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RECENT ISSUES IN THE INDIAN STOCK MARKET

Dr. George Thomas P.

Associate Professor, St. John's College (Affiliated to University of Kerala),
Anchal, Kollam, India
Email: joyseputhen@gmail.com

INTRODUCTION

A capital market is a network of financial institutions and facilities that interact to mobilize and allocate long term savings in an economy. The long-term funds are exchanged for financial assets issued by borrowers or traded by holders of outstanding eligible securities. Therefore, it provides services that are essential to a modern economy, mainly by contributing to capital formation through financial intermediation, financial advisory services, and managerial skill development. In addition, the capital market facilitates portfolio diversification that allows savers to maximize returns on their assets and reduce risks. Consequently, an efficient capital market optimizes the amount of savings that finances investment at any level of savings (Samson Ogege, 2012).

Moreover, the capital market is the long-term end of the financial market. It is made up of institutions, which facilitate the issuance and secondary trading of long-term financial instruments. The secondary market or the stock market is a forum through which sellers and buyers trade on securities which have been listed on the exchange. A stock market can appropriately be said to be an important instrument of economic development in a free market enterprise economy. The secondary market is an important arm of the securities market and perhaps, the better-known aspect of the market. Its basic function is fostering and formalizing transfers of existing securities among investors. It provides liquidity to investors by enabling them to convert their securities into cash.

Capital Markets in India are characterized by its vibrant equity and debt markets assuming a fast paced growth. With domestic savings and investments pegged at a higher rate every year, capital markets strive to channelize the maximum savings into the financial system, thereby increasing the depth of the markets. There arises a need to create a suitable mechanism aided by appropriate instruments which will tap savings right from the grass root level, mobilizing them into the capital market.

Importance of the Paper

During the last 12 months, Indian stock market faced various ups and downs. Moreover, it is forced to severe corrections which were initiated by the SEBI. The important events, news and views which were published in National dailies and various Magazines were considered to provide an idea about the trends in the Indian Capital Market.

Sensex and Nifty Plunged in a 'Terrible' Year

'Terrible' and 'peculiar', described as calendar year 2011. The benchmark indices fell by 24% and the Indian market was among the worst performer in the world during the year.

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Experts are of the opinion that high interest rate, rising inflation, leadership crisis, slower GDP growth rate and the depreciating rupee still continue to be major reasons.

SEBI allowed Interest Futures Trading on G-Secs

SEBI allowed trading in exchange traded interest rate futures on two-and five year notional coupon bearing government securities on currency derivatives segment of stock exchanges.

Foreigners Allowed to Invest Directly in Equities

The Govt. has announced a new scheme under which a foreign individual, a foreign pension fund or even a foreign trust will be able to invest directly in the Indian equity market. These investors will be called 'Qualified Foreign Investors' (QFI's). The new scheme is operationalised from January 15. This has been done in order to widen the class of investors, attract more foreign funds, reduce market volatility and deepen the Indian capital market. At present, FIIs or foreigners, through sub-accounts with registered FIIs, can invest in the equity market. Unregistered foreign individuals and institutions invest through participatory notes (PNs).

BSE Strengthens Its Presence in Derivatives

BSE Ltd (formerly Bombay Stock Exchange) launched a series of Liquidity Enhancement Incentive programmes (LEIPS) with the intention to create liquidity in the bourses Futures and Options segment. The first programme LEIPS-I (BETA) was launched on September 28, 2011, followed by LEIPS-II on October 26,2011. As a result the participation has been broad-based and liquidity in derivative segment has increased since the launch.

MCX Launched Public Issue on Feb.22nd 2012

The IPO of MCX were opened on Feb.22nd and close on Feb.24th. This is the first ever IPO by an exchange in the country. The price band for the IPO is yet to desired, the size may be around Rs.650-750 crore, in its RHP. A total of 64.27 lakh shares would be on offer, of which around 2.5 lakh would be reserved for employees.

MCX has Options Aplenty

MCX's IPO valuation looks attractive, given the under-penetrated commodity markets in India. It is the dominant domestic exchange for trading in bullion, energy and base metals. Among the commodity bourses in India, MCX also has lower regulatory risks.

Performance of Indices

The year 2011 was not a good one for investors in the Indian equity markets. While the Sensex and the Nifty returned -24% for the year, the average returns by diversified equity mutual fund schemes ranged from -23% to -25% depending upon the market capitalization exposure from large caps to mid and small caps.

