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ORIGINAL ARTICLE

GROWTH & DEVELOPMENT OF INDIAN SECURITIES MARKET DURING POST ECONOMIC REFORMS (1991-2010)

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Abstract:

Prior to economic reforms initiated in 1991, Indian financial system was characterized by barriers to entry, control over pricing of financial assets, high transaction costs and restrictions on movement of funds from one market segment to another. Since last two decades, the Indian stock market has undergone sea changes. The economic reforms started since 1991 and a revolutionary change in Information Technology (IT) has changed the entire face of Indian capital market. In this paper an attempt has been made to study the development of Indian securities market from 1991 to 2010.

KEY WORDS:

Economic Reforms, High Transaction Costs, Restrictions on movement of funds.

INTRODUCTION:

Since last two decades, the Indian stock market has undergone sea changes. The economic reforms started since 1991 and a revolutionary change in Information Technology (IT) has changed the entire face of Indian capital market. Prior to economic reforms initiated in 1991, Indian financial system was characterized by barriers to entry, control over pricing of financial assets, high transaction costs and restrictions on movement of funds from one market segment to another. During this period trading of stock exchange was through 'Open outcry' on the trading floors and there was no price time priority, so users of the market were not assured that a trade was executed at best possible price. There was inefficiency in cleaning and settlement procedure.

OBJECTIVES:

1)To Study development of Indian stock market during post economic reform.
2)To study growth & Holding Pattern of Government Securities market.
3) To study the trends in Equity Derivative Turnover in India.

METHODOLOGY:

Present study is based on secondary data & data is collected from SEBI-Handbook of statistics on Indian securities market, annual reports of BSE, ISMR-NSE, NSE Fact book &CMIE report on capital market. The techniques like percentage method & growth rate also used to study the data. Moreover graphical devices like pie chart also used to present the data.

Securities Market Development since 1991 onwards:

Features	In 1991	Post Reform Period
Regulator	Central Government oversight	A separate Regulator for securities market – SEBI
Disclosure	Voluntary, vague and non-standardize	Standardized, systematic and a dedicated website for disclosures by listed companies
Mode of Access	Public issues at fixed prices	Public issues at market determined prices, private placement, qualified institutional investors
Pricing of Securities	Determined by central government	Determined by market
Structure of Stock Exchanges	Mutual not for profit entities	Demutualised, for profit corporate entities
Forms of Securities	Physical	Dematerialized
Derivative Trading	Absent	Exchange traded derivatives on Futures & Options
Trading Mechanism	Open outcry	Screen based online trading system
Settlement Cycle	14 day account period settlement	Rolling settlement on T+2 basis
Form of Settlement	Physical	Electronic
Risk Management	No focus on risk management	Comprehensive risk management system
Transfer of Securities	Cumbersome	Securities are freely transferable electronically
Enforcement	Inadequate provision of penalty and time consuming process	Speedy disposal of investigation cases by enhancing the power of SEBI
Foreign Investment in Capital Market	Restrictions on entry of foreign investment	Opened up for investment by FIIs

Source: Compiled by Researcher

Secondary Market Development Indicators:

Development of Secondary market development can be studied into three parts i.e.: A) Capital Market Segment B) Government Securities Segment and C) Derivative Segment.

A)Capital Market Segment of Stock Exchanges

Table No. 1: Capital Market Segment of Stock Exchanges

Year	No. of Listed Companies	Turnover (Rs. Crores)	Market Capitalization	BSE Sensex (Average)	S & P CNX Nifty
1991-92	6480	-	354105	4285.00	-
1992-93	69251	-	228780(-35)	2288.52	-
1993-94	7811	203703	400077	8778.99	-
1994-95	9077	162905(-20)	473349(18.31)	3266.96	-
1995-96	9100	227368(39.6)	572257(20.9)	3366.61	985.30
1996-97	9890	646118(184.17)	488332(14.7)	3360.89	968.85
1997-98	9833	908681(40.64)	589816(-20.8)	3892.75	1116.65
1998-99	9877	1023382(12.62)	574064(-2.7)	3739.96	1078.05
1999-00	9871	2067031(101.98)	1192630160.8	5001.28	1528.45
2000-01	9954	288099(-86.06)	768863(-35)	3604.30	1148.20
2001-02	9644	895829(210.94)	749248(-2.51)	3469.35	1129.55
2002-03	9413	968909(8016)	631921(-16)	3048.72	978.20
2003-04	5650	1620932(67.29)	1318795(108.6)	5590.62	1771.90
2004-05	5528	1666896(2.84)	1702136(29.06)	6492.82	2035.65
2005-06	4731	2390103(43.39)	3022190(77.55)	11280.06	3402.55
2006-07	4781	2901471(21.40)	3548808(17.42)	13072.10	3821.55
2007-08	4821	5130816(76.83)	5149701(45.1)	15644.44	4734.50
2008-09	-	3852097(-24.92)	3092973(-40)	9708.56	3020.95

Source: 1) ISMR- NSE, Volume XII, 2009, p. 15, Figures in bracket indicated % change

Note: Figures related to number of listed companies on stock exchanges is not available after 2003-04 onwards. Therefore, figures of listed companies on BSE are presented.

