Chapter-7

Conclusions and Suggestions

7.1 Conclusions

The growth of industry and economy of a country is closely related to the well organised and regulated capital market. The savings of the community are mobilised into investments through a variety of financial institutions and markets. A well organised capital market provides essential attributes of liquidity, marketability, safety and price continuity to the long term securities. The financial markets are classified into primary and secondary market, money and capital market. These markets help in meeting the requirements of the Central Government, the State Governments, local Self Governments and the private corporate sector. The stock market is an integral part of the capital market. It facilitates the sale and purchase of initial and further issues and subsequently, provides liquidity and price continuity to the securities.

After independence, large number of public financial institutions, like I.D.B.I., I.F.C.I., I.C.I.C.I., I.R.B.I., investment institutions like U.T.I., L.I.C., G.I.C., State level institutions like SFCS, SIDCs etc., merchant banking divisions of commercial banks, investment and consultancy agencies etc. were created to fill the structural gaps. The Government of India took various steps and issued guidelines from time to time to activate the stock market. The security
market constitutes of New Issue Market as well as stock exchanges. In the New Issue Market, first hand securities are traded whereas in the stock exchanges only second hand securities are dealt with. The activities of New Issue Market are origination, underwriting and distribution. The funds in the security market are raised through equity shares, preference shares and debentures. There are various methods of marketing the new issues of companies namely public issue, offer for sale, private placement and right issues. The existing issues of the companies are traded through stock exchanges, over the counter (OTC) market and third market.

With a view to protect the interest of the investors and streamline the working of Security Market in India, various legislative Acts have been enacted. The statutory enactment governing the security market in India are The Securities Contracts (Regulation) Act, 1956, The Securities Contracts (Regulation) Rules, 1957, The Companies Act, 1956 and the Capital Issues (Control Act), 1947.

For improving the functioning of stock exchanges various Committees and studies have been conducted. Prior to independence, The Atlay Committee and The Morrison Enquiry Committee were set up, but their contribution to the development of stock market was not enthusiastic. After independence, the Government of India set up Departmental Committee in 1948, the Gorwala Committee, 1951 and Patel Committee in 1984. Thus, there is wide gap in comprehensive reviews of Security Market. This time gap should be reduced to make it more effective.
The present study was based on secondary data. The data for the analysis has been collected from R.B.I., Report on Currency and Finance, various relevant issues, the Stock Exchange Official Directory, Bombay, various relevant issues, Patel Committee Report and various other journals and newspapers etc. The analysis of New Issue Market is based on the data from 1974-75 to 1988-89 whereas in the analysis of stock exchanges the data ranges from 1946 to 1990. But, the non-availability of data in same years has become a serious limitation of the study which requires further survey etc.

The domestic savings are mobilised from the public sector, private sector and household sectors. The household sector constitute the mainstay of savings in India followed by private corporate sector and public sector. The public sector savings declined at the fast rate and was negative after 1985, which may be attributed to the huge losses by some of the public sector undertakings. On an average, the private corporate sector is contributing 2 to 3 percent of its savings per annum to the net domestic savings which is very low.

A very low proportion of savings is channelised through the security market. Keeping in view of the vast geographical area and population, the percentage of investing public is meagre. The equity shares capital had significant proportion in the capital structure as this security was very popular upto 1979. The capital raised by debentures increased at a much faster than any other instrument after 1980, due to change in Government policies and various incentives and growing
public awareness. Preference shares have failed to attract the investors even after the ceiling rate of dividend on preference shares and convertible cumulative preference shares was raised. Further steps are required to spread the cult of investment in securities to the semi-urban and rural areas, with the help of All India Financial Institutions, merchant banks, brokers and dealers etc.

The huge resources at the disposal of Financial Institutions enabled the new as well as existing companies to issue large capital. The institutional support played a significant role in activating the security market. But, there is need to streamline the procedure adopted by these Financial Institutions. Various underwriting agencies like brokers, private insurance and investment companies, commercial banks and term lending institutions at national and state level have given a big boost to the underwriting operations. A declining trend has been noted in the underwriting of public issues during 1974 to 1988. There is need to build up public confidence among underwriting agencies to boost up underwriting activities.

