CHAPTER 2

JOURNEY OF INDIAN STOCK MARKET SINCE 1999

“One of the funny things about the stock market is that every time one person buys, another sell and both think they are astute.” - William Feather

This chapter highlights history, emergence and development of stock market in India. The reforms in Indian stock market have also been discussed in this chapter. The complete analysis of the National stock exchange for the period of 1999-2014 and its performance since 1990s have also been explained in the chapter. At the end, regulatory framework for investors’ protection in stock markets has been provided in brief.

2.1. Introduction

A stock market is a market in which securities are bought and sold for a profit. There are many rules, by-laws and regulations approved by government for the smooth functioning of stock markets. As per sec 2(3) of Securities Contracts (Regulation) Act, 1956, “a stock exchange is a body of individuals whether incorporated or not, constituting for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities” (Pathak, 2010).

The stock market helps in the development of an economic growth of a country by proper allocation of funds through most efficient channel and facilitates the liquidity in the economy. These are intricately interwoven in the fabric of a nation’s economic life. The investors’ interest and companies’ performance can be enhanced only with proper secondary markets in the economy, as the stock exchanges reflects the actual market price of the companies share that will help in improving the companies goodwill on the one hand and protect the interest of investors on the other.

The economic development calls for the more private savings and securities market helps in channeling them into productive investments. So, in the modern industrialist society the stock markets are not simply a convenience rather essential part of the society. The stock exchanges really took part in an important position in building of shareholder’s democracy with the various rules and laws imposed upon
companies to protect the interest of shareholders. The stock exchanges not only mobilizes the investor’s funds rather ensured that the savings are used for the best purpose from the societies’ point of view. The stock exchanges helps in bringing the buyers and sellers of investments together so that they can easily exchange their funds and made the process fair and easy as possible (Bhalla, V.K, 2008).

Stock exchange helps in shifting the burden of financing from industries to investors. The stock markets not only help in bringing together the industries and investors but they help the overall community in various ways. By enabling manufacturers to raise capital, it indirectly gives employment to millions of people and helps consumers to get goods needed by them.

2.2. Emergence and development of stock markets in India

At the end of the 18th century, when long term negotiable instruments were first issued by the East India Company, the term stock markets came in to existence in India. But the actual emergence of stock exchange came in 1850 after the enactment of Companies act. With the introduction of joint stock companies with limited liability in the Companies act, 1850, the actual trading was started. Bombay stock exchange was the first stock exchange in India formed in 1875, followed by Ahmadabad in 1894, Calcutta in 1908 and Madras in 1937.

Till 1900s, Indian stock market is composed of regional stock exchanges. BSE was at the top of all the stock exchanges. But, subsequent to economic alterations in 1991, the Indian secondary market has undergone drastic change. Now, it works on a three-tier system as follows:

1. Regional stock exchanges

2. National stock exchange(NSE)

3. Over the counter exchange of India(OCTEI)

There are now 17 stock exchanges in India

2.3. Reforms in Indian Stock Market

Since the beginning of economic reforms in 1991, there have been considerable changes seen in regulatory, structural, institutional and operational system of the
share market of a country. These alterations helped in improving efficiency, promoting transparency, preventing unfair trade practices and promoting the standard of Indian stock market up to the International standards. The following are major reforms in Indian stock market:

2.3.1. The Securities and Exchange Board of India (SEBI) as a statutory body

Earlier the stock markets were regulated under the Securities Contracts (Regulation) Act, 1956 which provides for the recognition of stock exchanges, supervision and control of recognized stock exchanges, regulation of contracts in securities, listing of securities, transfer of securities and many other related function. After liberalisation, privatization and globalization in 1991, trading has not been increased within the country but at the international level also. To protect the interest of investors, promote and regulate the securities market, The Securities and Exchange Board of India set up as a statutory body under the SEBI Act, 1992. As per SEBI act, 1992, “an act to provide for the establishment of a board to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto”. SEBI regulates the business in stock exchanges, working of stock brokers, FIIs, credit rating agencies, venture capital funds including mutual funds. It also prohibits fraudulent and unfair trade practices relating to the securities market and insider trading in securities. It has the powers to suspend the activities of any stock exchange and restrain the persons accessing the securities market. SEBI has the powers to impose penalties upon the market intermediaries and also can give orders for the search and seizure.

2.3.2. Introduction of Screen-Based Trading

Before the economic reforms of 1990s, there has been floor based trading system used in India, which was not user friendly. The system was unable to provide the immediate information regarding stock prices and very cumbersome to gather real time data. To improve the market efficiency, transparency and liquidity, NSE introduced its fully automated screen based trading system in 1993 through the NEAT system. This was the major development in Indian capital market to turn out to be more efficient. In 1995, Bombay Stock Exchange (BSE) also introduced the BOLT
system. These online trading systems help the investors in making their investments as one can easily compare the securities on real price-time basis, hence reducing the transactions costs and making markets more liquid and efficient. Now, the number of investors from different geographical locations can do business with one another all together, enhancing the strength and liquidity of stock market.

