# Stock Market in India

***Dr. Sunil Kumar***

*The origin of stock market in India can be traced to the end of the 18 Century when the securities of East India Company were traded in Bombay (now,Mumbai) and Calcutta (now, Kolkatta) During that time brokers used to gather under a banyan tree in Mumbai and under a neem tree in kolkatta to trade in securities The real beginning came in the 1850 with the enactment of Companies Act, which introduced joint stock companies with limited liability. Besides this, development in the means of communication and transport also encouraged the development of joint stock companies in large numbers In Mumbai high speculationin securities dealings during 1860s brought brokers to gether and in July1875theyformedfirstformallyorganized stockexchangeinIndiaviz" The* Native S hares and Stock Brokers Association", which is now popularly knownas BombayStock Exchange(BSE).The BSE isone of the premiers tock exchanges in India and the oldest in Asia. *The Indian stock market dates back to the hard archaic practices in trading, clearing and settlement. The BSE was a closed club, and would not give membership to new securities firms. The exchanges were largely left to regulate and supervise themselves. They ran as self-regulating organizations, typically as an association of brokers. Stock exchanges in India had a dubious reputation in their role as a transparent mechanism for price discovery. A large number of transactions were done outside of the exchange. Actual trade prices often diverged from those reported to customers.*

Sometime in the Eighties, the managers of Indian economy consciously espoused liberalization and integration of Indian economy with the global order. Some of the important measures emanating from the philosophy shift from the erstwhile pursuit of the command economy were dismantling of controls, opening up of markets, winding up of the office of controller of capital issues, and establishment of the Securities and Exchange Board of India in the year 1992. While establishing an independent regulator for the securities market, the Indian Parliament mandated SEBI, "to protect the interest of investors in the securities and to promote the development of and to regulate the securities market and for matters connected therewith or incidental thereto". Over a period of nearly a decade of its existence, SEBI has established itself as a 'regulator of consequence'. In the interregnum, the Indian Stock market has passed through several trials and tribulations, navigated quite a few storms and braved rough weathers yet continued to significantly contribute to the growth and development of Indian economy, post liberalization, in particular. While journeying through the high volt transmission line of Stock Market developments, the Nation received a couple of serious shocks of major market misconducts by various entities. The unfortunate events have eroded the confidence

***Assistant Professor, Department of Economics,R.B.S. College, Andaur,Samastipur***

of the common investors who seem to have receded even though they had joined the majestic march of economic freedom by full scale participation in Stock Market with a gusto and trampled the rise of new breed entrepreneur eventually, impacting the economic growth from the real sectors. SEBI, with the aid and assistance of the Union Government, has under-taken several far reaching initiatives which have not only radically reformed but totally transformed Indian Stock Market. The significant milestones include :

- Screen based real time trade; outcries in the exchanges are a thing of the past.
- Availability of trading terminals in over 400 towns and cities; over 10,000 terminals are creating waves by clicks.
- Contraction of settlement cycles from T+15, euphemistically described as T+ anything, to T+2.
- 100% rolling settlement and abolition of no deliver period.
- Dematerialization, a globally acknowledged success story.
- Upgradation of disclosures, accounting standards and corporate governance to global

  Straight through processing on the securities side w.e.f. 2nd December, 2002. India may be the first country to accomplish such a feat.
- Risk Management tool.

Whereas, these developments have uplifted the operational level of the Stock Market of India, which now rubs shoulders with most markets even in the developed world, the investors continue to remain disenchanted, the market is yet to experience their significant participation and as Hon'ble Union Minister for Finance and Company Affairs says, the ethos does not manifest "EQUITY CULT", While analyzing the reasons for market misconduct as also loss suffered by investors and erosion of their confidence, a felt need for enhancing awareness and understanding of the Investing community about the securities market, trade-offs between risk and returns and need for informed decision making surfaces prominently. India is a large country with a huge potential investor populace and sizeable and growing disposable incomes awaiting deployment in multiplier matrix of safety and liquidity. In the declining interest rates regime, investors look forward to profiting from opportunities in the Stock Market. To my mind, investor education and informed decision marking is the most potent protective weapon for the investors in the Stock Market. Rapidity and profundity of the developments in the securities market, the most dynamic of all segments of economy, demand knowledge up gradation at all levels i.e. issuer, intermediaries and even regulators and arbitrators. This campaign is expected to fill a part of the vacuum.

