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AIBI National Workshop
Capacity Building On Critical Areas Of Primary Market

30th October 2023

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About AIBI

About AIBI

AIBI is a voluntary association of Investment Bankers in the country. It was formed in 1990's at the initiative of Indian Capital Markets regulatory body, SEBI. All Merchant Bankers, registered with SEBI are eligible to be members of AIBI. AIBI is India's only association representing the investment banking industry.

On January 21, 2012 the name of the Association was changed to "Association of Investment Bankers of India" to encompass all the activities carried out by the Investment Bankers other than Issue Management.

Currently, there are 62 members of the association.

AIBI strives to be an objective Industry body with a credible action plan and balances its role as an industry body with its role of an influencer so that there is never any conflict of interest for the members. It ensure that its activities are not confined to selected few but are available and are beneficial to all members.

AIBI is represented, through its Chairman, on SEBI's Primary Market Advisory Committee, a forum that provides an opportunity to present the industry's viewpoint on various issues. We have been working closely with SEBI in the recent times in improving the efficiencies of the Indian Capital Markets.

Under the guidance of SEBI, AIBI anchored a few projects. Modified ASBA mechanism being the most prominent amongst these. AIBI coordinated with various intermediaries and organized more than 35 virtual meetings and one physical meeting in SEBI's office. Pursuant to lot of deliberations and iterations, AIBI submitted Reports on a weekly basis to SEBI. The project was successfully implemented from 1st September 2022. AIBI continues to anchor a few more meetings with various intermediaries for implementation of "Streamlining Process in IPO transactions initiated by SEBI. AIBI is now recognised by SEBI as 'Designated Body' to monitor all grievances of merchant bankers and bankers to issue.

AIBI Board of Directors

Mahavir Lunawat
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Vice Chairman

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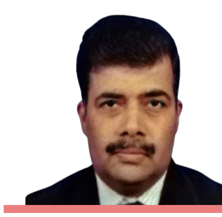

Dr. Milind V. Dalvi
Chief Executive Officer

Message from the Chairman

Dear Professional Friends,

India is at a very important crossover as unprecedented opportunities step at our door. India is being looked upon as the most favoured global manufacturing hub backed by massive demographic advantages. As new-gen entrepreneurs aspire to lead the growth path with renewed focus, cutting-edge technology and advance research, capital formation takes the centre-stage. Indian capital market has demonstrated resilience as most robust market eco-system than ever. This is the time to take a stock of the decade's work and identify reforms that would propel capital formation and in turn, fuel the growth prospects that as a nation we are faced with.

Association of Investment Bankers of India (AIBI) is the investment bankers' sole representative body to SEBI and various statutory authorities. AIBI is recognised by SEBI as the Designated Body for monitoring investor grievances relating to merchant bankers and bankers to issue.

> "As new-gen entrepreneurs aspire to lead the growth path with renewed focus, cutting-edge technology and advance research, capital formation takes the centre-stage."

In this rapidly evolving industry, it is imperative that we continue to advocate the orderly growth of capital market, keep interest of investment bankers aligned, enhance investor awareness, and promote best practices via strategic measures.

Workshop

In this backdrop, I am extremely delighted to welcome your good self to the AIBI National Workshop on the theme 'Capacity Building' on Critical Areas of Primary Market, at National Stock Exchange, Mumbai.

The Workshop aims to discuss the pivotal role of investment bankers and other market intermediaries in driving sustainable development, good governance, and technological advancements to contribute effectively to India's sustainable capital formation agenda. The discussions will focus upon strengthening due diligence practices, learn from commonly observed findings of recent past, and stakeholder engagement strategies to ensure long-term sustainability. The Workshop brings together professionals, experts and policymakers from the Regulators, Exchanges, Industry and Academia to deliberate on the critical areas of primary market.

AIBI Initiatives

Recently, AIBI conducted day-long Off-site Roundtable on Enhanced Role of Investment Bankers & Market Reforms. A number of suggestions were discussed and initiatives identified by AIBI towards capacity building of merchant bankers, promoting investor awareness and achieving ease of doing business in capital formation.

AIBI shall be working on identifying desired practices and processes that must be adopted for larger and faster capital formation which is the most critical tool for achieving ease of doing business and in turn, contributory to nation building. AIBI shall also be analysing IPO process, timelines involved and how the same can be streamlined and at the same time meet regulatory expectations.

Message from the Chairman

AIBI is working with SEBI to monitor investor grievances relating to IPOs and other corporate actions where merchant bankers are involved. AIBI is now recognised by SEBI as 'Designated Body' to monitor all grievances of merchant bankers and bankers to issue. AIBI shall also soon launch a program of financial literacy through digital as well as physical modes.

AIBI shall be putting in place mechanism for capacity building and ongoing learning of merchant bankers especially the newer entrants who have taken up merchant banking registration in recent years. AIBI shall also come out with the revised due diligence manual for merchant bankers.

> "A number of suggestions have been discussed and initiatives identified by AIBI towards capacity building of merchant bankers, promoting investor awareness and achieving ease of doing business in capital formation."

AIBI Annual Summit 2023-24 : Block Your Calendar

AIBI shall be holding Annual Summit 2023-24 on 19th January, 2024 in Mumbai, the details of which shall be finalised shortly. I request, in the meanwhile, to block your calendar and participate in the Summit in large numbers.

Feedback / Suggestions

We invite your considered suggestions on specific reforms desired to foster capital market development, mitigate redundancies, and fuel efficiencies, especially in the following areas :

(a) SEBI ICDR Regulations and other norms relating to IPOs and other issuances

(b) SEBI merchant bankers regulations and other regulations concerning IPO intermediaries

(c) SME IPO & Listing segment

Your suggestions are welcome at ceo@aibi.org.in

Thank You

I express deep gratitude to all the participants, expert speakers & panellists of this Workshop. Our hearty vote of thanks to all the sponsors who have supported this Workshop. Gratitude to Mr. Prithvi Haldea, Hon. Advisor AIBI who has been guiding AIBI team whole-heartedly. Compliments to team AIBI for putting this Workshop together in record time of 3 weeks. Thanks to friends from media for constructive coverage and spreading awareness to society at large.

Looking forward to your continued togetherness and participation...

Sincerely yours,
Mahavir Lunawat
Chairman, AIBI

Photo Gallery

AIBI Off-site Roundtable on Market Reforms at Alibaug

AIBI Chairman and CEO meeting Dr. Bhagwat Karad, Hon. Union Minister of State for Finance, Govt of India.

Mr. Mahavir Lunawat, Chairman, AIBI greeting SEBI WTM, Mr. Amarjeet Singh

AIBI Chairman and CEO meeting with SEBI WTM, Mr. Kamesh Varshney

Mr. Sameer Gupte CEO, NDML calls on AIBI Chairman and CEO

Mr. Mahavir Lunawat, Chairman, AIBI felicitating Mr. Prithivi Haldea, Hon'ble Advisor AIBI

Team AIBI Felicitating Mr. Anant Barua, Former WTM, SEBI

AIBI Chairman and CEO meeting Dr. Bhagwat Karad, Hon. Union Minister of State for Finance, Govt of India.

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AIBI National Workshop

Agenda

Session	Time	Topics	Speaker
	9:00 to 09:30 AM	**Registration**	
	9:30 to 09:45 AM	Inauguration	
	9:45 to 10:00 AM	Welcome Address by AIBI Chairman	
I	10:00 to 10:30 AM	**Capital Formation : Regulator's Role & Expectations**	**Mr. Rajesh Dangeti** CGM : SEBI
II	10:30 to 11:15 AM	**Being IPO Ready** • Regulatory framework • Eligibility norms and rejection criteria • Key preparation steps • What investors expect	**Ms. Gesu Kaushal** Managing Director Equity Corporate Finance Kotak Investment Banking
	11:15 to 11:30 AM	Tea Break	
III	11:30 to 11:45 AM	**Overall Capital Formation : Role of Stock Exchanges**	**Mr. Ashish Chauhan** MD & CEO National Stock Exchange
IV	11:45 to 12:30 PM	**Listing and beyond - Bed of Roses or Thorns** • Practical Insights • Critical Observations • Good practices	**Mr. V S Sundaresan** Executive Director SEBI
V	12:30 to 01:15 PM	**Due Diligence & Disclosure aspects for an IPO** • Due-diligence requirements • Critical disclosure requirements (legal, financial, commercial, and business) • Corporate Governance compliance • Board responsibilities • Liability for misstatements / omissions in Offer Documents • Case Study - IPO Due Diligence	**Mr Sudhir Bassi** Executive Director Khaitan & Co.

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Agenda

Session	Time	Topics	Speaker
	01:15 to 02:00 PM	Lunch Break	
VI	02:00 to 02:45 PM	**Market & Economy: Key Trends** • Evolution : Key developments • Trend analysis • Expected changes • How to be future ready	**Mr Anant Barua** Former, Wholetime Member SEBI **Mr J N Gupta** MD : Stakeholders Empowerment Services **Mr Prithvi Haldea** Founder: Chairman Prime database **Mr Deep Mani Shah** CGM : SEBI **Mr Mahavir Lunawat** (Moderator) MD : Pantomath Capital Advisors Pvt Ltd
VII	02:45 to 03:15 PM	**World's Fastest IPO Listing Process** • Journey to T+3 • Key Findings So Far • Way Forward	**Mr Kishor Thakkar** Managing Director Link Intime India Pvt Ltd **Mr Giridhar G** Chief Business Officer KFin Technologies Ltd **Mr Prem D'Cunha** EVP & Head ECM Execution ICICI Securities Limited **Mr Alok Harlalka** (Moderator) Managing Director Gretex Corporate Services
VIII	03:15 to 04:00 PM	**Recent updates, Common SEBI Observations & Findings** • Recent regulatory updates • Common observations on offer documents • Common findings • How to speed up approval process	**Mr Arjun Mehra** Managing Director JM Financial Limited
	04:00 to 04:05 PM	**Vote of Thanks by Dr. Milind Dalvi, CEO, AIBI**	
	04:05 PM onwards	**Awarding of Certificates Followed by Hi - Tea**	

Mahavir Lunawat	**Dr Milind Dalvi**	**Prithvi Haldea**
Chairman, AIBI	CEO, AIBI	Hon. Advisor, AIBI

Brief Profile of Speaker

ANANTA BARUA

Former Whole Time Member of SEBI

Shri Ananta Barua have been Whole Time Member(WTM) of SEBI from 1.8.18 to 31.7.23. As WTM he was, interalia, in- charge of Mutual Fund Dept., Market Regulation Dept., Market Intermediaries & Regulation Dept, Enforcement Dept., Legal Affairs Dept.

Mr. Barua was Executive Director (ED) of SEBI from 19.5.10 to 31.7.18. As an ED he was interalia, heading Investment Management Department (consisting of Mutual Funds, AIF, PMS), Dept of Debt & Hybrid Securities (Corporate Bonds, Riet, Inviet), Foreign Portfolio Investor, Enforcement Department.

Mr Barua have been with SEBI since 7.12.92 as Legal Officer and Legel Advisor in different capacities in Legal Affairs Dept and Enforcement Department. He was associated with framing various Regulations of SEBI since 1992. He associated with laying foundation for AIF, Riet, Inviet, Corporate /Municipal /green bonds, securitised debt, Insider trading, Foreign Portfolios Investor, ICDR, and other securities regulation etc.

Mr Barua underwent International Regulatory Training on Capital Market Development and Regulation with International Law Institute & Georgetown University, Washington DC, USA and Regulation of Derivatives in CBOE Global Market, Chicago USA. He is B. Com, LL.B from University of Delhi and also done Diploma in Management. He was also faculty for securities law courses of Government Law College, Mumbai and for Business Law for NLU Bangalore.

Brief Profile of Speaker

ASHISH CHAUHAN

MD & CEO

National Stock Exchange

MD & CEO of National Stock Exchange of India, India and Chancellor, University of Allahabad, India is a technocrat from IIT Bombay and IIM Calcutta.

He has been involved in automation of stock market in India since 1993 when he became the part of the foundation team of NSE. He is credited with setting up screen-based trading, satellite telecom, Nifty index, derivatives trading and many other activities in Indian stock market.

He is considered as the father of modern financial derivatives in India due to his pioneering work in the field. He was instrumental in bringing SGX NIFTY to GIFT NIFTY within a short span of just a year after joining NSE as committed to Hon'ble PM of India's vision. It is a landmark event for Indian Financial market and in bringing the Indian markets onshore which was offshore for past many years.

He also worked at Reliance group, Mumbai Indians cricket team, BSE (Bombay Stock Exchange). In addition to this, he is a part of many Government & Non – Government committees in India.

Ashish has been instrumental in bringing the prestigious Indian Institute of Management (IIM) to Mumbai as the Chairman of the committee that recommended the conversion of NITIE to IIM Mumbai. He is also serving on the Boards of several Government educational institutions including serving as Chancellor of the University of Allahabad. He is a Board member at IIM Calcutta, Gokhale Institute of Politics and Economics (GIPE). He is also a faculty at Nottingham University, UK & Toronto Metropolitan University, Canada (Formerly known as Ryerson University).

He has co-authored a book, 'BSE: The Temple of Wealth Creation.' Book titled 'Sthithpragya: The Process of Maintaining an Equilibrium' addresses his life journey. He has been awarded many awards in India and abroad including, recently he has been awarded Lifetime Achievement award from Global Custodian at Singapore, in past Top 50 CIOs in the world by Information Week, US, Digital Icon of the Year, Asian Banker of the Year and many more.

Brief Profile of Speaker

V S SUNDARESAN

Executive Director, SEBI

Mr. Sundaresan has more than 30 years of experience in Securities Market. He is presently heading the Integrated Surveillance and Information Technology Departments of SEBI.

As Head of Surveillance, his responsibilities include monitoring the trading on the stock exchanges to detect any mis-conduct or wrong doing, like, price/volume manipulation, pump and dump, front running, insider trading, etc.

As Head of Information Technology, his responsibilities include monitoring the Cyber Security of SEBI as well as the securities market, IT infrastructure and application software development of SEBI.

His past assignments include formulation and enforcement of regulations on raising of capital, corporate restructuring, trading, clearing and settlement, risk management, registration and supervision of intermediaries.

He has delivered 400+ lectures within India and 25+ lectures in overseas seminars, on varied topics related to securities market.

Sundaresan is a graduate in Commerce, holds Post Graduation in Finance and Human Resources and a degree in law. He is also a Certificated Associate Member of Indian Institute of Banking and Finance.

Brief Profile of Speaker

SUDHIR BASSI
Executive Director,
Khaitan & Co.

Sudhir Bassi is an Executive Director in Capital Markets practice group of Khaitan & Co. With over 29 years of experience in the capital markets space, he has advised companies on all types of capital raisings (public/private/international both in equity and debt space), REITs, InvITs, open offers, buy-backs, delisting etc. He also advises clients on corporate governance and other SEBI Regulations and selected public market M&A transactions.

Sudhir has been associated with conceptualizing new concepts (e.g. shelf prospectus (for ICICI Bonds), book building (Tata Steel Bond Issue and Nirma FPO), exchangeable bond (Tata Industries), index bond (ICICI), conditional IPO (TCS IPO) and executing first time transactions (e.g. QIP offering (Apollo Tyre) and OFS (ONGC), first privately placed unlisted InvIT (Digital Fibre Infrastructure Trust)) etc.

Sudhir is a member of Primary Markets Advisory Committee of SEBI; Municipal Bond Development Committee of SEBI and Research Analysis Committee of SEBI.

He is also a member of Capital Market Committee of Federation of Indian Chamber of Commerce & Industries (FICCI)

He was member of committee constituted by SEBI for revision of SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009. SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018 has been formulated basis on the recommendations of this Committee, member of the Committee for revision in regulatory framework for public issue of debentures and recommending regulatory framework for 'on Tap' Issuance of debentures and member of the committee to reconnect framework for differential right shares.
Sudhir has been involved in discussions with SEBI and Stock exchanges in relation to development of regulatory framework for the 'Offer for Sale Mechanism', SEBI (Issue of Capital & Disclosure Requirement) Regulations, 2009, SEBI (Issue and Listing of Debt) Regulations, 2008 and SEBI (Issue and Listing of Non-Convertible Securities), Regulations 2021.

Brief Profile of Speakers

RAJESH KUMAR DANGETI

Chief General Manager, SEBI - Corporate Finance Department

Rajesh Kumar Dangeti joined SEBI in 1997. He has experience in the regulated areas of the Capital Market prior to joining SEBI.

Prior to joining SEBI:

He had worked with Vijaya Bank as a Probationary Officer.

He was Regional Director SEBI Northern Regional Office, Delhi from June 2021 to June 2023.

In SEBI he has worked in various capital market areas such as Supervision of Intermediaries, Supervision of MIIs, Surveillance, Corporate Finance - Issue management, Takeovers, CIS, Policy making regarding Intermediaries like Brokers, Depository Participants Registrars and Share Transfer Agents Merchant Bankers, MIIs i.e, Sock Exchanges Depositories, KYC, CIS, FATF, AML etc. He is a post graduate in commerce and also holds an MBA, PG Degree in Securities Laws. Having worked in the private sector and the Regulator he has rich perspective of the regulated and the Regulator.

Also he has represented SEBI in various committees of the Ministry of Finance(MoF), meetings of the MoF, FIU etc. He has also represented SEBI in International fora on areas pertaining to MIIs, Commodity Derivatives, KYC, AML, FATF etc."

