CHAPTER III

PROFILE OF THE STUDY AREA AND OVERVIEW OF EQUITY MARKET

The area of the study considered for this research study is the city of Tiruchirapalli in the State of Tamilnadu, India.

India

India is the seventh largest country in the world in terms of area. Its total area is 32,87,263 square kilometres, which constitutes about 2 per cent of the total land area in the world. In 2010, the population of India was counted to be about 1,027 million (1,027,015,247 persons) of which 528 million (528,277,078 persons) are male and 498 million (498,738,169 persons) are females. The density of population is 267 per square kilometre that is high by any standard. This is because the size of the population is quite staggering compared to the area. The female population in relation to the total population has recorded a slight increase from 48.09 percent in 1995 to 48.2 percent in 2005. The sex ratio of female per 1000 males has registered a marginal increase (933) over the last decade (927) mainly due to the decline in maternal morality. Out of them 25.7 percent of the population live in urban areas and 74.3 percent in rural areas. It has been rightly said that India is a rural country.
India occupies a strategic position in Asia, looking across the sea to Arabia and South Africa, on the west and to Burma, Malaysia and Indonesia on the east. The Himalaya is on the north and Indian Ocean is in the south. India lies to the north of the equator between 8°4’ and 37°6’ north latitude and 68°7’ and 97°25’ east longitude. As the Bay of Bengal in the east, the Pacific Ocean in the south and the Arabian Sea in the west surround it, it is a ‘Peninsula’.

Tamil Nadu

Tamil Nadu is in the southern part of peninsular India. It is bounded on the North by Andhra Pradesh and Karnataka and on the West by Kerala State. The Bay of Bengal is in the East and the Indian Ocean is on the South. It has an area of 1,30,058 Square Kilometres and a coastal line of about 1000 Kilometres. The population of Tamil Nadu is 6,21,10,839 during the year 2010. In size, Tamilnadu is twelfth among the states, but in population, it ranks seventh among the states. There are 33 districts in Tamilnadu.

Tamil Nadu is situated in 8°5’ and 13°35’ North latitude and 76°15’ and 80°20’ East longitude. The summer season is hot and there is moderate rain during the rainy season. Agriculture is the main occupation of the people of Tamil Nadu. There are 272.4 lakh persons in the urban areas and 348.7 lakh persons in the rural areas. Male are more than females in urban and rural areas.
In Tamil Nadu, 26 percent of people are in the age group of 0 and 14 years; 28 percent of people in the age group have 15 and 29 years. Only 8 percent of persons are above the age of 60 years in Tamil Nadu.

Tiruchirapalli district

Tiruchirapalli district is the heart of Tamil Nadu. It is in the centre of Tamil Nadu. It is surrounded by Perambalur and Ariyalur districts on the north, by Namakkal district on the west, by Pudukkottai districts on the south and by the Thanjavur district on the east.

Tiruchirapalli district has an area of 4403.83 Square kilometres. The population of Tiruchirapalli district during the year 2005 was 23.8 lakhs. There were 11.9 lakhs male and 11.9 lakhs females in this district. The urban population was 11.1 lakhs and the rural population was 12.7 lakhs. Proportion of male was equal to females in Tiruchirapalli District.

Tiruchirapalli has been a traditional agricultural district and the river Cauvery flows through the district. The total cultivated area is 1,95,495 hectares. The numerous other small and channels ensure irrigation to the lush green fields. The district normally experiences a high mean temperature and lower degree humidity. The maximum and minimum temperatures recorded are 38.7°c and 20.8°c. The average rainfall is 867.8mm. The normal rainfall during northeast monsoon is 385.2mm and during the southeast monsoon is 268.9mm.
There are 478 persons per square kilometer in Tamil Nadu and 531 persons per square kilometer in Tiruchirapalli District. The number of female per 1000 males is 986 in Tamil Nadu and 999 in Tiruchirapalli District. The urban population is 43.86 percent and rural population is 56.14 percent in Tamil Nadu. In Tiruchirapalli district, the urban population is 46.65 per cent and the rural population is 53.35 percent.[1]

**Economic Significance of Tiruchirapalli**

Tiruchirapalli city, which is the headquarter of the district, became municipality in 1866. In April 1994, the Tamil Nadu Government formed the Tiruchirapalli Corporation amalgamating Tiruchirapalli, Goldenrock and Srirangam Municipal Councils into one. Since then Srirangam functioned as Unit I and Goldenrock as Unit II of the corporation.

