

CAPITAL AND COMMODITY MARKETS

5.45 The capital and commodity markets remained buoyant during 2007. Relatively stable macroeconomic conditions as reflected in moderate rate of inflation, growth-conducive interest rate situation, improved fiscal conditions and larger investor participation augured well for capital and commodity markets as measured in terms of volume and value of transactions.

Capital Market

5.46 The Indian capital market attained further depth and width in business transacted during 2007. The Bombay Stock Exchange (BSE) Sensex, which had been witnessing an upswing since the latter part of 2003, scaled a high of 20,000 mark at the close of calendar year 2007. The National Stock Exchange (NSE) Index rose in tandem to close above the 6,100 mark at the end of 2007. Both the indices more than tripled between 2003 and 2007, giving handsome yearly returns. Alongside the growth of business in the Indian capital market, the regulatory and oversight norms have improved over the years, ensuring a sound and stable market.

Primary Market

5.47 The primary capital market grew in 2006 and 2007 after the set back of 2005. The amounts raised and the number of new issues which entered the market increased in 2007. The total amount of capital raised through different market instruments during 2007 was 31.5 per cent higher than during 2006, which itself had seen a rebound of 30.6 per cent over the lows of 2005 (Table 5.10).

5.48 Component-wise, private placement at Rs. 1,11,838 crore (up to November 2007) accounted for the major share during 2007. The total equity issues mobilized was Rs. 58,722 crore, of which Rs. 33,912 crore was accounted for by the Initial Public Offerings (IPOs). During 2007, the total number of IPOs issued was 100 as compared to 75 in the previous year.

5.49 In line with the rising trend in resources raised in the primary market, the net inflow of savings into mutual funds increased by over 30 per cent in 2007 to Rs. 1,38,270 crore (Table 5.11). The sharp increase in funds flowing into mutual funds during 2007 was partly due to buoyant equity markets and partly to efforts made by the Indian

Table 5.10 Resource mobilization through primary market

Mode	(Rs. crore)			
	Calendar Year			
	2004	2005	2006	2007
1. Debt	2,383	66	389	594
2. Equity	33,475	30,325	32,672	58,722
Of which, IPOs	12,402	9,918	24,779	33,912
Number of IPOs	26	55	75	100
Mean IPO size	477	180	330	339
3. Private Placement	93,506	83,812	117,407	1,11,838 ^a
4. Euro Issues (ADR/GDR)	2,029	9,788	11,301	41,567
Total (1 to 4)	131,393	123,991	161,769	2,12,721

Source: SEBI and RBI (for Euro Issues)

^a Till November 2007

Table 5.11 Trends in resource mobilization (net) by mutual funds

Sector	(Rs. crore)			
	Calendar year			
	2004	2005	2006	2007
1. UTI	-1,487	1,273	6,426	9,245
2. Public Sector	-1,262	4,446	12,229	8,259
3. Private Sector	7,524	19,735	86,295	1,20,766
4. Total (1 to 3)	4,775	25,454	1,04,950	1,38,270

Source: SEBI

mutual funds to introduce innovative schemes. Income/debt-oriented schemes fared relatively better during the year compared to other schemes. The private sector mutual funds outperformed the public sector mutual funds in terms of resource mobilization in 2007. The share of UTI and other public sector mutual funds in total amount mobilized gradually declined over the years to 17.8 per cent in 2006 and further to 12.7 per cent in 2007.

Secondary Market

5.50 In the secondary market segment, the market activity expanded further during 2007-08 with BSE and NSE indices scaling new peaks of 21,000 and 6,300, respectively, in January 2008. Although the indices showed some intermittent fluctuations, reflecting change in the market sentiments, the indices maintained their north-bound trend during the year. This could be attributed to the larger inflows from Foreign Institutional Investors (FIIs) and wider participation of domestic investors,

particularly the institutional investors. During 2007, on a point-to-point basis, Sensex and Nifty Indices rose by 47.1 and 54.8 per cent, respectively. The buoyant conditions in the Indian bourses were aided by, among other things, India posting a relatively higher GDP growth amongst the emerging economies, continued uptrend in the profitability of Indian corporates, persistence of difference in domestic and international levels of interest rates, impressive returns on equities and a strong Indian rupee on the back of larger capital inflows.

5.51 Amongst the NSE indices, both Nifty and Nifty Junior delivered record annual equity returns (current year-end index divided by previous year-end index multiplied by 100) of 54.8 per cent and 75.7 per cent, respectively, during the calendar year 2007 (Table 5.12 and Figure 5.3). While Nifty gave compounded returns of 34.4 per cent, Nifty Junior recorded compounded returns of 38.4 per cent per year between 2003 and 2007.

