India Market Report

2014-15

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Sources:

Published data as is currently available including from the following:

- GOI data
- SEBI
- NSE
- RBI

Disclaimer:

We do not certify accuracy of the data provided in this note. Data provided is as per best efforts and as available at the time of making this note

ANMI

ANMI was formed in the year 1996. It is a pan India body comprising of the trading members of NSE, BSE and Metropolitan Stock Exchange of India Ltd (mSXI) (Erstwhile- MCX-SX) and is also recognized as a think-tank catalyzing India's growth in the financial arena. ANMI provides a healthy platform to its members to regularly interact and voice their opinion on various procedures, policies, rules & regulations pertaining to operations of broking business.

The association provides professional assistance, guidance and special services for enhancement of the skill levels of the employees of its members to function ethically according to the standard principle and practices laid down by the Government, the Regulator and the Stock Exchanges. It regularly conducts Educational / Training / Awareness Seminars / Workshops and programs for the benefit of its members / investors / financial fraternity / Intermediaries all over the country.

INDIA ECONOMIC GROWTH – A FOREWORD

India’s economic growth during the last decade has been gradual but steady. The period saw the initiated ‘Socialistic’ approach with focus on Agriculture and a gradual shift towards industrialization. The approach of various Governments which administered this large democracy was one of caution in triggering the liberalization process having regard to the needs of large population with different purchasing capacities and in particular the weaker sections of the society.

Indian capabilities in the areas of IT, Science and Technology, Medicine, Atomic energy to mention a few are now globally well known. An organized Financial & Capital Market, Banking Systems, Regulatory Process, Judicial Systems and Strong Infrastructure facilities in the urban areas provide further incentives for Investment and growth.

Various developmental measures that have been implemented by the Government over the period has now made ‘India’ as a nation with huge potentials for Investment and Development opportunities for developed countries.

The overall GDP growth for the year 2013-14 was 4.7% as against 4.5% growth recorded for the year 2012-2013. The GDP growth for the year 2014-15 is now estimated to be around 5.5% due to greater political stability, commitment to fiscal consolidation, strengthening of the monetary policy framework and better policy implementation. GDP growth in the first quarter of 2014-15 recorded at 5.7 per cent is the highest in nine quarters.

GLOBAL ECONOMIC SCENARIO

Macroeconomic risks arising from domestic weakness and global uncertainty came to the fore during 2013-14 following the US Fed’s indication that it would taper its large-scale asset purchase programme. The Reserve Bank responded through several policy actions to mitigate the risks to macro-financial stability. It aimed at containing exchange rate volatility, compressing the current account deficit (CAD), rebuilding buffers with primacy to contain inflation. Though these measures helped in stabilising the economy, keeping it on a disinflationary path, the slowdown continued to pose policy challenges into 2014-15.

In emerging market economies, lower potential growth is the dominating factor. For these economies as a whole, potential growth is now forecast to be 1.5 percent lower than in 2011. Here again, differentiation is the rule. China is sustaining high growth, but slightly lower growth in the future is seen to be a healthy development. India has recovered from its relative slump; thanks in part to effective policies and a renewal of confidence, growth is expected once again to exceed 5 percent. In contrast, uncertain investment prospects in Russia had already lowered growth before the Ukraine crisis, and the crisis has made growth prospects worse. Uncertain prospects and low investment are also weighing on growth in Brazil.

FOREIGN CURRENCY ASSETS

Exchange rate: During the last year (Oct'13-Oct-14) Indian currency Rupee appreciated by 5.7% against US dollar and 7.82 per cent against Euro. It also appreciated against Japanese yen by approx 9% during the same year.

External assistance and debt service payments: Gross external assistance during April-August 2014 stands at Rs. 135.5 billion as compared to Rs. 107.10 billion during the corresponding period of the previous year. Net disbursements stood at Rs. 32.6 billion during April- August 2014 as compared to Rs. 22.4 billion during April-August 2013.

