PART II
REVIEW OF THE TRENDS AND OPERATIONS OF THE SECURITIES MARKET

A] PRIMARY SECURITIES MARKET

Capital Raised During 2001-02

The investment activity in the primary market recovered moderately during 2001-02 from its subdued performance in 2000-01 as the total capital raised through equity and bonds registered a rise of 23.5 per cent as against a decline of 21.9 per cent in 2000-01. In absolute terms, total funds mobilised through 35 issues increased to Rs. 7,543 crore in 2001-02 from Rs. 6,108 crore through 151 issues in 2000-01. During the year, the primary market was accessed by fewer issuers as compared to the previous year but the funds mobilized were higher than the funds raised in the previous year. The market received a number of issues of a large size during the year under review than the previous year as the issues with value of more than Rs. 100 crore accounted for nearly 95 per cent of the total amount mobilised during the current year than that of 73 per cent in the previous year. Average size of issue thus increased to Rs. 216 crore in 2001-02 from Rs. 40 crore during the previous year due to a mega issue in the telecom sector of Rs. 834 crore. The banking and financial institutions mobilised Rs. 5,142 crore. The market, thus was dominated by issues of bigger size of banks and financial institutions accounting for 68 per cent of the total funds raised by all issuers as compared to a lower share of 51 per cent in 2000-01. The pattern of fund mobilisation through primary market in the financial year 2001-02, was thus distinctively different from the one observed in the year 2000-01. There was a structural change in the capital raised as the share of public issues declined to 86 per cent in 2001-02 from 88 per cent in 2000-01, and share of rights issues increased from 12 per cent to 14 per cent. The market witnessed good response of investors subscribing more than 88 per cent of total equity issued on premium . The IPO market during 2001-02 was subdued as there were only 7 IPOs accounting only for 16 per cent of the total resources mobilised compared to 40 per cent during 2000-01 and 35 per cent in 1999-2000.

Industry-wise, telecommunication industry raised an amount of Rs. 834 crore during the current financial year through one issue which is lower than Rs. 922 crore that it raised during 2000-01 through two issues. There was no issue during 1998-99 by telecommunication industry. The share of capital raised by the engineering and chemical companies increased to 10 per cent and 3 per cent during 2001-02 respectively, from 0.4 per cent and 0.5 per cent during 2000-01, respectively. Information and technology companies raised only Rs.39 crore through 6 issues as compared to Rs.804 crore through 89 issues in 2000-01. There were no issue in the health care and entertainment . Thus new economy companies in 2001-02 showed slack investment growth.

Public and Rights Issues

Of the 35 issues which entered the market in 2001-02, 20 were public issues for mobilising an amount of Rs. 6,502 crore as compared to Rs. 5,378 crore in 2000-01, showing an increase of 21 per cent as against a fall of 14 per cent in the previous year. The rights issues, however, recorded better performance by mobilising Rs. 1,041 crore during the current year under review as compared to an amount of Rs. 729 crore in the previous year, recording a growth of 43 per cent. In terms of percentage share public issues accounted for 86 per cent and rights issues 14 per cent. (Table 2.1).

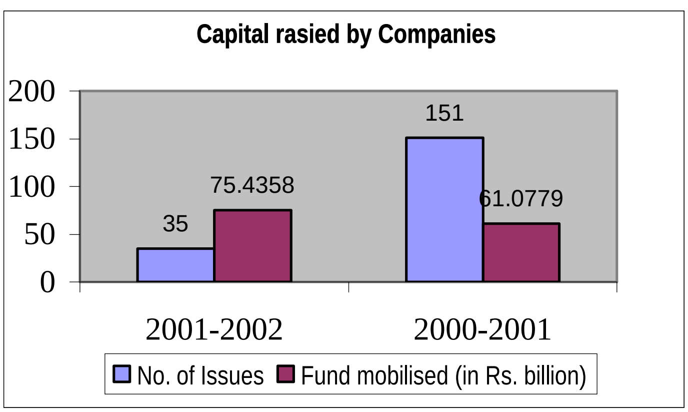
Table 2.1 : Capital Raised

(Rs Crore)

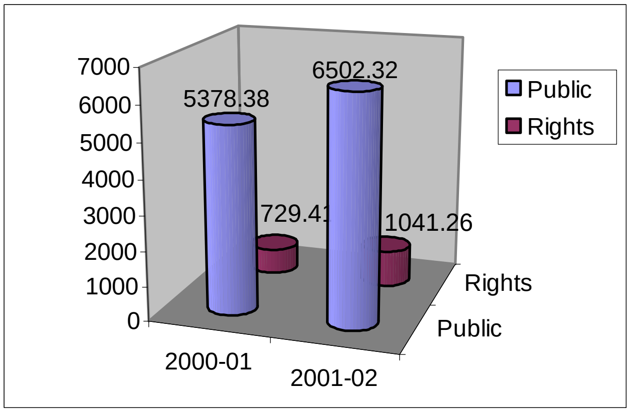
	No. of Issues and Amount						Percentage Increase/Decrease Over the Previous Year		
	1999-2000		2000-01		2001-02		1999-2000	2000-01	2001-02
	No.	Amount	No.	Amount					
Public	65	6,256.51 (80.04)	124	5,378.38 (88.06)	20	6,502.32 (86.19)	75.40	-14.03	20.89
Rights	28	1,560.24 (19.96)	27	729.41 (11.94)	15	1,041.26 (13.81)	-66.80	-53.25	42.75
Total	**93**	**7,816.75 (100.00)**	**151**	**6,107.79 (100.00)**	**35**	**7,543.58**	**22.20**	**-21.86**	**23.50**

Figures in brackets are percentage share in total capital raised through offer documents and do not include private placements that are not regulated by SEBI.
Total may not tally in different table, where applicable, as figures were rounded off.
Source: SEBI

Graph 2.1 : Capital Raised by Companies in 2000-01 and 2001-02



Graph 2.2 : Capital Raised Through Public and Rights Issues



Month-wise Trends in Capital Mobilisation

Data on month-wise capital mobilisation reveal that nearly half of the capital or Rs.3,770 crore capital resources was raised during the fourth quarter of the year under review. During 2000-01, investment activity was more broad based throughout the year except for the month of September 2001 and February 2002 when the amount raised were Rs.1,274 crore and Rs.1,157 crore, respectively. (Table 2.2)

Table 2.2 : Month-wise Capital Raised *(Rs. crore)*

	2000-01			2001-02		
Month	**No. of Issues**	**Amount**	**Avg. Amt. Per Issue**	**No. of Issues**	**Amount**	**Avg. Amt. Per Issue**
April	16	127.80	7.99	1	5.16	5.16
May	14	312.08	22.29	1	51.03	51.03
June	14	159.90	11.42	1	400.00	400.00
July	22	551.08	25.05	2	407.65	203.82
August	12	413.96	34.50	3	418.15	139.38
September	20	1,274.36	63.72	4	1,078.39	269.59
October	9	359.17	39.91	1	18.96	18.96
November	13	723.25	55.63	4	563.43	140.85
December	4	318.90	79.73	4	830.00	207.50
January	7	81.06	11.58	3	1,466.84	488.94
February	14	1,156.78	82.63	4	899.92	224.98
March	6	629.45	104.91	7	1,403.55	200.50
Total	**151**	**6,107.79**		**35**	**7,543.58**	

Source : SEBI

Trends in Size and Composition of Issues

The primary market received 14 mega issues falling in the range of Rs. 100 crore and above but below Rs. 500 crore amounting to Rs. 4,506 crore and 4 issues falling in the range of Rs. 500 crore and above for raising Rs. 2,634 crore during the financial year 2001-02. During 2000-01, as many as 16 issues were launched in the range of Rs. 100 crore and above but less than Rs. 500 crore raising Rs. 3,099 crore. There were 2 issues falling in the range of Rs. 500 crore and above for Rs. 1,386 crore. Contribution of 18 mega issues in total fund mobilization worked out to 95 per cent during 2001-02 compared to 73 per cent during the previous year. (Table 2.3)

Table 2.3 : Large Issues During 2001-02

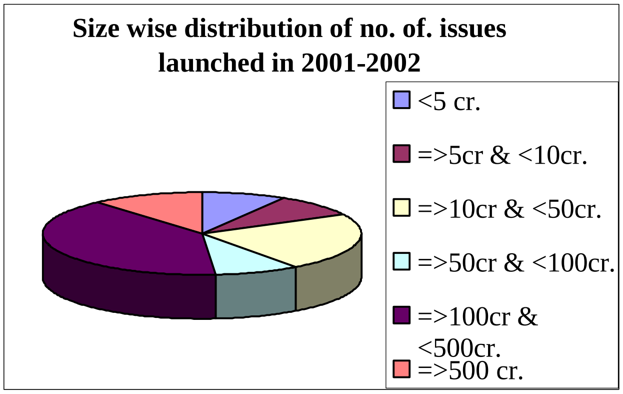
(Rs. Crore)

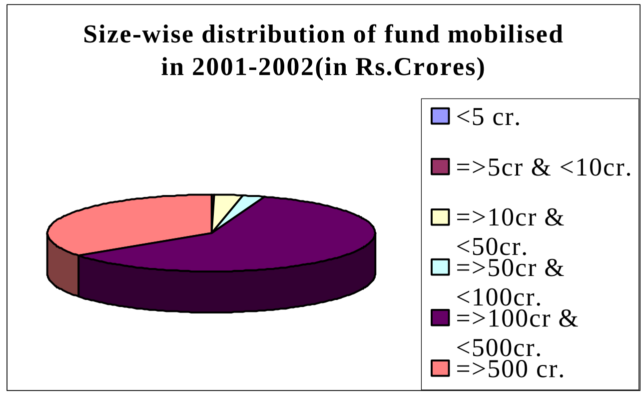
Sr. No	Name of the Company	Type of issue	Type of Instrument	Issue opng. Date	Offer size
1	ICICI Ltd.	Public	Bond	11-Jun-01	400.00
2	ICICI Ltd.	Public	Bond	16-Jul-01	400.00
3	ICICI Ltd.	Public	Bond	16-Aug-01	400.00
4	TELCO	Rights	FCD	19-Sep-01	415.77
5	TELCO	Rights	NCD	19-Sep-01	255.86
6	ICICI Ltd.	Public	Bond	27-Sep-01	400.00
7	ICICI Ltd.	Public	Bond	23-Nov-01	400.00
8	ICICI Ltd.	Public	Bond	15-Dec-01	400.00
9	South Asian Petrochem Ltd.	Public	FCD	20-Dec-01	170.00
10	IDBI	Public	Bond	28-Dec-01	250.00
11	ICICI Ltd.	Public	Bond	10-Jan-02	600.00
12	Bharti Tele-Ventures Ltd.	Public	Equity	28-Jan-02	834.02
13	IDBI	Public	Bond	4-Feb-02	250.00
14	ICICI LTD	Public	Bond	8-Feb-02	600.00
15	IDBI	Public	Bond	15-Mar-02	250.00
16	ICICI LTD	Public	Bond	18-Mar-02	600.00
17	Punjab National Bank	Public	Equity	21-Mar-02	164.49
18	Krishna Bhagya Jala Nigam Ltd.	Public	Bond	27-Mar-02	350.00
	Total				**7,140.14**

Source : SEBI

Average size of issues was higher during 2001-02 than that noticed in 2000-01. Thus, in 2001-02 average size of issues was Rs. 215 crore whereas in the financial year 2000-01, it worked out to Rs. 41 crore mainly because of larger number of mega issues in current financial year. During 2001-02, 51 per cent of the total 35 issues (i.e. 18 issues) were of the size of more than Rs. 100 crore each compared to 2000-01, when most of the issues were of the size of less than Rs. 100 crore each. In 2000-01, out of the 151 issues 133 issues were of the size of less than Rs. 100 crore.

Graph 2.3 : Size-wise Distribution of Number of Issues and Funds Mobilised in 2001-02

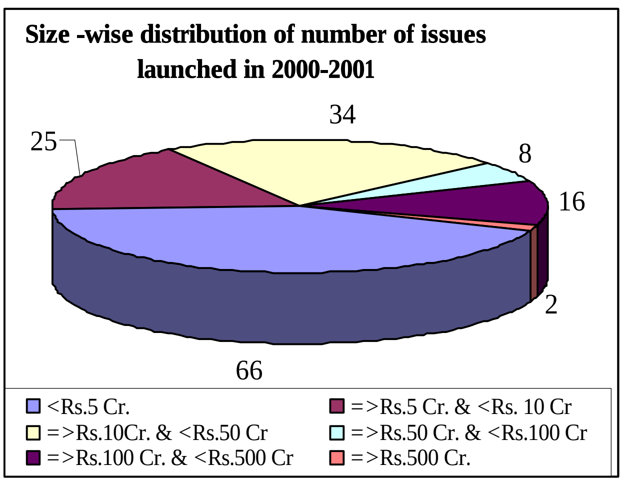




Size-wise Distribution of Issues

Of the total 35 issues, 3 issues were of the size of less than Rs.5 crore, 8 issues were in the range of above Rs.10 crore and below Rs.50 crore in 2001-02. While four mega issues of the size of more than Rs.500 crore raised Rs.2,634.0 crore and 14 issues in the size of more than Rs.100 crore and less than Rs.500 crore collected Rs.4,506.1 crore. (Table 2.4)

Graph 2.4 : Size-wise Distribution of Number of Issues and Funds Mobilised in 2000-01



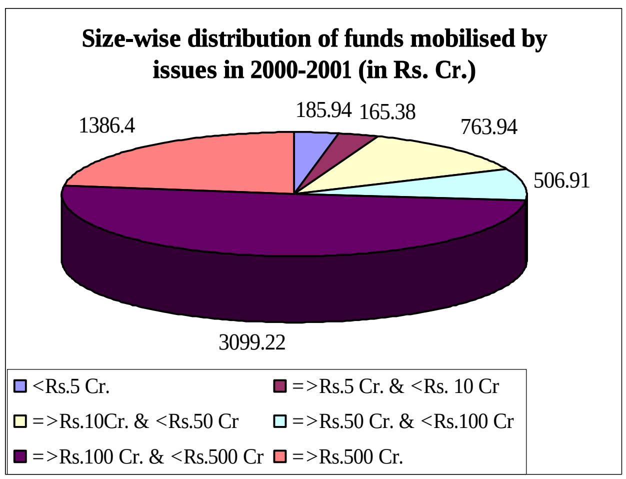


Table 2.4: Size-wise Distribution of Issues

	2001-02		2000-01	
	No.	Amt.(cr.)	No.	Amt.(cr.)
<5 cr.	3	7.71	66	185.93
=>5cr & <10cr.	3	19.57	25	165.38
=>10cr & <50cr.	8	199.41	34	763.95
=>50cr & <100cr.	3	176.73	8	506.91
=>100cr & <500cr.	14	4,506.12	16	3,099.22
=>500 cr.	4	2,634.02	2	1,386.40
Total	**35**	**7,543.58**	**151**	**6,107.79**

Source: SEBI

Trends in Seasoned and IPO Issues

The capital raised by the listed companies recorded a sharp increase of 87 per cent in 2001-02 as against a decline of 34 per cent in 2000-01. On the other hand, the capital raised through Initial Public Offers (IPOs) showed a substantial decline of 56 per cent in 2001-02 as compared to an increase of 0.1 per cent in the previous year. In absolute term during 2001-02, 7 IPO issues came in the market for raising Rs.1,202 crore as compared to 114 issues during 2000-01 for mobilising Rs.2,722 crore. The average size of IPO issues shot up to Rs.172 crore in 2001-02 due to their mega size, from Rs. 24 crore in 2000-01. In terms of percentage share, while IPOs contributed only 16 per cent during 2001-02 as compared to their share of 40 per cent during 2000-01, the listed companies' share increased from 60 per cent to 84 per cent because of sharper increase in the amount raised by them. Thus, the IPOs did not sustain their role of resource mobilisation from the primary market compared to the listed companies recording an evidence that new companies did not enter the capital market to promote capital promotion and growth. (Table 2.5)

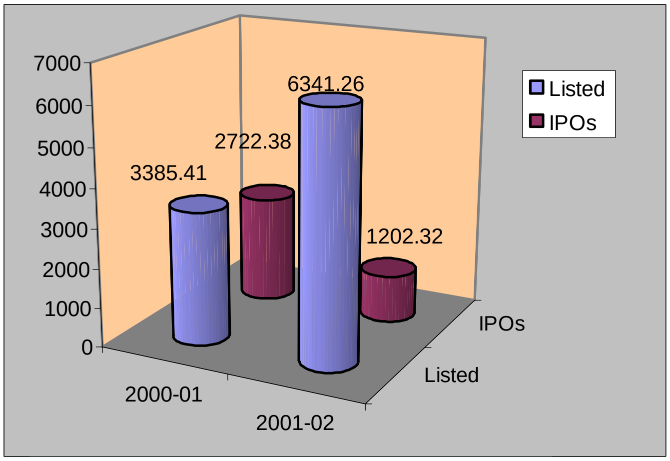
Table 2.5: Seasoned and IPO Issues *(Rs Crore)*

	No. and Amount						**Percentage Increase / Decrease Over Previous Year**	
	1999-2000		***2000-01***		***2001-02***		***2000-01***	***2001-02***
	No.	Amt.	No.	Amt.	No.	Amt.		
Listed	42	5,097.71 (65.22)	37	3,385.41 (55.42)	28	6,341.26 (84.07)	-33.58	87.31
IPOs	51	2,719.04 (34.78)	114	2,722.38 (44.57)	7	1,202.32 (15.93)	0.12	-55.83
Total	**93**	**7,816.75 (100.00)**	**151**	**6,107.79 (100.00)**	**35**	**7,543.58 (100.00)**	**-21.86**	**23.50**

Figures in brackets are percentages to total.
Source : SEBI

The average size of seasoned issues rose to Rs.227 crore per issue in 2001-02 from Rs.91 crore per issue in 2000-01. On the other hand IPO's average size of issues increased from Rs.24.0 crore to Rs.172 crore reflecting that a more large size of issues came from the companies approaching the primary market for the first time particularly from Banking/FIs with a average size of Rs.367 crore compared to Rs.242 crore per issue in 2000-01.

Graph 2.5 : Seasoned and IPO Issues (Rs. Crore)



Sector-wise Analysis of Capital Mobilisation

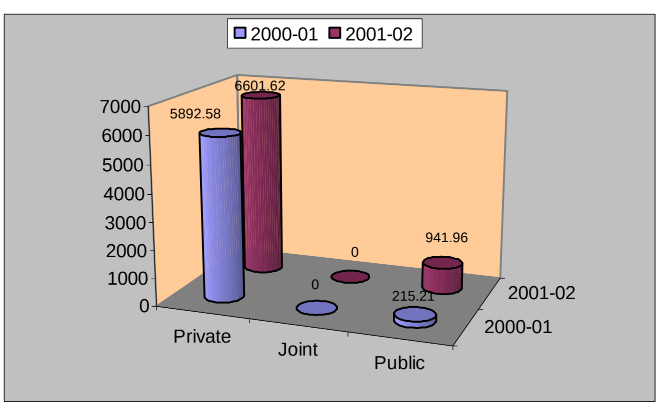
As in the previous year, the investment activity in the primary market was by and large dominated by the private sector. The private sector's share however, declined to 88 per cent mobilising Rs.6,601 crore through only 30 issues in 2001-02, declined from 97 per cent mobilising Rs.5,893 crore through 148 issues during 2000-01. Joint sector did not enter the market. There were 5 issues by public sector which mobilised Rs.942 crore accounting for 13 per cent of the total capital raised in 2001-02 as against 3 issues with Rs.215 crore in 2000-01 (Table 2.6).

Table 2.6: Sector-wise Break-up Capital Raised *(Rs Crore)*

Sector	No. of Issues and Amount				Percentage Share in Total	
	2000-01		*2001-02*		*2000-01*	*2001-02*
	No.	Amt.	No.	Amt.		
Private	148	5,892.58	30	6,601.11	96.48	87.51
Joint	0	0.00	0	0	0.00	0.00
Public	3	215.21	5	941.96	3.52	12.49
Total	**151**	**6,107.79**	**35**	**7,543.58**	**100.00**	**100.00**

Source: SEBI

Graph 2.6 : Sector-wise Capital Raised (Rs. crore)



Appraisal of Issues and Their Trends

During 2001-02, 4 issues out of 35 issues contributing 11 per cent of total issues were appraised and 31 issues accounting for 89 per cent were not appraised. In terms of amount only 3 per cent of total capital was raised through appraisal as compared to 9 per cent in 2000-01. During 2000-01, 76 issues out of 151 issues or 50 per cent of issues were appraised and 50 per cent were not appraised. (Table 2.7)

Table 2.7 : Classification of Issues into Appraised/Unappraised *(Rs Crore)*

Sector					**Percentage Share in Total Amount**	
	2000-01		*2001-02*		*2000-01*	*2001-02*
	No.	Amt	No.	Amt		
Appraised	76	531.54	4	199.65	8.7	2.65
Unappraised	75	5,576.25	31	7,343.42	91.3	97.35
Total	**151**	**6,107.79**	**35**	**7,543.58**	**100**	**100**
Source: SEBI						

Industry-wise Analysis of Resource Mobilisation

Allocation of resources to various industries by the primary market is an important indicator of industrial diversification, its growth and perceptions of the entrepreneurs. A notable feature of resource mobilisation has been the sharp decline in case of infotech industry from Rs.804 crore in 2000-01 to Rs.38 crore in 2001-02, followed by finance from Rs.440 crore to Rs.33 crore, cement and construction from Rs.82 crore to Rs.27 crore and telecom from Rs.922 crore to Rs.834 crore. (Table 2.8)

Resource raising activity shows high concentration as five industries were on top raising 97 per cent of the total capital raised in the financial year 2001-02. During the previous year top five industries shared 94 per cent of the total funds mobilised. Industry-wise Banking and FIs substantially increased their share from 51 per cent in 2000-01 to 68 per cent in 2001-02 because of large mobilisation by ICICI and Industrial Development Bank of India. It would be noticed that during the current year under review, old economy companies entered the market in a big way and mobilised Rs.196 crore as compared to Rs.286 crore during the previous year.

Table 2.8 : Industry-wise Capital Raised *(Rs. Crore)*

Industry	No. of Issues and Amount				Percentage Share in Total	
	2000-01		*2001-02*		*2000-01*	*2001-02*
	No.	*Amount*	*No.*	*Amount*		
Banking/Fis	13	3,139.28	14	5,141.96	51.40	68.16
Cement & Const.	2	82.28	2	26.61	1.35	0.35
Chemical	5	31.53	3	233.56	0.52	2.48
Electronic	4	69.43	0	0	1.14	0
Engineering	2	23.31	4	759.65	0.38	10.07
Entertainment	13	457.69	0	0	7.49	0
Finance	10	439.92	1	32.82	7.20	0.43
Food Processing	0	0.00	0	0	0.00	0
Health Care	4	47.58	0	0	0.78	0
Info. Tech.	89	803.54	6	38.51	13.16	0.51
Misc.	5	76.21	2	401.03	1.25	5.31
Paper & Pulp	0	0.00	0	0	-	0
Plastic	1	4.03	0	0	0.07	0
Power	0	0.00	0	0	0.00	0
Printing	1	10.83	0	0		0
Telecom.	2	922.16	1	834.02	15.10	11.05
Textile	0	0.00	2	75.41	0.00	0.99
Total	**151**	**6,107.79**	**35**	**7,543.58**	**100.00**	**100.00**

Source : SEBI

In 2000-01, information technology, entertainment and finance were among the top five industries on the basis of capital raised, alongwith banking/FIs and telecommunications. However, this year top five industries in terms of capital mobilisation are Banking/FIs, telecommunication, engineering, chemical and textiles. The old economy industries thus appeared to have bounced back and emerged as major funds mobiliser in 2001-02.

Banks and financial Institutions entered market with 14 issues in the financial year 2001-02. Out of these 14 issues 9 issues were launched by ICICI Ltd. These were basically 9 trenches of umbrella issue of bonds. IDBI also made 3 trenches of bond issue in 2001-02. The other 2 issues were equity issue to public by Punjab National Bank and rights issue of equity shares by Dhanalakshmi Bank. Details of these issues by banks/financial Institutions are given in Table 2.9.

