Chapter – i

Research Design
and
Methodology of the Study
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1.1 Introduction

Stock market is considered the barometer of the economy, which provides many useful services to the commercial and industrial world. An efficient stock market promotes industrial growth, economic development, capital formation and channelises capital into the productive sector of the economy.\(^1\) The financial system in India at the time of independence in 1947, was semi-organized and presented a restricted narrow structure. It was marked by the absence of issuing institution and non-participation of intermediary institutions. The industrial sector showed a lack of growth as it has no access to savings of the community and no supportive or responsive financial intermediaries to depend upon.

The development of the financial system in India began with the inception of planning in the country. Wedded to the theory of mixed economy, the Government evolved the financial system in such a way that there is social and economic justice with consideration of India’s practical requirements.\(^2\)

The evolution of financial system in India was in the fulfillment of the socio economic and political objectives. Since there was no strong financial institutional mechanism in the country, chaotic conditions prevailed. The government found the need for progressively transferring important financial institutions from private ownership to public control. It also planned to create new financial institutions in the public sector and nationalize some of the existing institutions.

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The year 1948 is significant for beginning the process of transfer by nationalizing the Reserve Bank of India (RBI) and bringing it under Government control. The Imperial Bank is the next to be transferred. Its name changed and is renamed as State Bank of India (SBI). In 1956, 245 life insurance companies are consolidated and merged into a monolithic institution under Government control and renamed the Life Insurance Corporation of India. A further development took place in 1969 when fourteen commercial banks are nationalised.

The Indian capital market has made substantial progress during the post-independence period. However, the amount of capital raised in the form of equity, preference shares and debentures by the corporate sector has not been large over a number of years. There has been a rising trend since 1975 but the increase is not all that large. The Indian capital market has grown so sharply in the 80’s that the decade itself has been christened as a decade of the capital market.

During the year 2001-02 fiscal year (year ended 31, March 2002) the total amount raised from primary market is approximately Rs. 493b, Rs. 485b that which is raised from domestic market, Money raised through initial public offerings is Rs. 893 b.

South Indians, normally considered to be risk averse when it comes for investing, have thrown a surprise by piping the people of Western region to emerge as the largest investing group in capital market related investments. But the people of Gujarat, as a State, have retained their number one position in investing directly in shares and the bond market, followed by the people of Andhra Pradesh. A SEBI study, conducted in association with National Council of Applied Economic Research (NCAER), has thrown up these and several other interesting facts on people's investment preferences. The Survey of Indian Investors is SEBI's second effort after the one in 1998-99, since when the investment climate and rules of the game have changed considerably. With the objectives of sketching the investor profile and investment preferences and estimating State-wise distribution of investor households and investors, the survey is conducted from a stratified sample of 2,88,081 households from across the country. The reference period for the survey is from April 1, 1999 to March 31, 2001. The sample was classified on demographic and non-demographic parameters of income, education, occupation, and so on. The survey estimated that 7.4 percent Indian households totaling 21 million individual investors, have invested in equity or debentures or both in 2000-01. There are 19 million mutual fund unit holders in 2000-01 against 23 million as per the 1998-99 survey. A greater percentage of urban households invested in equity and debt. There has been a definite migration of investors from equity to bond market between the two surveys. Rural households appear to have preferred bonds to equity. The southern region accounted for 45 percent of the total investor households followed by the western region (33 percent), the northern region and the eastern region (11 percent each). Gujarat has the highest number of equity investor households accounting for 25 percent of all equity investors. Gujarat and Andhra Pradesh lead in bond investment activity. The bond owning households in Gujarat are 26 percent of all households in the State followed by Andhra Pradesh at 18 percent and Chandigarh at about 14 percent. In Himachal Pradesh, Madhya Pradesh, Uttar Pradesh and Bihar, bond owning
households are 2 percent or less. The number of debenture owning households and debenture holders far exceeded equity investing households and equity investors. Of the total 13.1 million investor households, 9.6 million owned bonds or debentures whereas only 6.5 million investor households owned equity shares. The urban-rural division of the equity households is 70 percent, 30 percent and 55 percent of the sample urban households and 45 percent of the rural households owned debentures or bonds. The number of investor households owning equity shares declined to 6.6 million in 2000-01 from 12.1 million in 1998-99 while the number of households owning debentures shot up to 9.6 million in 2000-2001 from 3.7 million households in 1998-1999. The percentage of households investing in equity or debentures is more in the urban areas. This divergence is pronounced in equities compared to debentures. Of the 51 million urban households, 7.8 million households (15.29 percent), representing more than 12 million urban individual investors, owned equity shares or debentures or both. Whereas, of the 125 million rural households, only 5.3 million households (4.24 percent), representing more than 8 million individual investors, owned equity or bonds or both. The number of non-investor households increased from about 156 million in 1998-99 to nearly 164 million in 2001-02 constituting nearly 92.6 percent of all households. This percentage is 92 in 1998-99. Several of the other interesting facts include; Investor population and town size are directly proportional. Cities with more than 50 lakh population accounted for a lion's share of investor households and the next highest segment is in the towns with population between 10 and 50 lakh. Towns with a population of less than 20,000 accounted for only 5 percent of the total investors. Professional investors formed 20.7 percent of all professional households in the country followed by salary earner investor households at 14.1 percent and business class investor households (12.4 percent). The cultivators are at the bottom constituting nearly 4.4 percent of all cultivator households. The level of education has a direct bearing on the investment pattern. The higher the education, the higher the level of understanding of investment complexities.
As such, graduates and others are found in large number to have invested in equities and debentures. The investor households in this category form more than 17 percent of all graduate households and 5 percent of investors are found to have higher-secondary education. Less than 1 percent of the investors have no formal education. The one exception to this trend, though, seems to be Kerala, which despite having the highest literacy level, figures among the States having the lowest share of total investor households. Analysis of data shows that 71 percent of non-investor rural households fall in the low-income group compared to 40 percent of total non-investor urban households. Non-investing households in the total households are 92.6 percent of which 73 percent are in the rural areas. Around 30 percent of non-investor households have no education or have primary education and another 45 percent possessed higher-secondary education. Mutual fund unit owning households formed 13.7 percent of all urban households. The respective percentage is 3.8 percent for rural households. Of the total mutual fund investor households, 60 percent are urban households and 40 percent rural. The mutual funds investor households, by and large, are from middle and high-income groups. Households owning mutual fund units in the low-income group, with income up to Rs 2500, constituted only 4 percent of the total mutual funds investor households. Gujarat has the largest number of equity investor households. Of all the equity investor households in the country, 25 percent is in Gujarat. On the other hand Uttar Pradesh, Kerala, Bihar, Orissa and Rajasthan has a very low share (less than 2 percent) in the total investor households. The present study seeks to examine and analyze the investment pattern and investor behavior in the selection of corporate securities with special reference to equity shares and debentures in Bangalore.

