CHAPTER - 6
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Chapter-1 : Introduction, Methodology and Literature Review.

The equity cult in India has picked up only after 1980. The total number of share/debenture holders was estimated to be 10.5 lakh in 1980. This number has shown an increase by 26 lakh in 1985 and almost four times in the next five years thereafter.

An inquiry conducted by the Society for Capital Market Research and Development in 1990 revealed that nearly 60% of the urban households in Gujarat have their investments in securities. It has also been found that investors at the semi-urban and rural levels had made an investment of above 30 to 35% of the total in securities in the state.

The income of the rural population in the state has risen significantly in the last few years due to the overall industrialisation, the development of the infrastructure facilities, development of irrigation facilities, improvement in farming methods and cultivation of cash crops. The supplementary income from the investment in poultry and livestock, and the remittance of money from abroad have changed the lives of the people in the state.

Due to the rise in income of the rural population have enough savings for investment but, in the absence of proper opportunities and awareness for investment, the surplus money is often spent on the construction of pucca houses, purchase of land, milch animals and gold, or spent on
acquiring unproductive assets such as automobiles and on festivities.

Gujarat stands fourth in terms of per capita income in the country but financial institutions have not made much effort so far in mobilizing saving from the rural areas, perhaps, because marketing of an intangible product like financial security to the semi-literate rural population is a daunting task.

In the marketing of financial securities, the product itself and the price would remain the same for the rural and the urban markets. Thus, a rural-specific marketing strategy for securities will invariably have to focus on the distribution and promotional aspect of the marketing mix.

There has not been any systematic study by any individual or organisation in this regard so far. This study is, therefore, aimed at identifying the various economic, social, behavioural and attitudinal aspects of the rural population which may contribute towards decision making with regard to investments in public securities and financial instruments. This is also aimed at identifying the strategies that could help in mobilising the rural savings for investment in financial instruments.

The objectives of the present study were:

[1] To collect data on the ownership of financial assets of the rural population in the cash-rich Kheda, Ahmedabad and Baroda districts of Central Gujarat.
To study the investment pattern of the rural population, avenues of investment, awareness, and risk perception about various investment opportunities.

To gather first-hand information on the current status of investment in financial instruments and the problems faced by these investors in this regard.

To identify appropriate marketing and communication strategies that could help in mobilizing the rural savings.

A well-designed structured questionnaire in Gujarati language was used for collecting the required primary data. The secondary data were collected from various published and non-published sources. The study was based on a sample survey of 400 households. All villages of Kheda, Baroda and Ahmedabad districts of central Gujarat with a population of 5000 and above formed the population for the study.

For the purpose of the selection of respondents, semi-random (Quota) and lottery methods were used, and statistical tools such as percentage, weighted average, chi-square, Randomised Block Design (RBD) and Tukey's test have been used for the analysis and interpretation of the data.


The origin of the stock exchange in India is traceable to later half of 18th Century and early years of 19th
century. By 1830, the stock market took a turn with emergence of some corporate stock and development of textile mills that resulted due to the American Civil War which gave the Indian businessmen a golden chance of quick profiteering by increasing exports of cotton to America and Europe at relatively high prices. The trade boom led to the establishment of stock exchanges at Bombay, Ahmedabad and Calcutta.

The First and the Second World Wars changed the entire scenario of the stock market. Increased activity in trade and commerce gave rise to incorporation of new companies and boosted stock trading. Various stock exchanges came into existence at Madras, Delhi, Nagpur, Kanpur, Hyderabad and Bangalore. Securities Contract (Regulation) Act, 1956 vested powers in the Central Government to regulate the working of these stock exchanges.

Liberalisation measures introduced in the Indian economy by the Government through devaluation, deregulation, delicensing, globalisation and free pricing have further increased the interest in the stock market. The annual turnover of Bombay Stock Exchange accounts for 75 per cent of trading in India, and 46 per cent of listed companies.

