
SECONDARY MARKET IN INDIA: A REVIEW OF EMERGING TRENDS

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Abstract

Indian Securities Market, especially the secondary market is witnessing fundamental changes in the last few years. Electronic financial services have modernized the stock exchanges, leading to drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety in trading, leading to increased trading volumes and market capitalization. The changes in regulatory and governance framework have also brought about an improvement in investor confidence. With the total Market Capitalisation of 1, 01, 49,290 crore at BSE and 99, 30,122 crores at NSE as on May 2015, the secondary market is set to see phenomenal changes in the future.

It is against this background, the paper aims to (i) study the trends in secondary market with regards Sensex and Nifty (ii) examine the growth in the number of investors accounts at NSDL and CDSL, (iii) analyse the growth of online trading in capital market (CM) segment of NSE with a view to assess its impact on the trading volume and turnover.

Key words: Secondary Market, Investors, Online Stock Trading, Capital Markets, Sensex and Nifty

INTRODUCTION

The financial system in India is in a process of rapid transformation, particularly after the introduction of reforms in the financial sector and the development of information technology. An efficient, competitive and diversified financial system helps raise capital, increase the return on investment paving way for growth and prosperity in the economy as a whole.

A vibrant and efficient capital market is the most important parameter for evaluating growth of any economy. The capital market fosters economic growth in various ways such as augmenting the quantum of savings and capital formation, by efficient allocation of capital, which, in turn, raises the productivity of investment. Further, it adds to the financial scope of the economy by enlarging the financial sector and promoting the use of innovative, sophisticated and cost-effective financial instruments.

SECONDARY MARKET

The secondary market is a market for outstanding securities. Unlike primary issues in the primary market which result in capital formation, the secondary market facilitates only liquidity and marketability of outstanding debt and equity instruments. A stock exchange is the single most important institution in the secondary market for providing a platform to the investors for buying and selling of securities through its members. Secondary markets are also referred to as stock exchanges. Stock exchanges in India now operate with due recognition from Securities and Exchange Board of India (SEBI) / the Government of India under the Securities Contracts (Regulation) Act, 1956. The securities are traded, cleared and settled within the regulatory framework prescribed by the Exchanges and the SEBI.

SECONDARY MARKET REFORMS AND DEVELOPMENT

Over the last few years, Securities and Exchange Board of India (SEBI) has announced several reforms to promote the secondary market operations and protect investor interests. Reforms in the secondary market have focused on three main areas: structure and functioning of stock exchanges, automation of trading and post trade systems, and the introduction of surveillance and monitoring systems. Computerized online trading of securities, and setting

up of clearing houses or settlement guarantee funds were made compulsory for stock exchanges. Most of regional stock exchanges have formed subsidiary companies and obtained membership of Bombay Stock Exchange, (BSE) or National Stock Exchange (NSE) or both. In 1994, National Stock Exchange (NSE) came into existence, which brought an end to the open outcry system of trading securities which was in vogue for 150 years, and introduced Screen Based Trading (SBT) system. BSE's On Line Trading System was launched on March 14, 1995. By the end of January 2015, the total market capitalisation of BSE and NSE was 1, 03, 46,282 crore and 1, 01, 00,218 crore, respectively.

REVIEW OF LITERATURE

Singh (2004), examined the liquidity scenario of Indian stock exchanges and raised the issues related to illiquidity. The study reported that the trends of liquidity of shares traded on NSE have remained constant but there has been an increase in turnover.

Khan (2005) studied the operations, turnover and trading at Indian stock exchanges, the study identified the existence of close interconnection between undesirable trading practices in stock exchanges and the type, nature and structure of the key body governing the stock exchanges i.e. governing body/ board of directors that dominated by the brokers and speculative interests.

Kumar (2008) examined the determinants of trading volume for individual stocks in the emerging India's stock market. The CMIE data was used to construct weekly turnover measures for the individual BSE and NSE stocks from January 1997 to December 2004 (418 weeks). The paper also examined the stock trading volume at NSE. The study revealed that behavioural factors affect investor's trading decisions in Indian equity market which in turn had an impact on stock trading volume.

S. A. Majeed Pasha and R.V Krishna (2012) examined the role of SEBI in Indian capital market. The study reported that SEBI has to balance between the costs of regulation and market development and that there should be cross-border cooperation between various regulators and between regulators and industry.