Modern Industry came in to the town with the establishment of the railway workshop at Golden Rock in the last decades of the Eighteenth Century. The workshop has grown to be the largest railway workshop in India. The Bharat Heavy Electrical Limited, a public sector company, manufacturing heavy boilers is a Post-Independence addition to the industrial scene. The Small Arms Factory and HAPP are the other important public sector enterprises which are directly under the control of the Ministry of Defence, Government of India. Steel Rolling Mills and Trichy Distilleries are important
medium scale industries in the private sector. Many ancillary units have sprung up around these major industries and in the industrial estates promoted by the Tamil Nadu Government.

**Administrative division**

Tiruchirapalli district is divided into three revenue divisions, eight taluks and 14 panchayat unions for administrative convenience.

Tiruchirapalli district is in the centre of Tamil Nadu and bounded by similar districts on all sides. The mix of rural and semi-urban areas with some urban pockets is the speciality of this district. The Uniqueness of the district is the composition of various types of people with varied levels of education, income, expenditure pattern, occupation, population area and standard of living. These factors have prompted the researcher to select this district as the study area.

**Tiruchirapalli City**

Trichy’s long history goes beyond to before the Christian era when it was a Chola citadel. During the 1st millennium both the Pallavas and Pandyas took power many times before the Cholas, regained control in the 10th Century. Then the Chola Empire finally decayed. Trichy came in to the realm of the Vijayanagar emperors of Hampi until their defeat in 1565 A.D by the forces’ of Deccan sultans. The town and its most famous landmark, the Rock Fort
Temple, were built by the Nayaks of Madurai. Later in the 18th century Trichy witnessed much of the British French struggle for supremacy in India.

**Orientation & Information**

Trichy is scattered over large area. Most of the hotels and restaurants, the bus stand, railway station, tourist office and main post office are within a few minutes’ walk of each other in the junction area. The Rock Fort temple is 2.5km north of here with the other temples of further 3km to 5km north again.

**History**

Tiruchirappalli played predominant role in the history of South India. Cholas were the early rulers of this region from the period of sangam age. Among the early Cholas rulers, Karikala Chola (50-95AD) was the most powerful and after him the Pandyas followed by the Pallavas held Vijay over this region for short periods. Cholas rule was once again reviewed by vijayalaya.

This was the beginning of great Chola empire and with the succession of powerful rulers remained under Chola supremacy (Tiruchirappalli District, Gezzeteer 1999). During the year 1251 A.D Pandyas under Jaya Sundara Pandya rose to power and Tiruchirappalli was brought under Pandya rule by putting an end to Chola Supremacy over Trichurappalli. Pandys’s rule over this
region lasted too little over half a century followed by Muslim domination till 1334-35 A.D.

In the middle of the fourteenth century the Muslims were defeated by the vijayanagar ruler and Tiruchirappalli was brought under Nayak rule. Vijayanagar Chockkanatha Nayak was the last among Nayak rulers and after his death in 1731 A.D, a power struggle followed to the throne of the Nayak Kingdoms between Meenakshi the widow of the king and Bangarue Tirumalai the father of his adopted son and later between Meenakshi and Chanda sahib the confidential adviser of the Nawab of Arcot: ultimately Chanda sahib proclaimed himself as the ruler.

In 1741 A.D the Marathas invaded Tiruchirappalli and took Chanda Saheb as a captive. Chanda Saheb succeeded in securing freedom in 1748A.D and soon got involved in the famous was for the Nawabs place in the earnatic against it. Anwad-ud-din, the Nawab of Arcot and his son Mohammed Ali what followed were actually a struggle between the European powers for colonical expansion in South India with Tiruchirappalli as the pivot, which ultimately led to the triumph of the English.

When about the year 1759 A.D Hyder Ali came to power the history followed as a power struggle between Hyder Ali and later Tippusultan with the British. After the death of Tippusultan the English took the civil and military
administration of the carnatic in 1801. Tiruchirappalli thus came into the hands of the English and the district was formed in 1801 under Mr. Wallac the first

The present district of Trichy comprised of four taluks namely Turaiyur, Lalgudi, Musiri and Manapparai.

