Chapter 2: Indian Stock Market

2.1 History of Indian Stock Market

Indian stock markets are one of the oldest in Asia. Their history dates back to nearly 200 years. The earliest records of securities dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

In 1830s business on corporate stocks and shares in banks and cotton presses took place in Bombay. Though the trading list was broader in 1839, there were only half a dozen brokers recognized by banks and merchants between 1840 and 1850.

The 1850's witnessed a rapid development of commercial enterprises and brokerage business which attracted many individuals to this field and by 1860 the number of brokers increased to 60.

In 1860 - 61 the American Civil War broke out and cotton supply from United States of America was stopped; thus, the "Share Mania" in India begun. The
number of brokers increased to about 200 to 250. However, at the end of the American Civil War in 1865 a disastrous slump began.

Between 1865 and 1875 an unincorporated body of stockbrokers started trading on the stocks of companies registered under British Companies Act, in the city of Mumbai under a banyan tree. Business was essentially confined to company owners and brokers, with very little interest evinced by general public.

In 1875 they formally established the “Native Share and Stock Brokers’ Association” in Mumbai, which is now popularly known as Bombay Stock Exchange Limited.

Ahmedabad gained importance next to Bombay in cotton textile industry. After 1880, many mills were started in Ahmedabad and they rapidly forged ahead successfully. As new mills were floated, the need for a Stock Exchange at Ahmedabad was felt and in 1894 the brokers formed “The Ahmedabad Share and Stock Brokers’ Association.”

What the cotton textile industry was to Bombay and Ahmedabad, the jute industry was to Calcutta. Also tea and coal industries were the other major industrial groups in Calcutta. After the share mania between 1861-1865, 1870s witnessed a sharp boom in jute shares which was followed by a boom in tea shares in the 1880s and 1890s, and a coal boom between 1904 and 1908. In June
1908, leading brokers in Calcutta formed "The Calcutta Stock Exchange Association."

In the beginning of the twentieth century, the industrial revolution had begun in India with the Swadeshi Movement; and with the inauguration of Tata Iron and Steel Company Limited in 1907, an important stage in industrial advancement of the Indian enterprise had begun.

Cotton, jute, textiles, steel, sugar, paper and flour mills were all flourishing and all the companies in these sectors generally enjoyed phenomenal prosperity, especially during the First World War i.e. during 1914 to 1918.

In 1920, the demure city of Madras had the maiden thrill of a stock exchange functioning in its midst, under the name and style of "The Madras Stock Exchange" with 100 members. However, when the boom faded, the membership was reduced from 100 to 3, and by 1923, it went out of existence.

In 1935, the stock market activities improved, especially in South India as there was a rapid increase in the number of textile mills and many new plantation companies were floated. In 1937, a stock exchange was once again organized in Madras with the name of Madras Stock Exchange Association (Pvt.) Limited. (In 1957 the name was changed to Madras Stock Exchange Limited).
Lahore Stock Exchange was formed in 1934 and it had a brief life. It was merged with Punjab Stock Exchange Limited, when the latter was incorporated in 1936.

The Second World War broke out in 1939. It gave rise to a sharp boom in share market activities but was followed by a slump. But in 1943, the situation changed radically, when India was fully mobilized as a supply base during World War II. The Second World War lasted till 1945.

On account of the restrictive control on cotton, bullion, seeds and other commodities, those dealing in them found the stock market as the only outlet for their activities. They were anxious to join the trade and their numbers swelled rapidly. Many new associations were constituted for this purpose and new stock exchanges in all parts of the country were formed.

Both the Uttar Pradesh Stock Exchange Ltd. and the Nagpur Stock Exchange Limited started functioning from 1940 and Hyderabad Stock Exchange Limited was incorporated in 1944.

The two Delhi stock exchanges - Delhi Stock and Share Brokers' Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and immediately amalgamated and became the Delhi Stock Exchange Association Limited in June 1947.
Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963.

Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act 1956. But only Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis but acting on the principle of unitary control. All other stock exchanges were refused recognition by the Government of India and they ceased to function.

Thus, during early sixties there were eight recognized stock exchanges in India (as mentioned above). The number virtually remained unchanged for nearly two decades. During the eighties, however, many more stock exchanges were established:

(1) Cochin Stock Exchange (1980)
(3) Pune Stock Exchange Limited (1982)
(6) Kanara Stock Exchange Limited (at Mangalore 1985)
and the recently established exchanges are in Coimbatore and Meerut. Thus, at present, there are twenty one recognized stock exchanges in India, excluding the Over The Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL).

2.2 Current Position of Indian Stock Market

Over the counter Exchange of India (OTCEI)

The traditional trading mechanism prevailed in the Indian Stock Markets gave way to many functional inefficiencies, such as, absence of liquidity, lack of transparency, unduly long settlement periods and benami transactions, which affected the small investors to a large extent. To provide improved services to investors, the country's first ring less, scrip less, electronic stock exchange - OTCEI - was created in 1992 by country's premier financial institutions - Unit Trust of India, Industrial Credit Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India,
Trading at OTCEI is done over the centers spread across the country. Securities traded on the OTCEI are classified into:

- **Listed Securities** – The shares and debentures of the companies listed on OTCEI can be bought or sold at any of the OTCEI counters all over the country and they should not be listed anywhere else.
- **Permitted securities** – Certain shares and debentures listed on other exchanges and units of mutual funds are allowed to be traded.
- **Initial Debentures** – Any equity, holding at least one lakh debentures of a particular script can offer them for trading on the OTCEI.

