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Role of National Stock Exchange in Indian Securities Market

Khyati Kochhar
Assistant Professor, Department of FMS WISDOM, Banasthali University, Rajasthan, India

Abstract:
Stock Exchange is a hub of primary and secondary market playing a crucial role in the economy. Stock exchange provides a place to the buyers and sellers of the shares and securities. For this purpose National stock exchange was established by the leading institutions in mid 1990s with the main aim to provide a modern and fully automated screen based trading system with national reach. National Stock Exchange has set up facility that serves as a model for securities industry in terms of system and procedures. Hence, in this paper researcher has explained the role of National stock exchange in Indian securities market i.e. how NSE is contributing in the development of stock market of India. To analyze this, researcher has examined the market share of Cash market, equity market and derivative market of NSE and interpretate the results by analyzing the trend pattern of different segments under NSE.

1. Introduction

1.1. An Overview of the Indian Securities Market

Securities markets provide a channel for allocation of savings to those who have a productive need for them. The Indian securities market has two interdependent segments i.e. Primary market and Secondary market.

1.1.1. Primary Market

Primary market is a market which provides an opportunity to the issuers of securities (both Government and corporations) to raise funds to meet their requirements of investment. Securities, either in the form of equity or debt, can be issued in domestic or international markets at face value, discount or premium.

The primary market issuance can be done either through public issues or private placement. Under Companies Act, 1956, an issue is referred as public if it results in allotment of securities to 50 investors or more. However, when the issuer makes an issue of securities to a select group of persons not exceeding 49 and which is neither the rights issue nor a public issue, it is called a private placement.

1.1.2. Secondary Market

Secondary market refers to a market where securities are traded after being offered to the public in the primary market or listed on the Stock Exchange. It includes equity, derivatives and the debt markets. It is operated through two mediums- the Over-the-Counter (OTC) market and the Exchange-Traded market. OTC markets are informal markets where trades are negotiated.

1.2. Evolution of Indian Stock Market

1.2.1. What is Stock Market?

Stock Market is a market where the trading of company stock, both listed securities and unlisted takes place. It is different from stock exchange because it includes all the national stock exchanges of the country. For example, we use the term, "the stock market was up today" or "the stock market bubble."

1.2.2. What is Stock Exchange?

Stock exchange is an organized sector for the trading of stocks, bonds and other securities. It provides a mechanism through which companies can raise capital for expansion purposes by selling and issuing securities (stocks and bonds). According to **Avadhani (2002)**, Stock Exchange means anybody or individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities; it is an association of member brokers for the purpose of self-regulation and protecting the interests of its members. Stock exchanges are the most perfect type of market for securities whether of government, semi-government bodies or other public bodies as well as for shares and debentures issued by the joint-stock companies.

1.2.3. Origin of Indian Stock Market

Indian stock market is one of the oldest stock market in Asia. It was commenced back in 18th century when the East India Company used to transact loan securities. In the years of 1830s in Bombay trading on corporate stocks and shares in Bank and Cotton presses took place. Though the trading was broad but the brokers were hardly half dozen during 1840 and 1850. An informal group of 22 stockbrokers began trading under a banyan tree opposite the Town Hall of Bombay from the mid-1850s, each of them investing a princely amount of Rupee 1. This informal group of stockbrokers organized themselves as the Native Share and Stockbrokers Association which was legally organized in 1875 as Bombay stock exchange (BSE).

Bombay stock exchange was recognized by Government of India in 1956 as the first stock exchange in the country under the Securities Contracts (Regulation) Act. The year 1992 was the most decisive period in the history of BSE. In the aftermath of a major scandal with market manipulation involving a BSE member named Harshad Mehta, BSE responded to calls for reform with obstinate. The foot-dragging by the BSE helped radicalize the position of the government, which encouraged the creation of the National Stock Exchange (NSE), which created an electronic marketplace.

National Stock Exchange started trading on 4th November, 1994. Within less than a year, NSE‘s turnover outshined the BSE. BSE rapidly automated, but it never caught up with the speed of NSE spot market turnover.

