India Market Report

2012-13

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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 1994. It is a pan India body comprising of the trading members of NSE, BSE and MCX-SX with the ultimate aim of attaining the status of an SRO, and be also recognized as a think-tank catalyzing India's growth in the financial arena & thus paving way for India as an important "International Financial Hub" of the world. ANMI provides a healthy platform to its members to regularly interact with each other, aids them to identify and understand the problems/difficulties/issues being faced by them/investors/financial fraternity from time to time. It provides an opportunity to its members to voice their opinion on various procedures, policies, rules & regulations pertaining to operations of broking business.

INDIA ECONOMIC GROWTH – A FOREWORD

India’s economic growth and development during the period post independence in 1947 and till date 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.

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 which are now sadly stagnating for various reasons.

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.

GLOBAL ECONOMIC SCENARIO

Steady growth and development in the Information & Technology and its application in every field including business and commercial activities have transformed the global economy into a seamless market. The economies of different countries have now become inter-dependent with growth triggering growth elsewhere and at the same time slowdown in any major National economy impacting the other countries.

It is this seamless inter connection between economies of different countries resulted in the US sub-prime crisis that hit the USA in 2008 impacting negatively the global economy which continues to remain subdued. However, in the recent period there are clear indications of revival in the USA and China. While countries like Brazil, Russia, South Africa forming part of the BRICS countries were expected to show significant economic growth.

INDIAN ECONOMY

The overall GDP growth for the year 2012-13 was 5% as against 6.2% growth that was recorded for the year 2011-12. The GDP growth for the year 2013-14 is now estimated to be around 5.5%. This is on account of healthy monsoon which is expected to bring back agricultural growth to its trend level. The factors posing threat to this growth are subdued industrial activity and growth environment in the country and the focus needed in the area of energy security, food security, poverty reduction, enhancing per capita income of the weaker sections, health care and education, supply of drinking water.

There has been a progressive change in the regulatory processes with emphasis on good governance in all segments. Several bills have been passed by the parliament and are set to become law. Like the New Company's Bill lays a strong emphasis on internal controls, risk management and internal audit and includes these concepts for the first time in legislation. The government has taken a big leap in the area of social welfare with the Food Security Bill being passed. This aims to provide the right to food to approximately 67% of India's population. The Land Acquisition Bill is also passed lately after being reviewed for required modification to facilitate faster growth and development. The Pension Fund Regulatory and Development Authority (PFRDA) Act gives statutory powers to regulate pension products as well as the fledgling New Pension Scheme.

As per the latest Revised Estimates (RE) of Central Statistics Office (CSO), the growth in real Gross Domestic Product (GDP) at factor cost at constant (2004-05) prices is estimated at 5 per cent in 2012-13 as compared to 6.2 per cent in 2011-12. At disaggregated level, this (RE 2012-13) comprises growth of 1.9 per cent in agriculture and allied activities, 2.1 per cent in industry and 7.1 per cent in services as compared to a growth of 3.6 per cent, 3.5 per cent and 8.2 per cent respectively during 2011-12.The growth in GDP is placed at 4.8 per cent in the fourth quarter of 2012-13; agriculture grew by 1.4 per cent; industry by 2.7 per cent and services by 6.6 per cent.

No wonder India is now seen globally as a fast growing economy with potential to emerge as the most developed and strongest economy in the South East Asia Region in the coming years. Many of the Global MNC's, Industrialists and other major investors are chalking out plans and strategies to enter India to be part of the growth process.

BUSINESS GROWTH FOR LAST 3 YEARS FOR NSE, BSE, MCX-SX IN (CM, FO, CD)

The business growth in India has increased far off from earlier projections in a calendar year. However NSE has strengthened its position in Capital Market, derivatives as compared to that of BSE, MCX-SX which requires improving investor participation.