There was a time when India was discussed as the land of snake charmers, black magic and epidemics but the revolutionary Indian growth story changed everything. Indian economy at its height compelled the world to change its viewpoint towards India. Out of the several factors which changed the face of modern India, the most roaring of them i.e. Indian stock market. The magical figures displayed by market turned all the heads on India. And India became one of the most favored places for investment. An efficient financial system and structure gives the basic strength to the economy of a country. Also it is identified as an important determinant in achieving long term economic growth. Some of the recent researches suggest that there may be correlation between the level of stock market development and the financial system of the country. It is also been suggested that the economic performance of the country can be analyzed through the performance of its stock market. Therefore it is necessary to have a regulatory body which should takes care of all the issues and concerns regarding the equity market of a particular country. A regulatory framework helps the regulatory bodies to control the stock market. Also in the real financial world there are so many funding options available for an individual as well as a group to invest. Every investor, whether it is an individual or a group, always seeks some benefit from investing. Therefore, it is necessary to understand the risk associated for the particular funding options and the return trends in that option. When this thing is analyzed and implemented by a company, it is more considerable to them. A corporate business always has a motive behind investment or funding and that is the higher return at low risk. The complete study contributes towards the global finance and strategy funding in the equity market. There are 22 stock exchanges in India, the first being the Bombay Stock Exchange (BSE), which began formal trading in 1875, making it one of the oldest in Asia. Over the last few years, there has been a rapid change in the Indian stock market. Advanced technology and online-based transactions have modernized the stock exchanges. In terms of the number of companies listed and total market capitalization, the Indian stock market is considered large relative to the Country's stage of economic development. The number of listed companies increased from 5,968 in March 1990 to about 10,000 by May 1998 and presently in 2008, it is around6800. The market capitalization has grown from Rs.6750 crore in 1979-80 to Rs.1,10,279 crore in 1990-91 and presently in 2007-08, it is amounted to around Rs.99,96,136 crore, increased almost 1480 times since 1980 to till 2008.

Before examining the various factors that have brought to the fore the relevance of operational efficiency of Indian stock market during pre-sebi and post-sebi period, it would be worthwhile to look at the Indian stock market in its historical perspective vis-a-vis emerging trends after the establishment of SEBI.

**Salient Features of the Indian Stock Market**

Liberalization measures initiated in the Indian economy by Prime Minister Shri Rajeev Gandhi through devaluation, deregulation, delicensing, globalization and free pricing have further increased thirteen fold between 1985-86 and 1992-93 from approximately Rs.7000 crores to Rs.92,000 crores and now it rose to Rs.51,30,341 in 2007-08. Market Capitalization has also increased almost four hundred folds from Rs.25,000 crores in 1985-86 to Rs.99,96,136 crores in 2007-08. A large number of new investor and significant fresh funds have been inducted into market.

**Followings are salient features :**

- Number of Stock Exchanges – At present there are 22 stock exchanges recognized under the Securities Contracts (Regulation) Act, 1956. Over the years stock market in India has become strong. The number of stock exchanges increased from 7 in 1946 to 9 in 1980 to 22 in 2008.

