Chapter II

THE STUDY

Significant of Depository System

A Depository is an organization where the securities of shareholders are held in the electronic format the request of the share holder through the medium of a depository participant. In September, 1995 the Government have accepted in principle the proposed law for settling up of depositories and of a central depository for immobilization of physical certificates. The central depository is to be set up as trust to hold the physical custody of shared and effect transfers by book entries without the need to deal and transfer the physical certificates between parties. This is to be sponsored by public financial institutions and banks and will have a minimum net worth of Rs. 50-100 crores as proposed by the SEBI. This central depository can be connected to a number of share depositories for effecting transfer in book entries. The Foreign financial institutions agencies, NRI’s and OCBs have for long required the depository of this type for facilitating their trade in the Indian stock markets. These foreign security firms who were linked by the SEBI are operating in India, but physical custody of the Indian securities has to be handled by Indian custodian such as a bank which taken converted into depository participants. The guidelines and regulations in aspect of the operations of depository participants will help smooth operations among participants and their operations with the central depository. A national securities depository corporation was set up in November, 1996.
The Central Depository system aims at immobilization of physical certificates. This is done by means of book entries with central depository who keeps custody of all physical certificates as a first step. As a next step, new issues will be made as book entries only and not as physical certificates. Book entries transfers will lead to quicker transfers and at lower costs. It meets the increasing work load of investment activity and dealings to increasing volume of transfer work. In the Depository system, the Depository extends its services to investors through intermediaries called depository participants (DP) who as per SEBI regulations could be organizations involved in the business of providing financial services like banks, broker, custodians and financial institutions.

Realizing the potential in this market all the custodians in India and a number of banks, financial institutions and major brokers have already joined as DPs and they are providing services in a number of cities. Many more organizations are in various stages of establishing connectivity with Depositories. The admission of the DPs involve an evaluation by Depository of their capability to meet with the strict services standards of Depository and a further evaluation and approval by SEBI. Towards, the end of the twentieth century three was two interesting prognostications about India’s potential. The first was by a professor of business management in the United States (Rosenweig, 1998). He estimated that by 2025, India would be the third largest economy in the world (After the US and China). The second projection was by a well-known Indian Economist (Parikh, 1999). It was projected that India would reach a per capita income of
U.S. $ 30,000 or higher by 2047, making it one of the fastest growing countries in the world.

**REVIEW OF LITERATURE**

This section covers the review of literature of some of the important studies, research papers and articles on the various aspects of depository system.

The first published event study is by Dolley (1933)\(^1\) which examined the price effects of stock splits, studying nominal price changes at the time of the split. Over the decades from the early 1930s until the late 1960s the level of sophistication of event studies increased.

Mayer and Bakay (1948)\(^2\), Baker (1956, 1957, 1958)\(^3\) and Ashley (1962)\(^4\) are examples of studies during this time period. The improvements include removing general stock market price movements and separating out confounding events. In the late 1960s seminal studies by Ball and Brown(1968)\(^5\) and Fama, Fisher, Jensen, and Roll (1969)\(^6\) introduced the methodology that is essentially still in use today. Ball and Brown considered the information content of earnings, and Fama, Fisher, Jensen, and Roll studied the effects of stock splits after removing the effects of simultaneous dividend increases. The event studies are also used in the field of law and economics by Schwert (1981)\(^7\) to measure the impact on the value of a firm of a change in the regulatory environment.

Aggarwal and Dixit (1996)\(^8\) expressed their views about the legal framework for depository system in India. They also explained the benefits of the paperless trading, responsibilities of depository or participants and eligibility criteria, etc. Shah (1996)\(^9\) highlighted that resolution of the single vs. multiple
depositories, immobilization vs. dematerialization and role of capital adequacy norms for
the custodians which is helpful in quick implementation of depository system in India.

Dias et. al (1996)\(^{10}\) pointed out the problems faced in the area of
depository system due to setting up depositories by stock exchanges. Aggarwal
(1996)\(^{11}\) pointed out that the introduction of depository system in India will
eliminate many problems like back office functioning, post-trade, post-issue
work, settlement and registration work. Sarkar (1996)\(^{12}\) analyzed the implications
of the scripless trading and share transfer based on book entry merely due to the
existence of the depository ordinance 1995.