5.52 In terms of month-to-month movement, the NSE indices (Nifty and Nifty Junior) were subdued

during February and August 2007, while they showed a rising trend during the rest of the year. The BSE Sensex (top 30 stocks) too echoed a similar trend (Table 5.13). The sell-off in Indian bourses in August 2007 could partly be attributed to the concerns on the possible fallout of the sub-prime crisis in the West.

5.53 While the climb of BSE Sensex during 2007-08 so far was the fastest ever, the journey of BSE Sensex from 18,000 to 19,000 mark was achieved in just four trading sessions during October 2007. It further crossed the 20,000 mark in December 2007 and 21,000 in an intra-day trading in January 2008. However, BSE and NSE indices declined subsequently reflecting concerns on global developments. BSE Sensex yielded a compounded return of 36.5 per cent per year between 2003 and 2007. In terms of simple average, BSE Sensex has given an annual return of more than 40 per cent during the last three years. BSE 500 recorded compounded annual return of 38 per cent between 2003 and 2007.

Table 5.12 Closing values of NSE indices (Nifty 50 and Nifty Junior) at month end

Month	2005			2006			2007		
	Nifty 50 (Top 50 Stocks)			Nifty Junior					
January	2,058	3,001	4,083	4,248	5,883	7,268			
February	2,103	3,075	3,745	4,338	5,967	6,722			
March	2,036	3,403	3,822	4,275	6,412	6,878			
April	1,903	3,558	4,088	4,024	6,856	7,527			
May	2,088	3,071	4,296	4,365	5,827	8,023			
June	2,221	3,128	4,318	4,393	5,264	8,699			
July	2,312	3,143	4,529	4,919	5,335	8,850			
August	2,385	3,414	4,464	5,053	5,941	8,633			
September	2,601	3,588	5,021	5,304	6,510	9,821			
October	2,371	3,744	5,901	4,714	6,823	10,643			
November	2,652	3,955	5,763	5,342	6,967	11,432			
December	2,837	3,966	6,139	5,541	7,106	12,488			

Source: National Stock Exchange.

Figure 5.3 Movement of indices of NSE and BSE

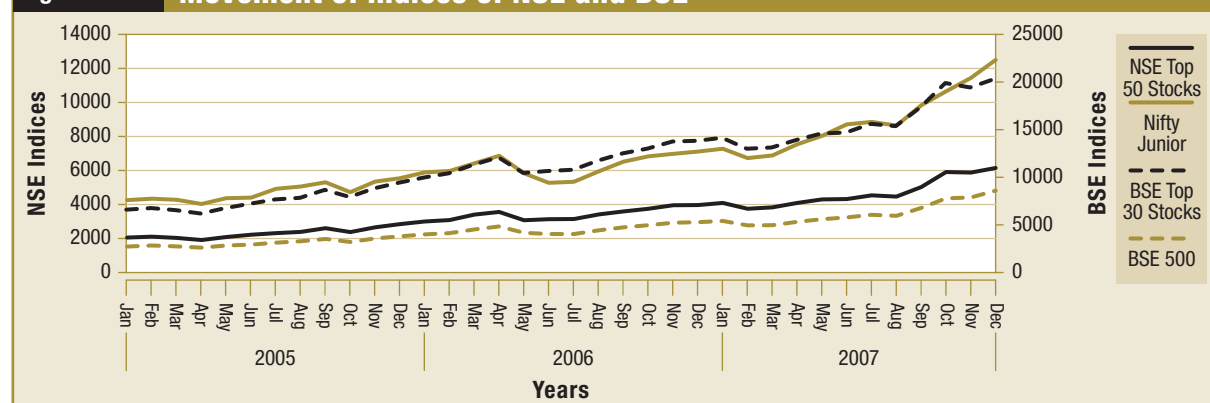


Table 5.13 Closing value of BSE indices (Sensex and BSE-500) at month end

Month	Sensex			BSE 500		
	2005	2006	2007	2005	2006	2007
January	6,556	9,920	14,091	2,726	4,005	5,409
February	6,714	10,370	12,938	2,826	4,130	4,938
March	6,493	11,280	13,072	2,735	4,517	4,955
April	6,154	12,043	13,872	2,611	4,830	5,311
May	6,715	10,399	14,544	2,829	4,158	5,647
June	7,194	10,609	14,651	2,928	4,030	5,781
July	7,635	10,744	15,551	3,125	4,029	6,063
August	7,805	11,699	15,319	3,273	4,424	5,950
September	8,634	12,454	17,291	3,522	4,740	6,774
October	7,892	12,962	19,838	3,199	4,957	7,785
November	8,789	13,696	19,363	3,568	5,228	7,866
December	9,398	13,787	20,287	3,796	5,271	8,592

