21st Annual Capital Markets Conference

#CAPAM 2024

Capital Market Reforms 2.0 for

Viksit Bharat



THE EXPERTS' VOICE

A Compendium Of Articles

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Foreword

Indian capital markets have been one of the best performing among emerging markets in FY24, reflecting India's bright economic stature. Significant interest from domestic and global investors in the Indian stock market and sustained IPO activity make our markets an attractive investment destination. Eyes set firmly on India@100, capital markets are set to play an even greater role to support India's growth trajectory and realise Government's vision of Viksit Bharat.

Against this backdrop, 21st edition of FICCI's Capital Markets Conference is focused on Capital Market Reforms 2.0 for Viksit Bharat and would deliberate on the interventions required to realise the transformative potential of capital markets. On the occasion, we are pleased to present The Experts' Voice, a compendium of articles contributed by members of FICCI's National Committee on Capital Markets, outlining opportunities to deepen the market by increasing retail and institutional participation - both domestic and foreign, building AI capabilities, leveraging technology, innovation, empowering retail investors, enhancing financial literacy, awareness and such others.

We are grateful to Ms Madhabi Puri Buch, Chairperson, SEBI for releasing this publication at CAPAM 2024.

We would also like to take this opportunity to thank the Regulator, senior bureaucrats and government officials for their participation in CAPAM 2024 and also for their support to the initiatives of FICCI Capital Markets Committee through the year.

We also express our appreciation for our members 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 find this publication insightful.

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FICCI Capital Markets Committee



Contents

- **Budget 2024: Triveni of Fiscal discipline, focus on soft infrastructure and thoughtful consumption!** 3
  Sunil Sanghai, *Chairman, FICCI Capital Markets Committee and Founder & CEO, NovaaOne Capital Pvt Ltd*
- **Strengthening trust – India's progressive regulations are elevating capital markets and investor protection** 5
  Radhika Gupta, *Co-Chair, FICCI Capital Markets Committee and Managing Director & CEO, Edelweiss Asset Management Ltd*
- **Making Markets Work for Everyone: Empowering Retail Investors in Viksit Bharat** 9
  Vijay Chandok, *Co-Chair, FICCI Capital Markets Committee and Managing Director & CEO, ICICI Securities Ltd*
- **Navigating the start-up governance minefield** 12
  Amit Tandon, *Founder & Managing Director, Institutional Investor Advisory Services (IiAS)*
- **Capital Market Reforms 2.0: Unlocking India's Financial Potential** 14
  Dhiraj Relli, *Managing Director & CEO, HDFC Securities Ltd*
- **Indian Securities Market Reforms 2.0: A Pathway to Inclusive Growth and Technological Empowerment** 17
  Nehal Vora, *Managing Director & CEO, Central Depository Services Ltd (CDSL)*
- **Impact of AI on capital markets in India** 20
  Nemkumar, *Managing Director, IIFL Securities Ltd*
- **Paving the Road to Viksit Bharat: Harnessing Our Strengths and Overcoming Challenges** 23
  Nilesh Shah, *Managing Director & CEO, Kotak Mahindra Asset Management Co Ltd*
- **Energy Transition** 26
  R Govindan, *EVP (Corporate Finance) & Chief Risk Officer, Larsen and Toubro Ltd*
- **Re-visiting Shareholder Arrangements in an Evolving Regulatory Landscape for IPOs** 30
  Shardul S Shroff, *Chairman, FICCI Stressed Assets Committee and Executive Chairman, Shardul Amarchand Mangaldas & Co and* ***Abhiroop A Datta***, *Partner, Shardul Amarchand Mangaldas & Co*
- **Capital Market Reforms** 34
  Sriram Krishnan, *Chief Business Development Officer, National Stock Exchange of India Ltd (NSE)*
- **Capital Market Reforms 2.0 for Viksit Bharat** 38
  Virendra Bansal, *Managing Director & CEO, SBI Capital Markets Ltd (SBICAPS)*
- **Initiatives of FICCI Capital Markets Committee** 43
- **Policy Recommendations** 45

Budget 2024: Triveni of Fiscal discipline, focus on soft infrastructure and thoughtful consumption!

***Sunil Sanghai**, Chairman, FICCI Capital Markets Committee and Founder & CEO, NovaaOne Capital Pvt Ltd*

True to the style of this government, no matter what the political compulsions are, they genuinely believe in a long-term disciplined approach. This budget again demonstrated the government's commitment towards fiscal prudent path. This will help the country in the long term by improving its credit rating.

In the fiscal landscape for FY 24-25, the estimated fiscal deficit stands at 4.9% of GDP, showing a reduction from the earlier target of 5.1% set during the interim budget. A pivotal factor contributing to this decline is the historic dividend of INR 2.11 lakh crores declared by the RBI. The government has reaffirmed its commitment to fiscal consolidation, aiming for a fiscal deficit below 4.5% by FY 25-26. Net borrowing has seen a marginal reduction to INR 11.6 lakh crore, down from INR 11.8 lakh crore in FY 23-24. From FY 26-27 onwards, the government will endeavor to maintain the fiscal deficit each year such that debt to GDP ratio is on a declining path.

Major tax reforms shake the market!

There have been noteworthy reforms in income tax that could impact capital markets. The short-term capital gains tax on listed equity shares and mutual fund units has increased to 20% from 15%, while long-term capital gains tax has risen to 12.5% from 10%. The long-term capital gains tax on other assets has been reduced to 12.5% from 20%, albeit with the withdrawal of indexation benefit for all assets. In a move to attract foreign investment, the corporate tax rate for foreign companies has been reduced from 40% to 35%. Additionally, to support India's startup ecosystem and foster innovation, the 'Angel tax' has been abolished for all classes of investors.



Dividends and buybacks have always been considered as comparable means for companies to distribute accumulated reserves. At present, buyback is being taxed at the corporate whereas dividend is being taxed in the hands of the recipient. It is proposed that now a buyback will be treated at par with dividends, subject to applicable income tax rates with the option to claim the original cost of acquisition as a set-off of capital loss. This would end the arbitrage opportunity between dividends and buybacks.

The second part of Triveni focuses on building soft infrastructure.

Last few years we focused on building hard infrastructure like road, port, airport and railways. It was important that we focus on social infrastructure such as education, skill development and digitization.

If there is one overarching theme that weaves through the entire budget and its initiatives this year, it has been the emphasis and shift towards softer infrastructure. This strategic shift prioritizes long-term growth and prosper-



ity by focusing on critical sectors like education, skill development, employment, and digital connectivity, all of which are crucial components for achieving our national goal of Viksit Bharat.

Youth take center stage

A standout feature of this budget is the visionary package comprising five schemes aimed at empowering youth with employment opportunities and skill development, with an allocation of INR 1.48 lakh crore. This includes initiatives like setting up working women hostels, childcare centres, specific skill development programs, and loans for skilling, demonstrating a commitment to inclusive development and women empowerment.

Equally noteworthy is the focus on incentives for first-time job seekers and their employers, thereby fostering employment creation. Budget introduced a comprehensive internship scheme aiming to provide real-world business exposure for 1 crore youth in the top 500 companies over the next five years. This initiative underscores the government's commitment to enhance digital access and efficiency across the economy.

Digitizing land records – long time due!

The budget outlines key land reforms focusing on digitization, including a digital land registry for urban and rural areas to streamline records and enhance transaction transparency. These initiatives mark a significant move towards modernizing land administration and promoting inclusive property ownership.

The budget's urban housing initiatives focus on affordability and transparency. Key measures include interest subsidies for affordable loans, enhanced rental market transparency, and Public-Private Partnerships for dormitory-style housing with viability gap funding. These steps reflect a strategic shift towards a more inclusive and accessible urban housing market.

The third part of Triveni is thoughtful plan to boost consumption

There was an expectation that the government may resort to schemes like direct benefit transfers. However, the budget proposals have been thoughtfully crafted to boost consumption by supporting businesses.

Support for promotion of MSMEs

To provide an impetus to the MSME sector, a credit guarantee scheme has been introduced to provide the MSMEs access to institutional credit at competitive rates. Furthermore, a new mechanism is proposed for facilitating continuation of bank credit during stress period. In a bid to cover the MSMEs who do not have a formal accounting system, public sector banks will build a new credit assessment model based on the digital footprint of MSME in the economy, as compared to the traditional assessment of credit eligibility based only on asset or turnover criteria.

To further support agricultural income and the rural economy, the budget has concentrated on enhancing productivity and resilience in agriculture, as well as boosting public and private investment in post-harvest infrastructure and supply chains. These initiatives would have a long-term impact than just providing the subsidy to farmers.

In conclusion, this budget has been a departure from the normal narratives like fiscal deficit, capex, privatization and so on to newer areas like lower borrowing, lower deficit, softer infrastructure and thoughtful rural initiatives. Now that the blueprint is ready, the devil lies in implementation.

Strengthening trust – India's progressive regulations are elevating capital markets and investor protection

***Radhika Gupta**, Co-Chair, FICCI Capital Markets Committee and Managing Director & CEO, Edelweiss Asset Management Ltd*

In May 2024, India's market capitalisation touched the milestone USD 5 trillion-mark, bolstered by a consistent uptrend in the domestic stock market, thereby placing the country among stalwarts such as the United States, China, Japan and Hong Kong[1]. Given the country's robust economic growth, and the sustained rise in its benchmark indexes, economists are of the opinion that India's market capitalisation could easily rise ten-fold, over the next two decades[2].

A look back in time

The evolution of India's capital markets began with the establishment of the Bombay Stock Exchange (BSE) in 1875, marking Asia's first organised stock exchange. This initial phase saw the emergence of regional exchanges in Calcutta, Madras, and Ahmedabad, with minimal regulation, making the market prone to speculation and manipulation. The second phase, during and post-independence, was characterised by planned economic development and industrialisation, with the capital markets funding public enterprises and infrastructure projects. Key regulatory measures introduced included the Securities Contracts (Regulation) Act of 1956 and the establishment of the Industrial Development Bank of India in 1964[3].

The late 1980s and early 1990s marked the third phase of liberalisation, privatisation, and



globalisation, with the formation of the Securities and Exchange Board of India in 1988 and the NSE in 1992, along with the entry of foreign institutional investors and advanced trading technologies. Currently, the fourth phase is focused on global integration, diversification, and innovation, with the regulator undertaking consistent efforts to enhance market efficiency, transparency, and stability.

SEBI through the ages – a stock market perspective

The establishment of SEBI in 1988, and its empowerment through the SEBI Act of 1992, marked a significant milestone in the regulation of India's stock market – SEBI's mission is to safeguard investor interests, foster market development, and ensure market regulation. In its early years, SEBI focused on eliminating malpractices and safeguarding investor interests by introducing key regulations like the Prohibition of Insider Trading Regulations in 1992 and the Substantial Acquisition of Shares

[1] *https://www.business-standard.com/markets/stock-market-news/market-cap-of-bse-listed-companies-hits-5-trillion-first-time-ever-124052101387_1.html*
[2] *https://www.cnbc.com/2024/04/09/indias-market-cap-can-easily-jump-ten-fold-in-the-next-two-decades-economist-says.html*
[3] *https://www.thegainers.in/evolution-of-capital-market-in-india/#:~:text=The%20first%20phase%20of%20evolution,as%20Calcutta%2C%20Madras%20and%20Ahmedabad.*

and Takeovers Regulations in 1994[4]. To enhance market integrity and transparency, SEBI implemented measures such as the Disclosure and Investor Protection (DIP) Guidelines and Corporate Governance Norms in 2000.

SEBI also introduced new financial instruments and market reforms, including derivatives trading in 2000 and the Depositories Act in 1996. To maintain market order, SEBI strengthened its surveillance and enforcement mechanisms with the Integrated Market Surveillance System in 2006 and amendments to insider trading regulations in 2015. Proactive in promoting investor education, SEBI launched the Securities Market Awareness Campaign (SMAC) and established the Investor Protection Fund (IPF) and recently, the regulator has focused on digital transformation and market accessibility, introducing a regulatory sandbox in 2020 and streamlining disclosure requirements through the 2015 regulations.

The evolution of SEBI's regulations has significantly impacted the Indian share market by enhancing transparency and boosting investor confidence, leading to increased participation. The introduction of new instruments and market reforms has diversified investment options, contributing to market growth, while stringent corporate governance norms have improved accountability and trust in Indian companies. Additionally, SEBI's efforts have made Indian markets more attractive to foreign investors, fostering global integration and capital inflows.

Regulating the IPO ecosystem

In a bid to simplify the IPO and fundraising process, SEBI approved key regulatory amendments earlier this year. The requirement for a 1% security deposit in public and rights issues has been eliminated, easing capital-raising efforts for companies[5]. Additionally, entities in the promoter group and non-individual shareholders owning over 5% of post-offer equity can now contribute to the minimum promoters' contribution (MPC) without being classified as promoters. For companies using convertible securities, equity shares from the conversion of such securities held for at least a year before filing the Draft Red Herring Prospectus (DRHP) can count towards meeting the MPC requirement. These changes aim to streamline IPO and fundraising activities, making capital markets more accessible to companies.

