

Research Digest
India's Stock Markets – A Global Comparison
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India's Stock Markets – A Global Comparison

Despite the healthy growth, India's market capitalization as a percentage of its GDP is yet to touch the levels of its emerging market counterparts. Among countries compared herewith, India has a long way to go in terms of average market capitalization of firms listed in Indian stock markets.

Table#1: Market Capitalization as % GDP – A Cross Country Comparison and Decadal Growth

Rank*	Country Name	Market Capitalization %GDP			CAGR -Market Capitalization
		2003	2012	Peak (Year)	
1	Singapore	159%	279%	320% (2007)	19.98%
2	South Africa	155%	236%	289% (2007)	14.87%
3	Malaysia	146%	154%	168% (2007)	12.56%
4	United Kingdom	131%	139%	160% (2010)	3.81%
5	South Korea	46%	104%	108% (2010)	16.50%
6	Australia	126%	91%	153% (2007)	10.06%
7	USA	102%	90%	116% (2006)	2.45%
8	India ¹	45%	69%	147% (2007)	18.27%
9	Japan	69%	58%	106% (2006)	1.84%
10	Brazil	42%	54%	100% (2007)	20.19%
11	Germany	45%	44%	63% (2007)	3.62%

Source: World Federation of Exchanges (WFE) and World Bank

Note: Data for UK Exchange is an amalgamation, with pre 2009 data sourced from LSE and post 2009 data sourced from LSE Group, as the two exchanges merged during that year. Also, ¹ Indicates BSE

*Ranking on the basis of market capitalization as a % GDP 2012 (H to L)

Table#2: Average Market Capitalization (as on Sep-13)

Rank*	Country Name	Market Capitalization (USD millions)	No of Listed Companies	Average Market Capitalization
1	USA	16,533,988	2,353	7,027
2	Brazil	1,082,871	364	2,975
3	Germany	1,718,229	728	2,360
4	South Africa	870,463	374	2,327
5	United Kingdom	4,088,411	2,736	1,494
6	Japan	4,455,227	3,399	1,311
7	Singapore	766,054	782	980
8	Australia	1,379,305	2,027	680
9	South Korea	1,199,899	1,770	678
10	India ²	988,999	1,672	592
11	Malaysia	480,131	909	528
12	India ¹	1,020,068	5,267	194

Source: WFE

Note: ¹ Indicates BSE and ² indicates NSE

*Ranking on the basis of average market capitalization (H to L)

Exchanges considered: USA (NYSE Euronext); Brazil (BM&FBOVESPA); Germany (Deutsche Börse); South Africa (Johannesburg SE); United Kingdom (London SE Group); Japan (Japan Exchange Group – Tokyo); Singapore (Singapore Exchange); Australia (Australian SE); South Korea (Korea Exchange); Malaysia (Bursa Malaysia); and India (National Stock Exchange and Bombay Stock Exchange)

While the distribution measured in terms of market capitalization is on par with its emerging market counterparts, the share of bottom 50 is at a rock bottom. IPO performance which has implications for further fund raising, shows that India had done relatively better this year despite the slow down in issues.

Table#3: Concentration of Market Capitalization - Top 10, 20, 50, Bottom 50 as % of Total Market Capitalization – A Global Comparison (as on October 24th, 2013)

Rank*	Country	Top 50	Top 20	Top 10	Bottom 50
1	USA	33.59%	20.21%	12.68%	0.100745%
2	Japan	41.26%	26.49%	18.25%	0.031862%
3	United Kingdom	67.37%	50.33%	34.47%	0.000079%
4	South Korea	70.19%	51.25%	38.81%	0.025119%
5	India ¹	68.84%	50.27%	36.31%	0.000004%
6	India ²	73.52%	48.44%	31.47%	0.000013%
7	Malaysia	73.57%	52.64%	35.27%	0.043332%
8	Singapore	75.69%	56.35%	40.67%	0.043021%
9	Australia	77.94%	63.73%	52.80%	0.001933%
10	Germany	79.03%	60.17%	42.73%	0.000399%
11	Brazil	80.89%	64.73%	51.27%	0.049565%
12	South Africa	81.09%	58.55%	41.61%	0.033207%

Source: Bloomberg, as on October 24th, 2013

Note: ¹ Indicates BSE and ² indicates NSE

*Ranking on the basis of top 50 scripts as a percent of total market capitalization (L to H)

Table#4: Performance of IPOs (Top 5 Issuances) – A Global Comparison (2013 Jan- Sept)