George Thomas P. (2013) examined the recent issues in the Indian stock market. The study reported that the Indian capital market has undergone metamorphic reforms in the past few years and that every segment of the Indian capital market, namely, primary and secondary markets, derivatives, institutional investment, and market intermediation has experienced an impact of these changes. The study also revealed that significantly improved the transparency, efficiency, and integration of the Indian market with the global markets

Richa Gupta and Deepti Goel (2014) discussed various issues and challenges of the capital market in India. The study identified that India being an emerging economy needs innovations and reforms in the financial market. And that there is the need to develop its capital market especially its bond market which is underdeveloped because of policies constraint.

RESEARCH GAP

From the literature review above, it can be observed that most of the research was undertaken to analyse the growth and performance of capital markets in India, earlier studies were also undertaken to identify the determinants of trading volume for individual stocks in the Indian stock market. But little research was done on analysing the growth and performance of secondary market in India. The recent developments like the recession affecting major stocks markets around the world and increased technological innovations have caused a major impact on the trading volume of the stock markets. It is against this backdrop, the paper aims to examine in the growth and performance of the secondary market in India.

OBJECTIVES OF THE STUDY

- i. To provide a conceptual framework of the secondary market in India.
- ii. To examine the growth and performance of secondary market in India.
- iii. To study the trends in secondary market using Sensex and Nifty

- iv. To analyse the growth of online trading in capital market (CM) Segment of NSE with a view to assess its impact on the trading volume and turnover.
- v. To offer suitable suggestions based on the results of the study.

RESEARCH METHODOLOGY

The study is based on the secondary data. The data has been collected from the sites of SEBI, NSE and RBI reports and websites. The data relates to the period from 2001 to 2015. The research is of analytical nature in which facts, figures and information from secondary sources are used to make a critical evaluation. To explain the growth of capital market segment of NSE, the variables like turnover of stock exchanges, growth of online trading, number of Demat accounts at CDSL and NSDL etc. were taken

TRENDS IN THE SECONDARY MARKET

With the increased application of information technology, the trading platforms of the stock exchanges are accessible from anywhere in the country through their trading terminals. The trading volumes on the stock exchanges have been witnessing phenomenal growth over the past few years. Table -1 depicts the movement of BSE Sensex and NSE Nifty.

TABLE 1: NIFTY AND SENSEX PERFORMANCE FOR THE PERIOD 2005-2015

YEAR	NO OF BROKERS (cash segment)	NSE NIFTY	BSE SENSEX
2005-2006	9,335	3402.55	11280
2006-2007	9,443	3821.55	13,072.10
2007-2008	9,487	4734.50	15644.44
2008-2009	9,628	3020.95	9708.5
2009-2010	9,772	5249.1	17527.8
2010-2011	10,203	5833.8	19445.2
2011-2012	10,268	5295.6	17404.2
2012-2013	10,128	5683.0	18836.0
2013-2014	9411	6704.0	22386.0
2014-s2015\$,	7320	8809.0	29183.3

Source: SEBI publication

\$ As on last trading day of June 2015

INFERENCE

As can be seen from the Table -1, the total number of brokers registered in the year 2005-2006 were 9335, while Nifty closed at 3402.55 points, Sensex closed at 11280.00 points in the year 2005-2006. In 2008-2009 Nifty was at 4734.50 points and BSE Sensex at 9708.50 Points with 9628 number of brokers. In 2009-2010 there was an increase in the number of brokers from 9628 to 9,772, indicating a increase of 144 members, in the same year NSE Nifty closed at 5249.10 points and Sensex at 17527.80. By 2010 -2011 the total numbers of stock brokers increased to 10,203, while Nifty closed at 5833.80 points, Sensex closed at 19445.20 points. By 2011-2012, the total number of stock brokers increased to 10,245 indicting a increase of 42 members from 10,203 in the year 2011, while Nifty closed at 5295.6 and BSE Sensex at 17404.2. On June 2015 BSE Sensex closed at 29,183.0 and NSE Nifty closed at 8, 808.9, when compared to previous year

TECHNOLOGY AND APPLICATION SYSTEMS IN NSE

In recognition of the fact that technology will continue to redefine the shape of the securities industry. NSE is the first exchange in the world to use satellite communication technology for

trading. NSE's trading system, called the National Exchange for Automated Trading (NEAT), is a state-of-the-art client-server based application. NSE has been continuously undertaking capacity enhancement measures in order to effectively meet the requirements of the increasing number of users and the associated trading loads. BSE's On Line Trading System was launched on March 14, 1995. NSE's Internet Based Information System (NIBIS) has also been put in place for online real-time dissemination of trading information over the Internet. Now the trading in securities is done using screen based trading system through duly authorized members of the exchange. Online trading systems have been introduced in almost all stock exchanges making stock trading more efficient and transparent.