1.2 Statement of the Problem:

The stock market in India, before 1991, was controlled by the Government with very little free play of demand and supply of securities in the stock market. With the opening up of the economy and financial deregulation, the market has become volatile and the behaviour pattern of the investor is also changing from buy and hold investments to short-term gains. Globalization has brought in new investment strategies in the corporate world.7 There has been explosion in the number of Indian middle class investors in the recent past. They constitute a major investing group in the Indian investment market. But Indian middle class investors are risk averse. They think twice before they invest in corporate securities. So understanding the behaviour of investors is most important today. The biggest worry for any small investor is to find a home for his money. Most of the investors today are all confused about how and where to put their money in the light of falling interest rates without having to run the risk of seeing the value of their capital erode.8

Financial liberalization, deregulation, reduced interest rates in the financial market, have changed the face of the investment market. Financial deregulation is having a direct impact on the behaviour of investors in investment decision making. Investors have different preferences and behaviour towards corporate securities and they get influenced by various factors of the financial market and the general market like the performance of the industry, performance of the company, various policies of the government, 

7. 'Where to Invest in 2003', Business India , PP. 47.
namely, industrial policy, fiscal policy and taxation policy, nature of the management, nature of the corporate securities, information, brokers, peers, relatives and the interest rates. Some factors may have great influence, some may have only a moderate impact and some others may have no influence at all. Risk appetite, investment objectives, of the investor, income of the investor, funds available for investment, size of the portfolio holding by the investor also influence the behaviour of the investor in corporate securities at various levels.

Most of the investors generally have limited information about the developments in the securities market. Information about the financial performance of the companies and data of share market available to investor is also limited. The information available from news papers, television and internet media some times may not be sufficient for investment decision making. All these problems made them rely on share brokers, fund managers and experts to invest in securities. Investor desiring to invest in stocks require lot of preparation and home work. It is very important for them to know their risk appetite and investment objective for better decision making. Hence, the present study is an attempt to know the investment pattern of investors. The study is made to examine investor's awareness of investment avenues, investment objectives of investors and the evaluation of investment by the investors. The area of the study is confined to Bangalore region of Karnataka state. Bangalore is selected for the purpose of the study because it is one of the fastest growing cities in the world and the second investment city in India. Further, it is also having a stock exchange. All types of investors are situated in this place. Furthermore, researcher is staying very near Bangalore, that is Tumkur and he knows the men and matters of the region very well.
1.3 Review of the related studies

Many institutions and individuals have conducted several studies on the capital market, various instruments of the capital market, share holding pattern in India, new issue market, merchant banking, market efficiency, dividends, bonus and rights issues, rates of return, performance and regulation of mutual funds, investor behaviour towards capital market instruments etc. Such studies have not given a clear-cut idea about the present state of affairs of awareness, investment pattern and investor behaviour.

Researcher has reviewed a huge number of studies relevant to capital market and investor behaviour for the purpose of the study to get deep insight and understanding of the research area. Following are some of the studies reviewed by the researcher.

In a study conducted by Balakrishnan in 1965 on "Measurement of Trends in Capital Market". He has concluded that there has been a depression in the capital market during the period of this study.

Prasad and Vinayaga Rao have conducted a study on changing structure of company finance in India. The data for this study are found in Reserve Bank of India publications from 1996 to 1997. The Nationalization of banks, recommended by the Tandon committee, has adversely affected the allocation of banking funds to the priority sector alone to get a large sum of bank funds.


Kapur\textsuperscript{11} examines the portfolio behaviour of commercial banks. The objective of the study is to demonstrate empirically the determination of portfolio behaviour of commercial banks in India. The study makes general analysis of the Portfolio – Behaviour, articulating a model test alternative hypothesis regarding portfolio decisions, investment in security and the supply of commercial loans.

Gupta\textsuperscript{12} former director of Research Institute for Financial Management and research, Madras, has conducted a study on “Preference Shares and Company Finance”. The study revealed that a wide gap exists between the apparent investment features of preference shares, which give an impression of security and stability, and actual investment experience. The analysis of defaults in the payment of preference shares dividends also bring out the fact that the way preference share due to the impact of adverse conditions is no better than the way equity shares responded to similar conditions during 1967-73.

Khan\textsuperscript{13} studied the role of new issues in financing the private corporate sector during the 1960's and early 1970's and concluded that new issues are declining in importance. He also showed that with underwriting becoming almost universal, institutions like the LIC and the UTI are becoming major players. Jain\textsuperscript{14} shed more light on the new issue market. He argued that UTI looked at underwriting at low cost rather than focusing on an arrangement that guarantees the success of new issues. In the context of the rapidly

\begin{itemize}
  \item Kapur S.N, 'Portfolio Behaviour of Commercial Banks an Empirical Study', Prajan, 1, 4 October-December 1972, PP. 356-372.
  \item Khan M.Y, New Issues Market and Finance for Industry in India, Allied Publishers, Bombay, PP.149.
\end{itemize}
changing structure of the merchant banking industry in India today, a deeper analysis of the motivations and strengths of the different players could be highly useful.

Agrawal\textsuperscript{15} stresses the need to redefine the underwriting function. He underscores the need for distinguishing underwriting from investing. He opines that such a distinction does not exist in India. Gujarati and Srinivasan\textsuperscript{16} discuss the issue of discount coupons being distributed, particularly by textile mills for purchasing the products of the companies. They argue that such coupons are akin to payment of disguised dividends which would not be taxed.

In a unique work of its kind, Gupta\textsuperscript{17} examines the characteristics of the rates of return on equities in the Indian capital market for a fairly large sample of 276 companies over a sixteen year period from 1961-76. He concludes that the rates of return provided by equities are unsatisfactory because:

a) About 20\% of the returns for various holding periods are negative;

b) The returns provide only a partial hedge against inflation;

c) The fluctuations in returns even within a year are large enough to conclude that timing of transaction decisions have a significant bearing on realized returns;


\textsuperscript{17} Gupta L.C, Rates of Return on Equities: The Indian Experience, Oxford University Press, New Delhi 1981.
d) The risk is considerable even when investment is made in a portfolio of securities and for long periods of time. While the study is an important milestone in research in Indian capital market, given the equity cult that started after forcibly dilution of MNCs because of FERA in the late seventies and the rise in the equity returns since the second half of eighties, and the conclusions of the study are unlikely to be valid now for the Indian market.

