CHAPTER - I
INTRODUCTION

In India, commodity markets largely remained underdeveloped in earlier years. Free trade in many commodity items remains restricted under the essential commodities Act (ECA), 1955 and forwards as well as future contracts are limited to specific commodity items listed under the forward contracts (Regulation) Act (FCRA) 1952. Following the introduction of economic reforms in 1991 and the expert committee report in June 1993, reintroduction of futures which were banned in 1966 and expansion of coverage to agricultural commodities along with silver was done. The National Agricultural policy 2000 envisaged external and domestic market reforms and dismantled all controls and regulations in the agricultural commodity markets.

Today, commodity exchanges are purely speculative in nature when compared to the earlier period when the prices of any commodity were not fixed in an organized way. But, at present, before investing in commodity markets, the buyer can reach to the producers, end-users, and even retail investors at a grass root level, thus having price transparency and risk management in the vital market. Since 2002, the commodities market in India has experienced unexpected changes in terms of modern exchanges and the number of commodities allowed in 2006 became 94 as compared to 59 commodities in 2005. These commodities included major agricultural commodities such as rice, wheat, jute, cotton, coffee, major pulses such as urad, arahar and chana, edible oilseeds such as mustard seed, coconut oil, groundnut oil and sunflower oil, spices like pepper, chillies, cumin seeds and turmeric, metals such as aluminium, tin, nickel, and copper, bullion as gold and silver, crude oil, Natural gas and polymers among others. Gold accounted for the largest share of trade in terms of value.

In India, there are 26 exchanges operating in India and carrying out commodity trading activities in as many as 146 commodity items at present. There are at present 6
nation-wide markets multi-commodity exchanges accepted by the Government of India, the National Multi Commodity Exchange (NMCE), Ahmadabad, Multi Commodity Exchange (MCX), National Commodity and Derivatives Exchange (NCDEX), Mumbai Indian Commodity Exchange (MICEX), the Ace Derivatives Exchange (ACE) and the Universal Commodity Exchange (UCX). The chief regulator of these commodity futures markets in India is the Forward Markets Commission (FMC), Mumbai and is overseen by the Ministry of Finance. At present, it regulates Rs 17 trillion worth of commodity trade in India for the year 2014-15. It is evident that an efficient and well-organised commodities market is generally helpful in price discovery for traded commodities.

India, being one of the top producers of a large number of commodities, and also having a long history of trading in commodities and related derivatives, the knowledge about commodity markets among our Indian citizens is very important and essential. Since the commodity market has made enormous progress in terms of technology, transparency and the trading activity, how far the people are aware of this commodity market and its activities needs to be studied.

1.1 STATEMENT OF THE PROBLEM

A commodity market facilitates trading in various commodities. It may be a spot or a derivatives market. In a spot market, commodities are bought and sold for immediate delivery, where as in derivatives market, various financial instruments based on commodities are traded. These financial instruments such as ‘futures’ are traded in exchanges.

Commodity markets have diverse avenues for investment, away from traditional avenues of equity, bonds and real estates. A better exposure to commodity markets and awareness of their services helps to increase the investor’s returns while lowering their risks. Not much people know that commodities marketing has something for everyone with ample opportunities to trade, hedge and speculate, commodities have long been the asset class to invest in. Hence, the awareness about such commodities market among the
people has to be studied and analyzed to further improve the commodities trading in India.

There is a general fear among the people that most investors lose money in commodities marketing. This happens only when market participants do not trade with discipline and fall victim to greed and fear. One more reason for the loss is that they lack proper awareness about the commodities market. This can be overcome by studying and analyzing about how far people are aware of commodities market.

