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History of stock market in India

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Abstract
The history of capital market and in particular the stock exchange is very old. It is referred to as the barometer of the economy. Government's policy is so molded that creation of wealth through products and services is facilitated and surpluses and profits are channels into productive uses through capital market operations. Reasonable opportunities and protection are afforded by the Government through special measures in the capital market to get new investments from the public and the institutions and to ensure their liquidity.

Keywords: share mania, securities, sensex, nifty

Introduction

In the planned economy concept, there were more controls and restrictions than the concept of development to support growth of the capital market in India. Some provisions of the Companies Act [1], MRTP Act [2], Capital issues (Control) Act [3] acted as a dampener of free growth of the market. The pricing of securities for issue was also subject to controls and regulations. Since 1991 the scenario has changed significantly with the initiation of economic and financial reforms by the Government. As a natural corollary of the liberalisation and globalization the Indian Capital Market has undergone a sea change in terms of innovations, growth and de-regulation. With a series of various major Capital instruments reforms the development in the securities market are presented in this chapter which documents the genesis of the development of capital market in India.

The Capital Market is a market for financial investments that have direct or indirect claims to capital (Gart,1988) [4] It is wider than the Securities Market and embraces all forms of lending and borrowing whether or not evidenced by the creation of a negotiable financial instrument (Drake, 1980) [5]. The Capital Market comprises the complex of institutions and mechanisms through which intermediate term funds and long term funds are pooled and made available to business, government and individuals.

History of the Indian Stock Market - The Origin [6]

One of the oldest stock markets in Asia, the Indian Stock Markets has a 200 years old history.In 18th century East India Company was the dominant institution and by end of the century, business in its loan securities gained full momentum, Business on corporate stocks and shares in Bank and Cotton presses started in Bombay during the 1830's.The Trading list by the end of 1839 got broader. Recognition from banks and merchants was about of half a dozen brokers by 1840s, In 1850's rapid development of commercial enterprise saw brokerage business attracting more and more people into the business, The American civil war broke out which cause stoppage of cotton supply from united states of America, 1860-61,mark the beginning of the "share mania" in India. The history of the Indian capital markets and the stock market, in particular can be traced back to 1861 when the American Civil War began. The opening of the Suez Canal during the 1860s led to a tremendous increase in exports to the United Kingdom and United States. Several companies were formed during this period and many banks came to the fore to handle the finances relating to these trades. With many of these registered under the British Companies Act, the Stock Exchange, Mumbai, came into existence in 1875. It was an unincorporated body of stockbrokers, which started doing business in the city under a banyan tree. Business was essentially confined to company owners and brokers, with very little interest evinced by the general public. There had been much fluctuation in the stock market on account of the American war and the battles in Europe. Sir Premchand Roychand remained a kingpin for many years. Sir Phiroze Jeejeebhoy was another who dominated the stock market scene from 1946 to 1980. His word was law and he had a great deal of influence over both brokers and the government. He was a good regulator and many crises were averted due to his wisdom and practicality. The BSE building, icon of the Indian capital markets, is called P.J. Tower in his memory.

The planning process started in India in 1951, with importance being given to the formation of institutions and markets The Securities Contract Regulation Act,1956 [7] became the parent

1 This Act may be called the Companies Act, 1956; An Act to consolidate and amend the law relating to companies and certain other associations.

2 Monopolies and Restrictive Trade Practices Act, 1969; The MRTP Act, 1969 has its genesis in the Directive Principles of State Policy embodied in the Constitution of India. Clauses (b) and (c) of Article 39 of the Constitution lay down that the State shall direct its policy towards ensuring:
(i) that the ownership and control of material resources of the community are so distributed as to best serve the common good;
(ii) and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

