatory framework. Some initiatives like common KYCs, reduction in transaction cost using technology, a robust regulatory approval process, simpler and clearer regulations including pro-active guidance and not reactive action, an efficient litigation management system and a robust dispute resolution mechanism could go a long way in achieving this.
3. **Access to the capital markets -** Ease of accessing a market, both primary and secondary, is an essential feature. An investor should be able to easily invest and execute a trade in the market and a corporate should be able to raise capital with greater flexibility. Our IPO guidelines require a review based on the international norms. For example, for large corporates above a certain size, a provision for a minimum amount of the public offering rather than a minimum % of equity as public offering



may be considered. For a large sized company, just a good quantum of public offering would ensure proper liquidity of the stock in the market and take care of any concern around price manipulations. This will be a huge positive not only for the corporates, but also for Indian markets and Indian investors. If this is addressed, corporates considering listing only abroad may consider a dual listing.

4. **Takeover code and delisting guidelines -** Corporate structuring, acquisition, entry and exit from the markets and takeovers are the backbone of a corporate strategy. These are also critical actions from a regulatory and capital markets perspective. Our takeover code has gone through several reiterations over time. However, still there are areas which do not reconcile with the common global practices. We need to reflect on provisions such as poison pills to protect an undesired takeover, provision for a 100% acquisition of the company so that all minorities are treated appropriately, taking a company private if the shareholders are supportive and minority squeeze out to deter a small number of shareholders to block the majority. Though some of these provisions are from other statutes, we do need to take a holistic view of them.

5. **Deepening the investors base beyond top 30 cities -** Despite touching almost a USD 2tn mark, our market is still concentrated in major cities. Contribution from beyond 30 cities is very small and less than 4 crore people participate in the capital markets. Our mutual fund AUM is less than 11% of GDP compared to ~101% in the US. We need to review our mutual fund regulations to facilitate players who would bring in technology-based non-traditional distribution system to go beyond the top 30 cities and help deepen the market.

6. **Enhancing liquidity in the corporate bond market -** Further, in recent times, liquidity is one of the key challenges faced by the mutual fund industry, particularly for debt funds. Equity funds, despite their large size, rarely have liquidity challenges because of the well-evolved and adequately liquid equity capital markets. Redemptions in equity funds can easily be met by liquidating the portfolio in the market. Even in the present unprecedented difficult situation, the markets are functioning well, and equity funds do not face liquidity issues. However, debt funds are handicapped by a nascent debt market that lacks depth and liquidity. For an open-ended debt fund where unit holders can demand redemption at short notice, liquidity in the market is essential. Redemption can only be met either out of new flows or by selling of underlying securities in the portfolio. An active and liquid debt market, like that of the equity market, could help overcome the liquidity issues of debt funds. While the Government bonds market is generally liquid in certain maturities, a vibrant corporate bond market across ratings and maturities is an absolute must for the growth of debt mutual funds.

7. **Focus on new investment areas such as Gold, Real Estate and Commodity -** Post the success of Jan-Dhan scheme for an overall financial inclusion in the country, capital markets can play an important role in providing alternate investment opportunities. Facilitating investments through the capital markets in products like Gold, Land and Commodities could convert otherwise illiquid asset into a more liquid and tradeable investment. There already exist platforms where investors can buy gold for as low as Rs. 5 and can accumulate it over time to trade or take delivery. This not only makes investment in gold liquid, but also



enables proper recording of the trade. Similar innovative schemes can be launched for land and commodities. This has a potential to create liquidity for a lot of illiquid savings and bring them into the main stream.

8. **Digital IPOs -** Our secondary trading platform and the clearing, payments and settlement systems are one of the best in the world. We have now also moved our follow-on offerings i.e. Rights issue, QIPs and OFSs on a complete electronic platform. While our IPO market is very efficient, moving the IPO issuances too on a digital platform can significantly decongest and simplify the process. Of course, the transparency of the process will also be far better. The current experience during this unfortunate pandemic suggests that we Indians are extremely quick at adopting new technology.
9. **Regulations that embrace innovation -** Finally, for any mature market a constructive and creative dialogue is healthy. Innovation is its hallmark which leads to improvement in productivity. If this is not understood well, innovation gets stifled within the confines of restrictive regulations. To innovate, imagination should be given a free flight to go well beyond boundaries. For a highly evolved market, we must start thinking about transaction-based regulations rather than regulation-based transactions. It would mean that we should let the system innovate based on its requirement and then approach the regulators for approval of the essence and intent of the transaction. Regulations can be written based on that. Currently, any attempt at innovation of financial products is colored by the prevalent regulatory framework. If I were to draw an analogy from the film industry, it's like whether the lyrics should be written first, or the tune should be arranged first. In reality, both the lyricist and the music director should have flexibility to come up with melodious song. While our regulators have made a beginning towards this by adopting sandbox regulations, we need to further expand this.

In conclusion, to make our markets globally competitive and for India to become AtmaNirbhar we must think differently. Time has come when we could do this. Are we willing to take the first step!

Role of capital markets in making small businesses 'atmanirbhar'

Himanshu Kaji, *Co-Chair, FICCI National Committee on Capital Markets*
Executive Director & Group COO, Edelweiss Financial Services Limited

Micro, Small and Medium Enterprises (MSMEs) are the heartbeat of India's industry and one of the key drivers of our economy. Not only do they contribute 1/3rd to the GDP of the country, they are key providers of employment to a large segment of the population, particularly amongst the non-formal sector. They contribute significantly to the socio-economic development of the country by providing employment opportunities to the most economically challenged segments of the society. Also, in a country like India, which is more a services hub than a manufacturing, MSMEs have always played a key role in ensuring some competitive intensity between domestic products and imported ones. With the current emphasis on using local products, the value of such MSMEs has come even more to the fore.

Impact of COVID

The COVID pandemic has been a challenging time for all of us, personally as well as professionally. However, it has been a particularly difficult time for MSMEs. Businesses were forced to down shutters for more than a month as saving lives by preventing spread of COVID became key. MSMEs which were anyways facing liquidity crunch due to the overall economic slowdown and pending dues from other debtors saw a complete shutdown of the liquidity tap as demand petered out. This has already forced some businesses to close forever while many others are still struggling for survival. To that effect, the government has taken some strong, effective measures in providing a liquidity line to these MSMEs. However, there is definitely scope to do more, especially since the smallest of MSMEs, which are also the most affected, don't have direct access to the banking system and rely on NBFCs and MFIs for their financing needs, which themselves don't have free access to liquidity today.

While a black swan event like COVID could not have been predicted in advance, it does bring into question, what could have been done to prevent such a situation in the first place? One significant aspect has been the over-reliance on debt financing and the relative unwillingness to tap equity related solutions. Most MSMEs start largely as family-owned enterprises and prefer to keep it that way, not realizing the significant upside an equity investor can bring in, especially in terms of operational and technical expertise when this investor is of the strategic kind. Besides that, there is obviously the perennial capital shortage problem for MSMEs which this can solve.

Capital Crunch

One of the biggest deterrents to the growth of MSMEs is the lack of capital. As per a recent IFC report, the credit gap for the MSME sector is more than INR 16 trillion! And part of the reason this gap has come in is that most MSMEs still rely largely on debt financing from banks and NBFCs. Since MSMEs are largely non-formal, it becomes difficult to underwrite and provide financing to them, even for new-age NBFCs. The absence of certifiable

financial information makes it even more difficult to see a financial track record. Hence, we see a significant gap between the demand of funding and availability of funding. That is not to say that these MSMEs are not fundable. In fact, these MSME units of today are the pre-cursor to potentially large corporates of tomorrow and provide a good investment opportunity. Hence, it is imperative that MSMEs explore options around tapping the capital markets, both on the debt and equity side to become truly 'Atmanirbhar'

MSMEs in Capital Markets

Capital markets has not usually been a favoured mechanism of fundraising for MSMEs. Part of the reason is the absence of an enabling ecosystem earlier where MSMEs could easily raise capital from the markets. Typically, an MSME would look for a few specific things –

- Timeframe of funding – MSMEs typically have immediate financing requirements, especially on the debt side since a lot of their requirements are to fulfil working capital requirements
- Procedural simplicity – MSMEs will usually not have a defined compliance team and other related support staff to handle any complex procedural requirements for tapping capital markets. Hence procedural activities pertaining to this should be simpler and not cost intensive

Despite the recent steps taken, participation of MSMEs in the exchange has been going down. Listing of new MSMEs in the exchange has seen a recent downturn after a rapid rise in last few years – this could also be a function of the subdued market environment. However, on an overall basis, there is still some scope to do more work to make a more enabling ecosystem for MSMEs in the capital markets



Creating the Enabling Ecosystem

The most significant concern for most potential investors is the lack of available information for MSMEs which are planning to raise money in the capital markets. However, this might not be a problem which an MSME can solve on its own since they typically do not have resources to be capital-markets ready on their own. Therefore, it is important that the government creates an independent body which can advise and provide consultancy to MSMEs for this at a nominal cost which can be subsidised by the government. This will also help enhance trust on MSMEs as the data would be typically vetted by a quasi-governmental body.

Secondly, there needs to be some incentivisation on the investor side as well. This could be in the form of tax exemption for investment in these issuances. MSME investments can typically turn out to be high risk high return investments and hence are shied away by most investors, as should be the case for the inexperienced investor. However, a combination of investor awareness through education initiatives as well as incentivisation on the investor should help boost the interest in this segment, making it more mainstream than what it is today. A larger investor



pool will also help increase volumes and help in efficient price discovery, Liquidity for investors in MSMEs IPOs continues to be a big concern. Less than 50% of the companies listed since the inception of the exchanges are being actively traded on the two premier exchanges in India. As a result, secondary trades are few and far between, reducing the overall desirability of these stocks. Hence a larger investor pool will help drive the liquidity and provide comfort to both MSMEs and investors.

Lastly, India's bond markets are now starting to take shape. There is a good amount of appetite for high-yield bonds, particularly from large investors and HNIs. Promotion of SME bond issuances can provide a fillip to debt capital markets participation of MSMEs. While such issuances will provide lower interest rates for MSMEs than other financial intermediaries charge they will also be a viable high-yield instrument for informed and educated investors operating in the bond market.

Looking Ahead

MSMEs are the backbone of a resilient national economy and will define a significant course of our economic destiny. Their ability to stimulate demand, create jobs, drive innovation, and establish competition make them an integral part of the economic construct. Therefore, prioritizing their development is critical to the future of the country. The government has also identified and the recent announcement to provide 15% equity investment in listing of new MSMEs through a government pool is a step in the right direction. We need more such measures to show that the MSMEs in India have the full-fledged backing of the government. Especially in the current environment, government's push to MSMEs and capital markets can play an important role in providing capital to the productive segments of the economy. An increased reliance on capital market funding will ensure that in the long-term, MSME growth is not constrained due to any short-term setbacks and the growth momentum can be sustained for a long period of time.

Time to strengthen our own capabilities for a sustainable growth

Vijay Chandok, *Co-Chair, FICCI National Committee on Capital Markets, Managing Director & Chief Executive Officer, ICICI Securities Ltd.*

The current situation facing the global economy is probably a once-in-a-century phenomenon. Due to the current COVID-19 induced pandemic, we are witnessing dislocation across the globe at a scale never seen before. During all past major upheavals, be it the World Wars, other pandemics, or economic downturns, it has never happened that the entire globe has been engulfed, given the relatively lower interconnectivity in the past. In the current situation, nobody seems to be immune. All sectors, all industries, all geographies are impacted and the lucky ones seems to be the ones who are not grievously hurt.

In times of crisis, human body's natural response is to protect itself by increasing its own capabilities. It is true for mankind as well. Big bang reforms in the history of the mankind have been triggered by large crisis, which under normal circumstances would have taken decades to unfold. For instance, the American civil war resulted in the end of slavery, World War II resulted in creation of peace keeping institutions like the United Nations, thereby preventing repeat of such large scale destructions, global financial crisis has led to tighter regulations and regular stress tests etc.

Closer home too, each time there is a crisis of this large magnitude, there has been a compelling response from the system. Food shortage during the early decades of independence led to we unleashing the green and white revolutions, resulting in farm and animal husbandry productivity increasing many fold and India breaking free from the shackles of being at the mercy of donor nations. The 1992 stock market scam gave birth to electronic trading, and the balance of payment crisis in early 1991 led to liberalization of Indian economy. These were all big bang moves which short-circuited years of meandering and incremental change which otherwise would have followed.

The current Atmanirbhar Bharat campaign launched by the government is similar to the body attempting to strengthen itself to face the current and future challenges in a more resilient manner. Measures like support to MSMEs, permitting commercial mining, agri reforms etc. all lead to a larger goal of self-strengthening, self-reliance and sustenance. In line with this objective, the Securities and Exchange Board of India (SEBI) has come out with a slew of policy measures to strengthen the capital market, a critical component of Indian economy.

SEBI - A Proactive Regulator

As soon as the realities of the 'new normal' set in early March this year, there was tremendous amount of uncertainty in the capital markets. Nobody seemed to know the way forward. Lots of capital raising and M&A options that were being assessed by the corporates suddenly seemed unviable. The swiftness with which this happened, did not given enough time for the advisors and markets to figure out the best course of action.