DEMET TRADING

Although the investors have a right to hold securities in either physical or Demat form, the SEBI has made it compulsory that trading in securities should be only in the dematerialized form. The depository runs an electronic file to transfer the securities from the accounts of the custodians/clearing member to that of the NSCCL (and vice versa) as per the schedule of allocation of the securities. Table 2 depicts the total Demat securities and turnover at NSE and BSE for the period 2005-2015.

Table 2: TOTAL DEMAT SECURITIES AND TURNOVER AT NSE AND BSE

YEAR	BSE		NSE	
	DEMAT Securities Traded (Lakh)	DEMAT Turnover (in Crores)	DEMAT Securities Traded (Lakh)	DEMAT Turnover (in crore)
2005-2006	844,486	1,569,55	6,45,061	7,90,446
2006-2007	855,456	1,945,287	5,58,068	9,52,025
2007-2008	1,498,469	3,551,038	9,84,081	15,74,729
2008-2009	1,426,355	2,752,023	7,39,287	10,99,871
2009-2010	2,215,530	4,138,023	11,35,750	13,78,529
2010-2011	1,824,515	3,577,410	9,89,999	11,03,978
2011-2012	16,16,978	28,10,893	6,53,445	6,66,761
2012-2013	16,59,160	27,08,279	567125	548725
2013 -2014	15,33,716	28,08,488	4,79,951	5,21,664
2014-2015\$	23,61,779	43,29,655	8,56,755	8,54,842

Source: SEBI publication

\$ As on last trading day of June 2015

INFERENCE

It can be seen from the Table -2, that in the year 2005-2006, a total of 44,486 and 6,45,061 lakh Demat securities were traded with a turnover of 1,569,55 and 7,90,446 crores at BSE and NSE respectively. In the year 2009-2010 the total Demat turnover at BSE was 4,138,023 and 13,78,529 crores at NSE and the total number of Demat securities traded were 2,215,530 lakh at BSE and 11,35,750 at NSE. In 2010-2011 the turnover increased to 3,577,410 at BSE and 11,03,978 at NSE and by 2012 the total number of Demat securities traded at BSE were 16,16,978 lakhs and 6,53,445 lakhs at NSE with a turnover of 28,10,893 crores at BSE and 6,66,761 crores at NSE. By 2013 a total of 16,59,160 and 567125 lakhs Demat securities were traded with a turnover of 27,08,279 and 548725 Crores at BSE and NSE respectively and 2014 a total of 15,33,716 and 4,79,951 lakhs Demat securities were traded with a turnover of 28,08,488 and 5,21,664 crores at BSE and NSE and by June 2015 a total of

23,61,779 and 8,56,755 lakhs Demat securities were traded with a turnover of 43,29,655 and 8,54,842 crores at BSE and NSE respectively .

GROWTH IN THE DEPOSITORY ACCOUNTS

Since the introduction of the depository system, dematerialization has progressed at a fast pace, and has gained acceptance among the market participants. A depository holds securities in a dematerialized form. The two depositories in India are the National Securities Depository Ltd. (NSDL) and the Central Depository Services (India) Ltd. (CDSL). All actively traded scrip’s are held, traded, and settled in the Demat form. Table -3 represents the total number of investors accounts, number of companies registered at NSDL and CDSL.