3 Capital Issues (Continuance of Control) Act in April 1947.

4 Gart,A Handbook of the money and Capital Markets,Quorum Books,NewYork,1988.

5 Drake,PJ;Finance and Development,Martin Robertson,oxford,1980

6 www.sebi.gov.in

7 The Act may be called the Securities Contracts (Regulation) Act, 1956. An Act to prevent undesirable transactions in securities by regulating the business of dealing therein,by providing for certain other matters connectedtherewith.

regulation after the Indian Contract Act 1872 [8], a basic law to be followed by security markets in India. To regulate the issue of share prices, the controller of Capital Issues Act (CCI) was passed in 1947. The stock markets have had many turbulent times in the last 140 years of their existence. The imposition of health and expenditure tax in 1957 by Mr. T.T. Krishnamachari, the then finance minister, led to a huge fall in the markets. The dividend freeze and tax on bonus issues in 1958-59 also had a negative impact. War with China in 1962 was another memorably bad year, with the resultant shortages increasing prices all round. This led to ban on forward trading in commodity markets in 1966, which was again a very bad period, together with the introduction of the Gold Control Act in 1963.

The markets have witnessed several golden times too. Retail investors began participating in the stock markets in a small way with the dilution of the FERA in 1973 [9]. Multinational companies, with operations in India, were forced to reduce foreign share-holding to below a certain percentage, which led to a compulsory sale of shares or issuance of fresh stock. Indian investors, who applied for these shares, encountered a real lottery because those were the days when the CCI decided the price at which the shares could be issued. There was no free pricing and their formula was very conservative.

The next big boom and mass participation by retail investors happened in 1980, with the entry of Mr. Dhirubhai Ambani. Dhirubhai can be said to be the father of modern capital markets. The Reliance public issue and subsequent issues on various Reliance companies generated huge interest. The general public was so unfamiliar with share certificates that Dhirubhai is rumored to have distributed them to educate people.

Mr. V.P. Singh’s fiscal budget in 1984 was path breaking for it started the era of liberalization. The removal of estate duty and reduction of taxes led to a swell in the new issue market and there was a deluge of companies in 1985. Mr. Manmohan Singh as Finance Minister came with a reform agenda in 1991 and this led to a resurgence of interest in the capital markets, only to be punctured by the Harshad Mehta scam in 1992. The mid-1990s saw a rise in leasing company shares, and hundreds of companies, mainly listed in Gujarat, and got listed in the BSE. The end- 1990s saw the emergence of Ketan Parekh and the information, communication and entertainment ompanies came into the limelight. This period also coincided with the dotcom bubble in the US, with software companies being the most favoured stocks. There was a meltdown in software stock in early 2000. Mr. P Chidambaram continued the liberalization and reform process, opening up of the companies, lifting taxes on long-term gains and introducing short-term turnover tax. The markets have recovered since then and we have witnessed asustained rally that has taken the index over 13000.

Several systemic changes have taken place during the short history of modern capital markets. The setting up of the Securities and Exchange Board (SEBI) in 1992 [10] was a landmark development. It got its act together, obtained the requisite powers and became effective in early 2000. The setting up of the National Stock Exchange in 1984, the introduction of online trading in 1995, the establishment of the depository in 1996, Trade guarantee funds and derivatives trading in 2000,have made the markets safer. The introduction of the Fraudulent Trade Practices Act, Prevention of Insider Trading Act, Takeover Code and Corporate Governance Norms, are major developments in the capital markets over the last few years that has made the markets attractive to foreign institutional investors.

This history shows us that retail investors are yet to play a substantial role in the market as long-term investors. Retail participation in India is very limited considering the overall savings of households. Investors who hold shares in limited companies and mutual fund units are about 20-30 million. Those who participated in secondary markets are 2-3 million. Capital markets will change completely if they grow beyond the cities and stock exchange centers reach the Indian villages. Both SEBI and retail participants should be active in spreading market wisdom and empowering investors in planning their finances and understanding the markets.