2.3.3. **Entry of Foreign Institutional Investors (FIIs)**

In 1992, FIIs were allowed to do business in Indian securities market through Portfolio Investment Scheme. Initially, FIIs were registered for five years to do business in securities market. The maximum amount of FIIs could invest is 5% for single investor investment and 24% for all the registered FIIs to invest in Indian stock market as per 1992 policy. Gradually this limit was extended time to time by SEBI. Now the FIIs are the major contributors to development of Indian stock market.

2.3.4. **Introduction of Depository System**

In 1996, Government of India has enacted the Depository’s Act for easy and faster settlement of securities based on concept of paperless trading. In the depository system, securities are held in the electronic form i.e. in the dematerialized form. At present, there are two depositaries in India i.e. National Securities Depository Limited (NSDL) and Central Depository Services Limited (CSDL). The main objective of this act is to provide scrip less trading, protect the interest of investors and liquidity in stock markets. Now all the companies have to issue their shares only in the dematerialized form.

2.3.5. **Derivative Trading**

L.C Gupta Committee (1998) recommended the derivates trading in India for managing the risks of investors through arbitrage, hedging and speculation. In 2001, derivatives trading have been started on NSE and BSE. Till now, index options and index futures have been traded on CNX IT Index, CNX Bank Nifty Index, S&P CNX Nifty, and BSE 30 Index. The SEBI has also introduced the stock options and stock futures in the form of T-bills and bonds.
2.3.6. Demutualization of stock exchanges

For investor’s protection, stock exchanges have to be demutualised. Demutualization is a process where stock exchanges have to convert in to joint stock companies so that ownership, management and trading membership would be separated from one another\textsuperscript{11}. Out of 24 stock exchanges, only OCTEI and NSE are demutualised.

2.3.7. Risk Management Mechanism

The risk management system has been developed by the stock exchanges to avoid any kind of market failures. In 1996, National Securities Clearing Corporation (NSCCL) was set up to eliminate the counter-party risk in online trading system. A Settlement Guarantee Fund was started by NSCCL where members itself contributed to funds to mitigate any residual risk. This fund is utilized to settle the trading transaction in case of failure. Hence, in this way the counter-party risk has been managed in online trading system.

2.3.8. Investor Protection Measures

SEBI has been set up to safeguard investors’ interest. Various agencies and departments helped the SEBI in this matter. In 2001, “Investor Education and Protection Fund” has been established by the Central Government to protect the interests of investors and promote awareness among them. To redress the investors’ grievances, “Department of Economic Affairs (DEA), Department of Company Affairs (DCA), SEBI and the stock exchanges” have set up the investor grievance cells. Investor protection funds have been maintained by the stock exchanges to manage the counter party risks. To promote the awareness among investors and protect the interest of investors, DCA has set up the investor education and protection fund. Investor education and awareness programmes have been organized by all these agencies and investor associations. The SEBI has also introduced a nation-wide Securities ‘Market Awareness Campaign’ to educate the investors about their rights and obligations as well as also the risk attached into the market.

2.3.9. Introduction of Rolling System

In the early 90s, the future-style settlement system was used to settle the transactions of Indian stock market. This was created many problems such as defaults and risks in the settlement. To avoid this, SEBI has introduced the rolling settlement system in 1998 and it was optional for the demat stocks. In 2000, T+5 day rolling system was introduced but for some specific stocks the trading cycle has been reduced to one day. But in 2001, all the securities has to be settled with the rolling settlement. The SEBI has reduced the T+5 cycle to T+3, then T+2. Now the SEBI may move to T+1 settlement cycle.\(^\text{12}\)

2.3.10. Reduction of Transaction Costs

Before the 1990, the transaction cost was very high in the Indian stock market because of large ordering costs and brokerage costs. But after economic reforms in 1991, theses costs went down due to more competition and free-entry. The settlement costs also reduced due to dematerialization and rolling settlement systems. Thus, all these reforms in Indian stock market assisted in reducing transaction costs at the domestic as well as at the international level.

The major reason for such tremendous change in the Indian stock market is due to the liberalisation policy, which allows foreign investors to come and invest in Indian market freely. Thus, the foreign institutional investors along with domestic financial institutions and retail investors collectively played the major role in increasing the market capitalization of Indian stock market. The SEBI has also played the major role in strengthening the Indian stock market with various rules, by-laws and regulations. It has made the market more transparent, free from market manipulations and fraud in addition to promoting the market activities.\(^\text{13}\)

2.4. Analysis of National Stock Exchange of India (NSE)

NSE is the leading stock exchange in India. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on annual reports of SEBI. NSE launched


\(^{13}\) Chandrasekhar, Malik, & Akriti
electronic screen-based trading in 1994, derivatives trading (in the form of index futures) and internet trading in 2000, which were each the first of its kind in India. NSE has a fully-integrated business model comprising our exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members and listed companies with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients. NSE was incorporated in 1992. It was recognised as a stock exchange by SEBI in April 1993 and commenced operations in 1994 with the launch of the wholesale debt market, followed shortly after by the launch of the cash market segment.