TABLE 3: NUMBER OF INVESTORS ACCOUNTS AT NSDL AND CDSL

Date	Number of companies		Number of investors accounts		Number of participants		Number of stock exchanges connected	
	CDSL	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL	NSDL
2009	6421	7919	62.3	102.6	490	285	18	8
2010	7501	5158	73.4	113.2	539	289	18	8
2011	7582	5313	78.4	118.5	566	282	18	8
2012	5511	5443	81.0	123.8	568	283	8	8
2013	5822	5612	86.8	130.6	580	280	8	8
2014	6043	5825	92.6	135.5	574	273	8	6
2015\$	6128	5898	97.6	138.2	574	273	8	6

Source: SEBI publication

\$ As on last trading day of June 2015

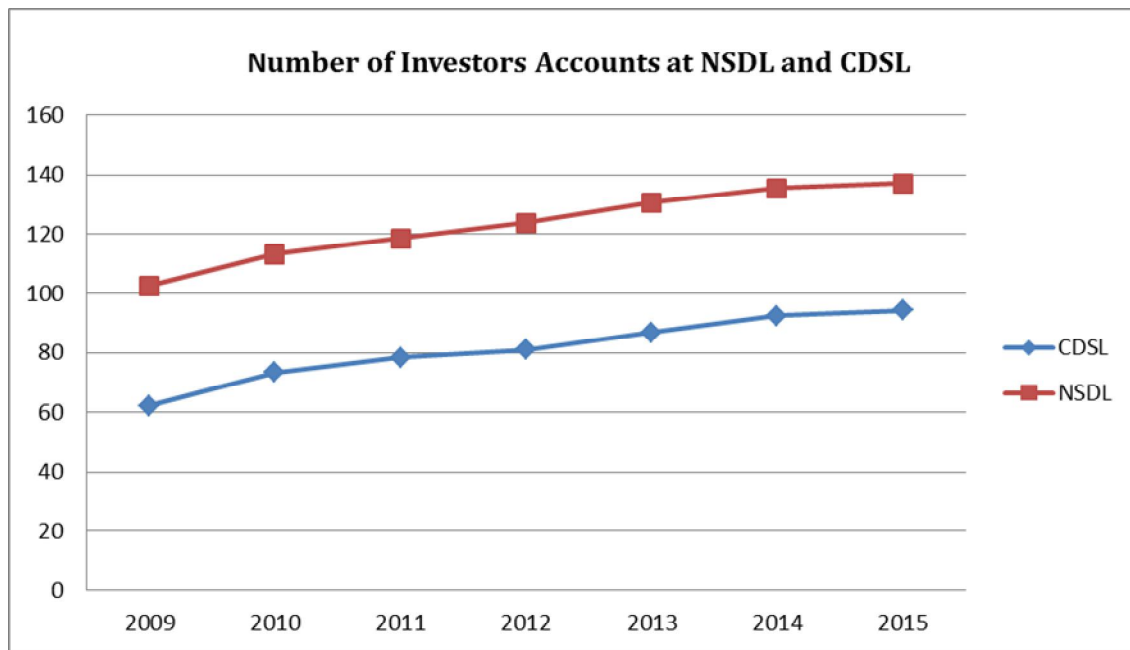


Figure -1: Growth in the number of investors in NSDL and CDSL

INFERENCE

As can be observed from the Table -3, in the year 2009 the number of investor's accounts increased to 62.3 lakh at CDSL and 102.6 at NSDL at the number of depository participants increased to 490 at CDSL and 285 at NSDL. And in 2010, the numbers of participants were 289 at NSDL and 539 at CDSL. The total numbers of stock exchanges connected were 18 in CDSL and 8 at NSDL. By the end of December 2011 the number of investor's accounts increased to 178.4 lakh at CDSL and 118.5 at NSDL and the number of depository participants increased to 566 at CDSL and 282 at NSDL. In 2012 the numbers of investor's accounts were 81.0 lakhs at CDSL and 123.8 at NSDL, The numbers of depository participants were 283 in NSDL and 568 at CDSL. The total number of investor accounts was 136.3 lakh at NSDL and 94.0 lakh at CDSL at the end of December 2014. In June 2015, the number of investor accounts at NSDL and CDSL were 97.6 and 138.2 indicating an increase by 0.5 per cent and 0.4 per cent respectively, The following Table-3 depicts the number of investors accounts, depository participants, number of stock exchanges connected and total number of companies signed in for de-materialization process at CDSL and NSDL for the period 2009-2015.

ONLINE TRADING IN INDIA: CAPITAL MARKET (CM) SEGEMENT

Today increasingly, investors are attracted to the allure of online investing rather than to rely solely on their stockbrokers for advice and information. Having taken advantage of information technology at an opportune time trading on capital market segment has been witnessing a substantial growth over the years, with the increase in volumes, efficient and transparent trading platform, offering a wide range of securities. The rapid growth in online trading volumes can be attributed to the growing sophistication of retail investors, availability of reliable internet connectivity and the sophistication of the internet trading products. Table - 4 below depicts the growth of online trading in India.