Table1. Performance of Global Indices

Global Indices	Annual Returns (%)			
	2011	2010	2009	2008
India (Nifty)	-24.2	18.0	74.7	-51.8
Russia(RTS)	-21.9	24.1	125.8	-72.4
China (Shcomp)	-20.3	-15.4	79.2	-65.4

Table1. Performance of Global Indices (Contd…)

Global Indices	Annual Returns (%)			
Hong Kong(HIS)	-19.8	7.0	49.4	-48.3
Brazil (BOV)	-18.1	1.0	82.7	-41.2
France (CAC)	-17.9	-2.2	22.3	-42.7
Singapore	-17.6	11.6	63.5	-49.2
Japan (Nikkei)	-17.3	-3	19.0	-42.1
Australia (AS30)	-15.9	0.8	32.5	-43.0
Germany (DAX)	-14.7	16.1	23.8	-40.4
Korea (KOSPI)	-11.0	21.9	49.7	-40.7
UK(FTSE)	-6.7	10.6	21.7	-31.3
US(Nasdaq)	-2.2	16.2	45.3	-40.5
Indonesia (KLCI)	0.8	19.5	45.0	-39.3

Source: Bloomberg

The Indian equities being amongst the better performers globally in the years 2006 and 2007, the Chinese equity markets returned far superior returns in comparison. Again, though USA was the crux of the financial crisis in 2008, the Nasdaq returns of -40% turned out to be superior to the Nifty's -52% in that year. The biggest drag for the Indian economy last year was high interest rates and inflation that prevented investments in the Indian capital sector and dragged down corporate financials.

BSE Launched 'GREEN INDEX'

To promote firms working on sustainable business practices, the BSE launched its second thematic Index, the 'BSE-GREENEX' on 22-2-12. A pick of 20 companies from the BSE100, the index gives equal weightage to both energy efficiency and profitability-together indicating a long term sustainable strategy.

BSE-GREENEX, the 25th index, has been co-developed with gTrade, a domestic sustainability firm working on financial innovations in energy efficiency. While BSE provides the financial analytics, the carbon analytics are provided by gTrade. The index is targeted at retail, as well as institutional investors such as asset managers and pension funds looking for investments in companies with strong long term prospects and develops green financial products.

Rajiv Gandhi Equity Scheme

Investors may be allowed to invest in shares of PSUs, besides BSE100 shares under the proposed Rajiv Gandhi Equity Scheme (RGES). Investments also likely to face a reduced lock-in period. The lock in period may be cut from the current three years to one year, with some conditions.

Equity Returns Fail to Beat Inflation

Investment in equities has not helped investors to beat inflation over the last five years. This goes against popular perception that equity delivers stellar returns over longer time-period.

A Business Line analysis of the returns of the BSE 500 Index and the changes in the consumer price inflation index for industrial workers reveal that equities have not delivered inflation-beating returns over various time periods.

On a five year basis, the index returned a meager 11% against 55% increase in the inflation. Similarly, while the inflation inched up by 17% in the last one year, the BSE500 delivered negative return of 14%.

While equities disappointed, there were some assets that provided a hedge against rising prices. Gold has been the most consistent outperformer across all time periods closely followed by realty. On a five-year basis, the price of gold in the spot market jumped by a whopping 3.2 times. The outperformance of domestic gold prices was driven by growing investment demand and weakness in rupee.

Listing Grows for BSE, but Stocks Lose Value

With the listing of 26 new companies in the first six months of 2012, the BSE maintained its distinction of having more avenues for equity investment than any other stock market in the world. But the value of shares traded witnessed a 22.2% dip in rupee terms and 32.5% in dollar terms during the period, according to World Federation of Exchanges.

The value of trades on India's premier bourse amounted to just \$59.7 billion, paltry in comparison to the share trading value of \$7.1 trillion on the NYSE, \$1.5 trillion on the Shanghai Exchange, \$575 billion on the Hong Kong Stock Exchange and \$125.9 billion on the Taiwan Stock Exchange.

Table 2. Listed Companies in 2012

Xchanges	Jan	Feb	Mar	Apr	May	Jun
BSE	5,115	5122	5133	5133	5140	5141
NSE	1641	1644	1646	1649	1651	1648
NYSE	2308	2315	2325	2334	2340	2334
LON. SE	2864	2857	2845	2842	2836	2820
HOKO SE	1506	1507	1510	1516	1518	1519
TAIW SE	824	824	824	827	829	830

While there are 5141 listed companies on the BSE, there were just 2334 listed companies on the NYSE Euronext, 2864 on the LSE Group, 1519 on the HK SE, and 945 on the Shang Hai SE. In terms of new listing during the first six months of 2012, the pace of additions was slower than on Chile's Santiago Exchange(93.6%), Warsaw Stock Exchange (23.1%), Shenzhen Stock Exchange(14.3%), Hong Kong SE(4.9%) and Taiwan SE(4.7%). However, it was better than the NYSE(0.7% new listings) and Taiwan SE(0.1%). What is more, given the decline in the number of listed companies on exchanges such as Nasdaq (-3.2%), Mexican exchange (-71.5%), LSE Group(-3.2%) and Brazil's Bovespa(-1.3%), it appears that Indian firms are still upbeat about their chances on the Indian bourses.

