A Study of Indian Stock Market Scenario with Reference to Its Growth

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\textbf{Abstract} - Stock Market is one of the most rousing sectors in the financial system, making an important contribution to the economic development. Stock Market is a place where buyer and seller of securities can enter into transaction to purchase and sell shares, bonds, debenture etc.

In other words, Stock Market is a place for trading various securities and derivatives. Stock markets acts as a barometer which is used to measure the performance of the Indian economy with its development. A number of developing countries in association with the International Finance Corporation and the World Bank took steps to establish and revitalize their stock markets as an effective way of mobilizing and allocation of funds. In line with the global trend, reform of the Indian stock market also started with the establishment of Securities and Exchange Board of India (SEBI), although it became more effective after the stock market scam in 1991. With the establishment of SEBI and technological advancement Indian stock market has now reached the global standard. Indian stock market has gained new milestones and its fluctuating has surprised our economy with the expansion in the equity, debentures, bonds and real estate.

According to the Survey, India will become the world third largest economy after 2035. After getting the freedom from the britishers, Indian economy has survived with rebuilding their stand through monetary policies, fiscal policies, five years plan etc. Effective and efficient stock market is a place where prices of the securities are showing all related information about its true worth. Already appreciable studies have been conducted in this area. The main aim to this paper is to find out the information that what are the various technology comes in the stock markets that can attracted more and more investors to spend their money in the stock market to get valuable return from the investment.

\textbf{Keywords} - Derivatives, Revitalize, Mobilizing, Allocation of Funds, Monetary Policies, Fiscal Policies.

I. INTRODUCTION

After the process of economic liberalization, Privatization and Globalization, the Indian capital market has been assigned very dominating place in financing and loaning industry. The leading role of stock market is financing corporate industry, encourage entrepreneurship, mobilizing resources, allocation of resources with respect of economic growth. Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic balance of payment crises. Between 1950 and 1990, India’s growth rate averaged less than 4 per cent per annum. The strategy of industrialization, which protected domestic industries from foreign competition, was also responsible for high cost and low growth in the economy. (Kochhar et al 2006, Virmani 2004).

Development phase has taken place after 1991 the capital market with innovative strategies and policies. In this period the establishment was made up of Securities Exchange Board of India (SEBI), to cover both the development and regulation of the market and independent powers has been set-up as a fully autonomous body which is held responsible to look after the work of Indian Stock Markets.

In 1875 Bombay stock exchange was established with the view to expand and regenerate finance industry. At that time International standards were confronting with the Indian economy. Stock market has been assigned an important place in financing the Indian corporate sector. It is one of the most lively sectors in the financial system, marking an important contribution to economic development. It is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, debentures, bonds etc. The main attraction of the stock markets is that they provide for entrepreneurs and governments a means of mobilizing resources directly from the investors, and to the investors they offer liquidity.
They are also expected to play a major role in disciplining company managements.

II. BRIEF OVERVIEW OF STOCK MARKET

The Bombay Stock Exchange is the oldest exchange in India. It traces its history to 1855, when four Gujarati and one Parsi stockbroker would gather under banyan trees in front of Mumbai's Town Hall. The location of these meetings changed many times, as the number of brokers constantly increased. The group eventually moved to Dalal Street in 1874 and in 1875 became an official organization known as 'The Native Share & Stock Brokers Association'. In 1958, the BSE became the first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act. In 1980 the exchange moved to the Phiroze Jeejeebhoy Towers at Dalal Street, Fort area. In 1986 it developed the BSE SENSEX index, giving the BSE a means to measure overall performance of the stock markets. The Stock Exchange, Mumbai. Ahmedabad stock exchange in 1894 and 22 others followed this in the 20th century. The process of reforms has led to a pace of growth almost unparalleled in the history of any country. Securities market in India has grown exponentially as measured in terms of amount raised from the market, number of stock exchanges and other intermediaries, the number of listed stocks, market capitalization, trading volumes and turnover on stock exchanges, investor population and price indices. Along with this, the profiles of the investors, issuers and intermediaries have changed significantly. The market has witnessed fundamental institutional changes resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety, thanks to the National Stock Exchange. Indian market is now comparable to many developed markets in terms of a number of parameters.