Securities and Exchange Board of India (SEBI):

The burgeoning growth of the stock markets has necessitated the establishment of a separate regulating agency for the securities market. Accordingly, the Government passed the Security Exchange Board of India Act,
1992 to provide for the establishment of the SEBI. The functions of SEBI include registering and regulating, the working of stock brokers, sub-brokers, share transfer agents, merchant bankers, under-writers, portfolio managers, investment advisers, mutual funds, and protecting the interest of investors.

After it became a statutory body, the SEBI restructured its organisation and rationalised it in line with its expanded range and scope of activities. It has divided its activities into five operational areas:

[1] Primary Market Department
[3] The Issue Management and Intermediaries Department
[5] Legal and Investigation Department.

Types of Securities traded:

Securities are written evidences of ownership giving the holders the right to demand and receive property not in their possession. According to the 1956 Securities Act, the following securities may be traded in Indian markets:


Over The Counter Exchange of India:

The OTC Exchange of India is promoted by the UTI, ICICI, IDBI, IFCI, and others. The OTCEI has set up a
national, automated screen-based and ringless stock market. The OTCEI is expected to help companies in raising funds from the market in an effective manner and in providing a convenient and effective avenue of investment for investors at large.

While the other recognised stock exchanges require that any company which applies for listing should have an issued capital of not less than Rs. 3 crore out of which about 60% is offered to the public, the minimum issued equity share capital of a company for eligibility for listing on the OTCEI is Rs. 30 lakh.

National Stock Exchange (NSE):

The genesis of the National Stock Exchange lies in the recommendations of the Pherwani Committee in 1991. The NSE was set up to strengthen professionalism in Capital market and also to provide nation-wide trading facilities to the investor in securities. NSE is a fully-automated, screen-based trading system which has brought efficiency and transparency into the market. The software of the NSE trading system, software named NEAT, is state of-the-art software. The tele-communication network is the back-bone of the automated system.

For listing with the NSE, a company should have a minimum paid up capital of Rs 10 crores and a market capitalisation of 30 crore. The NSE is exected to provide efficient service to its clients. The automated trading system ensures high growth in the volume of trading, and
also helps provide the best price to the investors from the markets.

BOLT:

The Bombay Stock Exchange On Line Trading System was conceptualised in 1989. The objectives of introducing BOLT system were to provide more reliable and transparent service, to save double brokerage, to encourage healthy competition amongst brokers, to minimise arbitrage possibilities, and to protect the interest of small investors.

Chapter - 3 Security Markets in Gujarat and the Overall Economic Scenario.

The reforms carried out in past few years have exhibited a cascading effect on the nature and structure of the security market in Gujarat. At present there are three recognised stock exchanges in Gujarat, namely The Stock Exchange of Ahmedabad, The Vadodara Stock Exchange Ltd. and Saurashtra-Kutch stock Exchange Ltd.

Ahmedabad Stock Exchange Ltd.

The development of cotton textile industry and consequent increase in the volume of business in shares led to establishment of Ahmedabad Share and Stock Brokers Association in 1894. It is a voluntary non-profit organization. As on 31st March 1995 there were 234 active and 65 inactive members of the Ahmedabad Exchange. The Annual turnover of the ASE was Rs. 12451.66 crore in 1994-95. The ASE is one of the oldest stock exchanges in the
country. The number of listed companies, which was 773 in 1990-91, has grown to 2205 in 1994-95.

**Vadodara Stock Exchange Ltd.**

In 1986, an exchange was started as Vadodara Stock Broker Association comprising of 150 members. Later on, in 1990, it got itself recognised as a Vadodara Stock Exchange Ltd. At present, the VSE has 295 members. The annual turnover of the VSE was Rs. 3855.36 crore in 1994-95. The number of listed companies, which was just 5 when the exchange started, has now grown to 369.

Recently the VSE has taken some important decision to make the market more efficient and broad-based. The decisions include providing an additional trading floor, On-Line Trading Facilities and to establish a Western India Depository System. Plans are afoot to start Options and Future Trading.

**The Saushtra-Kutch Stock Exchange Ltd.**

The Saurashtra-Kutch Stock Exchange was set up with the help of 40 promoters on 10th July 1989. The exchange is limited by guarantee and has 445 trading members and 99 listed companies with an annual turnover of Rs. 554.88 crore.