The cost of public issues is very high. On an average 8 to 10 percent of the amount offered to public is represented by cost of issues. The cost of issue in case of existing public limited companies is more in comparison to new public limited companies. In case of private limited companies converted into Public Limited Companies, the cost of issue is higher as compared to new as well as existing companies. There-
fore, the cost of public issues is required to be reduced by providing certain basic infrastructural support particularly to the smaller issues.

Upto 1990, there were 19 stock exchanges in India. The growth of stock exchanges is inadequate and unbalanced. Bombay and Calcutta Stock Exchanges together constitute more than one half of total number of listed companies and stocks. In terms of paid up capital, the listed companies constitute 90 percent of the total paid up capital of the non-government public limited companies. There is concentration of listed companies in the stock exchanges located in metropolitan cities. Bombay is the premier stock exchanges in India. The equity was the most dominant security in all the recognised stock exchanges upto 1980 whereas debentures dominated the security market thereafter.

Most of the companies are listed only in one stock exchange. The 'A' group securities are actively traded in the stock exchanges whereas majority of the 'B' group securities are not traded frequently. Thus, the equity cult has not penetrated well enough in the semi-urban and rural areas. There is need to defuse the concentration and thus bring about a balanced growth of stock exchanges.

There is no uniformity in the organisational structure of stock exchanges in India. The present organisational forms of the stock exchanges are companies limited by shares, companies limited by guarantee and association of individuals. The Securities and Exchange Board of India (SEBI) has been set up for the overall development of security market in India.
There is a lack of qualified and professional members, infrastructure facilities, inadequate financial resources of the members which attribute to the sluggish growth of industrial securities.

The brokers, sub-brokers and licenced dealers are playing vital role in mobilising the savings of the community from semi-urban and rural areas. There are various undesirable activities in trading of securities like unspecified margin, option dealings, rigging, kerb trading, insider trading etc. A suitable revision in the present rules and regulations is needed to improve the trading mechanism of industrial securities in the stock exchanges of India.

7.2 Suggestions

The functioning of security market should be reviewed frequently. It will be helpful to the Government for better control and regulation and also to the potential investors i.e. individuals and institutionals for taking prudent investment decisions. Therefore, it is suggested that the functioning of security market should be reviewed at least once in a decade at National level by the Government of India. The stock exchange authorities should encourage the review of working of security market by creating 'Chair' in the development institutions, merchant banking divisions of the commercial banks. Apart from this, fellowships should be given to the Research Scholars in the field of repute institutions for conducting studies on various aspects of the security markets. Through a well established system of regular review, the stock exchange authorities will
not only get feedback of its existing systems but also valuable and timely suggestions to make further improvements.

There is need to adopt appropriate methods so that more savings are mobilised through domestic, private corporate sector and public sector. The Government should take concerted steps to encourage the savings through public sector by making it more profitable. It is needed to gear up the machinery for better control and management of public sector undertakings. Further, public sector should not depend on Government assistance but look increasingly to the capital market for meeting its funds requirements. The Government should liberalise the policies in this regard. With this, the Government will be less burdened financially on one hand and it will lead to growth of capital market on the other. The need of the hour is to prevent huge losses by the public sector undertakings so as to make their contribution worthwhile.

There is a vast scope of exploiting the means and modes of raising level of savings in the private corporate sector. The cooperative sector can be very helpful to mobilise the savings of population from semi-urban and rural areas. For instance, cooperative society in rural area can mobilise more savings as compared to the other modes of saving devices. There is no doubt that the amount mobilised from the household sector increased when the government took various steps to activate the security market but not to the desired extent. Thus, there is a challenge before the security market to bring a change in the pattern of savings of household sector in favour of industrial securities.
The development of suitable media is a must to educate the people to invest in securities, based on their merits and demerits, New Issue Market and functioning of stock exchanges. There is also need to tap rural sector for funds in view of the requirements of the capital market in the coming years. The unproductive investments in gold, jewellery and cash should be diverted to productive uses through industrial securities. In this regard stock exchanges can play a vital role. Thus, it will not only activate New Issue Market but also secondary market.

The State Financial Corporations and State Industrial Development Corporations can do a lot in this regard and help to mobilise the funds through underwriting of securities. These lending institutions can advertise and display the names of the good companies which are doing well. Such publicity will create confidence among the saving community and the people can invest in securities without any hesitation. Further, there is need to streamline the policies and procedures by the Government so that public is inclined to invest in industrial securities.