**Population**

Total population of the district according to 2010 census 21,96,473 consisting 11,08,016 males and 10,88,538 females. Rural population of the district is 13,15,869 person and urban population is 8,80,604 persons and 13,15,484 literates

**Languages**

Main languages spoken in the district are Tamil, Kannada, Malayalam, Telugu and Urdu.

**Geography and Physical Features**

It is a land locked district with no coastal border, the even topography of the land throughout the district renders sub-division into natural regions rather difficult. The greater part of the district consists mainly of an undulating plain bisected by the valley of Cauvery. The monotony of the plains is relieved here and there by broken and isolated masses of crystalline rocks.

The predominant soil in the district is red sandy with scattered pockets of black soil. In the absence of fertile soil, the prominent role of Tiruchirappalli is
playing in the agriculture sector in the state is due mostly to its irrigation facilities.

The forest resources of the district are meagre compared to the state as whole. The district forests are poor not only in area but also in quality most of the forest in the district are tropical dry deciduous and tropical dry thorn evergreen.

The Madras – Dindigul Road (N.H45) traversing the eastern part of the district is the main arterial North-South link to which is connected all the important radial roads of the district.

Due to the limitation and location, characteristics of the railway lines in the district the buses play a dominant role in the transport system. Tiruchirappalli is an important bus terminal and transit point for the State Government buses.

About 650 routes buses run both by the Tamil Nadu Government Transport Corporation and private bus operators interconnect all important places in and around the district. Goods transport by Lorries is better organized in the district. Tiruchirappalli has an airport. Indian Airlines connects Tiruchirappalli with Chennai, Trivandrum and Colombo.
**Industries**

The district has fairly rich mineral deposits. The upper region contains only a moderate number of valuable minerals of which the magnetic iron beds in the Musiri are most important. A good deal of building stone is quarried in Tiruchirappalli.

The most important heavy industry in the district is the high pressure boiler plant of the Bharat Heavy Electricals Limited (BHEL) located at Tiruverambur with Messrs. Tehcno Export of Czechoslovakia. This plant engaged in the manufacture of heavy boilers required for thermal Stations was started in 1965 at a cost of Rs.24.50 Crores. The initial output capacity of 750 M.W per year has presently been increased to 2500 M.W The plant achieved an output of 11450 M.T of material for the manufacture of boilers.

The seamless steel tube plant of the BHEL an ancillary unit if the high pressure Boiler Plant in Technical Collaboration with West Germany. This plant setup at a capital outlay of Rs.58.2 Crores is designed to manufacture 40,000 tonnes of boiler seamless steel tubes per year.

The Ordinance Factory inaugurated in July 1996 is another public sector unit. In the district this factory setup with the installed capacity for the production of 5000 numbers of small arms has achieved the production target.
Sugar cane being grown as a major commercial crop, sugar industry occupies an important in the rural economy of the district. There are two sugar mills in the district E.I.D parry Sugars (I) Lts., at Pettavaithalai and Kothari Sugars Chemical Limited (II) at Kattur.

There are 19 medium sized industries in the district manufacturing a wide arrange of electrical equipment and engineering products. The corporation setup by the Tamil Nadu Government for the promotion of industries has rendered technical as well as financial assistance for starting new industries in the district.

Tiruchirappalli holds a pride of place in Cottage industries. There is variety of cottage and village industries dispersed throughout the rural areas in the district.

Industrial co-operative societies are also in the district for the development of mat weaving, leather turning and coir industry.

Handloom industry has been a traditional occupation of this district. The Handloom weavers constitute roughly 5% of the total working population in the district. This industry flourishes mainly in Turaiyur and Tattayangarpettai.

The co-operative movement in the field of Handloom weaving has given a fill up to this industry. These societies from the best institutional agencies for providing necessary facilities to enable the member weavers to get continuous
employment throughout the year. The apex hand loom weavers co-operative society popularly known as Co-Optex is providing marketing support to its affiliated primary weavers co-operative societies to the extent of about 50% of the production. During 1981-82, the co-optex marketed 82 lakhs meters of handloom cloth produced in the district valued at Rs.620 lakhs.

There are 13 power loom, co-operative societies in the district having 94 power looms. The Tamil Nadu Textiles Corporation is implementing a programme to setup a power loom complex at Jayankonda Cholapuram.

