CHAPTER - 1

SENSEX CROSSES 20K

Introduction & Research
Methodology
Introduction

The economic prosperity of a country ultimately depends upon its financial system. As long as its financial system is well managed and maintained efficiently, effectively and on sound lines, the country's economy would maintain its upward swing and sustain all round growth. Such a situation gives the public a lot of confidence in the system to channelise their savings into the financial institutions, which is very necessary for all developing economies, which till recently were victims of exploiting colonial powers. Mobilising adequate resource for development and for being self-reliant such channelising is very necessary. The effective functioning of the two important constituents of the financial system viz., financial Institutions and Markets, decides the development of the economy, particularly in the developing countries like India. Therefore effective management of financial institutions and financial markets has assumed greater importance all over the globe. These have become key areas to decide a country's reputation and progress.

The Indian capital market has witnessed a radical transformation and grown manifold both in qualitative and quantitative terms. It now occupies the centre stage of the domestic financial system. Various sectors of the economy are influenced by the changes in it. There is hardly another country in the world, which has witnessed such massive changes in its capital market in such a short period. The capital market is one of the main supporting systems that provide vitality and sustenance to industrial and commercial enterprises. Recognizing the need of capital market development as a precondition for the blossoming of industries and allied areas, every government strives hard for the
sustained growth of its capital market. Introduction of on-line trading, dematerialization of securities, derivatives trading, rolling settlement in the stock exchanges etc. are some of the notable measures initiated by the government. This has resulted in increased transparency in dealings, rise in market volume, increased market capitalization of companies and the like.

The Capital market facilitates free trading, buying and selling in all securities. It has two mutually supporting and indivisible segments: the primary market and the secondary market. In the primary market, companies issue new securities to raise funds. Hence it is also called the new issue market. The secondary market also known as the stock market deals with the securities that have already been issued by companies, which are listed in stock exchanges. In the primary market, companies interact with investors directly while in the secondary market investors interact among themselves. In both cases, the capital market intermediaries, (investment or merchant bankers, stockbrokers etc.,) play an important role. The secondary market, based on all available information, determines the price and risk of the issued securities. It provides useful signals to both listed companies and investors to act in the primary market.

Capital Market in India

The Indian capital market really developed from the mid-1980s onwards with the introduction of the New Economic Policy. The thrust of the new policy was on productivity growth, efficiency and on the quality of products so as to make the Indian industry competitive. At that time debentures and public sector bonds emerged as powerful instruments of resource mobilization in the
primary capital market. Consequently, the secondary market also began to grow fast from that time. The number of stock exchanges, the number of listed companies on stock exchanges, their market capitalization and the value of traded shares increased significantly. However, until 1991-92, the securities market did not develop in consonance with the rest of the economy for various reasons. The trading and settlement infrastructure remained poor. Trading on all stock exchanges was through open oral transaction. The regulatory structure was fragmented and administered by different agencies. There was no apex regulatory authority for regulation and inspection of the securities markets. The practice of forward trading created unnecessary speculation. The large-scale irregularities in securities transactions detected in 1992 exposed many loopholes in the existing system.

The phenomenal change in the fortunes of secondary markets in India has come about by the introduction of online trading, rolling settlements, electronic shares, and increased Foreign Institutional Investors (FIIs), participation. A comparative analysis of the experiences of select emerging Asian countries also confirms the view that financial liberalization has helped in the development of stock markets. The continued upward trend of the Sensex during the last nine years has been due to a variety of factors. In fact, the upward trend has not been a straight line. The price curve has had its ups and downs. For example, there was the Securities Scam, which in 1992 pulled the Sensex downward. And then came the settlement between the Ambani brothers, which pushed the Sensex up by about 200 points. In 1997- about nine years ago- the BSE Sensex ruled at a little above 3000. The bulls pushed it above 5000 in about two years. The bullish trend persisted and the Sensex
ruled above 9000 in 2005, and it shot up tremendously to 20,000 mark by the end of October 2007. The same trend continued up to second week of January 2008. It is an amazing trend in the capital market and a good sign of corporate performance and also overall economic prosperity of India. But unfortunately a drastic decline was started crashing the market recording a BSE Sensex less than 15,000.

The volume of capital market activity has increased substantially over the last couple of decades though in very recent years, for various reasons, the activity has been somewhat subdued both in the primary and secondary markets. The period has also witnessed some widening and deepening of the market and the emergence of new institutions, such as merchant banks and mutual funds as well as new market instruments. Venture capital companies have also made their appearance but they have not grown anywhere near their potential, as exemplified in the U.S. or the need for them given the contribution they can make to convert innovative scientific ideas into commercial propositions and for their role in promoting techno entrepreneurship. This calls for proactive policies such as fiscal concessions and a supportive setup operational guideline including encouraging foreign venture companies to set up in India. The expansion of capital markets to meet successfully the challenges of the future requires the correction of some longstanding systemic deficiencies stemming form institutional and procedural aspects of the functioning especially of secondary market institutions. This is being done and there is now a greater measure of transparency as a result of the requirement of fuller disclosure and the arrival on the scene of investment -oriented research agencies. Reform of the stock exchanges is also under way. A depository
system has been introduced and dematerialized trading has picked up. Computerised on-line trading between different markets is gathering momentum and the presence of the National Stock Exchange has made an enormous difference acting as it does as a pace setter for improved market procedures.

The reform in the Indian capital market would gain added significance in the context of a measure of internationalization of Indian capital markets. For the Indian system to derive the full benefits and avert risks involved in the process, a structured and sequenced integration would be needed. Greater interaction of Indian and international markets would necessarily involve further improving our procedures and practices. Foreign investors are used to open trading systems within the framework of prudential regulation. Their markets are also characterized by adequate disclosure and research based information and severe penalties for insider trading. Our markets would need to conform to these principles, both for their own development and to promote fruitful linkages with foreign capital market.

Individual and small investors in our country suffer from certain inherent drawbacks. There is a general reluctance on their part to invest either directly or indirectly in the capital market. This may be due to many reasons. Firstly, only those who have a fairly good knowledge of it can do successful investment in the capital market. Consequently, people shy away from investing in it. Secondly, investors encounter various impediments created by other market participants. As a result investor complaints keep escalating year after year. "The standard of service and information being provided to shareholders in India by companies and stock brokers is not only below world
standards but leaves a majority of Indian shareholders dissatisfied". Thirdly, the series of securities scams unearthed over the past few years have dampened the spirit and enthusiasm of investors.

The liberalization in the primary capital market was mainly aimed at greater autonomy to corporate bodies and better transparency for investors. If included free pricing norms for issues, removal of interest ceiling on debentures, abolition of the position of Controller of Capital issues and dropping of mandatory conversion of debt to equity by term lending institutions. Statutory powers were conferred on the Securities and Exchange Board of India (SEBI) and comprehensive measures were taken for investor protection in the form of laying down disclosure norms, allotment procedures, control over insider trading, rights issue norms, handling of investor complaints, etc. The Over-the Counter Exchange of India (OTCEI) was set up in February 1992 to trade in the scripts of middle market corporates. The National Stock Exchange (NSE) was set up recently, with nation-wide stock trading facilities, electronic display, and efficient clearing and settlements facilities.

The important task of the economy is to strengthen the capital market largely through stimulation of private investment. This could be achieved by effecting structural changes to the capital market, widening the scope of fiscal incentives and to impart some mobility to it. It is also equally important to protect the value of savings held in the form of fixed interest securities, which is the mainstay of fixed income earners. This will help in strengthening the capital market and improve the economy. In recent years, various reform measures for blending market with freedom and regulation of the market on prudential lines were introduced. The measures include abolishing government
control over capital issues and pricing, allowing mutual funds to be set up in
the private sector, freeing of interest rates on permitting foreign institutional
investment directly in the capital market. All India development banks have
promoted individually and collectively, new institutions to help investors and
entrepreneurs.

Building a capital market mere responsive to the needs of lenders and
borrowers would require substantial improvements in the macro-economic,
legal, and regulatory environments. To operate efficiently, the capital market
and financial institutions have to be guided by market forces rather than
government directives. Competition needs to be strengthened by encouraging
the entry of new and innovative providers of financial services. And all the
players of the capital market need to introduce discipline and transparency in
their activities. Towards this end, the development banks have a lead
responsibility and mutual funds, the merchant bankers and the stock exchanges
have to play a crucial role with efficiency and credibility of a sound and vibrant
capital market to promote investment and thereby accelerate the process of
industrial development and at the same time push up exports to new heights.