There is need to simplify the procedures adopted by Financial Institutions so that an entrepreneur can easily get the financial assistance to meet its project cost. There should be single window clearance among the lending institutions. If procedures are simplified, most of the units can be saved from the incipient sickness. There is also need to overhaul the entire functioning of institutions in order to re-establish
ourselves in the international scene—which will enhance investment avenues in the capital market.

The steps should be taken to streamline the procedures for consents to capital issues. The present limit of Rs.1.00 crore may be enhanced to Rs.3.00 crores so that companies can raise their capital without much delay and mobilise funds at short notice. The consent of proposals for the issue of bonus shares in closely held companies must be exempted.

There is need to gear up underwriting operations at national as well as state level institutions. It is suggested that an 'Apex Institution' to control and supervise the underwriting activities may be set up at national level. This institution can closely monitor and issue guidelines to the underwriting agencies from time to time. This can further build up the confidence of investing public as more and more new companies are entering the security market.

Since, the All India Financial Institutions are working as term lending institutions to provide assistance to small scale units, the involvement of underwriting of public issues by these institutions can augment the resources and mobilise funds from the investing public in semi-urban and rural areas. The Commercial Banks through its merchant banking divisions can increase its contribution in this regard. Professionals and experienced persons who can educate and encourage the people to invest in securities should be recruited by the banks. Since there is a vast network of branches of Commercial Banks in the
rural as well as urban areas, the merchant banking division can perform their duties in an organised way and contribute a lot to underwriting operations.

In order to control the cost of issues, the standard norms should be fixed irrespective of the size of issues. It is suggested that these limits should be fixed in the range of 5 to 7 percent which would be enough to cover the mandatory costs apart from meeting incidental expenses. These norms can be revised according to the changes effecting securities market. This task can be entrusted to Securities and Exchange Board of India (SEBI).

The efforts should also be made to reduce the underwriting commission and brokerage charges which are the major constituents of cost of public issues. The other expenditures like fees to the managers to the issue, listing fees, printing and distribution cost and expenses of Registrar to the issue etc. should also be controlled and regulated. Before placing an issue in the market, the management should competently assess the behaviour of the security market and present infrastructure in the capital market. Thus, unnecessary expenditure can be curtailed which would elicit positive response from potential investors in the security market.

Keeping in view the size and population of the country and widely dispersed potential investors, the present number of stock exchanges in India are inadequate and in order
to bring about a balanced growth. The network of stock exchanges should be spread all over the country.

It should be made mandatory to certain extent that shares of Government Companies are offered to the public. A Government Committee had suggested that 25 percent capital of selected Government owned companies should be offered for subscription to the general public, but this suggestion was not considered. The present study has supported this recommendations in the present circumstances, but with a reasonable degree of control, the necessary amendments in this regard may be carried out.

With the enhancement of securities of old listed companies, the more and more securities of small and medium scale companies should be listed on the stock exchanges. The shares of the existing companies should also be quoted on the stock exchanges other than already listed ones. With this arrangement, the confidence of investing public would be strengthened and they will invest in the securities more and more.

The information regarding the ownership of gilt edged securities should be collected regularly and maintained systematically. It is estimated that individual holdings of Government securities is about one percent and all other investment institutions and Trusts are holding about 75 percent of these securities. There is a need to defuse the shareholdings in favour of individual shareholders. In order to have overwhelming response of the individual investors for gilt edged securities, the rate of interest should be revised suitably.
A balanced growth of listed companies and listed stocks in all the stock exchanges, is the immediate requirement. The big companies should also quote their shares in the stock exchanges other than stock exchanges of Metropolitan cities. This will attract savings of the investors from rural and semi-urban areas. More and more small size companies should be encouraged to enlist their securities in the stock exchanges.

It is suggested that each State should have an independent stock exchange. If it is not possible, the stock exchange centres should be established to start with. Initially, the existing stock exchanges may be allowed to open their branch/representative offices in non-metropolitan centres having population more than 5 lakhs.

There is need to defuse the concentration of securities among all the stock exchanges only then the equity cult can be spread to rural and semi-urban areas. The public should be educated so that they can invest their savings in securities.

