



India: An emerging world market story



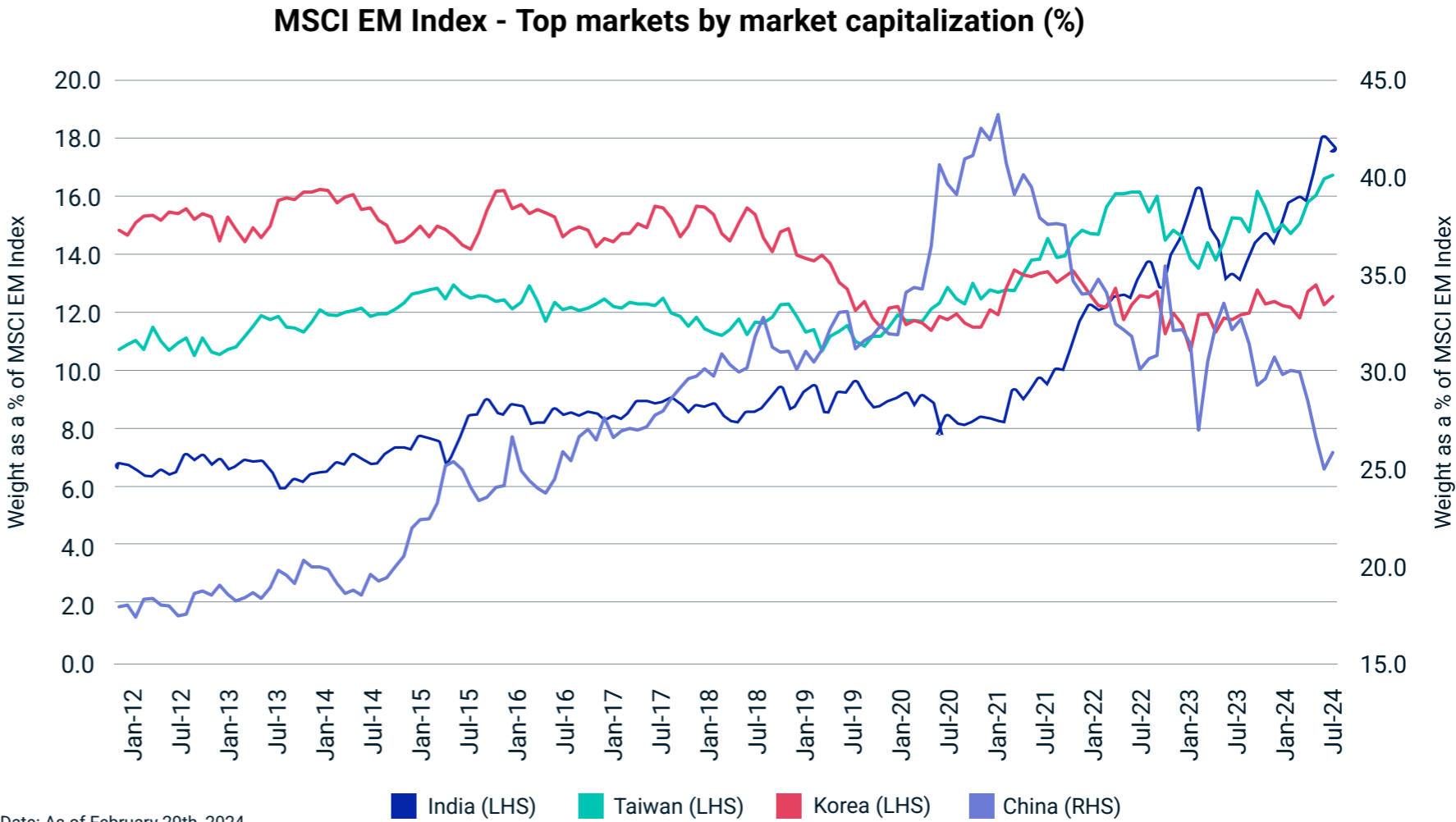
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Introduction

Earlier this year, India’s weight in the MSCI Emerging Markets Index reached its highest point ever, narrowing its gap relative to China.

Last year, India overtook China in population terms and is now expected to become the third largest economy by 2027, overtaking Germany¹. Per capita income is expected to grow by 8% per year until 2028, doubling compared to the start of this decade².

There is a clear momentum behind India, and we’ve seen an increase in investor interest in both public and private markets.