Source: Bombay Stock Exchange

5.54 Among the Asian stock markets, Chinese and Indonesian markets outperformed the Indian markets in terms of cumulative performance over 2003 levels (Table 5.14). While the BSE Sensex rose by 47.1 per cent during 2007, SSE Composite Index (Shanghai, China) rose by 96.7 per cent and the Jakarta Composite Index (Indonesia) increased by around 52 per cent.

5.55 Other international indices which rose appreciably in 2007 were Hang Seng (Hong Kong) by 39.3 per cent, Kospi (South Korea) by 32.3 per cent and Kuala Lumpur Comp Index (Malaysia) by 31.8 per cent (Figure 5.4).

5.56 As the stock indices scaled new highs, investors' wealth as reflected in market capitalization also rose correspondingly. The market capitalization in India nearly doubled in 2007. The markets were more stable in 2007 as measured by the standard deviation of daily volatility of the Indian indices as compared to the previous year (Table 5.15). The

price-to-earnings (P/E) ratio, which partly discounts future corporate earnings reflecting investors' expectations of corporate profit, was higher at around 27 by end-December 2007 as compared to around 21 at end-December 2006.

5.57 It is, however, noted that in the period January 2006 to December 2007, the volatility of weekly returns of Indian indices was higher as compared to indices outside India such as S&P 500 of United States of America and Kospi of South Korea (Table 5.16).

5.58 The valuation of Indian stocks as reflected in P/E multiples of around 27 times at end-December 2007 was the highest amongst the select emerging market economies such as South Korea, Thailand, Malaysia and Taiwan (Table 5.17).

5.59 One of the important indicators to assess the size of the capital market is the ratio of market capitalization to GDP. In India as on December

Table 5.14 Cumulative change in movement of global indices^a

Index	Cumulative change over end-2003 level			
	2004	2005	2006	2007
BSE Sensex, India	13.08	26.87	33.16	36.53
Hang Seng Index, Hong Kong	13.15	9.64	17.28	22.44
Jakarta Composite Index, Indonesia	44.51	29.65	37.68	41.14
Nikkei 225, Japan	7.61	22.84	17.29	9.43
Kospi Index, South Korea	10.48	30.26	20.92	23.67
Kuala Lumpur Comp Index, Malaysia	14.23	6.47	11.34	16.15
TSEC Weighted Index, Taiwan	4.23	5.43	9.92	9.62
SSE Composite Index, China	-15.36	-11.93	21.35	36.92

Source: Derived from various country sources.

^a End Month closing.

