INDIAN STOCK MARKETS

THE STOCK EXCHANGE
Phiroze Jeejeebhoy Towers
Dalal Street
Bombay 400 001.

MARCH 1992
RECOGNISED STOCK EXCHANGES IN INDIA

Covered by PTL Stockscan Service
(Map not to scale)
# Indian Stock Markets

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>2. Indian Economy</td>
<td>2</td>
</tr>
<tr>
<td>3. Growth of Stock Exchanges</td>
<td>3</td>
</tr>
<tr>
<td>4. Burgeoning Stock Markets</td>
<td>4</td>
</tr>
<tr>
<td>5. Indian Stock Exchanges</td>
<td>5</td>
</tr>
<tr>
<td>5.1. Governing Boards of the Exchanges</td>
<td>5</td>
</tr>
<tr>
<td>5.2. Membership of Stock Exchanges</td>
<td>7</td>
</tr>
<tr>
<td>5.3. Turnover</td>
<td>8</td>
</tr>
<tr>
<td>5.4. Market Capitalisation</td>
<td>8</td>
</tr>
<tr>
<td>5.5. Primary Market</td>
<td>9</td>
</tr>
<tr>
<td>5.5.1. Stock Market instruments</td>
<td>11</td>
</tr>
<tr>
<td>5.5.2. OTC Exchange of India</td>
<td>13</td>
</tr>
<tr>
<td>5.5.3. Credit Rating</td>
<td>14</td>
</tr>
<tr>
<td>5.6. Secondary Market</td>
<td>15</td>
</tr>
<tr>
<td>5.7. Trading Pattern</td>
<td>15</td>
</tr>
<tr>
<td>5.8. Disclosure</td>
<td>19</td>
</tr>
<tr>
<td>5.9. On Going</td>
<td>19</td>
</tr>
<tr>
<td>5.10. New Issues</td>
<td>21</td>
</tr>
<tr>
<td>5.11. Settlement of Transactions</td>
<td>22</td>
</tr>
<tr>
<td>5.12. Proposed Trade Support System</td>
<td>23</td>
</tr>
<tr>
<td>5.13. Information Dissemination</td>
<td>25</td>
</tr>
<tr>
<td>Resilience of Indian Stock Markets</td>
<td>27</td>
</tr>
<tr>
<td>Investor Protection</td>
<td>28</td>
</tr>
<tr>
<td>PTI Stockscan</td>
<td>29</td>
</tr>
<tr>
<td>Training Institute</td>
<td>30</td>
</tr>
<tr>
<td>SEBI</td>
<td>30</td>
</tr>
<tr>
<td>Future Plans</td>
<td>32</td>
</tr>
<tr>
<td>6. Investment Opportunities for Overseas Investors</td>
<td>33</td>
</tr>
<tr>
<td>6.1. Non Resident Indian Investments</td>
<td>34</td>
</tr>
<tr>
<td>6.2. Offshore Mutual Funds</td>
<td>37</td>
</tr>
<tr>
<td>7. Conclusion</td>
<td>38</td>
</tr>
<tr>
<td>Annexure I</td>
<td>40</td>
</tr>
<tr>
<td>Annexure II</td>
<td>41</td>
</tr>
<tr>
<td>Annexure III</td>
<td>42</td>
</tr>
<tr>
<td>Annexure IV</td>
<td>43</td>
</tr>
<tr>
<td>Annexure V</td>
<td>44</td>
</tr>
<tr>
<td>Annexure VI</td>
<td>45</td>
</tr>
</tbody>
</table>
INTRODUCTION

The Indian stock markets are today on the move. The air of openness and the policies of liberalisation pursued by the new Indian Government have aroused keen interest among investors, both within the country and outside. The changes taking place in the Indian economy and the Indian capital markets in the last eight months have been so profound in character that it is rather difficult to visualise any comparable development in any other part of the world. The recent massive structural trade and industrial policy reforms, the two succeeding devaluations of the Indian Rupee followed by partial convertibility, the delicensing of all but a few core sectors and the Government announcements on the impending full convertibility of the Indian Rupee, freedom for Indian companies to enter foreign capital markets and the Government's will to totally deregulate the Indian economy have spurred the activities in the stock markets. As a result, not only have the markets witnessed a quantum jump in activities due to the profound changes but more importantly the very characteristics of the Indian stock markets have undergone a metamorphosis, to emerge as a major entity in the Indian financial system.

Investment in India is subject to certain laws which have recently been modified and liberalised. The limit for foreign investment in Indian companies has been
increased to 51% of the total equity. This was further increased to 100% in certain specified industries. Various other investment incentives announced in the Union Budget 1992-93, including abolition of Government control on pricing securities and exemption of mutual funds, both public and private, from income tax, make investments in Indian capital markets more attractive.

India is poised for a takeoff and the resounding changes made recently are expected to give it the much needed boost to cover her balance of payments problem and the imbalances in her foreign trade. Indeed the stage is now set for India to make her presence felt abroad as one of the fastest growing economies not only in Asia but in the world.

INDIAN ECONOMY

The Indian economy is no longer a stagnant one. It has already transformed itself into a fast growing economy with the average annual growth rate during the decade of 80s being of the order of 5.5 per cent as against the almost stagnant rate of 3.5 per cent witnessed in the previous three decades. Equally significant is the savings ratio in the country. Gross domestic savings, as a percentage of gross domestic product zoomed, more or less progressively from a low level of 10.2 per cent in 1950-51 to 21.2 per cent in 1989-90 before settling down to around 20 per cent thereafter. India is thus blessed with a growing pool
of savings, currently in the region of about one trillion rupees i.e., about $ 56 billion. Indian industry too has been growing at a substantial rate of about 8 per cent in the 80s as against about 5 per cent before. The overall dominance of the primary sector comprising agriculture and mining has come down while the secondary and tertiary sectors have a greater share of the economic pie. India is today among the largest industrialised nations in the world with the third largest reservoir of scientists and technologists. The growth process is likely to accelerate in the current decade due to several measures taken by Government to liberalise the economy.