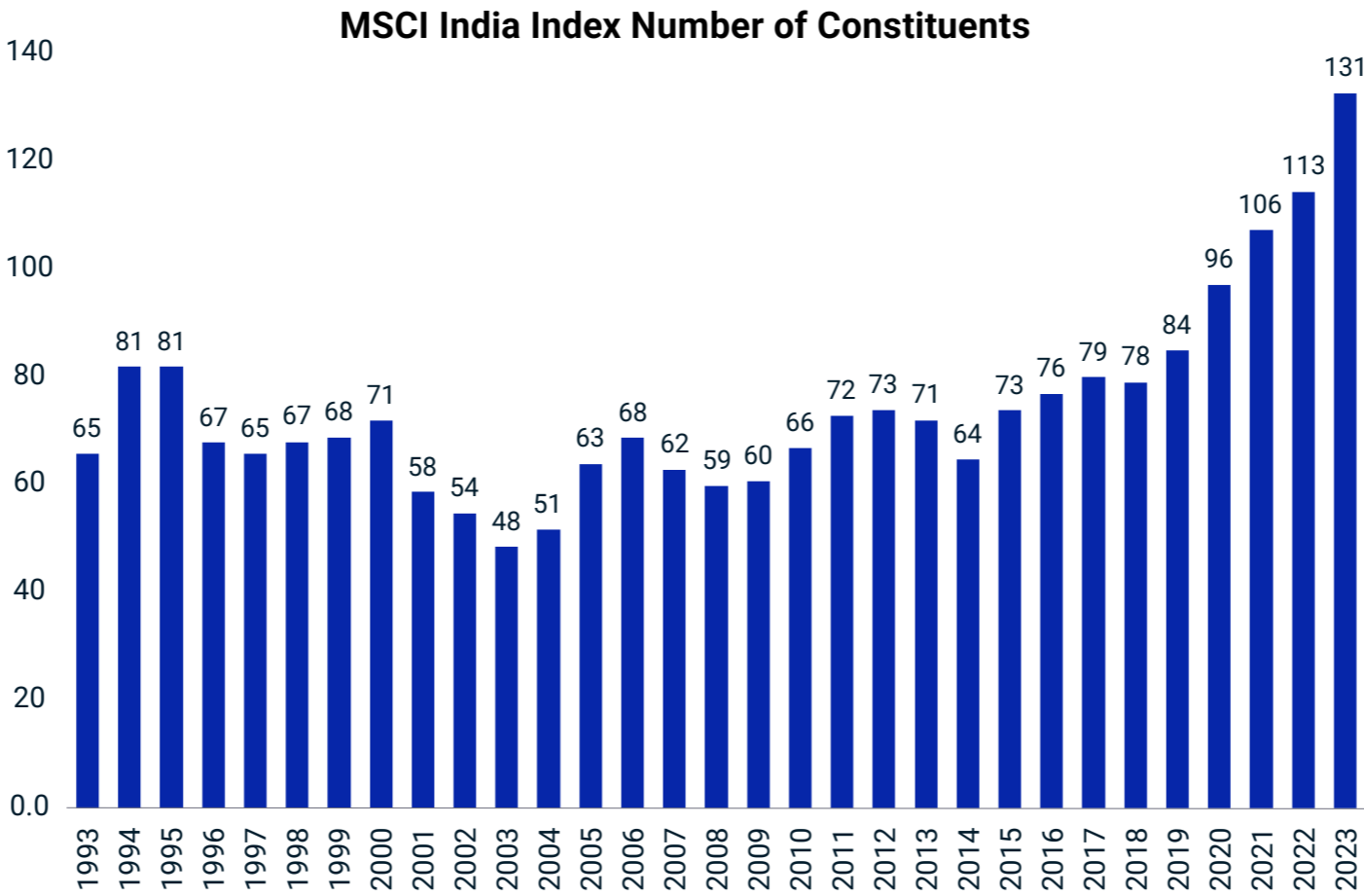
1 Source: IMF, April 2024 Outlook

2 Source: IMF, April 2024 Outlook

How has the MSCI India Index changed?

The MSCI India Index has witnessed an increase in the number of constituents over the years, reflecting the growing depth and breadth of India's equity market.

Currently, the index comprises over 131 constituents³, encompassing various sectors and market segments. If we include small caps, like in the MSCI India Investable Market Index (IMI), the number goes up substantially to almost 600 names⁴.



Date: As of February 29th, 2024



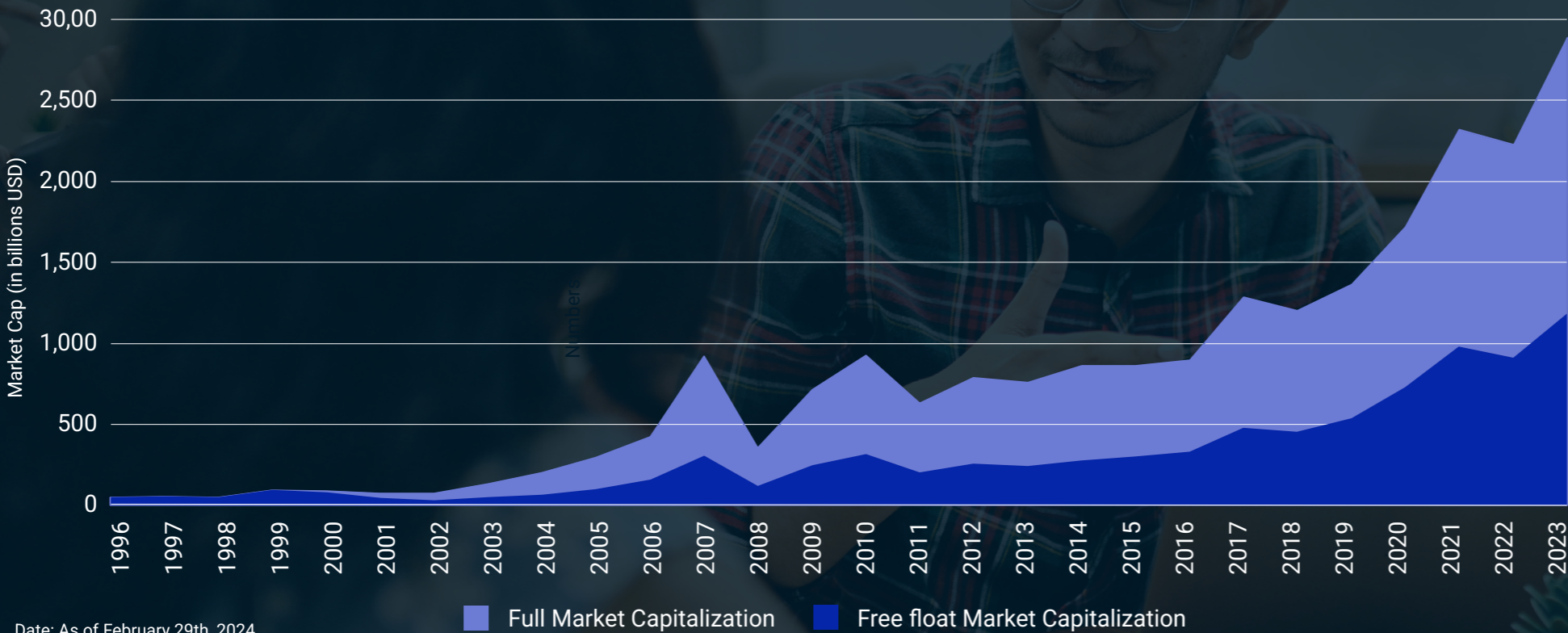
³ Date: as of February 29th, 2024

⁴ Date: as of February 29th, 2024

How has the MSCI India Index changed?

