A BRIEF STUDY ON THE INDIAN STOCK MARKET

Project report submitted to Nagaland University in partial fulfilment for the award of the degree of Bachelor of Commerce

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DECLARATION

I declare that the project report entitled "**A BRIEF STUDY ON THE INDIAN STOCK MARKET**" submitted by me for the award of the degree of **Bachelor of Commerce** of Nagaland University is my own work. The project report has not been submitted for any other degree of this University or any other university.

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We recommend that this thesis be placed before the examiners for evaluation.

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Chapter 1 - Introduction

1.1 Introduction

With the growth and expansion of the economy, the Indian economy can be considered as a growth engine for the world's economy. And the stock market of such a quickly growing and developing economy can be considered as the face of the growing markets and companies in it. Stock market represents the secondary market where existing securities (shares and debentures) are traded, stock exchange provides an organized mechanism for purchase and sale of existing securities. By now, we have 24 approved stock exchanges in our country. One of the oldest and fastest stock markets is the Indian stock market platform i.e. Bombay Stock Market (BSE). The stock market or stock exchange is an electronic platform where the shares or securities of different companies can be bought or sold. Another important stock exchange of the country is the National Stock Exchange (NSE). It was incorporated in November, 1992 with an equity capital of Rs. 25 crores. Securities refers to shares, bonds, scrip, stocks, debentures stock and other marketable securities of incorporated companies or similar, government securities. Because of this advanced platform it is now possible for companies to raise capital from public effectively and efficiently. With the current economic reforms in the country, the stock markets have grown exponentially in terms of foreign institutional investment and transaction turnover. This increase is mainly due to the liberalized support along with the regulative role of the government. In India, we have a very low economic literacy rate. This leads to less than 2% of the entire country's population investing in the stock market. Hence, the present study is conducted with the following specific objectives:

1. To find out the working of the NSE and the BSE.
2. To figure out the impact of the stock market on the country.
3. To give a figure on the total turnover relating to the NSE and the BSE.
4. To look for other alternatives in the stock market.
5. To find out what sectors contribute to the NSE and the BSE

1.2 Review Of Literature .

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.

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 bi-variate 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

1.3 Theoretical Framework

Independent Variable	Dependent Variable
Macroeconomic Variables& Company Specific Variables	Stock Returns

Independent Variable: Macroeconomic Variables &Company Specific Variables.

Dependent Variable: Stock Returns

Variable Selection

Data used in the study has been categorized into three parts.

1. **Stock Returns** – It includes the data related to the stock returns of selected IT companieslisted on NSE.
2. **Company Specific Variables** – It comprises of the data related to company specific variables such as Earning per Share, Book Value, Dividend per Share, Return on Equity, Price Earnings Ratio.
3. **Macroeconomic Variables** – It consists of the information related to macroeconomic variables such as Exchange Rate, Foreign Exchange Reserve, Industrial Growth Rate, Inflation, Repo Rate, Gold Prices, Foreign Direct Investment, Crude Oil Prices.

These factors have been selected on the basis of review of literature and availability of data forpast years starting from 1 April 2006 to 31 March 2016.

1.4 Research Objectives:

The research will be undertaken with the aim of the following objectives:

- To study the **impact of selected company specific variables on the stock returns** ofselected IT companies.
- To study the **impact of selected macro economic variables on the stock returns** ofselected IT companies.

1.5 Research Method

Research Design:

The proposed study will be based on the following Research Design:

Exploratory	Descriptive
• Review of Literature has been undertaken and will also be referred to in future. • Various variables to be used in study have been explored.	Representation of data as it is collected.

Sample Details

Sample selection has been done by using following methodology:

1. From different stock exchanges **National Stock Exchange** has been selected as it is the first demutualized electronic exchange in the country as well as the largest stock exchange in India by market capitalization $1.65 trillion as on 23 Jan 2015 and trade value $ 442 billion as on June 2014 (NSE Site) .

2.Thereafter, **top 30 IT Companies** has been selected out of all the listed IT companies present on NSE on the basis of market capitalization and also by keeping in view its major contribution which is more than 60% of total market capitalization of IT sector.

