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An Evaluation of Stock Exchanges in India with Special Reference to National Stock Exchange (NSE)

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Abstract- Young age people are very much excited about having an investment in various kinds of shares and securities of company but we all don't know about where to invest? How to invest? Where these companies are listed? What is a stock exchange? What are the major stock exchanges? What are the indices /indexes? What are the basic criteria for listing the companies? On what basis companies are listed on these stock exchanges? The answer is no because not everyone knows about it except the professional ones. So to provide the basic knowledge regarding stock exchanges especially about NSE in India this paper will be helpful for them.

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I. Introduction

a) Meaning of Stock Exchange

Stock Exchange is a market where the various kinds of companies are listed for the purpose of issuing their shares and other financial instruments to the general public.

b) World's First Stock Exchange

Ulrike Malmendier is an economist at the University of California At Berkeley, who argues that the share market actually exists in the world from an ancient Roman time. The Frankfurt Stock Exchange is one of the European oldest stock exchanges which were established in 1585 in Frankfurt am Main.

c) The Indian First Stock Exchanges

It was time back to the 18th century when trading in securities was started in our India for the first time by East India Company, where the stock trading was unorganized at that time. The scene was same until the end of 19thcentury. There were only two chief trading centers in India these are Calcutta and Bombay stock exchanges. At that time Bombay was considered the main trading port where essential commodities were traded in 1860 (A time of American civil war). At that time, it was just the concept, thought, and Idea about stock exchanges. The market was actually situated under the banyan tree with only 12-15 brokers in front of town hall in Bombay. These brokers organized an association in an informal way only in 1875. It was known by the "Native shares and stock brokers Association". Actually, it was considered the starting of the best history of our Indian stock exchanges.

d) NSE (National Stock Exchange)

NSE was established in 1992 and itis located in Mumbai. It is considered as the leading stock exchange of India. It was the first one which provided the facilities of securities in the electronic form where all the process of buying and selling of all the kinds of securities are done in the computerized manner so that it is helpful to make available all the facilities of shares and other securities to every investor of each corner of the country. When P. V. Narasimha Rao was the Prime minister of India and Manmohan Singh was the finance minister of India then NSE was incorporated in 1992 as the Tax-paying company and it came to be known by everyone in 1993 under the Securities Contract (Regulation) Act, 1956. The operations in the Wholesale Debt Market (WDM) and the Capital Market segment were commenced by NSE in 1994 whereas the operation in Derivative segment was commenced in 2000. In March 2016 NSE is considered as the 12th largest stock exchange in the world as it has total market capitalization more than the US $ 1.41 trillion.

e) Types of Products Traded in NSE

NSE deals in various kinds of products such as:- Shares, Debentures, Bonds, Future and Options, Forward and Swaps, Indices, Mutual funds, Exchange traded funds, Initial public offerings, Securities lending and borrowing funds, Equity derivatives, Currency derivatives, Interest rates futures and Corporate bonds.

f) Meaning of Index

An Index is the barometer of Indian stock market where stocks of various companies are used by the investors in India. An Index is a statistical tool which is used to measure the relative price of stocks. This is also known as the stock market index. NSE has one of the most popular indexes known as NIFTY50 where top fifty company's stock prices are measured on their total market capitalization.

II. Literature Review

L. C. Gupta & J. K. Rohtagi (1972) in his book he suggested about the working condition of stock

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exchanges in India and as well as suggested about the important information regarding the cost of issuing the shares and other securities which must be low in order to protect the small investor as their larger proportion of savings is invested in issuing share and securities.

L. C. Gupta (1992) he has done an extensive study regarding return on new equity issues which describes that there should be a separate analysis about having an investment on new issues of equity shares where the most preference is given to the new companies who must require having a separate analysis. The most important factor which influences the rates of return on new issues is the 'fixed price' they are issued to its original buyers. The return on equity must include dividends and as well as its capital appreciation. This is considered as having the sound estimation of rates of return on equities and estimates the variability of such return over time. Also, since high speculation leads to the high concentration in the market then there should be a short -term speculation in the market, so that it will leads to the artificial price.

Nabhi Kumar Jain (1992):- he specified certain kinds of tips for buying the shares, for holding the shares and also for selling shares. He suggested that the investors must buy the shares of growing company of growing industry where he also suggested buying the shares of growth companies but in a diversifying ways where the number of the companies are dealing in equally fast growing sectors of the economy. He also suggested about the time of selling the shares where the actual timing of selling the shares of these company must be the time when the company reached to the peak of its growth. Also, it was advised to have an immediate sells of shares at the moment when we realized that we had made a mistake in purchasing of these shares. The most important decision is to decide the option to buy or sell the shares i.e. when to buy and sell high priced shares only by identifying the individual merit or demerit of each of the shares in the portfolio and arrives at a certain level of decision.

