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RESULTS & DISCUSSION

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

A STUDY ON INDIAN STOCK MARKET WITH REFERENCE TO STOCK MARKET DEVELOPMENTS

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ABSTRACT

In the year 1990's financial sector reforms have changed the Indian capital markets into a dynamic and extensive in the context of world capital market. With the arrival of globalization in India accurate efforts are made in strengthening the investor assurance. Financial markets are very resourceful in increasing the stock market developments which exemplifies how stock market developments are capable to manage the risk increasing participants, and increasing the market capitalization. At present stock market developments have strengthened and these developments create linkages between global markets, increasing market liquidity and effectiveness. In India, the emergence and growth of stock market is relatively a recent phenomenon. Thus the present study is an attempt to analyze stock market developments in India, rules and regulation in relation to Indian capital market. It is an endeavor to demonstrate the growth and expansion Indian stock market developments from 1990 to 2018.

KEYWORDS

SEBI, NSDL, CDSL, dematerialization, market cap.

JEL CODES

G10, G24.

INTRODUCTION

Indian stock market is known to be world class in terms of trading structural design. It developed in terms of quantitative and qualitative aspects, quantitative parameters like trading volume and turnover, amount raised from the market, market capitalization, the number of listed stocks, and other intermediaries. Qualitative parameters such as rolling settlements, dematerialization and electronic transfer of securities, establishment of national wide screen based trading system; and primitive risk management have also been introduced in the stock market.

Indian stock market has a lengthy history. Its history dates back to the 18th century when the securities of East India Company were traded in Mumbai and Kolkata. The brokers used to gather under a Banyan tree and in Mumbai and under a *Neem* tree in Kolkata for this purpose.

However, the real commencement came in the 1850s with the beginning of joint stock companies with limited liability and first formally organized stock exchange was established in 1875, viz. the Stock Exchange, Mumbai. Since last two decades, the Indian stock market has undergone several changes.

The economic reforms started since 1990 and a world-shattering change in Information Technology (IT) has changed the entire structure of Indian capital market. In this paper, I would like to take an attempt to study the development of Indian stock market from 1990 to 2018.

REVIEW OF LITERATURE

Goyal and Ashima (2006)[1] stated that there had been jump of such redressal in 2001-02. The percentage of redressal rate of SEBI, which was mere 21.61% in the year 1991- 92, jumped to 94.99% during the year 2002-03. The author was of the view that timely redressal together with stiffer penalties can only help curb the malpractices in stock markets.

Wagner et al.(2007)[2] advised the investors to investment education. He further said, "New investors are jumping into a shark-infested pool. In order to survive… you need protection… and the very large teeth". While advocating for the competition among the stock market intermediaries particularly the stock brokers was of the view that higher is the competition among stock brokers, higher are the chances that their manipulations would get noticed by the market players including the investors, and that would discourage them to manipulate the markets.

Prabhudesai (2008)[3] stated that the investor is usually the sucker in the happenings on the street as he usually buys stocks when they are at their highest level and he is most likely to sell them at the lowest level, thus, bearing the brunt of huge losses. He advocated for a larger role of regulator during such manipulations. He gave some rules for the small investors not to get trapped in the manipulations like not to buy stock on tips or recommendations, look for long-term horizon, not to invest all their savings and to learn the art diversification.

Dalal (2009)[4] painfully discussed the agonies faced by the retail investors and the failure of the market regulator and Government to tackle various issues relating to the capital market particularly with regard to retail investors. She emphasized upon regulating the regulator in a more effective way, and the need for accountability of the market intermediaries with a focus on the preservation of the investors' capital.

Sabrinathan (2010)[5] is of the view that despite SEBI's best efforts, both primary and secondary markets have been affected with various troubles and situations leading to some sort of scams. He further explains that SEBI's legal position has not been far from happy as SEBI's awards and penalties have been successfully challenged in SAT or other courts, leaving a great scope for improvement.

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[1] Goyal, Ashima (2006), "Regulation and de-Regulation of the Stock Market in India", in M. Ramesh and Michael Howlett (eds.), *Deregulation and its Discontents: Rewriting the Rules in Asia*, pp. 186-192, UK: Edward Elgar.