GROWTH OF STOCK EXCHANGES

India has the oldest stock exchanges in Asia. Nearly 200 years ago, trading in securities used to take place, although the first stock exchange came to be established in 1875 in Bombay. The process of establishment of stock exchanges gradually spread to other cities of the country like Ahmedabad, Calcutta, Madras, etc. As a result, in the initial years of regulation of the Securities Contracts (Regulation) Act, 1956 - the first all-India legislation regulating the stock exchanges in the country - there were eight recognised stock exchanges in the country. For nearly two decades thereafter, the number virtually remained unchanged. The eighties, however, saw the birth of a number of new recognised stock exchanges.
There are at present 21 recognised stock exchanges spread as far as Ludhiana in the North, Cochin in the South, Gauhati in the East and Rajkot in the West. With the cult of equity spreading fast to the four corners of the country, prospects of many more stock exchanges springing up in the country are bright and there could easily be over 40 stock exchanges humming with activity all over the country by the end of the century. Relatively poor communication facilities in the country and the imperative need for a direct and close regulating authority easily accessible to the investors are the raison-d’etre for proliferation of stock exchanges.

BURGEONING STOCK MARKETS

The Indian stock markets have grown so sharply in the 80s that the decade itself has been christened, inter alia, the decade of the capital market. The extent of growth can easily be measured by the fact that as against an annual average amount of just Rs.900 million raised from the primary market in the seventies, Rs.61.5 billion was raised during 1989-90 although during the next year i.e., 1990-91, there was a dip to about Rs.50 billion. The number of listed companies rose over the decade from about 2,200 to over 6,000 catapulting this nation to the position of being next only to the United States of America, which has about 6,700 listed domestic companies. The daily turnover in the Indian stock markets has shot up from about Rs.150
million in 1979-80 to about Rs. 4 billion during the 10 months ended January 1992. The number of shareholders has also risen sharply from about 2 million to over 14 million during this period, rendering this nation to the position of having the second largest shareholding population, next only to the United States of America. Market capitalisation has also increased from about Rs.35 billion to over Rs.2,250 billion during the last one decade, accounting for about 40 per cent of the GNP now as against about 5 per cent ten years ago.

India is now a major player in the emerging markets of the world, next only to Taiwan, Korea and Mexico, both in respect of market capitalisation and turnover. In terms of U.S. dollars, the market capitalisation at the end of September, 1991 was about $ 41.78 billion as compared to $ 123.7 billion of Taiwan; $ 113.1 billion of Korea and $ 76 billion of Mexico while the daily volume of turnover in the Indian stock markets during the quarter ended September, 1991 was about $ 144 million as compared to $ 783.7 million of Taiwan; $ 472.1 million of Korea and $ 161.9 million of Mexico.

INDIAN STOCK EXCHANGES

GOVERNING BOARDS OF STOCK EXCHANGES

In tune with the developments the world over, complexion of the governing boards of the Indian stock
exchanges too is undergoing a change, as more non-broker directors are being inducted into the boards of the stock exchanges. Presently, non-broker directors who are generally representatives of the Ministry of Finance, Department of Company Affairs, Reserve Bank of India, Financial Institutions and Securities and Exchange Board of India - the newly formed watch-dog of the securities industry - and some leading personalities drawn from different professions including chartered accountancy, law, etc., constitute about one-third of the strength of these boards. It is the intention of Government to raise the strength of non-broker directors to about one-half, as is the pattern in some of the developed markets of the world.

What is particularly significant is that non-broker directors are nominated either directly by Government or with their approval. This ensures that they always act in the public interest. Even the presidents and vice-presidents of most of the smaller stock exchanges are nominated by Government from among the elected stockbroker directors.

The day-to-day administration of stock exchanges is entrusted to executive directors at several of the stock exchanges, appointed with the approval of Government. There is a move to appoint executive directors at all stock exchanges so that the day-to-day administration is not looked after by elected stockbroker presidents.
There are a number of sub-committees other than the arbitration and defaulter committees in all exchanges which are responsible for increasing operational efficiency and providing better services.

Membership of Stock Exchanges

With the increase in the number of stock exchanges, the number of active stockbrokers has also increased during the last one decade. There are today over 3,000 active stockbrokers all over the country as against about 1,250 about ten years ago. Stockbrokers are also encouraged to amalgamate themselves into corporate entities for which the statute was specially amended in July, 1987.

The amendment to the statute also provides for admission of Financial Institutions and their subsidiaries and subsidiaries of banks in the public sector to be admitted as members of stock exchanges on their being so recommended by the Government of India. It is pertinent to observe in this connection that this does not mean that the country has accepted the concept of "universal banking" as is the practice today in most of the European countries, as stockbroking firms would continue to be barred from entering the field of commercial banking.

With a view to developing a national market system in the country, the statute has also been amended
permitting multiple membership of stock exchanges. Several broking firms are taking advantage of this provision.

**TURNOVER**

The Bombay Stock Exchange accounts for more than two-thirds of the total turnover in securities all over India. On an average, about 90,000 deals are executed during the two hour trading session, making it one of the highest per hour trading intensities in the world.

During the year 1990-91 (April-March), 3,377.40 million shares worth Rs.360.12 billion were traded on the Exchange. The turnover was 22.5 per cent higher by value as compared to the turnover of 2,784.80 million shares worth Rs.293.86 billion recorded during the previous year (April 1989-March 1990). The turnover for the 10 months ended January 1992 was Rs. 580.85 billion. The average daily turnover during the calendar year 1991 was Rs.26.62 billion and on several days, during January 1992, the average daily turnover exceeded Rs.36 billion. By comparison, the average daily turnover during the calendar year 1990 was Rs.18.82 billion.