OTCEI has a unique feature of trading compared to other traditional exchanges. That is, physical certificates of listed securities and initiated debentures are not traded at OTCEI. The original certificates are kept in the safe custody of the custodian. Only a counter receipt is generated at the counter which substitutes the share certificates and is used for all transactions.

In the case of permitted securities, the system is similar to a traditional stock exchange. The difference is that the delivery and payment procedure will be completed within 14 days.
Compared to the traditional Exchanges, OTCEI network has the following advantages:

- OTCEI has a widely dispersed trading mechanism across the country which provides greater liquidity and lesser burden of intermediary charges.
- Greater transparency and accuracy of prices is obtained due to the screen-based scrip less trading.
- Since the exact price of the transaction is shown on the computer screen, the investor gets to know the exact price at which she/he is trading.
- Faster settlement and transfer process compared to other exchanges.
- In the case of an OTCEI issue (new issue), the allotment procedure is completed within a month and trading commences after a month of issue closure, whereas it takes a longer period for the same with the other exchanges.

Thus, with the superior trading mechanism coupled with information transparency investors are gradually becoming aware of the manifold advantages of the OTCEI.

National Stock Exchange

With the Liberalization of the Indian economy, it was found inevitable to lift the Indian stock market trading system at par with the international standards.
To do so, on the basis of the recommendations of high powered Pherwani Committee, the National Stock Exchange was incorporated in 1992 by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, all other Insurance Corporations, selected commercial banks and others.

NSE is the Ninth largest stock exchange in the world by the size of its market capitalization. NSE has a market capitalization of amount US $ 1.59 trillion as of December 2010.

The NSE’s key index is the S&P CNX Nifty, known as the NSE NIFTY (National Stock Exchange Fifty), an index of fifty major stocks weighted by market capitalization. NSE is located at Mumbai, India.

NSE has a total of 1552 companies listed in its exchange. NSE is the third largest Stock Exchange in the world in terms of the number of trades in equities. It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.

The other most important stock exchange apart from NSE is BSE i.e. Bombay Stock Exchange. Though there are 21 regional stock exchanges and 1 Over The Counter Exchange of India (OTCEI), only NSE and BSE are the two most significant stock exchanges in India, and the two of them are responsible for the vast majority of share transactions.
Bombay Stock Exchange

BSE is situated in Mumbai. The BSE building is the icon of the Indian Capital Market. As BSE came into existence in 1875, Sir Premchand Raichand remained a king pin for many years from 1875 to 1945. Sir Phiroze Jeejeebhoy was another who dominated the stock market since 1946 to 1980. His word was law and he had a great deal of influence over both brokers and the Government. He was a good regulator and many crises were averted due to his wisdom and practicality. The BSE building in Mumbai, is called J.P. Tower in his memory.

The Bombay Stock Exchange's pivotal and pre-eminent role in the development of Indian Capital Market is widely recognized and its index, SENSEX, is tracked worldwide. The exchange has a nationwide reach with 417 cities and towns in India. The systems and processes of the Exchange are designed to safeguard market integrity and transparency in operations. The exchange provides an efficient and transparent market for trading in equities, debt instruments and derivatives. BSE also provides online trading system.

Today, BSE is the world's number 1 exchange in terms of number of listed companies (over 5,034). It is the world's 5th most active in terms of number of transactions handled through its electronic trading system. And it is in the top ten of global exchanges in terms of the market capitalization of its listed companies. The companies listed on BSE command a total market capitalization of US$1.63 trillion as of December, 2010. BSE is the 4th largest stock exchange in Asia and 8th largest in the world.
2.3 FII, FDI and MF inflow into Indian Stock Market

BSE has given opportunity to foreign investors to invest in India through
(1) Direct Investment
(2) Investment through stock market
(3) Investment in Euro Issues / Fund Floated Overseas
(4) Broking Business
(5) Asset Management Companies / Merchant Banking

In case of direct investments, foreign companies are now permitted to have a majority stake in their Indian affiliates except in a few restricted industries. In certain specific industries, foreigners can even having holdings up to 100%.

In case of investment through stock exchange foreign institutional Investors (FIIs) upon registration with the Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI) are allowed to operate on the Indian Stock Exchanges, subject to the guidelines issued for the purpose by SEBI.

In case of Euro Issues / Mutual Funds, floated overseas, Foreign Investors can invest in Euro Issues of Indian companies and in specific Indian mutual funds floated abroad.

In case of broking business foreign brokers upon registration with the SEBI are allowed to route the business of their registered FII clients through the
members of stock exchanges, under guidelines issued by SEBI for such business ventures. Foreign participations in Asset Management companies and Merchant Banking companies are permitted.