[2] Wagner, Gary (2007), "Gary Wagner uses Candlesticks to Measure Sentiments", Available at www.htpp://articlesbase.com, July 21, 2010, Siddiqui, Hammad, (2007), "Stock Price Manipulations: The Role of Intermediaries", CMER Working Paper 07-58, Lahore University Management Science, Citigroup Corporate Governance Initiative.

[3] Prabhuesai Arun, (2008), Indian Stock Market Manipulation – A Myth or a reality? Posted on Jan 30, 2008, source: http://trak.in/tags/business/2008/01/30/indian-stockmarket- manipulation-myth-reality/

[4] Dalal, Sucheta (2009), "Harassed Investors", July, 28, 2009, Available at www.http://suchetadalal.com, Accessed March 30, 2010

[5] Sabarinathan, G, (2010), SEBI's Regulation of the Indian Securities Market: A Critical Review of the Major Developments, Vikalpa, Volume 35, No 4 October - December 2010.

Hsu et al. (2011)[6] examined from as many as 34 both developed and developing economies as to find out how financial market development affects innovation. They were of the view that the effect of financial development on innovation is more evident in emerging countries and in countries with stronger shareholder protection. Therefore, the development of equity markets encourages innovation and on the other hand credit market development impedes innovation. They suggested that in countries with stronger investor protection laws, chances of financial innovations are increased, which result in financial development of the economy.

Kamlesh and Meetu (2013)[7] have discussed about the derivatives market in India. Since 1991 economic reforms, many initiatives has been taken to make trading process user friendly for the investors but still there are many issues like lack of economies of scale, tax and legal bottlenecks and so on. Therefore, in this study they have said that if solutions of such issues are implemented in the market then definitely it will boost the investors' confidence in Indian derivative market which will consequently lead to more growth and development in derivative segment.

Shallu (2014)[8] studied the impact of SEBI on the development of Indian Capital Market. She has concluded in her study that, with the establishment of SEBI, capital market has been developed a lot, more transparency has been introduced in the stock exchanges. But still investors are hesitant in investing under capital market. Finally, concluded that SEBI has transformed Indian stock market but at a slow rate.

Osakwe CI, Ananwude AC (2017)[9] states in their research "Stock Market Development and Economic Growth in Nigeria" that the short run and long run association between stock market and economic growth over a period of thirty five (35) years was explored in this study. Data for the analysis were obtained from National Bureau of Statistics (NBS) and Nigerian Stock Exchange (NSE). The model estimation followed the linear regression technique. The ARDL outcome divulged positive relationship between stock market development and economic growth both in short run and long run.

Somnath Chattopadhyay and Suchismita Bose (2017)[10] discovered in their paper "Effects of Market Reforms and External Shocks on Indian Stock Indices: Reform processes are expected to amend the functioning of the stock market leading to higher degree of transparency and efficiency in the market so that the ultimate goals of investor protection and equitable capital allocation are met. While liberalisation, reforms and institution building have altered the nature of the Indian market, significant exogenous events which range from global and domestic political events, and global stock market crashes to financial crises, have had significant temporary or permanent impact on the market, possibly affecting the trend in stock prices of NSE And BSE.

IMPORTANCE OF THE STUDY

Globalization of financial markets has stressed a number of countries to change regulation and reforms to bring in stock markets which have made it easier for the investors to undertake various investment decisions as per the situation.

Capital Markets have emerged as one of the biggest markets of the world during the past two decades. In this context the present study seeks to find out the influence of stock market developments on volume, risk consideration, Investor awareness etc. of Indian capital market.

OBJECTIVES OF THE STUDY

1. To study the Capital market reforms –from-1990 to 2018 in India.
2. To know how various stock market developments shows impact on Growth and Development of capital market.
3. To suggest traders for future growth of capital Market in India.

RESEARCH METHODOLOGY

The present study has been undertaken with a symptom of empirical analysis of status of stock market developments in India with the use of secondary data. The study period is taken from 1990 to 2018. Data and information for the research study were collected and analyzed from various secondary sources, viz., books, newspapers, web sites and research studies.