There has been a sharp decline in the value of share traded in stock markets worldwide during the Jan-June 2012 period with the exception of Saudi Arabia, the Philippines, Ireland and Brazil. The NYSE, Nasdaq, HongKong SE, Korea Exchange, LSE Group and Deutsche Borse have seen the value of share trading plummet by 9.5% to 25.8% during the first half of 2012.

FIIs favour 'IT' Sector as 'Defensive' Bet

FIIs have increased their exposure to IT stocks, as a defensive strategy. Depreciating rupee against the dollar also seems to have acted in favour of IT sector, which has major business interest in the US. Over the last one year, FIIs have consistently increased their stake in major IT companies. However, promoters had marginally reduced their shareholding. The Sensex has fallen about 1400 points since June 2011. The rupee depreciated against dollar to 55.32 at the end of June 2012 from 45.11 in June 2011. In the case of Infosys, the FII holdings have gone up to 37.89% (June-12) from 36.88% as of June 2011.

Table 3. Foreign Funds Attraction

Companies	Promoters Stake		FII Stake	
	June -12	June-11	June-12	June -11
Infosys	16.04	16.04	37.89	36.88
TCS	73.98	74.08	14.63	12.80
Hexaware	27.90	28.23	43.38	40.24
Tech Mahindra	70.78	71.10	5.92	3.96
Oracle	80.36	80.42	3.40	2.66
HCL Technologies	62.24	64.37	19.97	21.35

MCX Exchange Gets nod to Launch Currency Options

The MCX Stock Exchange (MCX-SX) has been granted permission to launch currency options on its platform by SEBI and the RBI. This approval will allow MCX-SX to expand its offerings in the currency derivatives segment by introducing in the dollar rupee currency pair.

Recently this exchange received permission from SEBI to launch its equity trading platform. MCX-SX started trading in currency options contract based on the rupee-dollar exchange rate on 10-8-12. Lot size for a contract will be $1000. Option prices (premium) will be quoted in rupees with a minimum price movement (tick size) of 0.10 paisa. The options will be in European style; that is, they can be exercised only on the date of expiry. On its currency futures segment, contracts are traded in dollar-rupee, euro-rupee, yen-rupee and pound-rupee. In FY 2011-12, the exchange had a market share of 43.7% in currency futures.

BSE Listing in Early 2013

One of the country's premier stock exchanges, BSE, has set up a working committee to process its proposed Initial Public Offering (IPO). The committee is in the process of preparing a Red Herring prospectus and fine tuning other formalities. The company may get listed in the first or second quarter of calendar 2013.

The idea of IPO is to give an exit route for its existing investors, rather than mobilizing funds, and hence "it will be an offer for sale". At present, various broking house hold over 43% stake in the company, followed by institutional investors with close to 40% and the remaining stake is held by some retail investors.

On BSE's efforts to attract QFIs (Qualified foreign investors), the exchange encourages and facilitates setting up of offices abroad by broking companies. BSE is the first Indian stock exchange to ring in the first QFI transaction (by a US based investor) in July. The BSE's competitiveness in terms of transaction cost in the futures and options segments, the exchange charges just Rs. 50 for every Rs. 1 crore transacted in Options. This results option trading cost in BSE being 85% lower than other exchanges.

IT's Payback Time for India Inc

Indian companies sank substantial money into expanding their capacity over the last five years. Many of the projects are starting to pay off only now. An analysis of the data for 225 companies constituting the CNX 500 index shows that these companies have nearly doubled their productive assets (gross block plus capital work-in-progress) in the past five years. Their revenues have just about doubled too. But historical trends in asset turnover (how much sales a company generates for every rupee of assets), suggests that these capacities can support revenue growth of 33%, if companies are able to milk their assets as they did in the past. The potential for growth is higher in sectors during a cyclical downturn.