2.4.1. Descriptive Statistics of NSE for the study period (1999-2014)

To study the development and growth of Indian stock market for past sixteen years, the study analyses the descriptive statistics of CNX 500 index of national stock exchange of India. The descriptive statistics of CNX 500 index returns are reported in table 2.1 and figure 2.1 presents the graph of its returns. The average daily return of the sample data for the study period is positive (0.073%) with a maximum of 16.23% and minimum of -12.09%. This shows that the investors in the short term earn the positive capital returns on their investment in the Indian stock market with high volatility i.e. with standard deviation of 1.60%.

Skewness measures whether the series have a normal or symmetrical distribution or not. If the value of skew is zero, it shows symmetrical distribution of the data otherwise the data is not normal or have asymmetrical distribution. The skewness of CNX 500 for the study period came negative (-0.27) presents the data is skewed towards the left and is asymmetrical. This shows that the positive or higher returns are clustered towards the higher end of the distribution.
Kurtosis measures the flatness or peaked-ness of a curve and how the score cluster in the tails of the frequency distribution. The value of kurtosis is 9.82 for the CNX 500 returns which is more than 3. It shows the leptokurtic feature of the distribution as it has a long and slim tail. Thus the data is not normal in nature.

The Jarque-Bera test with significant probabilities (p-value<0.00) rejects the null hypothesis of normal distribution, which is the main feature of the stock market distributions. Hence, the NSE 500 returns series is not a normal distribution.

Figure 2.1 and 2.2 show the graph of daily closing prices and returns of CNX 500 index respectively. The CNX 500 daily closing price graph shows that it has been continuously rising upward since 1999. It goes down only in the financial crisis period of 2008-09. It has started its journey from 1999 with 600 points and reached at 7000 points in 2014. Therefore, the Nifty has gained a lot in these sixteen years.

The graph of CNX 500 returns shows that there is a volatility clustering as returns whether positive or negative tend to cluster closely at noticeable time periods in the sample data series.

Table 2.1: Descriptive statistics of CNX 500 index returns

<table>
<thead>
<tr>
<th>Variables</th>
<th>NSE 500 Index (1999-2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.07</td>
</tr>
<tr>
<td>Median</td>
<td>0.16</td>
</tr>
<tr>
<td>Maximum</td>
<td>16.22</td>
</tr>
<tr>
<td>Minimum</td>
<td>-12.09</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.60</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.27</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>9.82</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>7790.99</td>
</tr>
<tr>
<td>Probability</td>
<td>0.00</td>
</tr>
<tr>
<td>ADF Statistics</td>
<td>-4.25</td>
</tr>
<tr>
<td>Observations</td>
<td>3994</td>
</tr>
</tbody>
</table>

Source: Researcher’s own compilation
2.4.2. Year wise Analysis of Indian Stock market

The study analyses characteristics of daily returns of CNX 500 index on yearly basis using the descriptive statistics which are shown in table 2.2 as follows:
The Year 1999

The average daily return of CNX 500 index was 0.28% having an increase of 41.5% at the end of the year. The index has started the year with the lowest point of 613.95 and reached at 1205 points at the end. High returns in stock markets were combined with high volatility of 1.83% over the same year. During this year national stock exchange has set up NSE.IT Ltd\textsuperscript{14}. In the chairmanship of Shri Kumar Mangalam Birla, SEBI has set up a committee to make the market more transparent and also there should be more corporate governance in securities market. With usage of efficient margin system, the transaction costs have been reduced and also the market safety has been increased with the setting up of surveillance system. The prices are really shoot up from 613.5 points to 1205 point in this year as FIIs and mutual funds have invested in the Indian stock market at a very large pace in this year.