**Security Trade in Gujarat:**

After several reforms carried out in capital markets the total volume of operation on the floor was estimated at Rs. 16861.90 crore in 1994-95. The players in the capital market include the following: [1] General investing public

Socio-economic profile of Gujarat.

The Gujarat state is divided into 19 districts, 184 talukas, 18,509 villages, and 264 census towns. The literacy rate in Gujarat state is 61.29, which is more than the national average.

Agriculture has been the basic occupation of the rural population in Gujarat. Out of a total reporting area of 188.2 lakh hectares, 93.9 lakh hectares are under cultivation.

As on 31 December 1994, there were 16,325 registered factories giving direct employment to 8,10,000 persons. There were 42,701, 9,954, and 8,377 registered small-scale units in Ahmedabad, Baroda, and Kheda districts respectively in 1995.

According to the Gujarat State Review 1994-95, there are 32,229 primary and 5,480 secondary schools in the state. The banks have achieved significant progress in the areas of branch expansion, deposit mobilisation, and credit deployment. At the end of 1994, there were 3,469 commercial banks in the state.

Gujarat has a well-developed co-operative banking system which covers every nook and corner of the state. The role of the banks in the development of agriculture is significant, as they extend short-term and medium-term agriculture loans to the farming community. The co-operative
banking system consists of 1 state co-operative bank, 19 district co-operative and 2 industrial bank and 1 land development bank.

Chapter - 4 Fieldwork and Broad Observations:

The present study is based on personal interviews of selected rural households of Ahmedabad, Baroda and Kheda districts. The sample size was 400 households. The survey shows that investment in securities increases with the increase in age level but decreases after 40 years of age. In the middle class families in rural areas, important decisions are generally taken by head of the family. Educated persons are more confident in their judgment about any financial instrument as compared to less literate people.

In rural areas, 51% of the investors are engaged in Agriculture. Cash-rich farmers are willing to invest in financial instruments if they are properly convinced about importance and future advantages of securities.

Investment in different securities:

The maximum household investment in the three districts is in Life Insurance followed by FD, Share, and NSC respectively. The rural population preferred these instruments for consideration of safety of Money Bond, PPF, and debentures are less popular with the rural investors. However, in Kheda district the maximum rural investment was found to be in shares. In an over all estimates about 48% of the respondents had investment in shares.
Reasons for investment:

The different investors have different motives for investment. Better returns, safety of money, quick value appreciation are the main concerns of rural investors which guide their investment decisions.

Preference for Primary and Secondary Market:

There are many genuine investors who look at any security from the long-term perspective and they invest selectively and very carefully. 27% of the respondents in all preferred secondary market, whereas 73% of them preferred primary market for investment. There is no significant difference in the investment pattern (primary and secondary markets) on the basis of domicile in the three districts.

Criteria for evaluating a scrip in primary market:

The possibility of capital appreciation is the most important consideration followed by other things such as easy liquidity, better dividends, less risks, promoter's reputation and the like. Contrary to the popular belief, favourable recommendation by publications, brokers, agents etc. were found to be the least important factors in evaluating the investment-worthiness of a scrip in primary market.

Criteria for evaluating a scrip in the secondary market:

If all the three districts are taken together, the most important consideration for investment in the secondary markets emerges to be the Earning Per Share (EPS) of the
scrip, followed by possibility of getting bonus and rights. Reserves generated by the company and the PE ratio are also important.

Investment in mutual funds:

Taking all three districts together, the important considerations in buying a mutual fund scheme are value appreciation, lock-in period, easy liquidity, tax exemption, bonus, rights, reputation of the company and buy-back facilities respectively.

Investment in debentures:

Debentures are less popular in the rural area of Gujarat as compared to share, PF and LIC. Yet about 20% of the rural investors had put their money in buying debentures. The most important considerations in buying debentures are safety of money, convertibility of shares, and interest rate etc.

Investment in bonds:

The survey reveals that the reasons for investment in bonds in order of priority are safety of money, interest rate, maturity period, tax-exemption, and transferability.

