PART II

REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKET

A] PRIMARY SECURITIES MARKET

Capital raised during 2000-01

During the financial year 2000-01, the primary market was subdued. The total funds raised through equity and bonds in the primary market suffered a set back during 2000-01 registering a decline of 22 per cent as against a rise of 40 per cent during 1999-2000. In absolute terms, total funds mobilised through 151 issues declined from Rs.7,817 crore in 1999-2000 to Rs.6,108 crore during 2000-01. There was also a structural change in capital mobilised as the share of rights issues which was about 20 per cent in 1999-2000 declined to just 12 per cent during 2000-01, the lowest during the preceding 5 years. On the other hand, share of public issues was higher at 88 per cent compared to 80 per cent during the preceding year. The market sluggishness was reflected in the poor response of investors as 11 issues were under subscribed and nearly 89 issues were subscribed less than twice in 2000-01 as compared to 11 issues which were subscribed less than twice in 1999-2000. There was a decline also in the average size of an issue in the year under review due to small issues from industries like chemicals, electronics, engineering, plastic, etc. As observed in the last year's report (1999-2000), banks and FIs mobilised less amount from the primary market and their relative share witnessed a declining trend. They raised about 85 per cent of total resources during 1998-99, which declined to 52 per cent in 1999-2000; and further to 51 per cent during the year under review. Two issues in telecommunication, and infrastructure sectors raised Rs.922 crore during the year as compared to 1 issue in 1999 - 2000 which raised Rs. 75 crore. There was no issue by telecommunication industry during 1998-99. The share of capital raised by the entertainment and finance companies increased to 7.5 per cent and 7.2 per cent during 2000-01 respectively from 1.6 per cent each during 1999-2000.

While there was a decline in the amount of capital raised through issue of offer documents, the capital raised through private placement, which is not regulated by SEBI remained high. According to data available from RBI and other market sources, during 1998-99, a total amount of Rs.49,664 crore was raised of which more than Rs. 6,000 crore was accounted by the private corporate sector. The private corporate sector raised Rs. 18,122 crore through private placement in 1999-2000. During 2000-01, the resource raised was of the order of Rs. 67, 500.0 crore. Thus in the aggregate i.e. taking into account capital raised through the offer documents, private placement and mobilisation by the mutual funds (not withstanding the possibility of double counting), the mobilisation of the financial resources from the market does not seem to have declined.

Table 2.1: Capital Raised During 2000-01 (Rs. Crore)

	No. of Issues and Amount						Percentage Increase/Decrease Over the Previous Year		
	1998-99		1999-2000		2000-01		1998-99	1999-2000	2000-01
	No.	Amount	No.	Amount	No.	Amount			
Public	32	5018.90 (89.84)	65	6256.51 (80.04)	124	5378.38 (88.06)	75.4	24.66	-14.04
Rights	26	567.56 (10.16)	28	1560.24 (19.96)	27	729.41 (11.94)	-66.8	174.90	-53.25
Total	**58**	**5586.46**	**93**	**7816.75**	**151**	**6107.79**	**22.2**	**39.92**	**-21.86**

Figures in brackets are percentage share in total capital raised through offer documents and does not include private placements that are not regulated by SEBI.

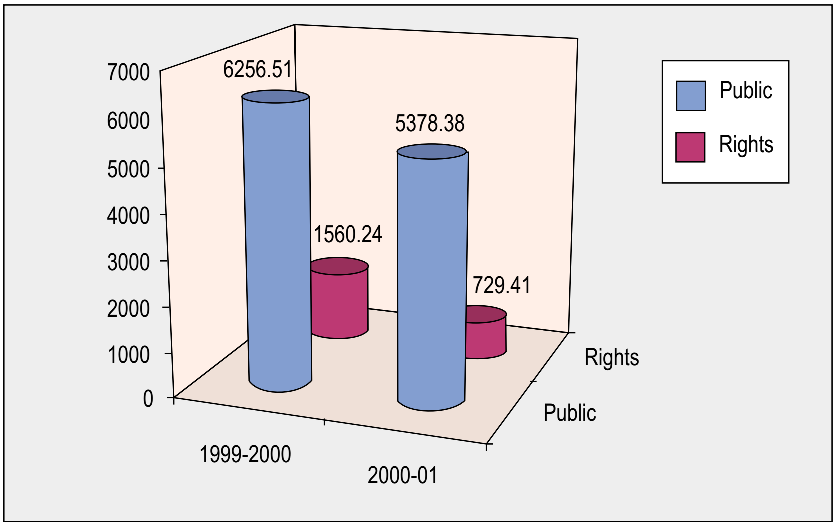
Source: SEBI.

Public and Rights Issues

During 2000-01, 151 issues came to the market of which 124 were public issues for raising Rs. 5378 crore as compared to 65 issues for raising Rs. 6256 crore during the previous year. The companies entered the market with 27 rights issues and raised Rs.729 crore during 2000-01 which was substantially lower than the amount of Rs. 1560 crore mobilised through 28 issues in 1999-2000. Thus, while amounts through public issues decreased by 14 per cent, rights issues recorded a steep decline of more than 53 per cent. (Table 2.1).

The share of resource mobilisation through primary market accounted for only 1.4 per cent of total domestic savings in 1998-99. The investment in shares and debentures by the households accounted for only 3.6 per cent of their total financial assets in 1998-99. In 1999-2000 although this share had increased to 6.4 per cent, it declined to around 2.7 per cent in 2000-01.

Graph 2.1 :
Capital Raised Through Public and Rights Issues



Month-wise trends in capital mobilisation

Analysis of monthly data on capital mobilisation through offer documents filed with the SEBI, reveals that more than half of the capital was raised during the second half of the year during 2000-01. The bulk of the capital was raised during July, September and November 2000 and February and March 2001 (Table 2.2). The time pattern of issues entering the market remained the same as in 1999-2000.

Table 2.2 : Month-wise Capital Raised During 2000-01 (Rs. crore)

Month	1999-2000			2000-01		
	No. of Issues	Amount	Avg. Amt. Per Issue	No. of Issues	Amount	Avg. Amt. Per Issue
April	2	90.19	45.09	16	127.80	7.99
May	1	300.00	300.00	14	312.08	22.29
June	8	146.78	18.35	14	159.90	11.42
July	6	1274.52	212.42	22	551.08	25.05
August	6	381.68	63.61	12	413.96	34.50
September	11	928.71	84.43	20	1274.36	63.72
October	8	615.17	76.90	9	359.17	39.91
November	6	1353.19	225.53	13	723.25	55.63
December	12	632.41	52.70	4	318.90	79.73
January	8	132.36	16.55	7	81.06	11.58
February	14	1433.98	102.43	14	1156.78	82.63
March	11	527.76	47.98	6	629.45	104.91
Total	**93**	**7816.75**	**84.05**	**151**	**6107.79**	**40.45**

* Monthly Average.

Source: SEBI.

Trends in size and composition of issues

There were 18 large issues during the year for mobilising Rs.4486 crore as compared to 19 issues, in 1999-2000 for raising Rs.6034 crore. Thus large issues formed 73.4 per cent of the total amount of capital raised during 2000-01 compared to a ratio of 77.2 per cent during the previous year. The FIs and banks which were the major issuers in this segment mobilised 69.9 per cent of the total amount raised by the large issues during the current financial year as compared to a slightly lower share of 66.9 per cent during the previous year. The ICICI entered the market 7 times for mobilising Rs.2050 crore followed by the mega issues of other banks Rs.489 crore and IDBI with Rs.600 crore. The corporates on the other hand mobilised Rs. 1246 crore of which Rs.886 crore was accounted for by one company, Hughes Telecommunication India Ltd. forming 14.50 per cent of the total capital raised during 2000-01. Of the 18 large issues, 9 were bond issues for Rs.2650 crore and an equal number of equity issues (9) amounting to Rs.1836 crore. In terms of percentage share, the amount through large equity issues and bonds was 41 per cent and 59 per cent, respectively in 2000-01 as compared to 48 per cent and 52 per cent, respectively for 1999-2000 (Table 2.3).

Table 2.3 : Large Issues During 2000-01 (Rs. Crore)

Name of the Company	Type of Issue	Type of Instru.	Issue Opng. Date	Offer Size
Mascot Systems Ltd.	Public	Equity	02/05/2000	144.00
PNB Gilts Ltd.	Public	Equity	11/07/2000	105.00
ICICI Ltd.	Public	Bond	20/07/2000	200.00
Mukta Arts Ltd.	Public	Equity	28/07/2000	100.00
ICICI Ltd.	Public	Bond	28/08/2000	250.00
Ceat Financial Services Ltd.	Rights	Equity	28/08/2000	110.94
Hughes Tele.com (India) Ltd.	Public	Equity	20/09/2000	886.40
Indian Overseas Bank	Public	Equity	25/09/2000	111.20
ICICI Ltd.	Public	Bond	03/10/2000	250.00
Vijaya Bank	Public	Equity	27/11/2000	100.00
ICICI Ltd.	Public	Bond	03/11/2000	200.00
IDBI	Public	Bond	27/11/2000	300.00
ICICI	Public	Bond	05/12/2000	250.00
ICICI	Public	Bond	05/02/2001	500.00
IDBI	Public	Bond	12/02/2001	300.00
Andhra Bank	Public	Equity	14/02/2001	150.00
Centurion Bank Limited	Rights	Equity	14/02/2001	128.08
ICICI Ltd.	Public	Bond	15/03/2001	400.00
Total				**4485.62**

Source: SEBI.

Table 2.4: Size-wise Distribution of Issues (Rs. Crore)

	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amt.	No.	Amt.		
<5 cr.	19	52.52	66	185.94	0.67	3.04
=>5cr.<10cr.	15	105.11	25	165.38	1.34	2.70
=>10cr<50cr.	26	629.02	34	763.94	8.05	12.50
=>50cr. <100cr.	14	996.46	8	506.91	12.75	8.29
=>100cr. <500cr.	17	4460.04	16	3099.22	57.06	50.74
=>500 crore.	2	1573.60	2	1386.40	20.13	22.69
Total	**93**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

Source : SEBI.

Analysis of number of issues according to various sizes and amount raised is presented in Table 2.4 above. Of the total 151 issues, 66 issues were of the size of below Rs.5 crore and 34 issues in the rage of above Rs.10 crore and below Rs.50 crore in 2000-01. While two mega issues of the size of more than Rs.500 crore each raised Rs.1386.4 crore and 16 issues in the size of more than Rs.100 crore and less than Rs.500 crore collected Rs.3099 crore (Table 2.4).

Table 2.5 : Type of Issues and Amount Raised: Month-wise (Rs. Crore)

Month / Type of Issues	1998-99		1999-2000		2000-01	
	No.	Amount	No.	Amount	No.	Amount
April	04	409.33	2	90.19	16	127.80
Public	02	335.84	0	0.00	15	76.62
Right	02	73.49	2	90.19	1	51.18
May	04	97.10	1	300.00	14	312.08
Public	03	95.58	1	300.00	13	295.24
Right	01	1.52	0	0.00	1	16.84
June	05	100.39	8	146.78	14	159.90
Public	05	100.39	4	56.17	10	27.11
Right	00	0.00	4	90.61	4	132.79
July	06	365.52	6	1274.52	22	551.08
Public	01	300.00	4	1064.16	19	532.61
Right	05	65.52	2	210.36	3	18.47
August	04	333.08	6	381.68	12	413.96
Public	01	300.00	4	297.67	10	299.66
Right	03	33.08	2	84.01	2	114.30
September	09	973.51	11	928.71	20	1274.36
Public	06	911.95	8	746.77	19	1257.17
Right	03	61.56	3	181.94	1	17.19
October	02	409.84	8	615.17	9	359.17
Public	01	400.00	6	540.89	8	353.17
Right	01	9.84	2	74.28	1	6.00
November	01	02.00	6	1353.19	13	723.25
Public	00	0.00	4	1140.10	12	712.42
Right	01	2.00	2	213.09	1	10.83
December	06	1237.83	12	632.41	4	318.90
Public	04	1075.05	7	193.71	3	306.40
Right	02	162.78	5	438.70	1	12.50
January	03	346.98	8	132.36	7	81.06
Public	02	306.18	5	73.37	2	7.38
Right	01	40.80	3	59.00	5	73.68
February	07	870.93	14	1433.98	14	1156.78
Public	04	837.13	12	1320.27	9	1008.34
Right	03	33.80	2	113.71	5	148.44
March	07	439.95	11	527.76	6	629.45
Public	03	356.78	10	523.41	4	502.26
Right	04	83.17	1	4.35	2	127.19
Total	**58**	**5586.46**	**93**	**7816.75**	**151**	**6107.79**

Source : SEBI.

Trends in listed and IPO issues

The capital raised by the listed companies recorded a sharp decline of 34 per cent in 2000-01 as against a marginal decline of 2 per cent in 1999-2000 over the previous year. On the other hand, the capital raised through Initial Public Offers (IPOs) showed a small rise of 0.1 per cent as compared to an exponential rise in the previous year. The corporates as well as other entities have been resorting to mobilise funds through IPOs. During 2000-01, 114 issues came in the market as IPOs for raising Rs.2722 crore as compared to 51 issues during 1999-2000 for mobilising Rs.2719 crore. Though the number of issues increased substantially, the capital raised showed a marginal increase of Rs.3.4 crore. Moreover, the average size of issue too declined to Rs.40 crore in 2000-01 from Rs.84 crore in the previous year. In terms of percentage share, while IPOs contributed 45 per cent during 2000-01 as compared to their share of 35 per cent during 1999-2000, the listed companies' share declined to 55 per cent from 65 per cent because of sharper decline in the amount raised by the listed companies. Thus, the IPOs continued to play a significant role in sustaining their role of resource mobilisation from the primary market compared to the listed companies, recording an evidence that more and more new companies entered the capital market providing more instruments for trading on the bourses (Table 2.6).

Table 2.6 : Listed and IPO Issues (Rs. Crore)

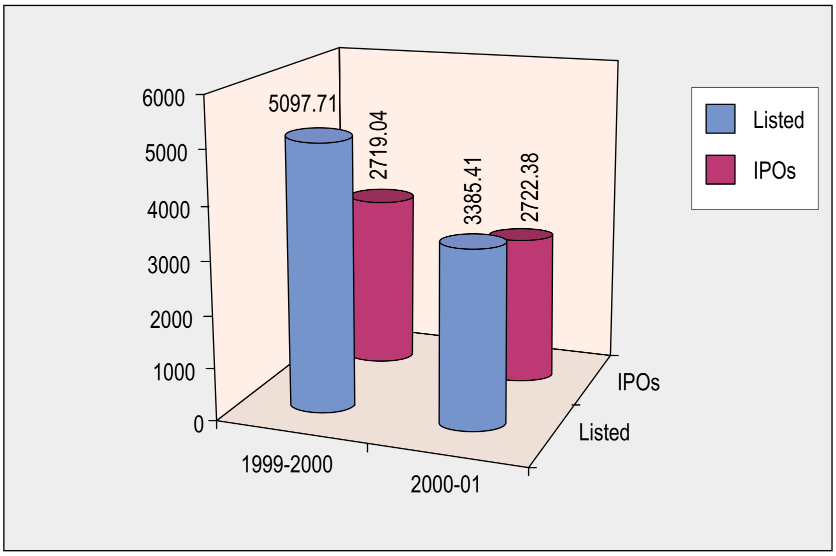
	No. and Amount						Percentage Increase / Decrease Over Previous Year	
	1998-1999		1999-2000		2000-01		1999-2000	2000-01
	No.	Amt.	No.	Amt.	No.	Amt.		
Listed	40	5182.25 (92.76)	42	5097.71 (65.22)	37	3385.41 (55.43)	-1.63	-33.59
IPOs	18	404.21 (7.24)	51	2719.04 (34.78)	114	2722.38 (44.57)	572.68	0.12
Total	**58**	**5586.46 (100.00)**	**93**	**7816.75 (100.00)**	**151**	**6107.79 (100)**	**39.92**	**-21.86**

Figures in brackets are percentages to total.

Source : SEBI.

As regards average size of issues of listed and IPO companies, the listed companies recorded a decline to Rs.91 crore per issue in 2000-01 from Rs.121 crore per issue in 1999-2000. On the other hand IPO's average size declined from Rs.53 crore in 1999-2000 to Rs.24 crore in 2000-01 reflecting that relatively a larger number of small size issues came from new and small companies particularly from information technology industry with a average size of Rs.9 crore compared to Rs.43 crore per issue in 1999-2000.

Graph 2.2 :
Listed and IPO Issues During 2000-01



Sector-wise analysis of capital mobilisation

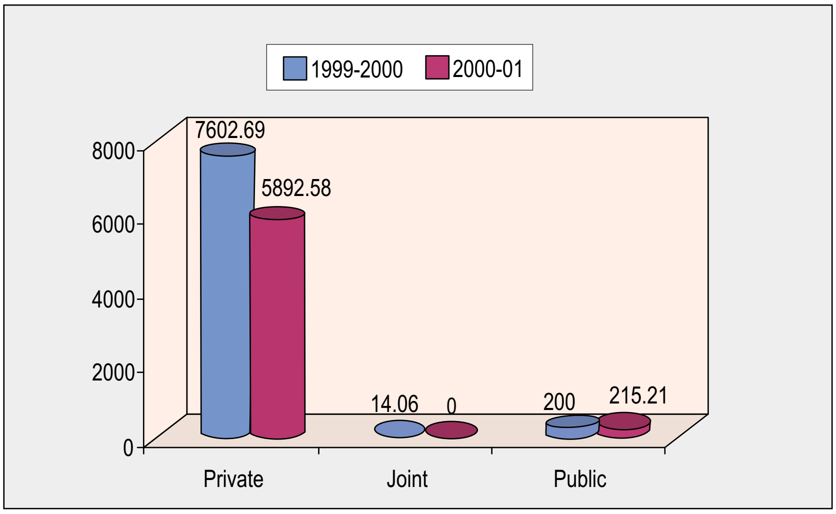
As in the previous year, the investment activity in the primary market was by and large dominated by the private sector companies, which included banks and financial institutions. Their share in capital raised by private sector companies remained around 97 percent as in the previous year mobilising Rs.5893 crore through 148 issues in 2000-01 as compared to Rs.7603 crore through 90 issues during 1999-2000. Joint sector did not enter the market though it had mobilised Rs.14 crore through only 1 issue in 1999-2000. There were only 3 issues by public sector companies which mobilised Rs.215 crore accounting for 3.5 per cent of the total capital raised in 2000-01 as against 2 issues with Rs.200 crore in 1999-2000 (Table 2.7).

Table 2.7: Sector-wise Break-up Capital Raised (Rs. Crore)

Sector	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amt.	No.	Amt.		
Private	90	7602.69	148	5892.58	97.26	96.48
Joint	1	14.06	0	0.00	0.18	0.00
Public	2	200.00	3	215.21	2.56	3.52
Total	**93**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

Source: SEBI.

Graph 2.3 :
Sector-wise Capital Raised



Appraisal of issues and their trends

During 1999-2000, 15 issues out of 93 issues forming 16 per cent were appraised and 84 per cent of issues were not appraised. During 2000-01, 76 issues out of 151 issues forming 50 per cent were appraised and 75 issues accounting for nearly 50 per cent were not appraised. In terms of amount 9 per cent of total capital was raised through appraisal as compared to 4 per cent in 1999-2000 (Table 2.8) .

Table 2.8: Classification of Issues into Appraised/Unappraised (Rs Crore)

Sector					Percentage Share in Total Amount	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amt	No.	Amt		
Appraised	15	315.32	76	531.54	4.03	8.70
Unappraised	78	7501.43	75	5576.25	95.97	91.30
Total	**93**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

Source: SEBI.

Investor-wise details of allotment

The amount of capital allotted to the public amounted to Rs. 5378 crore of which 94 per cent came from Indian public as compared to a share of 97 per cent during the previous year. The second important category was of promoters, who accounted for 4.6 per cent during the current financial year under review as compared to 0.8 per cent in the previous year reflecting the rising contribution of promoters. The share of NRIs which stood at 1.2 per cent in 1999-2000, declined to 0.3 per cent in 2000-01. In absolute terms the allotment to NRI declined from Rs.75.5 crore in 1999-2000 to Rs.16.0 crore in 2000-01. The share of employees has shown increase from 0.6 per cent to 0.7 per cent probably due to Employee Stock Option Scheme. Allotment to mutual funds, which was 0.2 per cent in 1999-2000, increased to 0.3 per cent or by Rs.6 crore. Allotment to banks and FIs has substantially declined from Rs.16 crore in 1999-2000 to Rs.8 crore in 2000-01 constituting only 0.1 per cent of the total allotment. (Table 2.9)

Table 2.9 : Investor-wise Details of Allotment (Rs. Crore)

		1999-2000			2000-01		
Sr. No.	**Category**	**No.**	**Amount**	**Percentage to Total**	**No.**	**Amount**	**Percentage to Total**
1.	NRIs	9	75.51	1.2	12	16.10	0.3
2.	MFs	8	11.14	0.2	10	16.92	0.3
3.	FIs / Banks	7	15.71	0.3	15	7.72	0.1
4.	FIIs	3	1.28	0.0	1	4.48	0.1
5.	MM	0	0.00	0.0	0	0.00	0.0
6.	Others	6	16.11	0.3	2	0.75	0.0
7.	Employees	17	34.42	0.6	17	38.76	0.7
8.	Promoters	24	47.93	0.8	64	245.75	4.6
9.	Indian Public*	65	6054.41	96.8	124	5047.90	93.9
	Total	**139**	**6256.51**	**100.0**	**245**	**5378.38**	**100.0**

* Indian Public means: Indian Nationals, resident in India, who apply for equity shares on their own behalf and not as nominees of any person resident outside India or foreign nationals.

Indian Nationals, resident in India and apply for the equity shares as Power of Attorney Holder(s) of Non-Resident Indians on non-repatriation basis.

Indian Nationals, resident outside India and who apply on their behalf on non-repatriation basis.

Source : SEBI.

Industry-wise analysis of resource mobilisation

Allocation of resources to various industries in the primary market is an important indicator of industrial diversification, its growth and perceptions of the entrepreneurs. A notable feature of resource mobilisation was a sharp decline in case of infotech industry from Rs.1547 crore in 1999-2000 to Rs.804 crore in 2000-01, banking/FIs from Rs.4039 crore during 1999-2000 to Rs.3139 crore during 2000-01 followed by health care from Rs.575 crore to Rs.48 crore, cement and construction from Rs.337 crore to Rs.82 crore, chemical from Rs.181 crore to Rs.31.5 crore and electronics from Rs.213 crore to Rs.69 crore (Table 2.11).

There were 13 issues in the financial year 2000-01 by Banks/Financial Institutions. Of the 13 issues, 7 issues were launched by the ICICI. These were basically 7 tranches of umbrella issue of bonds. IDBI also came out with 2 tranches of bonds issue in 2000-01. The other 4 issues were of equity issues to public by Vijaya Bank, Indian Overseas Bank, Andhra Bank and Centurion Bank Limited. Details of these issues by Banks/FIs are given in table 2.10.

Table 2.10 : Details of Funds Mobilised by the Banks and FIs (Rs. Crore)

Name of the Bank/FI	Instrument	Type of Issue	Issue size
ICICI Ltd.	Bond	Public	200.00
ICICI Ltd.	Bond	Public	250.00
Indian Overseas Bank	Equity	Public	111.20
ICICI Ltd.	Bond	Public	250.00
ICICI Ltd.	Bond	Public	200.00
Vijaya Bank	Equity	Public	100.00
IDBI	Bond	Public	300.00
ICICI Ltd.	Bond	Public	250.00
ICICI Ltd.	Bond	Public	500.00
IDBI	Bond	Public	300.00
Andhra Bank	Equity	Public	150.00
Centurion Bank Ltd.	Equity	Rights	128.08
ICICI Ltd.	Equity	Public	400.00
Total			**3139.28**

Source : SEBI.

The share of banking and FIs in total capital raised declined marginally from 51.7 per cent in 1999-2000 to 51.4 per cent in 2000-01, while information and technology suffered when their share fell from about 19.8 per cent to 13.2 per cent mainly on account of marked deceleration in the demand for products of industry in the United States having adverse effect on infotech exports from India. The entertainment and finance industries, however, witnessed increase in their share from 1.7 per cent and 1.6 per cent in 1999-2000 respectively to 7.5 per cent and 7.2 per cent in 2000-01, respectively. The share of healthcare on the otherhand declined from 7.4 per cent to 0.8 per cent. The telecommunication seems to have dominated the field and shared 15.1 per cent of the total capital raised from the primary market during the year of 2000-01 though the number of issues were only 2 in this sector.

Table 2.11: Industry-wise Capital Raised (Rs. Crore)

Industry	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amount	No.	Amount		
Banking/FIs	15	4038.55	13	3139.28	51.67	51.40
Cement & Const.	3	336.87	2	82.28	4.31	1.35
Chemical	4	181.33	5	31.53	2.32	0.52
Electronic	3	212.66	4	69.43	2.72	1.14
Engineering	2	10.13	2	23.31	0.13	0.38
Entertainment	2	128.85	13	457.69	1.65	7.49
Finance	3	124.28	10	439.92	1.59	7.20

(Contd.)