Among the above, the first one that is Foreign Direct Investments (FDI) and Foreign Institutional Investors (FII) are the two most important sources of foreign investments in equities in Indian stock markets. After liberalization process was initiated in 1991, there was a large flow of foreign funds from abroad. India opened its stock market to foreign investors in September 1992, and in 1993 received portfolio investment from foreigners in the form of Foreign Institutional Investors in equity. Initially there were many terms and conditions which restricted the entry for many FIIs to invest in India. But in the course of time, in order to attract more investors, SEBI simplified many of them.

To increase FII participation in the Indian Market, the government and SEBI agreed to allow foreign individuals, corporates and other hedge funds' investors to register directly as FII - a move designed to increase transparency and reduce transaction costs for the investors.

Positive tidings about the Indian economy combined with the fast growing market have made India an attractive destination for foreign institutional investors (FIIs). The Indian growth story has attracted many global majors like

According to a study by Citigroup Research, the holdings of FIIs in Indian Companies exceed that of domestic financial institutions, including mutual funds and insurance companies, retail and high net worth investors (HNI) all put together. India has become the 3rd most favored destination for FIIs.

India's Broking Community is quite positive on FII inflows. Motilal Oswal, CMD of Motital Oswal Securities says, “Foreign funds will continue to be bullish on India”. On the other hand CMD Dinesh Thakkar of Angel Broking says, “Since the macro-economic parameters - which are the key drivers of robust corporate earnings growth are intact, FIIs will continue to plough money into India”. Nirmal Jain, CMD, India Infoline says, “FIIs flow into India will remain robust as the economy is doing extremely well”.

Let us follow a top down approach and understand the events that lead to these kinds of FII inflows into the Indian Equity market. The prime reasons are (1) new issues of Indian companies, (2) continued growth of second rung companies, (3) stable Indian economy and (4) domestic growth stories.
All these factors coupled with the continued influx of new FIIs into India, indicate that money will continue to be aggressively pumped into the Indian Market.

A recent ICICI Securities India strategy report concludes, “The mega India investment story continues with global growth and liquidity profile. Portfolio investments in India to continue as conventional risks of external shocks are low, unless the world enters a recession.”

In addition, a recent Merrill Lynch report states, “China and India have emerged as key drivers of the global economy. And more money will flow into these two economies”.

What sets India apart is that local demand is very strong and country is not over dependent on exports. So even if the U.S. economy slips into recession, market watchers feel India will be least effected vis-à-vis other emerging markets.

A report by Institution of International Finance (IIF) predicts that Asian emerging markets will continue to be a favored destination for foreign investments and India is a very good investment destination; strong market performance and good corporate earnings are the keys to Indian success story.
A senior analyst at HSBC HongKong, says “India is an important market and fund allocations to India have always been on the higher side.”

Andrew Holland of DSP Merrill Lynch says that he is very much long term bullish on India as the earnings’ growth here is higher than most of the emerging markets globally. “The Indian companies would continue to post strong earnings”.

India is among the fastest growing economies in the world and that would be a comforting factor to FIIs who prefer India as their investment destination.

Net Investment by FIIs into Indian Stock Market on a yearly basis shows that FII plays an important role in Indian stock market as their investments have always been positive over the last 17 years starting steadily from 1993 except in the years 1998 - 99 and 2008 – 09. Economic slowdown thereafter saw reverse flight of FII investments during the year ending March 2009. But due to strong fundamentals of Indian economy, as demonstrated in robust economic growth of around 7% in the otherwise recession-hit world economy, foreign investors were quick to return in the first quarter of the year 2009 – 2010 and net investment by FII in the year 2010 - 2011 was Rs.17,550/- crores.
A DATA IS GIVEN BELOW ABOUT FII INFLOW FROM THE YEAR 2003 – 04 TO 2010 - 2011

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NET INVESTMENT (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 - 04</td>
<td>30458.7</td>
</tr>
<tr>
<td>2004 - 05</td>
<td>38965.1</td>
</tr>
<tr>
<td>2005 - 06</td>
<td>47181.2</td>
</tr>
<tr>
<td>2006 - 07</td>
<td>36539.7</td>
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<tr>
<td>2007 - 08</td>
<td>71486.5</td>
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<tr>
<td>2008 - 09</td>
<td>(-) 29169.0</td>
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<tr>
<td>2009 - 10</td>
<td>59263.2</td>
</tr>
<tr>
<td>2010 - 11</td>
<td>17550.0</td>
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</tbody>
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The impact of FIIs is so high that whenever FIIs tend to withdraw the money, the indices tend to fall. Just to illustrate the impact given below is the 6 biggest fall in investments in stock market: -
MAJOR INTRADAY COLLAPSES IN BSE SENSEX

<table>
<thead>
<tr>
<th>MAJOR INTRADAY Day (Points loss in Sensex)</th>
<th>Gross Purchase (Rs. Crores)</th>
<th>Gross Sales (Rs. Crores)</th>
<th>Net Investments (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(826) (17/12/2007)</td>
<td>670.00</td>
<td>869.00</td>
<td>-199.00</td>
</tr>
<tr>
<td>(717) (18/10/2007)</td>
<td>1107.00</td>
<td>1372.50</td>
<td>-265.50</td>
</tr>
<tr>
<td>(687) (18/01/2008)</td>
<td>1077.20</td>
<td>1348.40</td>
<td>-271.20</td>
</tr>
<tr>
<td>(678) (21/11/2007)</td>
<td>640.70</td>
<td>791.80</td>
<td>-151.10</td>
</tr>
<tr>
<td>(617) (02/08/2007)</td>
<td>534.50</td>
<td>542.00</td>
<td>-7.50</td>
</tr>
<tr>
<td>(615) (01/08/2007)</td>
<td>809.40</td>
<td>956.90</td>
<td>-147.50</td>
</tr>
</tbody>
</table>

From this table we can see that the major falls are accompanied by the withdrawal of investments by FIIs.

