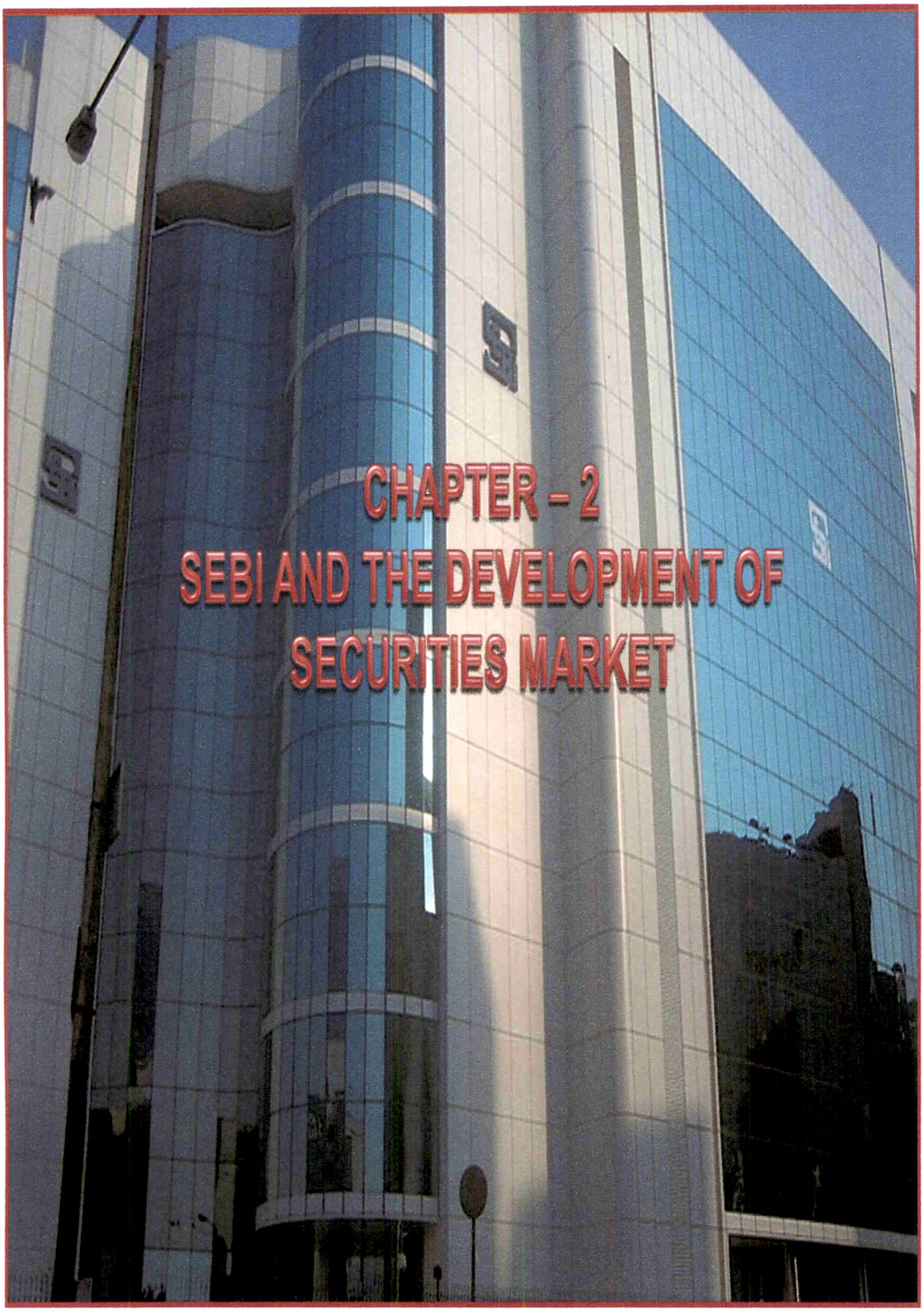


CHAPTER – 2

SEBI AND THE DEVELOPMENT OF SECURITIES MARKET

CHAPTER 2

SEBI AND THE DEVELOPMENT OF SECURITIES MARKET

CONTENTS

2.1 INTRODUCTION:

Securities and Exchange Board of India (SEBI) has emerged through an Act of Parliament in 1992, ensuing up with a number of initiatives aimed at regulating and developing the Indian securities market and improving its safety and efficiency. In this chapter researcher has taken an account of SEBI and the development of securities market referring an Annual Report of SEBI which deals with operational aspects of Securities and Exchange Board of India during the year 2001-02 to 2011-12 and attempted to make a comparison, wherever possible, with the developments in the international capital markets. Operational areas such as primary market, secondary market, mutual funds, foreign institutional investment, regulatory developments, are discussed, analyzed and compared the over period and across the markets.

The Indian security markets witnessed significant uptrend and volatility in 2007-08. The equity markets registered gains and the benchmark indices breached historic highs on several occasions. However, since mid- January 2008, stock markets witnessed sharp corrections in tandem with the global equity markets. Resources raised by the corporate world from primary market were substantially higher indicating the continuation of investment boom in India. Mutual funds too mobilized large amount of resources during 2007-08. Sound domestic macro-economic fundamentals, private corporate profitability and active buying support from institutional investors were the major factors that dominated stock market movement during 2007-08.

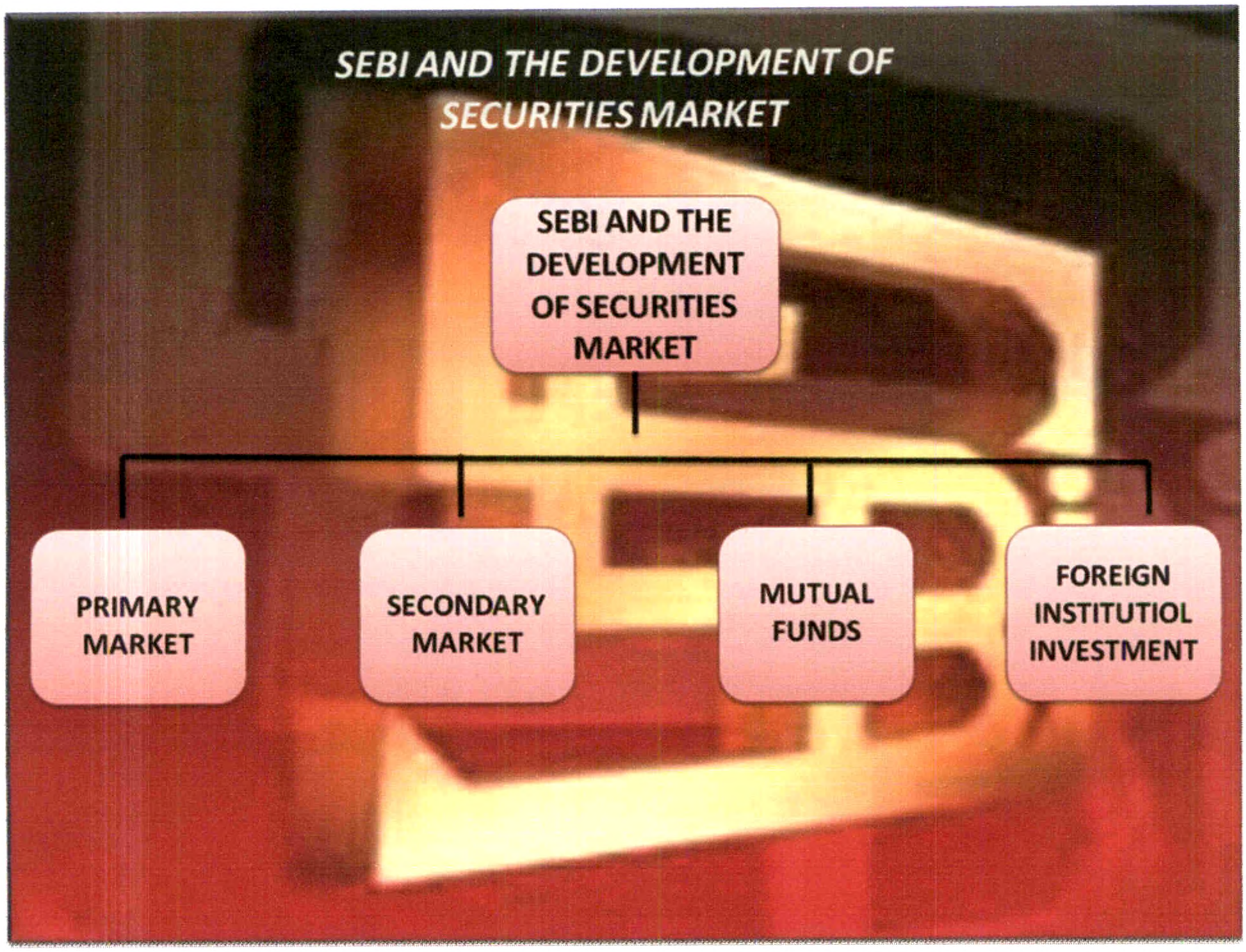
Indian securities markets displayed downward trend in 2008-09. The downswing in the domestic equity markets was in consonance with the downward spiral in global equity markets triggered by international financial crisis. Sharp fall in the benchmark indices, across the board fall in share prices, decline in market capitalization, turnover and soaring volatility characterized the stock market behavior during 2008-09. There was a substantial decline in the resource mobilization by corporate in the primary market in 2008-09 compared to the years 2007-08. Redemptions exceeded mobilizations by the mutual funds resulting in substantial outflows. Concerns of deepening of recession pervading in the developed economies, slowdown in domestic industrial growth and exports, substantial selling by Foreign Institutional Investment (FIIs), weak corporate results and depreciation of rupee aggravated the downward momentum. However, the Indian securities market continued to function in an orderly manner during 2008-09.

Indian securities markets witnessed sharp turnaround in 2009-10. Whereas the markets were in downswing in 2008- 09 in consonance with the downward spiral in global equity markets triggered by international financial crisis, beginning of the financial year 2009-10 witnessed upward swing in the market. Fresh upward movement was triggered following unambiguous results in the union elections and a period of stability across the market got initiated. The upward swing following the election results was so sudden and strong that Indian stock exchanges were shut down temporarily due to operation of circuit filters. In global arena, concerns for deepening of recession pervaded in the developed economies got replaced with concerns for a double dip. However, as the year progressed, the picture at global markets became better.

Year 2010-11 clearly belongs to activities in primary market which witnessed record number of Initial Public Offerings (IPOs)/ Follow-on Public Offerings (FPOs) and new debt issues (Non-Convertible Debentures/ Bonds) including the biggest ever IPO of Coal India which came out with issue size of ` 15,199.4 crore in October 2010. In debt segment, State Bank of India, the country's largest bank, came out with debt issues in multiple tranches which were subscribed by investors multiple times.

Indian equity markets were impacted by developments in the global macroeconomic space during 2011-12. The unfolding of Euro zone sovereign debt crisis, unprecedented event like US downgrade, the impasse over fiscal and debt problems in the USA, high oil and commodity prices, earthquake in Japan and Middle-east crisis derailed global growth prospects and undermined business and consumer confidence. Indian equity markets were under effect of sluggish and bearish trend prevailed for major part of the year. Intensifying concerns over the fragile global economy and its possible transmissions to the domestic front, elevated levels of inflation and depreciation dominated the domestic scene. India's investment cycle, which was on an upturn since 2003-04, moderated to a soft patch. Antiin flationary monetary stance by the central bank through monetary tightening measures and resultant firming up of interest rates and growth moderating effects of a persistently high inflation impacted business sentiments. Reflecting the same, business confidence reached a lower level and coupled with wealth effect of correction in equity prices overthrew the investment and expansion plans of corporate.

CHART 2.1



2.2. PRIMARY SECURITIES MARKET:

The primary capital market (PCM) plays an important role in the overall functioning of securities market. Vibrancy of primary market, among other things, is a function of macroeconomic factors, industrial output and demand. Over the years SEBI has taken several initiatives to improve the operational efficiency and transparency of the primary market, which provides investors with issues of high quality and for firms a market where they can raise resources in a cost effective manner. However, despite these measures the primary market remained lackluster. The market for primary securities has undergone several major reforms during 2003-04. The buoyant economic environment has also contributed substantially for the deepening and broadening of the primary market.

