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Commerce	A BRIEF OVERVIEW OF THE INDIAN STOCK MARKET

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Abstract

The Indian stock market has gained recognition in recent years on account of the changes witnessed over the years. This research article is a brief overview of the stock market and its description to clear the understanding to maximum possible extent. The descriptive cum analytical approach has been adopted to reach the objectives of this research.

Keywords – Stock market, NSE, BSE, IPO

Introduction

What is 'Stock Market'

It is a place where shares of pubic listed companies are traded. The primary market is where companies float shares to the general public in an initial public offering (IPO) to raise capital.

Description: Once new securities have been sold in the primary market, they are traded in the secondary market—where one investor buys shares from another investor at the prevailing market price or at whatever price both the buyer and seller agree upon. The secondary market or the stock exchanges are regulated by the regulatory authority. In India, the secondary and primary markets are governed by the Security and Exchange Board of India (SEBI).

A stock exchange facilitates stock brokers to trade company stocks and other securities. A stock may be bought or sold only if it is listed on an exchange. Thus, it is the meeting place of the stock buyers and sellers. India's premier stock exchanges are the Bombay Stock Exchange and the National Stock Exchange.

Stock Exchange-

Stock Exchange market is a vital component of a stock market. It facilitates the transaction between traders of financial instruments and targeted buyers. A stock exchange in India adheres to a set of rules and regulations directed by Securities and Exchange Board of India or SEBI. The said authoritative body functions to protect the interest of investors and aims to promote the stock market of India.

What is the Stock Exchange?

The **stock exchange in India** serves as a market where financial instruments like stocks, bonds and commodities are traded.

It is a platform where buyers and sellers come together to trade financial tools during specific hours of any business day while adhering to SEBI's well-defined guidelines. However, only those companies who are listed in a **stock exchange** are allowed to trade in it.

Stocks which are not listed on a reputed stock exchange can still be traded in an 'Over The Counter Market'. But such shares would not be held high in esteem in the **stock exchange market**.

How Does it Work?

Mostly, a **stock exchange in India** works independently as no 'market makers' or 'specialists' are present in them.

The entire process of trading in **stock exchange in India** is order-driven and is conducted over an electronic limit order book.

In such a set-up, orders are automatically matched with the help of the trading computer. It functions to match investors' market orders with the most suitable limit orders.

The major benefit of such an order-driven market is that it facilitates transparency in transactions by displaying all market orders publicly.

Brokers play a vital role in the trading system of the **stock exchange market,** as all orders are placed through them.

Both institutional investors and retail customers can avail the benefits associated with direct market access or DMA. By using the trading terminals provided by **stock exchange market** brokers, investors can place their orders directly into the trading system.

Benefits of Listing with Stock Exchange

Listing with a **stock exchange** extends special privileges to company securities. For instance, only listed company shares are quoted on a **stock exchange**.

Being listed on a reputed stock exchange is deemed beneficial for companies, investors and the public in general and they tend to benefit in these following ways –

- **Increased Value**

Only stocks listed with a reputable stock exchange are considered to be higher in value. Companies can cash in on their market reputation in the **stock exchange market** by increasing their number of shareholders. Issuing shares in the market for shareholders to acquire is a potent way of increasing shareholder base and base, which in turn increases their credibility.

- **Accessing capital**

One of the most effective ways of availing cheap capital for a company is by issuing company shares in the **stock exchange market** for shareholders to acquire. Listed companies can generate comparatively more capital through share issuance owing to their repute in a **stock exchange market** and use it to keep their company afloat and its operations running.

- **Collateral value**

Almost all lenders accept listed securities as collateral and extend credit facilities against them. A listed company is more likely to avail a faster approval for their credit request; as they are deemed more credible in the **stock exchange market.**

- **Liquidity**

Listing helps shareholder avail the advantage of liquidity better than other counterparts and offers them ready marketability. It allows shareholders to estimate the value of investment owned by them.

Additionally, it permits share transactions with a company and helps them to even out the associated risks. It also helps shareholders to improve their earnings from even the slightest increase in overall organisational value.

- **Fair price**

The quoted price also tends to represent the real value of a particular security in a **stock exchange in India.**

The fact that the prices of listed securities are set as per the forces of demand and supply and are disclosed publicly, investors are assured to acquire them at a fair price.

Investment Methods

Investors can invest in a **stock exchange of India** through these two ways –

1. **Primary market** – This market creates securities and acts as a platform where firms float their new stock options and bonds for the general public to acquire. It is where companies enlist their shares for the first time.
2. **Secondary market** – The secondary market is also known as the stock market; it acts as a trading platform for investors. Here, investors trade in securities without involving the companies who issued them in the first place with the help of brokers. This market is further broken down into – auction market and dealer market.

Major stock exchanges in India

There are two major **types of Stock Exchanges** in India, namely the –

Bombay Stock Exchange (BSE**):** This particular stock exchange was established in 1875 in Mumbai at Dalal Street. It renowned as the oldest stock exchange not just in Asia and is the 'World's 10th largest Stock Exchange'.

The estimated market capitalisation of Bombay Stock Exchange as of April stands at $ 4.9 Trillion and has around 6000 companies publicly listed under it. The performance of BSE is measured by the Sensex, and it reached its all-time high in June in 2019, when it touched 40312.07.

National Stock Exchange (NSE**):** The NSE was established in 1992 in Mumbai and is accredited as the pioneer among the demutualised electronic **stock exchange** markets in India. This **stock exchange market** was established with the objective to eliminate the monopolistic impact of the Bombay Stock exchange in the Indian stock market.