Economic Liberalisation

Economic liberalisation today is a global phenomenon. Global economy
had its own impact in the last few decades. In early 20th century, the glob was
divided by various concepts of economy, socialism, capitalism, free economy
and communism. After the Second World War, broadly spreading, the world
was divided into two economic zones. The free economy concept upheld by the
United State of America, which was its leading exponent. The socialistic,
The communist, economic concept was favoured by the USSR. The different countries of the world, in a way, were divided into these two zones. During the 1950-60, the USSR, Poland, East Germany and other countries established communist rule. The economy in each of these countries was totally government controlled. Countries like England and France however adopted some socialistic economy concept. The USA, West Germany and other countries adopted the concept of totally free economy.

Till about 1947, India did not have much planning for industrialization, industrial development or economic growth. Afterwards the first five-year plan was conceived. Indian economy adopted mixed economy, also known as Joint Venture Economy, between 1947 and 1964. Joint venture companies were started in partnership between private entrepreneurs and the government. England dismantled its Mixed Economy and its concept of Government Public Sector Units in 1970. In this 1990, the USSR and China, which had adhered to the principle of total government centers, opened up their economies. At present, in the new century, almost all countries of the world have adopted the concept of free, open and global economy, largely because of on liberalisation of the economy and globalisation.

**Growth of Stock Market**

Between 1946 and 1961, during a span of 15 years, the number of listed companies in all stock exchanges rose modestly from 1,125 to 1,203. During the next 28 years, end by 1988; this number short up to 5841. Market Capitalization of these listed companies was Rs.39,133 crores in 1988. Capital appreciation was highest in the 1980s. The number of local stock exchanges
also grew in number, all over the country, during the period. The total capital raised by non-Government companies under the control of Capital Issues increased from Rs. 130.8 crores in 1980 to Rs. 2,231 crores during 1988-89. The index number of an ordinary share, which was prices, 100 in 1980-81, became 346.5 by the end of June 1989. The capital raised from the public as a proportion of net domestic savings constituted 2.7 per cent during 1984-85 which surged up to 5.4 per cent during 1988-89. This was the scenario of pre-liberalisation.

A Capital market is a conduit for mobilizing the savings of the community and channelising them into the most desirable and productive forms of investment. It is mostly concerned with mobilization of the savings of the household sector (comprising individuals and non-government non-corporate enterprises), the public sector and the private sector. An efficient capital market is a sine-qua-non for the economic development of a country. The size and function of a country’s Capital market is basically determined by the volume and pattern of savings and investment.

**Small Savings into the Capital Market**

Household savings do play a vital role in the development of a country’s economy. The Savings Rate in India in 1950-1951 was 8.9%. It is 23% at present. Channelisation of the savings into the Capital Market is important. Small Investors are the backbone of the Capital Market. They are regarded as the "Heart and Soul of the Financial System". Higher rates of savings lead to higher growth. Of course the savings have to be channelised towards proper investments. At present India’s savings rate is very healthy. For the past several years it has been more than 20% of the GDP, and it has helped India to have a
GDP growth of 5% and more. The GDP growth went up to 8% during 2003-04.

The savings habit of the Indian has improved impressively.

Table No. 1.1
Growth of Savings in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>8.9%</td>
</tr>
<tr>
<td>1960-61</td>
<td>11.6%</td>
</tr>
<tr>
<td>1970-71</td>
<td>14.6%</td>
</tr>
<tr>
<td>1980-81</td>
<td>18.9%</td>
</tr>
<tr>
<td>1990-91</td>
<td>23.1%</td>
</tr>
<tr>
<td>2000-01</td>
<td>23.4%</td>
</tr>
<tr>
<td>2001-02</td>
<td>23.0%</td>
</tr>
<tr>
<td>2002-03</td>
<td>25.3%</td>
</tr>
<tr>
<td>2003-04</td>
<td>27.2%</td>
</tr>
<tr>
<td>2004-05</td>
<td>30.1%</td>
</tr>
<tr>
<td>2005-06</td>
<td>32.2%</td>
</tr>
</tbody>
</table>

Source: Compilation from Reserve Bank of India and annual report of RBI 2006-07

Chart No.1.1
Savings Rate Growth-Post-Independence in India
It is observed from Table No. 1 that the savings rate went up from about 8% at the time of Independence to 21.8% in 1992-93. Between 1992 and 2003 it was moving between 22% and 24%. Between 1950 and the beginning of the 21st century, the savings' rate has trebled. To add 10% more to it is not impossible. But this can be achieved if the savings are channelised to development activities.

The observations of Deepak Parekh formerly HDFC Chairman, Authority on Finance and Capital Market in India, in this regard deserve attention. Parekh observes: Small investors form the backbone of a liquid and actively traded capital market. While the size of investments made by these investors may be smaller, the number of investors is very large. The large number of investors also ensures that there is higher amount of buying and selling, thus liquidity in the underlying stocks. Small investors are a very important source of funds in an economy where the Government is running a fiscal deficit.

Small Investors' Financial Investments

However, in India, small investors have been mostly directing their investments mostly towards assured return options. These include primarily bank deposits and the small savings schemes of the Government of India. Their exposure to the capital markets, either directly or through the institutional route, is very limited.
Table No. 1.2

Composition of Financial Assets in India – Year 2006-07

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in (Crore)</th>
<th>Percentages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>36,977</td>
<td>8.49</td>
</tr>
<tr>
<td>Deposits (Bank Deposits, Non-Bank Deposits and Trade debt)</td>
<td>1,61,416</td>
<td>37.05</td>
</tr>
<tr>
<td>Claims on Government</td>
<td>1,06,420</td>
<td></td>
</tr>
<tr>
<td>Investment in Share and Debentures (Unit Trust of India &amp; Mutual Funds)</td>
<td>4,967</td>
<td>01.14</td>
</tr>
<tr>
<td>Contractual Saving (Life Insurance, Provident Fund and Pension Funds)</td>
<td>1,25,926</td>
<td>28.90</td>
</tr>
<tr>
<td>Total</td>
<td>4,35,706</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Chart - 1.2

Composition of Financial Assets in India 2006-07
According to Deepak Parekh only a very small part of household savings is being channelized into the capital markets in India. As mentioned earlier, Indian small investors are more concerned with assured returns and are not ready to invest in capital market instruments. They have to be educated about the risks involved in investing in equity securities, the return expectations and more importantly, their own risk profile, so that they may make a more optimal allocation to various kinds of securities available on the risk return curve, in an attempt to generate more attractive returns over reasonable periods of time.\(^3\)

**Concept of Small Investors**

They are several aspects to the concept of small investors, such as the following: Economic development, Savings and Investments, Financial system and process of investment decision, scientific and sound investment decision, management, investor’s rights and obligations, investment options available, investment avenues, precaution to be taken while investing in shares and international trends. These have to be borne in mind whenever investments are made. Small investors’ work hard to earn and to save. But their investment decisions are far from systematic and scientific. Therefore they need to be educated and made aware of what they should do at the time of making investments.

The concept of small investors has increasingly gained currency in the last 14 years, although the ideas of small investors, regulatory system and measures to protect these have been known for decades. For the first time the
Indian government started thinking about small investors and small savings only after India became independence in 1947. In his first Budget Speech in 1950 C.D. Deshmukh the than Finance Minister clearly outlined the importance of small savings Investors and the Capital Market for the development of the country.