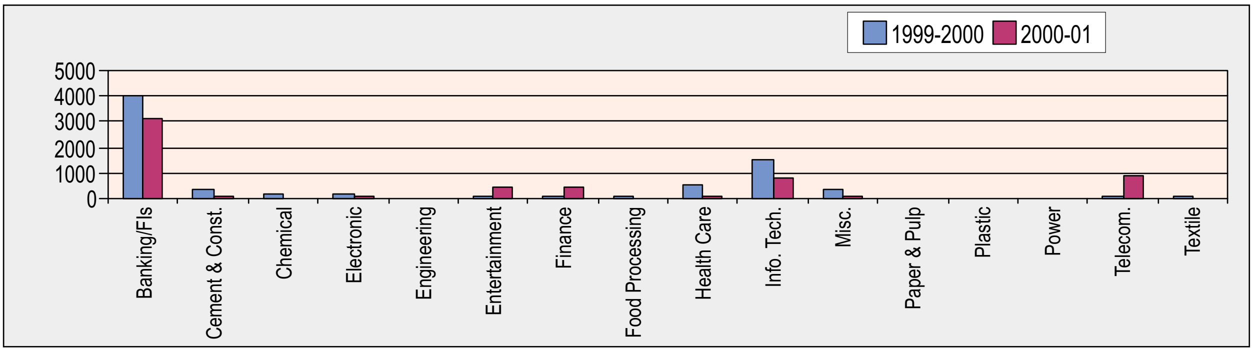
Table 2.11: Industry-wise Capital Raised *(Contd.)* (Rs. Crore)

Industry	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amount	No.	Amount		
Food Processing	3	70.58	0	0.00	0.90	0.00
Health Care	7	575.36	4	47.58	7.36	0.78
Info. Tech.	36	1547.01	89	803.54	19.79	13.16
*Misc.	7	387.38	5	76.21	4.95	1.25
Paper & Pulp	1	14.06	0	0.00	0.18	-
Plastic	1	7.00	1	4.03	0.09	0.07
Power	1	15.00	0	0.00	0.19	0.00
Telecom.	1	75.00	2	922.16	0.96	15.10
Textiles	4	67.69	0	0.00	1.19	0.00
Total	**93**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

* Includes 1 issue for Packaging for Rs.163.77 crore.

Source : SEBI.

Graph 2.4 :
Industry-wise Capital Raised



It would be noticed that banking/FIs, information technology, entertainment, finance and telecom together accounted for 94 per cent of the total capital raised during the financial year 2000-01 through 127 issues which constituted more than 84 per cent of the total issues launched.

Region-wise analysis of capital mobilisation

During 2000-01, the western region mobilised Rs.4105 crore or about 67 per cent of the total resources followed by the southern region with about Rs.1555 crore accounting for 25 per cent and eastern region with only Rs.240 crore or 4 per cent. Though number of issues from western region declined marginally from 46 in the financial year 1999-2000 to 43 in financial year 2000-01, amount of capital raised sharply declined by 22 per cent to Rs. 4105 crore.

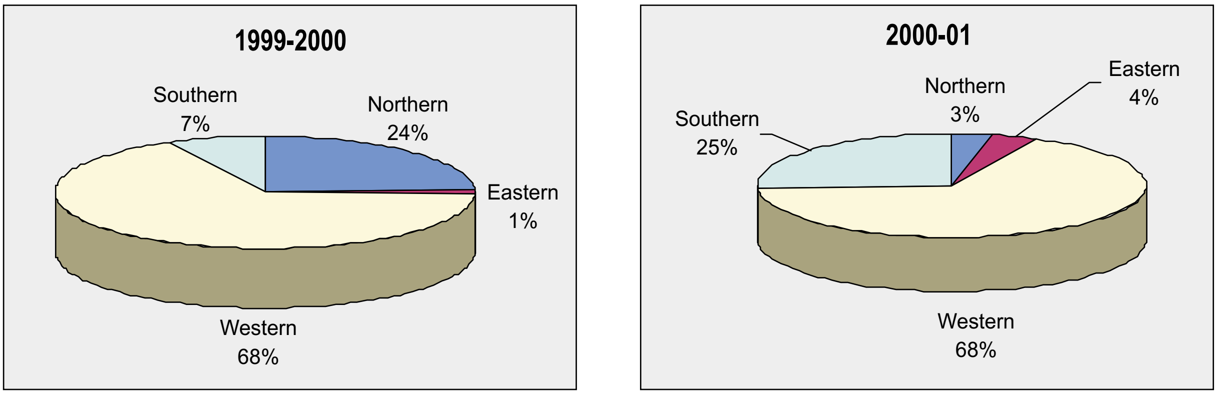
As regards trends, a total number of 89 issues were launched in southern region which is 3.30 times of that of last year. Capital mobilised by the issues from Southern region also increased by 170 per cent to Rs 1555 Crore in 2000-01 from Rs. 577 crore in previous financial year. However, in spite of the fact that 59 per cent of the total issues launched were from southern region, capital raised by this region is only 25 per cent of the total capital raised in 2000-01. This is because of concentration of issues of smaller sizes in this region. Out of 91 issues of sizes of less than Rs. 10 crore, launched in 2000-01, 69 issues were from southern region (Table 2.12).

Table 2.12: Region-wise Distribution of Capital Raised (Rs. Crore)

Sector	No. of Issues and Amount				Percentage Share	
	1999-2000		2000-01		1999-2000	2000-01
	No.	Amt.	No.	Amt.		
Northern	13	1899.96	10	207.39	24.31	3.40
Eastern	7	105.55	9	240.36	1.35	3.94
Western	46	5234.58	43	4105.39	66.97	67.22
Southern	27	576.66	89	1554.65	7.38	25.45
Total	**93**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

Source: SEBI.

Graph 2.5 :
Region-wise Distribution of Capital Raised



Eastern region launched 9 issues in 2000-01 as compared to 7 issues in 1999-2000. Capital raised by the eastern region increased to Rs. 240 crore in 2000-01 from Rs.105 crore during the previous year, whereas its share increased from 1.35 per cent in 1999-2000 to 4.0 per cent in 2000-01. Though number of issues launched in northern region decreased by 23 per cent to 10 in 2000-01 from 13 in 1999-2000, amount of capital raised came down drastically by 89 per cent to Rs. 207 crore from Rs.1900 crore in 1999-2000. In percentage terms share of northern region in total capital raised declined from 24 per cent in 1999-2000 to 3.4 per cent in 2000-01.

Instrument-wise analysis of capital raised

The equity issues continued to be on top in resource raising in 2000-01 as total capital raised through these instruments stood at Rs.3225 crore accounting for 53 per cent of the total capital raised during the year under review. Out of 138 issues of equity shares 84 issues were at par constituting 56 per cent of total number of issues and contributing only 13 per cent of the total capital raised. However, the equity capital on the premium contributed 39.4 per cent of the total capital raised. Its share in total equity was 75 per cent in 2000-01 as compared to a share of 83 per cent during 1999-2000. As regards size of equity issues, average size of equity on par was Rs.10 crore in 2000-01, which was lower than Rs.26 crore in 1999-2000 (Table 2.13).

As regards bonds, there were 10 issues of Rs.2704.0 crore during 2000-01 as compared to 10 issues for Rs.3200.0 crore in 1999-2000 resulting in higher share of capital raised through bonds to 44.3 per cent. This share was 40.9 per cent in 1999-2000. There was only one Fully Convertible Debenture (FCD) for Rs.36.3 crore. However, in 2000-01 there was no Partially Convertible Debenture (PCD) though there was one for Rs.30 crore in 1999-2000.

Further analysis revealed that out of 84 issues of equity shares at par, 58 issues were IPOs which came through appraisal route for which average issue size was Rs.3.6 crore. There were 12 IPOs of equity shares at par which were non-appraised issues. Average issue size for this category was Rs. 33 crore. However, if 3 IPOs of equity shares at par by Vijaya Bank, Indian Overseas Bank and Andhra Bank are removed from this category then average issue size comes down to Rs. 4.2 crore.

Table 2.13: Instrument-wise Break-up of Capital Raised (Rs.Crore)

Instruments	No. of Issues and Amount				%age share in total	
	1999-2000		2000-01		1999-2000	2000-01
	No.*	Amt.	No.	Amt.		
Equity – par	30	786.18	84	817.82	10.06	13.39
- premium	52	3779.79	54	2407.60	48.36	39.42
CCPS	0	0.00	2	142.11	0.00	2.33
F CD s	1	20.78	1	36.26	0.27	0.59
P CD s	1	30.00	0	0.00	0.38	0.00
Bonds	10	3200.00	10	2704.00	40.94	44.27
Others	0	0.00	0	0.00	0.00	0.00
Total	**94**	**7816.75**	**151**	**6107.79**	**100.00**	**100.00**

* Number counted on the basis of instrument i.e. if a company has issued more than one instrument, then they have been counted separately.

Source : SEBI.

Underwriting of issues

During 2000-01, 105 issues for Rs.3697 crore were underwritten. Only 19 issues were not underwritten for Rs.1681.16 crore, which reflect that a large number of good issues did not require underwriting facility (Table 2.14).

Table 2.14 : Amounts Underwritten / Not Underwritten for 2000-01 (Rs. crore)

Public Issues	*No.*	*Amt.*	Percentage Share in Total
Underwritten	105	3697.22	68.74
Not underwritten	19	1681.16	31.26
Total	**124**	**5378.38**	**100.00**

Source: SEBI.

Subscription of primary issues

During the period 2000-01 (April-March), there were eleven undersubscribed issues. Two issues were later subscribed by the underwriters. In case of one issue, the promoters brought in the unsubscribed portion and in 8 issues the money was refunded, as per the figures available with SEBI as on April 04, 2001. It would be noticed that during 1999-2000, there was no unsubscribed issue. A large number of issues was not subscribed on account of investors' poor response. A number of issuers had to refund the amounts collected by way of application money because they failed to receive minimum subscription from shareholders as per the provisions and directives of the SEBI. Of the subscribed issues, 89 issues were subscribed for less than twice and 18 issues were subscribed for more than twice and less than 5 times. (Table 2.15)

Table 2.15: Subscription Details During 1999-2000 and 2000-01

2000-01		1999-2000	
Times Subscribed	**Number of Issues**	**Times Subscribed**	**Number of Issues**
<=2 times	89	<=2 times	11
>2 and <=5 times	18	>2 and <=5 times	12
>5 and <=10 times	6	>5 and <=10 times	7
>10 and <=50 times	7	>10 and <=50 times	16
>50 times	1	>50 times	19

Source : SEBI.

Table 2.16: Undersubscription Details During 2000-01

Sr. No.	Issuer Company	Type of Issue	Type of Instrument	Offer Size (in Rs. lakh)	Issue Opening Date	Underwritten (Yes / No)
1.	Arryacom (India) Ltd.	Public	Equity	5850.00	9/3/2000	No
2.	Sekurit Saint-Gobain India Ltd.	Rights	Equity	3253.00	19/6/2000	
3.	Model Financial Corporation Ltd.	Rights	Equity	199.96	3/7/2000	
4.	Hughes Telecom (India) Ltd.	Public	Equity	88639.99	20/9/2000	Yes
5.	Geekay Imaging Limited	Public	Equity	470.00	25/9/2000	No
6.	Oceana Software Solutions Ltd.	Public	Equity	1503.52	10/8/2000	No
7.	IT&T Limited	Public	Equity	3167.10	18/10/2000	Yes
8.	Principal Pharmaceutical & Chemical Ltd.	Rights	Equity	600.00	9/10/2000	
9.	Antartica Limited	Rights	Equity	1083.60	6/11/2000	
10.	Ador Powertron Ltd.	Public	Equity	470.00	29/1/2001	No
11.	Globsyn Technologies Limited	Public	Equity	2183.44	13/2/2000	No

Source : SEBI.

B] SECONDARY SECURITIES MARKET

Price behaviour in the secondary securities market during 2000-01

The stock market in India experienced several reversals during 2000-01 leading to sharp decline in total market capitalisation, turnover and trading activity particularly more persistently towards the end of the year. There was a sharp deceleration in equity prices which got culminated into substantial decline in the BSE Sensex and other indices. While the BSE Sensex fell sharply from 5001 as on March 31, 2000 to 3604 as on March 30, 2001 registering a decline of 28 per cent, BSE 100 with a larger downturn of 42 per cent from 2902 as on March 31, 2000 to 1691 as on March 30, 2001 suffered larger losses. The NSE 50 and S&P CNX 500 also suffered similar losses of 25 per cent and 43 per cent, respectively. While S&P CNX 50 decreased from 1528 to 1148, S&P CNX 500 slowed down from 1323 to 754 during the same period. It is noteworthy to observe that level of major indices at the end of March 2001 had reversed back more or less to the level reached on end March 1999.

However, intermittent trends were quite erratic. The BSE Sensex following the Union Budget 2000-01 registered somewhat upsurge from the close of 5053 as on April 3, 2000 to 5541 as on April 11, 2000 recording a rise of about 9.7 per cent. The Sensitive Index, however, began to fall thereafter and reached the lowest level at 3920 as on May 22, 2000 before gradually firming up to 4964 by July 12, 2000. However, the stocks prices continuously declined during the subsequent periods and the BSE Sensex declined to 4186 by August 4, 2000. From August 4, 2000 to September 12, 2000 the market witnessed a boom period for the stocks as the BSE Sensex moved upward touching as high as 4764 as on September 12, 2000. This upsurge was experienced by all the indices. The share prices during the remaining 6 months of the current financial year under review were in the grip of bearish sentiments except for a rise between January 11 – February 20, 2001 when the BSE Sensex rose from 4027 to 4359 on February 20, 2001.

The stock prices showed high intra-day variations during certain days of the year particularly in April 2000 and May 2000 when it ranged between 7.8 per cent and 3 per cent in case of BSE Sensex. Again in the last week of July, intra-day variations ranged between 2 per cent and 7 per cent. The month of March 2001 witnessed intra-day variations of high magnitude on continuous basis.

Table 2.17: Movement of Various Share Indices

Index	31-Mar-99	31-Mar-00	30-Mar-01	1998-99*	1999-2000*	2000-01*
BSE Sensex	3739.96	5001.28	3604.38	-3.92	33.7	-27.93
BSE 100	1651.37	2902.20	1691.71	-2.69	75.7	-41.70
NSE 50	1078.05	1528.45	1148.20	-3.47	41.8	-24.87
S&P CNX 500	758.25	1322.90	754.18	5.97	74.46	-42.99
BSE Dollex	149.11	237.86	130.89	6.07	59.50	-44.97

* Percentage increase/decrease over the previous year.

Source: SEBI.

The analysis of indices reveals that on monthly average basis there was a persistent decline in BSE Sensex from 4905 in April 2000 to 3808 in March 2001, showing a loss of 1097 points or decrease of 22 per cent during the year. The monthly movement of S&P CNX Nifty reflected the same trend. It declined from an average of 1469 for April 2000 to 1214 for March 2001 registering a loss of 255 points or a fall of 17 per cent. The Natex with larger number of scrips recorded a loss of 835 points from 2664 for April 2000 to 1829 for March 2001. It may be noted that despite the positive net investment of FIIs, stocks prices continued to fall. During the months of January and February 2001, FIIs investment probably supported the equity prices as almost all the indices which showed rising trend but in March 2001, despite a net investment of about US$ 379.5 million, the BSE Sensex monthly average declined to 3807.6 from 4310.1 in February 2001. The similar trend was observed in case of Natex and S&P CNX Nifty also.

Graph 2.6 :
Movement of BSE Sensex and S & P CNX Nifty

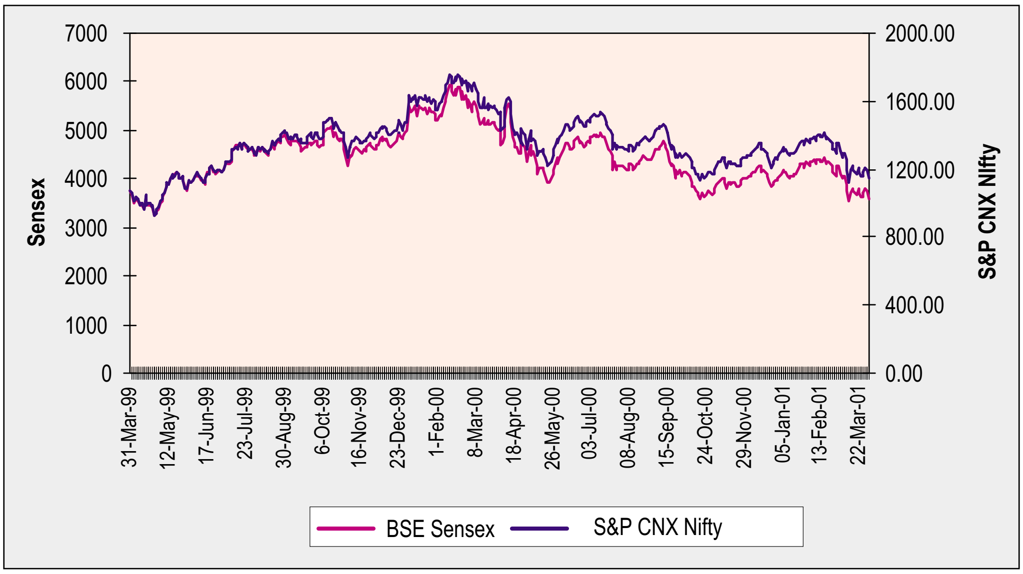


Table 2.18: Movement in Stock Market Indicators During 2000-01: Monthly Trends

Month	Index*			Price to Book Ratio*			Price to Earnings Ratio*			Average Daily Turnover (Rs Cr.)		Market-Capitalisation (Rs Cr) **	
	S&P CNX Nifty	Sensex	Natex	S&P CNX Nifty	Sensex	Natex	S&P CNX Nifty	Sensex	Natex	NSE	BSE	NSE	BSE +
2000													
Mar	1605.6	5261.7	3109	4.66	3.71	3.88	25.69	22.69	34.94	5028.0	4050.6	1020426.0	912842.0
Apr	1469.03	4905.30	2663.53	2.66	4.37	3.29	22.81	27.79	29.56	3179.0	2477.9	846391.0	755914.0
May	1312.65	4253.11	2120.93	3.81	4.46	2.73	20.33	28.86	24.96	3593.0	2631.4	790478.0	702777.0
June	1451.74	4675.40	2334.27	4.84	4.66	2.92	23.68	29.39	25.96	5426.0	3921.7	852554.0	793230.0
July	1445.26	4647.34	2344.20	4.64	4.53	2.89	22.33	28.51	26.19	5241.0	3826.0	746402.0	720884.0
Aug	1350.94	4330.71	2180.79	4.31	4.02	2.63	20.54	25.25	23.61	5698.0	4207.4	794516.0	766642.0

(Contd.)

Table 2.18: Movement in Stock Market Indicators During 2000-01: Monthly Trends *(Contd.)*

Month	Index*			Price to Book Ratio*			Price to Earnings Ratio*			Average Daily Turnover (Rs Cr.)		Market-Capitalisation (Rs Cr) **	
	S&P CNX Nifty	Sensex	Natex	S&P CNX Nifty	Sensex	Natex	S&P CNX Nifty	Sensex	Natex	NSE	BSE	NSE	BSE +
Sep	1371.27	4416.61	2249.43	4.48	3.69	2.55	20.84	24.47	24.03	7124.0	5721.6	730350.0	692657.0
Oct	1201.60	3819.69	1931.61	3.91	2.81	2.24	18.21	19.57	21.54	5088.0	3633.5	707121.0	653437.0
Nov	1240.59	3928.10	2017.59	4.04	2.84	2.33	18.77	19.90	22.64	5579.0	3953.2	764177.0	699229.8
Dec	1291.43	4081.42	2113.84	4.22	2.97	2.46	19.59	20.84	23.86	6571.0	4959.9	760391.0	691161.9
2001													
Jan	1316.96	4168.93	2140.09	4.38	3.07	2.49	20.75	21.53	24.16	6765.0	5220.3	807641.0	736631.0
Feb	1371.90	4310.13	2203.99	4.32	3.18	2.57	21.32	22.30	24.92	6797.0	5071.3	789600.0	716173.0
Mar	1214.47	3807.63	1829.32	3.96	2.82	2.12	18.20	19.72	20.39	2868.0	2150.9	657847.0	571553.0

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

Source: BSE and NSEIL.

Graph 2.7 :
Monthly Averages of Closing Indices

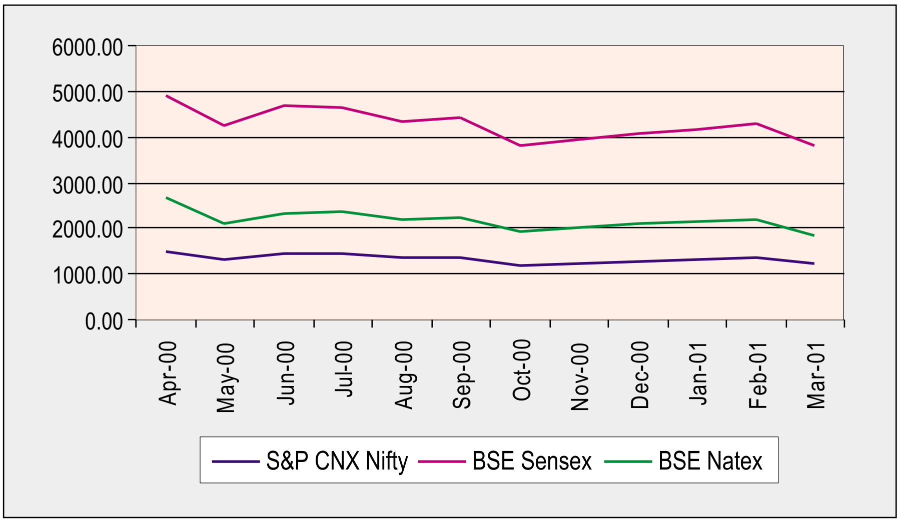


Table 2.19 below summarizes the daily movements of indices of BSE Sensex and Nifty during 2000-01. Of the 251 trading days at BSE, Sensex recorded increases on 135 trading days and decreases on 116 trading days. Similarly, Nifty recorded increase on 135 days and decrease on 116 days. However, out of 251 trading days, the Sensex showed nominal increase for 109 days and decrease for 86 days of around 2.5 per cent. There were very few days when BSE Sensex

showed increase or decrease between 5 and 7.5 per cent. Though over the year of 2000-01 indices showed large declines but on day to day basis, there were very few days when declines were of alarming size.

Table 2.19: Distribution of Trading Days During 2000-01

% change	Sensex		Nifty	
	Increase	Decrease	Increase	Decrease
≤ 2.5	109	86	117	04
> 2.5 ≤ 5	22	24	15	18
> 5 ≤ 7.5	04	06	03	94
> 7.5 ≤ 10.0	00	00	00	00
Total	**135**	**116**	**135**	**116**

Source : SEBI.

Relative strength index (RSI)

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 2000 - 01 (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

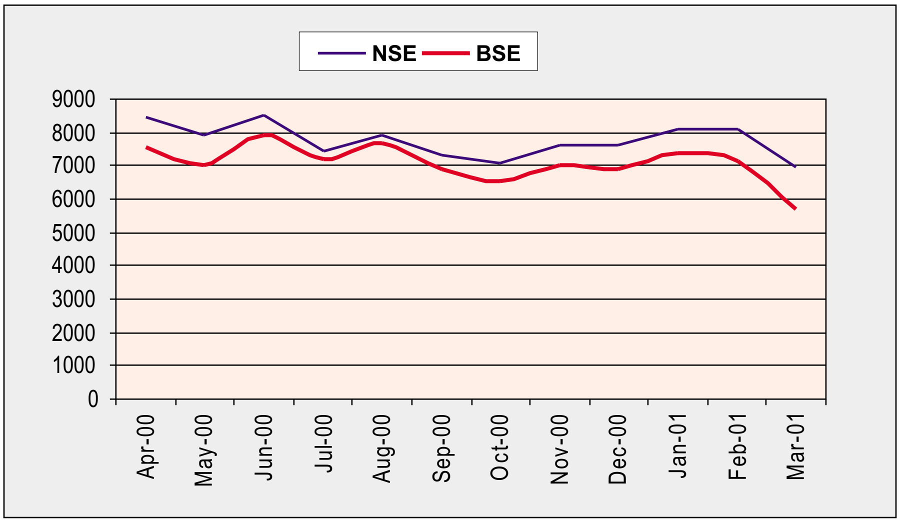
During the financial year 2000-01, though the RSI of both the Sensex and S&P CNX Nifty witnessed upturns as well as downturn movements but remained inside the equilibrium territory (range 30 – 70) for major periods of time. A case in point is the movement of RSI during May, June and August 2000 as also for February and March 2001 for Sensex and Nifty as well. During these months RSI for both the indices regularly exhibited to 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 year 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 (Annexures 3 & 4).