MACROECONOMIC OUTLOOK (SOURCE: RBI)

Economic activity gained pace in Q1 of 2014-15. With the improvement in business confidence and congenial conditions for restarting investment demand, real GDP growth should pick up towards the close of the year. Barring the impact of weather-related food supply disruptions, inflation has been moderating in a broad-based manner and is set to evolve around the expected trajectory through 2014-15.

GROWTH PROSPECTS FOR 2014 - 15

The Indian economy may grow in the range of 5 to 6% in 2014-15. Signs of improvement in mining and manufacturing activity, expected pickup in investment, improved availability of financial resources to private sector with lower draft of government on financial savings of the households amid fiscal consolidation, improved external demand and stabilising global commodity prices are expected to support recovery. However, downside risks could play out if global recovery slows, geopolitical tensions intensify or monsoon weakens again in the rest of the season.

- Overall, the economy may grow faster than in the previous year, with acceleration in mining, manufacturing, construction and trade, hotels, transport and communication sectors. These four segments account for 50 per cent of GDP compared with about 15 per cent in case of agriculture, forestry and fishing, and electricity.

- The Union Budget 2014-15 is supportive of both investment and savings. Measures taken include an increase in the personal income tax exemption limit that will increase disposable income and increase in investment limit that will encourage savings and improve financing of investment.

- The proposal to increase the deduction limit on account of interest on loan with respect to self-occupied house property is also expected to increase households' physical savings. The Reserve Bank has complemented these measures by providing incentives for encouraging the flow of bank credit to infrastructure and affordable housing.

- The IMF in its October 14 update of the World Economic Outlook has assumed a decline in geopolitical tensions, supporting some recovery in stressed economies. Growth prospects across both advanced economies and emerging markets exhibit sizable heterogeneity. Among advanced economies, growth is projected to pick up, but is slower in the euro area and Japan and generally faster in the United States and elsewhere. Among major emerging markets, growth is projected to remain high in emerging Asia, with a modest slowdown in China and a pickup in India, but to stay subdued in Brazil and Russia.

EXTERNAL AGENCIES SEE IMPROVEMENT IN GROWTH AHEAD

The GDP growth estimate for 2014-15 has been revised marginally upwards by most of the agencies. This is on account of Index of Industrial Production (IIP) growth beginning to look up, while inflation on an average, so far, has been lower than in the corresponding period of the previous year. Monetary policy is providing a more stable environment in terms of interest rates, liquidity and credit conditions, with tangible efforts to improve resource flow to productive sectors.

Various Agencies' Projections- 2014-15

	2014-15 (Latest)		2014-15 (Earlier)	
Agency	**GDP Growth (Per cent)**	**Month**	**GDP Growth (Per cent)**	**Month**
Finance Ministry	5.4 to 5.9	July. 2014	-	-
World Bank	5.5%	June 2014	6.2%	Jan. 14
IMF	5.6	Oct. 2014	5.4	April. 14

OECD**	5.7	Sept. 14	4.9	May. 14
ADB	5.5	July. 2014	5.5	Jan. 2014
NCAER	5.2 to 5.7	July. 2014	5.1 to 5.5	April. 14

** GDP at market prices.

Foreign Direct Investment (FDI)

The Foreign Direct Investment in India increased to USD 36,396 million in 2013-14 from USD 34,298 million in 2012-13, a growth of 6%.

INFLATION

Wholesale Price Index (WPI 2004-05=100): The WPI inflation moderated to a nearly five year low of 3.74 per cent in August 2014 from 5.19 per cent in the previous month. Inflation for Primary food articles for the month of August 2014 has declined to 5.15 per cent from 8.43 per cent in the previous month. Inflation for Manufactured products has declined to 3.45 per cent in August 2014 from 3.67 per cent in the previous month. Non-food manufactured inflation (core as defined by RBI) has declined to 3.46 per cent in August 2014 from 3.58 per cent in the previous month. The average WPI inflation rate for the last 12 months (September 2013 to August 2014) was 5.87 per cent as compared to 6.44 per cent during the corresponding period in 2013-14.

