Chapter – III
Review of Literature
This chapter is devoted to review the literature related to the present study. For any research, a review of the past studies related to the subject is useful in several ways. It helps in defining concepts and operational definitions, in formulating objectives, specifying tests, choice of analytical tools and in evaluating the findings of the research in the light of the results of earlier studies so as to explain the differences.

This study aims to analyse the extent of the dematerialisation in India, the success ratio of the Indian stock market in achieving the same. The researcher has aimed to include the substantial decrease in stock market scams in India as a result of dematerialisation. The study analysed the unprecedented growth in stock transactions within the country and from global investors as a result of decreased transaction cost, speedy settlement cycle and transparency in the Indian stock market because of dematerialisation.

The available literature on this topic is limited in number. A review of the available research studies relating to various aspects of dematerialization, IPO scam, efficiency of Indian stock market, and working of depository system is presented in this section.

**Sidhartha Mohapatra** has made an attempt to analyse the relationship between dematerialisation in India and the IPO scam that occurred in India. The basic objectives of the study was to measure the threat faced by emerging companies as a result of ease in stock market operations brought about by dematerialisation and to understand the role played by SEBI in capital market to
strengthen and tighten the stock market operations. He established the relationship that existed between dematerialisation and stock market IPO scam that occurred in India. His major findings were in relation to the fact, since there was ease in operations in India due to dematerialisation, which prompted the people to indulge in stock market related scams.

**Anand Pandey** in his study on the Efficiency of Indian Stock Market presented the evidence of the inefficient form of the Indian Stock Market. It was concluded that the series of stock indices in the Indian Stock Markets are biased. The auto correlation analysis indicates that the behavior of share prices does not confirm the applicability of the random walk model in the Indian stock market. Thus there are undervalued securities in the market and the investors can always make excess returns by correctly picking them.

**P.K.Mishra** on a study about the Market Efficiency indicated that the financial sector in India has undergone a lot of reforms, particularly in the capital market segment. These reforms have transformed market practices, sharply lowered transactions costs, and improved market efficiency. In no other part of India’s financial sector has such a radical reforms agenda been executed, in such a short time. Now, the capital market is organised, fairly integrated, matured, more global and modernised. The Indian equity market is one of the best in the world in terms of technology. Thus, it is no longer isolated from the global economic environment mainly due to such factors as more economic ties,
increased cross-border investing, growing international trade, deregulations, and development of efficient communication technology.

Recently India has witnessed bouts of volatility in its market. Some of which have had their origin in global events such as US sub-prime crisis. In this context, this paper examined the informational efficiency of Indian capital market amidst the skepticism of recession, particularly the efficiency of Stock Exchange, Mumbai (BSE) over a period of 18 years spanning from January 1991 to January 2009 using Random Walk (RW) and Generalised Autoregressive Conditional Heteroscedasticity (GARCH) models. And, it provides the evidence of weak form inefficiency of the market.

Alexander P Ljungqvist, Vikram Nanda, Rajdeep Singh in a study about Hot Markets, Investor Sentiment and IPO Pricing pointed out several anomalous aspects existing in stock market circle. The process by which firms go public IPOs, circumstances of over pricing and under pricing, dramatic `hot' periods of high IPO volume, timing of IPOs are evaluated in length. This study modeled an IPO company's optimal response to the presence of sentiment investors and short sale constraints. Given regulatory constraints on price discrimination, the optimal mechanism involves the issuer allocating stock to `regular' institutional investors for subsequent resale to sentiment investors, at prices the regulars maintain by restricting supply.

Sushil Kumar in his study on the working of depository system conducted by was undertaken with the objectives of understanding the basic terminologies
and processes involved in the depository system. It also aimed at making an in
depth analysis into the formation and working of nation’s two depositories; the
NSDL and CDSL respectively. The factors responsible for creating a negative
impact in the minds of investors regarding depository services was also duly
prompt into during the course of study. The study finally aimed at summing up
the awareness level of depository system that was prevalent among the investing
public and to give enough desirable data and information to the readers about
the entire system of depository present in the country. The findings revealed that
a good majority of the investing public was fully aware of the existence of the
depository system. But investors were not fully aware about the two depositories
that were present in the country. The varying fee structure charged by
depositories was the prime reason for creating a negative opinion about the
depositories and the entire depository system in the minds of the investors. The
study ends up by providing enough data for the readers regarding the entire
depository system that is present in the country and the legal framework that
guides and supports such a system in the securities market, for the benefit of the
investors of this nation, apart from making concrete suggestions for further
improvements.

On observing the statutory dematerialisation across the European Union it
is clear that the meaning of ‘dematerialisation’ is not exactly fixed. To someone,
it is a process - process by which securities in physical form are converted into
electronic securities; and it doesn’t bear any distinguishing features. To some
others, it is a situation where the electronic means exist for giving effect to holdings and transfer of securities, in a way that has legal validity.