The primary segment of the capital market was characterized by heightened activities during 2004-05. Strong fundamentals of the economy, encouraging corporate results, buoyant secondary market, and revival of structural reforms by the government and an investor friendly regulatory framework provided by SEBI attracted the investors to the primary market. Several mega issues apart, a number of small issues entered the market. There has been overwhelming response to most of the public issues from FIIs, other institutional investors and the retail investors. Large numbers of the issues were over-subscribed indicating the quality of issues and the appetite for public issues by the investors. The post-listing performance of most of the Initial Public Offerings (IPOs) was encouraging. Unlike the year 2003-04, private sector dominated the primary market during 2004- 05 and mobilized sizeable amount of resources through public and rights issues.

The revival of the primary market, which started in 2003-04, gathered momentum in 2004-05 and further invigorated in 2005-06. Strong macro-economic fundamentals, sustained growth of the manufacturing sector, active institutional support led by FIIs and mutual funds, positive investment climate, sound business outlook, encouraging corporate results and buoyant secondary market induced large number of companies to raise resources from the primary market. Apart from several mega issues, large number of small and medium sized companies mobilized resources through public and rights issues. The private sector continued to dominate the primary market activities during 2005-06. There was overwhelming response to most of the public issues reflecting risk appetite of the investors in general and sustained investment activities in particular. Regulatory reforms such as introduction of proportionate allotment and margin requirement for the Qualified Institutional Buyers (QIBs) and special allocation to mutual funds within the QIB category also contributed to brisk activities in the primary market.

The momentum witnessed in the primary market since 2005-06 increased further in 2006-07. Strong macro-economic fundamentals, favorable investment climate, encouraging corporate results, and buoyant secondary market performance supported by institutional investors encouraged a number of companies to raise capital from the primary market. Besides several large companies, many small and medium-sized corporate accessed the primary market and mobilized resources through public and rights issues. Apart from the conventional modes, Qualified Institutions' Placement (QIP) was also used by many listed companies to meet their financing requirements.

The upward trend in primary market activities continued in 2007-08. The buoyancy in the secondary market coupled with strong macro-economic fundamentals, active institutional support led by FIIs and mutual funds encouraged large number of companies to raise resource from the primary market. Several large companies mobilized resources through public issues, rights issues and Qualified Institutions' Placement. The companies in private sector led in raising resources from primary market during 2007-08.

The primary market segment witnessed weak trend during 2008-09. The volatility in stock markets, slowdown in economic growth, slackening of expansion plans by corporate and poor investor response led to a sharp fall in the number of issues and amount raised through the primary market in 2008-09.The primary market segment witnessed positive trend during 2009-10. Earlier, in 2008- 09, the volatility in stock markets, slowdown in economic growth, slackening of expansion plans by corporate and poor investor response had led to a sharp fall in the number of issues and amounts raised through the primary market. The primary market segment witnessed positive trend during 2010-11.

The primary market activities were subdued during 2011-12. Weak macroeconomic and investment environment slackened expansion plans of corporate. This was exacerbated by the negative returns from the previously listed IPOs and declining trend in equity markets. In consonance with dampened returns, the lukewarm investor response for the existing primary market issues adversely affected investor and promoter sentiments. Resource mobilization by companies through IPOs and Follow-on Public Offerings (FPOs) was substantially lower in 2011-12 compared to the years 2010-11. The year was dominated by the non-convertible debenture issues of the public financial and infrastructure institutions.

2.2.1 Resource Mobilization:

Tables 2.1 and Graph 2.1 explains the proportion and share of Public and Right issue in total issue corresponding during the period of 2001-02 to 2011-12.

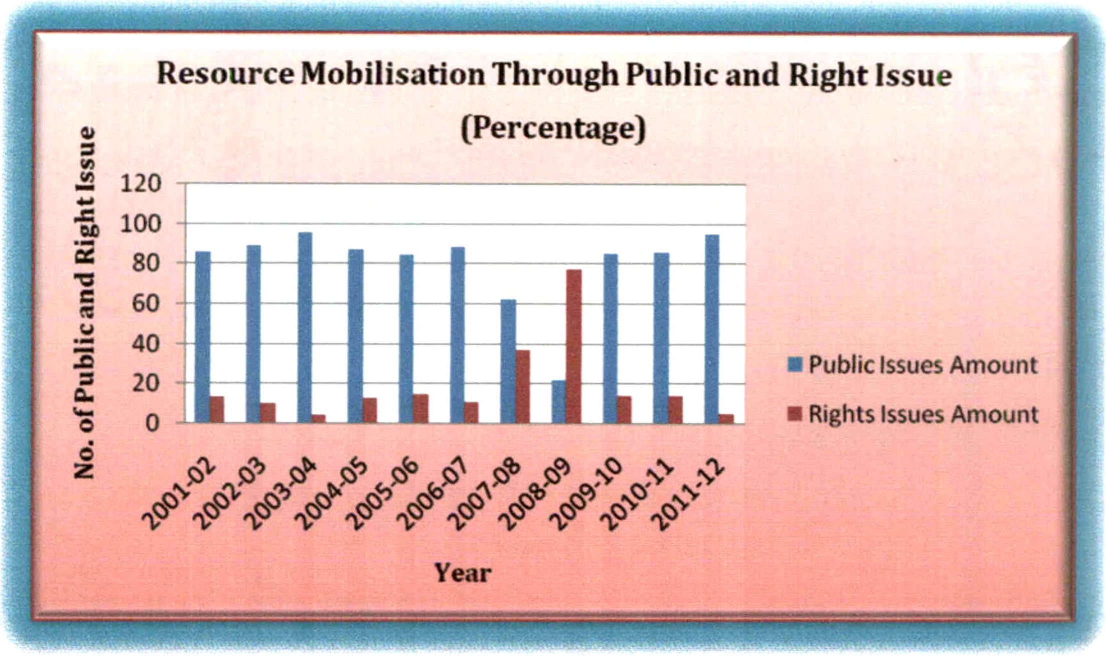
Table 2.1

Resource Mobilisation through Public and Rights Issues (Rs.Crore)

Year	Public Issues Amount (Rs. Crore)	Rights Issues Amount (Rs. Crore)	Total Issues Amount (Rs. Crore)
2001-02	6501.81 (86.1)	1041.26 (13.9)	7543.08 (100.00)
2002-03	3638.68 (89.4)	431.61 (10.6)	4070.29 (100.00)
2003-04	22,265 (95.67)	1,007 (4.33)	23,272 (100.00)
2004-05	24,640 (87.20)	3,616 (12.80)	28,256 (100.00)
2005-06	23,294 (85.07)	4,088 (14.93)	27,382 (100.00)
2006-07	29,797 (88.93)	3,711 (11.07)	33,508 (100.00)
2007-08	54,511 (62.63)	32,518 (37.37)	87,029 (100.00)
2008-09	3,582 (22.09)	12,637 (77.91)	16,220 (100.00)
2009-10	49,236 (85.5)	8,319 (14.5)	57,555 (100.00)
2010-11	58,105 (85.9)	9,503 (14.1)	67,609 (100.00)
2011-12	46,093 (95.1)	2,375 (4.9)	48,468 (100.00)

Source: SEBI Annual Reports – 2001-02 to 2011-12.

GRAPH 2.1



Value of resource mobilization through public issues was higher than right issue during the period 2001-02 to 2011-12. It was the lowest i.e. 22.08 percent in 2008-09. However, it was the highest to 95.67 percent in 2003-04. Amount raised through rights issues to total issues was the lowest i.e. 4.9 percent in 2011-12. And it was the highest i.e. 77.91 percent in 2008-09. The total value of issued amount remained fluctuating between Rs.7573.08 crore to Rs. 87,029 crore during the above mentioned period. And it was the highest in 2007-08, whereas the lowest in 2002-03(Table 2.1).

2.3 SECONDARY SECURITIES MARKET:

There are several facets to the secondary market for securities. Trading, clearance and settlement are one part and others include exchange management, product innovation, risk management etc.; this section provides explanation on many developments during the year in Secondary Securities Market (SSM). Transparent, efficient, fair, modern and clean secondary market for securities is essential the healthy development of an integrated capital market. Worldwide stock exchange trading platforms, clearing houses and settlement systems have undergone significant changes during the year. Globalization of capital market appears to have had strong impact on the functioning of secondary market of securities. Alliances, mergers and cross border link have occupied centre stage of securities market.

2.3.1 Turnover in the Indian Stock Market:

Table 2.2 gives an idea about exchange wise cash segment turnover as well as turnover at BSE and NSE for the period of 2001-2002 to 2011-12.

TABLE 2.2

Exchange–Wise Cash Segment Turnover (Rs. Crore)

Year	Stock Exchange			Total
	BSE	NSE	Other	
2001-02	307,392.3 (34.31)	513,166.9 (57.29)	75,258.24 (8.4)	895,817.4
2002-03	3,14,073.2 (32.42)	6,17,988.6 (63.78)	36,846.95(3.8)	968,908.75
2003-04	5,02,618.4 (31.02)	10,99,533.9 (67.85)	18,345.01(1.13)	1,620,497.31
2004-05	5,18,716 (31.12)	11,40,072 (68.40)	8,108 (0.48)	1,620,497.00
2005-06	8,16,074 (34.00)	15,69,558 (66.00)	4471.01(0.00)	2,390,103,01
2006-07	9,56,185 (32.94)	19,45,285 (67.01)	1586.2 (0.05)	2,903,056.20
2007-08	15,78,857 (30.77)	35,51,037 (69.21)	921(0.02)	5,130,815.00
2008-09	11,00,074 (28.55)	27,52,023 (71.43)	482 (0.02)	3,852,579.00
2009-10	13,78,809 (24.99)	41,38,023 (74.99)	1,637 (0.02)	55,18,469
2010-11	11,05,027 (23.59)	35,77,410 (76.36)	2,597(0.05)	46,85,034
2011-12	6,67,498 (19.19)	28,10,892 (80.81)	0.2 (0.00)	3,478,390.20
Total	92,29,266.90	236,74,451.40	1,64,868.73	-
CGR	14.01	22.76	-51.19	-

Source: SEBI Annual Reports – 2001-02 to 2011-12.

Analysis of the data given in table 2.2 reveals that in the year 2001-02, the total turnover of all exchanges amounted to Rs.895,817.4 crore out of which NSE accounted for 57.29 percent, BSE for 34.31 percent and other for 8.4 percent.

After 2002-03 share of BSE and NSE slowly increased and share of other exchanges decreased. The total turnover in all stock exchanges rose modestly by 2.86 per cent in 2004-05 as compared with 67.85 per cent in the year 2003-04.

There has been a spurt in the growth of trading volumes in stock exchanges since 2005-06. During 2006-07, turnover of all stock exchanges in the cash segment was Rs. 2,903,056.20 crore compared to Rs. 2,390,103.01crore in the year 2005-06 a rise of 21.46 per cent over the year. The share of BSE and NSE in the total turnover was more than 99.95 per cent. NSE had the largest share of 67.01 per cent in the total turnover in 2006-07. The regional stock exchanges had hardly any share in the total turnover in the market.

In tandem with the downward spiral of equity prices, there was a decline in the trading volumes in stock exchanges in 2008-09. During 2008-09, turnover of all stock exchanges in the cash segment was declined by 24.9 per cent compared to 2007-08. BSE and NSE together contributed more than 99.9 per cent of the turnover, of which

NSE accounted for 71.43 per cent in the total turnover in cash market. Apart from NSE and BSE, there was hardly any transaction on other stock exchanges.

In tandem with the upward trend in equity prices, there was an increase in the trading volumes in stock exchanges in 2009- 10. During 2010-11, turnover of all stock exchanges in India in the cash segment was decreased by 15.1 percent compared to 2009-10. BSE and NSE together contributed almost 100 percent of the turnover, of which NSE accounted for 76.36 percent in the total turnover in cash market whereas BSE accounted for 23.59 percent other exchanges accounted for 0.05 percent of the total in 2010-11. Apart from NSE and BSE, there was no transaction on other stock exchanges.