Initially small Investors were viewed by the Government of India as investors in its small savings scheme. There is no fixed definition for the term ‘small investors’. For it is relative and can be understand in relation or in contract with the ‘large investors’; though the term has been in use and popularised by the activists of the Small Investor Movement. Both terms change according to economic circumstance, therefore there is no fixed definition for it. The SEBI has attempted to define who is small investor at present. In the early 1950s the Government used to express concern that people were not investing their small savings in Government instruments. To attract them to the small saving schemes between 1950 and 1960 the government offered to give a higher rate of interest on the amounts saved. But no appreciable gains were made by his devise. The SEBI in a way has accepted the term and been using it in the case of public issues, it issued guidelines to set apart at least of 25% of the IPOs for small investors. The attempts to increase small investor’s quota from 25% to 35% have started. The Companies Act, 1956 when it was in force included a provision, recognizing one who could invest Rs.20,000/- as small investor. The Small Investors with investment up to Rs. 10,000/- in the US-64 were given special relief treatment.4

The SEBI has recently revised its position regarding the small investors and allowed companies to offer up to 10 per cent discount to retail investors in
initial public offers. The discount was so far restricted to follow-on offers. It has also redefined the term 'Small Investor or retail investor' as one who makes application or bids in a public issue for value not exceeding Rs 1,00,000 instead of the earlier stipulation of Rs 50,000 and above. The new norms have made the submission of the PAN (Permanent Account Number) mandatory for all share applications. On discount to issue price, the SEBI says, “Companies making public issues are permitted to issue securities to retail individual investors/retail individual shareholders at a discount price, provided that such discount does not exceed 10 per cent of the price at which securities are issued to other categories of public” \(^{(a)}\)

Actually, the Capital Market, Finance Market, Stock Exchanges, Intermediaries, Merchant Bankers, Brokers, Bankers, everyone of the have now accepted the concept and the importance of Small Investor. B.L.Mathur in his book *Stock Exchange and Security Analysis* says that, the Stock Exchange is considered barometer of economy and provides many useful services to the commercial and industrial world. An efficient Stock Exchange promotes industrial world. An efficient Stock Exchange promotes the industrial growth, economic development and capital formation, channelises capital into productive sectors of the economy, mobilizes community savings and offers opportunities to individuals to improve their economic being well.”

The Indian Financial System is satisfactory at present. During the last 10 years the Financial Services Sector has grown and achieved a global benchmark. Financial institutions, financial services are inter-related, as the following chart depends.
Commenting on the future and prospect of India, Dr. Sushil Lalwan in his book *Mutual Funds and Investor Protection in India* observes that, India is developing the most scientific protection system for the Small Investor of Mutual Funds. In their book, G.S.Batra & Narinder Kaur says, “The success of mutual fund depends essentially on the buoyancy of capital market in the country. The number of investors in corporate securities has increased to more than 7 million as against 2 million in the recent past and now constitutes 1 per cent of the population as against 30 per cent of the population in US taking interest in corporate securities”.

*Source: Study Material from Institute of Chartered Financial Analysts of India*
Process of Investment Decisions

"Managing of money should be an interesting subject to anybody having savings to invest", observes Shri. B.N. Adarkar, Ex-Governor, Reserve Bank of India. Adarkar, While commenting on the investment decision making process, investment avenues of Small Investors, he says further that "Safety is of course the prime concern of all investors, but liquidity preferences vary, and investors generally try to get the maximum return consistent with reasonable safety and their liquidity preferences". It is found that Small Investors made a lot of efforts to earn surplus income. They try to cut down household expenses to save something for the future. Salaried people try to work overtime or work extra time to have additional income and to save something. Self-employed people work extra hours, travel upcountry, sacrifice the comfort of family life family to have additional income to be set aside for the security and future of the family.

Through during the past 11 years, various debates about the small investors and interactions with small investors, experts, authorities, during debates in Assembly and Parliament have taken place, little has emerged in concrete terms to protect the interests of the small investor. It is observed that though small investors take plenty of pains to set aside some of the earnings in the form of savings, they tend to take hasty investment decisions. Most of the time the decisions are not result oriented. They are not properly planned, nor scientifically managed and decided upon. Investment decisions are taken instantly and without study. It is also observed that the investors are not properly educated about investments and are not aware of the Redressal
system, the duty of the regulators, and various other provisions intended to protect their interests. Small investors make fast investment decisions, getting carried away by various marketing gimmicks and enticements. Many a time they invest on impulse, on the spur of the movement. Often they just copy their relatives, neighbours, and colleagues in the office or are guided by what they have heard at social gatherings and functions.

Investment Decision

Human beings do not always behave in a rational and predictable manner. A man is basically an irrational creature motivated by emotions, impulses of the moment, instincts, vague hopes, fears and expectations, uncontrollable and unlimited desires and greed almost in everything without logic and reason. The following is an attempt to highlight certain facts and patterns before one makes an investment decision, and also the precautions to be taken to

Admitting mistakes mean cutting losses

To err is human. But to admit one’s mistakes is the first step towards cutting your losses and rectifying a bad situation.

- Don’t be emotional about your investment. Encash gains at the proper time in order to gain profit from your investment.

First test – then invest

Be in the mob, dress like them, eat like them, talk like them – but please don’t invest like them. Don’t jump in the bandwagon.
There are certain important principles to be kept in mind while making investment decisions. Safety and risk should be balanced. The basic principles to be noted are Liquidity, Long-term investment strategy; Diversification of your portfolio and Long-term investment strategy protects your portfolio from the temporary fluctuations and vagaries of the market.

S.S. Grewal and Navjot Grewal in their book Profitable investment in Shares offer a present a detailed and step-by-step guide for Small Investors:

- Preliminary screening,
- Don’t buy unlisted shares
- Don’t buy inactive shares
- Think twice before buying shares in a closely held company.

A closely held company in India would be one, which has less than 10,000 shareholders.

- Examine the Company
- What is the quality of company’s management?
- How large is the company?

Proper care is to be taken while investing in a company with an equity capital of less than Rs. 10 crores and sale is less than Rs. 100 crore;

- Does the company concentrate on its core competence or is it sufficiently diversified?
- Avoid investing in a one-product, one-plant, one-market Company that is not an industry leader in its field or in a company that has overly diversified into unrelated businesses.
- Is it a growth company?
What are the company’s future plans for expansion-cum-diversification?

Analyse the company’s finances

Plough back

Is the company retaining sufficient portion of its profits as plough back?

Reserves

What is the size of the company’s reserves compared to its equity capital?

Book value per share

The closer the market value of a share is to its book value, the greater the possibility of the share being under-priced.

Earnings per share (EPS)

Calculate the company is EPS. It will give you an idea of what each share earns.

Price/Earning (P/E) ratio

This will give you an idea of how long it will take you to recover your investment in the company’s shares at the prevailing market prices.

Making an investment decision

The decision to buy has three parts to it.

1. What to buy?

2. At what price to buy it? And

3. When to buy?

What to buy?

After carefully assessing the information gathered on the various points listed above, one should prepare a short list of companies that appear to be the best investment.
At what price to buy it?

Use the company's P/E ratio, book value per share, and the previous years "high" and "low" prices to calculate what the price of the company's shares ought to be. Discard those companies whose shares appear to be clearly over-priced.

A.N. Shanbhag, expert and authority on scientific management of investments of Small Investors says in his book *In the Wonderland of Investment* by way of advises to all prospective investors; "Invest in only those companies you are familiar with. You should be familiar with the promoter's background, the track record, the business the company is in, competitors, the future prospects of the company et al. Unless you are reasonably well informed on these parameters you should not think the common stock of the company".

Shanbhag always advises the Investors "Be patient and have patience". He used "Share Bazaar" phrase, "Be a Bull or Bear but not a Bakara".

Small Investor's Obligations

The small investor will do well to interacting with various experts and activists, who made him to understand his rights and obligations. While entering into capital market he must be clearly aware of them.
### TABLE NO. 1.3

#### INVESTOR-RIGHTS AND OBLIGATIONS

<table>
<thead>
<tr>
<th>INVESTOR RIGHTS</th>
<th>INVESTOR OBLIGATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The right to get:</td>
<td>The obligation to:</td>
</tr>
<tr>
<td>➢ The best price</td>
<td>➢ Sign a proper Member Constituent Agreement</td>
</tr>
<tr>
<td>➢ Proof of price / brokerage charged</td>
<td>➢ Possess a valid contract or purchase/sale note</td>
</tr>
<tr>
<td>➢ Your money/shares on time</td>
<td>➢ Deliver securities with valid documents and proper signatures</td>
</tr>
<tr>
<td>➢ Shares through auction where delivery is not received</td>
<td></td>
</tr>
<tr>
<td>➢ Square up amount where delivery not received in auction</td>
<td></td>
</tr>
</tbody>
</table>

**The right for redressal against:**
- □ Fraudulent price
- □ Unfair brokerage
- □ Delays in receipt of money or shares
- □ Investors unfriendly companies

**The obligation to ensure:**
- □ To make payment on time
- □ To deliver shares on time
- □ To send securities for transfer, Demat, to the company on time.
- □ Forwarding all the papers received from the company under objections to the broker on time.