THE Stock market indices and the investments by the foreign portfolio investors have, by and large, moved in tandem. Markets tend to move up when foreigners pour in money and conversely markets have dipped when they pull out funds.
The next important foreign investment is FDI i.e., Foreign Direct Investments. India has become the 4th most favored destination for Foreign Direct Investments after China. FDI in India has played an important role in the development of the Indian economy. It has - in a lot of ways - enabled India to achieve a certain degree of financial stability, growth and development. India has continually sought to attract FDI from the world’s major investors like Mauritius, US, UK, Netherlands, Japan, Singapore and Germany. FDI inflow into India not only originated from top 20 countries, but also from some unexpected sources like West Indies, South Africa, Nevis, Iceland.

The principal sectors attracting FDI inflows are Services, Electrical Equipments, Telecommunications, Transportation, Fuels, Chemicals and Construction. Moreover a number of projects have been announced in areas such as electricity generation, distribution and transmission, as well as the development of roads and highways, with opportunities for foreign investors. FDI is not permitted in the arms, nuclear, railway, coal and lignite or mining industries.
GIVEN BELOW IS THE YEAR WISE FDI INFLOW INTO INDIA

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Investment (US $ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992 - 1993</td>
<td>165</td>
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<tr>
<td>1993 - 1994</td>
<td>393</td>
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<tr>
<td>1994 - 1995</td>
<td>654</td>
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<tr>
<td>1995 - 1996</td>
<td>1374</td>
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<td>1996 - 1997</td>
<td>2141</td>
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<tr>
<td>1997 - 1998</td>
<td>2770</td>
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<tr>
<td>1998 - 1999</td>
<td>3682</td>
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<td>1999 - 2000</td>
<td>3083</td>
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<td>2000 - 2001</td>
<td>2439</td>
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<tr>
<td>2001 - 2002</td>
<td>2908</td>
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<tr>
<td>2002 - 2003</td>
<td>4222</td>
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<tr>
<td>2003 - 2004</td>
<td>3134</td>
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<tr>
<td>2004 - 2005</td>
<td>2634</td>
</tr>
<tr>
<td>2005 - 2006</td>
<td>3754</td>
</tr>
<tr>
<td>2006 - 2007</td>
<td>US $ 15.7 billion</td>
</tr>
<tr>
<td>2007 - 2008</td>
<td>US $ 23 billion</td>
</tr>
<tr>
<td>2008 - 2009</td>
<td>US $ 27.5 billion</td>
</tr>
<tr>
<td>2009 - 2010</td>
<td>US $ 30 billion</td>
</tr>
<tr>
<td>2010 - 2011</td>
<td>US $ 21 billion</td>
</tr>
</tbody>
</table>
The next important source of money inflow into stock market is Mutual Funds. Mutual Fund industry in India have reached Rs.7,00,000 crores in 2011. The mutual fund industry in India originated with the introduction of the concept of Mutual Fund by UTI in the year 1963. Though the initial growth was slow, it accelerated from the year 1987, when the NON UTI players entered the mutual fund industry.

In the past decade, Indian mutual fund industry has seen dramatic improvements, both quality wise as well as quantity wise. Just before the end of the monopoly of UTI in the market, the Mutual fund industry in India was just Rs.6,700 crores.

First Phase - (1964 - 87)

UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1978, six more schemes between 1981 - 84, Children’s Gift growth fund and India Fund (India’s first offshore fund) in 1986, Master shares (India’s first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, the corpus under UTI's asset management grew ten times to Rs.6,700 crores.
Second Phase - (1987 - 1993) (Entry of Public Sector Funds)

Entry of other mutual funds, - SBI Mutual fund was the first followed by Canbank Mutual Fund (Dec.87), Punjab National Bank Mutual Fund (Aug. 89), Indian bank Mutual Fund (Nov. 89), Bank of India (June 90), Bank of Baroda Mutual Fund (Oct. 92), LIC in 1989 and GIC in 1990. By 1993 marked the assets under management of the Mutual Fund Industry increased seven times to Rs.47004 crores as assets under management.

It is seen that from 1987 the Indian Mutual fund Industry witnessed a number of public sector players, entering the market. However UTI remained to be the leader with about 80% of the market share.

Third Phase - (1993 – 2003) (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian Mutual Fund industry, giving the Indian investors a wider choice of fund families. Also 1993 was the year in which the first Mutual Fund Regulations came into being under which all mutual funds, except UTI were to be registered and governed. Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.
The permission given to the private sector funds including foreign fund management companies (most of them entering through the joint ventures with Indian companies) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor servicing technology. By 1994-95, about 11 private sector funds had launched their schemes. The mutual fund industry witnessed robust growth and stricter regulations from SEBI after 1996. The mobilization of funds and number of players operating in the industry reached new heights as investors started showing more interest in Mutual Funds.