Table 2.2: Year-wise descriptive statistics of CNX 500 index for the period 1999-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Level</th>
<th>Mean Return</th>
<th>Standard Deviation</th>
<th>No. of Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min.</td>
<td>Max.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>613.95</td>
<td>1205.00</td>
<td>0.28</td>
<td>1.83</td>
</tr>
<tr>
<td>2000</td>
<td>809.00</td>
<td>1706.95</td>
<td>-0.08</td>
<td>2.31</td>
</tr>
<tr>
<td>2001</td>
<td>545.85</td>
<td>1022.15</td>
<td>-0.09</td>
<td>1.78</td>
</tr>
<tr>
<td>2002</td>
<td>671.55</td>
<td>806.85</td>
<td>0.05</td>
<td>1.09</td>
</tr>
<tr>
<td>2003</td>
<td>689.20</td>
<td>1531.35</td>
<td>0.28</td>
<td>1.21</td>
</tr>
<tr>
<td>2004</td>
<td>1151.50</td>
<td>1804.90</td>
<td>0.08</td>
<td>1.80</td>
</tr>
<tr>
<td>2005</td>
<td>1653.80</td>
<td>2459.20</td>
<td>0.13</td>
<td>1.06</td>
</tr>
<tr>
<td>2006</td>
<td>2163.95</td>
<td>3339.15</td>
<td>0.13</td>
<td>1.62</td>
</tr>
<tr>
<td>2007</td>
<td>2957.85</td>
<td>5354.70</td>
<td>0.21</td>
<td>1.51</td>
</tr>
<tr>
<td>2008</td>
<td>1973.70</td>
<td>5502.60</td>
<td>-0.31</td>
<td>2.72</td>
</tr>
<tr>
<td>2009</td>
<td>1966.85</td>
<td>4329.10</td>
<td>0.28</td>
<td>2.05</td>
</tr>
<tr>
<td>2010</td>
<td>4001.90</td>
<td>5198.30</td>
<td>0.06</td>
<td>0.96</td>
</tr>
<tr>
<td>2011</td>
<td>3544.00</td>
<td>4967.30</td>
<td>-0.12</td>
<td>1.23</td>
</tr>
<tr>
<td>2012</td>
<td>3602.50</td>
<td>4755.30</td>
<td>0.11</td>
<td>0.93</td>
</tr>
<tr>
<td>2013</td>
<td>4047.70</td>
<td>4914.85</td>
<td>0.02</td>
<td>1.07</td>
</tr>
<tr>
<td>2014</td>
<td>4648.55</td>
<td>6960.75</td>
<td>0.14</td>
<td>0.83</td>
</tr>
</tbody>
</table>

Source: Descriptive were obtained using EVIEW 8.0.
The Year 2000

The Union Budget 2000 has an adverse effect on the sentiments of investors as there was no significant changes have seen for the financial markets. The market capitalization, turnover and trading activity during the year has declined. The returns were negative (-0.08%) with high volatility (2.31%) due to various reasons such as Gujarat earthquake, diminishing the rupee value, increasing the dividend distribution tax from 10% to 20%, more interest rate and high inflation rates. Further, the biggest scam in the history of Indian stock market happened in year 2000 i.e. the KetanParek scam. This has shaken the investors’ confidence not at the domestic level rather FIIs also lost confidence. The GDP rate was also declined from 6.4% to 6%. The growth of different sectors like industrial sector, manufacturing and infrastructural sectors have also gone down in this year. Hence, the year 2000 was not a favorable year for the investors in the Indian stock market.

The Year 2001

The return (-0.09%) has also come negative in this year. The prices were decreased 40% from the last year. With the introduction of rolling settlement system, trading in options on individual securities, trading in Index options, and trading in future on individual securities in 2001 has attracted the FIIs and retail investors in Indian stock market. This has decreased the volatility level from 2.31% to 1.78%. Thus, it shows that market has gained the confidence of investors but due to various reasons like Gujarat riots, Orissa Cyclone, Fraud in UTI 64 scheme, Parliament attack etc. market has again turned to be negative. Due to the attack on World Trade Center, USA on 11th September, 2001 has also lost the investors’ confidence in the market. Hence, there were more sellers than buyers found in Indian stock market.

The Year 2002

In comparison with the last year, the returns were positive but it was very less i.e. 0.05%. There was a fall in prices by -21.06% from the last year. In this year, NSE has launched the Exchange Traded Funds (ETFs) in January. SEBI has further improved the trading and settlement cycle from T+5 to T+3 in April. To enhance the scope of investment in secondary market, SEBI has given permission to government securities to be traded on the stock exchanges.

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15 Fact sheet of NSE
16 https://www.nseindia.com/global/content/about_us/history_milestones.htm
**The Year 2003**

The year 2003 has shown the tremendous growth in the stock markets as the daily return was 0.28% as compared to the previous year (0.04%). The prices were doubled from the starting 689.20 to 1531.35 at the end of the year. There was 89.79% growth shown in the prices from the last year. It was the highest among all the years of the study. This tremendous growth happened due to various changes in economic fundamentals like more exports, less interest rates, increase in foreign exchange reserves and more growth in GDP. The government has made massive expenditure on the infrastructure projects in this year, that helps in enhancing the confidence and boosting the morale of large corporate in the Indian stock market. Therefore, the prices and returns went up to the highest level in this year.

**The Year 2004**

Despite of twisting changes in the crude oil prices, there was an unbelievable inflation prevailed in the country in the year 2004. There were many macroeconomic changes occurred like revival of new industries, lift up the investment level, enhancement in exports and imports policies etc. has made the Indian stock market more attractive to investors from all over the world. Thus, the daily mean returns and prices at the end of the year have been increased consecutively for next four years. The year 2004 has contributed a lot in to the stock market with more and consistent investments from FIIs, development of specific sectors and high results of the companies.