Inflation based on Consumer Price Indices (CPIs): The all India CPI inflation (combined) moderated to 7.80 per cent in August 2014 from 7.96 per cent in July 2014. Inflation based on CPI-IW increased to 7.23 per cent in July 2014 from 6.49 per cent in June 2014. Inflation based on other CPI's (CPI-AL &RL) remained at above 7 per cent in August 2014.

INFLATION EXPECTATIONS IMPROVED MARGINALLY

The Inflation Expectations Survey of Households (IESH) (http://www.rbi.org.in/IESH36), conducted among 4,931 urban households across 16 cities in June 2014 (for Apr-June 2014), indicates marginal improvement in inflation expectations.

The short-term inflation expectations in terms of median for next three months witnessed marginal increase whereas for the one-year ahead inflation expectations decreased marginally as compared to March 2014.

OUTLOOK FOR INFLATION

With consumer price index (CPI) inflation easing from its recent peak of 11.2 per cent in November 2013, the near-term outlook for inflation has improved and the target of 8 per cent for January 2015 appears more within reach than at the time of the first bi-monthly monetary policy statement in April. Latest readings on sensitive components of food prices suggest that they may have peaked after monsoon related increases. The softening of international commodity prices, particularly crude oil, metals and chemicals, is feeding through into an abating of key input prices domestically.

BUSINESS EXPECTATIONS INDICES SUGGEST STRENGTHING OPTIMISM OF BUSINESS PROSPECTS

- Various surveys portray optimism about business prospects. The National Council of Applied Economic Research (NCAER) Business Confidence Index conducted in June 2014 rose by 13 per cent compared to the previous quarter, overshadowing the 3.8 per cent increase in April 2014 over January 2014. Out of the four components of BCI three showed improvement reflecting higher expectations of overall economic growth, financial position of the firms and investment climate for the overall economy improved. Only the fourth component, optimal capacity utilisation showed a marginal decline.

- The latest Dun & Bradstreet Business Optimism Index for April-June 2014, was conducted in May 2014. The Composite CFO Optimism Index for Q2 2014 increased by 13.9 per cent on a quarter-on-quarter basis and by 1.9 per cent on a year-on-year basis. Optimism amongst the CFOs in the services sector remains subdued. While the CFOs are not very optimistic regarding the financial performance at the company level they are however, quite optimistic regarding overall macroeconomic conditions in Q2 2014.

- The CII business confidence index, for Apr-Jun 2014 quarter has moved up to 53.7 from 49.9 in the previous quarter. The survey indicates optimism about overall sales, new orders exports and value of production in the first quarter of 2013-14 from the levels of previous quarter.

- Adjusted for seasonal factors, the headline HSBC India Purchasing Managers' Index TM (PMITM) – a composite gauge designed to give a single-figure snapshot of manufacturing business conditions – dropped from 52.4 in August 14 to 51.0 in September 14. The reading was indicative of a modest improvement in operating conditions. Overall, intermediate goods were the best performing among the three monitored sub-sectors. As a result of improvements in demand, output expanded for the eleventh consecutive month in September. However, the pace of growth slowed from August and was moderate overall. By sub-sector, the strongest expansion occurred in the intermediate goods category.

INDUSTRIAL OUTLOOK SURVEY POINTS TO IMPROVEMENT IN BOTH DEMAND AND FINANCIAL CONDITIONS

- The Reserve Bank's 66th round of the Industrial Outlook Survey (http://www.rbi.org.in/IOS66). The Industrial Outlook Survey conducted during May-June 2014, provides qualitative assessment of business situation of companies in the Indian manufacturing sector for Q1:2014-15 and their expectations for the ensuing quarter Q2:2014-15. The survey elicited response from 1,293 manufacturing companies.