In terms of the full and free float market capitalization perspective, we also see a significant increase, especially from 2019 onwards.

Free Float Market Capitalization



Date: As of February 29th, 2024

While full market capitalization refers to total value of a company's shares (calculated by multiplying the number of shares by the share price), the free float market capitalization is a more nuanced calculation.

Free float market capitalization is the value of the company shares that are deemed to be readily available for purchase in the public equity markets. This means it will exclude shares held by strategic shareholders and which may not be trade freely.

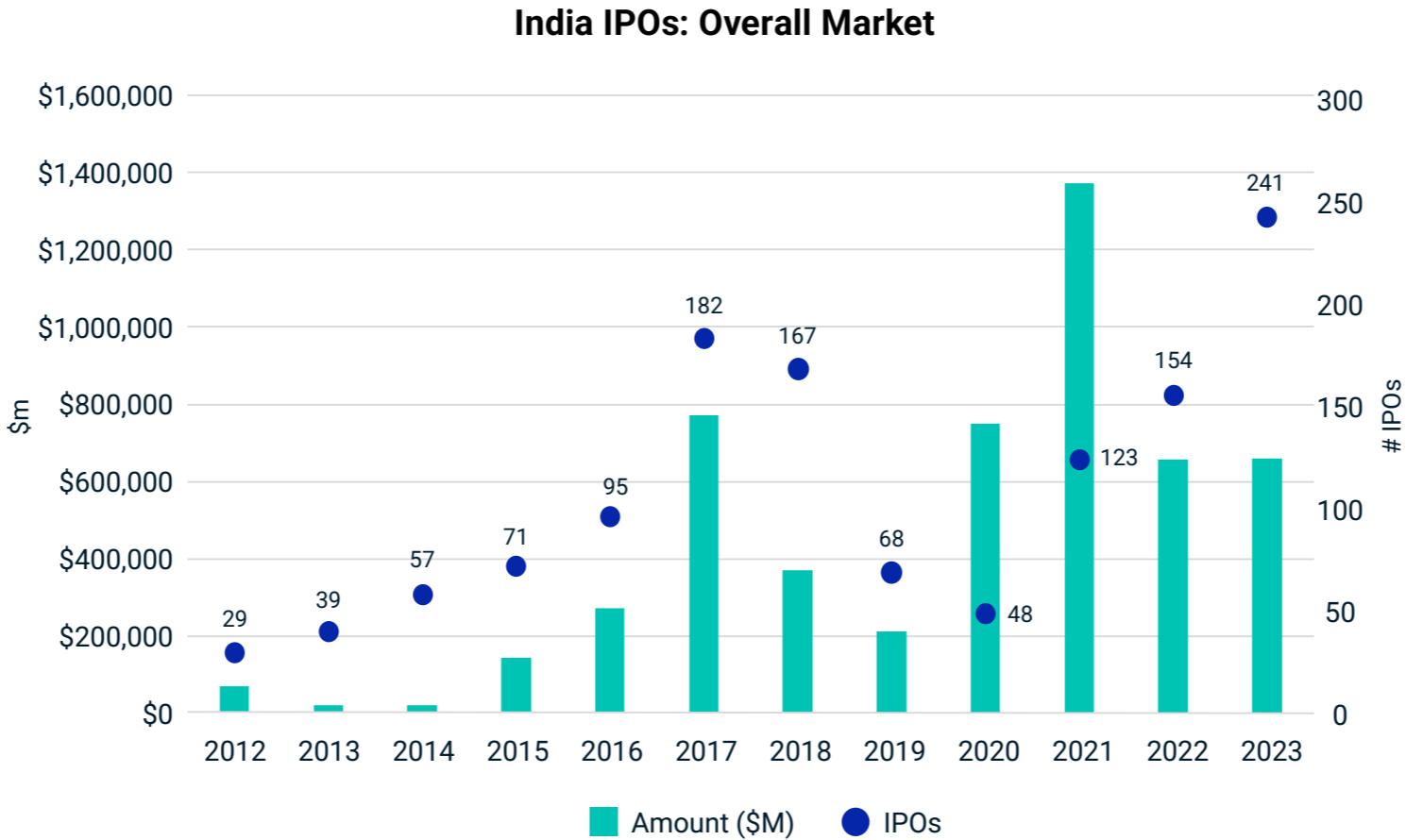
Full market capitalization measures the overall size of a market and free float market capitalization measures the capital that is more readily available for any investor, regardless of their location.

For the construction of its flagship indexes, like MSCI India Index, MSCI uses free float market capitalization.

Increase in Initial Public Offerings

So, what is behind these changes? It comes down to a combination of regulatory reforms and technological advancements.

India has witnessed a surge in IPO activity. In 2023 a total of 241 IPOs were launched in India, the highest number for more than twenty years in that market. The momentum in IPO activity has continued into the current fiscal year, with a number of companies preparing to go public. As of March 2024, there have been 57 IPOs launched in 2024, raising approximately \$178 billion USD.



Source: World Federation of Exchanges . As of December 31st 2023.