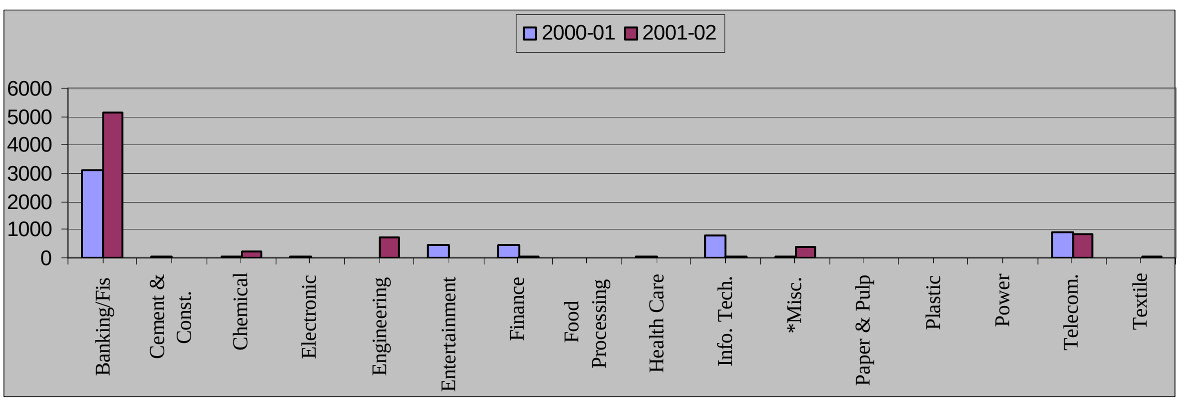
Table 2.9 : Capital Raised by Banks and Development Financial Institutions

(Rs. in Crore)

Name of the Bank/FI	Instrument	Type of Issue	Issue size
ICICI Ltd	Bonds	Public	400.00
ICICI Ltd	Bonds	Public	400.00
ICICI Ltd	Bonds	Public	400.00
ICICI Ltd	Bonds	Public	400.00
ICICI Ltd	Bonds	Public	400.00
ICICI Ltd	Bonds	Public	400.00
IDBI	Bonds	Public	250.00
ICICI Ltd	Bonds	Public	600.00
IDBI	Bonds	Public	250.00
ICICI Ltd	Bonds	Public	600.00
The Dhanalakshmi Bank Ltd	Equity	Rights	27.47
IDBI	Bonds	Public	250.00
ICICI Ltd	Bonds	Public	600.00
Punjab National Bank	Equity	Public	164.49
Total			**5,141.96**

Source: SEBI

Graph 2.7 : Industry-wise Capital Raised



Region-wise Analysis of Capital Mobilisation

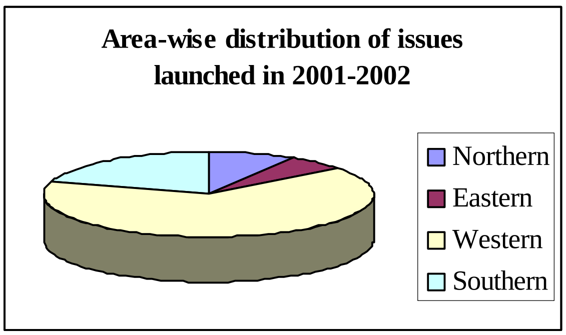
In 2001-02, Western region raised maximum amount of capital from the primary market. Total of 23 issues were launched from western region mobilising an amount of Rs. 5,942 crore accounting for 79 per cent of total capital raised. In southern region number of issues launched during the year under review declined drastically to 7 in 2001-02 from 89 in previous year and amount mobilised was lower at Rs. 419 crore from Rs. 1,555 crore during the previous year. Number of issues launched from northern region was lower at 3 in 2001-02 than 10 issues during the previous year, but funds mobilised multiplied by approximately 5 times to Rs.1,002 crore from Rs.207 crore in the previous year. Number of issues launched from Eastern region declined to 2 from 9 and funds mobilised also were lower at Rs. 180 crore in 2001-02 from Rs.240.4 crore in 2000-01. (Table 2.10)

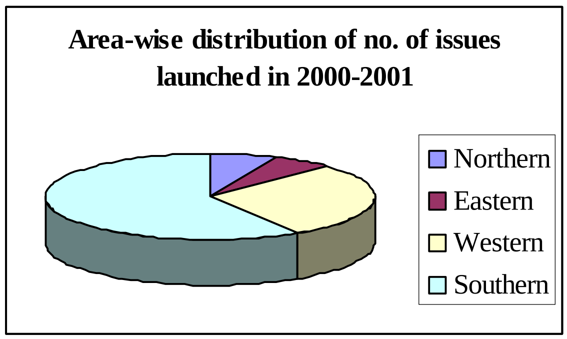
Table 2.10: Region-wise Distribution of Capital Raised *(Rs. Crore)*

Sector	No. of Issues and Amount				Percentage Share	
	2000-01		*2001-02*		*2000-01*	*2001-02*
	No.	*Amt.*	*No.*	*Amt.*		
Northern	10	207.38	3	1,001.63	3.40	13.28
Eastern	9	240.36	2	180.00	3.94	2.39
Western	43	4,105.38	23	5,942.36	67.21	78.77
Southern	89	1,554.67	7	419.08	25.45	5.56
Total	**151**	**6,107.79**	**35**	**7,543.58**	**100.00**	**100.00**

Source: SEBI

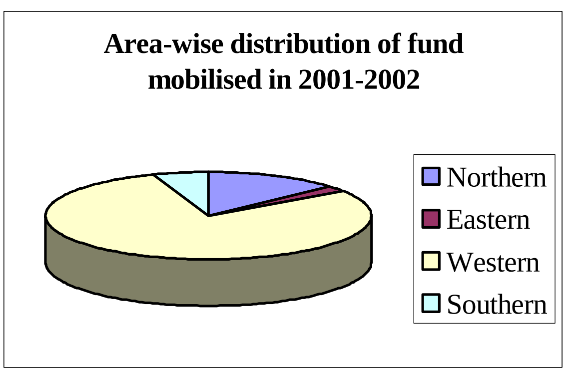
Graph 2.8: Region-wise Distribution of Capital Raised

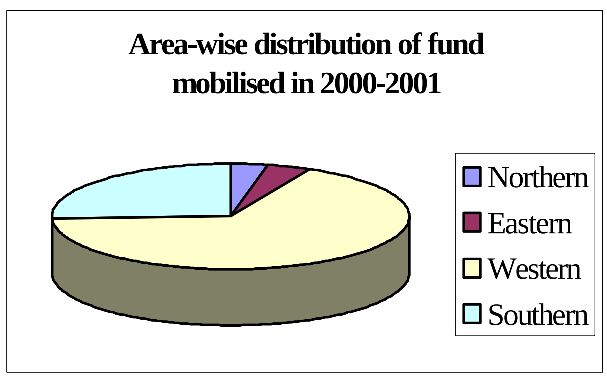




Most of the issues launched from southern region during 2000-01 were IPOs from companies in information technology sector. This year number of these type of issues have come down for reasons already stated above. As a result, the share of southern region in terms of both number of issues and funds mobilised decreased as compared to 2000-01.

Graph 2.9 : Region-wise distribution of Funds Mobilised

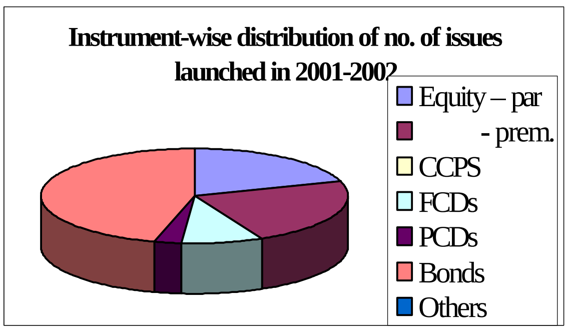


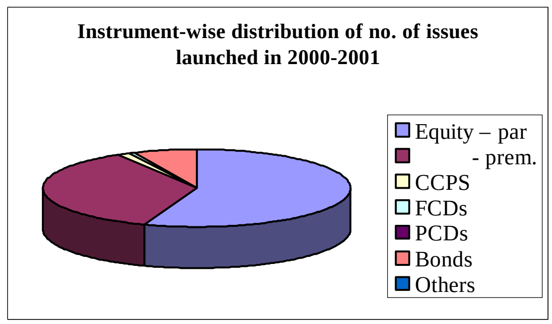


Instrument-wise Analysis of Capital Raised

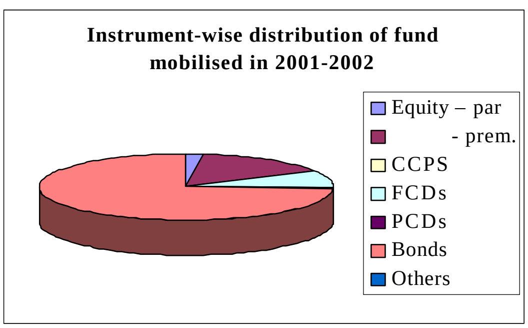
During the financial year 2001-02, bond issues superceded the equity issues as the former raised Rs.5,601 crore accounting for 74 per cent of the total capital raised. The equity issues on the other hand registered a decline to Rs.1,272 crore during 2001-02 from Rs.3,225 crore in 2000-01, accounting for 17 per cent of the total capital raised as against 53 per cent during 2000-01. Out of 15 issues of equity shares 7 issues were at par constituting 47 per cent of total number of issues and contributing only 2 per cent of the total capital raised. However, the equity capital on the premium contributed 15 per cent of the total capital raised. Its share in total equity capital was 88 per cent in 2001-02 as compared to a share of 75 per cent during 2000-01. As regards size of equity issues, average size of equity on par was Rs.22 crore in 2001-02 higher than Rs.10 crore in 2000-01 (Table 2.11).

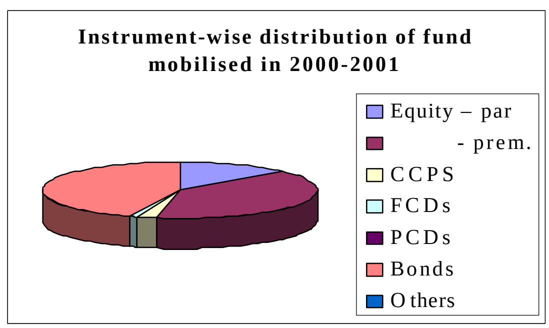
Graph 2.10 : Instrument-wise Distribution of Number of Issues Launched





Graph 2.11 : Instrument-wise Distribution of Funds Mobilised





As regards bonds, there were 16 issues raising Rs.5,601 crore during 2001-02 as compared to 10 issues for Rs.2,704 crore in 2000-01 resulting in higher share of capital raised through bonds by 74 per cent during the current year under review from 44 per cent during 2000-01. There were three Fully convertible debenture (FCD) for Rs.637 crore as against one for Rs.36 crore during 2000-01 and only one partially convertible debenture (PCD) for Rs.33 crore in 2001-02. However, there was no partially convertible debenture (PCD) during 2000-01.

Table 2.11: Instrument-wise Break-up of Capital Raised *(Rs.Crore)*

Instruments	No. of Issues and Amount				%age share in total	
	2000-01		*2001-02*		*2000-01*	*2001-02*
	No.	*Amt.*	*No.*	*Amt.*		
Equity – par	84	817.82	7	150.90	13.39	2.00
- premium	54	2,407.60	8	1,121.32	39.42	14.88
CCPS	2	142.11	0	0.00	2.33	0
F CD s	1	36.26	3	636.80	0.59	8.87
P CD s	0	0.00	1	32.82	0.00	0.00
Bonds	10	2,704.00	16	5,601.23	44.27	74.25
Others	0	0.00	0	0.00	0.00	0.00
Total	**151**	**6,107.79**	**35**	**7,543.58**	**100.00**	**100.00**
Source: SEBI						

Underwriting of Issues

The underwriting of issues is optional in terms of SEBI (DIP) Guidelines, 2000. In the year 2001-02, 16 per cent of the total public issues were underwritten. It was more or less same in the previous financial year. Proportion of fund raised through underwriting was only 16 per cent in 2001-02 as compared to 45 per cent in 2000-01**.** (Table 2.12)

Table 2.12 : Amounts Underwritten / Not Underwritten in 2001-02 *(Rs. crore)*

Public Issues	*No.*	*Amt.*	Percentage Share In Total
Underwritten	3	1,014.02	15.60
Not underwritten	17	5,488.30	84.40
Total	**20**	**6,502.32**	**100.00**
Source: SEBI			

Subscription of Primary Issues

The subscription details of the issues for which data are available with SEBI for year 2001-02 (i.e. 26 issues) and for year 2000-01 (i.e. 121 issues) are presented in (Table 2.13) :

Table 2.13 : Subscription Details During 2000-01 and 2001-02

Times subscribed	Number of issues in 2001-02	Number of issues in 2000-01
<=2 times	25	89
>2 and <=5 times	1	18
>5 and <=10 times	0	6
>10 and <=50 times	0	7
>50 times	0	1
Source: SEBI		

In the financial year 2001-02, only the issue of Bharti Tele-Ventures Limited was oversubscribed by more than 2 times. Subscription level for all other 25 issues was less than 2 times. The following issues given in Table 2.14 were under-subscribed in the financial year 2001-02.

Table 2.14 : Undersubscription Details During 2000-01 and 2001-02

Sr. No.	Issuer Company	Type of Issue	Type of Instrument	Offer Size (in Rs lakh)	Issue opening date	Underwritten (Yes/No)
1	South Asian Petrochemical Limited	Public	Equity	1,000.00	20/12/01	Yes
2	South Asian Petrochemical Limited	Public	FCD	17,000.00	20/12/01	Yes
Source: SEBI						

Both the Equity and FCD issues of South Asian Petrochemical Limited were underwritten .

In 2000-01, 'Hughes Telecom (India) Limited' and 'IT&T Limited' were underwritten which were subsequently subscribed . In case of 'Sekurit Saint-Gobain India Ltd.' unsubscribed portion was brought by the promoter. For 'Arraycom (India) Limited', 'Model Financial Corporation Limited', 'Geekay Imaging Limited','Oceana Software Solutions Limited', 'Principal Pharmaceuticals & Chem Ltd.' 'Ador Powertron Limited', 'Antartica Limited' and 'Globsyn Technologies Limited' money was refunded.

B] SECONDARY SECURITIES MARKET

Price Behaviour in the Secondary Securities Market During 2001-02

The stocks prices in the secondary market remained subdued and were dominated by bearish sentiment during 2001-02. Almost all major stock market indicators like market capitalisation, turnover, P/E ratio showed a falling trend during 2001-02. However, the fall in major indices and other market indicators was substantially less than that noticed during 2000-01. The BSE Sensex on a point to point basis decreased from 3604 as on March 30, 2001 to 3469 as on March 28, 2002, a fall of 4 per cent, the S&P CNX Nifty witnessed a decline of 2 per cent from 1148 as on March 30, 2001 to 1129 as on March 28, 2002. On the contrary, the other indices, on a point to point basis namely the BSE Natex, the S&P CNX 500 and the BSE Dollex registered a rise of 2 per cent, 3 per cent and 3 per cent, respectively, during the current year under review (Table 2.15).

However, the stocks' prices suffered several reversals during the year under review on account of several factors such as investor perception of slowing down of global economies combined with reports on the irregularities in the trading of shares on the Indian stock markets. The BSE Sensex had lost 177 points by March 2, 2001 and further 625 points on March 30, 2001 over the closing of March 1, 2001. The other indices also suffered similar losses. The bearish movement in stocks prices were further precipitated by stock market crash in USA following the terrorist attack on September 11, 2001 and massive sales of stocks by FIIs in September 2001. The BSE

Sensex dropped to 2681 as on September 17, 2001 and further to 2600 by September 21, 2001 from 3184 as on September 10, 2001 recording a loss of 503 points and 584 points respectively. The Sensex picked up slowly and reached 3287 by November 21, 2001 and to 3443 by December 10, 2001, before coming down sharply to 3132 by December 27, 2001 following the terrorist attack on the Indian Parliament. Despite such reversals, the stock prices regained stability as the BSE Sensex recovered to 3402 as on January 7, 2002 and further to 3469 by March 28, 2002. These trends were visible in the movement of other indices also. The S&P CNX Nifty which had risen to 1115 as on December 10, 2001 from 987 as on November 7, 2001 declined to 1020 as on December 27, 2001 shedding nearly 95 points. Thereafter the Nifty recovered to 1189 by February 27, 2002 before declining to 1130 by March 28, 2002.

Table 2.15: Movement of Various Share Indices

Index	31-Mar-00	30-Mar-01	28-Mar-02	2000-01*	20001-02 *
BSE Sensex	5001.28	3604.38	3469.35	-27.9	-3.7
BSE Natex	2902.2	1691.71	1716.28	-41.7	1.5
S&P CNX Nifty	1528.45	1148.2	1129.55	-24.9	-1.6
S&P CNX 500	1322.9	754.18	775.5	-43	2.8
BSE Dollex	237.86	130.89	134.39	-45	2.7

** Percentage increase/decrease over the previous year.*
Source: SEBI

Table 2.16 summarises the daily movement in BSE Sensex and S&P CNX Nifty during 2001-02. Of the 247 trading days at BSE, the Sensex recorded increases on 119 trading days and declines on 128 trading days. For the S&P CNX Nifty, there were increases in the index on 118 trading days and declines on 129 trading days. However, out of 247 trading days, the Sensex showed a nominal increase for 107 days and decline for 119 days of around 2.5 per cent. It would be observed that the swings in Sensex as well as Nifty for almost entire financial year were within the range of 2.5 per cent and less than that.

Table 2.16: Distribution of Trading Days During 2001-02

% change	Sensex		Nifty	
	Increase	*Decrease*	*Increase*	*Decrease*
? 2.5	107	119	109	120
? 2.5 ? 5	12	6	9	9
? 5 ? 7.5	--	3	--	--
? 7.5 ? 10.0	--	--	--	--
Total	**119**	**128**	**118**	**129**

Source : SEBI

Table 2.17 presents monthly average of daily closing index of the month. The average closing of BSE Sensex which was 3487 in April 2001 declined to 2918 points by September 2001 but rose steadily to have an average closing of 3581 by March 2002. Thus the Sensex recorded a rise of 93 points or 3 per cent during the year. The monthly movement of S&P CNX Nifty reflected a similar trend. It declined from an average of 1116 in April 2001 to 949 in September 2001 but thereafter recorded a gradual rise to register an average of 1159 by March 2002. Thus the Nifty index increased by 43 points or by 4 per cent during the period under review. The BSE Natex witnessed a rise of 105 points from 1642 in April 2001 to 1747 in March 2002.

Graph 2.12 : Movement of BSE Sensex and S & P CNX Nifty

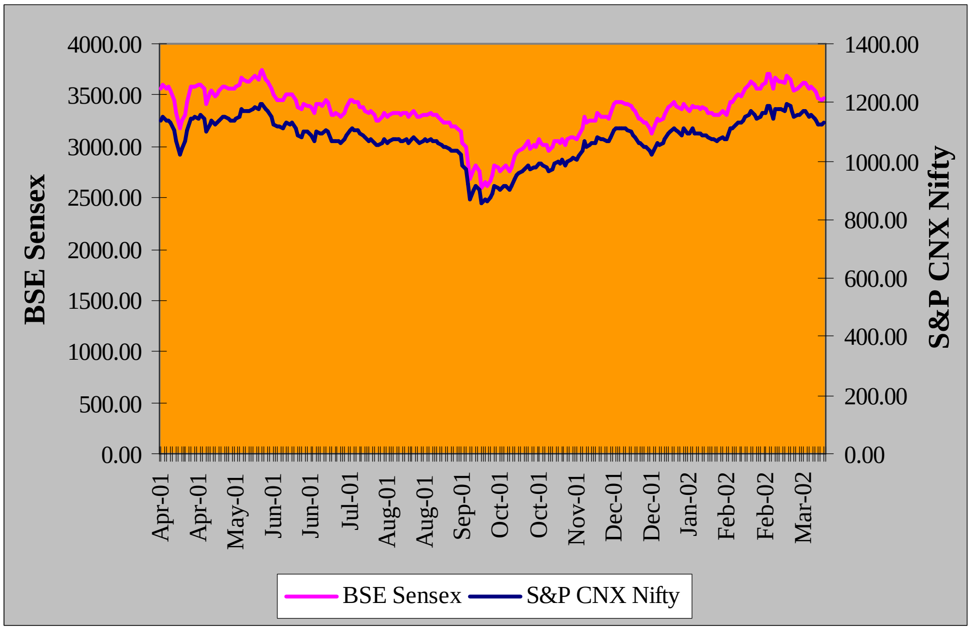
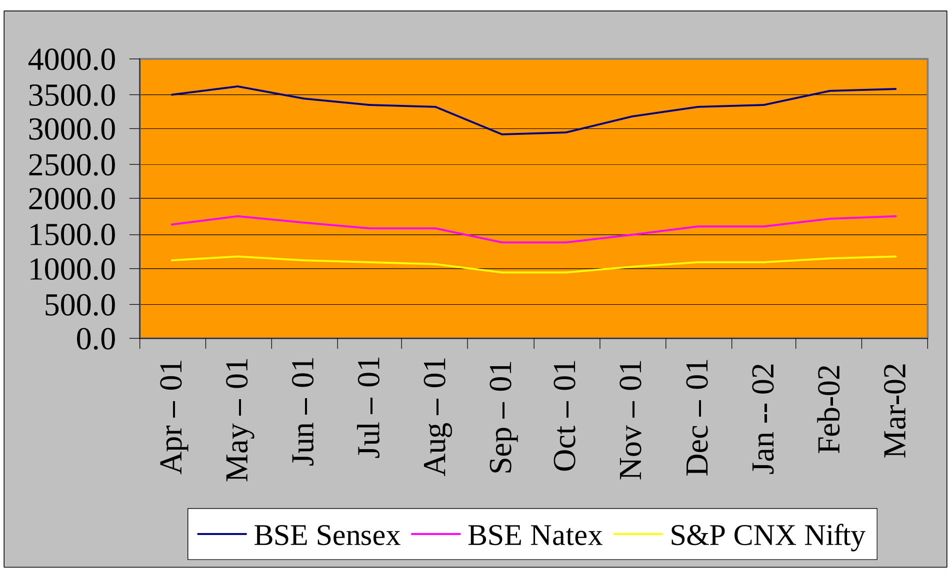


Table 2.17: Stock Market Indicators: Monthly Trends

Month	Index*			Price to Book Ratio*			Price to Earnings Ratio*			Average Daily Turnover (Rs Crore)		Market-Capitalisation (Rs Crore) **	
	S&P CNX Nifty	*Sensex*	*Natex*	*S&P CNX Nifty*	*Sensex*	*Natex*	*S&P CNX Nifty*	*Sensex*	*Natex*	*NSE*	*BSE*	*NSE*	*BSE +*
2001													
Mar	1214.47	3807.63	1829.32	3.96	2.82	2.12	18.20	19.72	20.39	2,868	2,151	6,57,847	5,71,553
Apr	1116.41	3487.44	1641.89	3.56	2.58	1.87	16.09	18.06	17.29	1,875	1,257	6,53,720	5,67,729
May	1159.44	3613.84	1753.46	3.19	2.66	2.00	15.74	18.86	18.61	2,197	1,449	5,92,437	5,95,897
June	1107.15	3439.01	1661.26	2.70	2.49	1.86	15.36	17.49	16.92	2,037	1,229	5,69,797	5,53,231
July	1077.98	3346.88	1572.67	2.39	2.40	1.76	15.32	16.28	15.49	1,238	784	5,74,260	5,31,576
Aug	1069.01	3304.99	1559.95	2.39	2.36	1.73	15.25	16.69	15.46	1,401	831	5,75,242	5,23,036
Sep	949.43	2918.28	1373.77	2.14	2.07	1.51	13.65	15.20	13.69	1,766	1,080	5,09,105	4,56,263
Oct	953.92	2933.55	1357.64	2.15	2.04	1.47	13.75	14.29	12.88	1,682	1,044	5,35,846	4,81,851
Nov	1031.62	3164.25	1486.33	2.41	2.16	1.56	14.86	14.89	13.39	2,107	1,220	5,81,386	5,35,724
Dec	1075.87	3314.88	1587.92	2.55	2.26	1.66	15.59	15.59	13.82	2,867	1,581	5,52,908	5,32,329
2002													
Jan	1087.20	3353.31	1601.92	2.62	2.38	1.67	16.42	16.35	13.79	2,988	1,703	5,63,683	5,44,397
Feb	1138.17	3528.58	1711.43	2.93	2.53	1.78	18.32	17.28	14.67	2,478	1,429	6,21,523	5,96,716
Mar	1159.33	3580.73	1746.78	2.99	2.57	1.81	18.59	17.55	14.95	2,330	1,354	6,36,861	6,12,224

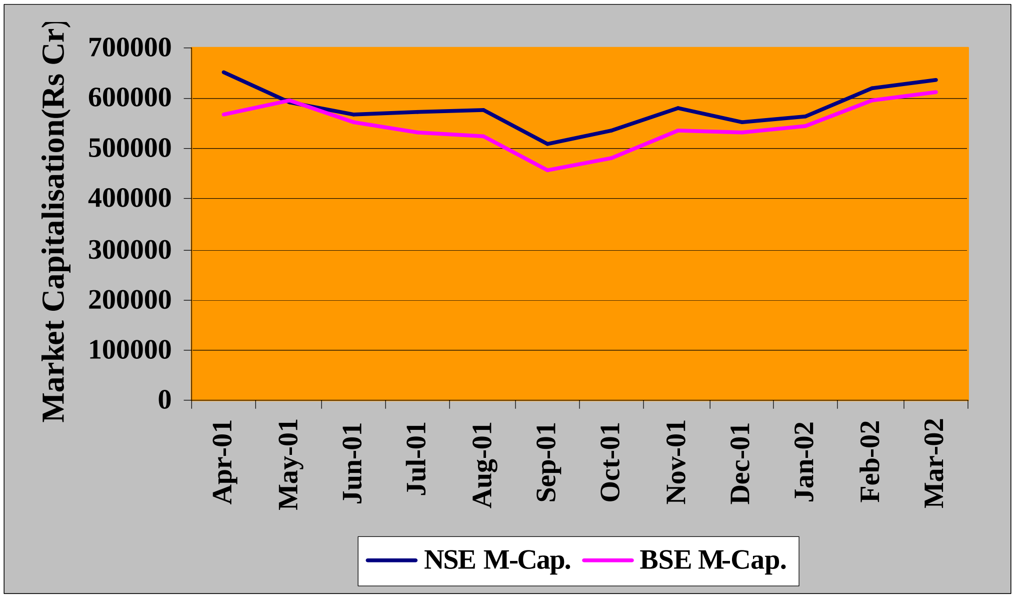
** Monthly Averages of closing values ** As on the last trading day of the month.*
+ Estimated (A+B1+B2+Z scrips)
Source: BSE and NSE

Graph 2.13 : Monthly Averages of Closing Indices



Trends in Market Capitalisation

Market capitalisation of equity shares on Indian bourses experienced varying trend. The market capitalisation at NSE which was at of Rs. 6,57,847 crore in March 2001 declined to Rs. 5,52,908 crore by December 2001 but it rose back to Rs. 6,36,861 crore by March 2002. Thus market capitalization at NSE had a decline of 3 per cent during 2001-02. On the contrary the market capitalization at BSE recorded a rise of 7 per cent during the same period from Rs. 5,71,553 crore in March 2001 to Rs. 6,12,224 crore in March 2002. In absolute terms, the decline in market capitalisation at NSE was of the order of Rs. 16,859 crore whereas at BSE, it increase by Rs. 44,495 crore (April 2001 to March 2002) (Table 2.17).