PREM DCUNHA

EVP & Head – ECM Execution, ICICI Securities Limited
Vice Chairman, AIBI

With over 25 years of experience in the capital markets & investment banking industry, Prem has vast experience in the execution of capital markets and restructuring transactions, including products like public issues, right issues, private placements, qualified institutional placements, delisting and buy-backs.

Over the years, Prem has been actively involved in various consultations with regulators, especially on new platforms and regulations, including amendments to the ICDR Regulations, updation to the Takeover, Delisting and Buy-Back Regulations, introduction of the framework on Schemes of Arrangement, creation of the Offer for Sale (OFS) through stock exchange mechanism etc.

Prem Dcunha is a Master in Financial Management from NMIMS.

Brief Profile of Speakers

J N GUPTA

MD : Stakeholders Empowerment Services

Mr. Gupta is the Founder and Managing Director of Stakeholders Empowerment Services, a not for profit corporate governance research and advisory firm. He has ultimate responsibility for all aspects of the firm's strategy, team and operations. He has over 43 years of diversified professional experience in public and private sector including two terms with securities market regulator (SEBI) in India. In his first stint with SEBI (1994-96), Mr. Gupta was the Division Chief of Primary and Secondary Market Division. He re-joined SEBI in July 2009 as Executive Director for a two-year term and was in charge of Market Regulations, Surveillance, Derivatives and New Products departments. He was a member secretary of the Committee headed by Dr. Bimal Jalan, former Governor, RBI, to review market Infrastructure Institutions. He was also SEBI nominee on IOSCO Standing Committee, member of Steering Committee of CPSS-IOSCO. Mr Gupta is a B Tech (Electrical Engineering.) from IIT Kanpur (1977), CAIIB (1984), and Certified Financial Analyst, ICFAI (1991). He started his career with BHEL and later worked with State Bank of India, Indo Gulf Fertilizers Ltd & Grasim Industries Ltd. He is also a member of International Corporate Governance Network (ICGN).

Mr. Gupta is also a member Primary Market Advisory Committee of SEBI and former member of Secretarial Standard Board – ICSI, Chairman of Task Force for Audit/ Due Diligence/ Compliance of SEBI Laws constituted by ICSI, Member of Corporate Governance committee (Kotak Committee) constituted by SEBI & Committee constituted by Ministry of Corporate Affairs, to review rules relating to Companies Act 2013

Mr. Gupta works pro bono in Stakeholders Empowerment Services since inception

GIRIDHAR. G

Chief Business Officer

KFin Technologies Ltd (KFINTECH)

Giridhar.G is a financial sector industry professional in the BFSI space with over 25 years experience across Registry & Transfer Agency services - Mutual Funds, IPO & Post IPO issue services, Asset Management, Alternates & Wealth, General Insurance and Banking.

At KFintech, Giridhar has held leadership positions across Operations, Strategy & Business Development and is currently Chief Business Officer, Issuer Services. In his new role, his prime focus is to build excellent clientele by leveraging his relationship and providing the best of fintech services to the capital market associated industry.

Prior to joining KFintech, Mr. Giridhar was associated with GIC Asset Management Company for over seven years, handling various portfolios including operations, investor services & Sales.

Giridhar holds a degree in Economics and has also done his Post graduation in Management.

Brief Profile of Speaker

PRITHVI HALDEA
Founder-Chairman of PRIME Database
Hony. Advisor of AIBI

Mr. Prithvi Haldea is the Founder-Chairman of PRIME Database, the country's first and the largest repository of data on primary capital market, set up in 1989.

Mr. Haldea is a member of SEBI Market Data Advisory Committee. Additionally, he is an Hony. Advisor to the AIBI and is on the Advisory Board of Gaja Capital. He has been an independent director at OTCEI, CDSL, MCX and UTI Mutual Fund. He was also a Board Member of ICAI, ICSI, IICA, and NPS-PFRDA and member of SEBI Primary Market Advisory Committee, Government's Standing Council of Experts for Financial Sector, Finance Minister's High-level Expert Committee on Corporate Bonds, and several committees of SEBI, NSE, BSE, CII, PHDCCI and ASSOCHAM.

Mr. Haldea did his MBA from Birla Institute of Technology & Science, Pilani in 1971. Over the next 18 years, years, he worked at senior positions in the corporate sector, including as a consultant with The World Bank and the U.S. Department of Commerce.

As an investor protection activist and proponent of corporate governance, Mr. Haldea regularly raises issues with the regulators and in the media. He has also launched several unique websites which include www.watchoutinvestors.com, aggregating information on economic defaulters which now lists over 7 lakh entities

A lover of poetry, he is presently devoting his time to Ibaadat Foundation, which he founded for bringing poets/lyricists back to life through musical dramas and to Rekhta, the world's largest website of Urdu poetry.

Brief Profile of Speakers

ALOK HARLALKA
Managing Director
Gretex Corporate Services Limited

Mr. Alok Harlalka is the driving force behind Gretex, having an overall experience of more than 25+ years. and a decade of them in Capital Market & Securities Market. He is the Managing Director of Gretex Corporate Services Limited, Director of Gretex Industries Limited, Director of Gretex Share Broking Private Limited which is a member of BSE limited & also one of the Directors of Association of Investment Bankers of India (AIBI). His dynamic leadership & entrepreneurial spirit has accelerated the growth of Gretex manifold.

GESU KAUSHAL
Managing Director - Equity Corporate Finance
Kotak Mahindra Capital Company Limited.

Gesu Kaushal is Managing Director - Equity Corporate Finance at Kotak Investment Bank.

She is a graduate in Economics (Hon) from Lady Shri Ram College, Delhi University and MBA from JBIMS, Mumbai.

She has over 25 years of experience in the investment banking industry, with specialisation in capital markets.

Gesu has been the Chairperson of the Association of Investment Bankers of India.

She has led fund raising transactions for numerous corporates and financial sponsors across sectors and market cycles and has been a member of a number of SEBI committees and extensively involved with several initiatives for development of Indian capital markets

Brief Profile of Speaker

MAHAVIR LUNAWAT

Managing Director, Pantomath Financial Services Group
Chairman, AIBI

Mahavir Lunawat is Founder of the leading mid-market investment banking and financial services group, Pantomath Financial Services Group.

Pantomath Group has an impeccable track record of completing equity raise and M&A transactions, supporting ambitious entrepreneurial businesses. Notably, Pantomath Group has completed over 125+ equity transactions. Pantomath Capital Advisors (P) Ltd, is a SEBI-registered investment banker, providing a broad array of financial services. Pantomath has to its credit several prestigious awards and accolades. The Group has forayed into asset management and NBFC recently.

In December 2022, the Group acquired significant stake in Asit C Mehta Financial Services Limited. With this the Group diversified in wealth management, mutual fund, distribution, PMS, advisory, fin-tech.

Under the leadership of Mahavir Lunawat and Madhu Lunawat, Pantomath Group has been reaching out to businesses at the remotest locations across the length and breadth of India. Over the period, the Pantomath Group has emerged as India's largest private network having direct corporate connect with more than 7,000 business houses.

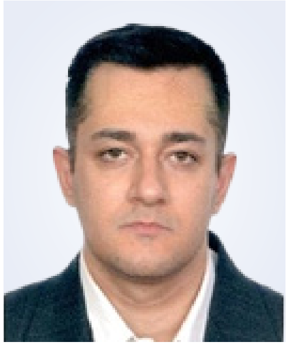
Before founding Pantomath, Mahavir had stints with leading organisations viz. ITC Limited, Reliance Industries Limited, and PwC. Mahavir has vast expertise of over 25 years in IPOs, private equity, M&A, valuations, business strategies, corporate governance, stock exchange / SEBI related activities, investments & exits and the like. Owing to his extensive work in capital market, private equity, and M&A, today Mahavir is one of the most respected and influential figures in investment banking and financial services in India.

Mahavir is FCS (Gold Medallist), CFA (ICFAI), CFA Level II (AIMS, US), and PGDSL. Mahavir has completed graduation course in depository receipts from Bank of New York Mellon Corp, USA.

Mahavir zestfully contributes in thought leadership and policy making activities and represents on various expert groups / committees formed by SEBI, Stock Exchanges & trade bodies/ chambers, from time to time. Currently, Mahavir is the Chairman of Association of Investment Bankers of India ("AIBI") and on the Board of TiE Mumbai. Mahavir is Former Central Council Member of The Institute of Company Secretaries of India (ICSI).

Mahavir is a regular speaker at professional seminars and conferences, and is visiting faculty and trainer at management institutes. Besides, Mahavir has co-authored the prestigious SEBI Compendium, 2010 Edition.

Brief Profile of Speaker



ARJUN MEHRA

Managing Director, JM Financials Limited
Vice Chairman, AIBI

With over 19 years of experience in the investment banking industry, Arjun has vast experience in the execution of capital markets, and mergers, acquisitions and restructuring transactions, including products like public issues, right issues, private placements, qualified institutional placements, delistings and buy-backs.

Over the years, Arjun has been actively involved in various consultations with regulators, especially on new platforms and regulations, including amendments to the ICDR Regulations, updations to the Takeover, Delisting and Buy-Back Regulations, introduction of the framework on Schemes of Arrangement, creation of the Offer for Sale (OFS) through stock exchange mechanism, framing Public Offer Guidelines and Listing Agreement for issuances/ placements of InvITs and REITs in India, introduction of the stock exchange mechanism for settlement of tender offers, recommendations on Public Issue of Convertible Securities etc.

Arjun is a Master in Business and a Master of Science in International Finance.

Brief Profile of Speaker

DEEP MANI SHAH
CGM : SEBI

Chief General Manager with the Securities and Exchange Board of India (SEBI), presently overseeing the SEC Vertical in the Corporate Finance Department.

Mr. Shah is a qualified Company Secretary and a Lawyer (LLB). He also holds a degree of Master of Business Administration (MBA) in Finance from the Narsee Monjee Institute of Management Studies (NMIMS), Mumbai.

Mr. Shah has been with SEBI since 2002 and has worked there in various important departments like Market Regulation, Corporate Finance and the Office of Chairman. He has been the Nodal Officer for various Committees constituted by SEBI like the Justice Kania Group on Demutualization, Takeover Regulations Advisory Committee (TRAC) and the Expert Committee on Direct Listing. Few of his major contributions during his stint with SEBI include –

- Setting up the regulatory framework for corporatization and demutualization of stock exchanges in India;
- Devising a framework for levy of regulatory fees on stock exchanges;
- Framing of the existing Takeover Regulations; and
- Framework for direct listing of shares of Indian companies abroad and vice versa.

Mr. Shah has also served in the National Institute of Securities Markets (NISM) on deputation, where he headed the Human Resources and the Legal Department as well as the Board and Secretarial Department. He was designated there as the Compliance Officer and the Chief Vigilance Officer of NISM. He was also the Public Information Officer of NISM under the RTI Act.

Brief Profile of Speaker

KISHOR THAKKAR
Managing Director
Link Intime India Pvt Ltd

Mr. Kishor Thakkar is a Commerce Graduate from Mumbai University. He is one of the founders and Managing Director of Link Intime India Pvt Ltd, a leading registrar of the Country. He co-promoted Link Intime in 1989 after having successfully managed computer education and software development business for four years post graduation. Link Intime has been handling the highest number of IPOs in 12 out of last 18 years. Link Intime has became the 1st Registrar to handle T+3 IPO in India. This achievement was followed by another milestone by completing the very 1st IPO on T+2 basis creating yet another history. The company has been acting as Registrar and Transfer agent for more than 1600 listed and more than 10,000 unlisted companies serving more than 9.25 crore investors.

Link Intime is also a business partner of India Post.

Link Intime provides value added services like monitoring trades of insiders, ESOP consultancy & implementation, Investor Relation, Management of Meetings through the Board Portal, Remote E voting and Virtual platform solutions to its clients.

Link Intime is thus

Number one registrars handled highest number of IPOs.

Number one transfer agent handling highest listed companies.

Number one Registrar providing demat connectivity for highest number of ISINs

Number one Registrar providing Fixed Deposit registry services to highest number of Companies.

Link Intime plays a significant role in working with various regulators including SEBI in formulating process changes in primary / secondary markets.

Mr Thakkar was Vice chairman of Registrars' Association of India (RAIN) for six years

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1. ORS Powder;
2. Liquid Orals;
3. Ointments;
4. Liquid Externals; and
5. Capsules.

Each formulation is carefully developed to deliver efficacy, safety, and affordability, making quality healthcare accessible to all. Since its inception, our company embarked on a journey of growth and continuous improvement. Initially, Company started as a modest manufacturing house for oral and external formulations. However, recognizing the importance of quality and compliance, we swiftly shifted to a Schedule M GMP compliant unit in 2004 where we started the production of two lines which are liquid orals and ointments. This transition enabled us to enhance our manufacturing capabilities and ensure stringent adherence to regulatory standards. In 2007, Company expanded the product line by incorporating ORS Powder manufacturing into our operations. This addition enabled us to contribute to the critical healthcare need for oral rehydration solutions, further widening our portfolio and addressing the needs of patients.

The company is proposing for an Initial Public Offer in the FY 2023-2024 and have filed its DRHP with NSE Emerge.

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With compliments of Mr. Shanker Lal Mehani and Mr. Daulatram Mehani, promoters of Fair Food Limited.

Fair Food Overseas are a dynamic Rice Manufacturing Company dedicated to provide high quality rice to a wide range of consumers. With a legacy spanning over three decades, we have become a well-known rice production, processing and distribution Company. Our commitment to quality, sustainability and customer satisfaction has made us a trusted choice in the industry. Our commitment to quality starts with our state-of-the-art processing plant located at Fair Food Park, positioned on Jabalpur Road in Katni, Madhya Pradesh. Our plant proudly holds the esteemed ISO 22000:2018 accreditation, a testament to our unwavering dedication to maintaining the highest quality standards. We employ cutting-edge technology to ensure that every grain of rice we supply exceeds your expectations. Our machinery is meticulously designed with food-grade materials, ensuring hygiene and freshness at every step. This enables us to deliver on time, without compromising on the exceptional quality we are known for. In addition to sustainable practices, we are deeply committed to empowering local communities. Through fair trade partnerships and initiatives, we provide support and fair compensation to the farmers we work with. By fostering their growth and success, we contribute to the development and prosperity of the regions we operate in. Our ranges of Basmati and Non-Basmati Rice are consumed all over India. The master brand 'FAIRY' is distributed via authorized dealers in Balasor, Banaras, Bangalore, Chennai, Cochin, Delhi, Hyderabad, Kolkata, Mangalore, Mumbai, Nagpur, Patna, Pune and Varanasi.

The company is proposing for an Initial Public Offer in the FY 2023-2024.

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COMPANY PROFILE

ResGen WAS ESTABLISHED IN 2018 WITH A MISSION TO BECOME WORLD LEADER IN CHEMICAL RECYCLING DRIVEN BY PATENTED TECHNOLOGIES . OUR VISION IS TO MAKE PLASTIC WASTE MORE SUSTAINABLE AND REDUCE WORLD DEPENDENCE ON FOSSIL FUEL TO REDUCE OVERALL CARBON FOOTPRINT

At **ResGen,** we practice what we preach, and have committed to exemplifying the 3 P's within our own organisation.

OUR PRODUCT OFFERINGS

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INDUSTRY LEADING TECHNOLOGY TURNING PLASTIC WASTE INTO LOW SULPHUR OIL

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ResGen

(BUILDING INDIAS CIRCULAR ECONOMY)

919, Maker Chambers V, Nariman Point, Mumbai – 400021

Email: info@resgen.in

Fax: 022 28112212 **Tel:** 022 22810181/82/83

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COMPANY PROFILE

Incorporated in 2016, Meson valves is in the business of supplying **valves, actuators, strainers & remote control valves system**

As specialists, we offer standardized and customized solutions for specific demands within each of our selected product areas. Our team is able to leverage a wealth of experience and skills to create an unparalleled level of technical excellence across all of our products and solution

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OUR PRODUCT OFFERINGS

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Blueprint for Capital Markets in India in 2030

Ajay Tyagi
Former Chairman
SEBI

1. Indian financial sector, including the capital markets, have shown resilience and maturity during the ongoing global economic and geo-political turbulence. The onset of COVID 19 in March 2020 was followed by the ongoing Russia-Ukraine war since February 2022, and an aggressive interest rate raising cycle adopted by the central banks across the world. The uncertainty continues.

2. To present any opinion about the blue print of capital markets in India in 2030, one has to make an assessment of where we stand at present, what are the projected growth figures, what are our aspirations, funding requirements of the domestic economy by 2030, and role of capital markets in fulfilling them.

3. By now, it is well recognised that amidst the existing global economic chaos, India is an oasis of stability and certainty. This is not just the Indian government's claim but also the views expressed, almost unanimously, by multilateral bodies of repute like the World Bank and IMF, and other credible agencies.

4. In fact, it has been quite a while since India emerged as an important actor at the world stage. Its current G-20 presidency and membership of many other important international bodies/groupings are shining examples of this. Today, no international forum, worthy of its name, can afford to not have India on board.

5. India is the fifth largest economy in the world and likely to become 3rd largest by 2028. India's annual exports are projected to grow to US $ 1 trillion by 2030. It has ambition of becoming a developed country by 2047.