Several avenues are available for investment. It is wise not to put all eggs in the same basket. It is better that one chosen from among different instruments as per his requirements, savings and age group. Youngsters can invest little more percentage of his savings in risky equity instruments".
Scientific management of savings, scientific decision-making, and scientific management of Small Investors' protection, all go together. At the time of making investment decision only, the protection system starts. It is said regarding health in that “Prevention is better than Cure.” The same adage can
be applied to wealth. All precautions have to be taken before making investments in shares. Now follows a list of precautions to be taken while investing in shares;

Precaution (Protections) When You Invest In Shares

1) Choose a conveniently located broker/sub-broker;
2) Make sure the person is a registered broker of a stock exchange;
3) Sign a properly drafted member constitute agreement. You are now to buy or sell shares on The Stock Exchange.
4) Whenever you want to buy or sell shares, give written instructions to the broker.
5) Insist on getting a trade confirmation slip after the trade is executed.
6) Obtain a contract note for the deal, which correctly specifies the price and the brokerage charged.
7) Deliver shares or money as the case may be well within the specified time frame.
8) Contact your nearest investor service centre in case you need clarification or you have a grievance.
9) Always hold shares jointly and convert single holding to joint holding.
10) If there is change of name, write without fail or delay to the Company with a copy of the marriage certificate or a copy of Gazette notification with new signatures, registered with the company.
11) To prevent fraudulent encashment of dividend warrants, please give dividend mandate or your bank account details for Electronic Clearing System (ECS) transfer facility.
12) Always quote your folio no, in all your correspondence relating to your holding.
Generally the company’s Annual General Meeting is held during the end of August/Sept. every year and dividend warrants are mailed immediately thereafter. If they are not received before the end of September, please write to the company.

You may correspond with the Company’s Investor Relations Department for a prompt response.

Investment in shares, primary market and secondary market, not only gives capital appreciation but also earns regular income in the form of dividend.

It is found upon experience that a reasonably intelligent and well-informed stock market investor can, on an average, double his money in four to five years, or so. There are many who fare even better. It all depends on how much knowledge and experience you have, and the time and effort you are prepared to spend on managing your investments. An investor has to be an Investor only. Small Investors should not indulge in or get attracted to the theory ‘double your income’ in a short span in the easiest way. It must be a long-term investment. In order to have lucrative profit in a short term investment investors most likely do not apply their mind, and enter into the transaction without any perspective planning. This will result in heavy damage to their hard earned savings and small investments alike.

Globalization has opened up the Indian Capital Market’s tremendous potential. The Stock Exchange, which was known as “Share Bazar-Satta Bazaar”. “Capital Market-Speculation Market-Gambler’s Market”, has become an instrument of development of the 21st century. In India from 1,00,000 Small
Investors at the beginning of the 20th century, in the 21st century it has risen almost to 1 Crore Small Investors directly involved in Capital Market. The Small Investors to be successful has to be rational and scientific in decision-making and investment. Proper care has to be taken to protest ones interest. Percussion is the best method of protection. There are several financial instruments available to the investor. It is necessary to make a proper study of the track records of investments and balance is to be struck between growth, security and risk.

"Do not put all your eggs into the same basket".

Review of Literature

A selection of empirical and evaluative studies (articles and book-lengths studies) carried out hitherto in the area of financial institutions relevant to the present enquiry are reviewed here briefly to serve as a scaffolding for it, to obtain an insight into chosen theme, and also to identify if there are any gaps to be filled in. Such reviews help a researcher to take his bearings in his investigation.

Khan (197712 & 197813) studied the role of new issues in financing the private corporate sector in India during the 1960s and the early 1970s, and concluded that to new issues were declining in importance. He also showed that with underwriting becoming almost universal, institutions like the LIC and the UTI were becoming major players.

Jain (1979)14 in his article shed further light on this question of financing with an analysis of the UTI's role in the new issue market. He argued that the UTI looked at underwriting as a method of acquiring securities at low
cost rather than an arrangement for guaranteeing the success of new issues. In the context of the rapidly changing structure of the merchant banking industry in India today, a deeper analysis of the motivations and strengths of different players would be highly useful.

Bhatt (1980) makes in his article certain general observations on the functions of merchant banking. According to him, the most important functions were promotion, financing and syndication of loans for projects in the country including for foreign collaborations; investment advisory services, investment management and advice on joint ventures abroad. Such merchant banking institutions could also assist non-resident Indians in investing their funds in shares of new companies, bonds, securities etc. in India.

Agrawal (1980) in his article stresses the need to redefine the underwriting function. He underscores the need for distinguishing underwriting from investing. In his opinion such a distinction does not exist in India.

Gujarathi and Srinivasan (1980) in their article 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.

Srivastava (1984) does a cross-section study of 327 companies for the year 1982-83 to conclude that high dividend rates are associated with higher market prices of securities. He therefore states that the famous Modigliani-Miller Model that dividends have no impact on share prices is not applicable in the Indian context. This analysis however suffers from several limitations, the most obvious being the fact that had the researcher examined the relationship
between earnings and dividends, and he would have in all likelihood found that the higher dividend paying companies are also the ones with higher earnings. Unless the hypothesis of spurious relationship between prices and dividends because of both being related to earnings is examined and rejected, the conclusion of the study would be suspect.

Dholakia and Bhat (1986)\textsuperscript{19} attempt to decompose the riskiness of shares into risk in dividend and risk in capital gains. Their study suggests that there is a negative relationship between dividends and capital gains.

The work done by Kapadia (1981)\textsuperscript{20}, Kapoor (1981)\textsuperscript{21}, Sinha (1983)\textsuperscript{22}, Chaudhury (1985)\textsuperscript{23} in their different studies analyze the usefulness of convertible debentures (CDs) as an instrument for raising resources from the capital markets. After pointing on that the CDs have provided attractive returns to investors, Chaudhury identifies lack of liquidity and Sinha identifies capital gains tax as two possible dampeners to the CDs finding favour with investors.

Barua and Raghunathan (1986)\textsuperscript{24} in their paper provide evidence of systematic mispricing of convertible securities in violation of the risk return parity and argue that this represents an arbitrage opportunity. Though this paper provoked a heated debate on whether the arbitrage opportunity was really risk free, the mispricing of convertible securities remains an unexplained anomaly.

Saha (1988)\textsuperscript{25} in his article in Yojana argues that the strategy of merchant bankers should not be to develop an instrument for raising capital from the market, but to develop a process that makes creation and delivery of
the instruments possible in accordance with the pace and requirements of the issuers.

**Bhat (1988)** in his paper studies the relationship between the regional market indices in the Indian stock market during 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.

**Trikha (1989)** expresses concern about the lack of professionalism in merchant bankers in India as regards their attitude towards the investing public. The concern has become even more relevant today.

**Barua and Srinivasan (1987b)** and **Barua and Raghunathan (1990b)** in separate articles examine the terms on which convertible debentures are issued to investors. The former two argue that the extremely low conversion price (in relation to the prevailing share price) was unfair to the existing shareholders of the company as it implied a forced transfer of wealth to new shareholders. Barua and Raghunathan focus attention on the compulsory conversion of the CDs into shares and argue that conversion ought to be optional so that the CDs would acquire the features of a call option. Both these lacunae in the terms on which the CDs can be issued have now been removed under the guidelines prevailing today.

**Rao and Bhole (1990)** have examined the real rates of return on equities in the Indian market during the period 1953-87. They conclude that
equities provide only a partial hedge against inflation. While the long term real rates of return are positive, during periods of extraordinarily high inflation, the real rates of return are negative. The study would have been more useful had the returns provided by bullion also been analyzed for the same period. It would also have been useful to break up the long period into sub-periods to determine whether the behaviour of returns was different for different sub-periods and whether reasons could be ascribed to any observed differences. The authors also observe that, as the Indian stock market has been booming in recent years, the conclusions for a more recent period could be quite different from the conclusions reached in their present.