Country	Average Size of Issuance (No. of Shares issued)	Average Change (Top 5) – Listing to 1 Week	Average Change (Top 5) – Till Current (29th Oct, 2013)	Number of new companies listed through IPO (Till Sept, 2013)	IPO Index Performance for 2013
Japan	22,324,000	34.43%	40.75%	19	1.72%
Brazil	2,452,285,331	2.91%	9.88%	6	-17.01%
Singapore	5,390	10.57%	6.59%	21	-
Malaysia	439,786,522	-5.78%	-7.32%	11	-
Germany	531,296,331	-0.06%	2.94%	6	1.83%
South Korea	24,840,000	3.52%	-23.80%	44	-40.66%
India	12,569,907	-2.25%	54.16%	25	-
United Kingdom	96,903,158	1.14%	0.52%	72	-25.00%
Australia	65,052,500	1.39%	-0.08%	32	-33.95%
South Africa	673,127,615	-1.20%	3.74%	-	-
USA	41,519,484	7.39%	24.94%	70	-25.04%

Source: Respective country's exchange sites, WFE, Bloomberg (IPO Index), and Media Releases (DRHP)

Despite the healthy growth in market capitalization as seen earlier, the growth rate of churning of the issued shares being in the negative side indicates that the market had become increasingly illiquid over the decade. An illiquid market implications for the growth of entrepreneurship as well as the current efforts to attract savings into capital markets.

Table#5: Cash Equity Turnover as a % of Market Capitalization

Rank*	Country Name	Cash Equity Turnover as a % of Market Capitalization		
		2003	2012	CAGR (2003-12)
1	Brazil	28.98%	71.32%	10.5%
2	South Africa	24.78%	37.01%	4.6%
3	Japan	71.59%	99.55%	3.7%
4	United Kingdom	48.59%	64.60%	3.2%
5	USA	83.91%	95.43%	1.4%
6	Australia	64.09%	67.49%	0.6%
7	Germany	88.10%	85.85%	-0.3%
8	Malaysia	28.92%	26.65%	-0.9%
9	South Korea	153.19%	128.70%	-1.9%
10	India	77.58%	42.62%	-6.4%
11	Singapore	61.96%	33.47%	-6.6%

Source: WFE

Note: Cash Market data is compiled as the total trading value for the entire year i.e. CY Jan – Dec and Market Capitalization is considered as on the year end for the respective exchanges. For the year 2013, the same is considered till Sept, 2013 (9 months)

*Ranking on the basis of cash equity turnover as a % of market capitalization CAGR (2003-12) (H to L)

Thanks to the leverage and comparatively lower cost of trading, Indian market participants seem to have readily taken up to trading in derivatives than trading in the underlying markets.

The price behavior of top 20 scrips in India indicates that it moves slightly lesser in accordance with broader market fundamentals and more in line with sectoral and scrip level fundamentals.

Table#6: Equity Cash vs. Derivatives Volume
(Includes equity derivatives and index derivatives)

Rank*	Country Name	Derivatives and Cash trading	
		2003	2012
1	USA	-	83.01
2	Japan	2.81	2.36
3	Malaysia	10.09	2.31
4	South Africa	0.60	0.64
5	Australia	1.55	0.47
6	Brazil	0.33	0.37
7	India²	0.77	0.10
8	India¹	-	0.09
9	Germany	0.12	0.04
10	Korea	0.02	0.03
11	Singapore	0.23	-
12	United Kingdom	-	-

Source: WFE

Note: Derivatives as a ratio of Cash Trading; data as on December 2012;

Also, ¹ Indicates BSE and ² indicates NSE

*Ranking on the basis of derivatives and cash trading ratio for 2012 (H to L)

Table#7: Inter-equity correlation for Top 20 Scripts
(2011-12)

Rank*	Country Name	Top 20 Inter equity correlation Average Range#
1	South Africa	68.60%
2	USA	54.30%
3	Australia	53.50%
4	Germany	51.30%
5	Singapore	49.60%
6	South Korea	48.40%
7	Brazil	48.10%
8	Malaysia	45.90%
9	United Kingdom	44.50%
10	Japan	42.60%
11	India	41.80%

Source: Bloomberg

#Note: For inter equity correlation, top 20 scripts are selected on the basis of market capitalization (2011-12)

*Ranking on the basis of top 20 inter equity correlation average range (H to L)

The high rate regime arising out of economic instability and continuing inflation in India seems to be hampering growth in financial market activities leveraging both narrow and broad money.

