CHAPTER 5

ANALYSIS OF
PERFORMANCE
OF NSDL
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ANALYSIS OF NSDL's PERFORMANCE

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NSDL is an Organisation where the securities of a shareholder are held in electronic form at the request of the shareholder. The NSDL holds securities in an account, transfer securities between account holders, facilitates transfer of ownership without handling securities and facilitates safekeeping of securities. Depository System has been long prevalent in the advanced countries and has been playing a significant role in the stock markets around the world. The system is time tested and reliable.

The Government of India enacted the Depositories Act in August 1996, paving the way for setting up of Depositories in India. Pioneering the concept of Depositories and ushering in an era of paperless settlement of securities. National Securities Depository Limited (NSDL) was registered on 7th June 1996 with the Securities and Exchange Board of India (SEBI), as the first Depository of the country. It was set up as a result of the Depositories Act, 1996 as a public limited Company and promoted by IDBI, UTI and NSE to facilitate trading and settlement of securities in dematerialised form.

SEBI granted the Certificate of Registration to CDSL on 19th August 1998. CDSL thus became the second Depository in the country. BSE and Bank of India have jointly promoted it. The setting up of second Depository has resulted into the market competition, which ensures that the charges of Depositories are competitive and quality service is provided to the investors.

NSDL commenced business on November 8, 1996, with SHCIL, the first Depository Participant. NSE commenced trading in dematerialised
share on December 26, 1996. The first transaction of these shares took place in Reliance Industries when a token 50 shares were traded at a price of Rs. 214 per shares. The price of physical share was around Rs. 204 per share. Dematerialised shares are expected to be traded at a premium over physical shares since the former have an advantage of attracting no stamp duty, no bad delivery and quick settlement.

During January 1997, three Companies signed an agreement with NSDL for getting their equity dematerialised. These are IDBI, Prison Cement, Infosys Technology and CRISIL. This took the total number of Companies which offered to Demat their shares to Nine. During January 1997, there were 15 Depository Participants joined NSDL. The first complete settlement of trade in Demat share was concluded on NSE on January 14, 1997. In this settlement, a total of 15800 shares of Reliance Industries came up for delivery. During February, 1997, 6 Companies admitted their shares for Demat with NSDL. Among the major Companies to do so were Associated Cement Company, Reliance Capital and Dabur India. This has taken the total of companies which have admitted their shares for Demat to 15.

Trading in Demat shares of Indian Petro Chemical Corporation commenced on NSE from February 12, 1997. Trading in 5 other Companies, including IDBI, began with effect from February 24, 1997. As on March 3, 1997, there were 20 Depository Participants registered with NSDL. During March 1997, there were 23 Companies whose shares had been accepted for Demat by NSDL. During March 1997, some
major Companies signed Agreement with NSDL to get their shares dematerialised were Bank of Broda, SAIL, Dena Bank and Indian Rayon.

NSE was the first Stock Exchange, who joined NSDL and commenced trading in Dematerialised shares. The Stock Exchanges joined NSDL till March 31 2003, the table shows date of joining of different Stock Exchanges:

<table>
<thead>
<tr>
<th>Name of Exchange</th>
<th>Date of joining NSDL</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSE</td>
<td>26.12.1996</td>
</tr>
<tr>
<td>BSE</td>
<td>28.12.1996</td>
</tr>
<tr>
<td>Kolkata</td>
<td>12.06.1998</td>
</tr>
<tr>
<td>DSE</td>
<td>04.02.1998</td>
</tr>
<tr>
<td>Ludhiana</td>
<td>15.09.1998</td>
</tr>
<tr>
<td>Bangalore</td>
<td>06.11.1998</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>14.08.1998</td>
</tr>
<tr>
<td>Chennai</td>
<td>19.11.1998</td>
</tr>
<tr>
<td>Over the counter exchange of India and Interconnected Stock exchange</td>
<td>02.01.1999</td>
</tr>
<tr>
<td>Ahmadabad</td>
<td>14.03.1999</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>11.08.1999</td>
</tr>
</tbody>
</table>

(Source: Monthly Review of Capital Market, CMIE)
5.1 Parameters of measurement of performance of NSDL

The performance of NSDL can be measured on the basis of number of parameters like

- Number of Companies signed for Demat
- Number of Companies available for demat
- Number of Depository Participant enrolled
- Number of locations served by its Depository Participants.
- Value of Dematerialised Stock
- Number of Client Accounts opened
- Demat Custody
- Corporate Actions

The significance of above parameters for evaluating the performance of NSDL is explained:
• Number of Companies signed for Demat

This is another parameter to judge the performance of NSDL. This shows the reach of Depository to the issuer of the securities. Number of Companies signed with it shows its acceptability and the reach in the market. Every Depository tries to get the contract with maximum number of Companies.