Barua and Varma (1990) in their working paper examined the performance of Mastershares, the first close end Mutual Fund, both in terms of NAV and market prices. They found that though in terms of NAV the risk adjusted performance of Mastershares was superior to the market; in terms of market prices the performance was inferior to the market. The initial work was refined in the subsequent paper by the same authors (1991b) which concluded that the performance of Mastershares from the point of view of a small investor (whose equity investment would primarily be in terms of holding of Mastershares) was poor while from the point of view of a large investor (for whom Mastershares would be one of the securities in the portfolio) the performance was excellent. The research raised an interesting issue about the purpose of mutual funds: if they are meant primarily for small investors, then Mastershares have failed to serve the purpose. In another paper Barua and Varma (1993b) have examined the relationship between the NAV and the market price on Mastershares. They conclude that market prices are far more
volatile than what can be justified by volatility of NAVs. The prices also show
a mean reverting behaviour, thus perhaps providing an opportunity for
discovering a trading rule to make abnormal profits in the market. Such a rule
would basically imply buying Mastershares whenever the discount from NAV
was quite high and selling Mastershares whenever the discount was low.

Gupta (1991)\textsuperscript{32} in his book argues on the basis of a study of 25 large
cOMPANIES over a ten-year period that the bonus policy of companies is
characterized by low bonus, irregular intervals in paying bonus and
inconsistent policy. This is an area, which needs further study, as Gupta's
sample is too small to arrive at any definitive conclusions. In fact, we know
very little about how companies decide on bonus issues; certainly, we know
less about bonus policy than about dividend policy.

Barua, Madhavan and Varma (1991)\textsuperscript{33} in their working paper
examine the case of Convertible Debentures (CD) with unspecified conversion
terms. Such securities, which were unique to the Indian capital markets, had
become quite popular in the last few 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 prices of CDs
(since the latter were supposed to be the derived security), if conversion terms
were not specified, changes in the expectations about them could start affecting
the share prices through the dilution effect. Analyzing the issue further Barua
and Varma (1991)\textsuperscript{34} in their working paper developed a theoretical model for
valuation of CDs with unspecified terms and showed that an investor in these
securities could not protect himself from both sources of risk: changes in the
value of the firm and changes in the conversion ratio. They finally argued that
the CDs should be allowed to be issued only on clearly specified terms. The new regulations required the issuers to specify the conversion terms clearly thereby removing a major lacuna, which existed earlier.

Anshuman and Chandra (1991) in their paper examine the government policy of favouring 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 capital market and would strengthen investor protection. With proportional allocation being advocated by the SEBI, a shift in the policy is already evident. However, there appears to be some re-thinking on proportional allocation after the recent experiences, which clearly demonstrate that such a policy could result in highly skewed ownership patterns.

The earliest work on evolving a regulatory framework for the fledgling industry was done by Barua, Varma and Venkiteswaran (1991). Drawing heavily on the regulatory framework for operation of mutual funds in the U.S.A. (Investment Company Act of 1940), the authors proposed detailed guidelines that could be adopted for mutual funds operating in the Indian capital markets.

Survey of Indian Share Owners (1991) this survey was sponsored by the Securities and Exchange Board of India. The object of the survey was that on “the strong and spectacular growth experienced by the Indian Capital market during the 1980s had thrown up many policy and regulatory issues”,

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these issues required to be tackled urgently for ensuring the continuance of the healthy growth of the market during the 1990s.

Ignatius (1992) has done an interesting study comparing the returns in the Bombay Stock Exchange (BSE) with those in the New York Stock Exchange (NYSE). He finds a mildly significant weekend effect in the returns on equities in India as well as seasonality in the returns, with the month of December providing significantly higher monthly returns. Overall, the return patterns in the BSE and the NYSE appear to be similar. A more rigorous 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, since such a study can assess whether there could be gains from portfolio diversification through investment in the Indian capital markets.

Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer, (1996) in their working paper liked “Law and Finance” suggest three broad conclusions. Firstly, laws protecting investors differ markedly around the world, though in most places they tend to give investors a rather limited bundle of rights. Countries whose legal systems stem from the common law tradition tend to protect investors considerably better than do countries whose systems are based on civil law, especially French civil law. Countries whose systems are based on German and Scandinavian civil law take an intermediate stance towards investor protection. There is no clear evidence that different countries favour different types of investors; the evidence points instead to a stronger stance favouring all investors in common law countries. Secondly, law
enforcement too differs a great deal around the world. The German and Scandinavian civil law countries have the best law enforcement, although to some extent this reflects their higher average income. Law enforcement is also strong in common law countries, and weakest in the French civil law countries. Thirdly, good accounting standards, rule of law, and shareholder protection have a strong negative correlation with the concentration of ownership. This result suggests that inadequate protection of investors may be costly. If small investors are not protected, companies will be unable to raise capital from them, and entrepreneurs will be unable to diversify their holdings. High ownership concentration, then, may be a symptom of a poorly functioning capital market.

L.C.Gupta Committee (1998)\textsuperscript{40} conducted a wide market survey with contract of several entities relevant to derivatives trading like brokers, mutual funds, banks/FI,FIIS and merchant banks, The Committee in its report observed that there was a widespread recognition of the need for derivative products including equity, interest rate and currency.

Yoon Je Cho (1998)\textsuperscript{41} a Korean in his study report about Indian Capital Market, Recent Developments and Policy Issues, analyses the capital market reforms and development in India.

Dr.H.N.Agrawal (1999)\textsuperscript{42} in his paper observed that Indian capital market had been undergoing several structural changes particularly during the 1990s, all leading the market to more efficient and healthier capital market. The changes were mainly directed towards improving infra-structural facilities and
evolving more comprehensive and realistic regulatory framework, aware of investor protection. The process is till on and there is a long way to go for investor protection, particularly when a large number of ignorant and incapable investors and unscrupulous market participants exist. Since the inevitable principle of caveat emptor cannot be ignored, no investor protection is possible exclusively by government and other regulatory bodies as a third party.

Dr. V. Rajarajan (1999)\textsuperscript{43} in his article points out that investors with investible funds are selective investing. The investment behaviour of individuals is in fact, very much a direct and systematic function of personal circumstances. Investment attitudes result in portfolio decisions. The investment choices of individuals remain portfolio decisions, and a profound secret. Therefore, fund managers find it difficult to market their financial products. How an investor tries to balance various considerations in his choice of financial assets will be understood better if empirical data choices are available.

Arindam Gupta (1999)\textsuperscript{44} has analysed global stock exchange towards globalization and economic liberalisation of the Indian economy and capital market reforms was carried out with an array of reforms encompassing primary and secondary markets for equity and debt, and for foreign institutional investment.

Charles P. Himmelberg, R. Glenn Hubbard, and Inessa Love (2000)\textsuperscript{45} in their paper presented at a conferences, bring together recent research on determinants of corporate ownership structure and research on costly external financing for investment to highlight the role played by contracting costs in the absence of strong investor protection on both firm
financial structure and the cost of external funds for investment. Their principal findings, using firm-level data from a broad sample of countries, are two: Firstly, the weaker is legal protection, the more likely is concentrated inside equity ownership of firms and the higher is the marginal cost of equity financing. Secondly, to the extent that the size of the firm's equity base reduces the cost of debt financing, the marginal cost of debt financing is more sensitive to changes in firm net worth (proxied by leverage) in countries in which weak investor protection has made the cost of external financing high. Implications of these basic results for analysis of cross-country variation in effects of monetary policy action and analysis of cross-country variation in industrial development are important topics for future research.

Survey of Indian Investors conducted by Securities and Exchange Board of India (SEBI) and National Council of Applied Economic Research (NCAER) (1999-2000)\textsuperscript{46} the report of the survey says that the Indian securities market has undergone a substantial and speedy change in the last few years. Indeed its present form and content hardly bears any resemblance to its earlier state. And for the investor population, no recent estimate has been available for want of a detailed scientific enumeration. This has handicapped the SEBI, market intermediaries, researchers and investors in deciding their policies and investment choices respectively. To overcome this problem the SEBI requested the National Council of Applied Economic Research (NCAER), an agency known for its expertise and experience in conducting objective and large-scale household surveys, to undertake a survey of the Indian investors. The Primary objective of the survey was to have a demographic profile of investors and their households investing both directly
and indirectly. This was expanded also to find out the investment preferences, perceptions about risks in investments, level of awareness and experience of investors while investing in the Indian securities market and the reasons, which inhibit some household from investing in the securities market.