1.2.4. Establishment of National Stock Exchange

The National Stock Exchange of India (NSE) was recognized as a stock exchange in April 1993. NSE was set up with the objectives of (a) establishing a nationwide trading facility for all types of securities, (b) ensuring equal access to all investors across the country through an appropriate communication network, (c) providing a fair, efficient, and transparent securities market using an electronic trading system, (d) enabling shorter settlement cycles and book entry settlements, and (e) meeting international benchmarks and standards. Within a short span of time, these objectives have been realised, and the exchange has played a leading role in transforming the Indian capital market to its present form.

NSE has set up infrastructure that serves as a role model for the securities industry in terms of trading systems as well as clearing and settlement practices and procedures. The standards set by NSE in terms of market practices, products, technology, and service standards have become industry benchmarks, and are being replicated by other market participants. NSE provides a screen-based automated trading system with a high degree of transparency and equal access to investors, irrespective of geographical location. The high level of information dissemination through its online system has helped in integrating retail investors on a national basis.

NSE’s capital market segment offers a fully automated screen-based trading system, known as the National Exchange for Automated Trading (NEAT) system, which operates on a strict price/time priority. It enables members from across the country to trade simultaneously with ease and efficiency. NSE provides trading in four different segments which are as follows:

1.2.5. Wholesale Debt Market (WDM) Segment

This segment at NSE commenced its operations in June 1994. It provides the trading platform for wide range of debt securities which includes State and Central Government securities, T-Bills, PSU Bonds, Corporate debentures, Commercial Papers, Certificate of Deposits etc.

1.2.6. Capital Market (CM) Segment

This segment at NSE commenced its operations in November 1994. It offers a fully automated screen based trading system, known as the National Exchange for Automated Trading (NEAT) system. Various types of securities e.g. equity shares, warrants, debentures etc. are traded on this system.

1.2.7. Futures & Options (F&O) Segment

This segment provides trading in derivatives instruments like index futures, index options, stock options, and stock futures, and commenced its operations at NSE in June 2000.

1.2.8. Currency Derivatives Segment (CDS) Segment

This segment at NSE commenced its operations on August 29, 2008, with the launch of currency futures trading in US Dollar-Indian Rupee (USD-INR). Trading in other currency pairs like Euro-INR, Pound Sterling-INR and Japanese Yen-INR was further made available for trading in February 2010. ‘Interest rate futures’ was another product made available for trading on this segment with effect from August 31, 2009.

2. Literature Review

L.C. Gupta (1992) display the findings of his study that is the 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 and also he advocated that short- term speculation if excessive could lead to artificial price, an artificial price is one which is not justified by prospective earnings (dividends)etc and he concluded that such artificial prices are bound to crash sometime or other as history has repeated and proved”.

Amanulla & Kamaiah (1995) "organized a study to test 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 and 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 his study found that there is no evidence in favour of market efficiency of Bombay and Madras and Calcutta stock exchanges while contrary evidence is found in case of Delhi and Ahmadabad".

Debjit Chakraborty (1997) he took attempts to Establish a Relationship between Major Economic Indicators and Stock Market Behavior "it also analyses the stock market reactions to changes in the economic climate and the factors considered are inflation or money supply, and growth in GDP also the fiscal deficit and credit deposit ratio and to find the trend in the stock markets the BSE National Index of Equity Prices which comprises 100 companies was taken as the index also study shows that stock market movements are largely influenced by broad money supply, inflation and with ratios including C/D ratio and fiscal deficit apart from political stability".

Mall C.P. and Sigh J.P.27 (1998) "highlighted the Importance of Diversification and Introducing Flexibility to Reduce Risk they stated that diversification reduces risks on the one hand and increases the possibility of large profits on the other they also reviewed insurance as a way out for reducing the risk it is such immense schemes help transfer of risks to the insurance companies especially applicable in agricultural business".