• Number of Companies available for Demat

The real performance of the NSDL depends on the number of Companies available for Demat with it. Number of Companies which approached for Demat is the indicator of its reach to the issuers and the investor. More the numbers of Companies available for Demat, better is its performance. Therefore, NSDL tries to have tie up with as many Companies as is possible for Demat of their shares.

• Number of Depository Participants

NSDL functions through their Depository Participants. Depository Participants are the interface between the investors and the NSDL. Number of Depository Participants enrolled by the Depository decides the volume of business it will achieve. The investors interacts with the Participants, therefore, NSDL tries to ensure that it enrolls all the major Depository Participants.
• **Number of locations served by its Depository Participants**

   Another criteria to measure the performance of NSDL is the number of locations covered by its Participants. As discussed earlier, the NSDL functions only through its Depository Participants enrolled by them, have presence in number of locations. If the number of locations served by its Depository Participants increases, that means that the visibility and the brand value of the Depository has increased.

• **Value of Demat Stock**

   The value of Dematerialised Stock is measured by taking into consideration how much Demat Stock is available in the custody of the Depository. More the value of Demat Stock, better the performance and vice versa. Therefore, the emphasis of NSDL is to increase the value of Demat Stock by joining hands with other Companies or issuers. Value of Demat Stock can also be increased through enrolling more and more number of Participants, which will lead to increase the number of accounts of the investors.

• **Number of Client Accounts**

   Another criteria to measure the performance of NSDL, is the number of client accounts, it serves. This is one of the most important objectives of the NSDL business. The revenue of the
Depositories is dependent on the client accounts. If a Depositories is able to increase the number of client accounts through providing better service or through providing service at lesser cost, it will ultimately lead to better earnings and growth. Every Depository tries to capture market share by increasing its client base.

- **Demat Custody**

  Demat custody of the securities is another criteria to measure the performance of NSDL. The Demat Custody is the custody of the securities in the Demat Mode. Number of Securities and the quantity of the securities available with the NSDL effects the performance. NSDL can increase the Demat Custody only by increasing its client base and luring its customers to get more and more number of securities Dematerialised.

- **Corporate Actions**

  Corporate Action is another criteria to measure the performance of NSDL. The Corporate actions is the facility provided by NSDL to its Companies and Issuer for distribution of benefits such as Bonus, Rights, etc. to its Beneficial owners. NSDL can increase corporate benefits in electronic form efficiently.

  All these parameters listed above effect the performance of the National Securities Depository Limited.
Other than the basic services, the NSDL also provides some special services to its customers. Special services provided by NSDL include:

- Pledge of securities
- Securities lending and borrowing
- Distribution of securities in case of IPO's
- Internet based services

- Analysis of Performance of NSDL

The performance of NSDL over the period of study on various parameters has been analysed below. These parameters are important to understand the real performance of NSDL. The performance of NSDL can only be measured through the parameters like, how many Companies are available in the Depository, how many locations the Depository can be assessed, how much is the value of settlements carried out through NSDL. And how many client accounts are opened in the Depository. Without the help of data and diagrams, it is very difficult to make any logical conclusions. Therefore, an attempt has been made to present the data with the help of Tables and Diagrams from the inception of National Securities Depository Limited.
5.2 Number of Companies signed for Demat

This parameter is concerned with the number of Companies which have signed for Demat with the Depository for the securities issued by the Companies. The performance of NSDL on this parameter is depicted in the Table 5.1 and the Diagram Table 5.1

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Companies signed for Demat</td>
<td>40</td>
<td>191</td>
<td>375</td>
<td>918</td>
<td>2821</td>
<td>4210</td>
<td>4680</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.1

Diagram 5.1
The presented Table and Diagram shows that the number of Companies who have entered into the Agreement with the Depositories was just 40 in March 1997 and the figure increased to 191 in March 1998 and 375 in March 1999. In the year ended March 2000, the number of Companies, which had signed Agreement with the NSDL, increased to 918. This list expanded to 2821 Companies in March 2001, 4210 Companies in March 2002 and 4860 in March 2003. The growth was very high and this all was possible only due to the strong initiatives taken by the regulator, i.e. SEBI.

