Macroeconomic Overview

India – Fastest Growing Economy

As per the provisional estimates provided by the Central Statistics Office (CSO), Government of India, the Indian economy grew by 6.7% during 2017-18 as compared to the growth rate of 7.1% during 2016-17. The marginal slowdown in the GDP was due to the impact of reforms like demonetization and implementation of Goods and Services Tax (GST). Despite the slight slowdown in the real GDP growth, the turnaround in capital formation and construction activity, together with the record agricultural production brightens the near-term outlook. The same is evident from the fact that Indian economy grew by 8.2% in the first quarter of 2018-19.

India has emerged as the fastest growing economy in the world as per the International Monetary Fund (IMF). In the US, the recent growth has been strong with stable inflation and relatively low unemployment rate. IMF projects the growth rate in the Emerging Markets and Developing Economies to stand at 4.7% in 2018 and 2019. Indian economy backed by number of reforms, macroeconomic stability, strong democracy and partnerships delivered robust performance. IMF in its World Economic Outlook (WEO) predicts the Indian economy to grow by 7.3% in 2018 and 7.4% in 2019. Despite the near-term challenges IMF & World Bank have maintained India’s growth stance to be strong.

World Economy - Recent Trends In Growth

P = Projected
Source: IMF, WEO
It is interesting to note that though India is growing at the fastest pace in the world, per capita GDP is still very low as compared to other global economies.

![GDP Per Capita Chart]

**Source:** IMF, WEO

**Foreign Direct Investment (FDI)**

In recent years, the Indian Government has taken many initiatives to improve the ease of doing business and relax the FDI norms. India’s ranking in the World Bank’s ease of doing business report has improved by 30 notches from 130th to 100th position and it further aims to be in the top 50. As per the Department of Industrial Policy & Promotion (DIPP), Government of India, the total FDI flows to India were USD 62 Billion in 2017-18. Services, Computer Software & Hardware, Telecommunications were the sectors attracting the highest FDI equity inflows in 2017-18.

![FDI Flows Chart]

*P=Provisional Estimate

**Source:** DIPP
Foreign Portfolio Investment (FPI)

Foreign Portfolio Investments (FPI) in India has grown remarkably in the last 15 years. During 2017-18, there was a substantial increase in the FPI supported by buoyant inflows in the debt segment. Total FPI flows to India were USD 22.4 Billion in 2017-18. Though FPI investors began to pull out in FY19 reflecting volatility in the global financial markets, sustained net investments by Indian investors, particularly mutual funds provided support to the equity markets.

![FPI Flows Chart]

Source: CDSL & NSDL

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Equity (USD Bn.)</td>
<td>13.2</td>
<td>18.2</td>
<td>-2.2</td>
<td>8.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Debt (USD Bn.)</td>
<td>-4.6</td>
<td>27.2</td>
<td>-0.6</td>
<td>-1.1</td>
<td>18.5</td>
</tr>
<tr>
<td>Hybrid (USD Bn.)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total FPI Inflows (USD Bn.)</td>
<td>8.5</td>
<td>45.4</td>
<td>-2.8</td>
<td>7.2</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Source: CDSL & NSDL

Many emerging markets are commodity driven having dependency on export of resources. In contrast, Indian economy is domestic/consumption driven supported by a favorable population composition and increasing disposable income. India remains resilient in terms of FPI inflows and gets a better P/E rating.

Secondary Market

Indian Stock Exchanges – Spectacular Returns

Recovery in the advanced economies as well as a positive outlook on the global growth contributed to buoyancy in the global stock markets and cross border capital flows. BSE Sensex and Nifty 50 gained 74.8% and 77.3% respectively during the last 5 financial years.
The Indian stock market witnessed strong rallies during 2017-18, with BSE Sensex and NSE Nifty touching new peaks, tempered by intermittent corrections. Some of the factors that contributed to investor’s confidence in the Indian markets were – strong growth rates, benign inflation, key structural reforms like implementation of GST, recapitalization of public sector banks, progress in resolution of insolvency and bankruptcy matters, reduced geo-political tensions and a normal monsoon rainfall. BSE Sensex and Nifty 50 gained 11.3% and 10.2% respectively during the year, thus continuing the growth momentum during 2017-18.