In consonance with the declining trend in equity prices, there was a fall in the trading volumes in stock exchanges in 2011-12. The turnover of all stock exchanges in the cash segment was declined by 25.6 percent compared to 2011-12. BSE and NSE together contributed 100 percent of the turnover, of which NSE accounted for 80.81 percent in the total turnover in cash market whereas BSE accounted for 19.19 percent of the total.

The study reveals that the compound growth rate of BSE stood at 14.01 percent. The notable growth rate recorded by NSE was 22.76 percent which is higher and growth rate of other stock exchanges showed -51.19 percent during these eleven years.

2.3.2 Market Capitalization:

The market capitalisation indicates the size of capital market. Moreover, it acts as an indicator of the amount of notional wealth generated, though all of it cannot be realised. Market capitalisation is a leading indicator of the health of the stock market. The market capitalisation of an exchange is a summation of market capitalisation of all the individual stocks listed on the exchange. Market capitalisation is a major indicator that indicates size of the stock market. A higher market capitalisation reflects growing stock market activities and an upward trend in stock markets. The market capitalization of BSE has been higher than that of NSE in India reflecting large number of shares being listed in BSE. On the basis of available data table 2.3 and table 2.4 are prepared to highlight market capitalization at BSE and NSE respectively during the period 2001-02 to 2011-12.

TABLE 2.3

Market Capitalisation at BSE *(crore)*

Year	All Listed Companies	Percentage Variations	BSE Sensex	Percentage Variations	BSE-Teck	Percentage Variations	Bankex	Percentage Variations	BSE PSU	Percentage Variations
2003-04	12,01,206	109.90	6,25,173	148.93	1,45,053	63.47	1,13,094	151.09	4,11,532	158.75
2004-05	16,98,428	41.39	7,25,553	16.06	2,82,425	94.70	1,54,048	36.21	5,16,365	25.47
2005-06	30,22,190	77.9	14,24,112	96.3	4,68,278	65.8	2,19,894	42.7	7,48,614	45.0
2006-07	35,45,041	17.3	17,11,241	20.2	7,17,127	53.1	2,57,026	16.9	7,22,517	-3.5
2007-08	51,38,014	44.9	22,23,701	30.0	6,81,431	-5.0	3,77,020	46.7	11,53,034	59.6
2008-09	30,86,075	-39.9	15,07,742	-32.2	4,10,923	-39.7	2,33,895	-38.0	9,49,211	-17.7
2009-10	61,65,619	99.8	26,17,900	73.6	7,40,817	80.3	5,54,127	135.9	17,33,662	82.6
2010-11	68,39,084	10.9	15,55,322	17.0	3,71,709	17.4	4,37,544	24.5	19,48,55	12.4
2011-12	62,14,941	-9.1	14,69,141	-6.2	3,45,958	-6.9	3,90,614	-10.7	16,03,085	-17.7
Total	369,10,598	-	132,34,712	-	41,63,721	-	27,37,262	-	78,38,020	-
CGR	282.80	-	11.99	-	8.07	-	17.82	-	7.73	-

Note: Market capitalization is the value of last trading day of the respective year

Source: SEBI Annual Reports – 2003-04 to 2011-12.

TABLE 2.4

Market Capitalisation at NSE *(crore)*

Year	All Listed Companies	Percentage Varia-tions	S & P CNX Nifty	Percentage Varia-tions	CNX Mid cap	Percentage Varia-tions	CNX IT	Percentage Varia-tions	CNX Bank	Percentage Varia-tions
2003-04	11,20,976	108.70	6,38,599	NA	81,280	-1.32	1,03,168	39.52	1,01,928	NA
2004-05	15,85,585	41.44	9,51,672	49.02	1,48,019	82.11	2,27,191	120.20	1,36,921	34.33
2005-06	28,13,201	77.4	15,90,155	67.1	3,38,927	129.0	3,48,096	53.2	2,00,503	46.4
2006-07	33,67,350	19.7	19,09,448	20.1	3,41,869	0.9	4,20,814	20.9	2,29,084	14.3
2007-08	48,58,122	44.3	28,48,773	49.2	4,62,665	35.3	3,22,637	-23.3	3,50,535	53.0
2008-09	28,96,194	-40.4	18,92,629	-33.6	2,73,627	-40.9	2,01,810	-37.5	2,24,132	-36.1
2009-10	60,09,173	107.5	15,25,162	-19.4	3,17,619	16.1	2,28,558	13.3	3,17,351	41.6
2010-11	67,02,616	11.5	17,55,468	15.1	3,12,736	-1.5	2,78,848	2.0	4,03,234	27.1
2011-12	6,096,518	-9.0	16,32,058	-7.0	3,18,794	1.9	2,55,463	-8.4	3,59,370	-10.9
Total	354,49,735	-	147,43,964	-	25,95,536	-	23,86,585	-	23,23,058	-
CGR	23.09	-	9.59	-	13.04	-	4.54	-	16.52	-

Note: Market capitalization is the value of last trading day of the respective year

Source: SEBI Annual Reports – 2003-04 to 2011-12.

The market capitalisation was increased by more than 41.39 per cent by the end of 2004-05 for both BSE and NSE over the year 2003 -04 (Tables 2.3 and 2.4). In absolute terms, market capitalisation at BSE was higher at Rs. 16, 98,428 crore than that of NSE at Rs. 15, 85,585 crore on 2004-05. A higher market capitalisation implies the larger number of active scrips at BSE during 2004- 05.

Market capitalisation of the shares included in S&P CNX Nifty rose by a higher margin of 49.02 per cent during the financial year 2004-05 as compared with 41.44 per cent increase in the total market capitalisation of NSE. Hence, the valuation of Nifty scrips has risen faster as compared to the whole of NSE. The market capitalisation in BSE Teck recorded an impressive increase of 94.70 per cent in 2004-05. It was on top of 63.47 per cent in the Year 2003-04. In NSE, the IT sector witnessed still higher increase in market capitalisation i.e.120.20 per cent in 2004-05.

The market capitalisation of BSE increased by 17.3 per cent in 2006- 07 compared to 2005-06 (Table 3.4). The market capitalisation of NSE rose by 19.7 per cent in 2006-07 compared to 2005-06 (Table 2.4).

The rise of market capitalisation of frontline and the sectoral indices at BSE and NSE was lower in 2006-07 as compared to 2005- 06 (Table 2.3). The market capitalisation of BSE Sensex rose by 20.2 per cent in 2006-07 against 96.3 per cent in 2005-06. The market capitalization of BSE Teck index and Bankex index rose by 53.1 per cent and 16.9 per cent, respectively in 2006-07. The decline in market capitalisation of BSE PSU index was 3.5 per cent in 2006-07 in contrast to a rise of 45.0 per cent in 2005-06. Market capitalisation of S&P CNX Nifty rose by 19.7 per cent during 2006-07 compared to 67.1 per cent in 2005-06 (Table 2.4).

The market capitalisation of BSE decreased by 39.9 per cent in 2008-09 compared to 2007-08 (Table 2.3). At NSE also, market capitalisation declined by 40.4 per cent at the end of 2008-09 compared to 2007-08. The downturn in the stock markets resulted in fall of market capitalisation of many indices in 2008-09. Decline in market capitalisation was the highest for BSE Teck index which fell by 39.7 per cent in 2008-09.

The market capitalisation of Bankex index also declined by 38.0 per cent in 2008-09 over the year 2007-08. The benchmark index of BSE, BSE Sensex witnessed a market capitalization of Rs.15, 07,742 crore reflecting a decline of 32.2 per cent in 2008-09. At NSE, fall in market capitalisation was the highest for CNX Midcap (40.9 per cent) (Table 2.4). This was followed by CNX IT (37.5 per cent) and CNX Bank (36.1 per cent).

The market capitalisation of all listed companies at BSE increased by 10.9 percent in 2010-11 over the year 2009-10. In 2010-11 among the selective sectoral indices of BSE, increase in market capitalisation was the highest for Bankex (24.5 percent), BSE Teck (17.4 percent) and BSE PSU (12.4 percent) over the year 2009-10. However, in terms of absolute value, among these three indices, BSE PSU led the pack with market capitalisation of ` 19, 48,555 crore followed by BSE Teck at ` 8, 69,794 crore and BSE Bankex at ` 6, 89,751 crore (Table 2.3).

At NSE, market capitalisation of all listed companies increased by 11.5 percent as on 2010-11 compared to 2009-10. At NSE, among selective sectoral indices, increase in market capitalization was the highest for CNX Bank (27.1 percent) followed by CNX IT (22.0 percent) while CNX Midcap decreased by 1.5 percent. In terms of absolute value, CNX Bankex stood with market capitalisation of ` 4, 03,234 crore, followed by CNX Midcap of ` 3, 12,736 crore and CNX IT at ` 2, 78,848 crore as on 2010-11 (Table 2.4). The market capitalisation of BSE declined by 9.1 percent in 2011-12. On the other hand, at NSE market capitalisation declined by 9.0 percent compared to 2011-12. During 2011-12, market capilatisation of BSE Sensex declined by 6.2 percent whereas that of BSE Teck, BSE Bankex and BSE PSU declined by 6.9, 10.7 and 17.7 percent respectively (Table 2.3).

Market capitalisation of the shares included in S&P CNX Nifty declined by 7.0 percent during the year 2011-12. At NSE, market capitalisation of Nifty (except CNX Midcap), declined during 2011-12 compared to the year 2010-11. The market capitalization of CNX Midcap rose by 1.9 percent in 2011-12 on top of a decline of 1.5 percent in the year 2010-11. At NSE, among sectoral indices, decline in market capitalisation was the highest for CNX Bank (10.9 percent) followed by CNX IT (8.4 percent) (Table 2.4).

The Compound Growth Rate of Market Capitalization at BSE during these eleven years was the highest of All Listed Companies i.e. 282.80 and the lowest of BSE PSU i.e. 7.73 percent. The CGR of BSE Sensex was 11.99 percent, BSE-Teck was 8.07 percent, Bankex was 17.82 percent. (2.3)

The Compound Growth Rate of Market Capitalization at NSE during the study period was the highest of All Listed Companies i.e.23.09 percent and the lowest CNX IT i.e. 4.54 percent. The CGR of S&P CNX Nifty was 9.59 percent, CNX Midcap was 13.04 percent and CNX Bank was 16.52 percent. (2.4)

2.3.3 Stock Market Indicators:

The ratios such as market capitalization to Gross Domestic Product (GDP) (m-cap ratio), traded value to GDP (traded value ratio) and price to earnings per share (P/E ratio) are considered to gauge the extent of development of stock market. Market capitalisation to GDP ratio is a good indicator of the health of stock market of an economy. Leading economies of the world have market capitalisation far in excess of their gross domestic product (GDP). This indicates not only the investor is confident, but also the strength of those economies. The market capitalisation to GDP ratio is one of the parameters for evaluation of stock markets.

Table 2.5 and Graph 2.2 presented below appropriately throws some light on selected ratios relating to stock market during the period 2002-03 to 2011-12.

