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Overview of the Indian Securities Market

INTRODUCTION

The Indian securities market, considered one of the most promising emerging markets, is among the top eight markets of the world. The Stock Exchange, Mumbai, which was established in 1875 as "The Native Share and Stockbrokers Association" (a voluntary non-profit making association), has evolved over the years into its present status as the premier Stock Exchange in the country. At present 24 stock exchanges operate all over India. These stock exchanges provide facilities for trading securities, Securities markets provide a common platform for transfer of funds from the person who has excess funds to those who need them. Securities market is regulated by the Securities& Exchange Board of India (SEBI).

COMPONENTS OF SECURITY MARKET

The major components of the securities market are listed below:

- Securities-Shares, Bonds, Debentures, Futures, Options, Mutual Fund Units
- Intermediaries-Brokers, Sub brokers, Custodians, Share transfer agents, Merchant Bankers
- Issuers of securities-Companies, Bodies corporate, Government, Financial Institutions, Mutual funds, Banks
- Investors-Individuals, Companies, Mutual funds, Financial Institutions, Foreign Institutional Investors
- Market Regulators-SEBI, RBI (to some extent), Department of Company Affairs

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TYPES OF SECURITIES MARKETS

In the contest of equity products, which this publication seeks to cover in depth, the following markets could be defined:

- Primary Market
- Secondary Market
- Derivatives market

Markets can also be broadly classified into equity and debt markets. Debt markets are characterized

Currently by a large institutional presence, though an attempt is being made to attract retail participation in recent times. Debt markets trade in Government securities, Treasury Bills, Corporate Bonds and other debt instruments while Equity markets deal mainly in equity shares and to a limited extent in preference shares and company debentures. Futures and Options in indices and equity shares are of a relatively recent origin and form part of equity markets.

INTERMEDIARIES

Intermediaries provide various services to investors and issuers and have grown to become among both powerful and knowledgeable due to due to substantial growth of securities markets over the last century. A large variety and number of intermediaries provide intermediation services in the Indian securities market.

ISSUERS OF SECURITIES

Every organisation, whether if be a company, institution or a Government body needs funds for various operations. Organisations issue securities in the primary market depending on their needs. The Securities market in India is an important source for corporate and government. The corporate sector does depend significantly on equity and debt markets for meeting its funding requirements though the share of equity markets has been decreasing over the recent years in view of the rather dull primary market.

During the year 2001-02 total funds raised through capital issues were Rs. 43,700 crores approx. The share of the Public Sector was Rs. 33,300 crores and Private Sector Rs. 10,400 crores. Equity component of the Capital Issues was 5,400 crores and whereas Debt component was the major one at Rs 38,300 crores.

Source: BSE Capital Market Review

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INVESTORS

Investors are those who have excess funds with them and want to employ it for returns. Indian securities market has more than 20 million investors, comprising Individuals, Companies, Mutual funds, Financial Institutions, Foreign Institutional Investors.

A review of shareholding pattern of all BSE Companies shows that, more than 50% of the shares are held by the promoters of companies, whereas 15% by Institutional Investors.

After liberalization of the economy investments by foreign institutional investors have shown a steady increase. Foreign direct investment has increased from Rs. 174 crores in 1990-91 to Rs. 10,686 crores in 2000-01. Portfolio Investment has shown a faster growth. It is increased from Rs 11 crores in 1990-91 to Rs. 12,609 crores in 2000-2001.

MARKET REGULATORS

Securities market is regulated by following governing bodies:

1. Securities and Exchange Board of India (SEBI)

2. Department of Economic Affairs (DEA)

3. Department of Company Affairs (DCA)

4. Reserve Bank of India

5. Stock exchanges

Significant among the legislations for the securities market are the following:

1. The SEBI Act, 1992, which establishes SEBI to protect investors and development and regulate securities market. All the powers under this act are exercised by SEBI.
2. The Companies Act, 1956 which set out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, disclosures to be made in public issues and non-payment of dividend. Powers under this Act are exercised by SEBI in case of listed public companies and public companies proposing to get their securities listed.
3. The Securities Contract (Regulation) Act, 1956, which provide for regulation of transaction ins ecurities through control over stock exchanges, Most of lthe powers under this act are exercised by Department of Economic Affairs (DEA), some are concurrently exercised by DEA and SEBI and a few powers by SEBI.

