INDIAN STOCK MARKET - REVIEW OF LITERATURE

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ABSTRACT

Stock Market is one of the most vibrant sectors in the financial system, marking an important contribution to economic development. Stock Market is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. In other words Stock Market is a plate form for trading various securities and derivatives. Further, it performs an important role of enabling corporate, entrepreneurs to raise resources for their companies and business ventures through public issues. Today long term investors are interested to invest in the Stock market rather than invest anywhere. The Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and the Calcutta Stock Exchange (CSE) are the three large stock exchanges of Indian Stock Market.

The main objective of present study is to present review of literature related to Indian Stock Market to study the Indian Stock Market in depth. The study would facilitate the reader to know the past, current and future trend or prospects of Indian Stock market. This study would provide guidelines to investor to maximise profit with minimize risks. High degree of volatility in the recent times in the Indian market has led to more development in the future.

KEYWORDS: *Securities, Derivatives, NSE, BSE, Public Issue, Maximise Profit, Minimize Risk.*

INTRODUCTION

As a part of the process of economic liberalization, the stock market has been assigned an important place in financing the Indian corporate sector. Besides enabling mobilizing resources for investment, directly from the investors, providing liquidity for the investors and monitoring and disciplining company managements are the principal functions of the stock markets. The main attraction of the stock markets is that they provide for entrepreneurs and governments a means of mobilizing resources directly from the investors, and to the investors they offer liquidity. It has also been suggested that liquid markets improve the allocation of resources and enhance prospects of long term economic growth.

Stock markets are also expected to play a major role in disciplining company managements. In India, Equity market development received emphasis since the very first phase of liberalization in the early 'eighties. Additional emphasis followed after the liberalization process got deepened and widened in 1991 as development of capital markets was made an integral part of the restructuring strategy. Today, Indian markets conform to international standards both in terms of structure and in terms of operating efficiency.

CONCEPT OF STOCK MARKET

The concept of stock markets came to India in 1875, when Bombay Stock Exchange (BSE) was established as ‘The Native Share and Stockbrokers Association', a voluntary non-profit making association. We all know it, the Bhaji market in your neighborhood is a place where vegetables are bought and sold. Like Bhaji market, a stock market as a place where stocks are bought and sold. The stock market determines the day's price for a stock through a process of bid and offer. You bid to buy a stock and offer to sell the stock at a price. Buyers compete with each other for the best bid, i.e. the highest price quoted to purchase a particular stock. Similarly, sellers compete with each other for the lowest price quoted to sell the stock. When a match is made between the best bid and the best offer a trade is executed. In automated exchanges high-speed computers do this entire job.

Stocks of various companies are listed on stock exchanges. Presently there are 23 stock markets In India. The Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and the Calcutta Stock Exchange (CSE) are the three large stock exchanges. There are many small regional exchanges located in state capitals and other major cities. Presently Nifty and Sensex are moving around to 5900 and 19600 (July 2013). All activities of Indian stock market are regulated and controlled by SEBI.

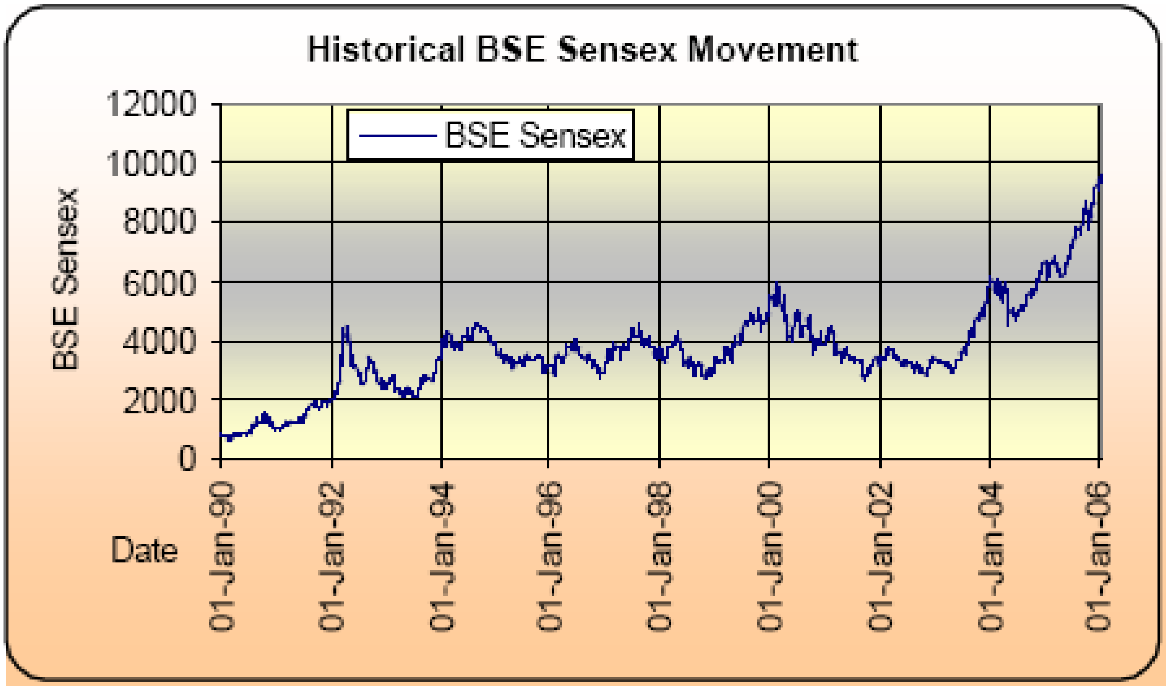
HISTORICAL EVOLUTION OF INDIAN STOCK MARKET