(Amount in Rs. Crores)

YEARS	NSE			BSE			MCX SX		
	CM	FO	CD	CM	FO	CD*	CM	FO	CD
2009-10	41,38,023	1,76,63,665	17,82,608	13,78,809	234		-	-	19,44,654
2010-11	35,77,410	2,92,48,221	34,49,788	11,05,027	154		-	-	41,94,017
2011-12	28,10,893	3,13,49,732	46,74,990	6,67,498	8,08,476	14,88,978	-	-	37,32,446

2012-13	27,08,279	3,15,33,004	52,74,465	5,48,774	71,63,519	1,32,861	33	8,049	33,03,179
2013-14$	9,06,524	1,28,85,243	22,05,194	1,68,889	30,52,926	85,590	6,182	65,830	14,60,296

$ indicates as on July 31, 2013

* Figures of USE Subsidiary of BSE

Source: SEBI BULLETIN August 2013

RECENT GOI ECONOMIC POLICY ANNOUNCEMENTS

- Withdrawal of subsidies on some Petroleum Products (LPG / Diesel)
- 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.
- Food Security Bill to provide food right to approximately 67% of population.
- 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.

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 2013-14.

FOREIGN CURRENCY ASSETS

Exchange rate: The rupee depreciated by 8.9 per cent against US Dollar, 10.9 per cent against Pound Sterling, 8.6 per cent against Japanese Yen and 8.5 per cent against Euro in the month of August 2013.

External assistance and debt service payments: Gross external aid in April-July 2013 is Rs. 8474.2 Crores as compared to Rs. 7100.1 Crores during the corresponding period of the previous year. Net disbursement stood at Rs. 1539.8 Crores during April-July 2013 as compared to Rs. 523.6 Crores during April-July 2012 while net transfers were Rs.200.9 Crores during April-July 2013 as compared to (-) Rs.935 Crores during April-July 2012.

INFLATION

Wholesale Price Index (WPI 2004-05=100): The WPI inflation for the month of July 2013 is reported at 5.79 per cent, as against 4.86 per cent in last month. The inflation has gone up mainly on account of higher inflation in cereals, vegetables especially onion, fish-inland, mutton and tea along with higher inflation in fuel and power.

Inflation based on Consumer Price Indices (CPIs): The all India CPI inflation (combined) has declined to 9.64 per cent in July 2013 as against 9.87 per cent in June 2013. The fall is on account of decline in inflation of cereals, pulses, oils & fats, fruits and sugar in the current month. Inflation based on CPI-IW has increased to 11.06 per cent in June 2013 from 10.68 per cent in May 2013. CPI-IW food inflation stood at 14.86 per cent in June 2013 as against 13.24 percent in the previous month. Inflation for CPI-AL and CPI-RL was 12.80 per cent and 12.61 per cent respectively in July 2013.

MACROECONOMIC OUTLOOK (SOURCE: RBI)

In an uncertain global economic environment, the interplay between growth slowdown, high inflation, wide current account, fiscal gaps and falling investment has weakened the economy. Surveys of business expectations confirm that confidence levels are low. On the other hand, inflation expectations remain sticky. The economy has reached a critical point, at which economic activity can spin up or down depending on how the policy uncertainty is addressed and supporting measures put in place. Leading indicators, especially credit growth and PMIs, suggest that a recovery is still possible with appropriate policy action.

GROWTH PROSPECTS FOR 2013-14

- India's real GDP growth continued to moderate for the second successive year in 2012-13 and dropped to 5.0 per cent, the lowest in the past 10 years. A combination of factors has contributed to growth moderation over past two years. These include structural impediments, high inflation for three years and cyclical slowdown in both global and domestic economies.

- The emerging macroeconomic scenario for the year 2013-14 is challenging amid the wide CAD, risks to fiscal targets, persistence of high consumer price inflation, risk of exchange rate depreciation feeding into inflation, slowing growth and deteriorating asset quality.

