

The economic relevance and *raison d'être* of the institution of stock exchange lie in its effectiveness in performing successfully two basic functions:

- (i) to facilitate resource raising from the community for financing corporate sector and government for various activities; and
- (ii) to provide an organised market place for the investors to freely buy and sell securities.

The functioning of the stock exchange has therefore to be such as to create a climate conducive to an active primary market (new issues market) and to ensure fair and efficient trading in securities in the secondary market (stock exchange) and to establish a harmonious relationship between the two.¹

In other words, the institution of stock exchange is expected to facilitate the channelisation of savings especially from the household sector to meet the investment requirements of the productive sectors of the economy primarily by ensuring a market place, that provides liquidity to capital market instruments through fair and transparent trading practices.²

The responsibility therefore to ensure the 'harmonious relationship' between new issues market and secondary market or stock exchange rests with the functioning of stock exchanges.

The eighties saw very significant changes and trends in new issues market. These can be termed as related broadly to a number of economic policy measures introduced during this period. Various such policy measures on one hand led to a sharp increase in the fund requirements of private corporate sector³ and on the other tried to make investment in corporate securities more attractive. Few such measures that led to sharp rise in fund

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1. Ministry of Finance, Department of Economic Affairs, Report of the High powered committee on Stock Exchange Reform, 1985, p. 6. (hereinafter referred to as Patel Committee).

Mr. M.R. Mayya, Executive Director, Bombay Stock Exchange defines the role of Stock Exchange as the 'nexus between the savings and investment of the community'.

See M.R. Mayya, 'Do Stock Exchanges have a Future', Economic and Political Weekly, Bombay, February 1978, p. M-19.

2. Report of the High powered study Group on Establishment of New Stock Exchange, June, 1991. pp. 59-62 (hereinafter referred to as Pherwani Committee Report).

3. P.D. Ojha, 'Investors and the Capital Market', Reserve Bank of Indian Bulletin, Bombay, Dec, 1987, pp 1139-1146.

M.J. Pherwani, op. cit., p.1

requirements of the private corporate sector were the delicensing of a number of industries, liberal approach in regard to foreign collaborations, and allowing scope for dominant undertakings to go in for diversification projects. Increase in the rates of interest on debentures, various tax benefits associated with the investment in new issues like section 80 CC benefit for investment in new issues of equity shares of new companies and section 80L benefit in respect of dividends besides other factors attracted middle class investors to new issues market.⁴

During the eighties private corporate sector was encouraged 'to draw a larger proportion of rising levels of household sector's savings by way of company securities.'⁵ Also worth mention are the suggestions and recommendations made by an important international financial institution - The World Bank during the eighties to encourage new issues market as source of finance for Indian private corporate sector. Measure like increase in the interest rate on convertible debentures was encouraged by The World Bank.⁶ Criticising the performance of Development Banks, the dominant source of finance for private corporate sector for long, The World Bank posed equity markets as alternative to the Development Banks.⁷ The World Bank suggested that the equity markets 'widen the options to savers by offering high return high risk financial assets. By competing for funds with the rest of the financial sector, they may increase the total supply of savings. In addition they improve the allocative efficiency of the financial sector by giving firms greater access to risk finance, they bring a new element of competition to the financial sector and thus provide firms with an alternative to long term borrowing and they improve the flow of financial information'.⁸

Table - 1 reveals the sharp rise (in absolute terms) in the amount raised from new issues market by private corporate sector during the eighties. Amount raised during the Sixth Plan (1980-81 to 1984-85) from the new issues market by the sector is more than six times the amount raised during the Fifth Plan (1974-75 to 1978-79). The corresponding figure of Rs. 14,590 cr. during the Seventh Plan

4. D. Mitra, N. Krishna Rao 'Alternate Financial Instruments: Evaluation and Role in Capital widening process' Indian Journal of Finance and Research, New Delhi, Vol. I, No. 1, Jan 1991, pp. 1 - 16.

5. Planning Commission, Report of the Study Group on financing of the Private Corporate Sector in the Sixth Five Year Plan, 1982, p. 87.

6. The World Bank, India: Structural change and Development Perspectives - Vol. I, Washington D.C., April, 1985, pp. 6-9.

7. World Bank, World Development Report, 1987, Washington, D.C. p. 122.

8. Ibid.

Table - 1

**Amount raised by Private Corporate Sector
from New Issues Market**

Period	Rs. Crore
1974-75 to 1978-79 (Fifth Plan)	551
1980-81 to 1984-85 (Sixth Plan)	3393*
1985-86 to 1989-90 (Seventh Plan)	14950

Source: (i) Reserve Bank of India, Report on Currency and Finance, (various issues)

(ii) Securities and Exchange Board of India, Report on State of the Capital Market (1989-90).

* In this amount the figure for Calendar year 1980 is proxy for the figure for 1980-81.

(1985-86 to 1989-90) is more than 4.4 times the amount raised during the Sixth Plan. These developments in new issues market during the eighties resulted in sharp increase in the number of corporate security holders also. There were, it was estimated, one crore corporate security holders in 1990.⁹ The figure includes 90-95 lakhs shareowning individuals two-thirds of those entered the share market for the first time after 1980 only.¹⁰ Table - 2 reflects the sharp increase in the number of share holders during the eighties.

The eighties saw doubling in the number of stock exchanges. Their number stood 9 in 1980 and by the end of the decade they reached 19. Table - 3 tells that during the period 1971 to 1980 the percentage increase in the number of the companies listed on stock exchanges was 42 per cent. This corresponding figure for the period 1980-1990 stood 163 per cent. The paid up value of the securities listed on stock exchanges registered an increase of over 119 per cent during the period 1971-80. The corresponding figure for the period 1980-1990 - 599 per cent speaks for a sharp rise during the eighties. During the same period the market value of listed securities increased by 945 per cent as compared to an increase of 152 per cent during the period 1971-80.

⁹. L.C. Gupta, Indian Shareowners - A Survey, Society for Capital Market Research and Development, New Delhi, 1991, p. XXIII.

¹⁰. Ibid, pp. 25-26.

Table - 2
The Growth of Shareowning Population in India

Year	Estimated Number	
	Share-Owning Households (lakhs)	Share-Owning Individuals (lakhs)
1954-55	N.A.	4.5*
1961	N.A.	6.25*
1975	6.0	12
1980	10.5	24
1985	26	60
1990	39	90

* The estimate for 1954-55 was made by Raj K. Nigam and that for 1961 by L.C. Gupta. For further details, see L.C. Gupta, The Changing Structure of Industrial Finance in India, London, 1969, pp. 154-57.

Source: L.C. Gupta, Indian Shareowners - A Survey, 1991. p. 15.

With these developments and changes in background and in the light of desired role of the institution of stock exchange to provide healthy market place conducive to positive links between household sector's saving and investment needs of private corporate sector, this paper is an attempt to examine the functioning and role of the institution of stock exchange in India. **The study primarily focuses on the developments in eighties.**

The paper is divided into four sections. Section - I presents, in brief, the evolution process the institution of stock exchange in 'western type economies'¹¹ and in India. Section - II examines the role of shares and debentures as investment medium in household saving

¹¹. This term was used by J.K. Galbraith to describe the economies where corporations play major role in saving and investment activity. See The New Industrial State, Oxford and IBH Publishing Co., Bombay, 1973, p. 37. 'In the formally planned economies of the Soviet Union and Eastern Europe, income is withheld for investment by the industrial enterprise and especially by the state. In the United States and the Western type economies, this withholding is performed in largest amount by the corporation. The corporation serves here as elsewhere as the planning instrument' (emphasis added).

in financial assets. This section also examines the role of new issues as a source of private corporate sector financing in comparison with another major source of financing - assistance by All India Financial Institutions (AIFIs). Section - III attempts to throw light on the type and nature of organisation and management of stock exchanges and implications thereof as reflected in their functioning and business trends. This section also presents a few empirical exercises to assess the extent, to which, the share price trends registered at Bombay Stock Exchange are in consistency with certain corporate fundamentals considered important for investment decisions. The last section sums up the paper.

Table - 3
Growth of Stock Exchanges in India

As on December 31	1946	1961	1971	1975	1980	1985	1988	1990*	% Increase in 1990						
									Over 1946	Over 1961	Over 1971	Over 1975	Over 1980	Over 1985	Over 1988
1. No. of Stock Exchanges	7	7	8	8	9	14	15	19	171%	171%	138%	138%	111%	36%	27%
2. No. of Listed Companies	1125	1203	1599	1852	2265	4344	5841	5968	430%	396%	273%	222%	163%	37%	2%
3. No. of Stock Issues of Listed Companies	1506	2111	2838	3230	3697	6174	7694	8289	450%	293%	192%	157%	124%	34%	8%
4. Capital of Listed Companies (Rs. Cr.)	270	753	1812	2614	3973	9723	21465	2776110	182%	3587%	1432%	962%	599%	186%	29%
5. Market Value of Capital of Listed Companies (Rs. Cr.)	971	1292	2675	3273	6750	25302	51379	70521	7163%	5358%	2536%	2055%	945%	179%	37%
6. Capital per Listed Companies (Rs. Lacs)	24	63	113	141	175	224	367	465	1838%	638%	312%	230%	166%	108%	27%
7. Market Value of Capital per Listed Company (Rs. Lacs)	86	107	167	177	298	582	880	1182	1274%	1005%	608%	568%	297%	103%	34%

* 1990 figures are as of March 31, 1990.
Source: Bombay Stock Exchange.

Section - I

Evolution of the Institution of Stock Exchange

Stock exchange is an institution evolved in industrially developed capitalist economies with free market mechanism¹². The idea of commercial enterprise in which risk and profit are shared between financiers and traders as joint participants is very old. Wealthy nobles and merchants in Greece and Rome and later in the Italian city states used to contribute to the initial outlay and trading expeditions and ventures undertaken by ship owners and other traders in return for a share of the eventual profit. The legal rules for the '*Commanda*', perhaps the earliest formalised system of commercial joint enterprise, facilitated this type of transaction by allowing the liability of the investor, who had no control over the conduct of the venture, to be limited to the amount he had contributed. Roman lawyers also developed the concept of an association, the '*societas*', with legal rights and duties independent of its individual members, which laid the foundation of the modern idea of the corporate form as a separate legal entity. The structure of the modern company has therefore, been derived more or less directly from the concepts of the '*Commanda*' and the '*Societas*'¹³. International trade led entrepreneurs to pool their resources. Such joint ventures took place, in which several members of the company would pool their resources in a single expedition and in time. It came to be an accepted practice for the company itself to organise the various ventures for which members would be entitled or expected to

¹². See: Max Weber, 'Economy and Society, Vol. I, Part 2, pp 107-109, 161-164; Theory of Social and Economic Organisation, pp. 246-50, General Economic History, New York, 1961, pp. 207-209.

Free market economy is one of the most important components of capitalism. The other essential components of capitalism are:

1. Unrestricted struggle between autonomous economic groups;
2. Money economy;
3. Formally free labour;
4. Unrestricted market freedom;
5. Expropriation of the workers from the means of production; and
6. Individual ownership.

Also see: Theodore Levitt, "The dangers of social responsibility" Harvard Business Review, Vol. 36, No. 5, September-October 1958, p. 44-49.

According to Levitt "The function of free enterprise is to go after profit in any way that is consistent with its own survival" (emphasis added).

Also see: M.V. Namjoshi, 'The Mixed Economy', Himalayan Publishing House, Bombay, 1984, p.8.

"We define capitalism as an economic system stressing individual initiatives with a central role for a market economy, the profit motive and ownership of means of production by private individuals and corporations... we identify the U.S.A. as a Capitalist Country"(emphasis added).

¹³. W.R. Scott, Joint Stock Companies to 1720, 3 Vols. 1912 cited by Tom Hadden, Company Law and Capitalism, Weidenfeld and Nicolson, London, 1980, p.10.

contribute money or goods. This type of venture came to be known as Joint Stock, since each instead of trading with his own stock agreed to pool it in a common enterprise. In this process grew the enterprises in which each member was free to trade as he pleased, subject to the rules of the enterprise. The joint stock system became popular in other spheres for the operation of any new trading venture which required a large initial capital. Mines Royal (U.K.) for instance, which was founded in 1564, seems to have been organised from the start on a joint stock basis, twenty four shares being issued at an average price of £1,200; and Mineral and Battery Works founded in 1565, raised its initial capital by making a series of calls on thirty six shares.¹⁴

When capital was raised on a wide scale, there emerged demands and pressures from investors to have means, by which they can get their initial contribution, when they wished. A public market in which an investor can recover his contribution, came into existence. The much wider base for the raising of capital which the capital market permitted was soon reflected in the proliferation of joint stock enterprises in the 1690s and early 1700s.¹⁵

A major breakthrough in the history of Joint Stock company form of organisation came in 1856, when the concept of limited liability was introduced in U.K. From 1856 any company which complied with the terms of the Companies Act in adding the word 'Limited' to its formal title by way of warning to all those dealing with it was entitled to limit its liability and that of its members, to the amount of its subscribed capital¹⁶. Joint stock companies came to dominate the economic scene from the mid-nineteenth century. Fast expanding industrialisation during that period needed huge capital. It was being increasingly felt that the finance needed for business activity could not be supplied only by entrepreneurs themselves.¹⁷ Then the process of replacement of the solitary entrepreneur by larger and larger joint stock companies became faster.

In typical free market, the individual investor would ideally choose to make money available to those new or existing enterprises which offer the best prospect of immediate and continuing profit. And since he is entitled to withdraw his money from a less profitable enterprise by selling his shares, as long as he can find a buyer and to reinvest it, he will be continually looking for new and more profitable outlets for his money. Therefore, in theory, stock exchange was termed as institutional allocator of resources par excellence¹⁸. The proper achievement of this function however is dependent on a number of factors like

14. See for details - Tom Hadden, op.cit., pp. 11-12.

15. Ibid., p. 14.

16. Ibid., p.21.

17. J.A. Schumpeter, The Theory of Economic Development, 1934. Schumpeter mentioned that: The possessor of wealth even if it is the greatest combine must resort to credit, if he wishes to carry out a new combination which cannot like an established business be financed by returns from previous production. To provide this credit is clearly the function of that class of individuals, which we call capitalist.

18. Tom Hadden, op.cit., London 1980, p. 29.

freedom for individual investors to allocate their capital within the market as they please. It must also be so organised that those who deal on it are fully informed of all the relevant details of the enterprise in which they are being asked to invest. Further, the investor would be free to withdraw his money from a particular company and reinvest it in another or use his money in other ways as and when he wishes to do so.

Briefly, in western capitalist economies, the stock exchange became an institution broadly fulfilling the following objectives:

- i) Making funds available to entrepreneurs for business activity;
- ii) Ensuring maximum return on the investment made by the investors; and
- iii) Providing platform for saving, investment and reinvestment activity.

This can be stated that in 'western type' economies the stock exchange was one of the institutions resulting from the long process of institutionalisation of various forms of entrepreneurship. Stock exchanges in these economies (western capitalist economies) developed as an important institution for industrial financing and community's saving and investment activity. The London Stock Exchange is the world's oldest stock exchange, formally organised on 15th July, 1730. Table - 4 gives an overview of the position of stock exchanges functioning in some developed economies.

According to a recent estimate (June, 1991)¹⁹ the market capitalisation (market value of the securities listed) was 56 per cent of GNP in USA and 127 per cent of GNP in Japan (the corresponding figure for India was 10 per cent of GNP).

It is also worth mentioning that over a long period of time in some major industrially developed economies like that of USA and Japan, due to their large size, a number of corporations became so influential and dominant features of the economies that the debate, relating to whether these corporations are subordinate to macro economic factors or they are in position to influence them, is becoming increasingly significant.²⁰

Table - 4

An Overview of Stock Exchanges of Some Developed Economies, December, 1989

Country	Market Capitalisation (US \$ millions)	Average daily value traded (US \$ millions)	Number of listed Companies
1	2	3	4

¹⁹. M.J. Pherwani, *op. cit.*, p. 68.

²⁰. P.F. Drucker, *The New Realities*, Mandarin Paperbacks, London, 1987, pp. 153-154. Drucker observed: Individuals and firms never submitted to their supposed master, the macro economy. From the beginning, they successfully sabotaged. Also see: J.K. Galbraith, *op. cit.*, p. XIV.

1. Japan	4,392,597	2,800,685	2,019
2. United States	3,505,686	2,015,544	6727
3. United Kingdom	826,598	320,268	2015
4. Germany	365,176	628,630	628
5. France	364,841	107,286	668
6. Canada	291,328	70,173	1,146
7. Sweden	199,285	17,420	135
8. Australia	136,626	44,786	1,335
9. South Africa	131,059	7,095	748
10. Spain	122,652	38,389	423
11. Switzerland	104,239	n.a.	177
12. Hongkong	77,496	34,584	284
13. Singapore	35,925	13,711	136
14. Netherlands	29,300	89,848	313
(Total)	11,095,353	6,288,206	18690

Source: International Finance Corporation Fact Book, 1990.

This debate is particularly significant in context of the issues relating to functioning of the stock exchange, which can perform as a good allocator of resources under certain conditions.²¹ These conditions, to a considerable extent, as a few evidences suggest, could be influenced to their advantage by the large corporations including the ones specialising in securities business. Some recent developments relating to important stock exchanges and major securities firms, indicate the extent of the manipulation by some vested interests, to the detriment of investors at large and health of securities market. Recently it was disclosed before a special committee of Japan's Diet, that the big four leader companies of securities business in Japan namely - Nomura, Nikko Securities Co., Daiwa Securities Co. and Yamaichi Securities Co. paid more than one billion \$ in the last 2½ years ended March, 1990, to favoured clients (most of them were big corporations and financial institutions) who suffered losses in the securities market, in the contravention of Japanese securities regulations and to the detriment of unprivileged small investors. It was also disclosed that Nomura, largest company of Japan's securities business manipulated the prices of the shares of Tokyu corporation (a major rail road company) for the benefit of Susumu Ishji, the former head of the Inagawa-Kai gang, Japan's second biggest organised crime syndicate. Recently, series of trading frauds, cases of insider trading in the Frankfurt stock exchange, the main exchange of Europe's largest economy - Germany, and wide scale manipulation in government securities market in USA by the largest security firm of USA - Saloman

^{21.} These conditions include appropriate information about the enterprise or corporation in which the investor is being asked to invest. An investor should also be free to allocate his capital in fair trading environment and in the manner, he wants. Logically, the investors should have unbiased and appropriate informations about the investment prospects of the enterprises, as decisions based upon these form an important component of healthy stock exchange.

See: Tom Hadden, op. cit., p. 29.

Brothers Inc. indicate the extent of manipulation.²²

The issue of considerable importance therefore is that can the present state and functioning of stock exchanges in some major industrially developed economies like that of USA, Japan and Germany be termed as fully qualified to be treated as resource allocator par excellence? This issue is also very significant for the economy like that of India, where in recent past various policy initiatives were introduced to enhance the role of corporate securities as investment medium in household savings and in financing of private corporate sector without comprehensive measures to take care of health and efficiency of the functioning of stock exchanges.²³

It can be stated in brief that big influential corporations being major avenue of saving of community, became dominant feature of such economies, over a long period of time, making the institution of stock exchange, although with certain limitations, an important nexus between community's savings and investment needs of corporate sector.

^{22.} For details see:
Yumikho Ono 'Officials of Japan's Big four Admit Paybacks covered a longer period' The Asian Wall Street Journal, Hongkong, September 5, 1991, p. 3.
Laurie P. Cohen and Michael Siconolfi, 'Saloman tells Congress, it controlled 94 per cent of two years U.S. Notes Auctioned in May' The Asian Wall Street Journal, Hongkong, September 5, 1991, p. 9.
Terence Roth 'Scandal in Frankfurt Stock Market spurs questions on Regulations'. The Asian Wall Street Journal, Hongkong, September 6-7, 1991, p. 13.
'Under the volcano', The Economist, London, September 7-13, 1991, p. 93.

^{23.} See: D.N. Ghosh 'Sleath Finance - Thriving on Conflict of Interest', Economic and Political Weekly, Bombay, August 24, 1991, pp. 1948-1949.

Evolution and Growth of Stock Exchanges in India -

Pre-Independence Period

Emergence of the Stock Exchange

In India, business in loan securities of the East India Company was done towards the close of 18th century. Bombay became the major centre of trading activity in securities. This trading activity was unorganised and informal in nature. In Bombay, by 1830 some bank shares also entered in to the trading place. These shares included that of Commercial Bank, Chartered Mercantile Bank, Agra Bank, Oriental Bank and Bank of Bombay. Between 1840-50, there were half a dozen stock brokers in Bombay recognised by banks and merchants. By 1860 the number of brokers increased to 60.²⁴ With the passing of Joint Stock Companies Act in 1850, the number of companies involved in various types of trades started growing. Since Britishers were ruling the country at that time, most of provisions of the Companies Act, 1850 and subsequent Companies Acts closely resembled the British Company Law²⁵. At that time all important decisions relating to Indian economy were either taken or influenced by Britishers. So all these decisions therefore, tended to have British economy in background. British interests exploited Indian industry through "unequal trade by making India a hinterland for the production and sale of raw materials and purchase of metropolitan manufactures".²⁶ Cotton was one such raw material. Emergence of stock exchange in India has close links with the 'Cotton Boom', that took place during 1860 to 1865 in Bombay. Due to the outbreak of Civil War in United States of America (USA) in 1860-61, cotton supply to Britain from USA was stopped totally. Consequently, dependence of British cotton mills on Indian cotton increased sharply. Nearly all the cotton grown in South India had to pass through Bombay on its way to Britain. During this period 1861-65 export of cotton almost doubled from 5,66,000 bales to 11,18,000 bales. As the civil war continued, the cotton price kept booming. Prevailing cotton price during 1863-65 was 5 to 9 times higher than the price charged earlier to this period.

A large amount of cotton exports was paid for in the form of bullion that poured into Bombay in the shape of silver and gold. Table - 5 reveals that out of the total arrival of Gold and Silver in to India during 1861-65, Bombay alone accounted for 61.05 per cent.

^{24.} The Stock Exchange Official Directory, Vol. II, Weekly replacement issue dated April 24, 1989, Bombay, p. 1.

^{25.} S.M. Shah, Lectures on Company Law, N.M. Tripathi Ltd., Bombay, 1971, p.4.

^{26.} Bipan Chandra, The Long Term Dynamics of the Indian National Congress, (Presidential Address) 46th Session, Indian History Congress, Amritsar, 27-29 Dec., 1985, p.3.
Also See: Hobs Bawm, Industry and Empire, Hanmondsworth, Middlesex, 1976 Reprint pp. 191-192.

Table - 5
Incoming of Gold and Silver

Year	India (Rs. crore)	Bombay (Rs. crore)
1861-62	17.73	9.48
1862-63	19.63	13.98
1863-64	18.97	16.13
1864-65	28.49	12.19
	84.82	51.78

Source: Bombay Stock Exchange Official Directory

Huge wealth generated in Bombay during cotton boom started finding its ways. Available facts indicate that speculation in securities and establishing new companies were two of them. Speculation can be termed as the purchase (or temporary sale) of securities for later resale (repurchase), in the hope of profiting from the intervening changes.²⁷ For instance the Bank of Bombay Commission observed that,

The great and sudden wealth produced by the price of cotton shortly after the commencement of the American War coupled with the want of legitimate means of investment was at this time producing its natural result in the development of excessive speculation.²⁸

From 1861 to the beginning of 1865, speculation was key activity in Bombay's securities trading places. The Backbay Reclamation share with Rs. 5,000 paid up was at Rs. 50,000 premium, the Port Canning share with Rs. 1,000 paid up was at Rs. 11,000 premium. In August, 1864 Asiatic Bank share of Rs. 200 paid up, was quoted at Rs. 460 and the Bank of Bombay share with Rs. 500 paid up reached a maximum price of Rs. 2,850.²⁹

American Civil War came to an end in early 1865. After this, the sources of huge earnings dried up. Then the speculative activity was interrupted by non-fulfillment of transactions. A slump followed in and in July 1865, the Bank of Bombay share which had previously touched Rs. 2,850 could only be sold at Rs. 87 and the Backbay Reclamation

^{27.} The New Palgrave - A Dictionary of Economics, Vol. II, Eds. John Eatwell, Murray Milgate, Peter Newman, London, 1987, p. 444.

^{28.} Cited by The Stock Exchange Official Directory, Vol. II, April 24, 1989, Bombay, p. 1.

^{29.} The Stock Exchange Official Directory, Vol. II, April 24, 1989, p. 3.
Also see: M.R. Mayya, 'Do our stock exchanges have a future', Economic and Political Weekly, Bombay, February 1978, p. M-19.
Also see: Niranjan Rajadhyaksha 'The man who cottoned on early', Business World, Bombay, January 16-29, 1991.

share at not more than Rs. 1,750 against its peak price of Rs. 50,000.³⁰

Number of brokers dealing in securities, which stood about 60 by 1860 increased to 200-250 during the cotton boom period. Between 1863-65, 25 new Banks, 69 financial associations, 7 land reclamation companies and 30 miscellaneous companies were floated.³¹

After 1865, a number of financial failures and problems in speculative activity led brokers to form an association in 1875. "It was only the disaster that followed the boom, which brought the brokers together in July, 1875 to form an association that is today called the Stock Exchange, Bombay"³².

Security dealers in Ahmedabad and Calcutta also shared the cotton boom in terms of intense speculative activity.³³ The Bombay experience was later followed at these centres, with stock exchanges being set up at Ahmedabad in 1894, at Calcutta in 1908, at Indore in 1930, at Madras in 1937, and at Hyderabad in 1943 and at Delhi in 1947.³⁴

Since beginning, Bombay Stock Exchange is considered as the leader among Indian stock exchanges³⁵. Therefore, trends and developments that have taken place at the Bombay stock exchange or that are taking place there can be treated as broad indicators of performance of stock exchanges in the country.

An examination of the performance of Bombay Stock Exchange at initial stages provides some hints about the role of the institution of stock exchange in investment and industrial financing activity in the country. The Gazetteer of Bombay City and Island (1909) provides some insights into the type of transactions and trading that took place in Bombay Stock Exchange, "A form of speculation existed for more than fifty years and is still a feature of commercial life in the city.... The business consists in the making of contracts for the sale or purchase of any commodity or produce or manufactured article or stocks and shares at a specified rate deliverable at a specified future time. The seller or buyer, as the case may be, trusting to his own calculation or forecast of the market rate on such specified date. **The transaction is as a rule not followed by the actual delivery of goods.... and the transaction degenerates into simple gambling on the difference in**

30. Ibid, p.4.

31. Ibid, pp. 2-3.

32. M.R. Mayya, op. cit., p. M - 19.

33. The Stock Exchange Official Directory, Vol. II, April 24, 1991, Bombay, pp. 6-7.

34. G.S. Patel, op. cit., p. 239.

35. The issues listed at Bombay Stock Exchange as of March, 1990 were 3,866, Calcutta (3,464), Delhi (3,288), Ahmedabad (1,100) and Madras (1,015). The Bombay Stock Exchange also leads in terms of average daily turnover.

See: Securities and Exchange Board of India (SEBI) State of the Capital Market 1989-90, Bombay, August, 1990. p.27

Over two thirds of the total secondary market transactions take place in Bombay. Bombay Stock Exchange acts also as a clearing house for other major stock exchanges like Delhi and Calcutta Stock Exchanges.

See: Interview of Hemendra K. Kothari, President, Bombay Stock Exchange, Business India, Bombay, April 15-28, 1991, p. 200.

rates".³⁶

Industrial securities as a form of saving medium were not popular with the public, an important reason being the general distrust by the public of private business. Neither the law nor the organisation of the industrial securities market afforded adequate protection to holders of industrial securities against the machinations of market operators and company promoters³⁷.

Public subscription to industrial securities was concentrated in periods of short-lived stock exchange booms such as the immediate post-War boom of 1945-46. An idea of how greatly the stock exchange activity was concentrated during short periods can be had from the fact that the net increase in the paid-up capital of joint stock companies in India during the twenty years 1919/20 to 1938/39 was Rs. 209 crores (including the share of Burma); of this the four boom years 1919/20 to 1922/23 accounted for Rs. 153 crores or as much as 75 per cent. The annual average increase in paid up capital during the four boom years was Rs. 38.3 crores against the average annual increase of Rs. 6.0 crores during 1914/15 to 1918/19 and Rs. 3.5 crores during 1923/24 to 1938/39³⁸. Most new enterprises were dependent on an individual or a group to finance business. Therefore, most of the new enterprises were started by collecting money on private account by an individual or a group and it was only in isolated instances that attempts were made at the very outset to secure the funds from the public³⁹.

Regarding the role of institution of stock exchange in India in industrial financing and investment activity, comments made by the National Planning Committee on Industrial Finance (1948) headed by Pandit Jawaharlal Nehru are worth mentioning:

Stock exchanges or share bazars are commonly associated in the popular mind with real industrial financing. As they function today, in India and taken at their best, they are organised markets for buying and selling existing industrial stocks, shares and debentures. They also deal in securities, which absorb no inconsiderable proportion of the total investment in the community wealth.

Viewed at close quarters in no sense of the term can the existing Indian stock exchanges and share markets be regarded as institutions specialising in providing long-term industrial finance and short term credit for working expenses. Hardly any element in these institutions, they would be more correctly described, if we call them organisation - works deliberately and scientifically as industrial investor or provides advice for intending industrial investor. They have few data and they care

^{36.} The Gazetteer of Bombay City and Island, Vol. I, compiled by S.M. Edwards, Bombay 1909 (Facsimile reproduction 1977) p. 299, 301, 302.

^{37.} L.C. Gupta, 'The Changing Structure of Industrial Finance in India', Oxford, New Delhi, 1969, p.8.

^{38.} Government of India, Department of Company Law Administration, Progress of Joint Stock Companies in India, New Delhi, 1955, p. I and III.

^{39.} N. Rao, 'Industrial Enterprise in India', London, 1938, p.7.

for still fewer. They have a healthy contempt for the entire tribe of scientists - unless it be magic or astrology, and a supreme self confidence born out of personal contact with directors or blood relationship with managing agents They act on rumour and ignore any careful study at the balance sheets, the state of the general market or of international relations. They bank on budget secrets leaking out and fatten on war scares carefully spread.

No wonder these institutions are the favourite haunt of the speculator who specialise in cornering..... It is the most respectable institution offering open facilities for daylight gambling... We can not trust such social sores to find the necessary finance for an expanding industrialisation.

If a sound system of industrial financing is to come in to being, if our national economy is to be forever rid of this most dangerous plague spot, if the available surplus for investment is to be instantaneously mobilised and scientifically reinvested, the most urgent task before the Indian Planning authority is to reorganise fundamentally the structure and working of these honourable asylums for gamblers, parasites and incurable reactionaries -- called the stock exchanges or share bazars"⁴⁰.

It is thus clear that the institution of stock exchange developed such functioning and structure that led to its development as a place organised and managed by those whose primary interests lied in speculative activity.

In brief, this can be stated that due to general distrust by the public of private business and closed circle character of industrial entrepreneurship, the role of new issues and stock exchanges remained on the periphery of private corporate sector financing and with the absence of any meaningful role in industrial financing, the functioning and structure of the institution of stock exchange became speculative activity oriented serving little the saving and investment activity of community.

It is also worth mentioning that functioning, organisation and management of seven out of present nineteen stock exchanges, including that of our five major stock exchanges⁴¹ - Bombay, Calcutta, Delhi, Ahmedabad and Madras, took shape during the period (pre 1948 period commented upon by the National Planning Committee) marked for absolute domination of speculative interests. Organisation and management of major stock exchanges formed during this period did not prove to be positive to the developments and desirable changes later more particularly during the period of eighties.

^{40.} National Planning Committee's Report on Industrial Finance, Bombay, 1948, p.53-54. Members of the Committee were - A.D. Shroff, J.K. Mehta, Purushottamdas Thakurdas, S.C. Mazumdar, P.S. Loknathan, Lala Shri Ram and J.R.D. Tata.

^{41.} See: Securities and Exchange Board of India, op. cit., pp. 27-29.

Section - II

Of the various developments and trends observed in Indian economy during recent past and particularly during the eighties, 'economic liberalisation' can be termed very significant. The liberalisation encompassed wide ranging measures, some of the important ones being delicensing of a number of industries; throwing open to the private sector a number of industries reserved for the public sector; the lowering of personal and corporate tax rates; raising of the interest rate on convertible debentures of companies; raising the asset limit for applicability of Monopolies and Restrictive Trade Practices Act (MRTP) Act; bringing in more items under open General licence (OGL); liberal approach in regard to foreign collaborations; allowing scope for dominant undertakings to go in for diversification projects. Significant changes were noted in various policies relating to industrial development as well as overall economic development. The 'liberalisation' also included special incentives for private enterprise by way of reduction in direct taxes and tax free high yielding instruments without any financial limit on individual subscription.⁴²

One of the results of the liberalisation can be stated as the increased demand for funds on the part of private corporate sector. This increased demand was not matched by adequate internal resources. The Reserve Bank's company finance studies reveal that the proportion of the private corporate sector's internal sources to its total resources of funds has been declining over the years⁴³. The sharp increase in the number of public limited companies in private corporate sector can also be viewed in the context of the company law provisions that allow public limited companies to raise money from public⁴⁴. During 1980-1990 period an increase of 132 per cent in the number of public limited companies was registered as compared to an increase of only 38 per cent during the decade 1970-80⁴⁵.

With liberalisation and increased demand for funds on the part of private corporate sector, investment in shares and debentures became middle class phenomenon⁴⁶. Tax and

^{42.} V.K.R.V. Rao "India Since Independence - Retrospect and Prospect" Selected Readings course material for Management Development Programme on Industrial Policy, Planning and Development, Indian Institute of Public Administration, (13-18 February, 1989), New Delhi - p.8.

Also see: P.D. Ojha 'Capital Markets - Emerging trends' - Reserve Bank of India Bulletin, Bombay, January 1988, p.17.

^{43.} P.D. Ojha, "Investors and the Capital Market", RBI Bulletin, Bombay, December 1987, p. 1139.

^{44.} See: A. Ramaiya, The Companies Act, Wadhwa and Company, Nagpur, 1991. pp. 37-43.

^{45.} This calculation is based on the information provided in Company News and Notes, New Delhi, November, 1990, p. 46, and March 1990, p. 11.

^{46.} Max Weber listed the following occupational and other groups in the middle classes.
(i) entrepreneurs (ii) executives and managers (iii) intelligentsia (iv) men from liberal professions (v) small businessmen (vi) skilled and semi-skilled workers.

other benefits associated with the investment in corporate securities attracted the salaried middle class and non resident Indian investors.⁴⁷

Recent survey on Indian shareowners by L.C. Gupta highlights that the most outstanding development in the Indian share market during the eighties is that shareownership has become a middle class phenomenon. It was earlier largely confined to the wealthy classes. Nearly 40 per cent of the educated middle and upper class households have come to hold shares/debentures. Indian shareowning households are now predominantly (to the extent of 75 per cent) composed of middle class households with incomes in the range of Rs. 2,500- 10,000 per month. (See Table - 6). There are in India around 38 lakhs shareowning households and about 90-95 lakhs shareowning individuals. The number of debenture owning households is about 29 lakhs, of whom only about 2 lakhs hold no shares. The bulk of debenture holders are also share owners. Two third of present day shareowners have entered the share market for the first time after 1980 only. It is also worth mentioning that these shareowners tend to have long term investment interests as the survey reveals that the bulk of (nearly three-fourth) shareowners tend to hold the shares for the durations more than 3 years and one fourth of the shareowners were found to have some shareholdings with holding durations exceeding even 10 years.⁴⁸ According to the survey, despite the spectacular rise in shareowning population during the eighties, share ownership is still confined to a narrow fringe of the total Indian population. Only about 2.5 per cent of Indian households own shares. Share ownership in rural areas is still not significant. Among urban households about

See: 'Social Economic Organisation', Max Weber, p.390, Cited by Y.P. Chhibbar 'From Caste to Class - A Study of the Indian Middle Classes', New Delhi, 1968, p. 14-15.

According to a Study (1990) conducted by the Centre for Monitoring the Indian Economy, Bombay the middle class in India is the top 20 per cent of the population. It's share in the national income is nearly 50 per cent. Half of this population is living in urban areas, mainly in the metropolitan cities. According to a Survey (1990) undertaken by the National Council for Applied Economic Research, New Delhi, the Indian Middle class is between 150 and 200 million strong and is growing at the rate of 20 per cent per annum.

See: PTI Corporate Trends 'Lubricating the Consumer Boom'. Economic Times, New Delhi, April 17, 1991.

47. Also see: Indian Investment Centre, Liberalisation of policy in industrial licensing, foreign investment and investment by NRI's, New Delhi, August, 1989.

48. L.C. Gupta, op. cit., pp. XXII - XXVI.

Table - 6
Percentage Distribution of Shareowning Households
by Income Class

Income-level (Rs. per month)	Total sample households		Shareowning households	
	No.	Per cent	No.	Per cent
1	2	3	4	5
Below 2500	1152	19.8	363	11.9
2500-4999	2374	40.8	1135	37.2
5000-9999	1756	30.2	1129	37.0
10,000 or more	540	9.3	426	14.0
All categories	5822	100.0	3053	100.0

Source: L.C. Gupta, Indian Shareowners - A Survey - Society for Capital Market Research and Development, Delhi, 1991, p.30.

10 per cent have come to own shares⁴⁹. In eighties the investment in shares and debentures became 'middle class' phenomenon, but what is also at the same time evident is that this forms a very small part in overall saving in financial assets. Bank deposits accounted for major part (more than one third) in savings in Financial Assets (Table - 7).

Role of Shares and debentures as investment medium in household saving

With the increase in saving (gross) in financial assets as percentage to Gross National Product, investment in shares and debentures also increased over a period of time (1970-71 to 1988-89) (Table - 7). Comparison between the two (a) household saving (gross) in financial assets as percentage to Gross National Product, and (b) the investment in shares and debentures as percentage to household saving (Gross) in financial assets in eighties (1980-81 to 1988-89) speaks for a very fluctuating trend in investment and shares and debenture (see - Diagram A). The comparison suggests that the trend of investment in shares and debentures was far from being stably progressive as compared to the trend observed in the household saving (Gross) in financial assets.

The analysis reveals that during the period (1980-81 to 1988-89) investment in shares and debentures on an average formed 3.84 per cent part of total household savings in financial assets. During the same period investment in

⁴⁹. See for details L.C. Gupta, op. cit., pp. XXIII, XXIV, 15.

Table - 7

Composition of Household Savings (at Current Prices)

Assets	1970-71	1975-76	1980-81	1982-83	1983-84*	1984-85*	1985-86*	1986-87*	1987-88*	1988-89*
1	2	3	4	5	6	7	8	9	10	11
A. Saving (Gross) in Financial Assets (Rs. crores)	2110	5067	12118	16097	18790	23549	25958	31346	35113	40516
% of Gross National Product	5.4	7.1	9.9	10.2	11.4	11.2	12.1	12.0	11.7	12.3
Composition (%)										
1. Currency	16.8	6.7	13.4	12.6	14.8	12.5	8.6	9.9	13.7	11.1
2. Bank Deposits [@]	35.7	41.8	45.8	41.4	42.5	41.8	40.3	42.1	36.8	40.4
3. Non-banking Deposits	3.2	2.6	3.1	5.4	5.4	4.1	5.6	6.1	5.7	4.9
4. Life Insurance Fund	9.8	8.3	7.6	7.7	7.3	6.6	7.0	6.7	7.4	7.0
5. Provident/Pension Funds	23.2	24.2	17.5	17.8	16.2	16.0	16.2	16.5	17.8	17.8
6. Claims Govt. ⁺	5.0	17.8	5.9	7.7	10.5	13.2	13.5	9.9	10.1	11.2
7. Investment in Shares and Debentures	3.2	0.8	3.4	4.0	3.0	3.2	6.4	5.3	4.9	4.2
8. UTI units	0.7	0.3	0.2	0.7	1.2	2.4	2.3	3.0	3.1	3.0
9. Trade Debt (Net)	2.4	-2.5	3.1	2.7	-0.9	0.2	0.1	0.5	0.5	0.4
Total	100	100	100	100	100	100	100	100	100	100
B. Financial Liabilities (Rs. crores)	591	1069	3523	3531	5238	5733	6992	6726	7915	10228
C. Net Saving in Financial Assets (Rs. crores)	1519	3998	8595	12566	13552	17816	18966	24620	27198	30288
% of Net National Product	4.2	6.2	7.8	8.9	8.2	9.7	9.2	10.8	10.5	9.9
D. Personal Disposable Income (Rs. crores)	33062	60072	112904	142768	168920	187736	209227	233486	263505	-
E. (C) as % of (D)	4.6	6.7	7.6	8.8	8.0	9.5	9.1	10.5	10.3	-

Source: RBI Report on Currency and Finance, various issues.

Note: @ includes deposits with co-operative non-credit societies.

+ includes compulsory deposits.

* includes investment in shares/debentures of credit/non-credit societies also. Figures from 1983-84 to 1987-88 are provisional and

figures for 1988-89 are quick estimates.

shares and debentures forming part in household savings in financial assets was highest in 1985-86 - 6.4 per cent (Table - 7).

With these trends in view, it can be stated that the role of shares and debentures as investment medium in household savings in financial assets was not that of major significance. This leads to the conclusion that the role of the institution of stock exchange in household saving and investment activity during the period (1981-89) can also be termed as one of peripheral significance.

New Issues Market and Private Corporate Sector Financing in Recent Past

It would be in order to discuss in brief the role and place of another source of finance for private corporate sector - assistance from Public Financial Institutions (PFIs). The role of PFIs in private corporate sector financing is that of great significance.⁵⁰ The institutional network, at present comprises three all India development banks namely Industrial Development bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), three investment institutions namely, Life Insurance Corporation (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC) and 18 State Financial Corporations. Besides these there is Industrial Reconstruction Bank of India (IRBI), which is engaged mainly in the rehabilitation of sick units.⁵¹ Since independence public financial institutions and more particularly the development banks have been playing a very significant role in financing the private corporate sector.⁵²

In order to assess the relative importance and role of new issues market, the observed trends in resource mobilisation by private corporate sector through various instruments (equity shares, preference shares and debentures) and comparison thereof with the trends in private corporate sector financing by All India Financial Institutions (AIFIs) are presented in following tables (8 and 9) and discussion.

Our comparison covers the assistance granted by All India Financial Institutions (AIFIs) that include three development banks - IDBI, IFCI, and ICICI, three investment institutions - LIC, GIC, and UTI and IRBI. The trend in sanctioned and disbursed assistance speaks for a constant increase during the eighties. In this light, the assistance by AIFIs can be termed as progressively

50. S.S. Nadkarni, 'Financial Institutions - Active Promotional Role', Survey of Indian Industry, 1990, The Hindu, Madras, pp. 29-31.

51. Ibid.

52. See for detailed discussion: Sameer Goyal, Role and performance of Development Banks in India: With Special Reference to IDBI, M.Phil thesis, 1991, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi.

Table - 8

Trends in Private Corporate Sector Financing by AIFIs and New Issues Market

(Amount in Rs. Crore)

Years	Assis. Sanct. by AIFIs (X)	Assis. Disburs. by AIFIs (Y)	Amt. Raised from New issues (Z)	% Share of X in X + Z	% Share of Y in Y + Z
1980-81	1675.40	1187.30	192.00*	89.72	86.08
1981-82	1852.10	1484.50	599.00	75.56	71.25
1982-83	2190.50	1636.80	706.00	75.63	69.87
1983-84	2429.30	1842.40	838.00	74.35	68.74
1984-85	3725.30	2289.20	1058.00	77.88	68.39
1985-86	4203.20	2903.00	1742.00	70.70	62.50
1986-87	4945.80	3463.10	2565.00	65.85	57.45
1987-88	5897.70	4276.70	1774.00	76.88	70.68
1988-89	8687.70	5414.30	3153.00	73.37	63.20
1989-90	10781.20	6291.60	5716.10	65.35	52.40
Total	46388.20	30788.90	18343.10	71.66	62.67

* This figure is for the calender year 1980 used here as proxy for the figure for 1980-81.

Source: (i) IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90.
(ii) Reserve Bank of India, Report on Currency and Finance, (various issues).
(iii) Securities and Exchanges Board of India, State of Capital Market 1989-90.

stable source of finance for private corporate sector. But the same can not be said about the new issues market as source of finance. Registering sharp ups and down in terms of the amount raised in different years (1986-87 - Rs. 2565 crore, 1987-88 - Rs. 1774.00 crore and 1988-89 - Rs. 3153 crore), the new issues market proved to be highly volatile in nature. (Tables - 8 and 9).

Table - 8 reveals that despite sharp increase, over a period of time, in absolute terms in the amount raised by new issues, the dominance of AIFIs as a source of finance as compared to new issues market prevails.

The amount of assistance sanctioned by AIFIs to private corporate sector during the eighties is more than 2.5 times the amount raised by private corporate sector through new issues (Tables - 8 and 9). During the same period, the assistance sanctioned by AIFIs accounted for 71.66 per cent of the total resources

Table - 9

Plan-wise Trends in Private Corporate Sector Financing by AIFIs and New Issues Market

Plan Period	(1) Amt. raised from New Issues (Rs.cr.)	(2) Assis. Sanc. by AIFIs (Rs. crore)	(3) Total 1 + 2 (Rs. crore)	(4) % Share of 1 in 3	(5) % Share of 2 in 3	(6) Assis. Disburs. by AIFIs (Rs. crore)	(7) Total 1 + 6 (Rs. crore)	(8) % Share of 1 in 7	(9) % Share of 6 in 7
Fifth Plan (1974-75 to 78-79)	551.00	3000.72	3551.72	15.51	84.49	1856.50	2407.5	22.89	77.11
Sixth Plan (1980-81 to 84-85)	3393.00*	11872.67	15265.67	22.23	77.77	8444.18	11837.18	28.66	71.34
Seventh Plan (1985-86 to 89-90)	14950.10	34515.59	49465.69	30.22	69.78	22348.78	37298.88	40.08	59.92

* In this amount, the figure for calendar year 1980 is proxy for the figure for 1980-81.

Source: (i) IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90.
(ii) Reserve Bank of India, Report on Currency and Finance, (various issues).
(iii) Securities and Exchanges Board of India, State of Capital Market 1989-90.

available to private corporate sector through new issues market and sanctioned assistance by AIFIs.⁵³

Second half of the eighties (1985-86 to 1989-90) - seventh plan period witnessed

^{53.} Shareholding structure of the top companies of Indian private corporate sector also shows a substantial share holding of various public sector institutions including AIFIs. A study by S.K. Goyal (1987) notes that out of the top 204 companies of the Indian private corporate sector (each with Rs. 10 crore assets/turnover) in the case of as many as 98 companies, the stake of the Public Sector Financial Institutions was more than 25 per cent. For details see: S.K. Goyal, Nature and Growth of the Indian Corporate Sector, Corporate Studies Group, IIPA, New Delhi, 1987. According to an IDBI survey covering 575 companies in the portfolio of financial institutions, UTI, LIC, and GIC held 23.95 per cent of shares of private sector companies as on June, 1986. For details see: IDBI, Ownership Pattern of Shares and Debentures of the Companies, Bombay, October, 1989.

the increasing importance of new issues market as compared to the earlier periods (Table - 9). The share of the amount raised through new issues in the total resources mobilised through new issues market and assistance sanctioned by AIFIs, is 15.51 per cent, 22.33 per cent and 30.22 per cent respectively in Fifth Plan (1974-75 to 1978-79), Sixth Plan (1980-81 to 1984-85) and Seventh Plan (1985-86 to 1989-90).

These trends underline the increasing importance of new issues market as a source of finance during the eighties. This becomes more sharply evident, if we calculate the share of new issues in the total resources mobilised by private corporate sector through new issues and assistance disbursed by the AIFIs, the share comes out to be 22.89 per cent, 28.66 per cent and 40.08 per cent respectively in the Fifth Plan (1974-75 to 1978-79), Sixth Plan (1980-81 to 1984-85) and Seventh Plan (1985-86 to 1989-90).

These trends also underline the need for such type of stock exchange mechanism which can sustain the changes that took place in new issues market during the recent past.⁵⁴

⁵⁴. Certain suggestions to develop stock exchanges that have wider economic implications are seriously debatable, like the one put forward by The World Bank that privatisation of state owned enterprises is an important way to develop stock exchanges.
See: The World Bank, World Development Report, 1989, Washington D.C., p. 110.

Section - III

At present there are functioning 19 stock exchanges, recognised by the Government of India.⁵⁵ The functioning of the stock exchanges is managed and administered by the Governing body/board of directors of the exchange. The governing body of stock exchange is vested with wide powers. These powers include wide ranging discretionary powers also. The powers of governing body are to:

- (i) manage and control the functioning of the stock exchanges;
- (ii) regulate trading in securities;
- (iii) fine, suspend or expel members and take such other disciplinary actions as it deems fit;
- (iv) govern business conduct and relationship, settle disputes, if any, amongst members and between members and non-members;
- (v) make or amend any rules, bye laws, or regulations or suspend their operations with the approval of the government;
- (vi) interpret the rules, byelaws and regulations in its own discretion.

^{55.} The list of the stock exchanges is as follows:

Established prior to 1980:-

1. Bombay Stock Exchange, Bombay
2. Ahmedabad Share and Stock Brokers Association, Ahmedabad
3. Calcutta Stock Exchange Association, Calcutta
4. Madras Stock Exchange, Madras
5. Delhi Stock Exchange, New Delhi
6. Hyderabad Stock Exchange, Hyderabad
7. Share Brokers Association (M.P. Stock Exchange) Indore
8. Cochin Stock Exchange, Cochin
9. Bangalore Stock Exchange, Bangalore.

Established in post-1980 period :-

10. Pune Stock Exchange, Pune
11. Uttar Pradesh Stock Exchange, Kanpur
12. Ludhiana Stock Exchange, Ludhiana
13. Guwahati Stock Exchange, Guwahati
14. Canara Stock Exchange, Manglore
15. Magadh Stock Exchange, Patna
16. Baroda Stock Exchange, Baroda
17. Jaipur Stock Exchange, Jaipur
18. Saurashtra Stock Exchange, Rajkot
19. Bhubaneshwar Stock Exchange, Bhubaneshwar

Ministry of Finance has recently granted recognition to two new stock exchanges at Meerut and Coimbatore. These stock exchanges are yet to start functioning.

In practice the powers of the body to manage and control are almost absolute.⁵⁶

Composition of Governing Body

The governing body normally consists of brokers, public representatives, government nominees and executive director.⁵⁷ This body is headed by a President, who happens to be a broker. Study of composition of the governing body of major stock exchanges reveals the dominance of brokers. Table - 10 reveals the extent of control wielded by brokers over the body. The five major stock exchanges - Bombay, Delhi, Calcutta, Ahmedabad and Madras - reveal the dominance of brokers' over the governing board up to the following extent - 66.67%, 70.59%, 68.18%, 63.16% and 60% respectively (Table - 10, Diagram B). The dominance of the brokers' is highest in Delhi Stock exchange, followed by Calcutta, Bombay, Ahmedabad and Madras stock exchanges in that order.

Table - 10

Dominance of Brokers in Governing Bodies of Some Stock Exchanges

Stock Exchange	Number of Members	Number of Brokers	Per cent of (3)/(2)	Form of organisation
1	2	3	4	5
Bombay	24	16	66.67	Association of Individuals
Calcutta	22	15	68.18	Company Limited by Shares
Delhi	17	12	70.59	Company Limited by Shares
Madras	15	9	60.00	Company Limited by Guarantee
Ahmedabad	19	12	63.16	Association of Individuals
Bangalore	12	7	58.33	Company Limited by Shares
Hyderabad	9	7	77.78	Company Limited by Guarantee
Patna	12	6	50.00	Company Limited by Guarantee
Indore	11	8	72.73	Association of Individuals
Bhubaneshwar	12	6	50.00	Company Limited by Guarantee
Total	153	98	64.05	

Source: This table is based on the information supplied in Securities and Exchange Board of India, "State of Capital Market 1989-90", pp 41-42.

^{56.} The Stock Exchange Official Directory, Vol. II, April 24, 1989, Bombay, p. 8.

^{57.} G.S. Patel, op. cit., p. 41.

Diagram - B

Representation of Brokers in Governing Boards of Some Stock Exchanges

It has been observed that public representatives do not take an active interest in the affairs of the stock exchange.⁵⁸ Executive director's functioning also tends to get influenced by the brokers due to domination of brokers over the governing body.⁵⁹ With the dominant and influential representation of brokers' in governing board, public representatives not taking active interest, and Executive Director dominated by brokers, the stock exchanges tend to work as organisation primarily concerned with the brokers' interests.

^{58.} G. S. Patel, *op. cit.*, p. 24.

^{59.} Sumit Sharma 'Regulating Capital Market 'SEBI Chief for Comprehensive Law', Financial Express, New Delhi, October 3, 1990.

Business Trends

A healthy stock exchange should be investor-driven.⁶⁰ This should reflect the trends of investment fundamentals. V.A. Avadhani, in his study⁶¹ has offered the analysis of the price behaviour of some share in response to corporate fundamentals. In his study the price behaviour of the shares of 77 companies was compared with one corporate fundamental - earning per share. The study was confined to the shares of the chemical and pharmaceutical companies. The period taken for price behaviour study was end March to end September, 1990. The present study covers the share price behaviour of longer period (March 9, 1990 to February 22, 1991) and more corporate fundamentals. The companies selected for the study of share price behaviour cover all major industries. To assess the extent to which the price trends registered at Bombay Stock Exchange are in consistency with certain corporate fundamentals considered important for investment decisions, a few empirical exercises have been undertaken. Data for the exercises include certain corporate fundamentals of the thirty companies forming Bombay Stock Exchange Sensitive Index (BSESI) and the price data of the shares of these companies on fortnight basis for 26 fortnights from March 9, 1990 to February 22, 1991. Bombay Stock Exchange Official Directory and the periodical - Business India were the main sources of the data of corporate fundamentals and share prices.

The main reason for choosing the BSESI companies for the study is that the BSESI includes the companies selected 'on the basis of market activity with due representation to the major industries'.⁶² Earning per share, Book value per share, Dividend, Dividend to equity, Earnings distributed and Net sales per share are generally regarded as corporate fundamentals.

This would be in order to explain in brief about the corporate fundamentals used as variables in the study. Earning per share is an important indicator of the company's earning capacity, when earnings increase higher dividends can be declared and simultaneously more profits can be ploughed back. When the earnings per share come down then the company may become obliged to slow its expansion or take recourse to outside finance.⁶³

^{60.} The market not driven by investment interests but by speculative forces lead to almost total apathy towards genuine investment interests and the problems related thereto like the lack of trading arrangements for odd lots and debt securities, absence of liquidity in most shares and the long delay in deliveries and payments.

For details see: L.C. Gupta, 'The volume and nature of speculation on Indian Stock exchanges - regulatory implications' Expert Study of Trading in Shares in Stock Exchanges, Vol. II, Society for Capital Market Research and Development, New Delhi, August, 1991, pp. 1-21.

^{61.} V.A. Avadhani, 'Share prices and performance of the corporate sector (Chemical and Pharmaceutical Industry)', The Stock Exchange Review, Bombay, October 1990, pp. 1-9.
Dr. V.A. Avadhani is Director of Bombay Stock Exchange Training Institute, Bombay.

^{62.} The Stock Exchange Foundation, The Stock Exchange Sensitive Index of Equity Prices, Bombay, p.1.

^{63.} See: 'James H. Lorie, Peter Dodd, Mary Hamilton Kimption' The Stock Market: Theories and Evidence, Hyderabad, 1985, p. 98.

The book value per share shows on a per share basis the net assets (excluding intangibles) remaining after offsetting all the liabilities against the assets. It is the net result of capital contributed by the share holders. Book value is considered very important while judging prospects of the bonus issue of any company.

The amount of dividend declared per share is expressed as a percentage of the paid up value of the share. The current dividend rate is expected to have a marked influence on the market price. Dividend to equity ratio gives the percentage of return on the total investment made by the share holders of the company. Earnings distributed per cent represents the proportion of the equity earnings distributed as dividend.

Net sales per share is a key figure in company financial data. It reflects the fundamental activity of a business. Any increase or decrease in net sales per share has direct bearing on company's financial health.⁶⁴ Formulae to calculate these ratios are given in annexure one.

Wherever necessary the data relating to these fundamentals, except that of book value and earnings distributed per cent, for the year ending March, 1990 and that of preceding period have been annualised for 12 months for the sake of comparability. In the case of five companies financial year ended in the months other than March, 1990. In case of three companies namely -Indian Rayon, Ceat Tyres and Premier Automobiles the financial year ended in June, 1990 and in case of two others - Hindustan Lever and Food Specialities (Nestle) the financial year ended in December, 1989. The data relating to Tata Engineering and Locomotive Company (TELCO), Tata Iron and Steel Company (TISCO) and Voltas have been adjusted to the conversion of the paid up value of the shares from Rs. 100.00 to Rs. 10.00 per share. Share price variations between different points of time during the period March 9, 1990 to February 22, 1999 have been calculated for the analysis. The results of this exercise are as follows.

One year's (26 fortnights) average price shows that 7 shares showed an increase over 70 per cent over March 9, 1990 price (Table - 11), 5 shares showed an increase in the range between 40 to 70 per cent.

Comparison of one year's average price with the price prevailing at a point of time in September - September 21, 1990, speaks for a very high level

⁶⁴. For a detailed discussion on these fundamentals see The Stock Exchange Official Directory, Vol. I, Explanatory Notes, Bombay.

Table - 11

**Per cent difference between Average Price
based on 26 fortnights and Price on March 9, 1990**

Range (Per cent)	No. of Companies
-20 - -10	1
-10 - 0	1
0 - 20	9
20 - 40	7
40 - 60	3
60 - 70	2
70 - 100	4
100 - 150	2
150 and above	1
Total	30

of upward trend in the share prices prevailing as on September 21, 1990. Average prices (based on 26 fortnights) of 26 shares (86.66 per cent of the sample) indicate down fall in the range between -10 to -40 per cent, when compared to the prices prevailing on September 21, 1990 (Table - 12).

Table - 12

**Per cent difference between Average Price
based on 26 fortnights and Price on September 21, 1990**

Range (Per cent)	No. of Companies
-50 - -40	2
-40 - -30	7
-30 - -20	11
-20 - -10	7
-10 - 0	1
0 - 5	2
Total	30

Table - 13 reveals that 7 shares registered an increase of over 100 per cent during the period March 9, 1990 to February 22, 1991. 12 shares registered an increase of over 50 per cent during the period between March 9, 1990 to February 22, 1991.

Comparison between the prices prevailing on September 21, 1990 and March 9, 1990 indicates a very sharp upward trend. During this period (March 9, 1990 - September 21, 1990) 12 shares registered an increase of over 100 per

Table - 13

**Per cent Change in Share Price between
March 9, 1990 and February 22, 1991**

Range (Per cent)	No. of Companies
-50 - 0	7
0 - 20	3
20 - 50	8
50 - 70	4
70 - 100	1
100 - 150	3
150 - 200	2
200 - 250	1
250 and above	1
Total	30

cent. 21 shares showed an increase of over 50 per cent (Table - 14). Per cent increase during the same period in the shares - ACC (503.45 per cent) Tata Power (304.76 per cent), Reliance Industries (267.96 per cent), ITC (205.56 per cent) and Pieco (194.12 per cent) is worth mention. Such trend of sharp upward movement does not seem to be in consistency with the disturbing political and social environment prevailing during this period. Foreign exchange crisis assumed very serious dimensions during March - September, 1990. To overcome the foreign exchange crisis the country had to make recourse to the International Monetary Fund (IMF) during July - September, 1990.⁶⁵ Other conditions like budget deficit and double digit inflation also kept the economy under heavy pressure throughout the year.⁶⁶ All these conditions can not be termed as conducive to a sharp upward trend.

Analysis of various corporate fundamentals (Tables - 15, 17, 21, 22 and 23) reveals that in case of Larsen and Toubro per cent changes in earning per

^{65.} Government of India, Economic Survey 1990-91, p.3.

^{66.} Ibid, p.13.

Table - 14

**Per cent Change in share Price between
March 9, 1990 and September 21, 1990**

Range (Per cent)	No. of Companies
-50 - 0	2
0 - 10	1
10 - 30	1
30 - 40	2
40 - 50	3
50 - 70	7
70 - 100	2
100 - 150	6
150 - 200	2
200 - 300	2
300 - 500	1
500 and above	1
Total	30

share, dividend, net sales per share are -4.66, -16.67, and -7.80 per cent respectively. Per cent change in book value and dividend to equity is also negative -0.62 and -21.72 per cent respectively. CYAM, CFM, CAMSM and CSM reveal an increase of 77.46, 103.39, 60.62 and 181.78 per cent respectively in Larsen and Toubro share price.

In case of ITC per cent change in earning per share dividend and net sales per share is -32.41 per cent, -29.69 per cent and -35.98 per cent respectively. The company for the year ending March, 90 had to distribute a higher share of its earnings as compared to previous year, to maintain the lower level of dividend per cent on annualised basis. Changes in ITC share price - CYAM, CFM, CAMSM, CSM show an increase of 98.54, 138.43, 68.21, 205.56 per cent respectively in ITC share.

In case of Tata Iron and Steel Company (TISCO) per cent change in earning per share and net sales per share is -37.69 and -23.87 respectively. There is no change in dividend. To maintain the same level of dividend, in the year ending in March, 90 the company had to pay a higher part of its earnings as compared to previous year. CYAM, CFM, CAMSM and CSM suggest an increase of 39.80 per cent, 56.25 per cent, 22.82 per cent and 71.30 per cent respectively in the share of TISCO.

In case of Voltas per cent change in earning per share, dividend and net sales per share is -20.84 per cent, -34.38 per cent and -28.83 per cent respectively. Price trends suggest an increase of 44.19 per cent (CYAM), 54.68

Table - 15

Per cent Change in Earning Per share (EPS) and Share Prices

Name of the Company	% Chng in EPS (CEPS)	% Change in Share Prices			
		CYAM	CFM	CAMSM	CSM
ACC	147.58	263.76	437.36	132.15	503.45
Ballarpur Industries	76.12	71.92	110.00	46.27	140.00
Bombay Dyeing	22.13	28.30	16.71	38.82	132.04
Ceat Tyre	5.48	11.31	-3.03	17.58	51.52
Century Textiles	648.02	40.54	61.71	32.27	67.29
Food Specialities (Nestle)	-40.18	19.05	25.29	16.08	45.98
Glaxo India	-16.40	3.00	10.81	7.82	2.70
Great Eastern Shipping	26.30	-8.97	-26.97	3.86	-3.37
Gujarat State Fertilisers	-19.97	14.87	-3.55	16.74	47.52
Gwalior Rayon	39.98	60.44	82.98	39.70	147.09
Hindustan Aluminium	160.90	36.24	25.00	40.12	66.67
Hindustan Motors	141.62	53.98	11.63	69.22	118.60
Hindustan Lever	4.80	25.54	47.67	18.53	56.98
Indian Hotels	-18.09	11.58	23.60	4.64	43.26
Indian Organic Chemicals	56.42	17.68	-15.46	28.80	69.07
Indian Rayon	9850.00	36.71	39.66	36.87	82.96
I.T.C.	-32.41	98.54	138.43	68.21	205.56
Kirloskar Cummins	-9.83	28.55	55.41	15.36	52.03
Larsen & Toubro	-4.66	77.46	103.39	60.62	181.78
Mahindra & Mahindra	3.85	17.84	-6.90	22.53	34.48
Mukand Iron	-18.59	26.71	48.85	12.32	60.31
Peico Electronics	129.94	98.53	150.00	66.54	194.12
Premier Automobiles	25.75	0.89	-26.32	12.31	26.32
Reliance Industries	-29.09	137.99	162.14	87.90	267.96
Siemens	33.74	19.91	21.52	15.59	39.71
TELCO	49.02	60.15	46.02	47.14	107.96
Tata Power	80.25	142.72	214.29	100.00	304.76
TISCO	-37.69	39.80	56.25	22.82	71.30
Voltas	-20.84	44.19	54.68	34.89	101.44
Zenith	-563.97	-19.52	-43.40	-11.32	-20.75

Explanation:

CEPS % Change in earning per share.

CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)

CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).

CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).

CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)

Table - 16

Correlation between change in earning per share (CEPS) and changes in share prices

CEPS and CYAM	.2678
CEPS and CFM	.2559
CEPS and CAMSM	.3349
CEPS and CSM	.2335

Explanation:

CEPS	% Change in earning per share.
CYAM	% Change in share price (average price based on 26 fortnights - price on March 9, 1990)
CFM	% Change in share price (price on February 22, 1991 - price on March 9, 1990).
CAMSM	% Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990.
CSM	% Change in share price (price on September 21, 1990 - price on March 9, 1990)

Note: Exercises to find the correlation between CEPS and CYAM, CFM, CAMSM, CSM were done after excluding the data relating to Indian Rayon from the sample to get more balanced results, as the value of the CEPS of Indian Rayon comes out to be extremely high (9850) as compared to other data of the series (CEPS).
The relevant figures are as follows:

Year ending	June, 1989	June, 1990	
Indian Rayon	-0.04	3.90	

Table - 17

Per cent Change in Dividend and Share Prices

Name of the Company	% Chng in DIV (CDIV)	% Change in Share Prices			
		CYAM	CFM	CAMSM	CSM
ACC	*	263.76	437.36	132.15	503.45
Ballarpur Industries	16.67	71.92	110.00	46.27	140.00
Bombay Dyeing	33.33	28.30	16.71	38.82	132.04
Ceat Tyre	0.00	11.31	-3.03	17.58	51.52
Century Textiles	33.33	40.54	61.71	32.27	67.29
Food Specialities (Nestle)	20.00	19.05	25.29	16.08	45.98
Glaxo India	1.25	3.00	10.81	7.82	2.70
Great Eastern Shipping	-21.88	-8.97	-26.97	3.86	-3.37
Gujarat State Fertilisers	0.00	14.87	-3.55	16.74	47.52
Gwalior Rayon	9.09	60.44	82.98	39.70	147.09
Hindustan Alluminium	25.00	36.24	25.00	40.12	66.67
Hindustan Motors	0.00	53.98	11.63	69.22	118.60
Hindustan Lever	9.38	25.54	47.67	18.53	56.98
Indian Hotels	-16.67	11.58	23.60	4.64	43.26
Indian Organic Chemicals	50.00	17.68	-15.46	28.80	69.07
Indian Rayon	7.14	36.71	39.66	36.87	82.96
I.T.C.	-29.69	98.54	138.43	68.21	205.56
Kirloskar Cummins	-11.50	28.55	55.41	15.36	52.03
Larsen & Toubro	-16.67	77.46	103.39	60.62	181.78
Mahindra & Mahindra	-16.67	17.84	-6.90	22.53	34.48
Mukand Iron	12.50	26.71	48.85	12.32	60.31
Peico Electronics	*	98.53	150.00	66.54	194.12
Premier Automobiles	11.11	0.89	-26.32	12.31	26.32
Reliance Industries	-25.00	137.99	162.14	87.90	267.96
Siemens	25.00	19.91	21.52	15.59	39.71
TELCO	20.00	60.15	46.02	47.14	107.96
Tata Power	11.11	142.72	214.29	100.00	304.76
TISCO	0.00	39.80	56.25	22.82	71.30
Voltas	-34.38	44.19	54.68	34.89	101.44
Zenith	-100.00	-19.52	-43.40	-11.32	-20.75

Explanation:

CDIV % Change in dividend.

CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)

CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).

CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).

CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)

* Note: Per cent change in dividend could not be calculated in case of ACC and Peico due to the reason that in both cases the dividend paid in the year ending March, 1989 (base year) was zero. The dividend paid by ACC and Peico for the year ending March, 1990 was 15 per cent and 10 per cent respectively.

Table - 18

**Corelation between change in dividend (CDIV)
and change in share prices**

CDIV and CYAM	.0674
CDIV and CFM	.0475
CDIV and CAMSM	.1518
CDIV and CSM	.0830

Explanation:

CDIV	% Change in dividend.
CYAM	% Change in share price (average price based on 26 fortnights - price on March 9, 1990)
CFM	% Change in share price (price on February 22, 1991 - price on March 9, 1990).
CAMSM	% Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990.
CSM	% Change in share price (price on September 21, 1990 - price on March 9, 1990)

Note: For the sake of accuracy, the exercises to find the corelation between CDIV and CYAM, CFM, CAMSM, CSM were done after excluding the data relating to ACC and Peico from the sample due to the reason that in both cases the dividend paid in the year ending March, 1989 (base year) was zero. The dividend paid by ACC and Peico for the year ending March, 1990 was 15 per cent and 10 per cent respectively.

Table - 19

Per cent Change in Net Sales Per Share (NSPS) and Share Prices

Name of the Company	% Chng NSPS (CNSPS)	% Change in Share Prices			
		CYAM	CFM	CAMSM	CSM
ACC	20.33	263.76	437.36	132.15	503.45
Ballarpur Industries	-21.52	71.92	110.00	46.27	140.00
Bombay Dyeing	8.65	28.30	16.71	38.82	132.04
Ceat Tyre	21.85	11.31	-3.03	17.58	51.52
Century Textiles	38.00	40.54	61.71	32.27	67.29
Food Specialities (Nestle)	-36.38	19.05	25.29	16.08	45.98
Glaxo India	12.68	3.00	10.81	7.82	2.70
Great Eastern Shipping	42.79	-8.97	-26.97	3.86	-3.37
Gujarat State Fertilisers	-23.46	14.87	-3.55	16.74	47.52
Gwalior Rayon	28.40	60.44	82.98	39.70	147.09
Hindustan Aluminium	34.88	36.24	25.00	40.12	66.67
Hindustan Motors	16.56	53.98	11.63	69.22	118.60
Hindustan Lever	19.11	25.54	47.67	18.53	56.98
Indian Hotels	-20.45	11.58	23.60	4.64	43.26
Indian Organic Chemicals	11.43	17.68	-15.46	28.80	69.07
Indian Rayon	30.83	36.71	39.66	36.87	82.96
I.T.C.	-35.98	98.54	138.43	68.21	205.56
Kirloskar Cummins	17.17	28.55	55.41	15.36	52.03
Larsen & Toubro	-7.80	77.46	103.39	60.62	181.78
Mahindra & Mahindra	5.12	17.84	-6.90	22.53	34.48
Mukand Iron	25.38	26.71	48.85	12.32	60.31
Peico Electronics	3.01	98.53	150.00	66.54	194.12
Premier Automobiles	21.85	0.89	-26.32	12.31	26.32
Reliance Industries	24.17	137.99	162.14	87.90	267.96
Siemens	30.71	19.91	21.52	15.59	39.71
TELCO	16.13	60.15	46.02	47.14	107.96
Tata Power	8.48	142.72	214.29	100.00	304.76
TISCO	-23.87	39.80	56.25	22.82	71.30
Voltas	-28.83	44.19	54.68	34.89	101.44
Zenith	31.46	-19.52	-43.40	-11.32	-20.75

Explanation:

CNSPS % Change in net sales per share.

CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)

CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).

CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).

CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)

Table - 20

**Corelation between change in net sales
per share (CNSPS) and change in share prices**

CNSPS and CYAM	-0.0672
CNSPS and CFM	-0.0849
CNSPS and CAMSM	-0.0522
CNSPS and CSM	-0.0836

Explanation:

CNSPS	% Change in net sales per share.
CYAM	% Change in share price (average price based on 26 fortnights - price on March 9, 1990)
CFM	% Change in share price (price on February 22, 1991 - price on March 9, 1990).
CAMSM	% Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990.
CSM	% Change in share price (price on September 21, 1990 - price on March 9, 1990)

Table - 21

Per cent Change in Book Value and Share Prices

Name of the Company	Book Value			% Change in Share Prices			
	per share (Rs.)	% Chng	CYAM	CFM	CAMSM	CSM	
ACC	Mar 89 236.11A	Mar 90 250.63	6.15	263.76	437.36	132.15	503.45
Ballarpur Industries	Mar 89 196.51B	Mar 90 143.96	-26.74	71.92	110.00	46.27	140.00
Bombay Dyeing	Mar 89 72.84	Mar 90 88.43	21.40	28.30	16.71	38.82	132.04
Ceat Tyre	Jun 89 78.71	Jun 90 81.44	3.47	11.31	-3.03	17.58	51.52
Century Textiles	Dec 88 853.74	Mar 90 1033.97C	21.11	40.54	61.71	32.27	67.29
Food Specialities (Nestle)	Dec 88 24.39	Dec 89 20.42	-16.28	19.05	25.29	16.08	45.98
Glaxo India	Mar 89 33.04D	Mar 90 38.02	15.07	3.00	10.81	7.82	2.70
Great Eastern Shipping	Mar 89 18.22E	Mar 90 22.78	25.03	-8.97	-26.97	3.86	-3.37
Gujarat State Fertilisers	Mar 89 86.99F	Mar 90 85.59	-1.61	14.87	-3.55	16.74	47.52
Gwalior Rayon	Mar 89 54.92	Mar 90 63.28	15.22	60.44	82.98	39.70	147.09
Hindustan Aluminium	Mar 89 100.90	Mar 90 122.32	21.23	36.24	5.00	40.12	66.67
Hindustan Motors	Mar 89 39.37	Mar 90 39.11	-0.66	53.98	11.63	69.22	118.60
Hindustan Lever	Dec 88 22.08	Dec 89 24.49	10.91	25.54	47.67	18.53	56.98
Indian Hotels	Mar 89 59.25	Mar 90 44.79	-24.41	11.58	23.60	4.64	43.26
Indian Organic Chemicals	Mar 89 21.21	Mar 90 24.34	14.76	17.68	-15.46	28.80	69.07
Indian Rayon	Jun 89 85.01	Jun 90 85.84	0.98	36.71	39.66	36.87	82.96
I.T.C.	Mar 89 56.60G	Mar 90 32.20	-43.11	98.54	138.43	68.21	205.56
Kirloskar Cummins	Mar 89 26.82H	Mar 90 28.95	7.94	28.55	55.41	15.36	52.03
Larsen & Toubro	Mar 89 57.91	Mar 90 57.55	-0.62	77.46	103.39	60.62	181.78
Mahindra & Mahindra	Mar 89 64.29I	Mar 90 67.32	4.71	17.84	-6.90	22.53	34.48
Mukand Iron	Mar 89 64.17J	Mar 90 72.78	13.42	26.71	48.85	12.32	60.31

(Contd...)

Name of the Company	Book Value		% Chng	CYAM	% Change in Share Prices		
	per share (Rs.)				CFM	CAMSM	CSM
	Mar 89	Mar 90					
Peico Electronics	21.21K	18.19	-14.24		98.53	150.00	66.54
	Jun 89	Jun 90					
Premier Automobiles	54.59	59.03	8.13		0.89	-26.32	12.31
	Mar 89	Mar 90					
Reliance Industries	69.95L	70.98	1.47		137.99	162.14	87.90
	Sep 88	Mar 90					
Siemens	38.03	41.63M	9.47		19.91	21.52	15.59
	Mar 89	Mar 90					
TELCO	39.45	46.37	17.54		60.15	46.02	47.14
	Mar 89	Mar 90					
Tata Power	488.99	609.46	24.64		142.72	214.29	100.00
	Mar 89	Mar 90					
TISCO	51.29	57.93	12.95		39.80	56.25	22.82
	Mar 89	Mar 90					
Voltas	36.76	31.11	-15.37		44.19	54.68	34.89
	Dec 88	Mar 90					
Zenith	53.55N	18.71O	-65.06		-19.52	-43.40	-11.32
							-20.75

Explanation:

CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)

CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).

CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).

CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)

Notes: A	Figure is for 8 months	H	Figure is for 6 months
B	Figure is for 9 months	I	Figure is for 14 months
C	Figure is for 15 months	J	Figure is for 9 months
D	Figure is for 9 months	K	Figure is for 15 months
E	Figure is for 9 months	L	Figure is for 9 months
F	Figure is for 15 months	M	Figure is for 18 months
G	Figure is for 9 months	N	Figure is for 18 months
		O	Figure is for 15 months

Table - 22

Per cent Change in Dividend to Equity and Share Prices

Name of the Company	% Chng in Div. to Equ.	% Change in Share Prices			
		CYAM	CFM	CAMSM	CSM
ACC	*	263.76	437.36	132.15	503.45
Ballarpur Industries	6.20	71.92	110.00	46.27	140.00
Bombay Dyeing	9.98	28.30	16.71	38.82	132.04
Ceat Tyre	-6.30	11.31	-3.03	17.58	51.52
Century Textiles	10.17	40.54	61.71	32.27	67.29
Food Specialities (Nestle)	16.10	19.05	25.29	16.08	45.98
Glaxo India	-11.98	3.00	10.81	7.82	2.70
Great Eastern Shipping	-25.41	-8.97	-26.97	3.86	-3.37
Gujarat State Fertilisers	-12.59	14.87	-3.55	16.74	47.52
Gwalior Rayon	21.54	60.44	82.98	39.70	147.09
Hindustan Alluminium	3.10	36.24	25.00	40.12	66.67
Hindustan Motors	0.00	53.98	11.63	69.22	118.60
Hindustan Lever	-1.38	25.54	47.67	18.53	56.98
Indian Hotels	10.28	11.58	23.60	4.64	43.26
Indian Organic Chemicals	30.79	17.68	-15.46	28.80	69.07
Indian Rayon	6.08	36.71	39.66	36.87	82.96
I.T.C.	24.06	98.54	138.43	68.21	205.56
Kirloskar Cummins	-17.66	28.55	55.41	15.36	52.03
Larsen & Toubro	-21.72	77.46	103.39	60.62	181.78
Mahindra & Mahindra	-21.50	17.84	-6.90	22.53	34.48
Mukand Iron	-0.56	26.71	48.85	12.32	60.31
Peico Electronics	*	98.53	150.00	66.54	194.12
Premier Automobiles	24.37	0.89	-26.32	12.31	26.32
Reliance Industries	-26.05	137.99	162.14	87.90	267.96
Siemens	14.29	19.91	21.52	15.59	39.71
TELCO	9.34	60.15	46.02	47.14	107.96
Tata Power	-10.93	142.72	214.29	100.00	304.76
TISCO	-34.09	39.80	56.25	22.82	71.30
Voltas	18.89	44.19	54.68	34.89	101.44
Zenith	-100.00	-19.52	-43.40	-11.32	-20.75

Explanation:

- CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)
- CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).
- CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).
- CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)
- * Per cent change in this case is not presented due to the base year figure being zero and change calculated on this base being unrealistic.

Table - 23

Per cent Change in Earnings Distributed and Share Prices

Name of the Company	Earnings distributed %		% Chng	CYAM	CFM	CAMSM	CSM
	Mar 89	Mar 90					
ACC	0.00	49.82	*	263.76	437.36	132.15	503.45
	Mar 89	Mar 90					
Ballarpur Industries	32.77A	14.46	-55.87	71.92	110.00	46.27	140.00
	Mar 89	Mar 90					
Bombay Dyeing	18.70	20.41	9.14	28.30	16.71	38.82	132.04
	Mar 89	Mar 90					
Ceat Tyre	20.81	19.73	-5.19	11.31	-3.03	17.58	51.52
	Dec 88	Mar 90					
Century Textiles	119.79	21.33B	-82.19	40.54	61.71	32.27	67.29
	Dec 88	Dec 89					
Food Specialities (Nestle)	37.40	61.01	63.13	19.05	25.29	16.08	45.98
	Mar 89	Mar 90					
Glaxo India	29.31C	35.13	19.86	3.00	10.81	7.82	2.70
	Mar 89	Mar 90					
Great Eastern Shipping	28.47D	21.50	-24.48	-8.97	-26.97	3.86	-3.37
	Mar 89	Mar 90					
Gujarat State Fertilisers	20.78E	22.28	7.22	14.87	-3.55	16.74	47.52
	Mar 89	Mar 90					
Gwalior Rayon	26.35	26.35	0.00	60.44	82.98	39.70	147.09
	Mar 89	Mar 90					
Hindustan Alluminium	21.93F	10.51	-52.07	36.24	25.00	40.12	66.67
	Mar 89	Mar 90					
Hindustan Motors	0.00	97.99	*	53.98	11.63	69.22	118.60
	Dec 88	Dec 89					
Hindustan Lever	56.95	59.42	4.34	25.54	47.67	18.53	56.98
	Mar 89	Mar 90					
Indian Hotels	31.54	32.03	1.55	11.58	23.60	4.64	43.26
	Mar 89	Mar 90					
Indian Organic Chemicals	33.84	32.40	-4.26	17.68	-15.46	28.80	69.07
	Jun 89	Jun 90					
Indian Rayon	0.00	76.82	*	36.71	39.66	36.87	82.96
	Mar 89	Mar 90					
I.T.C.	45.44G	47.28	4.05	98.54	138.43	68.21	205.56
	Mar 89	Mar 90					
Kirloskar Cummins	49.06H	48.41	-1.32	28.55	55.41	15.36	52.03
	Mar 89	Mar 90					
Larsen & Toubro	47.50	40.91	-13.87	77.46	103.39	60.62	181.78
	Mar 89	Mar 90					
Mahindra & Mahindra	34.95I	28.05	-19.74	17.84	-6.90	22.53	34.48
	Mar 89	Mar 90					
Mukand Iron	16.92J	23.38	38.18	26.71	48.85	12.32	60.31
	Mar 89	Mar 90					
Peico Electronics	0.00	102.98	*	98.53	150.00	66.54	194.12
	Jun 89	Jun 90					
Premier Automobiles	34.98	37.94	8.46	0.89	-26.32	12.31	26.32

(Contd...)

Name of the Company	Earnings distributed %		% Chng	CYAM	CFM	CAMSM	CSM
	Mar 89	Mar 90					
Reliance Industries	48.16K	50.91	5.71	137.99	162.14	87.90	267.96
	Sep 88	Mar 90					
Siemens	49.08	45.36L	-7.58	19.91	21.52	15.59	39.71
	Mar 89	Mar 90					
TELCO	35.26	30.37	-13.87	60.15	46.02	47.14	107.96
	Mar 89	Mar 90					
Tata Power	16.28	10.04	-38.33	142.72	214.29	100.00	304.76
	Mar 89	Mar 90					
TISCO	29.91	35.73	19.46	39.80	56.25	22.82	71.30
	Mar 89	Mar 90					
Voltas	20.83M	26.21	25.83	44.19	54.68	34.89	101.44
	Dec 88	Mar 90					
Zenith	46.69N	0.00	-100.00	-19.52	-43.40	-11.32	-20.75

Explanation:

CYAM % Change in share price (average price based on 26 fortnights - price on March 9, 1990)

CFM % Change in share price (price on February 22, 1991 - price on March 9, 1990).

CAMSM % Change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).

CSM % Change in share price (price on September 21, 1990 - price on March 9, 1990)

* Per cent change in this case is not presented due to the base year figure being zero and change calculated on this base being unrealistic.

Notes: A	Figure is for 9 months	H	Figure is for 6 months
B	Figure is for 15 months	I	Figure is for 14 months
C	Figure is for 9 months	J	Figure is for 9 months
D	Figure is for 9 months	K	Figure is for 9 months
E	Figure is for 15 months	L	Figure is for 18 months
F	Figure is for 15 months	M	Figure is for 7 months
G	Figure is for 9 months	N	Figure is for 18 months

per cent (CFM), 34.89 per cent (CAMSM) and 101.44 per cent (CSM). The case of Indian Hotels is also worth mention. The change in earning per share dividend and net sales per share is -18.09 per cent, -16.67 per cent and -20.45 per cent respectively. The Book value of the company also registered a negative change (-24.41 per cent). To maintain a lower level of dividend in the year ending March, 90 the company had to pay a higher part of its earning as compared to previous year. The price trends reveal an increase of 11.58 per cent (CYAM), 23.60 per cent (CFM), 4.64 per cent (CAMSM) and 43.26 per cent (CSM) in this share price.

Results of the exercises to find correlation between per cent changes in certain corporate fundamentals and per cent changes in the prices of the shares registered through various price series, are presented in tables - 16, 18 and 20.

Co-efficients of Correlation between the per cent change in Earning Per Share (CEPS) and changes in share prices - CYAM, CFM, CAMSM, CSM are respectively .2678 (between CEPS and CYAM), .2559 (between CEPS and CFM), .3349 (between CEPS and CAMSM), .2335 (between CEPS and CSM). It is worth mentioning that among the levels of correlation between CEPS and CYAM, CFM, CAMSM, CSM, the highest correlation was found between CEPS and CAMSM and in this case the co-efficient of correlation is .3349. With these results in view, the overall correlation between per cent change in earning per share and changes in share prices can be termed as weak (Table - 16).

Co-efficients of correlation between per cent change in dividend (CDIV) and the changes in the share prices are .0674 (between CDIV and CYAM), .0475 (between CDIV and CFM), .1518 (between CDIV and CAMSM) and .0830 (between CDIV and CSM) respectively. It is worth noting that in these results the highest correlation is .1518. Keeping these results in view the correlation between CDIV and CYAM, CFM, CAMSM, CSM can also be termed as very weak (Table - 18).

Co-efficients of correlation between per cent change in net sales per share (CNSPS) and CYAM, CFM, CAMSM and CSM are -.0672, -0.0849, -0.0522 and -0.0836 respectively. These results reveal that the correlation between CNSPS and changes in share prices is negative in all the cases (Table - 20).

With these results and trends in view, it can be stated that the prices of the shares did not tend to reflect the position of certain corporate fundamentals. Particularly negative correlation between CNSPS and CYAM, CFM, CAMSM, CSM underline that the movement in prices of the shares was not in consistency with certain corporate fundamentals. The prices of the shares seem to have been influenced potentially by the factors other than the fundamentals. Besides other factors, speculation may be stated as one chief factor influencing the prices potentially.⁶⁷

The level of influence of speculative forces over the market can be judged from the fact that the great bulk of share trading tends to concentrate in those few active shares that allow the speculators to get into or out of a transaction any moment. During 1989-90 the

⁶⁷. For details see: L.C. Gupta, *op.cit.*, pp. 1 - 21.

top 5 shares of Bombay Stock Exchange namely TISCO, ACC, TELCO, Reliance Industries and Bombay Dyeing accounted for as high as 40.9 per cent of total trading volume compared to a corresponding figure of only 3.9 per cent in the case of the New York Stock Exchange for the year 1989. Wild speculation in a few shares during 1989-90 can be estimated from the trading velocity of shares, which tells that how many times the entire issued capital was turned over in the market. The trading velocity of ACC during the year 1989-90 was 12.3, which means that the company's entire share capital or shares were turned over in the market every month. During this period trading velocity of TISCO, TELCO, Reliance and Bombay Dyeing was 1.41, .91 1.94 and 4.68 respectively indicating a high level of speculative business in these shares. These figures can also be compared with the trading velocity data of top 5 shares of Newyork Stock Exchange for the year 1989. The annual trading velocity of top 5 shares there namely - ATT, IBM, Texaco, General Electric and Exxon was .36, .58, 1.11, .33 and .15 respectively⁶⁸. G.S. Patel Committee estimated that about 90 per cent of the trading activity on most of the stock exchanges was of a purely speculative nature⁶⁹. The most dominant group of speculators in India is composed of stock exchange brokers together with their authorised assistants⁷⁰. Insider trading and Kerb trading can be termed as two major practices of the brokers adding to speculation oriented business. Insider trading generally means trading in shares of a company on the basis of undisclosed price sensitive information, which is not available to others. It is has been noted that most of the stock brokers while putting through such speculative transactions of others, themselves overtrade on their account⁷¹. Any trading

68. For details see: L C Gupta, op. cit., pp. 1-21.

69. G.S. Patel, op. cit., p.66.

70. L C Gupta, op. cit., p. 17.

71. G.S. Patel, op. cit., p.67.

One aspect relating to insider trading that needs to be examined is the impact of the leading stock brokers being in position to have direct access to such price sensitive informations, which may not be available to others, for instance a senior broker of Bombay Stock Exchange - Mr. Nimesh N. Kampani is also on the board of directors of many companies including the ones listed on stock exchanges. The companies in which Mr. Kampani holds directorship are as follows:

Anagram Finance Ltd	Ispat Profiles India Ltd
Bharat Gears Ltd	JSB Securities Ltd
Birla Yamaha Ltd	KSB Pumps Ltd
(Alternate Director)	Macrofil Investments Ltd
Camphor & Allied Products Ltd	Nagarjuna Finance Ltd
Ceat Financial Services Ltd	Shah Foods Ltd
Essar Shipping Ltd	Shriram Fibres Finance Ltd
Escorts Tractors Ltd	Tata Telecom Ltd
FICS Consultancy Services Ltd	Industrial & Prudential Invt. Co. Ltd
Gujarat Ambuja Cements Ltd	

Leading broker and President of Delhi Stock Exchange - Mr. Harish Chander Bhasin holds directorship in

outside official business hours or outside the offices of the stock brokers is called Kerb trading. Kerb trading is a sort of parallel unofficial market operating practically round the clock, in a few shares. It has been noted that the prices of leading shares of stock exchanges mainly occur in Kerb Trading posing a serious threat to the smooth functioning and stability of the markets⁷². The business trends so dominated by speculative forces prove detrimental to the interests of genuine investors. Excessive speculation can and often leads to 'artificial prices', i.e. the prices not justified by corporate fundamentals. Such artificial prices are bound to crash as the events during 1990-91 have proved.

In Bombay stock exchange, the estimated market capitalisation of around Rs. 75,000 crore. in mid october, 1990, came down to around Rs. 60,000 crore in late January, 1991 indicating a crash of around Rs. 15,000 crore. This crash led to payment problems in Bombay stock exchange. The stock exchange was kept closed by the exchange authorities for several days primarily due to the payment problems. The sellers of the securities could not get the payment till first week of February, 1991 for the securities, they sold as far back as November, 1990⁷³. Speculation oriented business also tended to result in apathy towards the problems of genuine investors as absence of liquidity in most shares and lack of trading arrangements for odd lots. Indian stock exchanges including the leader - Bombay stock exchange have been unable to develop the market for debt securities, which play an important role in capital market⁷⁴.

Evidence and discussion presented in the forgoing suggest that with the governing board dominated by the brokers the functioning of our most important stock exchange, reflected in the business trends there, is influenceable to a large extent, by the factors and interests other than that of genuine investment interests. Besides not being conducive to furthering of investment interests, this performance is also not in accordance with the objectives and role that the institution of stock exchange is expected to fulfill.

Bhasin Investments Ltd
Curewell India Ltd
Indo Swiss Time Ltd
Machino Plastics Ltd
Saru Aikoh Chemicals Ltd
The G.L. Hotels Ltd

Credit Capital Finance Corpn
Ltd
Glan Agro Industries Ltd
Monnet Ispat Ltd
Mukerian Papers Ltd
Shetty Leasing (India) Ltd
Tri Star Soya Products Ltd

Source: Prospectuses of J.M. Share and Stock Brokers Ltd and H.B. Portfolio Leasing Ltd.

⁷². G.S. Patel, *op. cit.*, p. 69.

⁷³. Sidharth Bhatia 'Investor Confidence in BSE Collapses' *Independent Journal of Politics and Business*, Bombay, February 1, 1991.
Anil Mehta "Committee set up to look into SE's payment problems" *Economic Times*, New Delhi, February 14, 1991.

⁷⁴. M.J. Pherwani, *op. cit.*, pp. XI - XIII.

Role in New Conditions

This issue assumes greater significance in context of the new issues acquiring increasing importance as a source of corporate finance.⁷⁵

Reasons for this performance can also be traced in the type and nature of the organisation the stock exchanges including the major ones adopted. Three of the stock exchanges in India, including the most important stock exchange - Bombay Stock Exchange - are organised as associations of individuals. Other two are -- Ahmedabad and Indore Stock Exchanges. An association of individuals tends to further the interests of its members and its rules are therefore framed with this end in view. The stock exchanges which are associations of individuals are no exception. The membership of the stock exchanges, constituted as associations, can be acquired by inheritance or by purchase of a new card issued by the Exchange with the approval of its members. This proposition is normally not acceptable to the members, as it leads to increased competition for business. In these circumstances any attempt to regulate the functioning of such stock exchanges by the Government is considered to be an interference with their autonomy and independence.⁷⁶ This problem is not new. For instance the Atlay Stock Exchange Enquiry Committee (1924) emphasised the necessity of the Stock Exchange framing and maintaining a systematic and settled body of Rules and Regulations in the interest of the general investing public and of the trade itself. In pursuance of this strong recommendation, the Government of Bombay offered a Charter to the Bombay Exchange on the July 21, 1925. The Charter did not visualise any direct control of the Exchange; what Government sought to do thereby was to assume authority to control the rule-making power of the Exchange and in return to grant it by Charter a monopoly of organised trading in securities. The President and the other two representatives who had carried on negotiations with Government urged the Exchange to accept the Charter; but the Exchange, fearing official tyranny in matters of free monetary trade, turned down the offer on the August 25, 1925.

It was a grievous mistake. The rejection of the Charter compelled the Government of Bombay to initiate special legislation. The second thought of the members of the Bombay Exchange that the Charter should be accepted came all too late.⁷⁷

Available facts underline the continuance of the tendency of Bombay Stock Exchange to show reluctance and resist to abide by the guidelines, recommendations and directions of

^{75.} See: J.M. Keynes, General Theory of Employment, Interest and Money, Macmillan, London, 1963, p. 159.

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a byproduct of the activity of a Casino, the job is likely to be ill done.

^{76.} See: G.S. Patel, op. cit., pp. 20-21.

^{77.} 'Organisation of the Stock Market in India', The Stock Exchange Official Directory, Vol. II, April 24, 1989, Bombay, p.1.

the Government.⁷⁸

Delhi, Calcutta, Bangalore, Kanpur, Cochin and Ludhiana Stock exchanges are companies limited by shares. This form of organisation has also tended to become inflexible and rigid.⁷⁹ The Patel Committee was of the view that the stock exchanges, incorporated as companies limited by guarantee, without share capital, licensed under section 25 of the Companies Act is the ideal form.⁸⁰

The point here is however that of brokers dominance over the governing body, irrespective of the form. The dominance of the brokers representing speculators' interests also lead to apathy towards the genuine investment interests. So, in context of the desired role of the institution of stock exchange to ensure liquidity to investors through fair and transparent trading practices, this issue demands deeper consideration than just deciding on the form.

The newly set up stock exchanges like Magadh Stock Exchange (1986) and

^{78.} For instance Bombay Stock Exchange members had been resisting to a number of proposals put forward by the government. The major proposals were as follows:

- (i) Admission of 100 new professional members at Rs. 20 lakh each (about 1/3 to 1/4 of the market price).
- (ii) Establishment of ICICI sponsored Over The Counter Exchange (OTC). This would initially list companies with an equity base upto Rs. 10 crore.
- (iii) Admission of certain public financial institutions as members.

See: 'BSE Under Pressure', Business India, Bombay, May 27-June 9, 1991, p.11.

It was only after the proposal of creation of the National Stock Exchange came out, that Bombay Stock Exchange has started showing a little flexible approach.

The High Powered Group led by M.J. Pherwani after identification of five major areas of concern namely lack of liquidity in securities, lack of infrastructure facilities, an inefficient and outdated trading system, an outdated settlement system and lack of a single market due to the inability of the various Stock Exchanges to function cohesively, not only in terms of legal structure and regulatory framework, but also in terms of trading practices, settlement procedures, recommended the creation a three tier stock market system of which National Stock Exchange proposed to be established at New Bombay is a part. According to the study group the Bombay Stock Exchange has been unable to develop a debt market, which is very important impetus for capital formation. A new Stock Exchange was therefore recommended to be promoted at New Bombay as a 'model exchange' and to act as a 'National Stock Exchange' (NSE). As an integral component of the national market system, the National Stock Exchange would provide access to investors from all over the country on an equal footing. Bombay Stock Exchange has been sharply opposing this proposal.

For details see: M.J. Pherwani, op.cit.,

'National Stock Market System', The Stock Exchange Official Directory, Vol. I, September 23, 1991, Bombay.

^{79.} See: G. S. Patel, op. cit., p. 20-21.

The ticket or share necessary to act as broker may be, though not easily, obtained at heavy premium. For example for Bombay Stock Exchange the premium price ranges between Rs. 80 lakhs to 1 crore per ticket. For Delhi Stock Exchange this figure is between Rs. 15-20 lakhs. This information is based on informal talks with a number of brokers of the respective exchanges, as no official information in this connection is made available by the authorities.

Also see: M.D. Dewani, 'Restriction of Membership, Stock Exchanges Contravene Constitution', Economic and Political Weekly, Bombay, March 11, 1989.

^{80.} See: G. S. Patel, op. cit., p. 21.

Bhubaneswar Stock Exchange (1989) followed the form of company limited by guarantee. But the four major stock exchanges - Bombay, Ahmedabad, Calcutta and Delhi are still continuing with the forms, that promote the culture of 'closed club' transactions and not that of healthy investment environment.

Organisation is an intangible quality; more the product of a collective state of mind than of any documented body of rules and regulations⁸¹. What we need in our stock exchanges, particularly in older and major ones, is a qualitative shift in the approach of the members governing the organisation and management of stock exchanges. Idea of treating stock exchange as an institution providing important platform for industrial finance and investment activity hardly exists in our stock exchanges. Confidence of genuine investor, who does not deal in securities only for speculative gains, is an important constituent of the edifice of the market; this seems yet to be realised by the brokers. Developments of eighties have made it imperative for all who are directly or indirectly concerned with the functioning of stock exchanges to think over the genuine investors' role in stock exchanges. The issue of representation of the genuine investors in the Governing board of stock exchanges should be taken up. Because these genuine investors and not the brokers, fulfill the role of financing the corporate sector in new issues market. Their representation in the bodies governing the functioning of stock exchanges is absolutely justified. For that an important change in the structure of the governing bodies is needed, so that they can be free from dominance of brokers and speculative interests. This requires a planned change in the organisation and management structure. As observed by Peter Drucker, "The first thing we can conclude is that Fayol and Sloan were right: good organisation structures will not just evolve. The only things that evolve by themselves in an organisation are disorder, friction and malperformance. Nor is the right structure - or even the livable one - intuitive, any more than Greek temples or Gothic Cathedrals were. Traditions may indicate where the problems and malfunctions are, but they are of little help in finding solutions. Organisational design and structure require thinking, analysis and a systematic approach"⁸².

There should be concrete and conscious efforts to ensure that the brokers and speculative interests should not have more than 50 per cent representation in Governing Board⁸³. Genuine investment interests should be given at least 1/3 of the places in the Governing Board. To start with, this can be done by giving representation to investors associations. Initially investor associations, approved by SEBI, should be given representation. Representation can be on a rotation basis. The relatively developed states of the country like Gujarat and Maharashtra have strong investor associations.

^{81.} Douglas C. Basil and Curtis W. Cook 'The Management of Change', McGraw Hill, London, p. 182.

^{82.} P.F. Drucker, 'New Templates for Today's Organisations', Harvard Business Review, Jan-Feb., 1974, p.122.

^{83.} See: G.S. Patel, op. cit., p. 24.
Also see: Alok Puranik, 'Speculation Management - Some Issues' Chartered Accountant, New Delhi, July, 1991, pp. 16-19.

Representatives of these associations on governing board should ensure that it does not take decisions influenced by brokers and speculative interests to the detriment of genuine investors. They should also ensure healthy trading practices in stock exchanges. The experiment can be initiated at one of the major exchanges such as the Bombay Stock Exchange. With the implementation of this step, there is a possibility of qualitative change in the functioning of the stock exchange.

Another suggestion that can be considered to reduce the negative impact of domination of brokers and speculative interests in the governing boards is that an eminent economic journalist be nominated on the governing board. For that, he/she should be paid adequate compensation to spare time from his/her normal schedule. This can be done on rotational basis by the investor associations of the region. This would create an environment, in which undesirable activities would become a little difficult due to fear of exposure.

An effective SEBI can play an important role in the improvement of the functioning of stock exchange. But SEBI established in April, 1988 is however, yet to get the statutory power to deal with various aspects of operations of stock exchanges.⁸⁴

New Stock Exchanges

Rapid developments in the activities relating to capital market in recent past are making it clear that membership/brokership of stock exchanges requires more skills than that required for a simple trading activity. The present day stock broker has to be well versed not only in clerical and technical aspects and intricacies of the business, but has also to have necessary knowledge of economics, corporate finance, functioning of financial institutions, various types of alternative avenues of investment available to an investor etc. This also implies that he must have adequate working knowledge of the provisions of the various statutes such as The Securities Contracts (Regulation) Act, 1956 and the Rules framed thereunder. The Capital Issues (Control) Act, 1947, Companies Act, 1956, Income Tax Act, 1961 and Rules, Byelaws and Regulations of the Stock Exchanges, policies of the

^{84.} G.S. Patel feels that entrenched vested interests in the government and outside, particularly in the institutions and stock exchanges are trying desperately to ensure that SEBI is not endowed with such overriding powers as may ultimately be detrimental to their self interest. See: Fortune India, Bombay, December 1, 1990, p.22.

The proposal for establishing SEBI (Securities and Exchange Board of India) was put before the parliament at the time of presenting the budget for 1987-88. Subsequently, SEBI was established in April, 1988. For a healthy growth of capital market and to protect the rights of investors, SEBI was proposed to function as apex institution to regulate the activities relating to the capital market.

The situation might probably improve with the Government taking determined stand in this regard. The budget speech 1991-1992 specifies that, "although the Board was set up, legislation to give the broad adequate powers was unfortunately not enacted. This shall now be done forthwith and full statutory powers will be given to the Securities and Exchange Board of India, for administering the relevant provisions of the Securities Contracts (Regulation) Act and the Companies Act."

See: Ministry of Finance, Budget speech, part A, 1991-92 para 16.

financial institutions, various notifications and guidelines issued by the Government that have a vital bearing on the trading in securities, etc. This knowledge is necessary for a stockbroker to advise and serve his clients. The stockbroker has, therefore, to be a professional in his approach and working and possess requisite knowledge and technical skills demanded of his business.⁸⁵

It would be in order to discuss in brief a few issues relating to new stock exchanges established in recent past. As facts reveal that the decade of eighties has seen a sharp increase in the number of stock exchanges. The number 9 in 1980, rose to 19 at the end of the decade. In 1989-90 itself three new exchanges were established. Study of the developments that took place in the one of the newly established stock exchanges - Jaipur Stock Exchange (JSE) may give some insights into the working of new exchanges. Jaipur Stock Exchange was granted recognition in January, 1989 and trading commenced in August, 1989. The members' selection process at Jaipur Stock Exchange ignored all the recommendations of Patel Committee. This seems to have been affected by various types of influences including political.⁸⁶ Besides the anomalies in the formation process, the trading practices of the JSE cannot be termed as smooth and fair.⁸⁷ Cases of speculative business even in those securities, which were not listed on the exchange have also been extensively reported in the media.

The issue is worth examining, whether better services to investors conducive to a healthy investment environment, can be provided by increasing the number of stock exchanges. From investors' point of view, the role of the institution of stock exchange is to provide a market place for purchase and sale of the securities thus enabling their free transferability. Another role is that of continuous price formation. An institution fulfilling these two objectives, free from the influences of speculative interests can well serve the interests of investors. Some concrete steps in this direction deserve immediate consideration.

^{85.} See: G.S. Patel, *op. cit.*, p.29.

^{86.} See: Alok Puranik, "Ghar Ki dukan ki taraha chal raha hai karobaar", A report on Jaipur stock exchange, *Sunday Observer (Hindi)*, New Delhi, July 3, 1990.

^{87.} For example according to the notice dated June 19, 1990, issued by Executive Director, Jaipur Stock Exchange a big number of members were not informing the exchange about the prices at which they entered into the transactions. This according to the notice is a serious offence.

Section - IV

To sum up, stock exchange is one of the institutions resulting from a long process of institutionalisation of various forms of entrepreneurship in 'western type' free market economies. With the flourishing of the concept of joint stock enterprise, the stock exchange there became an important institution facilitating the availability of funds for business activity and offering platform for investment activity to community. Large corporations being major avenue of investment of community's savings became the dominant feature of such economies over a period, making in this process stock exchange, although with certain limitations, an important nexus between community's savings and investment. In India, however, the institution of stock exchange evolved and developed as an organisation offering place for speculative activity, which had little to do with industrial financing and investment activity. Evolution and development of the first stock exchange of the country - Bombay stock exchange is a case in point. Stock exchange remained absolutely on the periphery of industrial financing and investment activity in preindependence economy, primary reason being the general distrust by the public of private business and closed circle charter of industrial entrepreneurship. With the absence of any meaningful role in industrial financing and investment activity, the functioning, organisation and management of the institution of stock exchange, tended to develop as that of an organisation primarily concerned with speculative activity. It is worth noting, that functioning, organisation and management of seven out of present nineteen stock exchanges, including that of five major stock exchanges - Bombay, Calcutta, Delhi, Ahmedabad and Madras took shape during the period, marked for absolute domination of speculative interests.

The organisation and management of major stock exchanges formed during this period did not prove to be positive to the developments and desirable changes later more particularly during the eighties.

The study points out that during the eighties the role of shares and debentures as investment medium in household savings was not that of major significance. The role of the institution of stock exchange in household saving can also be termed as one of peripheral significance only. During the same period the trend in investment in shares and debentures also proved to be far from being stably progressive as compared to the trend observed in overall household saving in financial assets.

The study finds that during the eighties despite traditionally important source of finance for private corporate sector-assistance by the All India financial institutions (AIFIs) remaining still dominant as compared to the new issues market as a source of finance, sharp increase in (absolute terms), in the amount raised from new issues market speaks for that attaining considerably increasing importance as a source of finance for private corporate

sector. This also underlines the need for such type of stock exchange mechanism which can sustain the changes that took place in new issues market during the eighties, including the entry of a large number of investors in securities market, whose primary interests do not lie in speculative gains only.

For such investors the desirable role of stock exchange is to facilitate continuous price formation in a healthy manner and ensuring a platform for sale/purchase of securities, free from undesirable trading practices. Statistical exercises reveal that the price trends of the shares considered to be representative of the market (shares forming Bombay Stock Exchange Sensitive Index) were not in consistency with the position of certain corporate fundamentals considered important for investment decisions. The prices seem to have been influenced potentially by the factors other than the fundamentals. Speculation may be cited as one major factor influencing the prices potentially.

There is 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 is dominated by the brokers and speculative interests. With brokers and speculative interests dominated governing boards and speculation oriented functioning, the role of our major stock exchanges in industrial financing and investment activity can be said to be less than satisfactory.

To improve the situation there is a strong case for a planned change in the structure of the governing bodies of major stock exchanges. It is needed to ensure that intense speculative interests, purely unproductive in nature, do not influence negatively the genuine investor interests in the market. Investors, providing finance through new issues market as real source of finance and forming the key component of capital market should be given appropriate representation in these 'Key bodies'. There is a case for formation of an institution, that could provide a healthy market place for purchase and sale of the securities, not dominated by speculative interests.

Annexure One

1. Earning per share (Rs.) =
$$\frac{\text{Net Profit - Pref. Dividend}}{\text{No. of Equity Share subscribed}}$$

2. Book value per share (Rs.) =
$$\frac{\text{Amount called up per share + (Share holders Reserves - Intangible Assets - Pref. Dividend in Arrears)}}{\text{No. of Equity Shares subscribed}}$$

3. Dividend to Equity (%) =
$$\frac{\text{Equity Dividend}}{\text{Equ. Cap. + Share holders' Reserves}} \times 100$$

4. Earnings Distributed (%) =
$$\frac{\text{Equity Dividend}}{\text{Net profit - Pref. Div.}} \times 100$$

5. Net Sales per Share (Rs.) =
$$\frac{\text{Net sales}}{\text{No. of Equity Shares subscribed}}$$

SUMMARY

Section-I presents, in brief, the evolution process of the institution of stock exchange in 'western type' free market economies. This section underlines that with the flourishing of the concept of joint stock enterprise, the institution of stock exchange in such economies became an important institution facilitating the availability of funds for business activity and offering platform for investment activity to community. Large corporations being major avenue of investment of community's savings became the dominant feature of these economies over a period, making in this process stock exchange, although with certain limitations, an important nexus between community's savings and investment. In India, however, the institution of stock exchange evolved and developed as an organisation offering place for speculative activity, which had little to do with industrial financing and investment activity. Evolution and development of the first stock exchange of the country - Bombay stock exchange is a case in point. Stock exchange remained absolutely on the periphery of industrial financing and investment activity in pre-independence economy, primary reason being the general distrust by the public of private business and closed circle charter of industrial entrepreneurship. With the absence of any meaningful role in industrial financing and investment activity, the functioning, organisation and management of the institution of stock exchange tended to develop as that of an organisation primarily concerned with speculative activity. It is worth noting that functioning, organisation and management of seven out of present nineteen stock exchanges, including that of five major stock exchanges - Bombay, Calcutta, Delhi, Ahmedabad and Madras took shape during the period, marked for absolute domination of speculative interests. The organisation and management of major stock exchanges formed during this period did not prove to be positive to the developments and desirable changes later, more particularly during the period of eighties.

Section-II points out that during the period (1980-81 to 1988-89) investment in shares and debentures on an average formed 3.84 per cent part of total household savings in financial assets. During the same period investment in shares and debentures forming part in household savings in financial assets was highest in 1985-86 - 6.4 per cent. The role of shares and debentures as investment medium in household savings during the eighties was not that of major significance. The role of the institution of stock exchange in household saving can also be termed as one of peripheral significance only. During the same period the trend in investment in shares and debentures also proved to be far from being stably progressive as compared to the trend observed in overall household saving in financial assets. The study finds that during the eighties despite traditionally important source of finance for private corporate sector-assistance by the All India financial institutions (AIFIs) remaining still dominant as compared to the new issues market as a source of finance, sharp increase (in absolute terms) in the amount raised from new issues market speaks for that attaining considerably increasing importance as a source of finance for private corporate sector. This also underlines the need for such type of stock exchange mechanism which can sustain the changes that took place in new issues market during the eighties, including the entry of a large number of investors in securities market, whose

primary interests do not lie in speculative gains only. For such investors, the desirable role of stock exchange is to facilitate continuous price formation in a healthy manner and ensuring a platform for sale/purchase of securities, free from undesirable trading practices.

Section-III attempts to throw light on the type and nature of organisation and management of stock exchanges and implications thereof as reflected in their functioning and business trends. This section presents a few empirical exercises to assess the extent to which the share prices registered at Bombay stock exchange are in consistency with the position of certain corporate fundamentals considered important for investment decisions. Co-efficients of correlation between per cent changes in certain corporate fundamentals⁸⁸ of the companies forming Bombay stock exchange sensitive index (BSESI) and per cent changes in prices of the shares⁸⁹ indicate that the price trends were not in consistency with the position of the corporate fundamentals. The prices seem to have been influenced potentially by the factors other than the fundamentals. Speculation may be cited as one major factor influencing the prices potentially. There is 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 is dominated by the brokers and speculative interests. With brokers and speculative interests dominated governing boards and speculation oriented functioning, the role of our major stock exchanges in industrial financing and investment activity can be said to be less than satisfactory.

To improve the situation there is a strong case for a planned change in the structure of the governing bodies of major stock exchanges. It is needed to ensure that intense speculative interests, purely unproductive in nature, do not influence negatively the genuine investor interests in the market. Investors, providing finance through new issues market as real source of finance and forming the key component of capital market should be given appropriate representation in these 'Key bodies'. There is a case for formation of an institution, that could provide a healthy market place for purchase and sale of the securities, not dominated by speculative interests.

^{88.} The changes in a few corporate fundamentals are denoted by CEPS, CDIV and CNSP, explanation is as follows:

CEPS - Per cent change in earning per share
 CDIV - Per cent change in dividend
 CNSPS - Per cent change in net sales per share

^{89.} The changes in share prices between different points of time are denoted by CYAM, CFM, CAMSM and CSM, explanation is as follows:

CYAM - Per cent change in share price (average price based on 26 fortnights - price on March 9, 1990)
 CFM - Per cent change in share price (price on February 22, 1991 - price on March 9, 1990).
 CAMSM - Per cent change in share price (average price based on 15 fortnights between March 9, 1990 to September 21, 1990 - price on March 9, 1990).
 CSM - Per cent change in share price (price on September 21, 1990 - price on March 9, 1990).