George (1996)\(^{13}\) explained the role of the NSDL in revolutionizing the
paperless stock settlement system of the country. He also examined the steps
taken by the depository to ensure that the scripless trading system is a success and
stressed on the importance of the role of the regulator in making the depository
system successful. Gurusamy (1996)\(^{14}\) explained that the introduction of
depository system would help in transfer of securities in the capital market by a
mere book entry. He also pointed out the advantages of depository system such as
delay in transfer, registration, fake certificates, soaring cost of transactions, more
paper work, non availability of depositories in when the transfer of securities take
place by physical delivery.

Malabika deo (1997)\(^{15}\) conducted a study on depository ordinance: a new
dimension of capital market reform. The objective of the study deals with
operations, functions and benefits of depository system. She concluded that
introduction of depository system would take away of the ailments facing the
present style, making the trading in scrip’s fool proof, would serve as a panacea
and will ultimately pave the way for emergence of highly efficient capital market. However improved banking system, adequate infrastructure and fast information technology are all going to play a crucial role in the success of depository system in India.

Rao and Pramannik (1998)\textsuperscript{16} studied the functioning of scripless trading, rights and obligations of depository. They have also shown the relationship between depository and other agencies, relationship between depository and participant, between depository and beneficiary, depository and SEBI and relationship of depository with Companies Act. Hurkat and Ved (1999)\textsuperscript{17} discussed the role of depository system in many advanced countries in the stock and capital markets the world over. They also analyzed the services offered by NSDL, dematerialization, re-materialization, trading and fee or charges, comparison of a bank and a depository for the benefits of the depository.

C.R. Ramana (1999)\textsuperscript{18} conducted study on join in band of electronic trading in securities. He puts vision at the electronic system of security demat and remat its features and protocol. He explained the procedure to sell and buy technique of securities in the demat form. Dellarocas C, (2000)\textsuperscript{19} Contributed to the development of a rigorous discipline for designing trust management mechanisms in online communities. He identify several properties of online interaction are challenging the accumulated wisdom of our communities on how to produce trust and require the development of new mechanisms and systems.

Chikodikar (2000)\textsuperscript{20} studies undertaking dematerialization and the objectives framed was demat process and have detailed discussion on demat
system—its meaning advantages, demat charges (price) depository and depository participants. He found that the electronic trading and trading of securities is a step in the right direction, paperless trading will prove to be boon to the stock market in the years to come. M.T. Raja and Varsha marathe (2000)\textsuperscript{21} conducted study on Transaction cost for equity shares in India. The main objectives of the study was to analyse the cost of equity shares transaction in physical mode and demat mode. He found that the average cost for the FII in India is lower than stock market like Singapore, china, and Thailand. Due to dematerialization the transaction cost of FII have come down by 60\% and for mutual funds by 75\%.

Burton (2002)\textsuperscript{22} revealed the redesign of the depository structure and procedures and said that this is a viable model system and is being monitored closely and improved on a continuing basis. Mehla and Turan (2002)\textsuperscript{23} explored the depository system as a process, which eliminates the paper work and maintains the electronic record of the ownership of securities. Gupta (2002)\textsuperscript{24} examined the role of SEBI which enables the investors to choose their depository and the DP to keep their securities in the electronic form and to trade in the demat segment.

Barber and Odean (2002)\textsuperscript{25} found that young men are more likely to use the Internet for investing, and that online investors tend to increase turnover and decrease their performance after switching to online trading. Ravi Shah (2002)\textsuperscript{26} highlighted that NSDL and CDSL have changed the face of the Indian capital market. The move from an account period settlement in ‘paper form only’ to a T+3 settlement in pure electronic form has been achieved in a record span of few
years, whereas it took anywhere between 10-20 years in most of the developed countries. Abhy pethe and ajit kanik (2002) have looked at the role that stock exchange are expected to play in economy viz. that of providing liquidity and helping in price discovery. Kanko (2004) discussed about Duopoly Model of security settlement, which shows how pooling payment can help in using liquidity efficiently in relation to CSD (Central Securities Depositories) foreign securities.