**The Year 2005**

This year also showed the positive returns (0.12%) on the daily basis to the investors in the national stock exchange having the volatility of (1.05%). The prices were constantly increasing from the starting to the end of the year. On June, 2005, NSE has launched the future and options on Bank Nifty Index. There was an increase in the prices of 36% on yearly basis. The more contribution by the FIIs and mutual funds, persistent development of the manufacturing sector, more investment opportunities, strong macro-economic fundamentals, positive results of the companies, growth in the share market etc. has encouraged the companies to raise funds from the secondary market.

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17 Fact sheet of NSE
The Year 2006

This year showed the new heights in the stock markets. The prices were shooting up to its new position. The Index was first time crossed the 3000 level in the year 2006. It has showed a growth of 36% in the prices on yearly basis. The returns was also positive (0.13%) with high volatility of (1.62%). The investors have a good faith in stock markets throughout the year. The strong economic fundamentals, more contributions by FIIs and the buoyant investment opportunities have taken the stock market to its new heights.

The Year 2007

History was created in the year 2007 with drastic changes in the prices from 3000 to 5000 points. Though there was financial crisis in US markets and continuous increment in the crude oil prices at the international level, the Indian stock market has witnessed positive trend in stock prices. But later in the year, the impact of financial crisis and oil prices has dampened the inflow of FIIs in international markets. Thus, the stock market in India has greatly affected by this and created the higher volatility (1.51%).

The Year 2008

The sub-prime crisis of US has not only affected the US markets but it has an impact on the world economies. Both the developed and emerging economies went to the recession due to these financial crises. India has also affected as the number of exports and domestic demand have been decreased. Everyone has a fear of investing in the share markets. The returns were negative (-0.30%) with the highest level of volatility of (2.72%) showed the insecurity of investors in stock markets. The investors now shifted to the safe investment schemes like fixed deposits rather than invested in the secondary market. However, the RBI has taken several initiatives to smoothing the financial markets. To control the inflation with continuous growth, RBI has issued the monetary policy which has maintained the optimal balance among the price and financial stability. Thus, despite of financial crisis in the International markets, RBI has taken the Indian economy to the right path with optimal balance among the banking system and growth of financial markets.
The Year 2009

Due to the initiatives taken by RBI in 2008, India is considered to be one of the most powerful economies who have the ability to come out of any of the crisis in financial markets. This year brought the positive returns (0.28%) with high volatility (2.05%). The GDP rose from 6.7% to 7.9% in 2009. The turnover and market capitalization have increased significantly irrespective of high volatility. SEBI has put various efforts to expand the limits of Indian markets not at the domestic level but at the international level also. Various industries such as automobile, services and machinery has showed the tremendous growth in this year. By increasing CRR, repo and reverse repo rate, RBI contributed to fasten the development and growth of Indian economy.

The Year 2010

This year also brings positive returns (0.5%) with standard deviation of (0.96%). The prices have increased at 20.07% on yearly basis. After the financial crisis, GDP of India grew at 8.5% making the Indian economy is one of the best economy among all the emerging economies. The manufacturing and service sector both contributed to the GDP. For expanding the businesses, corporate have taken loans from banks and in turn increase the bank credit. Crude Oil prices have continuously increased at the international level, and to get that, forex demand has risen. This will increase the inflation level in the market. So, again RBI has changed the repo and reverse repo rate to control the inflation rate in India. Various steps have been taken by RBI in primary and secondary market, mutual funds to get back the retails investors in the stock market. The investment limit was raised from 1 lakh to 2 lakh for the retail investors. Further, ASBA (Applications supported by blocked amount)\(^\text{18}\) has been introduced by SEBI for faster process in the primary market.

The Year 2011

Once again US sub-prime crisis and Europe Sovereign debt crisis have demotivated the investors in the world. They have lost their interest in the financial markets. With the increase in oil prices, FIIs outflow from the market, lesser growth in the trading

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\(^{18}\) ASBA is a facility wherein application money is blocked in a bank account and debited only to the extent of allotment entitlement while continuing to earn interest.
sectors has again restricts the growth of Indian stock market. This year negative returns have been found (-0.12%). The prices have shown the negative trend of (-4.04%) on yearly basis. The liquidity position of the economy is very poor due to high inflationary pressure. However, in this year various Demat accounts were opened in NSE and BSE, which showed the positive attitude towards the Indian stock market.

The Year 2012

Many investors came to the Indian stock market in this year as the Euro-zone crisis has affected almost all the developed economies. This has turned the negative returns of the previous year in to positive returns (0.11%). The volatility has also went down (0.93%) in this year. The investors from all over the world took the Indian market as safe due to the various policies related to monetary and financial policies taken by RBI and SEBI. These initiatives helped in gaining the confidence of investors in the Indian stock market.