The work done by Kapoor\textsuperscript{18} analyses the usefulness of convertible debenture as an instrument for raising resources from the capital markets. After stating that CD's have provided attractive returns to investors, Pandey\textsuperscript{19} examines the impact of leverage on equity prices and concludes that Modigliani – Miller hypothesis is not supported. However, the risk proxy used in the paper, namely, coefficient of variation of net operating income, is highly questionable.

A study of conducted by Joginder Singh\textsuperscript{20} on combined equity holding all Indian financial institutions like IDBI, IFCI, ICICI, LIC, UTI, and commercial banks in 365 companies in 1981 revealed that in case of companies with equity capital of more than Rs.10 crore. The equity holdings are much greater in comparison to small companies. It has been observed that 41.3 percent of small-sized companies & financial institutions have more than one-fifth of equity holdings, whereas in big-sized companies 54.2 percent of the small companies have more than 20 percent of equity holdings. The all India Financial institutions can acquire considerable power and thus interfere in management.


\textsuperscript{19} Pandey I.M, \textit{Capital Structure and the Cost of Capital}, vikas, New Delhi, 1981

Zahir and Rakesh\textsuperscript{21} find the dividend per share to be the most important variable affecting the share price, followed by dividend yield, book value per share, dividend coverage and the return on investment, in that order. The study of Chawla, Patel and Shake\textsuperscript{22} on "impact of differential rate of interest scheme", is an attempt to ascertain whether DRI lending is reaching the intended beneficiaries and the scheme is achieving the purpose of assisting these people to improve their social – economic conditions? They conducted that majority of the borrowers recorded positive changes in their economic position. The small changes in their occupational pattern are also positive. Non - DRI debt of these people has also possibly declined, perhaps to a considerable extent DRI loans have replaced the money lender. Borrower contacted by them, felt that they are now treated better in their communication.

The articles by Atmaramani\textsuperscript{23} deals with changes needed in the guidelines governing issue of debentures to ensure that the instrument becomes popular with investor.

Srivastava\textsuperscript{24} did a cross section study of 327 companies for the year 1982 – 83 and concluded that high dividend rates are associated with higher market prices of securities. He, therefore, states that the famous Modigliani – Miller model concluded that dividends have no impact on share prices.

\textsuperscript{21} Zahir M.A & Khanna Yokesh, 'Determinants of Stock Prices in India', Chartered Accountant. VOL 30, NO.8, Feb 1982.
\textsuperscript{22} Chawla O.P. It All Impact of Differential Rate of Interest Schemes. National Institute of Bank Management, Mumbai, 1983.
Unless the hypothesis of spurious relationships between prices and dividends because of both being applicable in the Indian context. The analysis suffers from several limitations, the researcher examined the relationship between earnings and dividends. He would have, in all likelihood, found that the higher dividend paying related to earnings is examined and rejected, the conclusion of the study would be suspected.

Balakrishna\textsuperscript{25} also finds that the current dividend and book value per share are more important determinants of market price as compared to earnings per share and dividend coverage.

A sample survey conducted by Gupta\textsuperscript{26} of the management development institute, New Delhi, on behalf of the ICICI has thrown light on the geographical distribution of share ownership in India. The data pertains to 1983-84. The findings of the study shows that the metropolitan cities have a dominant share in share ownership. Twelve major cities accounted for 20 percent the study also pointed out that the very meager share of small towns in the country’s shareholding population is on account of lack of infrastructure facilities.

Dholakia and Bhat\textsuperscript{27} attempt to classify risk associated with shares into risk in dividend and risk in capital gains. Their study suggests that there is a negative relationship between dividends and capital gains.

\textsuperscript{25}Balakrishna, ‘Determinants of Equity Prices in India’, \textit{Management Accountant}, Vol.19, No.12, Dec 1984, PP.728-730.
\textsuperscript{26}Naresh Kumar, ‘Share Holding Pattern in India’, \textit{Money Matters}, April 1990, PP.51.
Research on bonus issues have dealt with two main sets of issues a) the bonus policy and the post bonus dividend policy companies; and (b) the efficiency with which the stock market assimilates information about bonus issues.

The book written by Sen and Chandrashekar\textsuperscript{28} is a compendium of tales, regulations and procedures for issue of debentures.

Bhat and Pandey\textsuperscript{29} studied the market efficiency, on the basis of a questionnaire survey. They concluded that the users and preparers of accounting information in India do not believe that the market is efficient in any of its three forms.

Srinivasan\textsuperscript{30} studied the efficiency of the market in assimilating the information content of rights issues and concluded that the market is by and large efficient. One unresolved issue in the field of rights and bonus issues is price correction on Ex-bonus and Ex-rights days. While these corrections are not equal to theoretical corrections. The issues are complicated by tax arbitrage considerations and by liquidity effects. This unresolved anomaly deserves fuller study.

Bhat\textsuperscript{31} studies the relationship between the regional market indices in the Indian Stock market over the period 1971 – 85 using monthly data. He finds that the regional price indicators respond immediately to the all India index but cautions that his study is not adequate to conclude the existence of an integrated national market.

Semi strong form of efficiency deals with the speed with which publicly available information is assimilated by the market and incorporated in market prices. The evidence on this issue is mixed.

Nachane\textsuperscript{32} studied the interest rates that have historically been subject to some extent to market forces. The study assumes significance in this context. Nachane found that the market for lendable funds is reflected in the call market rate. The study also found that bazar bill rate and the SBI Hundi rate are inefficient. The Fisherine hypothesis that interest rates reflect anticipated inflation is also rejected.

The third form of market efficiency (strong form) asserts that even inside information which is not publicly available is reflected in market prices very rapidly. This hypothesis is usually tested by evaluating the performance of mutual funds, whose managers can be expected to have some degree of information.

Studies on whether the pricing in Indian Markets is consistent with the risk return parity postulated by the Capital Asset Pricing Model (CAPM).


Verma\textsuperscript{33} and Yalawar\textsuperscript{34} provide evidence in favor of the CAPM. Srinivasan\textsuperscript{35} argues that the CAPM relationship holds only in the long run. The validity of CAPM is important as many tests of efficient market hypothesis implicitly assume the validity of the CAPM. More detailed tests of the CAPM, and also of the competing arbitrage pricing theory, are important areas for future research.

Srinivasan\textsuperscript{36} found that the market is by and large efficient in responding to the information content of bonus issues and rights issues respectively.

The Bombay Stock Exchange\textsuperscript{37} conducted a study on the present position of stock market in India. The study covered 1847 companies out of 2275 companies listed with Bombay Stock Exchange as at the end of March 1989. The survey found that out of the 1847 companies studied, only 26 companies have more than a lakh share holders each. While another 45 companies have share holders ranging from 50,000 to 1,00,000 in other cases it is much less.

Chandra\textsuperscript{38} critically examined the CCI guidelines for evaluation of shares and

methodology has, however, become redundant and point out that the CCIs methodology is fundamentally flawed, with the abolition of the office of the CCI.