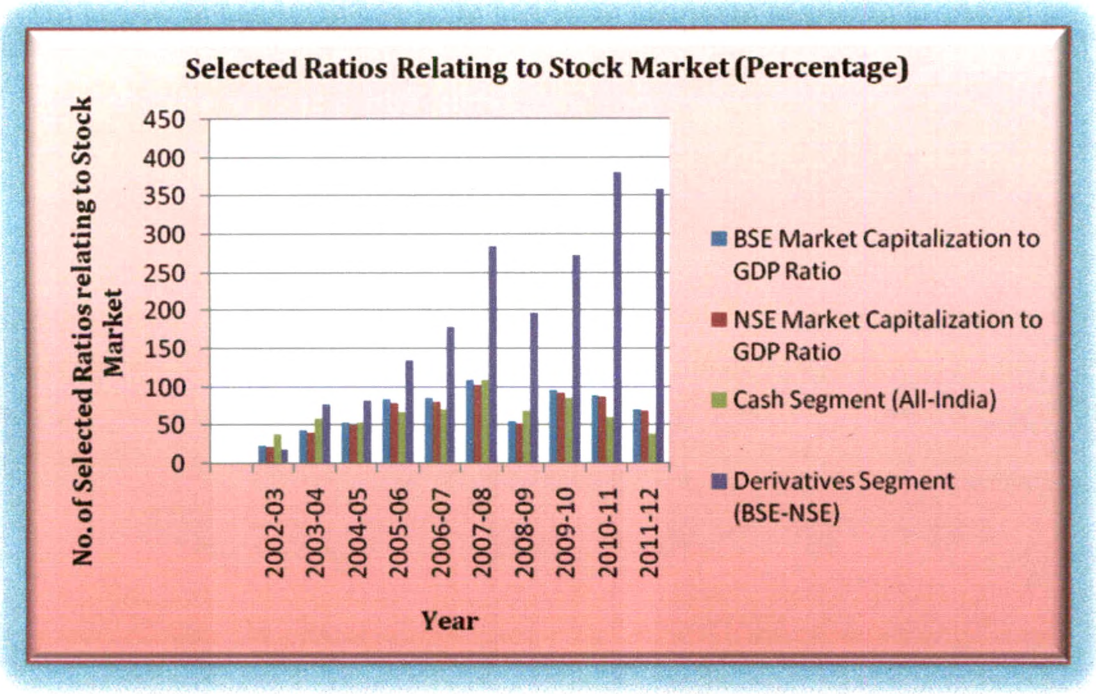
TABLE 2.5

Selected Ratios Relating to Stock Market (Percent)

Year	BSE Market Capitalization to GDP Ratio	NSE Market Capitalization to GDP Ratio	Total Turnover to GDP Ratio	
			Cash Segment (All-India)	Derivatives Segment (BSE-NSE)
1	2	3	4	5
2002-03	23.28	21.85	39.33	17.95
2003-04	43.4	40.5	58.7	77.6
2004-05	54.3	50.7	53.4	82.1
2005-06	84.4	78.6	66.8	134.7
2006-07	85.5	81.2	70.0	178.9
2007-08	109.5	103.5	109.3	284.1
2008-09	55.3	51.9	69.0	197.4
2009-10	95.5	93.1	85.4	273.5
2010-11	89.1	87.3	61.1	381.1
2011-12	70.2	68.8	39.3	358.7

Source: SEBI Annual Reports – 2002-03 to 2011-12.

GRAPH 2.2



The all-India cash turnover to GDP ratio rose to 109.3 percent in 2007-08 from 39.33 percent in 2002-03. In the derivative segment also, there was increase in the turnover to GDP ratio from 17.95 percent in 2002-03 to 281.1 percent in 2010-11. The BSE market capitalisation to GDP ratio has increased from 23.29 percent in 2002-03 to 109.5 percent in 207-08. Similarly, at NSE also the ratio has increased from 21.85 percent to 103.5 percent over the same period.

The m-cap ratio, which was 23.28 per cent in 2002- 03, more than doubled to 43.4 per cent in 2003-04 and further increased to 54.3 per cent in 2004-05. Similarly, the traded value ratio in the cash segment went up from 39.33 per cent in 2002-03 to 58.7 per cent in 2003-04, and slight decline by 53.4 per cent in 2004-05. However, the turnover in derivative segment as percentage to GDP rose persistently from 17.95 per cent in 2002-03 to 77.6 per cent in 2003-04 and further to 82.1 per cent in 2004-05. The market capitalisation to GDP ratio of Indian stock market increased over the last four years. It rose from 23.28 per cent of GDP in 2002-03 to 85.5 per cent in 2006-07. At the end of 2005-06, it was 84.4 per cent.

Liquidity of the stock market indicates the ease with which stocks can be traded. One way to gauge the liquidity is to look at the ratio of value of shares traded to GDP at current market prices. This ratio increased from 66.8 per cent in 2005-06 to 70.0 per cent in 2006-07. The traded value-GDP ratio for the derivatives segment rose from 134.7 per cent in 2005-06 to 178.9 per cent in 2006-07.

Since 2002-03, there was a sustained increase in the market capitalization to GDP ratio. The BSE market capitalisation to GDP ratio had increased from 23.28 per cent in 2002-03 to 109.5 per cent in 2007-08. Similarly, at NSE also the ratio had increased from 21.85 per cent to 103.5 per cent during the same period. However, downswing in the stock market in 2008-09 led to a substantial decline of the market capitalisation to GDP ratios of BSE and NSE to a round half of its values in the year 2007-08. The market capitalisation to GDP ratio of BSE was 55.3 per cent and that of NSE was 51.9 per cent during 2008-09.

Similarly, the turnover-GDP ratio was the highest in 2007-08 for both the cash and derivative segment. It slided considerably in 2008-09 in tune with fall in share prices and resultant decline in trading volume. All-India equity market turnover to GDP ratio declined to 69.0 per cent in 2008-09 as compared to 109.3 per cent in 2007-08. In the derivative segment also, the turnover ratio declined from 284.1 per cent in 2007-08 to 197.4 per cent in 2008-09.

Excluding 2008-09, since 2003-04, there has been a considerable improvement in the market capitalization to GDP ratio. The BSE market capitalization to GDP ratio improved from 43.4 percent in 2003-04 to 89.1 percent in 2010-11. Similarly, at NSE also the ratio increased from 40.5 percent to 87.3 percent over the same period. Turnover to GDP ratio was the highest in 2010-11 under derivatives segment. The All-India cash turnover to GDP ratio decreased to 61.1 percent in 2010-11 from 85.4 percent in 2009-10. However, in the derivative segment, the turnover to GDP ratio increased from 273.5 percent in 2009-10 to 381.1 percent in 2010-11.

The all-India cash turnover to GDP ratio declined to 39.3 percent in 2011-12 from 61.1 percent in 2010-11. In the derivative segment also, there was a marginal decline in the turnover-GDP ratio from 381.1 percent in 2010-11 to 358.7 percent in 2011- 12. The market capitalisation to GDP ratio has declined for the second consecutive year in 2011-12. The BSE market capitalisation to GDP ratio has declined from 89.1 percent in 2010-11 to 70.2 percent in 2011-12. Similarly, at NSE also the ratio has declined from 87.3 percent to 68.8 percent over the same period.

Similarly Table 2.6 and Graph 2.3 explain about the situation of ratio of price earning during 2003-04 to 2011-12.

TABLE 2.6

Ratio of Price Earnings

Year	BSE Sensex	BSE 100	S&P CNX Nifty	CNX Mid Cap	CNX IT	CNX Bank	CNX PSE
2003-04	18.57	16.11	20.70	17.15	28.77	9.84	12.37
2004-05	15.61	13.30	14.60	21.93	51.14	10.79	10.57
2005-06	20.9	20.1	20.3	23.1	46.5	15.3	13.7
2006-07	20.3	17.6	18.4	15.6	32.4	14.2	10.6
2007-08	20.1	20.0	20.6	14.8	17.9	16.2	13.5
2008-09	13.7	15.3	14.3	9.8	11.5	7.7	18.1
2009-10	21.3	21.1	22.3	15.0	23.5	17.7	15.3
2010-11	21.2	20.7	22.1	17.7	26.6	18.5	15.0
2011-12	17.8	18.8	18.7	18.1	20.9	15.3	15.4

Source: SEBI Annual Reports – 2003-04 to 2011-12

GRAPH 2.3

In contrast to the trend in the previous two years 2009-10 and 2010-11, the P/E ratios of the major indices scaled downward in 2011-12. At the end of 2010-11, the P/E ratio of BSE Sensex, BSE 100, CNX Bank and CNX PSE were 21.2, 20.7, 18.5 and 15.0 respectively as compared to 18.57, 16.11, 9.84 and 12.37 respectively as on 2003-04. The P/E ratio of selective Indian indices is given in Table 2.6 and graph 2.3. The valuation of the shares can be gauged from price-earnings ratio. In contrast to the trend in the years 2009-10 and 2010-11, P/E ratios of major indices scaled downward in 2011- 12.

During the upswing of a business cycle, P/E ratio has a general tendency to fall. Following global recovery, P/E ratio, in fact, declined in most of the countries despite higher security prices. Similar to the international trend, P/E ratio relating to benchmark indices also declined in India. This is an indication of market potential to grow further. However, in 2004-05 the P/E ratios relating to major sectoral indices such as Mid-cap, IT was higher than those in the year 2002-03.

Other important indicators are: price/ earnings (P/E) ratio and price-book (P/B) value ratio. P/E ratio is widely used indicator. It is also known as PE multiple. In 2006-07 The P/E ratios of Indian indices, even though lower compared to year 2005-06, were still at the sixth (BSE Sensex) and ninth (S&P CNX Nifty), highest position among the emerging markets. The highest P/E ratio was for SHCOMP index of China followed by

Nikkei index of Japan, NASDAQ composite of USA, JCI index of Indonesia, and IPSA index of Chile. At the end of 2006-07, the P/E ratios of BSE Sensex and S&P CNX Nifty were 20.3 and 18.4 respectively. At the end of 2008-09, the P/E ratios of BSE Sensex and S&P CNX Nifty were 13.7 and 14.3, respectively (Table 2.6 and Chart 2.3). At the end of 2010-11, the P/E ratio of BSE Sensex and S&P CNX Nifty were 21.2 and 22.1 respectively as compared to 21.3 and 22.3 respectively as on 2009-10. The P/E ratio of selective Indian indices is given in Table 2.6. The valuation of the shares can be gauged from price-earnings ratio. In contrast to the trend in the years 2009-10 and 2010-11, P/E ratios of major indices scaled downward in 2011- 12. At the end of 2011-12, P/E ratio of BSE Sensex and S&P CNX Nifty were 17.8 and 18.7.

The P/B ratio is an indicator of the returns left for shareholders after providing for liabilities of a company. Thus, the P/B ratio indicates the asset quality of companies pertaining to that sector. The price to book value (P/B) ratio measures the returns left for the shareholders after deducting the total liabilities. In effect, the P/B ratio of an index shows the asset quality of the companies included in the index. The P/B ratio was the highest for CNX IT index, followed by BSE Sensex and BSE 100.

Price to book value ratio (P/B ratio) is a valuation measure which measures the returns left for the shareholders after providing for liabilities of a company. Thus, the P/B ratio of an index shows the asset quality of companies pertaining to that sector. Price to book value ratio is the ratio of market value of equity to the book value of equity. The price to book value (P/B) ratio is another important indicator which measures the returns left for the shareholders after providing for liabilities of a company. The data and trend of price book value ratio for the period of 2003-04 to 2011-12 has been provided in Table 2.7 and Graph 2.4.