- Recovery is possible and can take shape later in 2013-14, but is predicated on better governance, the removal of supply constraints and maintenance of stability. Despite the new risks, as a baseline the real GDP growth outlook for 2013-14 is better than that in 2012-13, following the growth supportive measures taken by the Government of India and the south-west monsoon that has performed well so far.

- The IMF in its July update of the World Economic Outlook has made downward revisions in its current year growth estimates for India, Brazil and China. As fiscal adjustments take shape in advanced economies (AEs), shrinking deficits could keep AEs growth slow for an extended period. This could result in a significant drag on growth in India.

- Weakness in industrial activity has persisted and global growth has been tepid. Considering these factors, the First Quarter Review of Monetary Policy at end-July 2013 scaled down its growth projection from 5.7 per cent to 5.5 per cent.

- Turning to the external sector, weakening domestic saving, subdued export demand and the rising value of oil imports - most recently due to geopolitical risks emanating from the Middle

East - have led to a larger current account deficit (CAD). Concerns about funding the CAD, amplified by capital outflows precipitated by anticipated tapering of asset purchases by the US Federal Reserve, increased volatility in the foreign exchange market. More recently, as these concerns have been mitigated after steps taken by the Government and the Reserve Bank to contain the CAD and improve the environment for external financing, the focus has turned to internal determinants of the value of the rupee, primarily the fiscal deficit and domestic inflation.

INFLATION RISKS REMAIN SIGNIFICANT

- Although headline inflation had moderated in Q1 of 2013-14 to an average of 4.7 per cent, risks on the inflation front are still significant. First, this is evident in a rebound in inflation to 5.8 per cent in July 2013. Creeping inflation pressures are visible arising from rising food and fuel prices, the latter in large part due to exchange rate depreciation. Second, while WPI inflation has moderated, CPI inflation remains close to double digits. Third, although food inflation came down from its high of January 2013, it has resurfaced since May 2013. While moderate MSP increases this year and a good monsoon give hope that inflation will be contained, if high food inflation persists into H2 of 2013-14, the risks of generalized inflation could become large. Fourth, the pass-through of the depreciation of the rupee exchange rate is incomplete and will put upward pressure as it continues to feed through to domestic prices.

- Overall, the inflation outlook appears to be better than in the previous year. Non-food manufactured products inflation at 2.4 percent in July 2013 remained within comfortable limit. In its Annual Policy Statement of Monetary Policy on May 3, 2013, the Reserve Bank projected WPI inflation to be range-bound around 5.5 percent during 2013-14, keeping in view the domestic demand-supply balance, the outlook for global commodity prices and the forecast of a normal monsoon.

- The outlook for global commodity prices largely remains benign, but risks of price increase on-shore have increased following the rupee depreciation and firming up of global crude prices during July 2013. Therefore, some price pressures may build up in the latter half of 2013-14. The normal monsoon, however, has taken a major risk off the horizon, although the renewed upsurge in food prices in the first four months of 2013-14 implies that a close vigil is necessary so that the relative price change does not affect the general level of prices.

BUSINESS EXPECTATIONS INDICES SUGGEST SUBDUED BUSINESS CONFIDENCE

- Various surveys portray weakening optimism about business prospects. The National Council of Applied Economic Research (NCAER) Business Confidence Index conducted in March 2013 dropped 4.5 percent compared to the previous quarter. The survey surfaced some mixed trends with investment climate and financial position showing a decline while capacity utilisation and expectations on economic conditions show improvement in the short run.

- The latest Dun & Bradstreet Business Optimism Index for July–September 2013, conducted in June 2013 amid renewed domestic and global economic pressures, indicates increased pessimism. The Composite CFO Optimism Index for Q3 2013 declines by 4.1% on a y-o-y basis and by 3.4% on a q-o-q basis. The percentage of CFOs who perceive increase in the level of financial risk on their company's balance sheet as compared to the year ago period has been steadily increasing over the past 6 quarters. The survey revealed that reducing cost remains the topmost priority.