Trends in market capitalisation

Market capitalisation of equity shares on Indian bourses experienced a substantial fall during the year, 2000-01. There has been a sharp fall in the market value of equity investment during 2000-01. As such the market capitalisation of NSE which stood at Rs.10,20,426.0 crore at end March 2000 substantially and continuously declined to Rs.6,57,847 crore recording a fall of 35 per cent over the year whereas, market capitalisation at BSE declined from Rs.9,12,842 crore to Rs.5,71,553.0 crore during the same period at the rate of 37 per cent. It would be observed that between March 2000 and March 2001 market capitalisation in absolute term suffered a loss of

Rs.3,62,579 crore at NSE. The same position was observed at BSE showing a loss of Rs.3,41,289 crore. This reversal has implications for future growth of transactions in the capital market. The loss of wealth in the hands of investors may have adversely affected the consumption growth as well as the investment growth in the private sector. The capital gains on account of market capitalisation can produce pushing up impact on investment growth and consumption patterns of the households.

Graph 2.8 :
Movement in Market Capitalisation



Market capitalisation of new economy stocks

Market capitalisation of new economy stocks is presented in Table 2.20 as per the data obtained from BSE. The share of new economy companies in total market capitalisation was 22 per cent of total market capitalisation of BSE in 2000-01. Of the total BSE market capitalisation, information technology shared 16 per cent and telecom 4 per cent, whereas media and publishing accounted for 1.5 per cent. As regards the intra composition of new economy stocks, information technology accounted for 74 per cent of total market capitalisation of new economy stocks followed by telecommunications with 19 per cent and media and publishing 6.6 per cent.

Table 2.20: Market Capitalisation of New Economy Stocks at BSE as on end March 2001

Segment – Wise	Market Capitalisation (in Rs. Crore)	Segment - Wise Percentage Share	Percentage Share in Total M Cap. Of BSE
Information Technology	93586.20	74.16	16.37
Media & Publishing	8300.99	6.58	1.45
Telecom	24314.20	19.27	4.25
Total of New Economy	**126201.39**	**100.00**	**22.07**
Total at BSE	**571553.00**		

Source : As per data obtained from BSE.

Trading pattern of listed companies

The number of listed companies at BSE has been increasing over the years and it stood at 9810 as at end March 2001 compared to a number of 8027 as at end March 2000. The number of companies traded on the stock exchange is one of the basis for judging the depth of a stock market. The number of companies traded during 2000-01 showed discouraging trend as it declined from 2713 in April 2001 to 2416 as on end October 2001 forming just 27 per cent of the total companies listed as compared to 41 per cent in the same month in 1999-2000. Though the number of traded companies during the year under review increased to 2598 by end March 2001, it was substantially lower than 3318 in the same month in 2000 forming 26 per cent as against 41 per cent in the same month of the previous year. It is observed from month to month comparison that the proportion of traded companies was substantially lower in 2000-01 as compared to their percentage in 1999-2000. As such the proportion of traded companies declined from 33 per cent in April 2000 to 26 per cent at the end of March 2001. The low proportion of traded companies in total listed companies reflects the thinness of trading pattern and also the concentration of trade on few companies. The data also reveal that more than 6000 companies are listed but not traded on BSE. (Table 2.21).

Table 2.21 : Listed Companies : Traded/Not Traded at BSE (April 2000 to March 2001)

Month	Listed Companies		Traded Companies		Not Traded		Percent of Traded to Listed Cos.	
	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00
April	8103	7383	2713	2719	5390	4664	33.48	36.83
May	8273	7438	2643	2631	5629	4807	31.94	35.37
June	8368	7472	2647	2642	5721	4830	31.63	35.36
July	8475	7506	2633	2855	5842	4651	31.06	38.04
August	8588	7549	2605	2964	5983	4585	30.33	39.26
September	8782	7584	2571	2992	6211	4592	29.27	39.45
October	8963	7650	2416	3171	6547	4479	26.95	41.45
November	9195	7725	2494	3030	6701	4695	27.12	39.22
December	9394	7845	2535	3347	6859	4498	26.98	42.66
January	9569	7845	2588	3376	6981	4469	27.04	43.03
February	9690	7966	2594	3285	7096	4681	26.76	41.24
March	9810	8027	2598	3318	7212	4709	26.48	41.34

Source : BSE.

The frequency distribution of companies according to number of days they are traded is presented in Table 2.22. It would be observed that 1596 companies were traded for more than 100 days and formed 41 per cent of the total number of traded companies whereas in 1999-2000 only 28 per cent of the total companies were traded for more than 100 days. In 1999-2000, as large as 51 per cent of the listed companies were traded for 1 to 10 days whereas this percentage declined to 26 per cent in 2000-01 reflecting improvement in trading magnitude in terms of number of days. However, this improvement does not set right the deterioration which took place in 2000-01 in terms of decline in number of traded companies.

Table 2.22 : Frequency Distribution of Listed Companies According to Number of Trading Days at BSE

No. of Days Traded	No. of Companies Traded		Percentage to Total	
	2000-01	1999-00	2000-01	1999-00
Above 100 days	1596	2210	40.63	27.56
91 – 100 days	98	110	2.50	1.37
81 – 90 days	97	95	2.47	1.18
71 – 80 days	98	110	2.50	1.37
61 – 70 days	117	121	2.98	1.51
51 – 60 days	133	108	3.39	1.35
41 – 50 days	113	167	2.88	2.08
31 – 40 days	131	160	3.34	2.00
21 – 30 days	241	214	6.14	2.67
11 – 20 days	287	262	7.31	3.27
1 – 10 days	1016	4463	25.86	55.65
Total	**3927**	**8020**	**100.00**	**100.00**

Source : BSE.

Comparative Trading Pattern of companies at NSE and BSE

Table 2.23 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 2000-01 as 79 per cent of companies were traded at NSE for more than 100 days compared to only 41 per cent at BSE. On the other hand a large number of companies forming nearly 26 per cent were traded for 1 to 10 days in case of BSE and 4 per cent at NSE.

Table 2.23 : Frequency Distribution of Companies Traded at BSE and NSE according to number of Trading Days

No. of Days Traded	No. of Companies Traded 2000-01		Percentage to Total	
	BSE	NSE	BSE	NSE
Above 100 days	1596	954	40.63	79.43
91 – 100 days	98	22	2.50	1.83
81 – 90 days	97	23	2.47	1.92
71 – 80 days	98	9	2.50	0.75
61 – 70 days	117	19	2.98	1.58
51 – 60 days	133	16	3.39	1.33
41 – 50 days	113	16	2.88	1.33
31 – 40 days	131	23	3.34	1.92
21 – 30 days	241	37	6.14	3.08
11 – 20 days	287	33	7.31	2.75
1 – 10 days	1016	49	25.86	4.08
Total	**3927**	**1201**	**100.00**	**100.00**

Source : BSE.

Trends in turnover in major stock exchanges

Turnover on stock exchanges reflects the transaction activity of the market players in the stock 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 risen from Rs.2,071 crore and Rs.2,606 crore in March 1999 to Rs.4,050 crore and Rs.5,028 crore in March 2000 markedly declined to Rs.2,150 crore and Rs.2,867 crore, respectively in March 2001. There was a fall of 47 per cent in case of BSE and 43 per cent in case of NSE turnover.

Movement in volatility

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 3.9 per cent in April 2000, witnessed an improved performance, as it was only 1.6 per cent by October 2000. In March 2001 a pronounced volatility in the market was reflected in the BSE Sensex indices measuring at 2.9 per cent. Volatility of BSE Natex, which was 3.8 per cent in April 2000, declined to 1.8 per cent in February 2001 but rose back to 3.3 per cent in March 2001. The S&P CNX Nifty demonstrated a volatility of 3.5 per cent in April 2000 which decreased to as low as 1.2 per cent by January 2001. Thus volatility by and large declined during the year under review except for March 2001. The volatility in March increased due to some sudden abrupt developments depressing the market. The Nifty Junior which saw a volatility level of 4.6 per cent in April 2000 ended the financial year with a volatility of 3.3 per cent in March 2001.

It may be noted that in months of April and March in 1999-2000 as well as in 2000-01 volatility was of the highest order implying that post budget months such as March and April show higher volatility every year. The similar trend has been observed in case of BSE Natex , S&P CNX Nifty, BSE Natex and CNX Nifty Jr. with highest volatility in two post budget months namely March and April. However, the volatility during these two months as per the data available was aggravated (Table 2.24).

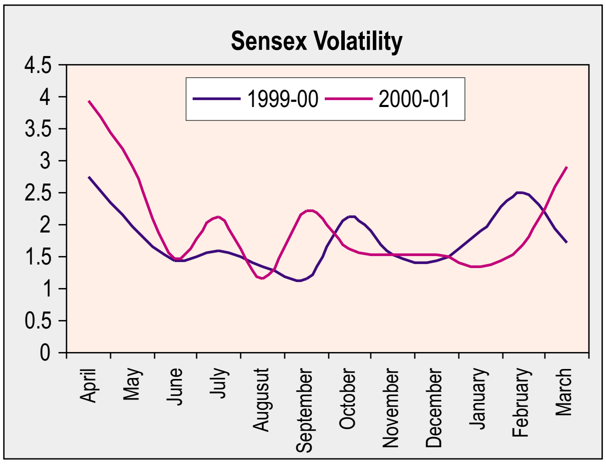
Table 2.24: Sensex and Natex Volatility (in per cent)

Month	Sensex Volatility		Natex Volatility	
	1999-00	2000-01	1999-00	2000-01
April	2.74	3.93	3.09	3.88
May	1.98	2.90	1.99	3.36
June	1.44	1.47	1.27	1.78
July	1.60	2.14	1.61	2.34
August	1.33	1.17	1.40	1.33
September	1.17	2.21	1.20	2.37
October	2.11	1.62	2.30	2.02
November	1.53	1.54	1.45	1.58
December	1.45	1.53	1.30	1.94
January	1.90	1.33	1.92	1.53
February	2.51	1.68	2.78	1.88
March	1.73	2.91	2.23	3.26

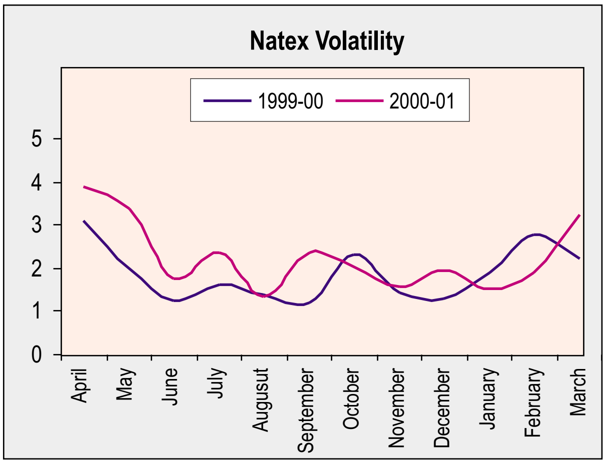
Note : Volatility is calculated as standard deviation of daily returns on the indices for the respective months.
Source : SEBI.

Graph 2.9 : Sensex and Natex Volatility Movement

(a)



(b)



A comparative analysis of volatility trends reveals that level of volatility was the highest in case of CNX Junior Nifty during April 2000 at 4.60 per cent and 4.4 per cent in the month of May 2001. As a matter of fact, the volatility shown by CNX Jr. Nifty was higher in almost all the months except few exceptions like January and February 2001. (Table 2.25).

Table 2.25 : S&P CNX Nifty and CNX Jr. Volatility (in per cent)

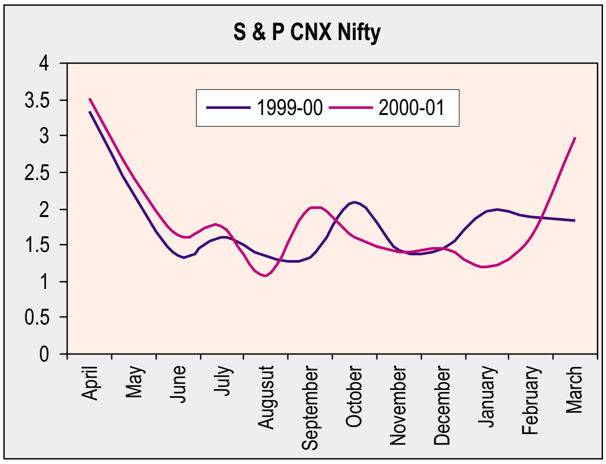
Month	S&P CNX Nifty		CNX Junior Nifty	
	1999-2000	2000-01	1999-2000	2000-01
April	3.35	3.51	3.58	4.60
May	2.19	2.43	2.08	4.38
June	1.36	1.64	1.25	2.15
July	1.60	1.76	1.85	2.01
August	1.35	1.08	1.61	1.89
September	1.33	2.01	1.60	2.79
October	2.09	1.61	3.31	2.35
November	1.43	1.40	1.87	1.83
December	1.45	1.45	2.07	2.45
January	1.95	1.21	2.97	1.72
February	1.89	1.60	2.62	2.42
March	1.83	2.97	3.06	3.33

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

Source : SEBI

Graph 2.10 : S&P CNX Nifty and CNX Jr. Nifty Volatility During 2000-01

(a)



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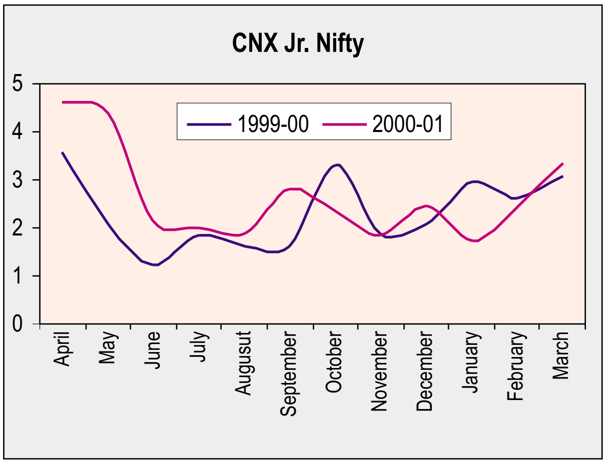


Primary listing of companies on stock exchanges

Listing activity at a number of bourses showed a rising trend. As on end March 2001, number of companies listed at various bourses in India increased to 9954 from 9871 as on end March 2000. Among the various bourses, Calcutta (19 per cent), Mumbai (18 per cent), Delhi (17 per cent), Madras (6.7 per cent), Hyderabad (6.8 per cent) together accounted for 67.5 per cent of the listed companies indicating very high concentration. On the other hand stock exchanges like NSEIL (6 companies), Mangalore (26 companies), Magadh (34 companies) and Bhubaneshwar (46 companies) did not have significant presentation of primary listing. It is also observed that share of some stock exchanges like Mumbai, Delhi, Ludhiana has shown decline in 2000-01 as compared to the previous year (Table 2.26).

Graph 2.11 :
Distribution of Companies According to Primary Listing on Stock

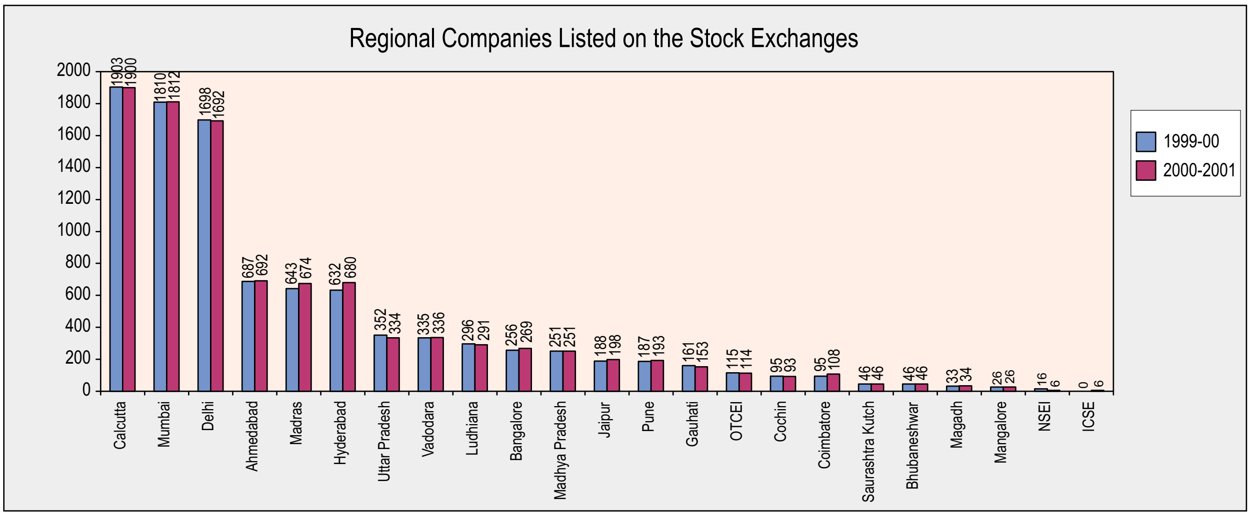


Table 2.26 : Distribution of Companies according to Primary Listing on Stock Exchanges

Sr. No.	Stock Exchanges	No. of Companies		
		1998-99	1999-00	2000-2001
1.	Calcutta	1907	1903	1900
2.	Mumbai	1808	1810	1812
3.	Delhi	1672	1698	1692
4.	Ahmedabad	693	687	692
5.	Madras	665	643	674
6.	Hyderabad	629	632	680
7.	Uttar Pradesh	352	352	334
8.	Vadodara	330	335	336
9.	Ludhiana	295	296	291
10.	Bangalore	253	256	269
11.	Madhya Pradesh	249	251	251
12.	Jaipur	181	188	198
13.	Pune	181	187	193
14.	Gauhati	196	161	153
15.	OTCEI	116	115	114
16.	Cochin	95	95	93
17.	Coimbatore	95	95	108
18.	Saurashtra Kutch	46	46	46
19.	Bhubaneshwar	46	46	46
20.	Magadh	34	33	34
21.	Mangalore	23	26	26
22.	NSEIL	11	16	6
23.	ICSE	0	0	6
	Total	**9877**	**9871**	**9954**

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

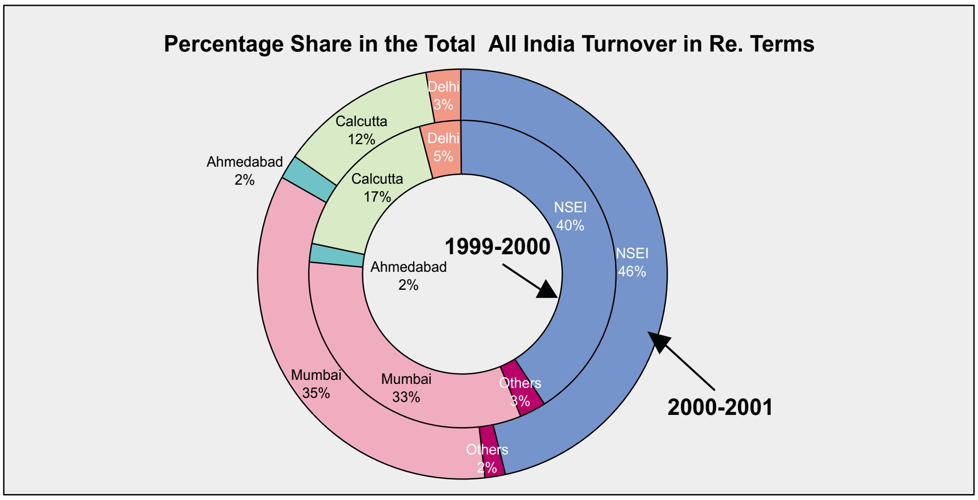
Total turnover of business at 23 stock exchanges in 2000-01 was Rs. 28,80,803 crore as compared to Rs. 20,67,030 crore in 1999-2000, recording a growth of 39 per cent during the year. The performance of various stock exchanges can be viewed in terms of their share in total turnover of all the stock exchanges. As such NSE accounted for 46 per cent of total turnover in 2000-01 as compared to 40 per cent during the previous year. Similarly, the share of BSE also increased to 35 per cent in 2000-01 from 33 per cent in 1999-2000. On the other hand, the share of Calcutta declined to 12 per cent from 17 per cent and that of Delhi from 5 per cent to 3 per cent during the same period. It would be observed that several stock exchanges like Bhubaneshwar, Jaipur, Gauhati, Mangalore, Madhya Pradesh, Magadh, SKSE, Coimbatore, Cochin did not report any turnover activity in 2000-01 or reported very nominal turnover showing their unviability. (Table 2.27)

Table 2.27: Turnover on Stock Exchanges in India

Sr. No.	Stock Exchange	Turnover (Rs. Crore)	Turnover (Rs. Crore)	% of Total Turnover	% of Total Turnover
		1999-2000	2000-2001	1999-2000	2000-2001
1.	NSEIL	839,052.00	1,339,510.90	40.52	46.50
2.	Mumbai	685,028.21	1,000,031.55	33.08	34.71
3.	Calcutta	357,165.51	355,035.35	17.25	12.32
4.	Delhi	93,288.89	83,871.12	4.51	2.91
5.	Ahmedabad	37,565.61	54,035.20	1.81	1.88
6.	Uttar Pradesh	24,047.75	24,746.73	1.16	0.86
7.	Bangalore	11,147.35	6,032.83	0.54	0.21
8.	Ludhiana	7,740.50	9,732.24	0.37	0.34
9.	Pune	6,086.81	6,170.53	0.29	0.21
10.	OTCEI	3,587.91	125.90	0.17	0.00
11.	Hyderabad	1,236.51	977.83	0.06	0.03
12.	ICSE	545.16	233.05	0.03	0.01
13.	Madras	250.24	109.18	0.01	0.00
14.	Vadodara	159.25	0.91	0.01	0.00
15.	Bhubaneshwar	70.05	0.01	0.00	0.00
16.	Coimbatore	38.84	0.00	0.00	0.00
17.	MP	9.73	2.39	0.00	0.00
18.	Magadh	8.01	1.55	0.00	0.00
19.	Jaipur	2.11	0.00	0.00	0.00
20.	Mangalore	0.10	0.00	0.00	0.00
21.	Gauhati	0.02	0.04	0.00	0.00
22.	Cochin	0.00	186.61	0.00	0.01
23.	SKSE	0.00	0.00	0.00	0.00
	Total	**2,067,030.56**	**2,880,803.92**	**100**	**100**

Source : SEBI.

Graph 2.12 :
Percentage Share in Total All India Turnover in Re. Terms



Delivery pattern in stock exchanges

Data on delivery ratio and turnover in volume as well as in value are furnished in Table 2.28. The delivery ratio in volume (i.e. shares traded) at aggregate level showed improvement from 19 per cent in 1999-2000 to 21 per cent in 2000-01. However, there were large variations in delivery ratio. While at NSE the delivery ratio declined from 20 per cent, in 1999-2000 to 14 per cent in 2000-01, it increased from 24 per cent to 34 per cent, 7 per cent to 10 per cent and 17 per cent to 27 per cent at stock exchanges of Mumbai, Calcutta and Delhi respectively during the same period. Hyderabad showed a high delivery ratio of 45 per cent during 2000-01, Madras with 31 per cent. OTCEI showed fall in delivery ratio from 42 per cent to 23 per cent. In terms of value, however, delivery ratio remained constant and was estimated at 11 per cent during 2000-01. The delivery ratio at NSE declined from 10 per cent in 1999-2000 to 8 per cent in 2000-01. But the same was increased from 16 per cent to 17 per cent, 5 per cent to 7 per cent, 9 per cent to 12 per cent and 5 per cent to 7 per cent at the stock exchanges of Mumbai, Calcutta, Delhi and Ahmedabad. Delivery ratio at OTCEI was very high at 31 per cent followed by Hyderabad at 17 per cent and Gauhati recorded 100 per cent delivery ratio. However, at small stock exchanges trading activity was very negligible.

Table 2.28 : 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)
		2000-01	2000-01	2000-01	1999-2000	2000-01	2000-01	2000-01	1999-2000
1.	NSEIL	1339510.90	102848.89	8	10	329507.58	47532.91	14	20
2.	Mumbai	1000031.55	166900.36	17	16	257770.00	86656.00	34	24
3.	Calcutta	355035.35	25713.60	7	5	72631.47	7123.25	10	7
4.	Delhi	83871.12	10353.18	12	9	23117.45	6209.53	27	17
5.	Ahmedabad	54035.20	3692.96	7	5	26175.27	2076.69	8	5
6.	Uttar Pradesh	24746.73	504.35	2	2	9322.43	231.06	2	2
7.	Ludhiana	9732.24	334.87	3	6	4204.90	279.00	7	13
8.	Pune	6170.53	154.05	2	3	2112.01	68.88	3	5
9.	Bangalore	6032.83	269.00	4	3	1219.00	158.00	13	4
10.	Hyderabad	977.83	166.73	17	1	1033.97	468.36	45	5
11.	ICSE	233.05	8.78	4	33	89.18	7.75	9	45
12.	Cochin	186.61	6.95	4	2	2.64	0.05	2	3
13.	OTCEI	125.90	39.57	31	30	50.27	11.51	23	42
14.	Madras	109.18	14.25	13	3	153.97	48.29	31	6
15.	MPSE	2.39	0.07	3	0	4.93	0.21	4	0
16.	Magadh	1.55	0.00	0	3	0.52	0.00	0	0
17.	Vadodara	0.91	0.00	0	0	2.77	0.00	0	0
18.	Bhubaneshwar	0.01	0.00	0	0	0.00	0.00	0	0
19.	Coimbatore	0.00	0.00	0	50	0.00	0.00	0	4
20.	Jaipur	0.00	0.00	0	0	0.00	0.00	0	0
21.	Mangalore	0.00	0.00	0	0	0.00	0.00	0	0
22.	Gauhati	0.04	0.04	100	0	0.00	0.00	100	0
23.	SKSE	0.00	0.00	0	0	0.00	0.00	0	0
	Total	**2880803.92**	**311007.65**	**11**	**11**	**727398.36**	**150871.50**	**21**	**19**

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

Source : SEBI.