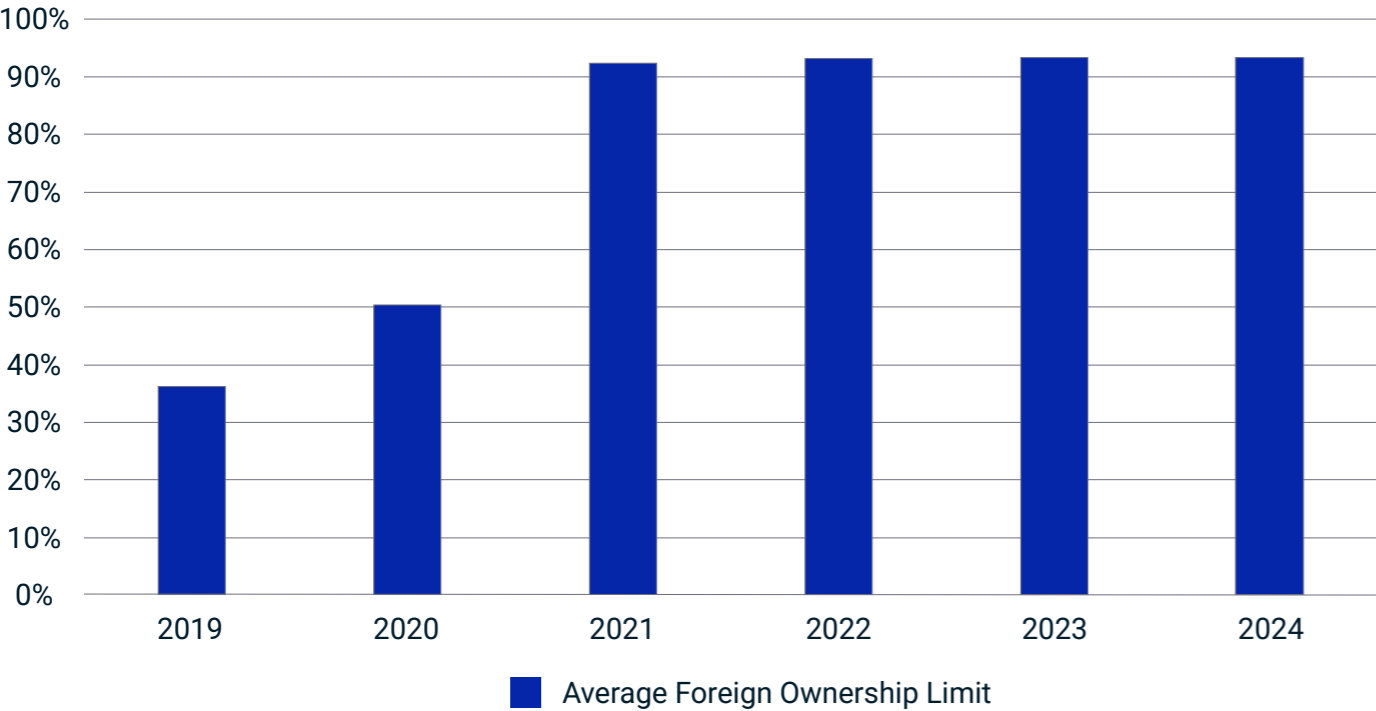


Changes in Foreign Ownership Limits

In recent years, the Securities and Exchange Board of India (SEBI) has relaxed foreign ownership limits, which increased the attractiveness of the Indian market to international investors. This change was also captured in our indexes.

An increase in the number of publicly quoted companies, coupled with less stringent limits to foreign ownership and improvements in market liquidity helps explain the increase in the number of constituents of MSCI India Index.

MSCI India Index Constituents: Average Foreign Ownership Limit

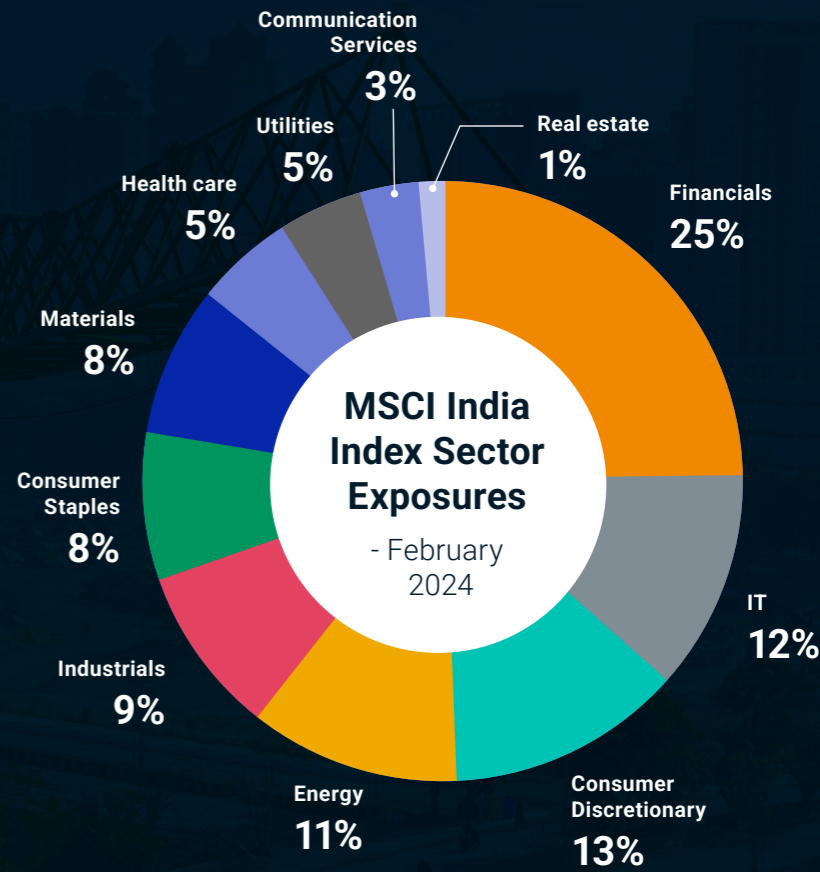
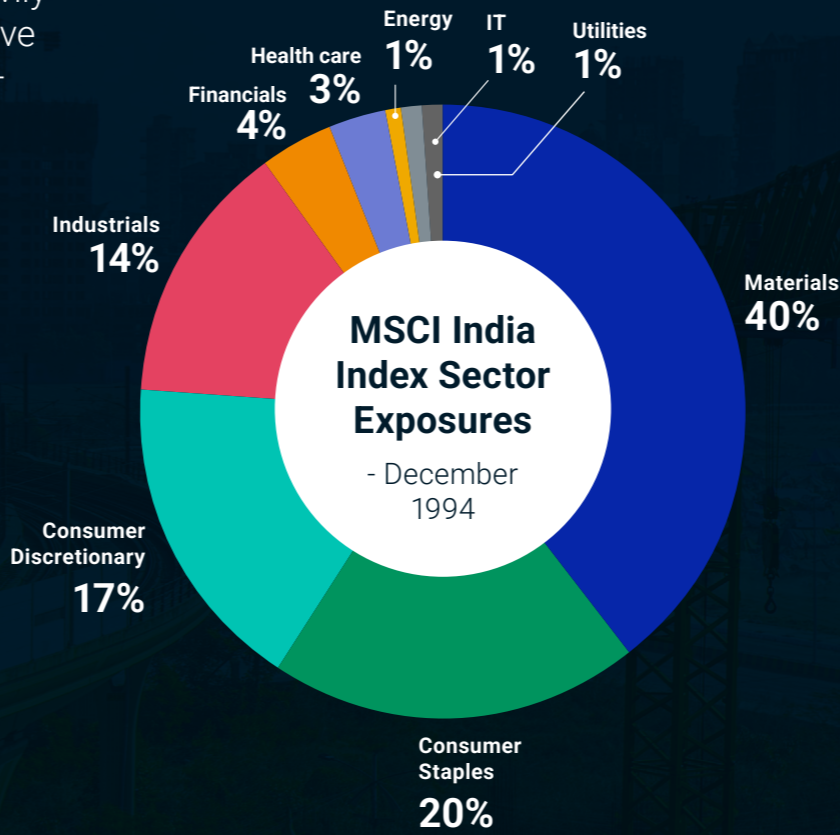


