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A STUDY ON BEHAVIOUR OF DEPOSITORY PARTICIPANTS TOWARDS DEPOSITORY SYSTEM AND INDIAN CAPITAL MARKET

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ABSTRACT



The depository participant's plays vital role in efficient functioning and growth of the any capital market. In this research paper an attempt is made to analyze and understand the attitude of depository participants towards the depository system in India and Indian capital market. The study employs both primary data and secondary data. The study is based on descriptive research design. Four depository participants such as Kavry stock broking Co. Ltd, India Infoline Ltd, PCS Ltd and Net Worth Stockbroking Ltd are selected based on convenient sampling. 50 service branches of the selected depository participants in Rayalaseema region were contacted to get the required primary data through the questionnaire. The collected is analyzed by using SPSS. The analyzed data reveal that the benefit of the depository system is significant. Introduction of depositories has improved the market efficiency by adopting criteria for describing scripts depositories' eligibility. There was a significant difference in the opinion of urban, semi-urban and rural depository participants towards the efficiency of the depository and the capital market of India. Moreover, there is no uniform opinion in the depository participants of urban, semi-urban and rural areas towards transparency, depth and liquidity, penetration into remote markets and breadth, accountabilities of parties involved and controllability in the market. It is a high time that the capital regulator, SEBI and government agencies such as CCI, RBI, Ministry of Finance and Department of company affairs should take necessary measures for the efficiency of depository and capital market of India.

KEYWORDS: Capital market, Depository, Depository Participants, Efficiency and Regulator.

INTRODUCTION

The depository participants' performances, vital function in effective functioning and development of the any capital market. The Depositories Act, 1996, ushered in an era of effective capital market infrastructure, improved investor protection, decreased risks and expanded transparency of transactions in the securities market. It furthermore immensely availed the issuer businesses, in periods of decreased charges and the effort consumed in managing their shareholder populace. Perhaps, no other lone act other than the Depositories proceed has had such deep all around impact on every single stakeholder in the Indian capital markets. This legislation envisaged multiple depositories in India to double-check advantages of competition for the users of the depository system. The Depositories proceed which facilitated establishment of depositories (like CDSL) in India searched to effectively constrain irregularities in the capital market, and defend the concerns of the investors, and paved a way for an orderly perform of the economic markets through free transferability of securities with pace, correctness, transparency etc. Due to the introduction of the depository system, the investors are able to relish many benefits like free and instant transferability in a secured kind at smaller costs, free from the problems like awful deliveries, odd-allotments etc. Today the tradable allotment is decreased to "one unit" therefore even a widespread man is adept to invest money in one equity share or bond or debenture. The shareholder is able to save a lot on account of mark obligation as government has exempted mark duty on move of securities at present. Investors are also freed from the troubles of maintaining the securities held in physical pattern.

What is a Depository? The Depositories proceed to define a depository as "a business formed and registered under the businesses proceed, 1956 and which has been allocated a certificate of registration under subsection (1A) of section 12 of Securities and Exchange Board of India proceed, 1992." The main function of a depository is to dematerialize the securities and enable their transactions in publication application form. As per The Bank for International Settlements (BIS), the depository is "a facility for holding securities which endow securities transactions to be processed by book application. Personal securities may be immobilized by the depository or securities may be dematerialized (so that they live only as electrical device records)". In easy terms depository is an organization where the securities of an investor are held in the electrical devices form. Depositories in India There are 2 depositories in India

- The National Securities Depository Limited [NSDL]
- Central Depository for Securities Limited [CDSL]

OBJECTIVES OF STUDY

In this study an attempt is made to achieve the following the objective.

- ★ To analyze and understand the attitude of depository participants towards the depository system in India and Indian capital market.

RESEARCH HYPOTHESES

- There is a significant difference in the dematerialization benefits offered to the investors by select depository participants.
- The contribution of CCI and SEBI for the growth of the capital market is significant.

- There is a significant difference between the depository participants towards the efficiency of the depository and Indian capital market.

RESEARCH METHODOLOGY

Research Design:

Descriptive research design is adopted to know the attitude of the Depository Participants towards the depository system of Indian capital market. The convenient sampling technique is applied in selecting the depository participants in Rayalaseema region of Andhra Pradesh, India. The selected depository participants are Karvy stock broking Co. Ltd, PCS Securities Ltd, Networth stock broking services Ltd and India Info line Ltd.

Primary data:

I have collected information from the select depository participants on the basis of questionnaires and detailed discussion with them regarding the problem.

Secondary data:

I have collected the information which is already available and the information collected from various websites, magazines and journals and books.

Sample and Sampling technique:

By applying convenient sampling technique, a sample size of 50 branches relating to selected depository participants in Rayalaseema region of Andhra Pradesh, India.

Statistical tools applied for analysis:

The collected data is analyzed with the help of ANOVA, Percentages and averages by using SPSS software.

ANALYSIS OF THE STUDY

Membership of DPs Area Wise

Depository Participants have opened their branches in urban, semi-urban and rural areas. The DPs selected from all the three areas. These DP's have membership in either National Securities Depositories Limited (NSDL) or Central Depository Services (India) Limited (CDSL). The study reveals that 52 % of depository participants who belong to urban area took membership in both the Depositories (NSDL & CDSL). 20 % semi-urban depository participants took membership in CDSL only where as 14 % semi-urban as well as 14% rural depository participants took membership in both the depositories. Therefore, it is observed that the majority of the depository participants who belong to urban took membership in both the depositories of NSDL and CDSL 20 % semi-urban depository participants took membership in CDSL only and 14 % semi-urban depository participants took membership in both the depositories. 34% of depository participants belong to semi-urban area only. 14 % of depository participants belong to rural area took membership in both the depositories.

Table 1: Dematerialization Benefits for Depository Participants

Source	Sum of Squares	Df	Mean Square	F	Sig.	F-Table @0.01 L.O.S	Decision
Between Groups	40.071	1	40.071	102.261	.000*	7.08	H ₀ is Reject and H ₁ is Accepted
Within Groups	18.809	48	.392				
Total	58.880	49					

Source: SPSS and *Significant at 0.01 level of Significance.

H_0 : There is no significance difference in the dematerialization benefits offered to the investors by select depository participants.

H_1 : There is significance difference in the dematerialization benefits offered to the investors by select depository participants.

The table 1 indicates that the F calculated value = 102.26 which is more than F- table value (7.08) for $\alpha=1$ and $\alpha_2 = 48$ at 0.01 level of significance. H_0 is rejected and H_1 is accepted. Therefore, it is concluded that there is no unanimity in the dematerialization benefits offered to the

investors by the select depository participants. It is suggested to the depository participants that they should take all possible measures for providing the same kind of dematerialization benefits for their investors.

Table 2: Organization of Investor Awareness Programs by DPs

Organization of Investor Awareness Programs		Name of the DP				Total
		Karvy	IIFL	PCS	Net worth	
Yes	Count	13	0	0	0	13
	Expected Count	3.6	4.2	2.6	2.6	13.0
	% within Organization of Investor Awareness programs	100.0%	.0%	.0%	.0%	100.0%
	% within Name of the DP	92.9%	.0%	.0%	.0%	26.0%
	% Total	26.0%	.0%	.0%	.0%	26.0%
No	Count	1	16	10	10	37
	Expected Count	10.4	11.8	7.4	7.4	37.0
	% within Organization of Investor Awareness programs	2.7%	43.2%	27.0%	27.0%	100.0%
	% within Name of the DP	7.1%	100.0%	100.0%	100.0%	74.0%
	% Total	2.0%	32.0%	20.0%	20.0%	74.0%
Total	Count	14	16	10	10	50
	Expected Count	14.0	16.0	10.0	10.0	50.0
	% within Organization of Investor Awareness programs	28.0%	32.0%	20.0%	20.0%	100.0%
	% within Name of the DP	100.0%	100.0%	100.0%	100.0%	100.0%
	% Total	28.0%	32.0%	20.0%	20.0%	100.0%

Source: Primary data and SPSS

The above table 2 indicates that 92.9 % of Karvy intermediaries informed that awareness camps organized by the depository participants created awareness

among the investors. 100 % of intermediaries informed that IIFL, PCS and Net worth did not organize the investor awareness camps for creating investor awareness.