Dr. N. L. Mitra Committee (2001) in its study report on Investor Protection submitted to the Government. The following are the recommendations (i) There was a need for a specific Act for protecting investors’ interest (ii) A judicial forum was needed for the redressal of investors’ grievances (iii) The provisions relating to investor education and protection fund should be removed from the Companies Act, 1956 (iv) The SEBI should be the only regulator for the entire capital market, both primary and secondary. It should have powers for investigation and to attach the public fund and all converted assets to prevent misappropriation (v) The regulator might require all IPOs to be insured on the principle of third party insurance with differential premium based on risk study by the insurance companies (vi) The SEBI Act, 1992 should be amended to provide for statutory standing committees on investors’ protection, market operation and standard setting. (vii) The Securities Contract (Regulations) Act, 1956 should be amended to provide for corporatisation and principles of good governance for stock exchanges.

R. N. Agarwal (2001) in his titled Financial Integration and Capital Markets in Developing Countries study examines the impact of financial integration on India’s capital market in terms of growth, volatility and market efficiency. The study reveals that the primary Indian capital market has grown
significantly since the beginning of capital market reforms in 1992-93. The secondary capital market is also found to have grown in terms of its size and liquidity. Volatility in stock prices is found to have declined annually. Industry-wise volatility is measured by “beta”. The value of beta is found to be greater than unity during 1988-91 in the textiles, cement and electricity generation industries. But the value of beta is found greater than unity in the later period after reforms were ushered in mainly in metals & metal products, cement and finance & investment industries indicating better performance of these industries compared to the market. The regression results do not support the random walk model of market efficiency.

Committee on Petitions (13th Lok Sabha) 2002) in its report made certain observations/ Recommendations in the matter and the Ministry of Finance (Department of Economic Affairs) was requested to implement those recommendations regarding protecting the interest of small investors and depository and furnish the action taken for the consideration of the Committee.

D.Himachalam (2002) in his research project report submitted to ICSSR on “Consumer Protection in India”, examined the measures being undertaken by the government on consumer protection in India. The report explores the existing malady in the market milieu both in commodity market and capital market as well. He suggested appropriate suggestions based on the observations for the protection of consumers and investors in the complex global market environment.
Sri Ram Khanna With Paramjeet Singh, Vanita Tripathi and Voluntary Organisation in the Interest of Consumer Education (VOICE) (2003). This study by Ram Khanna and others was intended to find out the problems and concerns of Small Investors and their expectations from the law enforcement agency. It recommends to restore investors' confidence, and to create a unified-agency redressal system by unifying the redressal procedure under a common code.

Pronab Sen, Nikhil Bahel and Shikar Ranjan (2003). The secondary debt market in India is practically non-existent. The authors of this Working Research paper argue that with the recent economic reforms, an efficient and active debt market, particularly in long-term private debt instruments, is essential for the country to realize the full benefits of the reform process and to achieve its potential. It is further argued that the presence of small investors is critical to this process, given the limitations of the institutional investors. The essential conditions for a well-functioning debt market are identified from a study of the U.S and European markets, and an assessment made of their presence in India. Specific concerns of small investors in the Indian context are described, and suggestions made as to how these can be addressed.

Joint Parliamentary Committee (JPC) (2003) on “Stock Market Scam and Matters Relating to Thereto” in its report presented a detailed analysis of the nature and dimensions of the stock market scam, which surfaced in 2001. It observed upon the systemic weaknesses that led to the scam, also the abuse of systems by various individuals. This Action Taken Report (ATR) presents the Government's response on each of the points and also the remedial measures taken by the Government.
Furqan Qamar (2003)\textsuperscript{54} paper is an exploratory study that seeks to analyze the saving behaviour and investment preferences and investment preferences among average urban middle class people in Delhi. Despite the financial sector reforms and entry of private domestic and foreign banks into the country, the nationalized commercial banks seem to be the favourite choice of an average household. Capital market imperfections and associated risk have not been a deterrent for many households as they are found investing in debentures and share either directly or through mutual funds. The saving behaviours and investment preferences of average urban households seem to be significantly influenced by the level of educational attainments and income of the respondents.

Rui Castro, Gian Luca Clementi and Glenn MacDonald (2003)\textsuperscript{55} have introduced investor protection in a simple extension of the two-period overlapping generations model of capital accumulation and study how it affects economic growth. Investor protection is positively related to risk sharing. As is standard in models of investment with risk-average agents, better protection (better risk sharing) results in a larger demand for capital. This is the demand effect. A second effect, which is called the supply effect, follows from the general equilibrium restrictions. For a given aggregate capital stock, better protection (i.e. a higher demand schedule) implies a higher interest rate. The aggregate resource constraint then implies lower income for the entrepreneurs (the younger cohort) as a result, current savings and the supply of capital in the following period decrease. It turns out that the strength of the supply; effect is greater, the tighter the restriction on capital follows. Therefore their model predicts that the positive effect of investor protection of growth is stronger for
countries with lower restrictions. They find that the date provides some support for this prediction.

Measures for Improving Common Investor Confidence in Indian Primary Market - A Survey (2003)\textsuperscript{16} this research paper discusses various measures of revival of common investor confidence in the Indian equity primary markets. The study is based on questionnaire survey results in ten cities of India. The first part of the study concentrates on the decisions taken by the investors while investing in primary markets. It appears from the analysis that the sample investors give importance to their own analysis rather than compared to the brokers' advice. They also consider the market price as a better indicator than the analyst's recommendations. The second part of the study identifies the factors, which are affecting primary market situation in India. Issue price, information availability, market price and liquidity emerge as important factors. The third part of the study evaluates various revival measures available. The evidence from this study suggests that investors need to be assured of some return as the current level of risk associated with investment in market is very high. They have unpleasant experience in terms of lower market price after listing and high issue price. Accordingly a number of suggestive measures, regulatory, policy level and market-oriented are suggested to improve the investor confidence in equity primary markets by offering protection-oriented investment.

Ashima Goyal (2004)\textsuperscript{17} says that As growth revives and markets become more active, the tight norms the SEBI has established and the deep steady capital market reforms to which it has contributed, will payoff. The
paper has enumerated the pluses and minuses of regulation in the context of capital market development in India; its many achievements and potential for further improvements.

Harvinder Kaur (2004)\textsuperscript{58} The Study describes the extent and pattern of stock return volatility of the Indian stock market during the last decade of the previous millennium, i.e. from 1990-2000.

R.L. Tamboli (2004)\textsuperscript{59} this paper analyses the impact of disclosure and regulatory authorities' efforts on investor protection. The author discusses philosophy, concept, accounting disclosure norms and actual practices. Based on the information collected from 100 respondents, the study concludes that the individual investors relied very much upon 'Materials on Financial Products' followed by 'Annual Reports' and 'Verbal Advice'. Investors preferred small saving schemes to corporate securities, followed by consumer durables and real estates. Personal lending remained the last and least preference. The Investors faced grievances on corporate investments as they did not know about the right authorities to be approached for the redressal. This paper analyses the issues relating to accounting disclosure and investor protection.

Gurcharan Sign (2004)\textsuperscript{60}, Ill liquidity in Stock Exchanges: Some Issues: Lessons from stock market crashes and the serious economic damage they have caused has made some to paint the stock market as a wasteful venture that relies on rolling over money earned from real business activity without building any real economic value. This paper examines the liquidity scenario of Indian Stock exchanges and raises issues related to ill liquidity.
P. Viswanadham (2005) in his paper titled 'Investor Protection the Role of SEBI' outlines the endeavours of the SEBI towards a proactive approach by conducting several Investors' awareness/Investor education programmes across the country. The SEBI is equally active in its reactive approach also by redressing the investors' grievances, conducting investigations and appointing enquiry officers against financial intermediaries and also taking action in a number of cases.