Major items of production by the weavers of the co-operative societies consists of cotton sarees and dhotis.

**Overview of Equity Shares and Shareholders Behaviour**

**History of Equity shares**

Indian Equity Market was not well organized or developed before independence. After independence new issue were supervised .The timing, floatation costs , pricing ,interest rates were strictly controlled by the controller of capital issue (CII).For four and half decades .Companies were dematerialized and not motivated from going public due to the rigid rules of the government.
In the 1950s, there was uncontrolled speculation and the market was known as ‘Satta Bazaar’. Speculation aimed at companies like Tata steel, Kohinoor Mills, Century Textiles, Bombay Dyeing and National Rayon. The Securities Contract (Regulation) Act, 1956 was enacted by the Government of India. Financial institution and state financial corporation were developed through an established net work.

In the 1960s the market was bearish due to massive wars and drought. Forward trading transaction and Contract for clearing or badla were banned by the government. With financial institution such as LIC, GIC, some revival in the markets could be seen. Then in 1964, UTI, the first mutual fund of India was formed.

In the 70s the trading of badla resumed in a different form of ‘hand delivery contract’. But the Government of India passed the Dividend Restriction Ordinance on 6th July, 1974. According to the ordinance, the dividend was fixed to 12% of face value or 1/3rd of the profit under sec. 369 of the Companies Act, 1956 whichever is lower.

This resulted in a drop by 20% in market capitalization at BSE overnight. The stock market was closed for nearly a fortnight. Numerate multinational companies were pulled out of India as they had to dissolve their majority stocks in India venture for the Indian public under FERA, 1973.
The 80’s saw a growth in the Indian Equity Market. With liberalized policies of the government, it became lucrative for investors. The market saw an increase of stock exchanges, there was a surge in market capitalization rate and the paid up capital of the listed companies.

The 90s was the most crucial in the stock market’s history. Indian became aware of liberalization and globalization. In May 1992, the capital issue (Control) Act, 1947 was abolished. SEBI which was the Indian Capital Market’s regulator was given the power and overlook new trading policies, entry of private sector mutual funds and private sector banks, free prices, new stock exchange, foreign institutional investors, and market boom and bust.

In 1990, there was a major capital scam where bankers and brokers were involved. With this, many investors left the market. Later there was a securities scam in 1991-1992 which revealed the inefficiencies and inadequacies of the Indian financial system and called for reforms in the Indian Equity Market.

Two new stock exchanges, NSE (National Stock Exchange) of India established in 1994 and OTCEI (Over The Counter Exchange of India) established in 1992 gave BSE a nationwide competition. In 1995-1996, an amendment was made to the Securities Contracts (Regulation) Act, 1956 for introducing options trading. In April 1995, the National Securities clearing Corporation (NSCC) and in Nov. 1996, the National Securities Depository
Limited (NSDL) were set up for demutualised trading, clearing and settlement. Information Technology Scrips were the major players in the late 90s with companies like Wipro, Satyam, and Infosys.

In the 21st century, there was the Ketan Parekh Scam. From 1st July 2001, Badla was discontinued and there was introduction of rolling settlement in all scrip’s. In Feb. 2000, permission was given for internet trading and from June 2000, futures trading started.

**Driving retail investors away from the equity market**

There is no denying the fact investments in equity is a must for wealth creation but in the performance of the stock market continues to be as pathetic as it has been in the recent years, retail investors will continues to keep away from markets.