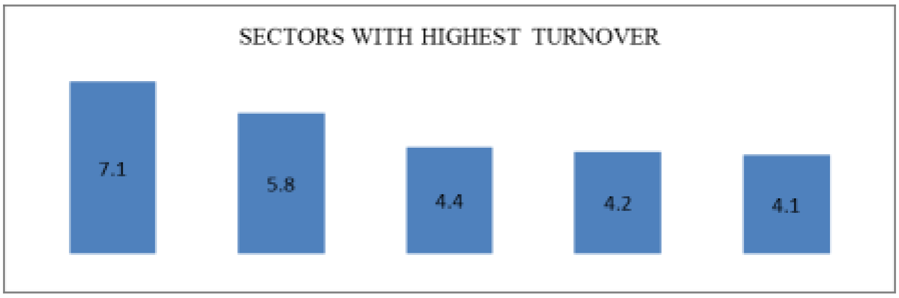
While assets for 255 companies have doubled, the growth in revenues was 99% in the period. These companies enjoyed an average asset turnover ratio of 2.2 over the period 2007-12. The ratio peaked at 2.5 times in the year 2007-08; which denotes that for every Rs.100 spent as capital investment, the firm was able to generate peak revenues of Rs.250 from the invested capital.

A deeper dive into the sector wise spending pattern over the period reveals that auto and ancillary companies topped the list, showing over three times increase in total capital expenditure spend. Organized retail has been the second largest sector to invest in capacity expansion projects, almost trebling its total asset base. The infrastructure sector also doubled its gross assets during the same period.

While the overall revenues have more or less kept pace with the investment made over the last five years, the sector-wise data point to wide differences. In the core sector, capital goods had the highest average turnover to assets ratio of 7.1 times over the period 2007-12; meaning that every Rs 100 invested generated revenues of Rs. 710. Petrochemicals sector closely followed capital goods on the assets turnover ratio, clocking revenues that were 5.8 times higher than the net assets. Other sectors that generated meaningfully higher revenues from net assets include IT (4.4 times), Agrochemicals (4.2) and Oil and Gas (4.1). In contrast, there were sectors whose revenue traction was lower. The five year average asset turnover ratio of 14 out of 39 sectors was lower than the CNX 500's average asset turnover of 2.2. This includes sectors such as cement, media, telecom and sugar, to name a few. For 6 out of the 39 sectors, the revenue generated from capacity additions was less than the cumulative assets.

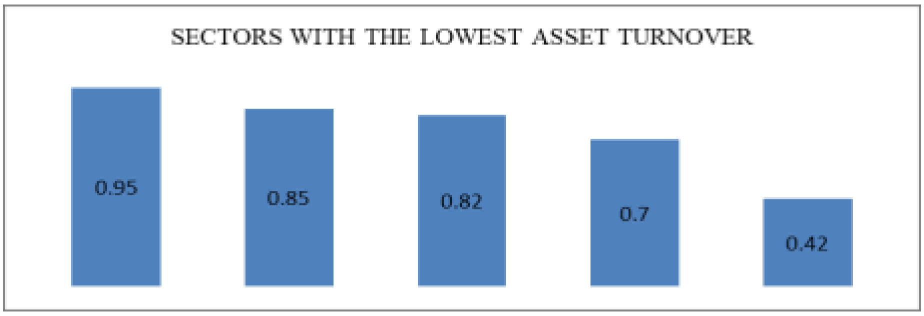
Table 4. Sectors with Highest Asset Turnover

SECTORS	ASSET TURNOVER
Capital Goods	7.1
Petrochemicals	5.8
IT	4.4
Agrochemicals	4.2
Oil& Gas	4.1



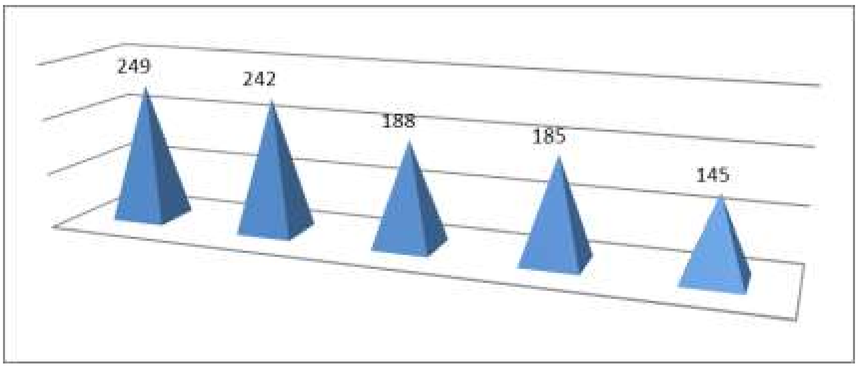
….. And Sectors With the Lowest

SECTORS	ASSET TURNOVER
Telecom	0.95
Paper	0.85
Power generation & distribution	0.82
Hotels	0.70
Shipping	0.42



Sector That Invested More…….(%)

SECTORS	INVESTMENT
Auto & auto ancillary	249
Retail	242
Infrastructure	188
Power generation	185
Telecom	145



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RBI Permits Qualified Foreign Investors to Hedge Currency Risk

With a depreciating rupee and a volatile *Forex* market, the RBI has allowed the QFIs to protect their investment through the hedging mechanism.

