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Performance Evaluation of Equity Market in India

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Abstract

There are around 100 Companies offering equity share market in India. All these equity share market houses have several schemes in each segment like equity, debt, gilt and liquid funds. Out of which equity segment is flourished and most of the investors are attracted towards equity share schemes. Because of availability of wide range of equity shares schemes in each company, it would be difficult for the investor to choose the best scheme. It is appropriate to consider risk and return of each share to yield better returns before taking investment decision. Hence Present study is an attempt of identifying risk and returns of equity shares and comparing the same with bench mark returns and peers to help equity share investors in choosing better funds as investment avenues.

KERWORDS: Equity Share Market, equity shares, Risk, Funds, Investment and debts etc.

Introduction

Are markets in which shares are issued and traded either through exchanges or over-the-counter markets. Also known as the equity market, it is one of the most vital areas of a market economy as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance. Equity share capital is an important of a company's capital. The holders of such share are the actual owners of the company.[1] Equity share will get dividend and repayment of capital after meeting the claim of preference shareholders. There may be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year .This rate of dividend is determined by directors and in case of larger profits it may even be more than the rate given on preference share.[2] Such shareholders may go without any dividend if no profit is made. Equity share get repayment of capital after meeting the claims of preference share holders debenture holders and other creditors. Under condition these share cannot be-in the life span of a company. Equity share market, lead to important change in both the financial and real sectors as the economy becomes integrated into world capital market. The study of market integration is complicated because there are many ways one can liberalize and liberalization policies, the sequencing of liberalization and the impact on the real economy systematic methods must be developed to 'date' of going firm is reflected in the market value. This is the prices that willing buyers and sellers agree upon in an open market. Thus the valuation does not take place in a vacuum but rather in a competitive environment in which many companies and private investors are actively seeking the best possible investment.

Review of Related Literature

Equity-share schemes have been proposed as one means of dealing with the slow pace of land and wealth redistribution in South African agriculture. These schemes were originally initiated by the private sector in the early 1990's. The concept of equity-share schemes is not limited to include only farm workers, but other previously disadvantaged stakeholders, such as neighboring rural communities, as well. The first scheme was based at a fruit farm in the Western Cape. They have since been implemented in the wine, fruit, vegetable, olive, cut flowers, dairy and eco-tourism industries around South Africa (Knight & Lyne, 2002). A successful equity-share scheme should achieve a variety of goals, including the redistribution of wealth, worker empowerment, retaining or attracting quality management, creditworthiness, improved worker productivity and power relations, and provision for ownership and control to be fully transferred to previously disadvantaged shareholders (Knight et al., 2003). To date no single study has comprehensively measured the success of equity-share schemes in attaining these goals. Several studies have investigated particular aspects of performance of these schemes. Initial studies questioned the success of equity-share schemes based on assessments of worker participation, empowerment and institutional arrangements. For example, Hall et al. (2001) argued that power relations were not improved and that gender equality was not promoted. Karaan (2003) concluded that equity-share schemes fail from an institutional economics perspective due to institutional incompleteness, and Mayson (2003) criticized the ability of these schemes to improve tenure security. A study conducted by Knight (2003) in the Western Cape showed that many of these concerns had been corrected in the more successful research's, especially those with superior financial performance. In particular, Knight et al. (2003) found positive links between financial performance, sound institutional arrangements, effective worker empowerment and good management.

Objectives of the Study

- To analyze Risk and Returns of select equity shares.
- To evaluate equity shares and suggest investors about performing equity share Market.
- To study the future growth prospects in the equity share market in India.
- To study the problems those are faced in managing the equity share market in India.
- To study the impact of growth in equity share market on Indian economy.
- To study the employment opportunities generated in equity share market in India

Research Methodology

Primary Sources of Information: Information from Primary sources will be collected by preparing questionnaires and getting them filled from managers of equity share market outlets and customers. Personal observation of the SEBI will be conducted wherever additional Information is required at different levels.