Graph 2.14 : Movement in Market Capitalisation

Trends in Turnover at Major Stock Exchanges

Turnover on stock exchanges reflect the transaction activity of the market players in the stocks market. The turnover figures demonstrate not only change in price of shares but also variation in volume traded. It is also a sign of size of market and liquidity. The liquidity allows investors to alter their portfolios and cheaply makes investment less risky. However, the average daily turnover at BSE and NSE which had markedly declined from Rs.4,051 crore and Rs. 5,028 respectively crore in March 2000 to Rs. 2,151 crore and Rs.2,868 crore respectively in March 2001 declined further to Rs.1,354 crore and Rs. 2,330 crore in March 2002 . Over the period March 2001 to March 2002 there was a fall of 37 per cent in case of average daily turnover at BSE and 19 per cent in case of NSE . (Table 2.17)

Market Capitalisation of New Economy Stocks

Market capitalisation of new economy stocks is presented in Table 2.18. The share of new economy companies in total market capitalisation was 22 per cent in 2001-02 of total market capitalisation of BSE. Of the total BSE market capitalisation information technology shared 16 per cent and telecom 4 per cent, whereas media and publishing accounted for 2 per cent. Within new economy stocks information technology accounted for 72 per cent of total market capitalisation of new economy stocks followed by telecommunications with 20 per cent and media and publishing 9 per cent. Though the overall share of new economy stocks as a percentage of total market capitalisation at BSE did not undergo any noticeable change but the intra composition of new economy underwent some change .Thus the share of information technology in the market capitalisation of new economy stocks declined from 74 per cent to 72 per cent, that of media & publishing increased from 7 per cent to 9 per cent and the telecom sector had a marginal rise from 19.3 per cent to 19.5 per cent.

Table 2.18 : Market Capitalisation of New Economy Stocks at BSE as on end March 2002

Segment @	Market Capitalisation (Rs.Crore)	Segment Wise Percentage Share	Percentage Share to Total Market Capitalisation of BSE
Information Technology	977.4	71.8	16.0
Media & Publishing	118.6	8.7	1.9
Telecom	265.9	19.5	4.3
Total of New Economy	1361.8	100.0	22.2
Total at BSE	**6122.2**		

@ As per BSE classification of companies
Source : BSE

Relative Strength Index (RSI)[1]

The analysis of movement of share index can also be made on the basis of Relative Strength Index (RSI) which studies the relative strength of stocks prices in relation to their previous positions. RSI of Sensex for the period 2001 - 02 (April-March) mostly hovered within the equilibrium territory of 30 to 70. The standard parameters in RSI analysis are:
Overbought territory = above 70
Equilibrium territory = 30 to 70 and
Oversold territory = below 30

During the financial year 2001-02, though the RSI of both the Sensex and S&P CNX Nifty witnessed northward as well as southward movements but remained inside the equilibrium territory (range 30 – 70) for major periods of time. A case in point is the movement of RSI during April, May, July, August and October 2001 as also for January and March 2002 for Sensex and Nifty as well. During these months RSI for both the indices regularly exhibited to

[1] The RSI calculation appears in its original and derived form. It was brought by W. Wilder in " New Concepts in Technical Trading Systems" , Trend Research, June 1978.

and fro movements mostly forming new tops and bottoms. Despite such swings the RSI remained contained within the equilibrium territory during such periods. Extreme movements during the period into overbought /oversold territories have been very few. This portends well for the Indian markets as it possibly indicates more of secular trends ruling the market in the long run allaying fears of any persisting excessive volatility for long term period. (Annexure 3 & 4)

Table 2.19 : Frequency Distribution of Listed Companies

No. of Days Traded	No. of Companies Traded		Percentage to Total	
	2001-02	*2000-01*	*2001-02*	*2000-01*
Above 100 days	1,238	1,596	23.15	40.64
91 – 100 days	93	98	1.74	2.50
81 – 90 days	113	97	2.11	2.47
71 – 80 days	197	98	3.68	2.50
61 – 70 days	579	117	10.83	2.98
51 – 60 days	402	133	7.52	3.39
41 – 50 days	315	113	5.89	2.88
31 – 40 days	299	131	5.59	3.34
21 – 30 days	360	241	6.73	6.14
11 – 20 days	427	287	7.99	7.31
1 – 10 days	1,324	1,016	24.76	25.87
Total	**5,347**	**3,927**	**100.00**	**100.00**

Source : BSE

The frequency distribution of companies according to number of days they are traded is presented in Table 2.19. It would be observed from the table that during 2001-02, 1,238 companies were traded for more than 100 days and formed 23 per cent of the total number of traded companies whereas in 2000-01, a larger number of 1,596 companies or 41 per cent of the total traded companies were traded for more than 100 days. Companies traded rarely also form a significant number. In 2000-01, 26 per cent of the traded companies were traded for 1 to 10 days whereas this percentage declined slightly to 25 per cent in 2001-02.

Comparative Analysis of Trading Pattern of Companies at NSE and BSE

Table 2.20 presents a comparative analysis of frequency distribution of companies according to number of days they were traded. As such, NSE recorded a better performance in 2001-02 as 78 per cent of companies were traded at NSE for more than 100 days compared to only 23 per cent at BSE. On the other hand a large number of companies forming nearly 25 per cent were traded for 1 to 10 days in case of BSE and 4 per cent at NSE. Thus NSE performance was better in terms of trading.

Table 2.20 : Frequency Distribution of Companies Traded

No. of Days Traded	No. of Companies Traded 2001-02		Percentage to Total	
	BSE	*NSE*	*BSE*	*NSE*
Above 100 days	1,238	796	23.15	78.12
91 – 100 days	93	18	1.74	1.77
81 – 90 days	113	25	2.11	2.45
71 – 80 days	197	29	3.68	2.85
61 – 70 days	579	16	10.83	1.57
51 – 60 days	402	22	7.52	2.16
41 – 50 days	315	19	5.89	1.86
31 – 40 days	299	24	5.59	2.36
21 – 30 days	360	13	6.73	1.28
11 – 20 days	427	19	7.99	1.86
1 – 10 days	1,324	38	24.76	3.73
Total	**5,347**	**1,019**	**100.00**	**100.00**
Source : BSE				

Movement in Daily Volatility

Daily volatility is calculated as standard deviation of natural log of daily returns on the indices for the respective months. Volatility in stock prices in India showed by and large a declining trend except for certain months. The BSE Sensex, which had a volatility of 2.4 per cent in April 2001, witnessed an improved performance as it was only 0.9 per cent in May 2001 and further lower at 0.6 per cent in August 2001. However September 2001 was marked by a pronounced volatility in the market as was reflected in the BSE Sensex measuring at 2.8 per cent but by March 2002 volatility receded to 1.3 per cent. Volatility of BSE Natex, which was 2.7 per cent in April 2001, declined to 0.7 per cent in August 2001 but rose back to 1.1 per cent in March 2002. The S&P CNX Nifty demonstrated a volatility of 2.2 per cent in April 2001 which decreased to as low as 0.5 per cent by August 2001. The Nifty Junior which saw a volatility level of 2.6 per cent in April 2001 ended the financial year with a volatility of 1.1 per cent in March 2002.

It may be noted that during 2001-02, the Sensex daily volatility declined from 2.4 per cent in April 2001 to 0.7 per cent in August 2001. The volatility, however, sharply jumped up to 2.8 per cent in September 2001. This is the month when Natex also show high volatility following the September 11, 2001 crash of the Nasdaq market. The volatility at BSE Sensex, thereafter declined to 0.9 per cent in January 2002 before rising to 1.5 per cent in February and again declining to 1.3 per cent in March 2002. The pattern of movement of Natex volatility was similar to Sensex volatility. It showed high volatility in September 2001 at 2.9 per cent which declined to 1.1 per cent in month of March 2002. The indices of S&P CNX Nifty and CNX Nifty junior registered the same trend in their respective volatility. (Table 2.21 & 2.22)

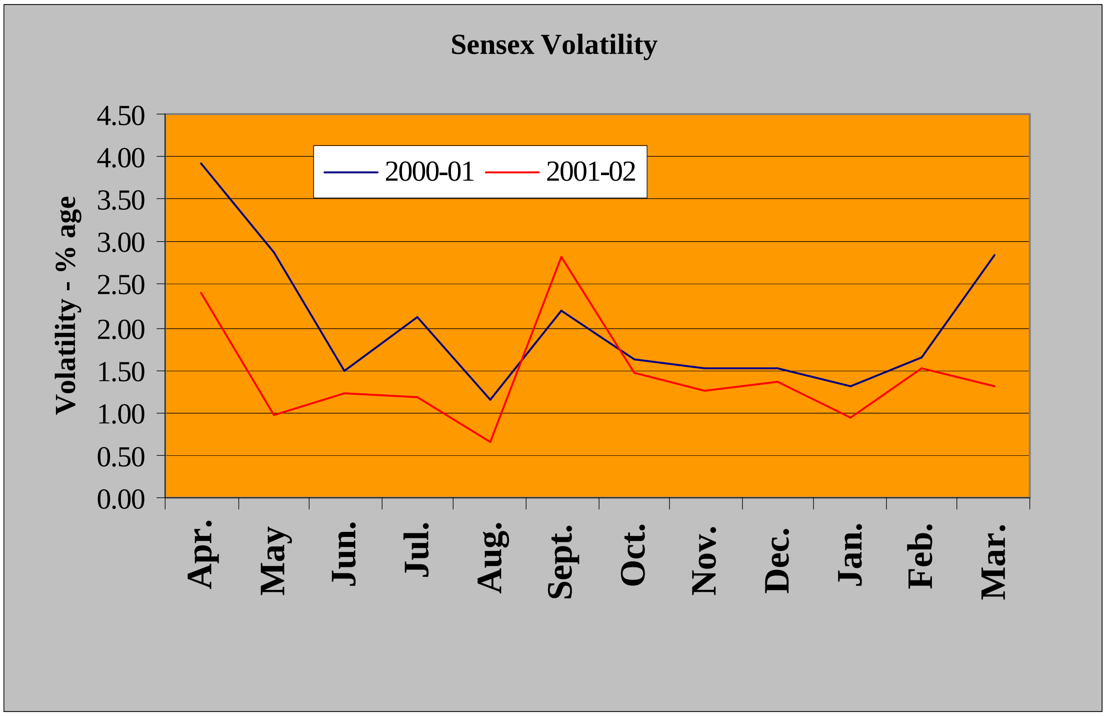
Table 2.21: Daily Volatility of BSE Sensex and BSE Natex *(in per cent)*

Month	Sensex Daily Volatility		Natex Daily Volatility	
	2001-02	*2000-01*	*2001-02*	*2000-01*
April	2.42	3.93	2.77	3.99
May	0.96	2.89	1.08	3.09
June	1.24	1.50	1.45	1.69
July	1.19	2.13	1.12	2.27
August	0.66	1.16	0.69	1.34
September	2.83	2.20	2.94	2.30
October	1.46	1.61	1.38	2.06
November	1.26	1.51	1.25	1.45
December	1.36	1.52	1.55	1.92
January	0.93	1.31	1.01	1.52
February	1.51	1.64	1.68	1.88
March	1.31	2.85	1.12	3.26

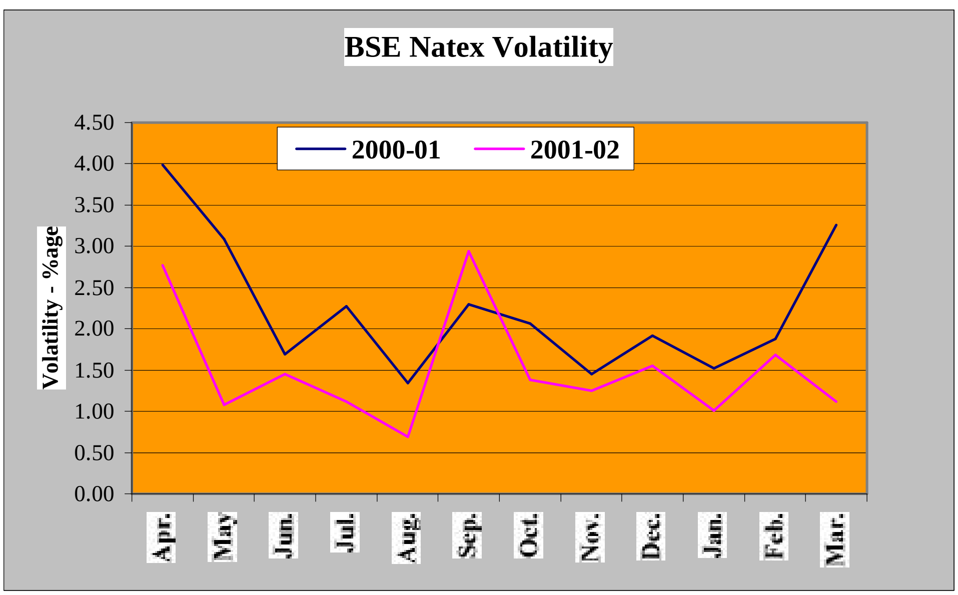
Note :Daily Volatility is calculated as standard deviation of natural log of daily returns on the indices for the respective months.

Source: SEBI

Graph 2.15 A : BSE Sensex Daily Volatility



Graph 2.15 B : BSE Natex Daily Volatility



A comparative analysis of volatility trends among the indices shows that markets have, by and large, remained stable except for short periods of bursts in volatility. Volatility was the highest in case of BSE Natex during the year of 2001-02 followed by BSE Sensex, CNX Nifty and Junior Nifty. It may be mentioned that BSE Natex registered the highest level of volatility in September 2001 at 2.9 per cent followed by a volatility of 2.8 per cent recorded by the BSE

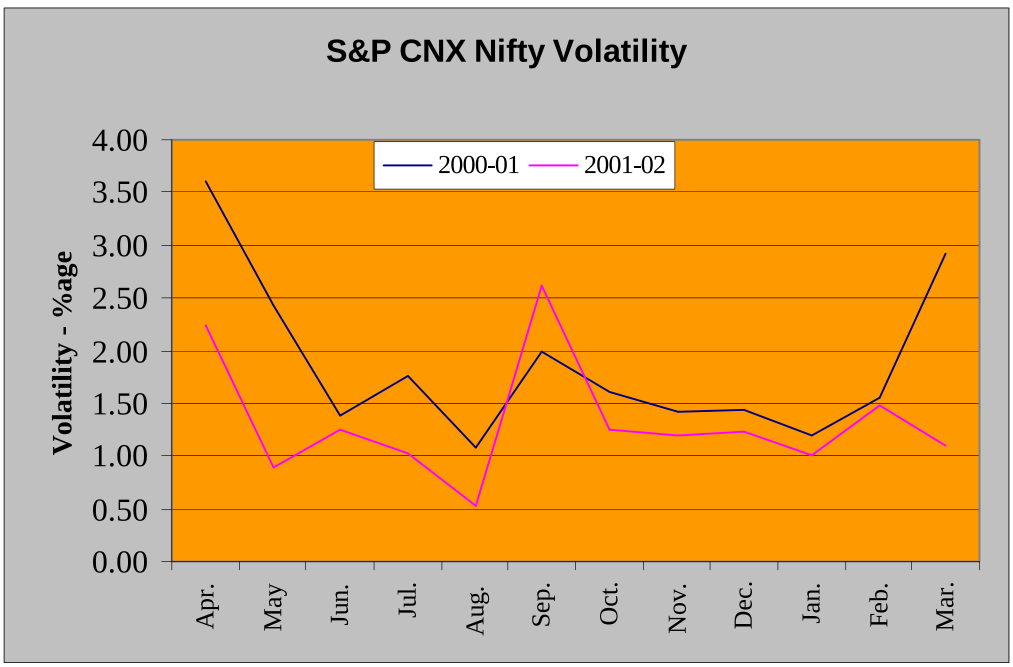
Sensex. The volatility in the same month was recorded at 2.6 per cent by CNX Nifty and 2.8 per cent by Junior Nifty.

Table 2.22: Daily Volatility of S&P CNX Nifty & Junior Nifty *(in per cent)*

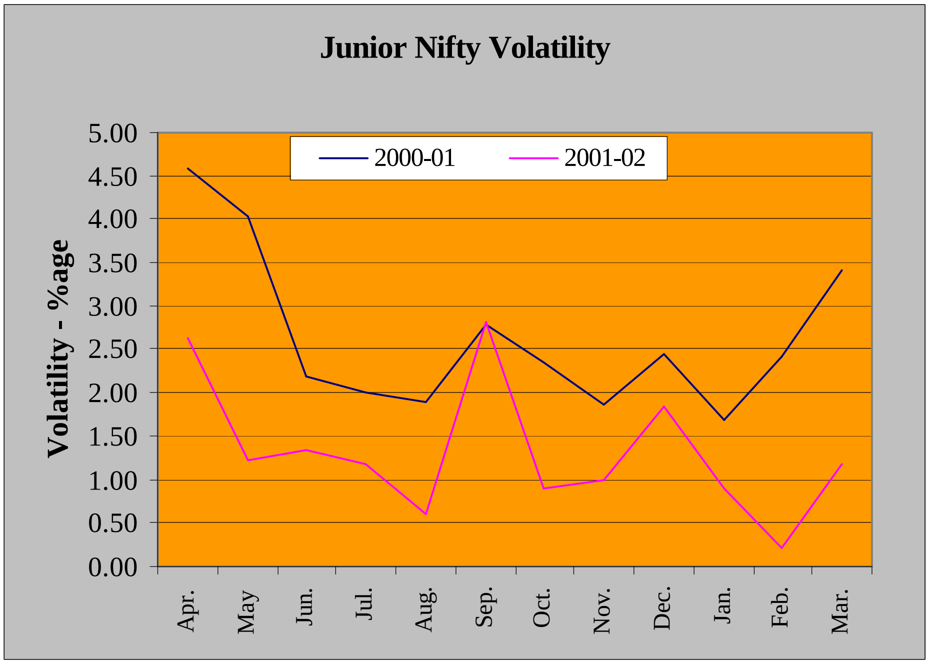
Month	S&P CNX Nifty Daily Volatility		Junior Nifty Daily Volatility	
	2001-02	*2000-01*	*2001-02*	*2000-01*
April	2.23	3.60	2.63	4.59
May	0.89	2.43	1.21	4.04
June	1.25	1.39	1.34	2.19
July	1.03	1.76	1.18	2.00
August	0.54	1.08	0.59	1.88
September	2.62	2.00	2.80	2.79
October	1.26	1.61	0.91	2.35
November	1.20	1.43	0.98	1.86
December	1.24	1.45	1.85	2.44
January	1.00	1.20	0.90	1.68
February	1.48	1.56	0.21	2.42
March	1.10	2.91	1.17	3.40

Note : Daily Volatility is calculated as standard deviation of natural log of daily returns on the indices for the respective months.
Source: SEBI

Graph 2.16 A – S&P CNX Nifty Volatility



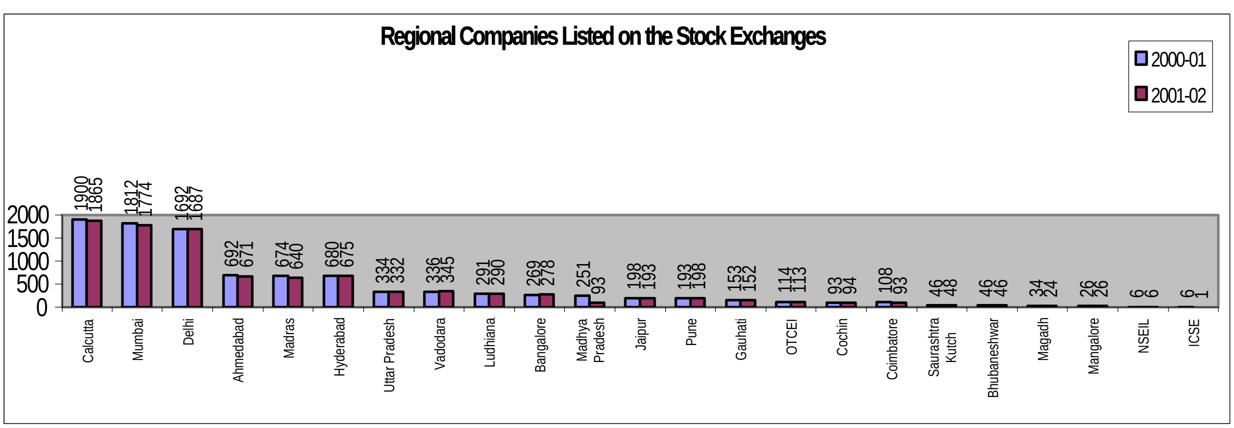
Graph 2.16 B : Junior Nifty Volatility



Primary Listing of Companies on Stock Exchanges

Number of primary listed companies at various bourses in India decreased to 9,644 as on end March, 2002 from 9,954 as on end March 2001. Among the various bourses, Calcutta Stock Exchange accounted for 19.3 per cent of total primary listed companies in India, followed by Mumbai (18.4 per cent), Delhi (17.5 per cent), Ahmedabad (6.9 per cent), Madras (6.6 per cent) and Hyderabad (7.0 per cent) together accounting for 75.8 per cent of the listed companies. On the other hand, stock exchanges like NSE (6 companies), Mangalore (26 companies), Magadh (24 companies) and Bhubaneshwar (46 companies) did not have significant presentation of primary listing. It is also observed that share of some of the stock exchanges like Madras and Ahmedabad have shown marginal decline in 2001-02 as compared to the previous year. (Table 2.23)

Graph 2.17 :Distribution of Companies According to Primary Listing on Stock Exchanges
Table 2.23 : Distribution of Companies according to



Primary Listing on Stock Exchanges

Sr. No.	Stock Exchanges	No. of Companies		
		1999-00	*2000-01*	*2001-02*
1	Calcutta	1,903	1,900	1,865
2	Mumbai	1,810	1,812	1,774
3	Delhi	1,698	1,692	1,687
4	Ahmedabad	687	692	671
5	Madras	643	674	640
6	Hyderabad	632	680	675
7	Uttar Pradesh	352	334	332
8	Vadodara	335	336	345
9	Ludhiana	296	291	290
10	Bangalore	256	269	278
11	Madhya Pradesh	251	251	93
12	Jaipur	188	198	193
13	Pune	187	193	198
14	Gauhati	161	153	152
15	OTCEI	115	114	113
16	Cochin	95	93	94
17	Coimbatore	95	108	93
18	Saurashtra Kutch	46	46	48
19	Bhubaneshwar	46	46	46
20	Magadh	33	34	24
21	Mangalore	26	26	26
22	NSE	16	6	6
23	ICSE	0	6	1
	Total	**9,871**	**9,954**	**9,644**

Note : The primary listing of company represents the company in the region of stock exchange where it is listed
Source: SEBI

Stock Exchange-Wise Trends in Volume of Business

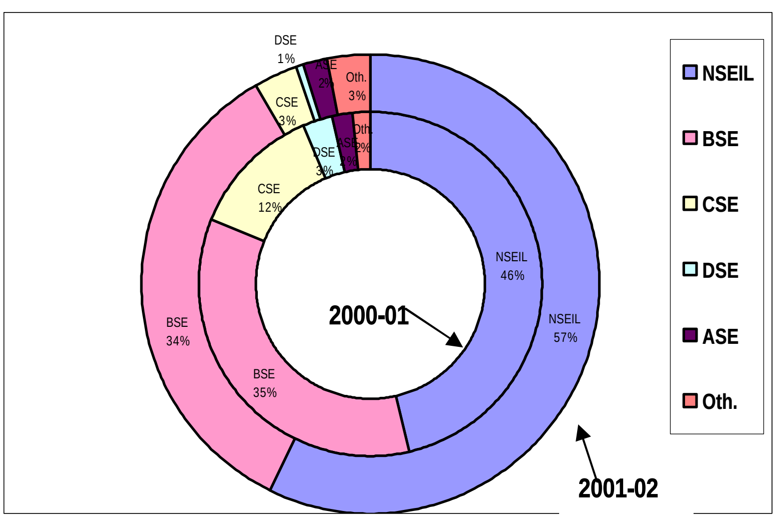
Total turnover of business at 23 stock exchanges in 2001-02 declined significantly to Rs. 8,95,725 crore as compared to Rs. 28,80,803 crore in 2000-01. The performance of various stock exchanges can be viewed in terms of their share in total turnover of all the stock exchanges. The share of NSE showed an increase to 57.3 per cent in the current financial year as compared to 46.5 per cent last year, while the share of BSE marginally decreased to 34.3 per cent in 2001-02 from 34.7 per cent in 2000-01. On the other hand, share of Calcutta Stock Exchange declined substantially to 3.0 per cent from 12.3 per cent and that of Delhi from 2.9 per cent to 0.7 per cent during the same period. It would be observed that several stock exchanges like Bhubaneshwar, Jaipur, Guahati, Mangalore, Magadh, SKSE, Coimbatore did not report any turnover activity in 2001-02 or reported very nominal turnover showing their unviability. The decline in turnover on several of the exchanges is having an impact on the viability of the exchanges. (Table 2.24)

Table 2.24: Turnover on Stock Exchanges in India

Sr. No.	Stock Exchange	Turnover (Rs. Crore)	Turnover (Rs. Crore)	% of Total Turnover	% of Total Turnover
		2000-01	2001-02	*2000-01*	*2001-02*
1	NSE	1,339,510.90	5,13,166.92	46.49	57.29
2	Mumbai (BSE)	1,000,031.55	3,07,392.36	34.71	34.32
3	Calcutta (CSE)	355,035.35	27,074.71	12.32	3.02
4	Delhi (DSE)	83,871.12	5,828.00	2.91	0.65
5	Ahmedabad (ASE)	54,035.20	14,843.54	1.88	1.65
6	Uttar Pradesh	24,746.73	25,237.31	0.86	2.82
7	Bangalore	6,032.83	70.26	0.21	0.01
8	Ludhiana	9,732.24	856.61	0.34	0.10
9	Pune	6,170.53	1,171.03	0.21	0.13
10	OTCEI	125.90	3.73	0.00	0.00
11	Hyderabad	977.83	41.26	0.03	0.00
12	ICSE	233.05	55.35	0.01	0.01
13	Madras	109.18	24.14	0.00	0.00
14	Vadodara	0.91	10.12	0.00	0.00
15	Bhubaneshwar	0.01	0.00	0.00	0.00
16	Coimbatore	0.00	0.00	0.00	0.00
17	MP	2.39	15.93	0.00	0.00
18	Magadh	1.55	0.00	0.00	0.00
19	Jaipur	0.00	0.00	0.00	0.00
20	Mangalore	0.00	0.00	0.00	0.00
21	Gauhati	0.04	0.03	0.00	0.00
22	Cochin	373.22	26.60	0.01	0.00
23	SKSE	0.00	0.00	0.00	0.00
	Total	**28,80,990.53**	**8,95,717.94**	**100.00**	**100.00**

Source : SEBI

Graph 2.18 : Percentage Share in Total All India Turnover



Delivery Pattern in Stock Exchanges

Data on delivery ratio and turnover in physical form as well as in value terms are furnished in Table 2.25. The delivery ratio (in terms of volume) at aggregate level showed marginal improvement from 21 per cent in 2000-01 to 24 per cent in 2001-02. However, stock exchange-wise delivery ratio showed large variations. While at NSE the delivery ratio increased from 14 per cent in 2000-01 to 21 per cent in 2001-02, it decreased from 34 per cent to 32 per cent at Mumbai Stock Exchange. Stock exchanges in Kolkata and Delhi witnessed an increase from 10 and 27 per cent to 11 and 46 per cent respectively during the same period. Gauhati showed a high delivery ratio of 100 per cent during 2001-02 followed by Hyderabad with 58 per cent. In terms of value, delivery ratio showed an improvement from 11 per cent during 2000-01 to 15 per cent during 2001-02. The delivery ratio at OTCEI declined substantially from 31 per cent in 2000-01 to 0.8 per cent in 2001-02, followed by Ahmedabad from 7 per cent to 3 per cent and Madras from 13 to 9 per cent during the same period. It increased from 8 per cent to 14 per cent at NSE and remained at the same level for Calcutta (7 per cent). Delivery ratio in terms of value at Gauhati was the highest at 100 per cent followed by Delhi at 32 percent. Bangalore at 29 per cent, Mumbai at 20 per cent and Hyderabad at 20 per cent. However, at small stock exchanges trading activity was very negligible.