- The CII business confidence index, however, remained almost unchanged, with almost 48% of the respondents expecting a 6-6.5 percent growth in 2013-14. 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.

- The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Indices (PMI) fell from 50.1 to 48.5 in August, indicating a moderate deterioration of business conditions. This was led by a decline in new orders, especially export orders. Encouragingly, Indian manufacturers continued to add to their workforce numbers in August.

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

- The Reserve Bank's 62th round of the Industrial Outlook Survey (http://www.rbi.org.in/IOS62), conducted during Q1 of 2013-14 with a sample of 1,321 manufacturing companies, and showed a substantial deterioration in business sentiments in the assessment quarter Q1. However, it shows slightly improved optimism for quarter Q2 of 2013-14.

- The Business Expectation Index (BEI), a measure that gives a single snapshot of the industrial outlook, dropped significantly by 4.4 points for Q1: 2013-14, touching the lowest point in last three financial years. For Q2: 2013-14, however, it improved marginally by 1.1 points. While BEI continued to remain in the growth terrain, the index capturing assessment almost reached the threshold level of 100, which separates expansion from contraction.

- Net response of major demand side parameters, viz., production, order books, capacity utilisation and exports dropped substantially in Q1:2013-14, whereas the sentiments on imports remained broadly unchanged. The demand condition outlook for Q2:2013-14, however, shows slightly improved optimism.

- The results also point to lower optimism in the overall financial situation through Q1 of 2013-14, but some upturn for Q2: 2013-14. 'Cost of external finance' is perceived to rise further, but by a lower percentage of respondents. The majority expect the cost of raw material to rise further in Q2 of 2013-14 but at a lower rate. While a higher percentage of respondents (on a net basis) assessed that the profit margin declined over the last quarter, the outlook for Q2 of 2013-14 showed some improvement.

CONSUMER CONFIDENCE SURVEY INDICATES STATIC FUTURE EXPECTATIONS

The Reserve Bank's 13th round of the Consumer Confidence Survey (http://www.rbi.org.in/CCS13), conducted in June 2013, indicates the outlook on economic conditions has been consistently better than the positive perceptions on current economic conditions as compared to a year ago. The optimism regarding increase in future income (one-year ahead) has improved. The proportion of respondents reporting improvement in the future employment scenario has consistently been higher than those reporting improvement in current employment as compared to a year ago.

EXTERNAL AGENCIES SEE MODERATION IN GROWTH AHEAD

The revised GDP growth estimate for 2012-13 at 5 percent came in sharply lower than the conservative estimates made earlier. Stuttering global growth coupled with domestic concerns on multiple fronts, viz., weak IIP growth momentum, persistent inflation, and high fiscal and current account deficits have led to further downward revisions in the growth outlook for 2013-14 by 0.2-1.1 percentage points. At this juncture, however, the consensus forecasts on growth seem to be placed around the 5.5 percent projected by the Reserve Bank in its First Quarter Review of Monetary Policy at end July-2013.

Agencies' Projections for 2013-14

Agency	Latest Projection		Earlier Projection	
	GDP Growth (Per cent)	Month	GDP Growth (Per cent)	Month
1	2	3	4	5
Finance Ministry	5	July. 2013	6.1 to 6.7	Feb. 2013
PMEAC	5.3	Sep. 2013	6.4	Apr. 2013
IMF	5.6	July. 2013	5.8	Apr. 2013
World Bank	5.7	June. 2013	6.4	Jan. 2013
OECD**	5.3	May. 2013	5.9	Dec. 2012
ADB	5.8	July. 2013	6	Apr. 2013
NCAER	5.9	July. 2013	6.2	Jan. 2013

** GDP at market prices.

INFLATION EXPECTATIONS STAY STICKY

The Inflation Expectations Survey of Households (IESH) (http://www.rbi.org.in/IESH32), conducted among 4,960 urban households across 16 cities in June 2013, indicates that the median inflation perception for the current quarter (i.e., April- June 2013) as well as the median inflation expectations going forward remained at the same level.