Stock Market is a place where stocks are bought and sold. The stock market determines the day's price for a stock through a process of bid and offer. You bid to buy a stock and offer to sell the stock at a price. Buyers compete with each other for the best bid, i.e. the highest price quoted to purchase a particular stock. Similarly, sellers compete with each other for the lowest price quoted to sell the stock. When a match is made between the best bid and the best offer a trade is executed. In automated exchanges high-speed computers do this entire job. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. More than 5000 companies are listed on BSE making it world's No. 1 exchange in terms of listed members.

Meaning of Stock Exchange

Stock Exchange means a organized markets where securities issued by companies, government organization and semi-government organizations are sold and purchased. Securities include shares, debenture, bonds, etc.

According to The Securities Contracts (Regulation) Act, 1956, “Stock Exchange means anybody of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities”.

According to Pyle, “Stock Exchange is the markets places where securities that have been listed thereon, may be bought or sold for either investment or speculation”.

III. SECURITIES EXCHANGE BOARD OF INDIA

Share market is the foundation of the economic country of a country. Through its medium, the people wishing to invest in securities get good chances. It is very important to control the share market in order to strengthen the economic condition of the country protect the rights of the investors. Keeping this thing in view, the Capital Issue (Control) Act, 1947 was enforced. But the Act was failed to control fully the Share Market. In order to remove its drawbacks, Securities and Exchange Board of India (SEBI) was established in 1992.

Functions of SEBI:

The functions of the SEBI can be divided into three parts:

- **Protective Functions**:
  - To check unfair trade practices in connection with security market.
  - To check insiders trading in securities.
  - To provide education relating to dealing in securities to the investors.
  - To provide code of conduct relating to security market.

- **Regulatory Functions**:
  - To regulate the business doing done in the share market.
  - To registers and regulate the venture capital funds.
  - To carry out audit of the share markets.
  - To register and regulate the credit rating agency.

- **Developmental Functions**:
To impart training to the Intermediaries.
To encourage self-regulating organizations.
To carry on research work.
To publish different kinds of information for the convenience of all the parties operating in the capital markets.

IV. DEPOSITORY PARTICIPANT

In India, a Depository Participant (DP) is described as the Agent (law) of the depository. They are the intermediaries between the depository and the investors. The relationship between the DP’s and the depository is governed by an agreement made between is governed by an agreement made between the two under the Depositories Act. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the Sub section 1A of section 12 of the SEBI Act.

As per the provisions of this act, a DP can offer depository-related services only after obtaining a certificate of registration from SEBI. As of 2012, there were 288 DPs of NSDL and 563 DPs of CDSL registered with SEBI.

SEBI (D&P) Regulation, 1996 prescribe a minimum net worth of Rs 50 lakh for stockbrokers, R&T agents and non-banking finance companies (NBFC), for granting them a certificate to act as DPs.

Depository is an institution or a kind of organization which holds securities with it, in which trading is done among shares, debentures, mutual funds, derivatives, F&O and commodities. The intermediaries perform their actions in variety of securities at Depository on behalf of their clients. These intermediaries are known as Depositories Participants. Fundamentally, there are two sorts of depositories in India.

- National Securities Depository Limited (NSDL)
- Central Depository Securities Limited (CDSL)

Number of Depository in the Country:

- National Securities Depository Ltd. –NSDL – Having 1.39 Crores Demat A/C as on 30-06-2015
- Central Depository Service Ltd. – CDSL – Having 98,00,000 Demat A/C as on 30-06-2015

Services provided by Depository:

- Dematerialization is converting physical certificates of Securities to electronic form
- Rematerialization, known as remat, is reverse of demat, i.e. getting physical certificate from the electronic securities
- Transfer of securities, change of beneficial ownership
- Settlement of trades done on exchange connected to the Depository
- Pledging and unpledging of securities for loan against shares
- Corporate action benefits directly transfer to the Demat and Bank account of Customer.

V. FORWARD MARKET COMMISSION

The Forward Markets Commission (FMC) is the chief regulator of commodity futures markets in India. As of July 2014, it regulated Rs 17 trillion worth of commodity trades in India. It is headquartered in Mumbai and this financial regulatory agency is overseen by the Ministry of Finance. The Commission allows commodity trading in 22 exchanges in India, of which 6 are national.

