

# India rises up the ranks in global m-cap race

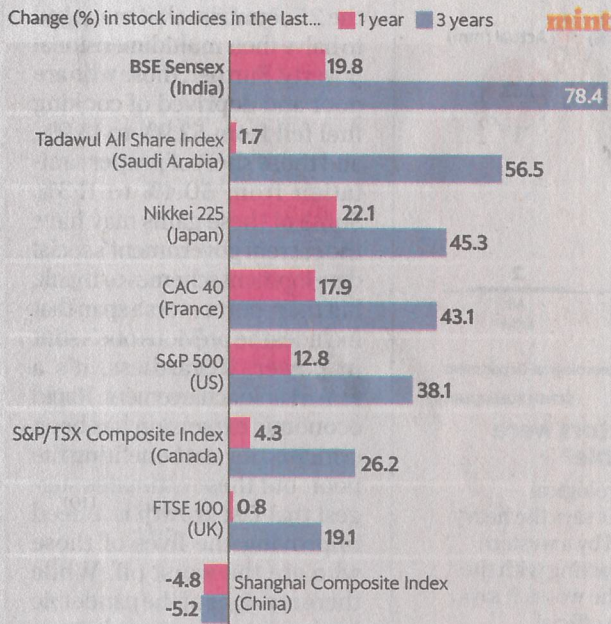
BY HOWINDIALIVES.COM

India's stock market has outperformed most large markets over the last three years. This has raised its share in global market capitalization (m-cap), breaking into the top five in March 2022 by overtaking the UK. However, the ranking dropped after allegations of corporate malfeasance at Adani Group in January 2023. Since then, both—Adani Group to some extent and the Indian stock market significantly—have recovered. Foreign portfolio investors (FPIs) have been net buyers in Indian equities since March, pumping in \$6.7 billion in June. India has now regained its top five spot (last week, BSE's m-cap hit the ₹300 trillion mark).

While the share in global m-cap will reflect the vagaries of the stock market and its relative performance to other markets, the long-term trend is unmistakable. India's share rose from 1.6% in 2006 (and the historical average of 2.6%) to 3.3% this June. Its increase was driven by a rise in stock prices—the Sensex jumped from 10,000 in July 2006 to over 65,000 now—and also by new listings.

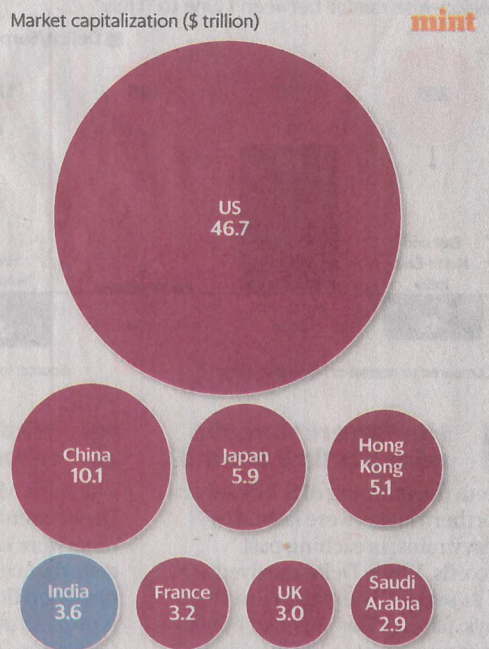
In the long term, India's share in global m-cap is likely to increase further, but remain smaller than the US and China, reflecting the relative size of these economies. The nature of the market is expected to change too. In the US, the top five firms by m-cap are tech firms. A 2021 Goldman Sachs report pointed out that "India is among the 'oldest' in the region, with the average listing age exceeding 20 years versus 9 years for China". The questions around overvaluations are expected to continue.