For retail investors, the experience of investing in the stock market is getting better with every passing day. Both the leading market indices in India, sensex and Nifty, have failed to show a real growth during the five years. In 2008, the sensex touched its all time high of 21,200 odd levels, which has not been breached even after more than five years. This effectively means that passive investors would have generated a negative return volatility. Small investors have limited ability to absorb volatility.
<table>
<thead>
<tr>
<th>Year</th>
<th>Nifty</th>
<th>DJLA</th>
<th>FTSE100</th>
<th>S&amp;P 500</th>
<th>DAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2.76%</td>
<td>2.13%</td>
<td>2.43%</td>
<td>1.72%</td>
<td>4.24%</td>
</tr>
<tr>
<td>2004</td>
<td>3.22%</td>
<td>1.44%</td>
<td>1.24%</td>
<td>2.96%</td>
<td>2.13%</td>
</tr>
<tr>
<td>2005</td>
<td>2.69%</td>
<td>1.43%</td>
<td>1.26%</td>
<td>2.30%</td>
<td>1.63%</td>
</tr>
<tr>
<td>2006</td>
<td>3.10%</td>
<td>1.43%</td>
<td>1.57%</td>
<td>3.27%</td>
<td>2.12%</td>
</tr>
<tr>
<td>2007</td>
<td>3.28%</td>
<td>1.96%</td>
<td>2.02%</td>
<td>4.80%</td>
<td>2.30%</td>
</tr>
<tr>
<td>2008</td>
<td>5.22%</td>
<td>4.47%</td>
<td>5.09%</td>
<td>2.30%</td>
<td>5.62%</td>
</tr>
<tr>
<td>2009</td>
<td>4.64%</td>
<td>3.15%</td>
<td>3.21%</td>
<td>1.28%</td>
<td>3.95%</td>
</tr>
<tr>
<td>2010</td>
<td>2.28%</td>
<td>2.17%</td>
<td>2.49%</td>
<td>1.39%</td>
<td>2.40%</td>
</tr>
<tr>
<td>2011</td>
<td>3.05%</td>
<td>2.74%</td>
<td>2.84%</td>
<td>1.49%</td>
<td>4.15%</td>
</tr>
<tr>
<td>2012</td>
<td>1.90%</td>
<td>1.60%</td>
<td>1.74%</td>
<td>2.03%</td>
<td>2.29%</td>
</tr>
</tbody>
</table>

It is also important to highlight the Economic survey presented in the Parliament last month which says that there has been a consistent decline in the participant of investors in the equity market. The survey says, “shares and debentures accounted for 8.3% of total financial savings in the 1980’s their share increased to nearly 13% in the 1990s before declining to 4.8% in the 2000s. The reasons for such a trend could be the behavior of share prices, as reflected by the Bombay Stock Exchange (BSE) Sensex, and are depicted in the following table.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average of BSE sensex</td>
<td>448</td>
<td>3120</td>
<td>8612</td>
</tr>
<tr>
<td>Return on BSE Sensex %</td>
<td>-</td>
<td>21.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Co-efficient of variation</td>
<td>42.3</td>
<td>33.2</td>
<td>60.1</td>
</tr>
</tbody>
</table>

**Stage set for return of retail investors**

Retail investors are likely to show higher faith in the equities asset class going forward than they in the last five years. The share of equities in the in the retail investment portfolio is likely to go up by 15-20 % in the next couple of years as returns are set to return positive, believe industry analysts.

The stage is set for a return of retail investors –real (interest) rates are positive and likely rising, real returns on equities have turned up and retail portfolios are under weight on equities, says a report by foreign brokerage Morgan Stanley.

According to the report, financial household savings are expected to rise in the next 24 months on the back of easing inflation and a subsequent rise in retail interest rates. This could see higher allocations to equities said the report.

The share of equities within that (financial savings) could also rise, given the improving real return on equities and the starting point of equity
ownership relative to fixed income, says the report authored by analysis
Ridham Desai, Sheela Rathi and Utkarsh Khandelwal.

Equity markets since the beginning of this year have been rallying on
the hope of a new government Kick –starting economic growth , which has
been low due to a lack policy reforms in the past five years . So far this year,
benchmark indices BSE SENSEX and NSE NIFTY have gained about 15% each.

With equity investment returns declining since 2008, retail investors
lost faith in the asset class and returned to more reliable asset classes like gold
and fixed income.

Almost 80 % of the retail investor’s portfolio was in fixed income. But with the sentiment in the equity market changing dramatically , we expect
the retail allocation to equities to get better to almost 50 % of the portfolio ,
said Partake Pant , executive directors (product & service ) , RBS Private
Banking India.

Equity allocation had come down to 10-15 last year from 30-40 % in
2008, say industry players.

Investment into gold , as high as 30 %, have come down to below 5
% in the last one–year period , wealth managers say as gold prices declined
due to import curbs introduced to arrest the fall of the rupee.
The Way Ahead

The Indian capital market, though placed more favorably than its counterparts, is burdened with certain challenges in terms of increased access, product complexities, identifying risk management issues and speed of regulatory reform.

