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9. Indian Stock Market

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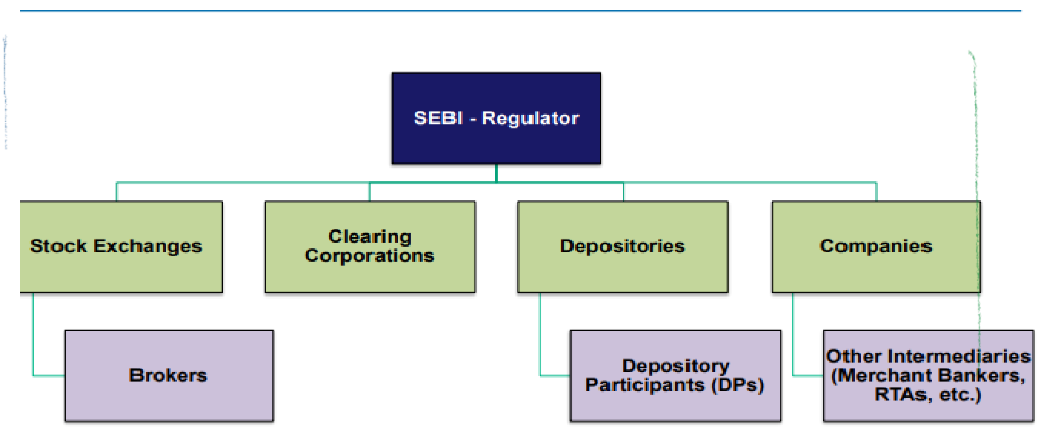
9.1 Introduction:

The financial system is composed of financial institutions and financial markets acting as intermediaries between those who need the capital (companies, and those who have capital. It is a sub-system of financial institutions, markets, services, and financial instruments that provides funds and allocates funds to operate the system effectively and efficiently (**Indian financial system, page 13, Pathak Bharathi 2018**).

The stock market is a component in the Indian financial system where it provides capital to the companies from the Financial Institutional investors and individual investors. It indicates the economic position of the economy so it calls the Economic barometer of the economy[1].

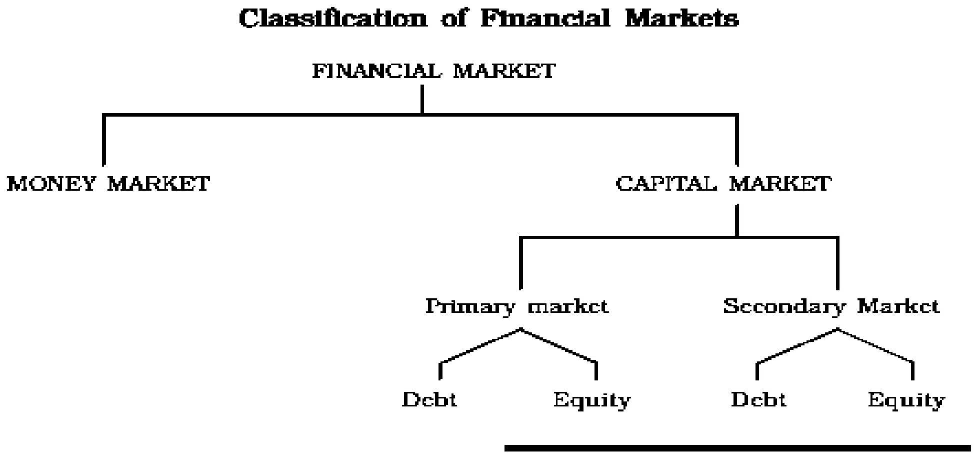
Chart 9.1: Indian securities Market-structure



Source: https://www.bseindia.com/downloads1/PPT1_IntroductiontoSecuritiesMarkets.pdf

The above structure explains that the SEBI (*Securities Exchange Board of Indi*a) is the regulator board for all the stock exchanges in India (authorized brokers)[2], clearing corporations (this corporation associates the stock exchanges for clearing, confirmation, settlement, and delivery on time the transactions), depositories (these depository agents hold the securities and behave as an agent for the investors), and companies (regulates both listed and unlisted companies) and other intermediaries such as Merchant bankers (take care of issue management activities) and Registered transfer agents (who maintains the details of the investor records).

Chart 9.2: Classification of Financial Markets



Source:
https://www.zigya.com/chapter/cbse/BS122/10/Classification+Of+Financial+Markets

9.2 Money Market:

It refers to the trading of purchase and sales of large volumes of very short-term debt instruments[3] both at the wholesale level and retail level. At the wholesale level, trading involves financial institutions and dealers, and at the retail level involves individual investors where they can invest directly in the money market through money market mutual funds.

Instruments of Money Market:

It consists of

1. call (overnight) and short notice (up to 14 days) money
2. term money
3. commercial money
4. certificate of deposits
5. Money markets mutual funds
6. commercial bills
7. treasury bills

Financial institutions and the primary dealers play significant roles in the money markets and mostly they can lend or borrow funds through call & short-notice money and treasury bills.[4]

9.3 Capital Market:

Capital markets are a place where the funds are exchanged between the suppliers and those who need them. It involves primary and secondary markets.[5] The primary market deals with the new issues (*IPO*). The secondary market deals with the existing company's issues shares already listed in the stock market trading through authorized brokers.