The response of SEBI to this uncertainty has been remarkable and will be revered in the times to come.

The number of COVID-19 related measures that were and are still getting rolled out are not only prompt but sure to have a far reaching impact on the capital market and more importantly for the Indian Inc.

The early measures taken by SEBI includes the extension of SEBI card's validity period for IPO candidates. This means that the time lost by the issuers to launch a transaction during the pandemic will be discounted. It has been a big relief to such issuers who have incurred cost and time in coming to this stage. The other concurrent relaxation is the flexibility to change the primary issue size by 50% (from earlier 20%) which means that issuers can adjust the issue size commensurate to a possibly attenuated demand in the crisis circumstances and yet go on with the fund raise. As soon as the markets stabilize and get poised for primary issuances, these steps will be extremely vital.

The other challenge that the issuers are facing are the deeply corrected stock prices. It has become tough for the companies to find capital to sustain and fuel their growth. To alleviate this peculiar situation, it is imperative for freely priced products to be available for the issuer to use. Rights Issuances are very well suited to such circumstances as they provide an equal opportunity and option for all shareholders take part and avoid dilution of their stake. The key amendments brought out by SEBI have relaxed the eligibility conditions for issuers to take a fast track route for rights issue. This has widened the set of issuers who can issue under fast track and has even made newly listed companies (18 months track record required as opposed to earlier 36 months) eligible for it. There are other relaxations in certain disclosure requirements but one of the most important change is the relaxation of minimum subscription threshold for the success of an issue to 75% from the earlier 90%. This is a very pragmatic move considering that there could be a potentially subdued demand yet the issuer can close the issue and use the funds. It has also been a relief to the promoters who are ready to provide capital support to the business but had to earlier underwrite a higher percentage for the issue's success.

In addition, several changes have been brought about in relation to the logistics issue this pandemic has posed. Doing away with physical dispatch of issue material is not only going to save cost for the issuer in these times but also removes the uncertainty of delivery of these material in red or containment zones.

Relaxations have also been given to listed entities in their continuous listing obligations. For example, the extension of timelines for publication of accounts is not only going to help corporates to cope with the issues of limited workforce and data collation but also allow them time to get a good assessment of impact on businesses. The recent advisory from SEBI on the disclosure of material impact of COVID-19 pandemic is a very sound template to ensure that relevant and sufficient information is flowing from listed entities.

SEBI has also allowed companies to raise funds through Qualified Institutions Placement without having a six-month gap between two such events. Issuer receiving good investor reception can raise funds in tranches with a two-week gap. Another important step towards the private placement through preferential issue is the reduction of time frame of historical prices that need to be considered to calculate the minimum issuance price. The step comes with checks and balance of additional lock in requirements and is going to give more sanity to the issue price despite the massive volatility of the last few months.

More recently amendments have been introduced to relax the conditions of companies wanting to



come out with further public offerings under the fast track route. It could prove vital not only for the corporates in need of capital but also the revival of the FPO which have been scarce in recent times.

On the consolidation side as well SEBI has stepped up to support the fund infusion in companies by the promoters. The increase in the creeping acquisition limit through a preferential allotment to the promoter is going to ensure that meaningful amount of capital can made available to ailing businesses. Another change in the takeover regulations is the allowance to do a voluntary takeover by a holder holding over 25% stake, even if they have acquired shares in the last year. Earlier any acquisition of shares of the target in the past year was a disqualifier to make a voluntary open offer. This will give an opportunity for potential M&A which, in such circumstances, could be critical for survival of certain companies.

SEBI has taken proactive and numerous laudable measures to tame market volatility and ease compliance burden on various registered intermediaries like revision of market wide position limit, increase in margins, extension in penal provision and extension of timelines for various regulatory filings. These measures unburden SEBI regulated intermediaries with appropriate controls and at the same time ensure protection of investors and foster an orderly development of market.

Shoots of Resurgence in the Capital Markets

With the bulwark of cogent and relevant countermeasure from SEBI, the Indian Capital markets are well placed to weather catastrophes of any order or magnitude. The market witnessed few large capital market transactions which are important to instil faith back in the investor community. Decisive and well directed policy responses such as SEBI's act as a catalyst to such resurrection.

While currently the ability to raise capital has been much better for blue chip names given the preference of investors to back less riskier names, a few of the corporates are trying to estimate the extent of impact before getting into capital raise mode. As the capital raising scenario evolves alongwith the Covid 19 situation, there would emerge various other rationale for raising capital such as confidence capital and acquisition capital across equity and even some debt for those who might not have thought of leveraging. Some companies are looking to divest their non-core assets to bolster the prospects of their core business and some related M&A activity and occasional delisting.

Amongst primary market products, as stated above, Rights Issues have been the dominant choice for capital raising in such uncertain times given the ability to freely price the equity as well as protect dilution of existing shareholders while ensuring adequate capital is raised further bolstering the balance sheet of the Company. In addition, the ability to tailor various instruments such as a partly paid up share or a compulsorily convertible debenture or an issue of NCD + warrants allows a staggered fund raising easing out investor liquidity issues as well as securing financing. The provision of fast track as well as reduced disclosure norms for eligible companies have also cut the time to market

for such issues. And as the situation improves, there are a number of high quality IPOs in the pipeline which will hit the markets. There is enough and more appetite for high quality names at the right price and as the market infrastructure opens up, which should happen in the coming months, the activities in Indian Capital markets is bound to shore up.

Going Forward

Going forward, SEBI may consider encouraging the NRI remittance to further strengthen our economy. This is a source of patriot money which can help tremendously government's Atmanirbhar ambition.

NRI remittances can be broadly divided into two categories - Natural and Induced. Millions of Indians working abroad and sending money home to their families constitute the natural remittance and this source is under some pressure now. This is due to lower economic activities due to COVID-19, resulting in either job losses or lower wages, thereby limiting the amount they could remit. However, there is a large untapped Induced remittance, which is business investments by the rich NRIs. This is potentially a very large pool, given the number of affluent Indians abroad, and is solely dependent on how well we are able to frame policies on ease of doing business and welcoming such capital. SEBI may consider some below measures to encourage this all season capital.

Many NRIs desirous of investing in the Indian capital markets are constrained by some of the "pre-covid" era requirements of documentations and procedures, which many find cumbersome. SEBI's recent guidelines on seamless and paperless customer on-boarding procedure has played a big role in record retail participation in the capital market. Similar investor-friendly policy interventions could also be replicated for the NRIs.

While NRIs can participate with other categories of investors, the regulator could consider earmarking a portion of public issue for them. This could encourage flow of a new pool of capital. There are enough platforms that are already in place to integrate any kind of bidding, participation and flow of capital.

SEBI may consider forming a task force to identify the pain points faced by the NRIs and recommend suitable resolution measures.

In addition, the activity in capital markets can be supported further with certain other steps such as increasing the maximum permissible discount to the SEBI floor price (currently 5%) in case of qualified institutions placements. For rights issue, companies listed through scheme of arrangement/change in control can have reduced disclosure v/s full disclosure offer document which could significantly reduce their launch time.

Another critical issue is that while the extension has been granted to the IPO card validity, the information in the filed DRHPs is quite dated. SEBI may consider giving a relaxation allowing an addendum to the DRHP for critical updates on business, industry, financial etc. This will immensely help the issuers to not only demonstrate the Covid impact on their businesses but also help them market their issues with updated information allowing investors to make a well informed investment decision.



Indian Economy through Covid-19 – Relief, Revival & Execution

Ananth Narayan, *Associate Professor, Finance and Senior India Analyst, SPJIMR*

Considerable uncertainty persists on how the Covid-19 pandemic will pan out. Mercifully, there are a few silver linings. The containment of the spread in Mumbai's congested Dharavi offers us hope and pointers. Testing has steadily increased to over 300,000 per day. Authorities are working to improve our medical infrastructure and response.

However, the overall number of cases continue to rise, and sporadic reinstatement of local lockdowns continue.

How badly is our economy impacted? What relief steps have been taken so far, and what more can be considered? How can we prepare for economic revival beyond Covid-19?

How Bad is It?

Estimating GDP growth for the current fiscal year 2020-21 (FY21) is a hazardous exercise. Nevertheless, guesstimates are needed to help authorities decide on the extent and nature of policy response.

Economy activity has slowly but progressively recovered in stages since the lockdown began on March 25th. However, Observatory Group estimates that even if pre-Covid-19 levels of activity were to be achieved from August onwards, we would still see a double-digit contraction of GDP in FY21.

Households and businesses require substantial economic relief and support.

Relief Through the Rural Economy

With much of urban India grappling with Covid-19, rural India - accounting for 65% of India's population and 45% of GDP - offers the best bet to support economic activity.

In this regard, much has been done. Activity under MGNREGA has stepped up, with 37% of the increased full year budget of INR 1 lakh crores disbursed in the June quarter. Other relief measures under the PMGKY program are ongoing. Despite Covid-19, Food Corporation of India (FCI) enhanced its procurement of food grains and held a record 97 million tons of stock as of end May. Besides putting money in the hands of farmers, this has allowed the government to extend universal food security till November. Additionally, favorable monsoons so far augur well for agricultural growth this year. Put together, this is equivalent to an additional 1.75% of GDP of stimulus in the hands of rural folk.

On the back of all this, CMIE reports that India's unemployment came down to 8.6% by end June, down from a peak of 28% in early May, and nearly back to pre-Covid-19 levels. Anecdotal evidence also points to some return of rural consumption in recent weeks.

MSME Relief

While support to the rural economy is well-directed and welcome, more steps are required by way of relief to businesses.

A double-digit contraction in FY21 GDP will deliver a body blow to many of India's 63 million Micro Small and Medium Enterprise (MSME) units operating across industry and services.

While INR 3 lakh crores of government-guaranteed credit will provide additional funding to MSMEs, there is also a need to provide more direct relief to their bottom lines.

MSME have an estimated INR 20 lakh crore of loans from banks and NBFCs. One way to provide direct relief to them and to the financial services ecosystem would be to offer complete interest subvention on all MSME loans for 6 months. This would cost the government around INR 1.2 lakh crores (0.6% of GDP). Even if this ends up benefiting some that do not need the relief (from whom a part amount would be recovered via taxes), timely relief to the ecosystem could pre-empt the need for much larger intervention later.

Medium Term – Atmanirbhar Bharat

Alongside relief measures, a clear plan for economic revival beyond Covid-19 is also needed. This would help pay for the current relief packages with minimal disruption, in addition to helping India eventually achieve her immense economic potential.

Even before Covid-19 hit us, there was an ongoing debate around whether India's weak economy required a demand-side or supply-side policy pivot.

The essence of 'Atmanirbhar Bharat' is that we need both.

For over a decade now, a good part of our consumption – across energy, gold, electronics, plastics, chemicals and all manner of industry intermediates – has been met by imports. Alongside, our exports growth has been tepid. In other words, we have struggled to both make for India, and to make in India.



In this context, merely putting money in the hands of people will not be enough.

When Covid-19 is behind us, we will need widespread jobs to create sustained demand growth. At the same time, our domestic output will have to at least match our increased demand. The success of Atmanirbhar Bharat centers around crafting a climate conducive for creation of sustained jobs and output growth.

Pre-requisites for Jobs and Output

Transformational changes are needed to create such a climate.

First, even before Covid-19, our stressed financial services ecosystem was in no position to fund our growth aspirations. It needs an overhaul with a quarantining of a chunk of non-performing assets, alongside significant banking, governance and market reforms.

Second, many other sectors of the economy – across real estate, power, telecom, airlines and MSME – suffer from chronic stresses, and require resolution.

Third, creation of jobs and output require reforms across areas such as land, labor, law, and more, as Prime Minister Modi enumerated in his May 12 Atmanirbhar Bharat speech.

Every area listed above has solutions, endorsed by multiple experts. But the implementation will be anything but easy. It will call for making tough choices, embracing radical changes, and ensuring coordination and buy-in across multiple stakeholders.

Execution and the Triumvirate

Radical transformation of this kind requires three elements - political leadership and vision, empowered specialists and experts, and capable bureaucrats.

The presence of such a triumvirate allowed the administration to deliver on tough socio-political promises, such as getting around Article 370 of the Constitution. In a very different context, such a triumvirate allowed for the significant economic reforms of 1991.

Economic reform has indeed been undertaken over the last few years – witness IBC, RERA, steps towards financial inclusion, and bank consolidation, as examples. However, the pace, nature and extent of economic transformation has to now step up many notches, and this requires an execution team well beyond a well-functioning bureaucracy.

Our current economic policy making seems to be dominated by the bureaucracy. The marathon February 1 budget speech, the five-part announcements that made up the Atmanirbhar Bharat package, and the subsequent progress on individual schemes all bear the stamp of the bureaucracy.

Individually, the steps are good, and incorporate many suggestions from multiple external stakeholders. However, collectively, the steps do not present a clear vision towards addressing the key issues listed earlier that come in the way of creating sustainable jobs and output in India. The steps are incremental rather than transformational, and many cans continue to be kicked down the road.

With ample political capital at its disposal, political leadership needs to enlist and empower external financial experts more and restore the triumvirate. These experts should have much more to do than just represent that all is well. Alongside the bureaucracy and political leadership, they should be in the forefront of executing India's arduous reform journey towards an eventual revival of sustainable jobs and output.

