India expects US$40b to flow in by 2014

Investments from foreign individuals in Indian equities

[MUMBAI] India may attract as much as US$40 billion in two years from individual investors overseas after Prime Minister Manmohan Singh's government allowed them to directly access Asia's fifth-biggest stock market.

"Money which will come from this route will stay invested for longer periods of time" than that from foreign institutions, Thomas Mathew, who took over as the joint secretary to President Pranab Mukherjee this week, said in a phone interview on Wednesday.

Investors from US and Europe have already started opening accounts and trading under the new programme, he said.

The finance ministry on Jan 1 allowed qualified foreign investors, including individuals and groups or associations, to invest in local equity markets. Previously, only overseas institutions, their sub-accounts, and non-resident Indians were allowed to buy shares.

India plans to attract US$75 billion into its capital markets from foreign asset managers and rich investors, Mr Mathew, a former joint secretary in the Ministry of Finance's capital markets division, said on May 10, as the nation tackles economic growth near a three year low and a record current account deficit.

The current-account shortfall widened to US$78.2 billion, or 4.2 per cent of gross domestic product, in the year ended March, from US$46 billion or 2.7 per cent in the previous 12 month period, central bank data shows.

The BSE India Sensitive Index has risen 12 per cent this year, helped by the highest foreign flows among 10 Asian markets, excluding China, tracked by Bloomberg.

The country's equity markets have received "unprecedented inflows" this year, he said. "India will continue to see this level of investment" for the remainder of the year.

Foreign institutions have invested US$12.3 billion in India in 2012, compared with a net outflow in the previous period, according to data compiled by Bloomberg. Qualified depository participants provided the US$40 billion estimate, Mr Mathew said.

The government also plans to attract domestic retail investors through the Rajiv Gandhi Equity Savings Scheme, which is waiting for final approval from the finance minister, said Mr Mathew, who oversaw capital markets for more than two years.

"What we want to do is at least increase the depth of the Indian market," he said. "It will also act as a counter to FII inflows and outflows and help check volatility."

The plan gives new retail investors, with an annual income below one million rupees (S$22,300), a tax rebate of 50 per cent if they invest as much as 50,000 rupees in equities. The investment is locked in for three years with early exit, albeit without the tax benefit, allowed in the second and third year. The proposal may attract 150 billion rupees from investors in the year ending March, Mr Mathew said.

Investors will be allowed to invest in companies that are part of the BSE 100 and Nifty 100 indexes and initial share sales of "large companies," he said.

About 25 million Indian households invest directly or indirectly in the capital markets, according to a survey in July 2011 by the National Council of Applied Economic Research, compared with a population of more than 1.2 billion. That is "woefully inadequate," Mr Mathew said.

Retail participation in India is only 1.3 per cent of the total population in comparison with 41 per cent in Australia, 18 per cent in the UK and 9.4 per cent in China, he said.

India, which has a target of raising 300 billion rupees from stake sales in state-owned companies during the year ending March 31, will meet the goal, Mr Mathew said. The government has raised 12.5 billion rupees so far from a sale of stake in National Buildings Construction Corp. – *Bloomberg*