	Sampling Process Undertaken	
1.	Identifying the Target population	All listed IT companies on NSE
2.	Specifying the sampling frame	Top 30 IT Companies
3.	Determination of the sample Size	30 Companies

1.6 Period of Study:

The time frame for the purpose of research covers the study period of 10 years starting from **1 April 2006 to 31 March 2016.** Basis for selection of this period are as follows:

- This duration faced both boom as well as recession phases which may help to measure the performance of micro economic along with macro economic variables in the movement of Indian stock market.
- This time frame witnessed so many structural as well as substantial policy changes.

1.7 Sources of Data Collection:

This study is primarily based on secondary data that were extracted from various sourcesmentioned below:

Macroeconomic Variables

S.No	Variables	Symbol	Source	Unit of Measurement
1.	Exchange Rate	ER	Dbie.rbi.org.in	Rs vs $
2.	Foreign Exchange Reserve	FER	Dbie.rbi.org.in	Rs. Billions
3.	Industrial Growth Rate	IGR	Dbie.rbi.org.in	%
4.	Inflation	Inf	Dbie.rbi.org.in	Decimal
5.	Repo Rate	Repo	Dbie.rbi.org.in	Rs crore
6.	Gold Prices	GP	www.mcxindia.com	Rs/Barrel
7.	Foreign Direct Investment	FDI	Dipp.nic.in	US$ million
8.	Crude Oil Prices	COP	www.mcxindia.com	Rs / Barrel

Company Specific Variables

S.No	Variables	Symbol	Source	Unit of Measurement
1.	Earning Per Share	EPS	Financial Statements of the companies under study.	Rs
2.	Book Value	BV	Financial Statements of the companies under study.	Rs.
3.	Dividend Per Share	DPS	Financial Statements of the companies under study.	Rs
4.	Return On Equity	ROE	Financial Statements of the companies under study.	Rs
5.	Price Earning Ratio	P/E Ratio	Financial Statements of the companies under study.	Rs

➢ **Stock Returns :** IT Nifty has been selected as the stock return index and monthlyaverage data will be collected from the National Stock Exchange (NSE) website.

1.8 Tools & Techniques:

The below mentioned techniques and tools will be used in order to derive the results of theproposed study. The techniques used will be:

- **For Descriptive Statistics:** Arithmetic Mean & Standard Deviation and GraphicalPresentation.
- **To check the stationarity of data :** Unit Root Testing.(ADF – Augmented Dickey FullerTest) (PP – Phillips Perron Test)
- **To find out the relationship:** Multiple Correlation and Multiple Regression.
- **Software Metlab and E-Views** will be used to analyze the data.

Chapter 2 – Data Analysis and Interpretation

2.1 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 34 per 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 point climb in BSE Sensex history, surpassing the just set record of 29 days that it took to reach 11,000 from 10,000.

2.2 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 local market in your neighborhood is a place where vegetables are bought and sold. Like local 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.

2.3 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)

2.4 INVESTMENT ALTERNATIVE : There is a wide of range of investment alternative available to an investor in Indian stock market. These may be classified as-

Non marketable Financial Assets

Equity Shares

Money

Market Instruments

Bonds

Mutual Funds Schemes

Life Insurance Policies

Precious Objects

Real Estate

Financial Derivatives

(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

2.5 Stock Exchanges in India

The stock exchange (also known as stock market or share market) is one of the main integral part of the capital market in India. It plays a vital role in the growing industries and commerce which eventually affect the economy. It is a well organized market for purchase and sale of corporate and other securities which facilitates companies to raise capital by pooling funds from different investors as well as act as an investment opportunity to investors., Moreover, it ensures that securities should be traded according to some pre defined rules and regulations.

London Stock Exchange is the oldest stock exchange in the world while the Bombay stock Exchange is the one oldest in India.

In India, there are 8 active Stock Exchanges out of which NSE (National Stock Exchange) and BSE (Bombay Stock Exchange) are the two main indices. Most of the trading in the Indian Stock Market takes place on these two stock exchanges. Both the exchanges follow the same trading hours, trading mechanisms, settlement process etc.

Bombay Stock Exchange (BSE) is the leading and fastest stock exchange in India as well as South Asia. It was established in1875. More than 5,000 companies are listed on BSE. The main index of Bombay Stock Exchange is Sensex which comprises of 30 stocks.

National Stock Exchange was incorporated in 1992 as a tax paying company and was recognized as a stock exchange in 1993 under the Securities Contracts (Regulations) Act 1956. NSE is the 12th largest stock exchange in the world with a capitalization of more than $2.27 trillion as on April 2018. Moreover, it was the first exchange to provide fully automated screen based electronic trading system. Nifty is the indices to measure overall performance of the National Stock Exchange which comprises of 50 stock index.