India’s equity derivatives market is placed among the best in the world, with state-of-the-art technology, institutional mechanisms, product and market size. The volumes in the Indian derivative segment witnessed significant growth since its introduction in 2000. In 2017-18, equity cash segment reported consolidated volume of USD 1.3 Trillion and equity derivatives segment reported consolidated volume of USD 25.6 Trillion.

*Return during the period- 1st April 2013 to 31st March 2018 (previous 5 financial years)
Source: NSE, BSE, investing.com, spindices.com
P/E Ratio Of The Indian Markets

At the end of 2017-18, the P/B ratio for the S&P BSE Sensex remained unchanged at 3.0 while that of Nifty 50 decreased from 3.5 to 3.4. BSE’s Market Capitalization stood at USD 2.2 Trillion and P/E ratio was 22.7x as on March 31st 2018.

An international comparison of P/E ratios indicates that the P/E ratios of Indian markets are amongst the highest in major advanced and emerging markets, also reflecting a higher growth rate.

P/E Ratios of International Stock Market Indices as on March 31, 2018

<table>
<thead>
<tr>
<th>Index</th>
<th>NIFTY Index</th>
<th>SENSEX Index</th>
<th>NKY Index</th>
<th>IBOV Index</th>
<th>INDU Index</th>
<th>KOPSI Index</th>
<th>DAX Index</th>
<th>UKX Index</th>
<th>HSI Index</th>
<th>CRTX Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24.3</td>
<td>22.7</td>
<td>23.1</td>
<td>21.5</td>
<td>19.4</td>
<td>15.0</td>
<td>14.1</td>
<td>13.0</td>
<td>12.6</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Source: Bloomberg, SEBI

Primary Market

Amount Mobilized In The Primary Markets

Financial year 2017-18 witnessed a favorable investment climate supported by robust macroeconomic performance, stable FDI inflows, easing inflationary pressures, regulatory and structural reforms by the government. This led to improved business confidence and attracted investors to the primary market.

A number of companies from diverse growth sectors of the economy entered the market. There has been a good response to majority of the public issues from FPIs, other institutional investors as well as retail investors. Many of these issues were over-subscribed indicating
positive sentiment from the investors. The year witnessed the highest ever resource mobilization through public & rights issues.

During 2017-18 there was a significant jump in the number of equity IPOs and the amount mobilized by them nearly tripled as compared to the previous year. The total resource mobilization through public and rights issues increased from USD 9.3 Billion in 2016-17 to USD 17.1 Billion in 2017-18.

![Amount Mobilized In The Primary Markets](chart1)

**Amount Mobilized By The SME Platform**

The SME platform of the stock exchanges is intended for small and medium sized companies with high growth potential and whose post-issue paid up capital is less than or equal to INR 250 Million (around USD 3.5 Million). This platform offers a new and alternate asset class to informed investors having longer investment horizon. The platform offers early stage ventures to raise much needed growth capital. Of the total 201 IPOs, 156 of them were listed on the SME platform in 2017-18. The amount raised by the SME platform increased from USD 127.1 Million in 2016-17 to USD 348.8 Million in 2017-18. Total number of issues on the SME platform increased from 80 to 156 during the same period.