1)Stock Market Turnover:

Stock market turnover means total value of transaction of securities in equity market segment of an exchange. The turnover figures reflect the transaction activity of the market players. The turnover figures demonstrate not only changes in prices of shares but also variation in volume traded. It is also sign of size of market.

Turnover on various stock exchanges in India was Rs. 203703 crores in 1993-94. Even though it declined in 1994-95 by 20%, it rose steadily thereafter. During 1996-97 and 1999-2000, there was sharp increase in the turnover i.e. 184% and 101% respectively.

The trading volumes on stock exchanges in equity segment have been witnessing phenomenal growth over the past years. The trading volume, which peaked and in 1999-2000 recorded 101.98% over the previous year, posted a substantial fall of 86.06% in 2000-01. However, from 2001-02 onwards trading volumes picked up. It stood at Rs968909 crores in 2002-03 and further witnessed a year on year increase of 67.29% in 2003-04. The upsurge continued in 2006-07, in which the turnover showed an increase of 21.40% in 2005-06. During 2006-07 and 2007-08, the trading volumes on the CM segment of exchanges increased significantly by 76.83%. Then during 2008-09, the all India turnover dipped by 24.91% for the equity segment.

2)Market Capitalization:

Market capitalization is a major indicator that determines the size of stock market. A higher market capitalization reflects growing stock market activities. It is total market value of all companies outstanding. Market capitalization is a measure of total value of an equity market. It is calculated by multiplying a company's shares outstanding by current prices of one share.

Market capitalization of an exchange is a summation of all the individual stocks listed on the exchange. Thus, by taking the market capitalization of all companies in the equity market and adding them together to arrive at the capitalization for the market as a whole.

The all India market capitalization of listed companies grew by 17 folds between1991 to 2009. At the end of 1991, all India market capitalization was estimated at Rs. 354106 crores increased to Rs. 3092973 crores at the end of March 2009. The market capitalization has grown over the period indicating more companies using the trading platform of the stock exchange.

As seen from Table No. 1 the all India market capitalization of listed companies amounted to Rs. 354106 crores during 1991-92, there was no significant increase in it till 1998-99. However, during 1999-2000 it doubled to Rs. 1192630 crores a year on year increase of 160.08% (from 2000-01 to 2002-03) for three consecutive years market capitalization it decreased significantly a year on year decrease of -35%, -2.5%, -16% respectively. Thereafter market capitalization increases significantly till 2007-08. The all India market capitalization decrease by -40% on a year on year basis in 2008-09 & stood at Rs. 30929773 crores at the end of March 2009.

3)Number of Listed Companies:

The number of companies listed on stock exchanges gives an additional measure of market size. From the table No. 1, it is evident that there was 6480 companies listed in the all the stock exchanges during 1991-92 which rose to 9954 in 2001-02. In 2003-04, listed number of companies was declined to 5650 it further declined to 4821 in 2007-08.

It is also seen that out of total listed companies 71.87% companies listed on BSE only, while 26.99% companies are listed on both exchanges i.e. BSE and NSE & 1.14% on NSE only.

4)Trends in Sensex and Nifty:

During 1990, India witnessed immoderate changes in its policies. As a part of liberalization policy in 1990, the BSE-Sensex crossed the 1000 mark for the first time .It crossed 2000 & 4000 marks in 1992. But upbeat mood of the market suddenly vanished with Harshad Mehta scam. From 1993-94 to 1998-99 BSE Sensex oscillating between the average range of 3000 to 5000 marks. The tight liquidity condition, high interest rate, poor results of corporate sector & tussle over US-64 scheme were some of the main reasons of the depressed sentiment in the stock market. Another major day was on Oct 8, 1999, which saw the Sensex crossing the 5000 marks.

The boom in information technology helped the stock market to cross the level of 6000 mark & hit all time high of 6006 on February 11, 2000. Thereafter it went on sliding down slowly. The bearish movement further receipted by stock market crash in USA following the terrorist attack on September 11, 2001 & massive sale by FII in sep 2001. Thus, from 2000 to 2004 Sensex & Nifty fluctuated between on an average of 3000 to 5000 & 900 TO 2000 mark respectively. During this period SEBI introduced several reforms such as rolling settlement contract to T+2 To T+3 from 2003. Amazingly, it crossed 7000 points on June 21, 2005 mainly because of the settlement between the Ambani brothers. Then on September 8, 2005 it crossed 8000 point & December 09, 2005 saw the Sensex crossing 9000 points. During this period strong macro economic outlook, encouraging corporate results, high & sustained portfolio investment by FII contributed to sustained rally in the stock market. In this period (2004-05) stock market in India affected by rising crude oil prices & rise in interest rate also adversely affected to the stock market sentiments.