Sundar Burra and Devika Mahadevan (2005) in their paper recommend that it is very important to have another SIF-type scheme, based on the lessons that emerge from the previous experience, and which create the opportunities for even the poorest citizens to participate in and benefit from India's markets. They also recommend that financial institutions may invest in established and reputed NGOs to act as intermediaries. Such initiatives are representative of the true spirit of democratic participation because they pave the way for the inclusion and access of the urban poor to the financial market an institution from which they have been traditionally excluded. The creation of such a scheme acknowledges not only that the poor could also be beneficiaries from a healthy and growing economy, but that they are an important market in themselves, with resources to contribute to the general development of the economy - both privileges typically limited to the middle classes. In conclusion, the authors believe this case study points towards win-win partnerships that can be developed and that are beneficial to everyone concerned - financial institutions, the poor, and the overall economy.
Joydeep Biswas (2005) in his article “Indian Stock Market at the Cross Roads” seeks to evaluate the development and efficiency of the Indian Stock market in the post-liberalization period. With the implementation of financial liberalization in the securities market during the last decade, Indian stock markets had graduated to a better position vis-à-vis the stock markets in the developed and emerging markets in terms of a number of parameters. On the domestic count also the Indian stock market responded favorably with the stock market liberalization policies, with the stock market and price rigging in the post-liberalisation period. Having discussed one of the reasons for asset price fluctuations, this study concludes with some suggestions to arrest the volatility in the Indian stock market.

S.D. Israni Committee (2005) The Israni Committee has recommended that effective measures be initiated for protecting the interests of stakeholders and investors, including small investors, through legal means for sound corporate governance practices. An underlying theme of the recommendations is that increasing stress is sought to be laid on shareholders’ democracy. Theoretically, shareholders’ democracy is indeed a great concept and needs to be encouraged. Responding to the recommendation of the JJ Irani Committee report, the Federation of Indian Chambers of Commerce and Industry (FICCI) (2006) offered certain suggestion. It feels that the Committee has taken a very pragmatic approach to the ground realities, the emerging economic scenario and the increasingly important role of Indian corporate in the global arena. The recommendations of the Irani Committee should provide adequate flexibility for timely evolution of new arrangements needed in the ever-changing business models and facilitate the adoption of internationally accepted best practices.
The basic objective of Joydeep Biswas (2006)'s paper "Emerging Trends in the Indian Stock Market", seeks to evaluate the impact of financial liberalization on the growth and efficiency of the Indian Stock markets in the post-liberalization period. It is the author's view that the Indian Stock market has been afflicted by excessive speculation, volatility and inefficiency in the post-liberalization period. The author concludes the paper with some suggestions to arrest the volatility in the Indian Stock Market.

R.K.Raul, (2006) presents in his paper the basic and most important details of the Indian stock market in the global context. He concludes that the Indian Stock Market success story is based on structural rather than cyclical boom and fundamental changes have driven the market rally. However, some gray clouds are hovering in the bright sky. Such impediments relate to infrastructure that can apply brakes on the growth trajectory. Plugging the loopholes, developing overall infrastructure is \textit{sine qua non} for sustainability of the market growth.

Hemendra Kumar Porwal and Rohit Gupta (2006) in their article, "The Stock Market Volatility" examine the hot issue of volatility in the Indian stock markets. They find that perceptual factors have led to this mad rush for stocks leading to volatility. The market regulators have been trying their best to curb this speculative uprising but have not been able to keep it in control. The author's believe that such bubbles cannot be curbed by imposing circuit breaker or margins but by allowing free trade. A more analytical media reporting which highlights better risk management coupled with investor learning will surely lead to a more stable market.
Dr. D. R. Dandapat and M. M. Jana (2006) investigate into the nature of household savings in rural areas, its relationship or extent of association with the income of the rural people, conducting a case study on one of the Gram Panchayats in the district of South 24-Parganas in the State of West Bangal, and coming out with some suggestion for improvement of present state of affairs on the basis of the findings of the case study.

Ranjan Mukherjee (2006) examines the rights of shareholders from the viewpoint of jurisprudence shareholders of companies have various rights arising from their membership. Some of these rights are exercisable in annual general body meetings. The author critically analyses the nature and scope of these rights.

Naresh Kumar (2006) in his article explains how customer grievances can be redressed through OMBUDSMAN scheme in Securities market. He also makes an attempt to explain the salient features of the ombudsman scheme and identifies areas requiring improvements.

T.K.A. Padmanabhan (2006) explains in his article the enactment of the Consumer Protection Act, 1986 and establishment of various consumer disputes redressal forums as important measures to protect the interests of consumers. An overview of the present legal framework relating to consumer protection is also presented.

P.M. Deleep Kumar and G Raju (2006) also are concerned with the pushing of grievances in the Indian Stock Market. They point out that in spite of the market reforms and regulatory measures initiated by those at the helm of
affairs, many investors continue to face several difficulties from a multitude of elements involved in the capital market. The gullibility of the investors is a major factor inviting difficulties to them. The authors suggest that if the investors educate themselves better in the intricacies of the market and show more restraint and caution, a major share of their problems could be averted.

M. Kannadhasan (2006) in his article titled “Risk Appetite and Attitudes of Retail Investors with Special Reference to Capital Market” points out that the Retail Investors' financial decisions are not always guided by due consideration. Their decisions are also often inconsistent. The rationale behind the behaviour of retail investors is examined by the author from their attitude and risk-bearing capacity. This research paper dwells on the behavioural pattern of Retail Investors, based on their various dependent variables viz, gender, age, marital status, educational level, income level, awareness, preference, and risk-bearing capacity.

Sreejata Banerjee and Sunderesh sankar (2006) in their study show that Indian Stock markets have moved towards greater integration with the rest of the world over a period of time. This could be attributed to the gradual lowering of barriers for foreign portfolio investment funds into the country and increasing de-regulation of the domestic markets. This also could be due to the policies of freeing the movement of capital inflows and facilitating raising capital from abroad.

Shaji Vikraman (2006) in his Separate law proposed to protect Small Investors' point out that a debate has been on over the need for a separate legislation for protecting the interests of small investors, considering that there
are multiple agencies involved in policing companies that raise funds from the public be it public listed companies, or the NBFCs'. These include the capital markets regulator, SEBI, the banking regulator, RBI, and the Department of Company Affairs (DCA), which is responsible for regulating unlisted companies.

Dr. Mon Mohan Singh, (2006)\(^7\) in his speech on the occasion of the inauguration of SEBI Bhavan said that Protecting the interests of investors is the primary responsibility of any capital market regulator. Those who part with their savings in search of relatively risk free and reasonable returns, seek comfort in a regulatory regime that is responsive to their needs. In this context, great importance attaches to good corporate governance laying emphasis on ethical conduct, transparency of operations, effective disclosure norms and concern about the legitimate interests of all stakeholders. At the same time we a massive effort must be make to promote investor education protection in a country as vast and varied as India is. SEBI has been somewhat handicapped in its efforts in promoting investor education because of its lack of access to a suitable investor protection fund.

Joseph Borg, Patricia S Truck (center), and Karen Tyler writing in North American Securities Administrators Association (NASAA) Year in Review (2006)\(^8\) point out that NASAA plays an important role in representing the membership's position, as amicus curiae, in significant legal proceedings that may have a widespread impact upon securities regulators and the rights of investors. Under the direction of the Legal Services Committee, NASAA filed 4 amicus briefs in 2006. The NASAA argued in all its briefs that states retain a
significant role as to securities regulation generally, and with respect to clearing and settlement in particular. NASAA also argued that the long-standing role of state law in protecting investors from fraud and abuse has always been and remains vital.

Leora F. Klapper and Inessa Love in their study "Corporate Governance, Investor Protection, and Performance in Emerging Markets" (2006) use recent data on firm-level corporate governance rankings across 14 emerging markets and find that there is wide variation in firm-level governance in their sample and that the average firm level governance is lower in countries with weaker legal systems. They explore the determinants of firm-level governance and find that governance is correlated with the extent of the asymmetric information and contracting imperfections that firms face. They also find that better corporate governance is highly correlated with better operating performance and market valuation. Finally, they provide evidence that firm-level corporate governance provisions matter more in countries with weak legal environments.