6. As per its NDC declaration under UNFCCC, by 2030, India is committed to reduce emission intensity of its GDP by 45% from 2005 level, and achieve 50 % cumulative electric power installed capacity from non-fossil fuel based energy sources. For achieving the commitment of net zero emission target by 2070, India would need to cut energy intensity of GDP by about 5% annually. In addition there are several milestones to be reached by 2030 under 17 SDGs with 169 targets.

7. Additional investments are required for climate proofing the infrastructure and for funding the other activities relating to climate change adaptation. RBI's assessment of such an investment requirement until 2030 is Rs. 85.6 lakh crore.

8. Then the government has identified/set a number of near to medium priorities requiring market based financing/special focus, viz., national infrastructure pipeline, disinvestment of PSUs, asset monetisation, increasing manufacturing share in GDP, encouraging start-up ventures, etc.

9. All the above activities, commitments and aspirations have sizeable financing implications. While, traditionally, India has been a bank led economy, the capital markets would need to play a crucial and increasingly important role in the coming years. In fact this realisation has already set in, which is apparent from the growing heft of the capital markets in the domestic economy.

10. The annual amount raised through the capital markets (equity plus debt) averaged Rs. 9.6 lakh crore during the last five years, which is comparable to the incremental loans disbursed by the banks during the period. The AUM of MFs has crossed Rs. 43 lakh crore, which is over 30% of the outstanding cumulative bank loans.

11. What has also been realised is that the banks are not the most suited institutions for financing all types of investments, including in the infrastructure sector, wherein the projects are best funded through the market mechanism.

12. Capital markets comprise various segments and instruments. It may be useful to analyse the segment wise status and the possible way forward to meet the requirements of the economy by 2030.

13. Let us begin with the equities market in India. Equities market is well developed and liquid. Total market capitalisation of listed companies reached Rs. 291 lakh crore in June 2023, about 104% of GDP, and India ranked fourth in the world. The resilience of the Indian market during this tumultuous period has surprised many experts worldwide. The fact of the matter is the equities market in India has best in class regulation even as compared to the developed economies of the west.

14. Post COVID surge in individuals' participation in the market and increasing equity investment culture in the country is a recent phenomenon. The total number of demat accounts increased from 4.1 crore in March 2020 to over 11.5 crore at present, an increase of over 180% in a short period.

15. Mutual fund investments have also grown at an impressive pace. For instance, the AUM of Rs. 10.8 lakh crore at the end of March 2015 has increased to over Rs. 43 lakh crore at present, an increase by nearly 300%. Of course, there is much potential for higher penetration of mutual funds, waiting to be tapped, including in the tier-II and tier-III cities.

16. This increased domestic interest in capital market investments needs to be not only maintained but also further encouraged. Among other benefits, it is proving to be an effective countervailing mechanism against the volatility in FPI investments. Of course, we have a far way to go- as compared to the developed economies; we are still at a nascent stage. For instance, only about 8% of adult population in India invests in equities as compared to about 60 % in USA.

17. Going forward, the Indian corporates need improvement in their governance practices to attract investments; though, admittedly, much progress has been made over the period because of constant prodding by the government and the regulators. The Kotak committee set up by SEBI in 2017 made many recommendations on various aspects of corporate governance, which helped in beefing up the relevant regulations. There have also been some useful learnings from the international experiences especially from the OECD. That said, to meet the aspirations of becoming a developed country, the Indian corporates need to do much soul searching and demonstrate a responsible behaviour towards not only the shareholders but also all stakeholders.

18. The increase in institutional shareholding in listed companies in India is a good sign; but what is missing is their active and meaningful participation in the governance of those companies. They have yet to take their stewardship role seriously. Of late, the mutual funds have shown some progress but the insurance companies and pension funds are yet to get into the groove.

19. Auditors are important gatekeepers for ensuring that the corporates follow good governance practices. Their supervision needs much improvement; multiplicity of regulatory oversight over their functioning is not helping. Yet another area needing improvement and capacity building is the valuation methodology including that of start-ups and new tech ventures.

20. Now coming to the debt market. The corporate bond market in India is under developed and often illiquid. This is despite the fact that over more than a decade, the government and the regulators have repeatedly publicly pronounced the development of this market as a priority. The progress made in this regard so far is not enough. The absence of a deep and liquid corporate bond market may prove to be Achilles heel in the India's growth story going forward.

21. At present, 95% of corporate bond issuances in the country are concentrated in top 3 rating categories (AAA, AA+ & AA), and 97% of the trading is in these categories. Thus most of the issuers can't access the bond market. The situation is worst for the infrastructure projects. Such projects have low ratings, typically BBB, during the initial phase of their lifecycle. There is an urgent need to establish a credit enhancement mechanism for such projects. The much needed private sector investment in infrastructure sector is not likely to pick up without this.

22. Development of below 'AA' rated bonds market requires development of markets for 'repos', 'credit default swaps', 'interest rate derivatives' and encouraging growth of credit focussed Alternative Investment Funds among other measures.

23. "Unification of bond market", i.e., unifying the regulatory regime for G-Secs and corporate bonds is something which should be urgently initiated.

24. G-Secs have an overwhelming presence in the debt market in India. The pricing of corporate bonds is intrinsically dependent on presence of a continuous yield curve in G-Secs. The G-Sec market and corporate bond market are at present separated and follow different regulatory regimes. Unifying these markets would enable seamless transmission of pricing information from G-Secs to corporate bonds. Having the regulatory same regime for trading, clearing and settlement of corporate bonds and G-Secs will result in 'economies of scale and scope' leading to greater competition, efficiency and liquidity in the markets. This will also facilitate greater participation in bond market by individuals and non-institutions, who are more accustomed to dealing with the depositories and stock exchanges regulated by SEBI.

25. REITs and INVITs are emerging as important vehicles for asset monetisation in the real estate and infrastructure projects respectively. Though the SEBI regulations governing them were notified back in 2014, they gradually started appearing on the scene only from 2017 onwards. Many amendments made in the regulations over time especially those facilitating retail participation in publicly listed REITs and INVITs have helped in improving their popularity. As of March 31, 2023, they were holding assets worth Rs. 0.71 lakh crore and Rs. 1.77 lakh crore respectively. Going forward, for a country of India's size, there is huge potential for growth of these instruments.

26. Now coming to the required regulatory architecture for sustainable financing and ESG investing.

27. Globally, sustainable financing and ESG investments have emerged as subjects of great interest and significance. Increasingly, corporates are adopting higher ESG norms and the investors preferring such investments.

28. That said, sustainable financing is not a very well defined term, and to an extent is subjective in scope. There are no universally recognised or accepted ESG reporting standards and frameworks yet; though a number of international bodies are grappling with the idea. There is no consistency in disclosures and transparency of the methodology and rating process.

29. The absence of consistent and comparable ESG reporting standards and frameworks, as also of an agreed definition of sustainable financing, is likely to lead to greenwashing and miss-selling. This raises concerns about the potential risks to investor protection, transparency and capital allocation in

markets, among others.

30. SEBI has developed and put in place sustainability reporting standards for the listed companies in India. These standards viz. business responsibility and sustainability reporting standards (BRSR) have been finalized taking into account best international practices, domestic considerations and after wide consultation with various stakeholders including industry groups. SEBI's guidance note on the subject provides for inter-operability of BRSR reporting framework with international frameworks. As of now, SEBI regulations mandate compulsory reporting as per BRSR standards by top 1000 listed companies from the year 2022-23 onwards. Other listed or even unlisted companies could voluntarily adopt these standards.

31. SEBI board, in its meeting of March 2023, has also approved a policy on ESG disclosures and ratings, and framework for regulating ESG rating providers.

32. While we are in the process of firming up our own standards and frameworks, some international investors may prefer other globally prevalent norms and standards. In addition, with the passage of time, there could be possibilities of convergence of views on universally acceptable standards, which could be at variance with the ones adopted by us domestically.

33. Going forward, the climate change concerns are likely to further move the sustainable financing and ESG investment issues centre stage. The Indian corporates need to keep track of the developments and be prepared to meet the emerging regulatory requirements in this regard.

Role of Institutional Investors in Ensuring Better Corporate Governance

Atul Sobti
Director General
Standing Conference of Public Enterprises

The concept of corporations was incepted during the period of industrialization, when the prime motive of business was profit maximization. Profitability is thus, an inherent part of these organizations. However, there is a drastic shift in the corporate landscape today. Owing to the massive constraint on resources and increase in aw,reness, there is a heightened need for corporations to adopt a more holistic approach and consider their impact on the people and the planet. This is where the need for corporate governance becomes most pertinent especially in the present dynamic business environment where not only expectations of all stakeholders has to be fulfilled but has to be fulfilled 'responsibly'.

While, we all understand what corporate governance is, it essentially, encompasses a system by which companies are directed and controlled, providing a framework for decision-making. It rests on the four pillars of fairness, transparency, accountability and responsibility, acting as a control mechanism to keep a check on the actions of the organizations.

The traditional corporate governance structure rests solely on the management team of these organizations. However, over time it has been realised that the quest to provide high returns to the investors could lead to a possible oversight in ensuring fair and just operations, often causing the investors to suffer in the long run. Hence, in today's scenario, the role of corporate governance is more prevalent as it can serve as an anchor to reinforce functioning of the organizations in a cohesive manner. In this regard, introduction of a third-party in the dynamic business environment became imperative, one that would nudge the management in the right direction thereby giving rise to the concept of institutional investors.

The innate limitation of the conventional corporate governance structure has called for modifications to curb the organization's myopic focus on financial objectives. In this regard, need for an independent third significant party emerged which could exercise significant influence over the management. This gave rise to institutional investors.

Institutional investors and corporate governance

Institutional investors, one of the key stakeholders in the corporate ecosystem, are considered to be the ideal choice for ensuring adherence to highest forms of corporate governance. These investors are typically large financial institutions such as pension funds, mutual funds, insurance companies and asset management firms. A large part of their job entails handling funds of the public, which gives them access to a wide market as they explore investment opportunities across different companies in multiple sectors. This enables these institutions to obtain a deep understanding of the markets and the best practices therein and helps foster transparency, accountability, and responsible decision-making, which are essential for the long-term success of corporations.

In India, institutional investors play a crucial role in the financial markets and economy. They are significant stakeholders that contribute to the development and growth of various industries.

Let's look at some specific ways in which Institutional investors contribute to better corporate governance:

- *Active ownership and stewardship*: Institutional investors exercise their ownership rights by actively participating in shareholder meetings, voting on important resolutions, and engaging with company management and boards. By greater engagement they provide valuable inputs on strategic decisions, and other governance-related matters.
- *Engagement and dialogue*: Institutional investors engage in constructive dialogue with company management and boards to address governance concerns and advocate for necessary changes. Further, the institutional investors have dedicated teams that undertake thorough research and analysis for the purpose of undertaking investment decisions. This well-laid out mechanism serves as a way for the institutions to stay up-to date on the latest developments in the industry.
- *Disclosure and transparency*: Institutional investors encourage companies to enhance disclosure and transparency practices by advocating for clear and accurate reporting of financial and non-financial information, including ESG factors. Through their efforts, vital information of the organisations is shared with the investors thereby enabling theme to make informed decisions and assess the governance practices and risks associated with their investments.

Institutional investors continuously monitor the companies they invest in, assess their performance, governance practices, and adherence to ESG criteria. By holding companies accountable, they incentivize management to maintain high standards of corporate governance.

Growing role of Institutional investors in India

India is one of the fastest-growing major economies in the world, offering significant growth potential to investors. This has been balanced by implementation of several reforms by the Government to attract foreign and large investments including ease of doing business, opening up sectors to FDIs etc. These reforms have created a more investor-friendly environment, making it easier for institutional investors to enter the Indian market. Also, the reforms have been coupled with policies which has resulted in improvements in corporate governance practices amongst organisations leading to enhanced transparency and accountability in Indian companies, making them more appealing to institutional investors who seek well-managed and ethical businesses.

Another very important reason for growth of institutional investors in India can be attributed to the attractiveness of the Indian market in the globe. With India gaining significant position on the world map, institutional investors are attracted for investment as they often seek to diversify their portfolios across different geographies to manage risks effectively. Hence, investing in emerging markets like India provides them with exposure to different economic cycles and potentially higher returns.

Given the attractiveness of the Indian markets, presence of institutional investors has witnessed an upward trend in the recent years which can be seen from the fact that the share of holding of retail investors, domestic institutional investors and high net worth individuals in listed companies has reached an all time high of over 24% as of December 2022 and if we see only share of domestic institutional investors in listed companies, it was over 15% of December 2022.

Some of the prominent institutional players in the Indian market include Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), large Banking institutions like ICICI Bank.

Institutional Investors have become popular in India for several reasons, which are primarily driven by the country's economic growth, market potential, and regulatory reforms.

Stewardship Code 2019 – strengthening Institutional Investors

The institutional investors invest in organisations with the intention of gaining positive returns on their investment. The fulfilment of the objectives of these institutions is dependent on the success of the organisations as well as the satisfaction of their stakeholders, thereby creating a strong motive for the institutional investors to act in the best interest of both parties i.e. organisations and the stakeholders. This advocates the case for these institutions to be the perfect catalyst for driving better corporate governance.

However, there might be doubts over the suitability of the institutional investors to be involved in managerial decisions. One might argue that they lack the expertise to be involved in the administrative decisions of the company. Further, owing to the demanding nature of their job that necessitates continuous rebalancing of portfolios, they can also be touted to lack the time to be actively involved in the decision-making process.

The robust financial institutions in our country anticipated these challenges while also acknowledging the potential and importance of the role of institutional investors. In this regard, the Stewardship Code was introduced by SEBI in 2019. This code inflicts stewardship responsibility on the institutional investors to ensure the upkeep of corporate governance in investee companies, thereby encouraging active monitoring in the interest of beneficiaries. It specifies the institutional investors to formulate a comprehensive policy on the discharge of their stewardship responsibilities that should be disclosed publicly and reviewed and updated periodically. Among other responsibilities, the code also directs the institutional investors to include monitoring of investee companies and having clear policies for intervention whenever required.

However, for the institutional investors to execute better corporate governance in an effective manner, enthusiastic participation from the corporations is also required. The corporations might view the involvement of the institutional investors as an intrusion in their working. But, they must remember that firming up the corporate governance framework works in their interest too, as this would translate to positive investor sentiment and eventually, longevity of the business. They must therefore, not be resistant in sharing relevant information and paying heed to the suggestions provided by the institutional investors therein.

Over the years, there have been considerable reforms in the field of corporate governance. However, with the substantially changing business scenario, the role of institutional investors will gain more importance in the coming time, making it imperative to initiate action in this regard.

Future outlook

Institutional investors play a crucial role in India's financial markets and economy. These investors are entities that pool large sums of money from various sources, such as pension funds, insurance companies, mutual funds, hedge funds, and other large financial institutions, to invest in a diversified portfolio of assets. Since, they contribute towards capital formation, enhance market liquidity and also act as stabilizing forces in times of market volatility, they have greater say in the corporate governance matters. Through their diverse role in the organisations, they ensure transparent and fair dealing of the companies thereby safeguarding the interests of the investors. This would create a ripple effect in the market as an ethical and transparent conduct on the part of the companies would lead to building of trust in the minds of investors. A happy investor would be more willing to invest more of their hard-earned money, giving a boost to the market in the process. Overall, presence of institutional investors would create a win-win situation for all the stakeholders in the corporate ecosystem.

However, it is time that the institutional investors look at their role beyond the traditional 'overseeing role' .One such role could be as educators of the public. Since the financial institutions have access to information about the corporate ecosystem and also have resources in terms analytical expertise, they can share publicly available analytical information about the current performance and prospects of the investee companies with the other investors thereby aiding the public to take informed decisions. This is just an example of a possible solutions that could amp up the efficient monitoring of the corporate governance by the institutions.

The domain of enhancing the role of institutional investors in corporate governance is relatively vast and unexplored. Untapping the immense opportunities that lie within would require the government, institutional investors and the corporations to come forth and engage in deliberations.

To conclude
Intuitional investors carry significant clout in the financial market along with significant influence and leverage over the companies they invest in. Hence, by participating in the governance processes, they can foster better corporate governance practices, encourage long-term value creation, and contribute to sustainable and responsible business practices.

Therefore, in today's dynamic business scenario, it is vital to undertake steps to further the role of institutional investors as corporate monitors in order to augment the corporate governance landscape in the country.

Increasing significance of domestic pools of capital in Indian IPOs

Gesu Kaushal
Managing Director - Equity Corporate Finance
Kotak Investment Banking

India's growth story has been resilient even in the face of global volatility. Capital markets in India too have demonstrated fortitude, backed, in good measure, by a steady build-up of domestic pools of capital. Strong investor confidence can be seen in the secondary markets but is very pronounced in subscription to IPOs as new and interesting ideas continue to emerge and undertake listings. From January 1, 2020 to June 30, 2023, there have been 127 main board listings, raising an aggregate of Rs. 2.1 trillion (US$ 26 billion) of funds from public investors, backed by a whopping demand of Rs. 37.2 trillion (US$ 450 billion).

These last 3 years have witnessed a very definite and undeniable trend in our primary markets – a meaningful proportion of demand from domestic investors in Indian IPOs - mutual funds, insurance companies, pension funds, banks, high net-worth individuals and retail investors. This is in tandem with the long held view of savings moving into capital markets, in line with other developed markets. Of the Rs. 2.1 trillion raised across 127 IPOs, over 65% was allotted to domestic investors.

There are a few factors that, I believe, may have enabled these outcomes, particularly with respect to primary markets.

***Growth in Mutual Fund AUMs*:** Assets under management (or "AUM") of the Indian mutual fund industry has grown from Rs. 8.11 trillion as on June 30, 2013 to Rs. 44.39 trillion as on June 30, 2023 - more than 5 fold, in a span of ten years, and doubled in 5 years. An increasing part of this AUM is from SIP contribution, which stands at Rs. 1.6 trillion for FY2023 and has been increasing by over 25% y-o-y for the last 2 consecutive years.

This fund mobilization by mutual funds in India has naturally made way into IPOs. In the 127 IPOs between January 1, 2020 and June 30, 2023, mutual funds have increased their participation from an average of 16% in 2021 to 22% in 2023. Mutual funds are becoming dominant investors and given the increasing reliance on them for subscription by companies, mutual funds have a formidable voice in determining IPO pricing and success.

***Returns in IPOs*:** Of the 127 main board IPOs that have listed in the period between January 1, 2020 and June 30, 2023, more than 70% of the listed IPOs have realized gains on the listing day. In fact, this trend is quite encouraging as the last 15 IPOs have realized average listing gains of >25% on listing date. This performance of the primary markets translates into greater interest from a wider set of investors, including the retail and high net-worth individuals.

***Ease of investing in IPOs*:** Over the years, there have been concerted steps taken by the regulator to not only bring operational efficiencies in the subscription and settlement processes in IPOs, but also maintain process integrity. Enablement of UPI based subscription, in addition to net banking, has eased investing in IPOs and increased the reach of the IPO product. Increasing the limits to Rs. 5 lakh (from Rs. 2 lakh) for UPI based investing, has also granted access to a wider set of investors to invest on the go.

Another recent change has been to change the allocation methodology from pure proportionate basis to one focused on minimum bid size in the non-institutional bucket (targeted at investors investing > Rs. 2 lakh in any IPO) and also split it into two sub-parts – one for applications from Rs. 2 – 10 lakh and one for beyond Rs. 10 lakh application size. Both these changes together have been received well by individual investors who can now make larger applications in IPOs, in the hope of allotment. It can be seen from data in deals pursuant to these changes, that the number of subscribers and allottees in this category has increased multifold, as is the case with the retail category.

***Developing market infrastructure and access to information*:** While technology has enabled ease of investing, access to information has led to interest in investing. India has seen an addition of more demat accounts in the last 2 years than ever. With an increase of 30% in just the last one year alone, the current number of demat accounts in India is over 12 crore. Not only this, the number of active broking clients had also seen a sharp surge increasing from 1 crore in March 2020 to 1.8 crore in March 2021 and to over 3.5 crore in March 2022, dropped to 3.35 in January 2023, owing to a some becoming inactive. This sharp growth has been led by technology-only enabled platforms pursuant to convenience of onboarding clients for the broking firm, opening of demat accounts as well as trading and tracking. Access to information has also been a big factor in spreading awareness about opportunities, as well as analysis of those opportunities, leading to investing decisions by more and more people, as also *fear of missing out*.

We are in an ever evolving market place where forces of market development, regulatory change, technology, opportunities and investor behavior constantly collide to create a dynamic environment. At present, we do see an increasing impact of domestic pools of capital funding its way into capital markets and we believe that augurs very well for our capital markets.

The views and opinion expressed in the column are personal and do not necessarily reflect the opinion of the organisation or the Kotak Group.

Investor Awareness : Empowering Investors in the Indian Securities Market

Sriram Krishnan
Chief Business Development Officer
National Stock Exchange of India Ltd.,The

The Securities and Exchange Board of India (SEBI) was established as a statutory body in 1992 to regulate and promote the development of securities market and to protect the interests of retail investors. SEBI regulates functioning of Indian capital markets and has issued guidelines concerning capital issues, disclosures by companies and investor protection.

Consider this: back in the day, when the SEBI Act was passed, in 1992, there was no NSE! The mutual fund industry in India had not been opened up to private players and there was only UTI. Likewise in the insurance industry where we only knew of LIC. The number of products available in the financial services space – across stock exchanges or mutual funds or insurance or even banks was only that much. Cut to the present decade and you'll see that India has not only become the most populous country, but also one of the fastest growing economies in the world, ranked fifth in the world in terms of nominal GDP in calendar year 2022. In PPP terms, India is the third largest economy in the world, after China and the US. India also has a young population (median age projected to be under 30 even by 2030), and most importantly a rising working-age population which could potentially aid higher growth rates. Over the past 3-4 decades, India has made rapid strides, and in the post-pandemic world, a new future seems to have emerged for India.

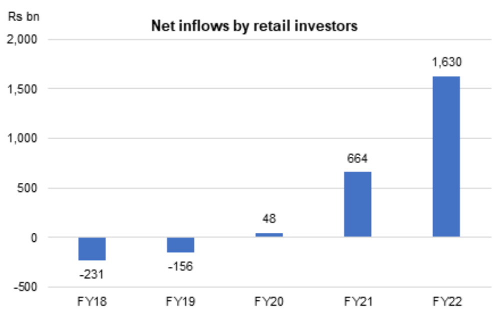
What this means is that with a rising average annual household consumer wallet size and also an average of two bank deposit accounts per adult, India's investors particularly are looking beyond – to mutual funds, alternative investment funds, investing overseas, diversifying across asset classes, insurance, and of course direct trading and investments, including not just stocks but also derivatives. To put this in perspective - assets under management of the insurance industry has gone up over the years and is today about 30% of bank deposits. Likewise, in the mutual fund industry, this is about 20% of bank deposits. Most importantly, the number of people investing directly in capital markets has also gone up to about 80 million. The number of demat accounts increased from 27.85 million in March 2017 to 114.5 million in March 2023, at a staggering CAGR of over 27%.

SEBI is mandated to build the capacity of investors through education and awareness. SEBI, along with Market Infrastructure Institutions (MIIs), endeavors to ensure that the investor obtains and uses information for informed decision-making, protect investor interests, and maintain the integrity and transparency of the market. The National Stock Exchange (NSE), as a leading MII, plays significant role in promoting investor awareness in the Indian securities market – and rightly so, given it has been the fund mobilisation gateway for India's corporate sector, playing a vital role in the globalisation and success of India and Indians. The market capitalisation of shares on NSE grew by a CAGR of 14% during the period March 2017 to March 2023.

The Indian market today has a diverse investor base, including institutional investors, retail investors, and foreign institutional investors (FIIs). This diversity in the investor profile is unique to demography of Indian markets.

While institutional investors, such as FPIs, mutual funds, insurance companies, and pension funds, are present in the Indian market, their participation is relatively lower compared to developed global markets.

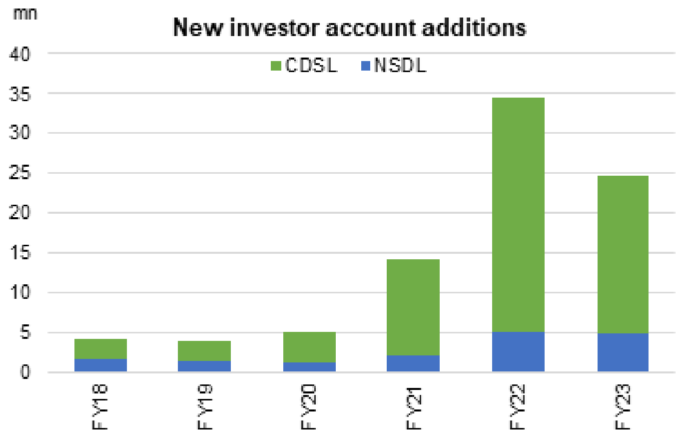
Retail investors, comprising individual investors and HNIs (High Net Worth Individuals), play a crucial role in shaping the Indian capital market. These investors are from diverse backgrounds including professionals, salaried individuals, self-employed individuals, and even homemakers.



Source: NSE.

Note: 1. Retail investors: individual domestic investors, NRIs, sole proprietorship firms and HUFs.
2. Net flows include investments in securities in EQ, BE, SM, and ST series including ETFs only.
3. Net flows are calculated as buy traded value – sell traded value.
4. Data for 2023 is as of May 31st, 2023.

India's large and expanding middle-class population has contributed to the growth of retail investors in the capital market. The increasing disposable income, rising aspirations, cheap internet and smartphones expanded accessibility to financial markets and have led to a surge in retail investor participation.



Source: SEBI Bulletin, NSE.

With the rise in retail participation in capital markets, there is an increasing need for investor awareness and education.

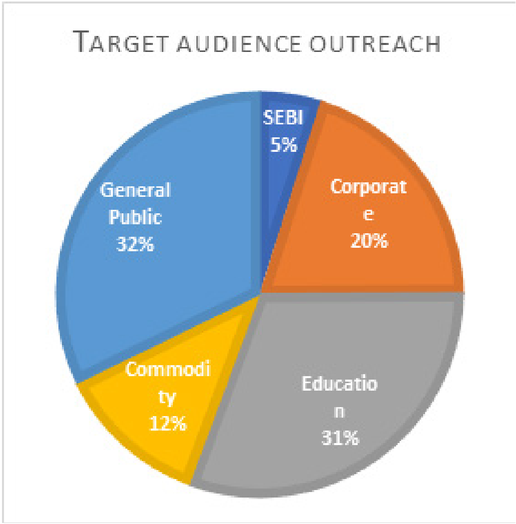
In the current context, building investor awareness has the following key objectives:

- Protection of Investor Interests: Educated investors are better equipped to identify potential risks and make informed investment decisions, reducing the chances of falling victim to fraudulent schemes.
- Enhancing Market Efficiency: Investor awareness promotes transparency and reduces information asymmetry, contributing to the efficient functioning of the securities market.
- Strengthening Investor Confidence: A well-informed investor base fosters trust and confidence in the securities market, attracting more investors and promoting its growth.
- Ultimately the Investor awareness initiatives aim to empower individuals from diverse backgrounds to participate in the market, fostering financial inclusion and economic growth.

The NSE, for example, has undertaken various initiatives to promote investor awareness, including

- Investor Awareness Campaigns: through a combination of electronic, print media, as well as programmatic ads in social media disseminating information on various investment products, risks, and market dynamics. Approximately 70% of the IAP programs are conducted by NSE through the online mode.

  During FY 2023, the NSE has conducted almost 5,000 Investors awareness programs vide webinars and on-ground seminars covering over 265,000 participants, which is quite a mammoth task. NSE's outreach program (IAPs) are geographically spread across 33 states and Union Territories covering 576 districts. These programs were conducted in 18 languages.
- Investor Workshops and Seminars: NSE organizes workshops and seminars across different locations, inviting industry experts to address investors and provide insights into financial planning, do's and don'ts of investing, market abuse practices, investment strategies, risk management, and market trends.
- Online Resources: NSE provides online resources such as webinars, articles, tutorials, and FAQs to educate investors about market-related concepts and best practices. 5153 spots on television were broad cast on CNBC, ET and Zee on important topics like Beware of Assured Returns and unsolicited Stock tips and do not share password. Feature Investor awareness videos on financial websites. Programmatic ads campaigns were run successfully to caution investors on important investor awareness topics with a total reach of 79 million+ impressions.
- Focused Investor Awareness campaigns through multiple media in various Regional Languages to cater and connect to the diverse set of audience. Video messages by senior employees of the Exchange to alert investors of the malpractices in the securities market.
- Collaboration with Educational Institutions: NSE has established partnerships with educational institutions to integrate financial literacy programs into the curriculum, ensuring early exposure to investment concepts.
- Targeted Investor Outreach: NSE conducts outreach programs in tier II and Tier III cities to reach out to newer/vulnerable sections of investors. The programs are conducted for students, MSMEs FPO's, Corporates etc. Content via audio, video, infographics, texts etc for different class of investors are created by NSE to have an impactful and relevant reach to the different types of investors.



Source: NSE IAP programs during FY 22-23

- Investor Grievance Redressal : NSE has provided easy, accessible, and multiple investor grievance redressal mechanisms online and through its investor service centers in multiple cities, to facilitate prompt resolution of investor complaints and disputes.

The key question today is how much more do we need to do to achieve a quantum leap in terms of outreach and making sure that investors, particularly the younger ones, are well informed. A recent SEBI study pointed out that nine out of ten people who forayed into stock futures & options (F&Os) end up on the losing side. What's striking in the survey results is that a majority of the retail investors believed that F&Os were a safer investment product than bank FDs. 98% of those surveyed traded options, while 11% traded in Futures.

So while NSE is committed to create Investor awareness, there are several challenges that could potentially hinder the effectiveness of some of the initiatives:

- Lack of Financial Literacy: A significant challenge is the lack of basic financial literacy among a large section of the population. Many individuals have limited knowledge about investment products, risk management strategies, and the functioning of financial markets. This lack of literacy makes it difficult for investors to understand complex financial concepts and make informed investment decisions. What's more, there is a tendency to get carried away by tips from financial influencers in the social media age!
- Information Overload: Investors are bombarded with vast amounts of information from various sources, including media, online platforms, and financial institutions. Sorting through this information overload and identifying reliable and relevant information can be challenging for investors, leading to confusion and potential misinformation.
- Language and Cultural Barriers: India is a diverse country with multiple languages and cultural nuances. Communicating investor awareness messages effectively across different regions and communities can be challenging. Language barriers and cultural differences may hinder the dissemination of information and the adoption of investor education initiatives.
- Limited Access to Resources: Certain segments of the population particularly in smaller towns may have limited access to resources such as internet connectivity, educational institutions, infrastructure etc. This lack of access can impede the reach and impact of investor awareness programs.
- Behavioral biases and emotional decision-making: Investors are susceptible to behavioral biases, such as herd mentality, overconfidence, and fear of missing out (FOMO), which can influence their investment decisions. Emotional decision-making can lead to impulsive and irrational investment choices, disregarding the importance of due diligence and risk assessment.
- Dynamic and Evolving Market Conditions: Financial markets are dynamic and constantly evolving. New investment products, regulatory changes, and market trends emerge regularly, requiring investors to stay updated and adapt their investment strategies accordingly. Keeping up with the changing market landscape can be challenging for investors, particularly for those with limited time or resources.

The future of investor awareness in India holds great potential, and all stakeholders, including regulatory bodies, market infrastructure institutions and investors themselves will play crucial roles in its development. Some of the potential initiatives could be as follows:

- Strengthening Regulations: SEBI will continue to enhance regulations to ensure investor protection, transparency, and market integrity. Stricter enforcement of regulations will deter fraudulent activities and promote investor confidence.
- Investor Education Mandates: SEBI may introduce mandatory investor education requirements for market participants, such as brokers, issuers, advisors, and distributors, to ensure they possess the necessary knowledge and skills to guide investors effectively.
- Technology-driven Solutions: MII's will leverage technology to provide user-friendly platforms, mobile applications and interactive tools making investor education more accessible, personalized, and interactive.
- Self-Education and Awareness: Investors themselves have a crucial role in their own awareness and education. They should proactively seek knowledge about investment products, market trends, and risk management strategies through online resources, seminars, and continuous learning.
- Responsible Investing: Investors will increasingly focus on responsible investing, considering environmental, social, and governance (ESG) factors while making investment decisions. This trend will be supported by greater availability of ESG-related information and awareness campaigns.
- Collaborations between market participants, regulatory bodies, and educational institutions will lead to the integration of investor education into academic curriculum, ensuring that financial literacy becomes a fundamental part of education from an early age.

The future of investor awareness will witness a collaborative effort from all stakeholders, leveraging technology, regulatory reforms, and investor participation to create a well-informed and empowered investor base. Continuous education, robust regulations, technological innovations, and responsible investing practices will pave the way for a more transparent, inclusive, and prosperous Indian securities market.

Capital Markets and 'Aatmanirbhar Bharat'

Navneet Munot
Managing Director & CEO
HDFC Asset Management Co.Ltd.

Over the last few years, India has been rising up the pecking order of global economic landscape on various parameters. Indian capital markets too have come a long way. From a dozen odd brokers trading under a banyan tree over a century ago, to becoming the 5th most valued stock market in the world, Indian capital markets have traversed an interesting journey. Some call India 'the bright spot' in global economy, others call it 'an oasis of hope' in an otherwise challenging global macro-economic environment. All said and done, India's ascent in global economic landscape has been quite commendable. A unique combination of Democracy, Demographics, Demand and Digitization give India a potent force to take the next step, or rather the next leap towards becoming a global superpower.

India recently surpassed China as the most populous country in the world. While this headline may have caught the attention of people around the world, India's candidature as the next big economic superpower had already been established before this change in the demographic pecking order. Going forward, emphasis on ease of doing business, focus on physical, virtual and social infrastructure, improvement in quality of life can pave the path for a robust, sustainable and inclusive growth. Unlike China, where the growth model has been state-driven and environmentally unsustainable, in India, one can expect the growth to be more inclusive, driven by entrepreneurship and with the Government acting as a facilitator. Vibrancy of Indian capital markets makes India's growth more inclusive too.