Trikha\(^3\) highlights the lack of professionalism of the merchant bankers in India as regards, their attitude towards the investing public. The concern has become even more relevant today.

The RBI\(^4\) conducted three sample surveys in 1959, 1965 and 1978 to analyse the ownership pattern of shareholdings. A comparison of the findings of these three surveys indicates that during 1959 to 1978, the number and proposition of individual shareholders showed an increasing trend, but in terms of the paid up value by individual shareholders, the percentage declined. It indicates that inspite of an increase in their number. The individual shareholders lost their share in corporate shareholdings in favor of institutional investors i.e., IDBI, IFCI, ICICI, UTI, LIC and GIC whose shares showed an increasing trend. The holding of joint stock companies slightly declined in 1965, but increased in 1978. The government and semi-government bodies showed a mixed trend and constituted a completely low proportion.

The RBI\(^4\) conducted a survey in 1978 which gives the data relating to occupation wise breakup of paid – up value of shareholdings of individuals in

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336 companies. The finding of the survey indicates that professionals and self-employed persons with 8.48 lakh accounts held Rs. 150.53 crores or about one third (32.3 percent) of the total value of share holdings of individuals. Individuals with miscellaneous occupations, grouped under others, ranked second and held 24 percent of the share capital. Salaried persons held the largest number of accounts (29.9 percent amounting to 7.75 lakh accounts) but represented only 19.5 percent in value of the individual shareholdings. Persons engaged in house hold work accounted for 21.3 percent (5.6 percent accounts) and hold a little less than 20 percent of the value of individual holdings. The number of accounts and value of shareholdings of farmer are rather insignificant.

The findings\textsuperscript{42} of second survey are:-

i. The individual shares constitute 99.54 percent of the total number of shares. The value of the shares is 35.8 percent of the value of the total number of shares. The individuals are followed by financial institution. The value of the shares of the financial institution is approximately 22.62 percent of the total value of all the shares. Government and Semi Government bodies, central government autonomous corporations accounts for 14.36 percent of the total value, joint stock companies accounts for 25.89 percent, Trust and charitable institutions accounts for a mere 0.24 percent in value while the value of shares of others is 1.29 percent;

ii. The average size of share ownership is just Rs. 13,000 each for individuals, while for the financial institutions it is Rs. 10.57 lakh. Joint stock companies have an average holding of Rs. 83.17 lakh, while government and semi government bodies with 206 accounts have a much higher average at Rs. 192 lakh; and

\textsuperscript{42} \textit{Ibid.}, PP. 47.
iii. As regards industry-wise pattern of shareholding, the study reveals that individuals have a higher than average shareholding in companies engaged in manufacturing of food products, textiles, metal products, non metallic mineral products, transport equipment and electricity generation. Among these industries the shareholding of textiles is lowest at 9.44 percent.

Anshuman and Chandra Prakash\textsuperscript{43} in their paper titled "Equity Shareholders Corporate Enterprise an Endangered Group", published in "Charted accountant" in May 1990, strongly pleaded for measures to stop promoters becoming owners by hoodwinking equity share holders.

Rao and Bole\textsuperscript{44} have examined the real rates of return of equities in the Indian market for the period of 1953-87. They concluded that equities provide only a partial hedge against inflation while the long term real rates of returns are positive, during periods of extraordinarily high inflation. The real rates of return are negative. The study would have been more useful, the returns provided by bullion also been analyzed for the same period. It would also have been useful to breakup the long period into sub periods to determine whether the behaviour of returns is different for different sub – periods and whether the reasons could be ascribed for any observed differences, as observed earlier in the paper, the Indian stock market has been booming in recent years. The conclusion for a more recent period could be quite different from the conclusions reached in the study.

Dakshina Murthy\textsuperscript{45} in his paper captioned “Shareholders Democracy” published in a company law journal in June 1990, suggested various

\begin{itemize}
\item \textsuperscript{43} 'Equity Share Holder of Corporate Enterprise and Endangered Group', \textit{Chartered Accountant}, May 1990.
\item \textsuperscript{44} Rao Narayana K.V.S.S and Bhole L.M, 'Inflation and Equity Returns', \textit{Economic and Political Weekly}, Vol. 25, No. 21, May 26, 1990, PP. 91 – 96.
\item \textsuperscript{45} 'Share Holders Democracy', \textit{Company Law Journal}, June, 1990.
\end{itemize}
Arun Chan\textsuperscript{46}, in his paper captioned “Protection of Investors’ Interest – Role of Companies Act 1956", published in the journal of chartered accountant in August 1990, pleads for amending the company law to provide for legal safe guards to investors in respect of timely response of public deposits and allotment of equity shares / debentures by companies.

Vidya Shankar\textsuperscript{47} studied mutual funds and concluded that mutual funds would emerge as the predominant instrument for savings by the household sector by the turn of this century. Bal and Misra\textsuperscript{48} concluded that mutual funds would play an important role in developing the Indian capital markets.

A study is carried out by Subramaniah\textsuperscript{49} on the “Behaviour of Share Price – A test of weak form of EMH under Indian Conditions”. The primary purpose of this study is to investigate equity share price behaviour in India during the period January 1984 to December 1990. Testing empirically the weak form of EMH under Indian condition is the objective of this research. The result of this study disproved the weak form of EMH under Indian conditions.

Barua and Raghunathan\textsuperscript{50} use the Gordon’s dividend growth model to show that the prevailing P/E multiples in the Indian capital market around the second and third quarter of 1990 are on the higher side.

\textsuperscript{46} ‘Protection of Investors Interest – Role of Companies Act 1956’, Chartered Accountant, August 1990.
Sundaram\textsuperscript{51} and Obaidullah\textsuperscript{52} cast doubts on whether the observed price earnings ratios are consistent with fundamental factors like dividend growth and payout ratios.

Ansuman and Chandra\textsuperscript{53} examine the government policy of favoring the small shareholders in terms of allotment of shares. They argue that such a policy suffers from several lacunae such as higher issue and servicing costs and lesser vigilance about the functioning of companies because of inadequate knowledge. They suggest that there is a need to eliminate this bias as that would lead to a better functioning of capital market and would strengthen investor protection with proportional allocation being advocated by SEBI, a shift in the policy is already evident. However, there appears to be some rethinking on proportional allocation after the recent experiences which clearly demonstrate that such a policy could result in highly skewed ownership patterns.

Another survey on Indian “Share Owners”\textsuperscript{54} is carried out by Society for Capitals Market Research and Development, under the direction of Gupta Director, Society for Capital Market Research and Development, in 1991. The major findings of the survey are:-

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i. In India there are around 38 lakh shareowning households and about 90-95 lakh debentures owning households and about 29 lakh debenture owning households. An average share owning household had 2-3 members having share and debenture in their names;

ii. The most outstanding development of the last decade about Indian share market is that share ownership has become a middle class phenomenon. It is earlier largely confined to the wealthy class and now nearly 40 percent of the educated middle and upper class households have come to hold shares / debentures;

iii. Between 1980–90, the number of equity shareowners in India increased more than three times;

iv. The extent of diversification of share investment is grossly inadequate in the case of the majority of Indian share owners exposing them to considerable risk;

v. The portfolio size for a large proportion of share owning households is too small to permit adequate diversification;

vi. The general belief that share investment produces extraordinary gains is not found to have relevance for the great majority of shareowners who earn no more than just about reasonable returns on their share investment. Such gains accrue to only a small fraction (about one-sixth) of share owners and are mostly fortuitous. At the other end, about the same proportion of shareowners have unsatisfactory investment experience even in a prolonged boom period like the 1980 boom. Since the prices of individual shares show considerable ups and downs and a majority of Indian shareowners have grossly inadequate diversification, a significant proportion of them have unsatisfactory investment experience;

vii. Equity shares command quite a high proportion of ardent supporters among the middle class. Convertible debentures are also in fair demand and will ultimately add to equity share ownership. The non–convertible debentures is in the lowest preference scale and market
for it has nearly disappeared among household investors. The interest ceilings on such debentures and the lack of liquidity are responsible for this;

viii. The standard of service and information being provided to shareowners in India by companies and stock brokers are not only below world standard but also leave a majority of Indian shareowners dissatisfied;

ix. Nearly four-fifths of Indian shareowners are dissatisfied with the working of the present mechanism for redressing their grievances and when any share owner is shattered due to the misdemeanor of a company or a market intermediary, he has no easy and effective remedy; and

x. The problem of investors' grievances in India has assumed large proportions because no clear nodal authority exists. The aggrieved investors often do not even know whom to approach and where to go and end-up running from pillar to post. Nearly 40 percent of share owners are not even aware about the existence of Securities and Exchange Board of India (SEBI) as yet not statutory authority.

Barua, Madhavan and Varma\textsuperscript{55} examine the case of Convertible Debentures with unspecified conversion terms such securities, which are unique to the Indian capital markets, have become quite popular in the last years of the eighties. Analyzing a large issue of CDs with unspecified terms, they concluded that while under normal circumstances one would expect the share prices to govern the price of CDs (since the latter is supposed to be the derived security), if conversion terms are not specified, changes in the expectations about the conversion terms could start affecting the share prices through the dilution effect.

Raghunathan and Varma\textsuperscript{56} examine the quality of credit rating being done by CRISIL. They find that (CRISIL) AAA ratings are not only consistent with international rating norms, but are also internally consistent. They also find that the quantitative factors listed can not satisfactorily explain the inconsistencies found in the rating.

Raghunathan and Varma\textsuperscript{57} point out that any comparison of the Indian stock market with those elsewhere must be carried out on a Common Currency base. They find that in dollar terms, the SENSEX return over the 1960-92 period is only about 0.5 percent while, during the same period, the return in the US (based on the S&P index) and the Japanese (based on the NIKEI index) exchanges are 6.1 percent and 11.4 percent per year respectively. Over the Twelve year period 1980-92, the dollar returns for SENSEX, S&P and NIKEI indices turn out to be 6.5 percent, 10.65 percent and 13.6 percent respectively. For a shorter span of seven years, namely 1985 – 92, the returns for the three indices turn out to be quite comparable at 15 percent, 13 percent and 14 percent respectively.

Sinha\textsuperscript{58} argues that the high P/E ratio observed in March 1992 is partly attributable to abnormally low earnings during 1991-92 and partly to the high P/E ratios of MNC's. Even after adjusting for these two factors, he finds the P/E ratio to be relatively high.

Ignatius\textsuperscript{59} has done an interesting study comparing the returns in the BSE with those in the NYSE. He finds a mildly significant weekend effect in the returns on equities in India as well as seasonality in return. With the month of December providing significantly higher monthly return overall, the return patterns in the BSE and the NYSE appear to be similar. A more vigorous study of this kind involving other markets would be very useful at the present juncture when the Indian market has been thrown open to investment by foreigners, such a study can assess whether there could be gains from portfolio diversification through investment in the Indian Capital markets.

Very recently, Dr.Guptha\textsuperscript{60} conducted a survey on mutual funds and asset performance of household investor in India. According to him, after the introduction of the financial liberalization policy, there are several changes found in the choice and pattern of asset preference of investors. Mutual Funds are the first preference of investors. Mutual Funds are in the center of the storm caused by shifting investment preferences. More than 25 percent of the middle class households newly become owners of units / mutual funds with in a span of two years, i.e. from mid 1990 to mid 1992. There is 30 – 40 percent annual growth in the number of the holders of unit / mutual fund products. However, the survey of Dr.Guptha revealed that products of Mutual Funds form in second and third choice. UTI schemes are leading in investment folio of middle class investor.

Sarma\textsuperscript{61} shows that during the period 1977-1988 an overwhelming majority of

\textsuperscript{60} Guptha L.C, 'Mutual Funds and Investor Preference in Asset Holding', \textit{Society for Capital Market Research}, Delhi, 1993
\textsuperscript{61} Sarma S and Narasimha, 'Financial Economics of Bonus Shares: Implications for The Value of The Firm', \textit{Academic Foundation}, Delhi, 1993, PP. 144.
the bonus issues are accompanied by increased dividend quantum in the bonus year itself. The range of increase is also large and in many cases the old dividend percentage is maintained on the enlarged equity base. Sarma’s study also indicated that the bonus of shares has no effect on the share value and supported the view that bonus generally signals higher future profits and dividends. There is considerable evidence to suggest that the market assimilates information regarding bonus issues rapidly and efficiently. In an efficient market, the share starts rising in anticipation of the bonus announcement and completes the rise immediately after the announcement.

In 1954 the Central Board of Investment\textsuperscript{62} conducted a sample survey of “Share Ownership Pattern on the Basis, of Income Tax Assessment”. The survey revealed that individuals constitute the largest proportion followed by Hindu individual families. Industrial Credit and investment corporation\textsuperscript{63} of India (ICICI), in a study on the financial performance of NBFC’s, during the period 1989-90 and 1991-92, pointed out that the profitability ratios showed a mixed trend during the period under study. The returns on total net assets, as measured by operating profits as a percentage of total net asset, decreased to 3.5 percent in 1990-91 from 3.7 percent in 1989 – 90 while the return – on net worth, as measured by profits after tax as a percentage of net worth, increased sharply to 20 percent in 1990 – 91 from 12.9 percent in 1989 – 90.