Secondary Sources of Information: Information from Secondary sources will be collected from World Wide Web, articles, journals and books. The conclusion will be drawn on the basis of the analysis of the collected data.

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Hypothesis

The important step in scientific research is drawing of inferences after collecting, analyzing and processing the data. The researcher shall try to draw broad conclusion that may be used for the purpose of deduction later on. The hypothesis is as follows.

H 01 **:** The equity share market in India does not have good future growth prospects. (Null Hypothesis)

H (i): The equity share companies in India have good future growth prospects.

H02 **:** The equity share market in India does not have problems in managing the SEBI Guidelines. (Null Hypothesis)

H(i) : The Equity share market in India has problems in managing the share market

Sample Design Relative population – 30 BSE sensitivity index companies and Equity Share industry in India. Sampling frame – list of population, elements from which sample is drawn (see the annexure). Method of sampling – stratified random sampling. Stratification or division of population into homogeneous group was done on the basis of industry. Variables – monthly calculated risk and returns were used for comparing equity and Equity Share schemes. Sample size: Five companies and five Equity Share schemes were selected. (Since the population is heterogeneous stratified random sampling was taken). c. Sample Description EQUITIES BENCHMARK ACC LIMITED BSE SENSEX BHEL BSE SENSEX HERO HONDA BSE SENSEX ICICI BANK LIMITED BSE SENSEX INFOSIS BSE SENSEX EQUITY SHARE BENCHMARK FRANKLIN INDIA PRIMA FUND BSE 100 PRUDENTIAL ICICI EQUITY SHARE BSE 100 BSE 100 RELIANCE EQUITY SHARE BSE SENSEX SBI EQUITY SHARE BSE 100 BSE 100 SUNDARAM SMILE FUND BSE. The time period for the research was limited to only one and half month and information provided some of the persons wereϖis limited to the extent of internet and journals. Possibility of error in data collection because many ofϖnot so responsive. Sample size investors may have not given actual answers of my questionnaire. The sample size may not adequately represent the invested in Equity Share.

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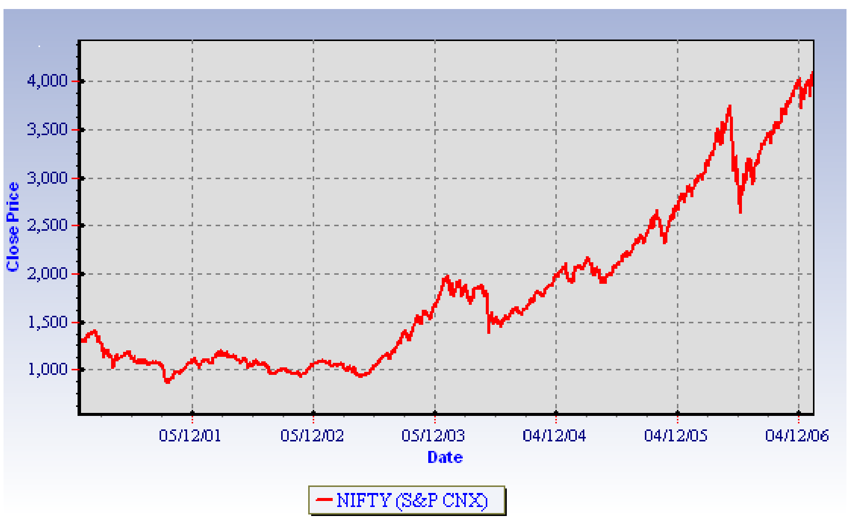
Data Analysis and Interpretation

Equity, also called shares or scrips, is the basic building blocks of a company. A company's ownership is determined on the basis of its shareholding. Shares are, by far, the most glamorous financial instruments for investment for the simple reason that, over the long term, they offer the highest returns. Predictably, they're also the riskiest investment option. The BSE Sensex is the most popular index that tracks the movements of shares of 30 blue-chip companies on a weighted average basis. The rise and fall in the value of the Sensex, measured in points, broadly indicates the price-movement of the value of shares. Of late, technology has played a major role in enhancing the efficiency, safety, and transparency of the markets. The introduction of online trading has made it possible for an investor to trade in equities at the click of a mouse.