India young today!! Need to brace for the future though

While change in population pecking order happened recently, this development was on the cards for quite some time. China's now-discontinued but once controversial one-child policy meant that this reversal in population leaderboard would happen sooner or later. Few months ago, China reported a decline in its population and brought the focus back on demographics. While an aging and shrinking China has many implications for the global economy, it has also brought into focus the potential challenges that could be faced by the elderly, especially in an aging country, where the working age population could be outnumbered by the elderly. With an inverted pyramid, also known as 4-2-1 problem (4 grandparents and 2 parents being dependent on a single child) and lack of social security benefits, China is staring at a demographic predicament. Although, India's population is relatively young (median age of 28 years vs 38 years for China) and is expected to decline only after 2050, steps in the right direction today could avoid the possibility of a large greying population without any means for sustenance. As ironic as it may sound, gradually increase in life expectancy (doubled from ~35 in 1950s to ~70 now and expected to increase further) creates a different set of challenges.

Financial Planning for retirement: A goal not too far

India, on its part, has done a commendable job on the front of social security over the last few years. Success of JAM trinity (Jan Dhan Account, Aadhar, Mobile Number), which facilitates direct benefits transfer of welfare subsidies into bank accounts of the needy, being a case in point. Other flagship schemes like Pradhan Mantri Awas Yojana (PMAY) -Housing for All, Swachh Bharat Abhiyan for universal sanitation coverage, PM Ujwalla Yojana, PM Suraksha Bima Yojana, Atal Pension Yojana etc. have also been steps in the right direction. However, even beyond the efforts of the Government, a lot needs to be done for social security of the masses, especially those in old-age. Rise in share of gig workers, without noteworthy social security benefits, also brings into the focus the need for financial planning. Consequently, the onus shifts to the often-overlooked financial goal of retirement. In fact, it would be fair to say that retirement planning is by far the most critical financial goal owing to multiple factors. Firstly, for most people, retirement is a certainty. Secondly, with medical advancement and increasing life expectancy, the numbers of years one lives post-retirement has increased; however, the number of years is an unknown variable which makes retirement planning critical, yet challenging. Further, considering that retirement is a goal which is in the distant future, most people tend to put off planning for retirement till it's too late. And even those who do plan, undermine the impact of inflation (both, price and lifestyle) over a long-time frame.

Lack of retirement preparedness a challenge for developed nations too

The lack of financial preparedness is not restricted to India alone. Globally too, retirement savings gap has widened over the years. According to World Economic Forum, the retirement savings gap had widened to USD 70 Trillion in 2015 for eight of the world's largest economies. That number is expected to further increase to USD400 Trillion by 2050. In US too, a staggering 26% of non-retired adults did not have any retirement savings, as per a US Federal Reserve Survey of 2020. In US though, existence of social security still provided the saving grace, which was the most common source of income in retirement (~80% US retirees received income from social security in 2020, as per US Federal Reserve Survey). Even developed European nations like UK, France etc are facing challenges on this front. This goes to show that the challenge of inadequate retirement planning has not even spared developed economies with a long history of investing in capital markets.

Long term wealth creation through equities the way to go

In India, in absence of similar retirement benefits, and with retirement age lower than most major economies, the most likely avenue for creating retirement corpus is through investments in risk assets like equities, provided the same is done with long-term investment horizon. From a long-term stand point, equity happens to be a key asset class to generate inflation-outpacing returns. Equities, especially Equity MFs, could intuitively be the go-to investment avenue for investors to create a retirement corpus over a 15-20 year time horizon, if not more.

Historically, household savings have been skewed towards physical assets

Over the years, Indian households have allocated a disproportionately high share of wealth to physical assets. An average Indian household holds majority of its wealth in Real Estate and Gold, with financial assets accounting for a significantly small component. This is pretty unusual in the global context. Equally noteworthy fact here is that despite the large component of real estate in household wealth, not many Indian households expect to use it to meet their expenses in old age. As per RBI's Household Finance Committee Report (2017), more than 50% of households expect to rely on support from their children during old age, banking on the uncertain income-generating capacity of future generations. Thus, large component of nation's wealth being locked in largely illiquid assets does not help either the country at large or the investors themselves in old age.

Change in household savings mix already underway

Recently, this trend has changed with an increase in financialization of savings. More importantly, mix of financial savings has witnessed a transformation too, with many investors diversifying their portfolio beyond conventional instruments like Fixed Deposits. Increase in Demat accounts and SIPs bear testimony to this. In spite of the recent increase, there is still a long runway ahead, considering that overall equity penetration in India is barely 5%. Direct participation in equities may not be the way to go though. A recent study by SEBI showed that 89% of individual traders in the equity F&O segment incurred losses, with an average loss of Rs 1.11 lakh during FY22. Excessive risk taking by investors dabbling in direct equity is fraught with risk. A more prudent way of investing in equities is through wide array of Mutual Funds and with a long-term horizon.

Even beyond wealth creation, capital markets play a critical role for the economy

Increase in depth of capital markets is critical for India's growth aspirations. Mutual Funds, investing in a wide array of instruments like Equities, Debt, Commodities, REITs, InvITs etc can play a key role here. To meet India's ambitious infrastructure development and growth objectives, there is a huge need of risk capital, which could be met through domestic as well as foreign flows.

Healthy equity flows will also help the Government to feasibly monetise its assets. Even in start-up ecosystem, there is an enormous need for risk capital. While, entrepreneurial ambitions of young India combined with a funding boom, post 2020, has spelt a golden period for Indian start-up ecosystem, bulk of this funding has been from foreign VC firms. Looking ahead, getting Indian risk capital to fund entrepreneurial ambitions in the country is another goal worth pursuing.

Over the past few months, India has witnessed surge in FPI inflows. This follows a prolonged period of outflows over the last 2 fiscal years. While foreign flows into equities here are more than welcome, they tend to be volatile and expose the equity market to the risk of capital flight during tough times. Robust domestic equity flows make the equity market less susceptible to shocks from foreign capital flight – something which we witnessed last year, when inflows from DIIs, especially Mutual Funds, helped to counterbalance FII outflows and kept Indian equity markets largely resilient. This has a positive ripple effect on the overall health of financial markets, and in turn, macro-economic stability of the country. Further, having wider participation in equity markets could enable more equitable distribution of wealth in the society as more people would be able to participate indirectly in the nation's growth story.

Strong domestic equity flows can also encourage foreign investors, as the counterbalancing stability provided by domestic flows can provide another dimension for foreign investors looking to invest here. Over the years, foreign investors have viewed India as one of the preferred investment destinations, owing to favourable macros and diverse bottom-up stock-picking opportunities at the micro level. Stability provided by domestic flows can provide the third element of interest for foreign investors.

While we have overtaken China demographically, we still have a long way to go on other fronts. For instance, in 2021, China's per capita income ($12,556) was 6 times that of India's ($2,256). Bewilderingly enough, in 1990, India's per capita income ($368) was higher than China's ($318). This divergence over last 3 decades could be attributable to China's focus on manufacturing and infrastructure, both fronts which have been at the forefront of Indian policymakers' agenda over the last few years. Likewise, India could take other cues as well from the east and the west, emulate their fruitful measures, avoid their follies; and unlock our true potential in Amritkaal (2022-2047).

In view of the above, it is imperative that policy environment remains conducive for encouraging investment in long-term risk-assets like equities, through investment vehicles like Mutual Funds. All said and done, while we focus on indigenization of various aspects of our economy, we would do well to not overlook the importance of domestic risk capital in making the nation economically and our population financially 'Aatmanirbhar'.

What's next for the capital market ecosystem

Nithin Kamath
Founder, CEO
Zerodha Broking Ltd.

It feels like we've lived through a decade in the last four years in the markets. The sheer number of changes and developments in such a short period of time is stunning. I still remember February and March 2020, when we were preparing for the absolute worst at Zerodha. But what transpired was the exact opposite—something I couldn't have predicted in my wildest dreams.

The number of active retail investors in India increased from about 3 million in January 2020 to nearly 12 million in January 2022. To put that in perspective, India had 2 million active investors in January 2017 and 3 million in January 2020. Individual investors accounted for 39% of the cash market participation in 2029, which shot up to 45% in 2021. Mutual fund SIP flows rose from Rs 8000 crores in January 2020 to Rs 14750 crores as of May 2023. This surge in activity wouldn't have been possible without Aadhaar, Digilocker, and UPI (India Stack). The credit goes to the government for enabling countless fintechs like Zerodha to be digital first.

The flip side of this is the impact of this sudden surge in activity on the market structure. This market phase also coincided with the introduction of several progressive and landmark regulations that have made the Indian markets among the safest globally. I am not just saying that as the head of an Indian brokerage firm, but having seen the market structure of larger markets like the United States and Europe. From 2020–23, the US markets saw several of the worst excesses, like the meme stock mania, the special purpose acquisition company (SPAC) boom and bust, and the mania in zero-day stock options.

The US markets also had to contend with their legacy issues with clearing and settlement. The other major debate around this time was the practice of payment for order flow. Unlike India, where all orders are executed on stock exchanges, most orders in the United States are executed off-exchange by market makers. This raises obvious transparency concerns.

In the same period, despite the dramatic spike in activity, Indian markets functioned without a hitch, barring the day when crude oil prices went negative and financial intermediaries faced issues. But this was a global issue and not an India-specific issue. This was possible due to the progressive regulations of SEBI, and I'll highlight a few key ones.

In 2019, SEBI made it mandatory for all securities to be settled to client demat accounts, which removed the scope for misuse of securities.

1. The depositories introduce the e-DIS (Electronic delivery instruction slip) and TPIN mechanisms, removing the need for a power of attorney (POA).
2. Starting in December 2020, SEBI implemented the peak margin requirement, which reduced the leverage in the system.
3. In 2023, SEBI introduced new rules around segregating and reporting client funds to clearing corporations.

So where are we today, and where do we go from here? The post-pandemic idiosyncrasies disrupted a lot of trends, but they have largely resolved themselves. The world is also a much gloomier place today. Interest rates in advanced countries are at levels we haven't seen in 15 years. Money now has a cost. As interest rates rose, the euphoria of the last 3–4 years has all but disappeared. Most measures of stock market participation are slowly reverting to pre-pandemic trends, but overall participation remains much higher than pre-pandemic levels.

Despite the post-pandemic bump in stock market participation, the biggest challenge for Indian markets is their shallowness. There are just 3.37 crore unique mutual fund investors; if you add unique demat accounts, the total number goes up to maybe 6–7 crore. Pre-pandemic, this was maybe less than half. So, that's the size of the investor base in India. It gives you an idea of how far we have to go.

Where do we go from here?

The short answer is, I don't know. Having said that, India is one of the rare bright spots in an otherwise gloomy global economy. I'm not just saying this as an Indian bull, but there aren't a lot of markets globally that offer the same opportunity set. We're seeing what's happening in China, despite the opportunity set, the lack of legal protections is forcing investors to flee the markets. But that doesn't mean we don't have challenges. If there's a recession in the US and other advanced markets, India cannot remain unaffected. But we will outperform on a relative basis.

While the Indian economy is on the cusp of taking off, there's a lot of work to be done. Despite all the progress on ease of doing business, a lot more can be done to encourage startups and simplify regulations. One of the greatest blessings for India is its demographic divide, but it may also become a curse given the recent advancements in artificial intelligence (AI). Automation seemed like a distant threat for a long time, but this time it feels different. The Indian youth are dramatically underskilled, and this is a huge issue. Our governments should operate under the default assumption that advancements in AI will cause massive societal upheaval.

Then there is climate change, the mother of all existential issues. It might sound odd to talk about climate change in the context of financial markets, but if humanity as a whole is doomed, what good is it if the stock market goes up? Climate change is a social, economic, financial, and existential risk all rolled into one.

But coming back to the markets, I recently shared a tweet about how the Indian markets, despite being at lifetime highs, have no momentum. Activity in the markets on most metrics is moderating. If economic risks in advanced economies materialize, our markets will be affected. Again, it may be fair to assume that we won't see a roaring bull market in the foreseeable future.

But to reiterate, despite the moderation in the past year, market participation is much higher than pre-COVID levels. All the developments in Aadhaar, UPI, and Digilocker have made it possible for any fintech to be fully online and serve all Indians without the need for a large physical footprint. One of the more exciting developments in the India Stack is the operationalization of the Account Aggregator framework. Now fintechs have easy access to the banking, insurance, and investment data of all Indians with their consent. This will spawn numerous businesses, which will further feed the virtuous cycle of the deepening of the financial markets.

Having said that, when the next bull market comes, our financial markets have never been more prepared to handle it. All the regulatory changes in the last five-odd years have made our markets more resilient. These regulations have ensured that systemic risks don't accumulate in under-observed and lightly regulated areas of the markets. The odds of rude surprises are far lower than ever. That doesn't mean things won't happen, but thanks to the proactive regulatory framework, our financial markets are more than prepared to handle the next leg of growth.

Fund raising by REITs, InvITs & new age companies – Evolution of the Indian capital markets

Rajiv Anand
Dy.Managing Director
Axis Bank Ltd.

The Indian capital markets have undergone a remarkable transformation, marked by the advancement of Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), and the ascent of innovative enterprises. These developments have not only presented investors with fresh avenues for portfolio diversification and expansion, but have also created unique opportunities for companies to secure capital.

Since their inception, these innovative investment vehicles have captured the attention of both institutional and non-institutional investors, offering a gateway to diverse sectors backed by tangible assets such as power transmission, roads, renewables, telecom towers, pipelines, office and retail spaces.

With robust regulatory frameworks established by the Securities and Exchange Board of India (SEBI), these REITs and InvITs provide a level of checks and balances that attract investors who may have been hesitant to explore these sectors in traditional equity structures. As a result, market participation has gained momentum, leading to the successful listing of four REITs and 19 InvITs, paving the way for a promising future. These have an approximate total asset under management of INR 3.5 trillion.

Although the initial progress has been gradual, certain segments such as telecom infrastructure, data centers, ports, warehousing and logistics, gas pipelines, power generation and distribution, education infrastructure, hospitals, hotels, railway tracks, and waste management exhibit tremendous growth potential. By adhering to listed security standards and embracing stringent corporate governance measures enforced through SEBI's regulations, these investment avenues provide an inclusive platform for all categories of investors — small and large, risk-seeking and risk-averse, domestic and foreign — to actively participate in India's infrastructure development journey within the world's largest democracy.

Potential of these new investment vehicles in India

India stands at a critical juncture in its economic journey, aiming to achieve a GDP of USD 5 trillion by 2024-25. To support this ambitious goal and sustain high single-digit real GDP growth while generating substantial employment opportunities, the country needs to invest approximately USD 1.4 trillion in its infrastructure. However, such a massive scale of infrastructure spending requires innovative approaches to attract private capital, given the fiscal constraints faced by the government.

One of the significant challenges lies in the limited balance sheets of infrastructure developers. The current financiers, including banks and non-banking financial companies (NBFCs), which account for around 95% of infrastructure debt, cannot bear the burden alone. Furthermore, the lack of access to a vibrant corporate bond market exacerbates the issue. Consequently, the ability to monetize stabilized assets and channel capital towards new development projects becomes paramount.

In this context, InvITs emerge as an ideal solution for developers to unlock capital, particularly for infrastructure assets with predictable cash flows, such as roads, transmission lines, gas pipelines, and more recently, telecom infrastructure and renewables. Preliminary calculations reveal a significant pool of approximately USD 130 billion worth of monetizable assets across sectors like roads, power transmission, renewables, data centers, and telecom infrastructure that can be transformed through the InvIT model. Looking ahead, the pipeline for InvITs is estimated to reach approximately INR 1.5-2 trillion (USD 28.6 billion) over the next five years.

Based on our estimates, there is a vast potential of USD 170-185 billion in InvIT-able assets across the country, encompassing renewables (USD 69 billion), transmission (USD 40 billion), and transportation infrastructure (USD 26 trillion). Even in sectors like utilities, which offer a clear income stream, there is substantial room for growth. For instance, India currently boasts 593,000 tower assets, of which only around 30% have been InvITed, leaving a potential of approximately USD 30 billion for future InvIT projects. Moreover, in segments like LNG terminals, gas networks, and city gas distribution, there exists immense untapped potential for InvITs. Additionally, to accommodate the high infrastructure spending requirements, securitizing gas pipeline networks, valued at USD 10 billion, can serve as a viable financing option.

The investor-friendly regulations surrounding InvITs have attracted renowned market participants, including KKR, Brookfield, L&T, CPPIB, GIC, and others, who have actively invested in various InvITs. Moreover, InvITs, characterized by their liquidity, long-term investment nature, and stable returns, prove to be an attractive proposition for institutional investors such as insurance companies, pension funds, and provident funds.

REITs, on the other hand, serve as investment vehicles that allow individuals to partake in the returns generated by income-yielding real estate assets, such as commercial properties and shopping centers. InvITs, on the other hand, enable investors to participate in income-generating infrastructure projects, including roads, power plants, and ports. These investment options have effectively democratized the real estate and infrastructure sectors, once predominantly accessible to high-net-worth individuals and institutions.

Data from JLL India reveals that the Indian commercial real estate sector boasts a substantial portfolio of rent-yielding Grade A office spaces, covering an extensive area of 393.7 million square feet. These assets hold significant potential for listing through a Real Estate Investment Trust (REIT), with the combined value of REITable assets surpassing $61 billion across the top seven cities.