चित्र 5.4 अन्तरराष्ट्रीय तुलना

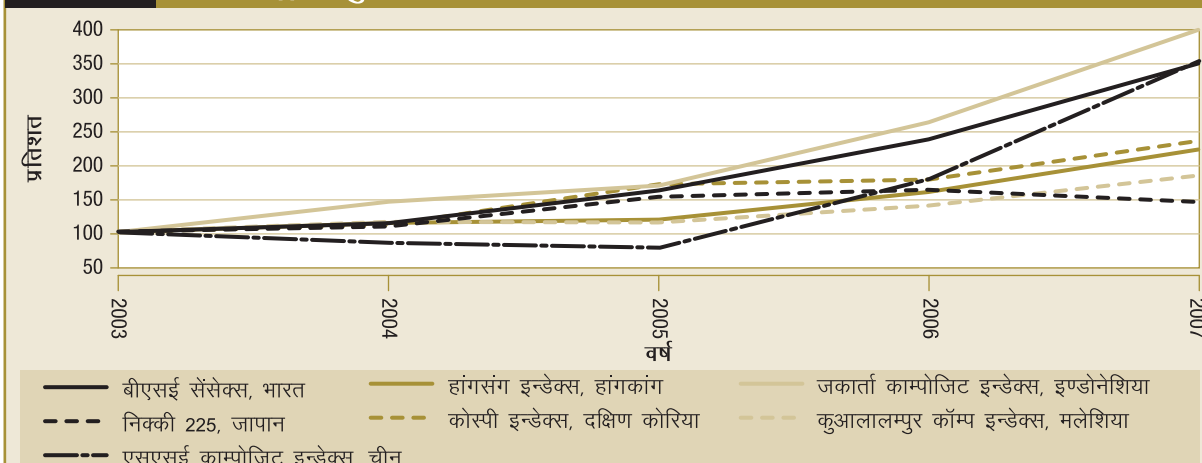


Table 5.15 Equity returns, volatility, market capitalization & P/E ratio

Index	Calendar year			
	2004	2005	2006	2007
Nifty:				
Returns (per cent)	10.7	36.34	39.83	54.77
End-year market capitalization (Rs. crore)	9,02,831	13,50,394	19,75,603	35,22,527
Daily volatility ^a	1.73	1.11	1.64	1.60
End-year P/E	15.32	17.07	21.26	27.62
Nifty Junior:				
Returns (per cent)	30.8	24.43	28.24	75.73
End-year market capitalization (Rs. crore)	1,65,444	2,18,575	3,33,693	6,43,625
Daily volatility ^a	1.94	1.22	1.96	1.71
End-year P/E	14.19	17.11	21.78	26.48
BSE Sensex:				
Returns (per cent)	13.1	42.3	46.7	47.2
End-year market capitalization (Rs. crore)	7,35,528	12,13,867	17,58,865	28,61,341
Daily volatility ^a	1.6	1.1	1.6	1.5
End-year P/E	17.1	18.6	22.8	27.7
BSE 500:				
Returns (per cent)	17.5	36.6	38.9	63.0
End-year market capitalization (Rs. crore)	15,80,762	22,81,579	33,36,509	64,70,881
Daily volatility ^a	1.8	1.1	1.6	1.5
End-year P/E	15.2	17.5	20.2	29.1

Source: National Stock Exchange and Bombay Stock Exchange.

^a Standard deviation values.

30, 2007, market capitalization (BSE 500) at US\$ 1,638 billion was 150 per cent of GDP, which compares well with the other emerging economies as well as select matured markets (Table 5.18).

5.60 The price of a security depends largely on demand and supply conditions and is influenced by the impact cost and liquidity. The liquidity and the impact cost are inversely related. While the

impact cost for purchase or sale of Rs. 25 lakh for Nifty Junior portfolio improved marginally over the years to 0.14 per cent during 2007, for the Nifty portfolio, it remained stable at 0.08 per cent during the last few years (Table 5.19).

5.61 The turnover in the spot and derivatives market, both on NSE and BSE, continued to show an upward trend. During 2007, NSE and BSE

Table 5.16 Volatility of weekly returns on the equity markets (standard deviation)

Class of Stocks	Period	
	Jan 2005- Dec 2006	Jan 2006- Dec 2007
India		
Top 50 (Nifty)	2.01	2.45
Next 50 (Nifty Junior)	2.41	2.85
Sensex	2.96	3.17
BSE 500	3.23	3.30
Outside India		
U.S (S&P 500)	0.95	1.28
Korea (Kospi)	1.84	2.17

Source: National Stock Exchange and Bombay Stock Exchange.

Table 5.17 P/E ratios in select emerging markets

Index/Market	Mar. 2007	Dec. 2007
South Korea KOSPI	11.36	15.04
Thailand SET	10.59	19.92
Indonesia JCI	19.54	18.43
Malaysia KLCI	16.97	16.07
Taiwan TWSE	17.92	20.14
BSE Sensex	20.50	27.67
S&P CNX Nifty	18.38	27.62

Source: SEBI and Bloomberg Financial Services.

Table 5.18 Market capitalization in select countries

Country	Market capitalization (US\$ billion) as on 30.12.2007	Market capitalization as per cent of GDP
China	4,459.48	137.3
India	1,638.20 ^a	150.0
Japan	4,535.08	104.4
South Korea	1,103.34	116.2
United States of America	17,773.05	128.8

Source: Derived from various country sources.

^aMarket capitalization of BSE 500.

spot market turnover showed a rise of over 60 per cent and 47 per cent, respectively, over the previous year. In respect of NSE and BSE derivatives, the

Table 5.19 Equity spot market liquidity: Impact cost (%)

Portfolio	Calendar year			
	2004	2005	2006	2007
Nifty impact cost at Rs. 50 lakh	0.09	0.08	0.08	0.08
Nifty Junior impact cost at Rs. 25 lakh	0.31	0.16	0.16	0.14

Source: NSE.