Investor interests were safeguarded by SEBI and the Government offered tax benefits to the investors in order to encourage them, SEBI (Mutual Fund) Regulation 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. In the Union Budget in 1999, exemption of income tax was granted to all the income derived in the form of dividends from investments in Mutual Funds Equity Schemes.

Various Investor Awareness programmes were launched during this phase, both by SEBI and AMFI (Association of Mutual Funds of India), with an objective to educate investors and keep them informed about the various developments in the mutual fund industry.
The number of mutual fund houses went on increasing with many foreign mutual funds setting up funds in India and also the industry witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs.121805 crores. The Unit Trust of India with Rs.44541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - (Since February 2003)

The industry witnessed several mergers and acquisitions of schemes of Alliance Mutual fund by Birla Sun Life, Sun F&C Mutual fund and PNB Mutual fund by Principal Mutual fund. Simultaneously more international mutual fund players have entered India like Fidelity, Franklin, Templeton Mutual Fund etc.

At present US major JP Morgan is looking at expanding its investment banking, corporate finance and capital market business in India. A number of MNC banks like Citi, Merrill Lynch and others have been regularly investing in India.

Lured by the robust stock market growth, buoyant fundamentals and healthy corporate performances, companies like

(1) Korean firm Mirae Asset Management
(2) Shinsie Bank of Japan
(3) JP Morgan of US
(4) French insurance giant AXA
(5) Insurance Major AIG
(6) Dawnay Day of UK,
are planning to enter India’s fast growing asset management business. While Mirae and Shinsei are relatively new to India, AIG and AXA are already familiar names in the field of insurance and now are keen to expand their presence with asset management business. Overseas players are scouting for partners and executives to head operations in India.

According to those closely watching the Mutual Fund industry, the financial giants have already initiated discussions with prospective local partners for tie-ups after approaching SEBI for requisite approvals.

Few others like
(1) Dutch Giant - AEGON
(2) Pennsylvania - head quartered Vanguard group
(3) America’s Capital International
(4) UBS (a foreign Institutional Investor and also an Insurance Major)
are also keen to enter the asset management business in India.

Following is the chart showing the details of the players in Mutual Fund industry in India.
Another important data showing the growth of Asset Under Management (AUM) i.e. total amount of money handled by Mutual Fund Industry in India is given below:
MUTUAL FUND ASSET UNDER MANAGEMENT (AUM) GROWTH

<table>
<thead>
<tr>
<th>Month / Year</th>
<th>MF's AUM (Rs. In Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March '65</td>
<td>25</td>
</tr>
<tr>
<td>March '87</td>
<td>4564</td>
</tr>
<tr>
<td>March '93</td>
<td>47000</td>
</tr>
<tr>
<td>March '98</td>
<td>68984</td>
</tr>
<tr>
<td>March '00</td>
<td>93717</td>
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<td>March '01</td>
<td>83131</td>
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<td>75306</td>
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<td>March '04</td>
<td>137626</td>
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<td>March '05</td>
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<td>March '06</td>
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<td>326388</td>
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<td>March '08</td>
<td>505152</td>
</tr>
<tr>
<td>March '09</td>
<td>417300</td>
</tr>
<tr>
<td>March '10</td>
<td>613979</td>
</tr>
</tbody>
</table>

2.4 Current position of Indian Economy

The economy of India is also growing at a rapid rate. The Economy of India is the tenth largest in the world by nominal GDP and the fourth largest by
purchasing power parity. The country's per capita GDP was RS.166950/- in 2010. Following strong economic reforms from the post-independence socialist economic policies, the country's economic growth progressed at a rapid pace, as free market principles were initiated in 1991 for international competition and foreign investment.

The Global Investment Bank, “Goldman Sachs”, predicted that, by 2035 India would be the third largest economy of the world just after US and China. It will grow to 60% of size of US economy. India has become a very attractive destination for business and investment opportunities due to huge manpower base, diversified natural resources and strong macroeconomic fundamentals.

The growth rate has averaged around 7% since 1997 and India was able to keep its economy growing at a healthy rate even during the world-wide recession in 2007 to 2009 and managed a growth rate of 8.70% for 2010-2011. The biggest boon to the economy has come in field of outsourcing.

Its English speaking population has been instrumental in making India a preferred destination for technology products as well as business process outsourcing.

The economy of India is as diverse as it is large, with a number of major sectors including manufacturing, industries, agriculture, textiles and handicrafts, and
services, Agriculture is the major component of the Indian economy, as over 66% of the Indian population earns its livelihood from this sector.

The service sector is greatly expanding and has started to play an important role. As English speaking population is growing, India has become a hub of outsourcing activities for major economies of the world including United States and United Kingdom. Outsourcing to India has been primarily in the areas of technical support and customer services.

Other areas where India is expected to make progress include manufacturing, construction of ships, pharmaceuticals, aviation, biotechnology, tourism, nanotechnology, retailing and tele-communications. Growth rates in these sectors are expected to increase dramatically.

Another point about Indian economy is that it is driven primarily by domestic (consumer) consumption. This stands in marked contrast to Japan, the Asian Tigers and now China, all of whom have followed the export oriented mode. With the massive growth of the Indian middle class, this vast country may become Asia’s first major “buy” economy.

