ECONOMY

Dimon says US stock exchanges have too few companies. India has a different problem

By Sunny Verma Apr 10, 2024, 03:27:38 PM IST

Jamie Dimon, CEO, JP Morgan Chase

Synopsis

Jamie Dimon, the head of JP Morgan, is worried that the public companies' universe is shrinking in the US stock markets. While India takes lots of its cues from the US, this is one place where walking in the opposite direction may be a better idea.

More is less or less is more? The answer is, as former US President Bill Clinton once said: "It depends on what the meaning of the word 'is' is."

In this case, "is" refers to the quantity of stocks listed on the stock exchanges.

Jamie Dimon, chairman and CEO, **JP Morgan Chase** & Co, lamented in his latest

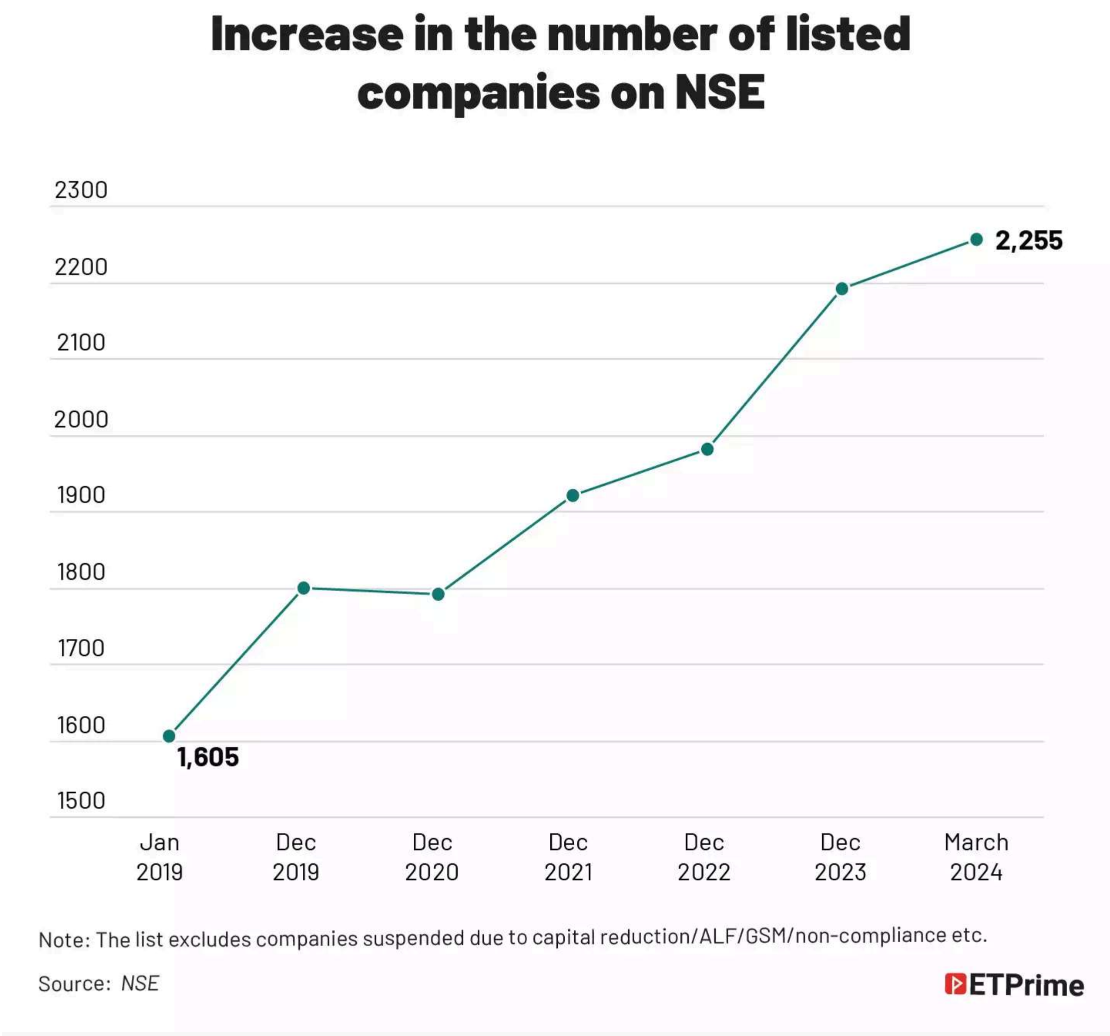
(April 8, 2024) annual letter to the shareholders that public markets are shrinking in the US, as the total number of listed companies are down to 4,300 now from their peak of 7,300 in 1996.