As already stated, the Indian Stock markets have played a significant role in the early attempts at industrialization in India in the late nineteenth and early twentieth centuries. The early textile mills and the first steel plants were funded in the stock market. Some of these capital raising exercises were large in relation to the size of the financial sector in those days.

Beginning in the late fifties, the country embarked on an inward looking socialistic model of development that sought to put the commanding heights of the economy in the hands of the public sector. The state took control of the allocation of resources in the economy as the banks and insurance companies were nationalized and development financial institutions grew in importance. A regime of financial repression came into being and the stock market stagnated.

The period from 1984 to 1992 was in some ways the high water mark of the Indian capital markets. As the markets responded enthusiastically to the first whiff of reforms in the mid 1980s and to the major reform initiative of 1991, the stock market soared through the roof. From October 1984 to September 1992, the stock market index went up more than ten times representing an annual compound return of 34per cent.

The Sensex crossed the 1,000 mark on July 25, 1990; the 4,000 mark on March 30, 1992; the 5,000 mark on October 11, 1999; the 6,000 mark on January 2, 2004; the 7, the 9,000 mark on December 09, 2005; and finally the historic 10,000 mark on February 7, 2006. It created another landmark when it touched 11,000 on March 27, 2006. The Sensex reached an all time high of 12,671 in May 2006. To reach from the 11,000 mark to the 12,000 mark only took 19 working days, the shortest time interval for a 1000 points climb in BSE Sensex history, surpassing the just set record of 29 days that it took to reach 11,000 from 10,000.



INVESTORS PREFERENCE IN STOCK MARKET

Though most of the investors want a safe and secure return on their investment, they also look for maximum returns. The pure debt investment brings an average return with lesser liquidity as compared to the equity investments. So in search of higher return (keeping the risk factor in mind) investor are a heading towards equity investment on analysis of recent year investment trends, FII, entrance and operations in Indian stock markets, it has been found that equity is gaining ground in India. The main attraction of equity among investors are-

