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INDIAN STOCK MARKET AND ITS DEVELOPMENT

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Abstract: Financial market is a place or mechanism where funds and savings are transferred from surplus units to deficit units. These markets can be broadly classified into money market and capital market. Money market deals with short-term claims of financial assets, whereas capital market deals with those financial assets which have maturity period of more than a year. Financial market can also be classified into primary market and secondary market. Primary market deals with securities which are already issued and are available in the market. A Primary market by issuing new securities, mobilizes the savings, directly whereas, the secondary markets provide liquidity to the securities and thereby indirectly help in mobilizing the savings. Stock market of any country is the parameter of the country's economy. Normally the stock market index show ups and downs due to the price fluctuation and the price of the script is controlled under market condition i.e. demand and supply deed.

***Index Terms* - Financial market, Mechanism, Financial assets, Securities, Stock market.**

I. INDIAN STOCK MARKET

Indian Stock markets are real and electronic exchanges that enable the buying and selling of company shares. Indian Stock market is powered by the Hopes and Dreams of millions of people of India that bring India with potential on global market. It catalyzes India's growth by creating investment, access and empowering the stockholders. We work harder, smarter and faster to deliver impact across the investment ecosystem. Indian stock market Committed to improve the financial well-being of people and to continue to be a leader, establish global presence, facilitate the financial well-being of people.

The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. In exercise of the powers conferred by clause (bc) of section 2 of the Securities Contracts (Regulation) Act, 1956, (42 of 1956), the Central Government in consultation with the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992). "The government has on 25th January, 1995 promulgated an ordinance to amend the SEBI Act 1992, so as to arm the SEBI with additional powers for ensuring the orderly development of the capital market and enhance its ability to protect the interest of the investors."

The Indian stock market support Indian economy by generating much capital needed. The Indian stock market is one of the most developed markets in the world. There are two main stock exchanges in India:-

1. Bombay Stock Exchange (BSE)
2. National Stock Exchange (NSE)

Bombay Stock Exchange (BSE)

The BSE has been in existence since 1875 is Asia's first Stock Exchange. Almost all the significant firms of India are listed on the exchanges. The BSE is the older stock market having about 5500 listed firms. BSE index is known as Sensex. Since 140 years, BSE has helped the growth of Indian Organization sector by providing it capital-raising platform. Firstly, BSE was established as "The Native Share & Stock Brokers' Association" in 1875. BSE encourage an efficient and clear market for trading in debt instrument, mutual funds, equity and derivatives. It also provides a base for trading in equities of small-and-medium enterprises (SME). BSE is the world's No. 1 exchange with more than 5500 firms listed on it. The market cap of BSE is 1.68 Trillion USD as of March 2015.

BSE also serves to capital market participants including settlement, risk management, market data services, clearing and education. It has customers around the global world and a nation-wide presence. BSE is the first exchange in India and second in the world to obtain an ISO 9001:2000 certifications. It is also the first Exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System (BOLT). It operates one of the most respected capital market educational institutes in the country (the BSE Institute Ltd.). BSE also provides depository services through its Central Depository Services Ltd. (CDSL) arm.

National Stock Exchange (NSE)

The NSE was founded in 1992 and recognized as a stock exchange in 1993 and started trading in the Wholesale Debt Market (WDM) in 1994. The Capital market (Equities) segment of the NSE commenced operations in November 1994, while operations in the Derivatives segment commenced in June 2000.

The National Stock Exchange (NSE) is India's leading stock exchange in various cities and towns across the country. NSE is the leading institutions that provide a modern, fully automated screen-based trading system. The Exchange has brought about speed & efficiency, safety, unparalleled transparency and market probity. The NSE is the largest stock market, in terms of volume having about 1900 listed firms. NSE index is known as CNX Nifty.