- The Business Expectation Index (BEI), Business outlook of the Indian manufacturing sector as inferred from movements in Business Expectation Index (BEI), shows improvement for Q2:2014-15 (114.7) as compared to previous quarter (111.1) and the corresponding quarter of previous year (112.7).

- The improvement in BEI for the expectation quarter is mainly due to improved optimism on overall business situation, production, order books, capacity utilisation, imports, exports added with the reduced pessimism on cost of finance, cost of raw material and the profit margin.

CONSUMER CONFIDENCE SURVEY INDICATES UPTICK IN FUTURE EXPECTATIONS

The Reserve Bank's 17th round of the Consumer Confidence Survey (http://www.rbi.org.in/CCS17), conducted in June 2014 and highlighted as below.

Current Situation Index (CSI) in June 2014 remained at the threshold level as observed in March 2014.However, there has been significant improvement in Future Expectations Index (FEI) due to increase in the positive perceptions on all selected parameters except prices. Overall the consumer confidence index reflects improvement in the positive perceptions during current round of survey.

RECENT GOI ECONOMIC POLICY ANNOUNCEMENTS

- Deregulation of Diesel.
- Move towards Coal Sector reforms.
- Further steps to reduce subsidies and thereby reduce fiscal deficit.
- Divestment of GOI equity holdings in some PSUs
- Close monitoring of Government Expenditure
- Incentives for retail equity investors.
- Rationalisation of National Plan and Non-Plan Expenditure.
- 5 year Road Map for Fiscal consolidation.
- Pension Regulatory Bill providing inter alia 49% limit on FDI Investment in the Sector.
- New Companies Act in line with changed Corporate Governance Environment and Global best practices.
- Land Acquisition Bill to fast track industry growth.

- Forward Contracts Regulation Act (Amendment) Bill providing inter alia a greater autonomy to Forward Markets Commission.
- Expeditious implementation of Major Infra Projects across the Country.
- Infrastructural Development
- Ambitious financial inclusion scheme – "Jan Dhan Yojana"
- FDI composite cap raised to 49 % in foreign investment
- FDI Limit in defence raised to 49 % from 26 %

ECONOMIC INITIATIVES

- The composite cap of foreign investment to be raised to 49 per cent with full Indian management and control through the Foreign Investment Promotion Board (FIPB) route.
- Requirement of the built up area and capital conditions for FDI to be reduced from 50,000 square metres to 20,000 square metres and from USD 10 million to USD 5 million respectively for development of smart cities
- A sum of Rs. 70.6 billion is provided in the current fiscal for the project of developing "one hundred Smart Cities".
- Restructuring Food Corporation of India (FCI), reducing transportation and distribution losses and efficacy of Public Distribution System (PDS) to be taken up on priority.

CAPITAL MARKET

- Ongoing process of consultations with all the stakeholders on the enactment of the Indian Financial Code and reports of the Financial Sector Legislative Reforms Commission (FSLRC) to be completed.
- Government in close consultation with the RBI to put in place a modern monetary policy framework.
- Following measures taken to energize Capital markets:
- Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector.
- Introduce one single operating demat account.
- Uniform tax treatment for pension fund and mutual fund linked retirement plan
- Incentives for Real Estate Investment Trusts (REITS). Complete pass through for the purpose of taxation.
- A modified REITS type structure for infrastructure projects as the Infrastructure Investment Trusts (INVITS).
- These two instruments to attract long term finance from foreign and domestic sources including the NRIs.

ANTICIPATED IMPACTS OF REFORMS ON THE INDIAN ECONOMY

- Building positive sentiment.
- Boost for Commercial, Trading and Industrial activities.
- Building Investor Confidence, both Domestic and Foreign.
- Improve sentiments in the Capital Market including Investors.
- Return of Retail Investors in the Capital Market.
- Increase in Revenue Growth.
- Increased Employment generation.
- Meeting a GDP Growth target of about 5.5% for 2014-15.