The Year 2013

The prices were increased at a low pace in this year because of the impact of global financial crisis. But the RBI and SEBI has taken several steps to gain the confidence of investors in stock markets. Although there were many macro-economic changes has happened in the country but still the investors have firm believe that BJP government made various infrastructural changes in the economy. However, with the announcement of policy reform only the investors came back to invest in the share market with full enthusiasm. Many negative aspects also prevailed during this year as devaluation of rupee, low growth, negative rating of India etc. But in spite of all these downward factors, the returns are positive (0.02%) with more volatility (1.02%) as compared to the previous year.

The Year 2014

The year 2014 has reached to its maximum heights after the global financial crisis. It has broken all the previous records as it reached to 7000 points now. The positive sentiments have not seen only in Indian investors rather International investors also have a positive attitude towards the Indian stock markets. In this year, IMF awarded the Indian economy as the “Bright spot in global Landscape”. The Indian economy was perceived as fastest growing economy among all the emerging economies.
The return came positive (1.14%) with less volatility (0.84%) as compared to the previous year. The prices showed 41.63% growth on yearly basis. The market capitalization of NSE showed 36.4% growth in the year 2014. Thus, it can be said that the year 2014 has made history in the Indian stock market by reached at the maximum level i.e. 7000 points.

2.5. Present Scenario and Performance of National stock exchange

Securities market in India has grown leaps and bound over the years and has contributed to economic growth. Since early nineties to 2017, NSE has expanded its lines of business and product beyond traditional listing and trading services. There have been ceaseless changes made as part of this transformation.

Figure 2.3: Performance of NSE

As depicted in the graph above, National Stock Exchange setup multiple incorporations, Joint Ventures, Technology and Education Academy. All these changes helped to attain core needs of the market like ease-of-use, transparency, risk management and settlement guarantee to investors.
As shown in table 2.3, The NSE as of 2017 has gained the twelfth position in the world in terms of market capitalization.\textsuperscript{19} The Sensex, which has 5000 points in 1990s, raised to 20000 in 2008 and in 2017 it has reached to 34000 points\textsuperscript{20}.

Table 2.3: Domestic Market Capitalization of World’s Stock Exchanges  
(as on 2017)

<table>
<thead>
<tr>
<th>Stock Exchanges</th>
<th>Market Capitalization (USD Trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYSE</td>
<td>19.223</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>6.831</td>
</tr>
<tr>
<td>London Stock Exchange</td>
<td>6.187</td>
</tr>
<tr>
<td>Tokyo Stock Exchange</td>
<td>4.485</td>
</tr>
<tr>
<td>Hong Kong Stock Exchange</td>
<td>3.325</td>
</tr>
<tr>
<td>Shanghai Stock Exchange</td>
<td>3.962</td>
</tr>
<tr>
<td>Euronext</td>
<td>3.321</td>
</tr>
<tr>
<td>Toronto Stock Exchange\textsuperscript{1}</td>
<td>2.781</td>
</tr>
<tr>
<td>Shenzhen Stock Exchange</td>
<td>2.285</td>
</tr>
<tr>
<td>Frankfurt Stock Exchange</td>
<td>1.766</td>
</tr>
<tr>
<td>Bombay Stock Exchange</td>
<td>1.682</td>
</tr>
<tr>
<td>National Stock Exchange</td>
<td>1.642</td>
</tr>
<tr>
<td>Swiss Exchange</td>
<td>1.516</td>
</tr>
<tr>
<td>Australian Stock Exchange</td>
<td>1.272</td>
</tr>
<tr>
<td>Korea Exchange</td>
<td>1.251</td>
</tr>
<tr>
<td>NASDAQ Nordic</td>
<td>1.212</td>
</tr>
<tr>
<td>JSE Limited</td>
<td>0.951</td>
</tr>
</tbody>
</table>


\textsuperscript{19} https://www.statista.com/statistics/264661/domestic-market-capitalization-worldwide-top-10/
As per World Federation of Exchanges (WFE) measurements, NSE has been among top exchanges in terms of number of shares traded and total number of trades in equity shares. The following table 2.4 shows the number of trades in equity shares for top stock exchanges for the last four years.

Table 2.4: Total Number of trades in equity shares (in thousands)

<table>
<thead>
<tr>
<th>Number of trades in equity shares (EOB)</th>
<th>Number of shares traded [EOB]</th>
</tr>
</thead>
<tbody>
<tr>
<td>In thousands</td>
<td>In millions</td>
</tr>
<tr>
<td>NSE</td>
<td>1,588,961.6</td>
</tr>
<tr>
<td>Nasdaq - US</td>
<td>1,794,590.0</td>
</tr>
<tr>
<td>Japan Exchange Group</td>
<td>638,018.0</td>
</tr>
<tr>
<td>National Stock Exchange of India</td>
<td>1,705,191.1</td>
</tr>
<tr>
<td>Shanghai Stock Exchange</td>
<td>1,350,878.0</td>
</tr>
<tr>
<td>Shenzhen Stock Exchange</td>
<td>1,712,970.0</td>
</tr>
</tbody>
</table>

Source: WFE Statistics

NSE performance in terms of total number of trades has been continuously increasing from 2014 to 2017 as shown in figure 2.4. This establishes that trade volume has been increasing and investors are very actively participating in the National stock exchange of India.