The growth trajectory of office spaces managed by Real Estate Investment Trusts (REITs) in India has been remarkable, with their footprint expanding three-fold from 24.8 million square feet as of March 2019 to an impressive 74.4 million square feet by March 2023. This surge in size has been accompanied by a substantial upswing in the revenues generated by REITs, owing to their ability to enhance lease rentals within their portfolios. Notably, over the past three years, these portfolio lease rentals for REITs have demonstrated a commendable compound annual growth rate (CAGR) of 5.5%, surpassing the more modest CAGR of 2% observed for comparable non-listed assets.

The advent of REITs and InvITs has brought forth several advantages within the Indian capital markets. Firstly, it has unlocked the latent value of real estate and infrastructure assets that were previously illiquid and difficult to capitalize on. By securitizing these assets and presenting them to investors, companies can procure funds for further development and expansion. Secondly, REITs and InvITs offer investors a reliable stream of income through dividends, as the underlying assets generate rental or toll income. This provides investors with a stable and dependable investment avenue, particularly those seeking consistent returns in their portfolios.

Furthermore, the inclusion of REITs and InvITs within the Indian capital markets has engendered greater transparency and adherence to corporate governance standards. To secure listing as a REIT or InvIT, companies must conform to stringent regulations encompassing asset valuation, disclosure obligations, and governance practices. This has resulted in heightened accountability and transparency, fostering investor confidence.

In addition to REITs and InvITs, the capital markets of India have witnessed the ascent of new age companies. These enterprises, often in the domains of technology and e-commerce, have garnered considerable attention from investors due to their disruptive business models and potential for rapid growth. Many of these companies have opted to go public through initial public offerings (IPOs), granting retail investors the opportunity to partake in their growth trajectory.

The rise of new age companies within the capital markets has brought forth a fresh wave of enthusiasm and investment prospects. These companies have introduced innovative products and services, reshaping traditional industries and seizing market share. The IPOs of such companies have attracted significant investor interest, resulting in oversubscribed offerings and substantial post-listing gains.

Conclusion

As the Indian capital markets continue to evolve, it is evident that these transformations will continue to shape and enhance the investment landscape, providing investors and companies with a promising future of prosperity and development.

To realize the full potential of these investment vehicles, it is crucial to continue nurturing a conducive regulatory environment, fostering innovation, and streamlining the process of asset monetization. Policymakers, market participants, and stakeholders must collaborate closely to address any challenges that arise, ensuring the sustainable growth of the InvIT ecosystem.

By harnessing their power, India can propel itself closer to its economic aspirations, forging a path towards inclusive development, job creation, and a brighter future for all.

Governance and Indian family businesses - Are Western models of governance the only option in the changing world?

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Family Governance in India: The Context of the Hindenburg Report

The Hindenburg Research, an investment research firm, issued a research report on the state of governance of Adani Group on 24th January 2023 and made various allegations against the Adani Group, an Indian multinational conglomerate.[1] On account of this report, by early March 2023, the market capitalisation of the 8 companies in the group fell by US$ 143.7 billion.

The Hindenburg report highlights governance risks and describes "Adani Group as a family business" with significant entrenchment by family members with all significant decisions and positions in the group in the hands of the family. This according to them is a key investment risk and a cause of grave concern.

Among other allegations of fraud and enrichment, one of the key reasons Hindenburg recommends short selling is due to the poor state of governance within family businesses in India. Without getting into the merits of all other allegations by Hindenburg, we will provide our perspective on the context of corporate governance in family businesses in India.

Corporate Governance at Family Firms: What is at the helm?

Indian businesses are characterised by being overwhelmingly dominated by the owners, where families often hold controlling ownership. As an example, among the top 1000 listed companies as on 31st March 2022, 849 companies are family businesses with average promoter/owners' holding of 55 per cent. The market capitalisation of these companies on 31 March 2022 is nearly US$ 3 trillion.[2] This is nearly the size of the Indian GDP in US dollar terms. The remainder of the top 1000 companies is government-owned or trans nationals with a sprinkling of companies with dispersed ownership including internet companies.

Family business groups in India and many other emerging countries represent a unique governance model different from the Anglo-Saxon model of corporate governance emulated in the West. Nearly 85 per cent of businesses are owned and managed by the family firm, making this a prevalent form of ownership in the Asia-Pacific region.[3] Similar is the case in Latin America, family businesses are dominant from small to large corporates contributing nearly 60 per cent of the GDP of the region.[4] While family businesses have their unique strengths and benefits, they also face unique challenges, particularly when it comes to corporate governance because of the unique dynamics that exist within these businesses.

The composition and prevalence of family businesses are deeply embedded in the social fabric of India or its caste systems, which nurtured and valued specialised persons who ran businesses for generations. They invest their own finances, when the capital was scarce, took the capital and personal risks and created value for the entire society by providing access to the trade of goods and services. In later years, as the caste system broke down and finances and expertise became available, more people from other castes or different social backgrounds formed businesses. A system of governance of a business cannot be seen in isolation but as a mirror of society, where family values and codes play a significant part in the conduct of business and societal dealings.

From another perspective, many of the country's leading corporations are owned and managed by business families like Reliance, Tata, Bajaj, Adani, Murugappa Chettiar, Birla Aditya and Mahindra and some of the groups are more than 100 years old being managing agents in the pre-independence era. The dominance and contribution of some of these business groups cannot be overemphasised as 22 business groups control over 110 of the top 1000 listed firms. These firms have a market capitalization of US$ 1.81 trillion which is nearly 52 per cent of the market capitalisation of all the listed firms in India.[5]

Family businesses, on the positive side, can provide stability to the business with patient capital and long-term commitment. They are more likely to reinvest profits in the business, take a long-term view of its strategic direction and build are successful in building sustained value for their stakeholders.

Family businesses, however, are often characterized by complex ownership structures and a blurring of lines between ownership and management. High ownership concentration poses a corporate governance challenge through the agency conflict between principal-principal (dominant and minority shareholders).[6] Controlling shareholders by virtue of voting and control powers may be involved in expropriation, taking decisions in their own interests but jeopardising corporate performance and the interests of minority owners as a consequence. It may create an uneven playing field for minority shareholders and can lead to a lack of transparency and accountability in the governance of the business.

Entrenchment also stems from a sense of entitlement among family members, and a high degree of emotional attachment to the business leading to disagreements and conflicts over the direction of the business. High ownership concentration along with weak protection of minority shareholders poses a significant corporate governance problem in India and not necessarily answering the fundamental question – what is the best for all shareholders? *Does India have checks and balances to effectively check the overreach of family owners?*

The Governance Regulatory Framework – Are they Adequate and Aligned?

Like in any society, many business families or owners were not ethical and had a low moral compass, causing losses to banks, employees, creditors, government with impunity while getting unjustly rich at the cost of common citizens. The issue of governance needs to be seen from a holistic perspective and not from a fear of misgovernance that controlling ownership can result in or have done in the past.

India ranks 13th position in providing minority rights to shareholders on the Ease of Doing Business Index 2020 of the World Bank. Both the Companies Act, 2013 and Listing Obligations and Disclosure Requirements (LODR) for listed companies by the Securities and Exchange Board of India (SEBI) provide provisions and oversight responsibilities for the officers, board, independent directors, auditors and other gatekeepers to rebalance equity and fairness in corporate dealings and grave failures have punitive criminal consequences.

Laws require the appointment of independent directors and audit committees, with a majority of independent directors in such committees for all listed companies. The board affirms statements about their responsibilities on presenting fair financial statements, oversight of internal controls, fraud prevention and overall safeguarding of the assets of the company. They become liable if later such statements become untrue especially when a material fraud is uncovered.

The related party transactions (RPTs) pose a significant governance challenge and regulators, businesses and government have extensively deliberated and over a period created safeguards for the protection of the minority shareholders. Laws require companies to disclose a board-approved RPT policy and all such transactions be approved by the audit committee and Board of Directors as being on arm's length and done in the ordinary course of business. If RPT exceeds a threshold limit approval of shareholders through resolution is required and such transactions have to be approved exclusively by the minority shareholders. Additionally, minority shareholders have the right to question RPTs and can also approach the Company Law Tribunal if they believe that RPTs are prejudicial to their or the interests of the company.[7]

Transparency and accountability are also essential for effective corporate governance in family businesses. Family members may be tempted to make decisions based on personal interests rather than the company's well-being. Regular audits and reviews by independent external auditors under the regulations, such as Manufacturing and Other Companies (Auditors Report) Order, 1988 in line with the Companies 2013 set the accountability and liability of independent auditors similar to many jurisdictions where such laws are enacted. Adoption of related party accounting standards (AAS, 18) had been significant in improving corporate transparency, particularly group affiliates.

The disclosure and transparency norms are framed with reference to best global practices for the protection of minority shareholders, investors and other stakeholders. Listed companies through a quarterly and annual corporate governance report inform all stakeholders of the firm structure, functioning and financial and non-financial aspects of the business.

Insolvency laws have seen owners losing control over their businesses which are poorly run, which earlier got bailed out by the bank and in case of any fraudulent practices such owners were also framed under criminal laws. In earlier days, *there was a saying that there are no owners but just poor companies!* This has been a wake-up call for business owners to perform for the business or lose it.

Enforcement of the law, when any dereliction of duties by key players is observed, is fundamental to maintaining the rule of law. The SEBI, the market regulator in India, in its legislative capacity, can conduct investigations, substantially pass orders, seek information from any person or entity, and put strict sanctions for breaches of securities laws. Annual report of the SEBI show speed in their enforcement actions where 541 companies being suspended from participation in the capital markets, 4961 promoters/ promoter group entities have dematerialised share trading account frozen and Rs. 663 crores of fines levied on companies for irregularities and non-compliance in the last five years from 2017 -2022.[8]

Conclusion and Way Forward

Family businesses will always be an integral part of India and a Western model of evaluating governance on a model based on dispersed ownership and a large agency gap between owners and managers is not necessarily applicable to our context. Even in the USA, founders especially in technology companies like Apple, Microsoft, and Cisco to name a few have run their companies for decades. Hence, there is no one size that fits all.

Indian businesses are continually evolving as the world gets globalised and their increasing focus on transparency, accountability and good management practices helps balance family interests with the needs of the company and its stakeholders. Indian laws acknowledge the reality of concentrated ownership and have created oversight within the company through a series of gatekeepers and regulators to be effective and deliberate in dealing with infractions.

To address governance issues and gain the trust of stakeholders, family businesses need to strengthen their corporate governance both in spirit and in law. This possibly takes India to the global leader board for protecting minority rights in the face of an overwhelming majority of owners of businesses. By focusing on long-term sustainability rather than short-term profits, family businesses can build a strong foundation for future growth and success.

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[8] The SEBI Annual Report, 2017 to 2022

Post-Listing Special Rights of the Pre-IPO Shareholders

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Introduction to special rights:

In the pursuit of obtaining private equity/ strategic investments for a company prior to its initial public offering ("**IPO**"), strategic measures are employed, wherein the company extends special rights to its pre-IPO investors. These specialised entitlements find their formal expression within Shareholders' Agreements ("**SHAs**") that are executed between the company and its pre-IPO investors or promoters/ founders, and as well as the Articles of Association of the company ("**AoA**"). By articulating these rights, companies establish a clear framework, and defines relationships with their pre-IPO investors and promoters/ founders. These special rights play an important role in attracting investments by offering added benefits and protection to pre-IPO investors and promoters/ founders and exits in case of liquidity events such as IPOs.

The spectrum of these distinctive rights exhibits considerable variation among companies, as they are contingent upon the specific requirements articulated by the respective investor, promoter, or founder. Noteworthy among these privileges are as follows:

(i) Nomination rights, which empower the investor or promoter or founder to nominate individuals for pivotal positions within the company.
(ii) Veto rights, or alternatively known as affirmative voting, endow the investor or promoter or founder with the authority to exercise a veto or grant consent with regard to significant matters.
(iii) Information rights entail access to pertinent company information, ensuring transparency, facilitating well-informed decision-making, and monitoring the investee company's performance.
(iv) Anti-dilution rights, which serve as safeguards against the dilution of the investor's or promoter's/ founder's ownership stake in case of subsequent funding rounds.
(v) Divestment rights, which furnish the investor or promoter or founder with the prerogative to divest their investment under specific circumstances.
(vi) *Inter se* share transfer restrictions, including, such as –
   (a) The right of first refusal conferring upon the investor or promoter or founder the initial opportunity to acquire additional shares by either accepting or refusing an offer from a selling shareholder after the selling shareholder has received a third party offer for its shares.
   (b) The right of first offer providing the investor or promoter or founder with the right to make an offer for the selling shareholder's shares before the selling shareholder can solicit for third party offers for its shares.
   (c) Tag along rights or co-sale rights allowing the investor or promoter or founder to partake in the sale or acquisition of shares alongside majority shareholders.
   (d) Drag along rights allowing a majority shareholder to force a minority shareholder to participate in the sale or acquisition of shares alongside majority shareholders.

In the subsequent sections, we will delve into an overview of the treatment of existing special rights during an IPO in India. Furthermore, we will discuss the latest advancements in this area, notably the obligatory periodic approval of special rights in listed companies, as well as the disclosure obligations pertaining to material agreements, encompassing *inter se* agreements and the Shareholders' Agreements (SHAs), in the context of listed companies in India.

Special rights in IPO bound companies:

Regarding special rights in listed companies, it is worth noting that investment protection rights or governance rights are now widely recognized as separate from control in the context of a listed company. Consequently, it is not uncommon to encounter such rights within a listed company's Shareholders' Agreements (SHAs) or Articles of Association (AoA). While listed companies are permitted to possess a wider range of special rights, the regulatory standards applicable to IPO companies necessitate a certain level of parity between existing shares and shares to be issued or allotted during the IPO process. Accordingly, pre-IPO special rights are typically required to be terminated prior to the company's listing.

While special rights give protection and participation to an investor till a company is well established in scale and size, it becomes necessary to reassess these rights when the company considers going for an IPO. This re-evaluation is driven by regulatory expectations that aim to ensure equity between IPO and post-IPO shareholders by eliminating certain privileges. Historically, the expectation was that all rights would terminate upon listing, with only nomination rights, and occasionally information rights, surviving subject to post-IPO shareholder approval. However, in recent times, Securities and Exchange Board of India ("**SEBI**") has adopted a different perspective regarding the inclusion of special rights, expressing dissatisfaction with any form of such rights in the Articles of Association (AoA) of a company seeking an IPO. Furthermore, recent position suggests termination of all special rights before filing the red herring prospectus, with a few exceptions made for nominees who are allowed to complete their existing term. It is important to note that this stance does not stem directly from a change in regulations but is based on SEBI's recent observations on specific ongoing transactions. Consequently, there has been a rise in unpredictability concerning the continuation of basic special rights, even until the listing stage. In certain cases where deals are at an advanced stage, companies are compelled to terminate all special rights before filing the red herring prospectus. In other instances, companies are grappling with the implications of these observations, exploring different scenarios and combinations.

The legal framework applicable to companies going for an IPO, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, requires an issuer to provide a statement in the offer documents that the shares allotted in the IPO will be equal in all respects, including dividends, with the existing shares issued by the company prior to the public issue, excluding SR (Superior Rights) equity shares. This the closest legal provision requiring a clean-up of the special rights during the listing process.

(i) Special rights (particularly nomination rights) rights provide a valuable advantage to public shareholders by enabling them to have the presence of experienced and knowledgeable investor nominees who bring significant expertise to the boardroom discussions. These mature and long-term investor nominees possess a high calibre of skills and knowledge that can greatly contribute to the decision-making processes within the company. Their participation in company's management adds value by offering unique perspectives, strategic insights, and informed guidance.

(ii) While same class shares of a listed entity may possess equal rights, it is important to acknowledge that shareholders themselves are not always on equal footing. Promoter shareholders differ from other public shareholders due to additional regulatory and contractual obligations they bear, including:

(a) Liability in case of misstatement in prospectus: Promoters carry the liability for any misstatements or omissions in the prospectus.

(b) Promoter contribution requirement: Promoters are typically required to bring in the minimum promoter's contribution, which requires them to hold 20% of the post-IPO capital of the company which is locked-in for a period of 18 months to three years from the IPO.

(c) Exit option for dissenting shareholders: In case of a change in the objects of an IPO, promoters are obligated to provide an exit option to dissenting shareholders.

(d) Ongoing regulatory obligations: Promoters are subject to various regulatory obligations, including maintaining minimum public shareholding levels and fulfilling reporting requirements.

(e) Contractual obligations in capital markets transactions: Promoters often have contractual obligations arising from IPO.

These additional regulatory obligations and contractual commitments are partially offset by the special rights that promoters can continue to enjoy after the listing. Moreover, it is worth noting that in the case of numerous companies, particularly those in the new-age technology sector, significant dilution in funding rounds leading up to an IPO has resulted in founders holding only a negligible stake in the company. In some situations, despite holding slightly above 10% of the shareholding, these founders are urged by regulators to be recognised as promoters. However, they lack the necessary voting power to pass resolutions through their own votes. In light of this situation, special rights such as nomination rights are of great importance for these founders/promoters, as they possess invaluable know-how and have painstakingly built the company's business from the ground up.

(iii) In the present business environment, it is not uncommon to find companies with private equity or private equity-backed promoters. For these entities, the designation of being a promoter of a listed company holds significant commercial relevance, often tied to specific structures and accompanied by special rights. However, if the ability to retain these special rights after the listing process is limited, it could potentially deter foreign investors from engaging in the Indian market.