Advice taken for investment:

Advice from friends, relatives and family members is generally taken before making the decision to invest. People take advice from brokers and their agents as well but do not necessarily act according to that advice. The word of mouth is the most effective of the promotional tools for investment in financial instruments.
Information for investment in primary market:

Newspapers, magazines, TV, friends and relatives and brokers are the most common sources of information regarding new issues. Friends and relatives and newspapers, both combined, account for 70% of all the sources of information.

Pattern of Hypothetical Investment:

In spite of the opening up of several new avenues of investment the rural population still prefers 'land' as the best means for investment. Fixed deposits and shares get the second and third rank respectively. Deposit with shroffs is not preferred by the rural investors now.

Size of Investment:

In Kheda district, people have large portfolios. The percentage of people investing more than Rs. 1,00,000 is 21.38% in Kheda as compared to 14% in Baroda, and 13.9% in Ahmedabad. In Kheda district, the money remitted by NRI relatives and family members is generally used for investment in securities.

Possession of assets:

An average cultivator possesses about 5 to 10 acres of land in these three districts.

Problems faced by the investors in the Rural areas:

The general picture which emerges from the survey shows that respondents have problems in (a) obtaining information as well as application forms for new issues, (b) registering share transfer, (c) buying and selling of shares, (d) having
to face unfair practices regarding share prices and, (e) facing lack of banking facilities and allotment letters. Lack of banking facilities and unwillingness on the part of brokers and their agents to operate in the rural areas is one of the reasons for low investments in securities.
CONCLUSION

[1] Though the study does not provide an exact quantitative measurement of investable funds in the three districts of the State. However, on the basis of the data collected from the primary sources, it is possible to make a rough estimate of the investable surplus in the three districts under study.

In each village about 20% households qualified for inclusion in the sampling frame. Each household invests between Rs. 10,000 and Rs. 50,000 per annum in different financial instruments. If we take Rs. 20,000 as a conservative estimate of the average, all villages above a population of 5,000 population in the three districts would thus have a total of Rs. 100 crores of investable surplus. Out of this, even if 45% flows into the capital market, the investment in the securities would be something close to Rs. 45 crore per annum. This is a substantial amount. If more funds can be mobilised for investment in securities, it may definitely provide a big boost to the industrial growth of the state and the country.

[2] In spite of several financial instruments and investment schemes, the first priority of the rural investor is to invest his money in land and gold. As a result of this mentality, the prices of agricultural land in the rural areas of the Kheda district have risen phenomenally (About Rs. 50,000 to 60,000 per
Bigha).

[3] On an average, about 20% households in the rural areas have the potential and inclination to invest in various investment schemes and financial instruments. Co-operative banks have done a tremendous job of mobilising rural savings through different deposit schemes. There is at least one co-operative bank in almost every village included in the sampling frame.

[4] Rural population accords more preference to investment in LIC and fixed deposits because these are perceived to be safer instruments, backed as they are by a sort of unwritten guarantee by the government.

[5] Those who invest in financial instruments, especially shares, have a slightly different profile as compared to the other investors. Most of them get some sort of NRI money remitted regularly by their family members settled abroad. They have a better income from agriculture due to cultivation of high return cash crops like Tobacco, Tur, Cotton, Banana and Chicory. Many of them are also engaged in some sort of business (mostly trading) and visit nearby cities and towns more frequently. Some family members (Brother, Sister or in-laws) are already settled in towns.

Their educational level and exposure to media and, thus, the level of awareness is higher than incase of the average. Most investors fall in the age groups of 25-45. It seems that the willingness to take risk
declines after 45 years of age. People invest in both the primary and the secondary markets. There are very few people who invest in the secondary market only.

[6] Rural population has some specific problems in investing in the primary markets because they have to obtain share application forms through some friends/relatives settled in cities or towns. They are also required to travel to some nearby town to deposit the money for the share application and the call money because co-operative banks are generally not authorised to collect applications and money.