Some of the major initiatives taken by the government included the SME platform, which was dedicated for listing and trading of SME securities thereby, providing a push to the Small and Medium Enterprise (SME) sector. The SME platform was extended to small and medium sized companies with high growth potential whose paid-up capital would be less than or equal to Rs.0.3 bn. This platform assists in providing SMEs with easier access to equity finance for expansion and lower cost of compliance post listing. As of FY13, 24 companies have been listed on the SME platform rising around Rs.2.4 bn.

Launch of the MCX Stock Exchange (MCX-SX), which has cornered a monopolistic market share in the commodity exchanges, is the other initiative taken. This exchange was a step to provide investors with wider choice of investment and risk management products that match with diverse risk profiles and investment appetites. This exchange would bring in more innovation and improve market efficiency. Initially, equities of 1,116 companies have been admitted for trading.
Thus, a way forward for the Indian capital markets means that they need to be tuned in to adjust to the constantly evolving developments in the financial services sector with focus on product innovation, continued integration of technology, financial literacy and awareness, regulatory reforms, flexible bond

**Types of Equity investment instruments**

There are many types of instruments available the investors are to be selected a right one. Before that Understanding the different types of equity investment instruments available will help an investor realize all possible options for stock investing. The equity market is a risk-filled, volatile arena. It has yielded huge earnings for both lucky and wise equity investors, and has helped to sustain businesses. It has also crushed people’s financial dreams. Whether buying preferred stock, common stock, or warrants, there are benefits and costs involved with each.

**Buying Preferred Stock**

Buying preferred stock has many financial benefits. It is not quite as risky as buying common stock, and entitles the holder to regular dividend payments. These dividends are an integral part of the investment, independent of the market. Their inherent nature is somewhat similar to a bond; they could even be considered a hybrid investment instrument of corporate bonds and common stock shares. Preferred shares are a more stable investment like a
bond, promising regular revenue, and they come with a greater claim to assets than common shares in the case of bankruptcy. Owners of this type of equity investment do not have a say in company decisions.

When buying preferred stock, there are different stock, there are different types to choose from. Convertible preferred stock can be turned into common stock at a predetermined price. Participating preferred shares will receive higher dividend rates when and if common stock dividends are of a greater value. Adjustable-rate shares have a floating dividend rate, depending on interest rates.

**Investing in Common Stock**

Common stock is the essence of the equity market. Shareholders own a part of the company, and from the point of purchase on, have the same vital goal of a particular firm – to make money. The more money the company makes, the more the shareholder profits, if the shares are sold before losing their value. Dividends are distributed when earnings are strong, although they are not guaranteed.

This form of equity investment does give the investor some say in the structure and decisions of the business, although this power is minimal for most shareholders. Common stock may be offered in classes for instance, in
which case some owners are entitled to a stronger vote, higher dividend payments, and greater rights to assets, than others.

Investing in common stock is also one of the riskiest ventures, and potentially the greatest. Money can be quickly earned, and quickly lost. Some stocks may be relatively predictable, with a steady rise in value, while others may be highly unpredictable, with both the possibility of bankruptcy and a value spike just around the bend.

**Warrants on the Equity Market**

Warrants are a unique instrument on the equity market. They offer the right to purchase common stock at a specific price during a pre-determined time period. If the stock is not purchased, then the warrant becomes worthless. This type of investment offers a potentially good return in the future, and increases the capital of the issuing firm. Warrants are often offered to current shareholders, or in combination with stock and bonds.

**Choosing the Right Equity Investment Instrument**

Equity investors have a range of options to choose from. Preferred stock is more stable, common stock has more potential, and warrants provide an investment in the future. As there is risk involved with all three types, it is important to evaluate every financial opportunity. What are the potential returns and likeliness of those returns? What are the potential losses, and can
those losses be buffered by anything else? Ultimately, equity investments can be useful for those capable of handling risk, and especially for those who are aware of the capabilities of a business. They are also an essential component of a diversified investment of a diversified investment portfolio, although for many, equities may work best as a small segment of a solid investment plan.

**SEBI Developments and Challenges in Capital Market**

The SEBI, that is, the Securities and the Exchange Board of India, is the national regulatory body for the securities market, set up under the securities and Exchange Board of India Act, 1992, to “protect the interest of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith and incidental too.”