IMPACT OF INFLATION & MACRO RISKS ON GROWTH - APPROACH TO POLICY ACTIONS

Domestic growth declined to its lowest in 48 quarters during Q1 of 2013-14. Early indications for Q2 of 2013-14 suggest that growth is likely to remain subdued. While growth risks are significant, policy choices have been complicated as inflation remains above the comfort level. Further, inflation risks have increased and continue to constitute significant risk to growth sustainability, thus making it imperative to not allow monetary conditions to aggravate these risks. Also, the wide CAD and high fiscal deficit continue to limit the monetary space and pose major challenges for macroeconomic policy. Though adjustments in the exchange rate could contribute to bridging the current account deficit; excessive volatility, particularly the risks of a downward spiral in the rupee, needs monitoring.

Going forward, improved liquidity and monetary conditions suggest the possibility of a slow recovery in industrial growth.

Despite accommodative monetary policy across the globe throughout 2012-13, it has moderately affected commodity prices. Rising input costs have fed into output prices, though further pass-through may be limited. On the other hand, corporate are likely to raise prices to protect themselves against margin pressures in sectors where competitive structures are not in place and mark-ups can be protected.

The economy is now at a critical juncture where revival can be supported by restoring confidence through policy actions to encourage investment. Removing constraints on FDI and improving the investment climate by moving quickly to address bottlenecks in infrastructure space are important. Also, speeding up fiscal consolidation by putting in place an investment stimulus through large capital spending by the government but offsetting it by curtailing revenue spending by revamping the subsidy schemes could go a long way in reviving growth. Reviving infrastructure investment, while addressing increased risks to lending to this sector is critical in this context.

In short, decisive policy action backed by credible commitment to a long-term strategy for correcting macroeconomic imbalances and stimulating investment is crucial at this stage to revive confidence as well as provide space for monetary policy to help sustain growth while keeping inflation under control.

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. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilized either through a public issue or through a private placement route.

The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the stock (secondary) market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are informal markets where trades are negotiated. Most of the trades in government securities take place in the OTC market. All the spot trades where securities are traded for immediate delivery and payment occur in the OTC market. The other option is to trade using the infrastructure provided by the stock exchanges. The exchanges in India follow a systematic settlement period. All the trades taking place over a trading cycle (day = T) are settled together after a certain time (T + 2 day).

INTERNATIONAL SCENARIO

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, the financial markets have become increasingly global. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs). Following the implementation of reforms in the securities industry in the past few years, Indian stock markets have stood out in the world ranking. National Stock Exchange India has maintained its number one rank in terms of volume in equity shares with more than 977 million trades done during Jan-Aug 2013. India's Bombay Stock Exchange stood at 8th position during the same period with more than 216 million trades.

The stock markets worldwide have grown in size as well as depth over the years. But 2012 was a very challenging year for exchanges. As per World Federation of Exchanges (WFE), the volumes of all products traded on WFE members were significantly down: -22.5% for equity transactions (USD 49 tn) and -20% for derivatives (14.9bn of equity and interest rates contracts traded). Cash markets continued to suffer from the relative disaffection for equities; derivatives markets were affected from the continued low interest rate environment and the significant decrease of volatility, both factors reducing hedging needs. After the sharp decline observed in 2011, it recovered in 2012 with a 15% growth rate, getting back to its end-of 2010 level (USD 55 tn).

HOUSEHOLDS

According to the RBI data, investments in financial assets accounted for 35.9 percent of the household savings during 2011–2012 with remaining going into physical assets. Household investment in financial assets was 44.2% in 2010-11.

In the fiscal year 2011–2012, the household sector invested 57.4 percent of financial savings in deposits, 34.1 percent in insurance / provident & pension funds.