On 28 September 2015 the FMC was merged with Securities Exchange Board of India (SEBI).

About FMC:

Established in 1953 under the provisions of the Forward Contracts (Regulation) Act, 1952, it consists of not less than two but not exceeding four members appointed by the central government, out of them being nominated by the Central Government to be the chairman of the Commission.

Since futures traded in India is traditionally on food commodities, the agency was overseen by Ministry of Consumer Affairs, Food and Public Distribution (India).

Financial Market:

The financial markets have two major components:

- Money market
- Capital market.

The Money market refers to the market where borrowers and lenders exchange short-term funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability. Since their maturity period is very short, they are also called Near Money. These securities include chiefly Call Money, Treasury Bills, Commercial Bills, Certificate of Deposits, Commercial Paper, etc.
The Capital market is a market for financial investments that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. The Capital Market comprises the complex of institutions and mechanisms through which intermediate term funds and long-term funds are pooled and made available to business, government and individuals. The Capital Market also encompasses the process by which securities already outstanding are transferred.

The process of economic reforms and liberalization was set in motion in the mid-eighties and its pace was accelerated in 1991 when the economy suffered severely from a precariously low foreign exchange reserve, burgeoning imbalance on the external account, declining industrial production, galloping inflation and a rising fiscal deficit. The economic reforms, being an integrated process, included deregulation of industry, liberalization in foreign investment, regime, restructuring and liberalization of trade, exchange rate, and tax policies, partial disinvestments of government holding in public sector companies and financial sector reforms. The reforms in the real sectors such as trade, industry and fiscal policy were initiated first in order to create the necessary macroeconomic stability for launching financial sector reforms, which sought to improve the functioning of banking and financial institutions (FIs) and strengthen money and capital markets including securities market. The securities market reforms specifically included:

• Repeal of the Capital Issues (Control) Act, 1947 through which Government used to expropriate and allocate resources from capital market for favored uses;

• Enactment of the Securities and Exchange Board of India Act, 1992 to provide for the establishment of the Securities and Exchange Board of India (SEBI) to regulate and promote development of securities market;

• Setting up of NSE in 1993, passing of the Depositories Act, 1996 to provide for the maintenance and transfer of ownership of securities in book entry form;

• Amendments to the Securities Contracts (Regulation) Act, 1956 (SCRA) in 1999 to provide for the introduction of futures and option.

• Other measures included free pricing of securities, investor protection measures, use of information technology, dematerialization of securities, improvement in trading practices, evolution of an efficient and transparent regulatory framework, emergence of several innovative financial products and services and specialized FIs etc.

These reforms are aimed at creating efficient and competitive securities market subject to effective regulation by SEBI, which would ensure investor protection.

VI. LITERATURE REVIEW

Banerjee and Sarkar (2006) have attempted to forecast stock return volatility using intra – day data of NSE from June 2000 through January 2004 by employing the GARCH model. The findings revealed that participation of FII’s in the Indian Stock market does not result in significant increases in market volatility.

Sinha and Pan (2006) have studied on The Power (Law) of Indian Markets: Analyzing NSE and BSE trading statistics. They analyzed the nature of fluctuations in the Indian financial market. They have looked at the price returns of individual stocks, with tick-by tick data from the National Stock Exchange (NSE) and daily closing price data from both NSE and the Bombay Stock Exchange (BSE), the two largest exchanges in India. They found that the price returns in Indian markets follow a fat tailed cumulative distribution, consistent with a power law having exponent 3, similar to that observed in developed markets.

Ramaniah, M.Venkata (2008) traces out year wise trends of FII’s into capital markets from 1993 to 2007. FII’s have contributed significantly to the growth of Indian Stock Markets. It also indicated that FII brings about high degree of Volatility in Indian Stock Markets.

Aboudou (2009) examines the causal relationship between stock market development and economic growth for the West African Monetary Union economy. Economic growth is proxies by GDP and stock market capitalization is proxies by market capitalization and total value traded ratio. By applying the techniques of unit– root tests and the long–run Granger non causality test proposed by Toda and Yamamoto (1995), the causal relationships between the real GDP growth rate and two stock market development proxies are tested. The results are in line with the supply leading hypothesis in the sense that there is strong causal flow from the stock market development to economic growth. A unidirectional causal relationship is also observed between real market capitalization ratio and economic growth.