During 2005-06 Sensex close above the 10,000 mark & touched the height of 12,000 points for the first time. In the year 2006-07 Indian stock Market witnessed a mixed trend, in this period, Sensex & Nifty recorded an average of 13072.10 & 3821.55 points respectively. Another most important date in the history of stock market was October 29, 2007 on which the Sensex crossed the 20,000 mark & achieved a major growth of 734.4 point. Thus, during 2007-08 BSE–Sensex & NSE's Nifty recorded on an average of 15644.44 & 4734.50 points respectively. However, in mid-December, 2007 the declined trend in developed equity market due to subprime crises, fear of credit squeeze & global recession in Indian equity market. Further increasing crude oil prices & depreciation of USA dollars against major currencies also contributed to declining in major equity market.

Indian equity market witnessed downward trend & volatility during 2008-09. The Sensex saw its highest ever loss of 1408 points as on January 21, 2008 as investors panicked by following weak global cues, amid fears of the US recession. During this period, BSE-Sensex recorded an average of 9708.50 & 3220.95 points respectively.

B) Development of Government Securities Market in India:

Indian debt market is one of the largest markets in Asia and this also includes the public sector debt instruments. The Indian debt market mainly comprises of central and state government securities as well as public securities and private sector bonds, which are issued by various companies.

Indian debt market can be classified into two categories i.e. government securities market (G-Sec Market) and bond market. Government securities markets consist of central and state government securities. While bond market consist of financial institutions bonds, corporate bonds, public sector unit bonds. Government (G-Securities) securities market deals with tradable debt instruments issued by the government for meeting its financial requirements. Government issued short-term maturity securities as well as long-term maturity securities. Typically, short term maturity up to one year viz. Treasury Bills and long term instruments includes bonds whose maturity period is more than one year facilitate is medium to long-term financial requirements. Thus, government securities market is a dominant category in Indian debt market and it plays crucial role in monetary policy transmission mechanism. Like equity market G-sec market has two segments, primary market and secondary market. Primary market consist of the issuers of securities viz. central and state government, buyers includes commercial banks, primary dealers, financial institutions whereas secondary market for government securities provides a platform for original investors to trade their holding before maturity. The Indian debt market and particularly the government securities market have undergone a significant change since the advent of reform to financial market in 1991-92. The primary objective behind the reforms has been to moderate liquidity, growth, contain inflationary pressure and conduct public debt management in a cost effective manner. In 1995, deliveries versus payment (DVP) system were introduced to mitigate settlement risk, promote greater transparency of prices. Post 1996 reforms have focused mainly on market microstructure.

Table No. 2: Government Securities Turnover

Year	Non Repo Government Securities Turnover	
	On WDM Segment of NSE(Rs cr)	On SGL(Rs cr)
1995-96	9243	29530 (-)
1996-97	38102 (312.2)	93921(218.0)
1997-98	97515(155.9)	161090(71.5)
1998-99	90415 (-7.2)	187531(16.4)
1999-2000	291591 (222.5)	456491(143.4)
2000-01	412495 (41.4)	572145(25.3)
2001-02	926995 (124.7)	1211965(111.8)
2002-03	1030549(11.1)	1392383(14.8)
2003-04	1274119 (23.63)	1701363(22.1)
2004-05	849325 (-33.3)	1260866(-25.8)
2005-06	450801(-46.9)	708014(35.46)
2006-07	205323 (-54.4)	398298(-43.7)
2007-08	260408 (26.82)	500304(25.6)
2008-09	291112 (11.79)	664548(32.8)

Source: Indian Securities Market A Review, Vol xii, 2009 page no. 15, SGL = Subsidiary General Ledger

Table No. 2 presents government securities turnover from 1995-96 to 2008-09 It is clear that trading in non repo government securities on WDM segment of NSE was 9243 crores in 1995-96 which increased by 312.2% and 155.9% in 1996-97 and 1997-98 respectively. Even though it declined in 1998-99 by -7.2%, thereafter it rose significantly during 1999-2000 to 2003-04. It declined by – 33.3%, - 46.9% & -54.4% in 2004-05, 2005-06 & 2006-07 respectively.