Conclusion

While there are some silver linings, the course of the Covid-19 pandemic still remains very uncertain. As things stand, GDP for FY21 could well see a double-digit contraction.

The government's steps to support the rural economy are welcome and well-directed. Next, more steps should be taken to support MSME directly, and a complete 6-month interest subvention for MSME could be considered.

Our eventual revival beyond Covid-19 has to be about creating sustainable jobs and output. These in turn require transformational changes that require the triumvirate of political leadership and vision, empowered experts, and capable bureaucrats. As things stand, the political leadership would do well to enlist and empower specialists and experts more in this arduous medium-term execution journey.

India's Stock Exchanges – A Vital Cog in India's Atmanirbhar Strategy

Ashishkumar Chauhan, *MD & CEO, Bombay Stock Exchange {BSE}*

An unprecedented crisis is underway in the form of a pandemic "Covid-19" that has disrupted the global economy. It is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus Financial and economic conditions have never been so volatile in living memory as it is during the current Covid-19 pandemic.

India, too, has not been spared from the exponential spread of COVID-19. The Government of India had initially declared a 21-day nationwide lockdown, extended to more than 60 days in most parts of the country, to tackle the challenge posed by the COVID-19 pandemic. While efforts are being mounted on a war footing to arrest its spread, the aftershocks are being felt in the economy. Never in living memory have governments, industry, civil society and the aam aadmi been united and is being forced to reassess how to lead lives, work and plan for a safer, healthier collective future.

On the bright side, this unforeseen crisis has also offered us with an opportunity to revisit how we conceive, design, regulate, build and operate in a new world, a different world. For instance, on 18 May, India crossed an unlikely milestone when it became the second largest producer of personal protective equipment (PPE) globally. It is a remarkable feat that India went from producing zero to 450,000 PPE kits a day in less than three months thanks to the government's aggressive manufacturing push. Similarly, the pandemic has once again shown that India's Pharma industry is an asset not just for India but for the entire world by exporting lifesaving medicines even to developed countries and reducing the cost of medicines for developing countries.

'Atmanirbhar Bharat Abhiyan'

In his address on May 12, the Hon'ble Prime Minister of India announced massive financial incentives on top of previously announced packages for a combined stimulus of ?20 lakh crore or 10% of GDP, addressing the financing and liquidity problems that firms, businesses and utilities are facing due to the lockdown. The initiative aims to build a self-reliant India by prioritising MSMEs, liquidity and welfare, agriculture, power distribution, mining, health, rural employment and housing sector reforms. The focus on import substitution, reviving demand and export-oriented industrialisation are key underlying themes.

In some ways, the ongoing pandemic and the border challenge with China has forced us to press the pause button and made us realize the need and strength for being self-reliant. In the current scenario, the Make in India initiative has the potential to transform the Indian economy with investment in the manufacturing sector and the advancement of technology. If India takes steps to offer incentives to companies to diversify productions, it has the potential to become the next manufacturing destination for global companies.

States like Uttar Pradesh, Maharashtra and Telangana have already initiated discussions in this regard.

The multiplier effects of domestic manufacturing have been long well established by other Asian countries. The Prime Minister's clarion call has now provided a sound blueprint; with post COVID re-prioritisation and strong implementation, building future ready infrastructure holds the key to reviving economy and getting back on the growth agenda. This is a time for India and Indian business to transform and take a positive approach. I do believe that in today's times, businesses and companies are very well positioned to take advantage of the opportunity ahead of us. Raising capital is a strategic priority in this current scenario, and the by responding to the Prime Ministers call for Atmanirbhar Bharat, Indian stock exchanges have demonstrated tremendous resiliency.

Stock Exchanges and all associated market infrastructure institutions in India demonstrated tremendous growth despite the challenges posed by the Covid-19 pandemic and were fully functional despite the lockdown, on back of government and regulatory support, meticulous planning and technological advances, thus ensuring uninterrupted business continuity for market participants. Its role in the economy is vital to ensure India remains among the top destinations for domestic and global businesses to expand and invest. India's exchanges have shown extraordinary strength to bounce back with greater stability and sustainability in wake of any crisis and I remain confident that they will emerge stronger from the covid-19 pandemic.

Role of Stock Exchanges in Atmanirbhar Bharat

BSE has a well-established legacy of innovation in the capital markets space. This has served India well



and all segments continued to operate seamlessly and efficiently despite the lockdown restrictions. The robustness of the Business continuity capability of BSE to run its operations in a business as usual mode, with less than ten percent employees in office and majority working from home. The settlement systems were ably supported by banks and depositories, all worked barring some teething troubles. Total automation that India has achieved through banks, depositories has been the reason for this success.

Despite the challenges, not only critical areas like operations, information technology, surveillance and settlement were functional, BSE rolled out unique features to add to the robustness of the Indian capital markets. Importantly, during the entire lockdown, fund raising via secondary market continued. Funds worth ₹3.7 lakh crore were raised on exchange platform during Q1 FY2021, the lockdown period, which ensured that system was flush with liquidity when businesses needed it the most. Through commercial papers more than ₹1.4 lakh crore was raised, through bonds close to ₹1.5 lakh crore, in equity (including rights, preferential issues, qualified placements) close to ₹55,000 crore was raised. Listing of companies on the main board and SME platform

took a hit, but BSE did five listings of SME and Start-up companies despite the lockdown. Investor appetite exists, now it is upto the promoters to take a leap of faith and approach the capital markets.

In the commodity derivatives segment, BSE launched Gold mini and Silver kg 'Options in goods' contracts which are based on spot prices and are physically settled on expiry and the world's only available Almond futures contract. The commodity derivatives segment at BSE registered a new high of INR 3,015 crores on July 8. In about a month since launch of options contracts, BSE has become the second largest commodity exchange in terms of turnover. BSE also managed physical delivery of Gold mini 'options in goods' contracts at the exchange designated vault in Ahmedabad, Gujarat amid this lock-down. Seamless and integrated delivery via the exchange mechanism is extremely beneficial for small and mid-level jewellers and bullion dealers, who can not only hedge their price risk but also avail delivery on expiry of the contract.

In the mutual fund space, a vital medium for retail investors to invest in the capital markets, BSE have now become the key catalyst for growth. The BSE StAR MF platform has revolutionized traditional style of distribution, eliminating a major challenge for onboarding retail participants. Its web-based transaction processing, fully automated online mutual fund collection and settlement system has become one of the most acceptable platforms in the industry. In June'20, for the first time, rest of AMCs net equity collection was negative except for BSE StAR MF, which resulted in an offset of the Industry's Net Equity inflow to remain Positive. Maintaining investors trust amidst market volatility, the platform contributed Net Equity Inflow of Rs.1,882 crores to Industry's Net Equity Inflow of Rs. 241 crores in June'20. BSE StAR MF's total contribution to the MF industry in June'20 is Rs. 5,223 crores, 72% out of the industry total of Rs. 7,266 Cr. Despite the nationwide pandemic and lockdown extension BSE StAR MF has helped AMCs, members and their clients in smooth paperless transactions. Overall, the platform achieved 1.86 crore transactions during Q1 of FY 20-21 and 5.75 crore transactions during FY 19-20.

BSE also launched its eKYC platform on May 26, 2020 during lock down period as a service for IFAs, DFIs, mutual funds and stockbrokers to add new investors in their customers list without physically meeting investors. The digital KYC process will facilitate BSE members to ensure zero contact, hassle-free customer on boarding process, especially during this COVID situation.

International Financial Services Centre (IFSC) Zone

Recently, China introduced a national security law in Hong Kong, and it is facing unrest as a result. Many settled and trading in Hong Kong are not comfortable with this, and some foreign investors are considering moving out of Hong Kong. Many investors and funds that invested via Hong Kong are also looking to diversify to other centres. This is an opportune time for India to attract business at the GIFT City from those exiting Hong Kong. GIFT IFSC is an alternative that can service not just India oriented investments, but also be a hub for servicing global investors much like Hong Kong, Singapore, Mauritius or other domiciles. The IFSC zone in GIFT city, Gujarat, offers tax and supportive regulatory framework comparable with any global financial centres. These include waiver of several taxes like transactions, dividend distribution, capital gains and GST. It is operational for 22 hours in a day

BSE-promoted India International Exchange (India INX) has been operating successfully at GIFT City and has an 85 percent market share. The exchange also launched monthly and weekly derivative contracts on the Indian rupee on May 8, 2020. IFSC platform offers access for the international investors and non-resident participants who currently participate in rupee trading in various offshore markets and should offer such participants, an additional trading venue at par with the other offshore market platforms. Long trading hours and USD settlement at IFSC would also help to improve access for overseas participants. INR-USD futures and options contract will also be available for 22 hours to all international participants across the globe.

The IFSC zone needs further push in terms of good regulatory and taxation system that provides certainty, cost advantages and ease of business. This is clearly an inflection point for policymakers to the attract the fund industry and trading business and create a vibrant financial services ecosystem. For global participants, India INX offers an opportunity to trade 22 hours a day in contracts traded and settled in USD - making it an ideal offshore gateway to India. This opportunity arising from the current scenario will enable India to become a net exporter of financial services, being in sync with the vision of GIFT City as a platform for onshore financial services business, presently being lost to other financial centres across the world.

Next Steps

Prior to the outbreak of COVID-19, the outlook for growth for FY 2020-21 was optimistic based on the bumper rabi harvest and higher food prices during FY 2019-20, which provided favourable conditions for uptick in rural demand. For the industrial, manufacturing and services sector, the impact of policy rate to bank lending rates has been improving, with positive implications for both consumption and investment demand. The reductions in the goods and services tax (GST) rates, corporate tax rate cuts in September 2019 and measures to boost rural and infrastructure spending also added to the upside. The COVID-19 pandemic has drastically altered this outlook.

On the brighter side, the shift of economic activity to the cloud and the need for mobile and other tech solutions to contain and respond to future outbreaks of the virus could benefit India, which already has an edge since the Government has been pushing for a digital economy. A shift in demand toward digital applications, and government policies designed to support this sector, could spur innovation and boost entrepreneurs working on the digital economy, which would further brighten the growth and development prospects for India once we get to the other side of this global crisis.

A well-coordinated effort from the Government of India, Ministry of Commerce and Industry as well as the state governments to attract industry from China and other countries, as global businesses look to diversify their business risks is an opportunity for India. For raising capital, Indian entrepreneurs can always rely on Indian capital markets at any times. By responding to the Prime Ministers call for Atmanirbhar Bharat, the frontiers of Indian capital markets will not only increase but will assume far greater importance and urgency.



Rooting for an aatmanirbhar capital market

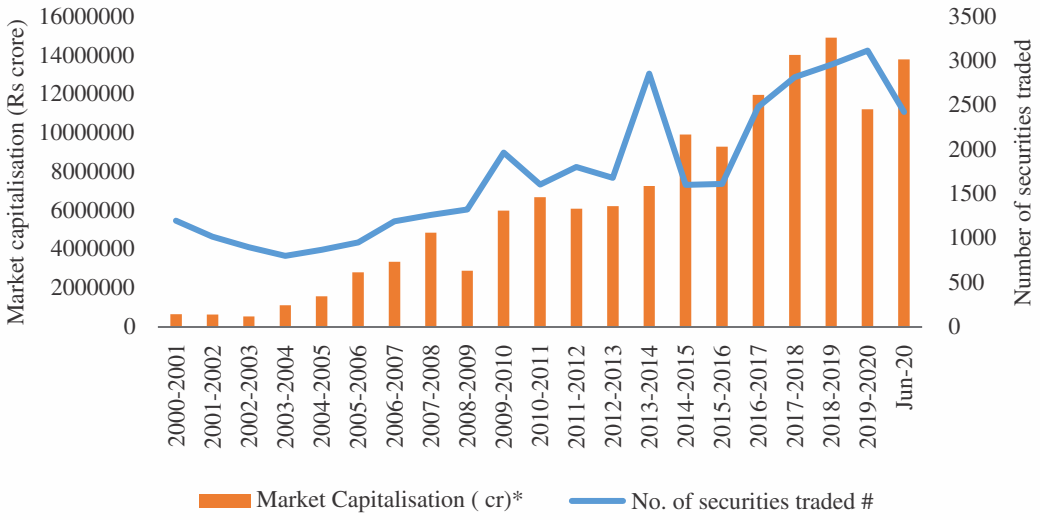
Ashu Suyash, *Managing Director and Chief Executive Officer, CRISIL Limited*

The buzz around self-reliance and resilience has grown louder in recent days, with the Covid-19 pandemic spurring a search for ways to boost manufacturing and ring-fence the economy against such global emergencies and possible geopolitical crises.

Part of that focus devolves also on the capital market, which has gained primacy as a vehicle for economic growth, and a veritable financial funnel for companies. Come to think of it, the capital market in India has grown by leaps and bounds since liberalisation.

The equity market has grown from a market capitalisation of Rs 6.57 lakh crore and 1,201 companies listed at the start of the century to Rs 138.04 lakh crore and 2,426 companies at the end of June 2020 on the National Stock Exchange. The debt market, on its part, has seen the outstanding debt[1] grow from around Rs 54 lakh crore at the end of March 2012 to nearly Rs 137 lakh crore at the end of March 2020[2].