BRIEF DESCRIPTION WHICH REPRESENT TRUE PICTURE OF THE INDIAN

STOCK MARKET PRIOR TO REFORMS

- Primary markets were not into the main stream of financial system.
- Stock exchanges were run as 'brokers club': management dominated by brokers.
- Poor disclosure in prospectus & balance sheet was not made available to investors.
- There is no inspection of stock exchanges undertaken.
- Takeovers regulated only through listing agreements between the stock exchanges and the company.
- There was no regulation on merchant bankers and other intermediaries.
- No concept of capital adequacy.
- Mutual funds – virtually unregulated and there was poor disclosure by mutual funds.
- There was no transparency in trading.
- No prohibition of insider trading and fraudulent and unfair trade practices.

THE ERA OF STRUCTURAL REVOLUTION

The Indian economic crisis in 1991 accompanied by a steep fall in foreign exchange reserve, inflation rate was in double digit, serious fiscal deficit, a sharp down-grading of India's credit rating, balance of payment position was a matter of concern.

In this situation the then Prime Minister P.V. Narhasiham and Finance Minister Dr. Manmohan Singh declared structural regulation programs under the title of "New Economic Policy" for Stabilization of economy so that the balance of payment and inflationary pressure could be set aside under control.

INDIAN STOCK MARKET DEVELOPMENT

1) GROWTH OF DEVELOPMENT OF BANKS AND FINANCIAL INSTITUTIONS

- For providing long term funds to industry, the government set up Industrial Finance Corporation in India (IFCI) in 1948.
- This was followed by a number of other development banks and institutions like the Industrial Credit and Investment Corporation of India (ICICI) in 1955.
- Industrial Development Bank of India (IDBI) in 1964.
- 14 major commercial banks were nationalized In 1969.
- Industrial Reconstruction Corporation of India (IRCI) in 1971.

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[6] Hsu, Po-Hsuan; Tian, Xuan; and Xu, Yan (2011), "Financial Development and Innovation: Cross-Country Evidence", College of Business Administration, University of Rhode Island, Working Paper Series: 2011/2012, No. 4.

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[9] Osakwe CI, Ananwude A (2017) Stock market development and economic growth: A comparative evidence from two emerging economies in Africa – Nigeria and South Africa. Archives Current Res Int 11: 1-15.

[10] *Journal of Reviews on Global Economics,* 2017, volume *6, p* 426-442, E-ISSN: 1929-7092/17

- Another 6 banks were nationalized in 1980.
- Foreign Investment Promotion Board in 1991.
- Over the Counter Exchange of India (OTCEI) in 1992.

These financial institutions and banks have contributed in strengthening of capital market in India.

2) EXISTENCE OF SEBI

The Securities Exchange Board of India (SEBI) was set up in 1988 and was given statutory recognition in 1992.

The SEBI operates within the legal framework of the SEBI Act, 1992. This act provides vast power to SEBI to control and regulate the Indian stock market. Essentially SEBI has been working for protection of investors, promotion of the development of the stock market and regulating the stock market.

Thus, establishment and empowerment of SEBI is a significant step in development of stock market in India.

FUNCTIONS OF SEBI

- Regulatory function
- Registration of brokers and sub brokers and other players in the market.
- Registration of collective investment schemes and mutual funds.
- Conducting research and publishing useful information to all market participants.
- Investor Education And Training of intermediaries.
- Prohibition of fraudulent and unfair trade practices
- Controlling insider trading and takeover bids and imposing penalties for such practices.
- SEBI imposed Rs 5 lakh fine on Serene industries for its alleged failure resolve investor complaint within the stipulated time.

As part of SEBI Role, SEBI Investigates various cases from 1992 to 2018, let's have a glance of how many cases have been undertaken and how many cases have been completed.