**MARKET CAPITALISATION**

The spectacular rise witnessed in share prices in 1990, despite a fall in the last quarter and in January 1991, led to a steep rise in market capitalisation as a percentage
of gross national product. The estimated market capitalisation of about Rs.2250 billion as on March 3, 1992 amounted to as much as 40 per cent of the gross national product of the country as against a meagre 5.1 per cent as on March 31, 1980. This is significantly higher in comparison to the average of 25 per cent of European countries although well below that of U.S.A., U.K. and Japan of over 75 per cent.

**PRIMARY MARKET**

The decade of the 80s witnessed the stock markets emerge as a major source of finance for industry and trade. Average annual capital mobilisation from the primary market which used to be about Rs. 700 million in the 60s and about Rs.900 million in the 70s increased manifold during the 80s with the amount raised in 1989-90 being of the order of Rs.61.5 billion. The dip in 1990-91 to about Rs.50 billion is only a passing phase and over Rs.150 billion per year is expected to be raised in 1997-98, the final year of the Eighth Five Year Plan. Even the public sector undertakings are taking increasing recourse to the primary market through the issue of bonds. The amount raised by them increased from Rs.354 million in 1985-86 to Rs.3,579 million in 1990-91. Annexure I gives details of the capital raised from 1960-61 through 1990-91.

The vibrancy of the market can best be gauged by the fact that while only ten years ago, the total capital
mobilisation in a year was about Rs.one billion, there were as many as eleven issues, each one of which raised more than Rs.one billion during 1989-90. In order to ensure that no undue advantage is taken by the receptiveness of the fast expanding market, Government has already issued guidelines in respect of all issues of Rs.500 million and above directing that (i) proceeds from the issues be used strictly for the requirements of the projects/activities mentioned in the application for approval and not for any other purpose, (ii) the proceeds to be invested only in fixed duration deposits/instruments with the co-operative/nationalised banks, Unit Trust of India, Financial Institutions and public sector undertakings till they are deployed in the proposed activities, (iii) monitoring of the use of funds by some Financial Institutions like the Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, etc., and, (iv) the amount to be called as 25 per cent on application, 25 per cent on allotment and the remaining 50 per cent in two or more calls only after the monitoring institution is satisfied about the use of funds already collected.

The average size of capital floatation is also showing a significant increase. During 1990-91, the average size of an equity issue was Rs.50.3 million as against Rs.3.5 million in 1980-81. The average size of a debenture issue has similarly gone up to Rs.260 million during 1990-91 from Rs.112 million in 1980-81. This has
happened because of reasons like companies under the present liberal conditions being encouraged to set up 'minimum economic size projects', capital intensity of the projects being increased, the changing preference of companies to access the stock market to mobilize funds rather than the banking system, etc.

Stock Market Instruments

The Indian stock markets have not yet been able to develop a comprehensive range of instruments to meet the diverse requirements of the investing public. Equities continue to be the mainstay of the market. However, in recent years, convertible debentures which are converted into equities, either fully or partly, are becoming more popular. During 1990-91 they accounted for about 70 per cent of the capital raised during the year. Non-convertible debentures (bonds), in the first half of the 80's, were popular with investors because of the progressive rise in the rate of interest on these debentures from 10.5% in 1977 to 15% in March, 1985. These debentures evoked a lukewarm response later when the maximum interest rate was scaled down to 14%. The rate of interest was subsequently raised to its original level of 15% to make it attractive to the investors. Since August 1991, the interest on debentures has totally been deregulated, with companies being given complete freedom to fix the rate of interest. Credit rating for all debt instruments, except those issued by public sector undertakings, has, however
been made compulsory. As such, the market for debt is likely to grow substantially.

The market for preference shares is virtually dead mainly because investors find the lack of security unattractive and issuers find it tax inefficient. Cumulative Convertible Preference Shares introduced by Government in 1984 - an instrument giving fixed 10 per cent return during the gestation period of three years to five years and the benefits of equity thereafter - have also failed to catch investor interest as the rate of return was considered to be too low in the initial years and the provision for conversion into equity unattractive in the event the company failed to perform well.

A few companies have recently tried new instruments, hitherto alien to the Indian stock markets, such as warrants attached to non-convertible debentures, carrying the right to subscribe to equity shares at the end of a specified period and zero-interest convertible bonds offered at a discount where the loss of interest is compensated by a lower price on conversion. Warrants have been recently attached to offers of equity shares. Although it cannot be stated that these instruments have become popular with retail investors, they have been well received by institutional investors.
OTC Exchange of India

With the onerous requirements for listing securities on a stock exchange, particularly in respect of issued capital of the company being not less than Rs.30 million out of which normally 60 per cent i.e., Rs.18 million is required to be offered to the public, a need has been felt for some time for a second-tier market in the country. Companies with a smaller capital and less onerous conditions could then enjoy the advantages of listing. With that end in view, the OTC Exchange of India (OTCEI) promoted by the Unit Trust of India, Industrial Credit and Investment Corporation of India and others was granted recognition in August, 1989 by Government under the Securities Contracts (Regulation) Act. OTCEI will be a national, automated and screen-based stock market system which will help particularly small companies and companies assisted by venture capitalists to raise finance from the capital market in a cost-effective manner and provide a convenient and efficient avenue of capital market investment for investors at large.

Every scrip listed on this market will have atleast two market-makers who will continuously give two-way quotations. A company can get the benefit of listing by offering even 40 per cent of its issued capital to the public. OTCEI is expected to be operational shortly.
Credit Rating

Another significant development in the new issues market is the establishment of Credit Rating and Information Services of India Ltd. (CRISIL) set up jointly by the Unit Trust of India, Industrial Credit and Investment Corporation of India Ltd., Life Insurance Corporation of India, General Insurance Corporation of India, the Asian Development Bank and a few other institutions. The primary objective of CRISIL, which started its operations in January, 1988, is to rate debt obligations of Indian companies, thereby providing a guide to investors as to the risk of timely payment of interest and principal. These ratings relate to a particular debt instrument and are not a rating for the company as a whole. CRISIL assigns ratings after taking into account various key factors including industry risk, market position, operating efficiency of the company, track record of management, planning and control systems, accounting quality, financial flexibility, profitability and financial position of the company, apart from its liquidity management and asset quality i.e., quality of company's credit risk management.