TABLE 4: GROWTH OF ONLINE TRADING

Year	Enabled members	Registered clients	Internet Trading Volume (Rs. Crores)	Internet Trading Volume (US \$ millions)	% of Total trading volume
2000-2001	61	1,23,578	7,287.81	1,562.57	0.54
2001-2002	82	2,31,899	8138.81	1,667.79	1.59
2002-2003	80	3,46,420	15,360.76	3,233.84	2.48
2003-2004	70	4,63,560	37,945.08	8,745.12	3.45
2004-2005	78	8,49,696	81,033.81	18,522.01	7.11
2005-2006	142	14,43,291	1,83,428.2	41,118.2	11.68
2006-2007	242	22,79,098	3,37,524	77,432	17.35
2007-2008	305	44,05,134	6,68,399	1,67,225	18.82
2008-2009	349	56,27,789	6,92,789	1,35,974	25.17
2009-2010	363	51,43,705	9,21,380	2,04,116	11.13
2010-2011	387	56,40,513	7,65,271	1,71,393	10.70
2011-2012	428	61,48,447	5,97,430	116.78	10.63
2012-2013	445	6,268,798	583,073	107.20	10.76
2013-2014	459	6,874,574	627,478	105.00	10.99

Source: NSE-Fact Book

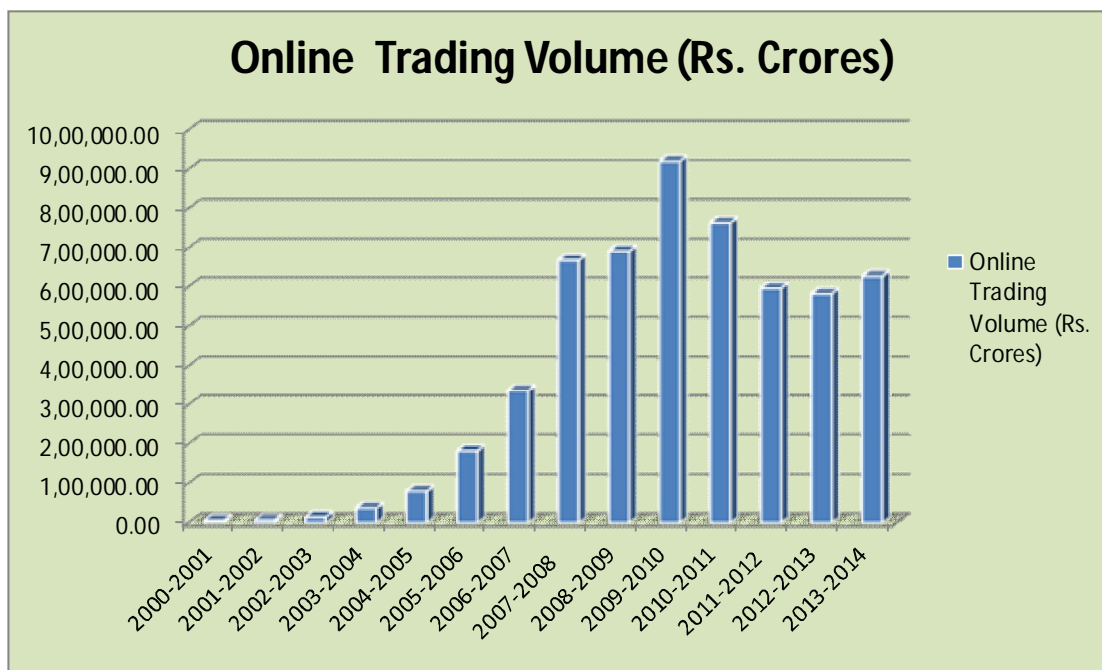


Figure -2: Online/ Internet trading volumes in the capital market segment.