Market capitalisation and number of securities traded getting bigger



Source: *NSE*

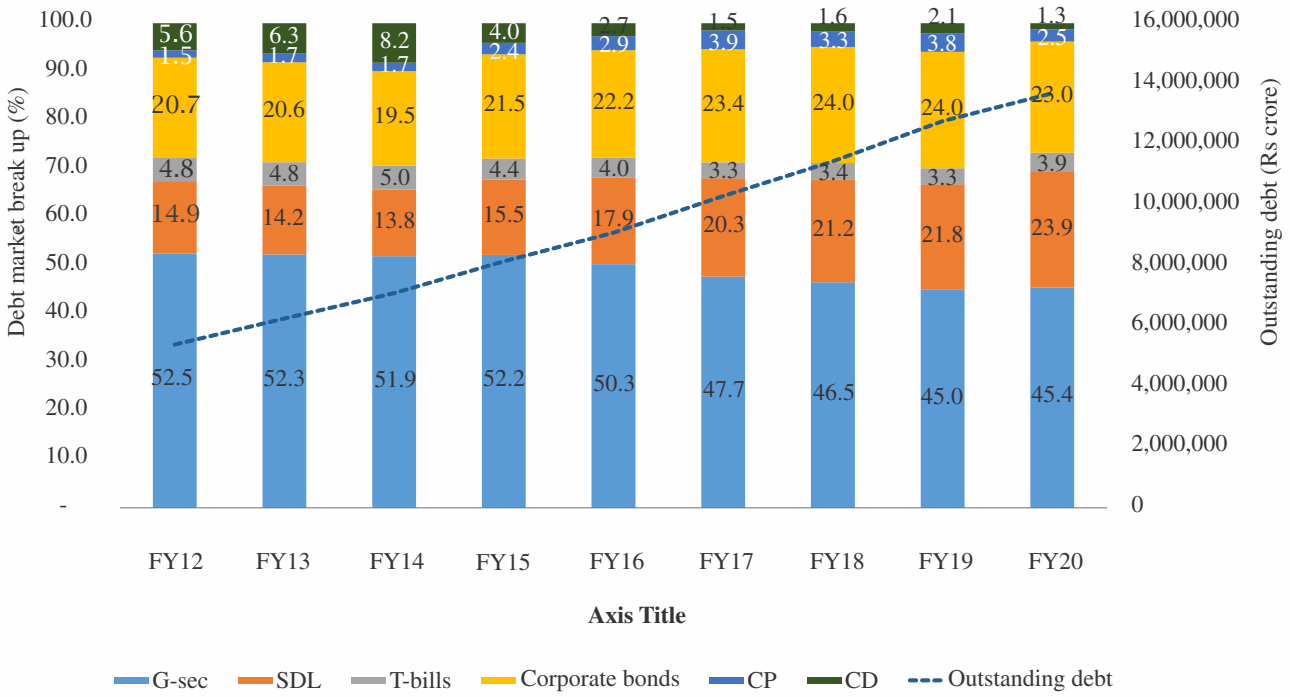
[1] *Includes sovereign and corporate bonds*

[2] *Corporate bond data is as of December 2019*

* At the end of the period. Number of companies available for trading excludes suspended companies.

w.e.f. January 2005, number of securities provided instead of number of companies.

Debt market growth trend, skewed towards G-secs

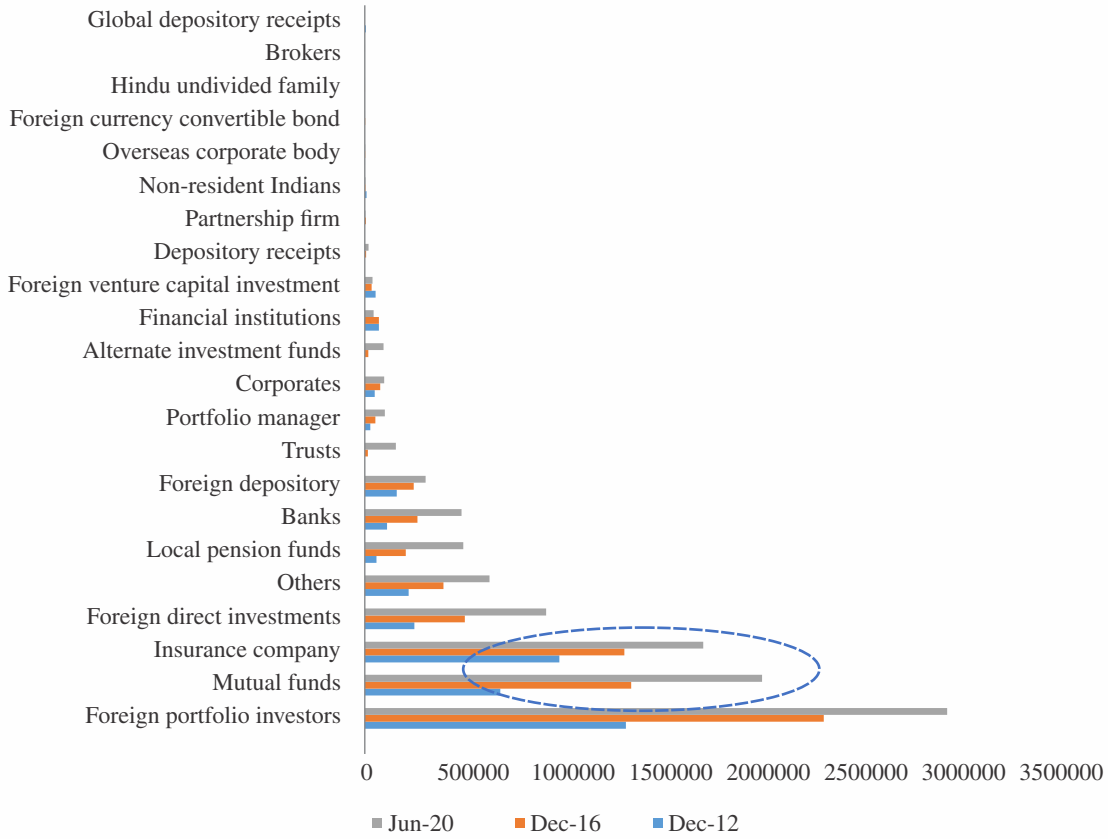


***Source:** RBI, SEBI*

Understandably, all this growth has been fuelled by higher investor participation, especially of retail investors through the institutional route. But on the flipside, this has also resulted in greater complexity in the product range, which now also includes a bevy of alternative investment products.



Domestic investor clout in capital market on the rise (values in Rs crore)



Source: *NSDL*
Assets under custody
Foreign portfolio investors include foreign institutional investors, sub-accounts and qualified foreign investors

In the context, sharp insights in the form of analytics powered by data and research aided by technology and bolstered by strong disclosure practices, emerge as critical imperatives for the capital market to achieve the next level of growth.

What makes data research and analytics so important today

The answer is not far to seek. The very nature of the market's growth calls for increased analytics. Here are six reasons that make it imperative.

First, the growing range and complexity of products

The primary need for analytics comes from the fact that there is today a far larger suite of products available in the capital market than ever before. The suite includes direct equity, debt, mutual funds, portfolio management services, alternative investment funds, real estate investment trusts, infrastructure investment trusts, and structured products, among others. Further, within these products, there are multiple options and combinations available to investors, which add to the complexity of investments.

Second, the volatility in the markets

The volatile nature of the financial markets also underlines need for research and analytics which can help decrypt trends, especially in times of crisis such as the current pandemic, which has ravaged the entire market financial spectrum and weakened

investor sentiment due to concerns around credit quality and liquidity.

Debt mutual funds, for one, witnessed an outflow of Rs 1.94 lakh crore in March – the highest for the category since September 2018, when Rs 2.10 lakh crore had gone out following the IL&FS default. CRISIL Research's report, titled 'Debt wise', however showed the situation was not as bad as it appeared, and within a month, there was visible improvement in the aggregate level of credit and liquidity in the industry.

For instance, exposure to top rated papers such as G-secs, cash and cash equivalents, bank fixed deposits and the top-rated AAA or A1+ categories increased to 92% in April from 90% in March. Further, natural liquidity available to funds in the form of maturity of underlying securities also rose, and as of April, nearly 31.1% and 37.5% of the portfolio was to mature in the next 60-90 days, respectively, as against 17.8% and 33.7% in March.

That said, there was wide variation among categories and schemes across the various risk parameters analysed, underscoring the fact that there are still good choices available in each fund category. Identification of these good choices, though, needs detailed analytics and monitoring.

Third, the need to address risk at different levels

The added layers of complexity in terms of products and volatility underline the importance of astute risk management by the asset manager. Imbibing best practices in risk management can help the asset manager identify risks across different verticals – investments, regulatory compliance, client servicing and operations – seamlessly.

Put simply, risk management helps meet the regulatory requirement of strong monitoring mechanism, and also enables the asset manager to address the challenges in investments as seen recently. Further, having an efficient risk management system provides an opportunity for differentiation and creation of products that meet the specific needs of an investor.

Fourth, a wider and savvier investor base

In tune with the growth of the capital market, the country has seen the emergence of a wide range of investors. The new investors coming in from Tier II cities are looking at simple products. But at the other end are a new breed of savvy investors who are more aware and who are demanding value, research and accountability from asset managers and intermediaries. This holds especially for high networth individuals, who are increasingly looking at diverse investment avenues to park their surplus money.

A case in point is the sharp growth in assets under management of alternative investment funds – up nearly five-fold to Rs 3.48 lakh crore at the end of December 2019 from around Rs 0.7 lakh crore at the end of December 2016. With the access to information and options, analytical insights will be the key differentiator to satiate this incorrigible thirst of investors.

Fifth, the changing intermediation models

Development of the capital markets also means that there is a larger and diverse set of intermediaries distributing/ advising investors to meet their goals in their financial path. The type of distributors varies from traditional players such as banks, large distributors and independent financial advisors to a new breed of advisors, family offices, platforms and of course, the direct channels.

While all of these provide differentiated propositions in terms of approach towards selling of products to investors, research is that one factor

that binds all of them together. The data research and analytics can give wealth managers a platform to differentiate themselves. It also becomes imperative given the regulatory expectation from intermediaries in terms of putting in research and independent analysis on their product recommendations instead of a revenue-based approach.

Sixth, inclusion of sovereign bonds into global EM bond indices

The government is working towards inclusion of sovereign bonds into global emerging market (EM) bond indices. The Reserve Bank of India (RBI) has paved the way for this by allowing unrestricted access to foreign investors in specific government securities through the Fully Accessible Route (FAR), thereby removing the ceilings imposed on investments in individual securities by foreign portfolio investors (FPIs). It had already done away with the minimum holding period in the past to ensure investments decisions are not regulatory-driven.

Inclusion in the global indices is expected to result in higher demand from FPIs, who follow these indices and lead up to increase in investments in G-secs from the overseas market. The new investors that come through these passive products as well as the index providers would create a need for data dependent analytics to drive their rule based investment decisions. Also, the domestic capital market will get progressively more influenced by the global factors. And hence it will be imperative to have stronger disclosures in form of data and analytics to support this additional flow in the debt market.

Why technology fits perfectly with data research and analytics

Financial technology, or fintech, has played a key



role in rapid development of global financial markets in recent years, having evolved to plug gaps such as speed, cost, transparency, access and security in delivery of financial services.

Technology has the ability to address the needs of both internal and external customers. This has been more than demonstrated during the recent lockdowns when most service sectors continued to function and deliver efficiently on the back of technology-based solutions, establishing its criticality in terms of business continuity and deliverability.

Technology can enable faster execution of research and analysis through automated solutions, reducing human intervention and errors. For instance, in case of risk management best practices, technology aids in providing immediate alerts based on the checks and balances put in the system.

Technology can also be leveraged to develop an early warning system for stress scenarios building in the portfolios on account of illiquidity, concentration, downgrades/defaults, adverse interest movement and large redemptions, especially in the wake of the pandemic. These may come as standalone risks but can quickly spiral into a situation where the other risks can also materialise. For instance, in case of debt portfolios,

large redemptions can lead to deterioration of liquidity and credit profile of the remaining portfolio.

Indeed, a prolonged adverse-market scenario can cause collateral damage on other portfolios of the asset manager, not to mention the attendant reputation and regulatory risks. It is therefore important to build systems to monitor and stress-test portfolios for key risk parameters to mitigate the risks from such eventualities.

Technology also becomes an efficient client-facing tool, providing a seamless system not just for transactions, but also an efficient method of providing research and analysis to the end investor – the relationship managers. This improves the reach of research while also keeping the dissemination under the control of the asset manager – the intermediary.

Considerations for the road ahead

In days to come, with increasing financialisation of savings in India, research and technology will play an increasingly important role in developing and deepening bond markets. Qualitative and quantitative analysis based on sectoral and sensitivity models should form part of the holistic technological solutions.

The key, however is to have independent data and analytics, research and technology solutions that incorporate various aspects of research – from macro to micro – in investment products through in-house data and models, and across asset classes.