As on March 31, 1991, the cumulative number and value of debt instruments rated by CRISIL were 176 and Rs. 43.57 billion.

In order to inject a competitive edge to the system, the Industrial Finance Corporation of India established on
the 16th January, 1991 a second credit rating agency in the
country called Investment Information and Credit Rating
Agency of India (IICRA).

SECONDARY MARKET

The turnover in the Indian stock exchanges has
increased significantly during the last ten years and
particularly during the last three years. The Bombay Stock
Exchange accounts for about two-thirds of the business in
India.

What is remarkable about the Indian stock markets
is the number of deals put through in a day. On an
average, about 70,000 deals were executed in a day on the
Bombay Stock Exchange alone in 1991-92 compared to
about 85,000 deals on the New York Stock Exchange and
about 45,000 deals on the London Stock Exchange. Often,
when the market is heated, the number of deals shoots to
about 95,000 deals a day and taking into account the fact
that trading is confined to only two hours in a day, the
Bombay Stock Exchange registered the highest per hour
velocity of transactions next perhaps only to Taipei.

TRADING PATTERN

Trading in Indian stocks is broadly categorised into
two groups, viz., specified shares and non-specified
securities. The criteria generally taken into account at
present for shifting the shares from the group of non-specified securities to the specified group are:

i) The company should have been listed for a period of at least three years.

ii) The company should have an issued capital of at least Rs. 75 million with a market capitalisation of 2-3 times thereof.

iii) The number of shares publicly held should be at least Rs. 45 million.

iv) The company must have at least 10,000 public shareholders.

v) The company must be on the dividend paying list and preferably be growth-oriented.

vi) Shares of the company should have been actively traded during the preceding six months.

Stock exchanges located at Bombay, Calcutta, Delhi and Ahmedabad have at present this facility of a two-tier market with the rest of stock exchanges conducting trading only under the category of non-specified securities. Equity shares of 88, 58, 41 and 21 companies are classified as specified shares at the Bombay, Calcutta,
Delhi and Ahmedabad stock exchanges respectively. With 45 shares being common among them, the number of companies whose equities are traded as specified shares is 135. They account for about 56 per cent of the market capitalisation of the Indian stock markets.

All trading is basically conducted as hand delivery contracts, i.e., for delivery and payment within the time or on the date stipulated when entering into the contract which is not more than 14 days following the date of the contract. In the case of specified shares, however, delivery and payment can be extended by further periods of 14 days each so that the overall period does not exceed 90 days from the date of the contract. Contracts in specified shares can be closed during the settlement period by purchase or sale, as the case may be, or carried over to the next settlement period and only those contracts which remain outstanding have to be performed by delivery and payment. The system of trading in specified shares is thus an amalgam of cash and futures. The Indian stock markets do not yet have any separate market for futures and options. In the case of non-specified securities, by and large, contracts are performed by payment and delivery.

Indian stock markets continue to operate in the age old conventional style of face-to-face trading with bids and offers being made by open outcry. At the Bombay Stock Exchange, there are about 3,000 persons milling
around in the trading ring during the trading period of two hours from 12.00 noon to 2.00 p.m.

The stock exchanges at Bombay, Calcutta and Ahmedabad are basically quote-driven markets with the jobbers standing at specific locations in the trading ring called trading posts and announcing continuously two-way quotes for scrips traded at the post. As there is no prohibition on a jobber acting as a broker and vice-versa, any member is free to do jobbing on any day. In actual practice, however, a class of jobbers have emerged who generally confine their activities to jobbing only. As there are no serious regulations governing the activities of jobbers, the jobbing system is beset with a number of problems such as wide spreads between bid and offer, particularly in thinly traded securities, a lack of depth, a total absence of jobbers in a large number of securities, etc. In highly volatile scrips, however, the spread is by far the narrowest in the world being just about - 0.1 to 0.25 per cent as compared to about 1.25 per cent in respect of alpha stocks i.e., the most highly liquid stocks, in the International Stock Exchange of London. The spreads widen as liquidity decreases, being over 20 per cent, while the average spread of gamma stocks i.e., the least liquid stocks in the International Stock Exchange, London, is just about 6 to 7 per cent. This is basically because of the high velocity of transactions in active scrips. The five most volatile scrips on the Bombay Stock Exchange, viz.,
Associated Cement Co., Excel Industries, Eskayef, Tata Power and Sesa Goa, had their equity capital traded 11.17, 7.14, 6.29, 3.58 and 3.47 times respectively during the year 1990-91. In fact, shares in the specified group account for over 75 per cent of trading in the Indian stock markets while over 25 per cent of the securities do not get traded at all in any year. Yet, it is significant to note that out of about 4,200 securities listed on the Bombay Stock Exchange, about 1,400 securities get traded on any given trading day.

The markets in the rest of the country are mainly order driven markets with the buyers and the sellers transacting directly with each other. Although this has the advantage of giving to the investors a better price, growth of business in these markets has been hampered by a relatively higher degree of volatility and illiquidity.

**DISCLOSURES**

**On Going**

The listing agreement which a company is required to execute with the stock exchange before enlistment and the provisions in the Companies Act provide for detailed ongoing disclosure requirements by a listed company. As per the latter, companies are required to publish their annual audited accounts within a period of six months from the date of closure of the accounts. Companies are
also required to provide a Director's Report along with audited accounts covering, inter-alia, material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year to which the balance sheet relates and the date of the report. Material changes, which have occurred during the financial year in relation to the company's business or the class of business in which the company has an interest, is also required to be disclosed. The listing agreement requires a company to furnish to the stock exchange and the press information about unaudited financial results on a half-yearly basis within two months of the expiry of the period, advance notices of its Board meetings to be held for declaration of dividend, rights or bonus issues to be followed by the notification of the decisions taken at these meetings, cancellation/redemption of securities listed, proposals in the general character of any of its business, changes in the management, material events such as strikes, lock-outs, closure on account of power cuts, etc., both at the time of occurrence and subsequently after its cessation, etc. Shareholders and the public are constantly apprised of the position of the company and the establishment of a false market is avoided.

