

## **8. Indian Stock Market - An Overview**

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### **8.1 Introduction:**

Stock market can be defined as a platform on which people deal with selling or buying of shares/stocks of publicly listed companies. It is a place where people buy/sell shares of publicly listed companies. It offers seamless exchange of shares. In other words, if person A wants to sell shares of a particular company, the stock market will facilitate him to meet the seller who is willing to buy that company. However, it is important to note that a person can trade in the stock market. The buying and selling of shares takes place through electronic medium in a stock market and only through a registered intermediary known as a stock broker. The stock market acts as a market place for buyers and sellers of securities to meet, interact, and transact and also know prices of shares. Since the number of stock market participants is huge, one can often be assured of a fair price and a high degree of liquidity as various market participants compete with one another for the best price. Stock markets provide a secure and regulated environment where market participants can transact in shares and other eligible financial instruments with confidence, with zero to low operational risk.

Stock market operations can be categorized into two areas namely primary markets and secondary markets. In a primary market, the stock market permits companies to issue and sell their shares to the common public for the first time through the process of an initial public offering (IPO). This activity helps companies raise necessary capital from investors. The stock exchange acts as a facilitator for this capital-raising process and receives a fee for its services from the company and its financial partners. In secondary market, buyers and sellers deal with the shares already issued by companies. The defining characteristic of the secondary market is that investor's trade among themselves. In the secondary market, investor's trade previously issued securities without the issuing companies' involvement.

### **8.1.1 Major Functions of a Stock Market:**

The following are some important functions of a stock market.

- **Transparency in Securities Transactions:** Depending on the standard rules of supply and demand, the stock exchange needs to ensure that all interested market participants have instant access to data for all buy and sell orders, thereby helping in the fair and transparent pricing of securities.
- **Efficient Price Discovery:** Stock markets need to support an efficient mechanism for price discovery, which refers to the act of deciding the proper price of a security and is usually performed by assessing market supply and demand and other factors associated with the transactions.
- **Management of Liquidity:** While getting the number of buyers and sellers for a particular financial security are out of control for the stock market, it needs to ensure that whoever is qualified and willing to trade gets instant access to place orders that should get executed at a fair price.
- **Security and Validity of Transactions:** While more participants are important for the efficient working of a market, the same market needs to ensure that all participants are verified and remain compliant with the necessary rules and regulations, leaving no room for default by any of the parties. Additionally, it should ensure that all associated entities operating in the market adhere to the rules and work within the legal framework given by the regulator.
- **Protection of Investors' Interests:** Along with wealthy and institutional investors, a very large number of small investors are also served by the stock market for their small amount of investments. These investors may have limited financial knowledge and not be fully aware of the pitfalls of investing in stocks and other listed instruments. The stock exchange must implement necessary measures to offer the necessary protection to such investors to shield them from financial loss and ensure customer trust.

### **8.2 Stock Exchanges in India:**

There are two main stock exchanges in India where majority of the trades take place - Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Apart from these

two exchanges, there are some other regional stock exchanges like Bangalore Stock Exchange, Madras Stock Exchange etc but these exchanges do not play a meaningful role anymore.

**National Stock Exchange (NSE):** NSE is the leading stock exchange in India where one can buy/sell shares of publicly listed companies. It was established in the year 1992 and is located in Mumbai. NSE has a flagship index named as NIFTY50.

The index comprises of the top 50 companies based on its trading volume and market capitalization. This index is widely used by investors in India as well as globally as the barometer of the Indian capital markets.

**Bombay Stock Exchange (BSE):** BSE is Asia's first as well as the oldest stock exchange in India. It was established in 1875 and is located in Mumbai. BSE Sensex is the flagship index of BSE. It measures the performance of the 30 largest, most liquid and financially stable companies across key sectors.

