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Research Article

Indian Stock Markets And Their Impact On Economic Development

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ARTICLE INFO	ABSTRACT

Stock Exchanges are an integral part of the Capital Markets and are often considered as a barometer of the economy of a country. It is the most dynamic & organized component of the capital market. A well-organized and well-regulated capital market facilitates the sustainable development of the economy. It also provides the essential attributes of liquidity, marketability, diversity and safety of investments to the investors.
The stock market is one of the most vital components of a free-market economy, as it provides companies with access to capital in exchange for giving investors a slice of ownership in the company. The stock market makes it possible to grow small initial sums of money into large ones, and to become wealthy without taking the risk of starting a business or making the sacrifices that often accompany a high-paying career.
This study reviews the Stock Market of India and its impact on the development of the economy.

1. INTRODUCTION

Stock Markets play an immensely significant role in the development of all the economies. They not only facilitate the mobilization of funds from small investors & channel them into various development needs of various sectors of the economy but also speed the process of monetary movements in the country.
Stock Exchanges are an integral part of the Capital Markets and are often considered as a barometer of the economy of a country. It is the most dynamic & organized component of the capital market. A well-organized and well-regulated capital market facilitates the sustainable development of the economy. It also provides the essential attributes of liquidity, marketability, diversity and safety of investments to the investors.
Today, governments across the globe try to develop their capital market through various measures. ***In developing economies, like India, the stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilization of savings & ensuring investment safety.***
There are two arms of capital market i.e. the primary market and the secondary market or the much commonly called- ***Stock Market.*** In terms of the growth measurement of the stock market, an index is used as a proximate to ascertain the level of the growth over the period of years. The most common index of Indian Stock Markets is **BSE's SENSEX (Sensitivity Index).** Normally the stock market indices show ups and downs with respect to their movement due to price fluctuation and the price of the scrip/security is operated under market conditions i.e. demand and supply factors. As long as the influx of investment is at a larger extent, the indices of the stock market react positively showing an upward trend and vice-versa.
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2. KEY POINTS

1. The Stock Markets are an important part of the financial system.
2. The Stock Markets are considered as the barometer of growth and development.
3. The two arms of Stock Markets is the Primary and the Secondary Markets.
4. The Bombay Stock Exchange is Asia's oldest stock exchange generating revenue up to Rs. 56,000 crores

5. The Stock Markets helps enhancing the savings of investors into capital-generating returns.
6. Stock Markets are immensely essential for the overall growth and development of any economy.

3. INDIAN STOCK MARKET

The two major national stock exchanges in India, where most of the stock trading takes place are, ***the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).*** The BSE has been in existence since 1875 and has about 4700 listed companies whereas NSE was founded in 1992 and started trading in 1994 and has about 1900 listed companies. The two prominent Indian market indexes are Sensex and Nifty.

Sensex is one of the oldest market index for the equities, in India; that includes shares of 30 top performing companies listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and thereby provides time series data from April 1979, onward.

When one considers the investment in the Indian Stock Market, we need to consider the most important factor that is investment through foreign portfolio / institutional investors which in the year 2014 contributed around 2.6 crores. This investment is however very less as compared to the other developing nations such as China. Over the years, however, favorable government policies and an increased image of India on the world economic forum have raised this investment by a good 20%.

The Indian stock market is the engine that drives the vehicle of Indian economy by generating the capital needed. The Indian stock market is one of the most developed markets in the world. The origin of the Indian stock market can be traced to the later part of the eighteenth century. It is one of the oldest and fastest growing in the world.

Bombay Stock Exchange (BSE): Being one of the oldest stock exchanges, established in 1875, BSE is Asia's first Stock Exchange and one of India's leading exchanges. Popularly known as BSE, the association was established as "The Native Share & Stock Brokers' Association" in 1875.

Over the past 140 years, BSE has facilitated the growth of the Indian corporate sector by providing it with an efficient capital-raising platform. BSE is a corporatized and demutualized entity, and has a broad shareholder base that includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, and mutual funds. It also has a platform for trading in equities of small and medium enterprises (SME EMERGE).