Crisis is the right time to reimagine, reboot our financial sector

***Navneet Munot**, Executive Director & Chief Investment Officer, SBI Funds Management Pvt. Ltd.*

As per official GDP statistics, India's economic growth has been moderating since mid-2018. The latest growth print of 3.1% (as of Q4 FY20) reminds of 1970s term 'Hindu rate of growth'. In other words, Indian economy was slowing even before the onset of COVID-19. The global health crisis has only exacerbated the challenge. While the Covid-19 crisis is still evolving, all levers of growth in India are challenged. Consumption demand faces cyclical headwinds. Export and investment demand has been contracting for three consecutive quarters. Investment cycle will face headwinds amidst tepid domestic and global demand.

A growing economy needs credit. Financial sector needs to be strong and healthy to provide long-term risk capital. Financial capital needs to be available for projects with long gestation period.

Financial liberalisation in 1991 led to financing infrastructure through government-enforced pressure on public banks. The reason for this was threefold. An inadequate corporate bond market; unwillingness of private players to deploy their own capital for long-term financing of infrastructure projects; and the government's reluctance to invest in infrastructure given its fiscal commitments. The result was reliance on public-private partnerships for financing infrastructure projects and piling up of private corporate debt. Ever rising bank credit growth since the turn of the century hit a natural brake since 2012-13 when India's growth momentum moderated and policy making faltered for a while (policy paralysis in 2012-2013). It led to some of these leverage turn non-performing.

Banks were weighed down by a mountain of bad loans (particularly in the industrial sector segment). Bank's corporate loan book, which was growing at 30%+ during GFC crisis, averaged at 18% during FY10-FY14, moderated to single digits since 2015 (barring intermittent spikes). As bank's risk appetite reduced, non-banking financial institutions came to the fore. Share of NBFCs and HFCs in total non-financial corporate credit rose from 12% to 21% between FY13 to FY20 (Our estimate). Credit extending capabilities of the non-banking financial institutions, too, came to a screeching halt post the IL&FS crisis in September 2018. Corporate bond issuances also started to moderate since the IL&FS crisis. A couple of defaults, made the creditors wary.

Even as industrial lending by banks was muted, credit to households was healthy. Resultantly, households spent more than they earned over the last eight years, leading to reduced household savings. Consumption can grow faster than income



if a) households utilize their past stock of wealth, b) start saving less of every penny that they earn (thus gross savings fall) or c) resort to loans thereby reducing the net savings. In the present case, it is both the reduction in gross savings (both physical and financial) and increased recourse to borrowing (thus increasing liabilities) that were prime contributor to the overall fall in household savings.

As all the financial institutions rushed to build their retail portfolio, India's household debt from institutional sources rose. As of FY20 end, it was at a historic high of 29% of GDP as per our estimates, even higher than 2008 when it stood at 26% of GDP. Thus, households are more leveraged today and may be unwilling to build on further leverage. During the last decade, households prioritized essential spending over discretionary over savings. In current times of reduced income, lack of confidence on future job and income prospects, we project that households may increase their gross financial savings. The priorities will shift to essentials over savings over discretionary spending. At the same time, financial institutions will be extremely cautious towards disbursing fresh retails loans. Hence net financial assets is likely to increase from here on. We may also see households shifting towards safer financial assets like bank deposits, provident fund and small savings scheme.

Corporates had already been in the process of deleveraging their balance-sheets. Corporate debt to GDP has moderated from 63% in FY13 to 53% by 1H FY20. Deleveraging has kept them from making fresh investments, leading to moderation in private physical investment, weaker GDP growth and less than desired employment generation.

Just as the corporate and bank's balance-sheet were on the mend, the current development once again opens the potential for rise in corporate defaults and hence non-performing loans. It portends renewed risk aversion amongst both borrowers and lenders. Additionally, reduced bank and NBFC credit to corporates (and particularly to MSMEs) is keeping financial conditions tight, despite RBI's aggressive rate cutting and liquidity support to the financial conditions.

Under such circumstances when both households and corporates would be unwilling to build on leverage and spur demand, government should have been aggressive in its fiscal spending without worrying about debt consequences. Unfortunately, unlike 2008 when annual fiscal deficit was extremely muted (~4% of GDP) and economic growth was robust, Indian government started out the present crisis with a higher deficit and leverage. The government's debt, according to global rating agencies, is 30% points higher than in a typical economy with the same rating. That vulnerability in 2008 was offset by unusually fast growth. But even before the pandemic, growth momentum was slipping.

While the expected FY21 general government fiscal deficit has already been scaled up from 6.5% to 12% and government market borrowing plan has nearly doubled between FY20 and FY21, most of it is to meet the revenue shortfall and not really to stimulate the economy. To sum, despite high fiscal deficit, and government's restraint on spending, public sector borrowing needs may stay high in the near-term. The government's funding needs are almost entirely crowding out the fund available for the private sector to borrow. In this backdrop, measures to promote financial savings needs to be undertaken. Policy makers should incentivize households to divert their savings towards long-term financial products and channelize these domestic savings towards productive investments in the economy. Secondly, foreign investors access to Indian debt market needs to be liberalized.

At the same time, financial sector needs to see structural reforms. To start with, even as some of the key public sector banks are dealing with the mergers aspect, its time to implement the real reforms- the ones recommended by the PJ Nayak committee. The ownership structure and remuneration of senior management in PSBs needs to be looked at. The board of directors should have independently elected members and the board should take the responsibility for implementing its own vigilance mechanism. Government's stake coming below 50% will liberate the public sector banks from grasp of CVC-CAG-RTI, just like the private sector banks. The Bank Board Bureau (BBB), which will decide on management and board-level appointments in public sector banks, should only comprise of senior bankers.

Non-banking financial entities (NBFEs) have displayed a stronger niche in credit origination, credit appraisals, risk assessment, and recovery. The collection efficiencies of NBFEs have not dropped in any economic cycle or event related shocks thus far (barring short-term shocks during demonetization and localized weather disruptions). The unorganized sector in India suffers from the lack of access to formal credit channels. The NBFEs have played a significant role in their financial inclusion. These players have built a network, systems and processes for origination, particularly in the unorganized sector. Also they are better in using technology and digital tools. Hence, policy makers must ensure that NBFCs and HFCs survive the crisis.

These financial institutions face challenge on building a stable liability side. In the event of default, the lenders to Non-Banking Financial Companies (NBFCs) get cautious and reduce their exposure, leading to significant contraction in balance-sheet for NBFCs. Further, refinancing options and line of liquidity to them are not as strong as to the banks, who can approach the central bank and other refinancing entities. India's wholesale funding/ debt market has not grown in line with the size of the economy.

The development of securitization market can help achieve it. The assets originated by NBFCs/HFCs can be pooled together and subscribed to by banks, insurance companies, mutual fund and pension funds as per their risk taking ability. Globally, securitization markets forms a very key backbone of the financial sector and are also instrumental in supporting economic growth. The securitization market in India is small despite an attractive performance history. It is the lack of familiarity with the instrument, which keep investors at bay and prevent an active participation. Public sector banks prefer buying portfolios over Pass Through Certificates (PTCs) which are rated. The latter falls into the investment book of banks, thus requiring mark-to-market valuations which makes them relatively less attractive for banks.

Concentration of risk in one sector/ balance-sheet has landed India into the NPA issues time and again, be it the NPAs in DFIs in late 90's and the current cycle of NPA in Banking system and the recent challenges with NBFEs. The genesis of it can be found in a) ALM mismatch and b) concentration of risk in one sector. Turning to the global experience again, the solution again lies in developing the Alternate Investment Fund (AIF) market, where we have patient capital with highly specialized skill-set. These funds can channelize a part of long-term savings with higher risk appetite which in turn will fund the kind of assets that had so far been funded by banks/ NBFCs/ mutual fund. Of late, we have seen AIFs have participated actively in distressed debt and commercial real estate (REITs). This is a healthy shift, but we need a substantially higher size and diversification in their participation.

There is a need to revive the concept of term lending/infrastructure financing institutions (erstwhile IDBI, ICICI). With the recent adverse experience in infrastructure lending, banks have turned biased against the sector. However, India is an infrastructure deficient country and needs significant long-term patient capital. Hence, we need bodies which can take up infrastructure financing. It could be done by significantly increasing the capacity of institutions like IIFCL and NIIF or create new entities with adequate safeguards. IL&FS was one such entity and its absence will create a vacuum. We should learn the right lessons from its failure and quickly create or recreate institutions like that, with adequate safeguards in place.

The Insolvency and the Bankruptcy code and the corresponding legal bodies are only meant for taking up the bankruptcy issues in the non-financial sector. A robust legal system for resolution of default in the financial sector entities needs to be put in place.

The suspension of the six bond funds in Franklin Templeton mutual fund has focused attention on the gaps in the functioning and regulation of bond market. Unfortunately, the corporate bond market in India is very thin and does not provide continuous prices of most bonds below the AAA rated ones. The policy makers need to strive to increase the liquidity of corporate bond market.

Overall, the shortage of risk capital still persists in India, even three decades after liberalization. Mutual funds have partly succeeded in having a long-term sticky retail money in the form of Systematic Investment Plans (SIPs). Provident fund, which are another conduits of long-term capital, have also started to invest a part of their assets in equities. But, need is much larger. Time may have come to think about our own sovereign wealth fund to fund innovation and provide the much-needed risk capital. We need to incentivize the domestic pool of savings into such ventures. The policy makers need to take measures to channelize higher financial savings into more long-term and productive infrastructure investments. We need to create a robust ecosystem to nurture entrepreneurs. Start-ups in India have been funded by VCs or PEs that have largely relied on foreign money, as domestic investors have stayed away.

Substantial accumulation of FX Reserves with RBI (at nearly 20% of GDP) has been lending significant comfort on India's external account stability in the current scenario when many other indicators look worrisome (like fiscal, growth and leverage). Today, even if US$ 25-50 billion of FII money were to outflow in a very short span of time, RBI has sufficient FX reserves to sell and cushion a drastic rupee depreciation. India's import and debt cover would still be faring better than earlier crisis period (2008 GFC crisis, 2011-12 debt crisis and 2013 taper tantrum). Perhaps the sovereign wealth fund can also strategize to tap this resource for investment activity in India.

A growing, large economy actually needs strong financial sector, long-term risk capital and an efficient risk sharing mechanism, and not just cling on to the banking sector for all the heavy lifting. Financial stability and availability of credit is more important than ever to keep growth trajectory right. We need to think differently on the entire financial sector space and the time is now.



Atmanirbhar Bharat: Role of Capital Market

Nilesh Shah, *Managing Director, Kotak Mahindra Asset Management Co Ltd.*

The Atma-Nirbhar Bharat Abhiyan' is an ambitious vision. As we see it, it is the idea to make India self-sufficient in all spheres.

Since the mid-90s we have seen the development of mutual fund products as well as the distribution base, and over the years we have gone through various ups and downs. But by and large we have enabled fantastic wealth creation for our investors. Today, we have more than nine crore folios, over 2.25 crore unique investors, and a pan-India presence. Obviously our equities in January 20 were looking far better than in May 20, but most of the fund houses have done tremendous alpha creation in terms of outperformance over benchmark indices.

From debt market point of view despite certain credit events that have occurred, by and large the mutual fund industry has done a done a fantastic job in managing fixed income. There have been challenges, but within those challenges we have improved the capital allocation process. We have been able to streamline market rates, our size is small, but many a times we have acted as a price setter with quick decision making. And, while there are certain credit events, if you see the overall non-performing asset (NPA) ratio of the mutual fund industry vis-a-vis banks or insurance companies, or other sectors like NBFCs (non-banking financial companies) or AIFs (alternative investment funds), we are at a much lower NPA.

In the past, people associated mutual funds with rich people, not anymore. When we started, we were more urban-centric and our distribution network was mainly in the top cities. Even today, we are still getting a bulk of our money from the top eight cities, but digital technology has helped us reach out to a wider audience in India. And we have seen tremendous growth in the number of investors in the last three to four years, compared to the previous 20 years. Distributors have played a key role in this growth and have helped small investors like maids, drivers and other employees create retirement nests, providing an alternative to a money lender or a chit fund.

Some time back, a domestic help sought a loan for a medical emergency and her employers, who had been doing SIPs (systematic investment plans) for her, told her she already had this money. She was pleasantly surprised because she never knew that her investment could deliver this kind of return. So even at the bottom of the pyramid, where they have very limited savings and don't have access to formal financial investments, if you give them a financial saving, whether in an equity fund or a fixed income fund, they are able to build their nest.

Clearly there was a bond market, equity market, derivatives market well before mutual funds came into play, but over a period of time mutual funds have exercised far more weight. Today, our equity markets have one of the highest volumes in terms of number of trades. We have a fairly sophisticated derivatives market and mutual funds have played a reasonable role in deepening the market and bringing it at par with global standards.

One of the key difference in previous financial crisis and the current one is that this time more people are invested through mutual funds rather than direct stocks. Increasing awareness means investors have been relatively resilient with the market volatility and have continued with their investments. Participation of retail investors in direct stocks is always a good sign. However, our experience of the past suggests when you are buying into Z group shares and you believe single digit share is cheaper than double digit share and double digit share is cheaper than triple digit share, generally that experience does not turn out to be good. Buying low quality stocks because they are available at 20 paise and Rs 2 or Rs 20 has never worked in the equity market over a longer period of time. I just pray and wish that people learn from past experiences and invest in quality stocks rather than cheaper stocks.