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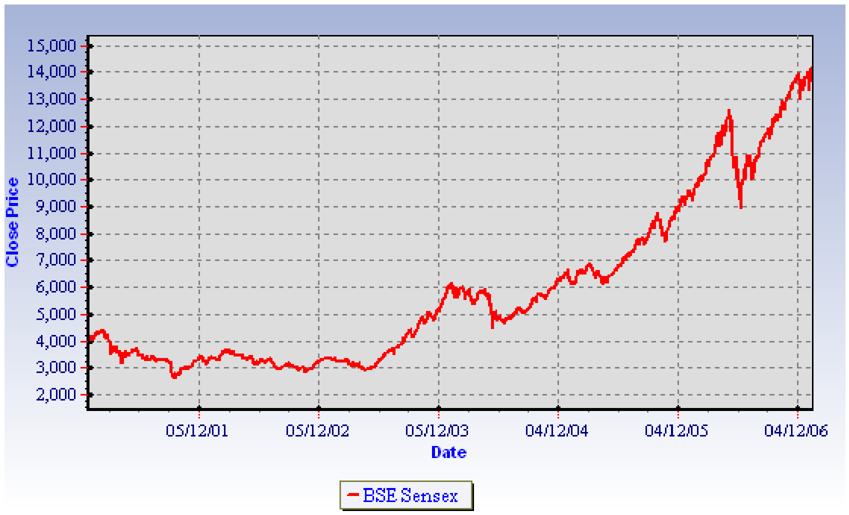

The Issue received 21,08,279 applications for 23,04,97,33,824 equity shares resulting in 51.22 times subscription. The details of the applications received in the Issue from Qualified Institutional Buyers, Non-Institutional and Retail Individual Investors categories are as under The Basis of Allocation was finalized in consultation with Bombay Stock Exchange Limited on May 3, 2006. The Committee of Directors of the Company at its Meeting held at Hyderabad on May 3, 2006 has approved the following Basis of Allocation of shares of the Issue and has allotted the shares to the successful applicants.

Allocation to Retail Investors: The category was subscribed 13.80 times. The total number of shares allotted in this category is 13,50,00,000 equity shares and the number of allottees is 1247592. The category-wise details of the Basis of Allocation (Sample) are as under:

Table -1 Allocation to Retail Investors

Category	No. of Applications	% to Total	Total No. of Shares Applied	% to Total	No. of Shares Allocated	Ratio	Total No. of Shares Allocated
100	74871	3.86	7487100	0.40	100	5:69	542500
200	100887	5.20	20177400	1.08	100	10:69	1462100
300	67209	3.47	20162700	1.08	100	15:69	1461100

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400	64367	3.32	25746800	1.38	100	20:69	1865700
500	189368	9.76	94684000	5.08	100	25:69	6861200
600	45310	2.34	27186000	1.46	100	3:7	1941900
700	34686	1.79	24280200	1.30	100	1:2	1734300
800	562408	29.00	449926400	24.14	100	40:69	32603400
900	5022	0.26	4519800	0.24	100	5:8	313900
1000	115074	5.93	115074000	6.17	100	55:76	8327700
1100	8673	0.45	9540300	0.51	100	11:14	681500
1200	10712	0.55	12854400	0.69	100	6:7	918200
1300	3446	0.18	4479800	0.24	100	14:15	321600
1400	3440	0.18	4816000	0.26	101	FIRM	347440
	ADDITIONAL				100	9:16	1944
1500	32200	1.66	48300000	2.59	109	FIRM	3509800
1600	621601	32.05	994561600	53.36	116	FIRM	72105716