Shacheendran.V in his work titled ‘Dematerialisation of Securities in Indian Capital Market has evaluated the progress of dematerialisation in India, with particular focus on the paradigm shift through Depository System. According to him, Dematerialisation has initiated a new trend in securities’ trading and settlement. Indian capital market has embraced technological sophistication by permitting electronic trading in securities. Depositors Act, 1996 has facilitated the setting up of depositories and dematerialisation of securities.

With the enactment of Depositories Act, 1996, the Govt. of India has initiated a new paradigm in the capital market in the form of Depository System. The system helps to trade and settle securities transactions in electronic form. Electronic trading enables the investors to have a transparent and hassle- free dealing in securities. The progress of dematerialisation as revealed by the paper shows that, the Indian capital market has adapted to the new system gradually. Though the dematerialisation is optional for an investor holding the securities, the trading and settlement has increased substantially in electronic form. The improved securities’ dealing mechanism brought-in by the Depository System will, indeed, help the country to meet the global standards and infrastructural requirements.

This will help to attract more foreign investors into the country. Having accepted the modern way of securities dealing, it signals for a few initiatives like
 dematerialised dealing of other documents etc. necessary amendments also should be made for the purpose.

Ravi Ranjan Prasad in his work, Game changer of capital market has depicted the visible changes observed in the capital market after incorporating the technological changes in the country. Since 1996, the day NSDL began operations, India's stock market infrastructure has taken a big leap forward. It eliminated at one sweep the biggest hurdle the bourses faced in attracting global investors. The scourges that dogged the market included fake shares, bad delivery, and damaged, torn, lost or stolen share certificates. Market participants realised that paper-based trading was flawed on several points, including lack of transparency, bad deliveries and delay in the transfer of titles. “Demat not only brought in efficiency but minimised transactional risks and reduced costs, benefiting both investors and brokers,” NSDL’s progress was phenomenal.

Studies of Sahni (1985), Kothari (1986), Raju (1988), Chandra (1990), Gupta (1992) and Sinha (1993) commented on Indian capital market in general and trading systems in particular. In their opinion the systems therein are rather antiquated and inefficient, and suffer from major weaknesses and malpractices. Accordingly, they suggest for significant reforms if the stock exchanges are to be geared up to the envisaged growth in the Indian capital market.

Gupta L.C (1992) in his study concludes that, Indian stock market is highly speculative and the investors are dissatisfied with the service provided to them by the brokers. The study disclosed that the margin levied by the stock
exchanges is inadequate and the liquidity in a large number of stocks in the Indian markets is very low.

**Varma** (1991), conducted a study on the issue of inflation hedge in the context of stocks. He made a comparison between BSE National Index (Natex) and Sensitive Index (Sensex) and remarked that Natex is a sluggish index which responds too slowly to market conditions. Changes which are reflected in the Sensex on any day are completely reflected in the Natex only by the next day. He finds that Sensex is more volatile than Natex. He concludes for this and other reasons that those who follow the Natex because of its greater comprehensiveness and theoretical appeal may be mistaken. The Sensex needs to be taken more seriously as a sound market index.

**Francis** (1991), **Dhillon** (1993) made an evaluation about the regulatory policies of Bombay Stock Exchange (BSE) over a four year period. They remarked that the regulatory authorities decide changes in their margin policy on the basis of market activity; the margins are prompted by changes in settlement returns, price volatility, trading volume and open positions. Granger causality results show that there is limited causality in the reverse direction: margin changes do not affect returns, and have only a limited impact on price volatility, trading volume and open positions.

**Pandya** (1992), observed that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in
the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public.

Venketeswar (1991), made an exploration regarding the relationships of the Indian stock markets as reflected by the Bombay Stock Exchange Index, vis-a-vis other prominent international stock markets. He concludes that there is practically no meaningful relationship between the BSE index and other international stock market indices, though the British and South Korean indices are inversely related to BSE.

Anshuman, Chandra (1991), examined the government policy of favouring the small shareholders in terms of allotment of shares. They argue that such a policy suffers from several lacunae such as higher issue and servicing costs and lesser vigilance about the functioning of companies because of inadequate knowledge. They suggest that there is a need to eliminate this bias as that would lead to a better functioning capital market and would strengthen investor protection.

Subramanian (1989), in his study found that in the case of political events, the market appeared to respond more efficiently to events whose impact on share values was characterized by low complexity and high clarity. The market seemed to have difficulty with ambiguous and complex events.
Ramachandran (1985), in his study found that the market was by and large efficient in responding to the information content of bonus issues and rights issues respectively.