Deepening the bond landscape

Considering the debt market, which witnesses lower participation, in comparison with the booming equity ecosystem, regulators have introduced several reforms over the past decade[6] – these include the RBI Retail Direct Scheme, reducing the minimum investment in corporate bonds from INR 10 lakh to INR 1 lakh, allowing government securities to be sold by online bond platforms, and implementing online bond platform regulations. The RBI Retail Direct scheme, launched in 2021, provides retail investors online access to the G-Secs market, although retail participation growth has been moderate. Separately, SEBI's 2022 circular lowered the face value of debt securities to INR



[4] *https://cevnews.in/2024/07/evolution-of-sebi-regulations-and-their-effect-on-indian-capital-markets/*

[5] *https://www.financialexpress.com/market/sebi-amends-regulations-to-ease-ipo-process-for-companies-3427042/*

[6] *https://www.moneycontrol.com/news/business/indias-bond-market-norms-how-they-have-evolved-over-the-last-decade-11819861.html*

1 lakh, enhancing market access for non-institutional investors even as the introduction of non-competitive bidding in primary auctions, and the mandate allowing odd-lot segments in secondary markets, further facilitated retail participation. These efforts have significantly increased the bond market's outstanding amounts and improved accessibility for small investors through technological advancements and regulatory support.

Mutual fund reforms

Turning towards the fast expanding mutual fund industry, in May 2022[7], SEBI approved passive tax-saving mutual fund schemes (ELSS), offering tax deductions under Section 80C for investments up to INR 1.5 lakh, accommodating new players focusing on passive funds. Since July 2022, SEBI has mandated direct fund flows between investors and mutual funds, bypassing intermediaries to enhance security and transparency. Starting October 2022, new mutual fund investors must nominate beneficiaries, with existing investors being required to do so by September 30, 2023, to avoid account freezes. In 2023, SEBI reviewed mutual fund expenses, aiming to link expense ratios to fund house equity assets and address excessive brokerage fees and NFO cost structures. These measures have been, collectively, aimed at enhancing investor security, transparency, and investment options in the mutual fund industry.

Bolstering real estate

To stimulate growth in India's real estate sector, SEBI plans to introduce Micro, Small and Medium Real Estate Investment Trusts (MSM REITs)[8], with a minimum asset size of INR 25 crores and a ticket size of INR 10 lakhs. These REITs aim to broaden real estate investments while ensuring transparency, control, and credibility for investors and adopt a niche-targeted approach, allowing investors to choose specific asset-focused schemes, providing clarity and customisation beyond traditional investments. MSM REITs introduce standardised regulations, KYC norms, and grievance redressal mechanisms, enhancing investor protection even as the prohibition of investments in under-construction assets mitigates risks, ensuring secure, stable, and predictable returns.

Nurturing alternative investments

SEBI's efforts to regulate and support Alternative Investment Funds (AIFs) have significantly advanced the sector, fostering growth and innovation – the 2015 Budget allowed Foreign Direct Investment (FDI) in AIFs, further supported by RBI rules under FEMA[9]. AIFs are classified based on the domicile and control of their managers, allowing flexibility in investments despite foreign Limited Partners. SEBI's January 2024 consultation paper proposes new due diligence requirements for AIFs and their managers to prevent regulatory circumvention.



[7] *https://www.moneycontrol.com/news/business/personal-finance/the-evolving-landscape-of-mutual-funds-in-india-11501561.html*

[8] *https://www.livemint.com/money/personal-finance/msm-reits-how-sebis-game-changing-move-will-transform-indias-real-estate-investment-landscape-cre-property-11707305083693.html*

[9] *https://www.financialexpress.com/opinion/the-evolution-of-aif-regulation/3408452/*



Investor relations paradigm

In terms of investor relations, under SEBI's 2015 listing obligations and disclosure regulations, promoters must disclose detailed information about their shareholding, taxes, and any changes in ownership. In light of the Adani crisis, these rules are expected to undergo a review and tightening, with the proposed measures aiming to enhance disclosure requirements for foreign investors holding significant stakes in individual stocks or Indian corporate groups. Currently, SEBI's promoter rules mandate that public companies provide increased transparency regarding ownership, economic interests, and control of identified foreign portfolio investors, often managed by the investor relations (IR) function. These regulations restrict promoters' powers, especially in their voting abilities, ensuring greater accountability and oversight[10].

Promoting foreign investment

To streamline operations for Foreign Portfolio Investors (FPIs), SEBI has approved several regulatory changes aimed at improving efficiency and flexibility, with key updates including exemptions from additional disclosure requirements for FPIs with more than 50% of their India equity assets in a single corporate group, provided specific conditions are met.[11] SEBI has also relaxed disclosure timelines: Type I changes must be reported within seven working days, with documents due within 30 days, while Type II changes require reporting and documentation within 30 days. These reforms are designed to enhance operational efficiency and investor confidence in India's market.

Noteworthy miscellaneous updates

Over the last year, SEBI has intensified its crackdown on illegal stock advice from financial influencers (finfluencers) – despite previous measures; finfluencer content remained prevalent, prompting SEBI to shift strategies. As of June, the regulator aims to penalise entities it oversees if they associate with finfluencers providing unlawful stock advice[12]. Additionally, SEBI has targeted virtual stock gaming apps, which allow users to create portfolios and compete using real-time stock prices. Concerned about the risks and unrealistic expectations these apps may foster, SEBI has directed stock exchanges and depositories to withhold real-time data from such platforms[13].

These are only some of the major regulatory reforms undertaken by SEBI to bolster the domestic capital market and ensure investor protection and, going ahead, the omnipotent regulator will continue to play a leading role in facilitating India's Viksit Bharat journey.

Views expressed above are personal.

[10] *https://www.irmagazine.com/investor-perspectives/transparency-trust-evolving-ir-practices-and-opportunities-india*
[11] *https://www.financialexpress.com/market/sebi-approves-reforms-to-boost-foreign-portfolio-investor-operations-enhance-flexibility-3427030/*
[12] *https://www.businesstoday.in/magazine/the-buzz/story/regulator-sebi-is-targeting-firms-linked-to-unregistered-finfluencers-heres-why-437829-2024-07-19*
[13] *https://timesofindia.indiatimes.com/technology/tech-news/sebi-is-banning-apps-that-offer-these-virtual-trading-services/articleshow/110476097.cms*

Making Markets Work for Everyone: Empowering Retail Investors in Viksit Bharat

***Vijay Chandok**, Co-Chair, FICCI Capital Markets Committee and Managing Director & CEO, ICICI Securities Ltd*

In India's journey towards being a developed country in the next three decades, transforming capital markets to be more inclusive and accessible to retail investors is paramount. With demat accounts surpassing 150 million, retail investor interest is at an all-time high. The Indian stock market, traditionally dominated by domestic and foreign institutional investors, is now seeing unprecedented participation by retail investors. Their growing numbers are not just a statistic; they represent a fundamental shift in the economic landscape.

Retail investors provide the market with much-needed liquidity and stability. According to data from the National Stock Exchange (NSE), retail investors were net buyers of shares worth Rs 47,180 crore in FY24, significantly bolstering the market during tough economic times. This trend marks a departure from traditionally favoured investment avenues such as bank deposits and gold. Today, more individuals are willing to take calculated risks for potentially higher returns and portfolio diversification.

The rise of digital investment platforms has transformed the landscape of investor demographics, drawing in a wave of millennials and Gen Z. These younger investors are captivated by the ease of app-based investing, where user-friendly interfaces and real-time data make stock market participation more accessible than ever. Streamlined KYC processes have further simplified opening demat accounts, slashing the time and effort required.



The COVID-19 pandemic saw a surge in women, including homemakers, entering the market, highlighting the growing diversity among new investors. Online platforms have bridged the gap for those in small towns and rural areas, enabling widespread stock market engagement. With easy-to-use features, educational resources, and the option to invest modest amounts, these platforms have empowered small investors to take control of their financial futures.

Government and Regulatory Support

Government and regulatory support have played a crucial role in facilitating ease and providing protection to customers thus building trust and competency in the markets. Initiatives like Aadhar e-KYC eliminates the need for physical documentation and manual verification process thereby simplifying and providing access to customers.

SEBI has also addressed the rise of financial influencers, or "finfluencers," who use social media to educate the public on stock market investments. While genuine finfluencers are encouraged to promote financial literacy, SEBI is regulating unregistered ones to protect investors from potential misinformation.

In an attempt to curb mis-selling and protect investors SEBI had barred investment advisers from simultaneously selling financial products and advisory service. Another move to ensure that the funds of clients are not misused the regulator has put in place a mechanism for separately upstreaming and downstreaming of investors' money. The regulator wants to ensure that the clients' securities are also protected in the same manner.

SEBI also introduced Application Supported by Blocked Amount (ASBA) like facility for secondary-market transactions which is already available for the primary market, ensures that the investor's fund gets moved only when the allotment is completed.

While providing ease and protection to investors, SEBI had introduced one notable initiative, Basic Services Demat Account (BSDA) that saw new customers entering the market. Reflecting on the successful initial model SEBI now has the confidence and has proposed to increase the threshold by five times to Rs 10 lakh. The soon to be adopted T+0 settlement cycle, which settles trades on the same day, will also enhance market efficiency and ensure quicker access to funds for investors.

The proposed new asset class – MF-PMS hybrid intends to fill the gap between MFs and PMS which is designed to curb unregistered investment products and provide a regulated, yet flexible, option for sophisticated investors. This would help in deepening the retail market further in coming months.



A Retail Surge Like Never Before

The numbers speak for themselves. In FY24, a record 32 million demat accounts were opened, including 10 million in the last quarter, pushing the total to an unprecedented 154 million by April 2024. This surge is fuelled by enhanced market accessibility, rising financial literacy, and growing awareness of the benefits of stock market investments. Amid India's burgeoning GDP, expected to reach $4 trillion this year, investors are keen to partake in the nation's growth story. With inflationary pressures easing globally and India's macroeconomic indicators robust, the appeal of the stock market continues to climb. The market cap of BSE-listed firms hitting a lifetime high of $5 trillion is a testament to the growing confidence of both foreign and domestic investors in the Indian markets.

Domestic retail investors have been instrumental in sustaining the market, even during turbulent times. Their steadfastness was particularly noticeable during the pandemic and ensuing geopolitical tensions. While Foreign Portfolio Investors (FPIs) withdrew their investments, retail investors stepped in, providing much-needed resilience and stability. Finance Minister Nirmala Sitharaman aptly called them "shock absorbers," highlighting their role in mitigating the impact of significant FPI outflows. Although market volatility and macroeconomic concerns occasionally made retail investors wary, the broader story of India's rise, fuelled by its young population and growing middle class, has continued to drive market growth.

Recent months have witnessed a spectacular stock market rally, with Indian indices reaching record highs. The mutual fund industry has also experienced a boom. According to the Association of Mutual Funds in India, there are 8.76 crore SIP accounts, with Rs 20,904 crore collected through SIPs in May 2024 alone. These figures underscore the growing prefer-

ence for systematic investment plans among retail investors. Simplified investment products like Index Funds and Exchange-Traded Funds (ETFs) offer accessible entry points for new investors, allowing for easy diversification and cost-effective alternatives to actively managed funds.

The Way Forward

Over the past 4-5 years, retail participation in Indian markets has surged dramatically. Post-COVID, the number of investors registering with the NSE has more than tripled, now exceeding 9 crore, with the last one crore joining in just five months. The BSE boasts over 17.9 crore registered investors. While the numbers impressive, they represent only a fraction of the potential in a country with a population of 144 crore.

There are significant challenges in making capital markets more accessible and inclusive. Many retail investors still lack the necessary knowledge to effectively navigate the stock market. Initiatives like SEBI's investor awareness programs, the National Centre for Financial Education's campaigns, and various private sector efforts are making significant strides in educating new investors. However, these efforts need to be intensified to reach a broader segment of the population. While the basic financial literacy education is in place one also needs to educate new customers on how to manage risk during volatile times especially now when the market is deepening and exposure of customers is increasing.

There has been some relaxation for NRI investors in the past few months by relaxing the KYC process. However, there is still some scope for improvement like e-KYC, along with video-based in-person verification as currently it is available only to a customer who is physically present in India.

While digital platforms have democratized market access, they also pose challenges.



Cybersecurity is a major concern, as the increase in online transactions has attracted cyber threats. Moreover, the digital divide remains a barrier for many potential investors in rural areas who still lack internet access or digital literacy. Addressing these issues is crucial to ensure that the benefits of market participation are truly inclusive.