## India's stocks have outshone peers in past 3 years



Benchmark indices for seven countries with largest market capitalization  
 Figures refer to the change in index in the three years and one year ending 7 July 2023.  
 Source: investing.com

## India has the fifth highest market cap globally



Data as of Monday

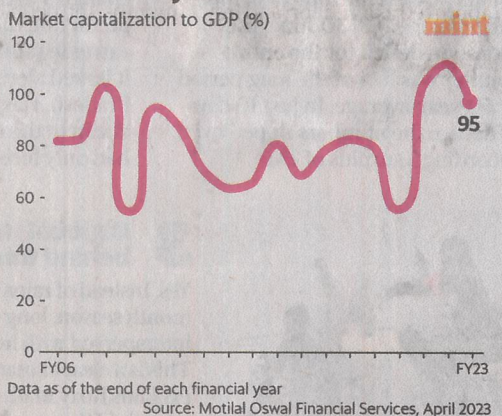
Source: Bloomberg

## Overvaluation Drag

INDIA'S M-CAP might already be overvalued by the Buffett Indicator, or market cap-to-GDP ratio. Named after famed investor Warren Buffett, it is used to assess how expensive or cheap the aggregate stock market is at a given point in time. According to an analysis by Motilal Oswal Financial Services in April 2023, at 95% at the end of 2022-23, the indicator was higher than its historical average of 81%. However, since it depends on the market prices of stocks, it can be volatile. In recent times, the ratio moved between 56% (at the end of 2019-20) and 112% (at the end of 2021-22).

The key idea behind the Buffett Indicator is that m-cap is ultimately tied to a country's economic performance. The optimism about the Indian economy is tempered by macroeconomic concerns, including high inflation globally, the ongoing Russia-Ukraine war, and the Chinese slowdown. While India gained tactical advantages, its long-term growth would depend on its ability to attract long-term investments.

## India's m-cap/GDP ratio has averaged 81% in last 18 years

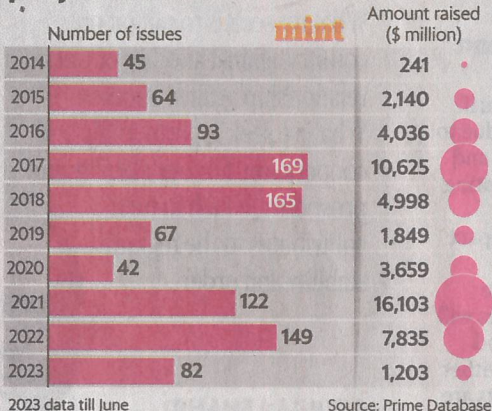


Data as of the end of each financial year

Source: Motilal Oswal Financial Services, April 2023



## India has averaged 99 IPOs per year since 2014 \*



## IPO Boom

**BESIDES AN** organic increase in share prices, a growth in m-cap will also come from new companies listing on public markets, as tech companies such as Zomato and Paytm did in 2021. In the last 10 years, there have been an average of 99 initial public offerings (IPOs), with companies raising an average of about \$5.27 billion each year, according to Prime Database. Since m-cap only includes listed companies, the greater the number of IPOs, the higher the capitalization.

One of the key drivers of IPOs will be the private equity (PE) market, including venture capital (VC) investments, which are primarily aimed at exits through strategic sales or public listing. According to Bain & Co.'s India Private Equity Report 2023, 38% of PE/VC exits by value happened through public market sales in 2022. The numbers were 32% and 48%, in 2021 and 2020, respectively. PE/VC investments are expected to increase the representation of new economy companies.

## Market Marathon

**IN THE** longer run, India is expected to increase its global m-cap share to 8% in 2050, and 12% in 2075, according to Goldman Sachs. This will be a part of a broader shift in share to emerging markets, whose share is projected to grow from around 27% currently to 35% in 2030, 47% in 2050, and 55% in 2075. In India's case, an extra push will come from its favourable demographic outlook and rapid growth in GDP per capita.

By 2050, India is expected to be the third-largest economy, behind China and the US, from fifth at present, according to Goldman Sachs forecasts. Within emerging markets, China's relative share is expected to decline to about 30% in 2050 from 40% now, while India's is projected to rise from 12% to 17%. While m-cap tends to be volatile, the long-term direction seems to be upwards.

*www.howindialives.com is a database and search engine for public data.*

## India's share in global m-cap is seen at 8.3% by 2050