INVESTIGATIONS BY SEBI

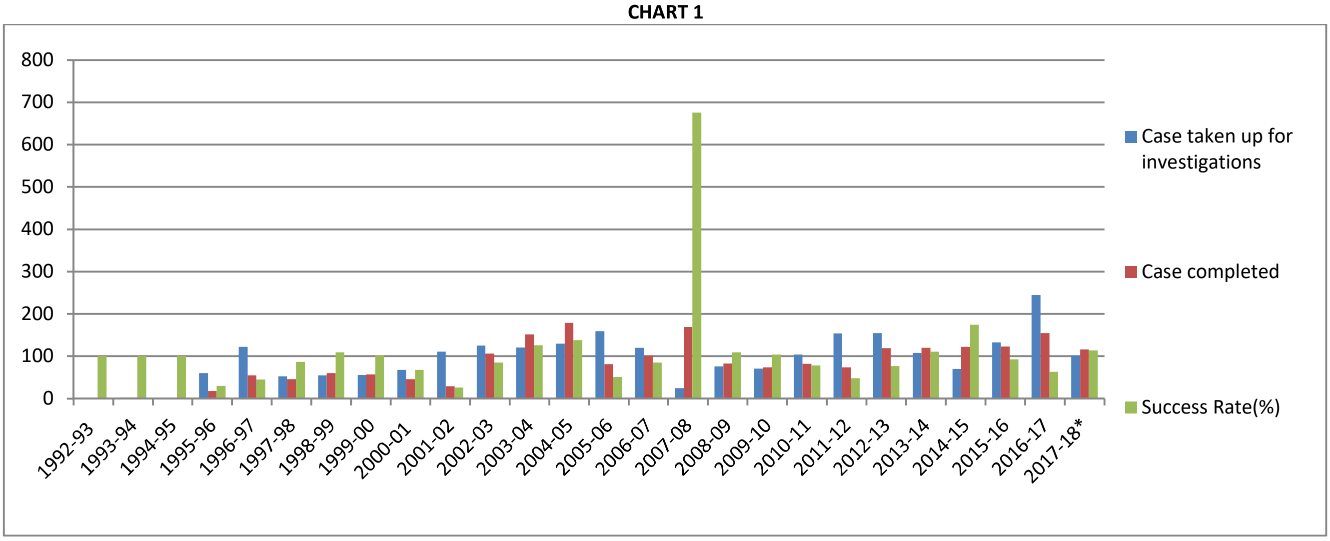
TABLE 1

Year	Case taken up for investigations	Case completed	Success Rate(%)
1992-93	2	2	100
1993-94	3	3	100
1994-95	2	2	100
1995-96	60	18	30
1996-97	122	55	45
1997-98	53	46	87
1998-99	55	60	109
1999-00	56	57	102
2000-01	68	46	68
2001-02	111	29	26
2002-03	125	106	85
2003-04	121	152	126
2004-05	130	179	138
2005-06	159	81	51
2006-07	120	102	85
2007-08	25	169	676
2008-09	76	83	109
2009-10	71	74	104
2010-11	104	82	78
2011-12	154	74	48
2012-13	155	119	76
2013-14	108	120	111
2014-15	70	122	174
2015-16	133	123	92
2016-17	245	155	63
2017-18*	102	116	113

Source: SEBI Hand Book of Statistics

*Indicates Apr to Dec Data, Source: SEBI Hand Book of Statistics

CHART 1



Source: SEBI Hand Book of Statistics

CONSOLIDATED INVESTIGATIONS DETAILS

From the below data, it has been observed that from 1992 to 2018 total 2430 cases has been taken up by SEBI and 2175 cases have been completed. On the whole the success rate of SEBI at its complaints tenacity is 89.50%, which creates trust in the minds of investors.

TABLE 2: REPRESENTATION OF CONSOLIDATED INVESTIGATIONS DETAILS

Year	Total Case taken up for investigations	Total Case completed	Overall % of Success
1992 to 2018	2430	2175	89.50

3) ESTABLISHMENT OF CREDIT RATING AGENCIES

Credit rating agencies provide guidance to investors / creditors for determining the credit risk. The Credit Rating Information Services of India Limited (CRISIL) was set up in 1988.

Investment Information and Credit Rating Agency of India Ltd. (ICRA) was set up in 1991. These agencies are helps in the development of capital market.

And other credit rating agencies The credit rating agencies includes CRISIL, ICRA, CARE, FITCH and BRICK working for development of Indian stock market development.

The Dev Committee in its interim recommendations made that credit rating is mandatory for any such scheme that wish to raise money from public and directed that their meaning be incorporated in offer documents, advertisement and all publicity material.

4) GROWTH OF MUTUAL FUNDS

The mutual funds collect funds from public and other investors and channelizes them into corporate investment in the primary and secondary markets. The first mutual fund to be set up in India was Unit Trust of India in 1964.

A reform proposals relating to mutual funds, public sector and foreign investments were announced in the Union Budget for 1991 -92.