In 2010, India’s PPP Gross Domestic Product (PPP = Purchasing power parity) stood at over $4 trillion, and was the fourth largest economy in volume.
The services sector, backed by the IT revolution, remained the biggest contributor to the national GDP, with 58.4%. The industry sector contributed 24.1% and the agriculture sector contributed 17.5% to the GDP.

The employment scenario was dominated by the services sector, creating 62.6% of the jobs for the 467 million workforce. The industry sector contributed 25.8% to the GDP and employed 20% of the workforce. The agriculture sector contributed 15.8% to the GDP and created 17.5% jobs. The unemployment rate remained around 10% in 2010. However, rising inflation became a major concern and measures to check it are being implemented. In 2010 the rate of inflation was around 8.6%.

Some more positive points about India are:

- India is one of only three countries that makes supercomputers (the US and Japan are the other two).
- India is one of six countries that launch satellites.
- The Bombay stock Exchange lists more than 5000 companies. Only the NYSE has more.
- Eight Indian companies are listed on the NYSE; three on the NASDAQ.
- By volume of pills produced, the Indian pharmaceutical industry is the world's second largest after China.
- India has the second largest community of software developers, after the U.S.
• India has the second largest network of paved highways, after U.S.
• India is the world's largest producer of milk, and among the top 5 producers of sugar, cotton, tea, coffee, spices, rubber, silk and fish.
• 100 of the fortune 500 companies have R & D (Research and development) facility in India.

2.5 Ups and Downs of Indian Stock Market

Due to all these positive factors like FII inflow, FDI inflow, Mutual Fund inflow, highly growing Indian economy and the many of years old strong fundamental of Indian stock market, the Indian stocks have sharply outperformed in major global markets with SENSEX being one of the few indices globally to scale a new high in 2008. On January 8, 2008 SENSEX crossed the 21000 mark for the first time in the history.

If we look back, in the year 1986 the 30 share BSE sensitive index or SENSEX was launched. In the year 1990 SENSEX touched the four figure mark for the first time on 25th July 1990 and closed at 1001 in the wake of a good monsoon and excellent corporate results. Then the real boost came in the year 1992 when during January to March the SENSEX crossed 2000, 3000 and 4000 mark led by bull Harshad Mehta. On January 15 1992 the SENSEX crossed the 2000 mark and closed at 2020 as a result of the liberal economic policy initiatives undertaken by the then Finance Minister and the current Prime minister Dr.
Manmohan Singh. On 29th February 1992 the SENSEX surged past the 3000 mark in the wake of the market friendly budget announced by him. On March 30, 1992 the SENSEX crossed the 4000 mark and closed at 4091 points on the expectation of a liberal export import policy. The SENSEX in that financial year of 1991 - 1992 gave a return of 259%. It was then that the Harshad Mehta scam hit the market and share market witnessed unabated selling. In April 1992 the security scam broke out. SENSEX crashed by over 570 points on 28th April. In the financial year 92 – 93 Sensex return stood at (-) 48%.


In October 1999, the SENSEX crossed 5000 mark. On 8th October 1999, the SENSEX crossed the 5000 mark as the BJP led coalition won the majority in the 13th Lok Sabha election. In that very financial year on February 11, 2000 the infotech boom helped the SENSEX to cross the 6000 mark and hit an all-time high of 6006. It can be observed that in the years 1999 - 2000 SENSEX posted a return of 36%.
On March 1, 2001 Sensex crashed by 176 points on another scam this time perpetuated by Ketan Parekh and as a result of which the financial years, 2000 – 2001, 2001 – 2002, 2002 – 2003 saw returns from the share market at (-) 29%, (-)3% and (-)13% respectively.


It was on 25th April 03 that the bull rally started in right earnest. The SENSEX touched 2924 that day. The index has risen more than 7 times since the start of the rally. On 19th August ‘03 SENSEX touched 5000 points. Then on Jan 2, 2004 SENSEX touched 6000 points.

On June 21, 2005 the SENSEX touched 7000 points. The news of the settlement between the Ambani brothers boosted investor sentiment and the scripts of RIL, Reliance Energy, Reliance Capital and IPCL made huge gains. This helped the SENSEX crossed 7000 points for the first time.

On September 8, 2005 the SENSEX touched 8000 points following brisk buying by foreign and domestic funds in early trading.

On November 28, 2005, the SENSEX crossed 9000 to touch 9000.32 points during mid-session at the Bombay Stock Exchange for the first time, on the
basis of frantic buying spree by Foreign Institutional Investors and well supported by operators and retail investors.

The SENSEX on February 6, 2006 touched 10003 points during mid-session. The SENSEX finally closed above the 10000 mark on that day.

On March 27, 2006 the SENSEX touched 11000 mark and touched a peak of 11001 points during mid-session at the Bombay Stock Exchange for the first time.

On April 20, 2006 SENSEX crossed 12000 and touched a peak of 12004 points during mid-session at the Bombay Stock Exchange for the first time.