Looking to the future, India aspires to become a Viksit Bharat—a developed nation—by 2047. The economy is expected to double within the next five years, reflecting the country's rapid growth trajectory. The transformation of India's capital markets highlights the nation's progress towards economic inclusivity and empowerment. By making markets more accessible and understandable, fostering financial literacy, and leveraging digital innovations, we can ensure that retail investors play an active role in shaping the nation's financial future.

Investors must understand the perils of speculative behaviour and the importance of informed investing. Warren Buffett's wise remark, "The stock market is designed to transfer money from the Active to the Patient," reminds investors of the significance of adopting a long-term perspective and exercising patience—key qualities for achieving financial success in the stock market. As more individuals engage with the market, they help realize the vision of Viksit Bharat—a prosperous and inclusive India where everyone has the opportunity to thrive.

Navigating the start-up governance minefield

Founders must prioritise governance from the outset, rather than deferring it until just before the IPO - if they want to create long-term value.

Amit Tandon, *Founder & Managing Director, Institutional Investor Advisory Services (IiAS)*

Start-ups attract our attention either when based on their rising valuations they are celebrated or when their valuations come crashing down. Three years ago, the music did not stop, and valuations kept soaring. Then, every other day a new soonicorn (a valuation of between US$ 500.0 million and US$ 1.0 billion/ Rs 40-80 billion) or a unicorn (a startup with a valuation of over US$ 1.0 billion, or Rs 80.0 billion) was anointed. And now just suddenly, it seems, that the chairs have all been removed.

Why has the mood soured? The uncomplicated explanation is that the valuations moved lockstep with the flow of funds. As the fiscal taps opened, money flowed and asset prices escalated, including those of start-ups. Once this tide turned, money became expensive, and valuations dropped. This is at best a partial explanation as it suggests that macro headwinds and tailwinds rather than the start-ups themselves, create their destiny.

Many factors explain the success and failures of start-ups, not all within the start-ups control.



But one thing start-ups, as an asset class, should do is to is to increase focus on governance. Its absence, in large part accounts for the business breakdowns or governance missteps as seen in a string of entities - Siply, BharatPe, Trell, GoMechanic, 'Byjus, Mojocare, Zilingo, ZestMoney, to name just a few.

Even as start-up governance remains in a dark space, the governance in listed companies is somewhat better. This is validated through the G20/OECD Principles of Corporate Governance and the scorecard has been developed by Institutional Investor Advisory Services (where I work) jointly with International Finance Corporation and The BSE Limited. IiAS' annual assessment based on the scores of the S&P BSE 100 index constituents, that account for over 70% of total market capitalization is a proxy for the governance practices of corporate India. The scores have been inching up over the past six years.

This, as mentioned above, is in sharp contrast to start-ups "who are completely new to the regulatory world when they list," according to Cyril Shroff, managing partner at Cyril Amarchand Shroff, a law firm. These he adds, "comes at them in terms of tsunami of regulations, related party transactions, semi-scrutiny, proxy advisors and things they had never factored in. So, in the first six months of listing, they get a massive shock in terms of what came through and they thought it was just about getting market cap and they realized this comes with conditions attached. That is something which they don't realize."

Akash Prakash, from Amansa Capital, a fund manager, voiced a similar view, holding their investors equally responsible. He says, "I'm actually astonished at some of the stuff, which is taken as part of the game in private companies would never pass public (market) muster."

This points to the focus start-ups and their investors place on being the first to identify a market, build out a product and grab market share, paying insufficient attention to governance. Most see governance as a something that comes in the way of doing business. They expect to concentrate on the governance aspects, closer to their IPO or when the company reaches a particular size. In doing so they fail to recognize that governance is a fundamental building block that will give investors' confidence to fund, suppliers the comfort to deal with the business and talent the incentive to join and stay with the company.

The best way forward is to build out the business and the accompanying governance systems in parallel. This means appointing a fully functional board, a compliance team and a financial reporting team.

The roles and responsibilities of each of these should be fit for purpose, and steadily expand with the business, getting closer to public market standards even before the company lists. For example, independent directors should be inducted on the board, board committees constituted with a broader remit, including risk, CSR and stakeholder management, the board





and various committee agenda and functioning should be benchmarked to listed peers as well as by undertaking board evaluation. Similarly, the compliance and finance teams each can start to incorporate regulations that the larger listed companies adhere to too, along with their disclosure practices. These include related party transactions, conflict of interest and behavioral codes, risk practices with focus on asymmetric information sharing.

Waiting till just before the IPO implies neither does the company have the processes and systems in place, nor have these been internalized, leading to avoidable time being soaked up. And while I have spoken about IPO, this approach is equally helpful as start-ups move from Series B to Series C and to further funding rounds. In other words, governance must be prioritized from the outset, rather than deferring it until just before the IPO.

Today, India has one of the largest and most vibrant start-up ecosystems in the world - a testament to the country's entrepreneurial spirit and its ability to foster innovation and growth. The best way to maintain our leadership position is for start-ups to adopt best governance practices and build investor and stakeholder trust. This no doubt is as hard as building the commercial end of the business, but there is no better way to create long-term value.

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Capital Market Reforms 2.0: Unlocking India's Financial Potential

***Dhiraj Relli**, Managing Director & CEO, HDFC Securities Ltd*

India stands on the brink of a financial renaissance, poised to unlock unprecedented investment opportunities. This new era, driven by dynamic demographics, technological advancements, and evolving investor mindsets, heralds a vibrant growth story for India's economy. The transformative potential of Capital Market Reforms 2.0 and the equitization of savings is crucial for shaping India's financial landscape.

India's Economic Growth Opportunity

India's economic growth trajectory is robust, with the next decade often hailed as belonging to India. S&P Global Market Intelligence predicts a GDP of $7.3 trillion by 2030, up from $4.11 trillion in December 2023. This projection underscores the substantial economic expansion that India is poised to experience. A burgeoning middle class, increasing urbanization, and the government's push towards infrastructure development and digitalization reinforce this optimistic outlook. India's strategic focus on self-reliance, or 'Atmanirbhar Bharat,' is set to drive significant industrial growth. By fostering innovation and supporting domestic manufacturing, the government is laying the groundwork for a more resilient and self-sustaining economy. This policy initiative is expected to create numerous opportunities across various sectors, enhancing the overall investment climate and generating employment. Financial inclusion has also seen extensive improvement, with nearly 90% of Indians now having accounts with financial institutions.



Capital Market Reforms 2.0

To fully leverage India's economic potential, embarking on the next phase of capital market reforms is essential. Capital Market Reforms 2.0 aims to address several critical areas to ensure the robustness and efficiency of financial markets. Improving liquidity is crucial for ensuring efficient market functioning. This can be achieved through measures such as reducing transaction costs, enhancing market depth, and broadening the investor base. Encouraging greater participation from retail investors, institutional investors, and foreign investors will be vital. A streamlined regulatory framework that balances investor protection with ease of doing business is imperative. Simplifying compliance requirements, especially for small and medium-sized enterprises (SMEs) and startups, will facilitate easier access to capital and support innovation-driven growth. Leveraging technology to enhance financial literacy and inclusion is a cornerstone of Capital Market Reforms 2.0. Fintech innovations, digital platforms, and mobile applications can democratize access



to financial markets, enabling a broader segment of the population to participate in wealth creation.

Ensuring robust investor protection mechanisms is critical for building trust and confidence in capital markets. This includes stringent measures against market manipulation, insider trading, and financial fraud, as well as enhancing transparency and disclosure standards. Providing tax incentives for long-term investments in equities and mutual funds is essential. Encouraging participation in systematic investment plans (SIPs) and retirement savings schemes through favorable policies can drive long-term financial stability and growth.

The Equitization of Savings

One of the most transformative trends in India's financial landscape is the shift towards the equitization of savings. Traditionally, Indian households have favored physical assets such as gold and real estate. However, there is a growing realization of the benefits of investing in financial assets, particularly equities. Increased awareness about the benefits of equity investments and the power of compounding has led to a growing preference for financial assets. Educational initiatives and digital platforms have played a significant role in demystifying the stock market and making it accessible to a wider audience. The proliferation of internet and smartphone usage has democratized access to financial markets. Online trading platforms, mobile apps, and robo-advisors have made it easier for individuals to invest in stocks, mutual funds, and other equity-related instruments. Millennials and Gen Z, who are more tech-savvy and risk-tolerant, are emerging as active investors. Their preference for equity investments over traditional assets is reshaping the investment landscape. India's robust economic growth and strong corporate earnings have enhanced the attractiveness of equity investments. The potential for higher returns compared to traditional savings instruments has driven more households to allocate a larger portion of their savings to equities.

Investing in equities offers the potential for significant wealth creation over the long term. Historical data indicates that equities have consistently outperformed other asset classes in terms of returns. Equitization of savings allows investors to diversify their portfolios and mitigate risks. By spreading investments across different sectors and asset classes, investors can achieve a balanced risk-return profile. Channeling household savings into equities supports the growth of businesses and the broader economy. It provides companies with the necessary capital to expand, innovate, and create jobs, contributing to overall economic development. The equitization of savings promotes financial inclusion by enabling more people to participate in the financial markets.



This can help bridge the wealth gap and promote economic equality.

Policy Recommendations for Capital Market Reforms 2.0

To fully realize the potential of Capital Market Reforms 2.0 and the equitization of savings, several policy initiatives are recommended. Simplifying regulatory processes for market participants, especially SMEs and startups, can facilitate easier access to capital. Introducing measures to streamline compliance requirements and reduce administrative burdens is essential. Launching comprehensive investor education programs to enhance financial literacy and awareness will help more people understand and participate in the market. Strengthening investor protection mechanisms is crucial for ensuring a safe and transparent investment environment. Providing tax incentives for long-term investments in equities and mutual funds will encourage participation in systematic investment plans (SIPs) and retirement savings schemes. Promoting the integration of advanced technologies such as artificial intelligence (AI), machine learning (ML), and blockchain in capital markets can enhance market efficiency, transparency, and security. Investing in the development of market infrastructure, including trading platforms, clearing and settlement systems, and investor grievance redressal mechanisms, is necessary. Ensuring robust cybersecurity measures to protect against digital threats is imperative. Facilitating easier access to global markets for Indian investors and companies, and promoting cross-border listings, foreign direct investments (FDIs), and collaborations with international financial institutions will also be beneficial.



Conclusion

As India navigates the future of finance, recognizing the transformative shifts occurring within the investment landscape is imperative. The equitization of savings, rising retail investor participation, and sustained economic growth are creating fertile ground for new investment opportunities. By staying informed, conducting thorough research, and maintaining a long-term perspective, investors can unlock immense potential. The future of finance in India is not just about numbers and statistics; it is about empowering individuals, supporting businesses, and building a nation that thrives on innovation and resilience. Embracing this vision with optimism, determination, and a commitment to informed and strategic investing can unlock new horizons and create a prosperous financial future for all.

Indian Securities Market Reforms 2.0: A Pathway to Inclusive Growth and Technological Empowerment

***Nehal Vora**, Managing Director & CEO, Central Depository Services Ltd (CDSL)*

As India strides toward a new era, the theme for the CAPAM conference, "Capital Market Reforms 2.0 for Viksit Bharat," resonates profoundly with the nation's aspiration to become a developed country.

The ambitious goal of Viksit Bharat@2047 hinges on two synergistic forces: the might of India's workforce and the transformative power of new-age technology. These forces represent the most profound shift since the Industrial Revolution and are central to our strategy for economic growth and development. Our Indian securities markets, a barometer of India's economic health and ambitions, are undergoing significant transformations, crucial for realizing this vision.

Historical Context: A Legacy of Progress

India's securities markets have seen a remarkable evolution since their inception. The liberalization wave of the early 1990s, spearheaded by the economic reforms of 1991, opened the gates to a more competitive and transparent financial sector. The establishment of the Securities and Exchange Board of India (SEBI) in 1992 was a milestone in regulating and nurturing these markets. Over the years, various reforms have strengthened our capital markets, making them more resilient, inclusive, and globally competitive.

This journey from floor-based trading to a robust electronic platform marked the beginning of a new era. The introduction of dematerialization, online trading platforms, and a host of other initiatives ensured a seamless and efficient trading environment. Today, as we stand on the cusp of significant transition, we must reflect on these achievements and build on them to ensure inclusive growth and technological empowerment.

Embracing Digital Reforms: The New Age of Investing

The Indian securities market has always been at the forefront of embracing technological advancements. From electronic trading platforms to the introduction of T+1 settlement cycles, and the latest one being optional T+0 settlement, every step has been aimed at enhancing efficiency and transparency. The recent surge in digital adoption, accelerated by the pandemic, has further underscored the importance of technology in our markets.

In recent years, we have witnessed a dramatic increase in the number of demat accounts, with a significant contribution from tier-3 and tier-4 towns. This democratization of market access is a testament to the success of digital reforms. SEBI's push for online account opening, eKYC, and other digital initiatives has



made investing accessible to a broader audience.