BSE is the first exchange in India and the second in the world to obtain an ISO 9001:2000 certification. It is also the first Exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System (BOLT). It operates one of the most respected capital market educational institutes in the country (the BSE Institute Ltd.). BSE also provides depository services through its Central Depository Services Ltd. (CDSL) arm.

BSE also provides a host of other services to capital market participants including risk management, clearing, settlement, market data services, and education. It has a global reach with customers around the world and a nation-wide presence. BSE systems and processes are designed to safeguard market integrity, drive the growth of the Indian capital market, and stimulate innovation and competition across all market segments. It has been conducting a myriad of investor awareness programs to facilitate investor education & protection.

National Stock Exchange (NSE): The National Stock Exchange of India, was incorporated in 1992 and recognized as a stock exchange in 1993, at the time when PV Narasimha Rao was the Prime Minister of India and Dr. Manmohan Singh was the finance minister. It was set up to bring transparency in the markets. Promoted by leading financial institutions essentially led by IDBI at the behest of the Government of India, it was incorporated in November 1992 as a tax-paying company.

In April 1993, it was recognized as a stock exchange under the Securities Contracts (Regulation) Act, 1956. NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital market (Equities) segment of the NSE commenced operations in November 1994, while operations in the Derivatives segment commenced in June 2000.

The NSE's key index is CNX Nifty. The Exchange has brought about unparalleled transparency, speed & efficiency, safety, and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

The National Stock Exchange (NSE) is India's leading stock exchange covering various cities and towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach.

The other Stock Exchanges functioning at regional level in India include:

- Ahmedabad Stock Exchange Ltd.
- Calcutta Stock Exchange Ltd.
- Magadh Stock Exchange Ltd. (though SEBI vide order dated September 3, 2007 refused to renew the recognition granted to Magadh Stock Exchange Ltd.)

- Metropolitan Stock Exchange of India Ltd.

In addition to the above, we also have ***9 commodity & derivatives exchanges*** functioning in India.

4. OBJECTIVE OF THE STUDY

Currently, the Stock Exchanges in India follow screen-based automated online trading and settlement mechanisms. However, a prominent fact is that investors are scattered across whole of the India and even outside India, at places distant from the trade and settlement point and therefore, there are certain problems confronted in the settlement and transfer system. There is a need to evaluate and improve the effectiveness of the Indian Stock Markets and their Settlement Cycle and at the same time understand the need and importance of electronic trading in the capital market simultaneous to studying the benefits this system offers.

5. RESEARCH METHODOLOGY

The present study happens to be exploratory cum descriptive in nature as the researcher intended to study the opinion of securities market investors on various matters relating to role of stock exchanges in the overall development of the country, depository services, benefits offered, hardships faced, dispute settlement, and investment decisions.

6. DATA COLLECTION AND ANALYSIS

The data was gathered using a questionnaire which was subject to qualitative and quantitative analysis. The data was collected from people who invest in stock markets directly or with the help of their brokers. To obtain the required data following questions were asked-

1. Are you aware of the Stock Markets?
2. Do you know how many Stock Exchanges are there in India?
3. Do you know the oldest Stock Exchange in India?
4. Do you know how SEBI regulates Stock exchanges?
5. Do you know about the many benefits investors and companies get through Stock Market Trading?
6. Do you understand the Stock Market trading practices?
7. Are you a short-term or long-term investor?
8. What are your main investment objectives?
9. Do you find trading in the stock market difficult?
10. Do you think SEBI has sufficient regulation on demat process regulation and grievance redressal?

7. RESEARCH FINDING

Exchanges in India are regulated by:

- The Securities Contracts (Regulation) Act, 1956;
- The Securities Contracts (Regulation) Rules, 1957;
- The SEBI Act, 1992; and
- Other rules & regulations, as made by SEBI.

Each stock exchange is ***managed*** by a Board of Directors or Council of Management consisting of elected brokers & representatives of government & public, appointed by the SEBI.

There are two categories of members in Stock Exchanges – Trading Members and Clearing Members. Membership in stock exchanges is generally given to persons financially sound & with adequate experience/training in the stock market. Their enrollment as members is regulated & controlled by SEBI to whom they have to pay an annual charge.