From a mutual fund flow point of view, undoubtedly, the month of June closed significantly lower on the pure equity side and hybrid side. Only index funds continued to recede flows because of EPFO. There are a couple of reasons why these flows have reduced. One, there is genuine financial emergency for a certain set of people and they are redeeming from their investments to put into their business or household. Second, there are a lot of restrictions on physical movement, especially in the month of May and first half of June. Mutual fund distributors who go and handhold customers were not able to do it as much as they were able to do it earlier. Yes, they are able to get in touch with people on the digital side but when you go and meet personally vis-à-vis when you do it digitally, there is a lack of physical touch and warmth.

Now this has also resulted in some people taking decisions on their own and they are booking profits as their returns have recovered. SIP returns which



were negative in the month of March for three years have now become positive but people are redeeming because they are seeing that markets have moved up and our returns have become positive. They are not able to reach out to their distributors and their advisors are not able to reach out to them on a physical basis and that is also probably resulting into a scenario where without appropriate advice, they are taking a call on profit booking.

From current market point of view Nifty at the current levels is discounting lower gold and oil import bill and narrowing trade deficit with China. It is also discounting rebound in economic activity and fiscal & monetary support to gdp growth. More importantly, market is discounting a medical solution emerging by the end of this year. If these things materialize, Nifty will continue to do well. However if any, or all of these do not materialize, then Nifty may probably correct.

The world has seen about 8 vaccines entering from phase 2 trials to phase 3 trials in the month of July. This is going to have material impact on the way markets and economy function.

Credit growth has decelerated in June'20 at 5.82% compared to June'19 at 10.73%. The credit offtake needs to accelerate for the economic recovery to

sustain. This is where the government's MSME & NBFC credit guarantee scheme may be useful.

While the topline Nifty has bounced back, the broader market is still trailing its historical valuations. It can be noted here that today Nifty 50 is available at 2017 levels prices. Similarly, Nifty Midcap is available at 4 year before prices (2016 levels). And, Nifty Smallcap is available at prices seen 9 years ago (2011 level). The market cap-to-GDP ratio fell from 79% in FY19 to 56% by around April 20. The same has bounced back and is now at around 71%. This is still marginally lower than the long term average of 73%. The forward P/B at 2.4X is 10% lower than the long term average.

In closing, I believe that mutual fund distributors can deliver value to investors in the current market through three pronged strategy. One: they can communicate the past market experience to develop long term investment perspective.



Secondly, they will have to help the investors ignore the WhatsApp and social media rumors in favour of facts and opportunities. Thirdly, they need to convince the investors of the need to maintain and increase SIP / STP at the lower market levels. This way, the investor doesn't exit at relatively low valuations; and allows the market the time to generate a better investing experience in times ahead.

Self Reliant India

R Govindan, *Executive Vice President – Corporate Finance & Chief Risk Officer*
Larsen & Toubro Ltd

Background

"Aatma Nirbhar Bharat" is the dream of a Self-Reliant India which our Prime Minister Shri Narendra Modi announced while the world was under a lockdown due to the pandemic COVID 19 on 12th June 2020.

Economies across the world, be it developed or developing, were hit due to the pandemic financially as it brought the world to standstill in terms of manufacturing and services either due to lockdowns initiated by the Governments to control the spread of the virus or due to the spread itself causing workers to fall sick and disrupt the supply chains, in the month of March 2020.

The Prime Minister also announced and rightly so that the above dream, unlike in the past, does not mean adopting protectionist or isolationist strategies for India but focuses on removing bottlenecks and making India competitive in Global market while protecting its sovereign interests. To this end, India has to improve its current positioning on Land and Labour laws, effectiveness of judiciary, Govt. interference in business and Liquidity in order to be Aatma Nirbhar.

Below are a few areas that will need focus from the Government to realize the above dream.

1. Trade

- The wave of de-globalization that began in 2016, with events like Brexit and Trump coming to power has started to gain traction in many



countries across the globe. This wave of de-globalization is primarily a reaction to result of a strong globalization wave which had swept the world for the last 30 years. That wave of globalization resulted in the factories and employment shifting from Western economies to Asia (primarily China) while the value adding research and tertiary services gained traction in West.

- It also resulted in emergence of Global Corporations which set up manufacturing bases, Sales networks and Research facilities in various parts of the world depending upon the most efficient utilization of local resources available to maximize their own profitability.
- The above, while creating efficiencies, also resulted in a sharper divide between the rich and the poor in various countries and more so in developed economies where at lower levels there was a net loss of jobs to developing countries.

- In last 3 – 4 years, the combination of nationalist leaders backed by populism has created a sense of bringing back jobs to local markets. As a result, US has re-negotiated NAFTA, USMCA, got out of Trans Pacific Partnership. Similarly, India has refrained from joining Asia Pacific Economic Co – operation.

  India's Trade Deficit with China has gone up from couple of billion dollars to 50-60 billion dollars in last 15-17 years. Various industries have relocated to Bangladesh, Vietnam etc as a result of supply chain arrangements and better cost structures. Hence, its is imperative for India to once again look at relocating some of these factories which are moving out of China as a result of US China Trade war.

- It is in this context that Prime Minister Modi announced the Aatma Nirbhar Bharat Abhiyan. This program will primarily be directed towards India becoming Self-reliant in many industries.

- Various reforms (Land & Labour) have been announced by states like Uttar Pradesh, Madhya Pradesh, Karnataka, Gujarat etc to attract FDI.

2. Technology

- As the world looks forward to gain traction in emerging technologies, Artificial Intelligence, IOT etc. the role of 5G in advancing this technology has become very important. The fact that China has quickly moved ahead with its 5G technology, developed by Huawei, US sees the same as a challenge to its supremacy.

- India today is at crossroads, with respect to adopting next generation technologies. Recent developments of FDI from key US technology companies flowing into India and the Indian Government asking BSNL/MTNL to stop purchasing equipment from Huawei indicate that now it is almost certain, that India will integrate the next generation technologies with US partners rather than Chinese partners. The idea is to get some of these US tech companies re locate their factories in India to contribute to India's economic development as well. This is already gaining traction.

3. Geopolitics

- As the world gets swept by US china cold war, various countries are being forced to take a decisive position with respect to partners (military, industry, technology etc.).Countries like Australia, UK, Canada and New Zealand have already made up their mind against china despite heavy dependence with China as the key market for the exports of these countries.

- The recent events in Hong Kong, South China Sea, Taiwan etc has clearly opened the perception of expansionist ambitions of the Chinese communist party. As a result, US and its allies have mobilized aircraft carriers in South China Sea and are conducting joint drills. US focus is clearly shifting away from Europe (Russia no longer a challenge) towards South China Sea as it relocates some of its troops from Germany to South China Sea.

- The recent skirmish with China at Galwan has once again opened the public perception that China sees India as an emerging rival in Asia. Despite conducting 5 – 6 years of rounds of summit extended by Prime Minister Modi towards Xi Jinping, (Wuhan, Ahmedabad and Mammalapuram), the Galwan valley skirmish is being seen as a back stab by India. As a result, steps are being taken to discourage Indians to import Chinese goods. Though it is not easy to completely de – couple from China, it would be prudent for us to start manufacturing goods locally under Aatma Nirbhar Bharat Abhiyan to reduce this reliance over a period of time.

- There needs to be a concerted effort to examine the nature of goods being imported by India and divide them into broadly 3 buckets
    - Those that can be easily manufactured in India immediately, albeit maybe a bit more expensive than imports from China. These can be encouraged by rectifying the GST and Customs duty structure as well as reducing cross subsidization of electricity from industry to agriculture, some relaxations in land and labor laws etc.
    - Those that can developed in medium term with partnerships being developed with western countries. There the ongoing efforts of Govt to attract FDI from US and other countries into India can be helpful.
    - Those where it may be uneconomical to try and set up domestic manufacturing as the economies of scale do not permit another country to invest and develop such capacities. There the Govt can focus on identifying other countries in place of China which can serve the needs of Indian manufacturers.
- The Government also needs to incentivize research and development work by Indian Companies with right tax breaks and partnerships between Govt and private research labs.

Role of Capital Markets

As India endeavours to become more self-reliant, the capital markets will need to move in lockstep to keep up the pace with the need of the Government and corporates to finance the development and reform agenda. As of now, the regulators have already implemented a slew of measures towards the development of the credit markets in India. However, better coordination amongst the various



regulatory regimes especially in the post-Covid era is going to be the need of the hour. For example, while the banks are implementing the stricter Large Exposures Framework, and the corporates are required more and more to access their capital requirements from the corporate bond markets, the bond market investors are also facing tighter and tighter regulations – sectoral caps, investment restrictions by credit ratings, ineligibility of certain types of credit investments, etc.

India has been a predominantly asset-backed lending market – 85% of bank loans require a collateral, and approximately three-fourths of the debt financing in India is in the form of bank credit. But, let's not forget that banks are not allowed to finance land acquisitions, which has then percolated into most of the corporate bond financing transactions since banks continue to remain significant liquidity providers in the corporate bond market. Now, in this context, it is not hard to see that some of these skewed incentivization's may have also played a part in some of the issues which India is facing currently – first, promoters need to use own resources to acquire land, often having to put up personal collaterals to gain access to finance for any new development; second, availability of credit is limited by the amount of collateral, which plays into moral hazards of inflating project costs to get

access to more credit as well as project selection based on availability of security rather than strength of future cash flows; and lastly and most importantly – taking focus away from technology, since it is not possible to offer intellectual rights as collateral. For a self-reliant India which aspires to rapidly put up additional new infrastructure, and invest in technology, the current context of financing requires a significant change in mindset in the entire ecosystem – borrowers, investors and regulators. This can be time-taking, but it must in borne in mind as we think about immediate and near-term measures for the growth of the capital markets to finance a self-reliant India.

1. InvITs and REITs are vehicles which help recycle capital for promoters that invest in creation of long-term infrastructure for the country. Currently sponsors of InvITs must maintain 15% shareholding for at least 3 years. But, in case the majority owners of the InvIT acquire further assets (not from the sponsor) in this period, the sponsor is required to invest further capital to maintain the 15% stake. While the original intent of the regulation was to ensure that the sponsor retains skin in the game after setting up the InvIT to protect investor interests as well as to allow promoters to use their freed up capital for creation of new assets / investment into technologies, by forcing them to invest into the InvIT/Reits in above situations where the acquisition of assets is happening from 3rd parties does not serve either of the 2 objectives i.e. skin in the game (it is the 3rd party developer who needs to now maintain skin in the game and not the sponsor) or recycling of capital. The guidelines need to allow for sponsor to have a choice to participate in such acquisitions by the InvIT/Reit and maybe insist upon the 3rd party developer to be treated as sponsor for the newly acquired assets.



2. In most markets, the corporate bond markets are an institutional marketplace. Retail participation is generally in the form of ETFs / index funds. Having retail investors participate directly in corporate bonds can lead to need for even further tightening of the regulatory environment for corporate bond issuances, thereby increasing the cost of issuances and also making it even more skewed towards higher-rated issuers. It is better to allow institutional investors like mutual funds, insurance companies, provident funds, banks, etc which are professionally qualified to assess credits to remain as the key participants in this market. Retail investors anyway get access to the bond markets through the public issue process.

3. In the post-Covid world, there is a case to be made to revisit some of the regulatory barriers around rating-linked limits which have been put on insurance companies and provident funds in terms of investing into the capital markets. Market forces will ensure that genuine investment decisions will deliver better results over longer periods of time. This is evidently clear in the case of equity markets. Although there have been bad apples in the past, the regulatory environment has mostly remained focused on fraud prevention and adequate disclosure regulations rather than putting in

artificial restrictions on investment avenues. Bad decisions and corporate defaults can never be fully prevented. The need is to recognize this and then design regulations to ensure orderly processes for such events.

2. There is also a need for regulators to take care while framing regulations to protect the long term interests of the investors and markets. A case in point is the change in regulation by MF regulator to curtail the amount of investment by a MF scheme into "structured obligations" ("SO") rated debentures to prevent excessive risk being taken by them originated from the risk perception of debentures backed by the security of shares issued by Promoters of companies. However, by simply wording the regulation to target SO rated papers, the regulation also clubbed other debentures which have structural safeguards like annuity cash flows coming in from AAA rated entities being used to service the debenture cash flows, corporate guarantees from highly rated parents supporting the debt of their subsidiaries etc also got impacted leading to a situation where a AAA (SO) paper today is trading at higher yields than even AA- or A+ papers and even then liquidity in such papers remains suspect.

Aatmanirbhar Bharat – Role of Capital Markets

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

Crisis and Opportunities

Every crisis brings with it opportunities. And it is often said that India reforms the most in times of crisis. The 1991 Indian economic crisis and the subsequent reforms is a good example. Large deficits and minimal forex reserves - India had a mere $1.2 billion of forex reserves, barely enough to cover 3 weeks of imports - meant we were in the brink of defaulting on our payments. We had to pledge our gold to seek economic bailout. But this crisis is actually what paved the way for the liberalisation of the Indian economy, ushering in several reforms. Since then, we have come a long way - today, India's forex reserves are at a historic high of $500 billion, enough to cover almost 1 year's imports, as against the precarious position of 1991.