National Stock Exchange of India Limited (2001) in its publication made a pioneer effort to develop a pertinent literature on National Stock Exchange. It studies the regulatory frameworks, policies Programmes of primary and secondary market, trades in stock exchange, settlements of trade, broker's role and dematerialized procedures etc

III. Objectives of the Study

1. To make the people aware of the products in which the NSE deals.
2. To make the people know the listing criteria of NSE.
3. To make aware of the membership of NSE and the eligibility criteria of taking membership in NSE.
4. To make aware how to get registered in NSE (For corporate regions).

IV. Research Hypothesis

1. H_0 *:* It deals only in issuing the Equity Capitals in Capital markets.
2. H_0 *:* It does not take care of investor's problem. Let them leave in the hands of SEBI only.

V. Research Methodology

Here I have used the secondary source of data. I have gathered various information on NSE from various sources such as websites, Journals etc.

VI. Data Analysis

a) The Listing

i. *Meaning the listing of the companies under the stock exchange*

Here, listing means to get registered the various companies under the stock exchange is known as listing.

ii. *Importance of Listing*

1. It helps to make the people aware of the company that the company is not fake.
2. It helps to know the market capitalization of various companies very easily.
3. It helps to file complaints against any fraudulent companies to SEBI (Securities and Exchange Board of India).
4. It also helps to find out that whether the company is existing or not.

iii. *Benefits of Listing*

1. *Comprehensive Marketplace:*- NSE offers the large coverage of the capital market where it covers every area of capital market such as equity market, derivative market, future and option market.
2. *Sales of operations:*- NSE's product has larger scales of classes which help to attract various investors.
3. *Visibility:*- It displays all the best five orders which are available to the investors for buying and selling of securities and also display the total number of securities available to them, as well as the corporate information is get displayed by NSE.
4. *Unprecedented Reach:*- NSE has high speed network and it supports more than 1,81,524 terminals through VSAT (across the countries).
5. *Settlement Guarantee:*- It provides the guarantee of settlements of various problems of investors.
6. *Broadcast facility for corporate announcement:*- It helps to provide all the important information related to the company to every investor across the world through the Broadcast mode on the NEAT system.
7. *Trade statistics for listed companies:*- It provides the statistical report of all the securities of all the listed companies every month.

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8. Investor service center:- The trading service center is opened for 24x7 hours for the purpose of providing the help to the investors by NSE

iv. *Listing criteria/procedure followed by NSE*

1) A company should have the track records of undistributed profit for the last three years out of immediate five preceding years as per section 205.
2) Before pre issue a company should have net worth of one crore in the last three years.
3) The issue size does not exceed five times its pre issue net worth as per the last available audited accounts. If its issue size more than five times then at least 50% issue size should be allotted to the qualified institutional buyers (QIBs), falling which full subscriptions monies should be refunded.
4) 20% at least is held by promoters at the time of issue where the lack in period three years of the date of allotment of securities (OTCEI).
5) The company has net tangible assets of at least three Crore each of the preceding three full years of which not more than 50% is held in monetary assets. However, if more than 50% of the net tangible assets are held in monetary assets the company must have made firm commitments to display such excess monetary assets in its business project

b) Trading Mechanism

Earlier it was founded that all the trading were done on the manually which, was very difficult to maintain a record and also founded very much time consuming factors. Therefore, NSE was the one which brought-up the online trading facilities so that it becomes very easy to trade the securities and also it is considered less time consuming than earlier. NSE introduced SBTS(Screen Based Trading System) where a member of NSE can fix the quantity of securities and the price at one place which automatically transect the trading (by matching the buying and selling order requirement at a right time) then the transaction gets executed as soon as it finds the right buying and selling match.

c) Function of Trading through SBTS

- SBTS helps to fix the price and the quantity of shares and securities according to the choice of investors
- It allows the faster incorporation of price sensitive information to the prevailing price which helps to increase market efficiency due to efficient flow of information in the market.
- It helps the market participants to trade with each other in the market simultaneously even from the various geographical location.
- It helps to improve the depth and liquidity in the market.
- It provides the full anonymity by accepting order big or small from numbers without revealing identity, providing equal access to everybody..

d) Process of Trading through SBTS

- Technology is used to carry out the trading platform from the hall of the stock exchange to the premises of brokers.
- NSE carried the further platform to PCs at the residence of investors through the internet and to handheld devices through Wireless Application Protocol (WAP) for the convenience of mobile investors.