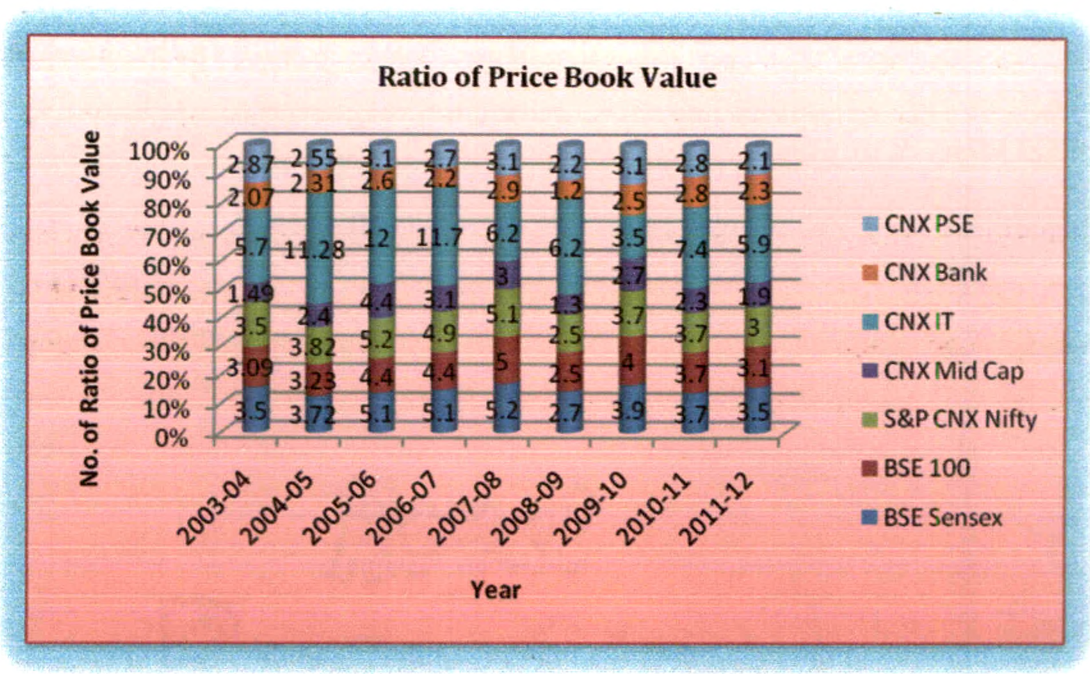
TABLE 2.7

Ratio of Price Book-Value

Year	BSE Sensex	BSE 100	S&P CNX Nifty	CNX Mid Cap	CNX IT	CNX Bank	CNX PSE
2003-04	3.50	3.09	3.50	1.49	5.70	2.07	2.87
2004-05	3.72	3.23	3.82	2.40	11.28	2.31	2.55
2005-06	5.1	4.4	5.2	4.4	12.0	2.6	3.1
2006-07	5.1	4.4	4.9	3.1	11.7	2.2	2.7
2007-08	5.2	5.0	5.1	3.0	6.2	2.9	3.1
2008-09	2.7	2.5	2.5	1.3	6.2	1.2	2.2
2009-10	3.9	4.0	3.7	2.7	3.5	2.5	3.1
2010-11	3.7	3.7	3.7	2.3	7.4	2.8	2.8
2011-12	3.5	3.1	3.0	1.9	5.9	2.3	2.1

Source: SEBI Annual Reports – 2003-04 to 2011-12.

GRAPH 2.4



Analysis of the data given in table 2.7 and graph 2.4 brings following facts.

During the period 2003-04 to 2011-12 The P/B ratios was the highest for the CNX IT index, it was followed by BSE 100, S&P CNX Nifty, CNX Mid cap, BSE Sensex, CNX PSE and CNX Bank, respectively.

The CNX IT index recorded the highest P/B ratio of 11.28 at the end of 2004-05. The lowest P/B ratio was noticed in CNX Bank index hovering around 2. A combination of rising P/B ratio and falling P/E ratio in a buoyant market condition offers tremendous scope for investment. During 2008-09, there was a fall in the P/B ratios of all indices except CNX IT as compared to 2007-08. The P/B ratio was the highest for the CNX IT index at 6.2, followed by the benchmark indices, BSE Sensex and S&P CNX Nifty at 2.7 and 2.5, respectively.

At the end of 2010-11, among the selective Indian indices, the P/B ratio was the highest for the CNX IT index at 7.4, followed by BSE 100 index at 3.7, BSE Sensex index at 3.7, S&P CNX Nifty index at 3.7, CNX PSE index at 2.8, CNX Bank index at 2.8 and CNX Midcap index at 2.3, respectively.

In 2011-12 The P/B ratio was the highest for the CNX IT index at 5.9, followed by BSE Sensex at 3.5, and BSE 100 and S&P CNX Nifty at 3.1 and 3.0, respectively.

2.3.4 Trading Frequency:

In an ideal situation all the securities listed must be traded at any given point of time but it seldom happens in any market. Some companies have high liquidity and others have low liquidity. During the period from 2001 to 2012, the trading frequency of listed stocks BSE and NSE has reached tremendous growth which is discussed in table 2.8 and 2.9.

Trading frequency improved at both stock exchanges during the study period. During 2011-12, the number of securities traded in BSE was higher i.e. 3,923 as compared to 2,679 in 2002-03. Similarly, the number of securities traded in NSE was also higher at 1,627 in 2011-12 where as it was 899 in 2002-03.

TABLE 2.8

Trading Frequency of Listed Stocks BSE

Trading Frequency (Range of Days)		Above 100	91-100	81-90	71-80	61-70	51-60	41-50	31-40	21-30	11-20	1-10	Total
2001-02	No. of scrips Traded	1,238	93	113	197	579	402	315	299	360	427	1,324	5,347
	Percentage of Total	23.15	1.74	2.11	3.68	10.83	7.52	5.89	5.59	6.73	7.99	24.76	100.00
2002-03	No. of scrips Traded	1,815	63	51	54	68	74	75	53	86	105	235	2,679
	Percentage of Total	67.70	2.40	1.90	2.00	2.50	2.80	2.80	2.00	3.20	3.90	8.80	100.00
2003-04	No. of scrips Traded	1,960	65	54	49	46	58	61	56	52	63	146	2,610
	Percentage of Total	75.10	2.50	2.10	1.90	1.80	2.20	2.30	2.10	2.00	2.40	5.60	100.00
2004-05	No. of scrips Traded	2,368	36	37	35	32	50	34	41	68	63	142	2,906
	Percentage of Total	81.49	1.24	1.27	1.20	1.10	1.72	1.17	1.41	2.34	2.17	4.89	100.00
2005-06	No. of scrips Traded	2,630	22	19	21	27	30	25	32	43	52	148	3,049
	Percentage of Total	86.26	0.72	0.62	0.69	0.89	0.98	0.82	1.05	1.41	1.71	4.85	100.00
2006-07	No. of scrips Traded	2,673	30	25	31	35	30	22	22	30	50	149	3,097
	Percentage of Total	86.31	0.97	0.81	1.00	1.13	0.97	0.71	0.71	0.97	1.61	4.81	100.00
2007-08	No. of scrips Traded	2,868	17	18	18	18	18	15	15	33	43	103	3,166
	Percentage of Total	90.59	0.54	0.57	0.57	0.57	0.57	0.47	0.47	1.04	1.36	3.25	100.00
2008-09	No. of scrips Traded	2,831	29	32	21	24	25	33	34	32	38	147	3,246
	Percentage of Total	87.22	0.89	0.99	0.65	0.74	0.77	1.02	1.05	0.99	1.17	4.53	100.00
2009-10	No. of scrips Traded	2,986	22	26	24	27	21	30	29	28	39	139	3,371
	Percentage of Total	88.58	0.65	0.77	0.71	0.80	0.62	0.89	0.86	0.83	1.16	4.12	100.00
2010-11	No. of scrips Traded	3,203	28	21	31	35	33	26	29	19	57	270	3,752
	Percentage of Total	85.4	0.7	0.6	0.8	0.9	0.9	0.7	0.8	0.5	1.5	7.2	100
2011-12	No. of scrips Traded	3,190	37	43	39	35	45	56	53	53	50	322	3,923
	Percentage of Total	81.3	0.9	1.1	1.0	0.9	1.1	1.4	1.4	1.4	1.3	8.2	100

Source: SEBI Annual Reports – 2001-02 to 2011-12.

TABLE 2.9

Trading Frequency of Listed Stocks NSE

Trading Frequency (Range of Days)		Above 100	91-100	81-90	71-80	61-70	51-60	41-50	31-40	21-30	11-20	1-10	Total
2001-02	No. of scrips Traded	796	18	25	29	16	22	19	24	13	19	38	1,019
	Percentage of Total	78.12	1.77	2.45	2.85	1.57	2.16	1.86	2.36	1.28	1.86	3.73	100.00
2002-03	No. of scrips Traded	794	3	6	8	12	7	8	4	10	28	19	899
	Percentage of Total	88.30	0.30	0.70	0.90	1.30	0.80	0.90	0.40	1.10	3.10	2.10	100.00
2003-04	No. of scrips Traded	741	7	8	3	2	11	8	2	7	8	7	804
	Percentage of Total	92.20	0.90	1.00	0.40	0.20	1.40	1.00	0.20	0.90	1.00	0.90	100.00
2004-05	No. of scrips Traded	818	2	1	4	6	3	1	4	4	3	10	856
	Percentage of Total	95.56	0.23	0.12	0.47	0.70	0.35	0.12	0.47	0.47	0.35	1.17	100.00
2005-06	No. of scrips Traded	877	3	5	8	5	6	4	5	10	19	14	956
	Percentage of Total	91.74	0.31	0.52	0.84	0.52	0.63	0.42	0.52	1.05	1.99	1.46	100.00
2006-07	No. of scrips Traded	9813	3	12	8	25	18	13	17	14	17	13	1,121
	Percentage of Total	87.51	0.27	1.07	0.71	2.23	1.61	1.16	1.52	1.25	1.52	1.16	100.00
2007-08	No. of scrips Traded	1,177	5	17	7	11	7	7	6	9	13	7	1,266
	Percentage of Total	92.97	0.39	1.34	0.55	0.87	0.55	0.55	0.47	0.71	1.03	0.55	100.00
2008-09	No. of scrips Traded	1,273	5	4	0	1	2	4	4	2	3	3	1,301
	Percentage of Total	97.85	0.38	0.31	0.00	0.08	0.15	0.31	0.31	0.15	0.23	0.23	100.00
2009-10	No. of scrips Traded	1301	15	3	9	2	23	6	6	9	14	13	1,401
	Percentage of Total	92.86	1.07	0.21	0.64	0.14	1.64	0.43	0.43	0.64	1.00	0.93	100.00
2010-11	No. of scrips Traded	1,444	7	5	7	11	5	6	8	8	11	29	1,541
	Percentage of Total	93.7	0.5	0.3	0.5	0.7	0.3	0.4	0.5	0.5	0.7	1.9	100
2011-12	No. of scrips Traded	1,530	5	8	7	5	6	3	3	8	8	46	1,627
	Percentage of Total	94.0	0.3	0.5	0.4	0.3	0.4	0.2	0.2	0.5	0.5	2.7	100

Source: SEBI Annual Reports – 2001-02 to 2011-12.

The year 2003-04 appears to be a better one compared to the year 2002-03 in terms of trading frequency. A greater percentage of companies traded on more than 100 days during the year compared to the year 2002-03. Nearer 92.2 per cent of NSE companies and 75.1 per cent of BSE companies traded for more than 100 days in 2003-04. In 2003-04, the trading frequency up to 90 days and above has also risen compared to the year 2002-03. Another interesting development is that the percentage of companies which traded for 30 days or less had come down. This is a positive development. In 2003-04, the total number of companies that traded on both the exchanges however, had come down compared to the year 2002-03 trading.

Trading frequency of stocks at BSE and NSE gives a better picture of liquidity in the Indian stock market. In 2005-06, the number of stocks traded at BSE was 3,049 compared to 2,906 in 2004-05. Similarly, the number of scrips traded at NSE was higher at 956 in 2005-06 compared to 856 in 2004-05. The number of scrips traded above 100 days also improved in both the stock exchanges, reflecting increase in frequently traded stocks. In percentage terms, about 86.26 per cent of the stocks were traded for more than 100 days at BSE in 2005-06 compared to 81.49 per cent in 2004-05. However, at NSE, the percentage share of this group of stocks declined modestly from 95.56 per cent to 91.74 per cent. The percentage of stocks which were traded for 30 days or less, declined at BSE, but increased at NSE during 2005-06 compared to the year 2004-05.

Trading frequency of stocks in BSE and NSE gives picture of liquidity in the Indian securities market. During 2007-08, the average number of shares traded in BSE was 3,166 as compared to 3,097 in 2006-07. On the other hand, the average numbers of shares traded in NSE were 1,266 in 2007-08 compared to 1,121 in 2006-07. The number of shares traded above 100 days also improved in both the stock exchanges which reflected a rise in frequently traded stocks. In percentage terms, about 90.59 per cent of the shares were traded for more than 100 days at BSE in 2007-08 compared to 86.31 per cent in 2006-07. Similarly, in NSE too, the percentage of shares traded increased from 87.51 per cent in 2006-07 to 92.97 per cent in 2007-08. The percentage share of stocks traded for less than 10 days was 3.25 per cent at BSE and 0.55 per cent at NSE in 2007-08.