Covid could be one such crisis which India could turn into an opportunity. The concentration of global supply chains has come to the fore, with de-risking becoming inevitable. Geo-political tensions, driven by US-China cold war would occupy center stage in the post-Covid world and present interesting opportunities for India. Disruptions in raw material supplies from China because of the pandemic has acted as a trigger point now, and our Prime Minister has ratcheted up calls to boost local manufacturing and make India self-reliant, or Aatmanirbhar. A shortage of personal protective equipment at the beginning of the outbreak may have increased his resolve -- and within the space of just two months, India became the world's biggest maker of PPE kits after China. That success would have only emboldened his resolve as he pushes India to Make in India, and for India. The current standoff with China will further underscore the importance of being Aatmanirbhar.

Aatmanirbhar Bharat

To fight the economic challenges posed by Covid, as well as leverage the structural opportunities presented by it, our Government recently launched the 'Aatmanirbhar Bharat Abhiyan' or Self-Reliant India Mission - a Rs. 20 trillion program comprising several relief measures combined with structural reforms. While some of the announcement are re-iterations of reforms already underway, impetus to Make in India and formalization of jobs are critical measures.

Several plans were announced on the softer aspects like 1) establishing an Empowered Group of Secretaries to fast-track investment clearance, 2) Project Development Cells in each ministry to prepare investible projects, facilitate co-ordination between Government and Investors, 3) ranking States on investment attractiveness, 4) sharing GIS mapping and other information on industrial land bank, ranking industrial parks, amongst others.

Structural reforms, largely geared towards improving the factors of production, formed a substantial part of 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, Japna 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 centre 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. Earlier this year, India was invited to partner US, Japan and Australia in leading the Blue Dot network, which many believe could be a counter to China's Belt and Road Initiative. Besides, our diplomatic efforts during the on-going Covid crisis, like lifting the export ban on hydroxychloroquine, or the future role to be played in mass-manufacturing potential Covid vaccine, will also not go unnoticed.

The key to success, will however, be dependent on taking crucial reform measures and implementing them. Take Labor, for example. The share of labor employed in manufacturing sector, at its peak, was 31%/ 28% for US and Chinese economies respectively. In comparison, only 11% of Indian workforce is currently employed in manufacturing, implying a significant headroom to expand. Any success achieved in the Make in India program which is able to increase this share to even 20%, has a potential to create 100mn+ manufacturing jobs. That's the opportunity part.

While availability of surplus low cost labor is a huge advantage for India, prevalence of a skill gap may be an issue. Levels of schooling is low and even amongst the educated youth, several studies highlight a high percentage are unemployable. In addition, we have to deal with regulatory issues - we have a plethora of laws (44 labor laws) governing labor relations, security, compensation, etc. There's very clearly a scope to improve, and practical evidence of gains, if implemented. States implementing labor reforms have seen an improvement in labor and productivity. Rajasthan for example, which implemented reforms in 2014 to make union formation difficult, scrap need for govt. approval to lay off workers, etc., saw immediate positive impacts. Many states have subsequently followed Rajasthan with their own reforms. The central govt. itself is working to introduce new Labor Codes. Similar and more such reforms would be required in Land and Capital, for us to truly capture the enormous opportunities presented during this crisis.

The Role of Capital Markets for an Aatmanirbhar Bharat

Indian capital markets, particularly the equity markets, were relatively small, and dependent on Foreign Portfolio Flows. While FPIs have significant holdings in Indian companies, domestic participation in equity markets through various intermediaries like mutual funds and insurance companies has significantly improved.

Year	Net Investments in the Cash Market US $mn	
	FPIs	MFs
Cy2015	3274	10872
Cy2016	2903	6976
Cy2017	8014	18322
Cy2018	-4557	17365
Cy2019	14234	7509
Cy2020*	-1975	5226

** till June 26, 2020*
Source: *Bloomberg*

As it could be seen from the above table, the net investments made by mutual funds have been higher than that of FPIs, year after year; in some years, substantially higher which 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. The Government of India established a fund called the Investor Education & Protection Fund under the Companies Act. SEBI has also initiated the "Investor Awareness Programme" and coined the slogan "An Informed Investor is a safe investor". Such programs are regularly organized by SEBI to educate and improve awareness amongst investors.

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. As per SEBI, it is mandatory to set apart 2 bps on daily net assets for investor education. 50% of this amount is shared with AMFI for better utilization of funds. AMCs on their own accord also conduct Investor Awareness and Education initiatives for their intermediates as well as investors regularly to improve the visibility of mutual funds in the country.

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 used for transactions, as well as tracking portfolios. Increased smart phone usage provides opportunities to the mutual funds houses 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 on the rise.

Thanks to all of the above measures, the awareness and popularity of mutual funds have improved significantly. Today, investors deploy ~ Rs. 8100 crs every month only through Systematic Investment Plans (SIPs). That means nearly Rs. 1 Lakh Cr, more than the average FPI investments in a year, get invested by domestic investors through mutual funds every year.

We have come a long way - from the abyss of 1991 crisis, across fields. But we have a long way to travel towards an Aatmanirbhar Bharat! Sure, we will.

NARP – A Project to Ignite the Economy

V S Parthasarathy, *President - Mobility Services Sector, Mahindra Group*
Member of the Group Executive Board, Mahindra & Mahindra

The Insolvency and Bankruptcy Code, 2016 (IBC) is one of the most important reforms in recent Indian economic history. It was expected to be a panacea for resolving the impending crisis of NPAs. However, the current status evidences the limitations of IBC - firstly, the speed of resolution is not as fast as expected, and secondly, in many cases the value is destroyed in the process as lenders and investors had to take a large haircut. Very few units have been able to recover and get back to their optimum productivity level. Thus, a need for an alternate approach has now become evident, whereby assets of national importance are renewed as fast as possible to enable the nation to achieve the $ 5 Tn economy sooner rather than later.

The estimated Gross NPAs of Indian Banks stand at more than ? 9 Lakh Crores. A large part of this belongs to the manufacturing/infrastructure sector and are infamously known as RBI's 'Dirty Dozen'. This further amplifies the need for an approach specifically evolved for NPAs in the manufacturing sector.

Manufacturing units which are classified as NPAs run at sub-optimal capacity if not fully shut down, and thereby accumulate further losses. This 'sunk' wealth creates negative returns. A systemic solution for resolving NPA issues will enhance the confidence of financial institutions, banks and investors. It will also boost corporate debt markets. This will enable capital formation which is essential for development.

Large, dysfunctional manufacturing units cause trauma for a number of MSMEs that are dependent on them, placing the livelihood of thousands of workers in jeopardy.

IBC, a time bound resolution process for resolving the NPA issue, was a great first step. It yielded some good results in terms of recoveries but unfortunately was not applied in many cases. Prior to the IBC, the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act) allowed for purchasing debt from the creditor by an asset reconstruction company with a considerable haircut. However, even this process did not yield significant results and suffered seriously due to resource crunch. The International Finance Corporation's (IFC) Asset Management Company (AMC) also provides a scheme for reviving sick industrial units in emerging markets across the world. While this acts as a global example, the initiative remains somewhat limited in India.



The resolution of NPAs in India is a time-consuming affair due to the challenging operating environment in key stressed sectors. Several businesses having stressed assets have the potential to achieve significant scale under proper guidance, right leadership and management, and appropriate funding in quantum and structure.

Renewal of these units, which hold assets of national importance, is necessary to catalyse the economy to achieve the national goal of $ 5 Tn economy. This will augment an all-round effort to utilise our national assets at its full capacity. Synergies between entrepreneurial capital and social funding through public private partnerships is the recommended way for achieving this. The **National Asset Renewal Programme** (NARP) is one such novel programme. It is socially funded - through a combination of public and private funds - and entrepreneurially managed - that synergises a new age mind-set of 'renewal of assets' as the primary focus, with execution par excellence.

Hence a **'socially funded, entrepreneurially managed'** solution might give the necessary boost to large manufacturing units which are currently classified as NPAs. One can even go an extra mile to make it really effective - NARP can also provide support to manufacturing units which are on the verge of becoming NPAs.

Stressed assets will be evaluated on various parameters. The units selected for intervention will be those which still have the potential to recover if appropriate managerial and financial support is provided. This would mean that the said units are inherently viable, have necessary infrastructure and technology support available and can be revitalized by induction of good financial and management practices. Qualifying units will be placed under a group of entrepreneurs and managers to assess current strategies and come out with solutions to overcome underlying issues.

The process will begin by identifying sectors critical for the economy so that units in that sector are prioritized under the program. Within these sectors, we need to identify companies that have the potential to become a jewel again.

The program envisages setting an apex body (National Council of Industry Leaders or NAC). Members of NAC will constitute most respected industrialists to bring in an entrepreneurial zeal and high governance standards. It will be headed by a senior government functionary like the CEO of Niti Aayog, who will report to the Prime Minister's Office. It will be empowered to lay down policies and strategies including criterion for identification of sectors, industries and stage of intervention. NAC will also select key people (e.g. IC, CIO, CEOs etc). These senior executives will be individuals with immense experience and expertise. The program will be implemented through the holding company, AMC or SPV.

Key decisions will be taken by the IC (Investment Committee), which will have autonomy to review all proposals on merit. The IC will be accountable for ensuring overall success. It will have the veto power to reject proposals which it considers unviable.

Funding will come in through equity as well as borrowed funds. Funding could be through combination of government funds and commercial funds (both equity and debt). The fund would be expected to generate returns similar to or slightly higher than impact funds and the government may have to step in to provide support in certain cases.

Units which are being renewed may be managed through SPVs. The AMCs will be rewarded primarily through getting a share of appreciation of

value of the enterprises managed by them. Renewed units may also be asked to issue fresh shares to the national renewal fund at an exit stage (akin to sweat equity). This will facilitate a perineal source of fresh funds for the program, which will accelerate the virtuous cycle.

The program is unique because it combines the benefits of social funding and entrepreneurially driven management with a specific focus on renewing assets of national importance. We will need to ensure an appropriate environment to make the program successful. The following success factors are considered key:

Key success factors

- Creating a virtuous cycle of investment and exit for the SPV
- Compensating and rewarding the professionals involved in successful turnaround operations
- Maintaining fairness and equity at the same time
- Giving economic benefits to the erstwhile promoters and other owners of the investee companies
- NARP will be an inclusive structure. Promoters, where applicable, will be included in the transformation process and retained for their expertise. They will not necessarily be responsible for control

Apart from an entrepreneurial drive, key government policy measures will ensure the success of the scheme, and suitable amendments to current legislative framework will provide autonomy while also ensuring accountability. The vision is to harness entrepreneurship so that assets become productive once again, thus resetting the economy back into the virtuous cycle. This is critical for achieving the goal of Atmanirbhar Bharat and the $ 5 Tn economy.

Initiatives of
FICCI National Committee on Capital Markets

Interaction (through VC) with Mr Ajay Tyagi, Chairman, SEBI on 13th May 2020



FICCI had organized an interaction with Chairman, SEBI through video conferencing on 13th May 2020. Senior officials from SEBI including Mr G Mahalingam, Whole Time Member, SEBI and Ms Madhabi Puri Buch, Whole Time Member, SEBI were also present.

Participants included Ms Sangita Reddy, President, FICCI; Mr Uday Shankar, Senior Vice President, FICCI; Mr Sanjiv Mehta, Vice President, FICCI; Mr Sandip Somany, Immediate Past President, FICCI, Mr Rashesh Shah, Past President, FICCI, Ms Naina Lal Kidwai, Past President, FICCI; Mr Sunil Sanghai, Chairman, FICCI Capital Markets Committee and members of FICCI's Capital Markets Committee.

Several issues concerning the industry in light of the lockdown due to COVID 19 were discussed in the meeting including issues relating to raising of capital, corporate debt market, disclosures, etc.

A detailed representation was submitted for consideration of SEBI on the above issues. Some of the concerns highlighted have already been redressed.

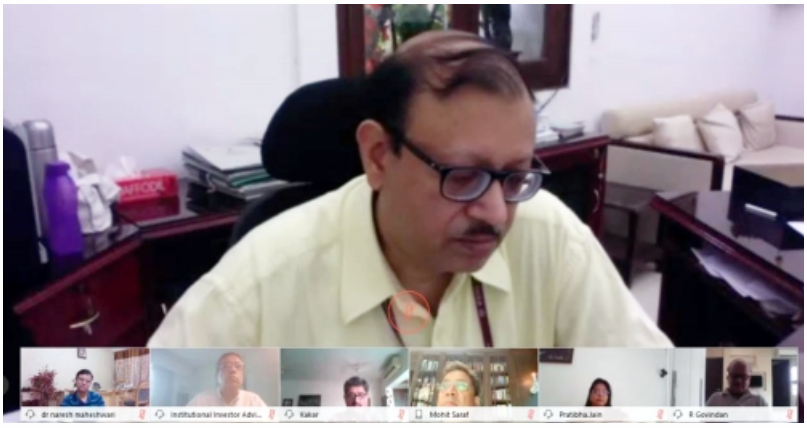
Interaction (through VC) with Mr A M Bajaj, Additional Secretary, DEA, Ministry of Finance on 1st June 2020

An interaction of FICCI's Capital Markets Committee members was organized (through video conferencing) with Mr A M Bajaj, Additional Secretary, DEA, Ministry of Finance on 1st June 2020

During the interactive session, discussions were held on several matters pertaining to overseas listing, review of pricing norms of preferential issue guidelines, need for revision in delisting regulations, change in role of

debenture trustee for NBFCs, clarifications needed due to Press Note 3, rights issue disclosures and other pertinent matters.