One of the most notable aspects of this digital transformation is the rise of the "Atmanirbhar Investor" – the new AI. In the last fiscal year alone, India added 3.69 crore new demat accounts. To put this in perspective, it took 23 years to reach 3.69 crore demat accounts after the depositories were created, but now this has happened in a single year due to the power of digital acceleration.

By providing tools like the Easiest for demat account management, KYC Registration Agency (KRA), SMART (SMS Alerts Related to Transactions), eVoting, e-AGM, and e-Margin Pledge, the depositories have empowered investors to take control of their investments.

The introduction of EDIS revolutionized trade execution by replacing the traditional method of submitting physical delivery instructions with a digital platform. This innovative model operates as a distinctive B2B business endeavour, facilitated by B2C authorization via cutting-edge technology, thus conferring ultimate control to investors.

These tools not only simplify the investment process but also enhance transparency and trust. At the core of this digital acceleration lies just two major factors - Trust & Technology.

Building Trust: The Cornerstone of Market Growth

The Indian securities market, guided by SEBI, has taken significant strides in building and maintaining this trust. The move towards a transparent and regulated market environment has instilled confidence among investors, both domestic and international.

The introduction of the ever evolving regulatory measures, has improved corporate governance standards, and a focus on investor protection has made the Indian market mature significantly in terms of both resiliency and



inclusivity. The efforts to enhance financial literacy and investor education have also played a crucial role in building this trust.

Inclusive Trust is the core ethos in driving this maturity even further as we embark on the journey from 25 years to the next 100. This emphasis on inclusive trust ensures that every investor, regardless of their location or background, has equal access to market opportunities. This inclusive approach will drive the next phase of growth in our capital markets.

Technological Empowerment: The Path Forward

The future of the Indian capital market lies in technological empowerment. As we move towards Capital Market Reforms 2.0, the focus must be on leveraging technology to create a more inclusive and efficient market environment. Innovations such as faster settlements, account aggregator and big data analytics hold immense potential in transforming the market landscape.

By harnessing these technologies, we can create a market that is not only more efficient but also more resilient to external shocks.

Moreover, the push towards digitalization must be accompanied by robust cybersecurity measures. As we embrace new technologies, ensuring the security of investor data and market infrastructure becomes paramount. SEBI, MIIs and other market participants must continue to collaborate and synergise in

creating a secure and trustworthy digital ecosystem.

The Power of Aggregation at Micro Levels

The true magic behind "Viksit Bharat@2047" lies in the power of aggregation at the micro level with ripple effects. Localized solutions, Investor education programs and campaigns hold the key to unlocking this potential. Investing in rural infrastructure, internet access, digital literacy programs, upskilling initiatives, and technology can cater to the unique needs of blue-collar workers across sectors. These building blocks would continue to contribute in building Bharat to a Viksit Bharat @2047.

Leveraging technology for Everyday Challenges

In the securities market, Technology and tools have immense potential for addressing everyday challenges faced by the investors. Whether optimizing investment processes, accessing their investment portfolios, attending of AGM's virtually, or access to information on investor, cap-tech (capital market technology) can significantly assist various investors and bridge the digital divide.

The potential of human abilities combined with the powers of technology is much talked about but perhaps understood only superficially. To illustrate this potential, we can draw an analogy to an Indian farmer using modern agricultural tools. Just as a farmer with a Plow and oxen can cultivate a field, when equipped with a tractor and advanced irrigation systems, his efficiency and productivity increase manifold. Similarly, investors, when armed with advanced technological tools and digital resources, can optimize their investment strategies on the foundation of becoming self-sufficient or Atmanirbhar Investors or AIs.



A Call to Action: Shaping the Future of Indian Capital Markets

As we embark on this journey towards advancing the Indian Securities Market Reforms, it is essential to recognize that the responsibility of shaping the future of our markets lies with each one of us. Whether we are regulators, market participants, or investors, we all have a role to play in ensuring that our markets remain inclusive, transparent, and technologically empowered.

In the words of Swami Vivekananda, "Arise, awake and stop not until the goal is reached." Our goal is a Viksit Bharat, where every citizen has equal access to market opportunities and the confidence to invest. This vision can only be realized through collective effort and a commitment to continuous improvement.

As we look towards the future, let us ask ourselves: How can we contribute to the inclusive vision of Bharat? How can we ensure that every citizen has equal access to opportunities in our capital markets? The answers lie within our actions. By embracing digital reforms, building trust, and leveraging technology, we can create a market that truly reflects the aspirations of a developed India.

As we move forward, let us remain committed to this vision and work together to build a market that is not only a barometer of our economic health but also a catalyst for inclusive growth and investor empowerment.

Impact of AI on capital markets in India

***Nemkumar**, Managing Director, IIFL Securities Ltd*

The AI era has begun: AI has already begun to transform many industries, and it is inevitable that it will significantly impact capital markets too. Transformer based Large Language Models (LLMs) have improved in recent years on their predecessors in many ways, including unsupervised learning and capability to process very large input sequences in parallel using GPUs (Graphics Processing Units). With GPUs getting significantly more powerful, these capabilities are increasing exponentially.

In equity markets, AI's ability to process vast amounts of data, identify patterns, and make predictions in real-time will become invaluable. The genesis of AI in markets dates back to algorithmic (algo) trading in the 1980s, where basic algorithms were used to execute trades; these algos transformed over time to black boxes that did unsupervised execution of trades. Over decades firms like Renaissance generated extraordinary returns using such black boxes and supporting mathematical models. Over time, advancements in machine learning and AI have made these systems much more capable, but the speed of change has dramatically risen in the past couple of years.

A notable application is the use of natural language processing (NLP), a type of LLM, to sift through financial news, corporate earnings transcripts, exchange filings, annual reports, analyst reports, market databases and social media feeds to gauge market sentiment. This technology was initially utilized by hedge funds such as Two Sigma and Bridgewater Associates to predict market trends before they become apparent through traditional analysis.



But in recent times, exchanges and data stream providers have begun putting out several AI generated reports. Over time, such reports will be accessible to a larger section of investment community and this will usher in new opportunities and challenges.

Global progress of AI adoption in Capital Markets

AI's role in risk management within equity markets is increasing rapidly. Nasdaq has been an early adopter of AI – in 2019 itself it integrated AI solutions within its market surveillance technology to enhance speed, efficiency and accuracy of potential market misconduct. AI enabled it to streamline investigation procedures leading to nearly 33% reduction in time taken. Nasdaq is using AI also to improve market functioning and providing data to market participants. For instance, Nasdaq is moving ahead with using generative AI for dynamic order types - Dynamic MELO uses AI to adjust the length of holding periods throughout the trading day on a stock-by-stock basis to improve fill rates and reduce market friction. Nasdaq has said that in testing Dynamic M-ELO it has achieved an improvement of more than 30% in average combined volume-

weighted order fill rates. Further, Nasdaq Analytics Hub offer AI based data services to help investors better use data from social media, central bank announcements, retail sentiment and other sources to improve trading profits.

Brokerage Charles Schwab uses AI backed Robo-advisors to analyze client data, risk tolerance, and financial goals to create and manage tailored investment portfolios. On similar lines, online trading app Robinhood has bought artificial intelligence-powered investment platform Pluto Capital which will give investors on its platform access to enhanced data analysis, personalized investment strategies as well as real-time insights and portfolio optimization. BlackRock's Aladdin platform uses AI to assess portfolio risks by analyzing market data and economic indicators. It provides insights into potential risks and recommends adjustments to optimize asset allocation. Several bulge bracket brokerages in the US are beginning to build models that draw on multi decade company data from several streams including financials, call transcripts, industry statistics etc. to develop an investment score.

On macro research side, analysts at one of the top US banks have used a ChatGPT-based artificial intelligence (AI) model to analyze statements and speeches from the U.S. Federal Reserve in the past 25 years to determine the nature of policy signals. The outlook of the Federal Reserve has been rated on a scale that the financial services company is referring to as Hawk-Dove Score.



Closer home, BSE and Bloomberg both have stock wise sentiment indicators developed from company filings and other material generally available on the internet. These were/are available to investors to factor in their investment decisions.

Concentration risk

That brings us to the following question: The available data sets and data streams are very vast. If different models, whether from the sell side or the buy side, were to be specializing in looking at subsets of the available data then they could reliably be expected to stay distinct. But the very direction of AI's progress has been the exponentially rising ability to digest bigger and bigger data sets. Hence with simultaneously expanding depth and width of coverage, initial self-learning as well as ongoing course corrections, it is more than likely that the different AI models gradually see distinctions blurring.

In equity markets, this can lead to serious concentration risk. The other kind of risk comes from the users of these models chasing the same outperformance goal. At least initially, the users of these models would be the bigger firms, and concentration risk can build up rapidly.

What can exchanges and regulators do?

The exchanges and the regulator has access to lot of information on trading patterns, participants etc. and they will have to build their own AI models to detect any brewing concentration risks. Machine driven surveillance of markets may need to substantially expand and that too on a real time basis to manage and mitigate risks. Concentration risks will potentially lead to higher volatility. A subset of investors who have access to AI driven research and trading tools will have a big edge over others and thus

trading outcomes will likely become very uneven.

Disintermediation

Will financial intermediaries like fund managers and research analysts continue to co-exist? While a lot is set to change, all market participants will need to adapt to the rapidly changing environment and invest in building AI capabilities to take full advantage of these tools. As an example, sell side firms can substantially expand the universe of research coverage with a much leaner analyst team. Discovery of new investment ideas especially in small and micro caps will become much easier. Wealth management landscape will potentially see a dramatic shift. Over time an even higher share of retail savings will move to firms that have the ability to use AI to build an edge.

Building AI capabilities will be an expensive one but for the regulators, exchanges and all market intermediaries, investing in it is a "Hobson's choice".



Paving the Road to Viksit Bharat: Harnessing Our Strengths and Overcoming Challenges

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

India stands at a crucial juncture in its journey towards becoming a developed nation. The goal of Viksit Bharat by 2047 is ambitious, but not unattainable. We have the building blocks in place. Now, we need to leverage our strengths and address our weaknesses strategically.

Let's start with an unconventional thought. God, it seems, has become Indian. Look at how divinity is solving our problems effectively. Despite global conflicts and oil production cuts, oil prices remain manageable. Our growth forecast started at 6% but ended at 8%. Even the monsoon is predicted to be favourable. It's as if there's divine intervention in our favour.

This divine favour extends to geopolitics. Our peer economies are struggling. Russia is out of the game. China's growth has slowed to 4-5%. Brazil got a communist government. South Africa is on a downhill path. India's economy looks bigger and better because our competitors are in bad shape.

Now, let's focus on our tangible strengths. India today retains more of its talent than ever before. In the past, 90% of IIT graduates would leave for opportunities abroad. Now, 50-70% are staying back. This shift is crucial. When talent stays in India, innovation flourishes. We may not create the next Microsoft, but we're seeing promising startups emerge. Nvidia's interest in an Indian AI chip startup is just one example.

The return of Indian talent from abroad is another positive trend. About 75 scientists from the US and Europe are coming back to India for basic research. While we may not immediately create global tech giants, we're likely to see smaller but significant innovations.

Talent alone isn't enough. We need capital to support it. Fortunately, our private equity and venture capital ecosystem is maturing. Middle-class entrepreneurs with good ideas can now access funding. This democratization of capital is a game-changer. India's largest broking company is now in Bangalore, not Mumbai, run by neither Gujaratis nor Marwaris.

Infrastructure, long a bottleneck, is improving. Outside our cities, we're seeing progress in roads, ports, power, telecom, and rail. Customs clearance in Bangalore now takes just 5 hours. These developments are critical for our competitiveness. One out of four chips designed globally is now designed in and around Bangalore. There are 230 Global Capability Centers in the area working on chip design.

When we combine talent, capital, and improving infrastructure, we create a solid foundation for growth. We're already seeing results. India has moved from being the 10th largest econ-





omy in 2014 to the 5th largest today. Soon, we could be 3rd. We're outpacing Sub-Saharan African countries, with whom we used to grow in tandem between 2004 and 2014.

Our growth is coming with prudence. Unlike many developed nations with debt-to-GDP ratios of 100-250%, India's ratio is still at 80%. We're not mortgaging our children's future for present gains. Our credit card and student loan debts are far lower than those in the US.

But our journey to Viksit Bharat faces challenges. Technology is a big one. We missed the Industrial Revolution and stagnated for 200 years. We can't afford to miss the AI revolution. There are encouraging signs. Indian companies are making breakthroughs in diverse fields - from explosives to CNC machines. An Indian company is exporting explosives to Sweden, home of Alfred Nobel. Another has become the first in the Toyota ecosystem to get a contract for manufacturing engine spare parts.

Power shortages loom as another challenge. Our thermal plants are running at 81% capacity. We may face power cuts in the coming years. One solution could be better utilization of state electricity board capacity. But this requires cooperation between state and central governments.