In 1992-93, reputed foreign investors (FIIs) were allowed to invest in capital market such as pension funds, mutual funds, investment trusts, asset management companies, nominee companies, and incorporated portfolio managers.

5) DEMATERIALIZATION OF SHARES

Dematerialization of shares has been introduced in all the shares traded on the secondary stock markets as well as those issued to the public in the primary markets. Even bonds and debentures are allowed in demat form. The advantage of demat trade is that it involves Paperless trading.

National Securities Depository Limited (NSDL) It is an organisation promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) and National Stock Exchange Limited (NSE).

Subsequently, State Bank of India (SBI) has also acquired a stake in NSDL. SEBI has registered NSDL on June 7, 1996 as India's first depository to facilitate settlement of securities in a dematerialized form. It commenced its operations on November 6, 1996.

Let us see the growth of dematerialization over a period of time.

PROGRESS OF DEMATERIALIZATION AT NSDL

TABLE 2

Year	Companies Live	Market Cap (Crore)	Demat Quantity (Securities in Crore)
1996-97	23	90818	2
1997-98	171	288347	176
1998-99	365	396551	711
1999-00	821	765875	1550
2000-01	2786	555376	3721
2001-02	4172	615001	5167
2002-03	4761	600539	6876
2003-04	5212	1107084	8369
2004-05	5536	1638300	12866
2005-06	6022	3005100	17472
2006-07	6483	3598800	20270
2007-08	7354	5219700	23690
2008-09	7801	3110300	28287
2009-10	8124	5617842	35114
2010-11	8842	6607900	47130
2011-12	9741	7132300	57980
2012-13	10844	7679027	68648
2013-14	12211	8939900	79550
2014-15	13992	11748315	92736
2015-16	15638	11715700	110021
2016-17	17835	14648687	131762
2017-18	19310	17674693	143932

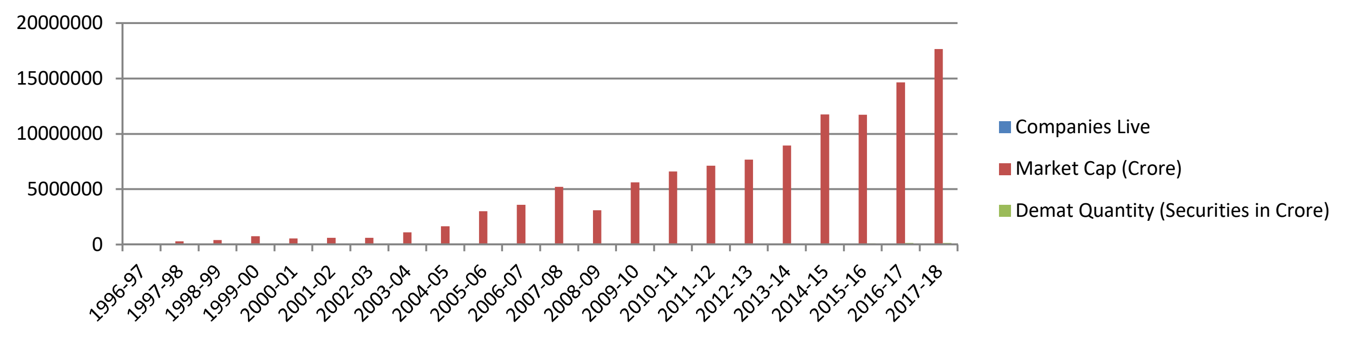
Source: NSDL, CDSL

Note: Data on Progress of Dematerialization at NSDL and CDSL is revised in few instances.

GRAPHICAL REPRESENTATION OF PROGRESS OF DEMATERIALIZATION AT NSDL

By observing the below graph we can find out there is a continuous growth rate from 1996 to 2018.