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- political-economic backgrounds. Both the Bombay Stock exchange (BSE) and the National Stock Exchange of Indian Limited (NSE) have been used in this study as a part of Indian Stock Market. The main objective of this was to capture the trends, similarities and patterns in the activities and trends 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 them 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. They have been compared on the basis of Market Capitalization, number of listed securities, listing agreements, circuit filters, and settlement. It can be quote 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) presented a review on Indian Capital Market & Its Structure "in last decade or so it has been seen that there has been a paradigm shift in Indian capital market and the application of various reforms & developments in Indian capital market has made the market comparable with the international capital market and now it features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization with market liquidity and mobilization of resources with the emergence of new concepts such as 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 subprime mortgage market and spread over to the entire world as a contagion".

Narendra Nathan (2015) article was about how to **"**Learn how to pick value stock and has created the long researches shorten to understand the company from different views. Mr. Nathan has carried out 11 steps to pick the best stocks for investment with all the 11 steps are very logical which gives the overall performance of the company and to understand the companies better and the 11 steps are eliminating steps which eliminate stocks which doesn't meet the criteria from an index thus leaving us with filtered stocks for investment and the stocks are not only selected on the basis of these 11 steps it also considers the recent information in the market about the company and a comparison of the 11 steps is repeated to predict the future performance of the company the process of fundamental analysis is compressed to these 11 steps which is the method used in this report for equity analysis".

S. Dinesh study on "Effectiveness of Equity Derivatives in Cash Market Segment in India" "has assessed the impact of derivative market effect in cash market segment by evaluates different strike price movement of the contract and he has also tried to predict the cash market index and underlying index using Pivot Point method".

3. Objectives of the Study

1. To examine how NSE is contributing for the development of Indian Securities Market
2. To analyze the trend of market share of different segments of NSE for the period of three years i.e. 2012-13 to 2014-15.

4. Data Analysis & Interpretation

4.1. Contribution of NSE in Indian Securities Market

NSE provides a trading platform for all types of securities—equity, debt, and derivatives. Following its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, it commenced operations in the wholesale debt market

(WDM) segment in June 1994, in the capital market (CM) segment in November 1994, and in the equity derivatives segment in June 2000. The exchange started providing trading in the retail debt of government securities in January 2003, and currency futures trading in August 2008. Currency options' trading was started in October 2010. Derivatives on global indices such as S&P 500, Dow Jones Industrial Average (DJIA), and FTSE 100 have been introduced for trading on the NSE. The future contracts for trading on the DJIA and futures and options contracts on S&P 500 were introduced on August 29, 2011, while the futures and options contracts on FTSE 100 were introduced on May 3, 2012.

NSE's equity derivatives segment provides the trading of a wide range of derivatives such as index futures, index options, stock options, stock futures, and futures on global indices such as S&P 500 and DJIA and S&P 500.

NSE's currency derivatives segment provides the trading of currency futures contracts on the USD-INR, which commenced on August 29, 2008. In February 2010, trading in additional pairs such as the GBP-INR, EUR-INR, and JPY-INR was allowed, while USD-INR currency options were allowed for trading on October 29, 2010. The interest rate futures trade on the currency derivatives segment of the NSE; they were allowed for trading on August 31, 2009.

NSE launched the cash-settled interest rate futures on 21 January, 2014. On the first day of trading, contracts worth over ` 3,000 crore were traded in the new product. The contracts are based on the most liquid 10-year bonds.

Interest Rate Futures (IRFs) allow bond-holders to hedge their interest rate risk by buying contracts for a future date by paying a price now. Cash settlement enables the investors to just trade in such contracts and settle the profit or loss in cash, without having the physical bond. This makes the IRF an independent derivative product that can be traded, apart from being used for genuine hedging purposes, something that was not allowed earlier.

NSE has also launched its futures contracts on the India Volatility Index (VIX) called NVIX to help investors hedge the near-term volatility risks in their equity portfolio. This is the first product launched in India on a volatility index, through which investors can hedge the volatility risk. NSE has been disseminating the India VIX since 2009. On the first day of trading, NVIX witnessed trading volumes of ` 325 crore, and 227 members participated in trading.