5.3 Number of Companies available for Demat

The number of Companies available for Demat is one of the most important criterion to understand the performance of the Depositories. National Securities Depository Limited has seen a boom in the number of Companies since beginning. This was mainly possible due to the efforts of the regulator i.e. SEBI. The performance of NSDL on this criterion has been explained in the Table 5.2 and the Diagram 5.2.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Companies Available for Demat</td>
<td>23</td>
<td>171</td>
<td>365</td>
<td>821</td>
<td>2786</td>
<td>4172</td>
<td>4761</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>.....</td>
<td>643.47</td>
<td>113.45</td>
<td>124.34</td>
<td>239.34</td>
<td>49.74</td>
<td>14.72</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.2
No of Companies available for Demat

Diagram 5.2

The trading in the securities of many Companies has been made compulsory in Demat Mode. The above table and diagram explains that the number of Companies available for Demat in the Month of March 1997 was just 23 and this figure increased to 171 in the March 1998. In the year ended on March 1999, only 365 Companies were available for Demat. This figure was 821 in March 2000, 2786 in March 2001, 4172 in March 2002 and 4761 in March 2003.

This clearly shows the keen interest of the Companies in the Demat System. The growth in terms of number of Companies available for Demat is phenomenal.
5.4 Analysis of number of Depository Participants

Another criterion for measuring the performance of Depositories, is the number of Depository Participants associated with it. Depository Participant is the key player in the System, which acts as an agent of the Depository and, in fact, the customer interface of the Depository. He opens the accounts of the investors, facilitates dematerialisation, settles trades, and effects corporate actions. Therefore, the growth in number of Depository Participants is very important to know the growth attained by the Depository or to measure the performance of the Depository.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Depository Participants</td>
<td>24</td>
<td>49</td>
<td>84</td>
<td>124</td>
<td>186</td>
<td>212</td>
<td>213</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.3
Diagram 5.3

The growth in terms of number of Participants of NSDL is depicted in the Table 5.3 and Diagram 5.3. It shows that in March 1997, only 24 Depository Participants were enrolled by NSDL. In the year 1998, this figure was doubled to 49. In March 1999, number of Depository Participant was 84. In March 2000, this figure rose to 124. In the year 2001, the figure was 186 and in 2002, it was 212 and on March 2003 the total number of Depository Participants was 213.

5.5 Analysis of Locations severed by its Depository Participants

Another parameter to measure the performance of a Depository is the number of a location covered by its Depository Participants. In
order to avail the services of the Depository, an investor has to open an account with a Depository through a Depository Participant, just like a person opening an account with the branch of a bank.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Locations served by DPs</td>
<td>24</td>
<td>200</td>
<td>750</td>
<td>1425</td>
<td>1896</td>
<td>1648</td>
<td>1718</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.4

Diagram 5.4
It is an important criteria of measuring the performance of the NSDL that in how many locations investors can come and avail the services offered by it through its Depository Participants. The above Table and Diagram depicts the performance of NSDL since March 1997 in terms of locations served by it through its Depository Participants. As shown in the Table and Diagram that number of locations served by it was just 24 in the year 1997 and the figure rose to 200 in the March 1998.

NSDL was serving its investors at 750 locations in March 1999. The number of locations served by it was 1425 in March 2000. The figure rose to 1896 in March 2001 and it came down to 1648 in March 2002 due to closing down of business by some Depository Participants and in March 2003 the figure rose to 1718.

5.6 Analysis of value of Dematerialised Stock

One of the parameters to measure the performance of any Depository is the value of dematerialised stock. On this parameter, the growth of NSDL from March 1997 to March 2002 is depicted in the Table 5.5 and the Diagram 5.5
<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Dematerialised stock (Rs Crores)</td>
<td>501</td>
<td>2250</td>
<td>11430</td>
<td>461385</td>
<td>326184</td>
<td>442580</td>
<td>551300</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.5

Diagram 5.5
As depicted, the value of dematerialised stock was just Rs. 501 crores, it rose to Rs. 22,500 crores in one year i.e. from April 1997 to March 1998. The value of Demat Stock was Rs. 1,14,000 crores in March 1999. The value crossed during the Technology shares boom period of year 1999 - 2000 to Rs. 46,71,385 Crores. The value of Demat Stock fell down to 3,26,184 in March 2001 due to fall in value of technology stocks. In March 2002, the value of Demat stock was Rs. 4,42,580 crores. The value of Demat stock was Rs. 5,51,300 crores in March 2003 as per the latest figures available.