1.2 IMPORTANCE OF THE STUDY

The commodity market plays a vital role in India’s economic growth. It is known that India’s major growth sector of the future are commodities and commodity market. India is set to become a major producer, consumer, exporter and importer of a wide range of commodities. Recently, many investors have been attracted to trade in commodities market due to many factors such as transparency in the price mechanism, low margins, risk management, benefits to farmers due to price clarity and a well organized market. Moreover, commodity market ensures uniform standardization of the product quality due to its stringent terms and it has enabled to predict the price of the commodities there by reducing the risk. The exporters can hedge their price risk and improve their competitiveness by making use of commodity futures market. The Indian commodity market has been integrating with the global market as a result of the free-trade environment. Unlike the share market, commodities market offers a different avenue for investment as they are less volatile when compared with equities and bonds is a highly liquid asset class and offers the investors an opportunity to gain from the price movements in commodities. Also the long trading hours of the commodity market enables easy access to markets all the time.

With all these benefits, it is important that all commodity trading decisions should be based on good knowledge and commercial intelligence. Since many people do not have proper knowledge about commodity market, the role of brokers is mainly relied on. The broker plays an important role in giving depth and liquidity to the market, and
informing investors about the risks involved. But if the investors have no knowledge about their commodity trade, there are chances of facing loss. Demand for commodities both in domestic and global market is estimated to grow by four times than the current demand in the next five years. In this context, it is quite evident that how far the investors or the people are aware of the commodity market so as to attract more investors by removing the general fear of the people needs to be extensively studied. Moreover, the proposed study on “A study on investors awareness towards commodities market” (with reference to Namakkal District, state of Tamil Nadu, India) is considered more important to analyze the people’s awareness to recommend for further improvement in commodity market, there by uplifting Indian economy.

1.3 SCOPE OF THE STUDY

Indian commodity markets has risen to global standards with a decade of its launch and has become one of the top exchanges in the world. The Multi-Commodity Exchange (MCX), reached the world’s No.1 exchange for gold and silver futures, No.2 rank for copper and natural gas futures and No.3 rank in crude oil futures contracts recently. This proves the success of Indian commodity markets and also the scope of the future of commodities markets is very bright.

NCDEX has benchmarked in agricultural commodities, targeting newer non–farm futures by re-launching its steel futures and launching India’s first Gold – Hedge contract. All these assure the scope for new investors in the commodities market which has ever-growing opportunities of trade and investment. Apart from this, the investor has an assurance of multiple benefits of trading in these commodity markets. The well – organized and strictly regulated environment of the Indian commodity markets has helped in the formation of the controlled and structured platform making it more beneficial for the investors of commodity markets,

Namakkal District in Tamil Nadu is a financially active district being a hub for the poultry, rig and transport industries. Apart from these industrial wealth, it consists of large number of educational institutions of the state. Agriculture is the main occupation
of the district with 90 percent of cultivated area being food crops. Being a prominent district with both commodities production through agriculture and busy financial fund flows, it is an appropriate area to conduct the study on commodities market. With the availability of many people with varied profession, financial status, educational qualification, community etc, the Namakkal district offers the platform for the study and analysis of the awareness of these people on commodity markets. The results and recommendations of the study has wide scope for the contribution to boost the Indian economy.

1.4 OBJECTIVES OF THE STUDY

The study aims to measure how far the people from varied socio-economical status in Namakkal district are aware of the functions and services of commodity market and analyse their preferences in commodities markets. Specifically the objectives of the study are as given below;

1. To examine the operations and functions of commodity markets.
2. To examine the awareness of the investors on commodity markets.
3. To examine the preferences of the investors in various commodity markets.
4. To suggest, if necessary, the recommendations and steps to be taken to improve the awareness of the investors on commodity market to enhance the commodity market trade.