SEBI Set to Relax Collateral Norms for FIIs

In an effort to revive market sentiments, SEBI is ready with a booster dose for FIIs. They are:

- Level playing field for FII in the offing.
- Norm for putting entire collateral in cash may be relaxed.
- A part of the collateral may be accepted in the form of domestic instruments such as government securities, bonds, fixed deposits, mutual funds.
- Funds with short-term view in the derivative market likely to benefit.
- Expected to increase forex flows which will help bring down the current account deficit.

5 Indian Firms in FORBES' List of Top Innovators

Five Indian companies- L&T, HUL, Infosys, TCS and Sun Pharma- have made it to the list of 100 most innovative firms in the world, prepared by US business magazine *Forbes*.

Engineering giant L&T is ranked among the top ten companies, ahead of Google and Starbucks. L&T is ranked ninth in the list. US based Salesforce.com tops the rankings. Fast moving consumer goods company HUL is positioned 12^{th}, while global technology services firm Infosys holds the 19^{th} slot. TCs is placed at the position. Speciality Pharma Company, Sun Pharma Industries is ranked at the 38^{th} position. Forbes used the "Innovation Premium" which is calculated first by projecting a company's income from existing businesses, plus anticipated growth from those businesses, and look at the net present value of those cash flows. To be considered in the list, at least 7 years of financial data for a given firm are needed. Besides, firms with market value greater than $10 billion and those which make some investment in R&D were considered.

'IT' Stocks Back as Investors' Favourites

IT stocks moved tandem with the market and have bounced back to become investors' favourites. While the markets closed higher by about 2 %, the IT index ended the day higher by 1.64%. Shares in IT heavyweight, TCS, touched a new high during intra-day trade and closed at Rs. 1,385.90, up 0.70 % from its previous close on the BSE. The gains in the IT sector were also aided by weak rupee. "Most of the IT stocks have touched fair valuations now. After good first quarter results there has been no negative news in the market and demand in the IT sector is also stable. The weak rupee, in the last month, also helped the stocks gain". The stock of software major Infosys also gained by 2.5% to close at Rs. 2,483 on the BSE.

MCX-SX Flagship Index Unveiled as 'SX-40' on Sept.'12

The flagship index of the MCX stock exchange will be known as "SX-40". It will be a free-float based index of large market cap and liquid stocks representing most importing sectors.

Make SME Trading Platforms a Success

The finance minister on 18-9-12 launched 'EMERGE', a dedicated NSE platform for emerging corporate. EMERGE is expected to help thousands of small and medium enterprises (SMEs) to raise capital from institutional investors and high networth individuals.

NIFTY Plunges 900 Points on "Flash Crash"; NSE to Probe

A 'flash crash' sent the NSE's Nifty into a tailspin soon after the market opened, on 5/10/'12. The Nifty plunged nearly 900 points to a low of 4888.20 on what the NSE called 'erroneous orders' executed by Emkay Global Financial. Trading was disrupted for nearly 15 minutes following the incident. However, the Nifty recovered to close the day at 5746.95, a fall of 0.7%. The market circuit filter got triggered due to entry of 59 erroneous orders by Emkay Global, which resulted in multiple trades for an aggregate value of over Rs. 650 crore, the NSE clarified.

'FITCH' Lowers India's Growth Forecast to 6%

After S&P's and other global rating agencies, Fitch has now scaled down India's growth to 6 from 6.5%.

India's Outlook ALARM BELLS Financial Services/ Institutions cut India's Growth Forecast for FY 2012-'13		
	From (%)	**To (%)**
Fitch	6.5	6.0
S&P	6.5	5.5
Morgan Stanley	5.8	5.1
Moody's	6.2	6.0
Crisil	6.5	5.5
Citi	5.5	5.4
CLSA	5.5	5.4
RBI	7.3	6.5

CONCLUSION

The Indian capital market has undergone metamorphic reforms in the past few years. Every segment of the Indian Capital Market, namely, primary and secondary markets, derivatives, institutional investment, and market intermediation has experienced an impact of these changes, which has significantly improved the transparency, efficiency, and integration of the Indian market with the global markets.

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