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Sector and Industry Shifts

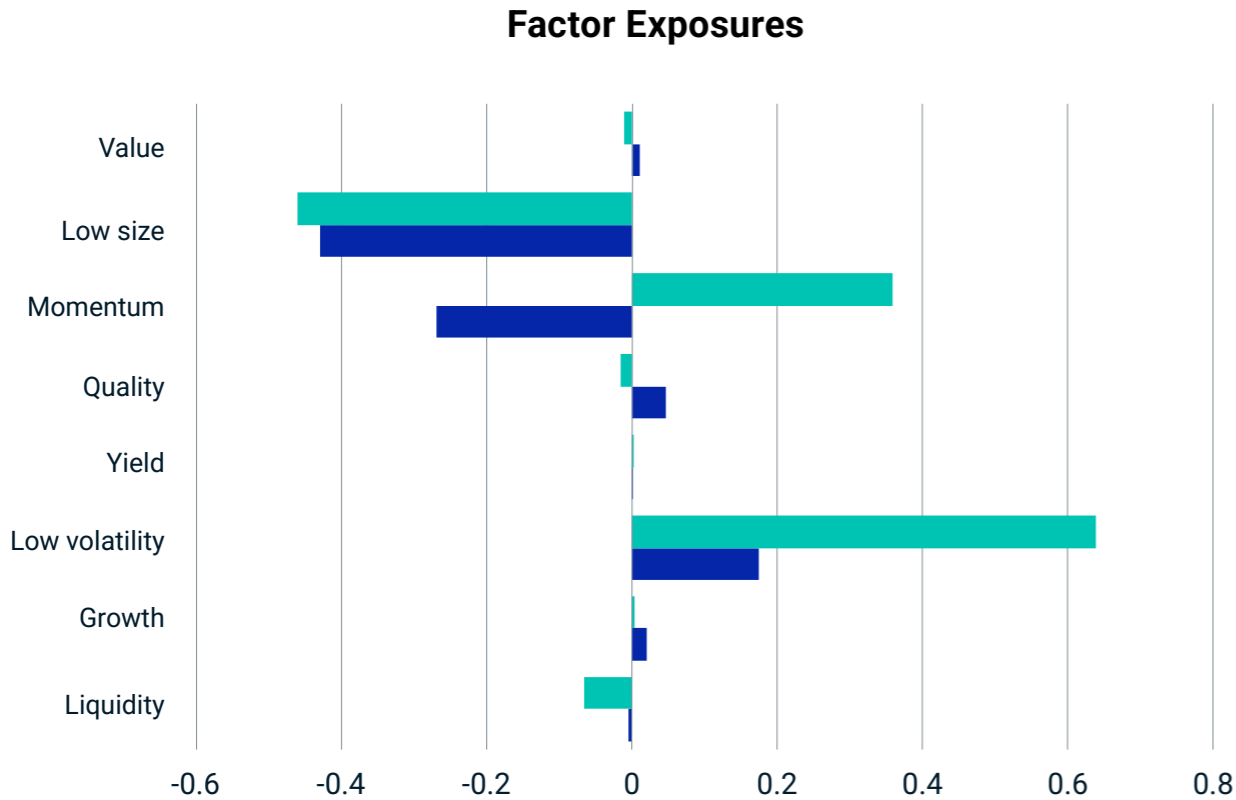
MSCI India's sector composition has changed dramatically since its inception, reflecting the changes in the underlying economy. While in the 1990's it was heavily tilted towards manufacturing and industrial activity, we've seen an increase in the relative importance of services-linked sectors. Today, Financials is the largest sector in the MSCI India Index.