Schmiedel et. al (2006) analyzed the existence and extent of economies of scale in depository and settlement systems. The study indicated the existence of significant economies of scale but degree of such economies differs by settlement, institution and region. Research conducted by Konari Uchida (2006) on the characteristics of Japanese online investors found Japanese online investors prefer higher capital gains, choose low-volatility stocks less often, use chart data more frequently, and are more likely to choose stocks to buy and sell themselves. The study conducted by Yingzi Xu, Robert Goedegebuure and Beatrice van der Heijden (2006) on “Customer Perception, Customer Satisfaction, and Customer Loyalty within Chinese Securities Business: Towards a Mediation Model for Predicting Customer Behavior” found service quality perceived by customers has a direct, significant effect on customer satisfaction. Also the relationship between perceived service value and customer loyalty is found to be determined by customer satisfaction.

Nishanth and Mitra (2007) highlighted the trends in the growth of dematerialization in the Indian capital market. They analyzed the total turnover and demat segment turnover volume-wise and stated that dematerialization of securities is one of the major step aimed at improving and modernizing the levels of investor’s protection measures. Raju and Patil (2007) quantified and analyzed
the impact of dematerialization on liquidity in the Indian stock market. Kanan (2008)\textsuperscript{34} highlighted that dematerialization has certainly brought about lot of improvement in the investment habits in our country and is bane for the companies and has created havoc in maintaining the members register and in conducting the members meeting.

Another study by Sandeep Srivastava, Surendra S Yadav and P K Jain (2008)\textsuperscript{35} on “Derivative Trading in Indian Stock Market: Broker’s Perception” found that high net worth individuals and proprietary traders contribute to the major proportion of trading volumes in the derivative segment. The survey also revealed investors are using these securities for risk management, profit enhancement, speculation and arbitrage. It also emphasized to popularize option instruments because they may prove to be a useful medium for enhancing retail participation.

Sultan Sing (2011)\textsuperscript{36} studied the factors affecting the decision making of the investors in depository system. Most of the investors aware of the view that shorter settlement period, safety of securities with the depositories, attitude of the staff available with the DPs, timely services provided by the DPs to the investors, reduction in transaction cost, repatriation of sales proceeds of shares/debentures by NRIs were some of the factors that affects the decision making of the investors in the depository system. Earlier studies covered the depository system and environment, which mainly pertained to depository legislation, which was viable alternative of depository, implications of depositories ordinance, internal audit of depository participants, an overview of the Depositories Act1996, responsibilities
of auditing profession, role of depository in stock and capital market, SEBI guidelines in the depository system, services provided by different depositories or accessibility of depositories to retail investors. But it was very important to study the financial performance of depositories themselves and hence the author conducted the study.

Ms.K.Chaudhary,Mr.R.Kumar malik (2011) Depository Participants services should be made available to the investor round the clock and efforts must be made to reduces the transaction depository participants has to make awareness to investors about rules & services provided to the investor. Services system provided by the DP must be update regular to suit the requirements of the investors. Shaika.m.b,R.V.Krishna,V.H.G.Kiran (2012) The SEBI is a regulatory body which is eighteen years old and the capital market system require monitory rather than over-regulation, It is observed to ` 2,00,000 from ` 1,00,000 in initial public offerings (IPO’s), Dematerialization has pushed the process further. SEBI has taken several steps for the smooth-cum-speedy development of both primary & secondary markets from time to time for the development of all ares. Improvement have been made in the clearance and settlement settle system. A major step in this direction has been the establishment of depositories – NSDL and CDSL and a clearing corporation NSCCL.

Dr.Dhiraj jain, P.Mehta (2012) The investors level of awareness about services offered by depository participants and about closing and termination of demat account is moderate through the vary in their education qualification will
be a sort of feedback for the investor, brokers and regulatory bodies as to what extent have the investors educate programme reached.

The earlier studies covered the depository system and environment, which mainly pertain to depository legislation, how a viable alternative of depository, implications of depositories ordinance, internal audit of depository participants, an overview of the Depositories Act, responsibilities of auditing profession, role of depository in stock and capital market, SEBI guidelines in the depository system, services provided by different depositories or accessibility of depositories to retail investors. But it is very important to study the Role and performance of depositories itself. Therefore, the present study is an attempt to fill this gap.