- Membership– The total active membership strength in all the 22 stock exchanges is about 9500 with 2 to 4 authorized assistant per member in different stock exchanges as per their respective Articles of Association.
- Number of listed companies – The number of listed companies on recognized stock exchanges in 1946 was 1125. Their number rose to 2265 in 1980 and thereafter to 10,000 in 1998 and 6800 in 2008.
- Market Capitalization – The market capitalization in all the recognized stock exchanges in the year 1979-80 was of Rs.6750 crores. It rose to Rs.1,10,279 crores in 1990-91and thereafter
- Investor Population – The investors population in increased from 7.50 million in 1985 to 17.00 million in 1993 and further moved to 20 million.
- Primary Market – The decades of the eighties witnessed the stock markets emerge as major source of finance for industry and trade. Capital mobilization from primary market which used to be about Rs.285 crores in 1951-60 with yearly average of Rs.28.5 crores, Increased during 1961-70 to Rs.728 crores with yearly average of Rs.72.8 crores and growth rate was and growth rate was and growth rate was 155.4 per cent. During 1971-80 it moved to Rs.992 crores with yearly average of Rs.99.2 crores and growth rate was 36.3 per cent. The period 1981-90 saw an exponential hike in capital mobilization. During this period mobilization reached to Rs.23357 crore with yearly average of Rs.2335.70 crores and growth rate was 2254 per cent. During the period of 1991-99 it rose to Rs.1,06,779 crores and yearly average and growth rate were Rs.10,677.90 crores and 457.2 per cent. Now in 2006-07 it is 1,79,078 crore.
- New Instruments and Institutions – During the entire decades of eighties (1980s) the capital market has grown strongly and positively to meet the financing requirement of the industry and trade.

In the Indian Stock market traditionally mainly two instruments were traded i.e. equity and debt. But in the recent years, the Indian stock market has widened and deepened with the enlargement of participants and emergence of new financial instruments. The Government of India constituted a study group under the Chairmanship of Mr. M. J. Pherwani on 27th March, 1991 to formulate guidelines for issue of new instruments. On the recommendation of Pherwani committee following financial instruments have been issued in the market.

- Non-Voting Shares
- Detachable Equity Coupons
- Participating Preference Shares
- Participating Debentures
- Zero-Copon, Convertible Notes
- Debt for Equity Swap
- Convertible debentures with options.
- Third party convertible debentures
- Mortgage backed securities

- Convertible debentures redeemable at premium

Another study group was constituted under the chairmanship of Mr. AbidHussain. On the recommendation of AbidHussain committee following financial instruments have been issued in the market.

- Floating rate notes
- Commercial Papers
- Clip and strip bonds
- Dual convertible bonds
- Debt instruments with debt warrants
- Indexed rate notes
- Stepped coupons bonds
- Dual option warrants
- Extendable notes
- Level pay floating rate notes
- Commodity bonds

Likewise many new institutions have been established to strengthen the Indian stock market such as:

- National Stock Exchange
- Credit Rating Information Services of India Ltd.
- Information and Investment Credit Rating Association
- Credit Analysis and Research Ltd

## References:


1. Chandra, Prasana :Financial Management – Theory and Practices Tata McGraw Hill.
2. Pathak, Bharti.V:Indian Financial System Pearson Publication.
3. Pandey, I M:Financial Management, Vikas Publication.
4. Chandra,Prasana:Indian Financial System
5. Bhalla, V. K.:Investment Management
6. Machiraju H. R.: IndianFinancial System Vikas Publishing House
7. Gupta, L. C.: Rates of Return on Equities : The Indian Experience Oxford University Press; 1981
8. Shah, Ajay, and Susan Thomas : Securities Markets–Towards Greater Efficiency In Indian Development Report, edited by K.Parikh, Oxford University Press
9. Schumpeter, J.A.: The Theory of Economic Development, Cambridge, Mass, Harvard University Press.
10. Endo, Tadashi:The Indian Securities Market– A Guide for Foreign and Domestic Investors, Vision Books, 1998
11. Srinivasan,T.N :Eight Lectures on India's Economic Reforms, Oxford Press, 2006
12. Varshney P. N. and Mittal D.K.:Indian Financial System, Sultan Chand & Sons, Delhi, 2000
13. Raghunathan V.: Stock Exchanges And Investments, Tata McGraw Hill Publishing.
14. Bhole, L. M.: Financial Institutions and markets, Himalaya Publishers, 2000