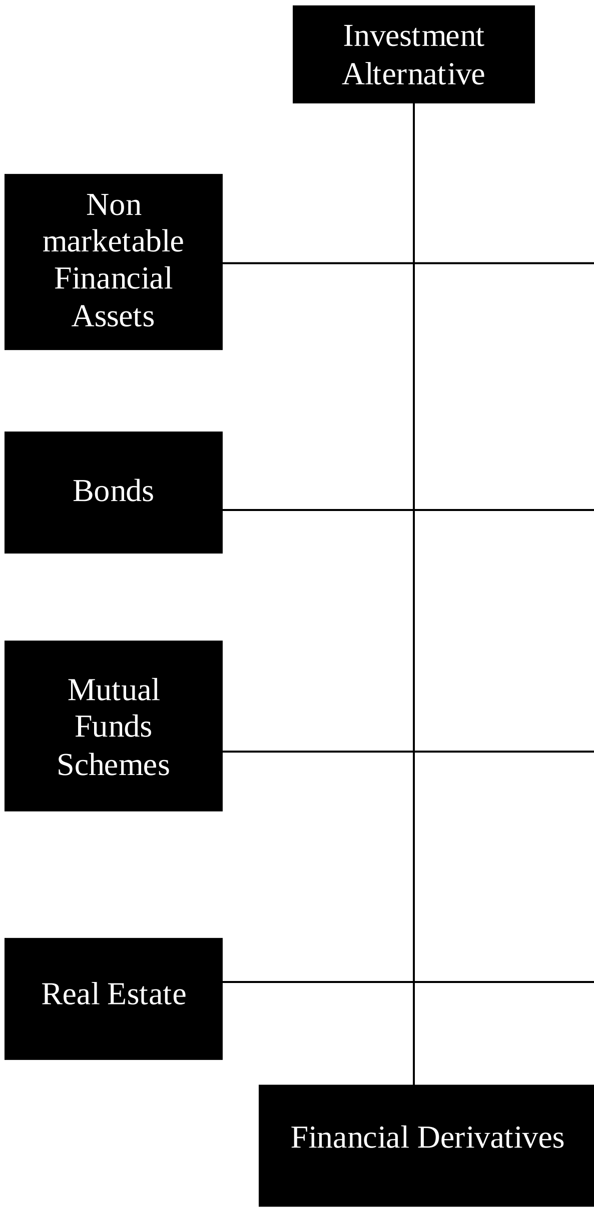
1. Higher return (especially I case of capitalization and dividend if any)
2. Higher Liquidity
3. Option to start trading with small investments
4. Daily trading (as it increase chances of more “buy or sell” transaction which leads to fast profits/loss generation)

With these benefits, equity has a risk factor of poor dividend payout (as against fixed "interest" income in debt) or the negligible capitalization. Moreover, sometime the investment in equity trading goes to bottom level and nothing is expected in return.

Still, the attraction of equity remains high in investors mind become of "return &liquidity factor. And this perception has leaded the investment trends from debt to equity and portfolio investment.

INVESTMENT ALTERNATIVE

There is a wide of range of investment alternative available to an investor in Indian stock market. These may be classified as shown in



(A) NON- MARKETABLE FINANCIAL ASSETS: A good portion of financial assets is represented by non marketable financial assets. These can be classified into the following broad.

- Bank deposits
- Post office deposits
- Company deposits
- Provident fund deposits

(B) EQUITY SHARES: Equity shares represent ownership capital. As an equity shareholder, you have an ownership stake in the company. This essentially means that you have a residual interest in income and wealth.

- Blue chip shares
- Growth shares.
- Income shares
- Cyclical shares
- Speculative shares

(C) BONDS: Bonds or debentures represent long terms debt instruments.

- Government Securities
- Savings bonds
- Government agency securities
- PSU bonds
- Debentures of private sector companies

(D) MONEY MARKET INSTRUMENTS: Debt instruments which have a maturity of less than one year at the time of issue are called money market instruments.

- Treasury bills.
- Commercial paper
- Certificates of deposit

(E) MUTUAL FUNDS: Instead of directly buying equity shares and/or fixed income instruments, you can participate in various schemes floated by mutual funds.

- ❖ Equity schemes
- ❖ Debt Schemes
- ❖ Balanced schemes

(F) LIFE INSURANCE: In a broad sense, life insurance may be viewed as and investment. Insurance premiums represent the sacrifice and the assured sum, the benefits.

- ❖ Money back policy
- ❖ Whole back policy
- ❖ Terms assurance policy

(G) REAL ESTATE: FOR the bulk of the inverters the important asset in their portfolio is a residential house.

- ❖ Agricultural land
- ❖ Semi urban land
- ❖ Commercial property

(H) PRECIOUS OBJECTS: Precious objects are items that are generally small in size but highly valuable in monetary terms. Some important precious objects are:

- ❖ Gold and Silver
- ❖ Precious stones
- ❖ Art objects

(I) FINANCIAL DERIVATIVES: The term 'derivative' indicates that it has no independent value i.e. its value is entirely derived from the value of underlying asset. The underlying asset can be securities, commodities, currency etc. Some important financial derivatives:

- ❖ Forward
- ❖ Future
- ❖ Option warrants
- ❖ swaps

OBJECTIVES OF THE STUDY

Every study based on some clearly defined objectives. Objectives decide the all over framework of any study. The main objective of this study is to capture the trends, activities and movements of the Indian Stock Market. The present study " based on following objectives:-

- To Study the various aspect of Indian Stock Market in detail.
- To find out the views of different researcher and author in relation to Indian Stock Market.
- To know the past and current movements in Indian Stock Market.
- To know the future prospects of Indian stock market.
- To help the investors (current and potential) to understand the impact of important happenings on the Indian Stock exchange.