CHART 2



PROGRESS OF DEMATERIALIZATION AT CDSL

TABLE 3

Year	Companies Live	Market Cap (Crore)	Demat Quantity (Securities in Crore)
1996-97	NA	NA	NA
1997-98	NA	NA	NA
1998-99	15	NA	NA
1999-00	541	NA	NA
2000-01	2703	10906	192
2001-02	4284	24337	482
2002-03	4628	36164	821
2003-04	4810	106443	1401
2004-05	5068	120959	1908
2005-06	5,479	2,35,829	2,722
2006-07	5,589	2,83,136	3,125
2007-08	5,943	5,90,039	4,982
2008-09	6,213	4,39,703	7,082
2009-10	6,801	8,38,928	7,795
2010-11	8,030	10,81,417	10,531
2011-12	9928	1020569	13357
2012-13	8062	1020569	15179
2013-14	8630	1087603	17731
2014-15	9399	1394264	20601
2015-16	10021	1326797	22755
2016-17	9887	1773585	25523
2017-18	10343	2693980	26940

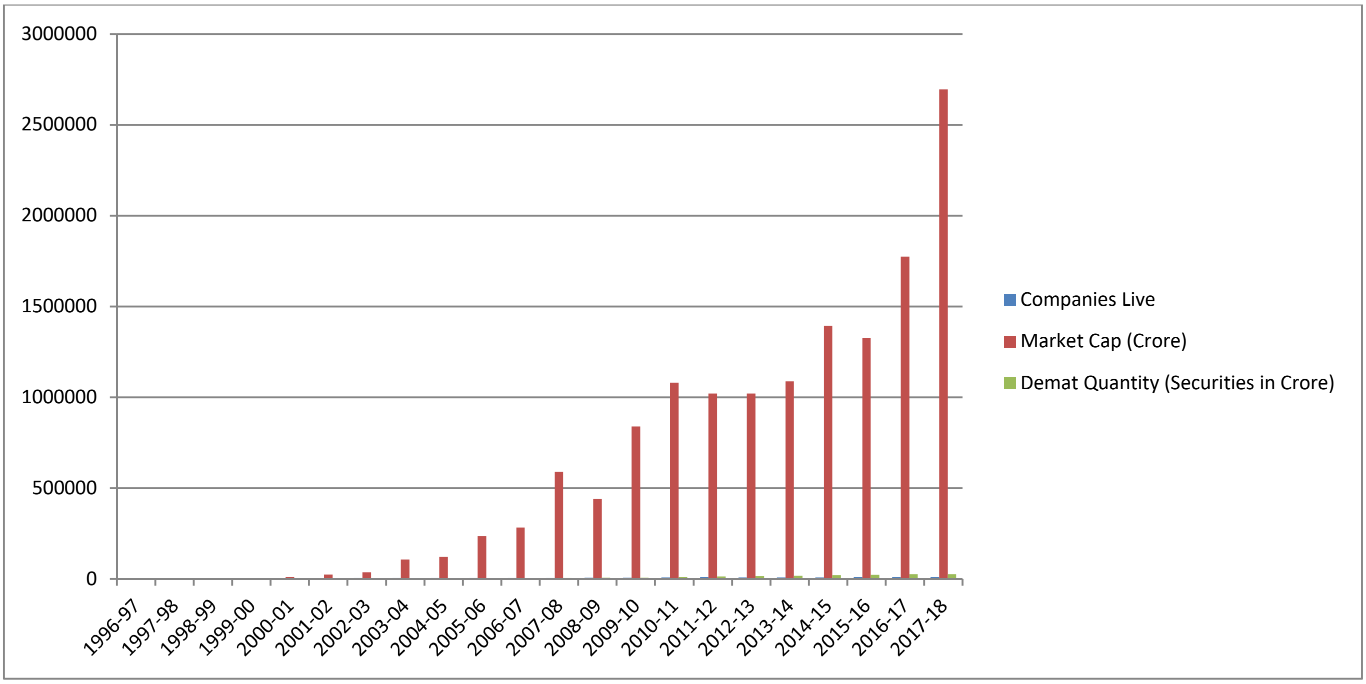
Notes:

1. Data on Progress of Dematerialization at NSDL and CDSL is revised in few instances
2. For CDSL, prior to April 2012, the Companies Live figure included the no. of mutual fund schemes along with the no. of mutual fund companies but since April 2012, the Companies Live figure includes only the number of mutual fund companies and not the schemes. Source: NSDL, CDSL

PROGRESS OF DEMATERIALIZATION AT CDSL

By observing the below graph we can find out there is a continuous growth rate in the CDSL also from 1996 to 2018.

