

# 1 An Evaluation of Stock Exchanges in India with Special 2 Reference to National Stock Exchange (NSE)

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## 7 **Abstract**

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

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17 *Index terms*— NSE, listing process in NSE, membership of NSE, NSE clearing and settlement.

## 18 **1 I. Introduction a) Meaning of Stock Exchange**

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

## 21 **2 b) World's First Stock Exchange**

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

## 25 **3 c) The Indian First Stock Exchanges**

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

## 35 **4 d) NSE (National Stock Exchange)**

36 NSE was established in 1992 and it is located in Mumbai. It is considered as the leading stock exchange of India.  
37 It was the first one which provided the facilities of securities in the electronic form where all the process of  
38 buying and selling of all the kinds of securities are done in the computerized manner so that it is helpful to make  
39 available all the facilities of shares and other securities to every investor of each corner of the country. When

## **9 IT HELPS TO KNOW THE MARKET CAPITALIZATION OF VARIOUS COMPANIES VERY EASILY. 3. IT HELPS TO FILE COMPLAINTS AGAINST ANY FRAUDULENT**

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40 P. V. Narasimha Rao was the Prime minister of India and Manmohan Singh was the finance minister of India  
41 then NSE was incorporated in 1992 as the Taxpaying company and it came to be known by everyone in 1993  
42 under the Securities Contract (Regulation) Act, 1956. The operations in the Wholesale Debt Market (WDM)  
43 and the Capital Market segment were commenced by NSE in 1994 whereas the operation in Derivative segment  
44 was commenced in 2000. In March 2016 NSE is considered as the 12 th largest stock exchange in the world as it  
45 has total market capitalization more than the US \$ 1.41 trillion.

### **46 5 f) Meaning of Index**

47 An Index is the barometer of Indian stock market where stocks of various companies are used by the investors in  
48 India. An Index is a statistical tool which is used to measure the relative price of stocks. This is also known as  
49 the stock market index. NSE has one of the most popular indexes known as NIFTY50 where top fifty company's  
50 stock prices are measured on their total market capitalization. exchanges in India and as well as suggested about  
51 the important information regarding the cost of issuing the shares and other securities which must be low in  
52 order to protect the small investor as their larger proportion of savings is invested in issuing share and securities.

### **53 6 II. Literature Review**

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

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

72 National Stock Exchange of India Limited (2001) in its publication made a pioneer effort to develop a pertinent  
73 literature on National Stock Exchange. It studies the regulatory frameworks, policies Programmes of primary  
74 and secondary market, trades in stock exchange, settlements of trade, broker's role and dematerialized procedures  
75 etc III. Objectives of the Study 1. To make the people aware of the products in which the NSE deals. 2. To  
76 make the people know the listing criteria of NSE. 3. To make aware of the membership of NSE and the eligibility  
77 criteria of taking membership in NSE. 4. To make aware how to get registered in NSE (For corporate regions).

78 IV. Research Hypothesis

### **79 7 V. Research Methodology**

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

### **82 8 VI. Data Analysis**

83 a) The Listing i. Meaning the listing of the companies under the stock exchange  
84 Here, listing means to get registered the various companies under the stock exchange is known as listing.  
85 ii. Importance of Listing 1. It helps to make the people aware of the company that the company is not fake.

## **86 9 It helps to know the market capitalization of various companies very easily. 3. It helps to file complaints against any fraudulent**

89 companies to SEBI (Securities and Exchange Board of India). 4. It also helps to find out that whether the  
90 company is existing or not.  
91 iii. Benefits of Listing 1. Comprehensive Marketplace:-NSE offers the large coverage of the capital market  
92 where it covers every area of capital market such as equity market, derivative market, future and option market.  
93 2. Sales of operations:-NSE's product has larger scales of classes which help to attract various investors.

94 3. Visibility:-It displays all the best five orders which are available to the investors for buying and selling of  
95 securities and also display the total number of securities available to them, as well as the corporate information  
96 is get displayed by NSE.

97 4. Unprecedented Reach:-NSE has high speed network and it supports more than 1,81,524 terminals through  
98 VSAT (across the countries).

99 5. Settlement Guarantee:-It provides the guarantee of settlements of various problems of investors. 6.  
100 Broadcast facility for corporate announcement:-It helps to provide all the important information related to  
101 the company to every investor across the world through the Broadcast mode on the NEAT system. 7. Trade  
102 statistics for listed companies:-It provides the statistical report of all the securities of all the listed companies  
103 every month. 8. Investor service center:-The trading service center is opened for 24x7 hours for the purpose of  
104 providing the help to the investors by NSE iv. Listing criteria/procedure followed by NSE 1) A company should  
105 have the track records of undistributed profit for the last three years out of immediate five preceding years as  
106 per section 205. 2) Before pre issue a company should have net worth of one crore in the last three years.

107 3) The issue size does not exceed five times its pre issue net worth as per the last available audited accounts.  
108 If its issue size more than five times then at least 50% issue size should be allotted to the qualified institutional  
109 buyers (QIBs), falling which full subscriptions monies should be refunded. 4) 20% at least is held by promoters  
110 at the time of issue where the lack in period three years of the date of allotment of securities (OTCEI). 5) The  
111 company has net tangible assets of at least three Crore each of the preceding three full years of which not more  
112 than 50% is held in monetary assets. However, if more than 50% of the net tangible assets are held in monetary  
113 assets the company must have made firm commitments to display such excess monetary assets in its business  
114 project b) Trading Mechanism

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

## 122 **10 c) Function of Trading through SBTS**

123 ? SBTS helps to fix the price and the quantity of shares and securities according to the choice of investors ?  
124 It allows the faster incorporation of price sensitive information to the prevailing price which helps to increase  
125 market efficiency due to efficient flow of information in the market. ? It helps the market participants to trade  
126 with each other in the market simultaneously even from the various geographical location. ? It helps to improve  
127 the depth and liquidity in the market.