A detailed representation was submitted for consideration of the Ministry on the above issues.



Interaction with Mr Stephen Schwarzman, Chairman and CEO, Blackstone Group on 5th March 2020 in Mumbai

FICCI had organized an Interaction with Mr Stephen Schwarzman, Chairman and CEO, Blackstone Group on 5th March 2020 in Mumbai. Discussions were held on investment opportunities in India and Blackstone's strategy and focus areas.

Key speakers included Mr Rashesh Shah, President, FICCI and Chairman & CEO, Edelweiss Group, Mr Sunil Sanghai, Chair, FICCI Capital Markets Committee and Founder & CEO, NovaDhruva Capital Pvt Ltd, other than members of FICCI's Capital Markets Committee.



(R to L : Mr Rashesh Shah, Past President, FICCI; Mr Stephen Schwarzman, Chairman and CEO, Blackstone Group; Mr Sunil Sanghai, Chairman, FICCI's Capital Markets Committee; Mr Amit Dixit, Co-Head Asia Acquisitions & Head India, Private Equity, Blackstone)

Arthik Manthan Baithak – 27th November in Mumbai

Focussing on the Government's vision of India becoming a USD 5 trillion economy, a closed-door interactive session on the theme 'Arthik Manthan Baithak' was organised with industry members on 27th November 2019 at Mumbai. The discussions were presided over by **Mr Gopal Krishna Agarwal, Economic Adviser & National Spokesperson (Economic Affairs), Bharatiya Janata Party.**

Participants at the session shared valuable insights on the agenda and wide-ranging suggestions were made on putting economic growth back on track. These included suggestions on municipal bonds, infrastructure funding, strengthening secondary markets for bonds, disinvestment, providing fillip to housing finance, increasing attractiveness of India as an investment destination, increasing competitiveness of Indian MSMEs etc.



(L to R: Mr Vivek Kulkarni, MD, Brickwork Ratings; Mr Nilesh Shah, Member of the PM's Economic Advisory Committee and MD, Kotak Mahindra Asset Management Co. Ltd; Mr Gopal Krishna Agarwal, Economic Adviser & National Spokesperson (Economic Affairs), Bharatiya Janata Party; Mr Sunil Sanghai, Chairman, FICCI's Capital Markets Committee)

Interaction with Mr Atanu Chakraborty, the then Secretary, Department of Economic Affairs, Ministry of Finance – September 27, 2019: Mumbai

FICCI had organized a closed-door interaction with Mr Atanu Chakraborty, the then Secretary, Department of Economic Affairs, Ministry of Finance on 27th September 2019 in Mumbai.

Key participants included Mr Rashesh Shah, Past President, FICCI; Mr Sunil Sanghai, Chairman, FICCI's Capital Markets Committee; Mr Himanshu Kaji, Co-chair, FICCI's Capital Markets Committee, members of FICCI's Capital Markets Committee and senior economists.

During the interaction, discussions were held on several matters pertaining to revival of the economy with specific focus on bond markets, infrastructure funding, mutual funds and other issues pertaining to development of capital market in India.

A detailed representation was submitted for consideration of the Ministry on the above issues.



(L to R: Mr Sunil Sanghai, Chairman, FICCI's Capital Markets Committee; Mr Atanu Chakraborty, the then Secretary, DEA, Ministry of Finance; Mr Rashesh Shah, Past President, FICCI; Ms Jyoti Vij, DSG, FICCI)

Policy Recommendations

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

Numerous sets of recommendations have been submitted to senior officials at SEBI in the past couple of months highlighting the issues faced by industry and capital markets in view of the lockdown imposed due to COVID.

FICCI gratefully acknowledges that many of its submissions as mentioned below have already been accepted while others are under consideration.

- Extension of timeline for submission of annual audited financial results by listed companies
- Exemption for Board of directors and Audit Committee of the listed entity from observing the maximum stipulated time gap between two meetings for the meetings held or proposed to be held between 1st December 2019 and 30th June 2020
- Prior intimation of 5 days /2 working days to stock exchanges should be reduced to 2 working days for Board meetings
- AGMs should be allowed to be conducted through VC or other audio-visual means. Dispatch of physical copies of financial statements should be dispensed
- Because printing and dispatch of physical notices of right issue materials is not possible, it was requested to allow notices to be served electronically alongwith newspaper ads, uploading on the website of Registrar and company, notices through SMS, television, radio, digital ad and other means
- Suggestions to control volatility in the market: ban on short selling, restrictions on open future position by Institutional investors etc.
- Deferment from compliance of Minimum Public Shareholding norms
- Flexibility to all issuers to use fast track mechanism under rights issue / FPO irrespective of eligibility
- Relaxation for compliance with the requirement of certain time-based disclosures e.g. continual disclosures under SEBI Takeover Regulations
- To include Capital market and stock broking as an essential service exempt from lockdown restrictions
- Moratorium for all debt repayments for banks, NBFCs, commercial papers, non-convertible debentures, etc.
- Suggestions to increase the validity of final SEBI observations from existing 12 months to 18 months in case of right issues
- Allowing Corporate bond to be accepted as the Repo

- Suggestions on markets trading timing
- Relaxation in pricing guidelines of preferential issue to enable capital infusion
- Since shareholders' requests to Companies and their Registrar and Transfer Agents (based on KYC and other paperwork) such as requests for dematerialization, duplicate shares, etc. are difficult to execute within the stipulated time, FICCI had requested for allowing additional period of 30 days to companies to ensure timely compliance (without any penalties being imposed)

- **Suggestions on SEBI Circular dated 20th May 2020 requiring disclosures to be made by the listed entities in relation to the impact of the COVID-19 pandemic on their business**

FICCI had made a detailed submission to Chairman, SEBI highlighting industry concerns arising from the SEBI Circular dated 20th May 2020 which provides an indicative list of disclosures to be made by the listed entities in relation to the material impact of the COVID-19 pandemic on their business, performance and financials.

Given that the impact of the COVID-19 pandemic is still evolving, it was recommended that guidelines on safe harbour provisions may be issued by SEBI to safeguard the listed entities from any potential liability that may arise from any premature / forward-looking statements made by them in good faith. Further, in order to ensure that there is no information asymmetry and that the listed entities provide accurate and adequate information to their investors and stakeholders, necessary clarification or guidance may be provided on the format or suggested responses with respect to the disclosures specified in the Circular.

- **Recommendations submitted to Mr Ajay Tyagi, Chairman, SEBI based on issues discussed at the VC interaction with FICCI on 13th May 2020**

Based on the interaction of FICCI's senior leadership with Mr Ajay Tyagi, Chairman, SEBI, a detailed submission was made highlighting industry concerns pertaining to declaration of results of Q1 FY21, pricing norms of preferential issue guidelines, Default Recognition and Post-Default Curing Period to be adopted by CRAs, rights issue disclosures, delisting regulations, process of bond issuances through the EBP mechanism for Privately Placed NCDs, need for deferment of ratings downgrade, need for temporary increase for a limited period in the annual creeping acquisition limit from 5% to 10% etc.

FICCI is grateful that some of the abovementioned suggestions w.r.t. change in pricing norms of preferential issue guidelines and increase in creeping acquisition limit have already been considered while the others are under consideration by the Government as well as SEBI.

- **Recommendations submitted to Mr A M Bajaj, Additional Secretary, DEA, Ministry of Finance based on issues discussed at the VC interaction with FICCI Capital Markets Committee on 1st June 2020**

Based on the interaction of the Capital Markets Committee with Additional Secretary, DEA, MoF, a detailed submission was made highlighting industry concerns pertaining to Overseas Listing, Press Note

3, Eligibility criteria for Mutual Fund Sponsor, role of debenture trustee for NBFCs, process of bond issuances through the EBP mechanism for Privately Placed NCDs, capitalisation of expenses, depreciation in INR, need for allowing 'poison pill' to avert hostile takeovers given the share price volatility, Participation of QIBs in Market Linked Debentures, Tax treatment of Alternative Investment Funds, one time restructuring of loans etc.

- **Suggestions on Overseas Listing**

FICCI has made several representations to SEBI and the Ministry of Finance highlighting that any requirement prescribing that Indian companies be listed in India or seek simultaneous listing before an overseas listing could essentially delay the ability of currently unlisted companies to list in an overseas jurisdiction and raise capital. These Indian unlisted companies would in any event be governed by the current framework of the Companies Act and FEMA. Given the differing regulatory framework between India and the foreign jurisdiction of listing, substantial efforts and compliance costs would have to be borne by the potential listing candidates. For example, differences in applicable accounting standards (most overseas listing destinations use IFRS or US GAAP for accounting and financial reporting, as opposed to IFRS-derived Ind AS which Indian companies have recently transitioned to) or differing financial years would in any event lead to increased compliance burdens and costs. At this stage, to impose additional cost of compliance due to listing on Indian stock exchanges may make such a proposition unviable.

- **Suggestions on Depositary Interests [DI]**

FICCI has had several discussions with senior officials in Ministry of Finance, SEBI and RBI on issuance of DI for raising foreign capital by domestic unlisted companies.

Detailed submissions have been to the Government and Regulator highlighting the advantages of DI, process of issuance etc.

- **Suggestions for Supporting Sustainable Businesses Get back on Track (COVID Crisis Liquidity Bridge)**

FICCI has suggested that one of the ways that could help large companies overcome the impairment caused by COVID is through extension of Government-guaranteed credit by Banks. This would help tide over losses incurred due to COVID in the following manner:

1. **Isolation of losses incurred during the lockdown and identifying otherwise sustainable businesses. This would involve:**
    - Repairing the balance sheet of businesses by moving the impact on account of COVID from P&L to balance sheet (COVID Crisis Investment).
    - Amortisation of the same over a period of say, five years, and treated as special deferred expenditure as part of long-term sources until fully amortised.

2. **In second step, additional liquidity support (Crisis Liquidity Bridge) is to be provided by banks to businesses meeting sustainability test as under:**

   - With the assistance of suitable external experts, banks to carry out an internal assessment after adjusting for COVID Crisis Investment and assumed disbursal of Crisis Liquidity Bridge.
   - If the company's revised rating is not two notches lower that the company's last rating and more than RP4, then companies can be objectively categorised as:
     - Category A: if no additional support is required to establish their sustainability
     - Category B: if with additional support, in the form of restructuring of their existing liabilities, sustainability of companies can be established.
     - Category C: Businesses that after COVID are unsustainable or where the promoter's integrity/capability is considered doubtful would fall in this category.

The Processing Bank shall form a committee, which shall be the single window, for provision of proposed Crisis Liquidity Bridge for companies in category A & B.

- **Suggestions on Suspension of Credit Rating**

FICCI has submitted that unlike RBI's moratorium to businesses and individuals on payment of installments of all term loans outstanding as of 1st March 2020, there is no such relief for capital market instruments. This has created disadvantage for players who have raised debt through the capital market. While SEBI has eased default recognition norms vide its Circular No. SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated 30th March 2020, this is conditional upon the assessment by Credit Rating Agencies if the default has been solely due to the lockdown conditions creating temporary operational challenges in servicing debt. The Circular clarifies that such cases would not be classified as default.

While the CRAs have been advised to assess the situation, there may be downgrading in most cases as every entity in the ecosystem is impacted during this current period of crisis. A ratings downgrade could lead to catastrophic consequences. It has been submitted that suspension of ratings by CRAs will provide big relief to borrowers in these troubled times and ensure the continuity of viable businesses, thereby mitigating the impact of COVID crisis on the economy.

- **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:

- Pricing of Preferential Issues and exemption from open offer for acquisitions in Companies having Stressed Assets
- Usage of Pool Accounts in Mutual Fund Transactions

- Proposed amendments in Takeover Regulations
- Report of WG on Related Party Transactions
- Issues related to Proxy Advisers

- **Recommendations submitted to Mr Atanu Chakraborty, the then Secretary, DEA, Ministry of Finance based on issues discussed at the closed door interaction on 27th September 2019**

Based on the interaction of the Capital Markets Committee with Mr Atanu Chakraborty, the then Secretary, DEA, Ministry of Finance, a comprehensive representation was made on suggestions related to the corporate bond market, primary markets, secondary markets, mutual funds, Government securities, issuance of bank guarantees for infrastructure projects in India etc.

A follow up meeting of a FICCI delegation comprising senior representatives from infrastructure sector and capital market was held with Dr K V Pratap, Joint Secretary (IPF and C&C), DEA, Ministry of Finance.

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

Based on concerns raised by industry, FICCI has highlighted the challenges in mandatory separation of the roles of Non-Executive Chairperson and Managing Director/Chief Executive Officer for listed companies in its representation to SEBI and the Government.

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