### **8.2.1 Participants in Stock Market Operations:**

There are a lot of individuals and corporate houses who trade in a stock market. Anyone who buys/sells shares in a stock market is termed as a market participant. Some of the categories of market participants are as follows:

**Domestic Retail Participants** - These are individuals who transact in the markets.

**NRI's and Overseas Citizen of India (OCI)** - These are people of Indian origin who reside outside India.

**Domestic Institutions** - These are large corporate entities based in India (for example: LIC of India).

**Domestic Asset Management Companies (AMC)** - The market participants in this category would be mutual fund companies like HDFC AMC, SBI Mutual Fund, DSP Black Rock and many more similar entities.

**Foreign Institutional Investors** - FIIs are Non-Indian corporate entities such as foreign asset management companies, hedge funds and other investors

### **8.2.2 Regulation of the Indian Stock Market:**

Securities Exchange Board of India (SEBI) is the regulatory body of the Indian Stock Markets. The main objective of SEBI is to safeguard the interest of retail investors, promote the development of stock exchanges, and regulate the activities of financial intermediaries and investors in the market. SEBI ensures the following:

- The stock exchanges (BSE and NSE), brokers and sub-brokers conduct their business fairly.
- Corporate houses should not use markets as a mean to unfairly benefit themselves
- Small retail investors' interest is protected.
- Large investors with huge cash should not manipulate markets.

### **8.2.3 Financial Intermediaries Operating in Stock Market:**

From the time an investor places his order to buy shares till the time it is transferred to his DEMAT account, a number of corporate entities are involved to ensure smooth transaction. These entities are known as financial intermediaries and they work according to the rules and regulations prescribed by SEBI. Some of the financial intermediaries are discussed below:

- **Stock Broker:** A stock broker also known as a dealer is a professional individual who buys/sells shares on behalf of its clients. A stock broker is registered as a trading member with the stock exchange and holds a stock broking license. They operate under the guidelines prescribed by SEBI. An individual needs to open trading/DEMAT account to transact in the financial market.
- **Depository and Depository Participants:** A Depository is a financial intermediary that offers the service of DEMAT account. A DEMAT account will have all the shares that an investor owns in electronic format. In India, there are only two depositories which offers DEMAT account services - National Securities Depository Limited

(NSDL) and Central Depository Services (India) Limited (CDSL). An investor cannot directly go to the depository to open the DEMAT account. He needs to appoint a Depository Participant (DP). According to SEBI guidelines, banks, financial institutions and members of stock exchanges registered with SEBI can become DPs.

- **Banks:** Banks help to transfer funds from a bank account to a trading account. The client needs to categorically mention which bank account has to be linked to the trading account to the stock broker at the time of opening the trading account.

### **8.3 DEMAT Account and Trading Account:**

In order to trade in equities, it is mandatory to have a DEMAT account as well as the Trading account.

#### **8.3.1 DEMAT Account:**

DEMAT account or dematerialized account allows holding shares in electronic form instead of taking physical possession of certificates. It is mandatory to have a DEMAT account to trade in shares. DEMAT account holds all the investments an individual makes in shares, exchange traded funds, bonds, government securities, and mutual funds in one place.

Below mentioned are the steps to open DEMAT account in India:

- To open a DEMAT account; an individual has to approach a depository participant (DP), an agent of depository, and fill up an account opening form. The list of DPs is available on the website of depository's i.e. CDSL and NSDL.
- An individual must attach photocopies of KYC documents like identity proof, proof of address along with the account opening form.
- The DP will provide the depository participant ID or client ID. All the purchase / sale of shares will be through DEMAT Account.

#### **8.4 Trading Account:**

A trading account is used to place buy/sell orders in the stock market. One can open their trading account with a stock broker who is registered with SEBI. An order can be placed

either through an online or offline mode. In the online mode, one can buy/sell stocks through the trading terminal provided by the broker whereas; in the offline mode, an individual can ask its broker to place an order on his/her behalf.

### **8.5 Summary:**

There are two major stock exchanges in India namely Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). For Trading in shares an individual has to mandatorily open a trading account. In India, there are different market participants like retail investors, domestic institutions and foreign institutional investors. Indian stock market is governed by SEBI. The different financial intermediaries like stock broker, banks and depository participants are also part of the stock market. DEMAT account or dematerialized account allows holding shares in electronic form instead of taking physical possession of certificates.