128 ? It provides the full anonymity by accepting order big or small from numbers without revealing identity,  
129 providing equal access to everybody..

## 130 **11 d) Process of Trading through SBTS**

131 ? Technology is used to carry out the trading platform from the hall of the stock exchange to the premises of  
132 brokers. ? NSE carried the further platform to PCs at the residence of investors through the internet and to  
133 handheld devices through Wireless Application Protocol (WAP) for the convenience of mobile investors. NSE has  
134 the main computer which is connected to Very Small Apertures Terminal (VSAT) installed at its office. Broker has  
135 terminal which is connected through VSAT/Leased line/modem. After getting information through investor's  
136 brokers place the order through his PCs which runs under NT and send the signals through VSAT/Leased  
137 line/modems which is directed to NSE. Through this way the broker have a trading of securities. In case of  
138 Individual (Sole Proprietor) 1) He must be an Indian citizen. 2) His minimum age limit is at least twenty one  
139 years old. 3) He must be at least having HSC or must have an equivalent qualification. 4) He must have an  
140 at least two year's experience as a partner with others, as an authorized assistant, as an authorized clerk, or  
141 apprentice to, or a member.

## 142 **12 VII. Membership Procedure**

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

144 According to the rules and regulation of an Exchange, an applicant can identify Dominant Promoter Followings  
145 are the eligibility criteria of membership:-1) It must be registered under an Indian Partnership Act, 1932 2) There  
146 should be at least any two designated partners who would be responsible for day to day management.

147 3) The designated partner must have an age limit of at least twenty one years. 4) He must have educational  
148 qualification of at least HSC (Higher Secondary Certificate) or equivalent to it. 5) He must have a minimum two  
149 year's experience as a portfolio manager or as an investment consultant or as a merchant bankers or financial  
150 service provider or as an authorized agent etc. 6) The partner sharing interest rates must be clear according to  
151 DGP rules and regulations.

152 iii. Limited Liabilities of Partnership (LLP)

## 18 E) TRANSACTION CYCLE

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

### 155 13 1) It must be registered under Limited Liability

156 Partnership Act, 2008. 2) There should be at least any two designated partners who would be responsible for  
157 day to day management of LLP.

158 3) The designated partner must have an age limit of at least twenty one years. 4) He must have an educational  
159 qualification of at least HSC or equivalent to it. 5) He must have a minimum two year's experience as a portfolio  
160 manager or as an investment consultant. 6) The partner sharing interest rates must be clear according to DGP  
161 rules and regulations.

### 162 14 iv. Corporations, Companies and Institutions

163 According to the companies act, 1956:-1) It must be registered under the companies act, 1956.

164 2) It must have its minimum paid-up Equity capital up to rupees thirty lacs. 3) There should be at least any  
165 two designated partners who would be responsible for day to day management of the company. 4) The designated  
166 partner must have an age limit of at least twenty one years. 5) He must have an educational qualification of  
167 at least HSC or equivalent to it. 6) He must have a minimum two year's experience as a portfolio manager or  
168 as an investment consultant. 7) The partner sharing interest rates must be clear according to DGP (Dominant  
169 Promoter Group) rules and regulations v. Professional Clearing Member (PCM) As we all know that there  
170 are various kinds of changes which get introduced from time to time such as the changes are in the technology  
171 system, compression of settlement cycle, dematerialization and electronic transfer of the securities, securities  
172 lending and borrowing, professionalization of clearing member, fined-tune risk management system, emergence of  
173 clearing corporation to assume the counterparty risk etc. It follows the system of account period of cash market  
174 transaction and then they implement the T+2 rolling settlement.

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

179 As we all know that there are two types of depositories in India. They are:-NSDL (National Securities and  
180 Depository Limited) and CSDL (Central Securities Depository Limited) which help to transfer the securities and  
181 to settlement in the dematerialized form.

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

### 184 15 ? Member/custodian and ? Clearing agency

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

### 189 16 b) In the pay-in days

190 The members are informed electronically where the required funds were made available to the clearing bank  
191 within the prescribed pay in days. When clearing agency forward the obligation funds with the help of clearing  
192 bank then the clearing bank debit the member's account and just credit the clearing agency's account. Sometimes  
193 clearing agency debits the member's accounts and credits their accounts by their own. c) On the pay-out day  
194 Clearing banks transfer the available funds from the accounts of the clearing agency to the accounts of members  
195 as per the member's obligation.

### 196 17 d) In the T+2 rolling settlements

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

### 198 18 e) Transaction Cycle

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

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## 208 19 IX. Conclusion

209 National Stock Exchange of India Limited is the one of the most popular stock exchange of India. This deal in  
210 issuing all kinds of securities in the dematerialized manners i.e., in the electronic form. It not only deals with  
211 having an investment in the capital market but also deals in solving various problems which help to protect the  
212 interest of investors. NSE also includes clearing and settlement mechanism through which various problems are  
213 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.<sup>1</sup>

214 Figure 1:

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<sup>1</sup> An Evaluation of Stock Exchanges in India with Special Reference to National Stock Exchange (NSE)



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