Bad deliveries on Indian stock exchanges

The bad deliveries in relation to net deliveries have shown sharp decline reflecting the better implementation of SEBI guidelines as well as the efforts taken by the SEBI. The ratio of bad deliveries to net deliveries declined from 0.11 per cent in April 2000 to 0.02 in March 2001. This ratio was substantially higher in 1999-2000 ranging between 0.11 and 0.57 per cent if the month of October is excluded when this ratio was as low as 0.1 per cent. At NSE also bad deliveries sharply declined and the performance of this stock exchange corroborated with the performance of BSE. Probably dematerialisation of trade and other binding conditions on brokers and investors have resulted in fall in bad deliveries. (Table 2.29)

Table 2.29 : Bad Deliveries* (in value terms)

Month & Year	BSE		NSE	
	1999-00	2000-01	1999-00	2000-01
April	0.17	0.11	0.24	0.13
May	0.57	0.11	0.20	0.08
June	0.48	0.09	0.29	0.06
July	0.21	0.05	0.24	0.05
August	0.36	0.06	0.24	0.04
September	0.22	0.04	0.29	0.02
October	0.1	0.04	0.27	0.01
November	0.24	0.03	0.26	0.01
December	0.11	0.02	0.22	0.01
January	0.25	0.02	0.24	0.01
February	0.19	0.01	0.11	0.01
March	0.11	0.02	0.15	0.003

* Percentage share of bad deliveries in net deliveries; does not include company objections.

Source: BSE and NSEIL.

Liquidity movement in stock market

Liquidity is generally regarded as one of the conditions for smooth functioning of stock market. The variations in the degree of liquidity affect 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 as the turnover during 1995-96 to 2000-01 rose by more than 80 per cent. The growth of the liquidity is also measured in terms of value-traded ratio and turnover ratio. (Table 2.30)

Table 2.30: Indicators of Liquidity*

Year	BSE Mcap/ GDP	NSE Mcap/ GDP	Turnover Ratio-BSE	Turnover Ratio-NSE	Traded Value Ratio-BSE	Traded Value Ratio-NSE
1995-96	49.33	37.62	43.19	16.76	4.69	6.30
1996-97	37.49	33.89	139.27	70.23	10.04	23.80
1997-98	40.47	34.78	162.17	76.88	15.00	26.74
1998-99	33.82	30.46	187.65	84.38	19.35	25.71
1999-00	51.51	57.58	226.44	82.23	38.65	47.35
2000-01	—	—	174.97	203.62	—	—

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. Market Capitalisation ratio. 1998-1999 GDP is QE. 99-00 GDP is RE.

Source : SEBI, RBI Handbook of Statistics, 1999-2000.

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 2.30 that traded value ratio, which was 4.6 per cent of GDP in 1995-96 rose to 38.6 per cent by 1999-2000 in case of BSE. In case of NSE, this ratio rose from 6.3 per cent to 47.4 per cent during the same period. Similar improvement has taken place in turnover ratio. The turnover ratio at BSE rose from 43 per cent in 1995-96 to 226 per cent in 1999-2000. Similarly the turnover ratio at NSE rose from 17 per cent in 1995-96 to 204 per cent in 2000-01. 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. The market capitalisation which was 49 per cent in 1995-96 increased to 52 per cent in 1999-2000.

Performance of dematerialisation

Dematerialisation of shares has spread rapidly. Based on the recommendations of SEBI's Working Group on dematerialisation, the number of scrips for compulsory settlement of trades in dematerialised form for all investors was increased in phases to 1746 as at end of the financial year under review. This number would be increased to 2390 by July 30, 2001. These scrips comprise of all shares forming the part of A Group scrips of BSE Sensitive Index, CNX S&P Nifty, BSE 500 and CNX S&P 500 and most of the highly traded B1 Group scrips of BSE.

Number of dematerialised shares increased from 6,970 million as on end March 1999 to 15,500 million as on end March 2000 and further to 39,000 million shares as at end March 2001. The increase in number of dematerialised scrips reflects fast pace in institutionalisation of paperless trading in equities. Total market capitalisation of companies at NSDL and CDSL amounted to Rs.600,000 crore at the end of March 2001, as compared to Rs.700,658 crore at end March 2000. Depositary participants of NSDL and CDSL also increased from 150 to 300 and a total of 3000 companies were trading in dematerialised form as on end March 2001.

According to the information furnished by National Securities Depository Ltd. and Central Depository Services (I) Limited, number of dematerialised securities and volume substantially increased during the year 2000-01. As on March 31, 2001, 3000 companies with a market capitalisation of over Rs. 6,00,000 crore had signed agreement with the depositories. The number of depository participant offering depository services have grown from 150 as on March 31, 2000 to 300 as on March 31, 2001. The depository services were available at 2000 centres covering 345 cities across the country as on March 31, 2001. The value of dematerialised shares increased from Rs. 4,00,000 crore as on March 31, 2000 to Rs. 4,35,000 crore at the end of March 2001. There has been an increase in the beneficiary accounts opened with the depository participants from 25,00,000 as on March 31, 2000 to 38,00,000 as on March 31, 2001.

The volume of dematerialised securities constitute around 99.5 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, ASE and ICSEIL have established connectivity with NSDL for settlement and clearing of dematerialised trading.

International comparison of developments in stock markets

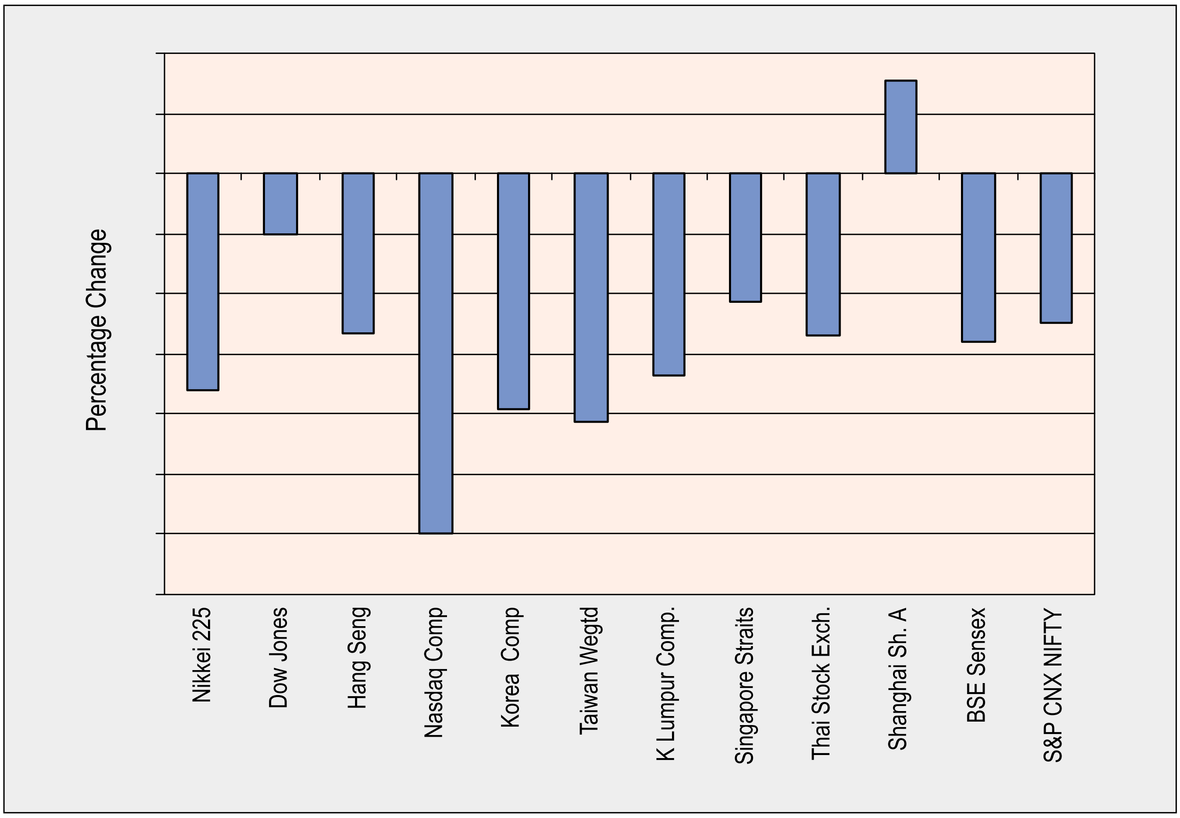
A comparative picture of the index movements of the prominent indices of Japan, USA, Hong Kong, S. Korea, Taiwan, Malaysia, Singapore, Thailand, China with the BSE Sensex and S&P CNX Nifty of India are given in Table 2.31.

Table 2.31 : Month-end Closing Prices of Different Indices

Country	Indices	End Mar-00	End Mar-01	Percentage Change
Japan	Nikkei 225 *	20337.32	12999.70	-36.08
USA	Dow Jones	10980.25	9878.78	-10.03
Hong Kong	Hang Seng	17406.54	12760.64	-26.69
USA	Nasdaq Comp	4572.83	1840.26	-59.76
S. Korea	Korea Comp.*	860.94	523.22	-39.23
Taiwan	Taiwan Weighted	9854.95	5797.92	-41.17
Malaysia	Kuala Lumpur Comp.	974.38	647.48	-33.55
Singapore	Singapore Straits	2132.59	1674.19	-21.49
Thailand	Thai Stock Exchange *	400.32	291.94	-27.07
China	Shanghai	1915.60	2214.69	15.60
India	BSE Sensex	5001.28	3604.38	-27.93
India	S&P CNX NIFTY	1528.45	1148.20	-24.88

Source : Bloomberg, Financial Times (*Values).

Graph 2.13 :
Percentage Increases / Decrease in Indices of Various Countries



All markets except China showed decline in stocks prices. A few of these markets declined much more than Indian market. For instance, the Nasdaq of USA, Taiwan Weighted Index, the Korean Composite Index, Nikkei 225 of Japan and the Kuala Lumpur Composite index of Malaysia registered much larger decline than the BSE Sensex and the S&P CNX Nifty.

P/E ratio and correlation analysis

The prevalent slump in stocks indices was reflected in the downward slide in P/E ratios with the exception of Hong Kong and China. The P/E ratios as at end-March 2001 when compared to with that of 2000 reveal that the Nasdaq had a highest P/E ratio at 208 as on end March 2000 which slightly came down to 196 at end March 2001. Nikkei with 84 as at end March 2000 and 50 at end March 2001 followed by Sanghai with corresponding figures of 42 and 48. At the bottom South Korea Comp. had a P/E ratio of 21 as at end March 2000 and 9 as at end March 2001. The BSE Sensex, however, fared better than many countries like South Korea, Hang Seng and Singapore Straits at 17 as at end March 2001 slightly lower than 19 per cent as at end March 2000. In terms of trend, South Korea came down from 21 to 9 per cent, Taiwan Weighted index suffered a fall from 51 to 23 per cent and the Kuala Lumpur composite from 38 to 18 per cent. While the P/E ratio of BSE Sensex slided by 14 per cent, the S&P CNX Nifty suffered a decline of 20 per cent. The P/ E ratio of Dow Jones Industrial index got devalued by 22 per cent, while that of Nasdaq Composite witnessed a marginal slump of 5 per cent (Table 2.32).

Table 2.32: P/E Ratio of Different Indices

Country	Index	Mar-00	Mar-01	Percentage Change
Japan	Nikkei 225 *	84.4	50.2	-40.52
USA	Dow Jones	25.4	19.74	-22.28
Hong Kong	Hang Seng*	25.1	16.00	-36.25
USA	Nasdaq Comp.	207.83	196.39	-5.50
S. Korea	Korea Comp.*	21.3	8.6	-59.62
Taiwan	Taiwan Weighted	51.15	23.43	-54.19
Malaysia	Kuala Lumpur Comp.	38.03	18.29	-51.91
Singapore	Singapore Straits	21.4	14.23	-33.50
Thailand	Thai Stock Exchange *	13.5	12.9	-4.44
China	Shanghai	42.2	48.00	13.74
India	BSE Sensex	19.54	16.76	-14.23
India	S&P CNX NIFTY	19.47	15.53	-20.24

Source : Bloomberg, Financial Times (*Values).

The correlation of Sensex and S & P CNX Nifty with Dow Jones and Nasdaq composite is given in Table2.33.

Graph 2.14 :
End-March 2001 P/E Ratios for International Indices, BSE Sensex and S & P CNX Nifty

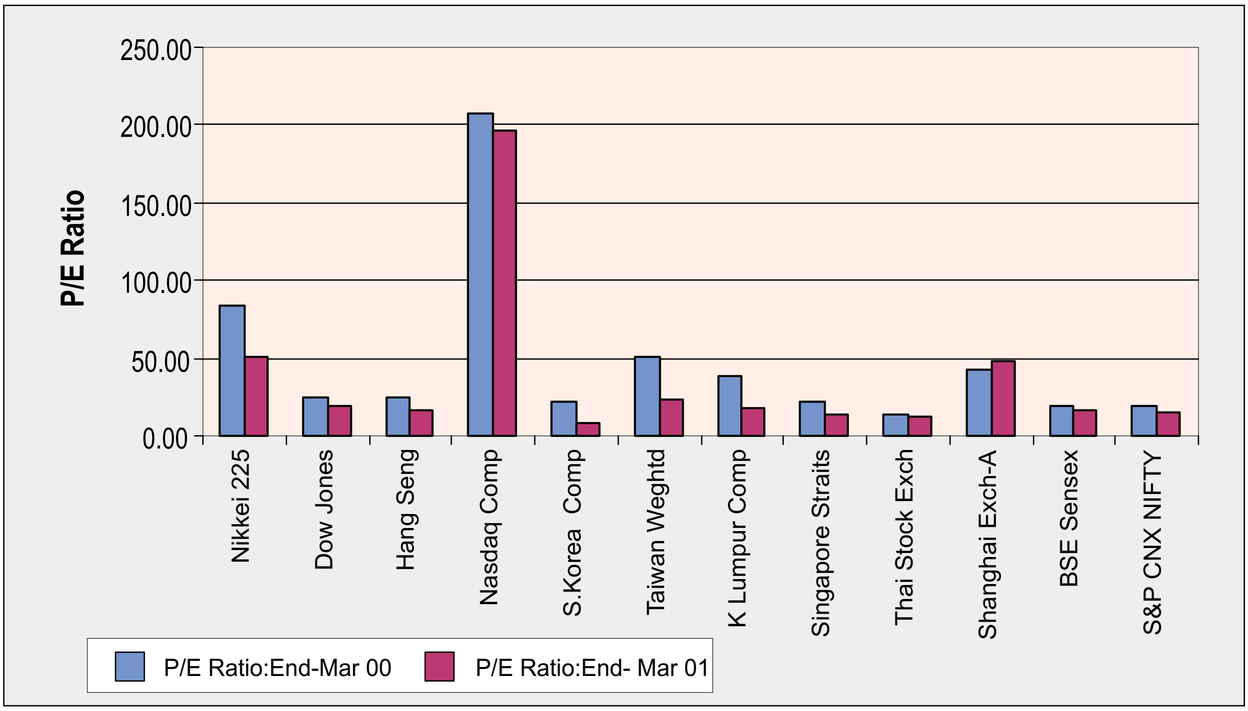


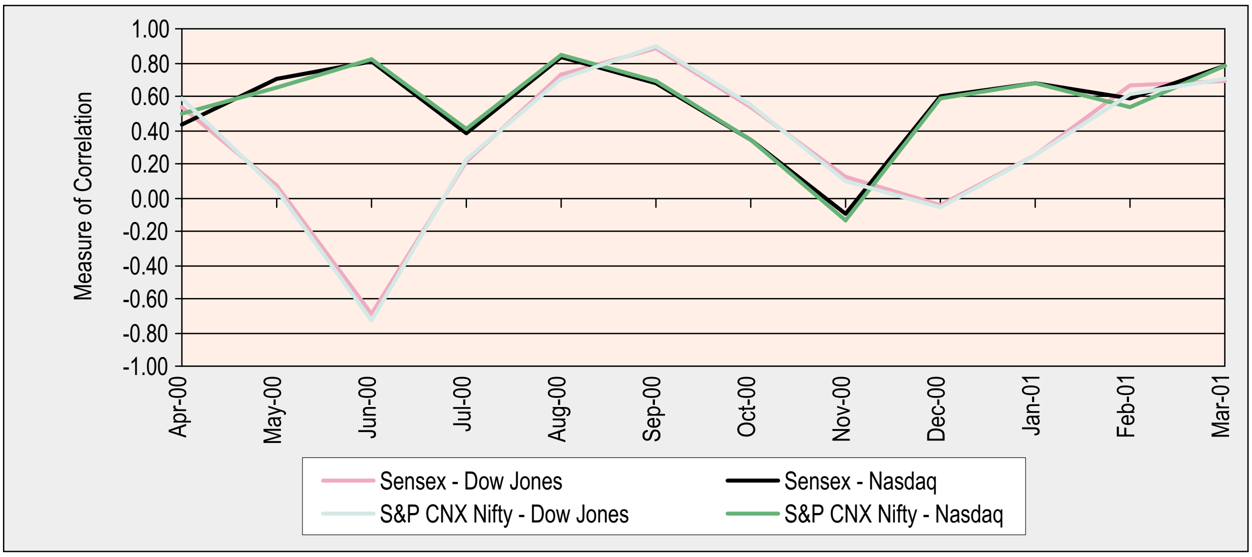
Table 2.33 : Correlation Matrix Between Indices *

Period	Sensex - Dow Jones	Sensex – Nasdaq	S&P CNX Nifty-Dow Jones	S&P CNX Nifty - Nasdaq
Apr – 00	0.54	0.43	0.59	0.49
May – 00	0.07	0.70	0.05	0.65
Jun – 00	-0.69	0.81	-0.73	0.81
July – 00	0.22	0.39	0.23	0.40
Aug – 00	0.72	0.83	0.70	0.84
Sep – 00	0.88	0.67	0.89	0.69
Oct – 00	0.53	0.34	0.55	0.34
Nov – 00	0.13	-0.09	0.09	-0.14
Dec – 00	-0.04	0.60	-0.06	0.58
Jan – 00	0.25	0.68	0.25	0.68
Feb – 00	0.66	0.58	0.62	0.53
Mar – 00	0.69	0.78	0.70	0.78

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

Source : SEBI.

Graph 2.15 :
Correlation between Indian Indices and Dow Jones and Nasdaq Composite



Market volatility in major securities markets in the Asian countries and USA

In almost all the major securities markets across the world, volatility in stock prices was higher by and large in 2000-01 than that noticed during the previous year, though it showed receding trend towards the end of the year. The volatility was on the higher side during the months of April to August 2000 and thereafter it showed noticeable declining trend. Month-wise volatility ratios of major indices in terms of percentages are presented in Table 2.34 for 2000-01. In the month of April 2000, Korea Comp. recorded the highest volatility of 4.99 per cent followed by Nasdaq 4.21 per cent, S & P CNX Nifty 3.51 per cent and Sensex 3.93 percent. Taiwan and Brazil also demonstrated high volatility at 2.88 per cent and 2.91 per cent, respectively. The volatility was, however, lower in China reflected by China Se Shang. Over the year, there was a declining tendency in volatility ratios and by March 2001 Nasdaq volatility declined to 3.46 per cent, that of Korea Comp. to 1.8 per cent and Taiwan Weighted 1.36 per cent. In case of Thai stock volatility declined to 1.32 per cent. Sensex volatility declined to 2.91 per cent and S & P CNX Nifty to 2.97 per cent in March 2001. Comparatively, volatility in case of Sensex and S & P CNX Nifty was always lower than that of Nasdaq and Korea Comp. but higher than those at other stock exchanges like Dow Jones, Taiwan, Indonesia, Malaysia, China and Brazil etc.

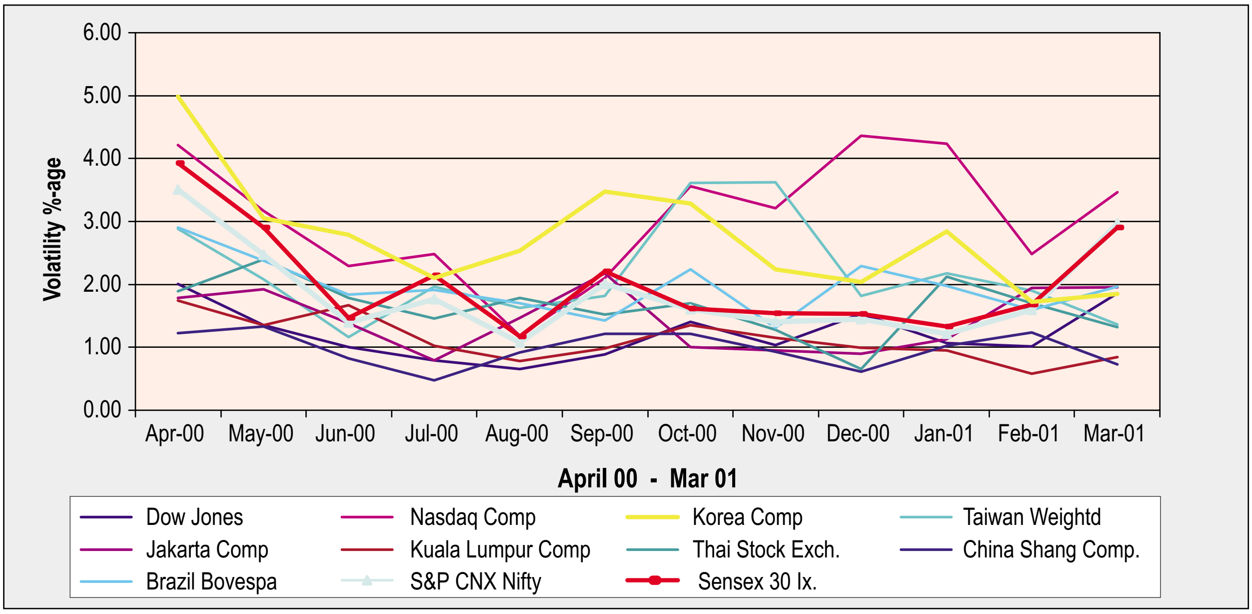
Table 2.34 : Trends In Volatility of International Indices

	Index	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01
USA	Dow Jones	2.01	1.35	1.00	0.79	0.66	0.89	1.41	1.03	1.53	1.07	1.01	1.86
USA	Nasdaq Comp.	4.21	3.17	2.29	2.48	1.18	2.10	3.56	3.21	4.36	4.24	2.48	3.46
S. Korea	Korea Comp.	4.99	3.05	2.79	2.10	2.53	3.48	3.29	2.24	2.04	2.84	1.72	1.85
Taiwan	Taiwan Weighted	2.88	2.08	1.16	1.96	1.63	1.82	3.61	3.62	1.82	2.18	1.90	1.36
Indonesia	Jakarta Comp	1.78	1.92	1.38	0.79	1.47	2.18	1.00	0.95	0.90	1.13	1.94	1.95
Malaysia	K Lumpur Comp	1.74	1.35	1.67	1.02	0.78	0.98	1.35	1.15	0.99	0.95	0.58	0.84
Thailand	Thai Stock	1.89	2.40	1.79	1.46	1.78	1.52	1.70	1.28	0.65	2.12	1.70	1.32
China	China Se Shang	1.23	1.33	0.82	0.48	0.92	1.22	1.21	0.93	0.61	1.02	1.24	0.73
Brazil	Brazil Bovespa	2.91	2.38	1.84	1.91	1.70	1.43	2.24	1.31	2.29	1.98	1.60	1.97
India	S&P CNX Nifty	3.51	2.47	1.39	1.76	1.08	2.01	1.61	1.40	1.45	1.21	1.60	2.97
India	Sensex 30 Ix	3.93	2.90	1.47	2.14	1.17	2.21	1.62	1.54	1.53	1.33	1.68	2.91

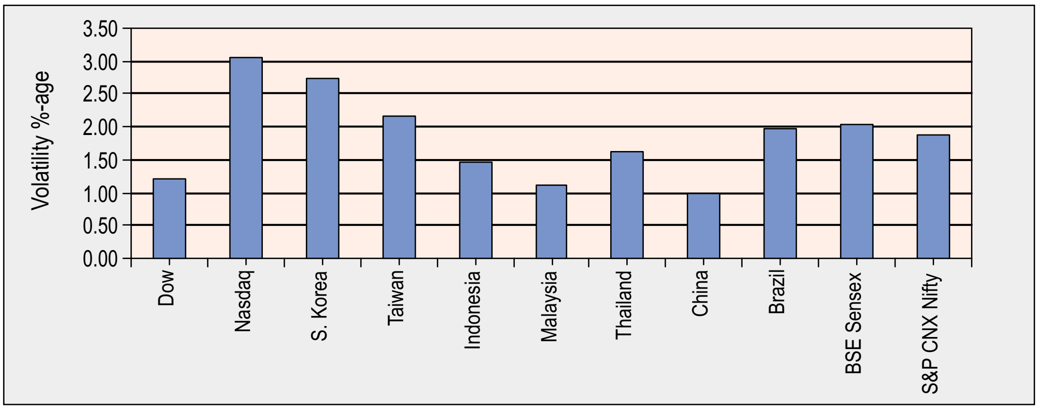
Volatility is calculated as the standard deviation of daily returns on indices for the respective months.