NEED FOR THE STUDY

Indian stock exchanges nowadays are following screen based trading and electronic settlement system. The market width are also enlarged, quantity of investors spread to various distance places from trading and settlement place. There are some problems arising in the settlement and transfer system, in stock and share trading. In this circumstance there are a limited number of studies in this area. Hence there is a need for evaluation of depository system with in the area of investor’s perspective. The present study is in this direction of research analysis covering role and performance of depository participants and the factors affecting the decision making of investor towards depository participant.

SCOPE OF THE STUDY

The present study covers the role and performance of the DP’s and investor’s Factors, attitudes towards depository participants and the four listed
depository participants with special reference to a Rayalaseema region of Andhra Pradesh. The scope of the study is very wide and deep of a role of depository participants and investors factors affecting and comparative analysis among listed four depository participants, impacts of concept as far as Indian Capital market is concerned. Further, globalization has given a new fillip into financial markets and varied financial competitive Environment.

**STATEMENT OF THE PROBLEM**

The studies have explored the various aspects in the depository system like cost aspects. Difficulties faced by the investor and others of the benefits available to the investor. The Indian capital market has witnessed numerous changes in the recent past as seen earlier. Traditionally stock market booms and decline have resulted in a number of problems for the lay investor. A close introspection of these problems will reveal that most of them are due to intrinsic nature of the paper based trading and settlement system. The capital market exposed the limitation of handling and dealing in securities in physical/paper mode. The short learning’s of the market became manifest in terms of bad deliveries, delays in transfer and irregular settlement. The remedial measure for this may be the system of dematerialization (also called demat) under depositary system. Hence it is an attempt to study about The Role of Depository Participants and Present scenario Working Frame work of NSDL(national securities depository limited)and CDSL(central depository system limited), factors affecting to investors perception towards depository participants, performance, comparative analysis among listed depository participants in Rayalaseema Region.
The Objectives of the Study Are

1. To analyze the current scenario of Indian stock market.
2. To study depository participants attitude on depository system.
3. To study and analyze the profile of depository participants and investors attitude on services of depository participants.
4. To evaluate the performance of depositories and depository participants.
5. To study the investor attitude towards depository participants.
6. To analyze investor investment decisions and selection of depository participants.
7. Finally to give meaningful suggestions to depository participants regarding their role and performance and services to investors.

Research Hypotheses

The main hypotheses formulated for the study are as given below.

- **H1**: NSDL and CDSL’s contribution for investor awareness towards depository services are significant.
- **H2**: There is significance difference in the awareness of Stock market and regulatory system among the investors at the selected Depository participants.
- **H3**: There is significance difference in the dematerialization benefits offered to the investors by select depository participants.
- **H4**: There is significance difference among the depository participants on the efficiency of the capital market.
- **H5**: Depository Participants Performance has association with availability of DP services to rural areas.
- **H6**: There is significance difference in the market segment dealings of select depository participants.
- **H7**: There is significance difference in the investor’s services satisfaction of select
depository participants.

- **H₈**: There is significance difference in the return on investment (ROI) of CDSL and NSDL.
- **H₉**: There is significant difference in the return on assets (ROA) of KSBL (Karvy), IIFL (India Info line), PCS and NSBL (Networth).
- **H₁₀**: The impact of most important factors for enhancing the investor’s loyalty, type of markets, factors influencing investment decisions, risk associated with various financial instruments, reasons for non-investment in derivatives and lending and borrowing on the expected return on Investment is significant.

**Research Methodology**

In order to achieve the objectives stated above data and information have been collected from both the primary and secondary sources. The primary data have been collected through two structured questionnaires to investors (Annexure-I) and intermediaries (Annexure-II). Apart from the questionnaires, discussions have been undertaken with the stock market specialists to elicit their opinion on various matters relating to depository system and investment decisions. Secondary data have been collected from reports, bulletins of RBI, bulletins of SEBI, books, journals, magazines, conference papers etc.