The policies relating to debentures and preference shares were announced long back to activate these securities, but keeping in view of present requirements of security market, these policies should be revised in line with the prevailing environment. In order to popularise equity shares among the middle class, the Government should also enhance the benefits from tax point of view. Thus, the salaried class would invest in shares enthusiastically.
Regarding the organisation structure of stock exchanges, it is suggested that stock exchanges should adopt a model of companies limited by shares. The Securities Contracts (Regulation) Act, 1956 and the Companies Act, 1956 may be amended suitably. Necessary amendments may also be made so that existing stock exchanges should switch over to the new form of corporate organisation.

The Government should also reconsider the procedure for granting permanent recognition to stock exchanges. The time gap between granting permission to set up new stock exchange and permanent recognition must be reduced which will be of great help to build confidence among the members and investors. A stock exchange should be recognised after evaluating its performance of existence.

There is also a need to broaden the existing Governing Bodies of the Stock Exchanges to make them fully representative of various interests. The Governing Body of each stock exchange should consist of elected and non-elected members on a 50:50 basis excluding the Chairman and Managing Director. The terms and conditions for elected as well as non-elected members must be determined suitably so that it can work effectively.

The Stock Exchange authorities should have powers to impose fines and initiate court proceedings against erring companies as existing powers to suspend and delist the securities was more against the interest of the investors than the companies. The Governing Body of the stock exchange should be authorised to institute civil and criminal proceedings against the members and
non-members of any branch or violation of any of the provisions of the Securities Contracts (Regulation) Act, 1956 or Securities Contracts (Regulation) Rules, 1957.

There is need to raise the minimum basic educational standard for members and with a view to professionalise the members, the stock exchanges must conduct a part time refresher courses. The people from management background like M.B.A.'s and C.A.'s should be encouraged to take up these jobs who can easily guide the investors.

All inactive members of these exchanges should be persuaded to be active members and membership be also increased. The Governing Body should be empowered to terminate the membership which are dormant for a period of one year. Further, suitable modifications may be made to impose penalties for the inactive members and efforts should be made to increase the membership which will be helpful to enhance the volume of business in the security market. The multiple membership may also be permitted with a reasonable degree of control. The responsibility may also be fixed on the members for the business transacted by their authorised assistants/clerks etc.

It is suggested that two tier slab system of security deposits be adopted as under:

- Bombay, Calcutta, Madras and Delhi Stock Exchanges: Rs.1,00,000 each
- All other stock exchanges: Rs. 50000 each
In case of specified shares the security deposit may be enhanced by 50 percent. Similarly, the entrance fee and annual subscription may be modified suitably so that it cannot cause inconvenience to the members and attract more members.

The criteria for shares to be included in the 'Specified Shares' list should be uniform. Efforts should be made to avoid dealings with the defaulting clients. The stock exchanges can prepare and review the list of defaulting clients.

The minimum liquidity margin should be introduced to ensure smooth and healthy functioning of the stock exchanges and to prevent excessive speculation.

The trading hours of all the stock exchanges should be increased to 5 hours a day in a phased manner and there should be separate sessions for cash and settlement business.

There is need to stop undesirable activities which would adversely effect the functioning of stock market such as manipulation, false trading, rigging, insider trading, kerb trading etc. Such activities should be treated as civil and criminal offences punishable with heavy fines and imprisonment.

The stock brokers, can also educate the people and mobilise savings from semi-urban and rural areas. The stock exchange centres should be encouraged through stock brokers. Life Insurance Corporation of India can also play vital role to educate the masses through its agents. The services of commercial banks and post offices may be of immense use in this direction.
Since there is a net work of the branches of commercial banks, Life Insurance Corporation and Post Offices, these can well be utilised for distribution of literature, application forms etc. The merchant banking divisions of the commercial banks can educate and persuade the people to invest in industrial securities. This will facilitate the rural and semi-urban investors in overcoming irksome hurdles and provide assistance in compliance of formalities on their part.

It is suggested that SEBI should be fully authorised to control and regulate the trading procedures of securities in stock exchanges. The necessary amendments in the Securities Contracts (Regulation) Act, 1956, may also be effected to improve the trading mechanism.

Although the general as well as specific suggestions shall definitely prove to be constructive, if implemented with suitable modifications depending on the area to be covered, type of securities traded, saving habit of public and other infrastructural facilities available; more indepth study in various facets of the security market would be required to be done on continuous basis.