Source : SEBI.

Graph 2.16 :
Trends In Volatility of International Indices April 2000-March 2001



Graph 2.17:
Annualized Average Volatility of Indices for April 2000-March 2001



Developments in government-debt market

Activity in the wholesale debt market

The Wholesale Debt Market (WDM) in the government securities recorded massive growth in 2000-01. The value of net trade during 2000-01 increased to Rs. 4,28,582 crore as compared to Rs.3,04,216 crore in 1999-2000 showing a rise of 40.9 per cent. The trade in WDM segment shows large variations from month to month position. It ranged between Rs.16,440 crore in August to Rs.66,400 crore in January during the year 2000-01. During 1999-2000 also the variations were of similar magnitude. As regards average net traded value of debt, it stood at Rs.1483 crore during 2000-01 rising from Rs.1035 crore during the previous year. The average daily turnover however was as high as Rs.2,873 crore in February 2000-01 and as low as Rs.658 crore in August during the year of 2000-01 (Table 2.35).

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

Month	1999-2000			2000-01		
	Net Traded Value	Average Daily Value	Number of Trades	Net Traded Value	Average Daily Value	Number of Trades
April	18,525	882	2,595	34,183	1,709	4,978
May	21,681	867	3,356	32,875	1,315	4,653
June	17,026	655	2,478	17,445	698	2,771
July	25,944	961	4,072	28,311	1,089	4,275
August	26,957	1,037	4,188	16,440	658	2,682
September	16,524	689	2,545	21,419	857	3,404
October	19,321	805	2,985	25,019	1,137	3,910
November	29,285	1,273	4,665	36,285	1,451	5,519
December	30,024	1,201	4,797	38,222	1,593	6,092
January	36,294	1,452	5,685	66,400	2,554	10,095
February	43,186	1,799	6,661	63,212	2,873	9,080
March	19,449	810	2,960	48,771	2,032	7,011
Total	**304,216**	**1,035**	**46,987**	**428,582**	**1,483**	**64,470**

Source : NSEIL.

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 65 per cent and 88 per cent in 1998-99 increased to 88 per cent and 95 per cent in 1999-2000 but declined to a range of 82 per cent and 94 per cent in 2000-01. However, the share of treasury bills increased in 2000-01 compared to 1999-2000. Public Sector Undertakings continued to account for a lower proportion, however, their share somewhat improved during 2000-01 (Table 2.36).

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

Month	1999-2000				2000-01			
	Government Dated Securities	T-Bills	PSU	Others	Government Dated Securities	T-Bills	PSU	Others
April	90.47	5.64	0.26	3.63	92.64	4.38	0.50	2.48
May	94.06	2.59	0.41	2.94	92.36	3.27	1.42	2.95
June	88.35	5.88	0.77	5.00	90.78	4.12	2.43	2.67
July	94.08	2.09	0.55	3.28	93.13	3.68	0.44	2.75
August	92.89	4.45	0.67	1.99	87.06	8.01	1.37	3.56
September	91.04	4.61	0.77	3.58	82.02	12.80	1.33	3.85
October	95.07	1.59	0.39	2.95	83.24	11.44	0.79	4.53
November	95.19	1.70	0.34	2.77	90.14	5.57	0.48	3.81
December	93.75	3.37	0.29	2.59	91.30	5.39	1.07	2.24
January	92.61	4.33	0.23	2.83	94.20	3.25	0.46	2.09
February	94.01	3.72	0.53	1.74	93.91	4.30	0.61	1.18
March	90.42	4.64	1.21	3.73	91.23	6.02	0.91	1.84

Source : NSEIL.

The distribution of trades according to participants is furnished in Table 2.37 below. It would be observed that the Indian banks' share declined in 2000-01 ranging between 25 per cent and 38 per cent as compared to 32 per cent and 49 per cent in 1999-2000. On the other hand foreign banks' share increased to ranging between 13 per cent and 24 per cent from 11 per cent to 17 per cent implying that foreign banks have also participated in a big way during the current financial year. The trading members have substantially increased their share from the range of 20 per cent and 25 per cent to the range of 14 per cent and 26 per cent. Thus, government securities market was dominated by Indian banks, trading members and primary dealers.

Table 2.37 : Participant in Trade (in percentage)

	1999-2000					2000-01				
	Trading Members	FIs/ MFs	Primary Dealers	Indian Banks	Foreign Banks	Trading Members	FIs/ MFs	Primary Dealers	Indian Banks	Foreign Banks
April	14.75	7.13	11.03	49.33	17.76	20.25	3.82	23.14	38.68	14.11
May	18.62	3.59	15.30	47.84	14.65	22.21	4.41	22.41	35.84	15.13
June	20.63	5.09	15.92	45.01	13.35	24.90	5.23	22.28	29.94	17.65
July	20.46	3.41	18.39	41.95	15.79	23.38	4.73	21.23	31.71	18.95
Aug	17.53	2.45	17.84	47.67	14.51	23.85	4.35	22.27	26.96	22.57
September	14.98	4.64	19.03	44.11	17.24	24.68	3.66	22.32	25.52	23.82
October	13.26	5.17	22.92	41.80	16.85	22.33	4.60	24.04	27.96	21.07
November	18.15	3.40	23.65	42.55	12.25	22.94	3.62	23.79	33.98	15.67
December	22.51	4.69	19.70	41.40	11.70	23.68	3.14	21.69	38.03	13.46
January	19.98	4.52	20.04	41.21	14.25	24.66	4.99	21.55	33.08	15.72
February	15.82	3.31	22.93	40.77	17.17	23.54	4.36	22.56	34.15	15.39
March	26.74	4.85	19.78	31.98	16.65	22.51	3.40	20.04	35.35	18.70

Source : NSEIL.

C] MUTUAL FUNDS

Resources mobilised by mutual funds

According to data available, the mutual funds mobilised a gross amount of Rs.92,957 crore (USD 20.21 billion) during the financial year 2000-01 compared to an amount of Rs.61,241 crore (USD 13.31billion) during the previous year 1999-2000, showing a rise of 51.8 per cent.

After adjustment of repurchases and redemptions, there was an inflow of funds of Rs.9,128 crore (USD 1.99 billion) during the financial year 2000-01 as compared to a net inflow of Rs.18,969 crore (USD 4.12 billion) during the financial year 1999-2000. The year of 1999-2000 had performed extraordinarily well in comparison to the year 1998-99 during which all mutual funds together had recorded net outflows of the order of Rs. 950 crore. Thus, the good performance of 1999-2000 could not be sustained by the mutual fund industry inspite of the fact that the fiscal incentives continued during the financial year under review.

The analysis of data shows that there was a net inflow of funds of Rs.9,849 crore in case of private sector mutual funds compared to net inflow of Rs.15,166 crore during the previous year of 1999-2000. The net inflow of UTI declined sharply to Rs.323 crore as compared to net inflow of Rs.4,548.32 crore during the previous year. Public sector mutual funds continued to show net outflow of funds this year also - there was a net outflow of Rs.1,044.50 crore in 2000-01 as against net outflow of Rs.744 crore during the previous year.

Total net assets of all domestic schemes of mutual funds were Rs.90,586 crore (USD 19.69 billion) as on March 31, 2001. During the year, inspite of net inflow of funds to the mutual fund industry, there was a fall of about 16 per cent in the net assets of the mutual funds which declined from Rs.1,09,746 crore as on March 31, 2000 to Rs.90,586 crore as on March 31, 2001. The fall in the assets may be attributed to decline in their investment in equity market during the year. The details are given in Table 2.38.

The outstanding net assets of mutual funds reflect compositional change in their share. While the private sector share in cumulative net assets increased from about 10 percent at the end-March 1999 to 28.6 percent at end-March 2001, the share of public mutual fund declined from 12.1 percent to 7.3 percent during the same period.

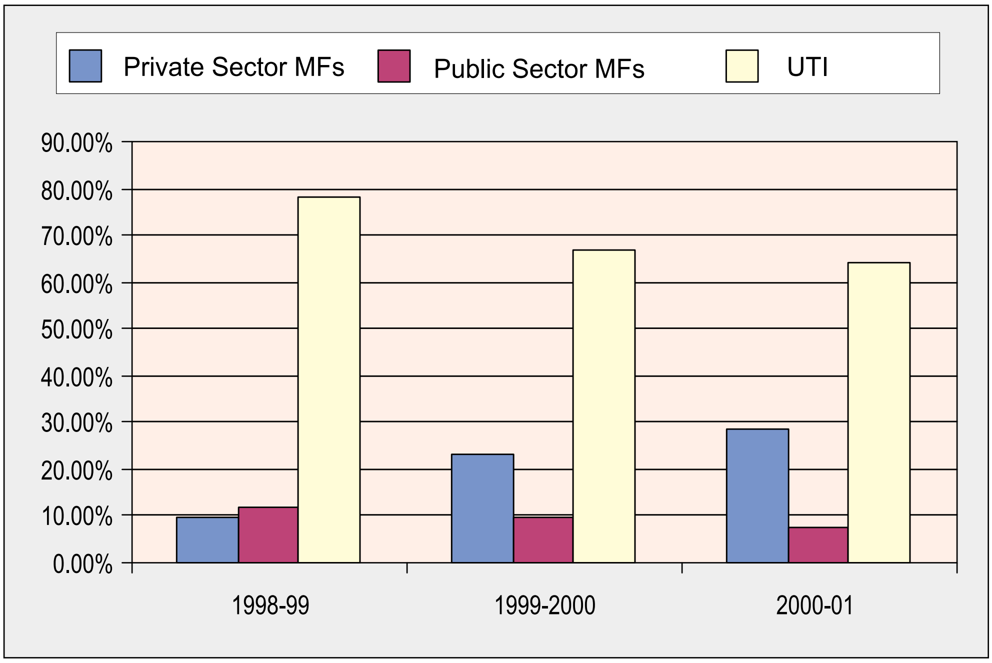
Table 2.38 : Resource Mobilisation by Mutual Funds (Rs. Crore)

	Private Sector MFs	Public Sector MFs	UTI	Total (Rs. Crore)
Gross Mobilisation				
1998-99	7846.50	1671.34	13192.89	22710.73
1999-2000	43725.66	3817.13	13698.44	61241.23
2000-01	75009.11	5535.28	12413.00	92957.39
Repurchase/ Redemption				
1998-99	6393.80	1336.18	15930.42	23660.40
1999-2000	28559.18	4562.05	9150.12	42271.35
2000-01	65159.54	6579.78	12090.00	83829.32
Net mobilisation of funds				
1998-99	1452.70	335.16	-2737.53	-949.67
1999-2000	15166.48	-744.92	4548.32	18969.88
2000-01	9849.57	-1044.50	323.00	9128.07
Outstanding Position of net assets as at end March				
1998-99	6797.16 (9.97%)	8250.65 (12.09%)	53145.27 (77.94%)	68193.08
1999-2000	25167.89 (23.32%)	10444.78 (9.68%)	72333.43 (67.00%)	107946.10
2000-01	25942.14 (28.64 %)	6628.01 (7.32 %)	58016.72 (64.04%)	90586.87

Note : Figures in brackets are percentage share in total.
Source : SEBI.

The UTI which is the largest holder of net outstanding net assets of mutual funds, has shown noticeable fall in its share from 77.9 per cent in 1998-99 to 62.7 per cent in 2000-01 implying that ownership pattern of mutual fund assets has greatly influenced the performance of mutual funds.

Graph 2.18 :
Sector-wise distribution of assets of mutual funds



As can be seen from the Table 2.39 below, there has been an inflow of funds only from open-ended schemes whereas all the close-ended schemes have shown an outflow of funds. Thus total net inflow of funds on account of close-ended schemes during 2000-01 amounted to Rs. 3190.2 crore accounting for nearly 26 percent of the net resources mobilised through open-ended schemes. It is also observed that the outflow was the highest at Rs. 2531.9 crore during the year under review on account of public sector mutual funds' close-ended schemes followed by UTI with outflow of Rs. 656.0 crore.

Table 2.39: Classification of Resource Mobilisation by Open /Close-ended Scheme (Rs. Crore)

	Private Sector MFs			Public Sector MFs			UTI			Grand Total
	Open ended	Close ended	Total	Open ended	Close ended	Total	Open ended	Close ended	Total	
Mobilization of Funds	74830.65	178.46	75009.11	5535.28	Nil	5535.28	10740.00	1673.00	12413.00	92957.39
Repurchase/ Redemption Amount	64978.75	180.79	65159.54	4047.88	2531.9	6579.78	9761.00	2329.00	12090.00	83829.32
Net In/ Outflow of funds	9851.90	-2.33	9849.57	1487.4	-2531.9	-1044.50	979.00	-656.00	323.00	9128.07

Source : SEBI.

Trend in purchases/sales by mutual funds

During the year 2000-01, mutual funds have been net buyers in the debt segment of Rs.5023.49 crore and net sellers in the equity segment of Rs. 2766.98 crore. The month-wise details of the trend in purchases and sales in the market during the year are given in the table 2.40. On aggregate basis, net combined investments of mutual funds in debt and equity were of the order of Rs.2256.5 crore. It is also observed that investment in debt is more stable and positive than the investment in equity shares. The frequency of sales is very high in case of equity. It would be seen from table 2.40 that sales were exceeding the purchases by more than 100 per cent almost in all the months reflecting the disinvestment by the mutual funds during these months. On the other hand, in case of debt, sales were less than 100 per cent reflecting net investment in the debt by the mutual funds.

Table : 2.40 Monthly Transactions by Mutual Funds (Rs. Crore)

Transaction Month	Equity			Debt		
	Gross Purchases	Gross Sales	Net Purchases/ Sales (-ve)	Gross Purchases	Gross Sales	Net Purchase/ Sales (-ve)
April '00	1550.12	1508.81	41.31	661.27	195.71	465.56
May '00	1550.32	1198.18	352.14	919.84	792.89	126.95
June '00	1599.52	2049.32	-449.80	670.99	316.93	354.06
July '00	1253.32	1424.19	-170.87	913.11	608.20	304.91
August '00	1241.73	1221.80	19.93	863.06	657.63	205.43
September '00	1601.76	1480.01	121.75	634.41	415.81	218.60
October '00	1162.44	1007.21	155.23	893.01	437.52	455.49
November '00	911.55	1239.48	-327.93	1152.20	583.08	572.12
December '00	1739.31	1753.61	-14.30	1354.07	958.96	395.11
January '01	1688.08	2590.62	-902.54	2167.21	1280.52	886.69
February '01	1670.47	2907.19	-1236.72	1908.29	1248.82	659.47
March '01	1407.16	1762.34	-355.18	1371.71	992.61	379.10
Total	**17375.78**	**20142.76**	**-2766.98**	**10413.94**	**8488.68**	**5023.49**

Source : SEBI.

Further analysis of data shows that during the year, while there has been a net inflow of funds in the income/debt oriented schemes and balanced schemes, there has been a net outflow in the growth/equity oriented schemes. The details are given below in Table 2.41.

Table 2.41 : Scheme-wise Break-up of Resources Mobilised by Mutual Funds (Rs. Crore)

Schemes	No. of Schemes	Gross Funds Mobilised	Repurchase/ Redemption	Net Inflow/ Outflow of funds	Cumulative Position of Net Assets as on 31/3/2001
Income / Debt Oriented Schemes					
Liquid/ Money Market	27	36211.72	33648.09	2563.63	4128.3
Gilt	19	4160.54	4472.28	-311.74	2316.41
Debt (other than ass. re)	95	26060	20172.7	5887.3	29182.01
Debt (assured return)	34	614	1662.16	-1048.16	19680.94
Sub total	175	67046.26	59955.23	7091.03	55307.66
Growth / Equity Oriented Schemes					
ELSS	77	214.01	656.31	-442.3	2522.84
Others	110	17996.61	18299.12	-302.51	13482.55
Sub total	187	18210.62	18955.43	-744.81	16005.39
Balanced Schemes					
Balanced schemes	32	7700.51	4918.66	2781.85	19273.82
Grand Total	**394**	**92957.39**	**83829.32**	**9128.07**	**90586.87**

Source : SEBI.

Number of schemes and net assets

A total of 394 mutual funds schemes were in operation as on March 31, 2001, out of which 252 schemes were open-ended schemes. In terms of investment objective, the details of these 394 schemes are given in table 2.42.

Table 2.42 : Schemes in Operation as on March 31, 2001

Type of Scheme	No. of Schemes	Total No. of Schemes
Income (Debt oriented)Schemes		*175*
i. Gilt Schemes	19	
ii. Liquid/Money market	27	
iii. Non-assured return debt schemes	95	
iv. Assured return debt schemes	34	
Growth (Equity oriented)Scheme		*187*
i. Equity Linked Savings Schemes	77	
ii. Others	110	
Balanced (Equity and Debt) Schemes		*32*
Total		**394**

Source : SEBI.

Offer documents received and cleared by SEBI

During the year 2000-01, the SEBI received 75 offer documents as against 96 offer documents received during the year 1999-2000. 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.

The SEBI cleared 59 offer documents including 6 offer documents for conversion of close-ended schemes into open-ended schemes during the year under review as against a total of 86 offer documents cleared in the previous year. The observations were communicated in case of all offer documents in 21 working days in accordance with the regulations. In most of the remaining cases, the mutual funds have been advised to incorporate the preliminary observations.

Features of offer documents received

The following pattern and features were observed in case of 75 new offer documents received by SEBI for launching schemes by the mutual funds during the period under review

- 37 offer documents have been received for launching income schemes, out of which;
  - 4 offer documents were for launching gilt schemes investing in government securities.
  - 25 offer documents were for launching schemes investing predominantly in corporate debt securities.
  - 8 offer documents for investing in liquid/ money market instruments.
- 19 offer documents were for growth schemes investing predominantly in equities , which also include sector specific schemes and tax saving schemes.
- 11 offer documents were for balanced schemes investing in equities as well as debt securities.
- 8 offer documents have been received for conversion of old close-ended schemes into open-ended schemes.

Schemes launched

The year also saw a decline in the number of new schemes being launched by the mutual funds in comparison with the previous year. Though 59 offer documents (which includes 6 conversion schemes) were given clearance, only 29 new schemes were launched by the mutual funds and 4 schemes were converted from close-ended schemes to open-ended schemes. It may be mentioned here that out of the offer documents cleared by SEBI, there were offer documents of 3 existing schemes of UTI where UTI agreed to bring them under voluntary compliance arrangement. During the last financial year 1999-2000, 58 new schemes were launched by the mutual funds in addition to 21 schemes which 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.

In case of Canstar Scheme of Canbank Mutual Fund, on the termination of this scheme in September 2000, the mutual fund agreed to pay the redemption price of Rs.40/- per unit on a face value of Rs.10/- as assured in the offer document. A sum of Rs.87.60 crore would be contributed by its sponsor, Canara Bank, to meet the shortfall as and when the investors approach the mutual fund for redemption of their Canstar units. An amount of Rs. 45 crore has already been paid to the unitholders.

Bank of India, the sponsor of BOI Mutual Fund contributed Rs.224.92 crore to meet the assured returns in case of its Double Square Plus Scheme which matured during the year.

The sponsors/AMC of GIC Mutual Fund have contributed Rs.138 crore in case of GIC Rise 91 and Rs.5.66 crore in case GIC Suraksha 96. In case of the Dhanvarsha (6) scheme of LIC Mutual Fund, the AMC/ sponsor has contributed Rs.1.03 crore towards the shortfall.

Due to directions by SEBI, the sponsors and asset management companies of 7 mutual funds have contributed a total amount of Rs. 2,438.16 crore to meet the shortfall in case of 22 schemes as on March 31, 2001 as compared to Rs. 1,979.35 crore for 19 schemes which was paid as on March 31, 2000. It may be mentioned here that many of these schemes were launched even before the enactment of the SEBI Act 1992. The details of these schemes, contribution made by the asset management companies or the sponsors are given in Table 2.43.

Table 2.43 : Assured Return Schemes : Contributions Made to Honour the Commitments

(Rs. Crore)

Name of the Fund	Name of the Scheme	Contribution Made by Sponsor/AMC
BOI MF	Double square Plus	256.50
	Festival Boinanza	1.38
	Growth Scheme **	
	RMI	3.69
Canbank MF	Canstar	1282.83
		# 42.60
GIC MF	GIC Big Value	46.88
	GIC Rise II	170.00
	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	125.97
	MMIS 97	4.55
	MMIS 89	18.67
LIC MF	Dhanvarsha (3)	12.40
	Dhanvarsha (4)	127.94
	Dhanvarsha (5)	63.92
	Dhanshree 89	7.50
	Dhanavarsha (6)	1.03
Total		**2438.16**

** BOI Festival Boinanza Growth – The amount has since been reimbursed back to the AMC out of income earned on unclaimed amounts.

Canstar Scheme - Rs.42.6 crore – in the process of meeting the shortfall as and when the investors approach the mutual fund for redemption.

Source : SEBI.

Developments with respect to collective investment schemes

Subsequent to the notification of regulations, SEBI received applications for grant of registration from 50 CIS entities. This includes 3 entities which had not filed information with SEBI earlier, but have now filed an application for grant of registration.

Out of the 50 CIS entities which had filed application for grant of registration, SEBI granted provisional registration to 4 CIS entities, while applications of 13 CIS entities were been rejected and they were ordered to wind up their schemes and make repayment to their investors.

An existing CIS which has failed to make an application for registration to SEBI has to wind up its existing schemes and make repayment to the investors and thereafter submit "Winding up and Repayment Report" to SEBI. SEBI has received such "Winding up and Repayment Report" from 30 existing CIS entities.

Taking into account CIS entities whose applications for grant of registration are under process; CIS entities against whom the Hon'ble Courts passed specific Orders; CIS entities which wound up their existing schemes and made repayment to their investors; and CIS entities which have been granted hearing before the Chairman; SEBI, in the interests of investors has issued Directions under Section 11B of the SEBI Act, 1992 read with Regulations 65 and 73 of SEBI (Collective Investment Schemes) Regulations, 1999 to the remaining CIS entities. These Directions dated December 7, 2000 have been sent to 523 CIS entities, directing them to refund the money collected under the scheme(s) with returns which is due to the investors as per the terms of the offer within a period of one month from the date of the Order failing which it was impressed upon them that further action(s) would be initiated against them.

As the one month time period, for making payment to the investors, specified in the Order has passed, SEBI has initiated the process of action(s) as mentioned in the Order. Accordingly, prosecution under Section 24 of SEBI Act, 1992 which prescribes imprisonment for a term which may extend to one year, or with fine, or with both is being taken up. Also, other actions, as mentioned in the Order, such as debarring the promoters / directors / managers / persons in charge of the business of the scheme from operating in the capital market for a period of 5 years; writing to the State Governments / local police to register civil / criminal cases against the erring entities for apparent offences of fraud, cheating, criminal breach of trust and misappropriation of public funds; writing to the Department of Company Affairs to initiate the process of winding up of the erring CIS entities are also being taken up.

SEBI has been issuing extensive press releases / public notices from time to time to educate and caution the investors about risks associated with investments in collective investment schemes. Members of the public have also been cautioned through these public notices that they should not invest in the CIS entities which are not registered with SEBI. SEBI has also broadcast message for investors in collective investment schemes through National hook-up and Regional stations of Vividh Bharati. SEBI has also issued message in the interest of investors on National channel and Regional stations of Doordarshan, in this regard.

D] FOREIGN INSTITUTIONAL INVESTMENT

Foreign Institutional Investment (FII) in the Indian capital market had shown remarkable recovery from a negative net investment of US$ 386.1 million in 1998-99 to US$ 2.3 billion in 1999-2000. This positive trend continued in 2000-01 also and foreign institutional investors invested about US$ 2.16 billion. In rupee terms the net investment was of the order of Rs.10121.9 crore in 1999-2000 which showed a decline to Rs.9934.3 crore in 2000-01 at the rate of 1.9 per cent. In dollar terms, however, the decline was higher at 7.7 per cent probably due to appreciation of dollar.