CHART 3



6) SCREEN BASED TRADING (SBT)

Before 1994, the trading on stock exchanges in India used to take place through an “open outcry” system. In the open outcry system, traders shout and resort to signals on the trading floor of the exchange, which consist of several notional trading posts of different securities. A trader or his representative wishing to buy or sell a certain security reaches the trading post where the security is traded. Here trader comes in contact with others interest in transact in that security. Buyers make their bids and sellers make their offers and bargains are closed upon mutually agreed prices.

This system did not allow instant matching or recording of trades. This was time consuming and forced limits on trading. This was followed by BSE with BSE online trading (BOLT). The SBT replaced the trading ring by the computer screen and distant participants, geographically separated, can trade simultaneously at high speeds. As a result, open out-cry system has disappeared from India.

Today, India can boast that almost 100% trading takes place through electronic order matching. Technology has been harnessed to carry the trading platform to the premises of brokers. NSE carried the trading platform further to the PCs in the residence of investors through the internet and to hand-held devices through WAP (Wireless Application Protocol) for the convenience of retail investors. This has made a huge difference in terms of equal access to Indian investors.

7) DERIVATIVES TRADING

Derivatives are financial instrument, which are derived from equity, bonds, currencies and commodities. Value of derivatives derived from underlying instruments such as stock index (future and options based on them), currency or interest rates.

Derivatives are leveraged instruments & are used as vehicle for transferring risk. Trading in equity derivatives in India began in June 2000 after the SEBI granted permission to the derivatives.

SOME EQUITY DERIVATIVE CONTRACTS

TABLE 4

S.No.	Contracts	Segment/Exchange
1	Future on S & P CNX Nifty Index	F & O Segment of NSE
2	Future on BSE 30 Index	Derivative Segment of BSE
3	Option on S & P CNX Nifty	F & O Segment of NSE
4	Option on BSE 30 Index	Derivative Segment of BSE
5	Stock Option on 31 stocks	BSE/NSE
6	Single Stock Futures on 31 stocks	BSE/NSE

Source: Annual Report of SEBI

- In December 1999, the Securities Laws (Amendment) Bill, 1999 representing expanded definition of securities including derivatives has been passed by the Parliament.
- On June 9, 2000, derivatives trading commenced at the NSE based on Sensex and on June 12, it started based on S&P CNX Nifty.
- In November 2002, SEBI announced modified rules governing the choice of stocks on derivatives trading.
- On 3 I" January 2002, the list of firms for derivatives trading rose to 41.

CASH AND DERIVATIVES VOLUME COMPARISON

TABLE 5

Date	Cash		F & O		Total
	BSE	NSE	BSE	NSE	
2007	87,608.19	175,146.96	0	627,456.29	890,211.44
2008	185,641.83	447,137.84	0	1,453,880.84	2,086,660.51
2009	70,509.50	191,183.52	0	778,118.35	1,039,811.37
2010	117,084.51	338,442.57	0	1,490,296.84	1,945,823.92
2011	69,857.55	267,331.81	1.15	2,841,833.90	3,179,024.41
2012	52,570.82	236,872.16	69,155.15	2,251,487.46	2,610,085.59
2013	56,661.68	295,415.17	923,441.46	2,950,975.14	4,226,493.45
2014	49,672.74	255,626.10	1,147,050.42	3,324,373.67	4,776,722.93
2015	73,686.02	383,872.17	1,132,043.86	5,589,904.06	7,175,024.01
2016	63,576.26	352,083.64	132,590.34	5,829,028.96	6,377,279.20
2017	61,669.76	385,669.11	7.37	7,860,289.43	8,307,635.67
2018	122,537.46	814,838.90	4.11	16,009,778.99	16,947,159.46
2019	2,428.38	28,615.23	0	1,641,864.45	1,672,908.06

Source: www.moneycontrol.com

Note 1: Data belongs to January month every year.

Note 2: For the year 2019, data considered as on January 24.

CASH AND DERIVATIVES VOLUME COMPARISON

By observing the above table charts, Derivatives (F & O) trading volume is very high in both the exchanges. It clearly expressed that investors are giving more priority to derivatives segment than cash segment.