2.6 Functions of Stock Exchange

1. Mobilise the Savings for Investments: Savings in the investment can be done through the mutual funds, the investment trusts and variety of the other securities and these areall traded in the stock exchanges.
   Those individuals that cannot afford to invest in the huge amount of the securities for them, there are many of the opportunities by the mutual funds and the investment trusts.
2. They protect the Investors Interest: The Stock Exchange has also been as the safeguard for the investors protects their interest in the stock market. The investment or the funds that all the investors used in the stock market are controlled by the exchange in order to gain the trust of the investors to make an interest in the stock market.
3. Economic Growth: The share market used to control the channel which all the savings of the investors has been made in some of the useful investments according to the individual investors. Due to all this channelization of the savings, it leads to the economic growth and the capital formation in the economy.
4. Stock Exchange provides Liquidity: In the stock exchange, you get the opportunity of the liquidity. As whenever there is the need of the liquidity. As whenever there is the need for funding's then you can sell the investment positions from the stock exchange with ease and with a short period of time and then you can take out your money from it.
5. Provides Safety in Capital and in Fair Dealing:_All the transactions that have been made in the stock exchange are all transparent and abide by the rules and regulations by the Securities and Exchange Board of India. This measure ensures about the safety of the capital of the investors and the format of the fair dealing for all the investors.
6. Encourages Healthy Speculation in the Stock Exchange: The price for the securities is based on the supply of the position. This helps in the encouragement of the speculation in the stock exchange by providing opportunities to the investors to speculate and get to make high profits from the fluctuations in the security process.
7. Mobility in Funding: The stock exchange help both the investors and the companies in order to buy or sell their securities and creates the funds for them. Due to this procedure, the money market also gets strong in dealing with the short-term funds.
8. Corporate Governance: There are many rules and regulations by the stock exchange in order to maintain the corporate governance to satisfy the demands of the shareholders and to make the management more efficient.
9. Redistribution of the Wealth: By giving the chance to all types of investors or traders to do their trades in the stock market, the stock exchange removes the inequalities in the wealth generation. All type of traders or the investors can make profitable deals from the stock market.
10. It also creates Investment Opportunities for Small Investors: Investing in the stock market can be done with some funding also rather than entering into the big businesses with huge capital investments.
    So, it benefits the small investors also to grow their funding with small amounts and provided them with passive income from their savings

2.7 Factors Affecting Stock Market

Determining stock returns is a complex and conflicting task. There are number of forces which influence the share returns of stock market. Although, there is no pre-planned system which can trace the exact movement in the stock returns of the stock market. However, fundamental factors, external factors and market behaviour can cause increase or decrease in the demand and supply of individual stock.

Major factors working on this case consist of indicators of firm's performance, investor's perception, market perception, and some macro economic variables such as Inflation, GDP, FDI, Interest Rate, Oil Prices, etc. Majorly, there are two thoughts related to this concept, first is the technical analysis and the second is the fundamental analysis. Former is a technique which is actually a statistical tool used to predict share price by the use of past data whereas the latter one is the method of stock valuation by using financial information with the help of a specific model.

Fundamental Analysis is further classified into two categories; one is company specific variables and the other is macro economic variables.

Company specific variables include Earning Per Share, Dividend Per Share, Price/ Earning Ratio, Book Value Per Share, Return On Equity, Net Asset Value etc. and macro economic variables include Gross Domestic Product, Inflation, Foreign Direct Investment, Interest Rate, Oil Prices etc.

2.8 Steps To Improve Working Of Stock Exchange

In order to improve the working of stock exchange and bring transparency in their feelings, following steps have been taken in this direction:

1. Stock exchanges are asked to modify the listing agreement to provide for payment of interest by companies to investors from the 30th day after the closure of a public issue.
2. Uniform good-bad delivery norms and procedure for time based resolution of bad deliveries through Bad Delivery Cells prescribed. Bad Delivery Cell procedure have helped to standardize norms.
3. All exchanges to institute the buy-in or auction procedure being followed by the National Stock Exchange.
4. In view of the falling percentage of deliveries, exchanges asked to collect 100 per cant daily margins on the national loss of a broker for every scrip, to restrict gross traded value to 33.33 times to brokers base minimum capital and to impose quarterly margins on the basis of concentration ratios.
5. Study groups constituted to make recommendations for imparting greater transparency and fairness in bulk of negotiated deals.
6. Stock exchanges asked to set up a clearing house or clearing corporation.
7. Stock exchanges disallowed from renewing contracts in cash group of shares from one settlement to another.
8. A core group of inter-exchange market surveillance set up for coordinating action in case of abnormal volatility.
9. Both, short and long sales will have to be disclosed to the exchange at the end of each day. They would be regulated through the imposition of margins.
10. A stock lending scheme has been introduced. Stock lending has been approved in which short sellers could borrow securities through an intermediary before making such sales. The approved intermediary should have a minimum net worth of Rs. 50 crore.