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	4,796.20	1,528.30	3,166.60
1995-96	9,693.50	2,751.60	6,941.90	2,035.70	5,202.30
1996-97	15,553.90	6,979.40	8,574.50	2,431.90	7,634.20
1997-98	18,694.70	12,737.20	5,957.50	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	10,122.00	2,339.10	11,237.30
2000-01	74,050.70	64,116.40	9,934.30	2,158.80	13,396.10

Figures in bracket are net outflows.

Source : SEBI.

On account of sluggish trend prevailing in the South East Asian countries' stock markets and the resultant effect of crash in the value of the Information Technology stocks in the American stock market, the first 9 months of the year 2000-2001 witnessed a net investment of Rs. 2,031.6 crore. However, during the last quarter of 2000-01, the net FIIs investment was Rs. 7,902.7 crore which is more than the total net investment by FIIs during the financial year 1997-98 and 1998-99. The total cumulative net investment as at March 31, 2001, made by the FIIs in the Indian Capital Market since September 1992, was US $13.39 billion. The yearly cumulative net investment made by FIIs is given in the Table 2.44.

As regards transaction activities of FIIs, they made gross purchases of Rs.74,050.6 crore during 2000-01as compared to Rs. 56,855.5 crore in 1999-2000 recording an increase of 30.2 per cent. It would be seen from Table 2.45 that inspite of very large increase in gross purchases, net investment declined during the year under review because of heavy sales of FIIs during the months of June 2000, July 2000, October 2000 and December 2000. The sales were also large in the months of May 2000 and December 2000. In the four months of June, July, October and December the FIIs made large disinvestment as their gross sales exceeded the gross purchases.

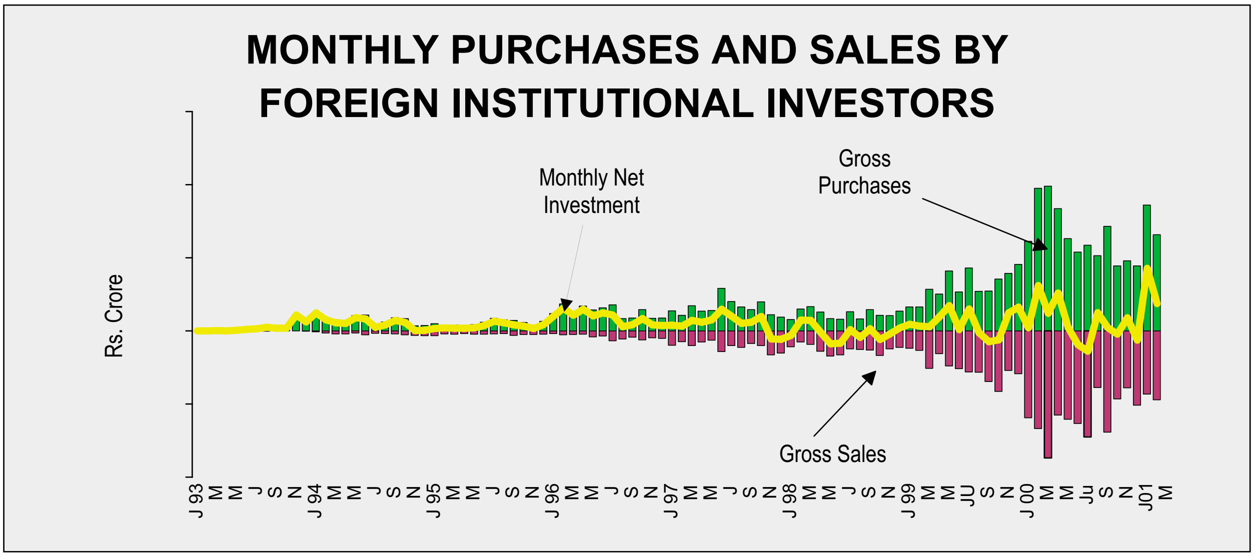
Otherwise during the rest of the month of the financial year 2000-01, they made positive net investments.

Table 2.45 : Monthly Trends in FII Investment (Rs. Crore)

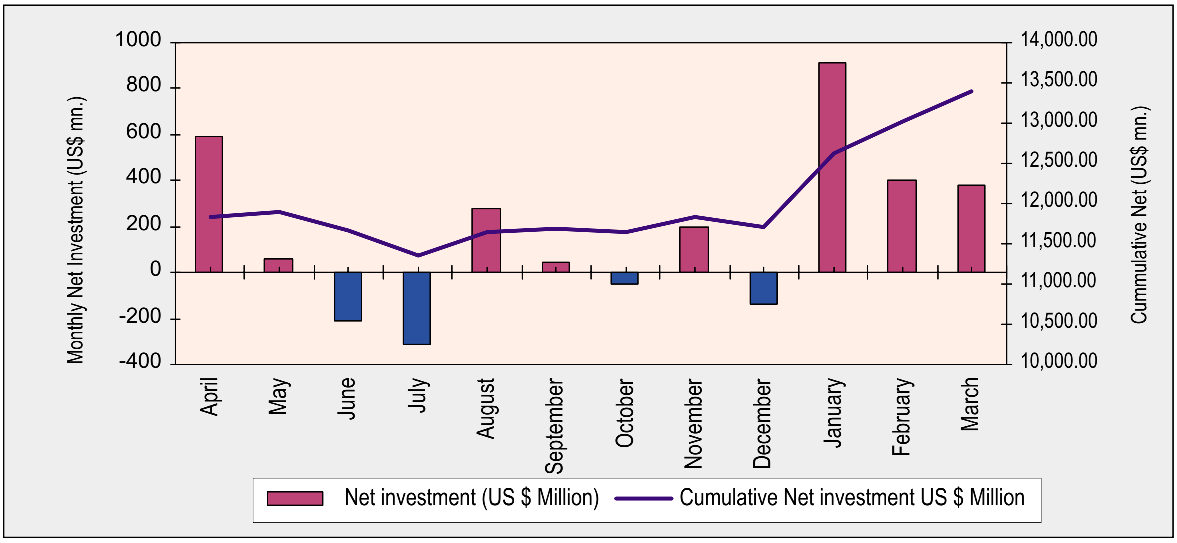
Month	Gross Purchases Rs. Cr.	Gross Sales Rs. Cr.	Net Investment Rs. Cr. at	Net Investment US $ Million Monthly Ex. Rate	Cumulative Net Investment US $ Million at Monthly Ex. Rate	Gross Sales as Percentage of Gross Purchases
2000–01						
April	8,354.50	5,767.80	2,586.70	592.70	11,830.70	69.04
May	6,307.40	6,054.70	252.70	57.50	11,887.50	96.00
June	5,398.80	6,333.60	(934.80)	(212.60)	11,674.90	117.31
July	5,857.60	7,259.40	(1,401.80)	(313.70)	11,361.20	123.93
August	5,134.00	3,875.20	1,258.90	281.10	11,642.40	75.48
September	7,149.60	6,931.30	218.30	47.80	11,690.10	96.95
October	4,440.70	4,659.30	(218.50)	(47.60)	11,642.50	104.92
November	4,791.10	3,885.70	905.40	195.60	11,837.80	81.10
December	4,451.50	5,086.60	(635.10)	(135.80)	11,702.10	114.27
January	8,601.00	4,327.70	4,273.30	914.10	12,616.20	50.32
February	6,586.40	4,722.70	1,863.80	400.40	13,016.60	71.70
March	6,978.00	5,212.40	1,765.60	379.50	13,396.10	74.70
Total	**74,050.70**	**64,116.40**	**9,934.30**	**2,158.80**		**86.60**

Source : SEBI.

Graph 2.19 (a): Monthly Purchases and Sales by FIIs



Graph 2.19 (b) : Movement in net investment of FIIs



E] SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

During the year 2000-01, 77 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, 248 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, 38 such applications were submitted out of which exemption from making open offer was granted in respect of 21 cases. (Table 2.46).

Table 2.46 : Offers and Exemptions

Letters of Offer Filed			Exemptions Granted		
1998-99	1999-2000	2000-01	1998-99	1999-2000	2000-01
63	83	77	4	11	21

Source : SEBI.

F] INVESTIGATION, ENFORCEMENT AND SURVEILLANCE

MARKET SURVEILLANCE

Market Surveillance plays a key role in ensuring safety 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, safety 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 the surveillance cells 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. However, SEBI keeps a proactive oversight on market monitoring 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 for the stock exchanges leads to a suspicion of market abuse, then, client details and records are obtained from the stockbrokers. If further analysis of these records suggests the possibility of 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 and risk containment measures that have been put in place are briefly given below:

- Risk containment measures in the form of elaborate margining system and linking of intra-day trading limits and exposure limits to capital adequacy;
- Daily price bands to curb abnormal price behavior and volatility;
- Reporting by stock exchanges through periodic and event driven reports;
- Establishment of independent surveillance cells in stock exchanges;
- Inspection of intermediaries;
- Imposition of trading restrictions including suspension of trading in scrips by exchanges to prevent market manipulation;
- Formation of Inter Exchange Market Surveillance Group for prompt, 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.

Mechanisms for a fair and transparent securities market

In order to make the securities markets fair and transparent and for enhanced investor protection, SEBI had taken initiatives, which are given below:

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. On being asked by SEBI, companies have designated compliance officers who would be contacted by the stock exchanges whenever such verification is needed. Exchanges have been asked to take up quick verification of rumours and proper dissemination of the same. Exchanges have started verifying rumours and the same are getting reported to SEBI also.

Public disclosure of information relating to actions taken against stockbrokers

The stock exchanges are required to make public the actions taken by the Disciplinary Action Committee of the stock exchanges against their member brokers. The stock exchanges have also been asked to issue press releases when such actions are of serious nature.

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, Board 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.

Drafts of suggested procedures and code of conduct and code of corporate disclosure practices were prepared and circulated to a cross section of corporates, market intermediaries like merchant bankers, brokers and mutual funds, industry associations, financial institutions and professional firms for their comments.

After incorporating suggestions received, the group finalised a set of suggested code of internal procedures and conduct for listed companies and other entities, and a code of corporate disclosure practices for prevention of insider trading. The group recommended amendments in the Insider Trading Regulations to provide for adoption of these codes by listed companies and other entities and recommended some amendments in the existing provisions to strengthen the Insider Trading Regulations.

The recommendations of the group have been put up for consideration of the Board.

Surveillance in internet environment

Internet based securities trading was permitted in Indian capital markets in Jan 2000. Internet is a versatile medium and apart from proliferating genuine applications, it has also provided new avenues for market manipulators and fraudsters. The SEBI Committee on Internet based trading and services has set up a working group to look into surveillance and monitoring related issues arising due to Internet based securities trading. The group is in the process of deliberations on the issue.

Co-ordination and sharing of information

Information sharing between exchanges is crucial in the light of multiple listings and memberships, trading aberrations and also in the context of derivatives trading. After discussion on this issue with exchanges, it was decided that the exchange would designate a senior level official handling surveillance function to co-ordinate with other exchanges on surveillance matters. It has been advised that these officials would meet periodically, at least once in a month, to discuss relevant issues and evolve a continuous mechanism for information sharing.

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

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 supervision of the surveillance activity at stock exchanges, SEBI receives both periodic as well as event driven reports from exchanges.

The periodic reports comprise of the settlement report which includes details about overall safety level at the exchange, 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 risk management of the exchange and 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 risk management of the exchange and 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 and follow-up actions.

Surveillance staff strength at exchanges

To improve the functioning of the surveillance cells of stock exchanges, it has been 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.

Surveillance staff strength and training and certification of staff

The functioning of the surveillance department depends on, inter alia, availability of adequate number of trained staff. It was decided that exchanges would suitably enhance staff strength for surveillance functioning. Exchanges are also required to provide appropriate training and certification to surveillance staff and facilitate process of certification. For training and certification of staff, training modules would be offered by NSE/BSE.

Development of the stock exchanges as self-regulatory organisations

The exchanges are empowered by their bye-laws and regulation to perform necessary functions for enabling trading and settlement activity. The functions undertaken by exchanges include

- ensuring adherence to risk management measures
- conducting settlement process and guarantee the settlements
- monitoring market trading activity including trading data and member positions.
- taking up periodic inspections and special inspection of brokers
- taking up analysis and investigation into abnormal trading activity
- taking action against members including imposing fines / penalties, de-activation of terminals, suspension of trading, expulsion from exchange, declaring a member defaulter, etc.

Thus, the exchanges are the first level regulators and the primary responsibility of monitoring and surveillance lies with them. SEBI has been trying to strengthen the role of exchanges as effective self-regulatory organisations. Setting up of independent surveillance cells directly reporting to the exchange executive directors was a step in this direction. Development of exchange level surveillance capabilities like stock watch system, directing exchanges to augment their surveillance staff strength and devising a training and certification module for the exchange surveillance staff are further initiatives taken by SEBI in this direction.

To perform their self-regulatory role, the exchanges have direct and immediate access to the trading data including member positions. Surveillance and monitoring of trading, detection of abnormal trading patterns, analysis and initiation of investigations has been entrusted to exchanges. Exchanges are required to make reference to SEBI, in appropriate cases, for further investigations by SEBI. In the year 2000-2001, in 17 cases, further investigations were taken up by SEBI on reference from exchanges. Major exchanges conducted suo-moto investigations in more than 100 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, in 38 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.

Development and implementation of stock watch system – an on-line automated surveillance system

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. Further, the benchmarking of parameters, prioritisation of alerts and connectivity with various databases is still in the process of implementation. Because of non-availability of information in electronic form, population of some of the databases has been done partially. This information is filed in manually with exchanges. Therefore it was decided that exchanges would develop a secure link between stockwatch databases and the central database for filing envisaged by SEBI. This would enable immediate updation of information with all exchanges, as soon as it was made public by companies through the central database.

Some other constraints/ limitations faced by exchanges in implementation of the system are as follows:

– With a high rate of growth in trading volumes, additional hardware may be required to handle increasing volumes.

– Software changes are continuously required in the light of changes in the rules or guidelines with regard to trading, risk management etc. Whenever such changes are made in the software, software bugs may crop up, which take time to be rectified.

– Introduction of derivatives trading, on-line trading on Internet etc. requires upgradation of the surveillance systems.

Inter exchange market surveillance group

There are 24 stock exchanges having different trading and settlement cycles and at the same time scrips have multiple listing on these stock exchanges. For effective and meaningful co-ordination between these stock exchanges for healthy functioning of the market, an Inter Exchange Market Surveillance Group was set up by SEBI and the group meets at regular intervals. The group through its meeting facilitated an inter-action between exchanges over surveillance issues and also initiated surveillance related policies. Improvements in the surveillance system of exchanges in view of investigations and inspections by SEBI were discussed and communicated to exchanges through the group. Some of the recent decisions taken under the aegis of ISG are as follows:

Maintaining historical records of trade logs and order logs: Records of trade and order logs are maintained by different stock exchanges for different periods. Both logs may be required at a later date, in connection with investigations into trading patterns or for other reasons. It was decided that trade logs would be maintained by exchanges for a minimum period of seven years and order logs would be maintained for minimum five years. It was further decided that brokers should maintain a mapping of their client Id's i.e. particulars like names, contact details, details of introducer and other details given in the Know your Client Form for each Client ID for a period of seven years.

New listings: For allowing price formation, price bands were kept open on the first day of listing of a security. Wide fluctuations were observed at times on the first day. It was decided that exchanges would develop a software module by 31st March 2001 for pre-opening session of one hour for new listings. This session would be used to determine the base price of the new listed security, which would be communicated to other exchanges, during a cooling-off period of one-hour. Trading would be opened after one hour with price bands applicable to the base price so determined. However, till such a system was implemented, exchanges would continue with the present system.

Enforcement Manual: It was decided that exchanges would develop their own enforcement manual for providing guidance to staff and standardizing procedures.

Database on violations, contravention's, non-compliance and actions taken: Exchanges were advised to develop internal databases compiling details of contravention, instances of non-compliance by members as well as listed companies and details of action taken by exchanges in all such cases.

Powers of the exchange to take action against members: It was seen that Articles, Bye-Laws, Rules and Regulations of some exchanges limit the penalty which can be imposed on members for non-compliance to nominal amounts, whereas other exchanges allow actions such as expulsion or suspension of trading rights, de-activation of trading terminals and imposition of fines/penalty without specifying the maximum fine/penalty to be imposed. Some exchanges were unable to take disciplinary actions in respect of their members due to inadequate powers. It was decided that necessary changes would be made in the Articles, Bye-Laws, Rules and Regulations by the concerned exchanges to have such powers.

Inspection of surveillance cells of stock exchanges

The surveillance cells of stock exchanges have been strengthened in terms of manpower and systems as directed by SEBI. During 1999-2000, SEBI inspected surveillance cells of 3 stock exchanges.

Regulatory role in the context of market volatility

Though volatility is an inherent aspect of the securities markets, excessive volatility is a cause of concern for regulators, corporates and investors. When prices swing at extreme levels, they can have a number of adverse consequences including the following:

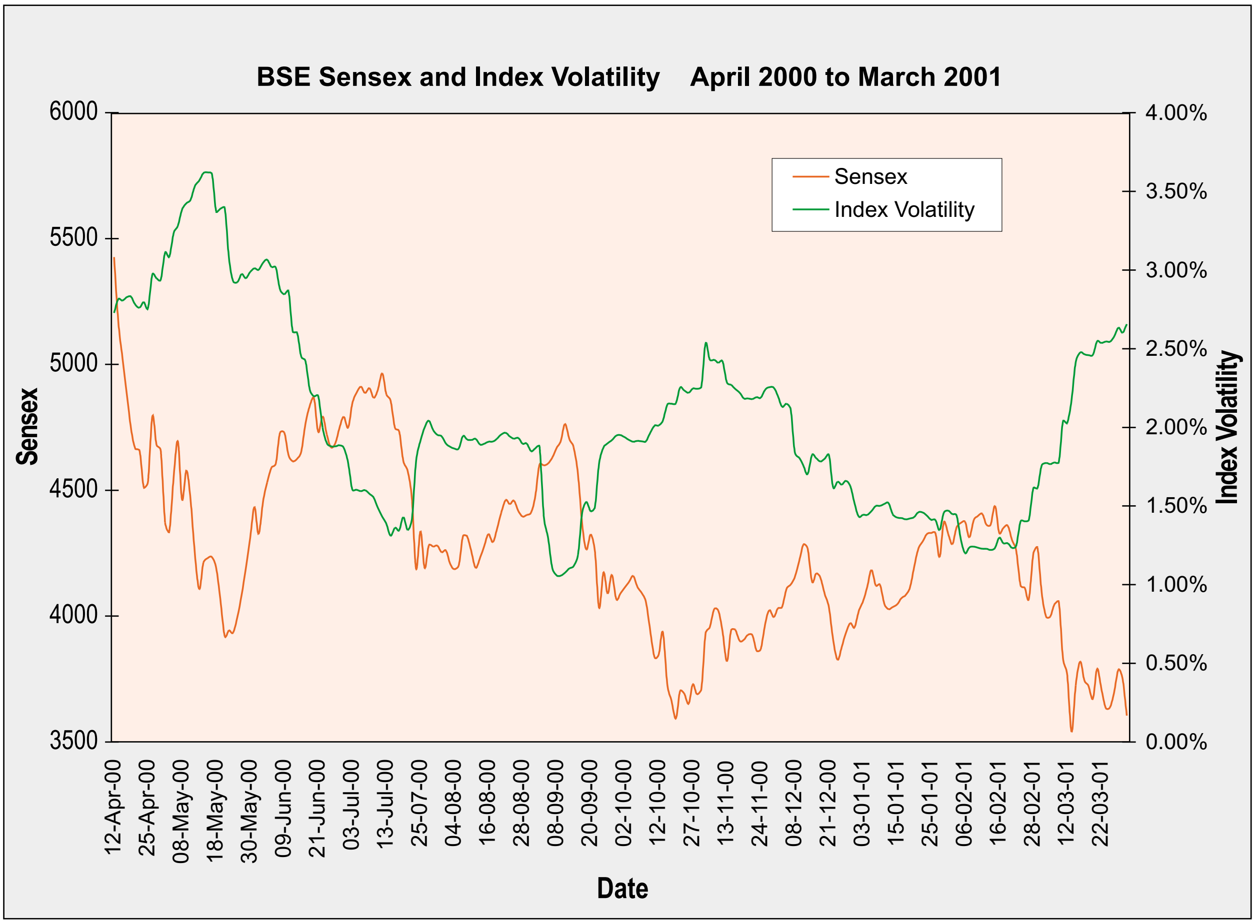
- such volatility increases trading risks and requires market intermediaries to charge more for their liquidity services, thereby reducing the liquidity of the market as a whole.

- if such volatility persists, securities firms are less able to use their available capital efficiently because of the need to reserve a larger percentage of cash-equivalent investments to reassure lenders and regulators.
- it can reduce investor confidence in investing in the markets.

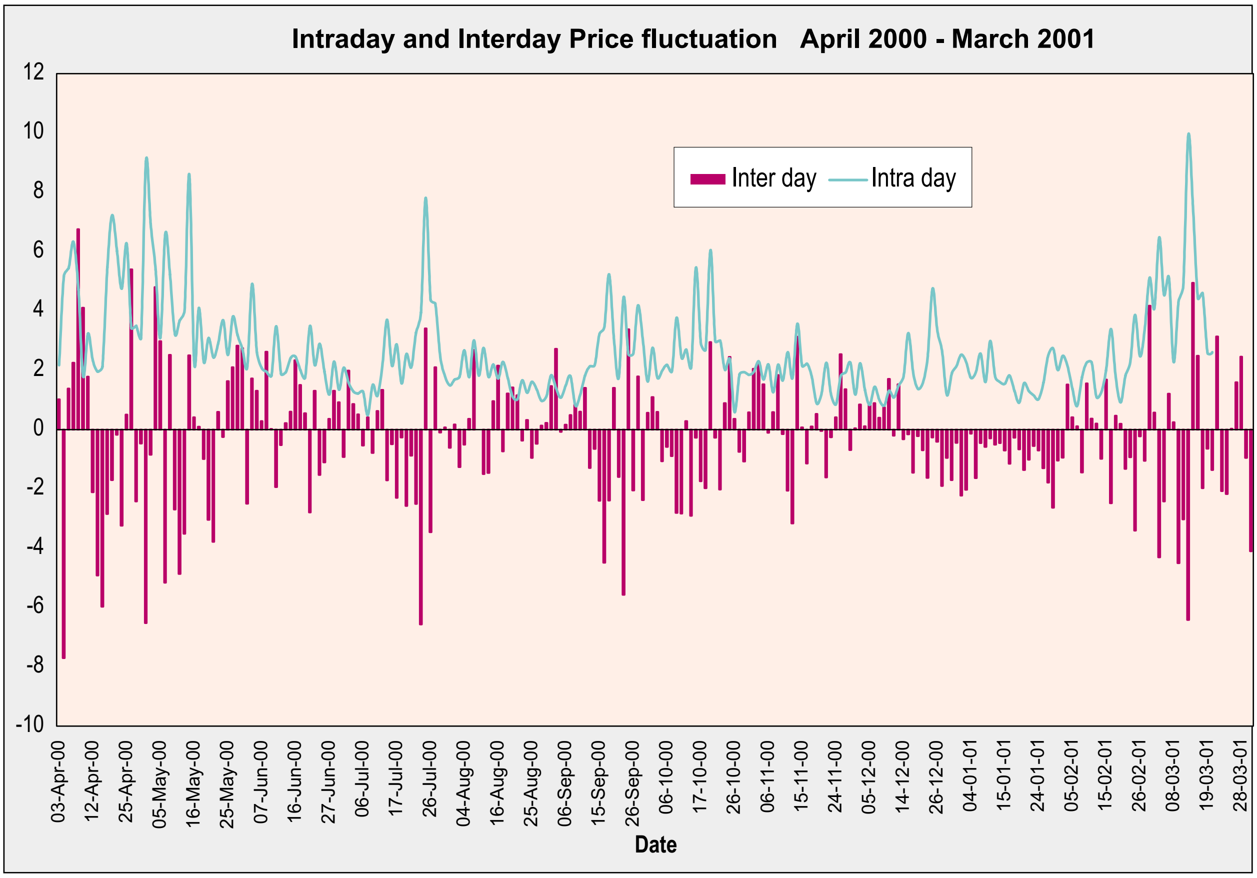
As a result of these effects, increased price volatility could in the long run, impact the securities markets adversely. Regulators across the world remain concerned about excessive price volatility.

The movement of the BSE Sensex and the Index Volatility (calculated on a 30-day rolling window) are shown in Graph 2.20. The intra-day and inter-day price fluctuations of the BSE Sensex are shown in Graph 2.21.