NSE has also offered a rebate on transaction charges for members in order to encourage participation in the product. NVIX futures will help market participants to hedge volatility risk, balance portfolios, and express views on expected volatility. NVIX futures are traded in NSE's F&O segment. All market participants are currently permitted to participate in the F&O segment.

4.2. Trend of Market Share of Different Segments of NSE (2012-13 to 2014-15)

Segments	Market Capitalization	Trading Value	Market share in percentage
CM	62,390,350	27,082,791	83.2
Equity F&O	-	315,330,040	81.5
Currency F&O	-	52,744,647	60.6
Total	62,390,350	395,157,477	78.0

Table 1: Market Segment on NSE for 2012-2013
Source: NSE Website

Segments	Market Capitalization	Trading Value	Market share in percentage
CM	72,777,200	28,084,878	84.1
Equity F&O	-	382,114,081	80.3
Currency F&O	-	40,125,135	57.5
Total	72,777,200	450,324,093	77.8

Table 2: Market Segment on NSE for 2013-2014
Source: NSE Website

Segments	Market Capitalization	Trading Value	Market share in percentage
CM	99,306,220	43,296,550	83.5
Equity F&O	-	556,064,534	73.2
Currency F&O	-	30,239,077	53.7
Total	99,306,220	599,361,084	69.1

Table 3: Market Segment on NSE for 2014-2015
Source: NSE Website

From the table 1, 2 and 3 we can say that trend of market capitalisation of cash market segment from the year 2013-2015 has increased tremendously by 59.1% and even the trading value is increasing which shows that there is high growth in capital market. Even there is an increasing trend in the trading value of Equity F&O segment of NSE which shows the interest of investors is increasing in trading of equities. But on the same time there is a fall in the trading value of Currency F&O by 42.6%. The figure 1 below shows the market share of different segments of NSE. In the year 2012-2013, cash market segment and Equity F&O segment was very close in term of market share i.e. 83.2% and 81.5% respectively. But in the same year the share of Currency F&O segment was little less i.e. 60.6%.

Similarly, the trend of all three segments in the consecutive years was same. Market share of cash market is highest whereas that of currency F&O is lowest.

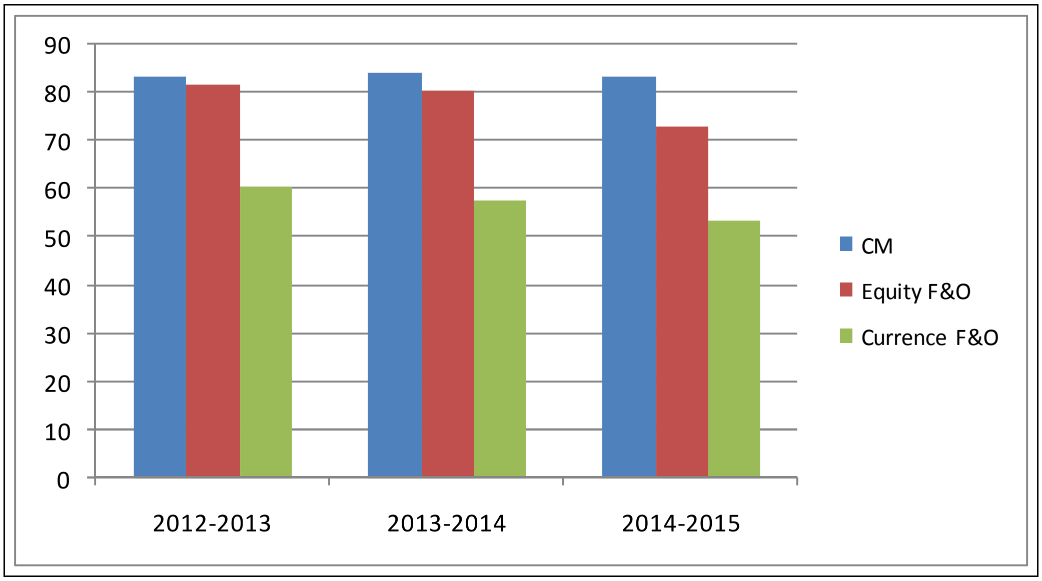

Figure 1: Market Share of Segments of NSE

In the figure 2 given below shows that the total market share of NSE has decreased in the year 2014-2015. There was consistent share in the year 2012-13 and 2013-14 i.e. 78% and 77.8% respectively but market share declined in the 2014-15.