NSE has played important role in the Indian securities market in terms of market practices, microstructure, and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, screen based trading, compression of settlement cycles, dematerialization and electronic transfer of securities, securities lending and borrowing, professionalization of trading members, fine-tuned risk management systems, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualization of stock exchange governance, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

The National Stock Exchange (NSE) changed the way the Indian markets functioned, in the early nineties, by replacing floor-based trading with nationwide screen based electronic trading, which took trading to the doorstep of the investor. The exchange was mainly set up to bring in transparency in the markets. Instead of trading membership being confined to a group of brokers, the NSE ensured that anyone who was qualified, experienced and met minimum financial requirements was allowed to trade. In this context, the NSE was ahead of its times, when it separated ownership and management in the exchange under SEBI's supervision. The price information which could earlier be accessed only by a handful of people could now be seen by a client in a remote location with the same ease. The paper based settlement was replaced by electronic depository based accounts and settlement of trades was always done on time. One of the most critical changes was that a robust risk management system was set in place, so that settlement guarantees could protect investors against broker defaults.

The Exchange has brought about market probity, efficiency & speed, safety and unique transparency. It has set up facilities that serve as a model for the securities industry in terms of procedures, systems, and practices.

The Indian Stock Market is mainly affected by two E's-

I. Earnings/Price Ratio- price-earnings ratio is company's current share price compared to its earning per-share. It is the most popular method of stock analysis.
II. Emotions/Sentiments- stock market is affected by sentiments and emotion. They play an important part in investing. The rise and fall of Sensex is hugely dependent of emotions.

Indian stock market has approximately 8000 scrip's listed but 3000 are actively traded. The other financial market instruments, like bonds and interest-rate futures, have not developed sufficiently. The equity part accounts for more than 75% of Indian stock market.

The erratic behavior in the equity markets also indicates that these are not only highly speculative but also lacks support from a large base. The Indian market is highly dependent on foreign institutional investors (FII) movement. FIIs are regulated by the SEBI and the RBI defines and maintains the cap or ceiling on such investments. FIIs do not really invest in the economy for the long term. They are there only for investing in the capital markets and benefit from market movements in the prices of listed securities. Because of this they are overly sensitive to market movements, exchange rates, interest rates, and political scenario, and can pull out money anytime. Thus, any change in FII inflows and outflows lead to extreme changes in market indicators, despite unchanged fundamentals.

II. HISTORY OF INDIAN STOCK MARKET

Indian stock market is one of the oldest stock market in Asia. It dates back to the close of 18th century when the East India Company used to transact loan securities. In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay.

The arriving of the institution of stock exchange can be traced with the birth of joint stock companies, which form the organization and coupled with the real existence of the personal identity of the organisation and bring front the concept of negotiability of capital mechanism. Records reveal that there existed a market for "dealing in stocks of Amsterdam as far back as 1585" From 17th century the business of share and dealing of stocks starts in England. In 1674 British internal and overseas trade expending rapidly and business men formed the joint stock companies. On the date of 14th july, 1773 a meeting of stock-brokers held in London and outside a hired building the word "STOCK EXCHANGE" was engraved first time. In 1792 the New York stock exchange was established and the stock exchange of France and European countries had established much later. The stock exchange of today is the result of a slow process of evolution. India also has the same immature history as it had in western countries. The early records of Indian security trading are scanty and unclear. Those days the stockbrokers used together and do business under the Neem tree of Dalhousie square of Kolkata. But according to history, during the end of the 18th century in Kolkata the transactions in government securities and loan securities of the East India Company took place. By 1830, there was increase in the volume of business of loan and corporate stocks and shares. Quotations of different securities are found in 'Englishman' of January, 1863.

The American civil war broke out in 1860-61 and supply of cotton from the United State of Europe stopped. Hence, the demand of cotton from India rose with prices. From 1861 to 1865, the stable companies' prices rose up very high. Back Bay Reclamation shares with Rs. 5000 paid up was at Rs. 50000 premium. At that time it was said that " employer & employee, brokers & merchant, trader & officials in high positions included, were deeply busy from day to day in the art of commuting bits of paper, variously called 'allotment', 'scripts' and 'shares' into gold and silver". After the end of American civil war the companies' prices collapsed.