INFERENCE

As can be observed from Table -4, in the year 2000, 61 members were permitted to provide internet based trading. The members of the exchange in turn had registered 123,578 lakh clients for web based access. In the year 2011-2012, 428 members registered 61, 48,447 clients for web based trading. In 2000 the internet trading volume in the capital market segment was around 7,288 lakh constituting around 0.54% of the total trading volume. In 2001 the volume increased to 8138.81lakh and in 2003 the trading volume was around 15,360.76 lakh and by 2005 about 499 lakh trades for Rs. 81,034 crores, constituting 7.11% of total trading volume, were routed and executed through internet. During the year 2006, about Rs. 1, 83,428.52 crore, constituting 11.68% of total trading volume, were routed and executed through internet. By the year 2009-10, 11.13 % of the trading value in the capital market segment representing 692,789 crores (135,974 US \$ million) was routed and executed through the internet. And in 2011 - 2012, a total of 597,430 crore constituting 10.63 % of the trading value was routed and executed through the internet. By 2014, 459 members who were permitted to provide internet based trading, the members of the exchange in turn had registered 6,874,574 lakh clients for web based access with total trading volume of 627478 crores constituting around 11 per cent of the total trading volume.

MAJOR FINDINGS OF THE STUDY

1. By 2014, a total of 459 members were permitted to provide internet based trading, with 6,874,574 lakh registered clients for web based access, with total trading volume of 627478 crores constituting around 11 per cent of the total trading volume.
2. Nifty closed at 8,808.9 on march 2015 compared to 8,282.7 on December 31, 2014 indicating an increase of 526.2 points (6.4 per cent).
3. The total number of investor accounts was 138.2 lakh at NSDL and 97.6 lakh at CDSL at the end of May 2015. In May 2015, the number of investor accounts at NSDL and CDSL increased by 0.4 per cent and 0.8 per cent, respectively. A comparison with May 2014 showed there was an increase in the number of investor accounts to the extent of 5.4 per cent at NSDL and 10.8 per cent at CDSL.

4. CDSL. (Details in Table 70) A comparison with January 2014 showed there was an increase in the number of investor accounts to the extent of 4.5 per cent at NSDL and 7.9 per cent at CDSL
5. The total number of depository participants was 571 at CDSL and 285 at NSDL. The total numbers of stock exchanges connected were 8 in CDSL and 6 at NSDL
6. The market capitalisation of BSE and NSE increased by 3.6 per cent and 3.5 per cent to 1,03,26,686 crore and `1,00,20,665 crore, respectively, at the end of May 2015.
7. In march 2015 the total Demat securities traded at BSE was around 23,61,779 and the turnover in volume was 43,29,655crores. And the total Demat securities traded at NSE was around 8, 56,755 and the turnover in volume was 8, 54,842 crores.
8. The total number of companies registered for Demat at CDSL were 6128 and 5898 at NSDL in June 2015

SUGGESTIONS

Over the past years, the government and the market regulators have taken several policy measures to improve the operations of the stock exchanges and the market intermediaries. Sound development of various segments of the capital market is a pre-requisite for a well-functioning financial system. Given below are some of the suggestions

1. As part of the broader set of reforms aimed at improving the functioning of the securities market, the SEBI must take measures to improve information flows from the listed companies with a view to enhancing the efficiency of the market.
2. Necessary measures must be taken by SEBI to improve corporate governance practices for the listed companies to infuse a sense of discipline and accountability in the Indian corporate sector by strengthening standards of disclosure and transparency.
3. The measures are aimed at improving the market infrastructure and upgrading risk containment, in order to protect the interests of the investors. For the secondary markets to function efficiently, the trading and settlement infrastructure has to be sufficiently developed
4. SEBI must undertake several steps for the smooth-cum-speedy development of both primary and secondary markets from time to time for the development of all areas in the capital markets.
5. Reforms have to made to extend the presence of bond market in India which remains under developed
6. Focused efforts have to be made to enhance the investors knowledge and understanding of new as well as existing product categories
7. The NSE must take initiative to conducting investor awareness and education seminars on a regular basis at various centres across the country. Informative brochures and booklets have been prepared for educating investors across all categories
8. Improvements must be made in the clearance and settlement system. A major step in this direction has been the establishment of depositories NSDL and CDSL and a clearing corporation NSCCL.

CONCLUSION

The role of secondary market in Indian financial system is getting transformed from being peripheral to becoming central. The secondary markets' behaviour has a powerful influence on the course of economic activity. The economic growth of any country depends on the level of investment.

India, with its vast investor base, strong capital market tradition and vibrant industry can optimally utilize the stock markets to raise resources cheaply and provide an impetus for economic growth. But this is possible only through by building investors' confidence who

contribute to the stock markets' growth. With an increase in the number of investors, (traditional and online) and trading volume, the secondary market is bound to face see phenomenally changes in the future.

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