PRIMARY MARKET

An aggregate of Rs. 308,700 million was raised by the private sector and public sector in 2012–2013, compared to Rs.484,700 million in 2011–2012 (a decrease of 36.3 percent). Resource mobilization through Euro Issues dropped significantly by 38.3 percent to Rs.10,400 million in 2012–2013.

SECONDARY MARKET

The exchanges in the country offer screen-based trading system. There were 9,307 trading members registered with SEBI at the end of March 2012. The market capitalization has grown over the period, indicating that more companies are using the trading platform of the stock exchange. The market capitalization across India was around Rs. 62,149,410 million at the end of March 2012. Market capitalization ratio is defined as the market capitalization of stocks divided by the GDP. It is used as a measure that denotes the importance of equity markets relative to the GDP. It is of economic significance since the market is positively correlated with the ability to mobilize capital and diversify risk. The all-India market capitalization ratio increased to 110.4 percent in 2011–2012 from 94.1 percent in 2010–2011.

The trading volumes on the stock exchanges have been witnessing phenomenal growth over the past few years. It has grown at Compounded Annual Growth Rate (CAGR) of 16.2% during 2004 to 2012.

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. On the NSE, there are futures and options based on the benchmark index Nifty 50, CNX IT Index, Bank Nifty Index, and Nifty Midcap 50, as well as futures and options on 140 single stocks (as on August 30, 2013). On the BSE, futures and options are based on the BSE-30 (SENSEX), BSE TECK, BSE BANKEX, BSE Oil & Gas, and BSE SENSEX mini, as well as futures and options on 33 single stocks (as on August 30, 2013).

The mini derivative (futures and options) contracts on the Nifty 50 and the SENSEX were introduced for trading on January 1, 2008. The total exchange traded derivatives witnessed a value of Rs. 315,330,039 million in 2012–2013 as against Rs. 313,497,317 million in the preceding year. In the Indian scenario as well as in the global market, NSE has created a niche for itself in terms of derivatives trading in various instruments.

NSE, which has been a pioneer in the introduction of innovative and investor-friendly products, has introduced rupee denominated future contracts on global indices such as S&P 500 and Dow Jones Industrial Average (DJIA), and option contracts on S&P 500 with effect from August 29, 2011. This is the first time in the world that future contracts on the S&P 500 index were introduced and listed on an exchange outside of their home country (the US).

REGULATORS

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator ensures that the market participants behave in a certain manner so that the securities markets continue to be a major source of finance for the corporate sector and the government while protecting the interests of investors.

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, 2012: 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)
- Permitting two-way fungibility in Indian Depository Receipts
- Reduction in the rate of long-term capital gains tax in the case of other non-resident investors, including Private Equity from 20% to 10% on the same lines as applicable to FIIs
- Providing the levy of Securities Transaction Tax (STT) at the rate of 0.2 per cent on sale of unlisted securities in the course of IPO
- Tax exemption to "Angel" investors investing in in start-up companies
- Extending the lower rate of withholding tax to funds raised through long term infrastructure bonds in addition to borrowing under a loan agreement
- Removal of Restriction on Venture Capital Funds to invest only in nine specified sectors
- 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
- Proposal for New Banking Licenses
- Permission to existing banks to open new branches

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. The percentage of weaker section (Poverty Ratio) has significantly declined from 37.2 percent in 2004-05 to 21.9 percent in 2011-12. 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 strengthened 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 are every possibilities that the Indian economy would show increased size of vibrancy in the period to come.