![Amount Mobilized By The SME Platform](chart2)

*Source: SEBI*
Resource Mobilization Through Various Other Channels

<table>
<thead>
<tr>
<th></th>
<th>Number of issues</th>
<th>2016-17</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified Institutions Placement (QIP)</td>
<td></td>
<td>20</td>
<td>53</td>
</tr>
<tr>
<td>Offer for Sale (OFS) through the Stock Exchange Mechanism</td>
<td></td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Preferential Allotments</td>
<td></td>
<td>410</td>
<td>407</td>
</tr>
<tr>
<td>Private Placement of Corporate Bonds Reported to BSE and NSE</td>
<td>3377</td>
<td>2706</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amt. (USD Bn.)</td>
<td>1.3</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.6</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>Amt. (USD Bn.)</td>
<td>95.5</td>
<td>92.9</td>
</tr>
</tbody>
</table>

Source: SEBI

**Asset Management Industry**

**Indian Mutual Funds**

Asset Management Companies help investors diversify their investments as well as provide financing to the real economy. Over last few years the Indian mutual fund industry has shown remarkable growth. The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector.

At the end of 2017-18 the AUM of the Indian mutual fund industry stood at USD 331.2 Billion. It grew at a CAGR of 24.8% for the period – March 2014 to March 2018. However a low mutual funds’ AUM to GDP ratio of 12.8% in 2017-18 indicates a large untapped potential for the industry.

**Trend In AUM Of Indian Mutual Fund Industry**

Source: Association of Mutual Funds in India, SEBI
Category-wise Breakup Of AUM Of Indian Mutual Funds

As on 31st March 2018, share of the Individuals (50.8%) of the total AUM was the highest, followed by Institutions (45.1%), NRIs/OCBs (3.6%) and FPIs (0.5%).

Source: SEBI

Breakup Of Resource Mobilization Of Mutual Funds

Of the USD 42.1 Billion net resources mobilized by all mutual funds in India, 63% was raised by equity oriented mutual schemes and the other 37% was raised by non-equity oriented mutual fund schemes (Income/debt oriented scheme, balanced scheme, ETFs).

Upward Trend In The Number Of Mutual Fund Accounts

Total number of mutual fund accounts increased from 40.2 Million to 71.3 Million from March-2014 to March-2018 which corresponds to 15.4% CAGR for the period.

Source: SEBI
**Increasing SIP Contributions**

The Systematic Investment Plan (SIP) contribution increased from USD 6.6 Billion in 2016-17 to USD 10.4 Billion in 2017-18. Due to the SIP culture, Indian Stock markets are becoming more self-reliant, thus reducing dependency on foreign inflows.

Mutual funds invested USD 79.5 Billion whereas foreign portfolio investors invested USD 22.4 Billion in the Indian capital markets during 2017-18. Over the last few years, domestic mutual funds have emerged as strong investors and hence there is more stability in the equity markets in India.

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**ETFs Becoming Popular**

Exchange Traded Funds (ETFs are becoming popular in India. AUM under ETFs increased from USD 7.4 Billion as on 31st March 2017 to USD 12 Billion at the end of March 2018. Total number of ETF schemes stood at 68 in March 2018.
Alternative Investment Funds (AIFs)

Alternative Investment Funds (AIFs) refer to privately pooled investment fund (whether from Indian or foreign sources). These funds provide stable and long-term capital with a wide range of investment objectives and investment strategies.

The number of registered AIFs increased significantly to 414 at the end of March 2018 as compared to 101 at the end of March 2014. During 2017-18, total commitments of USD 25.6 Billion and total funds of USD 13.2 Billion were raised.

### Trend In Alternative Investment Funds

![Trend Graph](chart.png)

- **Commitments raised (USD Bn.):**
  - 2013-14: 2.2
  - 2014-15: 0.8
  - 2015-16: 1.7
  - 2016-17: 5.9
  - 2017-18: 22.5

- **Funds raised (USD Bn.):**
  - 2013-14: 1.6
  - 2014-15: 3.5
  - 2015-16: 6.1
  - 2016-17: 12.6
  - 2017-18: 25.6

- **Number of AIFs (as on March 31):**
  - 2013-14: 101
  - 2014-15: 135
  - 2015-16: 209
  - 2016-17: 302
  - 2017-18: 414