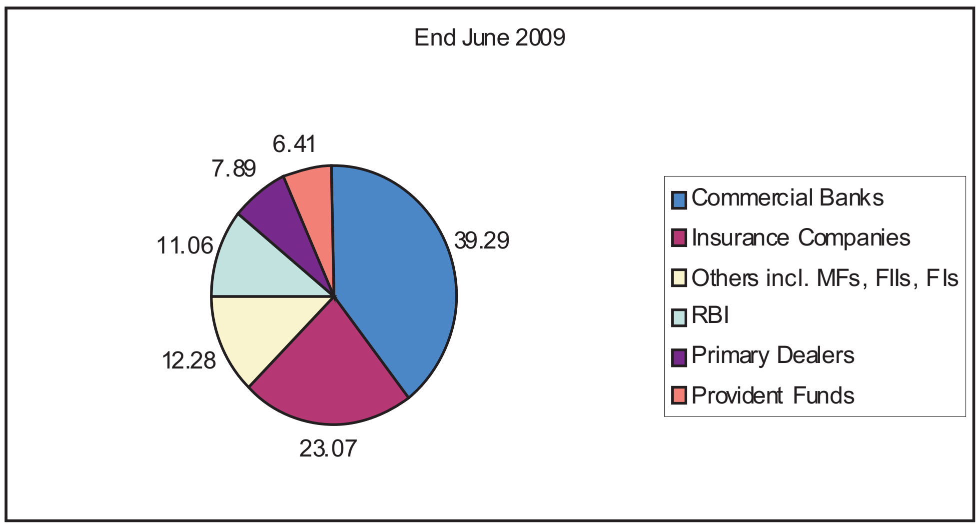
The aggregate trading volumes in central and state government dated securities on SGL was Rs. 29530 crores in 1995-96 & it rose significantly by 218.0% during 1996-97, thereafter it rose steadily till 2003-04. Even though it declined by –25.8% in 2004-05 & -43.0% in 2006-07 it rose steadily thereafter during 2008-09 it stood at Rs. 664548 crores.

Table No. 3: Holding Pattern of Government Securities

Year	Commercial Banks	Insurance Companies	Others incl. MFs, FIIs, FIs	RBI	Primary Dealers	Provident Funds	Total
End June 2009	39.29	23.07	12.28	11.06	7.89	6.41	100

Source: Compiled from RBI Handbook of Statistics on Indian Economy 2010.

Graph No 1: Holding Pattern of Government Securities



As it can be seen from the above table 3 the major investors in G-Secs are banks, life insurance companies, general insurance companies, pension funds and EPFO. Banks are required to keep a minimum of 24 percent as a statutory preemption in government securities whereas life insurance companies are required to invest 50 percent of their total investment in G-Secs. Interestingly, from the above table no. 3, it can be observed that the share of commercial bank in ownership of G-securities was larger i.e. 39.29%, followed by Insurance companies with 23.07%, MFs & FII with 12.28%.The share of RBI stood at 11.06% whereas Primary Dealers & PF's holding was very small i.e. 7.89% & 6.41% respectively.

C) Development of Derivatives Market:

Derivatives are financial instrument, which are derived from equity, bonds, currencies and commodities. Value of derivatives derived from underlying instruments such as stock index (future and options based on them), currency or interest rates. Derivatives are leveraged instruments & are used as vehicle for transferring risk. Trading in equity derivatives in India began in June 2000 after the SEBI granted permission to the derivatives segments of two stock exchanges viz. NSE and BSE. Regulatory framework under the SCRA (Securities Contracts (Regulation) Act of 1956 governs the trading of derivatives. Thus, derivatives are investment as well as risk mitigating instruments. Following equity derivative contracts mentioned in Table No4.0 are traded in Indian securities market.

Table No. 4: Trends in Equity Derivative Turnover in India

Year	Turnover (Rs. Mn)	% Change
2000-01	40180	-
2001-02	1038480	2484
2002-03	4423333	325
2003-04	21422690	384
2004-05	25641269	20
2005-06	48242590	88
2006-07	74152780	54
2007-08	133327869	80
2008-09	110227501	17

Source: ISMR, Vol. XII, 2009, p. 15

It is clear from table no 4 that equity derivative turnover of India was Rs. 40180 Mn in 2000-01, it increase significantly in 2001-02 by 2484%. It stood at Rs.110227501 Mn in 2008-09.

CONCLUSION:

After economic reforms Indian stock market developed in terms of quantitative and qualitative perspectives, quantitative parameters like amount raised from the market, the number of listed stocks, market capitalization, trading volume and turnover. Qualitative parameters such as establishment of national wide screen based trading system; dematerialization and electronic transfer of securities, rolling settlements, and sophisticated risk management have also been introduced in the stock market. Thus, Indian stock market has known to be world class in terms of trading architecture. India has the highest number of companies listed in the stock market. Out of this, about 72 % of the companies are listed with the Bombay Stock Exchange only. After United States, India has the highest number of companies listed. It is observed that the share of commercial bank in ownership of G-securities was larger i.e. 39.29%, followed by Insurance companies MFs & FII. Whereas Primary Dealers & PF's holding is very small. Equity derivative Turnover of India increased significantly.

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