Table#8: Capital Market Turnover (cash and derivatives) vis-à-vis M1 and M3

Rank*	Country Name	Capital Market as % of M1		Capital Market as % of M3		Policy Rate	
		2003	2012	2003	2012	2003	2012
1	Japan	0.75%	0.72%	0.33%	0.35%	0.25% (2006)	0.10%
2	Malaysia	1.90%	1.90%	0.35%	0.41%	2.70% (2004)	3.00%
3	United Kingdom	1.21%	1.20%	0.62%	0.59%	3.75%	0.50%
4	Singapore	21.76%	2.27%	4.21%	0.66%	-	-
5	USA*	7.29%	5.58%	1.57%	1.30%	1.00%	0.25%
6	Brazil	7.61%	19.35%	1.00%	1.78%	16.50%	7.25%
7	Australia	6.05%	10.68%	1.60%	1.87%	5.25%	3.00%
8	Germany@	2.97%	5.19%	1.31%	2.74%	2.00%	0.75%
9	South Africa	3.34%	6.82%	1.60%	2.97%	8.00%	5.00%
10	South Korea	94.43%	120.68%	23.03%	22.49%	3.75%	2.75%
11	India	64.55%	381.06%	17.86%	86.08%	7%	8%

Source: Central Bank of UK, Bloomberg and WFE

*Note: M2 has been considered for USA as it has stopped disseminating M3 data post 2005; Turnover for capital market includes cash and derivatives; Also, For all countries it's the policy rate except for Germany the rate considered is refinancing rate

*Ranking on the basis of capital market as % of M3 for 2012 (H to L)

Despite touching the peak levels, benchmark indices in India's PE ratio is still at a low. However, the decadal volatility of the benchmark indices clearly indicates that Indian indices are highly volatile next only to Brazil to be followed by South Korea.

Table#9: Price Earnings Ratio of Benchmark Indices, Index Returns: Absolute and Decadal Volatility

Rank*	Country Name	Price-Earnings Ratio		Index Peak (Year)	Returns (Point to Point)	Decadal Volatility (2003-13)
		2003	Sept 2013			
1	Brazil [#]	23.0008	93.2069	73,516.81 (2008)	227%	1.84%
2	Japan	43.7597	24.0203	18,261.98 (2007)	41%	1.57%
3	Australia	21.4214	22.5938	6,828.70 (2007)	65%	1.11%
4	South Korea	45.8454	21.8247	2,228.96 (2011)	186%	1.44%
5	South Africa	11.3248	20.8508	39,824.79 (2013)	383%	1.41%
6	United Kingdom	32.4492	19.2836	6,840.27 (2013)	58%	1.21%
7	Singapore	23.1422	18.049	915.44 (2013)	77%	1.23%
8	Malaysia	15.3564	16.5992	1,810.00 (2013)	141%	0.79%
9	India ¹	13.6748	16.4879	21,004.96 (2010)	335%	1.63%
10	India ²	12.9064	15.1905	6312.45 (2010)	305%	1.65%
11	USA	17.2787	14.7519	15676.94 (2013)	63%	1.18%
12	Germany	38.3453	14.6965	8,694.18 (2013)	164%	1.40%

Source: Bloomberg

Note: ¹ Indicates Sensex Index and ² indicates NIFTY Index

[#] Brazil: PE data available from January to March 2013; Calculation for a decade starting from 30th Sept 2003 to 30th Sept 2013

*Ranking on the basis of price earnings ratio of benchmark indices for Sept 2013 (H to L)

Benchmark Indices considered: Brazil (Bovespa Index); Japan (NKY Index); Australia (S&P / ASX 200 index); South Korea (Kospi Index); South Africa (Top40 Index); United Kingdom (FTSE 100); Singapore (SGX Index); Malaysia (FBMKLCI Index); USA (Dow Jones Industrial Average); and India (Sensex Index and NIFTY Index)

Equity Vs Other Asset Classes – Unlike in South Africa, South Korea and Malaysia, Indian equity prices have a marginally lower correlation with gold and energy. With capital account convertibility yet in place, Indian equity movements share lesser similarities with its emerging market counterparts such as Brazil, Malaysia, and South Africa.

Table#10: Benchmark Indices vs. Dominant National Currency Pair vs. Local Gold vs. Crude Oil Prices

Rank*	Country Name	Indices Correlation with Commodities (Sept, 2003 –2013)		
		Gold	Crude	Currency
1	Japan	-29.8%	28.8%	81.3%
2	South Africa	85.0%	91.8%	58.3%
3	India	76.8%	79.9%	28.6%
4	USA	45.6%	64.4%	22.3%
5	South Korea	76.5%	84.8%	-16.3%
6	United Kingdom	29.6%	53.0%	-22.2%
7	Australia	2.2%	51.3%	-33.0%
8	Germany	58.2%	78.3%	-47.6%
9	Singapore	53.4%	65.0%	-62.7%
10	Brazil	59.3%	57.5%	-92.3%
11	Malaysia	86.2%	76.6%	-92.5%

Source: Bloomberg; World Bank and Index Mundi

*Ranking on the basis of indices correlation with currency (H to L)

MOOT POINT: Provided there is financial stability and India moves ahead with its policy reforms, India's stock markets has the potential to become the primary axis of the India growth story. Despite a comparatively better performance of new issuances during 2013, increasingly lower liquidity in the secondary market and the top heavy market (in terms of market capitalization) has implications for further growth in entrepreneurship of the nation. Easy access to capital (both debt and equity) is essential for the economy to move towards growth with equity.



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