It is a matter of gratification that the stock exchanges of the country, particularly the Bombay Stock Exchange, are generally quite vigilant about on going
disclosure requirements. Exchanges have frequently suspended trading in the securities of companies whenever they were found lacking in compliance of these requirements.

New Issues

Any company inviting the public to subscribe to its securities or arranging for an offer for sale of its existing securities has to issue a prospectus or a letter of offer and a memorandum accompanying the prospectus relating to the issue.

In order to enable potential investors to take a well informed decision, Schedule II of the Companies Act, 1956 (as amended by a new format of the prospectus and the memorandum accompanying the prospectus released by the Department of Company Affairs, Government of India) sets out the matter in detail to be included therein. All merchant bankers authorised by the Securities and Exchange Board of India (SEBI) are required to ensure that the prospectus and the memorandum attached thereto conform to the set format before the same are submitted to SEBI for approval. A noteworthy feature of the new format is the inclusion of the management perception of risk factors (e.g., sensitivity to foreign exchange rate fluctuations, difficulty in availability of raw materials or in marketing of products, cost/time over-run, etc.) which are
likely to significantly or materially affect the performance of the company based on the occurrence of an event or a series of events.

**Settlement of Transactions**

Settlement processes at the Indian stock markets are still matters of concern. At the Bombay Stock Exchange, settlement of transactions by way of delivery of securities and payment of price virtually takes a fortnight or even longer both in respect of specified shares and non-specified securities. This is primarily due to the system of batch processing of transactions. It is now proposed to have an on-line system of processing of transactions reported directly from the screen to be operative along-with the automation of the trade. This will help to reduce the period required for settlement of transactions. In respect of non-specified securities, it is planned to reduce in the first instance the period of trading from 14 days to 5 days, Monday to Friday, with the settlement being effected the following week. Subsequently a move over to a rolling settlement system of T+5 i.e., the settlement being effected on the fifth trading day following the date of transaction, to be eventually replaced by T+3, as recommended by the global Group of Thirty, is planned. The question of extending the concept of T+3 to the specified group of shares, however, needs detailed consideration as such an extension would also need the simultaneous development of options and futures markets.
Share certificates and dated transfer deeds constitute a major hurdle in the growth of the securities business. A two-stage attack on the system is, therefore, planned. Firstly, the problem of immobilisation of securities is to be dealt with. A beginning has already been made with the establishment of the Stock Holding Corporation of India which handles the shares of financial institutions. In addition, the Bombay Stock Exchange has, in association with Bank of India - a leading nationalised bank of the country - which currently runs the Clearing House of the Exchange, established BOI Shareholding Ltd. This will initially act as a depository in respect of specified shares involved in carry-forward transactions worth about Rs.5 billion with the shares moving by book-entries only. The services of the depository will be later extended to other activities of stockbrokers and to investors. The second stage is to develop a certificateless society as has already been done in Norway, Denmark and France and as is being planned in U.K. by the proposal to establish TAURUS. In fact, a proposal in this behalf was put forward by the Bombay Stock Exchange way back in 1979. Serious attempts are now being made to put this proposal into operation.

Proposed Trade Support System

With a view to imparting greater transparency to trading, and at the same time, reducing the cumbersome
paperwork associated with the process of settling trades, the Bombay Stock Exchange has been considering the installation of a mainframe computer connected to terminals in the offices of members. With this network, it would be possible to establish a screen-based system of trading, and also to cater to the provision of accurate and timely market information and data, on a host of electronic devices such as tickers, monitors, boards and computer terminals. It is also proposed to provide useful value-added information through the network, to members and other public, on company profiles, new issue details and market statistics.

Initially, it is proposed to introduce computer-based trading in all non-specified stocks, taking care to retain the basic characteristics of the market such as the system of jobbing. Order execution would, therefore, be totally screen-based for this group. The project is expected to be commissioned immediately after the second phase of the new building is completed. Trading in specified shares would, however, be carried out through the open outcry system, as at present, during this period. Screen-based trading for these active stocks would be considered for implementation at a later stage, depending upon the success achieved and the experience gained from the system established for the non-specified stocks.
Information dissemination

The system would enable all members to have the latest information about ruling prices in the market, the highs and lows for the day, last trade details, cumulative volumes transacted and index values. In addition, it would also provide them with their cumulative positions for the settlement period under consideration. The registered jobber, would in addition, also get complete details about his net positions in each of the scrips that he has handled, along with the current asking rates so as to breakeven in the market.

Implementation

The system will be implemented in four phases as detailed below: Phase I is expected to commence in May 1992. It provides for dissemination of two-way quotes, company & stock exchange announcements, indicative transaction prices, etc. in respect of all specified scrips and 500 active non-specified scrips on display devices located in the new trading specified scrips on display devices located in the new trading ring and at other vantage points in the Exchange complex. Interfaces with the existing PTI STOCKSCAN System would also need to be established.

Phase II is expected to be operational in September 1992. It will establish a network connecting individual member offices with the Central Exchange computer
established for providing the following services:

- input of transactions and other data required for the existing batch settlement system

- access/download of processed information to each member to meet settlement requirements, and

- online reconciliation facility for unmatched transactions.

Information captured in Phase I would be available to members through the network installed in Phase II. Members would also have a facility to draw upon the Stock Exchange Official Directory (SEOD) database.

Phase III to be introduced in April 1993 will provide for an automated trading system covering all scrips except those in the specified group and 300 of the most actively traded ones in the non-specified group. The functionality proposed would cover quotation entry and maintenance, order entry/maintenance and execution, trade reporting, information dissemination and market surveillance.