Perhaps our biggest challenge lies in channeling our savings into productive investments. Indians are good savers but poor investors. We've spent $373 billion on gold imports in 21 years. That's more than our foreign direct investment or portfolio investment. Most of this gold sits idle in lockers. If we could unlock even a fraction of this wealth, imagine the boost to our economy.

Our investment habits need an overhaul. In the last three years, households put 9 lakh crore in currency notes, but only 4 lakh crore in mutual funds. Currency depreciates, while mutual funds have delivered good returns. We need financial education on a massive scale.

The disconnect between education and financial literacy is stark. Kerala, our most literate state, spends more annually on lotteries than its cumulative retail equity mutual fund AUM. We must bridge this gap. Education alone doesn't guarantee financial wisdom.

Good economics must translate to good politics. The push for freebies and old pension schemes in many states is worrying. In Bihar, 49% of tax revenue goes to pension payments. This is unsustainable. We need policies that balance social welfare with fiscal prudence. The demand for old pension schemes could cripple state finances and leave nothing for development.

Despite these challenges, there's room for optimism. Many Indian states now have GDPs equivalent to the entire country's GDP from the early 2000s. Maharashtra's GDP today equals India's GDP in 2005. Uttar Pradesh matches



India's 2001 GDP. Tamil Nadu, Gujarat, and Karnataka are at par with India's 2000 GDP.

These states are aiming high. Maharashtra is targeting a trillion-dollar economy. Others will follow suit. If these states continue their trajectory, they could create an economy five times today's India in the next 20 years. And we haven't even factored in the potential of the other 23 states.

The road to Viksit Bharat won't be easy. We'll face setbacks. But we have the ingredients for success. Our talent pool is growing. Our entrepreneurial spirit is strong. Our infrastructure is improving. If we can channel our savings effectively and maintain sound economic policies, we can achieve our goal.

One generation of Indians will have to work extraordinarily hard. There's no shortcut. But the prize - a developed India - is worth the effort. We need to overcome our tendency to score self-goals. We must resist the lure of short-term populist measures that could derail our long-term progress.

We've shown resilience before. Remember how we transitioned from being the cat in the Panchatantra story to becoming the monkey? When sanctions were imposed on Russian oil, we made a strategic decision to continue imports, securing cheaper energy and even leveraging it for technology transfers from the US.

Our journey will have its ups and downs. We'll need to navigate global uncertainties, technological disruptions, and domestic challenges. But if we stay focused on our strengths - our demographic dividend, our growing domestic market, our improving ease of doing business - we can overcome these hurdles.

Let's embrace this challenge. Let's build a Viksit Bharat that realizes the full potential of our great nation. It's time for every Indian to contribute to this national mission. Whether you're an entrepreneur, an investor, a professional, or a student, your role is crucial.

We need to foster a culture of innovation, improve our financial literacy, and demand responsible governance. We must look beyond short-term gains and focus on sustainable, long-term growth. Our savings need to fuel productive investments, not lie dormant in gold or low-yield instruments.

The path to Viksit Bharat is clear. We have the talent, we're building the infrastructure, and we're attracting capital. Now, we need to execute with precision and perseverance. Let's work towards a future where India isn't just a part of the global economy, but a leader shaping it.

Together, we can turn the dream of Viksit Bharat into reality. It's not just about economic indicators; it's about creating a nation where every Indian has the opportunity to thrive. Let's commit to this vision and work tirelessly to achieve it. The India of 2047 is in our hands to shape. Let's make it a Viksit Bharat we can all be proud of.



Energy Transition

***R Govindan**, EVP (Corporate Finance) & Chief Risk Officer, Larsen and Toubro Ltd*

The global need for energy transition is driven by the urgent necessity to mitigate climate change, as fossil fuel combustion is the largest source of greenhouse gas emissions. Specifically net zero emissions by 2050 is crucial to limiting global warming to 1.5°C above pre-industrial levels.

Additionally, energy transition enhances energy security by reducing dependence on imported fossil fuels, diversifying energy sources, and promoting sustainability. It also addresses environmental pollution, improves public health, and fosters economic growth through the creation of green jobs and industries.

At the heart of the energy transition there are "Four Pillars of Transition". These pillars include Renewables, Electrification, Energy Efficiency, and Emerging Technologies, each contributing to the reduction of CO2 emissions in varying degrees.

1. Renewables

This pillar emphasizes the need for an increased share of renewables in electricity generation.

	(A) Additional Solar Capacity (2023)	(B) Additional Wind Capacity (2023)
World	420 GW (85% increase from PY)	117 GW (60% increase from PY)
India	12 GW	3 GW

(C) Offshore Wind: Going forward, share of offshore wind energy in the mix is likely to increase led by geographies like Europe and Northeast Asia. India has just stated its offshore wind initiatives, particularly in the states of Gujarat and Tamil Nadu.

(D) Nuclear: 22 countries including USA, UK, UAE, Japan etc signed a declaration to triple nuclear energy capacity by 2050 in COP 28. In addition, we also expect small modular reactors (SMR) – less than 300 MW in future. India is also working on developing a policy and regulatory framework to facilitate future deployment of SMRs.

(E) Storage: To improve share of clean energy in the energy mix & for effective grid integration for round the clock power, storage is the key. Due to Advancement in technology, and fall in input prices, battery costs have reduced sharply, consequently storage cost has reduced. Costs of battery materials, particularly cathode materials accounting for 30% of the battery price, have dropped by 60%.

Pumped storage projects are also expected to provide solution to energy storage in future especially for longer duration requirements. Several projects are underway in India and are expected to be supportive for long duration storage.

Overall, Renewables are projected to contribute 25% to the reduction of CO2 emissions.



2. Electrification

This involves increasing the percentage of energy derived from electricity, focusing on the electrification of mobility (such as electric vehicles) and process industries. Electrification is expected to contribute 20% to the reduction of CO2 emissions.

Global Electric car sales reached ~14 million units in 2023 led by China 8 million electric car.

In India too, while the number absolute number is small, sales grew by 70% y-o-y signifying increased adoption. It is estimated that electric cars have led to 0.5 mbpd displacement in oil demand. Also, the electrification of two-wheelers has marked a significant shift towards sustainable mobility, driven by advancements in battery technology and increased environmental awareness.

However, extending this transformation to heavier vehicles poses distinct challenges. Innovations in battery efficiency, charging infrastructure, and vehicle design are crucial to overcoming these hurdles. Improved energy storage solutions, such as higher capacity batteries and faster charging methods, will be essential to meet the demands of larger vehicles. Additionally, advancements in electric motors and powertrain technology will enhance performance and reliability for heavier loads. As the automotive industry continues to innovate, the evolution towards electrifying heavier vehicles promises to reshape transportation, offering cleaner and more efficient alternatives for urban and industrial mobility.

Indian Railways ranks among the top rail networks globally in terms of electrification. It is often cited as the fourth-largest electrified rail network in the world, following China, the United States, and Russia. As of 2024, approximately 72% of the Indian Railways network has been electrified. This includes major routes and key sections, with ongoing projects aiming to cover the remaining 28% to achieve full electrification by 2030.

In the realm of steel production, there is a shift away from traditional blast furnaces towards EAF. However, Indian steel continues to be largely blast furnace based. Although some capacity using scrap plus EAF route has also started recently.

Solar rooftops are increasingly being adopted across residential, commercial, and industrial sectors to harness solar energy and reduce dependence on conventional grid power. The initiative is driven by government policies such as the Solar Rooftop Scheme ("Surya Ghar"), which offers incentives and subsidies to encourage the installation of solar panels on rooftops. As of recent reports, India aims to achieve substantial capacity additions in solar rooftop installations, aligning with its target of 500 GW of renewable energy capacity by 2030.

3. Energy Efficiency

This pillar focuses on improving the efficiency of energy consumption. In Industries, this will be achieved through adoption of high-efficiency motors which has the potential to reduce global electricity consumption by up to 10%. If Concentrated Solar Power becomes economically viable it can be used in industry for heat-

ing etc. Space heating and cooling offer the greatest potential for improved energy efficiency in the buildings sector. Electric Heat Pumps use 3-5 times less energy than a typical gas boiler used for space heating. As such, they are an ideal replacement, provided costs permit the same. For transport sector, adoption of electric vehicles which are inherently more energy efficient than ICE vehicles will lead to improvements.

Energy efficiency measures are anticipated to contribute 25% to the reduction of CO2 emissions.

4. Emerging Technologies

This pillar is divided into two parts: Hydrogen and Carbon Capture, Utilization, and Storage (CCUS).

Globally, Several Green Hydrogen projects are being planned and execution has also started for some projects, while the economics are not there as on date with further reduction in RE power prices and electrolyser efficiency, green hydrogen is expected to play a significant role.

The Production-Linked Incentive (PLI) scheme for hydrogen in India is a government initiative designed to boost the domestic production of green hydrogen. Launched in 2021, the scheme aims to provide financial incentives to companies engaged in the production of green hydrogen and its associated technologies. Several states have also announced electrolyser/green hydrogen incentives.



CCUS projects in oil and gas sector has commenced. Globally, countries that have depleted oil and gas fields are better placed for carbon storage as of now. In future, Direct Air Capture may also be possible.

In addition to above we still need a way to tackle CO2 emission from shipping and air transport. These will likely happen through green ammonia powered ships and sustainable aviation fuels.

Sustainable Aviation Fuel (SAF) is gaining momentum as a key component in reducing aviation's carbon footprint. It can be made from a variety of renewable resources such as waste oils, fats, and greases, and synthetic processes that capture carbon directly from the air. SAF can reduce CO2 emissions by up to 80% compared to conventional jet fuel.

Ethanol blending in petrol is a significant initiative in India to boost energy security and environmental sustainability. The government aims to increase the ethanol blend to 20% by 2030, mixing ethanol with petrol to reduce emissions and dependence on imported fuels. This effort supports the agricultural sector by providing new revenue opportunities for farmers and helps in lowering air pollution and greenhouse gas emissions.

The combined efforts of these four pillars are crucial for achieving the net-zero CO2 target.

Governments, businesses, and communities are playing crucial roles in driving the energy transition forward. Policy frameworks and incentives, including subsidies and carbon pricing mechanisms, encourage investments in renewable energy infrastructure. Initiatives to phase out coal-fired power plants and promote energy efficiency measures further accelerate the shift towards cleaner energy systems.

However, challenges remain in achieving a complete energy transition. India's energy

transition is progressing slowly due to a combination of financial constraints, inadequate infrastructure, policy and regulatory hurdles, and technological challenges. Significant investment is needed to upgrade the national grid, ensure reliable integration of renewable energy, and overcome land acquisition and environmental clearance issues.

In conclusion, the energy transition represents a paradigm shift towards a sustainable and resilient energy future. Embracing this transition not only addresses environmental concerns but also unlocks economic opportunities and enhances energy security. By fostering collaboration and innovation, we can accelerate the transition to a cleaner energy system and pave the way for a more sustainable world for future generations.



Re-visiting Shareholder Arrangements in an Evolving Regulatory Landscape for IPOs

***Shardul S Shroff**, Chairman, FICCI Stressed Assets Committee and Executive Chairman, Shardul Amarchand Mangaldas & Co and **Abhiroop A Datta**, Partner, Shardul Amarchand Mangaldas & Co*

A maturing Indian corporate landscape, spurred on by a flurry of post-pandemic activity, has seen initial public offerings ("IPOs") emerge as the preferred exit route in the case of not only traditional family-owned ventures, but also a growing number of companies founded by first-time entrepreneurs and funded by institutional investors.

With capitalization tables skewing in favor of institutional investors (especially in venture capital-friendly sectors such as new age technology companies), and the presumption of control vesting with founders being challenged more frequently (demonstrated by several issuer companies identifying institutional investors as promoters in recent offer documents), shareholder dynamics are now, more than ever, propped up by heavily negotiated frameworks of special rights.

Perhaps recognizing this, the Securities and Exchange Board of India ("SEBI") has demonstrated increasing incisiveness in scrutiny of shareholder arrangements and, by extension, control over IPO-bound issuer companies. While such shareholder arrangements are ordinarily entered into at the time of investment, well in advance of an IPO, it would benefit investors to sensitize themselves to regulatory expectations in an IPO context so as to anticipate and navigate foreseeable concerns.

Identification of Promoters

Recent regulatory outlook has leaned towards looking beyond shareholding alone, to ascertain where control (defined under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR Regulations") to include "the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner") over the issuer company is actually vested.



For instance, in addition to persons and entities falling squarely within the ambit of the definition of "promoter" under the SEBI ICDR Regulations, immediate relatives of individual promoters, and in case of professionally managed issuer companies, their founders, may need to be considered for promoter identification if they collectively hold 10% or more of the issuer company, directly or indirectly, and/or hold position on/have nomination rights to the board of directors or as key managerial personnel/senior management.

Similarly, with corporate promoters, the ultimate promoters thereof may need to be considered for promoter identification, which necessitates assessment of group holding structures of institutional investors. Certain group holding structures favoring portfolio investments being held through a single investment vehicle/layers of holding companies, may need to be evaluated to avoid entities not factually in control or related to the issuer company being identified as promoters or part of the promoter group.