NSE has the main computer which is connected to Very Small Apertures Terminal (VSAT) installed at its office. Broker has terminal which is connected through VSAT/Leased line/modem. After getting information through investor's brokers place the order through his PCs which runs under NT and send the signals through VSAT/Leased line/modems which is directed to NSE. Through this way the broker have a trading of securities.

VII. Membership Procedure

a) Meaning of Membership of NSE

It means to be a part of NSE or have the belongingness to NSE.

b) Who can take the membership in NSE

Anyone can take the membership in the NSE according to the rules and regulations, notifications, and guidelines of SEBI 1956.

c) Eligibility Criteria for Taking Membership in NSE

According to the regulatory norms and provisions of SEBI and as per the rules and regulations of Exchange. The following clauses are eligible to apply for membership.

- Individuals (Sole Proprietor)
- Partnership Firm as per the Partnership act, 1932
- Limited Liabilities of Partnership (LLP)
- Corporations, Companies and Institutions
- Professional Clearing Member (PCM)
- Banks for Currency Derivative Segment
- Other Eligibility Criteria
- Base Minimum Capital Requirement

i. *In case of Individual (Sole Proprietor)*

1) He must be an Indian citizen.
2) His minimum age limit is at least twenty one years old.
3) He must be at least having HSC or must have an equivalent qualification.
4) He must have an at least two year's experience as a partner with others, as an authorized assistant, as an authorized clerk, or apprentice to, or a member.

ii. *Partnership Firm as per the Partnership act, 1932*

According to the rules and regulation of an Exchange, an applicant can identify Dominant Promoter

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Group at the time of making the application, where a partnership firm is an applicant.

Followings are the eligibility criteria of membership:-

1) It must be registered under an Indian Partnership Act, 1932
2) There should be at least any two designated partners who would be responsible for day to day management.
3) The designated partner must have an age limit of at least twenty one years.
4) He must have educational qualification of at least HSC (Higher Secondary Certificate) or equivalent to it.
5) He must have a minimum two year's experience as a portfolio manager or as an investment consultant or as a merchant bankers or financial service provider or as an authorized agent etc.
6) The partner sharing interest rates must be clear according to DGP rules and regulations.

iii. *Limited Liabilities of Partnership (LLP)*

According to the Limited Liability Partnership Act, 2008 (6 of 2009):- As per the rules and regulation which may be prescribed by the Securities and Exchange Board of India.

1) It must be registered under Limited Liability Partnership Act, 2008.
2) There should be at least any two designated partners who would be responsible for day to day management of LLP.
3) The designated partner must have an age limit of at least twenty one years.
4) He must have an educational qualification of at least HSC or equivalent to it.
5) He must have a minimum two year's experience as a portfolio manager or as an investment consultant.
6) The partner sharing interest rates must be clear according to DGP rules and regulations.

iv. *Corporations, Companies and Institutions*

According to the companies act, 1956:-

1) It must be registered under the companies act, 1956.
2) It must have its minimum paid-up Equity capital up to rupees thirty lacs.
3) There should be at least any two designated partners who would be responsible for day to day management of the company.
4) The designated partner must have an age limit of at least twenty one years.
5) He must have an educational qualification of at least HSC or equivalent to it.
6) He must have a minimum two year's experience as a portfolio manager or as an investment consultant.
7) The partner sharing interest rates must be clear according to DGP (Dominant Promoter Group) rules and regulations

v. *Professional Clearing Member (PCM)*

1) SEBI registered custodian; or,
2) Banks recognized by NSEIL / NSCCL for issuance of bank guarantees.