Liquidity in stock markets is measured by the trading frequency of listed stocks at BSE and NSE. The number of securities listed at the end of 2009-10 was 8,072 at BSE and at

NSE, 1,359. Trading frequency improved at both the stock exchanges in 2009- 10 over the year 2008-09. During 2009-10, the number of securities traded in BSE was 3,371 as compared to 3,246 in 2008-09. Similarly, the number of securities traded in NSE was higher at 1,401 in 2009-10 compared to 1,301 in 2008-09. The percentage share of securities traded at BSE above 100 days marginally increased from 87.22 in 2008-09 to 88.58 in 2009-10. At NSE, this percentage decreased from 97.85 percent in 2008-09 to 92.86 percent in 2009-10. The percentage share of securities traded for less than 10 days was 4.12 percent at BSE and 0.93 percent at NSE in 2009-10.

Liquidity in stock markets is measured by the trading frequency of listed stocks at BSE and NSE. The number of companies listed at BSE at the end of March 2012 was 5,133. At NSE, the number of companies listed was 1,646 as on March 31, 2012. Trading frequency improved at both the stock exchanges in 2011- 12 over the year 2010-11. During 2011-12, the number of securities traded in BSE was 3,923 as compared to 3,752 in 2010-11. Similarly, the number of securities traded in NSE was higher at 1,627 in 2011-12 compared to 1,541 in 2010-11. The percentage share of securities traded at BSE above 100 days marginally decreased from 85.4 percent in 2010-11 to 81.3 percent in 2011-12. At NSE, this percentage increased from 93.7 percent in 2010-11 to 94.0 percent in 2011-12. The percentage share of securities traded for less than 10 days was 8.2 percent at BSE and 2.7 percent at NSE in 2011-12.

2.3.5: Activities of Stock Exchanges:

Table 2.10 provides data on the number of shares traded, number of shares delivered and value of share delivered on various stock exchanges. Scrutiny of the data once again confirms the dominance of NSE and BSE.

TABLE 2.10

Trading Statistics of Stock Exchanges

Year	Shares	Stock Exchange		
		BSE	NSE	Other
2001-02	Number of Shares Traded (lakh)	1,82,186.0 (36.1)	278408.8 (55.2)	43,544 (8.7)
	Number of Shares Delivered (lakh)	57668 (46.9)	59298.53 (48.2)	5,950.67 (4.9)
	Value of Shares Delivered (Rs. crore)	59980.33 (45.09)	71765.4 (53.94)	1,291.1 (0.97)
2002-03	Number of Shares Traded (lakh)	2,21,402.80 (36.4)	3,64,065.90 (59.80)	23,475.3 (3.8)
	Number of Shares Delivered (lakh)	71,130.70 (46.00)	82,352.90 (53.20)	1,291.4 (0.8)
	Value of Shares Delivered (Rs. crore)	50,308.40 (36.20)	87955.80 (63.30)	732.8 (0.5)
2003-04	Number of Shares Traded (lakh)	3,88,748.00 (34.84)	7,13,300.80 (63.93)	13,758.2 (1.23)
	Number of Shares Delivered (lakh)	1,44,530.80 (45.09)	1,74,537.91 (55.46)	1,435.29 (0.55)
	Value of Shares Delivered (Rs. crore)	1,29,311.90 (36.95)	2,20,340.7 (62.95)	10,654.9 (0.1)
2004-05	Number of Shares Traded (lakh)	4,77,174 (37.55)	7,87,996 (62.02)	5,365 (0.25)
	Number of Shares Delivered (lakh)	1,87,519 (48.09)	2,01,405 (51.59)	1,462 (0.38)
	Value of Shares Delivered (Rs. crore)	1,40,056 (33.54)	2,76,120 (66.14)	1,326 (0.32)
2005-06	Number of Shares Traded (lakh)	6,64,467 (44.72)	8,18,438 (55,08)	3,042 (0.2)
	Number of Shares Delivered (lakh)	3,00,653 (56.88)	2,26,346 (42.82)	1,543(0.3)
	Value of Shares Delivered (Rs. crore)	2,71,227 (39.83)	4,07,976 (59.91)	1,822 (0.26)
2006-07	Number of Shares Traded (lakh)	5,60,780 (39.72)	8,50,515 (60.24)	747,491 (0.04)
	Number of Shares Delivered (lakh)	2,29,685 (49.04)	2,38,305 (50.88)	31,458 (0.08)
	Value of Shares Delivered (Rs. crore)	2,97,660 (35.38)	5,43,048 (64.54)	494 (0.08)
2007-08	Number of Shares Traded (lakh)	9,86,005 (39.96)	14,81,229 (60.03)	877,713 (0.01)
	Number of Shares Delivered (lakh)	3,61,628 (49.61)	3,66,974 (50.35)	109332 (0.04)
	Value of Shares Delivered (Rs. crore)	4,76,196 (32.90)	9,70,618 (67.7)	218,202 (-0.6)
2008-09	Number of Shares Traded (lakh)	7,39,600 (34.24)	14,18,928 (65.73)	258 (0.01)
	Number of Shares Delivered (lakh)	1,96,330 (39.28)	3,03,299 (60.68)	219 (0.04)
	Value of Shares Delivered (Rs. crore)	2,30,332 (27.38)	6,10,498 (72.57)	372 (0.05)
2009-10	Number of Shares Traded (lakh)	11,36,513 (33.99)	22,05,878 (65.99)	556 (0.02)
	Number of Shares Delivered (lakh)	3,63,578 (43.39)	4,73,953 (72.57)	404 (0.05)
	Value of Shares Delivered (Rs. crore)	3,11,364 (25.34)	9,16,460 (74.59)	788 (0.07)
2010-11	Number of Shares Traded (lakh)	9,90,776 (35.4)	18,10,910 (64.6)	778 (1.4)
	Number of Shares Delivered (lakh)	3,76,710 (43.1)	4,97,367 (56.9)	601 (0.00)
	Value of Shares Delivered (Rs. crore)	3,02,126 (23.6)	9,78,015 (76.3)	1,300 (0.1)
2011-12	Number of Shares Traded (lakh)	6,54,137 (28.9)	16,05,205 (51.0)	1,681 (20.1)
	Number of Shares Delivered (lakh)	2,55,999 (36.5)	4,43,232 (63.3)	1,380 (0.2)
	Value of Shares Delivered (Rs. crore)	1,81,560 (18.7)	7,84,407 (80.9)	3,119(0.4)

Source: SEBI Annual Reports – 2001-02 to 2011-12.

Over the years, NSE and BSE have emerged as the nation-wide stock exchanges of the country contributing almost 100 percent of the total turnover. In 2001-02 to 2011-12 almost 100 per cent of the total deliveries took place only on these two exchanges making other exchanges almost non-existent.

In 2001-02 the number of shares traded, delivered and value of shares delivered at BSE and NSE comparatively lowered during 2006-07 than in 2005-06 at the same time. During 2006-07, the number of shares traded was 39.72 percent at BSE as compared to 36.1 percent in 2001-02. Similarly, at NSE, the number of shares traded stood at 60.24 percent in 2006-07 as against 55.2 percent in 2001-02. However, the number of shares delivered at BSE increased from 46.9 percent in 2001-02 to 49.04 percent in 2006-07, while at NSE, the same has increased from 48.2 percent to 50.88 percent during the same period. The value of shares delivered at BSE increased from 45.09 percent in 2001-02 to 35.38 percent in 2006-07, while at NSE, the same has increased from53.94 percent to 64.54 percent during the same period.

In 2008-09 the number of shares traded and delivered declined at BSE and NSE than in 2007-08. The value of shares delivered also declined at these stock exchanges. Of the total shares traded, NSE's share was 65.73 per cent, followed by BSE which constituted 34.24 per cent of the total shares traded. NSE had a share 72.57 per cent in the total value of shares delivered followed by BSE (27.38 per cent) 2008-09.

During 2010-11, the number of shares traded was 35.4 percent at BSE as compared to 33.99 percent in 2009-10. Similarly, at NSE, the number of shares traded stood at 64.6 percent in 2010-11 as against 65.99 percent in 2009-10. However, the number of shares delivered at BSE increased from 43.39 percent in 2009-10 to 43.1 percent in 2010-11, while at NSE, the same has increased from 72.57 percent to 56.9 percent during the same period. During 2010-11, the value of shares delivered reported at 23.6 percent at BSE, showing a decrease of 3.0 percent over the year 2009-10 and 76.3 percent at NSE, indicating an increase of 6.7 percent over the year 2009-10. Of the total shares traded, NSE's share was 64.6 percent, followed by BSE which constituted 35.4 percent. NSE had a share of 76.3 percent in the total value of shares delivered followed by BSE with 23.6 percent share.

During 2011-12, the all India turnover at the stock exchanges declined by 25.6 percent over the year 2010-11. The number of shares traded and delivered and value of shares delivered decreased at BSE and NSE. Of the total quantity of shares traded, NSE had a lion's share of 71.0 percent, followed by BSE (28.9 percent). NSE had a share of 63.3 percent in the quantity of shares delivered followed by BSE. In the total value of shares delivered, share of NSE was 80.9 percent, followed by BSE at 18.7 percent.

To analysis the information depicted in the table 2.10, the statistical tool of compound growth rate was applied and presented in the following table 2.11.

TABLE 2.11

Compound Growth Rate of Statistical Tool

Stock Exchange	Shares		
	Number Of Shares Trade	Number Of Shares Delivered	Value Of Shares Delivered
BSE	16.76	16.89	16.61
NSE	20.30	21.64	29.37
Other Stock Exchange	-30.44	-11.72	1.04

The CGR values clearly show that NSE had the highest growth rate in term of number of shares trade, number of shares delivered and the value of shares delivered. Amongst there three variables, the growth rate was maximum in case of value of share delivered. The performance of BSE in term of given variables was also significant but comparatively the performance of NSE surpasses that of BSE. It was worth noting that the performance of other stock exchange in terms of the number of shares traded and delivered.

2.4 MUTUAL FUNDS:

Household savings play an important role in domestic capital formation. Only a small part of the household savings in India is channelized to the capital market. Attracting more households to the capital market requires efficient intermediation. On this background mutual funds have emerged as one of the important class of financial intermediaries which cater to the needs of retail investors. As a traditional investment vehicle, mutual funds pool resources from households and allocate them to various investment opportunities.

Mutual funds have emerged as one of the important class of financial intermediaries which generally cater to the investment needs of retail investors. Mutual funds pool savings of households and other investors and invest in different instruments such as shares, bonds, debentures and other securities. Over the years, resource mobilizations by mutual funds has grown significantly higher which reflects investor confidence in them and provide opportunities of investment in a diversified portfolio, managed by professional fund managers.

Mutual funds as an intermediation mechanism and products play an important role in India's financial sector development. Apart from pooling resources from small investors, funds also provide informed decision making mechanism. Thus funds contribute to not only financial sector participation, but also financial inclusion and thereby enhance market efficiency. Additionally funds contribute to financial stability and help in enhancing market transparency.

Table 2.12 deals with the data of resources mobilized through mutual funds.

TABLE 2.12

Mobilization of Resources by Mutual Funds (` Crore)

Period	Gross Mobilization	Redemption	Net Inflow	Assets at the end of per
1	2	3	4	5
2001-02	1,64,523	1,57,348	7,175	1,00,594
2002-03	3,14,706	3,10,510	4,196	1,09,299
2003-04	5,90,190	5,43,381	46,808	1,39,616
2004-05	8,39,708	8,37,508	2,200	1,49,600
2005-06	10,98,149	10,45,370	52,779	2,31,862
2006-07	19,38,493	18,44,508	93,985	3,26,292
2007-08	44,64,376	43,10,575	1,53,802	5,05,152
2008-09	54,26,353	54,54,650	-28,296	4,17,300
2009-10	1,00,19,022	99,35,942	83,080	6,31,978
2010-11	88,59,515	89,08,921	-49,406	5,92,250
2011-12	68,19,678	68,41,702	-22,024	5,87,217
Total	305,15,691	401,90,415	3,44,299	37,91,160
CGR	51.37	52.15	-	23.19

Source: SEBI Annual Reports – 2001-02 to 2011-12.