Minimum Promoters' Contribution

A welcome regulatory development is the expansion of the pool of non-promoters eligible to contribute towards minimum promoters' contribution ("MPC") requirements for an IPO (equivalent to 20% of the post-IPO equity share capital), which was previously open only to certain categories of investors such as alternative investment funds and foreign venture capital investors. Recognizing that issuer companies "often have several rounds of funding prior to listing of their equity shares on the stock exchanges", where "the promoters' holding may fall short of the minimum promoter contribution", the SEBI has recently amended SEBI ICDR Regulations to now permit non-individual public shareholders holding at least 5% of the post-IPO share capital and members of the promoter group to contribute towards MPC requirements.

While the quantum of permissible contribution from non-promoters remains capped at 10%, pre-IPO institutional investors (falling under "non-individual public shareholders holding at least 5%") no longer need to weigh IPO feasibility against the burden of volunteering to be identified as promoters solely to suffice MPC requirements.

Participation in IPO Decision-making

Not all regulatory feedback received has been entirely clear, however, with perhaps the key cause of consternation being the directive to allow issuer companies exclusive authority in taking key IPO decisions, including in particular, in respect of pricing and allocation, without participation of selling shareholders in such decisions, directly or indirectly. Promoters and investors alike may find themselves at a loss to appreciate their exclusion from decision-making in respect of existential IPO terms such as pricing of shares that they, themselves, are offering for sale. Discretionary allocation to anchor investors would also be germane to promoters as well as investors that elect to retain a portion of shareholding in the issuer company post-listing. However, until regulatory reconsideration on this issue, selling shareholders may be unable to retain control over IPO terms, whether by way of veto/approval rights under shareholders' agreements/articles of association (which is a common practice), or specific rights stipulating their participation under the offer agreement for the IPO.

Special Shareholder Rights

Further to its consultation paper on *"Strengthening corporate governance at listed entities by empowering shareholders – Amendments to the LODR Regulations"* issued in February 2023, the SEBI amended the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR Regulations") to introduce Regulation 31B, which permits special shareholder rights to be granted by listed companies,



subject to approval by way of special resolution of the shareholders in general meeting every five years. More recently, following a prolonged period of evolving regulatory feedback on special shareholder rights in the context of listing (and the resultant lack in clarity with respect to nuances ranging from timing of fall-away of such special shareholder rights, to their survival/revival post-listing), the SEBI has now clarified that all special shareholder rights (whether stipulated under shareholders' agreements or the articles of association) may be retained up until the date of listing, at which point, they should terminate and automatically fall away.

The following nuances in relation to certain specific shareholder rights should be noted, however:

Board nomination rights: The erstwhile practice of stipulating provisions under shareholders' agreements requiring parties to re-instate board nomination rights (and by extension, any other special shareholder rights proposed to be granted pursuant to Regulation 31B of the SEBI LODR Regulations) by way of special resolution of shareholders passed in the first general meeting post-listing has been frowned upon as a creative work-around, with regulatory expectation being to terminate all such rights at listing in entirety, and any proposals for their re-instatement being floated to shareholders for approval anew post-listing.

Information rights: Pursuant to the SEBI ICDR Regulations, an issuer company is required to



disclose all key performance indicators ("KPIs") "that have been disclosed to its investors at any point of time during the three years preceding to the date of filing of the DRHP/RHP". Given heightened scrutiny by the regulator of KPIs disclosed by issuer companies in recent IPOs, issuer companies that share an expansive suite of information with institutional investors pursuant to agreed information rights may find themselves struggling with the onerous task of trawling through all information shared with investors over three years preceding the IPO, and painstakingly explaining the inclusion/exclusion of all such metrics as KPIs. Promoters and investors ordinarily enjoy information rights covering an agreed-upon scope for reasons varying from performance monitoring to regulatorily mandated disclosures in the relevant jurisdictions in which they operate, and not all the information sought by them as part of such arrangements would be material or relevant to the valuation of the issuer company. Accordingly, the requirement under the SEBI ICDR Regulations may be clarified to cover only such KPIs as disclosed to investors for the purposes of their investment in the issuer company, and not information shared in the ordinary course of business with existing shareholders/promoters.

Certain exit rights: Typically, shareholder arrangements stipulate secondary/tertiary exit rights for investors in the event an IPO is not consummated by an agreed date, such as third-party sale, put and call options between shareholders and ultimately, if all else fails, buy-back. These rights have recently been scrutinized through the lens of eligibility of the issuer company to undertake the IPO (Regulation 5(2) of the SEBI ICDR Regulations requires that there be no "right which would entitle any person with any option to receive equity shares of the issuer"), as well as the requirement that there be no buy-back arrangements in place. While such rights can be waived for the duration of the IPO, since such rights do not get triggered

unless the IPO does not go through, their relevance in a listing context is moot.

Inter-se Agreements

While the SEBI ICDR Regulations mandate disclosure of inter-se shareholders' agreements (where the issuer company is not a party) if the issuer company is aware of such agreements, in certain instances, recent regulatory feedback has viewed the scope of such requirement expansively, to disclose all inter-se agreements, with promoters and investors being required to confirm whether or not they have entered into such inter-se agreements, and if applicable, to disclose such inter-se agreements to the public. Given such inter-se agreements are myriad in nature and may frequently contain commercially sensitive information that do not otherwise impact the issuer company, it may be more meaningful to limit such disclosure to only inter-se agreements that are material or adverse/prejudicial to the issuer company or its shareholders.



Capital Market Reforms

***Sriram Krishnan**, Chief Business Development Officer, National Stock Exchange of India Ltd (NSE)*

India's capital market plays a pivotal role in supporting economic growth, channelling savings, and facilitating investment. Over the past few decades, capital market reforms have been instrumental in shaping the India's financial landscape. India is the now fourth largest market in the world in terms of Market Capitalisation after US, China, and Japan. The Market Capitalization of India has grown about 110 times in rupee terms, since NSE started its operations in 1994. Recently, India's market capitalisation crossed an important milestone of $5 trillion mark reflecting strong fundamentals, economic growth outlook and good governance practices. As we stand at the cusp of a new era, it is essential to reevaluate and consider reforms which will enhance our capital markets and align with the aspirations of a Viksit Bharat. The aspirations of reaching $10 trillion market capitalisation should be facilitated by Capital Market Reforms 2.0 while remaining focused on core tenants – trust, transparency and investor protection.

The Capital Market Reforms 2.0 should be aimed at facilitating greater fund mobilisation, increased investor protection, enhancing market infrastructure, improving ease of doing business, and adopting innovation in financial instruments and evolving technologies. Some of the key elements of Capital market reform 2.0 are as follows :-

1. Inclusivity, Investor Education and Awareness India is amongst the largest markets in the world in terms of the number of investors with over 94 million unique PAN investors with NSE and 7 crores plus households accounting for almost 20% of India's population directly investing in stock markets today. However there still remains a huge opportunity and efforts should be made to take the capital markets to 100% households. The reforms should focus on making capital markets accessible to a broader segment of the population, including Tier 2 and rural areas. Simple onboarding process and vernacular support can help. Demystifying complex financial product and personalised education to investors about the nuances of capital markets is crucial for fostering trust. The future of capital markets will see a shift towards highly personalized investor experience to investing.

2. Market Infrastructure

Consolidated Investment Portfolio - In the current landscape of retail investments, units in mutual funds are held in account folios and investments in shares and bonds are held in the demat account. There is no common platform to hold all investments. The existing mechanisms could be reviewed and simplified to have a common holding platform and enable more efficient use of securities which can be supplied as collateral. Likewise, Government Bonds are held in Constituent SGL or SGL accounts by institutional participants whereas



retail investors hold Government Bonds in their demat accounts. Thus, there is no interplay between institutional and retail as such.

Physical Delivery by Clearing Corporations – In the current landscape of commodity derivatives, there is no infrastructure available for the Clearing Corporations to physically deliver underlying commodities such as crude oil or natural gas to market participants trading in these derivatives. China and the US, for instance, already offer these features. India needs to build on such infrastructure for growing capital markets

Ease of Doing Business - The new wave of reforms should focus on allaying the key concerns of foreign investors like ease of onboarding and faster processing of FPI licenses and review the challenges faced by them like maintaining threshold of 10% trades through RFQ.

Technologies Innovations – Evolving technologies must be leveraged to enhance transparency and build trust which are fundamental pillars of capital markets. Disclosure norms like real-time financial reporting and instant updates on corporate actions can significantly reduce information asymmetry, ensuring companies provide accurate and timely information to investors. The blockchain technology could revolutionize the way transactions are recorded, reducing fraud and ensuring data integrity. Smart contracts could automate and enforce compliance, making processes like settlement and clearing almost instantaneous and error-free. Advanced algorithms, AI-based systems and Machine Learning could help detect and prevent market manipulation and insider trading.

3. Fund Mobilization

Expanding Listed Companies Universe - The aspirations of reaching $5 trillion economy by 2027 and thereafter a $10 trillion economy shall be enabled by a greater number of



companies pursuing public markets specifically technology-driven startups and new age business models which will lead wealth creation. The reforms should also encourage more SME companies to access capital markets while ensuring that qualified companies get through the scrutiny of regulator and exchanges.

Listing of MNC's subsidiaries - In the current business landscape, several industry- leading MNCs such as Apple, Google, Amazon, Facebook, Toyota, Samsung, have been operating in India without getting listed in the domestic market and hence, are able to repatriate the full economic interest from Indian operations to their parent entities. Globally, nations have always endeavoured to safeguard their economic interests by directing MNCs to compulsorily list their businesses in their domestic exchanges. Similar reforms in India could provide an opportunity for long-term investors to participate in the growth story of new blue-chip companies. The proposed IPO of $3 bn by Hyundai has opened the floodgates for many more MNC to list in India. The listing of larger global companies like LG, Amazon, Samsung, Toyota, Apple could be a game changer for Indian equity capital markets.

Efficient Debt Capital Markets - The fulfilment of aspirations of an emerging economy like India relies on having an efficient debt capital market where companies of all scales can use the leverage to fund infrastructure and expan-

sion projects which creates economic activity and in turn contributes to the nation's development. The outstanding corporate debt in India stands at Rs 45.92 lakh Crore[1],a modest ~14% of India's GDP in comparison with an enterprising ratio of ~39% of the US[2]. The efforts should be made to build true marketplaces where companies of mid or small scale can come in with appropriate and valid documentation and raise the funds smoothly through efficient and transparent price discovery process.

Catalysing Government Entities Financing - The government entities and statutory bodies like Municipal corporations should also aim to transition towards capital markets for raising capital and funding infrastructure projects in the country. Currently, the municipal bond market in India is ~$ 297 million compared to ~ $4.1 trillion[3] in US. It is imperative for urban local bodies to access finances through capital market to meet the growing demands of urbanisation. The state and central governments may start with mandating sourcing of certain percentage of funds through capital market to nudge the transition and contribute to overall development of municipal bond market.

4. Green Reforms

BRSR like reporting for Government Institutions: Implementing Business Responsibility and Sustainability Reporting (BRSR) for government institutions such as Central Ministries, State Government Departments, and Public Sector Undertakings (PSUs) which are not listed on stock exchanges in India is crucial for achieving comprehensive ESG accountability. The government championing sustainability could contribute to long-term economic stability.



Financial products suite for net zero transition: Developing a comprehensive suite of green financial products is crucial for generating green capital to support the sustainability goals and enable transition to a low-carbon economy by 2070 as committed by our Hon'ble Prime Minister. The green financial landscape is rapidly evolving, offering a variety of instruments - green bonds, green funds, green insurance, green credits, and sustainability-linked bonds (SLBs) that promote environmentally friendly (mitigation) projects. Such green financial instruments must be leveraged to foster a culture of sustainability within financial sector and provide a robust framework for green capital generation.

5. Foreign Flows and Global Integration

The recent milestone event of Inclusion of Indian Government Bonds in JP Morgan Government Bond Index-Emerging Markets and upcoming inclusion in the Bloomberg bond index is estimated to prompt foreign inflows. These indices attract patient capital but also volatile flows. Balancing interests of both domestic and foreign investors is imperative to ensure sustainable economic growth and financial stability.

Gift IFSC which serves as gateway for foreign capital should bring in reforms and adopt best practices from international regulators. Capital markets will become more interconnected allowing seamless cross-border trading and investment, enhancing liquidity and market depth.