1.5 LIMITATIONS OF THE STUDY

1. The proposed study is confined to
   (a) Investors in commodities market and people with varied socio-economic status in Namakkal District, Tamil Nadu.
   (b) Commodities market services available at Namakkal District, Tamil Nadu.
   (c) The results of the study are based upon the information given by the investors in Namakkal District, Tamil Nadu.
2. The data collected are based on the questionnaire and the results of the study and would be varying according to the opinions of individuals.
3. The statistical tools used to analyse the data have their own limitations.
1.6 RESEARCH METHODOLOGY

Survey method of research is adopted for the study. The survey is conducted by means of a question schedule. The researcher visited various commodities market in Namakkal District to get the question schedule filled. Before visiting the above commodities market, the researcher selected the commodities market and stock broking officers to be visited by a lot system. After having entered in to the office, the researcher approached the manager of the commodities trading centre for selecting a few investors as respondent for the study. The researcher obtained the list of the investors from the manager of commodities trading centre office who had invested in commodities market. After having received the list, the respondents were numbered and the number of required respondents were chosen as per proportional allocation principle. The researcher approached every respondent with an introductory letter and got the questions schedule duly filled. The researcher visited 30 commodities trading centre in and around Namakkal town, 7 commodities trading centre in and around Rasipuram town, 9 commodities trading centre in and around Tiruchengode town, 5 commodities trading centre in and around Paramathi velur town. There are about 1500 investors participating in all these commodities trading centre. Out of the total population of 1500 investors, the researcher has selected 300 investors as sample respondents for the study.

1.7 SAMPLING TECHNIQUE

Disproportionate stratified random sampling technique is adopted. The researcher decided the sample size in accordance with the population of investors at Namakkal District level. As such a large sample size of 300 investors were chosen from all five taluks of Namakkal District. The place and nature of employment were decided at random and sample respondents were chosen accordingly. Namakkal district already consisted of four taluks that is Namakkal, Tiruchengode, Paramathi velur, and Rasipuram. At present, a Kolli hills has been included as a new taluk of Namakkal District. Since large area of Kolli hills consists of hills, hill plantations, agricultural lands and forest area, there are no commodities trading centres in this in this taluk. Hence sample investors from this taluk do not exist.
As a result, 158 respondents were chosen from Namakkal taluk. Out of them, 35 investors from agriculturist, 73 from salaried class, 40 from business people and 10 from students and others

46 respondents were chosen from Rasipuram taluk. Out of them, 10 investors from agriculturist, 21 from salaried class, 11 from business people and 4 from students and others.

60 respondents were chosen from Tiruchengode taluk. Out of them, 13 investors from agriculturist, 27 from salaried class, 15 from business people and 3 from students and others.

36 respondents were chosen from Paramathi velur taluk. Out of them, 8 investors from agriculturist, 16 from salaried class, 9 from business people and 3 from students and others. The statistical details of sample size have been shown in table 1.1

### TABLE 1.1

Table Showing Number of Sample respondents chosen from Namakkal District.

<table>
<thead>
<tr>
<th>Taluk Wise Respondents</th>
<th>Nature of Profession</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agriculturist</td>
<td>Salaried Class</td>
</tr>
<tr>
<td>Namakkal</td>
<td>35</td>
<td>73</td>
</tr>
<tr>
<td>Rasipuram</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>Tiruchengode</td>
<td>13</td>
<td>27</td>
</tr>
<tr>
<td>Paramathi velur</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Kolli Hills</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66</strong></td>
<td><strong>137</strong></td>
</tr>
</tbody>
</table>

Source: Primary data.
1.8 DATA COLLECTION AND ANALYSIS

Both primary and secondary data are widely used. Secondary data were collected from books, periodicals, magazines, brochures, notices, RBI bulletin. Business line newspapers, journals etc. Primary data were collected by means of a question schedule. The researcher met the respondents in person and got the question schedule filled. The filled in question schedules were arranged in such a way to prepare tables. From the tables, the data were analysed by means percentage analysis, charts, diagrams and various other statistical tools. Besides, chi-square test and Analysis of variance were also used to test of hypothesis.