Graph 2.20 :
BSE Sensex and Index Volatility



Graph 2.21:
Intra-Day and Inter-Day Price Fluctuations of BSE Sensex



The Indian markets which were on an upward trend from mid 1999 to around March 2000, started to show downward trend/correction from April 2000 onwards. The Sensex fell from a high of 5541 on April 11, 2000 to touch 3933 on May 24, 2000. Though the markets remained at stable levels from July to Sep, 2000, the downward trend continued in the later part of the year and sharply precipitated in March 2001, with the Sensex touching a low of 3540 on March 13, 2001. This trend was in consonance with the trend in all stock markets across the world. For example, during the same period, the Japanese market index touched a twelve year low, and the Nasdaq Composite index touched a two year low after recording life high in March 2000.

Technology, media and telecom sectors have dominated the economy and the markets in the recent past. This resulted in greater influence of global markets on the Indian stock markets, particularly the perception of investors in India that price movements in Indian Markets have linkage with the movements on Nasdaq. Because of absence of existing models of valuation in the so called new economy stocks, trading in such stocks was more sentiment driven and less related to fundamentals. As earnings by these companies fell short of market expectations, a negative sentiment towards these sectors dominated markets worldwide.

In addition to the global influences several domestic factors contributed in a significant manner towards the downward trend during the period beginning around October, 2000 onwards. Some of these factors have been as under:

1. Downward pressure on Indian Rupee vis-à-vis dollar
2. Fears of economic slow down as indicated by key indicators and particularly the Economic Survey 2000-2001.
3. Reduction in rating of India by Standard & Poor.
4. Downward revision of weightage to India in recasting of MSCI (Morgan Stanley Capital International) Index.
5. Devastating earthquake in Gujarat in January 2001 causing extensive loss to life, property and business.

The markets witnessed high volatility in the early part of the financial year. Sensex volatility (calculated on a 30-day rolling window) peaked at 3.62 per cent during May 2000. In the relatively stable period from July to Sep 2000, volatility fell to as low as 1.08 per cent. But as the markets started moving downwards from Oct 2000 onwards, volatility rose to touch 2.66 per cent in March 2001. While fluctuation in markets is on account of various factors, the principal concern of SEBI is to ensure that the markets are safe and fair. To ensure this, SEBI put in place several surveillance and risk containment measures like capital adequacy, margining system, exposure controls and price bands. Also, SEBI interacted with the stock exchanges through meeting of the Inter Exchange Market Surveillance Group and the Risk management Group held from time to time

Some of the measures taken by SEBI to maintain market stability during the period when the markets started showing downward volatile trend from April 2000 onwards, are as follows:

– It was decided that in the carry forward system, carry forward charges would not be payable to the short sellers who did not either own shares or did not borrow shares.

– To encourage delivery based transactions, cash margin requirements was relaxed for delivery based transactions and it was decided to allow all margins to be paid in the form of bank guarantees for such trades.

– Minimum margin requirement of 10 per cent to be maintained by clients with their broker was specified.

Following temporary measures were taken from time to time:

– Additional margin of 5 per cent to 10 per cent on net sale positions was imposed.

– Compulsory delivery of end of the day net sale position during certain period

– Threshold level for applicability of volatility margin was reduced

– Exchanges imposed special and ad-hoc margins

– Exchanges were asked to examine trading activity of top brokers from time to time.

Because of the systems put in place and proactive measures by SEBI discussed above there have not been any system failures except some payment problems at CSE. This is inspite of highly volatile conditions witnessed in May 2000 and then in March 2001.

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. SEBI has been strengthening its investigation activities over the years and these activities were further strengthened during 2000-2001.

Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act and the various SEBI Rules and Regulations were undertaken. These actions include monetary penalties, warning, suspension of activities and cancellation of registration, refund of issue proceeds, prohibiting dealing in securities and access to the capital market, asking trustees and key persons of mutual fund to step down for their failure to protect the interest of the investors, etc.

Investigation proceedings

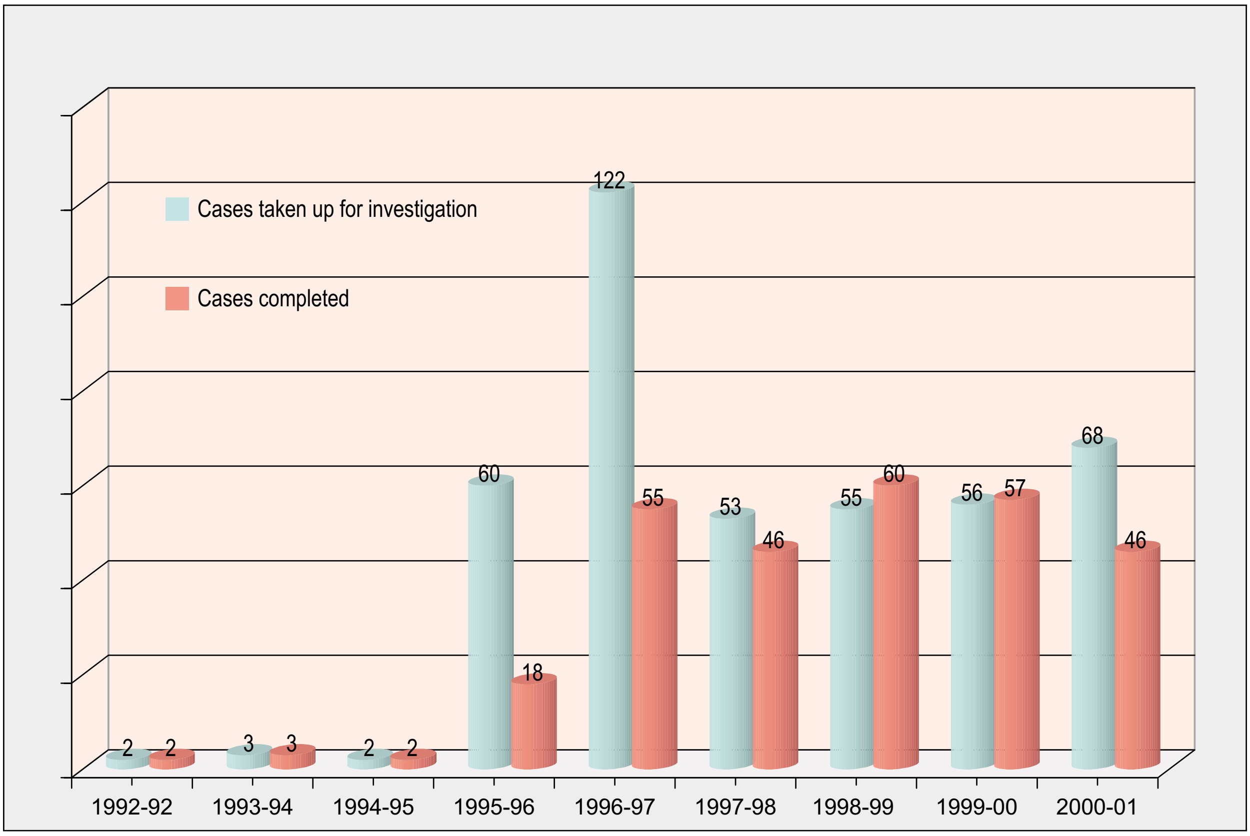
During 2000-2001, investigations were taken up in several cases alleging market manipulations and price rigging, issue related manipulations, insider trading and non-compliance of regulations of mutual funds and take-over of companies. The details of these are given in Table 2.47 and Graph 2.22.

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	Total
Cases taken up for investigation	2	3	2	60	122	53	55	56	68	421
Cases completed	2	3	2	18	55	46	60	57	46	289

Source : SEBI.

Graph 2.22 :
Investigations by SEBI



As can be seen from the table, SEBI has taken up investigations in 68 cases in 2000-2001 bringing the total cases taken up for investigation till end of this financial year to 421 cases. Out of these, 46 cases have been completed during 2000-2001 bringing the total cases completed till 31/3/2001 to 289 cases. The break up of 68 cases in respect to nature of violations alleged, taken up during 2000-2001 are given in Table 2.48 and Graph 2.23. Likewise, the break up of 46 cases in respect to nature of violations completed during 2000-2001 is given in Table 2.49 and Graph 2.24.

Table 2.48 : Nature of Investigations taken up by SEBI in 2000-01

Particulars	Number of Cases Taken up for Investigation
Market manipulation and price rigging	47
"Issue" related manipulation	5
Insider trading	6
Take-overs	1
Miscellaneous	9
Total	**68**

Source : SEBI.

Graph 2.23 :
Nature of Investigations taken up by SEBI in 2000-01

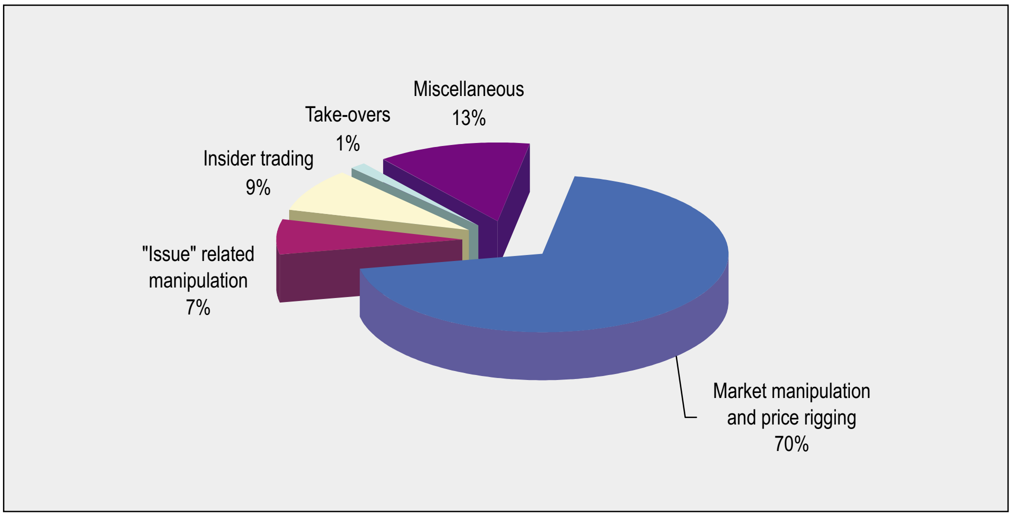
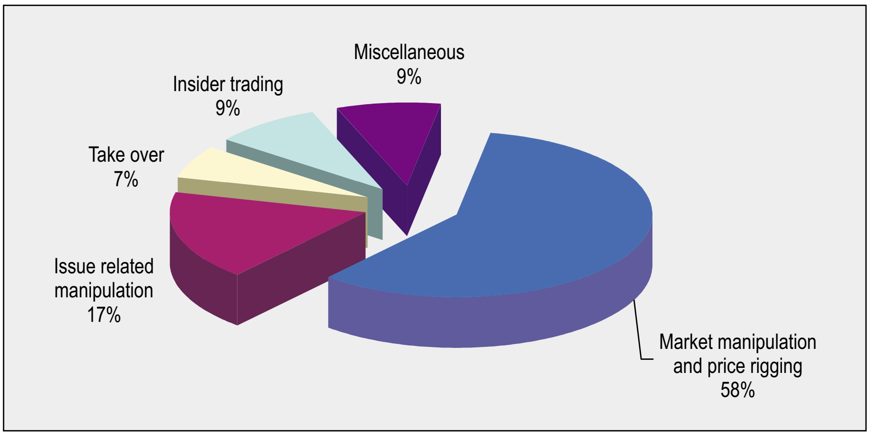


Table 2.49 : Nature of Investigations completed by SEBI in 2000-01

Particulars	Number of Cases Completed
Market manipulation and price rigging	27
"Issue" related manipulation	8
Take overs	3
Insider trading	4
Miscellaneous	4
Total	**46**

Source : SEBI.

Graph 2.24 :
Nature of investigations completed by SEBI in 2000-01



On completion of investigations, SEBI Regulations provide procedure of enquiry proceedings in respect of intermediaries for their prima facie violations of SEBI Act and its Regulations. Show cause notices have been issued during this year to 43 intermediaries by the Enquiry Officer pursuant to enquiry proceedings. Likewise, show cause notices have also been issued in this year to 59 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 2000-2001, on completion of investigations, enquiry proceedings were initiated in respect of 43 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 43 intermediaries is given in Table 2.50. In 2000-2001 enquiry proceedings have been completed against 17 intermediaries, the details of which is given in Table 2.51.

During 2000-2001, adjudication proceedings were initiated in 16 cases and out of these, adjudication proceedings were completed in 1 case.

Table 2.50 : Details of cases where enquiry officer has been appointed in 2000-01

Intermediaries	Number of Cases
Stock brokers	21
Merchant bankers	4
Registrars to an issue and share transfer agents	6
Bankers to an issue	11
Sub-brokers	1
Total	**43**

Source : SEBI.

Table 2.51 : Details of cases where enquiry proceedings have been completed in 2000-01

Intermediaries	Number of Cases
Stock brokers	12
Merchant bankers	0
Registrars to an issue and share transfer agents	2
Bankers to an issue	3
Total	**17**

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 4 cases, warning issued in 9 cases and refund of issue proceeds in 4 cases.

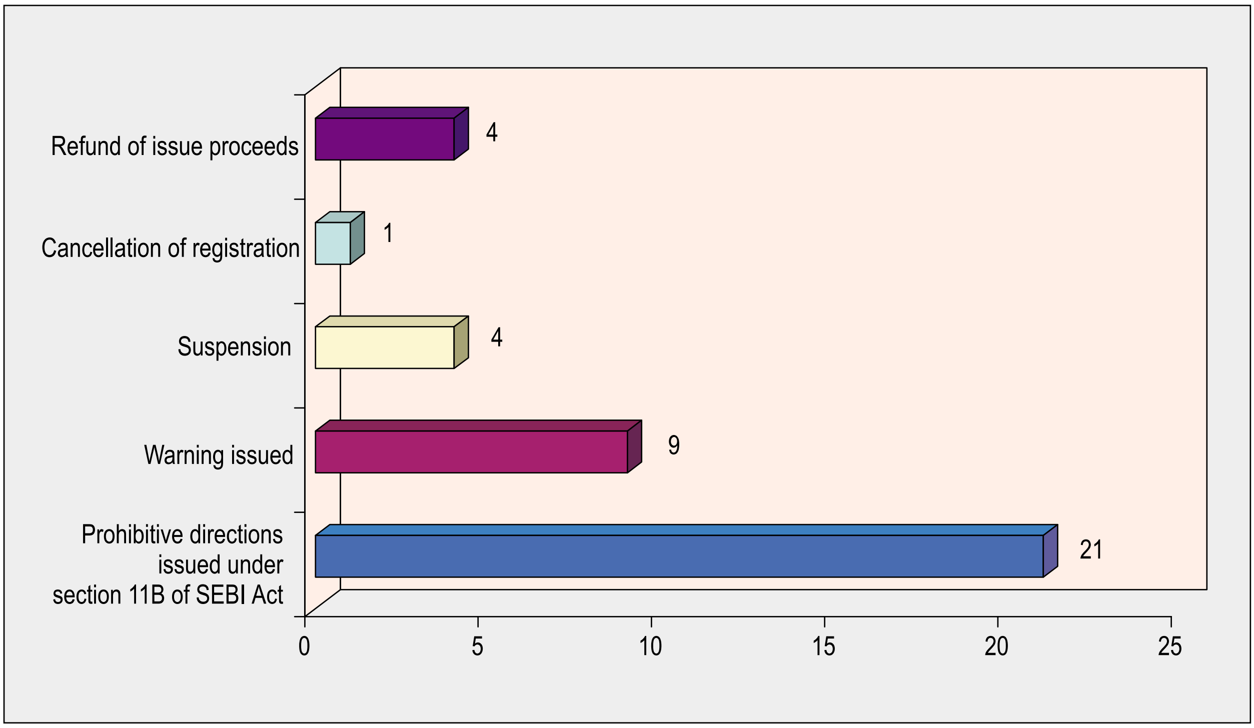
Apart from action against the intermediaries, prohibitive directions were issued under section 11B of the SEBI Act against 21 non-intermediaries, i.e. individuals, firms, companies, etc. for their involvement in creation of artificial market, price manipulations, irregularities in public issue process, etc. Action taken during 2000-2001 is given in Table 2.52 and Graph 2.25.

Table 2.52 : Action taken in 2000-01

Particulars	No. of Cases
Refund of Issue proceeds	4
Cancellation	1
Suspension	4
Warning issued	9
Prohibitive directions issued under section 11B of SEBI Act	21
Total	**39**

Source : SEBI.

Graph 2.25 : Action taken



Summary of representative investigation cases

During the year 2000-2001, 68 cases were taken up for investigation. These cases pertained to allegations of market manipulations and price rigging, issue related manipulations, insider trading, non-compliance with Takeover Regulations, mis-statement in the prospectus, etc. Out of these 68 cases, investigations were taken up in 47 cases of alleged market manipulation and price rigging, 5 cases of issue related manipulations, 6 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 2000-01, investigations in 26 cases of market manipulation and price rigging, 8 cases of issue related manipulations, 5 cases of insider trading, 3 cases 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. Likewise, investigations into issue related manipulations showed that there was mis-use of stock invests, arrangement of subscription to circumvent requirement of minimum subscription, buy-back of shares by the company in contravention of provisions of the Companies Act, acceptance of applications after the closure of the issue, gray market operations, mis-statement in prospectus etc. After completion of investigations, SEBI has ordered refund of the issue proceeds in four cases. Investigations into alleged insider trading cases revealed that in one instance insider trading had taken place.

Some of the representative cases where investigations have been completed during 2000-2001 are discussed below: -

Bombay Dyeing & Manufacturing Co. Ltd. (BDMCL)

Investigations were conducted by SEBI into the alleged acquisition of shares in excess of 5 per cent of the paid up equity capital of Bombay Dyeing & Manufacturing Co. Ltd (BDMCL), by certain entities acting in concert, in violation of SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997. The matter was also reported on a large scale in the media. Various contentions and claims were made through media by the acquirer and the target company BDMCL. In order to ascertain the facts in respect of aforesaid issues, investigation was ordered by Chairman in terms of SEBI Act, 1992 read with SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 and SEBI (Stock and Sub-Brokers) Regulations, 1992.

Investigations revealed that Shri Arun Bajoria acquired shares in excess of 5 per cent of the equity capital of BDMCL on March 15, 2000, however he did not make disclosure in respect of his holding in excess of 5 per cent of the paid up equity capital to the company BDMCL. It was contended by Shri Arun Kumar Bajoria that he had made the necessary disclosures to the company within the stipulated time and also disclosed his holding to Calcutta Stock Exchange. It was contended that a letter was sent to BDMCL by “Under Certificate of Posting” in which the disclosure of shareholding was made. It was also contended that a letter was sent to CSE in which the disclosure of holding was made by Shri Arun Kumar Bajoria. Investigations revealed that Shri Arun Kumar Bajoria did not send intimation required to be sent under the SEBI (Substantial Acquisition of Shares & Takeover) Regulations, in respect of his holding to the company BDMCL and the contentions of Shri Arun Kumar Bajoria in this regard were not correct. Investigations also brought out that no letter was sent by Shri Arun Kumar Bajoria to CSE in respect of his holdings in BDMCL within the stipulated time. It was found that Shri Arun Bajoria and persons acting in concert violated provisions of Regulation 7(1) of SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997. Pursuant to investigations, proceedings u/s 11(B) of SEBI Act, read with Regulation 44 of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, have been initiated against Shri Arun Kumar Bajoria and persons acting in concert.

Vakrangee Software Ltd.

There were allegations of creation of artificial market and manipulation of the price in this scrip. The price of the scrip had moved from Rs.10/- to Rs.600/- during September 1999 to March 2000. Investigations revealed that certain entities transacted in the scrip to manipulate the price by cornering substantial quantity of floating stock in the scrip by making purchases in large quantities. These entities manipulated the price of the scrip by misusing the circuit filter mechanism of the stock exchange. Large orders were entered in the trading system immediately on opening of the trading session at a price which was 8 per cent higher than the price of the previous closing day which led to creation of artificially high price of the scrip on subsequent days. The investigation established that trading by these entities violated provisions of SEBI (Prohibition of Fraudulent Unfair Trade Practices relating to Securities Markets) Regulations, 1995 and SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997. Cornering of the floating stock was done by indulging in off-market transactions in violation of provisions of the Securities Contract Act, 1956 and SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations 1992. Pursuant to investigations, proceedings u/s 11(B) of SEBI Act, read with Regulation 11 ((Prohibition of Fraudulent Unfair Trade Practices relating to Securities Markets) Regulations, 1995, have been initiated. Enquiry proceedings have been initiated against brokers and sub-brokers involved. Adjudication proceedings have also been initiated u/s.15A (b) of the SEBI Act, 1992 against some of these entities.

Krishna Filaments Ltd.

Investigations were conducted by SEBI to examine the abnormal spurt in price and volume in the scrip of Krishna Filaments Ltd. (KFL) during the period May-June 1998. KFL had brought out a public issue of optionally fully convertible discounted debentures (OFCDD) in April 1997 of Rs. 200 each. The debentures were convertible into an equity share at the end of 17 months at a discount of 33 1/3 per cent to the closing prices for the previous six months at BSE. Investigations revealed that there were large purchases by a set of entities prior to the conversion date (record date for conversion fell on 13/11/98). Cornering of shares started much earlier and through a set of six companies controlled by two Chartered Accountants who were actually college teachers.

The entire dealing of shares (including placement of orders, receipt of delivery from brokers/ sub-brokers) and arrangement of funds relating to purchase of shares in the name of these entities was done by the Managing Director of KFL. Funds for the purchase of shares were also provided by the promoters by siphoning off funds from KFL itself by getting fictitious bills for machinery/ spare parts etc from these entities. Some of the shares held in the name of these entities were fraudulently pledged by KFL in favour of IDBI for availing foreign currency loan. KFL used all the entities to purchase its own shares and at all time these shares were in control and possession of KFL.

It was noticed that shares held in the name of the six companies were later transferred to another set of three front companies of KFL. These three front companies showed purchase of shares of KFL and Krishna Vinyls Ltd (KVL), an unlisted associate concern of KFL, from the six companies by raising debit notes in off market deals. Even these debit notes were ante dated in order to justify possession of shares, consequent to searches by Income Tax Department at KFL group companies and their directors. The shares were shown to have been sold at prices, which had no relevance with the then existing market price.

Investigations further brought out that during the period 1/9/97 to 31/12/98, KFL transferred funds to its seven front entities – directly or indirectly under the garb of investment in these companies by way of preference shares or ICDs. Funds so transferred were used by these companies to corner the floating stock of KFL from the Secondary Market through various brokers and sub-brokers. These companies purchased 13,48,000 shares of KFL on continuous basis in BSE and NSE. All these acquisitions, which constituted 29.31 per cent of equity share capital before conversion of OFCDs, were made before the date fixed for conversion of OFCDD into equity shares. Funds to the tune of Rs.27.03 crores were transferred by KFL/its associate concerns for purchase of shares of KFL/KVL. Thus a complicated web of various companies was created so that identity of persons carrying rigging of prices of the scrip of KFL was hidden behind smoke screen of these front companies. Continuous delivery based purchases of its shares by KFL through its front entities, further squeezed the already low floating stock and this cornering led to price rigging of shares from Rs.153 level to Rs.311 level. This rigging enabled KFL to fix the conversion price of its OFCDD at Rs.144/- per share. This acquisition also resulted in increase in the holding by promoters / directors / associate concerns of KFL to over 94 per cent of the equity before conversion of OFCDD. Enquiry proceedings were initiated against the brokers and actions are being taken as per the SEBI Act and Regulations against Directors of KFL and other persons/entities who have abetted them in this act.

Exel Software Ltd.

The case of Exel Softwares Ltd. was taken up because of abnormal activity in the scrip in terms of large volumes immediately after listing on the BSE despite the fact that the company had its registered office at Chandigarh and issue applicants were mainly from New Delhi and Ludhiana. The volumes were not observed on Ludhiana or Delhi Stock Exchanges. Further, concentration was seen in terms of the quantity purchased and there was auction and subsequent close out of large quantity of shares. The beneficiaries were only two trading members. Investigations revealed that there were large scale irregularities in the maiden public issue of the company and there had been cornering of shares leading to price manipulation.

The shares were cornered at the time of public issue through unofficial buyback arrangement. Certain shareholders admitted that the company had entered into an arrangement with them to bailout the public issue which was not getting minimum required 90 per cent subscription and agreed that subsequent to allotment their shares will be bought back by the company itself.

During the period when the scrip of Exel Softwares Ltd. was traded the purchases were concentrated on counters of two Bombay based brokers. The clients of these brokers belonged to one group only. It was also observed that the shares subscribed by promoters through financing arrangement were also delivered by persons belonging to this group Thus volumes were generated by certain persons acting in concert with the brokers. Artificial liquidity was created through large transactions on squaring up basis. Artificial scarcity was created by concentrated buying knowing fully well that floating stock was low (cornering by the promoters just after the public issue). This was done with the sole purpose of inducing others to buy and sell shares of ESL. It was also noticed that false rumours were being floated to create artificial liquidity and demand in the scrip. When the general public entered the market pursuant to artificial creation of the market, promoters off-loaded part of the shares purchased from the financiers.