Challenges

The implementation of new phase of capital reforms also presents unique challenges in the Indian financial ecosystem:

- The corporate governance norms have been enhanced significantly over the past many years, but the future has different challenges in store. The listed companies would not just be evaluated on financial performance but also on the performance on ESG goals. Only those fit markets with efficient frameworks will be able to receive the savings of the investors of the world.
- The contribution from the commodities segment shouldn't be downplayed in reaching the $10 trillion market cap mark by NSE listed companies. The efforts should be made to create a suitable environment for promoting various products and segments and to make sure that retail investors, for example, do not venture into risky unregulated asset classes such as crypto, or speculative habit making via the various gaming apps.
- The retail investors participation has significantly grown over the past 4 years and contributed to the market's resilience despite foreign inflows volatility. The withdrawal of zero brokerage model which acted as one of the catalysts for increased participation, could increase the cost burden and may impact the volumes which could be detrimental to this segment.
- The change in policy directions could have undesirable effect on success of innovative products. The Exchange Traded Currency Derivatives product which was widely used by small sized corporates, exporters, importers and several retail participants for



hedging their FX risk, is now witnessing huge declines in the volumes due to change in policy.

- As India gets ready for the next wave of growth, it is also important to review our current scheme of taxes which contribute to the overall cost of trading in the market. India is viewed as one of the more expensive markets in terms of cost of trading mainly because of huge taxes – particularly STT combined with capital gains tax as well as stamp duty.

Understanding these challenges is crucial for policymakers to mitigate risks and ensure benefits outweigh negatives.

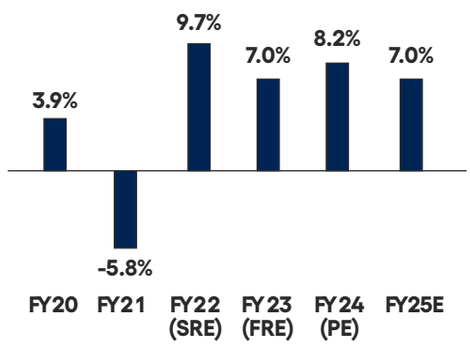
Capital Market Reform 2.0 should not merely be incremental in nature and adopt transformational approach in moving towards a more resilient, inclusive, and dynamic financial ecosystem that supports Viksit Bharat. As India positions itself on the global stage, thoughtful reforms will shape our economic destiny. Let us embrace this opportunity and build a robust capital market ecosystem that serves all stakeholders.

Capital Market Reforms 2.0 for Viksit Bharat

Virendra Bansal, *Managing Director & CEO, SBI Capital Markets Ltd (SBICAPS)*

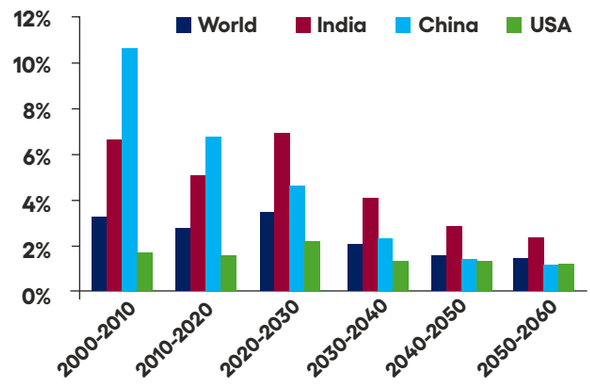
With the post-election uncertainty getting over and with clear indication from the new Government of continuity, the market has resumed its positive exuberance and we have seen the benchmark indexes touching new highs. The positive outlook on Indian Economy and general acceptability of its growth story keeps both domestic and international investors interested in India. India is set to be the fastest growing economy for the third year running. It stands out in long-term growth potential compared to major economies such as China and USA. After growing a stellar 8.2% y/y in real terms (FY24PE), it is expected to clock 7.0% in FY25 as per SBICAPS estimate. Due to sharp moderation in inflation in FY24, the deflator shrunk, resulting in nominal GDP of 9.6% y/y (FY24PE). In FY25, the deflator will remain small.

Annual Real GDP (y/y) grew faster than expected in FY24PE



Source: MOSPI, SBICAPS; Note: FY25E is SBICAPS estimate

India's Real GDP to Outpace the Globe for Decades



Source: OECD, SBICAPS

As was clearly unlined by PM Modi, India aspires to be the third largest economy of the World. It aspires to be a Developed Economy (Viksit Bharat) by 2047. Aspiration is also to reduce the logistic costs from 16% to 9% (of GDP) by 2024 end and to achieve net-Zero GHG emission by 2070.

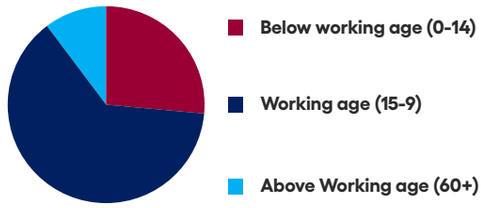
In Renewable and Green Hydrogen, the aspiration is to 400 GW of renewable capacity by FY30: of this 292 GW solar PV (current: 84 GW), 100 GW wind (current: 46 GW), 19 GW PSP. Solar capacity to be > 50% of installed capacity



in the Northern Region by FY30, with significant share in Southern and Western Regions as well. Highest potential is there in Rajasthan and J&K & Ladakh. In Roads, Bharatmala programme of 83,677 km; of this phase 1 is for 34,800 km, at an expected spend of Rs. 10.95 trn, which would likely be completed by FY28. Several states also have SH development programmes (for instance the TN government proposes to set up Tamil Nadu State Highways Authority). In Rural roads, PMGSY has a target of 125,000 km. Similarly, in Railways, we aspire of reaching 45% modal share through capacity building (currently ~18%) by 2051. Building new DFC corridors & HSR systems. In Aviation, aspiration is to have 230-240 airports by 2030 (up from 148 now).

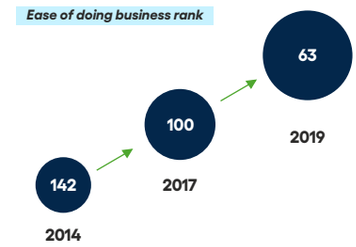
While we have highlighted some of the aspirations of the nation, it is important to understand the drivers of the growth. India's demographic profile is a huge strength. With a significant proportion of young population, there is an inherent strength in the Indian economy. Marked improvement in ease of doing business has also helped new investors coming in. Stable policy regime, increased digitisation and increasing disposable income has boosted the growth prospects.

Demographic Dividend



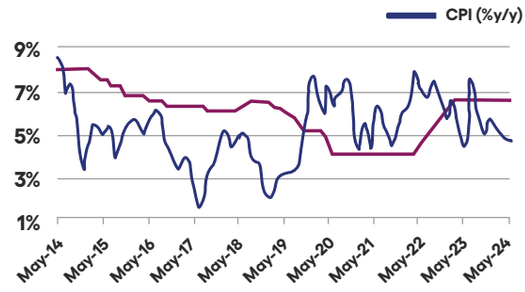
Source: OECD, IMF, World Bank, SBICAPS

Improving Ease of Doing Business



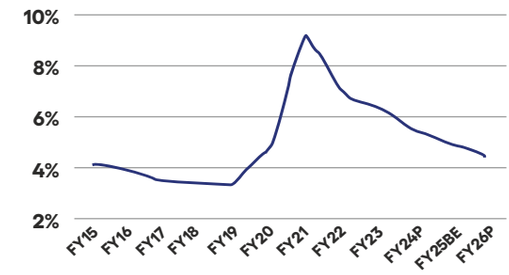
Source: World Bank, SBICAPS

Stable Policy Regime Keeps Inflation in Check



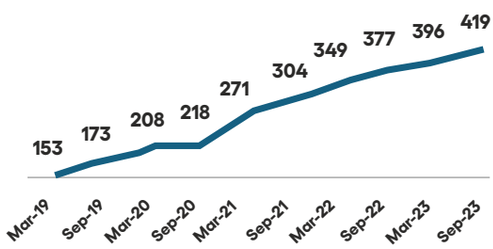
Source: RBI, MoSPI, SBICAPS

Reducing Fiscal Deficit as a % of GDP



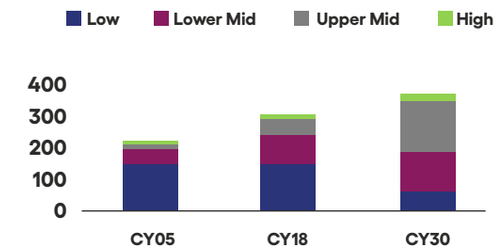
Source: CGA, SBICAPS

India is a Forerunner in Digitalisation - RBI Digital Payments Index



Source: RBI, SBICAPS

Improving Incomes – Estimated Households by Income Group



Source: World Bank, SBICAPS; Note: Low Income < 4k; Lower Mid: 4k-8.5k; Upper-Mid: 8.5k-40k; High > 40k real income per household (All in USD)



However, to achieve these aspirational targets, there will be huge funding requirements, especially in Infrastructure sectors. Government of India's (GOI's) structural reforms and sustained policy action in the past few years has resulted in improvements across both Corporate as well as Bank's balance sheets. These reforms have strengthened the economy and induced greater issuer as well as investor confidence. Towards the goal of 'Viksit Bharat' there are certain capital markets reforms that could be looked at on both the equity and debt sides.

The Equity Perspective

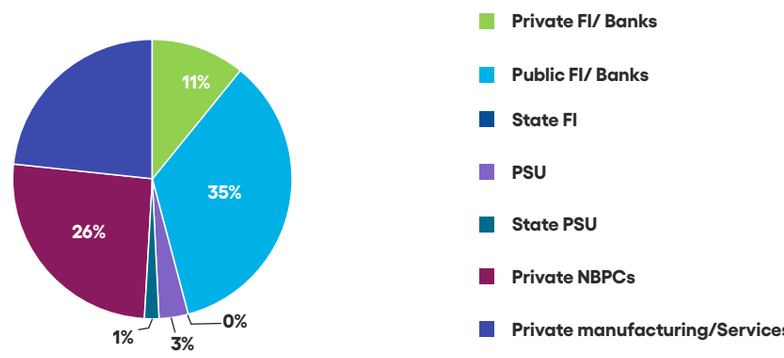
- Relaxing of Fast Track eligibility: Fast track eligibility conditions for Rights Issue and Follow-on Public Offer (FPO) can be relaxed, both are very dynamic products in capital markets. Relaxation in regulations (including eligibility condition relaxations) will help listed companies to access capital in a smooth and seamless manner.
- Complete Digitalisation of book building process and electronic subscription in the IPO: Allow Investors to place bids online in the book building process (via login portal provided by Brokers/ Banks on their website or mobile app) with no requirement of printing of application forms. This will ensure real-time updates, reduction of manual error (at Broker/ Banks end), more efficient process, reduction of process time, reduction of printing cost. This will work towards further reduction of listing timeline.
- Streamlining the checklists at DRHP and Listing stage and a common portal for upload of all documents: At present there are various checklist w.r.t documents required by Stock Exchanges and depositories, which is time consuming. It is suggested to streamline and draw a common checklist at both exchange and also at the depository level. Suggest introducing a common portal for all upload of document required by exchanges and depositories in the IPO process will make the process time efficient.
- Exploring fund raising options: Currently, a listed company can raise fresh funds through FPO/Rights/QIP/Preferential Issue which is mostly through an Offer Document (except for Pref issue) and is not very time and cost efficient. Also, retail investors can participate in fresh issue of listed companies by way of an FPO only, which is also rarely used by the Issuers for fund raise. Therefore, a new avenue for participation by retail investors in QIP process may be considered. Retail investors may be allowed to participate by way of a separate window post closure of QIP to extent of 10% of the issue size only. Also, a lot of PSUs are not meeting the MPS requirements and need funds for their capex requirements, they may be allowed to do Fresh issue or Fresh issue with a combination of OFS by GOI through Stock exchange mechanism to enable fund raise and also provide opportunity to retail investors to participate in the Issue. This route is suggested for PSU entities only.

A Bond Market Perspective

In our estimate, the total Capex requirements to fuel the country's infrastructure space will grow from Rs 26 trn in FY 23 & 24 to Rs 34 trn in FY 25 & 26. Debt required to fund the Capex over two years will be Rs 11 trn. Historically, the major source of funding has been the Government. In Indian context, the reliance on Banks for the Debt funding has remained very high.

An alternate source of credit has been the Debt Capital Markets. Private Placement of Debts, gross issuances have been close to Rs 10,000 Bn with corporate bond outstanding of Rs 50 Tn.

Gross Issuance by Issuer Type – FY24



Source: Prime Database, SBICAPS Research Desk

A heartening feature of the Debt Capital Market in recent times has been the rise of AIF, HNI and Family Offices as a significant investor base. External Funding in debt space, both net of ECBs and net FPI in Debts has shown a growth. With the Index inclusion, we expect this growth to be significantly large.

However, few challenges remain in the Debt Capital Market space. One of the biggest challenges is the limited traction at sub-AA category of bonds. A significant proportion of clients therefore has no access to this market. Share of sub-AA bonds is gradually improving due to superior risk appetite and IBC raising recoveries in case of default. Nevertheless, it remains marginal. Operationalisation of a credit market for stressed assets could be a positive step in this direction. SEBI's initiative to mop-up bonds which have experienced adverse credit events is a welcome step. Increased penetration of credit enhancement instruments such as partial credit guarantee etc. are need of the hour.