Table: 9.1: Primary Market V/s. Secondary Market

Features	Primary Market	Secondary Market
Definition	- Securities issued first time to the public.	- Trading of already issued and listed securities.
Also called as	- New Issue Market.	- Post Issue Market.
Price Determination	- By Issuer Company in consultation with Merchant Bankers.	- Supply and Demand Forces of Market.
Key Intermediaries	- Merchant Bankers and RTAs	- Stock Brokers and DPs.
Purpose	- Raise capital for expansion, diversification, etc.	- Trading of securities. - Providing liquidity to investors. - Raising further capital for expansion.

Source:
https://www.bseindia.com/downloads1/PPT1_IntroductiontoSecuritiesMarkets.pdf

9.4 Objectives:

- To understand the functions and working of the stock exchange in India
- to describe the regulatory board of stock exchanges in India
- To determine the significance of the stock exchange in India and distinguish between money market and capital market
- Outline the different stock exchanges in India
- To track the evaluation of stock markets in India

The securities market or stock market has undergone the following characteristics. They are:

- Organized market
- Approved securities can trade on the centralized trading floor[6]
- Authorized brokers only trade on behalf of the investors
- All the trading activities are performed abide by the rules and regulations of the SEBI[7]

9.5 Major stock exchanges in India:

Trading in the stock market takes place in major two exchanges i.e., NSE (National stock exchange) and BSE (Bombay stock exchange). BSE is the oldest exchange in the world.[8]

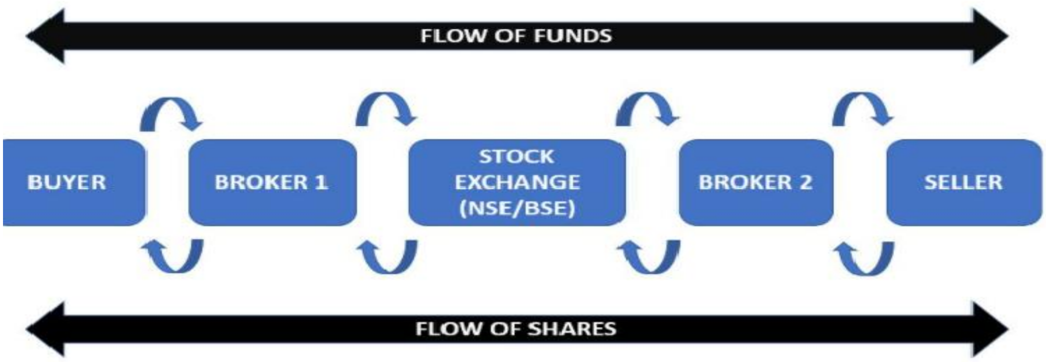
It was established in the year 1875 (formerly known as "The Native Share & stockbrokers association). [9] In 2017, BSE is the first listed stock exchange in India. It is a popular equity index - S&P BSE Index (benchmark index). [10] 4,790 companies listed in the BSE equity capital.[11]

On the other hand, NSE was established in the year 1992 and started operations in the year 1994.[12] The same trading practices, trading hours, and settlement process will occur in both major exchanges. BSE listed more than 5600 companies from all sectors[13] whereas NSE listed more than 1900 companies from all sectors.[14]In 1992, NSE established the first dematerialized electronic exchange in India.[15]

9.6 Trading Mechanism in India:

The trading takes place electronically through formal stock exchanges or over-the-counter markets where the listed companies can trade. The mechanism of trading takes place through electronic order book where the order matching is done at a terminal computer.[16]

Without market makers the trading process is driven through an order-driven system i.e., investors placed orders automatically.



Source: https://www.capitalvia.com/blog/trading-mechanism-in-stock-exchange

9.7 Clearing and settlement procedure in the Indian stock market:

The trading settlement process is called rolling settlement.[17]

In a stock market always be a buyer and seller, when the buyer buys the securities and sellers sell the goods, and the trade is settled when the buyer receives the securities and the seller receives the money electronically.

The mechanism takes place in three phases such as

a. Trading
b. Clearing
c. Settlement

a. Trading: In the securities market, simultaneous trading takes place in large volumes and an electronically ordering matching system, which matches the buyer and seller order from across the nations of different trades. Once the order is matched, the order will execute, or else it will behold.[18]

b. Clearing: Once the order is matched and the next step will take care of by Clearinghouses. Clearinghouses will facilitate the exchange of securities and payments between the buyer and the seller.[19]

c. Settlement: The settlement process is based on the T+ 2 days i.e., rolling settlement in India. The trading will clear the deals after the second working day of the transaction.[20] There are different types of settlements in the stock market such as spot settlement and forward settlement.[21]

9.8 Conclusion:

SEBI is the regulatory board in India where the investors can protect through transparency through major stock exchanges. It indicates the development phase of any economy through market indices.

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