Pursuant to investigations it was recommended that prosecution proceedings be initiated against the company directors, clients of the brokers and sub-brokers and their aides and abettors. Further suitable directions were issued to not to allow ill-gotten profits of the auction/closeout proceeds to be released to the market manipulators and instead be transferred to the Investor Protection Fund of the Exchange. Enquiry proceedings have been initiated against the registrars to the issue and the broker involved.

Soundcraft Industries Ltd.

Investigation was initiated on the basis of a reference from exchanges on alleged attempt by certain entities to create false market and manipulate the price of Sound Craft Industries Ltd. Investigations brought out various irregularities committed in the scrip by the market intermediaries / non-intermediaries and revealed that certain entities tried to create a false market for the shares of Soundcraft Industries Ltd. through “Circular trading” i.e. by making simultaneous sales and purchases through the counters of different brokers. Sellers and buyers connived to create large buy / sell positions in the scrip.

Facts on record indicated that the Chairman and main promoter of the company was instrumental in committing the irregularities in the scrip and colluding with other brokers/ clients to manipulate the scrip price. The stock broking arm of the chairman and promoter contributed significant volumes in the scrip and clients/ brokers across exchanges aided and abetted the promoter in the market manipulation. Pursuant to the investigations, enquiry proceedings have been initiated against various brokers and action u/s 11B of SEBI Act is being undertaken against the promoter and abettors.

DSQ Biotech Ltd.

Investigations were undertaken by SEBI on the basis of a complaint alleging price manipulation and Insider Trading in the scrip. It was revealed that large quantities of shares were purchased from the market through the group companies of DSQ Biotech Ltd. prior to coming out with the Rights Issue at premium. Investigations brought out that these purchases were made with a view to create artificial market in the scrip of the company and to increase the price of the shares. This was done so that public could be induced to invest in the Rights Issue, which was brought out at a premium. It was established that the promoters manipulated the price of the scrip by continuous buying on the exchanges, which resulted in the squeezing of the floating stock.

The shares purchased by the Group Company from the market entitled them for the rights. The purchases of the shares by the group company were made with prior knowledge of the impending Rights Issue by DSQ Biotech Ltd. The promoters' group companies also appeared to have substantially acquired the shares of DSQ Biotech Ltd. without following the procedure of open offer required in terms of SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations, 1994. Pursuant to the investigations, enquiry proceedings have been recommended against a number of brokers and intermediaries and actions including steps to prosecute DSQ Biotech Ltd. and its directors are also being undertaken.

Subhash Projects & Marketing Ltd.

Investigation was initiated after receiving a reference from the Income Tax Office, Calcutta and a number of complaints regarding bringing in applications after the closure of rights issue to bail out the issue and alleged price rigging before the rights issue. Investigations revealed that the issue was shown to be subscribed to the extent of 90 per cent with the help of applications lodged by close associates of the company. These associates used cheques issued by banks after the closure date for subscribing to the issue. This established the fact of late applications. Investigations also revealed that the company had used circuitous route to fund applications of associates as also to prop up the price of the scrip with a view to inducing subscription.

Enquiry proceedings have been initiated against bankers to the issue and a member broker of CSE. Action under Section 11 of the SEBI Act is being initiated against the Merchant Banker to the Issue, the Company/ its directors and also a group of persons for knowingly conniving with each other to create artificial volume and trading in the market to view to ensure successful subscription to the rights issue. Matter is also being referred to the Department of Company Affairs for apparent violation of Section 77 of the Companies Act, 1956.

Saket Extrusions Ltd.

Investigations into alleged irregularities in the public issue of Saket Extrusions Limited (SEL) revealed that nearly 60 per cent of the issue was subscribed through stock invests which apparently were not encashed. The investigations were initiated on the basis of a complaint from Bank of Madura stating that the irregularities committed by the company in collusion with the Registrars had led to their bridge loan becoming sticky and unrecoverable. Investigations revealed that the stockinvests used for subscribing to the issue were in fact issued much after the closure of the issue for some other company's issue and were ultimately cancelled. SEL was found to be non-traceable at the site of its registered office. Pursuant to investigations, enquiry proceedings have been initiated against the Merchant banker, Registrars to the Issue and Bankers to the issue. Action against the directors of purchaser of the stock invests, under Section 11 and/or Section 24 of SEBI Act is also being initiated.

Prosecutions

SEBI initiated prosecution proceedings in 20 cases in 2000-2001 bringing the total prosecution proceedings initiated so far to 83 in the last six years. Out of these, 50 prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act. Likewise, 8 prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997. Similarly, 7 prosecution proceedings were initiated for violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995, 1 for violations of the SEBI (Insider Trading) Regulations, 1992 and other 13 was initiated for non-cooperation during the investigation proceedings. The details of the above prosecution cases filed in the Court of Law till the end of 2000-2001 are given in Table 2.54 and Graph 2.26. Prosecution proceedings were initiated in 20 cases in the financial year 2000-2001, which involved 98 persons. Number of persons against whom prosecution proceedings have been initiated by SEBI till the end of 2000-2001 is 555. The breakup of the cases and the number of persons involved which is 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
Under powers delegated under the Companies Act							
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	4	3	4	6	4	10	4
Mis-statement in offer document and fraudulent inducement	0	2	3	2	1	3	4
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	
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	2	4	1	
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	1	0	
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	2	
Unregistered entities	0	0	0	0	0	2	
Others: non-cooperation during investigation proceedings	0	0	0	0	1	0	12
Total	**4**	**5**	**9**	**11**	**15**	**19**	**20**

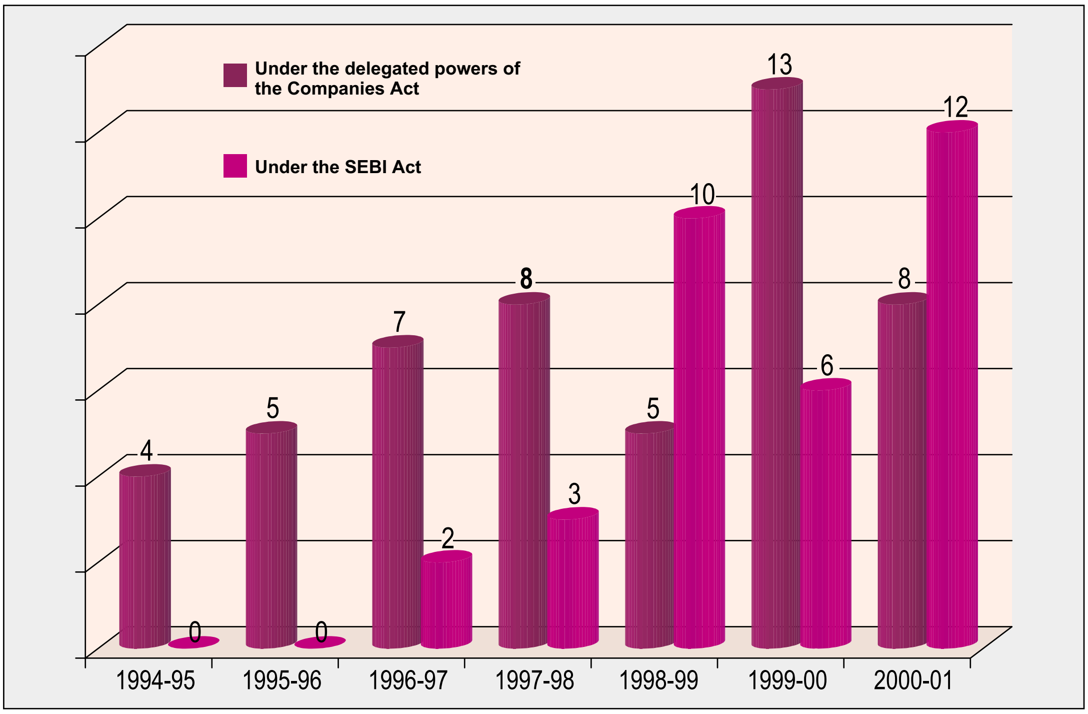
Source : SEBI.

Table 2.54 : Number of persons prosecuted

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
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
Mis-statement in offer document and fraudulent inducement	0	17	20	23	5	13	22
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
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	20	38	30	0
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	6	0	0
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	10	0
Unregistered entities	0	0	0	0	0	8	0
Others: non-cooperation during investigation proceedings	0	0	0	0	11	0	59
Total	**27**	**31**	**52**	**81**	**145**	**121**	**98**

Source : SEBI.

Graph 2.26 :
Nature of Prosecution Initiated



Action taken against merchant bankers, portfolio managers, underwriters for the period April 2000 to March 2001

Warnings issued to Merchant Bankers

Warning pursuant to enquiries/inspection were issued to 4 Merchant Bankers and the details as given below :

Name of the Merchant Banker	Reason
Haryana State Industrial Development Corporation Ltd.	Pursuant to enquiry warning letter was issued for delay in despatch of share certificate to a NRI in the public issue of M/s. Narain Jewels International Ltd.
Aryaman Financial Services Ltd.	Pursuant to enquiry warning letter was issued to the merchant banker for non-exercise of due diligence in case of Rich Paints
Centrum Finance Ltd.	Pursuant to enquiry warning letter was issued for violation of advertisment code
Financial & Management Services Ltd.	Warning pursuant to findings of inspection was issued for not observing due diligence as a lead manager

G] LITIGATIONS APPEALS AND COURT PRONOUNCEMENTS

Civil Litigation

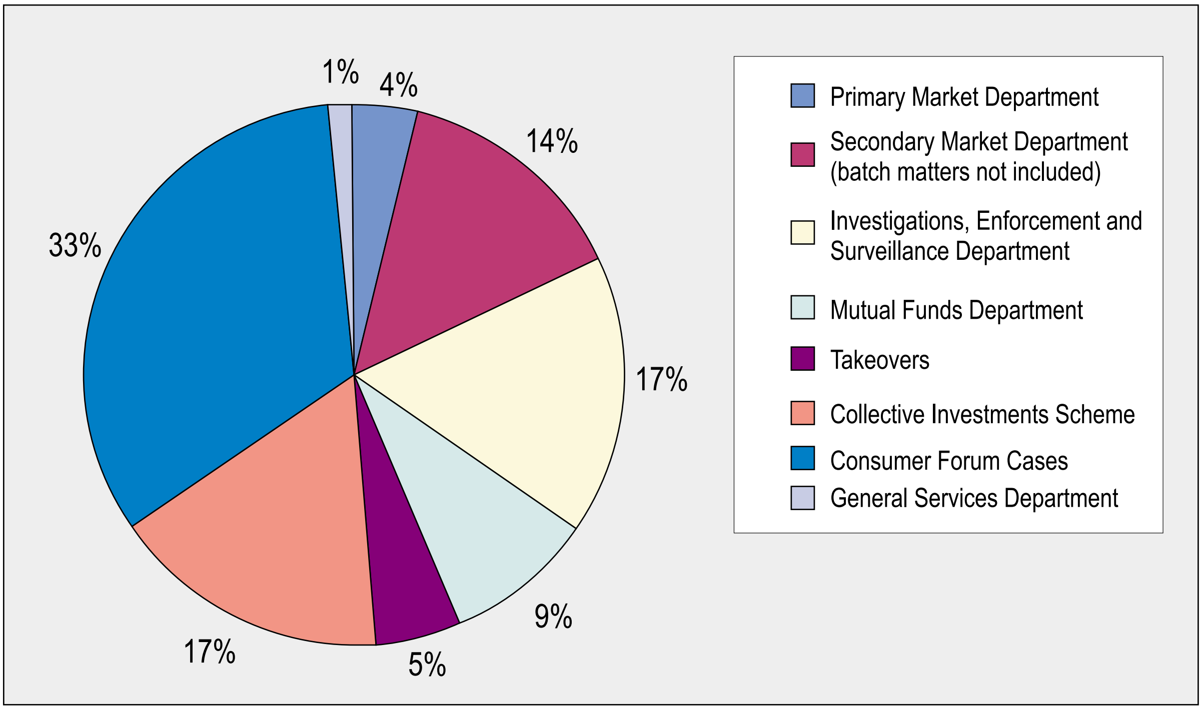
Table 2.55 : Status of Litigation where SEBI was a Party

Sr.No.	Subject Matter	2000-01		
		Cases Filed	Cases Dismissed	Cases Allowed
1.	Primary Market Department	3	18	0
2.	Secondary Market Department (batch matters not included)	11	12	0
3.	Investigations, Enforcement and Surveillance Department	13	20	
4.	Mutual Funds Department	7	2	
5.	Takeovers	4		
6.	Collective Investments Scheme	13	3	
7.	Consumer Forum Cases	26		
8.	General Services Department	1	1	
	Total	**78**	**56**	**0**

* Only those cases where SEBI has received notice have been included. There may be other cases where notices from the forum have not been received. Some cases might have been disposed off without SEBI's knowledge.

Source: SEBI

Graph 2.27:
Status of Litigation where SEBI was a Party Litigation against SEBI during 2000-01



Appeals

Table 2.56 : Status of litigation where SEBI is a petitioner

S. No	Subject Matter	Cases Filed	Cases Pending	Cases Dismissed/ Allowed
1.	Primary Market Department	4	81	7
2.	Secondary Market Department	11	24	6
3.	Investigations, Enforcement and Surveillance Department	–	–	–
4.	Mutual Funds Department	–	–	–
5.	Collective Investments Scheme	1	–	–
6.	General Services Department	2	0	0
	Total	**18**	**105**	**13**

Source : SEBI.

Table 2.57 : Appeals before the Securities Appellate Tribunal

Status of Appeals	No. of Appeals
Appeals filed	28
Appeals dismissed (includes cases filed in previous)	21
Appeals allowed (includes cases filed in previous)	10

Source : SEBI.

Table 2.58 : Appeals under Section 15J of SEBI Act against the orders passed by the Securities Appellate Tribunal

S. No	Subject Matter	Cases Filed	Cases Pending	Cases Dismissed/ Allowed
1.	Primary Market Department			
2.	Secondary Market Department	1	1	–
3.	Investigations, Enforcement and Surveillance Department	–	–	–
4.	Mutual Funds Department	1	1	–
5.	Takeovers	4	4	
6.	Collective Investments Scheme	–	–	
7.	Consumer Forum Cases	–	–	–
8.	General Services Department	–	–	–
	Total	**6**	**6**	

Source : SEBI.

Important Pronouncements Relating To Securities Laws During 2000-01

Supreme Court Cases

B.S.E. Brokers Forum, Bombay & Ors. Vs. SEBI

The Supreme Court on 1st February 2001 has pronounced judgement dismissing the petition of BSE Brokers Forum. The Supreme Court inter-alia has held that:

1. SEBI is empowered to collect two types of fees viz. fees under section 11(2)(k) for carrying out the purposes of section 11 and fee for the purposes of registering the applicants under section 12 (2) of the Act. Therefore, there is no room to attack the levy on the ground that the same is not authorised by the Act.

2. The fee levied is both regulatory and registration fee leviable under section 11(2) (k) and 12 (2) of this Act.

3. So far as the regulatory fee is concerned, the service to be rendered is not a condition precedent and the same does not lose the character of fee provided the fee so charged is not excessive. It is also not necessary that the services to be rendered by the collecting authority should be confined to contributories alone. If the fee is for the benefit of the entire industry, there is sufficient quid pro quo between the levy recovered and the services rendered to the industry as a whole.

4. Since the amount collected under the impugned levy is to be spent by the Board on various activities of the stock and securities market, with which the petitioners are directly connected, the fact that the entire benefit of the levy does not accrue to contributories i.e. petitioners would not make the levy invalid.

5. From the material on record, it is seen that approximately 50 per cent of the total expenditure to be incurred by the Board would be on brokers related services and others amongst all the players in the share market, brokers form a distinct and separate class as compared to others including other intermediaries. Therefore, in our opinion there is nothing wrong in either classifying the brokers as a separate class subject to levy based on annual turnover because the volume of the transactions of the brokers has a direct bearing on the regulatory activities of the Board. Hence, the classification has a direct bearing with the objective to be achieved.

6. Annual turnover of broker is not the subject matter of the levy but is only a measure of the levy. The State is the authority to impose a levy but it has a discretion in choosing the measure of levy, provided it stands the test of reasonableness.

7. While we accept the levy based on annual turnover on the brokers as valid, we have to notice that the Expert Committee as appointed by the Board. The Board is bound to bring about the corresponding changes in the regulations so as to remove the anomalies pointed out by the Committee. Changes recommended by the Bhatt Committee should be incorporated in the Regulations.

8. The trading member of the National Stock Exchange is a member of the stock exchange though with limited right. The trading member of the National Stock Exchange will fall within the definition of 'member' as defined in section 2 (c) of the SC (R) Act and Rule 2 (e) of the SEBI Rules.

Stock Exchange Vs. Assistant Commissioner of Income - tax

The Stock Exchange Rules, Bye - laws and Regulations have been approved by the Government of India under the Securities Contracts (Regulations) Act. There was no challenge to these Rules. The question whether right of membership confers upon the member any right to property was, therefore, to be examined within the framework of the Rules, Bye-laws and Regulations of Exchange. On a plain and combined reading of the rules, it is clear that right of membership is merely a personal privilege granted to a member, it is non-transferable and incapable of alienation by the member or his legal representatives and heirs except to the limited extent as provided in the rules on fulfillment of conditions provided therein. The nomination wherever provided for is also not automatic. It is hedged by rules. On right of nomination vested in the stock exchange under the rules, that right belongs to the stock exchange absolutely. The consideration received by the stock exchange on exercise of the right of nomination vesting in it. Is to be applied in the manner provided in rule 16.

Appeals Before SAT

Bank of Baroda & Union Bank of India Vs. SEBI

A public limited company has no obligation to have its shares listed on a recognised stock exchange. But if the company intends to offer its shares or debentures to the public for subscription by issuing prospectus, it must, before issuing such prospectus, apply to one or more recognised stock exchanges for permission to have the shares or debentures intended to be so offered to the public, to be dealt with in each such stock exchange in terms of section 73 of the Companies Act. One of the matter to be stated prominently on the face of the prospectus is the name of the stock exchanges where the issue is going to be listed and the fact of making application to the exchanges specified therein for quotation of the shares or debentures offered for public subscription. The principle objectives of listing are to provide ready marketability and impart liquidity and free negotiability to stock and shares, ensure proper supervision and control of dealings therein, and protect the interests of shareholders and of the general investing public. Till such time the shares are allotted after fulfilling the conditions stipulated in the section, the money collected by way of subscription is required to be kept in a separate account with a scheduled bank, away from the reach of the issuer company to be available for returning to the applicants in the event of allotment failing to come through. The Bankers to an Issue has a prominent role in the process of raising capital by companies from the public through public issue in as much as it is the custodian of public funds, accountable to the applicants in case an issue fails to pass through its final phase i.e. allotment of shares. To part with the collected money for any other purpose is in clear breach of trust.

Shri D.A.Gadgil Vs. SEBI & Others

There is manifest need to ensure that there is no breach of fundamental procedure in the original proceeding, and to avoid treating an appeal as an overall substitute for the original proceeding. A failure of natural justice in the trial body cannot be cured by a sufficiency of natural justice in an appellate body.

VLS Finance Vs. SEBI

A mere mention of a wrong provision of law, when the power exercised is available even though under a different provision is by itself not sufficient to invalidate the exercise of that power. Section 15A(b) of the Act. Under the said section if any person who is required under the Act or any rule or regulations made thereunder “to file any return or furnish any information, books or documents within the time specified therefor in the regulations, fails to file return or furnish the same, he shall be liable to a penalty not exceeding five thousand rupees for every day during which such failure continues”. As far as the default part is concerned, i.e. failure to report the aggregate share holding of the acquirers, to the stock exchange and the company, the same squarely fits into the ambit of the said section 15A(b). Even though this section does not refer to the requirement to `disclose’, on a realistic interpretation it can be concluded that the, failure to disclose the holdings to the company and the concerned stock exchange within the stipulated time by an acquirer would come under the purview of the section.

HDFC Ltd Vs. SEBI & 5. Mrs. Sangeeta J Valia Vs. Adjudicating Officer, SEBI

On a careful reading, it is seen that section 15A has been drafted to meet different situations, enumerated under clauses (a) (b) and (c). It is also pertinent to note that the legislature, taking into consideration the gravity of the matter, i.e. the resultant consequences of the default, has decided to provide monetary penalties of different quantum. It appears that failure under clause (a) i.e. failure to furnish returns, reports, etc. to the Board, has been viewed rather leniently as the maximum monetary penalty leviable is limited to one lakh and fifty thousand rupees for each such failure. But, under clause (b) the penalty in the event of failure to file returns furnish any information, books or other documents within the time prescribed by regulation meets with a penalty upto five thousand rupees for every day during which such failure continues. It appears from clause (c), that failure to maintain the requisite books of account or records is viewed more seriously as could be seen from the penal consequences, as the failure attracts a maximum penalty of ten thousand rupees for every day during which the failure continues.

It is also to be noted that the expressions “document” and “return” have been repeated in clause (b) also. If expression “information” referred to in clause (b) can be in a report form, as suggested by the Respondent, all the requirements of (a) are covered under (b) also. If the legislative intention had been to include reporting to the Board also in clause (b) specific provision under clause (a) for the same purpose with a different quantum of penalty would not have been provided in the Act. These two sub-clauses are meant to meet different requirements. It is clear that clause (a) takes care of the matters to be exclusively dealt with the Board and clause (b) is to the exclusion of the Board.

Eider e - Commerce Ltd Vs. SEBI

The fact that the communication is couched in a letterform does not matter much. What is relevant is the purport of the communication and not the format in which it is made. An order is primarily a decision which has the effect of a command whether called by such name or not and is distinguished from an advice or request, by the nature of the consequences that may flow from the non-implementation of the same. Section 19 of the Act empowers the Board to delegate its powers to its officers also. The officers exercise those powers, which are delegated to them either generally or specifically by the Board.

Kwality Ice creams (India) Ltd. Vs. SEBI & Others

As far as disclosure requirements are concerned no such flexibility is available. Requirements are stringent. It is a measure of protection to investors. Requirement of disclosure of material facts governing the scheme has been given utmost weightage, as is evident from the mandate in regulation 29 (1) that the offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision. Precisely that is why the standard offer document has been designed by SEBI and the stipulation for filing the same with it before issue of units, reserving the right to suggest modification which the concerned mutual fund is required to incorporate in the document. It is a must that investors should be pre informed of the terms and conditions governing the investment in the scheme.

Cabot International Vs. Adjudicating Officer, Securities & Exchange Board of India

Though substantive requirements of preferential allotment such as passing the requisite resolution by the company's general body, firm commitment by the Appellant to buy the shares, requisite approval from FIPB etc., were effected before publication of the 1997 Regulations and though the Regulations had no retrospective effect, it is ultimately that date on which the board of directors validly allotted the shares, that matters, which is after the notification of the 1997 Regulations. Compliance of the provisions of regulation 3 (4) is a post acquisition requirement. Therefore, preferential allotment made to the Appellant comes under the purview of the 1997 Regulations and thereby regulation 3 (4) is attracted.

As per section 151 imposition of penalty is linked to the subjective satisfaction of the Adjudicating Officer. It is not incumbent on the part of the Adjudicating Officer, even if it is established that the person has failed to comply with the provisions of any of the sections specified in sub section (1) of section 151, to impose penalty. It is left to the discretion of the Adjudicating Officer, depending on the facts and circumstances of each case.

J M Financial Investment Consultancy Services Ltd. Vs. Adjudicating Officer, SEBI

Sub regulation 3 (g) of regulation 3 provides exemption from the compliance of the requirements of certain provisions of the regulations, provided "the acquisition is by way of transmission on succession or inheritance". In terms of the explanation to regulation 3 (1) (e) the benefit of availing of exemption from applicability of Regulations for increasing share holding or inter se transfer of share holding among group companies, relatives and promoters shall be subject to such group companies or relatives or promoters filing statements concerning group and individual share holding as required under Regulations 6, 7 and 8. Requirements of notifying stock exchange and reporting to SEBI in terms of sub regulations (3) and (4) are consequential to availing of exemption and not a requirement to avail exemption under regulation 3 as is made crystal clear in the Regulations. According to regulation 13, before making any public announcement of offer referred to in regulation 10, regulation 11 or regulation 12, the acquirer is required to appoint a merchant banker holding a Category I registration. The public announcement referred to in the Regulation is required to be made by the Merchant Banker and none else. One of the obligations enumerated thereunder is that " the merchant banker shall ensure compliance of the Regulations and any other laws or rules as may be applicable in this regard". Appellant's failure has to be viewed in the back ground that it is a Category I Merchant Banker fastened with the obligation of ensuring legal compliance by others. A person entrusted with such a duty, himself failing to comply with the legal requirements in a matter directly concerning him, cannot be viewed lightly and the Adjudicating Officer's decision imposing monetary penalty on the Appellant cannot be considered as unwarranted.