Naresh Chandra Sahu (2011) have studied that stock market is not that much strong that it can affect...
the real GDP growth of the country. Because only 2% of population in India involved with the stock market investment.

Jatinder Loombe (2012) explores that FII brings foreign capital and reserve in the country with the aim of getting return. India is lacking in foreign capital and surplus which needed to be raised and FII is doing favorable job for the same.

Anju Bala (2013) has studied that listing of corporate on various stock exchanges impact the liquidity in the market. Risk in the stock market cannot be eliminated but that can be measured with help of volatility and variability of previous trends. Stock market is always related with the demand and supply forces, fiscal deficit and political stability.

VII. OBJECTIVE OF THE STUDY
The main motive for this research is to analyze the conditions of stock market with relation to its financial factors impacting it. Under this study affects of globalization, risk and return conditions and risk management techniques has been studied.

1) To find out the trend of Indian stock market.

2) To find out reason for such a trend in stock market.

VIII. RESEARCH METHODOLOGY
Data Collection: Data is collected from secondary sources like newspaper, internet, research paper, articles, website etc.

Research Design: For completing this research paper we adopt Descriptive research design.

Stock Market Development Indicators:
Well-functioning stock markets can play an important role in economic development processes by performing the following functions: aggregate and mobilise capital, enhance liquidity, provide risk pooling and sharing services, monitor managers and exert corporate control. It is difficult, however, to construct accurate measures of these functions. These indicators are associated with the size, and liquidity of the stock market. While these indicators may be still imperfect measures of how well a stock market performs the above functions, these measures or indicators together may provide a more accurate picture than if we use only a single indicator. It is useful to provide a brief and schematic description of such indicators:

- Stock Market Size: The study uses Market Capitalisation Ratio (MCR) as indicator to measure the stock market size. The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy-wide basis. The market capitalisation refers to the total value of listed shares on the stock exchange. Capitalisation of a company is calculated by multiplying the number of shares outstanding of that company by its share price. To calculate the market capitalisation, this information is aggregated for all the companies listed in the stock market. A large market size (market capitalisation relative to economic activity) suggests that the country is more likely to be integrated into world capital markets. It is seen that the market capitalisation has increased over the period of years indicating that the size of the stock market has been growing over the period of time.

- Stock Market Liquidity: Liquidity is an important attribute of stock market development because theoretically more liquid stock markets improve the allocation of capital to their optimal use, influence investment in the long term and facilitate technological innovation, thereby enhancing long term growth. Greater liquidity also has a direct impact on the effectiveness of the governance function of the stock market. First, increased market activity encourages information acquisition, which in turn increases the information content of share prices. Second, the effective use of the stock market for corporate control activities requires that the market be liquid. Takeovers require a liquid capital market where bidders access a vast amount of capital at short notice. Thus, measures of market liquidity may reflect the function of the market for corporate control as well. Therefore, a measure of market liquidity may be a good proxy for information production as well as the monitoring control function of capital markets.

IX. CONCLUSION
The main objective of stock market in India was to contribute to raising capital and assisting its allocation process in order to strength the Indian economy. Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic balance of payment crises. Between 1950 and 1990, India’s growth rate averaged less than 4 per cent per annum. The strategy of industrialization, which protected domestic industries from foreign competition, was also responsible for high cost and low growth in the economy. There have been several reason put forward for the failure of the development path which necessitated the reforms in 1991. Which an outcome comes in the form of established of the autonomous body known as the SEBI. This monitors...
the growth of the stock markets and can protect the interest of the investor. As a result the people's faith is start building in the stock markets and steadily the formation of NSE and Depository Participant was stand truly on people trust. But still a lots of people are there who are fearing to invest in the stock markets. It’s is the responsibility of the government is to build the trust and provide proper information to the investors against their rights and tells the important of the stock market in the economy. If we compare the earnings of the developed countries like U.S.A and Japan the Indian economy is not able to stand in against of them.

X. REFERENCES