1861-65 Share price

	Paid up amount Per share	**Peak Price from 1861-65**	**Post Boom Price**
The Backbay Reclamation	Rs. 5000	Rs. 50000	Rs. 1750
The Port Canning	Rs. 1000	Rs. 11000	N.A.
The Mazgaon land	Rs. 1000	Rs. 9000	Rs. 515
Asiatic Bank	Rs. 200	Rs. 460	Rs. 450
The Bank of Mumbai	Rs. 500	Rs. 2850	Rs. 87

The great fall in the share in 1861-65 caused lasting effect. The expansion of liquid capital and establishment of a regular market in securities were its direct results and they helped to make Mumbai what it is today- "The Chief Center of the money and capital market"**6** and " The Financial Capital of Indian" 1866-1900.

Foundation of the Stock Exchange at Mumbai

Because of the share fall the share business flourished and the number of brokers increases. During 1840 there were only six brokers in Mumbai but it increased to 60, about 250 during the 1860s and to 318 in 1877. The name of Mumbai stock exchange was registered as "the native share & stock Broker's Association" which is the oldest and the biggest share market of 1875. Only native Indians were allowed to be a member of the association and no any other than Indian native were allowed to be the member. This association is now also alternatively known as "The Stock Exchange". In 1875, the entrance fee for new members was Rs. 1 which raised to Rs. 2500 in 1916 and ultimately to

Rs. 48000 in 1920. In order to give the right of nomination the member of stock exchange now had given a "card" or a "ticked", the value has been fluctuating with the prosperity of share business. In 1895, the stock exchange purchased its own building at a cost of Rs. 97000 and shifted after which mass massive renovation and expansion programmes were done on and the surrounding property nearer to the old exchange building was acquired and a massive structure built-up. All the while, the two 'PEEPAL' trees on the stock exchange premises still stand silent witness of its growth.

The Stock Exchange at Ahmadabad

After 1880, in Ahmadabad cotton textile industry had developed which cause increase in the volume of share stock and led to the establishment of the Ahmadabad share and stock broker's association in 1894, which is based on the pattern of Mumbai Stock Exchange, to smoothen the share stock. In starting, the share business of cotton textile industry was limited to only the people who are related to it. The businessmen trade in the open sky in Manech Chowk. In 1920, the exchange established its own building at a cost of Rs. 360000 which was further extended in 1950 and new property was joined on worth Rs.70000. The number of members which was 461 decreased to 289.

The Kolkata Stock Exchange

In 1908, the third stock exchange was started in Kolkata to provide market for plantation & jute mill share. There was no any rule and guidance for marketing, which had led rise of inconvenience in businessmen. Then they realized the need to make an organized body which resulted into the establishment of an organized and regulated body to carry on business. Between 1904 and 1908, there was a boom in coal prices took place. In Bengal Nagpore prices rose to Rs. 22 in 1902 and Rs. 104 in 1908, in Barrakur increased from the 85 to Rs.540, in Adjai from Rs. 139 to Rs. 291 and in Ranegunge from Rs. 115.50 to Rs. 430.50 during the boom period. The raising prices astonished many people and those persons who didn't know about shares were got attracted towards the stock exchange. Huge buying raised the prices to the top and the stocks up to an unsafe position. Then there a sudden fall in the prices caused severe depression.

The crises at one point become so acute that around 1910 there was a talk of winding up the association. The members instead, decided to work out a strategy to survive the crises. The sincerity of some of the members paid dividends, so much, so that even during the worst days of 1913 when there was bank failure the stock exchange made a steadier progress.

The Kolkata Stock Exchange Association, which was known as a limited liability company in 1923, now acquired on a plot on lease in 1926 and constructed its own building in which the members moved in the year 1928. The plot of land was later purchased outright in 1933. In 1908, when the Kolkata stock exchange association was formed the number of founder members was 150. In 1926, when it was incorporated with capital of Rs. 3 lacs and consists of 300 shares of Rs. 1000 each, its membership was 210. The membership was reintegrated in 1958. When each of 1000 shares was split up into four shares of Rs. 250 each and 1112 such shares were issued to individual members who carry on business either as proprietors or as partners of business firms. The number of individual members was 544 in 1959 and 646 in 1964. At present it has approx. 660 members. At the time of its founding, the Kolkata stock exchange had 285 companies on its trading list, which has now risen to almost one thousand.**9** The Kolkata stock exchange has no doubt played an important role in making Kolkata what it is today 'The Industrial Capital of India'.