[7] In case of the secondary markets, the rural investors feel that they are often cheated and misguided by brokers and sub-brokers, no matter whether they sell or buy a scrip. They feel that the system should be more transparent. In case of transfer of share etc., they have the same problems as those that are faced by the urban investors.

[8] The concept of mutual funds has still not caught on the rural investors. Most of them are unaware of various mutual funds schemes.

[9] People may invest in convertible debentures but non-convertible debentures are not very popular with the rural investors.

[10] The trend of private lending, or lending through a shroffs, is on the decline in the rural areas due to incidences of bad debts and insolvency.
The complaints of the rural investors are often not resolved because most of them do not know where to complain and how to complain. The brokers and sub-brokers are of little help in this regard.

RECOMMENDATIONS

[1] Application forms for the purchase of securities, meant for distribution in Gujarat must be printed in Gujarati language so as to allow the rural investors to understand their contents. If this results in the rise in printing cost the issuing organisation may charge a nominal price (say Rs. 5.00) for the application forms from the investor.

[2] Banks authorised for the collection of application money may open a temporary counter in a few select villages for one or two days to facilitate the collection of money. Alternatively, a mobile bank van may be used for this purpose. It may cover more than one village in a day. The day and timings for the visit of the van to various villages may be notified in advance through local newspapers. Banking procedures should also be simplified for the rural investors.

[3] Another alternative is that the scheduled banks at the district level may authorise the various co-operative banks operating in the rural areas to act as their agents and collect the application money from the
investors. These co-operative banks may then deposit the application forms and money with the scheduled bank on a day-to-day basis or after the closing of the issue. A computer link with the co-operative banks at the village level can make this task fairly simple and easy.

[4] The problem of lack of transparency and cheating by sub-brokers may be addressed effectively once the screen-based online trading starts in cities like Ahmedabad, Baroda and Anand. The brokers in these cities may then extend these facilities to the sub-brokers operating in the hinterlands. With the advancement of technology and expansion of communication network, the problem of shortage of telephone lines may not be felt at all after 3 or 4 years. Expansion of the computer network covering the rural areas may not be so difficult in that situation.

[5] The problem of delay in transfer (affecting the rural and the urban, both types of the investors) may be solved effectively if the BSE depository scheme which envisages the introduction of a paperless transfer scheme is implemented quickly and in all earnestness.

[6] For effective supervision and regulation of stock trading, the SEBI should decentralise its operations and open regional offices in all important trading regions in the country. Brokers and sub-brokers involved in rigging the prices, or in other
malpractices, should be dealt with firmly. Decentralisation will also help in the redressal grievances of the investors speedily.

[7] Stock exchanges located at different places of the state must launch an intensive, investor education programme through local press, seminars and mass contacts. This will enable the investors to know about their rights, the authority to contact for the redressal of grievances, and procedure for lodging their complaints.

[8] As Kheda district (the rural and the urban areas taken together) has enormous investment potential, a separate stock exchange, with all modern amenities maybe opened in Anand or Nadiad. These proposed exchanges should have only screen-based online trading system. Brokers and sub-brokers in the rural areas may be connected with the main computer in the exchange through Video Area Network (VAN). These exchanges may then be connected to Western Region Mega Exchange (Covering Rajasthan, Gujarat and a part of Madhya Pradesh) proposed to be set up at Baroda.

[9] Organisations intending to raise money from the rural areas must communicate to them in the regional language. Smaller companies can also mobilise funds if they are able to convince the rural investor about the viability and profitability of their ventures. Firms may take the help of the opinion leaders in the rural.
areas to convince the investors.

[10] People (both rural and urban) would invest in stock markets if such investments yield profits to them. The prolonged bear phase in share markets for the last 2 or 3 years has resulted in heavy financial losses to the investors. This has eroded people's faith in the system. Earlier, the stock market recovered from the setback it suffered due to the security scam in a relatively short time-span of two years. But this time, it may take the capital market many more years to regain the investor's confidence.

The rural investors' confidence is shaken to a far greater extent because most of them buy securities for 'investment' and not for speculation.

The Government as well as other stockholders in the capital market should do something urgently to arrest the downward trend at bourses and restore the investors' confidence.