The profit margin in operating profits, as a percentage of main income, declined traditionally from 22.6 percent in 1989 – 90 to 22.5 percent in 1990 – 91. The total dividend as a percentage of net worth increased from 47 percent

in 1989 – 90 to 5.6 percent in 1990 – 91. The dividend rate (current dividends as percentage of total paid – up capital) also moved up from 9.6 percent in 1989 – 90 to 12.3 percent in 1990 – 91.

Barua\textsuperscript{64} undertakes a comprehensive assessment of the private corporate debt market, the public sector bond market and the government securities market. This study highlighted the need to integrate the regulated debt market with the free debt market, and the necessity for creating a market for financing, lending, optional and interest rate derivatives and for tax reforms.

With a view to have an idea of the existing pattern and emerging trends in this regard, the IDBI has first undertaken a study of the ownership pattern of shares and debentures of 447 IDBI assisted companies in June 1982. Further, it conducted another survey in June, 1982. It also conducted another survey\textsuperscript{65} in June 1986 on the same topic covering 575 companies in the portfolio of all India financial institutions.

The findings of the first study are:-

i. In equity shares, individuals held the largest number of accounts I.C, 99.8 percent of accounts, constitutes 31 percent in the value, followed by financial institutions 24.7 percent, companies 22.2 percent and government 20.4 percent;

ii. Large holdings i.e shares worth more than Rs 50,000 accounts for 80 percent of the paid-up capital;

iii. In the case of small and medium holdings individuals held 97.4 percent and 90.9 percent respectively. In the case of debentures, large share


\textsuperscript{65} 'IDBI Main Findings of Ownership Pattern of Shares and Debentures in IDBI Assisted Companies', Bombay IDBI, May 1995.
holders held 80 percent of the value. In the case of preference shares it is 93 percent;

iv. Individuals hold more shares, accounting for 37.3 percent of the total shares in MRTP companies;

v. Out of the issues offered, existing companies issued 92 percent of equities. Among new companies, ownership of equities is widely distributed between individual and financial institutions; and

vi. In private sector companies, individuals held 99.8 percent of accounts which formed 38.7 percent of the values among the individuals. Professionals held 28.6 percent of accounts which formed 31.9 percent of the value followed by salaried people at 21.1 percent of the value.

Srinivasan⁶⁶ who undertook a study on priority sector lending in India, emphasized that for improved profit performance, manpower productivity is the most significant factor. According to him, it has been proved that one unit increase in man power productivity increased profit by 1.5 units, while productivity of balance sheet items increased profit by 0.5 units, productivity of funds operation by 0.21 units the Indian banks have lost the opportunity to upgrade the work technology mainly because of the resistance of labor. Neither IBA nor individual banks have made any headway in convincing the unions that computerization is to their long term advantages. As bank's performance is expected to be raised to international standards there is no escape from upgradation of technology and work culture in the banking sector.

According to the study, "A Tax Avenue for High Returns", conducted by Sanjay Sidhwani, three schemes launched in 1990–91 by different mutual funds have been in the news lately for almost the same reasons. The investors are justly or unjustly cross with the fund managers. The SBI Triple Plus and CAN star schemes have blown into major controversy with unit holders. In the first two cases complaining that the NAV is quoted much below the repurchase price. The investor may have valid point technically speaking but the funds also stand on firm grounds with a good defense to fight their courtroom battles.

The merchant bankers pointed out that the continuing liquidity crunch, the sleepy secondary market, tight money position due to credit squeeze at many places all at once, financial service companies are under a siege.

Rangarajan, RBI Governor, in the first National Convention of the Equipment Leasing Association (India) at Bombay on July 26, 1993, while delivering a talk on "Role of NBFC", observed that both from the macroeconomic perspective and the structure of the Indian financial system, the role of NBFC’s has become increasingly important. The main task before the NBFC’s is, therefore, to play an expanded role so as to accelerate the pace of growth of the financial market, including capital market, and provide wider choice to investors. The problems of banking system on account of sub social banking are addressed, the banks would have a level playing field which may enable them to compete with NBFC’s with increased levels of efficiency.

68 The Merchant Bankers, February, 1996, PP. 28
According to the former UTI executive trustee, Kurion\(^{70}\), selling of shares is a tricky business. Sometimes funds rewarded with more shares than they bargain for thus overshooting the 5 percent limit is good.

A study conducted by the Society for Capital Market Research and Development\(^{71}\), Delhi, reveals that over 80 percent of share owners in India are dissatisfied with the grievance redressal mechanism. Nearly 40 percent of the investors complain about non-receipt of refund orders. SEBI could not effectively react with follow up action SEBI could not protect the investor in the complains under the area of Company Law Board. The written complaints received by SEBI rose to 3.25 Lakh in 1995 from 1.50 Lakh in 1992. Even capital market is sluggish SEBI could not stop kerb practices in script trading as well as transactions of fictitious scripts and illegal transactions in stock exchanges. It could not stop gambling and speculation in the stock market.

Joginder Singh\(^{72}\), department of commerce, H.P. University, Shimla, in a study titled "Working of Security Market in India", has covered the evaluation of the overall performance of security market. The analysis is carried out in two parts i.e new issues market and stock exchanges, which covers the entire working of security market in India. The analysis of new issues market is based on the data from 1974-75 to 1988-89, whereas in the analysis of stock exchange the data ranges from 1946-1990. The major findings of the study are given in the next page.


i. The domestic savings mobilized from the public sector, private sector and hold sector house. The household sector constitutes the main stream of savings in India, followed by the private sector and the public sector;

ii. A very low proportion of savings is canalized through the security market. The equity share capital has significant proportion in the capital structure as this security is very popular upto 1979. The capital raised by debentures increased at a much faster rate than any other instrument. After 1980, preference shares tried to attract the investor, and failed to attract the investor even after the ceiling rate of dividend on preference shares and convertible cumulative preference shares is raised;

iii. The huge resources at the disposal of financial institution enabled the new as well as existing companies to raise capital through of shares. The institutional support played a significant role in activating the security market;

iv. The cost of public issue is very high. On an average, 8 to 10 percent of amount offered to public is represented by cost of issue;

v. Upto 1990 there are 19 stocks exchanges in India. The growth of stock exchanges is inadequate and unbalanced. Bombay stock exchange is the premier stock exchange in India;

vi. Most of the companies are listed only in one stock exchange. The ‘A’ group securities are actively traded in the stock exchanges whereas the majority of the ‘B’ group securities are not traded frequently;

vii. There is no uniformity in the organizational structure of stock exchanges in India;

viii. Lack of qualified professional members, infrastructure facilities, inadequate financial resources of the members are leading to the sluggish growth of industrial securities; and
ix There are various undesirable activities in trading of securities like unspecified margin option dealings, rigging, kerb trading, insider trading etc.