Development during 1914-39 *(*The First World War Boom)

There were only three organized stock exchanges i.e. Mumbai, Ahmadabad & Kolkata on the evening before of the First World War. Because of bank failure, stock exchanges had not recovered yet. A panic and negativity prevailed in the business circles. The domestic industries and all industrial enterprises i.e. mills, factories, workshops was encouraged and they worked whole day and night. All those enterprises earned much profit. The share prices rose high and again there was a share craze. The rival stock exchange of mumbai and Ahmadabad were now incorporated as the name of B.S.E ltd. In 1917 and Gujarat shares and stock exchange in 1920 respectively because of war boom. By October 1921, the craze was ended and depression started. In the new B.S.E, for some time no business was transacted and it was a dead institution. Its revival was made in 1922 and again in 1925 but government didn't allowed permission to do so. Thereafter, its affair was ended.

The new stock exchange was also established in Chennai on April 6th, 1920 under the name and style of the Chennai stock exchange. It had 100 members and transacted mainly in mill shares. After the boom, it could not withstand the effect of depression and the number of members declined to three from 100. At last in 1923, it went out of existence.

More Stock Exchanges

In the years between 1934 & 1945 many new stock exchange founded. In 1934 the Chennai stock exchange association limited & the Lahore stock exchange were established. In 1936 the latter got merged with 'the Punjab stock exchange". In Kolkata, the old exchange did business only on the cash terms but another exchange was introduced named "the Bengal share and stock exchange limited" in 1937 to did business on periodical settlement basis. In 1938, a stock exchange named the Indian stock exchange limited established in Bombay.

At the time of Second World War there were 7 stock exchanges throughout the India. In 1945, the number of stock exchange became 21 throughout the India, in which 6 stock exchanges established in Ahmadabad, 5 in Lahore, 1 in Delhi, 1 in Chanter & 1 in Nagpur and inclusive of the unorganized ones like the Katni markets, Barhas etc. At the time of Thomas inquiry in 1947-48 there were 20 stock exchanges in India including one at Hyderabad & another Bangalore.

On 14th July 1951, the Gorewala committee was origined and it recommends the government to prepare the SC(R) bill in 1954 and the Act came into force in February 20th, 1956. It is called Security Contract (Regulation) Act, 1956. Under this the government has promulgated the securities contract (regulation) rules, 1957, for carrying into effect the objectives of legislation. These rules are statutory and they constituted a code of standardised regulation uniformity applicable to all the recognized stock exchange. Most of the other stock exchanges either withered away or languished till 1957 when they were refused recognition under the Security Contract (Regulation) Act, 1956. However some of the members of 6th non-recognised stock exchanges were required to be admitted by the recognised stock exchanges at concessional terms.

Development After 1980

A number of committees and working groups were appointed by the government during the eighties to study the functioning of capital market in the country. For which the Patel committee was set up after the period of 30 years. In 1951, the last one was being Gorewala committe. During the extending period of these two committees, capital market grew to a very great extend but in an imbalance manner leading to uneven distribution of pattern and several drawbacks.

Thus Patel committee was assigned an important task of practically suggesting a scheme to impart vitality to stock exchanges to make them function in a more meaningful systematic & disciplined manner as a professional organisation.

After 10th December 1985 many recommendations of the committee, have been implemented by the government i.e. issues relating to form & organisation of stock exchanges, administration, control management & supervision of stock exchanges, cost of public for capital & measure centers in non metropolitan areas etc. Another working group was appointed under the chairmanship of Dr. S. A. Dave in 1987 to go into the current system of restrictions/ regulations on trading in stock exchanges. The primary objective of the group was to suggest measures as how to revive the stock market. The committee recommended for reclaiming restrictions in phased manner. A third committee under the chairmanship of Sh. R. N. Bansal was constituted and most of its recommendations were accepted and implemented which brought to a welcome change for investors facilitating smooth transactions and better services for investors. Again, a study group was set up under the chairmanship of Sh. M. J. Pherwani. for evolving a policy for establishment of new stock exchanges in February 1991 and to review all guidelines to bring them in alignment with present requirements in context with the rapid changes taking place in the capital market for it's proper working, regulations growth etc.