These are the only one who is eligible to be PCMs of NSCCL (National Securities Clearing Corporation Limited).

vi. *Banks for Currency Derivative Segment*

The eligibility membership criterion for banks in the Currency Derivatives segment is as follows:

1) Bank must be authorized by Reserve Bank of India.
2) Must be authorized under sec (10) of Foreign Exchange Management act 1999 AD Category - I bank'.
3) It must have its Minimum net worth of Rs. 500 Crores.
4) It must have a Minimum Capital to Risky Assets of 10%.
5) Its net NPA (Non-Performing Asset) should not more than 3 %.
6) It must gain its net profit for last three years.

vii. *Other Eligibility Criteria*

An applicant who is successfully certified either one of the following Modules is eligible to take a membership in stock exchanges. Such kinds of Modules are as follows:-

- Capital Market (Dealers) Module.
- Derivatives Market (Dealers) Module.
- National Institute of Securities Markets (NISM) Series I – Currency.
- Derivatives Certification Examination.

viii. *BMC (Base Minimum Capital) Requirement*

1) Only for those proprietary trading which is traded without any Algorithmic trading must require to deposit rupees ten lacks BMC.
2) When the trading is on the behalf of clients then it must be required to deposit rupees fifteen lacks BMC.
3) When there are proprietary trading and trading is on the behalf of the client but without Algo then its BMC is about rupees twenty-five lacks.
4) All Trading Members/Brokers with algo of rupees fifty lacks BMC.

ix. *Who Cannot become a Member*

The person who can't be a member/partner or director when:-

1. He is declared as an insolvent person.
2. He has been considered as fraudulent or dishonest person;
3. He has been declared as the defaulter of stock exchanges at any time.
4. He has been banned /rejected from having trading in securities by a Regulatory Authorities like SEBI, RBI etc.

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5. When NSE found him involving in any such kind of activity which is not right for the interest of investors then NSE has a power to disqualify him from the membership of NSE.

VIII. Clearing and Settlements

a) Clearing and settlements of various problems/ complaints by NSE

All the kinds of problems which arise on the trading of NSE are clearing and settling by NSCCL (A legal Counter Party).

As we all know that there are various kinds of changes which get introduced from time to time such as the changes are in the technology system, compression of settlement cycle, dematerialization and electronic transfer of the securities, securities lending and borrowing, professionalization of clearing member, fined-tune risk management system, emergence of clearing corporation to assume the counterparty risk etc.

It follows the system of account period of cash market transaction and then they implement the T+2 rolling settlement.

Due to the time gap between the trading and their settlements then this leads to the rise in the settlement risks. So to get rid of these kinds of problems the exchange and clearing corporation introduced the risk management practices so that there should be timely settlements of trade and also tried to set the margin and capital adequacy standards for the protection of the interest of the investors.

As we all knows that there are two types of depositories in India. They are:-

NSDL (National Securities and Depository Limited) and CSDL (Central Securities Depository Limited) which help to transfer the securities and to settlement in the dematerialized form.

All the kinds of problems were settled in the demat forms. Here, there are two important depository participants known as

- Member/custodian and
- Clearing agency

Played the important role in the transfer of pooled securities to each other's account to whom it required the most. Member has their pool accounts where a lot of securities are gathered together and the clearing agency has their settlements accounts. The pay in and pay out effect the accounts in the same days where the fund's requirement were met by the banks (with whom they were connected).

b) In the pay-in days

The members are informed electronically where the required funds were made available to the clearing bank within the prescribed pay in days. When clearing agency forward the obligation funds with the help of clearing bank then the clearing bank debit the member's account and just credit the clearing agency's account. Sometimes clearing agency debits the member's accounts and credits their accounts by their own.

c) On the pay-out day

Clearing banks transfer the available funds from the accounts of the clearing agency to the accounts of members as per the member's obligation.

d) In the T+2 rolling settlements

The pay-in and pay out funds as well as securities take place within two working days after the trading date.

e) Transaction Cycle

1. As we all know that every person is unaware of how to have the trade of securities? Due to this reason hetries to find out broker for trading his securities.
2. He first decides what kind of securities is to be best for him to purchase according to his estimation regarding its risk and return.
3. Then he decides the quantity of shares (i.e. The Number of Shares) to be purchase.
4. After that he tries to find out his broker, as people may not have the exact knowledge of trading or maybe they are so busy in his/her life that he/she does not have a much time to look out for his/her trading.
5. After finding out his broker he tries to place his order for buying and selling his shares.
6. And then that order is converted into its real and exact trade as soon as it finds the right match of buy or sells of securities.
7. This trade is so clear and so determined to have fair trading which helps to deliver the securities/funds.

IX. Conclusion

National Stock Exchange of India Limited is the one of the most popular stock exchange of India. This deal in issuing all kinds of securities in the dematerialized manners i.e., in the electronic form. It not only deals with having an investment in the capital market but also deals in solving various problems which help to protect the interest of investors.NSE also includes clearing and settlement mechanism through which various problems are solved on trading time so that there should not be much delay in its settlement. So it is the present time in India's most modernized stock exchange.

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