**Sampling**

Four listed depository participant companies are selected purposively for the study via. 1. *Karvy Securities Ltd.* 2. *India Infoline Finance Ltd.* 3. *PCS Securities Ltd.* 4. *Net Worth Securities Ltd.* Rayalaseema region is taken for the study. All the four districts via. Anantapuramu, Kurnool, Kadapa and Chittore
districts are covered for the study. In order to understand the attitude of the investors towards depository system, depository participants and investment, a sample of 300 investors are taken for the study on the basis of simple random sampling method covering 160 investors in four urban areas, 100 investors in four semi urban areas and 40 investors in four rural areas in all the four districts of rayalaseema region. The places covered are Anantapuram, Dharmavaram, Kalyandurgam, Kurnool, Nandyal, Arlagadha, Kadapa, Prodhuture, Mydhukure, Tirupathi, Chittoore, and Madanapalli.

A sample of 50 branches and franchises of the select four depository participants in urban, semi-urban and rural areas are taken for the study to understand the attitude of DPs on depository system.

The data and information collected through questionnaire and from all the available sources are properly analyzed and inferred to identify the problems in depository system to the investors and stock brokers by using the following statistical tools.

**Statistical Tools Used**

The data is analyzed based on the following statistical Tools

- ANOVA
- Chi-square Test
- Descriptive statistics
- Ratios Analysis
- Standard deviation ,correlations, coefficient and variance
- Percentages
Multiple Regression Analysis

Limitations of the Study

Any research by its inherent nature is bound to have some limitations and this study is not an exception to that rule. The major limitation of the study is that it is restricted to the Rayalaseema Region only and the size of the sample is also limited. However an effort is being made to minimize the impact of this limitation by selecting investors from different areas of all the districts of rayalaseema region. As this study is based on the responses of the investors and intermediaries there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the role of depository participants, depository services as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Where as in this study only a limited number of factors are considered. With all these limitations all the efforts are made to evaluate the situation as accurately and objectively as possible.

CHAPTERISATION

The study is presented in eight chapters as detailed below.

Chapter 1 Introduction

This chapter deals with Indian capital market, capital market reforms and developments, role of capital market in India, regulatory frame work for Indian capital market, depository system, functions of depository system, brief details of NSDL and CDSL, segments in DP business and rematerialization.

Chapter 2 The Study
This chapter explains the significance of depository system, review of literature, scope of the study, statement of the problem, objectives of the study and hypothesis. It also describes the methodology, sampling, statistical tools used and limitations of the study.

**Chapter 3 Depository Participants Attitude on Depository System**

This chapter deals with membership of DPs with depositories, DPs business, market segments dealt by DPs, contribution of SEBI, minimization of frauds by SEBI, effectiveness of regulators, performance of NSDL and CDSL, investors awareness created by depositories, dematerialization of shares, services by depositories, transfer of shares, depository act, DPs opinion on effectiveness of capital market and accessibility of depository participant services to common investors.

**Chapter 4 Profile of DPs and Investors Attitude on DP Services**

This chapter deals with the profile of select DPs and the attitude of investors towards demat charges, reasonability of charges, mode of trading, basis of investment decision, brokerage charge, business activities of DPs, equity research of DPs, transfer of shares, add on services of DPs .

**Chapter 5 Performance of Depositories and Depository Participants**

This chapter deals the analysis of financial performance of depositories and depository participants. Ratios such as operating income to total income, other income to total income, total expenses to total income, return on investment, net profit ratio, current ratio, EPS are calculated and analyzed in this chapter.

**Chapter 6 Investor Attitude towards Depository Participants**

This chapter deals the attitude of investors on awareness of stock market and regulatory system in relation to residential area, education and occupation. It also deals with attitude of investors on savings, source of information for investment decision, purpose of investment, term of investment, investment in shares, debentures, derivatives and mutual funds.

**Chapter 7: Investor Investment Decisions and Selection of DPs**
This chapter deals investor investment decisions in relation to risk associated with equity shares, mutual funds and derivatives reasons of non investment in derivatives and factors for enhancing the investor’s loyalty. It also deals with investors expected return in relation to risk associated with shares, bonds, debentures, mutual funds, preference shares and derivatives.

Chapter 8: Summary and Suggestion

The whole study is summarized and appropriate suggestions are given in this chapter.
References:


