Growth of Indian Stock Market : A case of NSE

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ABSTRACT

The present paper provides historical background of stock market in India and also analyses the growth pattern of NSE. The study covers the period of twelve years spread over from 1995-96 to 2006-07. It has been found that all the segments of NSE have registered splendid growth in terms of turnover. The derivatives segment of NSE has made it one of the largest stock exchanges in the world. So far as the trading in securities is concerned, it is not broad based. The trading is concentrated to few securities and a large portion of the securities are experiencing low liquidity.

INTRODUCTION

Capital market is a market for medium and long-term finance. In the words of Livingston, "It is the business of the capital market to facilitate the movement of the stream of command over capital to the points of highest yield. By so doing it enables control over resources to pass into the hands of those who can employ them most efficiently, there by increasing productive capacity and swelling the national dividend." Thus, we can say that capital market relates to the capital which is required for long and medium term use and also mobilizes the funds from unproductive sources to productive one. It can be classified into two parts – Primary Market, also called New Issue Market, and Secondary Market.

In the primary market, new issues of common stock, bonds and preferred stock are sold by companies, government, local authorities and corporations to acquire new capital. The proceeds raised by issuing securities in this market go to issuer. After purchasing of new issue by the investor, he can sell it in the secondary market. In this market only those securities are permitted to trade which have already been sold to the public in the new issue market (primary market). This facilitates trade between current and potential owners of the securities. Thus, this market provides ready liquidity to the investors.

Generally, two basic reasons are considered responsible for transaction in the secondary market. First is information oriented reasons in which investor believe that he has superior information about the particular security in comparison to other market participants and this situation leads them to believe that the securities is not correctly priced by the market. He encourages to make transactions in the securities. If the information is good, it means security is currently under priced and investor will want to buy security. On the other hand, if information is bad, it means security is currently overpriced and in this case investors will want to sell their securities. Second reason for trading in the secondary market is liquidity oriented in which investor having insufficient cash (e.g. to purchase a car) will want to sell his holdings whereas in case of sufficient cash (e.g. as a result of an inheritance), he will buy securities.

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GLOBAL EVOLUTION

Until the early nineteenth century, mainly government debt and stock of a few large public corporations such as the Bank of England, the Dutch, English East India Company and the Bank of United States were dealt in the capital market. At that time, capital market was not much influenced by the industrial revolution. Most of the firms were small and their financial requirements are fulfilled by the bank loans, trade credits etc. The big need for long-term finance felt in the nineteenth century for the construction of canals and railroads which was financed through the selling of state and local bonds mostly in the London market. Industrial revolution increased the living standard of the British middle class which result in demand for more financial assets. On the other hand, the supply of government securities was declining and the British government steadily paid off the debt incurred in the wars of 1776 – 1815. Consequently, British investors started to buy more speculative domestic and foreign issues.

After the end of civil war, capital market rapidly developed in the United States. Jay Cooke and other started the selling of railroad bonds to small investors. Besides these, the rapidly growing insurance companies and saving banks provided an important market for long-term securities. The securities of the manufacturing companies became important only after the 1990s. The scale of the manufacturing expanded as technology advanced. As a result, their fund requirement for the purpose of set up of plant and to combine small firms into larger one increased tremendously which could be met by the capital market. Much of this finance was in the form of equities rather than bonds. However, the growth of stock market before World War I was nothing compared to the boom of the 1920s. The number of stocks listed, number of issues, the volume of trading – all these exploded during the said period. But stock market crash of 1929 and after that depression in the world market exerted great impact on its growth and which could not revive until the 1950s.

INDIAN STOCK MARKET – ORIGIN AND GROWTH

The beginning of the 19th century is considered as originating period of the stock market in India and now it has risen to a great extent. The Indian stock market is one of the oldest in Asia. At present, there are 22 stock exchanges in India. By the end of 1830 many banks and cotton presses took place in Bombay. The East India Company and few other commercial banks floated shares sporadically through a very small group of brokers. During 1840-1850, there were only half a dozen registered brokers in Bombay. The rapid development of commercial enterprises and brokerage business attracted many people into the security trading and the number of brokers increased to 60. In 1961, the entire market was griped by 'Share Mania' which was resulted due to the American Civil War. During this period, the number of brokers increased to about 200 to 250 having dominating position in the market. Like the South Sea Bubble and the Tulip Mania of the 18th century in Europe, the Share Mania of 1861-1865 caused undesired desolation at the end of the American Civil War and Most of the companies became insolvent in Bombay. This was the first phase of the growth history of the Indian stock market.

The depression was continued for a long but the effect of Share Mania led to foundation of a regular market for securities. The brokers, who were thrived out of civil war in 1874, gathered in a street and organized an informal association in 1875 which was formally established on 3rd December, 1887 in

Bombay as a society which was called the "Native Shares and Stock Brokers Association" that can alternatively be said as "The Stock Exchange". The stock exchange acquired a premise in the same street in 1985 which was inaugurated in 1899. The Brokers formed code of conduct for brokerage business. They mobilized private funds for industrial growth and also for government securities (gilt edged securities) especially of Bombay Port Trust and the Bombay Municipality. It was the Ahmedabad which gained importance in regard to the cotton textile industry after Bombay. Many mills established in Ahmedabad in 1880s realized the need for a stock exchange at Ahmedabad. In this way, the cotton textile industry which established primacy of Bombay, contributed to the development of "The Ahmedabad Share and Stock Brokers' Association" in 1894. It was established as a non-profit making association with Trust Deed of Association like the stock exchange in Bombay.

The swadeshi movement led by Mahatma Gandhi encouraged the indigenous trading and business class to start industrial enterprises. As the cotton textile industry was behind the set up of stock exchanges at Bombay and Ahmedabad, similarly boom in the share prices of jute, tea and coal industries was major factor for making Calcutta as another centre for share trading. Stock exchanges at both places i.e. Bombay and Ahmedabad were well set up and properly organized association at the commencement of the 20th century. But Calcutta Stock Exchange was not so constituted. In fact, as in Bombay, it was a boom in coal followed by the crises that highlighted the need for an organized body for the mutual protection and safety of the brokers and the trade. As a result, an association was formed by some leading brokers on the 15th June, 1908 under the name of "Calcutta Stock Exchange Association". During the First World War period, supply of industrial goods started declining in India as Europe ceased to produce any manufactured articles except those essential for the war. As a result, Indian manufacturers expanded their production and established new ventures. This was the period of phenomenal prosperity for the industries like jute and textiles, steel, sugar, paper and flour. The stock exchanges in India became central attraction for all which led to the establishment of other new stock exchanges in 1920 at Madras. In the same line, a few stock exchanges in Bombay and Ahmedabad were formed but they could not survive for long because they could not get recognition under the provision of the Bombay Securities Contracts Control Act in 1925. The year 1921 was not good for the Indian stock market. It can be understand from the fact that the members in the Madras Stock Exchange reduced from 100 to 3 in 1923 and it was suffering to survive its existence.

The year 1935 witnessed improvement in the business condition and stock market activity which was the result of growing public interest in the security trading. Many new plantation companies and textile mills were established in the South India which led to the formation of Madras Stock Exchange Association (Private) Ltd. on 4th September, 1937. Many other stock exchanges were established in different parts of the country. For example, four new stock exchanges were established one after another at each places Ahmedabad and Lahore and two in Calcutta besides existing one. The U.P. Stock Exchange Ltd. and Nagpur Stock Exchange Ltd. were established in Kanpur and Nagpur respectively in 1940. Hyderabad Stock exchange Ltd. was established in 1944 under the Hyderabad Securities Contracts

Control Act, modeled on the lines of the Bombay Securities Contracts Control Act of 1925. Two stock exchanges – Delhi Stock and Share Brokers' Association Ltd. and Delhi Stocks and Shares Exchange Ltd. – were established in Delhi and thereafter in June 1947, amalgamated into the Delhi Stock Exchange Association Ltd.

This rapid increase in the number of stock exchange fed on the war time boom suffered almost stop aftermath of depression. The exchanges in Lahore closed down during the holocaust which followed the partition of the country and later one of them migrated to Delhi when it was merged to the Delhi Stock Exchange. Most of the other stock exchanges either withered away or languished till 1957 at the time of applying for recognition under the Securities Contracts (Regulation) Act, 1956 to the Central Government. Only the old established stock exchanges in Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore were recognized under the Act. Subsequently in 1957, the Bangalore Stock Exchange Ltd. was registered and thereafter recognized in 1963. Some members of the other associations were required to be admitted by the recognized stock exchanges on a concessional basis but acting on the principle of unitary control, the recognition of all these fake stock exchanges was refused by the Government of India. Thereafter, they ceased to function.

Thus, there were eight stock exchanges in India before 1960which was remained unchanged during the next twenty years. But during 1980s, many new stock exchanges came into focus such as Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Ltd. (Kanpur, 1982), Pune Stock Exchange Ltd. (1982), Ludhiana Stock Exchange Association Ltd. (1983), Gauhati Stock Exchange Ltd. (1984), Kanara Stock Exchange Ltd. (Mangalore, 1985), Magadh Stock Exchange Association (Patna, 1986), Jaipur Stock Exchange Ltd. (1989), Bhubaneswar Stock Exchange Association Ltd. (1989), Saurashtra Kutch Stock Exchange Ltd. (Rajkot, 1989), Vadodara Stock Exchange Ltd. (Baroda, 1990), Coimbatore Stock Exchange and Meerut Stock Exchange. Two national stock exchanges are- The National Stock Exchange of India Ltd. and The Over the Counter Exchange of India Ltd.

Exhibit: 1 Exchange-wise Cash Segment Turnover in India (Rs. Crore)

Stock Exchange	2006-07	Percentage Share (2006-07)
Ahmedabad	Nil	Nil
BSE	9,56,185	32.94
Bangalore	Nil	Nil
Bhubaneswar	Nil	Nil
Kolkata	694	0.02
Cochin	Nil	Nil
Coimbatore	Nil	Nil
Delhi	Nil	Nil
Gauhati	Nil	Nil
Hyderabad	92	0.003
ISE	Nil	Nil
Jaipur	Nil	Nil
Ludhiana	Nil	Nil
Madras	1.2	Nil
Magadh	Nil	Nil
MPSE	Nil	Nil
NSE	19,45,285	67.01
OTCEI	Nil	Nil
Pune	Nil	Nil
SKSE	Nil	Nil
UPSE	799	0.03
Vadodara	Nil	Nil
Total	**29,03,057**	**100.00**

Source: SEBI Annual Report, 2006-07

At present, there are 22 stock exchanges in India but trading is almost nil in most of them. If we look at the turnover of each stock exchange during 2006-07, we find that out of total turnover of all stock exchanges in India NSE covers 67.01 per cent followed by BSE with 32.94 per cent. Trading has been confined basically to these two stock exchanges (exhibit 1).

NSE: AN OVERVIEW

The setting up of NSE was announced in budget 1993-94 and it was incorporated under the Companies Act, 1956 on November 27, 1992 with an equity capital of Rs. 25 crore. But government of India recognized it as a stock exchange on April 26, 1993, initially valid only for five years. Government appointed IDBI as a lead promoter. Hong-Kong based consulting firm 'The International Securities Consultancy (ISC) Limited' was appointed by the IDBI to provide the infrastructural facilities for the NSE. The NSE started its operations in June 1994 with trading on the 'Wholesale Debt Market Segment'. Subsequently, it launched the 'Capital Market Segment' in November 1994 as a trading platform in equities while futures and options segment was launched in June 2000 for various derivatives instruments to trade.

Deficiencies and malpractices etc. prevalent in the stock exchanges prior to the initiation of reform process in India were the major cause which forced to the policy makers to think about setting up a national stock exchange. A committee under the chairmanship of Late Shri M. J. Pherwani was formed to provide detailed information and valuable suggestions in this regard. The major drawbacks identified by the committee are as under -

- Lack of liquidity in most of the markets in terms of depth and breadth.
- Outdated settlement system grossly inadequate to cater to the growing volume of business leading to delays and loss in market liquidity.
- Inefficient and outdated trading system resulting in non-transparent operations which has an adverse effect on investor confidence.
- Inability to develop a debt market.
- Lack of single market due to inability of various stock exchanges to function cohesively in terms of legal structure, regulatory framework, trading and settlement procedures, jobbing and spreads.

To overcome the above stated drawbacks of the stock exchanges, a new stock exchange equipped with high technology came into existence in the form of NSE which was set up with the under mentioned objectives:

- Establishing a nation-wide trading facilities for all type of securities;
- Ensuring equal access to investors all over the country through an appropriate communication network;
- Providing a fair, efficient and transparent security market using electronic trading system;
- Enabling shorter settlement cycle and book entry settlement, and
- Meeting current international benchmarks and standards.

NSE provides nation-wide screen based automated trading system with a high degree of transparency and equal access to investors irrespective of their geographical locations. Its objective is to be a world-class exchange and use it as an instrument of change for the industry as a whole. With the help of its high technology, NSE has been able in shifting the trading platform from the trading hall in the premises of the stock exchange to the computer terminals at the premises of the trading members located at different geographical location in the country and subsequently, to the personal computers in the houses of investors and even to hand held portable devices for mobile investors. The high level of information dissemination through on-line system of NSE has helped in integrating retail investors on a nation-wide basis. What ever the standards has been set by NSE in market practices, products, technology etc. have become industry benchmarks and are being followed by other market participants. Within a very short span of time, indeed, NSE has been able to achieve all the objectives for which it was set up. NSE is also providing scrip-less trading and settlement guarantee for all trades executed on the exchange. NSE is also careful about interest of the investors. It has minimized not only the risks involved in clearing and settlement by establishing Clearing Corporation (National Securities Clearing Corporation Ltd., NSDL). Setting up Settlement Guarantee Fund (SGF), reducing settlement cycle period, implementing real time risk management system, dematerializing and electronic transferring of securities but also protected investors from any damage due to default of brokers by establishing investors protection fund.

REVIEW OF LITERATURES

Eleswarapu, V. R. and C. Krishnamurti (1994) studied the problem of illiquidity that afflicts the stocks listed on the Bombay Stock Exchange (BSE). They found that there exists a liquidity premium for stocks traded in the BSE. Size and diffused ownership have a beneficial effect on the liquidity measure. Liquidity is adversely affected by increasing the holdings of insiders, government and financial institutions.

Kalimipalli, M. and L. Ramchand (2001) analyzed the changes in returns, volatility and liquidity on the local market following foreign capital raising events by 49 Indian firms. They found that subsequent to gaining foreign exposure, firms experienced a decline in all the following: returns (though not statistically significant), volatility of returns, high/ low price ranges and volatility of the daily price range on the local (Indian) market. These together imply lower bid-ask spreads and hence improved liquidity in the domestic market. Comparing these to firms that raise capital on the local (Indian) market only, they found that there are no significant differences in price range changes across the two groups. Firms gaining foreign exposure in fact experience a smaller decline in volatility of returns as well as volatility of the daily high/low price range compared to firms issuing equity only on the local market.

Krishnamurti, C. and E. Lim (2003) examined the effects of significant structural differences between BSE and NSE on variations in observed measures of quality of markets. Using a paired comparison approach they found that there are significant differences in liquidity and price volatility between the two markets.

Dalvi, M. et al (2005) analyzed the various determinants of liquidity on National Stock Exchange. They found that each measure of liquidity is significantly related to measures of activity such as the number of trades, daily volume, rupee turnover, quality of price discovery, order size and order imbalance, a change in settlement regimes and ratio of trading volumes in a given stock between the National Stock Exchange and the Bombay Stock Exchange. They also found that the trading in recent years by Foreign Institutional Investors (FIIs) also affects liquidity.

Griffin, J. M. et al (2006) investigated the dynamic relation between market-wide trading activity and returns in 46 markets. Many stock markets exhibit a strong positive relation between turnover and past returns. The magnitude of this relation varies widely across markets. The relation between returns and turnover is stronger in countries with restrictions on short sales and where stocks are highly cross-correlated. It is also stronger among individual investors than among foreign or institutional investors. In developed economies, turnover follows past returns more strongly in the 1980s than in the 1990s.

GROWTH

The trading in the capital market segment of NSE was started on November 4, 1995 and very soon it became the largest stock exchange in the country within a year of its existence. Turnover at NSE was Rs. 67,287 crore in 1995-96 which switched to Rs. 19,45,287 crore in 2006-07. At the end of March 2004, market capitalization at NSE increased sharply by 108.70 per cent growth over the corresponding figure of previous year and this was the highest growth over the period covered. At the end of March 2007, total market capitalization was Rs. 33,67,350 crore. The average annual growth rate of market capitalization and turnover has been 29.27 per cent and 58.12 per cent respectively. Exhibit 2 shows year-wise market capitalization, turnover and their percentage growth.

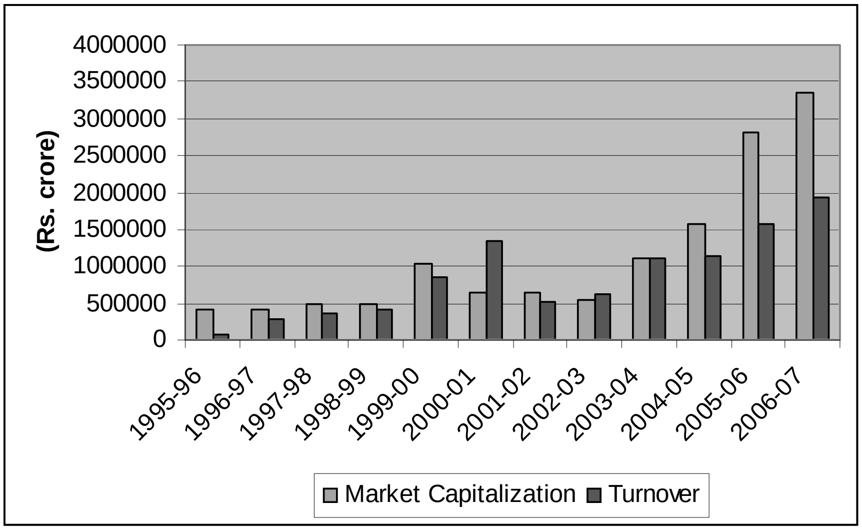
Exhibit: 2 Growth of Market Capitalization and Turnover

Year	Market Capitalization Rs. Crore*	%age Growth	Turnover Rs. Crore	%age Growth
1995-96		401459		67287
1996-97	419367	4.46	294503	337.68
1997-98	481503	14.82	370193	25.7
1998-99	491175	2.01	414474	11.96
1999-00	1020426	107.75	839052	102.44
2000-01	657847	-35.53	1339510	59.64
2001-02	636861	-3.19	513167	-61.69
2002-03	537133	-15.66	617989	20.43
2003-04	1120976	108.7	1099534	77.92
2004-05	1585585	41.45	1140072	3.69
2005-06	2813201	77.42	1569558	37.67
2006-07	3367350	19.70	1945287	23.94
Average Annual Growth Rate		29.27		58.12

*as on end of March

Source: Fact Book of NSE

Figure: 1 Market Capitalization and Turnover in CM Segment



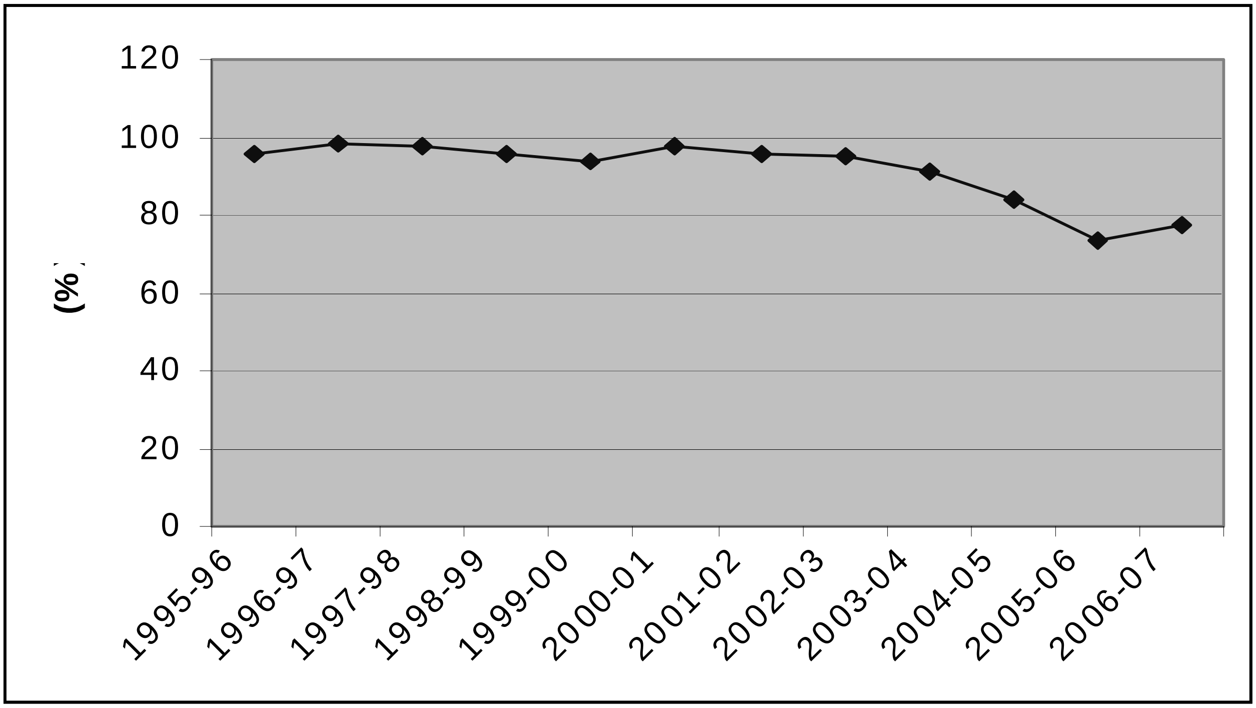
So far as the share of securities in turnover at NSE is concerned, the figure was not good during the starting period of trading. The trading was centralized to few securities. This is proved from the fact that till 1997-98, more than 70 per cent of turnover was in the account of only top 5 securities. This figure has tremendously come down over the years and it was 16.97 per cent during 2006-07 while top 100 securities cover 77.22 per cent of the total turnover at NSE (exhibit 3).

Exhibit: 3 Percentage Share of Top 'N' Securities in Turnover CM Segment

Year	No. of Securities				
	5	10	25	50	100
1995-96	82.98	86.60	90.89	93.54	95.87
1996-97	84.55	91.96	95.70	97.03	98.19
1997-98	72.98	85.17	92.41	95.76	97.90
1998-99	52.56	67.11	84.71	92.03	95.98
1999-00	39.56	59.22	82.31	88.69	93.66
2000-01	52.15	72.90	88.93	94.57	97.46
2001-02	44.43	62.92	82.24	91.56	95.91
2002-03	40.58	55.41	77.80	89.16	95.38
2003-04	31.04	44.87	64.32	79.44	91.03
2004-05	25.88	41.65	57.98	72.40	84.26
2005-06	22.15	31.35	46.39	59.22	73.12
2006-07	16.97	25.25	43.46	61.94	77.22

Source: Fact Book of NSE

Figure: 2 Percentage Share of Top 100 Securities in Turnover in CM Segment



NSE started its trading operations by launching WDM segment in June 1994 where wide range of fixed income securities comprising central government securities, treasury bills (T-bills), state development loans (SDLs), bonds issued by public sector undertakings (PSUs), floating rate bonds (FRBs), zero coupon bonds (ZCBs), index bonds, commercial papers (CPs), certificates of deposit (CDs), corporate debentures, SLR and non-SLR bonds issued by financial institutions (FIs), bonds issued by foreign institutions and units of mutual funds are traded.

To cover all classes of investors including retail investors, the retail debt segment was launched on January 16, 2003 in which operations started by trading in all outstanding and newly issued central government securities. Further, other securities like state government securities, T-bills etc. will be added. All the trades executed at the exchange are cleared and settled under the same as in the case of equity market i.e. T+2 rolling settlement cycle.

WDM segment also witnessed tremendous growth over the years as during 1995-96 the turnover was Rs. 11,868 crore which switched to Rs. 2,19,106 crore during 2006-07. However, it is substantially declining year after year since 2004-05. The highest turnover was during 2003-04 i.e. Rs. 13,16,096 crore followed by Rs. 10,68,701 crore and 9,47,190 crore during 2002-03 and 2001-02 respectively. So far as market capitalization is concerned, it has registered constant increase over the years. It was Rs. 2,07,783 crore during 1995-96 which increased to Rs. 17,84,801 crore during 2006-07 (Exhibit 4).

Exhibit: 4 Growth of WDM Segment

Year	Number of Active Securities	Number of Trades	Turnover (Rs. Crore)	Market Capitalization (Rs. Crore)
1995-96	304	2,991	11868	207783
1996-97	524	7,804	42278	292772
1997-98	719	16,821	111263	343191
1998-99	1,071	16,092	105469	411470
1999-00	1,057	46,987	304216	494033
2000-01	1,038	64,470	428582	580836
2001-02	979	1,44,851	947190	756794
2002-03	1,123	1,67,778	1068701	864481
2003-04	1,078	1,89,518	1316096	1215864
2004-05	1,151	1,24,308	887294	1461734
2005-06	897	61,891	475523	1567574
2006-07	762	19,575	219106	1784801

Source: Fact Book of NSE

Figure: 3 Market Capitalization and Turnover in WDM Segment

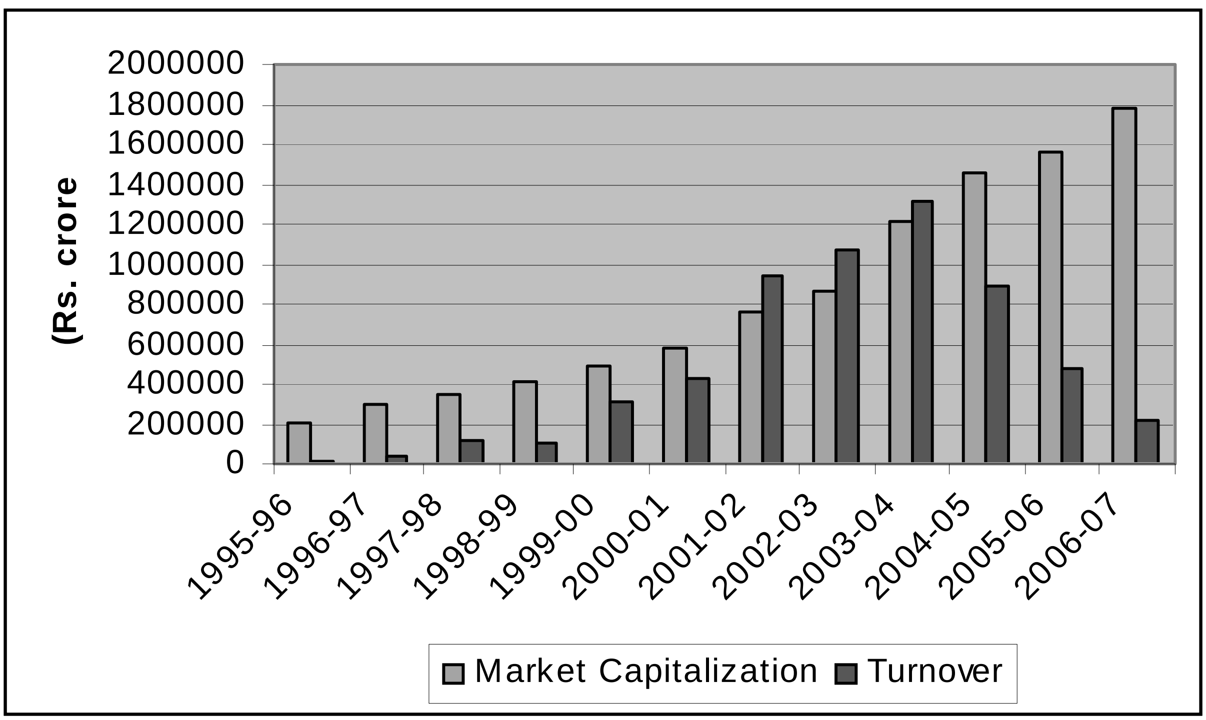


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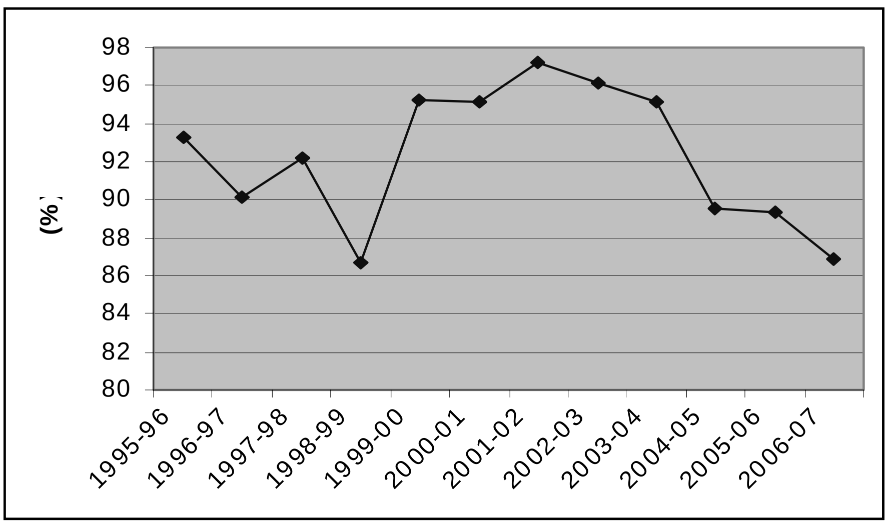
Exhibit: 5 Share of Top 'N' Securities in Turnover in WDM Segment

Year	Top 5	Top 10	Top 25	Top 50	Top 100
1995-96	57.59	69.46	79.60	86.58	93.24
1996-97	32.93	48.02	65.65	78.32	90.17
1997-98	30.65	46.92	71.25	85.00	92.15
1998-99	26.81	41.89	64.30	78.24	86.66
1999-00	37.11	55.57	82.12	90.73	95.28
2000-01	42.20	58.30	80.73	89.97	95.13
2001-02	51.61	68.50	88.73	94.32	97.19
2002-03	43.10	65.15	86.91	92.74	96.13
2003-04	37.06	54.43	81.58	90.66	95.14
2004-05	43.70	57.51	71.72	80.59	89.55
2005-06	47.42	59.78	72.02	81.04	89.36
2006-07	40.90	51.29	65.82	77.15	86.91

Source: Fact Book of NSE

Figure: 4 Percentage Share of Top 100 Securities in Turnover in WDM Segment



Liquidity in the securities of WDM segment was also like that of CM segment. The exhibit 5 shows that only top 5 securities covered more than 57 per cent of the total turnover during 1995-96. The corresponding figure in case of top 100 securities was 93.24 per cent. This situation has slightly improved over the years and slipped to around 50 per cent during 2006-07 in case of top 5 securities and 87 per cent in case of top 100 securities. It should be noted that during this year 762 securities were active in trading which means 662 securities together accounted only 13 per cent of the total turnover. This indicates that the trading is mainly concentrated to few securities in this segment also. Most of the securities are experiencing low liquidity.

Trading in derivatives started on June 12, 2000 with trading in futures on S&P CNX Nifty index. Subsequently, the trading in futures and options on S&P CNX Nifty index, futures and options on CNX IT index, Bank Nifty index and single securities (188 stocks as stipulated by SEBI) and futures on interest rate commenced. Derivatives trading at NSE have witnessed tremendous growth in terms of both turnover and number of contracts since its inception. NSE covers more than 98 per cent of the derivatives trading in the country.

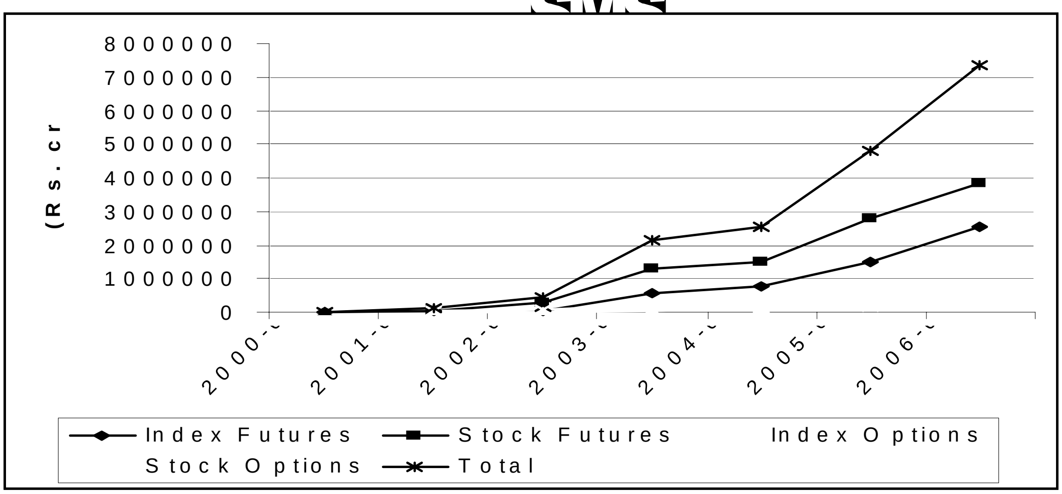
Exhibit: 6 Growth of Turnover in the Futures and Options Market Segment

Year	Index Futures		Stock Futures		Index Options			Stock Options					Grand Total
	(Rs. Crore)	%	(Rs. Crore)	%	Call (Rs. Crore)	Put (Rs. Crore)	Total (Rs. Crore)	%	Call (Rs. Crore)	Put (Rs. Crore)	Total (Rs. Crore)	%	(Rs. Crore)
2000-01	2365	100.00	—										2365
2001-02	21482	21.08	51516	50.54	2466	1300	3766	3.69	18780	6383	25163	24.69	101927
2002-03	43951	9.99	286532	65.14	5670	3577	9247	2.10	69644	30489	100133	22.76	439864
2003-04	554462	26.02	1305949	61.29	31801	21022	52823	2.48	168174	49038	217212	10.19	2130649
2004-05	772174	30.32	1484067	58.27	69373	52581	121954	4.79	132066	36792	168858	6.63	2547053
2005-06	1513791	31.38	2791721	57.87	168632	169837	338469	7.02	143752	36518	180270	3.74	4824250
2006-07	2539575	34.52	3830972	52.08	398219	393693	791912	10.77	161902	31909	193811	2.63	7356271
Average		36.19		57.53				5.14				11.77	

Source: NSE Fact Book

Note: Data of 2000-01 is for the period from June 2000 to March 2001 since derivatives trading started from June 2000.

Figure: 5 Growth of Turnover in Different Derivative Instruments



The exhibit 6 depicts instrument-wise turnover in the derivative segment of NSE. It shows that the turnover in the derivatives segment has registered tremendous growth led by stock futures within the very short period. During 2006-07, it was Rs. 73,56,271 crore which was only Rs. 2,365 crore during 2000-01. The percentage share of stock futures in the grand total turnover has always been more than 50 per cent. On an average, this share has been more than 57 per cent. Index futures were the second highest in terms of percentage share in grand total by capturing on an average around 36 per cent. Whereas, index option was the least traded instrument. The turnover in this segment indicates that futures are more popular than options. It also indicates that the contracts on securities are more popular than those on indexes and call options are more popular than put options.

CONCLUSION

It has been observed that, in the CM segment, the turnover has accounted leaps and bounds growth. The trading was centralized to few securities. In the WDM segment, turnover and market capitalization recorded splendid growth. However, liquidity in the securities of this segment was somewhat like those of CM segment. Most of the securities are experiencing low liquidity. The derivative segment of NSE has registered considerable growth since inception. NSE has become largest stock exchange in the world in terms of number of contracts traded in the single stock futures. NSE established itself as the sole market leader in this segment in the country with more than 98 per cent market share. The percentage share of stock futures in the grand total turnover has always been more than 50 per cent. Index future was the second highest in terms of percentage share in grand total by capturing on an average around 36 per cent. Whereas, index options was the least traded instrument. Thus, stock future is most popular derivative instrument in the market.

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