Figure 2.4 Total No. of Trades in Worlds Largest Stock Exchanges

Source: WFE Statistics
The figure 2.5 shows the positive trend of shares traded and consistently healthy increase from 2014-2017.

**Figure 2.5: Total Shares Traded of World Largest Stock Exchanges**

![Total Shares Traded of World Largest Stock Exchanges](image)

Source: WFE Statistics

With multiple strategic investments in mutual fund registry services, back-end exchange support services for its platforms, to name a few, NSE has become the leading stock exchange in India.

### 2.6. Regulatory Framework for Investor’s Protection

Investors are the mainstay of the monetary and securities market. They decide the level of action in the market by putting the cash in stores, stocks, and so forth to help develop the market and in this way, the economy. Financial specialist security includes different estimates built up to shield the premiums of speculators from acts of neglect.

Indian Capital Markets are regulated and monitored by the Ministry of Finance, The Securities and Exchange Board of India and The Reserve Bank of India.

#### 2.6.1. The Regulators

- **The Ministry of Finance**

  The Ministry of Finance regulates through the Department of Economic Affairs - Capital Markets Division. The division is responsible for formulating the policies
related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for

- institutional reforms in the securities markets,
- building regulatory and market institutions,
- strengthening investor protection mechanism, and
- providing efficient legislative framework for securities markets.

- **Reserve Bank of India (RBI)**

The Reserve Bank of India (RBI) is governed by the Reserve Bank of India Act, 1934. The RBI is responsible for implementing monetary and credit policies, issuing currency notes, being banker to the government, regulator of the banking system, manager of foreign exchange, and regulator of payment and settlement systems while continuously working towards the development of Indian financial markets. The RBI regulates financial markets and systems through different legislations. It regulates the foreign exchange markets through the Foreign Exchange Management Act, 1999.

- **Securities and Exchange Board of India (SEBI)**

The Securities and Exchange Board of India (SEBI) is the regulatory authority established under the SEBI Act 1992 and is the principal regulator for Stock Exchanges in India. SEBI’s primary functions include protecting investor interests, promoting and regulating the Indian securities markets. SEBI has given out various methods and measures to ensure the investor protection from time to time. It has published various directives, driven many investor awareness programmes, set up Investor Protection Fund (IPF) to compensate the investors. Safeguarding investor interests is one of the top priorities of the regulatory bodies. It is evident that SEBI has put out some hard measures to ensure investor protection. The guidelines and measures are formed to make sure that every aspect of the investor interest is secured. These measures are just the direction for a clean and transparent transaction. It is for issuers and investors to follow the guidelines to really secure the securities market.
2.6.2. Directions to Govern Investor's Interest

There are basically five controls or enactment confined in India to direct the enthusiasm of financial specialists (investors) in Corporate Sector. They are:

2.6.2.1. SEBI Act 1992

Investor protection legislation is implemented under the Section 11(2) of the SEBI Act. The measures are as follows:

- Stock Exchange and other securities market business regulation.
- Registering and regulating the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc.
- Recording and monitoring the work of custodians, depositors, participants, foreign investors, credit rating agencies, etc.
- Registering investment schemes like Mutual fund and venture capital funds, and regulating their functioning.
- Promotion and controlling of self-regulatory companies.
- Keeping a check on frauds and unfair trading methods related to the securities market.
- Observing and regulating major transactions and take-over of the companies.
- Carry out investor awareness and education programme.
- Train the intermediaries of the business.
- Inspecting and auditing the security exchanges (SEs) and intermediaries.
- Assessment of fees and other charges.
- Investor protection measures by SEBI also includes the Government of India established a fund called, Investor Education and Protection Fund (IEPF) under the 1956 Company Act. According to the act, the company which has completed seven years in the business should hand over all the unclaimed fund dividends, matured deposits, and debentures, share application money etc. to the Government through IEPF.
• Investor protection measures by SEBI follow the slogan ‘An informed investor is a safe investor’. SEBI has thus launched the Securities Market Awareness Campaign in January 2003. Such programmes are now regularly organised by SEBI to educate and create awareness among the investors. The programme covers major subjects like portfolio management, Mutual Funds, tax provisions, Investor Protection Fund, Investors’ Grievance Redressal system of SEBI. It also conducts workshops on derivatives, stock exchange trade, Sensex, etc. SEBI has now conducted over 2000 workshops in more than 500 cities across the country. SEBI has marketed the “Investor Awareness Programme” across all formats like print media, radio, television, and the internet.

• Association of Mutual Funds in India (AMFI) was set up on August 22, 1995, is the association of SEBI registered Mutual Funds in India. It was set up to regulate all those who sell Mutual Fund in India. AMFI registration is required to solicit the Mutual Funds and it regulates the members of the association in order to protect the investor from any kind of misselling or unfair investment practices.