The estimated market capitalisation of National Stock Exchange as of March 2016 was US$ 4.1 trillion and was acclaimed as the 12th largest **stock exchange** in the world. NIFTY 50 is NSE's index, and it is extensively used by investors across the globe to gauge the performance of the Indian capital market.

IMPORTANCE OF STOCK MARKET

The stock market is one of the most important ways for companies to raise money, along with debt markets which are generally more imposing but do not trade publicly. This allows businesses to be publicly traded, and raise additional financial capital for expansion by selling shares of ownership of the company in a public market.

The liquidity that an exchange affords the investors enables their holders to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as property and other immoveable assets.

History has shown that the price of stocks and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. The stock market is often considered the primary indicator of a country's economic strength and development.

Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an eye on the control and behavior of the stock market and, in general, on the smooth operation of financial system functions. Financial stability is the raison d'être of central banks.

Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction.

The smooth functioning of all these activities facilitates economic growth in that lower costs and enterprise risks promote the production of goods and services as well as possibly employment. In this way the financial system is assumed to contribute to increased prosperity, although some controversy exists as to whether the optimal financial system is bank-based or market-based.

Recent events such as the Global Financial Crisis have prompted a heightened degree of scrutiny of the impact of the structure of stock markets (called market microstructure), in particular to the stability of the financial system and the transmission of systemic risk.

Stock market index

The movements of the prices in global, regional or local markets are captured in price indices called stock market indices, of which there are many, e.g. the S&P, the FTSE, the Euronext indices and the NIFTY & SENSEX of India. Such indices are usually market capitalization weighted, with the weights reflecting the contribution of the stock to the index. The constituents of the index are reviewed frequently to include/exclude stocks in order to reflect the changing business environment.

Financial innovation has brought many new financial instruments whose pay-offs or values depend on the prices of stocks. Some examples are exchange-traded funds (ETFs), stock index and stock options, equity swaps, single-stock futures, and stock index futures. These last two may be traded on futures exchanges (which are distinct from stock exchanges—their history traces back to commodity futures exchanges), or traded over-the-counter. As all of these products are only *derived* from stocks, they are sometimes considered to be traded in a (hypothetical) derivatives market, rather than the (hypothetical) stock market.

Leveraged strategies

Stock that a trader does not actually own may be traded using short selling; margin buying may be used to purchase stock with borrowed funds; or, *derivatives* may be used to control large blocks of stocks for a much smaller amount of money than would be required by outright purchase or sales.

Short selling

In short selling, the trader borrows stock (usually from his brokerage which holds its clients shares or its own shares on account to lend to short sellers) then sells it on the market, betting that the price will fall. The trader eventually buys back the stock, making money if the price fell in the meantime and losing money if it rose. Exiting a short position by buying back the stock is called "covering". This strategy may also be used by unscrupulous traders in illiquid or thinly traded markets to artificially lower the price of a stock. Hence most markets either prevent short selling or place restrictions on when and how a short sale can occur. The practice of naked shorting is illegal in most (but not all) stock markets.

Margin buying

In margin buying, the trader borrows money (at interest) to buy a stock and hopes for it to rise. Most industrialized countries have regulations that require that if the borrowing is based on collateral from other stocks the trader owns outright, it can be a maximum of a certain percentage of those other stocks' value. In the United States, the margin requirements have been 50% for many years (that is, if you want to make a $1000 investment, you need to put up $500, and there is often a maintenance margin below the $500).

A margin call is made if the total value of the investor's account cannot support the loss of the trade. (Upon a decline in the value of the margined securities additional funds

may be required to maintain the account's equity, and with or without notice the margined security or any others within the account may be sold by the brokerage to protect its loan position. The investor is responsible for any shortfall following such forced sales.)

Regulation of margin requirements (by the Federal Reserve) was implemented after the Crash of 1929. Before that, speculators typically only needed to put up as little as 10 percent (or even less) of the total investment represented by the stocks purchased. Other rules may include the prohibition of *free-riding:* putting in an order to buy stocks without paying initially (there is normally a three-day grace period for delivery of the stock), but then selling them (before the three-days are up) and using part of the proceeds to make the original payment (assuming that the value of the stocks has not declined in the interim).

Regulation of Stock Exchange in India

Entire stock exchange of India is regulated by the Securities and Exchange Board of India (SEBI) which was established in 1992 as an independent authority. SEBI has the power to impose fines and penalties in case of violation of rules and regulations. It plays a pivotal role and protects the interest of investors in the stock exchange of India. SEBI promotes education and training of intermediaries of the stock market.

Bull Market and Bear Market

A bull market is a market where buyers are aggressively buying the shares in an expectation that shares price will rise and will sell at later date. A bear market is a market where prices are falling.

Strong economic conditions, high employment levels, the favorable government are few factors which lead to a bull market whereas poor economic conditions, natural adversity, unemployment or sudden unfavorable political changes lead to bear market.

Future of Stock Exchange in India

In a growing economy like India, the future of stock exchange is bright and the volume of transactions will grow substantially in the coming years.

Out of 1.2 billion people, there are only 20 million demat accounts as of now. Government's initiative to bring retail customers in mutual funds and foreign investments in India will help the stock exchange of India.

Conclusion

In conclusion, the Indian stock exchange is synonymous with NSE (National Stock Exchange) and the Bombay Stock Exchange (BSE). Both act as the vital component of the country's financial system and economy. It provides a platform for companies to raise capital and for investors to buy and sell shares of those companies. Today, they are well-regulated and play a crucial role in the growth and development of India's corporate sector. Despite facing challenges and volatility at times, the BSE & NSE continue to be a key driver of economic activity in the country and a popular destination for investors.

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