As per the SEBI act, 1992, the power and functions of the Board encompass the regulation of Stock Exchanges and other securities markets; registration and regulation of the working stock brokers, sub – brokers, bankers to an issues, (a public offer of capital), trustees of trust deeds, registrars to an issues, merchant bankers, under writers, portfolio managers, investment advisors and such other intermediaries who may be associated with the stock market in any way; registration and regulations of mutual funds; promotion and regulation of self-regulatory organizations; prohibiting Fraudulent and unfair trade practices and insider trading in securities markets; regulating substantial
acquisition of shares and takeover of companies; calling for information from, 
undertaking inspection, conducting inquiries and audits of stock exchanges, 
intermediaries and self-regulatory organizations of the securities market; 
performing such functions and exercising such powers as contained in the 
provisions of the Capital Issues (Control) Act, 1947 and the Securities 
Contracts (Regulation) Act, 1956, levying various fees and other charges, 
conducting necessary research for above purposes and performing such other 
functions as may be prescribed from time to time.

SEBI as the watchdog of the industry has an important and crucial role in 
the market in ensuring that the market participants perform their duties in 
accordance with the regulatory norms. The Stock Exchange as a responsible 
Self-Regulatory Organization (SRO) functions to regulate the market and its 
prices as per the prevalent regulations. SEBI play complimentary roles to 
enhance the investor protection and the overall quality of the market.

MISSION OF SEBI

Securities & Exchange Board of India (SEBI) forms under the SEBI 
Act, 1992 with the prime objective of

1) Protecting the interests of investors in securities,

2) Promoting the development of, and
3) Regulating, the securities market and for matters connected therewith or incidental thereto. Focus being the greater investor protection, SEBI has become a vigilant watchdog.

PREAMBLE

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as “to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto”.

FUNCTIONS AND POWERS OF SEBI

REGULATORY FUNCTIONS

- Regulation of business in the Stock Exchanges.
- Registration and regulation of the Working of Intermediaries and Mutual Funds, venture Capital Funds & Collective Investment schemes.
- Prohibiting fraudulent and unfair trade practices and insider trading in the securities market.
- Investor education and the training of intermediaries.
- Inspection and inquiries.
- Regulating substantial acquisition of shares and take-over.
• Performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956 as may be delegated to it by The Central Government;

• Levying fees or other charges for carrying out the purposes of this section.

DEVELOPMENTAL FUNCTION

❖ Promoting investor’s education and training of intermediaries.

❖ Conducting research and publishing information useful to all market participants.

❖ Promotion of fair practices and self-regulatory organizations.

POWERS OF SEBI

✓ Power to call periodical returns from recognized stock exchanges.

✓ Power to compel listing of securities by public companies.

✓ Power to levy fees or other charges for carrying out the purposes of regulation.

✓ Power to call information or explanation from recognized stock exchanges or their members.

✓ Power to grant approval to byelaws of recognized stock exchanges.

✓ Power to control and regulate stock exchanges.

✓ Power to direct enquiries to be made in relation to affairs of stock exchanges or their members.
Role Functions of SEBI

Securities and Exchange Board of India (SEBI) is an apex body for overall development and regulation of the securities market. It was set up on April 12, 1988. To start with, SEBI was set up as a non-statutory body. Later on it became a statutory body under the Securities Exchange Board of India Act, 1992. The Act entrusted SEBI with comprehensive powers over practically all the aspects of capital market operations.

The role or functions of SEBI are discussed below.

- To protect the interests of investors through proper education and guidance as regards their investment in securities. For this, SEBI has made rules and regulation to be followed by the financial intermediaries such as brokers, etc. SEBI looks after the complaints received from investors for fair settlement. It also issues booklets for the guidance and protection of small investors.
- To regulate and control the business on stock exchanges and other security markets. For this, SEBI keeps supervision on brokers. Registration of brokers and sub-brokers is made compulsory and they are expected to follow certain rules and regulations. Effective control is also maintained by SEBI on the working of stock exchanges.
- To make registration and to regulate the functioning of intermediaries such as stock brokers, sub-brokers, share transfer agents, merchant bankers and
other intermediaries operating on the securities market, in addition, to provide suitable training to intermediaries. This function is useful for healthy atmosphere on the stock exchange and for the protection of small investors.