Mutual funds had mobilised gross amount of Rs.3, 14,706 crore (US $ 66.06 billion) during the financial year 2002-03 as against Rs. 1, 64,523 crore (US $ 33.75 billion) during the previous year 2001-02. After adjustment of repurchases and redemptions, there has been net inflow of funds of Rs. 4,196 crore (US$ 0.88 billion) as against Rs. 7,175 crore (US $ 1.47 billion) during the year 2001-02.

The gross mobilisation of resources by all mutual funds during 2005-06 stood at Rs.10,98,149 crore compared to Rs.8,39,708 crore during the year 2004-05 – an increase of 30.8 per cent over the year. Redemption also rose by 24.8 per cent in 2005-06 compared to 2004-05. The net mobilisation of resources by all mutual funds at Rs. 52,779 crore in 2005-06 was the highest ever in a single year compared to Rs.2,200 crore in 2004-05 and Rs.46,808 crore in 2003-04. Reflecting large mobilization of resources, the assets under management by all mutual funds jumped to Rs.2,31,862 crore at the end of 2005-06 from Rs.1,49,600 crore a year 2004-05.

The gross mobilisation of resources by all mutual funds during 2007-08 stood at Rs. 44,64,376 crore compared to Rs. 19,38,493 crore during the year 2006-07 indicating an increase of 130.3 per cent over the year 2006-07. Redemption also rose by 133.7 per cent in 2007-08 compared to 2006-07. The net mobilisation of resources by all mutual funds was Rs. 1, 53,802 crore in 2007-08 compared to Rs.93, 985 crore in 2006-07, a rise of 63.6 per cent. The assets under management by all mutual funds increased by 54.8 per cent in 2007-08 over the year 2006-07.

Mutual funds play an important role in mobilising the household savings for deployment in capital markets. The gross mobilisation of resources by all mutual funds during 2009-10 was at Rs.1,00,19,022 crore compared to Rs.54,26,353 crore during the year 2008-09 indicating an increase of 84.7 percent over the year 2008-09. Redemption also rose by 82.2 percent to in 2009-10 compared to 2008-09. All mutual funds, put together, recorded a net inflow of Rs.83, 080 crore in 2009-10 as compared to an outflow of Rs.28, 296 crore in 2008-09. The assets under management by all mutual funds increased by 47.2 percent in 2009-10 compared to 2008-09.

The gross mobilisation of resources by all mutual funds during 2011-12 was at ` 68, 19,678 crore compared to ` 88, 59,515 crore during the year 2010-11 indicating a decline of 23.0 percent over the year 2010-11. Redemption also declined by 23.2 percent in 2011-12 compared to 2010-11. The mutual fund segment recorded a net outflow of ` 22,024 crore in 2011-12 as compared to an outflow of ` 49,406 crore in 2010-11. The assets under management by all mutual funds decreased by 0.8 percent in 2011-12 compared to 2010-11.

Overall growth rate (CGR) of gross mobilization during the study period was 51.37 percent, redemption was 52.15 percent and the assets under management by all mutual funds were 23.19 percent. The CGR of redemption was the highest and the assets under management by all mutual funds were the lowest (Table 2.12).

Table 2.13 gives the details of the trends in transactions on stock exchanges by mutual funds during the period 2001-02 to 2011-12.

TABLE 2.13

Trends in Transactions on Stock Exchanges by Mutual Funds

Year	Equity			Debt			Total		
	Gross Purchases	Gross Sales	Net Purchases/ sales	Gross Purchases	Gross Sales	Net Purchases/ Sales	Gross Purchases	Gross Sales	Net Purchases/ Sales
2001-02	12,098.11	15,893.99	-3,795.88	33,583.64	22,624.42	10,959.22	45,681.75	38,518.41	7,163.34
2002-03	14520.89	16587.59	-2,066.7	46663.83	34059.83	12604.42	61,184.72	50,647.42	10,537.72
2003-04	36.663	35.355	1.305	63,170	40,470	22,701	99,833	75,827	24,009
2004-05	45,045	44,597	448	62,186	45,199	16,987	1,07,232	89,796	17,435
2005-06	1,00,436	86,133	14,303	1,09,720	72,969	36,801	2,10,202	1,59,102	51,104
2006-07	1,35,948	1,26,886	9,062	1,53,733	1,01,190	52,543	2,89,681	2,28,075	61,606
2007-08	2,17,578	2,01,274	16,306	2,98,605	2,24,816	73,790	5,16,183	4,26,090	90,095
2008-09	1,44,069	1,37,085	6,984	3,27,744	2,45,942	81,803	4,71,815	3,83,026	88,787
2009-10	1,95,662	2,06,173	-10,512	6,24,314	4,43,728	1,80,588	8,19,976	6,49,901	1,70,076
2010-11	1,54,317	1,74,018	-19,975	7,64,142	5,15,290	2,48,854	9,19,060	6,90,183	2,28,879
2011-12	1,32,137	1,33,494	-1,357	11,16,760	7,81,940	3,34,820	12,48,897	9,15,434	3,33,463
Total	1139750	1126283	13193.61	3567038	2505604	1061491	4682879	3617434	1065454
CGR	57.90	56.34	-	43.72	42.66	-	40.70	39.50	45.45

Source: SEBI Annual Reports – 2001-02 to 2011-12.

Table 2.13 presents data on purchase and sale transactions of mutual funds on stock exchanges. During the year 2001-02 mutual funds were net sellers in the equity segment to the tune of Rs.3,795.88 crore and net buyers in the debt segment to the tune of Rs. 10,959.22 crore. On analysing the data of purchase and sales transactions of mutual funds on stock exchanges, it has been observed that the trend of net purchase of debt securities and net sale of equity has continued in the year 2002-03. During the year 2002-03, the mutual funds were net sellers in equity to the tune of Rs 2066.7 crore and net buyers in debt to the tune of Rs. 12604.42 crore.

Mutual funds play a significant role in purchase and sale of equity shares and debt in secondary market. There was some amount of random behavior in purchase and sale of equity shares. In debt market except in the 2003-04, funds were net buyers. On the whole, funds were the net buyer of equity and debt to the extent of Rs.1, 305crore and Rs.22, 701 crore respectively.

The mutual funds have hitherto been the major players in debt segment of the Indian capital market. However, there was a change in the pattern of participation in 2005- 06. Mutual funds were also active in the equity market for the greater part of the year. During 2005-06, the combined investment (net) by mutual funds in debt and equity was Rs. 51,104 core compared to Rs.17, 435 crore in 2004-05. Net investment by funds in the equity market rose by 32 times from 2004-05 to 2005-06. Net investment in debt by all mutual funds during 2005-06 was positive.

Mutual funds have been the major investors in debt segment of the Indian securities market. However since 2005-06, there has been an increasing trend in their participation in the equity segment. During 2007-08, the combined net investments by the mutual funds in debt and equity was Rs. 90,095 core compared to Rs.61,606 crore in 2006-07, an increase of 46.2 per cent. The net investments in the equity market was Rs.16, 306 crore in 2007-08 compared to Rs.9, 062 crore in 2006-07, an increase of 79.9 per cent, whereas, the net investments in the debt segment rose by 40.4 per cent during the same period. The combined net investment was positive for in 2007-08.

During 2009-10, the combined net investments by the mutual funds in debt and equity was Rs.1, 70,076 crore compared to Rs.88, 787 crore in 2008-09, registering an increase of 91.5 percent. Mutual Funds were net sellers in equity segment with Rs.10, 512 crore, whereas, net investments by funds in the debt segment rose by Rs.1, 80,588 crore during the same period. Combined net investment was positive for in 2009-10.

During 2011-12, combined net investment by mutual funds in debt and equity was ` 3, 33,463 crore compared to ` 2, 28,879 crore in 2010-11, registering an increase of 45.4 percent. Mutual Funds were net sellers in equity segment with ` 1,357 crore, whereas, their net investments in the debt segment rose to ` 3, 34,820 crore during the same period. Combined net investment was positive in 2011-12.

The compound growth rate (CGR) of trends in transaction on stock exchange by mutual funds during these eleven years the combined net investment by the mutual funds in debt and equity was 45.45 percent. The CGR of the combined gross purchases was the highest i.e. 40.70 percent and gross sales was the lowest i.e. 39.50 percent. The CGR of equity and debt gross purchases was 57.90 percent and 43.72 percent and gross sales was 56.34 percent and 42.66 percent, respectively.

2.5. FOREIGN INSTITUTIONAL INVESTMENT:

Strong risk adjusted returns of Indian market have led FIIs to make more allocations to India. Institutional Investors have a superior capacity to absorb and process information and have ability to conduct a large volume of transaction, FII lower the cost of intermediation benefit investors and issuers alike. Institutional investors also contribute to better transparency and governance for the improvement of micro- structure, of the capital market.

Low short term interest rates in major financial sector have contributed to the resurgence in economic growth and to higher corporate earnings. This in turn has strengthened corporate performance, thus improving the fundamental economic output. Combination of improved fundamentals and abundant liquidity, buoyed global asset prices, has given boost to appetite for risk recovered investment and this flow suggested allocation away from relatively low yielding asset in favor of risk investment. Equity markets worldwide staged strong rallies in 2003 following three successive years of decline. A complimentary catalyst of improved credit quality and abundant liquidity also pushed credit spread to mature and emerging markets bonds to low levels.

This combination created a favorable external financial environment for emerging market borrowers 2003 and in 2004. Gross and net issuance by emerging market countries recovered strongly in 2003. Bond issuance in January 2004 was exceptionally high. These developments have helped to improve the outlook for the stability of financial markets. Low short-term interest rates and a steep yield curve provided powerful incentive to boost leverage, undertake carry trade and seek higher yield by going out along the credit risk spectrum.

International portfolio theory suggests that institutional investors can achieve better risk return profile by diversifying abroad, mainly because of additional diversification of non systemic country risk. Moreover, the dismal performance of stocks in the mature market aftermath of the bursting of technology, media and telecommunication (TMT) bubble and the low interest rate environment increased institutional investors' interest in alternative investments. Investors are provided equity, real estate, hedge funds and special debt offerings (such as credit derivatives and distressed debt). These sectors provide more investment opportunities with new sources of excess return as well as diversification in comparison to traditional bond and equity investment. Institutional investors' asset and management are also growing rapidly in most emerging markets, with the enactment of pension funds reforms and the growing popularity of mutual funds. The growth in assets under management has contributed to the development of local securities market. Investment in stocks by foreign portfolio investors is a signal of global recognition of economic performance of nations. While lack of similar investment destinations elsewhere may rope in FIIs for a short duration, long term sustenance of inflows hinges upon prospects of growth of real sector.

Emerging markets in general and India in particular, have attracted huge portfolio flows in recent years. India has become an attractive destination for FIIs among the emerging markets since 1992-93. During the last years in particular, there has been a continuous increase in the investments by FIIs in the Indian securities market. Notwithstanding the signs of global recession and sub-prime crisis, India attracted a sizeable investment from FIIs in 2007-08 as well. In tandem with the boom in stock markets and sound global scenario, investments by FIIs into India were quite high in last few years, particularly since 2003-04. FIIs made a record investment in the Indian equity market in 2009, surpassing inflows, in 2007.

Foreign capital flows are indispensable to growth of emerging market economies to finance the capital needed for excess of investment over the domestic savings. It helps in developing nascent financial markets and overall financial development. Foreign institutional investment is an important component in capital flows available to a country to pursue its trajectory of economic growth.

Table 2.14 and graph 2.5 explains the details of the trends in FII investment during the period 2001-02 to 2011-12. The table gives details about both "Gross Purchases" as well as "Gross Sales" and thereby net investment during the corresponding period.