Phase IV which is expected to be operational in September 1993 will extend the coverage of the automated trading system to include even the most actively traded scrips in the specified group.
The Bombay Stock Exchange is not alone in its march towards computerisation. Most other stock exchanges have also started computerising the settlement system with a few of them even introducing the trading ticket system which gives near instant information about trade details. The question of automating trade with online processing of transactions for settlement purposes with display of real time trade information will also be considered by all these stock exchanges in the course of time.

**Resilience of Indian Stock Markets**

The Indian stock markets have displayed a remarkable degree of poise and stability, thanks mainly to the checks and balances inbuilt in the system and the various timely and effective measures taken by the Government and Stock Exchange authorities from time to time. As per a study conducted by the Bombay Stock Exchange, the average annual fluctuations in the All India Index number of security prices of Ordinary Shares of the Reserve Bank of India was only 25.1per cent during the period 1980 to 1989 which was on par with the corresponding figures of 22.0 per cent of the London Stock Exchange and 23.9 per cent of the New York Stock Exchange and well below the average of 30.2 per cent of 15 leading countries of the World.
INVESTOR PROTECTION

The cardinal objective of regulation of stock exchanges the world over is protection of the interests of investors and that is the objective in this country too. In fact, no stock exchange is granted recognition by the Government of India unless its Rules, Bye-laws and Regulations are in conformity with such conditions as may be prescribed with a view to protecting the interests of the investors.

The various provisions embodied in the Rules, Bye-laws and Regulations of stock exchanges to protect the interests of the investors include consent of the client before a member enters into a contract with him as a principal, issue of a contract whether as a principal or as an agent after the contract is entered into, right of the client to close out an unfulfilled contract through any other member of the exchange, lodging of a complaint against any member who fails to implement the stockbroking business with the stock exchange authorities who can take disciplinary action including suspension against the member if they are satisfied about the complaint, reference to arbitration, etc. Lack of adequate knowledge on the part of the investors in this behalf, however, erodes greatly the protective cover. The stock exchanges have on their own evolved a number of measures to alleviate the grievances of investors and to grant them progressively a greater degree of protection.
A Customer's Protection Fund was set up at the Bombay Stock Exchange in October, 1986 on the lines of the Securities Investor Protection Corporation of the U.S.A. The fund is financed partly by way of a levy on the turnover of members collected at the rate of one rupee on every Rs. 1 million and partly by way of contribution from the listing fees collected at the rate of two per cent. The Fund had Rs.2.43 million to its credit as at the year ended the 31st December, 1991. The Fund is being administered only for the benefit of clients of defaulting members of the Exchange and their beneficiaries in respect of genuine investment claims. The compensation that may be paid in respect of any single client is limited to Rs.25,000. It is, however, expected that this amount would progressively be raised in future with the increasing flow of money into the Fund.

PTI Stockscan Service

The Sensitive Index of the Bombay Stock Exchange related to 30 scrips traded on it and the BSE National Index of 100 scrips traded on the five major stock exchanges are continuously displayed on the PTI Stockscan Service with revisions being made every two minutes. The Stockscan Service, which presently gives, inter-alia, the movement of prices of about 800 shares, is available not only at these five stock exchanges but also at other stock exchange centres.
The PTI Stockscan Service has rightly been called the forerunner of the National Market System in the country.

**TRAINING INSTITUTE**

The stock exchanges acknowledge that training and development of human resources is one of their most important and critical responsibilities especially in a developing capital market like India. The Bombay Stock Exchange, set up a Training Institute on the 3rd January, 1989 to train stockbrokers, jobbers, authorised clerks, merchant bankers, portfolio managers and investors in general. A similar institute has been in operation for quite some time at the Calcutta Stock Exchange too. Training Institutes at Bombay and Calcutta are being increasingly recognised as premier institutes for training in stock markets.

**SECURITIES AND EXCHANGE BOARD OF INDIA**

The burgeoning growth of the stock markets has inevitably resulted in the establishment of a separate watch-dog for the securities industry. Accordingly, the Securities and Exchange Board of India, which was proposed by the Prime Minister while presenting the Budget for 1987-88, was constituted on April 12, 1988. An Ordinance to grant the Securities Exchange Board of India a statutory status as an autonomous body was promulgated by the President of India on 31st January, 1992. The Board
to begin with will provide investor protection, prohibit insider trading, promote the development of the capital market and simultaneously register and regulate the working of intermediaries. The long-term health of the securities market will be enhanced and ensured with the direct involvement of the Board.

The Board has also issued guidelines and a code of conduct for merchant bankers. In addition merchant bankers are required to be authorised by the Board. At the end of February, 1991, there were in all 73 authorised merchant bankers.

The Board has also introduced a system of imposing penalty points to merchant bankers who violate the terms of their authorisation. For this purpose, the areas of non-compliance/default have been divided into four types, viz., (i) general defaults, (ii) minor defaults, (iii) major defaults, and (iv) serious defaults and the penalty points for these four types are one, two, three and four respectively. A merchant banker on reaching a total of eight penalty points shall attract action from the Board which may include suspension/cancellation of authorisation. The above measures were introduced to inject a sense of accountability and responsibility into the business of merchant banking.
FUTURE PLANS

Premises

With the completion of the second phase of the Stock Exchange building, a new trading ring of approximately 19,000 sq. ft. will be ready for use by May, 1992. The new ring, apart from being more spacious than the present ring, has several state-of-the-art features which will make it comparable to the best in the world. The new ring will help to improve the trading environment and will be able to cope better with further increase in trading volumes. After completion of the second phase, an additional 32,000 sq. ft. area would be available to the Exchange administration and the members for their use. This will go a long way in bridging the acute space shortage faced by the Exchange and the members at present.

Integrated Telephone Network

The Bombay Stock Exchange has placed an order with Tata Telecom for a 500 trunk, 2500-extension EPABX system. The total cost for turnkey execution of the project is Rs. 11.5 million. Work relating to installation of this equipment has already commenced and is expected to be operational in May 1992. It is planned to establish an All India network connecting the various stock exchanges in the country. This would enable members in different
centres to communicate instantly with one another, paving the way for creation of a sound technology base on a national scale.