Following the recent amendment to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), which is discussed below, it is evident that inclusion of special rights is allowed in the Shareholders' Agreements (SHAs) and Articles of Association (AoA) of listed companies, provided they receive shareholder approval. However, the same dispensation has not been extended to "to-be-listed" companies without any apparent justification. There seems to be a lack of rational connection between the treatment of listed and "to-be-listed" companies in this regard. Furthermore, the insistence to terminate special rights at the time of filing the red herring prospectus (which was previously required before listing), with only limited exceptions granted for nominees to complete their existing terms, is undeniably stringent. It is important to note that the filing of red herring prospectus is still approximately two weeks away from the deal's completion, and even then, it does not guarantee the occurrence of the deal.

Periodic approval of special rights in listed companies:

In a recent consultation paper on regulatory reforms pertaining to special rights, SEBI highlighted two key observations. Firstly, SEBI noted that the voting patterns of certain companies, particularly those in the new-age tech sector, which recently underwent the listing process, indicated concerns raised by public institutional shareholders regarding the conferment of specific special rights to promoters, founders, or certain corporate bodies associated with the founders.

Secondly, SEBI pointed out that in some of these companies, the prevailing practice was to allow these shareholders to enjoy special rights indefinitely, regardless of their shareholdings, which is against the principle of rights being proportional to one's holding in a company and the requirement under the Listing Regulations for the listed companies to ensure equitable treatment of all shareholders.

In India, promoters, or founders of certain categories of to-be-listed companies are allowed to receive Superior Voting Rights (SR) shares, which have a maximum validity period of 10 years after listing. To ensure that special rights do not continue indefinitely, SEBI deemed it appropriate to introduce a periodic approval mechanism for special rights every five years, subject to shareholders' consent. Additionally, the existing special rights are now required to be ratified with shareholders' approval. These regulatory changes have been implemented through the inclusion of Regulation 31B in the Listing Regulations.

The conditions for obtaining periodic approval of special rights are as follows:

(i) Any special right granted to a shareholder of a listed company is subject to receiving approval from shareholders through a special resolution in a general meeting once every five years, starting from the date of granting such special right; and

(ii) Existing special rights that are already in place for any shareholder of the listed company is subject to obtaining approval from shareholders through a special resolution within a five-year period from July 14, 2023, which is the date on which Regulation 31B of the Listing Regulations came into effect.

Special rights under lending arrangements and debenture subscription agreements:
Special rights granted to financial institutions regulated by the Reserve Bank of India or to debenture trustees registered with SEBI, as part of lending arrangements or subscription agreements for debentures issued by a listed company, fall outside the scope of the regulations governing special rights applicable to shareholders of a listed company. Furthermore, even if a lending institution or a debenture trustee becomes a shareholder of a listed company as a result of lending arrangements or subscription agreements for debentures and subsequently enjoys specific special rights within the listed company, they are exempted from the requirement of obtaining periodic approval from shareholders as outlined in Regulation 31B of the Listing Regulations.

Disclosure of Shareholders Agreements (SHAs) and inter se agreements in listed companies:
As per recent changes to the Listing Regulations, agreements such as *inter se* agreements, or SHAs (irrespective of their inclusion in AoA), among others, which have an impact or potential impact or whose purpose is to impact the management or control of the listed company, or impose restrictions, liabilities, or obligations on the listed company, are required to be disclosed to the stock exchanges. In addition, even if the listed company is not a party to such agreements, agreements entered by certain persons (as specified in the table below) among themselves or with the listed company or a third party, either individually or collectively, are required to be disclosed. Furthermore, any rescission, amendment, or alteration to such agreements are also required to be disclosed. These changes have been implemented by introducing Regulation 30A, clause 5A to paragraph A under Part A of Schedule III, and paragraph (G) under Schedule V in the Listing Regulations.

The following are the disclosure requirements for the aforementioned agreements:

Parameter	Future agreements	Existing and subsisting agreements
Parties to the agreement	Shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel and employees of a listed company or of its holding, subsidiary and associate company.	Shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel and employees of a listed company or of its holding, subsidiary and associate company.
Timeline to inform the listed company if it is not a party to the agreement	Within two working days of entering into such agreements or signing an agreement to enter into such agreements.	Within the timelines to be specified by SEBI in this regard.
Disclosure to stock exchanges under Regulation 30 of the Listing Regulations by the listed company	Within 12 hours of signing of the agreement or approval to sign the agreement if the listed entity is a party to the agreement, and 24 hours if the listed entity is not a party to the agreement.	Within the timelines to be specified by SEBI in this regard.

Disclosure in the annual report	Yes, these are required to be disclosed in the annual reports, with effect from July 14, 2023.	An executive summary of such agreements, including the number of agreements and the salient features, will be disclosed in the Annual Report for FY 2022-23 or FY 2023-24 along with a link to the exact webpage where the complete details are available (if companies are unable to disclose the executive summary in the Annual Report of FY 2022-23, the same will be disclosed in the next financial year i.e., FY 2023-24).

Furthermore, agreements entered into by a listed company in the normal course of business are not required to be disclosed unless they have an effect on the management or control of the listed company, or they are required to be disclosed in terms of any other provisions of the Listing Regulations.

Uncertainty of special rights:
The granting of special rights in a company entails the delicate task of managing various stakeholders' expectations while establishing a framework for the involvement of promoters, founders, and investors in the company's governance. A stable and predictable environment for special rights is necessary to foster investor confidence and encourage meaningful engagement in the company's governance. However, the availability and certainty of basic special rights, such as nomination rights and information rights, have become increasingly uncertain for companies pursuing an IPO or those already listed. This uncertainty poses challenges for investors who rely on such rights to make long-term strategic decisions.

Furthermore, the requirement for periodic ratification of these rights introduces the risk of losing them, which may disincentivize investors. Special rights are typically perceived as essential for enabling investors' strategic involvement, and their loss can diminish the value of investor protection measures.

In light of these considerations, it is important to carefully navigate the complexities surrounding special rights. Striking a balance that safeguards investor interests while ensuring transparency and accountability is a crucial aspect that needs to be addressed.

Should you invest in Monopoly or Dominant businesses?

Devina Mehra
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We are all familiar with those Do-it-Yourself investing principles that are supposed to make investing simple and profitable, so simple that the man or woman on the street can do it easily and effortlessly to make super normal Returns.

One of the favourites in this genre is, "*Buy monopoly businesses. Buy the largest company in the sector, with the strongest brand. You can't go wrong with the 800 pound gorilla in the business.*"

But, what does history show? Remember Nokia, Kodak, BlackBerry (Research in Motion) - all dominant businesses where magazine covers used to be about whether anyone could ever catch up with them? Where are they now?

You may say that this is the nature of technology businesses.

But it is not as simple as that.

In any case, when Kodak was running its film based business, nobody thought this was a fast moving high tech area. The issue is far more fundamental.

For one, when a company is the dominant player in the business, even if it does nothing wrong at all, any new player in the business will end up taking share and sales away from it.

When you have 60 or 70% market share in a business, as Bajaj Auto did in scooters or Maruti in cars before new foreign players came in, it is a given fact that the new players will take away some sales from the incumbent.

For the largest player in the market, it is nearly impossible to grow faster than the market, whereas for a new or smaller player taking away 1%, 2%, 5% share is not such a big deal.

This is the reason why growth projections for smaller players have very little to do with what is happening to the economy at a macro level, or even for that particular industry.

When a small regional player launches a biscuit brand or inexpensive washing powder, it is not banking on overall market growth but on only nibbling away the share of 'The Big Daddy' in the business.

When Tata Motors took over Jaguar Land Rover (JLR) and introduced some great new models in Jaguar, it was able to grow sales far faster than its competitors. This was something we had bet on as we realised that it had only 4-5% global market share in luxury cars at that time. Hence, it was not that dependent on the overall growth in the luxury car market.

Another issue is that a new player can target niches. For example, in a paint or dyes business, a new entrant can target a particular type of dye or paint - let us say, an exterior paint only, rather than compete with the dominant player across segments.

In other businesses like detergent, hair oil, tea or confectionery, small players can target certain states or regions, and can even tailor their product according to the preferences of that particular region.

That is how many players have made dents in market shares of larger players in these businesses. Oftentimes, this story ends with bigger players like Hindustan Unilever or Dabur or Marico having to then pay a premium price to acquire these brands and their market share, as otherwise their own market share keeps getting chipped away.

What also happens is that often the new player cuts prices, gives discounts or gives freebies like free service on vehicles or appliances. This becomes an issue for the Number One company in the business which has to decide whether to follow.

This became clear during a case discussion back in my MBA days where the case study was about a new entrant in a business cutting prices.

The professor asked one of us what the dominant player in the business would or should do? The student said it would match the discounts. The professor than asked us to calculate how much of a hit the bigger player would take on its large revenue base if it goes to match the pricing of the smaller player and it became clear that the impact would be huge.

It also happens that smaller and later entrants often have lower cost structures and overheads compared to the old established companies which tend to accumulate legacy costs over a period of time. Their pay structures are higher, they may be using more expensive equipment and have better facilities and offices in keeping with their reputation and history.

Basically, it becomes a big decision for the incumbent to either follow the smaller player and take a hit on its margins and lose a hefty amount of profits on its high revenue base or cede the market share to the new entrant.

It is, in any case, a good exercise to see how the so called brand value of a company is getting captured in the financials. For example, 20 years ago the FMCG companies in India like Hindustan Unilever, Nestle, P&G etc did not have very high EBITA margins but their brand value was captured in their leverage over the distribution chain where they got money in advance from the distributors and had a negative working capital cycle. Now, margins are higher but as retail gets more organised in India, the bargaining power of the manufacturers versus the trade is reducing.

Often, the biggest player in a market has a choice in terms of pricing and companies can opt for different options that determine their profit and margin trajectory.

Amazon, for instance, deliberately keeps pricing and margins extremely low, specially in new businesses it enters. For example, when it entered cloud computing, it did so at prices which did not appear to make economic sense. The reason? It did not want to make the business too attractive for other entrants...and the strategy worked!

A business that is growing well or has high margins is a double-edged sword as it becomes attractive for new players as well.

Look at Nyaaka, for instance. As I write this in 2023, it is the dominant player in the beauty D2C (Direct to Consumer) business but after they have created the business, it is far easier for other players to enter. The exception to these rule is platform businesses, where when a large community of buyers and sellers are on a platform that in itself becomes an entry barrier.

Whichever way you look at it, it is virtually impossible for the dominant player in a market to grow faster than the market itself, whereas that is not a constraint for its small competitor.

It is also mostly true that the big disruptions in a business come from new entrants or smaller players. It is extremely difficult for a giant to do this, especially when it involves destruction of its current cash generating business.

A famous example of this: Kodak had the digital camera technology but could never scale it up as it would have destroyed their existing business. It was making most of its money in selling and processing films rather than selling cameras and this business would have taken a crippling hit had they scaled up the digital technology.

Of course, we know how that story played out with their business getting disrupted anyway and their going out of business.

There is also some inertia when you have a substantial profitable business and the new business is too small to get top management focus. When your main business is generating billions, how do you get adequate focus on something which is only a couple of millions at the moment. Whereas some smart group of youngsters with their startup maybe giving their all to that small nascent business.

Microsoft, for instance, with its cash generating existing businesses missed out opportunity after opportunity in internet browser, search, cloud computing and more - it has caught up only recently in some of these under Satya Nadella's leadership.

Until now, we have only been talking of business issues which can derail the story for a dominant company in a business. An additional complexity as an investor, arises when you buy a big dominant company at the wrong price.

Even if there are no big disruptions to its business, it may still be an underperformer, even over a long period of time.

A good example of this is Coke which, over a period as long as 30 years (1993-2023), has gone up only 12 times - when the S&P 500 has gone up 16.5 times over the same period and Pepsi 19.5 times.

In India too, large branded companies have underperformed for lengthy periods - a good example being Hindustan Unilever that underperformed massively from 1999-2010...a period during which its business also showed very low growth.

Or Colgate India that saw a stock price decline of 75% over the 9 years from 1993 to 2002!

Or Bata, which gave zero returns over a 15-year period from 1994 to 2009.

Moral of the story: Buying companies with large market share and established brands will not lead you to investment Nirvana. A whole lot of additional analysis is needed.

And remember, a large market share can actually be a vulnerability, rather than a strength.

Future of Tech IPOs in India

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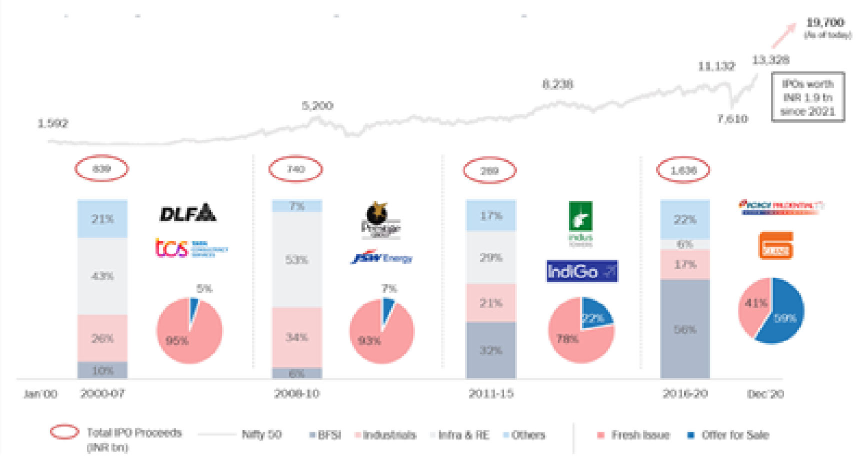
The past decade has been momentous for the Indian economy culminating into India becoming the 5th largest economy in the world. This pace of development has been on account of various tailwinds like an almost doubling of the GDP from ~USD 2 Tn in 2014 to ~USD 3.7 Tn in 2023 and FDI inflows of USD 600+ bn. Multiple government policy initiatives like Make in India, GST, PLI Scheme and Digital India have given a fillip to the economy transforming it rapidly into a digital one with digital transactions having a lion's share of 55% of the GDP in FY22. This has also led to India's emergence as the 3rd largest ecosystem for startups globally producing 100+ unicorns with a total valuation of USD 340+ Bn. Till FY17, approximately one unicorn was added every year, but since then this number has increased manifold across diverse sub-sectors like fintech, edtech, e-commerce, SaaS etc. Of all the unicorns in India, 41% were born in 2021 alone and 19% in 2022. Another theme that has emerged in the Indian markets is listing of companies in newer sectors like affordable housing finance, microfinance institutions, specialty chemicals, insurance and AMCs and market infrastructure institutions, amongst others.

Development in the overall economy was also reflected in the primary and secondary markets performance. India has witnessed tremendous growth in funds raised through IPOs coupled with Nifty 50 growing at a 12% CAGR (Fig 1). Different themes have emerged in the IPO market over time with the average IPO size increasing significantly from INR 400 Cr to INR 1,500 from 2004-10 to 2017-20. The OFS component in IPOs have increased from a meagre 5% in 2000-07 to a substantial 59% in 2016-20, with more private equity funds starting to monetize their stakes through IPOs. Newer instruments and asset classes have emerged with the introduction of REITs and InvITs attracting a new set of yield focused investors to the country.

Fig 1. Exponential growth in funds raised via IPO in line with overall growth in market indices



Fundraising activity from PE-VCs, which had started gaining momentum over the past decade, remained robust in 2021 with PE-VC investments in India peaking at ~USD 70 Bn with 2,000+ deals being signed. As these companies matured and gained significant scale, many of them have also started exploring public markets. The year 2021 ushered in the era of New-Age Tech Company ('NATC') IPOs in the Indian markets with companies across various tech sub-sectors raising funds aggregating to USD 5+ Bn. These IPOs, predominantly being FII led with strong DII and retail participation, were highly oversubscribed (10x to 45x), indicating strong investor interest; double-digit listing day returns bear testament to this fact. With these tech companies emerged another important concept of professionally managed companies – the concept of 0% promoter holding. This was otherwise rare in India, with the average promoter holding in top 500 listed companies being ~50%.

Fig 2. Major tech IPOs in India in 2021

The IPO euphoria in India in 2021 could be attributed to a few factors such as a liberal interest rate environment across the globe, leading to high liquidity chasing fewer investment opportunities. This was in tandem with various tweaks introduced by the market regulator SEBI in its regulations making certain exceptions for loss-making start-ups to also access the capital markets. 2021 also saw IPOs across various other sectors on the back of a China+1 strategy adopted by foreign economies, along with strong earnings and abundant liquidity.

However, with the Covid-19 after-effects playing out in the form of interest rate hikes across the globe to rein in inflation coupled with volatile markets due to geopolitical tensions, overall IPO activity in India also witnessed a slowdown. Despite that, 2022 witnessed India's largest ever IPO by LIC of USD 2.7 bn, predominantly led by DIIs. Mid-sized industrial IPOs continued to gain traction, mainly on account of the global movement away from China. Unlike FIIs which rode the IPO wave in 2021, DIIs played a major role in anchoring IPOs in 2022. Even the investor approach underwent a change with the focus shifting from not just growth but towards a clear path to profitability. Only one tech company, Delhivery, got listed in an extremely tough market environment in 2022, being subscribed only 1.6x times and seeing a meagre 10% listing day return, a marked difference from its counterparts in 2021.