Table 2.25: Delivery Pattern in Stock Exchanges

Sr. No.	Exchange	Turnover (Rs. Crore)	Value of Shares Delivered (Rs. Crore)	Delivery Ratio * (in terms of Value)	Delivery Ratio * (in terms of Value)	Turnover (No. of Shares-Lakh)	Number of Shares Delivered (Lakh)	Delivery Ratio * (in terms of Volume)	Delivery Ratio * (in terms of Volume)
		2001-02	*2001-02*	*2001-02*	*2000-01*	*2001-02*	*2001-02*	*2001-02*	*2000-01*
1	NSE	5,13,166.92	71,765.40	14.0	8.0	2,78,408.81	59,298.53	21.0	14.0
2	Mumbai	3,07,292.36	59,980.33	20.0	17.0	1,82,196.00	57,668.00	32.0	34.0
3	Calcutta	27,074.71	1,810.33	7.0	7.0	19,547.63	2,061.62	11.0	10.0
4	Delhi	5,828.00	1,872.00	32.0	12.0	6,811.00	3,127.00	46.0	27.0
5	Ahmedabad	14,843.54	435.25	3.0	7.0	7,622.43	373.03	5.0	8.0
6	Uttar Pradesh	25,237.31	231.76	1.0	2.0	7,997.00	202.21	3.0	2.0
7	Bangalore	70.26	20.28	29.0	4.0	34.71	7.74	22.0	13.0
8	Ludhiana	856.61	53.07	6.0	3.0	764.85	73.83	10.0	7.0
9	Pune	1,171.03	34.41	3.0	2.0	395.91	15.64	4.0	3.0
10	OTCEI	3.73	0.03	0.8	31.0	5.41	0.07	1.3	23.0
11	Hyderabad	41.26	8.17	20.0	17.0	142.51	81.98	58.0	45.0
12	ICSE	55.35	9.65	17.0	4.0	122.76	0.65	1.0	9.0
13	Madras	24.14	2.19	9.0	13.0	51.91	5.31	10.0	31.0
14	Vadodara	10.12	0.00	0.0	0.0	6.97	0.00	0.0	0.0
15	Bhubaneshwar	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
16	Coimbatore	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
17	MPSE	15.93	0.90	6.0	30.0	11.31	0.698	6.0	4.0
18	Magadh	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
19	Jaipur	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
20	Mangalore	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
21	Gauhati	0.03	0.03	10.3	100.0	0.13	0.13	10.0	0.0
22	SKSE	0.00	0.00	0.0	0.0	0.00	0.00	0.0	0.0
23	Cochin	26.60	1.65	6.0	6.0	29.46	0.80	3.0	2.0
	Total	**8,95,717.94**	**1,36,225.43**	**15.0**	**11.0**	**4,96,231.79**	**1,22,951.19**	**25.0**	**21.0**

** Delivery Ratio represents percentage of delivery to turnover of a stock exchange.*
Source : SEBI

Bad Deliveries on the Stock Exchanges

The bad deliveries in relation to net deliveries have shown a marked decline. The ratio of bad deliveries to net deliveries declined from 0.026 per cent in April 2001 to 0.003 in March 2002 at BSE. This ratio was higher in 2000-01 ranging between 0.01 and 0.11 per cent. At NSE bad deliveries sharply declined and the performance of the stock exchange corroborated with the performance of BSE. Bad Delivery Ratio was a negligible 0.0008 per cent in April 2001 and was nil in March 2002. Probably dematerialisation of trade and other binding conditions on brokers and investors have resulted in fall in bad deliveries. (Table 2.26)

Table 2.26 : Bad Deliveries*

Month & Year	BSE *		NSE **	
	2000-01	2001-02	2000-01	2001-02
April	0.110	0.026	0.119	0.0008
May	0.110	0.027	0.070	0.0003
June	0.090	0.024	0.060	0.0002
July	0.050	0.020	0.043	0.0001
August	0.060	0.020	0.041	0.0001
September	0.040	0.017	0.019	0.0000
October	0.040	0.017	0.013	0.0000
November	0.030	0.007	0.006	0.0000
December	0.020	0.008	0.010	0.0000
January	0.020	0.002	0.011	0.0000
February	0.010	0.007	0.004	0.0000
March	0.020	0.003	0.003	0.0000

**Percentage share of bad deliveries in net deliveries*
*** Percentage share of bad deliveries in net deliveries; does not include company objections*
Source: BSE and NSE

Liquidity Movement

Liquidity is accepted as one of the conditions for smooth market functioning. The variations in the degree of liquidity affects the price discovery process and efficiency of the market. For definition purposes, the liquidity of the market is the situation in which a large trade in shares can be transacted without having any material impact on the price of shares. Liquidity in the market has shown improvement during the recent years. The growth of the liquidity is measured in terms of value-traded ratio and turnover ratio. (Table 2.27).

The traded value ratio indicates volume of trading in relation to the size of the economy. On the other hand turnover ratio shows trading in relation to the size of the market. It would be seen from the Table 2.28 that traded value ratio, which was 14.9 per cent of GDP in 1997-98 rose to 52.7 per cent by 2001-02 in case of BSE but declined to 14.7 per cent in 2001-02. In case of NSE, this ratio rose from 26.6 per cent in 1997-98 to 70.6 per cent in 2000-01 but it declined to 24.6 per cent in 2001-02. The turnover ratio at BSE rose from 37.0 per cent in 1997-98 to 50.1 per cent in 2001-02. Similarly the turnover ratio at NSE rose from 76.8 per cent in 1997-98 to 80.5 per cent in 2001-02. Both the ratios reflect improvement in the liquidity in the market. The performance of the market can also be seen in terms of market cap-GDP ratio or market capitalisation ratio. The market capitalisation ratio indicates the size of the market. At BSE the market capitalisation which was 40.3 per cent in 1997-98 moved upto nearly 52 per cent in 1999-2000 but fell to 29.4 per cent by 2001-02. The market capitalisation to GDP ratio at NSE also moved in a similar pattern rising from 34.6 per cent in 1997-98 to 58.1 per cent in 1999-2000 and thereafter, decelerated to 30.6 per cent in 2001-02.

Table 2.27: Indicators of Liquidity*

Year	BSE MCap/ GDP	NSE MCap/GDP	Turnover Ratio - BSE	Turnover Ratio - NSE	Traded Value Ratio- BSE	Traded Value Ratio- NSE
1997-98	40.31	34.64	37.06	76.88	14.94	26.63
1998-99	34.13	30.74	57.21	84.38	19.52	25.94
1999-00	51.99	58.12	75.02	82.23	39.02	47.79
2000-01	30.15	34.70	174.97	203.62	52.75	70.66
2001-02	29.43	30.61	50.19	80.58	14.77	24.67

Traded value ratio is estimated by dividing the total value by the GDP. Whereas turnover ratio is value of total shares traded divided by market capitalisation. GDP for 1999-00 is Provisional, GDP for 2000-01 is Quick Estimate and GDP for 2001-02 is Advanced Estimate.
Source : SEBI , Economic Survey 2001-02

Performance of Dematerialisation

Dematerialisation of shares has been becoming popular with the investors as well as the companies as technological progress has become a part of stocks market in India. Based on the recommendation of SEBI's Working Group on dematerialisation, all the listed scrips have been put in the list for compulsory settlement of trades in dematerialised form for all investors. Total no of companies connected with NSDL and CDSL are 4172 and 4284 respectively as at the end of the financial year under review.

According to information furnished by the NSDL and CDSL number of dematerialised securities (equity shares and debt securities) increased from 15,500 million as on end March 2000 to 39000 million as on end March 2001 and further to 56480 million as on end March 2002. The increase in number of dematerialised scrips reflects fast pace in institutionalisation of paperless trading in equities. Depository participants of NSDL and CDSL also increased from 300 as on end March 2001 to 377 as on end March 2002. The value of dematerialised securities increased from Rs. 4,35,000 crore as on March 31, 2001 to Rs. 4,66,916 crore at the end of March 2002. There has been an increase in the beneficiary accounts opened with the depository participants from 34,97,279 as on March 31, 2001 to 38,46,711 as on March 31, 2002.

The volume of dematerialised securities constitutes around 99.7 percent of the total delivery of securities at the NSE and BSE together. 10 Stock Exchanges viz. NSE, BSE, CSE, DSE, MSE, OTCEI, BgSE, LSE, ICSI and ASE have established connectivity with both the depositories for settlement and clearing of dematerialised trading.

International Comparison of Developments in Stock Markets

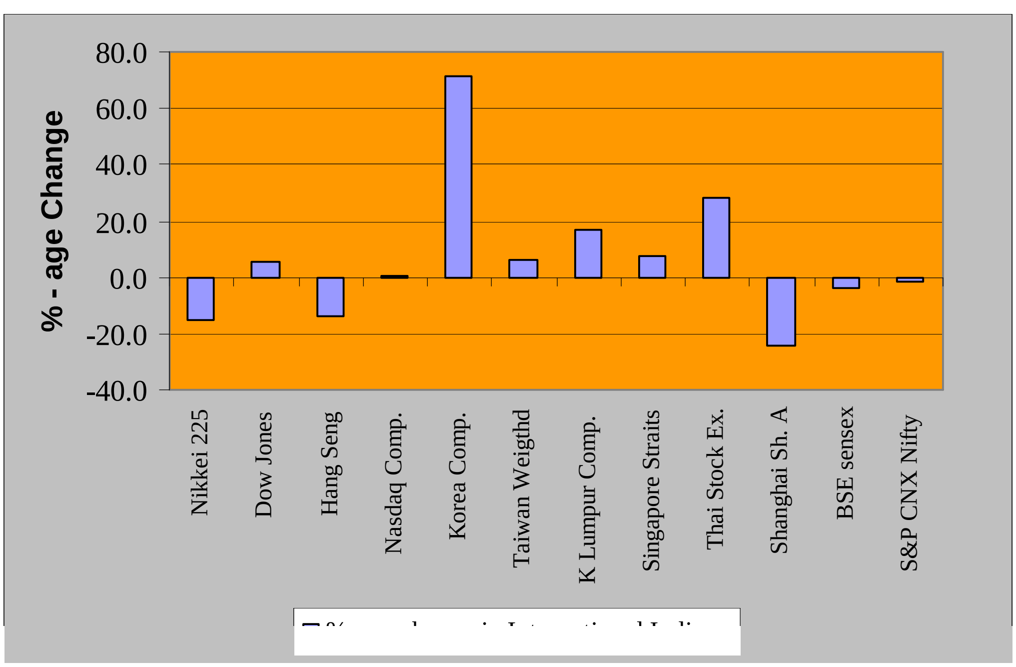
The stock prices on the major stock exchanges of the world witnessed divergent movement. On the one hand, Japan's Nikkei, Hong Kong Hang Seng, BSE Sensex and the China Shanghai A moved southward. USA Dow Jones, Korean Composite Index, Taiwan Weighted, Malaysian Kuala Lumpur, Singapore Straits Times, Thai Stock Exchange moved northward with positive gains. Nasdaq had a nominal rise. During 2001-02, on point to point basis, the Shanghai Stock Exchange A Share Index had a substantial fall of 24.5 per cent while the Nikkei 225 Index demonstrated a fall of 15.2 per cent and the Hang Seng Index fell by 13.5 per cent. In India, the BSE Sensex decreased by 3.7 per cent followed by S&P CNX Nifty by 1.6 per cent On the other hand USA's Dow Jones had a small rise of 5.3 per cent , the Nasdaq had a nominal rise of 0.3 per cent. the Malaysian KLCI a rise of 16.8 per cent while the Korean Composite Index witnessed a large increase of 71.2 per cent. (Table 2.28)

Table 2.28: Month-end Closing of Different Indices

Country	Indices	End Mar-01	End Mar-02	Percentage Change
Japan	Nikkei 225 *	12999.70	11024.94	-15.2
USA	Dow Jones	9878.78	10403.94	5.3
Hong Kong	Hang Seng	12760.64	11032.92	-13.5
USA	NASDAQ Comp	1840.26	1845.35	0.3
S. Korea	Korea Comp.*	523.22	895.58	71.2
Taiwan	Taiwan Weighted	5797.92	6167.47	6.4
Malaysia	Kuala Lumpur Comp.(KLCI)	647.48	756.10	16.8
Singapore	Singapore Straits	1674.19	1803.22	7.7
Thailand	Thai Stock Exchange *	291.94	373.95	28.1
China	Shanghai	2214.69	1672.64	-24.5
India	BSE Sensex	3604.38	3469.30	-3.7
India	S&P CNX NIFTY	1148.20	1129.55	-1.6

Source : Bloomberg ,
*Financial Times (*Values)*

Graph 2.19 : Percentage Increases / Decrease in Indices of Various Countries (End March



2001 – End March 2002)

P/E Ratio and Correlation Analysis

The prevalent decline in the international stock indices was reflected in the downward slide in P/E ratios of many foreign indices with the exception of Dow Jones of USA, the Korean Composite, the Malaysian KLC Index, Singapore Straits and the BSE Sensex. The P/E ratios as at end-March 2002 when compared to that of end March 2001 reveal that the Shanghai A Share Index declined from 55.1 as at end Mar 2001 to 36.6 as end Mar 2002 followed by the Nikkei Index with corresponding figures of 50.2 to 42.0 . At the bottom the Thai Stock Index had a P/E ratio of 12.9 as at end March 2001 which slid to 9.5 as at end March 2002. In terms of positive trend in movement of P/E ratios, the P/E ratio of Dow Jones increased from 19.7 to 29.9 that of South Korean Composite increased from 8.6 to 15.4, the KLC index from 18.2 to 20.8, and the P/E ratio of Singapore Times Index increased from 14.2 to 22.9 between March 2001 and March 2002. The BSE Sensex, however, fared better than many other countries in terms of stability as the P/E ratio of the index underwent a nominal rise of 1.4 per cent between March 2001 and March 2002 whereas the S&P CNX Nifty had an increase of 18.0 per cent during the same period. (Table 2.29)

Table 2.29: P/E Ratio of Different Indices

Country	Index	End Mar-01	End Mar-02	Percentage change
Japan	Nikkei 225 *	50.20	42.00	-16.3
USA	Dow Jones	19.74	29.96	51.8
Hong Kong	Hang Seng*	16.00	14.50	-9.4
USA	NASDAQ Comp .	196.39	**na**	**na**
S. Korea	Korea Comp.*	8.60	15.40	79.1
Taiwan	Taiwan Weighted	23.43	21.07	-10.1
Malaysia	Kuala Lumpur Comp. (KLCI)	18.29	20.85	14.0
Singapore	Singapore Straits	14.23	22.95	61.3
Thailand	Thai Stock Exchange *	12.90	9.50	-26.4
China	Shanghai	55.15	36.67	-33.5
India	BSE Sensex	16.76	17.00	1.4
India	S&P CNX NIFTY	15.53	18.32	18.0

Source : Bloomberg
*Financial Times (*Values)*

Graph 2.20 : P/E Ratio for International Indices : End-March 2001 and End–March 2002

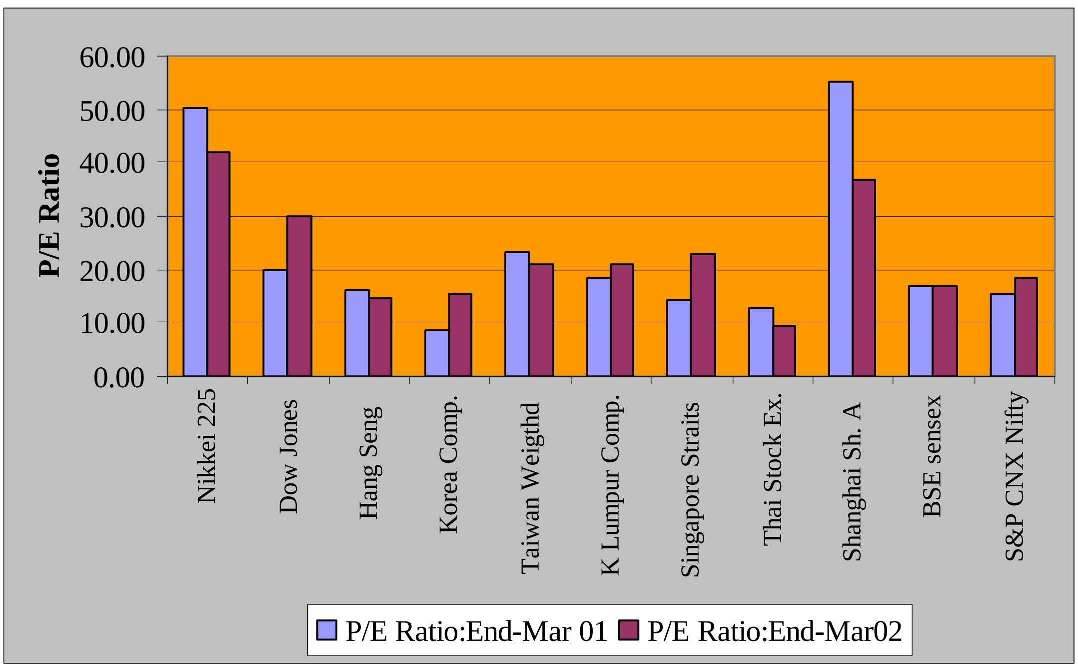


Table 2.30 provides co-efficient of correlation between Indian indices and Dow Jones and NASDAQ indices. The BSE Sensex and Dow Jones indices demonstrated high correlation during the few months in 2001-02. The correlation co-efficient was as high as 0.50 in September 2001 followed by a co-efficient of 0.29 in May 2001. The correlation co-efficient in other months was also positive and high during the months of July 2001 and January 2002. The correlation was negative only in June 2001. The correlation between the Sensex and NASDAQ was positive during

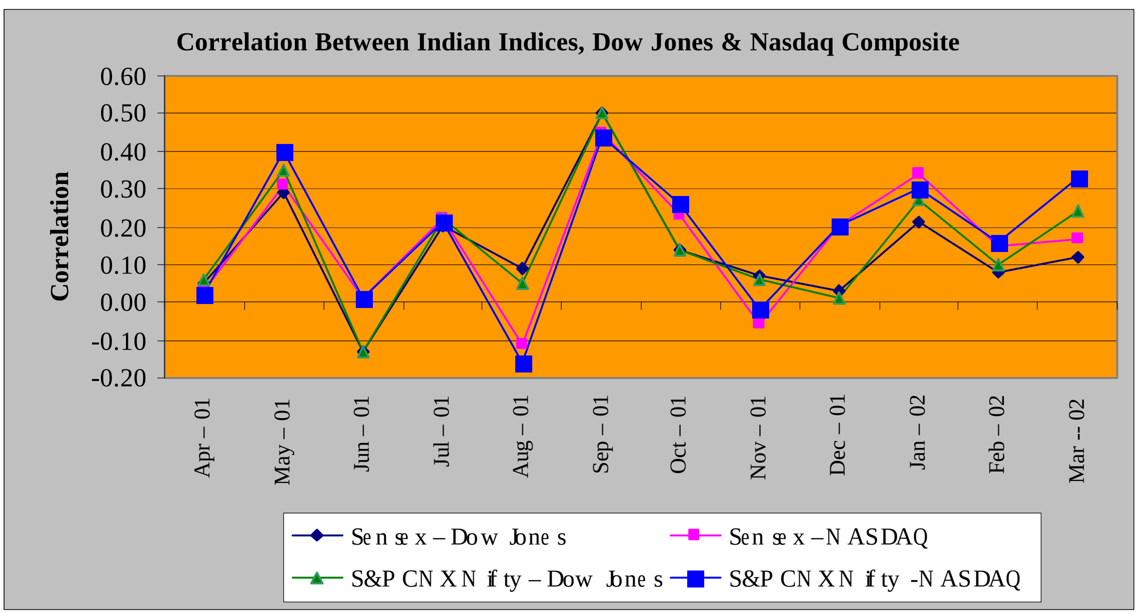
10 months in 2001-02. However, co-efficient of correlation was of higher value in case of S&P CNX Nifty and Dow Jones. The relationship between the Indian and US stocks prices was strongly reflected following the terrorist attack on the USA on September 11, 2001 squeezing the stocks indices in USA as well as at home.

Table 2.30 : Correlation Matrix Between Returns of Indices *

Period	Sensex – Dow Jones	Sensex – NASDAQ	S&P CNX Nifty – Dow Jones	S&P CNX Nifty - NASDAQ
Apr – 01	0.05	0.03	0.06	0.02
May – 01	0.29	0.31	0.35	0.40
Jun – 01	-0.13	0.01	-0.13	0.01
Jul – 01	0.20	0.22	0.22	0.21
Aug – 01	0.09	-0.11	0.05	-0.16
Sep – 01	0.50	0.45	0.50	0.44
Oct – 01	0.14	0.23	0.14	0.26
Nov – 01	0.07	-0.06	0.06	-0.02
Dec – 01	0.03	0.20	0.01	0.20
Jan – 02	0.21	0.34	0.27	0.30
Feb – 02	0.08	0.15	0.10	0.16
Mar -- 02	0.12	0.17	0.24	0.33
April – March 2001 - 02	**0.23**	**0.24**	**0.19**	**0.20**

** The Correlation is the covariance of two variables divided by the product of their standard deviations. Correlation is calculated between the two concerned daily returns on indices for the respective months*
Source : SEBI.

Graph 2.21: Correlation between Return on Indian Indices and Dow Jones and Nasdaq Composite Index



Market Volatility in International Securities Markets

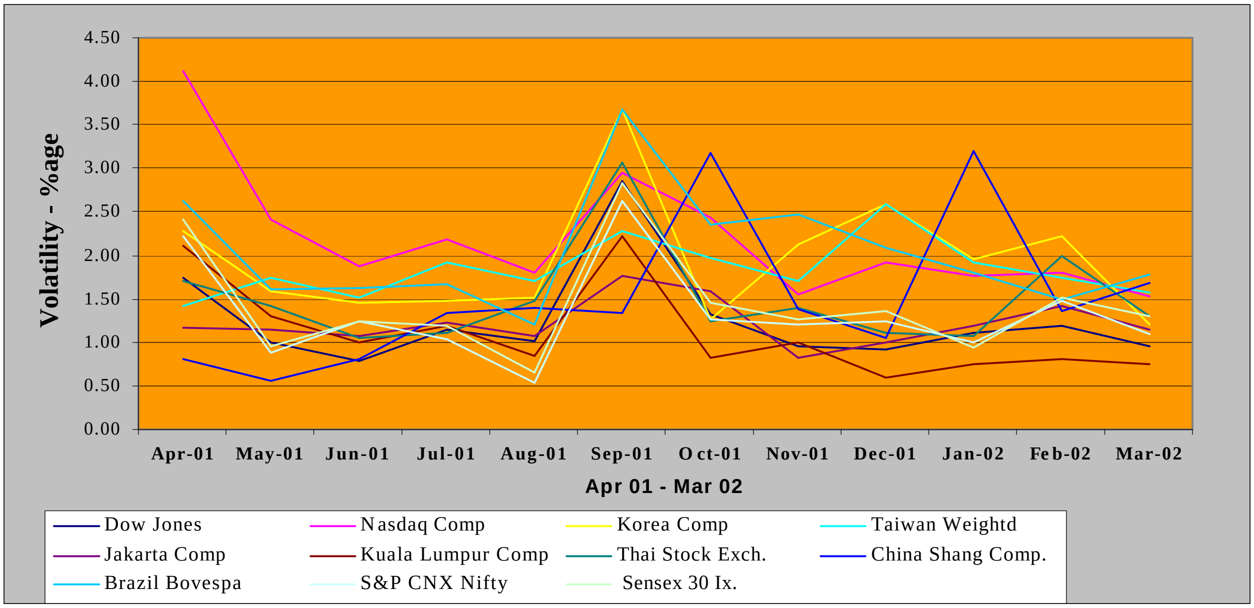
Month-wise volatility ratios of major indices in terms of percentages are presented in Table 2.31 for 2001-02. In the month of April 2001 Nasdaq Comp. recorded the highest volatility of 4.1 per cent followed by Brazil Bovespa Index at 2.6 per cent, the BSE Sensex at 2.4 per cent and the S & P CNX Nifty 2.2 percent. The Korean Composite Index and Kuala Lumpur Composite Index also demonstrated high volatility at 2.2 per cent and 2.1 per cent, respectively. The volatility was, however, lower in China reflected by China Se Shang, recording a volatility of 0.8 per cent in April 2002. Over the year, there was an intermittent declining tendency in volatility ratios and by March 2002 volatility in Kuala Lumpur Composite Index declined to 0.7 per cent, Dow Jones volatility declined to 0.9 per cent, The Indonesian Jakarta Composite declined to 1.1 per cent, and the Korea Comp. to 1.2 per cent . In case of Thai stock volatility declined to 1.3 per cent. Sensex volatility declined to 1.3 per cent and S & P CNX Nifty to 1.1 per cent in March 2002.