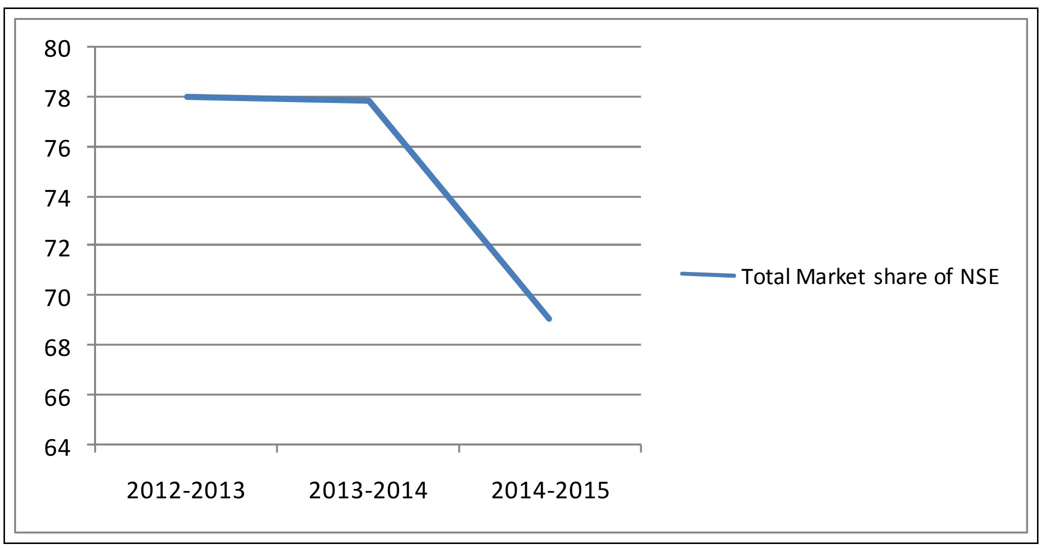

Figure 2: Total market share of NSE

5. Conclusion

NSE has played the role of a catalytic agent in reforming the market in terms of microstructure and market practices. Right from its inception, the exchange has adopted the purest form of a demutualised setup, whereby the ownership, management, and trading rights are in the hands of three different sets of people. This has completely eliminated conflicts of interest and has helped NSE to aggressively pursue policies and practices within a framework that focuses on public interest. It has helped in shifting the trading platform from the trading hall in the premises of the exchange to the computer terminals at the premises of the trading members located across the country, and subsequently, to the personal computers in the homes of investors. Settlement risks have been eliminated with NSE's innovative endeavours in the area of clearing and settlement, namely, the reduction of the settlement cycle, the professionalization of the trading members, the implementation of a fine-tuned risk management system, the dematerialisation and electronic transfer of securities, and the establishment of a clearing corporation. Consequently, the market currently uses state-of-the-art technology to provide an efficient and transparent trading, clearing, and settlement mechanism. Capital Market Segment of NSE has been continuously growing during the period. The share of turnover of NSE is the largest as compared to other stock exchanges.

The market has witnessed fundamental institutional changes, resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety which led the National Stock Exchange to do a remarkable task for the economic development of a country and to promote professionalism in the capital market for providing better securities trading facilities to investors nationwide. Once again, the NSE is the market leader, with 77.8% of total turnover (volumes in cash market, equity derivatives, and currency derivatives) in 2013–2014. NSE proved itself to be the market leader, with 83.5% share in equity trading, and nearly 73.2 % share in the equity derivatives segment in 2014–2015.

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