1. Pre-Independence Scenario - Establishment of Different Stock Exchanges

Beginning with 1874 the rapidly developing share trading business, brokers used to gather at a street now well known as "Dalal Street" for the purpose of transacting business. In 1875"The Native Share and Stock Brokers' Association" known as "The Bombay Stock Exchange" [11] was established in Bombay. Development of cotton mills industry in 1880s and set up of many other establishments led to the foundation of Ahemadabad share and stock broker’s Association in 1894.During 1880-90’s there was Sharp increase in share prices of jute industries, in 1870's was followed by a boom in tea stocks and coal of 1870s.The Calcutta Stock Exchange Association was born in 1908.

Than Madras witnessed boom and business at "The Madras Stock Exchange" transacted with 100 brokers, When recession followed, number of brokers came down to 3 and the Exchange was closed down, The Establishment of the Lahore Stock Exchange could not survive for long and Merger of the Lahore Stock Exchange with the Punjab Stock Exchange took place. Re-organisation and set up of the Madras Stock Exchange (Pvt.) Limited led by improvement in stock market activities in South India with establishment of new textile mills and plantation companies became possible. The Uttar Pradesh Stock Exchange Limited and Nagpur Stock Exchange Limited were also established. After Establishment of "The Hyderabad Stock Exchange Limited", "Delhi Stock and Share Brokers' Association Limited" and "The Delhi Stocks and Shares Exchange Limited" were established and later on merged into "The Delhi Stock Exchange Association Limited"

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[8] The Indian Contract Act 1872, it is expedient to define parts of the law relating to contracts.

[9] Foreıgn Exchange Regulatıon Act, 1973**,** An Act to consolidate and amend the law regulating certain payments, dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency, for the conservation of the foreign exchange resources of the country and the proper utilisation thereof in the interests of the economic development of the country.

[10] An Act to provide for the establishment of a Board to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto.

[11] www.bseindia.com

2. Post -Independence scenario [12]

The depression witnessed after the Independence led to closure of a lot of exchanges in the country. Lahore Estock Exchange was closed down after the partition of India, and later on merged with the Delhi Stock Exchange. Bangalore Stock Exchange Limited was registered in 1957 and got recognition only by 1963. Most of the other Exchanges were in a miserable state till 1957 when they applied for recognition under Securities Contracts (Regulations) Act, 1956. The Exchanges that were recognized under the Act were:
Presently known as Mumbai stock Exchange,
Presently known as Kolkata stock Exchange,
Presently known as Chennai stock Exchange,
Presently known as Ahmedabad stock Exchange,
Presently known as Delhi stock Exchange,
Presently known as Hyderabad stock Exchange,
Presently known as Bangaluru stock Exchange,
Many more stock exchanges were established during 1980's, namely:

- Cochin Stock Exchange (1980)
- Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982)
- Pune Stock Exchange Limited (1982)
- Ludhiana Stock Exchange Association Limited (1983)
- Gauhati Stock Exchange Limited (1984)
- Kanara Stock Exchange Limited (at Mangalore, 1985)
- Magadh Stock Exchange Association (at Patna, 1986)
- Jaipur Stock Exchange Limited (1989)
- Bhubaneswar Stock Exchange Association Limited (1989)
- Saurashtra Kutch Stock Exchange Limited (at Rajkot, 1989)
- Vadodara Stock Exchange Limited (at Baroda, 1990)
- Coimbatore Stock Exchange
- Meerut Stock Exchange

At present, there are twenty one recognized stock exchanges in India which does not include Over the Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL). Government policies during 1980's also played a vital role in the development of the Indian Stock Markets [13]. There was a sharp increase in number of Exchanges, of listed companies as well as their capital, which is visible from the following table:

Movement of Indian stock market

Curiously enough the time line on the rise of Sensex in the Indian stock market has its own uniqueness. The Sensex touched the magical four-digit figure for the first time on
July 25, 1990**,** and closed at 1,001 in the wake of a good monsoon and excellent corporate results. Then Sensex crossed the 2,000-mark and closed at 2,020 on 2,000, January 15, 1992, followed by the liberal economic policy initiatives undertaken by the then finance minister and current Prime Minister Dr Manmohan Singh.On February 29, 1992, the Sensex surged past the 3000 mark in the wake of the market-friendly Budget announced by the then Finance Minister, Dr Manmohan Singh. During March 30, 1992, next Sensex crossed the 4,000-mark and closed at 4,091 on the expectations of a liberal export-import policy. It was then that the Harshad Mehta scam hit the market and Sensex witnessed unabated selling. The Sensex crossed the 5,000-mark as the BJP-led coalition won the majority in the 13th Lok Sabha election. On October 8, 1999, The InfoTech boom helped the Sensex to cross the 6,000-mark and hit all time high of 6,006. On February 11,2000. The news of the settlement between the Ambani brothers boosted investor sentiments and the scripts of RIL, Reliance Energy Reliance Capital and IPCL made huge gains. This helped the Sensex crossed 7,000 points for the first time. On June 20, 2005, On September 8, 2005, the Bombay Stock Exchange's [benchmark 30-share index -- the Sensex -- crossed the 8000 level following brisk buying by foreign and domestic funds in early trading. The Sensex on November 28, 2005 crossed the magical figure of 9000 to touch 9000.32 points during mid-session at the Bombay Stock Exchange on the back of frantic buying spree by foreign institutional investors and well supported by local operators as well as retail investors. Touched 10,003 points during mid-session. The Sensex finally closed above the 10K-mark on February 7, 2006. The Sensex on March 21, 2006 crossed the magical figure of 11,000 and touched a life-time peak of 11,001 points during mid-session at the Bombay Stock Exchange for the first time. However, it was on March 27, 2006 that the Sensex first closed at over 11,000 points. Also Sensex on April 20, 2006 crossed the 12,000-mark and closed at a peak of 12,040 points for the first time. The magical figure of 13,000 and closed at 13,024.26 points, up 117.45 points or 0.9%. It took 135 days for the Sensex to move from 12,000 to 13,000 and 123 days to move from 12,500 to 13,000. The Sensex on December 5, 2006 crossed the 14,000-mark to touch 14,028 points. It took 36 days for the Sensex to move from 13,000 to the 14,000 mark. The Sensex on July 6, 2007 crossed the magical figure of 15,000 to touch 15,005 points in afternoon trade it took seven month for the sensex to move from 14,000 to 15,000 points. The Sensex scaled yet another milestone during early morning trade on September 19, 2007. Within minutes after trading began, the Sensex crossed 16,000, rising by 450 points from the previous close. The 30-share Bombay Stock Exchange's sensitive index took 53 days to reach 16,000 from 15,000. Nifty also touched a new high at 4659, up 113 points. The Sensex finally ended with its biggest-ever single day gain of 654 points at 16,323. The NSE Nifty gained 186 points to close at 4,732. The Sensex scaled yet another height during early morning trade on September 26, 2007. Within minutes after trading began, the Sensex crossed the 17,000-mark. Some profit taking towards the end, saw the index slip into red to 16,887 - down 187 points from the day's high. The Sensex ended with a gain of 22 points at 16,921.The BSE Sensex crossed the 18,000-mark on October 09, 2007. It took just 8 days to cross 18,000 points from the 17,000 mark. The index zoomed to a new all-time intra-day high of 18,327. It finally gained 789 points to close at an all-time high of 18,280. The market set several new records including the biggest single day gain of 789 points at close, as well as the largest intra-day gains of 993 points in absolute term backed by frenzied buying after the news of the UPA and Left meeting on October 22 put an end to the worries of an impending election. The Sensex crossed the 19,000-mark backed by revival of funds-based buying in blue chip stocks in metal, capital goods and refinery