1.9 PERIOD OF THE STUDY

The period of the study was confined from October 2012 to October 2014 with a view to gain an insight into the level of awareness of investors in the commodities market in Namakkal District, Tamil Nadu. The review of literature and conceptual frame work of the study took six months period. Preparation of the interview schedule and conducting the pilot study consumed six months. The collection of primary data from the commodity market investors took six months of time. The analysis and interpretation of the data took another three months. The last three months period was used for rough drafting and final form of thesis.

1.10 HYPOTHESES TESTED

The following hypotheses were framed and tested in this study.

1. Whether there is a significant relationship between classification of respondents and (a) years of participation in this commodities trading, (b) Experiences of the respondents, (c) understand about operations of
commodities market, (d) Satisfaction towards rate of return and (e) factors motivated to participate in to commodities trading or not.

2. Whether there is significant difference with in (i) Gender wise, (ii) age wise, (iii) Educational qualification wise, (iv) Income wise and (v) Profession wise as far as the (a) years of participation in this commodities trading, (b) experiences of the respondents, (c) understand about operations of commodities market, (d) satisfaction towards rate of return and (e) factors motivated to participate in to commodities trading or not.

1.11 PROFILE OF NAMAKKAL DISTRICT

Namakkal District was bifurcated from Salem District, Tamil Nadu, with head quarter at Namakkal. It has two Revenue Divisions, viz, Namakkal and Triuchengode and five taluks, viz Namakkal, Rasipuram, Triuchengode, Kolli Hills and Paramathi Velur. The Namakkal district is very famous for bus and lorry body building. Poultry farms, Egg production, money lenders, real estate business, textiles, Agriculture and so on. The district is well served by both rail and road transports. By broad gauge line of southern railway, it is connected with Salem, Mangalore, Thiruvananthapuram, Bangalore, Chennai, Mumbai and Delhi, where as NH7 passes through most of the taluk head quarters.
FIGURE 1.1
Location of Namakkal District in state of TamilNadu, India.

FIGURE 1.2
Map of Namakkal District
1.12 CHAPTER ARRANGEMENTS

The thesis is presented in ten chapters.

Chapter I – INTRODUCTION

The first chapter introduces the subject matter and explains the statement of problem, importance, scope, objectives, limitations, Research methodology, sampling technique, Data collection, Period of the study, profile of Namakkal district and chapter arrangements.

Chapter II - REVIEW OF LITERATURE

The second chapter presents the previous studies related to the objectives of the present study.

Chapter III - INVESTORS AWARENESS – CONCEPTUAL THEORY.

The third chapter deals with meaning, Dimensions, Concepts and measurement of investor’s awareness.

Chapter IV - EVOLUTION OF COMMODITIES MARKET.

It elaborates the growth and development of commodities market in Tamil Nadu and India.

Chapter V - TRADING OF PRODUCTS IN COMMODITIES MARKET.

This chapter deals with the study of the type of products traded on commodities market.

Chapter VI- PROCEDURE FOR TRADING IN COMMODITIES MARKET

This chapter is based on the study about the various procedures to be followed while buying or selling a product in commodities market.
Chapter VII- INVESTORS AWARENESS TOWARDS COMMODITIES MARKET. AN EMPIRICAL ANALYSIS- I

The seventh chapter examines the Investors awareness towards commodities market. For examination purpose, percentage analysis were applied.

Chapter VIII- INVESTORS AWARENESS TOWARDS COMMODITIES MARKET. AN EMPIRICAL ANALYSIS- II

The eighth chapter examines the Investors awareness towards commodities market. For examination purpose, chi-square test was applied.

Chapter IX - INVESTORS AWARENESS TOWARDS COMMODITIES MARKET. AN EMPIRICAL ANALYSIS- III

The nineth chapter examines the investor’s awareness towards commodities market. For examination purpose, Analysis of variance (ANOVA) was applied.

Chapter X- SUMMARY AND SUGGESTIONS.

The last chapter summarizes the findings of the previous chapters and makes an attempt to suggest possible guidelines for the success of investors in commodities market and also recommend some modifications, if required in the procedures and easily understandable regulations of the commodities market.