Table 2.31 : Trends In Volatility of International Indices

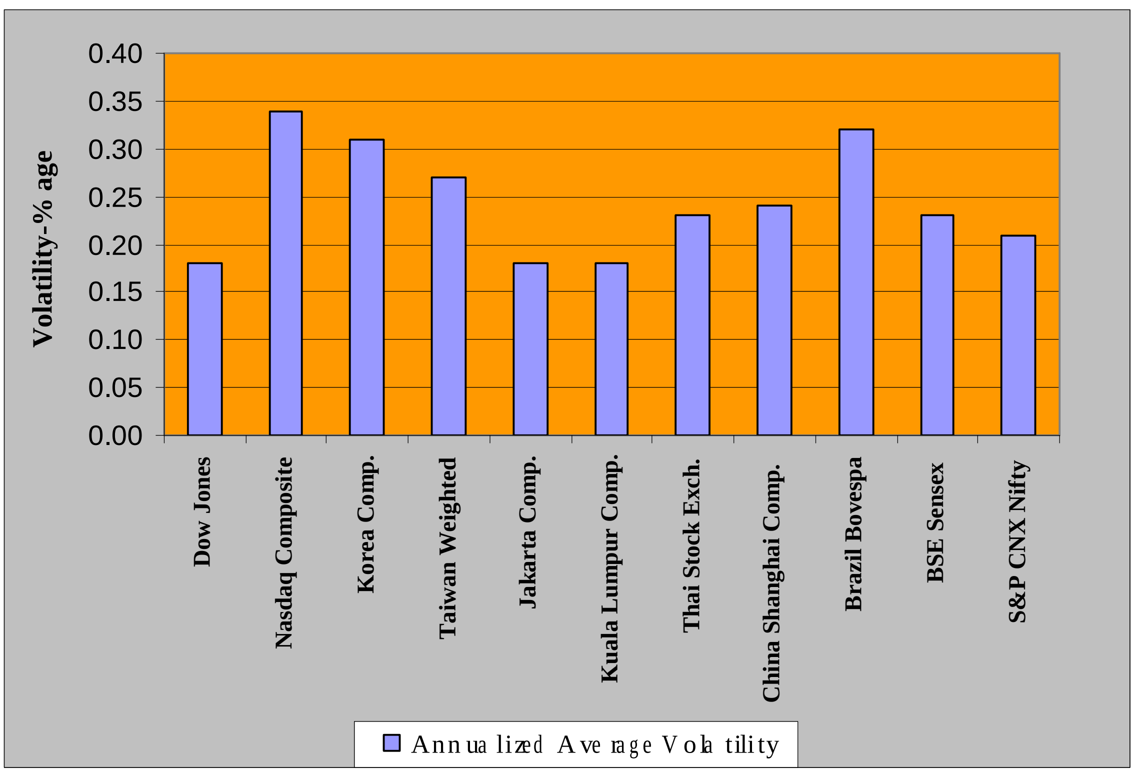
	Index	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02
USA	Dow Jones	1.75	1.00	0.78	1.15	1.01	2.85	1.32	0.96	0.92	1.12	1.19	0.95
USA	NASDAQ Comp.	4.12	2.41	1.87	2.19	1.80	2.94	2.43	1.56	1.91	1.77	1.80	1.53
S . Korea	Korea Comp.	2.28	1.59	1.46	1.48	1.51	3.67	1.27	2.13	2.59	1.95	2.22	1.20
Taiwan	Taiwan Weighted	1.41	1.75	1.52	1.91	1.70	2.28	1.98	1.70	2.58	1.92	1.74	1.57
Indonesia	Jakarta Comp	1.17	1.15	1.07	1.22	1.08	1.76	1.59	0.83	1.00	1.18	1.41	1.15
Malaysia	K Lumpur Comp	2.10	1.31	1.00	1.19	0.85	2.23	0.83	1.00	0.59	0.75	0.81	0.75
Thailand	Thai Stock	1.71	1.42	1.05	1.11	1.47	3.06	1.24	1.39	1.11	1.08	1.99	1.31
China	China Se Shang	0.81	0.55	0.81	1.34	1.39	1.34	3.18	1.37	1.06	3.20	1.36	1.68
Brazil	Brazil Bovespa	2.62	1.60	1.63	1.66	1.20	3.67	2.35	2.47	2.09	1.80	1.50	1.78
India	S&P CNX Nifty	2.23	0.89	1.25	1.03	0.54	2.62	1.26	1.20	1.24	1.00	1.48	1.10
India	Sensex 30 Ix	2.42	0.96	1.24	1.19	0.66	2.83	1.46	1.26	1.36	0.93	1.51	1.31

Volatility is calculated as the standard deviation of daily returns on indices for the respective months.
Source : SEBI

Graph 2.22 : Trends In Volatility of International Indices April 2001-March 2002



Graph 2.23: Annualized Average Volatility of Indices for April 2001-March 2002



Derivatives Trading

Trading in Derivative Contracts commenced in June 2000 with the launch of index futures contract on BSE-30 Sensex and S&P CNX Nifty in the Derivative Segment of the Stock Exchange, Mumbai (BSE) and the Futures & Options (F&O) Segment of the National Stock Exchange of India Ltd (NSE).

The year 2001-02 recorded a healthy growth of the derivative markets both in term of the derivative contracts available for trading and in term of volumes of contracts traded on the Derivative Segment of BSE and the F&O Segment of NSE.

Products

The following Equity Derivative Contracts mentioned in Table 2.32 are traded in the Indian Securities Market-

Table 2.32 : Equity Derivatives Traded

S. No	Contract	Year of Launch	Exchange/Segment
1.	Futures on S&P CNX Nifty Index	2000-01	F&O Segment of NSE
2.	Futures on BSE-30 Index	2000-01	Derivative Segment of BSE
3.	Options on S&P CNX Nifty	2001-02	F&O Segment of NSE
4.	Options on BSE-30 Index	2001-02	Derivative Segment of BSE
5.	Stock Options on 31 Stocks	2001-02	BSE / NSE
6.	Single Stock Futures on 31 Stocks	2001-02	BSE / NSE

Source : BSE & NSE

In June 2001, Option contracts on BSE-30 Sensex were launched on the Derivative Segment of BSE and Options on S&P CNX Nifty Index were launched on the F&O Segment of NSE. The Index Option Contracts are premium settled European style option.

SEBI also permitted trading in premium settled American style Stock Option Contracts in June 2001. The stock option contracts permitted are cash settled. At the time of specifying the risk containment measures, the SEBI prescribed the eligibility criteria of stock also on which option contacts could be permitted. The eligibility criteria is based on the turnover, market capitalisation, minimum non-promoter holding and volatility of the stock vis-à-vis the index. The eligibility criteria were specified to ensure the safety and integrity of the derivative market. At that time 31 stocks were found to meet the eligibility criteria. The trading in Stock Options of these 31 stocks started on the Derivative Segment of BSE and the F&O Segment of NSE in July 2001.

In August 2001, the SEBI constituted an Advisory Committee on Derivatives. Based on the recommendation of the Advisory Committee on Derivatives, in November 2001, the SEBI permitted Single Stock Futures on the stocks in which stock option contracts were permitted (the stocks mentioned at Table-2.34). The Single Stock Future Contracts are cash settled contracts and were launched on the derivative Segment of BSE and the F&O Segment of NSE in November 2001.

Trading Volumes

A summary of trading in derivative contracts since inception is presented in Table 2.33.

Table 2.33: Month-wise Trends in Derivatives Trading

(Rs crore)

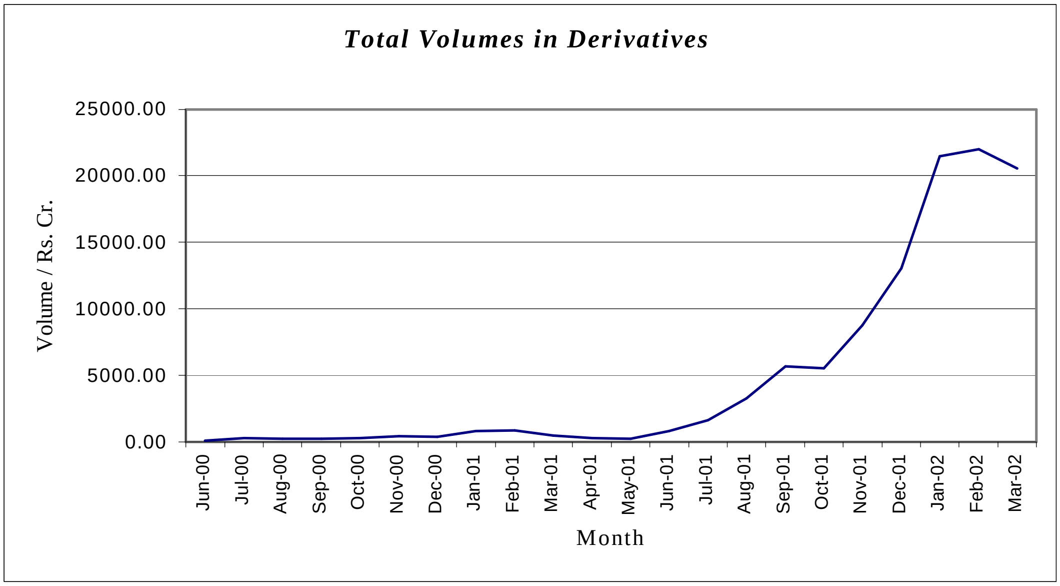
	Index Futures		Index Options		Stock Options		Single Stock Futures		Total	
Month	*BSE*	*NSE*	*BSE*	*NSE*	*BSE*	*NSE*	*BSE*	*NSE*	*BSE*	*NSE*
June-00	54.97	43.90	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	54.97	43.90
July-00	155.79	108.47	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	155.79	108.47
August-00	125.66	89.88	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	125.66	89.88
September-00	95.90	118.95	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	95.90	118.95
October-00	124.92	131.60	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	124.92	131.60
November-00	193.68	241.70	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	193.68	241.70
December-00	163.07	228.93	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	163.07	228.93
January-01	328.27	472.21	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	328.27	472.21
February-01	356.61	523.46	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	356.61	523.46
March-01	113.18	369.41	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	113.18	369.41
April-01	28.04	269.56	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	28.04	269.56
May-01	11.81	237.33	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	11.81	237.33
June-01	38.90	590.24	15.74	195.13	N.A.	N.A.	N.A.	N.A.	54.63	785.37
July-01	33.46	1,039.34	5.40	258.32	9.24	292.41	N.A.	N.A.	48.10	1,590.06
August-01	491.57	1,304.61	52.22	284.64	52.61	1,106.95	N.A.	N.A.	596.40	2,696.20
September-01	359.11	2,857.05	3.74	417.40	29.86	1,983.31	N.A.	N.A.	392.71	5,257.76
October-01	50.51	2,484.82	0.41	553.29	5.65	2,425.56	N.A.	N.A.	56.57	5,463.66
November-01	52.32	2,463.44	0.27	449.90	4.90	2,948.35	79.64	2,732.31	137.12	8,593.99
December-01	12.97	2,339.27	0.00	404.97	2.48	2,659.83	76.50	7,514.68	91.95	12,918.74
January-02	28.46	2,672.08	0.10	347.88	6.34	5,060.10	110.71	13,271.36	145.61	21,351.42
February-02	153.73	2,827.78	0.00	430.27	1.76	4,499.00	150.87	13,915.01	306.35	21,672.06
March-02	4.31	2,184.61	0.00	359.99	0.54	3,956.31	43.22	13,988.96	48.07	20,489.87

Source : BSE, NSE

From Table 2.34 it can be seen that till March 2001 the total volumes in derivative contracts were Rs. 1712.05 Cr on BSE and Rs. 2328.51 Cr on NSE . From April 2001 the volumes in derivative contracts on BSE have fallen in comparison with the volumes on NSE . For the period April 2001 to March 2002, BSE volumes were approx. 2 per cent of NSE volumes. Further, in March 2002 BSE volumes were just 0.23 per cent of NSE volumes.

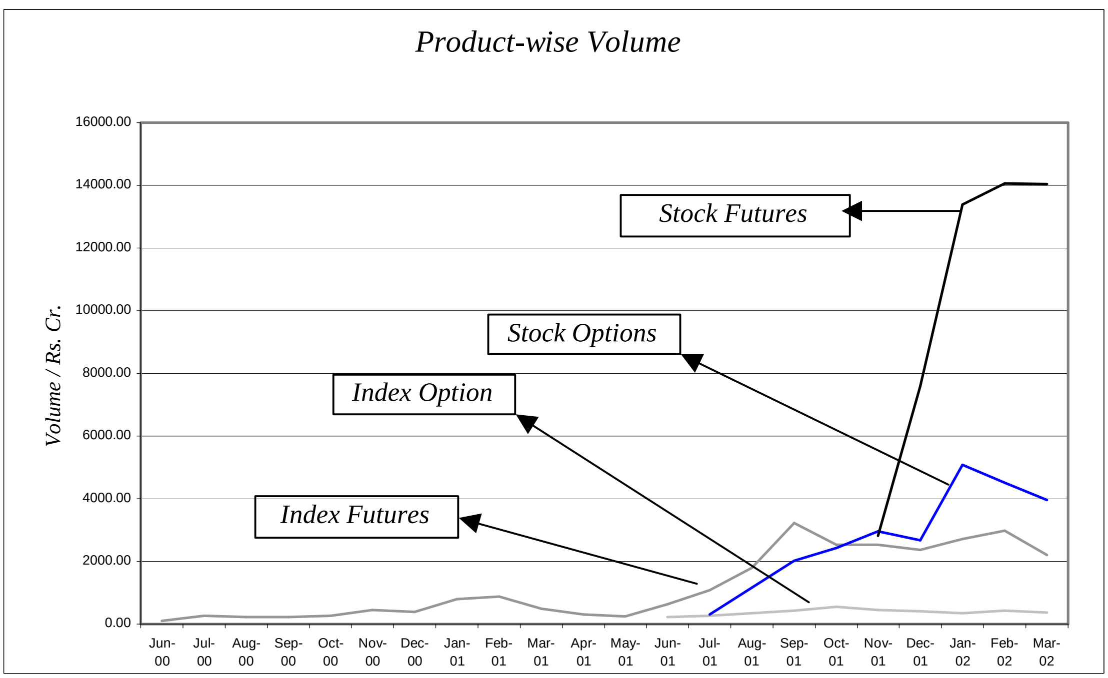
A graphical presentation of the total volumes in derivative contracts on NSE & BSE is given below.

Graph 2.24 : Total Volumes in Derivatives



From Graph 2.24 it can be seen that the total volumes in derivative contracts have increased sharply from July 2001 and November 2001 after stock option and stock futures were introduced. The product-wise volume is presented in hereunder-

Graph 2.25 : Product-wise Volumes



Graph 2.25 presented above indicates the growing popularity of stock futures in the Indian Derivative Markets. As of March 2002 stock futures comprised approx. 70 per cent of the total volumes in derivative products. The volumes in Index Futures and Stock Options have increased in absolute terms but in Index Options volumes have remained more or less constant in recent months.

Membership Details

The details pertaining to Membership in the Derivative segment in BSE and in the F&O segment in NSE are in Table 2.34.

Table 2.34 : Details of Trading Members and Others

Type of Member	BSE	NSE	Total
Trading Members	113	352	465
Professional Clearing Members	5	14	19
Trading cum Clearing Members	83	134	217
Trading cum Self Clearing Members	0	4	4
Total	**201**	**504**	**705**

Source : SEBI

The Members in NSE more than double those in BSE in all Categories. While both in BSE and in NSE the number of Trading Members far exceeds that of Other Categories.

Other Issues

In the year 2001-02, SEBI also specified the criteria for adjustment of contracts at the time of corporate actions like, rights, bonus, stock-split, consolidation etc. At the same time a sub-group was also formed which would advice the exchanges on the adjustments required at the time of corporate actions like, mergers, extraordinary dividends etc., in line with international best practices.

SEBI had permitted Foreign Institutional Investors (FIIs) to trade in the Derivative Contracts. RBI granted approval to FIIs in June 2000 to trade only in Index Futures Contracts on the BSE & NSE. RBI had also mandated that the exposure of FIIs in derivatives could not exceed their exposure in the Equity Market. In February 2002, RBI permitted FIIs to trade in all exchange traded derivative contracts subject to position limits prescribed for FII and sub-accounts. The position limits of FIIs and their sub-account's are monitored by the Exchanges in the manner specified by SEBI.

Developments in Government Debt Market

Activity in the wholesale debt market

The Wholesale Debt Market (WDM) in the government securities recorded a significant growth in 2001-02. The value of net trade during 2001-02 increased to Rs.9,47,191 crore as compared to Rs.4,28,582 crore in 2000-01 showing a rise of 121 per cent. The trade in WDM segment shows large variations from month to month position. It ranged between Rs.46,285 crore in April to Rs.1,11,736 crore in January during the year 2001-02. During 2000-01 also the variations were of similar magnitude. With regard to average net traded value of debt, it stood at Rs.3,277 crore during 2001-02 rising from Rs.1,483 crore during the previous year. The average daily turnover however was as high as Rs.4,405 crore in February and as low as Rs.2,314 crore in April during the year of 2001-02 (Table2.35).

Table 2.35 : Business Growth on the WDM Segment *(Value in Rs. Crore)*

	2000-01			**2001-02**		
Month	*Net Traded Value*	*Average Daily Value*	*Number of Trades*	*Net Traded Value*	*Average Daily Value*	*Number of Trades*
April	34,183	1,709	4,978	46,285	2,314	6,606
May	32,875	1,315	4,653	83,982	3,359	12,220
June	17,445	698	2,771	82,329	3,293	11,936
July	28,311	1,089	4,275	84,629	3,255	12,575
August	16,440	658	2,682	75,784	3,158	11,622
September	21,419	857	3,404	63,199	2,528	9,526
October	25,019	1,137	3,910	80,860	3,234	12,636
November	36,285	1,,451	5,519	98,674	4,290	15,300
December	38,222	1,593	6,092	62,411	2,600	10,135
January	66,400	2,554	10,095	1,11,736	4,298	17,011
February	63,212	2,873	9,080	1,01,313	4,405	16,127
March	48,771	2,,032	7,011	55,988	2,434	9,157
Total	**4,28,582**	**1,483**	**64,470**	**9,47,191**	**3,277**	**1,44,851**
Source: NSE						

Instrument-wise break-up of trade in government securities is by and large dominated by the government dated securities. The share of government dated securities which ranged between 82 per cent and 94.2 per cent in 2000-01 increased to 94.6 per cent and 96.2 per cent in 2001-02. (Table 2.36)

Table 2.36: Instrument-wise Distribution of Securities Traded in WDM Segment
(in per cent)

	2000-01				**2001-02**			
Month	*Government Dated Securities*	*T-Bills*	*PSU*	*Others*	*Government Dated Securities*	*T-Bills*	*PSU*	*Others*
April	92.64	4.38	0.50	2.48	91.61	6.24	0.59	1.56
May	92.36	3.27	1.42	2.95	94.84	3.09	0.65	1.42
June	90.78	4.12	2.43	2.67	95.77	2.85	0.36	1.02
July	93.13	3.68	0.44	2.75	94.86	3.35	0.59	1.20
August	87.06	8.01	1.37	3.56	95.99	2.04	0.80	1.17
September	82.02	12.80	1.33	3.85	94.63	3.38	0.63	1.36
October	83.24	11.44	0.79	4.53	96.21	2.11	0.68	1.00
November	90.14	5.57	0.48	3.81	95.76	2.70	0.43	1.11
December	91.30	5.39	1.07	2.24	96.02	2.59	0.57	0.82
January	94.20	3.25	0.46	2.09	95.11	2.83	0.44	1.62
February	93.91	4.30	0.61	1.18	95.58	1.18	1.08	2.16
March	91.23	6.02	0.91	1.84	94.68	1.54	1.25	2.53
Source: NSE								

The distribution of trades according to participants is furnished in Table 2.37 below. It would be observed that the Indian banks' share marginally increased in 2001-02 ranging between 31.7 per cent and 41.6 per cent as compared to 25 per cent and 38 per cent in 2000-01. On the other hand foreign banks' share decreased to the range of 10.5 per cent and 16.2 per cent from 13 per cent and 24 per cent implying that foreign banks have not participated in a big way during the current financial year. The trading members have substantially increased their share to the range of 18.8 per cent and 27 per cent from the range of 20 per cent and 25 per cent particularly in the later half of the current financial year. Thus, government securities market was dominated by Indian banks, trading members and primary dealers.

Table 2.37 : Participant in Trade *(in percentage)*

	2000-01					2001-02				
	Trading Members	*FIs/MFs*	*Primary Dealers*	*Indian Banks*	*Foreign Banks*	*Trading Members*	*FIs/MFs*	*Primary Dealers*	*Indian Banks*	*Foreign Banks*
April	20.25	3.82	23.14	38.68	14.11	18.82	3.01	25.17	36.81	16.19
May	22.21	4.41	22.41	35.84	15.13	19.55	3.99	25.28	38.40	12.78
June	24.90	5.23	22.28	29.94	17.65	19.92	3.58	22.88	41.31	12.31
July	23.38	4.73	21.23	31.71	18.95	20.51	4.78	20.60	41.66	12.45
Aug	23.85	4.35	22.27	26.96	22.57	21.71	3.53	24.49	39.05	11.22
September	24.68	3.66	22.32	25.52	23.82	25.33	4.17	24.19	31.78	14.53
October	22.33	4.60	24.04	27.96	21.07	26.98	4.19	23.74	34.58	10.51
November	22.94	3.62	23.79	33.98	15.67	25.96	3.97	24.49	34.66	10.92
December	23.68	3.14	21.69	38.03	13.46	26.51	4.65	23.11	33.89	11.84
January	24.66	4.99	21.55	33.08	15.72	25.43	4.46	19.19	36.09	14.83
February	23.54	4.36	22.56	34.15	15.39	25.16	4.53	19.78	34.26	16.27
March	22.51	3.40	20.04	35.35	18.70	24.23	4.61	19.43	35.84	15.89

Source: NSE

C] MUTUAL FUNDS

Resources Mobilised by Mutual Funds

During 2001-02, the mutual funds mobilised a gross amount of Rs.1,64,523 crore (US $ 33.75 billion) compared to an amount of Rs. 92,957 crore (US $ 20.21 billion) during the previous year 2000-01 recording a sharp growth of about 77 per cent over the previous year.

After adjustment of repurchases and redemptions, there was net inflow of funds of Rs. 7,175 crore (US $ 1.47 billion) as compared to a net inflow of Rs.9,128.1 crore (US $ 1.99 billion) during the previous year 2000-01.

Net inflow of funds in the mutual funds industry amounted to Rs.12,724.5 crore during the first 11 months of the year i.e during April 2001 to February 2002. However, there were heavy repurchases/redemptions in the last month of the year (i.e. March) and as a result net inflow of funds during the entire year 2001-02 declined to Rs.7,175.2 crore. The major outflow of funds in March was in debt-oriented schemes and mainly in liquid/money market schemes.