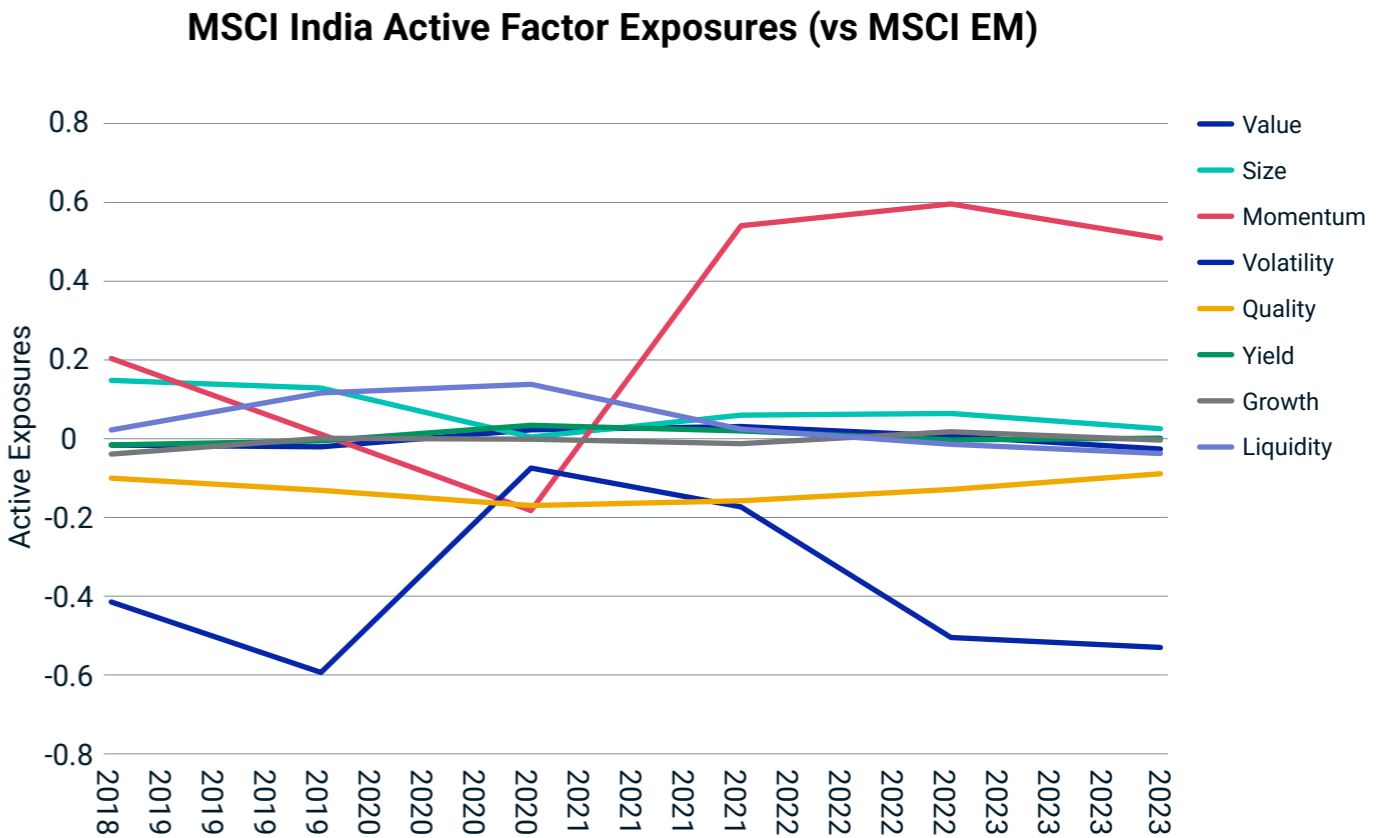
Date: As of February 29th, 2024

Factor Exposures: Current and Changes Through Time

Compared to MSCI EM Index, Momentum and Low Volatility factor exposures are significantly higher in the MSCI India Index. These positive active exposures have also been present in recent times.



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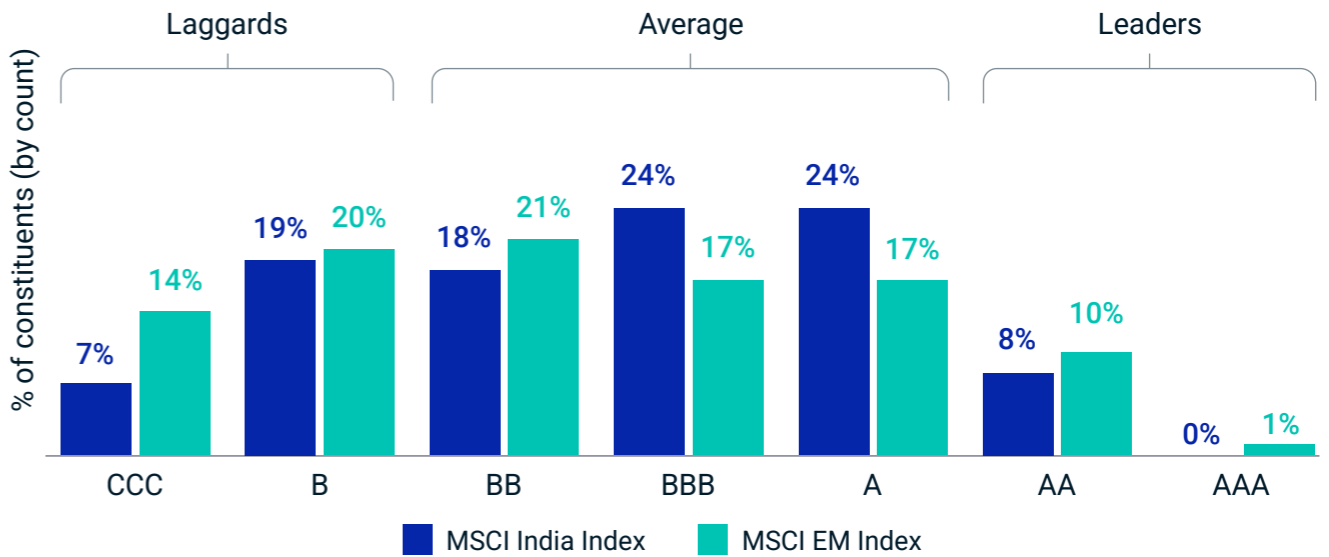
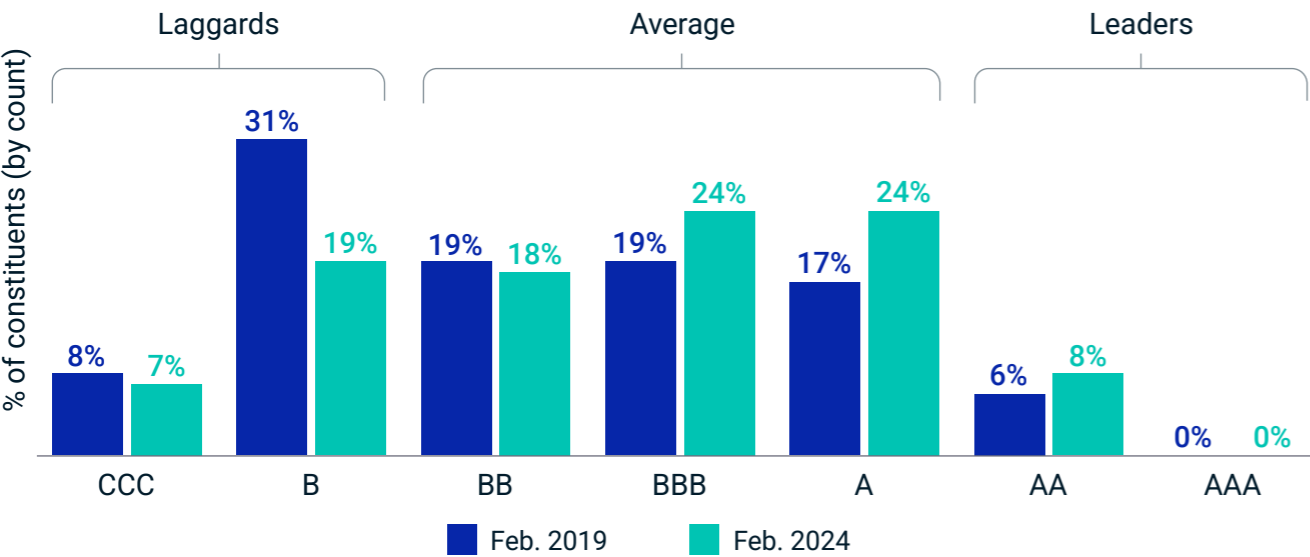
Sustainability Metrics: Progress But There is More to Do