Some Data Tables (2012-13)

Foreign Exchange Reserves								
Item	As on August 30, 2013		Variation over					
			Week		End-March 2013		Year	
	Rs. Bn.	US$ Mn.	Rs. Bn.	US$ Mn.	Rs. Bn.	US$ Mn.	Rs. Bn.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	18,340.6	2,75,491.6	449.5	–2,230.6	2,456.4	–16,554.6	2,156.0	–14,970.0
1.1 Foreign Currency Assets	16,470.6	2,47,402.2	267.4	–3,080.3	2,344.3	–12,323.7	2,116.0	–10,217.9
1.2 Gold	1,446.3	21,724.1	178.4	977.1	48.9	–3,967.9	–15.8	–4,515.3
1.3 SDRs	291.2	4,374.9	7.2	–14.9	55.8	47.3	46.4	–17.8
1.4 Reserve Position in the IMF	132.5	1,990.4	–3.5	–112.5	7.4	–310.3	9.4	–219.0

Source: RBI

As Per International best Practices: (Data on FDI have been revised since 2000-01 with expended coverage to approach International Best Practices)

(Amount USD million)

Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional Investors Fund (net)
	Equity		Reinvested earnings +	Other capital +	FDI FLOWS INTO INDIA		
	FIPB Route/ RBI's Automatic Route/ Route/ Acquisition Route	Equity capital of unincorporated ted bodies #			Total FDI Flows	%age growth over previous year (in US$ terms	
FINANCIAL YEARS 2000-01 to 2013-14 (up to June, 2013)							
2000-01	2,339	61	1,350	279	4,029	-	1,847
2001-02	3,904	191	1,645	390	6,130	(+) 52 %	1,505
2002-03	2,574	190	1,833	438	5,035	(-) 18 %	377
2003-04	2,197	32	1,460	633	4,322	(-) 14 %	10,918
2004-05	3,250	528	1,904	369	6,051	(+) 40 %	8,686
2005-06	5,540	435	2,760	226	8,961	(+) 48 %	9,926
2006-07	15,585	896	5,828	517	22,826	(+) 146 %	3,225
2007-08	24,573	2,291	7,679	300	34,843	(+) 53 %	20,328
2008-09	31,364	702	9,030	777	41,873	(+) 20 %	(-) 15017
2009-10 (P) (+)	25,606	1,540	8,668	1,931	37,745	(-) 10 %	29,048
2010-11 (P) (+)	21,376	874	11,939	658	34,847	(-) 8 %	29,422
2011-12 (P)	34,833	1,022	8,206	2,495	46,556	(+) 34 %	16,812
2012-13 (P)	21,825	1,059	11,025	2,951	36,860	(-) 21 %	27,583
2013-14 (P)(Apr-Jun, 2013)	5,396	243	2,061	1,441	9,142	-	
CUMULATIVE TOTAL (from April, 2000 to June, 2013)	2,00,362	10,064	75,388	13,405	2,99,220	-	1,44,654

Source: ***(i)*** ***RBI's Bulletin August, 2013 dt. 12.08.2013 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).***

(ii) ***Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).***

(iii) ***(RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006***

(iv) ***Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.***

(v) ***Figures updated by RBI up to June, 2013.***

'#' ***Figures for equity capital of unincorporated bodies for 2010-11 are estimates***

(P) ***All figures are provisional***

“+”   Data in respect of "Re-invested earnings” & “Other capital” for the years 2009- 10, 2010-11, 2012-13 & 2013-14 are estimated as average of previous two years.

Trends in FII Investment

Period	**Gross Purchase (Rs. Crores)**	**Gross Sales (Rs. Crores)**	**Net Investment (Rs. Crores)**	**Net Investment (US $ mn.)**	**Cumulative Net Investment (US $ mn.)**
2008-09	6,14,579	6,60,389	-45,811	-9,837	59,081
2009-10	8,46,438	7,03,780	1,42,658	30,251	89,333
2010-11	9,92,599	8,46,161	1,46,438	32,226	1,21,559
2011-12	9,21,285	8,27,562	93,725	18,923	1,40,482
2012-13	9,04,845	7,36,481	1,68,367	31,047	1,71,529
2013-14$	3,30,223	3,53,622	-23,399	-3,393	1,68,135

$ indicates as on July 31, 2013
Source: SEBI