Enrico Perotti and Paolo Volpin (2006) in their paper "Investor Protection and Entry" presented at a conference in stock holders point out that entry requires external finance, especially for less wealthy entrepreneurs. So poor investor protection limits competition. Their model shows how incumbents lobby harder to reduce access to finance for entrants in countries where politicians are less accountable to voters. In a broad cross-section of countries and industries, they find that (i) entry rates and the total number of producers are positively correlated with investor protection in financially dependent sectors and (ii) Countries with more accountable political institutions have better investor protection and lower entry costs.
Jogendra Kumar Nayak and DR. Subhas Chandra Das (2007) in their article point out that the new issue market also known as primary market has undergone an exponential growth in the last decade or so. The paid up capital as well as the number of listed companies has risen sharply. Undoubtedly this is an indication of a healthy trend in the development of the nation. But the moot question to be answered is whether the growth of the new issue market has witnessed a decline in investor grievances, or it has been on the rise. In this paper an attempt has been made to find out the common grievances and the regulatory measures undertaken to provide protection. An empirical approach is adopted in this paper.

Statement of the Problem

Small investors who have been the major driving force in the Indian capital market over the 1990’s have withdrawn from the market in large numbers in recent years. The last decade has seen major volatility in the market and many small investors burnt their fingers by losing their money. The present study is undertaken against a backdrop of major frauds and scams in India, which have eroded the confidence level of small investors. Presently, the Indian small investors are feeling shy in invest their hard-earned money in the market in the absence of an effective and efficient grievance redressal mechanism. Small investors are greatly concerned about the state of regulatory mechanism, which has so far failed regulate the market and gain the confidence of the small investor.

Today small investors feel that in spite of having a world-class trading system in our country we do not have a foolproof regulatory framework based on transparency. There are laws against insider trading, but in the powers that
be there is neither the will nor the competence to enforce accountability. Few have been caught for insider trading and perhaps none has gone to jail. There have been tall of claim made about reforms in the capital market and the financial sector. However, the most crucial component of reform processes, the stock market, remains trapped in the traditional, manipulative, insider-trading paradigm.

Free market can only survive in a system, where laws for regulating the capital market are strictly implemented as effectively or even better than any other criminal laws pertaining to heinous crimes. The fortunes of our economy and of tens of millions of small investors depend on the proper or improper working of the capital market. There is no future for an economy where the market is not subjected to the highest level of accountability. Therefore, the development of an efficient capital market inside a free market economy can be realized not only with the introduction of tough market laws but also their effective implementation. Only a strict implementation of these laws can send a strong warning signal to the entire financial world not to mess with the hard-earned money of small investors.

The survey of literature in the preceding papers suggests that while there have been many short and long studies of investors in the capital market, in India in general, there have not been many which focus on the small investors, their problems and protection of their interest. Taking advantage of the insights and props provided by their work and the other extensive studies in the relative fields, the present study directs its focus on the small investors, his potentialities, his difficulties and problems, and the mechanism for the
redressed of their grievances. The attempt is to make the study as comprehensive as possible within the limits of a thesis.

In particular it study on the problems faced by small investors vis-à-vis the working of the Indian capital market at present along with the role of Securities and Exchange Board of India’s (SEBI) grievance redressal mechanism and the small investors’ problems and perceptions on the capital market in India.

Objectives of the Study

The present research has certain specific objectives. It purports to review the emerging trends in the capital market, to assess its efficiency, and profitability and the SEBI’s role in small investors’ protection and the facilities provided for the investors. It aims

1. To review the mechanism, rules and regulations, trends and performance of the capital market in India;

2. To study the financial instruments and strategies of the Indian capital market and regulatory mechanism of the SEBI.

3. To examine the provisions of the SEBI and assess its role and its mechanism to protect the investors in general and the small investors in particular;

4. To identify the problems confronting the small investors in the capital market and the perception of investors about its operations particularly regarding small investors; and
5. To suggest feasible ways and means to tone up the performance of the capital market and the SEBI in investors' protection.

Methodology

As for the methodology of the present investigation, it is based on both primary and the secondary data for analysis and to draw inferences. It adopts a three-way approach. Firstly it focuses on the capital market operations and their efficiency. Secondly, it examines the SEBI's provisions for protecting the investor and thirdly, it analyses the various categories of small investors to get it factual data regarding the protective mechanisms of SEBI and their effectiveness. The study makes a judicious use of the various reports of the capital market, the SEBI, Ministry of Corporate Affairs, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) and the like.

Sample Design

Efforts have been made to study the nature of the grievances and problems of small investors and how best they may be redressed. The idea behind this study is to understand the difficulties faced by small investors and find solutions for them in the Capital Market. In all 350 complaints made by small investors made against various agencies, companies, Regulators and exchanges are selected at random for detailed study. Care is taken to cover their variety in the sample chosen. Next the nature of the complaints is listed. Then an attempt is made to analyse the gist of complaints and the response of the system to them. Then viable suggestions are made to make necessary rectification in the Grievances Redressal System and the protection of the investor, which have already been made available by the legal framework.
Data Collection

The primary data is collected from the small investors regarding their problems, in various cities/towns and from agencies, and capital market authorities and through personal interviews with experts. Information is also collected about the measures in force to safeguard the interests of the investors, and their effectiveness. The information thus collected is closely examined for its reliability and confirmed by getting clarifications from the authorities/agencies or NGOs, Investor Grievances Forum etc. In addition, structured and unstructured interviews are also conducted with experts in the capital market who are involved directly or indirectly in its operations.

The secondary data has been collected from various publications of the SEBI, both audited and un-audited reports and other publications. The publications of SEBI include Statistical data relating to Investors grievances and redressals, new policies and amendments to the already existing Acts, annual reports of the SEBI its relevant monthly Bulletins. The relevant material at Government level has also been collected. Further, various reports of the surveys conducted by the SEBI, National Council of Applied Economic Research (NCAER), Investors Education and Protection Fund (IEPF), Voluntary Organisation in the Interest of Consumer Education (VOICE) Research Team, New Delhi and Survey of Indian Share Owners (ISW) – 1991, Society for Capital Market Research and Development, Delhi, different Committee Reports relating to Small investor’s Protection, different websites of the stock markets, special Bulletins, Journal of Indian Finance and Commerce etc, have been consulted. The information pertaining to market operations, financial activities, and strategies is also collected from these.
sources. Data is also collected from published and un-published records and various reports of research projects to supplement the other data.

**Tools for Analysis**

Appropriate statistical tools were applied to interpret and analyse the data in order to draw more scientific conclusions.

**Significance of the Study**

The importance of small investors has been recognized in the modern capital market for attracting their investment. Inspite of the various measures adopted by the Central government through legislations, the interests of the common investor are yet to be protected. The grievances are hardly redressed. The machinery acting on behalf of the authority (i.e. SEBI) and other agencies have not risen to meet the occasion, and even a small complaint from the investors' is not properly responded to. Many theoretical discussions and debates have taken place to safeguard the interest of investors but little has been done in concrete action. This is largely due to a lack of understanding, of the state of affairs in the capital market in those who ought to know better. And there in also a communication gap between the investors and the authorities. Unless the investor is given proper education and guidance by the SEBI, one cannot expect the picture of capital market to get brighter.

In fact this is the guiding impulse behind the present enquiry into various issues and problems relating to small investors. Redressing their grievances promptly does well to the investors and funds flow into the capital market freely. It a penny is invested wisely, it brings many pounds of profit in
returns. As the small investor plays a crucial role in the capital market, it is the need of the hour that the SEBI takes necessary steps to safeguard his interests which in turn contributes to the health of the economy and to building a wealthy nation.

Plan of the Thesis

The thesis is organized in seven chapters viz.


Chapter VI: Problems of Small Investors in the Market milieu: It examines problems faced by the small investors in capital market pertaining to – Initial Public Offer – Broker and Sub-brokers – Companies – SEBI – Registrar – Vanishing companies – Stock Exchangers – Demat charges and their investment pattern, purpose of investment, nature of losses, reason of losses, knowledge about Redressal system, nature of the grievances and best solution available and also age group – education level, type of investment, motive of investment.

Chapter VII: Summary and Suggestions: This concluding chapter summarises the arguments developed in the previous chapters, draws certain conclusions and also suggest some practicable suggestions for improving the performance of the Securities and Exchange Board of India (SEBI) in protecting the interest of the Small Investors.
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