REVIEW OF LITERATURE

Gupta (1972) in his book has studied the working of stock exchanges in India and has given a number of suggestions to improve its working. The study highlights the' need to regulate the volume of speculation so as to serve the needs of liquidity and price continuity. It suggests the enlistment of corporate securities in more than one stock exchange at the same time to improve liquidity. The study also wishes the cost of issues to be low, in order to protect small investors

Panda (1980) has studied the role of stock exchanges in India before and after independence. The study reveals that listed stocks covered four-fifths of the joint stock sector companies. Investment in securities was no longer the monopoly of any particular class or of a small group of people. It attracted the attention of a large number of small and middle class individuals. It was observed that a large proportion of savings went in the first instance into purchase of securities already issued.

Gupta (1981) in an extensive study titled `Return on New Equity Issues' states that the investment performance of new issues of equity shares, especially those of new companies, deserves separate analysis. The factor significantly influencing the rate of return on new issues to the original buyers is the `fixed price' at which they are issued. The return on equities includes dividends and capital appreciation. This study presents sound estimates of rates of return on equities, and examines the variability of such returns over time.

Jawahar Lal (1992) presents a profile of Indian investors and evaluates their investment decisions. He made an effort to study their familiarity with, and comprehension of financial information, and the extent to which this is put to use. The information that the companies provide generally fails to meet the needs of a variety of individual investors and there is a general impression that the company's Annual Report and other statements are not well received by them.

L.C.Gupta (1992) revealed the findings of his study that there is existence of wild speculation in the Indian stock market. The over speculative character of the Indian stock market is reflected in extremely high concentration of the market activity in a handful of shares to the neglect of the remaining shares and absolutely high trading velocities of the speculative counters. He opined that, short- term speculation, if excessive, could lead to "artificial price". An artificial price is one which is not justified by prospective earnings, dividends, financial strength and assets or which is brought about by speculators through rumours, manipulations, etc. He concluded that such artificial prices are bound to crash sometime or other as history has repeated and proved.

Nabhi Kumar Jain (1992) specified certain tips for buying shares for holding and also for selling shares. He advised the investors to buy shares of a growing company of a growing industry. Buy shares by diversifying in a number of growth companies operating in a different but equally fast growing sector of the economy. He suggested selling the shares the moment company has or almost reached the peak of its growth. Also, sell the shares the moment you realise you have made a mistake in the initial selection of the shares. The only option to decide when to buy and sell high priced shares is to identify the individual merit or demerit of each of the shares in the portfolio and arrive at a decision.

Pyare Lal Singh (1993) in the study titled, Indian Capital Market - A Functional Analysis, depicts the primary market as a perennial source of supply of funds. It mobilises the savings from the different sectors of the economy like households, public and private corporate sectors. The number of investors increased from 20 lakhs in 1980 to 150 lakhs in 1990 (7. 5 times). In financing of the project costs of the companies with different sources of financing, the contribution of the securities has risen from 35.01% in 1981 to 52.94% in 1989. In the total volume of the securities issued, the contribution of debentures / bonds in recent years has increased significantly from 16. 21% to 30.14%.

Sunil Damodar (1993) evaluated the 'Derivatives' especially the 'futures' as a tool for short-term risk control. He opined that derivatives have become an indispensable tool for finance managers whose prime objective is to manage or reduce the risk inherent in their portfolios. He disclosed that the over-riding feature of 'financial futures' in risk management is that these instruments tend to be most valuable when risk control is needed for a short- term, i.e., for a year or less. They tend to be cheapest and easily available for protecting against or benefiting from short term price. Their low execution costs also make them very suitable for frequent and short term trading to manage risk, more effectively.

R.Venkataramani (l994) disclosed the uses and dangers of derivatives. The derivative products can lead us to a dangerous position if its full implications are not clearly understood. Being off balance sheet in nature, more and more derivative products are traded than the cash market products and they suffer heavily due to their sensitive nature. He brought to the notice of the investors the 'Over the counter product' (OTC) which are traded across the counters of a bank. OTC products (e.g. Options and futures) are tailor made for the particular need of a customer and serve as a perfect hedge. He emphasised the use of futures as an instrument of hedge, for it is of low cost.