Also, the secondary bonds market in India lacks the depth and the width compared to Indian equity market or international bond market, for that matter. SEBI has taken some really impressive steps to boost liquidity in this space. Reduction of minimum ticket size, Electronic Bidding Platform etc will bring in more transparency and hopefully more participants in this market. Pricing of issues and information access to all investors on the Electronic Bidding Platform in terms of payment of fees/ benefits being paid out to investors by the issuers/ arrangers will help in bringing in more transpar-



ency. Further, reservation for retail and non-institutional participants, as seen in G-Secs, in electronic bidding by way of private placement will ensure allocations to retail client which will bring in more liquidity.

Another significant development in the bonds market in recent times has been the growth of online bond trading platforms. Even RBI has been promoting the trading platform for retail clients in government securities. More and more NBFCs and Infrastructure Platforms line InVITS and REITS have started bringing out Public Issuances of bonds which are being well received in the market. All these are steps in the right direction. SEBI is also mulling introduction of Market Making in Corporate Bonds and we may not be far away from a time when we will see a vibrant Debt Capital Market, which is well regulated, transparent and very liquid with wide range of participants. This market will very effectively complement the banking sector for funding requirements of "Viksit Bharat".



Initiatives of FICCI Capital Markets Committee

1. Annual Capital Markets Conference (CAPAM) – 16th November 2023 at NSE, Mumbai

Organized under the aegis of FICCI's Capital Markets Committee, the 20th edition of FICCI's Capital Markets Conference (CAPAM) was held on 16th November 2023 at NSE, Mumbai.

The Conference was inaugurated by the Chief Guest, Ms Madhabi Puri Buch, Chairperson, SEBI. The Experts' Voice, a compendium of articles written by key market experts was released by SEBI Chairperson.

Mr Tuhin Kanta Pandey, Secretary, DIPAM, Ministry of Finance delivered the Valedictory Address at the conference. Other key speakers included Mr Ashwani Bhatia, Whole Time Member, SEBI; Mr Ananth Narayan, Whole Time Member, SEBI; Mr Amarjeet Singh, Whole Time Member, SEBI; Mr Kamlesh Chandra Varshney, Whole Time Member, SEBI; Mr KV Kamath, Chairman, Industry Standards Forum and Mr Pramod Rao, Executive Director, SEBI.

In alignment with the theme for CAPAM 2023 - Regulations for a dynamic market: Balancing interests of all stakeholders, discussions focused on regulation-making in a dynamic world, highlighting winning strategies for capital formation, critical for the successful functioning of capital market. Session themes included SEBI's Unique Initiatives for Facilitating Compliance, Building Resilient Market Infrastructure, Incubating Growth of AIF Ecosystem, Liberalisation of Debt Market Yielding Benefits and Promise of the Untapped for the Mutual Funds Industry.



2. Interaction of FICCI Capital Markets Committee with Department of Economic Affairs, Ministry of Finance and International Financial Services Centres Authority – 7th March; Online

- An interaction was organized with **Mr JVN Subramanyam, Director (Financial Markets), DEA**, Ministry of Finance. Members of the Committee highlighted several issues affecting the capital market ecosystem and provided suggestions for further growth of the capital markets.



- An interaction was organized with **Mr Pradeep Ramakrishnan, Executive Director, International Financial Services Centres Authority (IFSCA)**. Discussions focused on the framework for enabling direct listing of equity shares by public Indian companies on the International Exchanges in GIFT IFSC and also how Indian capital market players can leverage the opportunities at IFSCA.



3, NISM Compliance Technology Symposium – 24th April 2024 in Mumbai

FICCI had partnered with National Institute of Securities Markets (NISM, a public trust established by SEBI) to organise the Compliance Technology Symposium. Objective of the program was to showcase the RegTech initiative, developed by FICCI in partnership with TeamLease and launched earlier at the 19th edition of FICCI's Annual Capital Markets Conference – CAPAM 2022.

Key speakers included Ms Richa Goel, General Manager, SEBI and Mr Sundararaman Ramamurthy, MD & CEO, BSE; Mr Vinay MA, Member, FICCI Corporate Governance and Corporate Laws Committee and CS & Compliance Officer, Marico; Ms Sanjit Batra, , Member, FICCI Corporate Governance and Corporate Laws Committee and Group Vice President (Legal), Cummins India.

Discussions focussed around the theme *'Transforming SEBI Compliance with Regulatory Technology'*, importance of RegTech for easing compliance and how corporates are using technology to navigate regulatory complexities.

Policy Recommendations

- **Suggestions to Industry Standards Forum on rumour verification requirement under SEBI LODR Regulations**

  FICCI had raised concerns with respect to the implementation of requirement of rumour verification by listed companies when it was first introduced in June 2023. Based on industry representations highlighting the challenges, SEBI had suggested in July 2023 that industry bodies collectively set up the Industry Standards Forum for developing standards for compliance with the requirements of market rumour verification as its pilot. After nearly 10 months of internal deliberations, including consultations with SEBI; the Forum, chaired by Mr K V Kamath, submitted the draft standard on 7th May 2024, post which SEBI announced changes to the Regulation 30(11) on 17th May 2024 and endorsed the Standard and issued a circular on 21st May 2024 recommending it for compliance by companies. A copy of the same has also been published on FICCI Website

  Through this amendment, SEBI has effected measures to ease compliance with the requirement:

  - The scope of 'mainstream media' which initially included 1.4 lac newspapers and magazines, and ~300 news channels, and also online sources and international media across the globe now stands limited to 14 English national dailies; 5 Financial/ Business dailies; 21 regional dailies; 3 international English business/financial news dailies; 8 digital news sources; 3 English business news channels and 4 others business news channels.

  - The requirement of confirmation/ denial/ clarification is triggered only when the market rumour (i) results in 'material price movement' and (ii) is specific and impending. 'Not general in nature' has been defined.

  - Relief has been granted in the short timelines earlier prescribed for verifying market rumour. The rumour is now required to be confirmed/denied within 24 hours from trigger of material price movement instead of within 24 hours of reporting in the mainstream media.

  - A crucial development has been the notification of price protection framework by SEBI to exclude the impact of rumour verification on share price while determining pricing of transactions for which pricing norms specified by SEBI or the stock exchanges are applicable.

  While the deliberations were underway, the effective date of implementation of this requirement was deferred by SEBI twice. The framework is now applicable with effect from 1st June 2024 for the top 100 listed companies, and thereafter with effect from 1st December 2024 for the top 250 listed companies.

  FICCI will continue to support the Industry Standards Forum in ensuring that concerns raised by industry members are addressed.

- **Suggestions on Disclosure of KPIs in offer documents**

  FICCI had submitted to SEBI that the concept of parity of information with pre-IPO investors should be viewed in the context of what is material today to disclose to an IPO investor. Only KPIs that are relevant at the time of the IPO should be disclosed to the IPO investors and the offer document should not include matters that not material or not relevant in the context of the IPO. It was highlighted that pre-IPO investment rounds are key liquidity and funding milestones for any company, especially as the company develops business scale and growth to create a new product category or even to position itself to compete with industry leaders. At this stage, business plans of the company are still flexible, and investors carry a high degree of risk for the investments. The information provided to pre-IPO investors may have been on account of various factors, such as specific internal requirements of such funds, to assist with information required for projection on the industry/company or to support the various diligence exercises prior to investment. All such information shared by issuer company are not KPIs having direct relevance in determining the investment decision of the funds. Investors in private markets use such information for their ongoing monitoring of business. The KPIs disclosed by the company at previous rounds of fund-raising before the IPO may not be relevant at the time of IPO, considering the rapidly changing business environment, evolving business models, introduction/discontinuance of business segments or products/services, as well as availability of a prospectus with detailed disclosures of risk factors, MD&A including trend analysis, which helps public market investors.

  Subsequently, a specialised group has been set up under the Industry Standards Forum for developing standards for disclosures under the KPI framework, as currently applicable under SEBI ICDR Regulations.

- **Suggestions to SEBI Working Groups on simplification, ease of compliance and reduction in cost of compliance**

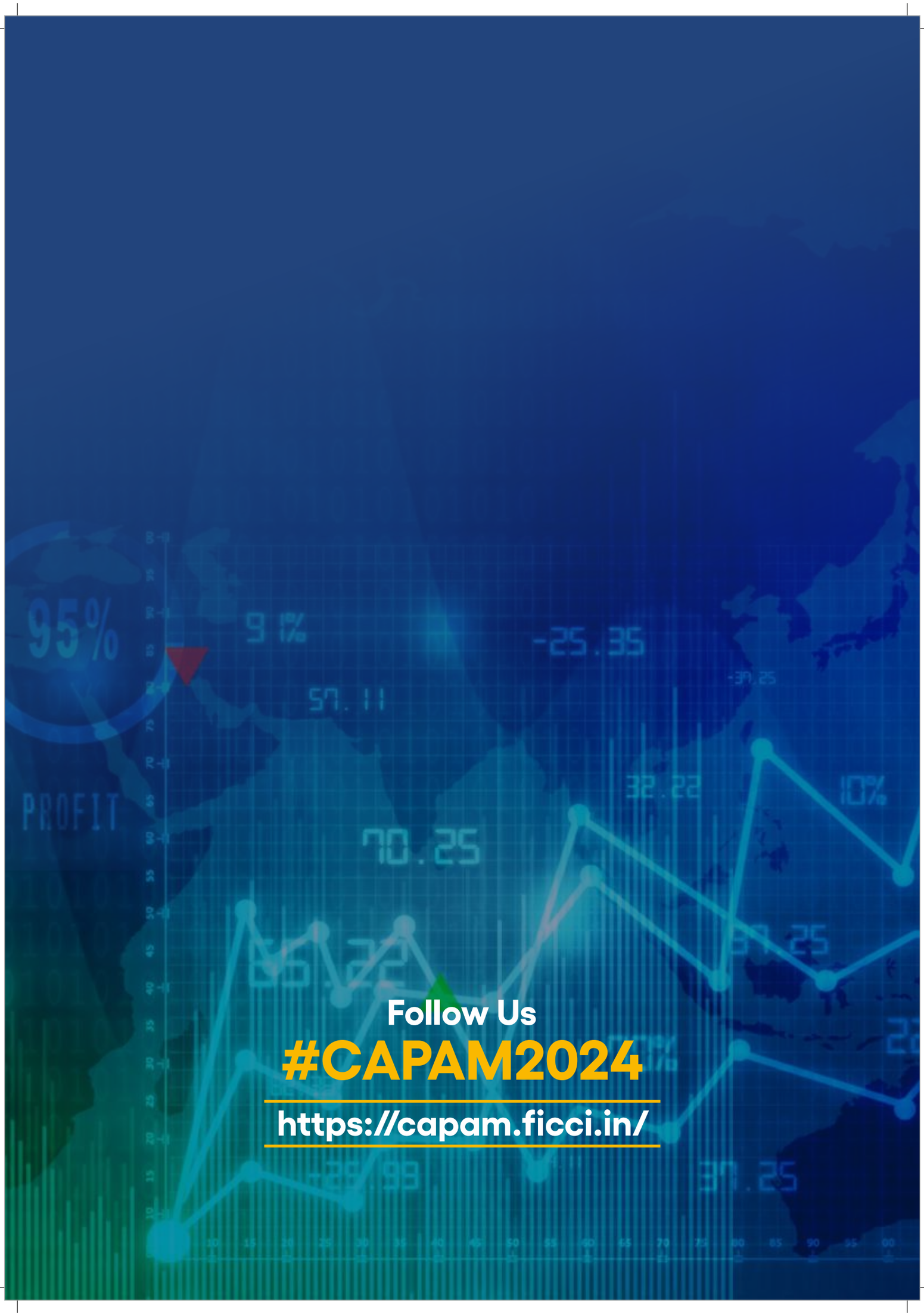
  Pursuant to the announcement made by Hon'ble Finance Minister in the Union Budget FY 2023-24, SEBI had constituted Working Groups to look into the compliance requirements under various SEBI Regulations with the objective of enhancing ease of compliance and reduction in cost of compliance. SEBI Regulations applicable for various regulated entities such as equity and debt listed companies, mutual funds, stockbrokers, AIFs, REITs/InvITs, portfolio managers, custodians, investment advisers, research analysts etc. fell under the purview of the Working Groups.

  Based on suggestions received from members, FICCI submitted recommendations to SEBI on the following regulations:

- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- SEBI (Buy-back of Securities) Regulations, 2018
- SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

- SEBI(Share based employee benefits and sweat equity) Regulations, 2021
- SEBI (Alternative Investment Funds) Regulations, 2012
- SEBI (Foreign Portfolio Investors) Regulations, 2019
- SEBI (Stock Brokers) Regulations, 1992
- Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 and SEBI (Custodian) Regulations, 1996

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