Mohan Rao\textsuperscript{73} conducted a study on "Working of Mutual Fund Organizations in India". In his study he stated that in regard to geographical spread of investor, highest concentration is seen in metropolises followed by mega cities. The lowest concentration is found in rural areas.

A study is conducted by Narasimha Rao\textsuperscript{74}, on the determinants of rates of equity shares in India. The main objective of the study is an examination of the risk-return relationship in equity shares in India the survey findings show that,

i. The different statistical measures of risk displayed a highly correlated inter-dependent structure and they exhibited a significant relationship with return on equity shares;

ii. The 25 accounting measures of risks identified exhibit an inter dependent structure which conforms to the hypothesized classification. In each of these, only a few variables which are specified below;

iii. Dividend measures and growth measures are significantly correlated with return on equity shares. Average measures showed


\textsuperscript{74} Narashima Rao T.V, \textit{Determinants of Rates of Returns of Equity Shares in India} (Unpublished Thesis).
a negative association with the return on equity, size measures, variance and co-variance form of accounting measures of risk have not displayed significant association with the return on equity shares;

iv. Market factor explains, that, about 33 percent of the variance in equity returns and industry effects explained roughly 13 percent variance in equity return;

v. The CAPM tests revealed that the risk premium estimated by the model is in excess of theoretical limits and the study revealed the rejection of the CAPM to Indian conditions; and

VI The test of APM shows that the 5 factor model is adequate to explain the systematic risks in the returns data in a comparative analysis. The APM is consistently better than the CAPM but both the models are not exactly parsimonious in their role as Asset, Pricing Models.

Patel committee members; Patel\textsuperscript{75} former UTI chairman, Dr. Dave, Executive Director of IDBI. Nanda kumar, Chairman and Managing Director of ICICI, Pherwani Chairman of UTI Dr. Gupta Director of Development Banking Sector Dr. Paiponadiker Secretary General of FICCI Sri. Shanbhgoe president of the Institute of Company Secretaries of India, Sri. Mayya Executive Director of Bombay stock exchange, Sri. Mehta, Joint Secretary of the Department of Economic Affairs & others

The committee is to make a comprehensive review of the functioning of stock exchanges and make recommendations. Its terms of reference are wide ranging and included to examining the general functioning of the stock exchange as an integral part of the financial system.

To suggest measures to improve overall service to the investors by members of stock exchanges and to encourage small investors, particularly in semi urban and rural areas to invest in industrial sector to mop up a larger volume of capital for productive investment and to examine the existing system of values and regulations relating of securities in stock exchanges and the listing agreement between companies and stock exchanges.

The Patel Committee's recommendations are as follows:

In the light of recommendations made by the committee in their interim reports, the government issued several guidelines and directives to the stock exchanges relating to matters such as bringing down the cost of public issue of securities listing of securities, on the stock exchanges, creation of customer's protection fund and insurance cover for members of stock exchanges.

In a recent study conducted by the Confederation of Indian Industry and the World Bank in ten different states to elicit the views of approximately 1100 entrepreneurs and managers, the study concluded that Kerala is found to have a poor investment climate.

Maharashtra and Gujarat are the states having the best investment climate followed by Tamilnadu, Karnataka and Andra Pradesh with good investment climate. West Bengal and Uttar Pradesh have been categorized as states with poor investment climate along with Kerala.

According to Sachdev mutual funds, unlike bank deposits, are not guaranteed. But the way mutual funds, especially debt funds are operated it may be said that they are very quite safe.

They can provide higher returns than normal bank deposits. This should bring cheer to the likes of ribeiro who because of lack of awareness chose to stick to investing in traditional instruments.

In Path breaking verdict, the Securities Appellate Tribunal\textsuperscript{78} has said that a person indulging in insider trading can not be furnished unless it is proved that he has unfair advantage over other shareholders. The ruling will have far reaching consequences considering that insider trading by nature, is extremely difficult to prove. It may also give interesting twists to on going enquiry into allegations such as those made by Mr.Samir Arora concerning alleged insider trading in the shares of Digital Global Soft, Reliance Industries and L& T shares.

The respondents do not believe that there is a well defined risk - return relationship for the Indian equity market. This may by probably due to disillusionment of the investors with the applicability of standard CAPM \textsuperscript{79}

\textsuperscript{78} Dinesh Narayanan, "All Insider Trading Cannot be Punished, Says SAT", \textit{The Hindu}, Nov 5, 2003.

1.4 Need for the study

The above said studies have covered the aspects at macro level are the ownership pattern in the capital market, preference shares and company finance, occupation-wise break up of paid up value of share holdings of individuals, ownership pattern of shares/debentures, geographical distribution of share ownership in India, present position of stock market, behaviour of share prices, and determinants of rate of return on equity shares in India. There are very few studies covering the issue at micro level. Not many studies are made on the behaviour of investor at the regional micro level. Further, there is no study, especially on the behaviour of investor concerning equity shares and debentures. Further more, the researcher is working adjacent to the area of the study. He knows well men, matters and materials in the region. Hence, the present investigation is an attempt in that direction. The issues investigated in the present study include awareness of investment avenues, investment pattern, the most preferred objectives of investors, and investment evaluation.

1.5 Present Study: Present study covers the following

1.5.1 Objectives of the study

The specific objectives of the study are;

i. To evaluate the investment pattern of investors;

ii. To study the investors' awareness of investment avenues;

iii. To analyze the investment objectives of investors; and

iv. To examine the factors involved in the process of investment evaluation.
1.5.2 Hypothesis

Certain hypotheses are tested for the purpose of the study. In testing the hypothesis, null hypothesis are formed either to be proved or to be rejected, so that the alternative hypothesis could be accepted. The hypotheses tested in this study are given together with the analysis.

1.5.3 Operational definitions

i. Interest: Return to the capital as a factor of production or a paid for abstaining from present consumption leading to savings

ii. Corporate securities: Refers to equity shares and debentures convertible and non convertible debentures of joint stock companies.

iii. Risk: The uncertainty of the income/capital appreciation or loss of both.

iv. Inflation: Defines as a state in which the value of money fall in relation to price rises.

v. Investor: Refers to individuals who invest in corporate securities expecting some returns on it.

vi. Salaried investors: Those who are employed for fixed remuneration/salary for their service.

vii. Self employed investors: Refers to those who employed themselves by starting their own activity to earn their livelihood.

viii. Savings: The excess of income over expenditure for any economic unit or individual thus S=Y-E where s = savings, Y=income and E=expenditure.


x. Others: Refers to other investors who include all other investors excluding institutional investors.
xi. Hereditary investors: Include those investors who have inherited the habit of investment or who have received the corporate securities by right of birth from their ancestors as well as those who by themselves, without any inheritance, entered the capital market in the seventies or earlier.

xii. New generation investors: Include those who for the first time have entered the capital market without any inheritance as to corporate securities, after the eighties.