5.7 Analysis of number of Client Accounts

One of the most important criterion in measuring the performance of NSDL is the number of client accounts opened with it.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of clients Accounts (in lacs)</td>
<td>NA</td>
<td>0.011</td>
<td>4.35</td>
<td>2.41</td>
<td>37.00</td>
<td>37.48</td>
<td>37.96</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.6
As presented in the Table and Diagram, the number of Client Accounts has reached 37,00,000 in just 6 years of operations. The figure is not available for March 1997. The figure was just 11,000 in March 1998. From March 1998 to March 1999, the number of accounts rose to 4,35,000. This is a remarkable increase in just one year. Then this figure rose to 24,14,000 in March 2000. The number of accounts was 37,48,000 in March 2001 and this figure was 37,00,000 in March 2002. As per the latest information collected this
figure has reached 37,95,604 as on March 31, 2003. This is remarkable progress achieved by the NSDL.

5.8 Analysis of Demat Custody

To measure the performance of NSDL, another criterion could be to look at the growth of Demat Custody of securities. The performance of NSDL on this criterion is depicted in Table 5.7 and Diagram 5.7.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demat Custody (Quantity in Crore)</td>
<td>2.2</td>
<td>176.3</td>
<td>710.9</td>
<td>1550</td>
<td>3721</td>
<td>5167</td>
<td>6519</td>
</tr>
</tbody>
</table>

(Source: Compiled from NSDL Reports)

Table 5.7
As presented in the above Table and Diagram, the Demat Custody was 22 crores in March 1997 and the figure rose to 176 crores on March 1998. The Demat Custody was 711 crores in March 1999. In March 2000, the Demat Custody was 1,550 crores and in March 2001 figure rose to 3721 crores. The Demat Custody was 5,167 crores in March 2002 and it was 6,519 crores in March 2003.

5.9 Corporate Actions

The corporate action facility of NSDL has been used extensively by the Companies and Issuers in distributing securities electronically
arising out of corporate actions such as, Bonus, Rights etc. This process has eliminated the need to print security certificates coupled with ensuring quick delivery of securities to the shareholders. Further, distribution of securities through NSDL has resulted in reduction in the number of investors grievances regarding non-receipt of certificates etc., and resulted in a huge cost saving to the issuers.

Details of securities issued by way of electronic entries through NSDL for FY 2002-03 are as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Corporate Actions</th>
<th>No. of Allottees (in hundreds)</th>
<th>No. of securities (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Shares</td>
<td>765</td>
<td>28,191</td>
<td>1,080,279</td>
</tr>
<tr>
<td>Preference Shares</td>
<td>38</td>
<td>213</td>
<td>35,465</td>
</tr>
<tr>
<td>Bonds &amp; Debentures</td>
<td>3,472</td>
<td>1,405</td>
<td>79,516</td>
</tr>
<tr>
<td>Commercial Papers</td>
<td>1,993</td>
<td>18</td>
<td>61</td>
</tr>
<tr>
<td>Certificate of Deposits</td>
<td>429</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Pass Through Certificate</td>
<td>178</td>
<td>5</td>
<td>4,897</td>
</tr>
<tr>
<td>Mutual Fund units</td>
<td>77</td>
<td>373</td>
<td>134,102</td>
</tr>
<tr>
<td>Government Securities</td>
<td>288</td>
<td>27</td>
<td>4,090</td>
</tr>
<tr>
<td>Warrants</td>
<td>1</td>
<td>8</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>7,241</td>
<td>30,245</td>
<td>1,338,453</td>
</tr>
</tbody>
</table>


Table 5.8

The conclusion is that NSDL has recorded an impressive growth in the number of Companies, Number of Depository Participants, Number of client Accounts, value of Dematerialised Stock, Demat Custody and Corporate Actions during the period 1996-2004. The performance of NSDL is remarkable.