# Market trends that everyone missed

In 2018, interest in unlisted ventures sizzled; promoters faced shareholder heat; and buybacks scored over IPOs

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**CIRCUIT BREAKER**

For Indian investors, 2018 has been like that Bollywood action movie in which the events are so fast-paced that you don't quite get the plot. In the past year, wild oil price swings kept investors guessing, the rupee did the trapeze act, the Nifty and Sensex un-friended the rest of the market, and AAA entities defaulted.

But amid all the action, there were some big shifts in the market that didn't get the attention they deserved.

### Private wins over public

Equity investors in India have long believed that the juiciest wealth-creation opportunities are to be found in the listed space, while the unlisted space is for also-rans. But it may be time to rethink this belief.

After surfing on a tide of liquidity to make smart gains from 2013 to 2017, listed stocks were forced to take a breather in 2018 as the tide went out. Foreign portfolio investors who were on a buying spree for nine continuous years from 2009 to 2017 turned net sellers to the tune of $4.5 billion in listed stocks, in 2018.

But if the relationship between foreign portfolio investors and listed companies has thawed, that between foreign private equity investors and unlisted companies continued to sizzle. According to EY data, despite the waning tide of global liquidity, Private Equity and Venture Capital (PE/VC) investors sank a record $27 billion into Indian ventures in the eleven months ended November 2018. In fact, even as FPI investments have stalled in the last four years, PE/VC flows which were at $12 billion in 2014 have dramatically soared.

Lack of liquidity has been a bugbear for investors in India's unlisted space in the past. But 2018 saw a turning point on that aspect too, with PE/VC exits at $24.6 billion nearly matching their new investments.

The flood of capital into private firms essentially tells us that a market listing is no longer critical for the most exciting consumer businesses in India to access big-ticket capital. With private equity investors willing to infuse multiple rounds of capital into high potential firms, the number of privately held firms with a billion-dollar valuation is burgeoning. According to a Nasscom report, 2018 alone birthed a record eight unicorns (companies with a billion dollar valuation) in India. Unlisted companies such as Flipkart, Ola, Swiggy, Oyo Rooms, Zomato, Byju's and Policybazaar now boast of valuations that top 90 per cent of the listed firms.

The good thing is that promising Indian ventures no longer need to rely on fickle FPIs with private investors willing to bankroll them. But the flip side is that domestic retail investors may be forced to watch from the sidelines, as fat-cat investors skim the *malai* off the most exciting growth opportunities in the market.

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### Promoters lose their halo

The promoters of India Inc have always lorded it over other shareholders by appointing themselves to cushy posts, drawing eight-figure salaries and over-ruling other shareholders with their voting clout. But many factors are now working to topple them from their pedestals. Shareholding patterns for the BSE 500 companies show that promoters held 47.8 per cent of their outstanding market cap in September 2018, down from a controlling 51 per cent four years ago. High debt levels and the new Bankruptcy Code have forced promoters of some leading companies to shed stakes.

SEBI's minimum public shareholding norms have forced others to loosen their grip. The marked tightening of governance norms under the Companies Act and SEBI regulations has also rewritten the rules, with interested parties no longer allowed to vote on key corporate decisions.

Thanks to these tweaks, this AGM season saw feisty shareholders take many managements to task over related-party deals, excessive managerial pay and the tenure of elderly chairmen. The Apollo Tyres AGM saw shareholders vote out the appointment of Neeraj Kanwar as Managing Director. Stalwarts like Deepak Parekh and Kumar Mangalam Birla have had to fend off complaints about occupying too many board seats from foreign institutional investors.

If promoters of India Inc are no longer treated as minor Gods, that's a splendid development for public shareholders. In the long run, this activism can improve their returns by reining in related-party transactions, restraining bad capital allocation decisions and giving shareholders a larger piece of the profit pie. But it is important that the activism does not remain restricted to promoter-driven firms and extends to the professional managers of widely-held companies too.

### Record buybacks

With the stock markets correcting, the primary market took a bit of a breather in 2018, only to see action pick up on stock buybacks. According to Prime Database, FY18 and FY19 have been record years for stock buybacks by Indian companies, which splurged ₹78,000 crore over these two years to mop up their own shares. In the first eight months of FY19, the capital returned by listed companies through buybacks (₹25,485 crore) in fact exceeded capital raised (₹21,496 crore) by way of primary offers.

If you are a cynic, you would attribute this fascination with buybacks to the change in the method of dividend taxation two years ago. The 2016 Budget slapped a 10 per cent tax on individual shareholders in Indian companies who receive dividends in excess of ₹10 lakh a year. This tax has made buybacks a better method for companies to reward their large shareholders (read promoters) than dividend pay-outs.

Given that they return capital to investors, a rush for buybacks could also signal that companies are no longer finding exciting opportunities to reinvest profits in their core business.

For retail investors, companies shifting to buybacks in place of dividends isn't great news as participating in buybacks is more cumbersome than receiving dividends.

On the bright side though, a stock buyback done for the right reasons boosts a company's earnings and is a signal to the market that the business is under-valued. Given that the market assigns very little value to idle cash on a company's balance sheet, a buyback also boosts its valuation by improving its return ratios.

To sum up, while each of these trends is significant, it early days yet to gauge their exact impact on your portfolio. But do keep an eye out for them. As Shah Rukh Khan said in *Om Shanti Om*: *'Yeh picture abhi baaki hai, mere dost'*.