Allocation to Non Institutional Investors: The category was subscribed 57.59 times. The total number of shares allotted in this category is 450,00,000 equity shares and the number of allotters is 7328. The category-wise details of the Basis of Allocation (Sample) are as under:

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Table -2 Allocation to Non Institutional Investors

Category	No. of Applications	% to Total	Total No. of Shares Applied	% to Total	No. of Shares Allocated	Ratio	Total No. of Shares Allocated
1700	299	3.41	508300	0.02	100	3:10	9000
1800	71	0.81	127800	0.00	100	1:3	2400
10000	416	4.75	4160000	0.16	174	FIRM	72384
50000	137	1.56	6850000	0.26	868	FIRM	118916
100000	177	2.02	17700000	0.68	1736	FIRM	307272
120000	7	0.08	840000	0.03	2083	FIRM	14581
150000	48	0.55	7200000	0.28	2604	FIRM	124992
200000	50	0.57	10000000	0.39	3472	FIRM	173600
500000	48	0.55	24000000	0.93	8681	FIRM	416688
1000000	15	0.17	15000000	0.58	17362	FIRM	260430
1500000	6	0.07	9000000	0.35	26044	FIRM	156264
2000000	6	0.07	12000000	0.46	34725	FIRM	208350
4000000	6	0.07	24000000	0.93	69450	FIRM	416700
5000000	1	0.01	5000000	0.19	86812	FIRM	86812
11300000	1	0.01	11300000	0.44	196195	FIRM	196195
32258000	2	0.02	64516000	2.49	560077	FIRM	1120154
93540000	1	0.01	93540000	3.61	1624080	FIRM	1624080
111290000	1	0.01	111290000	4.29	1932244	FIRM	1932244

The maturity profile of issues in the private placement market ranged between 12 months to 204 months during 2004-05. The largest number of placements was for 36 months (87 placements) and 60 months (57 placements). A total of 78 offers had a put option, while 83 offers had a call option. Unlike public issues of bonds, it is not mandatory for corporate issuing bonds in the private placement market to obtain and disclose credit rating from an approved credit rating agency. Rating is, however, required for listing. Of the 319 debt private placement deals during 2013-14, 297 issues (93%) went for rating and 22 did not get rated. Private placement accounted for 68.4% of total resources mobilized by the corporate sector from the primary market. The corresponding share of public issues was a meager 26.6%.

Table-3 Resources Raised by Corporate Sector

(Amount in Rs. mn.)

Year	Public Equity Issues	Debt Issues			Total Resource Mobilization (2+5)	Share (%) of Private Placement in		Share (%) of Debt in Total Resource Mobilization (5/6*100)
		Public Issues	Private Placements*	Total (3+4)		Total Debt (4/5*100)	Total Resource Mobilization (4/6*100)	
1	2	3	4	5	6	7	8	9
2004-05	88,820	29,400	100,350	129,750	218,570	77.34	45.91	59.36
2005-06	46,710	69,770	183,910	253,680	300,390	72.50	61.22	84.45
2006-07	11,320	19,290	309,830	329,120	340,450	94.14	91.01	96.67
2007-08	5,040	74,070	387,480	461,550	466,580	83.95	83.05	98.92
2008-09	29,750	46,980	547,010	593,990	623,740	92.09	87.70	95.23
2009-10	24,790	41,390	524,335	565,725	590,520	92.68	88.79	95.80
2010-11	10,820	53,410	462,200	515,610	526,430	89.64	87.80	97.94
2011-12	10,390	46,930	484,236	531,166	541,556	91.16	89.42	98.08
2012-13	178,210	43,240	484,279	527,519	705,729	91.80	68.62	74.75
2013-14	214,320	40,950	551,838	592,788	807,108	93.09	68.37	73.45

*Data from 2004-05 onwards include only issues with a tenor and put/call option of 1 year or more, while data for earlier years include all privately placed debt issues irrespective of tenor.