Stock Exchanges are virtually the nerve centre of the capital market.

The Indian Stock Market is mainly affected by two E's-

1. **Earnings/Price Ratio**- The price-earnings ratio is company's current share price compared to its earning per-share. It is the most popular method of stock analysis.
2. **Emotions/Sentiments**- The stock market is driven by emotions and sentiments (rumors). They play an important part in investing. The rise and fall of Sensex is hugely dependent of emotions.

THE CONCEPT OF TREND LINE AND MOVING AVERAGES

When the price of shares moves in a particular direction which persists for a period of time, a 'price line' is regarded as established.

When the movement is upward, the trend is called **BULLISH** and when the movement is downward, the trend is called **BEARISH.** Moving Averages show the trend of market indices.

Bear Market is a weak or falling market & is mainly characterized by the dominance of sellers, whereas the Bull Market is a rising market with abundance of buyers & relatively few sellers.

CORPORATIZATION & DEMUTUALIZATION OF STOCK EXCHANGES

Section 4A of the Securities Contracts (Regulation) Act, 1956 provides for an important provision that all the recognized stock exchanges (RSE) shall be corporatized & demutualized, in accordance with the provisions of Section 4B, on & from the appointed date (as declared by the Central Government).

Corporatization of the Stock Exchange is the process of converting the ***organizational structure*** of the Stock Exchange from a non-corporate structure to a corporate structure. Traditionally, some of the stock exchanges in India were established as association of persons such as Bombay Stock Exchange. Corporatization of such exchanges is a process of converting them into incorporated companies.

Demutualization on the other hand, refers to the transition process of an Exchange from a mutually owned association to a company owned by shareholders. In other words, transforming the ***legal structure*** of an exchange from a mutual form to a business corporation form is referred to as demutualization.

ANALYSIS OF INDIAN STOCK MARKET

- Sensex and Nifty comprise scrips of top-performing corporations in India that should capture much of India's growth over the next 10 years.
- Companies stand to gain the most as the Indian economy gallops at 8-9% pa.
- Illiquidity outside the scrips in futures and options may lead to large-scale price manipulation in illiquid scrips and lower price realizations in such counters.
- Poor Indian Accounting disclosures may lead to large-scale manipulation of figures by publicly traded companies.
- A large domestic market that is still into traditional fixed income and other government savings is all buy bound to enter the market sooner if not later.
- Foreign investors find India to be a potential market.
- Already foreign banks are coming into India and this is stabilizing the financial markets.
- Cross-border listing is being considered by NSE.
- The rural market is still untapped and ignorant of the Indian stock market. If well-educated and utilized the Indian rural sector can contribute well to the stock market investments.
- High global commodity prices, overvaluation in Index scrips.
- Illiquidity in non-derivatives-related scrips.
- Change in government focus on controlling inflation.
- The attitude of government relating to FII's taxation etc. should be positive.

8. CONCLUSION

Broad participation of investors in stock market is essential for a developed economy. With India's growth story unfolding, there is a need to raise resources for companies to fuel the capital needs of the economy and also ensure that the benefits of growth percolate to bottom of the socio-economic pyramid. India has one of the highest household savings in the world i.e. 30% which can be channelized through equities, bonds and other instruments to achieve greater financial inclusion and improve the financial markets in India.

Of about approximately 8000 scrip’s listed on Indian Stock Market only 3000 are actively traded. The market for other forms of financial instruments, such as bonds and interest-rate futures, has not developed adequately. The equity segment currently accounts for more than 75% of market activity in India. In developed countries, the trend is the reverse, with bonds accounting for more than 80% of trading in some markets.

There's clearly a lack of broad participation in the secondary market. Of a population of over one billion, barely 18 million invest in equity markets which accounts to only 1.8% of total population.

The erratic behavior in the equity markets also indicates that these are not only highly speculative but also lacks support from a large base. The Indian market is highly dependent on foreign institutional investors (FII) movement. Thus, any change in FII inflows and outflows lead to extreme changes in market indicators, despite unchanged fundamentals.

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