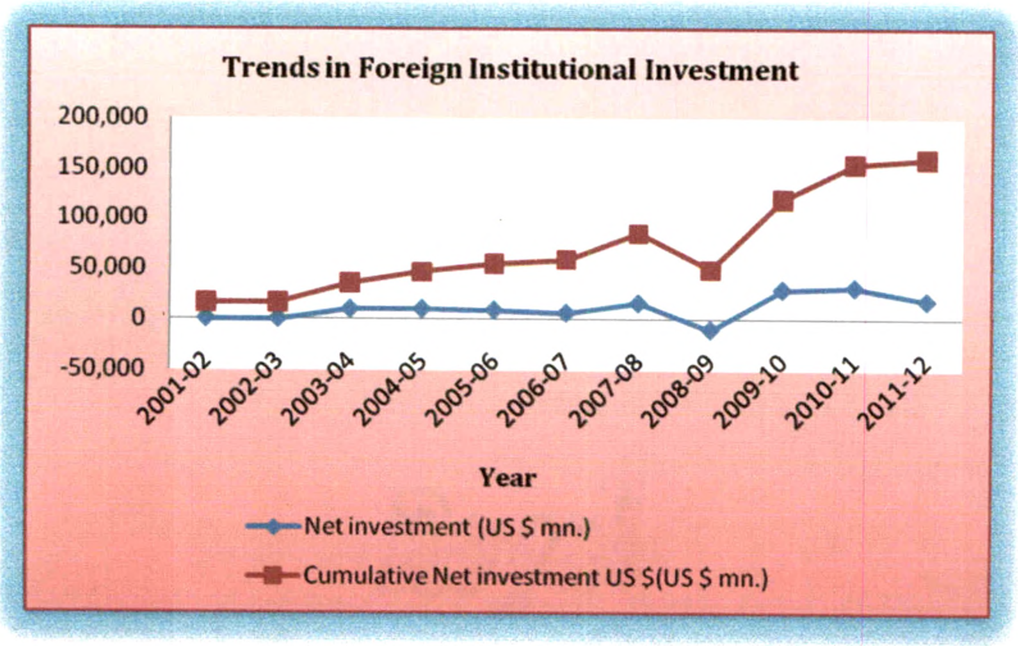
TABLE 2.14

Yearly Trends in FII Investment

Year	Gross Purchases (Rs. Crore)	Gross Sales (Rs. Crore)	Net Investment (Rs. Crore)	Net investment (US $ mn.)	Cumulative Net investment US $ (US $ mn.)
1	2	3	4	5	6
2001-02	50,071	41,308	8,763	1,839	15,372
2002-03	47,062	44,372	2,689	566	15,937
2003-04	1,44,855	99,091	45,764	10,005	25,943
2004-05	2,16,951	1,71,071	45,880	10,352	36,294
2005-06	3,46,976	3,05,509	41,467	9,363	45,657
2006-07	5,20,506	4,89,665	30,841	6,821	52,478
2007-08	9,48,018	8,81,839	66,179	16,442	68,919
2008-09	6,14,576	6,60,386	-45,811	-9,837	59,082
2009-10	8,46,438	7,03,780	1,42,658	30,253	89,335
2010-11	9,92,599	8,46,161	1,46,438	32,226	1,21,561
2011-12	9,21,285	8,27,562	93,725	18,923	1,40,482
Total	56,49,337	50,70,744	5,78,593	1,26,953	6,71,060
CGR	37.64	39.25	-	-	

Source: SEBI Annual Reports – 2001-02 to 2011-12.

GRAPH 2.5



Foreign institutional investors (FIIs) have come to occupy an important role in Indian capital market. Yearly investment transaction value and cumulative investment by FIIs have gone up substantially during the year 2001-02 to 2011-12. Stake of FII in some of the bell-weather stocks has also gone up and they have become an important segment of shareholders. Cumulative net investment by the Foreign Institutional Investors (FIIs) in the Indian capital market touched to US $15.80 billion on 2002-03, registering an increase of US $562.4 million over the cumulative net investment in 2001-02. The Indian market was not left untouched by global recession and weak sentiments. War in Afghanistan and Iraq added to the negative sentiments. Due to these negative undercurrents net investment by FIIs in 2002-03 was Rs. 2689 crore as compared to Rs. 8763 crore in 2001-2002.

Further analysis of this table provides information on purchases, sales and cumulative position of FIIs' investment. From the table, it is clear that in 2003-04, FIIs' gross purchase has grown up by about 208 per cent, compared to the year 2002-03 and their sales have also gone up, by 123 per cent. Under investment, it registered a whopping 1,602 per cent growth. It is a record in the history of FII investments in India. The total investment during the year 2003-04 amounted to Rs.45, 764 crore.

The gross purchases of debt and equity together by FIIs increased by 59.9 per cent to in 2005-06 compared to 2004-05. The gross sales by FIIs also rose by 78.6 per cent in 2005-06 compared to 2004-05. However, the net investment by FIIs in 2005-06 declined by 9.6 per cent in 2005-06 compared to 2004-05 mainly due to large net outflows from the debt segment.

The gross purchases of debt and equity by FIIs increased by 82.1 per cent in 2007-08 compared to 2006-07 (Table 2.14). The combined gross sales by FIIs also rose by 80.1 per cent in 2007-08 compared to 2006-07. The net investment by FIIs was Rs. 66,179 crore in 2007-08 which was more than double from Rs. 30,840 crore in 2006-07. The cumulative investment by FIIs at acquisition cost, which was USD 51.9 billion at the end of 2006-07, rose to USD 68.0 billion at the end of 2007-08.

The gross purchases of debt and equity by FIIs increased by 37.7 percent in 2009-10 compared to 2008-09. The combined gross sales by FIIs increased by 6.6 percent in 2009-10 compared to 2008-09. The total net inflow of FII was Rs.1,42,658 crore as against an outflow of FII was Rs.45,811 crore in 2008-09. This was the highest net inflow in 2001-02 to 2009-10 far.

The gross purchases of debt and equity by FIIs declined by 7.2 percent in 2011-12 compared to 2010-11. The combined gross sales by FIIs declined by 2.2 percent in 2011-12 compared to 2010-11. The total net inflow of FII was ` 93,725 crore in 2011-12 compared to ` 1,46,438 crore in 2010-11.

The compound growth rate of yearly trend in FII investment during the study period was 37.64 percent in gross purchases, 39.25 percent in gross sales. The CGR value of gross sales compared to gross purchases was the highest.

2.6 CONCLUSION:

Chapter three gives the details about SEBI and development of securities market with the help of Annual Reports of SEBI which deal with operational aspects of Securities and Exchange Board of India during the year 2001-02 to 2011-12 and attempt is made to make a comparison, wherever possible, with the developments in the international capital markets. Operational areas such as primary market, secondary market, mutual funds, portfolio investments, takeovers and acquisitions, regulatory developments, investigations and enquiries, are discussed, analyzed and compared over the period and across the markets.

The Indian securities market witnessed significant uptrend and volatility in 2007-08. The equity markets registered gains and the benchmark indices breached historic highs on several occasions. However, since mid- January 2008, stock markets witnessed sharp corrections in tandem with the global equity markets. Resources raised by the corporates from the primary market were substantially higher indicating the continuation of investment boom in India. Mutual funds too mobilized large amount of resources during 2007-08. Sound domestic macro-economic fundamentals, private corporate profitability and active buying support from institutional investors were the major factors that dominated stock market movement during 2007-08.

Indian securities market displayed downward trend in 2008-09. The downswing in the domestic equity market was in consonance with the downward spiral in global equity markets triggered by international financial crisis. Sharp fall in the benchmark indices, across the board fall in share prices, decline in market capitalisation, turnover and soaring volatility characterised the stock market behavior during 2008-09. There was a substantial decline in the resource mobilization by corporates in primary market in 2008-09 compared years 2007-08. Redemptions exceeded mobilisations by the mutual funds resulting in substantial outflows. Concerns of deepening of recession pervading in the developed economies, slowdown in domestic industrial growth and exports, substantial selling by FIIs, weak corporate results and depreciation of rupee aggravated the downward momentum. However, the Indian securities market continued to function in an orderly manner during 2008-09.

Indian securities market witnessed sharp turnaround in 2009-10. Whereas it was in downswing in 2008- 09 in consonance with the downward spiral in global equity markets triggered by international financial crisis, beginning of the financial year 2009-10 witnessed upward swing in the market. Fresh upward movement was triggered following unambiguous results in of union Govt. election and a period of stability across the market got initiated. The upward swing following the election results was so sudden and strong that Indian stock exchanges were shut down temporarily due to operation of circuit filters. In global arena, concerns for deepening of recession pervaded in the developed economies got replaced with concerns for a double dip. However, as the year progressed, the picture at global markets became better. Foreign Institutional Investors (FIIs) made a record net purchase in the Indian equity market in 2009-10, of Rs.1,42,658 crore surpassing the previous high of 2007- 08 inflows (Rs.66,179 crore). This reflects confidence of FIIs in Indian economy and the same was also highlighted in Economic Survey 2009-10. Large FII inflows in the country led to strengthening of Rupee against US Dollar. There was a substantial improvement in the resource mobilisation by corporates in the primary market in 2009-10 compared to the year 2008-09. Similarly, mobilisation of resources by mutual funds exceeded redemptions resulting in substantial inflows.

Year 2010-11 clearly belongs to activities in primary market which witnessed record number of Initial Public Offerings (IPOs)/ Follow-on Public Offerings (FPOs) and new debt issues (Non-Convertible Debentures/ Bonds) including the biggest ever IPO of Coal India which came out with issue size of ` 15,199.4 crore in October 2010. In debt segment, State Bank of India, the country's largest bank, came out with debt issues in multiple tranches which were subscribed by investors multiple times.

Secondary market segment showed signs of recovery of Indian corporates from global financial crises witnessed in 2008. The recovery phase was clearly reflected in substantial increase in average market capitalisation, revenues and profit after tax of top 500 listed companies at NSE and BSE. With growth in domestic demand being intact, Indian companies also showed significant improvement on export front in 2010-11 despite the fact that the global economy is still recovering from financial crises. The cumulative value of exports for the period from 2010 to 2011 was US $ 245.8 billion (` 11,18,822.8 crore) as against US $ 178.7 billion (` 8,45,533.6 crore) registering a growth of 37.5 per cent in Dollar terms and 32.3 per cent in Rupee terms over the same period last year.

During 2010-11, Foreign Institutional Investors (FIIs) made record investments of ` 1, 46,438 crore in the Indian market (equities and debt combined) surpassing the high of 2009-10 net investments of ` 1, 42,658 crore. This reflects their confidence in Indian securities market and better growth potential of Indian economy as compared to many developed and emerging economies.

There was substantial improvement in the resource mobilisation by corporates in the primary market in 2010-11 as compared to that in 2009-10; however, unlike year 2009-10, mobilisation of resources by mutual funds was less than redemptions which resulted into substantial net outflow of funds from mutual funds.

Indian equity market was impacted by developments in the global macroeconomic space during 2011-12. The unfolding of Euro zone sovereign debt crisis, unprecedented event like US downgrade, the impasse over fiscal and debt problems in the USA, high oil and commodity prices, earthquake in Japan and Middle-east crisis derailed global growth prospects and undermined business and consumer confidence. In Indian equity markets sluggish and bearish trend prevailed for major part of the year. Intensifying concerns over the fragile global economy and its possible transmissions to the domestic front, elevated levels of inflation and depreciation dominated the domestic scene. India's investment cycle, which was on an upturn since 2003-04, moderated to a soft patch. Antiinflationary monetary stance by the central bank through monetary tightening measures and resultant firming up of interest rates and growth moderating effects of a persistently high inflation impacted business sentiments. Reflecting the same, business confidence reached a lower level and coupled with wealth effect of correction in equity prices overthrew the investment and expansion plans of corporates.

The primary market for equity issuances was largely restrained in 2011-12 from both demand and supply side. On the demand side, there was a tepid response from investors to issues due to low risk appetite emanating from poor returns of previously listed IPOs and volatile secondary market. From the supply perspective, corporates exhibited cautiousness and abstained from resource mobilisation with the signs of slowdown in global and domestic economy. The amount raised through IPOs and FPOs was substantially lower during 2011-12 compared to years 2010-11. However, the number of and amount mobilised through public debt issues outstripped those of the earlier years. Concomitant with the dampened equity investment climate was the moderation in foreign institutional inflows into India on the backdrop of adverse external economic environment and depreciation of Indian rupee. Notwithstanding these, the FII flows were positive in both the equity and debt segments.

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