Amanulla & Kamaiah (1995) conducted a study to examine the Indian stock market efficiency by using Ravallion co integration and error correction market integration approaches. The data used are the RBI monthly aggregate share indices relating five regional stock exchanges in India, viz Bombay, Calcutta, Madras, Delhi, Ahmedabad during 1980-1983. According to the authors, the co integration results exhibited a long-run equilibrium relation between the price indices of five stock exchanges and error correction models indicated short run deviation between the five regional stock exchanges. The study found that there is no evidence in favour of market efficiency of Bombay, Madras, and Calcutta stock exchanges while contrary evidence is found in case of Delhi and Ahmedabad.

Pattabhi Ram.V. (1995) emphasised the need for doing fundamental analysis and doing Equity Research (ER) before selecting shares for investment. He opined that the investor should look for value with a margin of safety in relation to price. The margin of safety is the gap between price and value. He revealed that the Indian stock market is an inefficient market because of the absence of good communication network, rampant price rigging, and the absence of free and instantaneous flow of information, professional broking and so on. He concluded that in such inefficient market, equity research will produce better results as there will be frequent mismatch between price and value that provides opportunities to the long-term value oriented investor. He added that in the Indian stock market investment returns would improve only through quality equity research.

Karajazyk (1995) investigated one measure of financial integration between equity markets. He used a multifactor equilibrium Arbitrage pricing theory to define risk and to measure deviations from the "Law of one price". He applied the integration measure to equities traded in 24 countries (four developed and 20 emerging). He found that the measure of market segmentation tends to be much larger for emerging markets than for developed markets, which flows into or out of the emerging markets. The measure tends to decrease over time, which is consistent with growing levels of integration. Large values of adjusted mis-pricing occur around periods in which capital controls change significantly. Finally, he found asymmetric integration relationship; stock markets of developed nations are more integrated than those of emerging nations.

Debjit Chakraborty (1997) in his study attempts to establish a relationship between major economic indicators and stock market behaviour. It also analyses the stock market reactions to changes in the economic climate. The factors considered are inflation, money supply, and growth in GDP, fiscal deficit and credit deposit ratio. To find the trend in the stock markets, the BSE National Index of Equity Prices (Natex) which comprises 100 companies was taken as the index. The study shows that stock market movements are largely influenced by, broad money supply, inflation, C/D ratio and fiscal deficit apart from political stability.

Redel (1997) concentrated on the capital market integration in developing Asia during the period 1970 to 1994 taking into variables such as net capital flows, FDI, portfolio equity flows and bond flows. He observed that capital market integration in Asian developing countries in the 1990's was a consequence of broad-based economic reforms, especially in the trade and financial sectors, which is the critical reason for economic crises which followed the increased capital market integration in the 1970s in many countries will not be repeated in the 1990s. He concluded that deepening and strengthening the process of economic liberalization in the Asian developing countries is essential for minimizing the risks and maximizing the benefits from increased international capital market integration.

Avijit Banerjee (1998) reviewed Fundamental Analysis and Technical Analysis to analyse the worthiness of the individual securities needed to be acquired for portfolio construction. The Fundamental Analysis aims to compare the Intrinsic Value (I.V.) with the prevailing market price (M.P) and to take decisions whether to buy, sell or hold the investments. The fundamentals of the economy, industry and company determine the value of a security. If the 1.V is greater than the M.P., the stock is under priced and should be purchased. He observed that the Fundamental Analysis could never forecast the M.P. of a stock at any particular point of time. Technical Analysis removes this weakness. Technical Analysis detects the most appropriate time to buy or sell the stock. It aims to avoid the pitfalls of wrong timing in the investment decisions. He also stated that the modern portfolio literature suggests 'beta' value p as the most acceptable measure of risk of scrip. The securities having low P should be selected for constructing a portfolio in order to minimise the risks.

Madhusudan (1998) found that BSE sensitivity and national indices did not follow random walk by using correlation analysis on monthly stock returns data over the period January 1981 to December 1992.

