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A Study on Equity Market

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Abstract

In the present situation where stock market is going up and down, it is necessary to invest consciously in the market whatever it is, this is the study about the last two year function in stock market which enables the investor in taking decision regarding investment. This study tells the factor which directly or indirectly affects the market and some basic information on stock market for the new investors or the students who have some interest in the stock market. The objective of selecting the topic is to know about the market trends of the stock market and the information related to the investment for future investors. The study of fluctuations of the stock market makes the investor aquatinted with the factor affecting the investment and stock prices can be volatile and some analysts argue that this volatility is excessive. This is not easy to prove, since it is difficult to assess certainty about future earnings and dividend. Companies tend to smooth dividends, so they will be less volatile than stock prices. Volatile stock prices do not have a major impact on consumption and capital spending since there is a good chance that price movements in one direction may be reversed.

This Paper titled 'A Study on Equity Market' is an attempt to understand the stock market and role played by Indian retail Brokerage Firms in stock market. The objective of brokerage firms is to help the investor to minimize the risk involved in investment and maximize the return. Some of the main characteristics of the brokerage industry include growth in e-broking; growing derivatives market, decline in brokerage fees etc.

Key Words: BSE, NSE, FDI, FII.

Research Methodology

Research Objectives

- To get the basic understanding of the product, principle investment, player and functioning of the stock market.
- To know the regulatory framework for Indian Stock Market.
- To know various option available in Capital market to invest.

Type of Research

The Research is **Exploratory** in nature.

Methods of Data Collection

Secondary Data - The secondary data has been collected from different website, Internet and Newspapers etc.

Introduction:

The BSE and NSE : Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, settlement process, etc. At the last count, the BSE had about 4,700 listed firms, whereas the rival NSE had about 1,200. Out of all the listed firms on the BSE, only about 500 firms constitute more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares.

Almost all the significant firms of India are listed on both the exchanges. NSE enjoys a dominant share in spot trading, with about 70% of the market share, as of 2009, and almost a complete monopoly in derivatives trading, with about a 98% share in this market, also as of 2009. Both exchanges compete for the order flow that leads to reduced costs, market efficiency and innovation. The presence of arbitrageurs keeps the prices on the two stock exchanges within a very tight range.

Trading Mechanism

Trading at both the exchanges takes place through an open electronic limit order book, in which order matching is done by the trading computer. There are no market makers or specialists and the entire process is order-driven, which means that market orders placed by investors are automatically matched with the best limit orders. As a result, buyers and sellers remain anonymous. The advantage of an order driven market is that it brings more transparency, by displaying all buy and sell orders in the trading system. However, in the absence of market makers, there is no guarantee that orders will be executed.

All orders in the trading system need to be placed through brokers, many of which provide online trading facility to retail customers. Institutional investors can also take advantage of the direct market access (DMA) option, in which they use trading terminals provided by brokers for placing orders directly into the stock market trading system

Settlement Cycle and Trading Hours

Equity spot markets follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk, by serving as a central counterparty.

Market Indexes

The two prominent Indian market indexes are Sensex and Nifty. Sensex is the oldest market index for equities; it includes shares of 30 firms listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and provides time series data from April 1979, onward.

Another index is the S&P CNX Nifty; it includes 50 shares listed on the NSE, which represent about 62% of its free-float market capitalization. It was created in 1996 and provides time series data from July 1990, onward.

Market Regulation

The overall responsibility of development, regulation and supervision of the stock market rests with the Securities & Exchange Board of India (SEBI), which was formed in 1992 as an independent authority. Since then, SEBI has consistently tried to lay down market rules in line with the best market practices. It enjoys vast powers of imposing penalties on market participants, in case of a breach.

Who Can Invest In India?

India started permitting outside investments only in the 1990s. Foreign investments are classified into two categories: foreign direct investment (FDI) and foreign portfolio investment (FPI). All investments in which an investor takes part in the day-to-day management and operations of the company, are treated as FDI, whereas investments in shares without any control over management and operations, are treated as FPI.

For making portfolio investment in India, one should be registered either as a foreign institutional investor (FII) or as one of the sub-accounts of one of the registered FIIs. Both registrations are granted by the market regulator, SEBI. Foreign institutional investors mainly consist of mutual funds, pension funds, endowments, sovereign wealth funds, insurance companies, banks, asset management companies etc. At present, India does not allow foreign individuals to invest directly into its stock market. However, high-net-worth individuals (those with a net worth of at least $US50 million) can be registered as sub-accounts of an FII.

Foreign institutional investors and their sub accounts can invest directly into any of the stocks listed on any of the stock exchanges. Most portfolio investments consist of investment in securities in the primary and secondary markets, including shares, debentures and warrants of companies listed or to be listed on a recognized stock exchange in India. FIIs can also invest in unlisted securities outside stock exchanges, subject to approval of the price by the Reserve Bank of India. Finally, they can invest in units of mutual funds and derivatives traded on any stock exchange.