INVESTMENT OPPORTUNITIES FOR OVERSEAS INVESTORS

Investment in the Indian stock markets at present is restricted for foreigners. Foreign investment is subject to well defined and comprehensive provisions embodied in the Foreign Exchange Regulation Act of 1973. Direct foreign investment is now allowed upto 51% of the equity capital in high priority industries, generally known as Appendix I industries. In case of certain industries, investment upto 100% of the equity capital is permitted on a repatriable basis. Direct portfolio investment on stock markets is not allowed to foreigners except Non-Resident Indians (NRIs). However, foreigners can invest through the intermediation of offshore country funds floated for the purpose. Direct foreign investment is also permitted in case of specific funds floated by organisations such as the Asian Development Bank or the Commonwealth Development Corporation. The Finance Minister in his budget speech for 1992-93 announced his intention to allow reputable foreign investors, such as pension funds, to invest in the Indian stock market. The modus operandi is still to be worked out. In the meanwhile, some prime Indian corporates have been given permission to issue se-
securities in the international markets with the same tax benefits as are available for offshore mutual funds.

Non-Resident Indian Investments

Non-resident Indians are encouraged to invest in Indian securities both on a repatriable and a non-repatriable basis. Facilities provided to non-resident Indians are also available to companies predominantly owned (at least 60%) by non-resident Indians. The facilities available for investment for non-resident Indian investments include the following:

(i) Investment in new issues of companies on full repatriation basis is allowed up to 40 percent of the equity and preference capital of the new or existing company raising a public issue through prospectus. This facility is also made available to investment in convertible securities. Investment in capital raised by either private or public limited companies other than through the issue of prospectus is also permitted up to 40 percent of the issued capital subject to a ceiling of Rs. 4 million.

(ii) In the case of high priority industries, 18 key industries which are subject to compulsory licensing and in certain other areas such as
hospitals, advance diagnostic centres, shipping, export-oriented deep-sea fishing and oil exploration, direct foreign investment to the extent of 100 per cent is permitted.

(iii) Portfolio investment in shares and convertible debentures is also permitted with full benefits of repatriation provided they are purchased through members of stock exchanges, the purchase by a non-resident Indian does not exceed one per cent of the paid-up capital of the company and the investments are either through fresh remittances from abroad or through NRE/FCNR accounts with a bank in India. An overall ceiling of 24 per cent of the paid-up capital of company is imposed on total non-resident Indian investments under the portfolio scheme. There are, however, no limits on investment in non-convertible debentures and Mastershares of the Unit Trust of India.

(iv) Non-resident Indians are permitted to subscribe freely on a non-repatriable basis to the new issues of any public or private limited company engaged in any business activities except real estate business and agricultural/plantation activities. Such investments are
hospitals, advance diagnostic centres, shipping, export-oriented deep-sea fishing and oil exploration, direct foreign investment to the extent of 100 per cent is permitted.

(iii) Portfolio investment in shares and convertible debentures is also permitted with full benefits of repatriation provided they are purchased through members of stock exchanges, the purchase by a non-resident Indian does not exceed one per cent of the paid-up capital of the company and the investments are either through fresh remittances from abroad or through NRE/FCNR accounts with a bank in India. An overall ceiling of 24 per cent of the paid-up capital of company is imposed on total non-resident Indian investments under the portfolio scheme. There are, however, no limits on investment in non-convertible debentures and Mastershares of the Unit Trust of India.

(iv) Non-resident Indians are permitted to subscribe freely on a non-repatriable basis to the new issues of any public or private limited company engaged in any business activities except real estate business and agricultural/plantation activities. Such investments are
allowed up to 100 per cent of the issued capital of the investee company.

Overseas Corporate Bodies (OCBs) are taxed at 25 per cent of their dividend and interest income and at 65 per cent in the case of any other income. No surcharge on income tax is payable by NRI's and OCBs.

There are special tax concessions available to non-resident Indians for investment. These include the following:

(i) Investment income from specified "Foreign Exchange Assets" i.e., shares in Indian companies, debentures of a public limited company, deposits with a public limited company, etc., are subject to income-tax at a flat rate of 20 per cent. Long-term capital gains accruing from transfer of these specified "Foreign Exchange Assets" are also subject to income-tax at a flat rate of 20 per cent.

(ii) Investment in "Foreign Exchange Assets" are exempt from wealth tax.

(iii) When the total income of non-resident Indians consists solely of investment income and/or long-term capital gains on which tax
at the flat rate of 20 per cent has been deducted at source, then the non-resident Indian is not required to file a return.

Even though non-resident Indians have been provided extensive incentives for investment in India their response so far has been modest. As on 30th November, 1989, total direct investment of non-resident Indians in India was to the tune of Rs. 16.72 billion while under the portfolio scheme they had invested Rs. 731.6 million in Indian securities. It is estimated that the total investible funds of non-resident Indians as a group are in excess of Rs. 1,500 billion. Thus their investments in India at present are a little over one per cent of their total investible funds.

Offshore Mutual Funds

While direct foreign investment in India is not permitted except for the investment by non-resident Indians as already indicated earlier and through collaboration arrangements for others, a via media has been found through floatation of country funds and offshore mutual funds. Several countries across the globe have tapped this source very successfully and India joined their ranks through the launching of the India Fund in London in 1986 by the Unit Trust of India, the major mutual fund operator of the country. This fund of $110 million was succeeded by another fund, "India Growth Fund" launched by UTI.
once again, in New York in 1987 which mobilised U.S. $60 million. In 1989, the State Bank of India launched a privately placed mutual fund "India Magnum Fund" in Antilles, Netherlands. Following an overwhelming response, the fund was closed at $ 156 million. In 1990, Canbank floated the Himalayan Fund for $ 100 million. Several others are being structured by various institutions to cater to different types of investors. Agencies such as the Asian Development Bank and Commonwealth Development Corporation have also shown keen interest in the Indian stock market and a part of the proceeds that these institutions are mobilizing for investment in their constituent countries will be invested in the Indian stock market securities. All these offshore funds have so far raised over US $ 550 million.