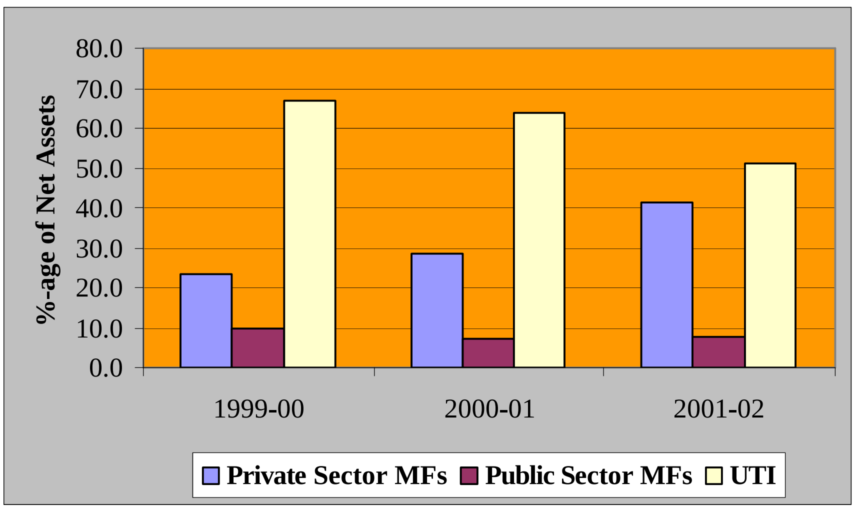
Sector-wise analysis of data shows that private sector mutual funds mobilised a net amount of Rs.13,050 crore in 2001-02 as compared to net inflow of Rs.9,849.6 crore during the previous year 2000-01. UTI has shown a large outflow of funds of Rs.7,284 crore during the financial year 2001-02 as against net inflow of Rs.323 crore during 2000-01 and net inflow of Rs.4,548 crore during the year 1999-2000. Other public sector mutual funds showed net inflow to the tune of Rs.1,409.3 crore during 2001-02 as against an outflow of Rs.745 crore and Rs.1,045 crore during 1999-2000 and 2000-01, respectively. (Table 2.38)

Table 2.38 : Resource Mobilisation By Mutual Funds *(Rs.crore)*

	Private Sector			**Public Sector**			**UTI**			**Grand Total**
	Open end	*Close end*	*Total*	*Open end*	*Close end*	*Total*	*Open end*	*Close end*	*Total*	
Mobilization of Funds	1,47,267.51	530.75	1,47,798.26	12,046.51	35.40	12,081.91	3,830.00	813.00	4,643.00	1,64,523.17
Repurchase/ Redemption Amount	1,34,312.56	435.81	1,34,748.37	10,525.91	146.69	10,672.60	9,086.00	2,841.00	11,927.00	1,57,347.97
Net In/ Outflow of funds	12,954.95	94.94	13,049.89	1,520.60	-11,1.29	1,409.31	-5,256.00	-2,028.00	-7,284.00	7,175.20

Source : SEBI

Graph 2.26 : Sector-Wise Distribution Of Assets Of Mutual Funds



Trend in Purchases/Sales by Mutual Funds

Table 2.39 presents data on purchase and sale transactions of mutual funds on stock exchanges. During the year 2001-02 mutual funds were net sellers in the equity segment to the tune of Rs.3,795.9 crore and net buyers in the debt segment to the tune of Rs. 10,959.2 crore. The month-wise details of purchases and sales in the market during the year are given in Table 2.40

Table 2.39 : Monthly Transactions by Mutual Funds *(Rs. Crore)*

	Equity			**Debt**		
Transaction Month	*Gross Purchases*	*Gross Sales*	*Net Purchases/ Sales (-ve)*	*Gross Purchases*	*Gross Sales*	*Net Purchase/ Sales (-ve)*
April 2001	746.51	1,039.48	-292.97	1,464.50	714.98	749.52
May 2001	994.39	1,473.19	-478.80	2,548.25	1,406.81	1,141.44
June 2001	658.56	770.63	-112.07	2,519.45	1,838.10	681.35
July 2001	475.34	920.20	-444.86	2,553.53	1,476.25	1,077.28
August 2001	643.73	1,021.27	-377.54	2,952.00	1,779.60	1,172.40
September 2001	878.49	766.94	111.55	1,614.60	1,876.41	-261.81
October 2001	751.43	1,425.84	-674.41	2,626.04	1,648.88	977.16
November 2001	1,003.46	1,348.42	-344.96	3,281.67	1,631.97	1,649.70
December 2001	1,340.43	1,263.84	76.59	2,617.82	1,675.23	942.59
January 2002	1,722.16	2,157.05	-434.89	4,922.31	2,824.54	2,097.77
February 2002	1,705.28	2,057.03	-351.75	3,891.31	3,084.95	806.36
March 2002	1,178.33	1,650.10	-471.77	2,592.16	2,666.70	-74.54
Total	**12,098.11**	**15,893.99**	**-3,795.88**	**33,583.64**	**22,624.42**	**10,959.22**

Source: SEBI

Scheme-wise analysis of data shows that during the financial year 2001-02, there was net inflow of funds only in the income/debt oriented schemes whereas the balanced schemes and growth/equity oriented schemes faced outflow of funds (Table 2.40).

Table 2.40 : Scheme-wise Break-up of Resources Mobilised by Mutual Funds

(Rs.Crore)

	No. of Schemes	**Gross Funds Mobilised**	**Repurchase / Redemption**	**Net Inflow/ Outflow of funds**	**Cumulative Position of Net Assets as on 31/3/2002**
Income / Debt Oriented Schemes					
Liquid/ Money Market	30	1,04,546.15	1,01,254.76	3,291.39	8,068.91
Gilt	29	6,438.72	4,875.4	1,563.32	4,162.91
Debt(other than ass.re)	120	49,633.59	42,439.48	7,194.11	38,109.31
Debt (assured return)	26	1,388	372.39	1,015.61	17,678.69
Sub total	*205*	*1,62,006.46*	*1,48,942.03*	*13,064.43*	*68,019.82*
Growth / Equity Oriented Schemes					
ELSS	63	32.66	314.38	-281.25	1,767.33
Others	115	2,007.14	2,260.24	-253.1	13,852.81
Sub total	*178*	*2,039.8*	*2,574.62*	*-534.35*	*15,620.14*
Balanced Schemes					
Balanced schemes	34	476.91	5,831.32	-5,354.41	16,954.23
Grand Total	**417**	**1,64,523.17**	**1,57,347.97**	**7,175.20**	**1,00,594.19**

Source: SEBI

Number of Schemes and Net Assets

A total of 417 mutual funds schemes (including serial plans) were in operation as on March 31, 2002, out of which 307 schemes were open ended schemes. In terms of investment objective, the details of these 417 schemes are given in Table 2.41

Table 2.41 : Schemes in Operation as on March 31, 2002

Type of Scheme	No. of Schemes	Total No. of Schemes
Income (Debt oriented)Schemes		**205**
Gilt Schemes	29	
Liquid/Money market	30	
Non-assured return debt schemes	120	
Assured return debt schemes	26	
Growth (Equity oriented)Scheme		**178**
Equity Linked Savings Schemes	63	
Others	115	
Balanced (Equity and Debt) Schemes		**34**
Total		**417**
Source : SEBI		

The total net assets of all domestic schemes of mutual funds were Rs.1,00,594 crore as on March 31, 2002. The details are given in Table 2.42- a.

Table 2.42-a : Net Assets of Mutual Funds as on March 31, 2002

	Amount (Rs Crs.)	Percentage (%)
UTI	51,434	51.13
Public Sector	7,701	7.66
Private Sector	41,459	41.21
Total	**1,00,594**	**100.00**
Source : SEBI		

When we compare the net assets as on March 31, 2002 with that of March 31, 2001, the share of net assets of UTI has declined substantially from 64.0 per cent to 51.1 per cent whereas net assets of private sector mutual funds have risen substantially from 28.6 per cent to 41.2 per cent. Assets of other public sector mutual funds have marginally increased from 7.3 per cent to 7.6 per cent.

Table 2.42-b : Unit Holding Pattern of Mutual Funds Industry as on March 31, 2002

Category	Number Of Investors	Per cent To Total Investors	Net Asset Value (Rs.Crore)	Per cent To Total Net Asset Value
Individuals	30,238,065	98.04	55,487	55.16
NRIs/OCBs	154,622	0.50	1,398	1.39
FIIs	1,123	0.00	306	0.30
Corporates/ Institutions/ Others	450,132	1.46	43,403	43.15
Total	**30,843,942**	**100.00**	**100,594**	**100.00**

Source : SEBI

From the table 2.42-b, the following has been observed:

i) There are a total number of 3.08 crore investors in the mutual funds industry holding units of Rs. 100,594 crore as on March 31, 2002 (it is likely that there may be more than one folio of an investor which might have been counted more than once). Out of total number of investors, 3.02 crore are individual investors. Individuals constitute 98.04 per cent of the total number of investors and contribute more than half of the net assets of Rs.55,487 crore in the mutual funds which is 55.16 per cent of the net assets.

ii) Corporates and institutions who form only 1.46 per cent of the total number of investors in the industry, contribute a sizeable amount of Rs. 43,403 crore which is 43.15 per cent of the net assets in the mutual funds industry.

iii) The NRIs/OCBs and FIIs constitute a very small percentage of investors (0.50 per cent) and contribute Rs.1704 crore (1.69 per cent) of net assets.

Table 2.42-c :Unit Holding Pattern Of Private Sector Mutual Funds As On March 31, 2002

Category	Number Of Investors	Per cent To Total Investors	Net Asset Value (Rs.Crore)	Per cent To Total Nav
Individuals	4,000,117	96.11	1,5024.71	36.24
Nris/Ocbs	32,267	0.78	523.47	1.26
Fiis	35	0.00	288.61	0.70
Corporates/ Institutions/ Others	129,423	3.11	25,622.19	61.80
Total	**4,161,842**	**100.00**	**41,458.98**	**100.00**

Source : SEBI

Table 2.42-d :Unit Holding Pattern Of Public Sector Mutual Funds As On March 31, 2002

CATEGORY	Number Of Investors	Per cent To Total Investors	Net Asset Value (Rs.Crore)	Per cent To Total Nav
Individuals	2,221,362	97.95	3,116.24	40.46
NRIs/OCBs	8,486	0.37	143.73	1.87
FIIs	956	0.04	6.35	0.08
Corporates/ Institutions/ Others	37,020	1.64	4,435.27	57.59
Total	**2,267,824**	**100.00**	**7,701.59**	**100.00**

Source : SEBI

Table 2.42-e :Unit Holding Pattern of UTI

CATEGORY	Number Of Investors	Per cent To Total Investors	Net Asset Value (Rs.Crore)	Per cent To Total Nav
Individuals	24,016,586	98.37	37,345.74	72.61
NRIs/OCBs	113,869	0.47	729.88	1.42
FIIs	132	0.00	11.06	0.02
Corporates/ Institutions/ Others	283,689	1.16	13,346.93	25.95
Total	**24,414,276**	**100.00**	**51,433.61**	**100.00**

Source : SEBI

The following observations are made from the Tables 2.42-c, 2.42-d & 2.42-e :-

? Out of a total of 3.08 crore investors in the mutual funds industry, 2.44 crore or 79.15 per cent of the total investors are in UTI. The percentage of total investors in private sector mutual funds is 13.50 per cent (0.41 crore) and public sector mutual funds is 7.35 per cent (0.23 crore).

? The same trend has been observed in case of individual investors also. Out of a total of 3.02 crore investors under the category of ‘individuals’, the total number of individual investors is the largest in UTI with 79.43 per cent, followed by private sector mutual funds with 13.23 per cent and public sector mutual funds with 7.34 per cent. Thus it is observed that UTI has the largest number of small individual investors who contribute 72.61 per cent to UTI’s total net assets. However in case of private and public sector mutual funds the corporates and institutions are the largest contributors to the net assets to the tune of 61.80 per cent and 57.59 per cent respectively.

Offer Documents Received from Mutual Funds and Cleared by SEBI

During the year 2001-02, SEBI received 64 offer documents as against 75 offer documents received during the previous year 2000-01. The decline in number of offer documents might be due to the reason that most of the mutual funds have already launched various open-ended schemes for different investment objectives.

SEBI cleared 66 offer documents (including 4 offer documents filed for conversion of close ended schemes into open ended schemes) during the year in comparison to 59 offer documents (including 6 offer documents for conversion into open-ended schemes) cleared during the last year. The 66 offer documents which were cleared during the year also included some offer documents which were filed during the last financial year by the mutual funds. The observations were communicated in case of all offer documents in 21 working days in accordance with the Regulations.

Features of Offer Documents Received

The following trend has been observed in case of 64 new offer documents received by SEBI for launching new schemes by the mutual funds during the year 2001-02:

- 46 offer documents have been received for launching debt-oriented / income schemes, out of which;
  - 10 offer documents are for launching gilt schemes investing in government securities.
  - 29 offer documents are for launching schemes investing predominantly in corporate debt securities.
  - 7 offer documents for investing in liquid/ money market instruments.
- 13 offer documents are for growth schemes investing predominantly in equities, which also include sector specific schemes and tax saving schemes.
- 3 offer documents are for balanced schemes investing in equities as well as debt securities.
- 2 offer documents have been received for conversion of old close-ended schemes into open-ended schemes.

Schemes Launched

49 new schemes were launched during the year besides, 5 schemes which were converted from close to open-ended schemes have been launched during the year. There has been an increase in the number of new schemes launched during the year. During the last year 2000-01, only 29 new schemes were launched and 4 schemes were converted from close ended schemes to open ended schemes.

Assured Return Schemes of Mutual Funds

Some of the schemes which assured returns in the offer documents faced difficulties in meeting the assurances. SEBI in pursuing its objective to protect the interest of investors has been directing the AMCs/Sponsors to honour their commitments of paying assured returns.

During the year 2001-02, the sponsors/AMC have contributed Rs.21.18 crore in case of MMIS 89 Scheme and Rs.0.03 crore in case of MMIS 98(I) Scheme of SBI Mutual Fund and Rs.0.41 crore in case of Dhanavarsha (8) and Rs. 0.30 crore in case of Dhanavarsha (10) scheme of LIC Mutual Fund towards the assured returns. In case of UTI, UTI utilised the Development Reserve Fund (DRF) to the tune of Rs.25.50 crore to meet its commitment in the MIP 96 (III) Scheme.

According to available information, the sponsors and asset management companies of 8 mutual funds excluding UTI, have contributed a total amount of Rs. 2,430.37 crore to meet the shortfall in case of 26 schemes as on March 31, 2002. It may be mentioned here that most of these schemes were launched even before the enactment of SEBI Act 1992.

The details of these schemes, contributions/commitments made by the asset management companies or the sponsors are given in Table 2.43.

Table 2.43: Assured Returns Scheme: Contributions made to Honour the Commitments *(Rs. In Crore)*

Name of the Mutual Fund	Name of the Scheme	Contribution/commitments made by Sponsor/AMC
BOI MF		
	Double square Plus	256.50
	Festival Boinanza Growth Scheme **	1.38
	RMI	3.69
Canbank MF		
	Canstar #	1,283.43
		42.00
GIC MF		
	GIC Big Value	46.33
	GIC Rise II	133.00
	GIC Rise 91	138.00
	GIC Suraksha 96	5.66
PNB MF		
	Premium Plus 91	26.15
	Rising Income Plus 90	3.92
Indian Bank MF		
	Ind Jyothi	43.59
	Swarnapushpa	0.42
SBI MF		
	Magnum Bond Fund	12.29
	MMIS 91	42.27
	Magnum Triple Plus Scheme	126.98
	MMIS 97	4.55
	MMIS 89	21.18
	MMIS 98 (I)	0.03
LIC MF		
	Dhanvarsha (3)	12.40
	Dhanvarsha (4)	127.94
	Dhanvarsha (5)	63.92
	Dhanshree 89	7.50
	Dhanavarsha (6)	1.03
	Dhanvarsha (8)	0.41
	Dhanvarsha (10)	0.30
UTI		
	MIP 96 (III)	25.50
Total		**2,430.37**

*** BOI Festival Boinanza Growth -*	*The amount has since been reimbursed back to the AMC out of income earned on unclaimed amounts.*
# Canstar Scheme	*Rs.1283.43 crore already made by the sponsor. Rs. 42 crore - in the process of meeting the shortfall as and when the investors approach the mutual fund for redemption.*
MIP 96 (III)	*Shortfall paid from DRF by UTI.*

Source : SEBI

D] FOREIGN INSTITUTIONAL INVESTMENT

Investments by Foreign Institutional Investors (FIIs)

The cumulative net investment by the FIIs in the Indian capital market touched US $15.24 billion on March 31, 2002 , thus registering an increase of US $1.85 billion over the cumulative net investment figure as at end-March 31, 2001for the previous year. The trend of FII investment since September 1992 is shown in Graph 2.27.

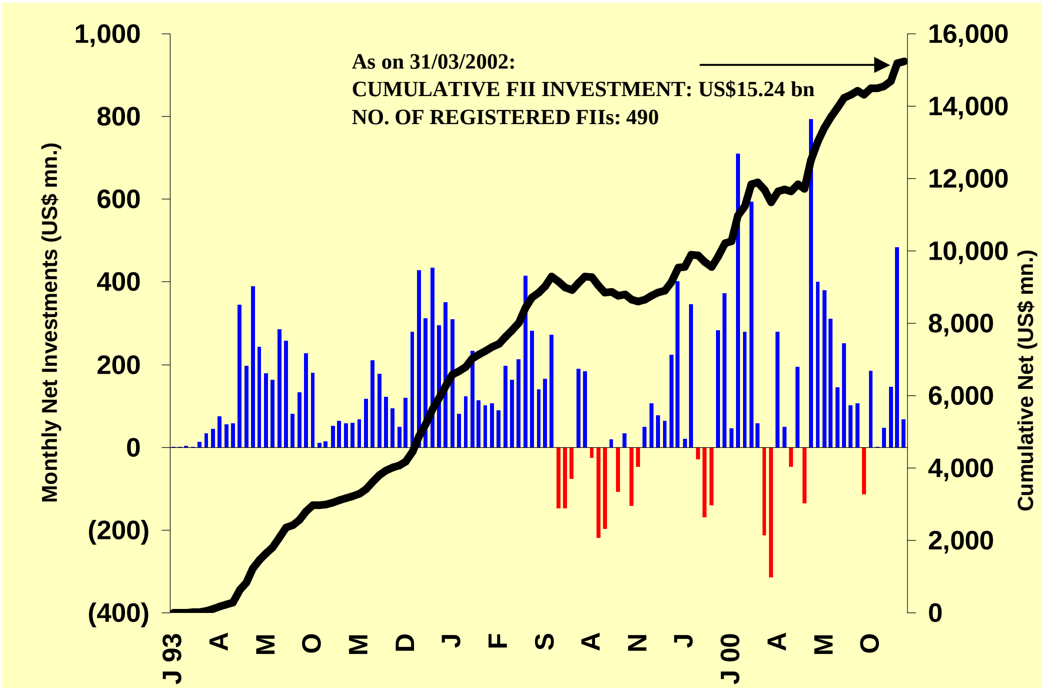
Table 2.44: Yearly Trends in FII Investment

Year	Gross Purchases Rs. Cr.	Gross Sales Rs. Cr.	Net Investment Rs. Cr.	Net investment US $ Million at Monthly Ex. Rate	Cumulative Net investment US $ Million at Monthly Ex. Rate
1992-93	17.40	4.00	13.40	4.20	4.20
1993-94	5,592.50	466.30	5,126.20	1,634.00	1,638.30
1994-95	7,631.00	2,834.80	4,796.30	1,528.30	3,166.60
1995-96	9,693.50	2,751.60	6,942.00	2,035.70	5,202.30
1996-97	15,553.90	6,979.40	8,574.20	2,431.90	7,634.20
1997-98	18,694.70	12,737.20	5,957.40	1,650.10	9,284.30
1998-99	16,115.00	17,699.40	-1,584.40	-386.10	8,898.20
1999-00	56,855.50	46,733.50	10,121.90	2,339.10	11,237.30
2000-01	74,050.60	64,116.40	9,934.00	2,159.70	13,396.10
2001-02	49,920.00	41,165.00	8,755.20	1,846.20	15,242.30

Figures are provisional.
Source : SEBI

It can be observed that during the last decade there has been a gradual increase in the FII investment. This reflects an increase in the in the level of confidence of the FIIs and also a vindication of the reforms process carried out by SEBI to make the Indian capital markets more efficient, transparent and investor friendly. The trend of FII investment is shown in Table 2.44.

Graph 2.27: Cumulative FII Investment



Net FIIs investment was positive almost for all the months during 2001-02 except the month of September 2001 when net investment was negative at US $ 113 million on account of sudden increase in sales which exceeded purchases by about 16 per cent following the terrorist attacks on the USA. However, there has been a gradual increase in the FIIs investment in the country reflecting continued confidence of the FIIs in the Indian securities market . In Rupee terms, the net investment for 2001-02 was lower at Rs. 8,755 crore as compared to the net investment of Rs. 9,934 crore in 2000-01. The monthly investment figures are given below in Table 2.45.

Table 2.45: Monthly Trends in FII Investment

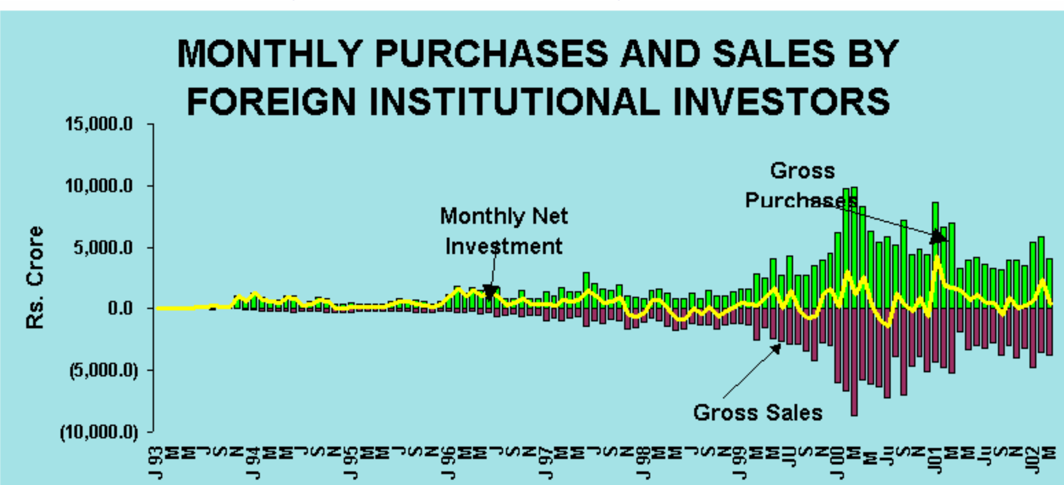
Month	Gross Purchases Rs. Cr.	Gross Sales Rs. Cr.	Net Investment Rs. Cr.	Net Investment US $ Million at Monthly Ex. Rate	Cumulative Net Investment US $ Million at Monthly Ex. Rate	Gross Sales as Percentage of Gross Purchases
2001 – 02						
April	5,079.9	3,101.1	1,978.8	424.5	13,820.6	61.0
May	3,976.0	3,300.0	676.1	144.5	13,965.1	83.0
June	4,118.9	2,939.2	1,179.7	251.4	14,216.5	71.4
July	3,665.0	3,187.3	477.7	101.6	14,318.1	87.0
August	3,248.5	2,746.3	502.3	106.5	14,424.7	84.5
September	3,220.1	3,760.5	- 540.5	-113.2	14,311.5	116.8
October	3,895.7	3,011.3	884.4	185.6	14,497.1	77.3
November	3,974.2	3,970.5	3.7	0.8	14,497.9	99.9
December	3,455.4	3,227.5	227.9	47.5	14,545.3	93.4
January	5,446.0	4,746.7	699.3	145.9	14,691.3	87.2
February	5,816.2	3,479.4	2,336.8	483.5	15,174.8	59.8
March	4,024.1	3,695.2	329.0	67.6	15,242.3	91.8
Total	**49920.0**	**41165.0**	**8,755.2**	**1,846.2**		
Source : SEBI						

As can be seen from the above table that FIIs were net sellers only during the month of September 2001. This might have been a reaction to the attack on World Trade Centre, New York. This negative trend reversed in the next month and the FIIs were net purchasers in the Indian markets.

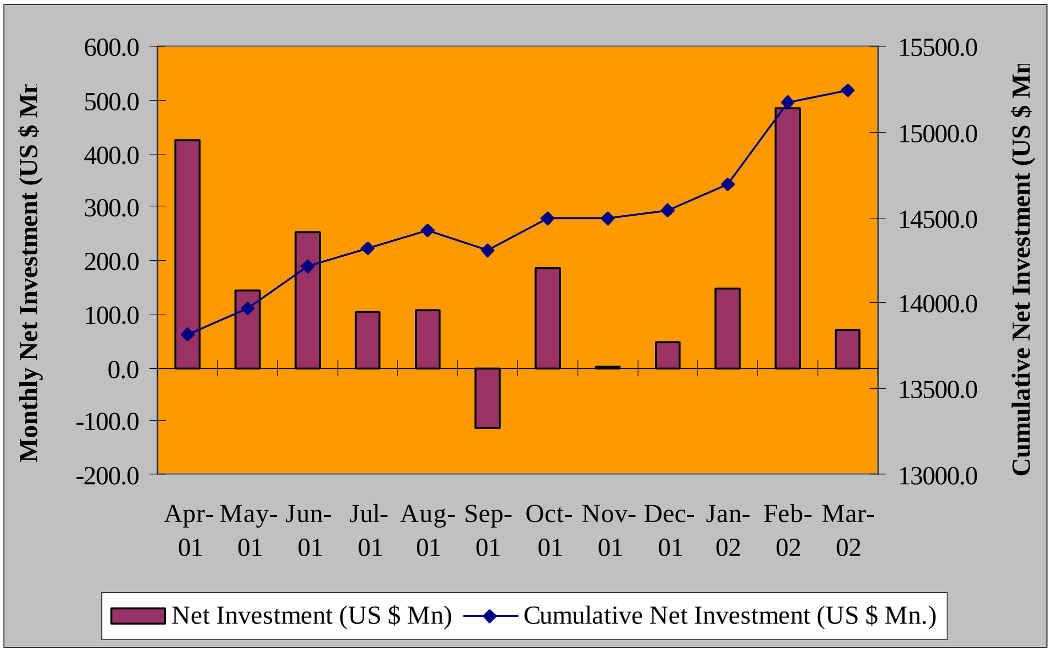
Another development in the transactions of FIIs was that their total turnover declined during 2001-02. Their gross purchase and sales at Rs. 49,220 crore and Rs. 41,165 crore respectively suffered a decline of 32.6 per cent and 35.8 per cent respectively.

Monthly net investment vis-à-vis corresponding gross purchases and sales figures since January 1993 are shown in Graph 2.28.

Graph 2.28: Monthly Purchases and Sales by FIIs



Graph 2.29: Movement in Net Investment of FIIs



E] SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

During the year 2001-02, 81 letters of offer for making open offers were filed with SEBI. Under the SEBI (Substantial acquisition of shares and Takeovers), Regulations, 1997, a category of non applicability of open offer obligations was introduced to automatically exempt certain transactions from open offer which may become necessary in the overall commercial and business interest of the company. During the year, 275 reports were filed under this category. The transactions, which are not covered under the said category, are required to be submitted to the Takeover Panel for exemption from open offer. During the year, 28 such applications were submitted out of which exemption from making open offer was granted in respect of 16 cases. (Table 2.46)

Table 2.46: Offers and Exemptions

Letters of Offer Filed			**Exemptions Granted**		
1999-2000	*2000-01*	*2001-02*	*1999-2000*	*2000-01*	*2001-02*
83	77	81	11	21	16
Source : SEBI					

F] INVESTIGATION, ENFORCEMENT AND SURVEILLANCE(IES)

Market Surveillance

Market Surveillance plays a key role in ensuring stability and integrity of the markets. The Market Surveillance Division of SEBI keeps a proactive oversight on the surveillance activities of the stock exchanges.