An FII registered as a debt-only FII can invest 100% of its investment into debt instruments. Other FIIs must invest a minimum of 70% of their investments in equity. The balance of 30% can be invested in debt. FIIs must use special non-resident rupee bank accounts, in order to move money in and out of India. The balances held in such an account can be fully repatriated. (For related reading, see Re-evaluating Emerging Markets.)

Restrictions/Investment Ceilings

The government of India prescribes the FDI limit and different ceilings have been prescribed for different sectors. Over a period of time, the government has been progressively increasing the ceilings. FDI ceilings mostly fall in the range of 26-100%. By default, the maximum limit for portfolio investment in a particular listed firm, is decided by the FDI limit prescribed for the sector to which the firm belongs. However, there are two additional restrictions on portfolio investment. First, the aggregate limit of investment by all FIIs, inclusive of their sub-accounts in any particular firm, has been fixed at 24% of the paid-up capital. However, the same can be raised up to the sector cap, with the approval of the company's boards and shareholders.

Secondly, investment by any single FII in any particular firm should not exceed 10% of the paid-up capital of the company. Regulations permit a separate 10% ceiling on investment for each of the sub-accounts of an FII, in any particular firm. However, in case of foreign corporations or individuals investing as a sub-account, the same ceiling is only 5%. Regulations also impose limits for investment in equity-based derivatives trading on stock exchanges.

Data Analysis

How many people invest in stock markets in India?

Which state has most stock market investors in India?

Statistics from the Bombay Stock Exchange (BSE) to answer some of these questions. The BSE data used unique client codes to identify the number of stock market investors in each state and union territory. It identified 3.23 crore registered stock market investors in total. All investor accounts are linked to a demat account, though there maybe duplication, for example with one demat account connected to investor accounts with more than one brokerage. A total of 98.7% of these had clear state/union-territory wise data. It was not defined for 4.29 lakh investors. This works out to less than 7% of India's 48.18 crore-strong workforce. The exchange updates the data daily. The analysis used numbers from 20 February 2017.

Maharashtra alone accounts for more than one-fifth of India's stock market investors. Gujarat, Tamil Nadu, West Bengal and Uttar Pradesh are the other top five states in terms of percentage share in total stock market investors. These five states account for a little less than 60% of India's stock market investors. Most of India's states and union territories have a smaller share in total number of stock market investors than their share in population.

What explains this skewed distribution in number of investors across states? Urbanization and per capita Gross State Domestic Product (GSDP) seem to be bigger drivers for interest in stock markets than literacy. The first two have a correlation of 0.69 with state's stock market penetration rate, or registered investors as a percentage of total state population. Literacy only has a correlation of 0.30.

States like Maharashtra and Gujarat also benefit from a traditional equity culture. Another factor may be geography. The lowest penetration seems to be in areas far away from the main stock exchanges in Mumbai. This is an interesting takeaway in an era of electronic trading. Nobody has to be present in the trading ring to buy or sell shares anymore. Investors can get information through television and the internet. Yet, geographical distance still seems to play a role.

It is important to note that these numbers are likely to be overestimates. Industry experts point to duplication in the number of demat (or investor) accounts, as one person often has more than one such account. Many of the demat accounts are hardly used.

Another pointer to the investor numbers being overstated lies in the tax data. There were only 4.72 lakh people who recorded any short term capital gains or losses, according to income tax statistics for the assessment year 2014-15, which is a very small fraction of the aggregate figure of 3.23 crore which emerges from BSE data. Short term capital gains tax is paid for securities held for less than a year. It can also apply to other transactions such as land and gold. This means that not everyone who has filed gains or losses is talking about the stock market.

An earlier Plain facts column had compared stock market data with income tax data when it was first released. Some of this seems to be on account of under-reporting. However, subsequent releases of tax data shows that while the absolute number of such individuals has gone up for the next two years, there is a decline in terms of share in total number of filings. This would suggest stagnation in equity penetration.

Findings

Following findings were generated from the study:-

1. Got understanding about the Indian stock market and also the words and jargon which are used under the stock market.
2. Maximum investors are aware of all the investment options.
3. The Securities and Exchange Board of India (SEBI) is the regulatory authority established under the SEBI Act 1992
4. Different factors considered by investors while investing are return, risk, tax benefits, capital appreciation and the most prominent factor is the return on any investment avenue

5. Also got the idea on what amount of people have been registered and have opened demat account

Conclusion

Indian Stock Markets is one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century. The nature of investment differs from individual to individual and is unique to each one because it depends on various parameters like future financial goals, the present & the future income model, capacity to bear the risk, the present requirements and lot more. As an investor progresses on his/her life stage and as his/her financial goals change, so does the unique investor profile. Maximum investors are aware of all the investment options

Also many states in India has less investor too in total there are very less people demat account in the country like India which is so fast developing country.

Still there is lots of potential left as not much people have invested in Indian stock market which is almost at top position in world's stock market