1.5.4 Sample selection

For the present study, investors from Bangalore region are selected as a sample unit. These sample investors belong to various age groups, occupational groups and income groups. Investor types, namely, hereditary investor and new generation investors are covered in the study. Five hundred sample investors of various above said groups from the Bangalore region have been selected together the information for the purpose of the study. Investors have been identified with the help of investment companies and investor points. To select the sample investor, to interview and for collection of data, judgment sampling is adopted by the researcher

1.5.5 Data Collection

This study made use of both primary and secondary data. The primary data is collected through interview schedule. A well-designed interview schedule is used by consulting experts in the field. The schedule is pre-tested by means of pilot study. Later interview schedule is printed. The information from the respondents is collected by personal by personal interview method. The secondary data is gathered from reports, books, journals, periodicals, dailies, magazines, internet etc.
1.5.6 Tools for analysis

Objectives like investment pattern, investors' awareness of investment avenues, pre-investment objectives and investment evaluation. The analysis is made as to age, education, occupation, income and type of investors. An attempt is made to find out whether the investors of different groups differ in their investment pattern, awareness and investment objectives. The analysis is also aimed at finding out the investment evaluation made by the investor in making investment decision. The statistical tools used to carry out the above said analysis are given below.

The mean scores, frequencies, percentages for all the variables used in the study are calculated. The nature of distribution of the variables examined in the study could be assessed from mean scores and standard deviations of the same. For selected variables, based on the scores given by the sample respondents, ranks are also awarded in order to know their level of significance.

The international analysis consist of parametric tests like F test, critical ratio and paired T-test. They are used to find out the significant differences, if any, between the mean for different groups of different variables identified for the present study. F-test is applied to find out the significant difference between groups of various categories, namely, age, education, occupation and income in respect of investment objectives, various evaluation factors (namely industry company, technical and security analysis) Critical ratio is employed to find out the significant difference between the types of investors in respect of investment objectives. Further, wherever F is significant, critical ratio is employed to find out the comparisons of groups that are responsible for such significance. F test, t - test is applied to see whether there is any significant difference between the various investment objectives and the realization of these objectives.
Step-wise discriminant function analysis is applied to know whether the identified four evaluation factors, namely, industry analysis, company analysis, technical analysis and security analysis have the capacity to differentiate between the various age groups such as up to 30, 31-40, 41-50 and above 50 age groups; between the various educational groups, namely, graduates, post graduates, professional and others; between various occupational groups, namely, Salaried, Business, Professionals and others; between the various income groups, namely, up to Rs 50000, Rs 50001 to 100000, Rs 100001 to 150000 and above Rs 150000; and also between the types of investors like hereditary investors and new generation investors. This is also used to see which of these factors contributed maximally towards the difference between the groups in various categories mentioned above.

The SPSS computer programme is used in this study for the purpose of getting the results of discriminant function analysis. This programme performs discriminant analysis either by entering all discriminate variables directly into the analysis or through a variety of step-wise methods selecting the best set of discriminating variables. In this study, Rao's V criterion is used for controlling the step-wise selection. Eventually, either all the variables are selected or the remaining variables are no longer able to contribute to further discrimination. When this point is reached, the step-wise procedure halts and further analysis is performed using only the selected variables. The use of step-wise procedure results in an optional set of variables being selected. The result is only optimal (rather than maximal) because not every possible subject is considered. The assumption is that the step-wise procedure is an efficient way of approximately locating the best set of discriminating variables. This step-wise procedure is employed in the present study.

Step-wise regression analysis, as the name implies, develops the least squares regression equation in steps. It selects the independent variables taken for the study, step by step, based on their ability to explain the variation in the dependent variable. Discriminant analysis begins with the
desire to statistically distinguish between two or more groups of cases. The mathematical objective of discriminant analysis is to weigh and linearly combine the discriminating variables in some fashion so that the groups are forced to be as statistically discriminatable as possible.

1.5.7 Scope and limitations

The present study aims at analyzing the investment behaviour of individual investors with special reference to corporate securities. The scope of the study is confined to two important types of corporate securities, namely, equity shares and debentures. Other corporate securities like bonds, preference shares are excluded for the purpose of the study. Further, the study is with reference to investors of Bangalore and the investment behaviour of investors of only Bangalore is studied.

Any behavioral study would face its own limitations and the present study is not an exception. The investors are reluctant to part with information relating to their personal life. Instilling confidence at the time of data collection is quite a hard task but after winning their confidence, eliciting information is made easy and possible to some extent. The study is confined to only equity shares and debentures. It does not cover other corporate securities like preference shares and bonds etc. However the overall objective of this study is not affected by the above said limitations.

1.6 Chapter layout

The present study is divided into seven chapters. The first chapter introductory in nature. It deals with the significance of the study, statement of the problem, review of literature and the need for the study. The research design and methodology are also included in this chapter.

Second chapter explains the profile of the operational area of the study i.e. Bangalore.
Third chapter sheds light on introduction to stock market and the legal framework of securities market. Further, it also deals with the security exchange board of India guidelines for disclosure and investor protection and the rights and responsibilities of investor in the securities market.

Fourth chapter analyses the personal profile of investors like age group, education, income, occupation and investor type. It also comprises investment pattern of Indian investor and investment pattern of sample investor.

Fifth chapter examines the investor awareness of investment avenues and the pre-investment objectives of investors while they make investment decisions. Significance is also tested between the various groups of investors and pre-investment objectives.

Sixth chapter deals with the investment evaluation of investor, economic analysis, industry analysis, company analysis and technical analysis are analyzed. F test is used to find out the level of significance of various types of analyses between the age groups, educational groups, occupational groups and income groups.

Seventh chapter presents the findings of the study and suggestions proposed by the researcher. It includes the different portfolios suggested for effective deployment of funds. This chapter also contains information for further research.
Summary

The Indian financial market have witnessed a transformation over the last decade, due to financial liberalization and deregulation. Investor behavior is also changed regarding investment. The present study seeks to examine and analyze the investment pattern and investor behavior in the selection of corporate securities with special reference to equity shares and debentures in Bangalore. The survey is undertaken in Bangalore city, with a sample size of 500 investors (Respondents). Both the primary and the secondary data are collected for the purpose of the study. Information collected from the respondents is analyzed with the help of SPSS computer program. The present investigation is confined to the behavior of only the investors of Bangalore city. This dissertation carries seven chapters.