SEBI's market surveillance essentially focuses on:

? policy formulation for introduction of surveillance systems at the stock exchanges to bring integrity and stability in the Indian securities markets;
? overseeing the surveillance activities of the stock exchanges including the monitoring of market movements by them;
? inspection of such surveillance functioning of the stock exchanges; and
? preparation of reports and studies on market movements, which SEBI circulates, periodically to the Government of India and to securities markets regulators from other countries.

The primary responsibility of market surveillance has been entrusted to the stock exchanges. The SEBI keeps an oversight on market monitoring by exchanges and in exceptional circumstances it analyses the same. When appropriate, on the basis of reports received from the stock exchanges or specific complaints, preliminary enquiries are conducted to determine whether the trading raises suspicion of market manipulation and/or insider dealing. At times, on exception basis only, cases are taken up suo-moto also. In case an analysis of the trading information leads to a suspicion of market abuse, like occurrence of market manipulation or insider dealing or other misconduct, investigations are initiated.

The Market Surveillance systems are developed and consolidated on a continuous basis. Some of the surveillance systems that have been put in place are briefly given below:

? Reporting by stock exchanges through periodic and event driven reports;
? Establishment of independent surveillance cells in stock exchanges;
? Inspection of surveillance functioning of stock exchanges;
? Imposition of trading restrictions including suspension of trading in scrips by exchanges to prevent market manipulation;
? Formation of Inter-Exchange Market Surveillance Group for interactive and effective decision making on surveillance issues and co-ordination between stock exchanges;
? Implementation of On-line automated surveillance system (Stock Watch System) at stock exchanges.
? Development of database on violations, contraventions and cases of non-compliance by members and companies for internal use in surveillance and monitoring.
? Designation of senior official for co-ordination and information sharing with other exchanges over surveillance related issues.
? Development of an enforcement manual and improvement in the process and documentation of surveillance and investigation activity.

Mechanism for a Fair and Transparent Securities Market

In order to make the securities markets fair and transparent and for enhanced investor protection, the SEBI had taken further initiatives in the year, as given below:

Strengthening of insider trading regulations

While insider-trading regulations were framed in 1992, it was felt that there was no framework for prevention of insider trading. A group was set up under the Chairmanship of Shri Kumar Mangalam Birla, member, SEBI, to suggest measures to be taken for strengthening of the regulations as well as requirements of procedures, code of conduct and reporting for entities in the capital market which may have access to non-public information.

The Insider Trading (Amendment) Regulations were notified on February 20, 2002. The following changes have been made through these amendment regulations for enhancing market transparency and for strengthening the insider trading regulations:

1. *Strengthening Existing Provisions*

Several existing provisions were amended to strengthen the regulations. These amendments include changes in the definition of connected person, broadening the meaning of dealing in securities, redefining the term 'deemed to be connected', reframing the term 'unpublished price sensitive information', and amendments to the procedure of investigations, in addition to other amendments.

2. *Incorporation of disclosure requirements by insiders such as directors and large shareholders*

A new regulation has been included providing for initial and continual disclosure of shareholding by directors or officers and substantial shareholders (holding more than 5 per cent shares/ voting rights) of listed companies. These disclosures are to be made to the companies, which have to inform the stock exchanges within the prescribed time period. This requirement will further enhance transparency in the market.

3. *Creation of preventive framework consisting of code of conduct for listed companies and other entities associated with securities markets*

To create a preventive framework to curb insider trading, all listed companies and other entities associated with securities market are now required to adopt a code of conduct on the lines of the model code specified in the regulations. The codes of conduct cover the following aspects:

? Maintaining confidentiality of "Unpublished Price Sensitive Information"
? Trading restrictions such as Trading windows, restricted lists of securities and Pre clearance of trades
? Internal reporting Requirements for transactions in securities
? Provisions for internal enforcement and penalty to be imposed by companies/ other entities for contravention of code of conduct

4. Creation of a code of corporate disclosure practices for listed companies

Listed companies are now required to adopt a code for corporate disclosure to improve transparency in the market and fairness in the dissemination of information by corporates to the market. This code covers the areas of :

- ? Prompt disclosure of price sensitive information by listed companies
- ? Responding to market rumours
- ? Timely Reporting of shareholdings/ ownership and changes in ownership
- ? Disclosure of Information with special reference to Analysts, Institutional Investors
- ? Dissemination of information by companies including through company websites.

Dissemination of price sensitive information to public
It is necessary to have a proper method for dissemination of price sensitive and other important information relating to companies and market to the public so that they can make informed investment decisions. The stock exchanges have been advised to display such information on their terminals in the quickest possible manner.

Dealing with market rumours
Market rumours can do considerable damage to the normal functioning and behaviour of the securities market. It is, therefore, essential to have quick verification of such rumours from the corporates as well as from other entities whenever necessary. Companies are required to designate compliance officers who can be contacted by the stock exchanges whenever such verification is needed. Exchanges are required to take up quick verification of rumours and ensure proper dissemination of the relevant information. Exchanges routinely scan newspapers to verify unconfirmed news reports and disseminate information to the market. In addition, exchanges have also been advised to verify rumours pertaining to specific market entities.

Co-ordination and sharing of information
Information sharing between exchanges is crucial in light of multiple listings and memberships, and also in the context of derivatives trading. After discussion on this issue with exchanges, it was decided that exchanges would designate a senior level official handling surveillance function to co-ordinate with other exchanges on surveillance matters. Major exchanges have instituted co-ordination in crucial areas related to market functioning, and also meet periodically to discuss relevant issues.

Greater responsibility and accountability of the surveillance cells of the stock exchanges

The SEBI has initiated several steps in order to bring about greater responsibility and accountability in discharging the surveillance functions by stock exchanges.

Reporting by stock exchanges

For overseeing and supervising of the surveillance activity at stock exchanges, the SEBI receives both periodic as well as event driven reports from exchanges.

The periodic reports comprise of weekly reports which include details about overall trading statistics, member deactivations, scrip suspension, instances of rumor verifications, working of stock watch system and reporting on exception basis, any happenings, trends, events, specific actions/ decisions which have bearing on safety and integrity of market. The monthly report gives details about analysis/investigations taken up by the exchanges following investor complaints forwarded by SEBI or otherwise, outcome of the same and actions taken by the exchange against members/ issuers, and reporting on exception basis, any happenings, trends, events, specific actions/ decisions which have bearing on safety and integrity of market.

Documentation

Surveillance cells of stock exchanges have been advised to devise an internal system of documentation of their surveillance activities, identification of scrips for further analysis, taking up cases for investigation, as well as investigation reports, and follow-up actions.

Surveillance staff strength at exchanges

To improve the functioning of the surveillance cells of stock exchanges, it was decided that exchanges will take steps to assess manpower requirements and deploy adequate staff for surveillance and monitoring. Exchanges are also required to provide appropriate training and certification to surveillance staff and facilitate process of certification.

Development of the stock exchanges as Self-Regulatory Organisations

The securities market has a layered structure for its regulation. Under the Securities Contract Regulation Act (SCR) Act, 1956, the stock exchanges are the hands-on operating and regulating agencies for this market. They also regulate the brokers. Stock exchanges organise, monitor and regulate trading in securities and other related affairs. For performing all these operations, Stock Exchanges exercise various controls and powers, conferred in them by the SCRA and their Bye Laws and Rules, including the following:

a. Monitor market trading activity including price and volume movements, trading data and broker positions.
b. Putting restrictions on trading in the cases of specific scrips as warranted by circumstances such as
    i. putting trading on spot basis
    ii. imposing higher margins
    iii. suspension of trading
    iv. de-listing of scrips, etc.

c. Analysis and investigation into abnormal trading activity

d. Taking action against members including

    i. imposing fines / penalties
    ii. de-activation of terminals
    iii. suspension of trading
    iv. expulsion from exchange
    v. declaring a member defaulter, etc.

Thus, the exchanges are the first level regulators and the primary responsibility of monitoring and surveillance of market activity lies with them. Over the years, the SEBI has taken a number of steps to strengthen the role of exchanges as effective self-regulatory organisations.

Setting up of independent surveillance cells directly reporting to the exchange executive directors, development of exchange level surveillance capabilities like stock watch system, provision of staff exclusively for surveillance function, development of examination/ investigation skills at exchanges through training programs etc. are further initiatives taken by the SEBI in this direction.

For performing self-regulatory functions of monitoring and surveillance of market activity, exchanges have the necessary tools and systems. The exchanges have direct and immediate access to the trading data such as trade logs, order logs, broker positions, and also client details after client codes were made mandatory. Through the measures listed above, SEBI has endeavored to ensure that exchanges are equipped both technically and in terms of skilled manpower to conduct monitoring and analysis of the same.

On the basis of surveillance and examination conducted by them, exchanges take up investigations. Enforcement actions such as levy of fines/ penalties/ suspension of trading etc. are initiated by exchanges on the basis of such investigations. In appropriate cases, exchanges make reference to SEBI for further investigations by SEBI. In the year 2001-02, among the total number of investigation cases undertaken by SEBI, 42 cases were of the nature of further investigations taken up by SEBI on reference from exchanges. Major exchanges conducted suo-moto investigations in more than 203 other cases. As part of its oversight of surveillance activity, SEBI also takes up cases for investigations, but this is done on exception basis only. In the year 2001-02, in 42 cases, exchanges were asked by SEBI, on the basis of complaints/ references received, to conduct investigations/ send details to SEBI. In some of these cases, exchanges had already initiated investigations on their own.

Stock Watch System – an On-line Automated Surveillance System

The SEBI had asked the exchanges to develop and implement an online market monitoring and surveillance system on the basis of basic parameters specified by SEBI. Major exchanges have implemented the real time alert generation systems at a basic level. However, as the hardware and software is vendor supplied and is different in different exchanges, the implementation differs from exchange to exchange. Benchmarking of parameters, prioritisation of alerts and connectivity with various databases are also being implemented. In the case of some exchanges, some of the alerts have not been activated due to improper benchmarking. Population of the databases has been done partially, because of non-availability of information in electronic form, since this information is getting filed with the exchanges in paper form. Some other constraints/ limitations faced by exchanges in implementation of the system are as follows:

? Limitation of hardware to handle increasing volumes
? Software bugs
? Benchmarking of parameters for the alerts to be thrown up by the system
? Introduction of trading in new segments/ markets

Investigations by exchanges
Based on their on-line and off-line surveillance activity, exchanges conduct investigations into trading activity in scrips. SEBI has endeavoured to improve the quality of investigations conducted by exchanges through the inspections of exchange surveillance functioning and through informal feedback to exchanges. Exchanges are also advised to take action based on their own bye-laws, rules and regulations in the cases investigated by them.The SEBI has also advised exchanges to take up more investigations related to merger/takeover announcements and place more emphasis on identifying insider trading cases by examining trading activity around the time of major announcements by corporates.

Inspection of surveillance cells of stock exchanges
During 2001-02, SEBI inspected functioning of surveillance cells of 7 stock exchanges. The areas examined during these inspections include :
? Functioning of surveillance cell of the exchange with respect to detection of price volume aberrations and abnormal market movements
? Functioning of stockwatch system for detection of price volume aberrations
? Market monitoring for identifying market abuse such as price rigging, insider trading etc.
? Procedure for taking up investigations by exchanges
? Procedure for conducting investigations
? Status of investigations
? Rumour verification by exchanges
? Imposition of special margins on scrips

Investigations

Investigations are carried out with a view to gather evidence of alleged violations of securities market such as price rigging, creation of artificial market, insider trading, public issue related irregularities and other misconduct, as well as to find out persons/entities behind these irregularities and violations. The SEBI has been strengthening its investigation activities over the years and these activities were further strengthened during 2001-02.

Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act, 1992and the various SEBI rules and regulations were undertaken. These actions include monetary penalties, warning, suspension of activities, cancellation of registration, refund of issue proceeds, prohibition of dealing in securities and access to the capital market etc.

Investigation proceedings

During 2001-02, investigations were taken up in several cases alleging market manipulations and price rigging, issue related manipulations, insider trading and non-compliance of regulations of mutual funds and take-over of companies. The details of these are given in Table 2.47 and Graph 2.30.

Table 2.47: Investigations by SEBI

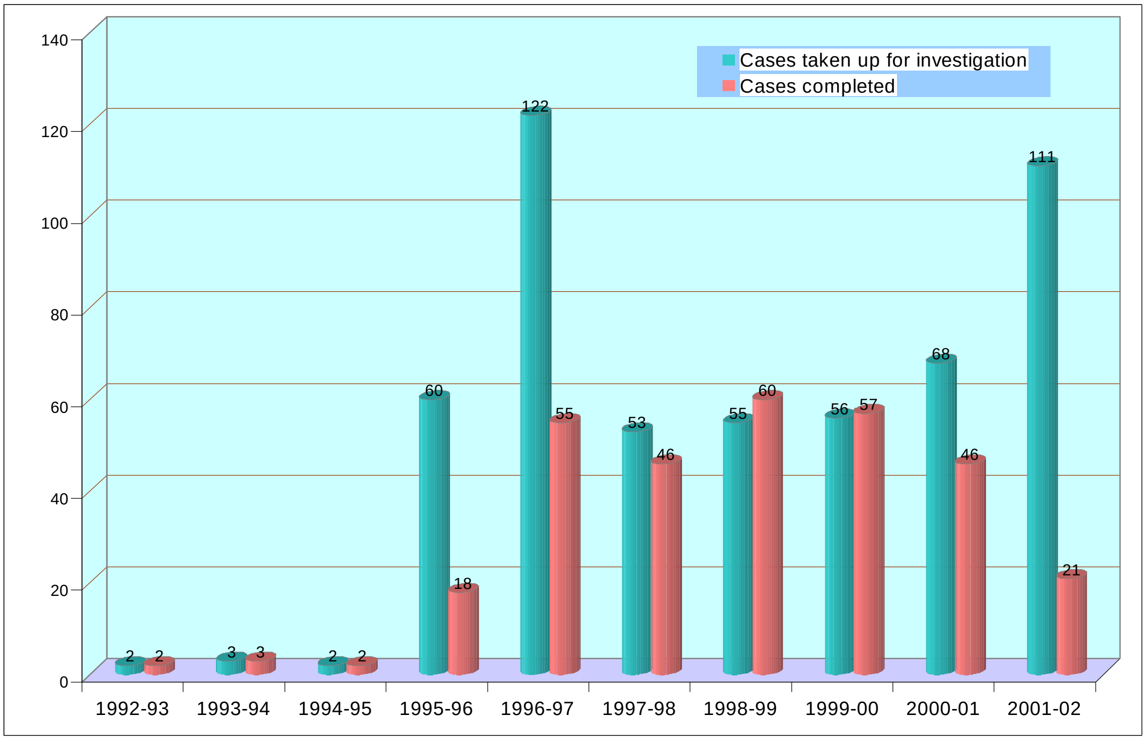
Particulars	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	Total
Cases taken up for investigation	2	3	2	60	122	53	55	56	68	111	532
Cases completed	2	3	2	18	55	46	60	57	46	21	310

Source : SEBI

In April 2001, SEBI completed a preliminary investigation into sudden market fall in early March 2001 and submitted a preliminary investigation report to the Government of India on April 15, 2001. In May 2001, a Joint Parliamentary Committee (JPC) was set up to look into developments in the stock market and other related matters.

The SEBI followed up the preliminary investigation by conducting detailed investigations of several entities in the subsequent months. As part of these investigations, SEBI submitted three interim reports to the Hon'ble JPC in August 2001, December 2001 and February 2002. These reports covered investigation into activities of 120 entities. In addition to these investigations, SEBI also gathered voluminous data and information from various intermediaries/ entities which was furnished to the Hon'ble JPC. Not all of this work is reflected in the statistics above.

Graph 2.30 : Investigations by SEBI



As can be seen from the table, the SEBI undertook investigations in 111 cases in 2001-02 bringing the total cases taken up for investigation till end of this financial year to 532 cases. Out of these, 21 cases were completed during 2001-02 bringing the total cases completed till March 31, 2002 to 310 cases. The break up of 111 cases in according to nature of violations alleged during 2001-02 is given in Table 2.48 and Graph 2.31. Likewise, the break up of 21 cases in respect to nature of violations completed during 2001-02 is given in Table 2.49 and Graph 2.33.

Table 2.48 : Nature of Investigations taken up by SEBI in 2001-02

Particulars	**Number of Cases Taken up for Investigation**
Market manipulation and price rigging	86
"Issue" related manipulation	1
Insider trading	16
Take-overs	1
Miscellaneous	7
Total	**111**
Source : SEBI	

Graph 2.31 : Nature of Investigations taken up by SEBI in 2001-2002

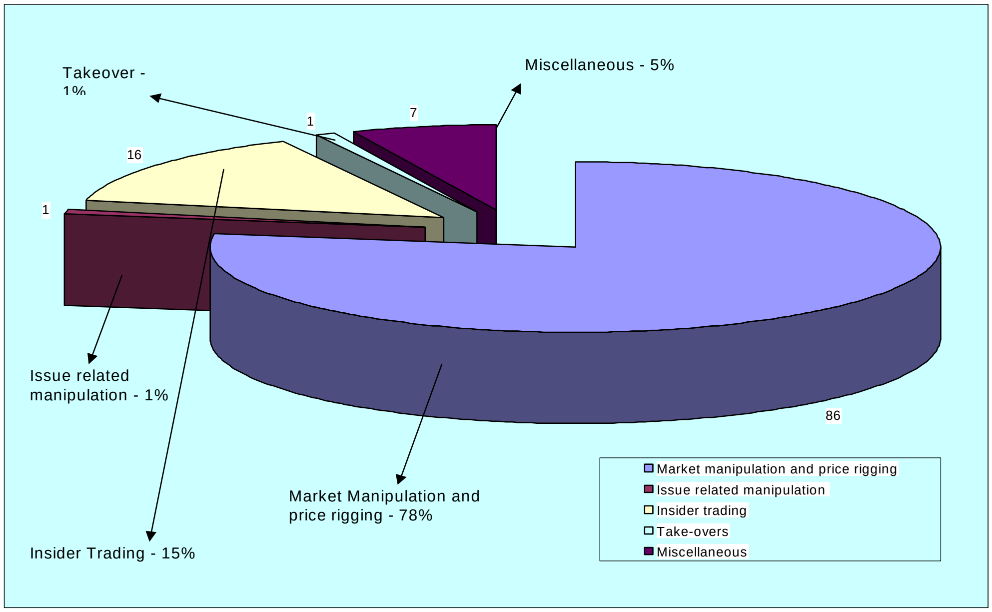
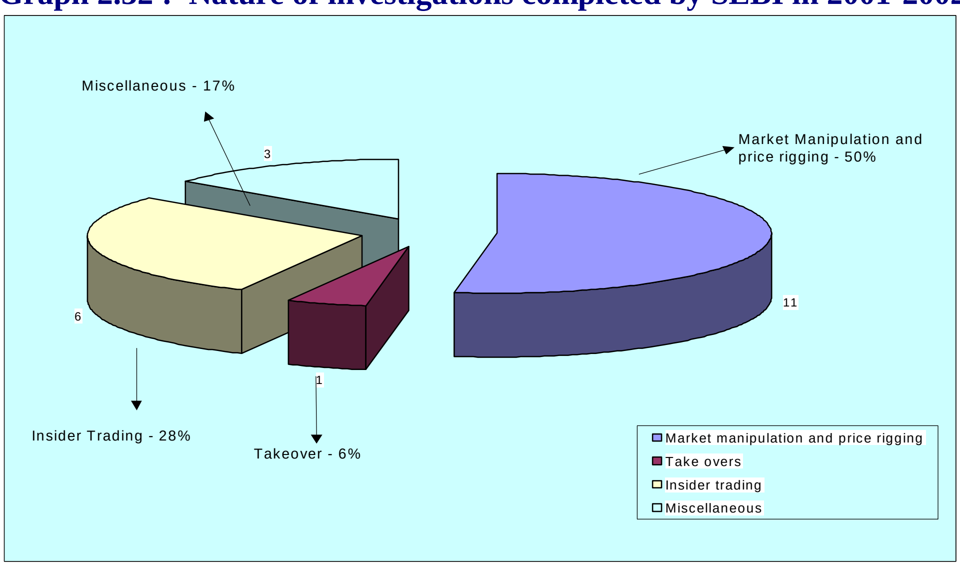


Table 2.49: Nature of Investigations completed by SEBI in 2001-02

Particulars	Number of Cases Completed
Market manipulation and price rigging	11
Take overs	1
Insider trading	6
Miscellaneous	3
Total	**21**
Source : SEBI	

Graph 2.32 : Nature of investigations completed by SEBI in 2001-2002



On completion of investigations, SEBI Regulations provide procedure of enquiry proceedings in respect of intermediaries for their prima facie violations of the SEBI Act and its Regulations. Pursuant to investigations, enquiry proceedings were initiated against 153 intermediaries. Show cause notices have also been issued in this year to 62 non-intermediaries, pursuant to the completion of the investigation, asking them to show-cause as to why suitable directions including directions prohibiting them from dealing in securities and accessing the capital market, for an appropriate period, should not be issued, for creation of artificial market, price manipulations, insider trading, non-compliance of takeover codes etc. These non-intermediaries include individuals, firms as well as corporates. In addition to the above, show cause notices have also been issued for initiating prosecution proceedings against the intermediaries and the non-intermediaries for mis-statement in prospectus, market manipulations, delay in transfer of shares, substantial acquisition without following procedure of open offer in violation of takeover code, etc.

Enquiry and adjudication proceedings

During 2001-02, on completion of investigations, enquiry proceedings were initiated in respect of 153 intermediaries i.e. stock brokers, merchant bankers, registrars to an issue and share transfer agents, bankers to an issue, etc. under the provisions of the relevant SEBI Regulations. The break up of these 153 intermediaries is given in Table 2.50. In 2001-02 enquiry proceedings were completed against 114 intermediaries, the details of which are given in Table 2.51.

During 2001-02, adjudication proceedings were initiated in 68 cases and out of these, adjudication proceedings were completed in 29 cases.

Table 2.50: Details of cases where enquiry officer has been appointed in 2001-02

Intermediaries	Number of Cases
Stock brokers	136
Merchant bankers	1
FII	1
Bankers to an issue	2
Sub-brokers	13
Total	**153**

Source : SEBI

Table 2.51: Details of cases where enquiry proceedings have been completed in 2001-02

Intermediaries	Number of Cases
Stock brokers	80
Merchant bankers	6
Registrars to an issue and share transfer agents	7
Bankers to an issue	12
Sub brokers	8
FII	1
Total	**114**
Source : SEBI	

Action taken

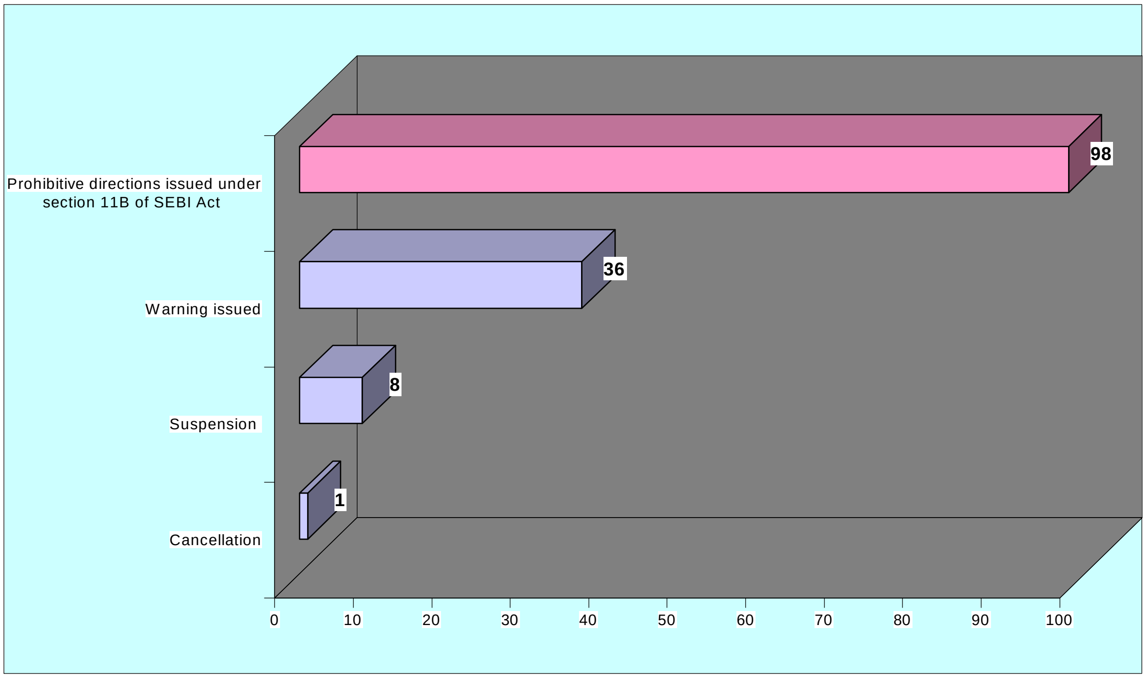
On completion of the investigation and after following the procedure of enquiry proceedings in respect of intermediaries, i.e. stock brokers and sub-brokers, merchant bankers, registrars to an issue and share transfer agents and bankers to an issue, orders were passed for cancellation of registration in 1 case, suspension in 8 cases, warning issued in 36 cases and there were no refund of issue proceeds.

Apart from action against the intermediaries, prohibitive directions were issued under section 11B of the SEBI Act against 19 intermediaries and 79 non-intermediaries, i.e. individuals, firms, companies, etc. for their involvement in creation of artificial market, price manipulations, irregularities in public issue process, etc. Action taken during 2001-02 is given in Table 2.52 and Graph 2.33.