2.9 Sector Indicators

There are a number of sectors or industries which are listed in the National Stock Exchange and the Bombay Stock Exchange. In addition to this, an individual sector comprises of a number of companies. There are around 73 sectors listed in the NSE and BSE separately. Some of the important sectors present on both the Exchanges are listed below:

- Banking Sector
- Automobile Sector
- Information Technology Sector
- Metal Sector
- Real Estate Sector
- FMCG (Fast-moving Consumer Goods) Sector
- Media & Entertainment Sector
- Pharmaceuticals Sector
- Power Sector

2.10 Tables For Reference Relating To Market Turnover And Important Trends of BSE And NSE

Table 1: Market Turnover

(Rs. Crore)

Market	2008-09	2009-10	2010-11	2011-12	2012-13#
BSE					
Cash	11,00,074	13,78,809	11,05,027	6,67,498	4,10,230
Equity Derivates	12,268	234	154	8,08,476	57,41,593
NSE					
Cash	27,52,023	41,38,024	35,77,410	28,10,893	19,73,624
Equity Derivates	1,10,10,482	1,76,63,665	2,92,48,732	3,13,49,732	2,28,79,486

Table 2: Important Trends on BSE

Year	No. of Listed Companies	Turnover (Rs.in crore)	Market Capitalisation (Rs. in crore)
1990-91	2,471	36,012	90,836
1991-92	2,601	71,777	3,23,363
1992-93	2,903	45,636	1,88,146
1993-94	3,585	84,536	3,68,071
1994-95	4,802	67,749	4,35,481
1995-96	5,603	50,064	5,26,476
1996-97	5,832	1,21,284	4,63,915
1997-98	5,853	2,07,644	5,60,325
1998-99	5,848	3,11,999	5,42,942
1999-2000	5,889	6,85,028	3,12,842
2000-01	5,955	10,00,032	5,71,553
2001-02	5,782	3,07,292	6,12,224

Table 3: Important Trends on NSE

Year	No. of Listed Companies	Turnover (Rs. In crore)	Market Capitalisation of listed companies (Rs. in crore)
1994-95	135	1,728	73,223
1995-96	422	68,141	2,17,721
1996-97	550	2,94,504	2,52,894
1997-98	612	3,69,934	3,08,520
1998-99	645	4,14,383	3,35,209
1999-2000	573	8,39,052	8,50,880
2000-01	785	13,39,511	5,43,575
2001-02	793	5,13,167	N.A.

CHAPTER 3 – 3.1 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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5 ANNEXURE

Questionnaire On A Case Study on The Stock Market With Reference To National Stock Exchange And Bombay Stock Exchange

I, **Edwin Prakash Thapa,** pursuing **BACHELOR OF COMMERCE, NAGALAND UNIVERSITY,** am undertaking a research on the topic "**A BRIEF STUDY ON THE INDIAN STOCK MARKET**". Therefore I have designed a questionnaire to obtain your view and satisfaction level on the stock market. The information you provide will be strictly kept confidential and shall pertain to academic purpose only.

NAME: ……………………………………………………………………………

GENDER: ……………

1. Do you invest in the stock market?

a) Yes b) No

2. Do you use the NSE or the BSE?

a) NSE b) BSE

3. Do you only invest in stocks or other shares as well?

a) Only stocks b) Other shares as well

4. If you invest in other shares as well what type of shares are they?

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____

5. Do you invest by yourself or through a broker?

a) By myself b) Through a broker

6. How often do you invest in the stock market?

____

____

7. Do you invest in a particular type of company or invest according to trends?

   a) Particular Type Of Company b) According To Trends

8. Are the current services of the stock market satisfactory to you?

   a) Yes b) No

9. Do you only invest in the country's stock market ?

   a) Yes b) No