From a sustainability perspective, MSCI India's overall scores have improved over time. Looking at the underlying scores, we can see not just a pickup on the number of companies improving their scores but also that there have been less downgrades.

An evaluation of MSCI ESG Ratings for constituents of the MSCI India Index revealed that 8% were categorized as leaders (up from 6% five years ago), while 26% were laggards (down from 34% five years ago),[1] as of the end of February 2024.

Compared with the MSCI Emerging Markets Index, the MSCI India Index had a smaller share of constituents in both leader and laggard categories and a lower overall MSCI ESG score, 5.2 versus 5.7.

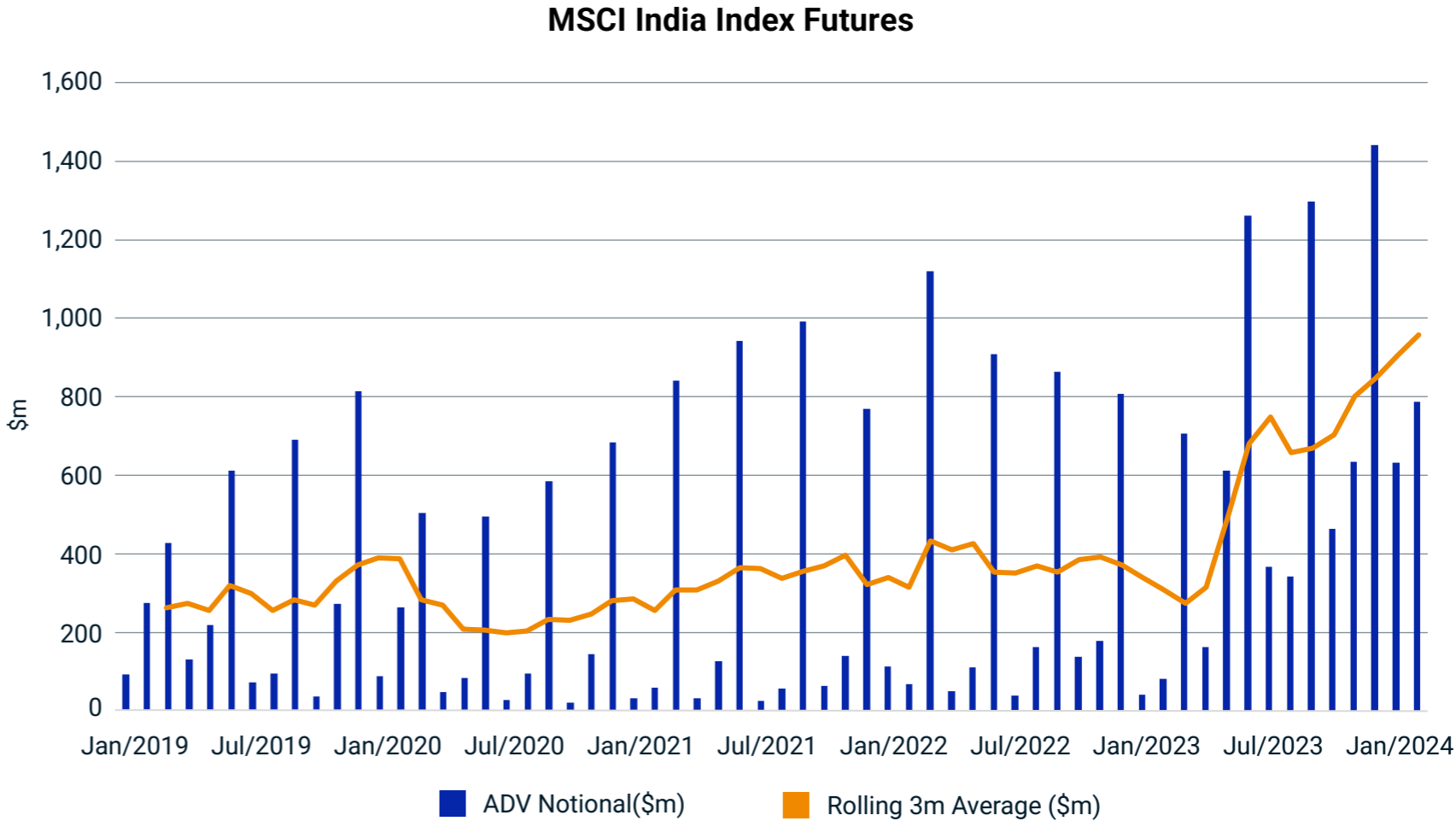
Comparing MSCI India and MSCI Emerging Markets Indexes on 10 MSCI ESG Ratings themes showed that MSCI India Index had higher scores on governance themes, such as corporate behavior and corporate governance. Results were mixed, however, on environmental and social themes: higher on climate change, pollution and waste, product liability, stakeholder opposition and social opportunities, and lower on environmental opportunities and human capital.