Developments in 1990's

The financial services had expanded in the nineties. The development in financial sector contribute to the increase in our saving and investment but some problems were noticed and for which a high level committee under the chairmanship of Narshimhan was setup to examine all problems and to fix the occurring problems. Many of foreign institutional investors have been given permission to invest in Indian stock markets. Main developments of that time have been:-

1. The Stock Invest - it was introduced that become a great success not only in solving the refund problems to a great extent but also investors were assured an interest income for the intervening period of putting the application & receiving the refund/ allotment advice. It is an instrument to deal with the delay in refund of application money for public issues.
2. In May 1992, CAPITAL ISSUE (CONTROL) ACT, 1947 was repealed and the office of CCI was abolished. After four long years of waiting, on 1st April 1992 SEBI finally received statutory recognition and made requisite capital market reforms. In order to bring transparency in transactions & protect investors, it issued comprehensive guidelines regarding new issues pricing & disclosure standards, as also to regulate the functioning of various market intermediaries such as merchant bankers, brokers and sub-brokers, portfolio managers, mutual funds, registrars to the issue etc. It also issued guidelines regarding insider trading and other malpractice of stock markets.
3. Further, fiscal relieves were provided by assets from wealth tax & reducing capital gains tax etc. A number of public sector units raised fresh resources from capital market directly like SAIL, IFCI, SBI, IDPL.
4. In that time Indian capital market was internationalisating. This has happened mainly in two ways:
   a. The government permitted to raise additional capital for modernisation & import requirements & concessional tax on income & capital gains on overseas issues. The Reliance Industries Limited was the first Indian company to raise additional equity capital of $ 150 million from the Furo market in May 1992. Several other leading companies have made their Euro issues including Tisco, Essar Shipping, Grasim etc. to fund their foreign exchange requirements of imports.
   b. The foreign institutional investment in Indian stock market was permitted and many of the institutions have been given approval by the SEBI. Moreover the rupee was made fully convertible implying free inflows & outflows of capital from the country. FERA companies were allowed to increase their stake to 51% and many of them have already followed the suit.
5. The NSE of India that was established on November 27th, 1992 was granted recognition under section 3 of SC(R) Act, 1956 for a period of five years commencing on April 26, 1993. The exchange is expected to ensure greater transparency and safety of operations in a phased manner.
6. Mutual funds also made a tremendous progress in mobilising the financial resources. The UTI alone mopped up a record of Rs. 9000 crore in 1992 with its Master gain scheme mobilising more than Rs.4000 crore individually. The UTI also touched magic figure of having one crore investors.
7. "On 14th March, 1995, the BSE introduced BOLT (BSE on-line trading system), it's computerised trading system. Screen based trading was initially confined to 816 major scrips initially."
8. "Carry-forward deals (badla) were resumed on the BSE in January 1996, almost two years since they were banned by SEBI."
9. The depository Act 1996 was passed and come into force on 20th day of September, 1995 for dematerialisation of securities from physical to electronic form.
10. In June 2000 Derivative trading also started to increase the liquidity in the investment and also to modernise the present market system.

III. Concluding Remarks

The History of the Indian Capital Market and the Stock Market in particular, can be traced back to 1861 when the American Civil War began. Stock Exchange Mumbai came into existence in 1875 but was recognized as Bombay Stock Exchange in May 1927 under the Bombay Securities Contract (Control) Act, 1925. To regulate security Market, Securities Contracts (Regulation) Act 1956 was passed by the Government of India. To regulate the issue of share prices, the Controller of Capital Issues Act (CCI) was passed in 1947. The 1990s can be described as the most important decade in the history of Indian Stock Market. Everyone was talking about liberalization 1 and globalization. These initiatives opened the gates to Domestic Capital Market, International Capital Market and Foreign Direct Investment in India. But 1990s was known for big scam history of Indian Stock Market. The scam, known as the 1992 securities scam, was master minded by Harshad Mehta. The impact of such incidence was very deep and investors drove their money out of the market for some years. Positive side of this event was that it opened the eyes of Indian Government. Due to such scam, Government introduced Securities and Exchange Board of India Act, 1992 to regulate and monitor Indian securities market.

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