2.6.2.2. Companies Act 2013

The Companies Act, 2013 is established with the fundamental plan to guarantee greatest insurance to each segment of speculators independent of their classes. The Companies Act, 2013 has been implanted with a few new arrangements concerning the assurance of financial specialist's advantage. A portion of the arrangements to secure financial specialist's enthusiasm under the Companies Act, 2013 are talked about hereunder:

• Acceptance of Deposits: The acknowledgment of deposit from the overall population isn't allowed under the Act, and infringement of any of the arrangement is a culpable offense. Section 73 of the Act gives that no organization will acknowledge or evaluate deposits under this Act from the general population with the exception of in a way perceived under Chapter V of the Act and Companies (Acceptance of Deposit) Rule 2014.
• **Misstatement in Prospectus:** Prospectus is a composed proclamation issued by the organization to the overall population containing brief data with respect to organizations profile and their speculation proposition. Section 34 of the Act manages the criminal risk for miss proclamation in the prospectus issued by an organization. The prospectus issued, circled or circulated, incorporate any announcement, which is false or deluding in shape or setting to actuate individuals to make an investment, will be for action u/S 447.

• **Deceitfully Inducing Person to Invest Money:** Section 36 of the Act manages the discipline of the individual who purposefully or carelessly initiates the financial specialist to make the venture through any agreement for the reason or the imagined motivation behind which to anchor a benefit. This sort of ponder covering of truth will be at risk for discipline u/s 447.

• **Non-Payment of Dividend:** Declaration of the profit is generally one of the things of motivation of each AGM. The profit is only benefits earned by the organization and separated among investors in extent to the sum paid-up shares held by them, i.e., return on the speculation made by investors. The Section 125 of the Act accommodates the foundation of investors’ training and assurance support by the central government. This reserve is credited with the unpaid/unclaimed measure of utilization cash/developed cash or develop stores. Such collections of the reserve are to be used for advancement of financial specialist's mindfulness and insurance of speculator intrigue. Section 123 of the Act express that the profit ought to be credited in financial specialists account inside in five days after the statement.

• **Right to Demand Financial Statements:** Section 136 of the Act accommodates the privilege of a part to get duplicates of Balance-Sheet and Auditors Reports. On account of default following this necessity, the organization will be at risk for a punishment of twenty-five rupees and the approved officer who is in default will be obligated for a punishment of five thousand rupees. Moreover, this speculator has the alternative to continue against the organization or its experts in an official courtroom under the rules decided under Section 436 of the Act.
2.6.2.3. Securities Contract (Regulation Act) 1956

The Securities Contracts (Regulation) Act, 1956 “Act” was enacted in order to prevent undesirable transactions in securities and to regulate the working of stock exchanges in the country. The provision of the Act came into force with effect from 20th February, 1957 vide Notification No. SRO 528 dated 16th February, 1957. It has been amended as Finance Act, 2017. Various provisions related to protect the interest of the investors have been given in this act.

2.6.2.4. The Depositories Act 1996

It is an act to provide for regulation of depositories in securities and for matters connected therewith or incidental thereto. This act came into existence on 20th September’1996. It’s applicable to whole of India. The act contained the five chapters related with commencement of business, rights and obligations of depositories, participants, issuers and beneficial owners, enquiry and inspection, penalty and miscellaneous regulations.

2.6.2.5. The Prevention of Money Laundering Act 2002

The Act was enacted by the NDA government in 2002 to prevent money-laundering and to provide for confiscation of property derived from, or involved in, money-laundering and for matters connected therewith or incidental thereto. The rules notified under this act came into force in 2005. On 24 Nov 2017, in a ruling in favour of citizens' liberty, the Supreme Court has set aside a clause in the Prevention of Money Laundering Act, which made it virtually impossible for a person convicted to more than three years in jail to get bail if the public prosecutor opposed it. The act prescribes that any person found guilty of money-laundering shall be punishable with rigorous imprisonment from three years to seven years and where the proceeds of crime involved relate to any offence under paragraph 2 of Part A of the Schedule (Offences under the Narcotic Drugs and Psychotropic Substance Act, 1985), the maximum punishment may extend to 10 years instead of 7 years.

2.7. Summary

The present chapter provides the emergence and development of stock markets in India. While introducing the concept of stock markets, the chapter highlights the various types of developments introduced in Indian stock market since 1991. National
stock exchange of India has gained the twelfth rank in the world’s largest stock exchanges in 2017 as mentioned by World Federation Statistics. NSE has shown the consistent growth in number of shares traded from 2014-2017. The yearly analysis of NSE for the study period 1999-2014 has been shown in this chapter. The laws govern the interest of the investors have been explained in brief at the end of this chapter.

The next chapter provides the broad literature available on different objectives of the study. It also highlights the global as well as present scenario of herding bias in the stock markets.
REFERENCES