Arun Jethmalani (1999) reviewed the existence and measurement of risk involved in investing in corporate securities of shares and debentures. He commended that risk is usually determined, based on the likely variance of returns. It is more difficult to compare 80 risks within the same class of investments. He is of the opinion that the investors accept the risk measurement made by the credit rating agencies, but it was questioned after the Asian crisis. Historically, stocks have been considered the most risky of financial instruments. He revealed that the stocks have always outperformed bonds over the long term. He also commented on the 'diversification theory' concluding that holding a small number of non-correlated stocks can provide adequate risk reduction. A debt-oriented portfolio may reduce short term uncertainty, but will definitely reduce long-term returns. He argued that the 'safe debt related investments' would never make an investor rich. He also revealed that too many diversifications tend to reduce the chances of big gains, while doing little to reduce risk. Equity investing is risky, if the money will be needed a few months down the line. He concluded his article by commenting that risk is not measurable or quantifiable. But risk is calculated on the basis of historic volatility. Returns are proportional to the risks, and investments should be based on the investors' ability to bear the risks, he advised.

Suresh G Lalwani (1999) emphasised the need for risk management in the securities market with particular emphasis on the price risk. He commented that the securities market is a 'vicious animal' and there is more than a fair chance that far from improving, the situation could deteriorate.

Bhanu Pant and Dr. T.R.Bishnoy (2001) analyzed the behaviour of the daily and weekly returns of five Indian stock market indices for random walk during April 1996 to June 2001.They found that Indian Stock Market Indices did not follow random walk.

Nath and Verma (2003) examine the interdependence of the three major stock markets in south Asia stock market indices namely India (NSE-Nifty) Taiwan (Taiex) and Singapore (STI) by employing bivariate and multivariate co integration analysis to model the linkages among the stock markets, No co -integration was found for the entire period (daily data from January 1994 to November 2002).They concluded that there is no long run equilibrium.

Debjiban Mukherjee (2007) made a comparative Analysis of Indian stock market with International markets. His study covers New York Stock Exchange (NYSE), Hong Kong Stock exchange (HSE), Tokyo Stock exchange (TSE), Russian Stock exchange (RSE), Korean Stock exchange (KSE) from various socio- politico-economic backgrounds. Both the Bombay Stock exchange (BSE) and the National Stock Exchange of Indian Limited (NSE) have been used in the study as a part of Indian Stock Market. The main objective of this study is to capture the trends, similarities and patterns in the activities and movements of the Indian Stock Market in comparison to its international counterparts. The time period has been divided into various eras to test the correlation between the various exchanges to prove that the Indian markets have become more integrated with its global counterparts and its reaction are in tandem with that are seen globally. The various stock exchanges have been compared on the basis of Market Capitalization, number of listed securities, listing agreements, circuit filters, and settlement. It can safely be said that the markets do react to global cues and any happening in the global scenario be it macroeconomic or country specific (foreign trade channel) affect the various markets.

Juhi Ahuja (2012) presents a review of Indian Capital Market & its structure. In last decade or so, it has been observed that there has been a paradigm shift in Indian capital market. The application of many reforms & developments in Indian capital market has made the Indian capital market comparable with the international capital markets. Now, the market features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization, market liquidity, and mobilization of resources. The emergence of Private Corporate Debt market is also a good innovation replacing the banking mode of corporate finance. However, the market has witnessed its worst time with the recent global financial crisis that originated from the US sub-prime mortgage market and spread over to the entire world as a contagion. The capital market of India delivered a sluggish performance.

CONCLUSION

Stock Market is the mitigation of risk through the spreading of investments across multiple entities, which is achieved by the pooling of a number of small investments into a large bucket. Stock Market is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The review of literature has brought to light that

- Enlistment of corporate securities in more than one stock exchange at the same time improves liquidity of securities and functioning of stock exchange- According to Gupta.
- There is existence of wild speculation in the Indian stock market-According to L.C. Gupta.

- ❖ Risk is not measurable or quantifiable. But risk is calculated on the basis of historic volatility - According to Arun Jethmalani.
- ❖ Indian Stock Market Indices did not follow random walk- According to Bhanu Pant and Dr. T.R. Bishnoy.
- ❖ Stock market movements are largely influenced by, broad money supply, inflation, C/D ratio and fiscal deficit apart from political stability- According to Debjit Chakraborty.
- ❖ There are theories like the Fundamental analysis, Technical analysis etc. to evaluate the securities- According to Avijit Banerjee.
- ❖ Low execution costs make the derivatives especially futures, very suitable for frequent and short term trading to manage risk, more effectively- According to Sunil Damodar.

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