Table 5.20 Market turnover

Market	(Rs. crore)			
	2004	2005	2006	2007
NSE Spot	11,70,298	18,88,112	19,16,227	30,93,982
BSE Spot	5,33,483	7,01,025	9,61,653	14,14,727
NSE Derivatives	25,86,738	39,26,843	70,46,665	1,19,40,877
BSE Derivatives	19,173	1,965	18,071	2,19,824

Source: NSE and BSE.

increase was around 70 per cent and 200 per cent, respectively (Table 5.20).

5.62 The spot market turnover (one-way) for NSE and BSE (together) amounted to Rs. 45,08,709 crore. In the derivatives market, the NSE and BSE turnover added up to Rs. 1,21,60,701 crore during 2007, showing a quantum growth over the previous year. During 2007, as a proportion of market capitalization of Nifty, the turnover in NSE spot and derivative markets was 87.8 per cent and 339 per cent, respectively. The turnover in BSE spot and derivatives accounted for 22 per cent and 3 per cent, respectively, of market capitalization of BSE 500.

5.63 In terms of institutional players, both FII and mutual funds leveraged their activity in the equity market during the year. While the net investment by FIIs in both spot and derivative markets witnessed quantum increases during 2007, the corresponding gross buy and sell by FIIs too increased significantly. In 2007 FIIs net activity (gross buy/gross sell) constituted 17.3 per cent of the spot market and 9 per cent of the

derivative market (Table 5.21). The number of registered FIIs rose to 1,219 at the end of 2007 from 1,044 in the corresponding period of last year; the number of sub-accounts also increased to 3,644 from 3,045 over the same period.

5.64 The assets under management of mutual funds grew by 1.7 times from Rs. 3.23 lakh crore during 2006 to Rs. 5.50 lakh crore in 2007 (Table 5.22).

Table 5.21 Transactions of FIIs

Transactions	Calendar year		
	2005	2006	2007
	(Rs. crore)		
End-year number of FIIs	823	1,044	1,219
End-year number of sub-accounts	2,273	3,045	3,644
1. Equity market activity			
a. Spot			
Gross buy	2,86,021	4,75,623	8,14,877
Gross sell	2,38,839	4,39,083	7,43,391
Net (Gross buy - Gross sell)	47,182	36,540	71,486
(Proportion of FII turnover to total turnover) (one-way)	(10.1)	(15.9)	(17.3)
b. Derivatives activity			
Gross buy	2,54,322	5,64,887	10,93,260
Gross sell	2,49,875	5,64,182	10,90,117
Net (Gross buy - Gross sell)	4,447	705	3,143
(Proportion of FII turnover to total turnover) (one-way)	(6.4)	(8.0)	(9.0)
c. Total Equity (a+b)			
Gross buy	5,40,343	10,40,510	19,08,137
Gross sell	4,88,714	10,03,265	18,33,507
Net (Gross buy - Gross sell)	51,629	37,245	74,629
2. Debt			
Gross buy	7,015	11,061	31,418
Gross sell	12,533	7,012	21,990
Net (Gross buy - Gross sell)	-5,518	4,049	9,428
3. Total FII Investment (1+2)			
Gross buy	5,47,358	10,51,571	19,39,554
Gross sell	5,01,247	10,10,277	18,55,497
Net (Gross buy - Gross sell)	46,111	41,294	84,057
Total FII investment (net) in US\$ million^a	10,467	9,031	20,837^b

Source: SEBI

^a At 1US\$ = Rs. 40.34

^b Total FII investment (net) excluding derivatives is US\$ 19,533 million.

Table 5.22**Assets under management of mutual funds**

(Rs. crore)

Schemes	At end of calendar year			
	2004	2005	2006	2007
Money Market	59,447 (39.5)	64,711 (32.5)	97,757 (30.2)	1,12,349 (20.4)
Gilt	4,876 (3.2)	3,730 (1.9)	2,057 (0.6)	1,975 (0.4)
Income	47,451 (31.5)	52,903 (26.6)	86,350 (26.7)	1,97,342 (35.9)
Growth	31,551 (21.0)	67,144 (33.7)	1,19,538 (36.9)	1,92,129 (34.9)
Balanced	5,472 (3.6)	6,833 (3.4)	9,170 (2.8)	19,938 (3.6)
Equity-Linked Savings Scheme	1,740 (1.2)	3,927 (2.0)	8,726 (2.7)	19,063 (3.5)
Gold Exchange Traded Funds	467 (0.1)
Other Exchange Traded Funds	6674 (1.2)
Total	1,50,537	1,99,248	3,23,598	5,49,936

Source: SEBI

Figures in parentheses indicate percentage of total.