[12] www.nseindia.gov.in
[13] Sources: Bomby stock exchange and National Stock exchange research centre, 1996;Nse research report
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sectors. The index gained the last 1,000 points in just four trading days. The index touched a fresh all-time intra-day high of 19,096, and finally ended with a smart gain of 640 points at 19,059.The Nifty gained 242 points to close at 5,670.The Sensex crossed the 20,000 mark on the back of aggressive buying by funds ahead of the US Federal Reserve meeting. The index took only 10 trading days to gain 1,000 points after the index crossed the 19,000-mark on October 15. The major drivers of today's rally were index heavyweights Larsen and Toubro, Reliance Industries, ICICI Bank, HDFC Bank and SBI among others. The 30-share index spurted in the last five minutes of trade to fly-past the crucial level and scaled a new intra-day peak at 20,024.87 points before ending at its fresh closing high of 19,977.67, a gain of 734.50 points. The NSE Nifty rose to a record high 5,922.50 points before ending at 5,905.90, showing a hefty gain of 203.60 points. The sensex crossed the 21000 mark in intra-day trading after 49 trading sessions during the year 2008. This was backed by high market confidence of increased FII investment and strong corporate results for third quarter, however it later fell back due to profit booking.

Table 1: Representing Yearly Rise in Stock Exchange

S. No.	As on 31st December	1946	1961	1971	1975	1980	1985	1991	1995
1	No. of Stock Exchanges	7	7	8	8	9	14	20	22
2	No. of Listed Cos.	1125	1203	1599	1552	2265	4344	6229	8593
3	No. of Stock Issues of Listed Cos.	1506	2111	2838	3230	3697	6174	8967	11784
4	Capital of Listed Cos. (Cr. Rs.)	270	753	1812	2614	3973	9723	32041	59583
5	Market value of Capital of Listed Cos. (Cr. Rs.)	971	1292	2675	3273	6750	25302	110279	478121
6	Capital per Listed Cos. (4/2) (Lakh Rs.)	24	63	113	168	175	224	514	693
7	Market Value of Capital per Listed Cos. (Lakh Rs.) (5/2)	86	107	167	211	298	582	1770	5564
8	Appreciated value of Capital per Listed Cos. (Lak Rs.)	358	170	148	126	170	260	344	803

Conclusion

The legal developments the Control of capital issues was introduced through the Defence of India Rules in 1943 under the Defence of India Act, 1939 to channel resources to support the war effort. The control was retained after the war with some modifications as a means of controlling the raising of capital by companies and to ensure that national resources were channeled to serve the goals and priorities of the government, and to protect the interests of investors. The relevant provisions in the Defence of India Rules were replaced by the Capital Issues (Continuance of Control) Act in April 1947.

Though the stock exchanges were in operation, there was no legislation for their regulation till the Bombay Securities Contracts Control Act was enacted in 1925. This was, however, deficient in many respects. Under the constitution which came into force on January 26, 1950, stock exchanges and forward markets came under the exclusive authority of the central government. Following the recommendations of the A. D. Gorwala Committee in 1951, the Securities Contracts (Regulation) Act, 1956 was enacted to provide for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and to prevent undesirable transactions in securities.

To improve the functioning of the securities market to meet the challenges of the changing environment.

People are fully convinced that allows to securities market do more with their savings and to do more with their ideas and talents than would otherwise be possible. In the process, we would ensure that every citizen of the country participates in the securities market in some form or other and shares the prosperity.

When people draw their savings and invest in shares (through a IPO or the issuance of new company shares of an already listed company), it usually leads to rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to help companies' management boards finance their organizations. This may promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in stronger economic growth and higher productivity levels of firms.

Both casual and professional stock investors, through dividends and stock price increases that may result in gains. Unprofitable and troubled businesses may result in capital losses for shareholders, so knowledge should be aware to all the shareholders through various investors awareness camp and also mobilizing savings for investment, Facilitating company growth, Profit sharing, Corporate governance, Creating investment opportunities for small investors, Government capital-raising for development projects and the stock market should be a Barometer of the economy.

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