Table 2.52: Action taken in 2001-02

Particulars	*No. of Cases*
Cancellation	1
Suspension	8
Warning issued	36
Prohibitive directions issued under section 11B of SEBI Act	98
Total	**143**
Source : SEBI	

Graph 2.33 : Action taken



Summary of representative investigation cases

During 2001-02, 111 cases were taken up for investigation. These cases pertained to allegations of market manipulations and price rigging, issues related manipulations, insider trading, non-compliance with Takeover Regulations, mis-statement in the prospectus, etc. Out of these 111 cases, investigations were taken up in 86 cases of alleged market manipulation and price rigging, 1 case of issue related manipulations, 16 fresh cases of alleged insider trading, etc. Such investigations coupled with effective market surveillance under the oversight of SEBI have resulted in significant reduction in cases of market manipulation and price rigging.

During 2001-02, investigations in 11 cases of market manipulation and price rigging, 6 cases of insider trading, 1 case of takeover code violations were completed. The investigations into market manipulation cases have brought out that certain persons / entities created artificial market and manipulated the prices of certain scrips.

Prosecutions

SEBI initiated prosecution proceedings in 109 cases in 2001-02 bringing the total prosecution proceedings initiated so far to 192 in the last six years. Out of these, 51 prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act. Likewise, 9 prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997. Similarly, 12 prosecution proceedings were initiated for violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995, 2 for violations of the SEBI (Insider Trading) Regulations, 1992 and other 13 were initiated for non-cooperation during the investigation proceedings. In addition to this there were 99 prosecution proceedings against unregistered entities including CIS and 4 prosecution proceedings were initiated for non-payment of penalty amount imposed by the Adjudicating Officer. The details of the above prosecution cases filed in the Court of Law till the end of 2001-02 are given in Table 2.53 and Graph 2.34. Prosecution proceedings were initiated in 20 cases in the financial year 2000-2001, which involved 98 persons. This increased to 109 cases in the year 2001-02 cases involving 604 persons. The aggregate number of persons against whom prosecution proceedings had been initiated by SEBI till the end of 2000-2001 was 555. This number increased to 604 solely for the year 2001-02 thereby bringing the total to 1159 persons. The breakup of the cases and the number of persons involved are given in Table 2.54.

Table 2.53: Nature of Prosecution Initiated

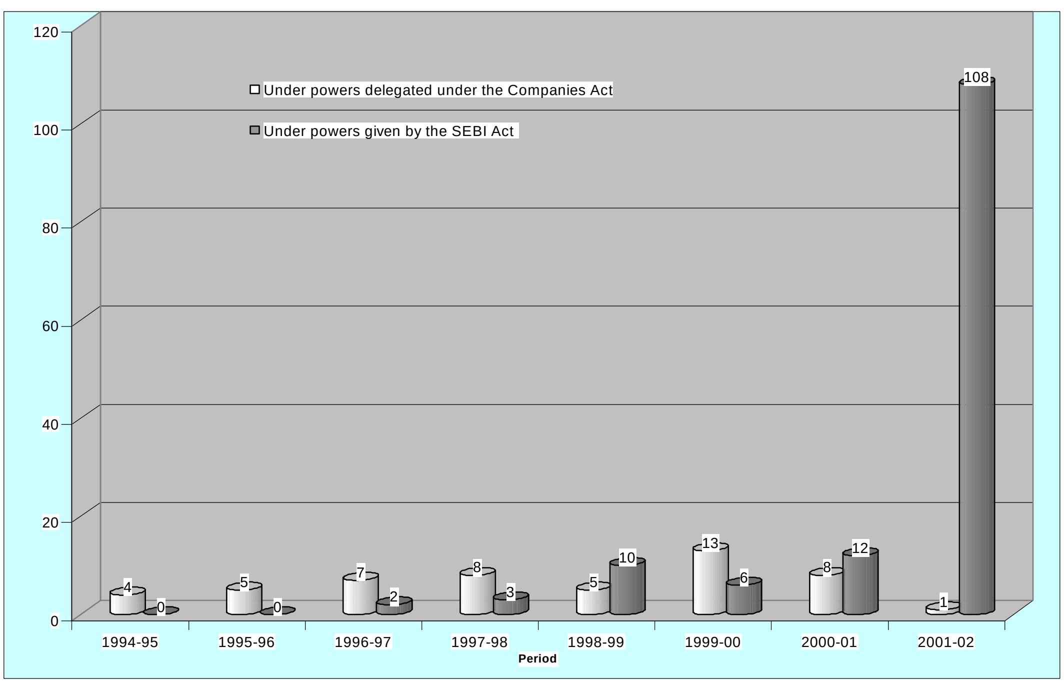
Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Under powers delegated under the Companies Act								
Delay in refund of excess application money, delay in transfer of shares and non-payment of dividend	4	3	4	6	4	10	4	0
Mis-statement in offer document and fraudulent inducement	0	2	3	2	1	3	4	1
Under powers given by the SEBI Act								
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	2	1	4	1	0	1
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	2	4	1	0	5
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	1	0	0	1
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	2	0	0
Unregistered entities (incl. CIS)	0	0	0	0	0	2	0	97
Others: non-cooperation during investigation proceedings	0	0	0	0	1	0	12	0
Non payment of penalty amount imposed by the Adjudicating Officer	0	0	0	0	0	0	0	4
Total	**4**	**5**	**9**	**11**	**15**	**19**	**20**	**109**
Source : SEBI								

Table 2.54: Number of Persons Prosecuted

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Under powers delegated under the Companies Act								
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	27	14	22	34	33	29	17	0
Mis-statement in offer document and fraudulent inducement	0	17	20	23	5	13	22	1
Under powers given by the SEBI Act								
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	10	4	52	31	0	11
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	20	38	30	0	20
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	6	0	0	1
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	10	0	0
Unregistered entities (incl. CIS)	0	0	0	0	0	8	0	563
Others: non-cooperation during investigation proceedings	0	0	0	0	11	0	59	0
Non Payment of Penalty amount imposed by the Adjudicating Officer	0	0	0	0	0	0	0	8
Total	**27**	**31**	**52**	**81**	**145**	**121**	**98**	**604**

Source : SEBI

Graph 2.34 : Nature of Prosecution Initiated



Action taken against merchant bankers

The SEBI issued show cause notices / warning letters / suspension letters to 11 merchant bankers during 2001-02, the details of which are presented in Table 2.55.

Table 2.55 : Action Taken Against Merchant Bankers in the Year 2001-02

Sr. No.	Name of the Merchant Banker	Details regarding actions taken
1.	SBI Capital Markets Ltd.	Show cause notice was issued for non-receipt of shares/certificates by NRIs in the issue of Cepham Milk Specialities Ltd.
2.	Ind Global Corporate Finance Ltd.	Showcause notice was issued for non compliance of networth requirement
3.	L & T Capital Co. Ltd.	Show cause notice was issued regarding inadequate networth as on 27.8.2001
4.	Aryaman Financial Services Ltd.	Warning letter was issued regarding handling issues of Ashu Motors and General Finance Ltd.
5.	Aryaman Financial Services Ltd.	Certificate of registration was suspended for 3 months regarding proposed issue of Eider-e-commerce Ltd.
6.	Ashika Credit Capital Ltd.	Show cause notice and a warning letter was issued for non conducting of due diligence exercise in the issues handled by them.
7.	Systematix Corporate Services Ltd.	Show cause notice and a warning letter was issued for non conducting of due diligence exercise in the issues handled by them.
8.	Aryaman Financial Services Ltd.	Show cause notice and a warning letter was issued for non conducting of due diligence exercise in the issue of Gurukul Technologies Ltd.
9.	IL & FS Merchant Banking Services Limited	Show cause notice was issued in the case of Balaji Telefilms Ltd.
10.	Triumph International Finance Ltd.	Show cause notice was issued in the issue of Balaji Telefilms Ltd.
11.	J M Morgan Stanley Pvt. Ltd.	Show cause notice was issued in the issue of Balaji Telefilms Ltd.
Source : SEBI		

Action taken against registrar to an issue and share transfer agent

The registrars to issue and share transfer agents were issued show cause notices / warning letters / suspension letters following the enquiry proceedings as given in Table 2.56. In all the SEBI had taken such actions against 13 registrars to issue and share transfer agents.

Table 2.56 : Action Taken Against Registrar to an Issue and Share Transfer Agents in the Year 2001-02

Sr. No.	Name of the Registrar to an Issue and Share Transfer Agents	Details regarding actions taken
1.	Intech Systems Pvt. Ltd.	Show cause notice was issued for shifting of office without permission.
2.	Sindhu Corporate Services P Ltd.	Show cause notice was issued to the intermediary under regulation 26(1) of SEBI (RTI/STA) Rules & Regulations, 1993. Subsequently, a warning letter was issued against them advising for becoming careful in future and ensuring strict compliance of SEBI Act, 1992 and SEBI (RTI & STA) Rules and Regulations, 1993.
3.	Maheshwari Datamatics Pvt. Ltd.	Show cause notice was issued to the intermediary under regulation 26(1) of SEBI (RTI/STA) Rules & Regulations, 1993. Subsequently, a warning letter was issued advising them to comply with SEBI rules and regulations in future.
4.	Alankit Assignments Ltd.	A show cause notice was issued to the intermediary under regulation 26(1) of SEBI (RTI/STA) Rules & Regulations, 1993 in the case of Zed Investment Ltd.
5.	SRG Infotec Ltd.	Show cause notice was issued subsequent to completion of enquiry initiated against them.
6.	Competent Management Services	Enquiry proceedings against the intermediary has been completed suggesting cancellation of the certificate. As registration of the intermediary has expired on 15th June, 2001, no action has been taken.
7.	Suburban System Services	Show cause notice was issued for non payment of 3rd year renewal fee
8.	Classik Finsoft Pvt. Ltd.	Show cause notice was issued for non payment of 3rd year renewal fee
9.	Datamation	Enquiry proceedings regarding non payment of 3rd year renewal fee was completed suggesting cancellation of their certificate. Subsequently a show cause notice was issued in this regard. As registration of the intermediary got expired no action been taken.
10.	Chicago Software Industries Ltd.	Enquiry proceedings regarding non payment of 3rd year renewal fee was completed suggesting cancellation of their certificate. Subsequently a show cause notice was issued in this regard. As registration got expired, no action has been taken.
11.	Springfield Corporate Services Pvt. Ltd.	A warning letter was issued forbidding them not to continue their activity prior to getting renewal.

Source : SEBI

Action taken against banker to an issue and issuer

The Dena Bank was issued warning letter by the SEBI for not fulfilling the responsibilities of a banker to an issue. Similarly Gammon India Ltd. was directed to withdraw its application for an issue.

Table 2.57 : Action Taken Against Banker to an Issue and Issuer

Sr. No.	Name of the Banker to an Issue and Issuer	Details regarding actions taken
Bankers to an Issue		
1.	Dena Bank, Ashram Road Branch, Ahmedabad.	It was noted that Dena Bank, Ashram Road Branch, Ahmedabad had not fulfilled its responsibility as a Bankers to an Issue at the time of handling the public issue of Saket Extrusions Ltd. The intermediary has been warned to exercise more care and diligence in their all dealings in future as Bankers to an Issue.
Issuers		
1.	Gammon India Ltd.	The issue company has been asked to give an option to the applicant of the issue to withdraw their application.

Source : SEBI

G] LITIGATIONS, APPEALS AND COURT PRONOUNCEMENTS

Civil Litigation

The details of cases that were filed in the courts during 2001-02 where the SEBI was a party are given in Table 2.58 .

Table 2.58 : Status of litigation where SEBI was a party

S. No	*Subject Matter*	*Cases Filed*	*Cases Pending*	*Cases Dismissed / Allowed*
1.	Brokers Registration fee cases	00	71	00
2.	Collective Investments Scheme	13	02	00
3.	Consumer Forum Cases	48	01	00
4.	General Services Department	02	--	01
5.	Investigations, Enforcement and Surveillance Department	18	07	00
6.	Primary Market Department	03	05	00
7.	Secondary Market Department	15	03	00
8.	Takeovers	17	02	00

Source SEBI

Appeals

The details of appeals under section 15 T of the SEBI Act, 1992 before the Securities Appellate Tribunal (SAT) are furnished in Table 2.59 below.

Table 2.59 : Appeals under section 15T of the SEBI Act, 1992 before the SAT for the period 2001 - 02

Status of Appeals	No. of Appeals
Appeals filed	54
Appeals dismissed	20
Appeals Reminded	03
Appeals allowed	11
Appeals pending	20
Source: SEBI	

Appeals before the SAT

Details of appeals under Section 15 J of SEBI Act against the orders passed by the SAT are given below in table 2.60.

Table 2.60 : Appeals under Section 15J of SEBI Act against the orders passed by the SAT

S.No	Subject Matter	Cases Filed	Cases Pending	Cases Dismissed/ Allowed
1.	Appeals filed by SEBI	07	07	----
2.	Appeals filed by other parties against SEBI	08	05	03 dismissed
Source: SEBI				

Important Pronouncements Relating to Securities Laws

High Court Cases

Anand Rathi vs. SEBI – Bombay High Court

In the wake of the fall of the market, preliminary inquiry that was conducted by SEBI, revealed, prima facie, involvement in market manipulations by Shri Rathi and his concerns. And to prevent further mischief, an order was passed by SEBI restraining Mr.Rathi and his concerns from undertaking any fresh business as brokers under Section 11 read with Section 11B of the SEBI Act,1992 till further orders. Mr.Rathi averred in his petition filed before the Bombay High Court that the impugned order was in violation of principles of natural justice and Article 19(1)(g) of the Constitution of India.

The question came up before the Hon'ble High Court was " whether SEBI had powers under Section 11 or 11B of the SEBI Act to pass the impugned order. While considering the question as to whether the SEBI has authority in law under Sections 11 and 11B to order interim suspension, the Hon'ble High Court observed that Section 11B is an enabling provision enacted to empower the SEBI Board to regulate securities market in order to protect the interests of the investors. Such an enabling provision must be so construed as to subserve the purpose for which it has been enacted. Thus, the SEBI has ample authority in law to take the action under Section 11B as had been taken by it. It was further observed by the Hon'ble Court that " SEBI as a regulator of securities market is empowered to take all necessary measures to protect the interests of the investors and the capital market. The SEBI is fully competent and is empowered by Sections 11 and 11B to pass interim order in aid of the final orders. The SEBI is charged with duty to protect the public and the integrity of the capital markets and as a regulator, it is certainly empowered to order suspension as an interim measure pending investigation into serious allegations of manipulations and insider trading. Therefore, the submission that the SEBI had no power to pass the impugned order was overruled.

While dismissing the appeal, the Hon'ble High Court observed that " the impugned order has been passed not by way of punishment or penalty but only by way of an interim measure, pending enquiry into the manipulations. The pre-decisional natural justice is not always necessary when ad interim orders are made pending investigation or enquiry, unless so provided by the statute and rules of natural justice would be satisfied if the affected party is given post-decisional hearing. The Court further observed that " it is not always necessary to grant prior opportunity of hearing when ad interim orders are made and the principles of natural justice would be satisfied if post-decisional hearing is given, if demanded. The High Court reiterated that " natural justice cannot be imprisoned in a straight-jackets of caste-iron formula."

" SEBI was justified in taking action to curb further mischief in order to instill and maintain public confidence in the integrity of the capital market."

B.P. Plc vs. SEBI - Bombay High Court

In the instant case, Burma Castrol was a subsidiary of B.P.Amocco plc. and Castrol India was a subsidiary of Burma Castrol. B.P.Amocco issued a public announcement by way of a Press Release on March 14, 2000 wherein it categorically stated that it had agreed to recommend a cash offer to buy Burma Castrol for Rs.16.25 pound for per share of Burma Castrol and the same had been agreed to by both the Boards of B.P.Amocco and Burma Castrol. In the said offer, more than 51 per cent of shareholders of BC had indicated the offer to be unconditional. After July 7, 2000, B.P.Amoco acquired control over Castrol India by the said declaration.

The issue came up before the High Court was " whether the relevant date for purpose of acquisition of Castrol India was March 14, 2000 or July 7, 2000." The High Court while upholding the decision of SEBI and the SAT confirmed that " the decision to acquire control over the target company was very apparent and clear from the public announcement made on March 14, 2000 and not on July 7, 2000 as per regulation 29(2)(b) of the Takeover Code. While deciding this issue, the High Court, inter alia, came up with the pronouncements such as… a) the word `acquirer' does not only mean that " only a person who has already acquired shares but also who agrees to acquire not only shares but also voting rights and control of and over the target company. b) A public offer can be made by a public announcement even before obtaining the required regulatory approval. The appeal of B.P.Amoco was dismissed upholding the order passed by the SEBI and the SAT.

Shirish Finance & Investment (P.) Ltd. Vs. M.Sreenivasulu Reddy - High Court of Bombay.

The question came up before Hon'ble High Court was " whether the acquisition of shares in Herbertsons Ltd. by some of the defendants was in breach of the SEBI 1994 Regulations and further, whether the conversion of debentures of the company into shares in favour of defendant no.2 was in breach of the Takeover Regulations,1994.

The Hon'ble High Court observed that " in the 1997 Takeover Code, there are at least three matters in regard to which the Regulations are merely clarificatory and the declaratory. In this regard, a reference may be made to (I) definition of `acquirer' which has been defined to mean any person who directly or indirectly acquires or agrees to acquire shares for voting rights in the target company or acquires or agrees to acquire control over the target company either by himself or with any person acting in concert with the acquirer; (ii) regulation 3(1)(k) which makes it explicit what was implicit in regulation 3 of 1994 Regulations by providing that the exemption under clause (k) (acquisition of shares in unlisted companies) shall not be applicable if, by virtue of acquisition or change of control of any unlisted company, the acquirer acquires shares or voting rights or control over a registered company; and (iii) regulation 10 wherein the addition of the words `if any' has clarified that an acquirer need not be an existing shareholder. However, so far as acquisition of unlisted companies is concerned, under the 1997 Regulations, regulations 10 or 12 thereof will apply to the acquisition of shares in unlisted companies in the category of cases enumerated under the Explanation, to which the 1994 Regulations may not have applied.

In view of regulation 3(d), Chapter III of the Regulations does not apply to acquisition of shares in companies whose shares are not listed on any stock exchange.

The Hon'ble High Court while dismissing the appeal observed that " the object of the Takeover Regulations is to bring about transparency in the dealing of securities, and also to enable the existing shareholders to take informed decision to accept or not to accept the public offer that may be made by a person who seeks to acquire substantial shares in the company. There is no rational basis for a distinction between an acquirer who is an existing shareholder, and an acquire who is not, since the regulatory measures are designed primarily to regulate the substantial acquisition of shares by any acquirer, not necessarily a member of the company. Therefore, the words ` an acquirer who holds shares' carrying 10 per cent or less of voting rights must include an acquirer whose holding in a company may be nil. Less than 10 per cent of the voting rights must include nil shareholding in the context of regulations 9 and 10 of the Regulations. The acquirer not holding shares in the company will not be bound by the regulatory provisions of the Regulations, nor by the prohibitions and mandatory requirements thereof.

K. K. Modi vs. Securities Appellate Tribunal - Bombay High Court

The question that came up before the Hon'ble High Court was whether or not the MPL was acting in concert or deemed to be acting in concert with the acquirers.

While overruling the view that MPL was acting in concert with the acquirer, the Hon'ble High Court, inter alia, observed that the co-promoter can only be held to be acting in concert with the acquirer only if evidence on record clearly establishes that promoter shares common objective or purpose of substantial acquisition of shares or voting rights for gaining control over the target company with the acquirer.

While dismissing the instant appeal, the Hon'ble High Court observed that " If Modipoin Ltd. is neither an acquirer nor a person acting or deemed to be acting in concert with the acquirer, it must fall in the category of other shareholders of the target company, and its shareholding must be treated as `public shareholding' within the meaning of regulation 2(1)(j)."

Appeals Before SAT

Sterlite Industries (India) Ltd. vs. SEBI

In the instant case, Sterlite had made a public offer for acquisition of equity of INDAL by offering a price of Rs.221/- per share against an offer for acquisition of 20 per cent equity @ Rs.175/- per share by Alcan. Sterlite's bid failed as INDAL's shareholders preferred the Alcan's bid. During that time, the price of Sterlite's shares rose very rapidly and abnormally but it touched a low within one month of failure of its bid for acquisition. The SEBI through its investigation revealed that a set of persons known as D Group had cornered large chunk of shares of Sterlite at BSE and NSE resulting in distortion of market equilibrium and due to that payment crisis occurred at BSE. One DV belonging to D Group bought 6 lakh shares of Sterlite at instance of BSE authorities to avert a payment crisis on the stock exchange due to failure of some brokers to meet their obligations. The transactions were entered at midnight and money was provided thorugh a loan from same associate of Sterlite. Sterlite parked share using D Group and later bailed out brokers in event of payment crisis through a loan from its associate. SEBI found a nexus between D group and Sterlite and Sterlite provided a loan to ED through MALCO. Sterlite was held guilty of violating regulation 4(a) and 4(d) of the Takeover Code read with section 11(1) and 11(2)(e) of the SEBI Act. Chairman passed order under section 4(3) read with section 11 and 11B of the SEBI Act prohibiting Sterlite from accessing the capital market for a period of two years and ordered initiation of proceedings under section 24 read with section 27 of the SEBI Act.

The question came up, inter alia, before SAT was whether the impugned order under section 11B of the SEBI Act was remedial, preventive or punitive. SAT while setting aside the impugned order held that under section 11B, SEBI is incompetent to issue a direction which tantamounts to imposition of penalties. The order under section 11B to debar Sterlite from accessing the capital market was a penalty and the action taken by the SEBI under section 11B was not preventive or remedial as contended by the SEBI but penal as it has taken away the Sterlite's right to mobilise funds from the public to carry on its business. SAT further held that in the absence of sufficient material evidence to establish that the Sterlite had directly or indirectly indulged in market manipulation, the impugned order holding Sterlite guilty of violating regulation 4(a) and 4(d) of PFUTP Regulations cannot sustain.

Eaton Corporation vs. Chairman,SEBI

The question before SAT was whether in the instant case there was a proposal of merger. The said case was covered under automatic exemption under regulation 3(1)(j)(ii) of the Takeover Code,1997. The backdrop of this case was that EII merged with AVI which had in turn a wholly-owned subsidiary by the name `AC' and `AC' had a fully-owned subsidiary by the name`VI'. `VI' held 51 per cent in the share capital of its subsidiary VSIL. Scheme of merger was as per agreement and plan of merger entered into among Eaton Corporation, EII and AVI and had approval of Laws of State of Ohio. Due to the said agreement, it resulted in change of ownership of VSIL's ultimate holding company, so the control over VSIL had also changed. The question came up before SAT was whether Eaton Corporation having acquired control over VSIL was required to make a public announcement to acquire shares from shareholders of VSIL in terms of regulation 12.

SAT, inter alia, held that as a result of change in the ownership of VSIL's ultimate holding company, the control over VSIL had also changed. Even if there was no direct acquisition of shares in VSIL by the appellant, in the light of the change in control of the said VSIL effected by way of acquisition of AVI by the Eaton as a result of the merger, it could not be said that Eaton had not acquired control over VSIL. The acquisition was indirect but regulation 12, read with regulation 2(b) of the Takeover Code took care of direct and indirect acquisition.

SAT while allowing the appeal, inter alia, observed that " since the case is exempted from complying with the requirement of regulation 12, issuance of the impugned order asking Eaton Corporation to comply with the requirement of regulation 12 cannot hold good." " Once an acquisition falls under any one of the automatic exemption categories provided under regulation 3(1)(j)(ii) of the Takeover Code, there is no requirement to knock off that exemption." An exemption provided by the law cannot be taken away simply by an administrative order."

Ch.Kiron Margadarsi Financiers vs. Adjudicating Officer,SEBI

In the instant Case, the Adjudicating officer imposed penalty on the appellant for violating the provisions of regulation 10 of the Takeover i.e. acquisition of shares of more than 15 per cent in APL without making an open offer.

The Tribunal while allowing the appeal observed that " the appellant's acquisition entitling it to exercise voting rights was below 10 per cent benchmark provided in regulation 10. Section 15H(ii) of the SEBI Act which the Adjudicating Officer had invoked for the purpose of imposing penalty is applicable only if a person who is required under the Act, Rules or Regulations made thereunder, fails to make a public announcement to acquire shares at a minimum price. What attracts the regulation is the acquisition of shares / voting rights which will entitle the person acquiring the shares to exercise voting rights beyond certain limits specifically provided in the regulation, say 10 per cent in regulation 10 of the Takeover Code. Thus, it is clear that a plain acquisition even if it exceeds 10 per cent of the paid up capital of the company will not attract regulation 10, unless the acquisition entitles the acquirer to exercise 10 per cent or more of the voting rights in the company.

Rhodia S.A. vs.SEBI and 3 ors.

The appellant Rhodia acquired the UK company and as a result the Indian company also became its subsidiary. In that context, Rhodia made an application to the SEBI seeking exemption from the requirement of making public offer to the shareholders of the Indian Company under the Takeover Code. SEBI received complaints from shareholders of the Indian company alleging that Rhodia had taken over the Indian company without making the requisite pubilc offer. However, Rhodia was directed to make a public offer to the shareholders of A&W India by SEBI order.

SAT while dismissing the appeal observed that " a person who was not holding shares and as a result not in a position to tender shares in a public offer which was required to be made by June 14, 2000 should not be entitled for any compensation for the delay involved in making public offer and the consequential delay in the payment of the purchase consideration. Those persons who were holding shares of the Indian company as on June 14, 2000 and continue to be shareholders on the closure day of the public offer made in terms of the directions given by SEBI vide the impugned order alone should be eligible to receive interest, in case the shares which he was holding on June 14, 2000 are tendered in response to the belated public offer.

Phenomenal Plantations vs.SEBI

The appellant in the instant case violated the provisions of regulation 5 read with regulation 68(1),68(2),73 and 74 of SEBI (Collective Investments Schemes) Regulations,1999 (CIS Regulations). The Tribunal while dismissing the appeal observed that " in terms of regulation 65(e) of CIS Regulations, the SEBI is empowered to give a direction debarring the promoters, directors, managers and persons in charge of its schemes from operating in the capital market in order to ensure effective observance of the regulations including a direction " prohibiting the person concerned from operating in the capital market or from accessing the capital market for a specific period."