CHART 4

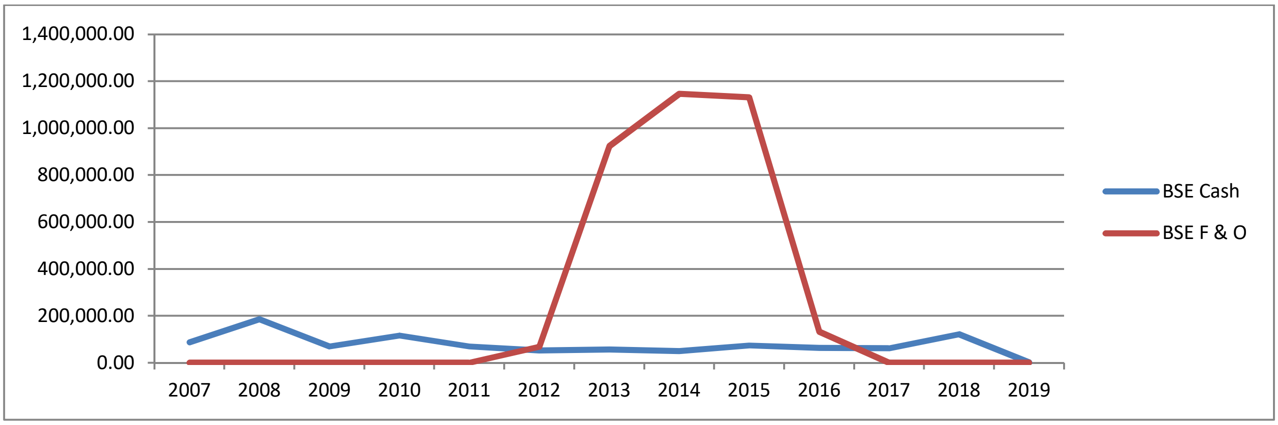
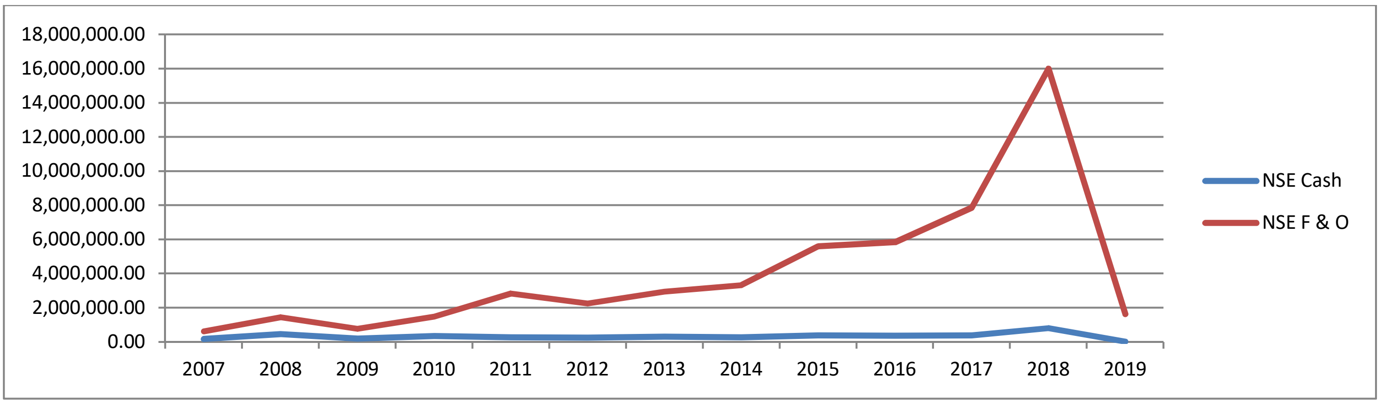


CHART 5



CONCLUSION

It is concluded that during the post economic reforms period and in the last two decades' Indian securities market developed in terms of both quantitative and qualitative perspectives. Prior to economic reform' Indian stock market was characterized by barriers to entry, non-transparent, poor disclosure, insider trading, etc. But Indian securities market has introduced changes in the last 20 years.

In the early 1990s, Indian figured a low in the global ranking of the state of capital market. But with the adoption of sophisticated IT tools in trading and settlement mechanism has now placed India in the lead. Indian stock market has integrated with the rest of the world. Shorter settlement period and dematerialization have been other major development areas which has changed the face of Indian capital market.

The numbers of listed stock, market capitalization and turnover of Indian stock and derivatives market have also been witnessing phenomenal growth.

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