The tax on dividends of offshore mutual funds has been reduced by the Finance Act, 1991 from 25 per cent to 10 per cent. Likewise, the tax on long-term capital gains has also been reduced from 45.5 per cent to 10 per cent.

CONCLUSION

The Indian stock markets which have grown remarkably in the last decade still have a long way to go. Investments in financial assets such as corporate securities and the various schemes of the mutual funds account for not more than 8 per cent of the financial savings of the
household sector as against about 25 per cent in several of the more developed countries of the World. The process of modernisation and computerisation which has already started will soon be accelerated in order to render the markets not only broad and liquid but also fair and efficient and thereby allure a larger flow of funds into the market. All concerned with the market: investors, issuers, market players and more importantly regulators - the stock exchange authorities, the Securities and Exchange Board of India and above all the Government of India - have, however, an arduous task ahead of them. With sustained efforts on the part of all these, the Indian stock markets can easily prove to be not only sources of funds and capital but also vehicles for the distribution of wealth to an ever expanding population of investors in the country.
ANNEXURE I

Capital Raised on All-India Basis

(Amount in million Rs.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity</th>
<th>Preference</th>
<th>Debenture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>703.8</td>
<td>77.8</td>
<td>93.9</td>
<td>875.5</td>
</tr>
<tr>
<td>1965</td>
<td>680.6</td>
<td>105.5</td>
<td>216.2</td>
<td>1,002.3</td>
</tr>
<tr>
<td>1970</td>
<td>637.1</td>
<td>110.8</td>
<td>119.2</td>
<td>867.1</td>
</tr>
<tr>
<td>1975</td>
<td>634.3</td>
<td>48.6</td>
<td>301.5</td>
<td>984.4</td>
</tr>
<tr>
<td>1981-82</td>
<td>2,430.6</td>
<td>26.5</td>
<td>3,156.0</td>
<td>5,613.1</td>
</tr>
<tr>
<td>1985-86</td>
<td>8,350.5</td>
<td>10.1</td>
<td>7,981.8</td>
<td>16,342.4</td>
</tr>
<tr>
<td>1986-87</td>
<td>10,294.7</td>
<td>-</td>
<td>17,407.0</td>
<td>27,701.7</td>
</tr>
<tr>
<td>1987-88</td>
<td>8,099.9</td>
<td>-</td>
<td>6,642.0</td>
<td>14,741.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>11,500.0</td>
<td>-</td>
<td>24,000.0</td>
<td>35,500.0</td>
</tr>
<tr>
<td>1989-90</td>
<td>12,450.0</td>
<td>50.0</td>
<td>49,000.0</td>
<td>61,500.0</td>
</tr>
<tr>
<td>1990-91</td>
<td>12,475.0</td>
<td>133.0</td>
<td>29,410.0</td>
<td>42,018.0</td>
</tr>
</tbody>
</table>
**ANNEXURE II**

**Volume of Turnover - Bombay Stock Exchange**

(Amount in crore Rs.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>2476</td>
</tr>
<tr>
<td>1981-82</td>
<td>6851</td>
</tr>
<tr>
<td>1982-83</td>
<td>4357</td>
</tr>
<tr>
<td>1983-84</td>
<td>2488</td>
</tr>
<tr>
<td>1984-85</td>
<td>4604</td>
</tr>
<tr>
<td>1985-86</td>
<td>6952</td>
</tr>
<tr>
<td>1986-87</td>
<td>13692</td>
</tr>
<tr>
<td>1987-88</td>
<td>7912</td>
</tr>
<tr>
<td>1988-89</td>
<td>20562</td>
</tr>
<tr>
<td>1989-90</td>
<td>29384</td>
</tr>
<tr>
<td>1990-91</td>
<td>36011</td>
</tr>
<tr>
<td>1991-92*</td>
<td>58085</td>
</tr>
</tbody>
</table>

*Figures for 10 months from April 1991 to January 1992.*

**Note:** One crore is equivalent to Ten Million
# ANNEXURE III

## Structural Pattern of Listings - All India

(Amount in million Rs.)

<table>
<thead>
<tr>
<th>As on 31st Dec.</th>
<th>No. of Cos. Listed</th>
<th>Paid-up Capital</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>Pref.</td>
</tr>
<tr>
<td>1971</td>
<td>1,599</td>
<td>13,910</td>
<td>1,890</td>
</tr>
<tr>
<td>1975</td>
<td>1,652</td>
<td>19,300</td>
<td>2,120</td>
</tr>
<tr>
<td>1980</td>
<td>2,265</td>
<td>29,950</td>
<td>2,170</td>
</tr>
<tr>
<td>1984</td>
<td>3,883</td>
<td>48,490</td>
<td>2,330</td>
</tr>
<tr>
<td>1985</td>
<td>4,344</td>
<td>57,090</td>
<td>3,670</td>
</tr>
<tr>
<td>1986</td>
<td>4,744</td>
<td>71,420</td>
<td>2,220</td>
</tr>
<tr>
<td>1987</td>
<td>5,560</td>
<td>89,410</td>
<td>1,910</td>
</tr>
<tr>
<td>1988</td>
<td>5,841</td>
<td>105,490</td>
<td>1,760</td>
</tr>
<tr>
<td>*1990</td>
<td>5,968</td>
<td>126,810</td>
<td>1,970</td>
</tr>
<tr>
<td>**1991</td>
<td>6,100</td>
<td>145,000</td>
<td>1,900</td>
</tr>
</tbody>
</table>

* As on 31st March  
** Provisional
Structural Pattern of Listings - All India
No. of Listed Companies
ANNEXURE V

Structural Pattern of Listings - All India
Total Paid-Up Capital

Rs. million

Structural Pattern of Listings - All India
Total Market Value

Rs. million

A view of the New Trading Ring of the Exchange expected to be operational from May, 1992.