On 22nd May, 2006, the SENSEX plunged by a whopping 1100 points during intraday trading leading to the suspension of trading for the first time since May 17, 2004. The volatility of the SENSEX had caused a loss of Rs.6 Lakh crores ($ 131 billion) within 7 trading sessions. The then finance minister of India, P. Chidambaram, issued an unscheduled press statement when trading was suspended to assure investors that nothing was wrong with the fundamentals of the economy, and advised retail investors to stay invested. When trading resumed after the reassurance of the Reserve Bank of India and the Securities & Exchange Board of India, the SENSEX managed to move up 700
points, still 450 points in the red. This was the largest ever intraday fall (in points) in the history of SENSEX till date.

The Sensex eventually recovered from the volatility, and on October 16, 2006, the SENSEX closed at an all-time high of 12928.18 with an intraday high of 12953.76. This was a result of increased confidence in the economy and reports in August 2006 about the growth of 11.1% in the Indian manufacturing sector.

On October 30, 2006 the SENSEX crossed 13000 mark for the first time. It took 135 days to reach 13000 from 12000, and 124 days from 12500 to 13000. On 30th October 2006 it touched a peak of 13039.36 and closed at 13024.26.

The Sensex on December 5, 2006 crossed 14000 and touched a peak of 14028 at 9.58 A.M (IST) while opening for the day.

The SENSEX on July 6, 2007 crossed another milestone and reached a magic figure of 15000. It took almost 7 months and 1 day to touch such a historic milestone.

The SENSEX on September 19, 2007 crossed the 16000 mark and touched a peak of 16322 while closing. The bull hit was because of the rate cut of 50 bps in the discount rate by the Federal Chief Ben Bernanke in US.
The SENSEX on September 26, 2007 crossed the 17000 mark for the first time, creating a record for the second fastest 1000 points gain in just 5 trading sessions. It failed however to sustain the momentum and closed below 17000. The SENSEX closed above 17000 for the first time on the following day. Reliance group had been the main contributor in this bull-run contributing 256 points. This also helped Mukesh Ambani’s net worth to grow over $ 50 billion or Rs.2 trillion. It was also during this record bull run that the SENSEX for the first time zoomed ahead of the Nekkei (Stock Exchange of Japan).

The SENSEX crossed the 18000 mark for the first time on October 9, 2007. The journey from 17K to 18K took just 8 trading sessions which is the third fastest 1000 points rise in the history of SENSEX. The SENSEX closed at 18280 at the end of the day. This 788 point gain on 9th October was the second biggest single day absolute gain. SENSEX also saw intraday gains of 1000 points from day’s lows in the backdrop of political uncertainties between the ruling UPA and left parties on the nuclear deal. The market rallied from the day’s lows on the news that there was no immediate threat to the government after the warring factions agreed to talk further. Reliance Industries was the biggest contributor in this 1000 point gain. The Reliance pack along with Infosys and L & T lead the bull-run.

The SENSEX crossed the 19000 mark for the first time on October 15, 2007. It took just 4 days to reach from 18000 to 19000. This is the fastest 1000 points
rally ever and also the 640 points rally was the second highest single day rally in absolute terms. RIL contributed 153 points, ICICI bank 120 points, ONGC 119 points, L & T 108 points and Bharti Airtel 96 points. These top 5 stocks contributed 60% of the rise from 18000 to 19000. That effectively meant a record 3000 points rally in 17 trading sessions.

On 29th October 2007, the SENSEX crossed the 20000 mark for the first time with a massive 734.5 point gain but closed below that mark. It took 11 days to reach from 19000 to 20000. The journey of the last 10000 points was covered in just 869 sessions as against 7297 sessions taken to touch the 10000 mark from 1000 level. In 2007 alone there have been six 1000 point rallies for the SENSEX. L & T and ICICI bank were top contributors with 50% contribution of last 1000 points rally. However, these 11 days’ increase in SENSEX between 19000 to 20000 have also been the most volatile in the history of India’s stock markets on account of P – Notes (Participatory Notes) crisis involving both the biggest intraday crash as well as the biggest single day gain.

On January 8, 2008 SENSEX crossed the 21000 mark. In a volatile trading the benchmark BSE SENSEX on Thursday crossed the 21000 mark for the first time in intraday but closed below the mark with a gain of 60.68 points. The SENSEX touched 21000 mark in the opening trade and it took just 49 days to cover the 1000 point journey from 20000 to 21000. It was due to high expectations of earnings as well as increased FII activity in the new calendar year.
But in the third week of January, 2008, the SENSEX experienced huge falls along with other markets around the world. On January 21, 2008 the SENSEX saw it's highest ever loss of 1408 points at the end of the session. The SENSEX recovered to close at 17605 points after it tumbled to the day's low of 16963 on high volatility as investors panicked following weak global cues amid fears of a recession in the US. The next day the BSE SENSEX index went into a free fall. The index hit the lower circuit breakers within barely a minute after the market opened at 10 am. Trading was suspended for an hour. On reopening at 10.55 am, the market saw its biggest intraday fall, when it hit of low of 15332 down 2273 points. However after reassurance from the Finance Minister of India, the market bounced back to close at 16730 points with a loss of 875 points. Over the course of two days, the BSE SENSEX in India dropped from 19013 on Monday morning to 16730 by Tuesday evening on a two day fall of 13.9%. The crash continued and the market entered a bear phase. On 17th October 2008 the SENSEX crashed below the psychological 5 figure mark of 10000, following extremely negative global financial indications in US and other countries. Exactly one year earlier in October 2007, SENSEX had gone past the 20000 mark. On 24th October 2008 SENSEX lost 10.96% of its value to close at 8701 points, the 3rd highest loss for a one day period in its history. The major cause of this crash was attributed to the recession in the global economies, especially with the US dollar losing its strength to the Indian rupee. But the most important reason of this free fall was that FIIs were heavily withdrawing money from Indian stock market. As Indian stock market was
heavily dependent upon FII inflow, the liquidity of money in Indian stock market was severely affected when FIIs were taking away all the money they invested in Indian stock market, as a result of which market came down drastically. This bear phase continued till March of 2009.