**Source:** SEBI (compiled on the basis of information submitted by AIFs to SEBI)

### Category-Wise Breakup Of AIFs

<table>
<thead>
<tr>
<th>Category</th>
<th>Commitments raised (USD Mn.)</th>
<th>Funds raised (USD Mn.)</th>
<th>Cumulative investments Made (USD Mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category I</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Fund</td>
<td>1477.1</td>
<td>889.0</td>
<td>733.8</td>
</tr>
<tr>
<td>Social Venture Fund</td>
<td>176.0</td>
<td>65.4</td>
<td>45.7</td>
</tr>
<tr>
<td>Venture Capital fund</td>
<td>2658.6</td>
<td>688.7</td>
<td>487.9</td>
</tr>
<tr>
<td>SME Fund</td>
<td>34.9</td>
<td>30.4</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Category I Total</strong></td>
<td><strong>4346.5</strong></td>
<td><strong>1673.5</strong></td>
<td><strong>1274.7</strong></td>
</tr>
<tr>
<td><strong>Category II</strong></td>
<td><strong>16402.9</strong></td>
<td><strong>7821.9</strong></td>
<td><strong>5274.9</strong></td>
</tr>
<tr>
<td><strong>Category III</strong></td>
<td><strong>4846.7</strong></td>
<td><strong>3725.7</strong></td>
<td><strong>2969.9</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>25596.1</strong></td>
<td><strong>13221.1</strong></td>
<td><strong>9519.5</strong></td>
</tr>
</tbody>
</table>

**Source:** SEBI
**Challenges**

**Population**

India has the second highest population (1.3 Billion) in the world, moving towards becoming the country with the largest population. This has led to a large consumption driven growth in the economy and likely to gain pace as it is driven by a young population. The population assists in growth of the economy and at the same time increases pressure on the existing infrastructure of the economy. Also it is a challenge to employ such a large existing workforce with 15 million added to these numbers every year. The population has a relatively low level of literacy, which makes it even more challenging to gainfully employ the new workforce.

**Rising Crude Prices And Weakening Rupee**

The rise in global crude oil prices, the hardening of metal prices and the strengthening global growth caused the input costs to rise. Geo-political risks may exert further pressure on crude oil and commodity prices, with implications for domestic inflation. International crude oil prices have become elevated and volatile in the recent past. Thus the current inflation outlook seems uncertain. Weakening of INR against USD is going to push up the import bill as crude oil has the highest share among all imported commodities. There is a need for vigilance around the evolving inflation scenario in the near future.

**Trade War And Protectionism**

Trade wars, protectionism and retaliatory strategies threaten the institutional fabric of multilateral trade, which may have serious implications for those emerging economies that are participating in open international trade and relying on foreign capital flows.

**Rising Fed Rates**

US interest rate is set to rise further. In the past when Fed reduced interest rates (Quantitative Easing), emerging markets looked attractive to investors with high interest rates resulting into migration of funds to emerging markets. As US Fed is increasing the rates gradually, a slowdown in FPI inflows is expected. Rate hikes in US can lead to stronger dollar and weaker Rupee, which might imply lower returns for foreign investors and can result into selling by FPIs. India has build adequate FOREX reserves to take care of sudden FPI outflows.
**Conclusion**

India continues to be one of the fastest growing large economies. Despite near-term challenges, the recent reforms carried out by the government are certainly going to bring in long-term sustainable growth. The under penetration of financial services markets in India and overseas investors’ interest in Indian economy will keep the Indian equity market buoyant in medium to long term.

**Notes**

**Note 1:** Reported values in INR were converted to USD using average exchange rates prevailing during the year –

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</thead>
<tbody>
<tr>
<td>INR/USD Average</td>
<td>60.5</td>
<td>61.1</td>
<td>65.5</td>
<td>67.1</td>
<td>64.5</td>
</tr>
</tbody>
</table>

*Data Source: RBI*

**Note 2:** Indian financial year is from April to March.