He says intensified reporting requirements, higher litigation expenses, costly regulations, cookie-cutter board governance, shareholder activism, undue influence of proxy advisors and relentless pressure of quarterly earnings are probably among the reasons for companies choosing to go private.

Dimon has a point. A growing economy (US is growing at 3.5% p.a., amazing for its size) should provide quality companies from good entrepreneurs on the public markets. That was the wealth-creation spreads to other sections of the society — from a humble government employee to a young software engineer.

Now India is as entrepreneurial as any other economy in the world and tables have turned here.

In the booming Indian equity markets, however, public markets have taken center stage. **NSE** data shows the number of total public-listed companies rising to 2,255 in March 2024 from 1,605 in January 2019, as per the latest available data. There were 2,085 companies with market capitalisation above INR50 crore in March 2024, compared to 1,947 in January 2019, NSE data shows. The data does not include companies that are not traded or suspended from the exchange.



On the **BSE**, the total number of companies rose from 5,218 in 2021 to 5,374 in 2024 (as on April 9, 2024), as per the latest available data. The BSE total market cap has risen from INR219.22 lakh crore to INR400.11 lakh crore in that period.

It is customary for Indian markets to follow the US markets in many trends and practices. Here is where Dimon's statement is important, but from an exactly opposite position.

A record number of demat accounts have been opened, and trading volumes have risen exponentially in the recent years. Benchmark indices, Nifty50 and BSE Sensex have trebled in the past 10 years. Even some loss-making companies have been able to raise public money. Gains on listing days have been phenomenal in several cases.

The devil's in the depth

One could say it's natural for India to differ from the US equity evolution path at this stage. The domestic equity cult is just starting. After all, only 3% of Indians invest in stocks currently, compared to 61% Americans (as a percentage of total population). To aid this, is the Indian regulator allowing companies that aren't perhaps ready for public scrutiny and consistency to list?

Look at the facts.

India lacks the depth and paucity of good investible companies. Of the total universe of listed companies, only 1,466 have RoCE, or return on capital employed, above 9%. This translates to only about 22% of the total listed and traded companies having 9%-plus RoCE.

Many of these listed companies suffer from low trading volumes and higher impact costs. Corporate governance is also a huge issue in the Indian market. The number of listed companies is increasing but one needs to be careful. Then there are also issues of companies delisting and large companies merging their smaller subsidiaries, listed on exchanges, with the parent. Recently, ICICI Securities announced its plans to delist and merge with its parent ICICI Bank.

In US, companies have been there, done that. Private equity and alternate sources can fund firms in the US. But in an emerging economy like India, companies need public capital to expand and grow. The investible universe must rise. This cannot happen on the back of fragile domestic savings. Indian saving rates are at 5.1% of GDP in FY23, much lower than the country's size. So, while the culture of savings through equity needs encouragement, putting companies that are bad at capital allocation or cannot run a business profitably through business cycles, on the stock exchanges is the not the way to do it. Better to encourage quality companies rather than just it be quantity game.

Dimon's worry is legitimate from a US standpoint, but there is an important lesson for the Indian regulator and stock market ecosystem. Let the regulation and reporting standards be of the highest quality. Indian investors need a Reliance Industries, Asian Paints, Pidilite, Infosys, TCS, et al.

We should not fall for the volume trap and repeat the mistakes only to expand the universe of investible companies.

If "is" good, less can be more.

(*Graphic by Sadhana Saxena*)
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