MARKET SEGMENTS

The securities market has two interdependent and inseparable segments, namely, the new issues (primary) market and the stock (secondary) market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals in the securities that were issued previously.

HOUSEHOLDS

According to the RBI data, the net investments in financial assets accounted for 32 percent of the household savings during 2012–2013 with remaining going into physical assets. Household investment in financial assets (net) was 30% in 2011-12.

In the FY Year 2013–2014, the household sector invested 58.8% of gross financial savings in deposits, 28.6 percent in insurance / provident & pension funds.

PRIMARY MARKET

During 2013-14, 90 companies accessed the primary market and raised Rs. 556.52 billion through public (75) and rights issues (15) as against 69 companies which raised Rs. 324.55 billion in 2012-13 through public (53) and rights issues (16). Primary market activities in 2013-14 were on a resurgent mode as compared to 2012-13. The number of IPOs in 2013-14 stood at 38 as compared to 33 in the year 2012-13.

The share of public issues in the total resource mobilisation increased to 91.8 percent during 2013-14 from 72.4 percent during 2012-13 and the share of rights issues decreased from 27.6 percent in 2012-13 to 8.2 percent in 2013-14.

SECONDARY MARKET

Over the years, NSE and BSE have emerged as the nation-wide stock exchanges of the country contributing more than 99 percent of the total turnover. During the year 2013-14, only Calcutta Stock Exchange and MCX-SX were the exchanges apart from NSE and BSE which recorded some turnover. The number of companies listed at BSE at the end of March 2014 was 5,336. At NSE, the number of companies listed was 1,688 as of end March 2014.

DERIVATIVES MARKET

The number of instruments available in derivatives has increased. To begin with, SEBI only approved trading in index futures contracts based on the Nifty 50 Index and the BSE 30 (SENSEX) Index. This was followed by approval for trading in options based on these indices and options on individual securities, as well as futures on interest rates derivative instruments. In the index derivatives segment of NSE, derivatives are offered on the following indices- Nifty, Nifty Midcap 50, Bank Nifty, CNX Infra, CNX IT and CNX PSE. Index derivatives are also allowed in three foreign indices viz., Dow Jones index, S&P 500 and UK FTSE 100 index. In BSE also futures are available on foreign indices, viz., HSI index, MICEX index, FTSE/JSE top40 and Bovespa index.

Product-wise share in the open interest shows that the notional value of outstanding contracts was the highest for Index Options (Rs. 670.9 bn) followed by single Stock Futures (Rs. 362.2 bn), Index Futures (Rs. 149.7 bn), and Stock Options (Rs. 67.93 bn).

BUSINESS GROWTH FOR LAST 5 YEARS FOR NSE, BSE, MCX-SX IN (CM, FO, CD)

(Amount in Rs. billion)

YEARS	NSE			BSE			MCX SX		
	CM	FO	CD	CM	FO	CD*	CM	FO	CD
2009-10	41380	176637	17826	13788	2		-	-	19447
2010-11	35774	292482	34498	11050	2		-	-	41940
2011-12	28109	313497	46750	6675	8085		-	-	37324
2012-13	27083	315330	52745	5488	71635		0	80	33032
2013-14	28085	382114	40125	5217	92194	2443	112	1447	24224
2014-15#	18166	201705	10893	3547	70016	5215	0	1	3493

# indicates as on August 31, 2014.
* Figures of USE Subsidiary of BSE
Source: SEBI BULLETIN Sept 2014

Foreign Portfolio Investment (FPI)

India witnessed a net foreign portfolio investment of USD 8876 million in year 2013-14 as against USD 31,047 million in 2012-13.

REGULATORS

In India, the responsibility for regulating the securities market is shared by the Department of Economic Affairs (DEA), the Ministry of Company Affairs (MCA), the Reserve Bank of India (RBI), and SEBI. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT).