Source: Prime Database

Observations & Suggestions

There exist correlation between annual returns of Individual fund and NIFTY returns. There was huge crash of equity markets in 2008. As a result of these NIFTY yielded negative returns in 2008 and all equity related funds followed the same pattern. In 2011 also equity fund returns followed NIFTY and have shown negative values of returns. In short term perspective, stock markets may be volatile but in long term equity markets have huge potential to yield decent returns especially in emerging markets like India. With this view researcher attempted to find out returns of equity funds and index for medium to long term called for last 6 years. There is lot of volatility exist during period of study but Equity share investors were able to get decent returns. To find out returns two methods are popular mean value of annual returns and CAGR. AGR and CAGR of TATA Dividend yield and ING Dividend Yield fund offered better returns to investors. In terms of Annual returns and CAGR all funds yields better returns than their bench mark NIFTY returns. Hence retail investors opting mutual funds are advised to stay in markets for long term periods rather than investing for 6 months or one year. Sharpe and Trey nor ratio of equity funds is far better than bench mark NIFTY. It is found that AGR, CAGR, Sharpe Ratio and Trey nor Ratio of TATA Dividend yield and ING Dividend Yield fund are higher than their peers. Annual Growth Rate, CAGR, Standard Deviation and Sharpe Ratio alone cannot reveal performance of mutual funds but together when these indicators are used to measure performance of mutual funds or portfolio, these indicators give some valuable inputs to investors to take investment decisions in Equity share investment. All equity diversified funds yielded better returns when compared to Benchmark returns but out of equity funds TATA Dividend Yield fund and ING Dividend Yield fund yielded consistent superior returns than their peers. Hence investors are suggested to invest in these funds to yield better returns in long term horizon.

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Limitations of the Study

The present exploratory study faced some problems and due to certain limitation, it may be possible that the result and conclusions affected to some extent. Following are the limitations observed during the study.

1. Difficulty of timely availability of published data.
2. High increasing technology leads to changes in stock market frequently.
3. Time and financial constraints also affect the study to some extent.
4. There is also the problem that many of our libraries are not able to get copies of old and new system, acts/rules, reports and other publication private or Govt. in time.
5. As subject of study is new so that the information and data are not sufficient for study.
6. Present study is only confined to select equity funds. Results of the study cannot be generalized to all categories of Equity share schemes.
7. Present returns may not be guaranteed in future and investors have to consider other aspects before investing in equity mutual funds.
8. The fast changing technology, rapid growth of exchanges/ investor/issuer, changing in functioning/operation of stock exchanges, new provisions and regulatory frame work of stock market and government policies, fluctuating economic condition of the country, various crises occurs in stock market etc. are some other limitations which interfere the study and its conclusion.

As the system is developing day to day so that any final result of this developing stage is not possible. The present conclusion of study is bound by time or day to day changes.

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Conclusion

For small investors who can afford only small amounts of investments in stock markets, undoubtedly Equity share are best option but one has to be in better yielded and outperformed funds rather than investing in low yielded funds. Necessary evaluation has to be carried out to choose right fund to yield optimum returns. Indicators in present study may not be appropriate in all cases but are reliable in predicting future expected returns based on past performance of these funds in scientific manner. Equity share investors are also advised to stay on investing in funds for long term horizon (more than 5 years) and short term investment may lead to high volatility of returns (High risk) and even negative returns. All use (NAV) of all funds was plunged and shown negative returns. Investors can invest in an Equity share that matches their investment objective and analyze the fund based on various criteria such as risk prevailing in the market, variations on the return and deviations occur in the returns etc. Risk appetite of an investor plays an important role in the selection of mutual fund. The shape index concluded that majority of the funds showed negative returns and no fund exhibited extraordinary performance.

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