4. The Depository Act, 1996, which provides for electronic maintenance and transfer of ownership of demateralised securities, SEBI administers the rules and regulation under this Act.
   The Securities and Exchange Board of India was established in 1988 to regulate and develop the growth of the capital market. SEBI regulates the working of stock exchanges and intermediaries such as stock brokers and merchant bankers, accords approval for mutual funds, and registers Foreign Institutional Investors who wish to trade in Indian scrips. Section 11(1) of the Sebi Act provides that it shall be the duty of the Board to protect the interests of investors securities and ot promote the development of, and to regulate the securities market, by such measures as it thinks fit.

   SEBI regulates the business in stock exchanges and any other securities markets and the working of collective investment schemes, including mutual funds, registered by it. SEBI promotes investor's education and training of intermediaries of securities market. It prohibits fraudulent and unfair trade practices relating to securities markets, and insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries, It also regulates substantial acquisition of shares and takeover of companies and can call for information from, carry out inspection, conduct inquiries and audits of the stock exchanges and intermediaries and self regulatory organizations in the securities market.

   SEBI has introduced various reforms including improved transparency, computerisation, enactments against insider trading, improved capital adequacy, imposed restrictions on forward trading, and enacted provisions to encourage corporate membership in the stock exchanges.

   Stock exchanges have also laid down strict compliance measures covering detection of irregular trading practices through sophisticated surveillance systems, margining, trading volume controls and set up investor protection funds, Stock exchanges ensure compliance of brokers on a continuous basis through inspection and other measures.

PRIMARY MARKET

Fresh issues of shares and other securities are effected though the Primary market. It provides issuers opportunity to issue securities, to raise resources to meet their requirements of business. Equity issues can be effected at face value or at discount/premium. Issues at discounts are rare and almost unheard of. Issuers can issue the securities in domestic market and/or international market through ADR/GDR/ECB route.

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SECONDARY MARKET

Investors can buy and sell securities in secondary market from/to other investors. The securities are traded, cleared and settled through intermediaries as per prescribed regulatory framework under the supervision of the Exchanges and oversight of SEBI. The regulatory framework has prohibited trading of securities outside the exchanges. There are 24 exchanges (The Capital Stock Exchanges, the latest in the list, is yet to commence trading) today recognised over a period of time to enable investors across the length and breadth of the country to access the market.

DERIVATIVES MARKET

Derivatives are contracts that are based on or derived from some underlying asset, reference rate, or index. Most common financial derivatives are: forwards, futures, options and swaps,

Derivatives trading commenced in India in June 2000 after SEBI granted the final approval to this effect in May 2000 for trading in index futures, Currently, the Indian markets provide equity derivatives of the following types:

- Index Futures-Two Indices
- Stock Futures-Twenty Nine stocks
- Index Options-Two Indices
- Stock Options-Twenty Nine Stocks

Derivatives help to improve market efficiencies because risks can be isolated and sold to those who are willing to accept them at the least cost. Using derivatives breaks risk into pieces that can be managed independently. Corporations can keep the risks they are most comfortable managing and transfer those they do not want to other companies that are more willing to accept them. From a market-oriented perspective, derivatives offer the free trading of financial risks.

Financial derivatives have changed the face of finance by creating new ways to understand, measure, and manage financial risks. Ultimately, derivatives offer organizations the opportunity to break financial risks into smaller components and then to buy and sell those components to best meet specific risk-management objectives. Moreover, under a market-oriented philosophy, derivatives allow for the free trading of individual risk components, thereby improving market efficiency. Using financial derivatives should be considered a part of any business's risk-management strategy to ensure that value-enhancing investment opportunity can be pursued.

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EQUITY MARKET

Publicly traded equities form a significant source of capital for firms, and equity markets are a key part of the process of allocating capital among competing uses in our economy, Through issuance of equities, companies enable a broad set of investors to share in the risk and reward of economic activities.

What Does *Equity Market* Mean?
The market in which shares are issued and traded, either through exchanges or over-the-counter markets. Also known as the stock market, it is one of the most vital areas of a market economy because it gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performance.

What Does *Blue Chip* Mean?
A nationally recognized, well-established and financially sound company. Blue chips generally sell high-quality, widely accepted products and services. Blue chip companies are known to weather downturns and operate profitably in the face of adverse economic conditions, which helps to contribute to their long record of stable and reliable growth.

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