Increases in Market Liquidity and Derivatives Volume

The transformations the Indian stock market has witnessed in recent years have led to significant increases in market liquidity.

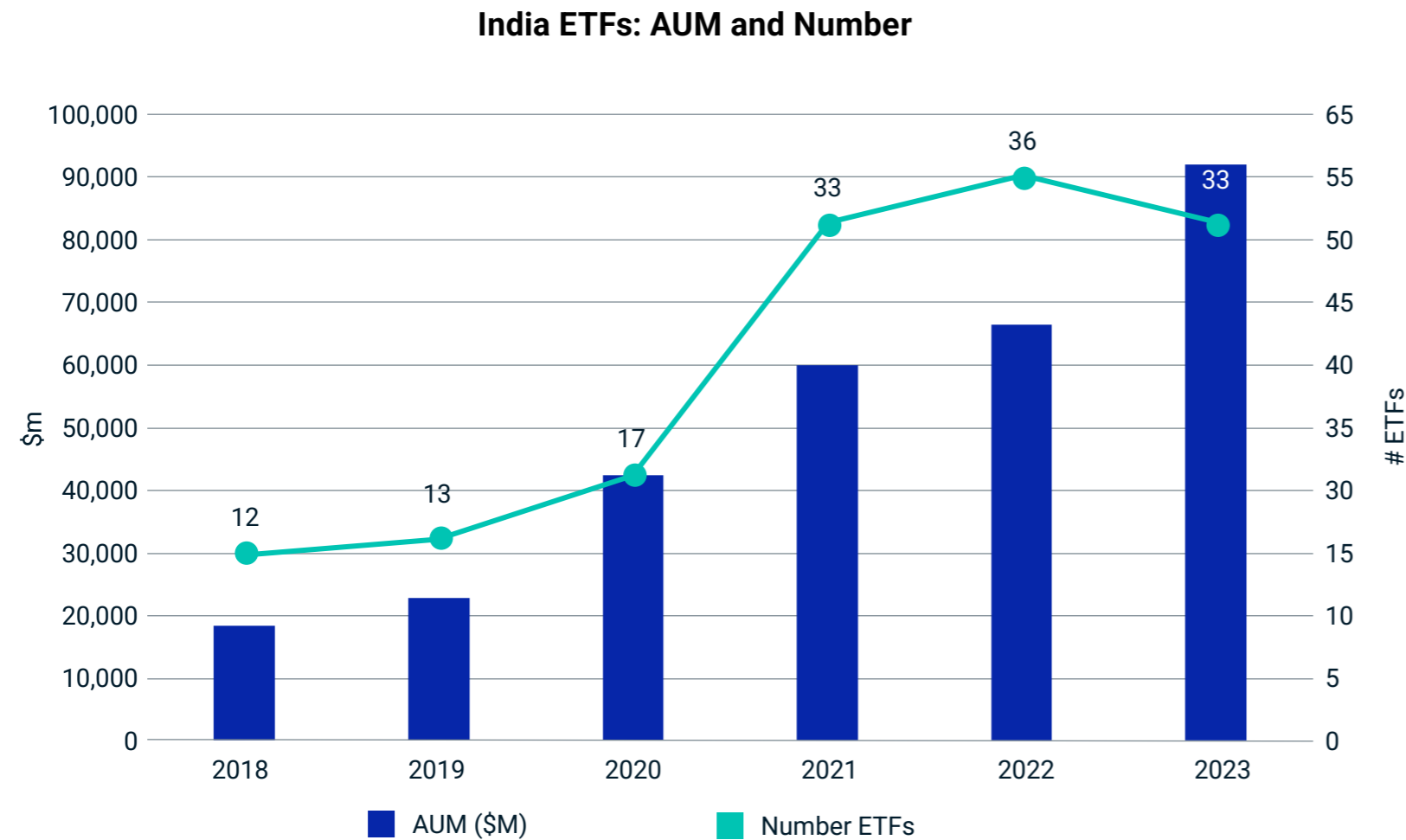
The average daily trading volumes in the Indian stock market increased by 25% in the past two years, reaching \$135 billion USD as of February 2024⁵. This has also been translated in an expansion of derivatives, like futures and options, targeting the Indian market. The chart shows the steady growth in futures linked to MSCI India Index with a stronger uptick in last 12-18 months.



Date: As of February 29, 2024.

⁵ Source: National Stock Exchange of India

Conclusion



Date: As of February 29, 2024.

All of these factors have helped to raise the profile of India in global markets and has led to the growth of India ETFs, both in terms of number and volume. As of the end of 2023, the combined AUM of ETFs with India exposure reached \$92 billion USD, representing a 38% increase compared to the previous year⁶.

In addition to the increased participation from international investors, there has also been an increase in the number, and volume, of retail domestic investors. It is now estimated that 17% of the Indian households invest in the stock market⁷. Domestic demand has been driven by the stock market performance, together with the introduction of new savings schemes and supported by an innovative and unified digital infrastructure.

Both international and domestic interest is expected to continue in the short to medium term, potentially providing further momentum. The addition of India to emerging market bond indexes from later on this year, is expect to bring the spotlight onto India as an investment destination.

⁶ Source: ETFGI Database

⁷ Source: <https://www.businesstoday.in/markets/stocks/story/17-of-all-indian-households-invest-in-the-indian-stock-markets-says-nse-ceo-403824-2023-10-30#:~:text=17%25%20of%20all%20Indian%20households,markets%2C%20says%20NSE%20CEO%20%2D%20BusinessToday>



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