Most of the powers under the Securities Contracts (Regulation) Act, 1956 (SCRA) can be exercised by the DEA while a few others can be exercised by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities, and ready forward contracts in debt securities are exercised concurrently by the RBI.

REGULATORY FRAMEWORK / LEGISLATIONS

The SEBI Act, 1992: The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. SEBI has full autonomy and the authority to regulate and develop an orderly securities market.

Securities Contracts (Regulation) Act, 1956: This Act provides for the direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges, and aims to prevent undesirable transactions in securities.

Depositories Act, 1996: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy, and security by (a) making securities of public limited companies freely transferable, subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for the maintenance of ownership records in a book entry form.

Companies Act, 2013: The companies act, 1956 has been comprehensively amended and has been approved by the government. This essentially regulates the formation, management and functioning of different types of companies**.** It also deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management. It provides the standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and the management's perception of risk factors.

Prevention of Money Laundering Act, 2002: The primary objective of this Act is to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering. According to the definition of "money laundering," anyone who acquires, owns, possess, or transfers any proceeds of crime, or knowingly enters into any transaction that is related to the proceeds of crime either directly or indirectly, or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money laundering. Besides prescribing the punishment for this offence, the Act provides other measures for the prevention of money laundering.

RECENT INITIATIVES IN CAPITAL MARKETS

- Development of Corporate Bond Market
- Dedicated trading platforms for small and medium scale enterprises
- Reducing transaction cost in Securities markets
- QFI access to Indian Equity Markets, corporate bonds and mutual fund debt schemes
- Liberalization in ECBs: Permitting External Commercial Borrowings (ECB) to part finance Rupee debt of existing power projects
- Financial Stability and Development Council (FSDC)
- Financial Action Task Force (FATF)
- Financial Sector Legislative Reforms Commission (FSLRC)
- Rajiv Gandhi Equity Saving Scheme
- Mandatory offer of electronic voting facility
- Income tax exemption to the Beneficial Owners Protection Fund (BOPF) set up by the Depositories
- The introduction of cash settled Interest rate futures (IRF) on 10-year GoI security.
- Interest Rate Derivative segment picked up the momentum in 2013-14.
- Introduction of derivatives on “India VIX”.
- IPO Grading made voluntary.
- Listing of Specified Securities of Small and Medium Enterprises on the Institutional Trading Platform in a SME Exchange without making an Initial Public Offer.
- Allowing Mutual Fund Distributors to use Stock Exchange Infrastructure for MF distribution.
- Review of investor grievance mechanism and the arbitration mechanism at the stock exchanges.
- Principles of Financial Market Infrastructures (PFMIs) adopted by SEBI.
- Review of Securities Lending and Borrowing (SLB) framework.
- Dedicated Debt segment in stock exchanges.
- Gold Exchange Traded Fund Scheme (Gold ETFs) and Gold Deposit Scheme (GDS) of Banks.
- Rationalisation of KYC process.
- Simplification of registration process for Stock Brokers.
- Foreign Portfolio Investor (FPI) Regime.
- Centralized Database for corporate bonds/debentures.

CONCLUSION:

Managing a large democracy with a large population is always a challenge. India's transition from Agrarian to Industrial economy has been steady but slow. There have been scenarios where the government has been always grappling with the challenges of expectations of different segments of population and in particular the weaker section. Providing subsidies to weaker section have been the major approach to reach out this group notwithstanding the leakages and financial drain on the economy. However, the process is getting a relook in the recent period with plans for direct cash subsidies, food security bill etc. The ongoing efforts of the government as highlighted above to provide a fillip to the economy and there is every possibility that the Indian economy would show increased size of vibrancy in the period to come.

The present government having received a significant mandate in the recently held General Elections and also in the elections in some of the major states of the country, could soon embark on major initiatives in economic reforms that could trigger growth in Indian economy with significant inflow of investments from outside.