The 2nd week of March 2009 saw SENSEX recovering from its downturn. From its 9th March 2009 level of 8160 points, the SENSEX soared and nearly doubled to touch 16184 on 9th September 2009 at closing. During this time on 18th May 2009 the SENSEX surged 2110 points from the previous closing of 12174 thus leading to the suspension of trade for the whole day. This event created history on Dalal Street, by being the first ever time that trading had been suspended for an increase in value. This rally was primarily due to the victory of the UPA in the 15th General elections. Trading was open for that day only for 55 seconds, initially 25 seconds and then for 30 seconds. Market reached upper freeze limit twice in that day itself.

On November 05, 2010 the SENSEX reached 21005 points. This rally was primarily due to huge FII inflow into Indian Stock market. As compared to the net sales of equity to the tune of (-) Rs.29170 crores by foreign institutional investors during crisis year 2008, they had made net purchase of Rs.59263 crores for 2009 - 2010 and in 2010 – 2011 the FII investment is RS. 17550 crores.
There are two noteworthy features in the increase to 21005 points from 8160 points in just 1 year 8 months. First, it occurred when the aftermath of the global crisis was still on and search for “Green shoots and leaves” of recovery in the real economy was still on. Second, the speed with which this rise has been delivered is dramatic even when compared with the boom years that preceded the 2008 -2009 crisis. The last time bull run saw SENSEX being moved almost 3000 points to 21000 points in 57 months i.e. 18000 points gain in 57 months, but this time SENSEX moved from almost 8000 points to 21000 points in just 20 months i.e. 13000 points gain in just 20 months. The SENSEX moved in double speed this time but real fundamentals like sales & profits of companies did not see double growth in its numbers. So, this bull-run was due to FII inflow into the market.

After this SENSEX is hovering around from 16000 level to 20000 level till date with high volatility as FII inflow increases and decreases from time to time.

2.6 Future Prospect of Indian Stock Market

Mr. Sandip Sabharwal, CEO - Portfolio Management Services of Prabhudas Lilladher, said “In my view the markets are looking extremely positive on a perspective of three years where target level of the BSE SENSEX should be it at a 35000 level. As such I do not think that investors need to be concerned about the short run. Given the dynamics of the Indian economy a huge amount of
wealth is likely to be created in the equity markets over the next few years. It is important to remember that to catch the right trend rather than focusing on short term ups and downs is the key to be successful in share trading. Also the fact that very few countries offer long term growth opportunities to investors like India does, FII flows are likely to remain strong into our capital market over the next few years.

Again, Mr. Sandeep Wagle, chief technical analyst at Angel Broking said, “Over a longer period of time the Sensex is to touch 25000 level by 2012 and Sensex should touch 32000 levels by mid 2014”.

Again, as said by Mr. Kevan Watts who leads the combined operations of Bank of America and Merrill Lynch in the country, “India is a very attractive investment destination from a global perspective. There are three reasons. Firstly, the fundamentals are positive for India - the demographics, the rate of growth that the economy has been able to sustain over the past decade. Secondly, Indians are sometimes their biggest critics. They are always ready to note what is not working and make efforts to set them right. Now a lot of things are working a lot better. Thirdly, what is happening in the rest of the world is also very important. The rest of the world particularly the West, is facing quite a challenge of adjustments. We had an economy very dependent on consumption and on borrowings. By comparison, in the global marketplace, India is looking very attractive.
Moreover, Goldman Sachs Group Inc. opines that Indian Stock Market is an emerging market and the market value of emerging market stocks may surge more than fivefold to $80 trillion in two decades, overtaking developed nations.

Goldman strategists led by Timothy Moe wrote in a research report that faster economic expansion and growing capital markets may lift emerging nations' share of world equity - capitalization to 55% by 2030 from 31%, Mr. Moe also adds that Institutional Investors in developed nations probably may buy a net $4 trillion from emerging market equities, lifting holdings from 6% now to 18% of their total portfolios.

Also according to Mr. Moe, the primary drivers will be the rapidly growing economies and the maturing of equity markets that are at earlier stages of development. Developed market institutional asset management pools will need to increase their holdings of emerging market equities, he said.

The MSCI Emerging markets Index has more than doubled since the beginning of 2000 even as the MSCI World Index of advanced nations' shares dropped about 21%. Emerging economies will expand much more than the economies of developed nations, according to forecasts by International Monetary Fund (IMF).