Fig 3. Share price performance of listed tech companies

Prices are indexed to 100

With a shift in investor mindset towards profitability and positive cash flows, tech companies which had surfed the waves of euphoria in 2021 also started seeing corrections in their share prices starting end of 2021 (Fig 3.).

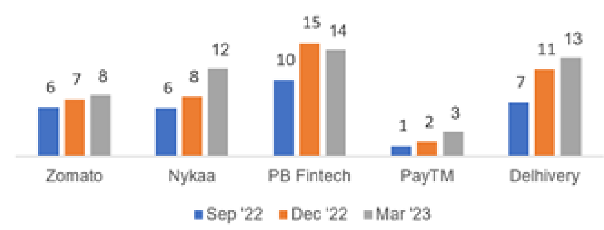
Fig 4. Recent block deal transactions in tech companies

That said, we've now slowly and gradually started witnessing some green shoots with secondary markets in the tech sector starting to get active with block trades of ~USD 3 bn, indicating strong belief of top FIIs, DIIs and Sovereign Wealth Funds ('SWF') in tech business models (Fig 4 & 5).

Fig 5. Top investors in Indian listed tech companies across investor classes:

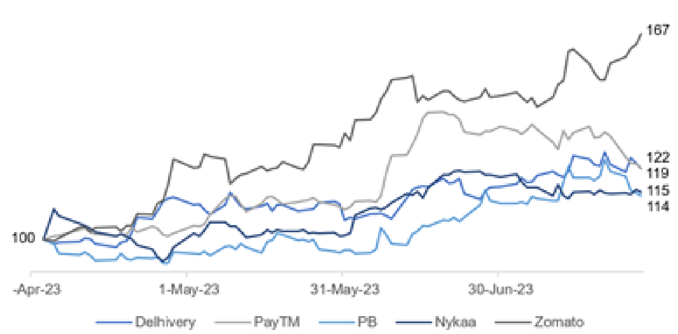
Empirically, secondary market performance is a leading indicator of primary market activity and accordingly, we expect IPOs of tech companies to gradually pick up pace in the coming quarters. On a holistic level, secondary markets witnessed considerable action over the past quarter with FIIs being net buyers of Indian equities worth ~USD 11.4 bn in Apr – Jun '23. Along with the increasing participation of FIIs, DIIs have generally increased their holdings in Indian listed tech companies in the past three quarters (Fig 6.).

Fig 6. DII holdings (%) in Indian Tech Cos over time



Given that investors have seen the performance of these tech companies for two years now, they have a better understanding of their business models and key drivers. Investors' focus has gradually shifted from growth towards profitability. Understanding this, companies have accordingly started to work on improving their profitability metrics which has also started reflecting in their share prices as they have jumped by an average of 15 – 20% over the past three months (Fig 7.).

Fig 7. Share performance of Tech Cos since Apr '23



Prices are indexed to 100

Accordingly, the bar for acceptance of tech IPOs has risen as most IPO-bound tech companies are not profitable yet. Based on feedback received from the investors, such tech companies are pivoting towards achieving steady positive cash flows and profitability for at least 2-3 quarters to build investor confidence and appetite before approaching primary markets. These tech companies have essentially started living a public life in a private environment to make themselves ready for capital markets when the opportunity arises.

Visualizing the IPO journey in advance is an important prerequisite for IPO-bound companies, which needs to start 2-3 years in advance by setting up strong ERP systems, appointing quality auditors, having a well-defined capital allocation strategy, consistency in disclosures, engaging with public market investors etc. Based on our constant interactions with tech companies planning to approach the primary markets in the near future, they are getting themselves IPO-ready by taking steps to meet all the relevant regulations, identification, and appointment of key agencies etc.

As a number of new age tech companies operating in India are domiciled abroad, getting listed overseas is always an option open to them. However, very few Indian tech companies have resorted to this alternative despite record number of global tech IPOs. They have instead expressed their belief in the India story by showing their willingness to be patient and approaching the Indian primary market in the next 6-12 months rather than hastily getting listed. In fact, some companies are even exploring the process of redomiciling to India to be listed on Indian exchanges. This is a strong indicator of the resilience of Indian primary markets for new age tech companies. Indian companies also gain strong branding and publicity benefits by getting listed in India instead of abroad, thereby strengthening their positioning in core markets.

Even the market regulator SEBI has taken steps to safeguard the interests of investors investing in these companies. It has come up with regulations for increased disclosure of IPO pricing and KPIs shared with investors during previous rounds, ensuring information symmetry to public market investors. In order to ensure founders' skin in the game, SEBI has even been recommending that if such founders hold more than 10%, individually or collectively with relatives, then they be identified as promoters. Shortfall in the minimum promoters' contribution of 20% in such cases shall have to be met by other institutional investors. The regulations pertaining to lock-in of anchor investors has also been modified, requiring 50% of their investment to be locked-in for a higher period of 90 days in place of 30 days, thereby ensuring anchors to stay invested for longer and witness the story of the investee company play out in a longer term.

Compared to various macro headwinds being faced by global peers, India's economic trajectory is better placed with comparatively lower inflation than global average. Specifically on the tech side, the drivers include a large 600+ million internet user base, impetus given by the government to fintech, digital infrastructure as well as introduction of new initiatives like Open Network for Digital Commerce ('ONDC') (Fig 8.).

Fig 8. Select Indian government tech initiatives:

ONDC Open Network for Digital Commerce	ONDC is the world's first inclusive large scale e-commerce system. It is a set of specifications designed to foster open interchange and connections between shoppers, technology platforms and retailers.
#startupindia	Under the Start Up Indian initiative, eligible companies can obtain recognition as 'start-ups' from Department for Promotion of Industry and Internal Trade ('DPIIT') to access various tax benefits, IPR fast tracking, easier compliance, among others.
Digital India Power To Empower	Digital India campaign was launched in 2015 to make government services available to citizens electronically by improvements in online infrastructure and internet connectivity as also to empower the country digitally in the technology domain
UPI	UPI is an instant payment system developed by National Payments Corporation of India ('NPCI') to facilitate inter-bank peer-to-peer and person-to-merchant transactions

The last few years have seen the emergence of ESG as an important investment theme globally amongst institutional investors. While India has been slower compared to its global counterparts in adopting ESG, the pace of adoption has now increased, to comply with various norms/ initiatives by SEBI. ESG compliant new age tech companies in India shall now have an edge over others in accessing primary markets especially considering the fact that a few Indian tech companies have come under the scanner for their governance practices. High standards of governance can prove to be an important differentiating factor in the eyes of the investors who are currently extremely selective in deploying their funds.

Overall, the primary markets have received considerable attention in 2023 with recently listed companies trading at a significant premium to their listing prices. Adding to this is the increase in the number of DRHPs filed with SEBI across sectors in the last two quarters, which goes on to show that more companies are gearing up to raise capital from the primary markets in the next 6-12 months.

As per our estimates, we expect IPOs of USD 50-70 bn to hit the Indian markets by 2028 across sectors, led by technology, healthcare, BFSI, consumer and industrials. As the Indian GDP is expected to reach USD 5 Tn by 2028, we expect FII and DII inflows to also increase and part of such proceeds would go to fund the future IPOs. At the same time, with PE-VC investors expected to exit investments worth USD 10-15 bn each year, we believe a significant chunk of these exits to come via IPOs. As PE/VCs have a substantial amount of their investments in tech companies, the next 5 years will see several tech IPOs in the Indian primary markets.

Going forward, we believe there is adequate appetite for tech companies in Indian public markets with robust business models, a clearly defined path to profitability and strong corporate governance frameworks. In the coming quarters we expect increasing number of tech companies to approach public markets providing an attractive opportunity for public investors to play the India tech story.

Benchmark indices are scaling new highs. What should investors do?

Sundeep Sikka
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Nippon Life India Asset Management Ltd.

Unchartered territories make many nervous and confused. And stock markets are not an exception. There has emerged a situation in the stock market which contains elements of circumspection and elation. For instance, after a long period of sideways movement, Indian equity markets are showing a bullish undertone. Amid volatility, the benchmark equity indices - the Sensex & Nifty - are flirting with new highs every other day.

The topmost questions which many retail investors — existing and potential — face now is: Does it make sense to stay invested? Given the sentiment, should I up my investments in the markets at this point in time? Importantly, they may also want to know which investment vehicle is best suited to increase returns and minimize the risk factor.

Before these questions get answered, it's important to highlight upfront that investors should have a long-term orientation for equity investments. Investors need to learn to live with volatility irrespective of index levels. Equity indices will scale new peaks or stay volatile on global uncertainties, upcoming elections, and weather, among other reasons. Sticking to one's investment goals and risk appetite is sacrosanct in investing.

Equally important is to understand that sitting on the sidelines never aids sustained wealth creation in the stock markets. Many investors who sat on cash post the pandemic anticipating a recession and sell-off in the Indian markets could not re-enter into the market at lower levels. These investors have been contemplating re-investing now. Surely a lesson is well learnt that timing the market seldom works.

India is expected to continue to be one of the world's fastest growing economies over the next decade. This will make India one of the most important long-term growth markets for wealth creation via stock markets. Here is the low-down on the factors that favor fresh and incremental investments in the Indian markets:

Economy – An attractive story

From among the top 10 economies in 2010, India is likely to be the third-largest economy by the end of 2030. Its GDP is likely to cross US $ 6 trillion by 2030 from around US $3.5 trillion now. The country's per capita income is likely to jump from around US $ 2,500 currently to more than US $ 4000 by 2030. Long-standing macro trends like young demography, formalization of the economy, urbanization, and aspirational middle-income population will ensure that the Indian economy stays well anchored.

An interesting report released by economists of the Reserve Bank of India (RBI) have forecasted that India could become a developed country by 2047 by growing by around 7.5% every year over the next 25 years. To achieve this feat India will have to give due emphasis on aspects like structural reforms, investments, digitalization, upskilling of labor force, and sectoral policy initiatives.

Change is visible on the ground level. Post pandemic, capex has been holding up well, government-led manufacturing push has remained robust and there are signs of increasing participation by the private sector. Reform push, political stability, a healthy external sector, and robust banking sector (with decade-low bad debt levels) will act as solid foundation for India's macro stability in the future.

Corporate India – from strength to strength

Given India's long term growth outlook there are incentives for Corporate India to expand. A stable inflation and interest rate scenario - a pre-condition for corporations looking to undertake capital expenditure - ensures sustainable economic growth. It's worth highlighting that while world over, people are fighting high inflation, in India, thanks to all out efforts by the Reserve Bank of India, price pressure are under control. Sooner or later interest rates will start coming down in India fueling so called animal spirits in Indian Corporates.

Most importantly, over the last decade, Corporate India has traversed a difficult path of deleveraging. Now with healthy balance sheets, spending on capital expenditure by corporates will lead to significant growth going forward. Most high frequency macro indicators like Purchasing Managers' Index (PMI), capacity utilization levels and most importantly rising corporate earnings to GDP are already pointing towards revival in Corporate sentiment.

Valuations & Flows

A combination of long-term fundamentals of the Indian economy and flows are driving the stock markets higher. So, are markets expensive after hovering around their peaks, one may ask. Valuations – a function of stock price and corporate earnings – are nowhere near to the October 2021 levels. In the next two to three years, corporate earnings' growth is expected to be in a decent range of 15-16%. Financial Year 2023-2024 may see corporate earnings grow faster than the rate of India's economic growth. Thus, Corporates' earnings momentum will continue to support valuations.

While domestic flows – retail and institutional – into the markets have been strong over the last few years, foreign players have missed out on the opportunity. Domestic investors bought heavily into Indian markets even when foreign players sold during critical months post Covid breakout.

Although foreign portfolio investors have been buying Indian equities in the last few months, their ownership is still low as compared to historic highs. For foreign investors it's always about relativeness. With peer-group economies struggling, they are expected to not only cover the lost ground but also scoop up investments in the Indian markets. The return of sustained foreign flows could support the market levels in future.

The Key Question: What now for investors?

Though the stage appears to be set for strong earnings' growth and flows into the markets, what should investors do now? Despite strong earnings' growth, investors need to understand risks do not disappear in the world of equities. Direct investors should avoid chasing momentum and under-researched stocks.

Investors should look at Mutual Funds as vehicles for wealth creation. Being well regulated, Mutual funds not only protect investors' interest but also offer low-cost, simple to understand and tax-efficient means to invest in equities.

The only way to reduce the risk of near-term volatility is to stay invested for longer duration. This feat can be achieved by taking a staggered approach to investment through Systematic Investment Plans (SIPs) and Systematic Transfer Plans (STPs). A staggered approach is best suited if one wants to invest lumpsum money or if someone wants to increase the exposure to stock markets from here on.

Sticking to one's asset allocation and investment roadmap is in the best interest of investors. A new index high or a rally in the stock markets should not be the reason to invest more in equities or to switch to another asset class. They should stick to their asset allocation strategy.

Investors who have moderate risk appetite are better off investing in asset allocation-based hybrid mutual fund products including multi-asset funds and balanced advantage funds. For long-term investors, diversified equity mutual funds such as flexi-cap schemes and multi-cap schemes are best placed to build a large corpus.

Can investors book profits at these levels? It's important to stay invested for a longer duration to realize higher returns. However, if a goal fixed by the investor is nearing, one may book profits; but it's important to shift that money immediately to some instrument like a debt mutual fund till the goal is met.

In the near term, equity as an asset class can be riddled with volatility; but in the long term, stock markets always accurately reflect the state of the economy. Currently, both developed, and peer-group economies are under stress. India today stands out as one big shining star in the world. Indian economy is well charged-up from a medium to long term perspective. Investors should not miss out on the opportunity to build long term wealth.

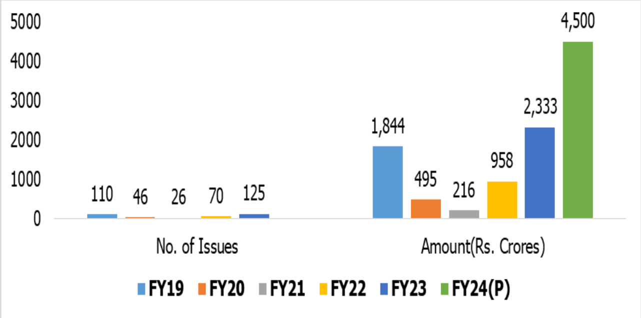
Decoding Rise of SME IPO in Recent Times

Alok Harlalka
Managing Director
Gretex Corporate
Services Limited

Small and Medium Enterprises (SMEs) play a pivotal role in propelling the Indian economy forward. These enterprises have the option to secure funding either through equity or debt. In recent times, there has been a notable surge in SMEs choosing to list in the capital markets. For instance, in FY23, the SME market experienced robust growth, witnessing 125 issues, marking a remarkable 79% increase compared to the 70 issues in FY22. From April to July 2023, the number of IPO issues by SMEs jumped to 47 from 29 in the same period the previous year.

With the Indian economy showing healthy expansion, the number of SME IPO issues in H1FY24 has seen an impressive surge of 120% when compared to H1FY23, surpassing the number of issues witnessed in the Main Board IPOs. Following the recent positive stock performance in the SME market, the trend in SME IPOs is experiencing significant growth in terms of issues and holds promising potential for long-term growth.

The SME platform in the country experienced a noteworthy upward trend in the number of listed companies as well as the amount of capital raised in FY23 in contrast to FY22. During FY23, 125 companies were listed on the SME platform, raising Rs. 2,333 crores, a significant increase from the Rs. 958 crores raised through 70 issues in FY22. It is anticipated that the issue amount in FY24 will reach approximately Rs. 4,500 crores, supported by an increase in the number of issues and favorable valuations. Additionally, the SME IPOs have shown favorable listing gains, further driving investor interest.



SME IPOs have provided investors with opportunities to invest in emerging and unconventional businesses. Given that SME IPOs are gaining traction due to the burgeoning startup ecosystem and innovative business models, this asset class is benefiting from increased investments. Many listed companies on the SME exchange have demonstrated strong financials and impressive figures for return on assets and asset utilization. This has instilled significant confidence in anchor investors and Qualified Institutional Buyers (QIBs).

The listing gains from SME IPOs in H1 FY24 have outperformed those in H1 FY19. There has been a substantial surge in investor subscriptions during H1 FY24, driven by the promise of high listing gains. As of H1 FY24, there are around 72 SME IPOs, and 59 companies have seen gains on their listing day. Moreover, 15 companies have demonstrated growth of over 90% in their listing gains. Additionally, the gains from the current price of SME stocks are noteworthy, piquing investor interest in these IPOs.

Moreover, in the medium term, the enhancement in regulations and amendments by SEBI can aid towards the growth and expansion of the SME market. I believe that the momentum in the SME market is likely to see continued growth in the coming months on account of robust demand from new launches of IPOs.

Announcement!

AIBI is now the Designated Body for handling first level review of SCORES complaints pertaining to Merchant Bankers

Ref: **SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023.**

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We welcome your suggestions / comments on the following areas:

1. Due diligence

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2. SME IPO segment reforms

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3. Primary Market reforms

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4. Merchant Banking regulations.

Please mail your suggestions on ceo@aibi.org.in / info@aibi.org. in

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