Table 3: DP- Market Segment wise Analysis (ANOVA)

Source	Sum of Squares	Df	Mean Square	F	Sig.	Decision
Between Groups	47.418	2	23.709	97.224	.000*	H ₀ is Rejected and H ₁ is Accepted
Within Groups	11.462	47	.244			
Total	58.880	49				

Source: Primary data & SPSS and * Significant at 0.01 level of significance.

H₀: There is no significance difference in the market segment dealings of select Depository participants.

H₁: There is significance difference in the market segment dealings of select Depository participants.

The table 3 indicates that the F calculated value = 97.22 which is more than F- table value (4.98) for $\alpha_1 = 2$ and $\alpha_2 = 47$ at 0.01 level of significance. H₀ is rejected and H₁ is accepted. i.e., there is significance difference in the capital market segment dealings of depository participants. It is concluded that there is no unanimity among

the select depository participants with regard to dealings in the capital market segments. It is suggested to the select depository participants that they should have dealings in all capital market segments so that investors will be provided all the services.

Table 4: Contribution of SEBI (ANOVA ONE WAY)

Source	Sum of Squares	Df	Mean Square	F	Sig.	F-Table@0.01 L.O.S	Decision
Between Groups	33.601	1	33.601	63.	.000*	7.08	H ₀ is Rejected and H ₁ is Accepted
Within Groups	25.279	48	.527	800			
Total	58.880	49					

Source: Primary data & SPSS and *significant at 0.01 level of Significance.

H₀: The contribution of CCI and SEBI for the growth of the capital market is not significant

H₁: The contribution of CCI and SEBI for the growth of the capital market is significant

The table 4 indicates that the F calculated value = 63.8 which is more than F- table value (7.08) for $\alpha_1 = 1$ and $\alpha_2 = 48$ at 0.01 level of significance. H₀ is rejected and H₁ is accepted. Therefore, it is concluded that

the contribution of CCI and SEBI for the growth of the capital market is significant. i.e. The CCI and SEBI took several measures that contributed to the growth of the capital market.

REGULATORS

The responsibility for regulating the securities market is shared by the Department of Economic Affairs (DEA), Department of Company Affairs (DCA),

Reserve Bank of India (RBI) and SEBI. The activities of these agencies are coordinated by a High Level Committee on Capital Markets.

Table 5: Effectiveness of Regulator (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.	F-Table @0.01 L.O.S	Decision
Between Groups	41.313	2	20.657	55.267	.000*	4.98	H ₀ is Reject
Within Groups	17.567	47	.374				and H ₁ is Accepted
Total	58.880	49					

Source: Primary data and SPSS & * significant at 0.01 level of significance.

H₀: There is no significance difference among the select depository participants with regard to effectiveness of Regulator.

H₁: There is significance difference among the select depository participants with regard to effectiveness of Regulator.

The table 5 indicates that the F calculated value = 55.27 which is more than F- table value (4.98) for $\alpha_1 = 2$ and $\alpha_2 = 47$ at 0.01 level of significance. H_0 is rejected and H_1 is accepted. Therefore, it is concluded that there is no unanimity among intermediaries of the depository participants with regard to effectiveness of the Regulator.

DPs Opinion on Efficiency of Capital Market:

Depository participant is playing a vital role in the capital market. Dps have a

positive opinion towards capital market. This is the important efficiency factors involved in capital market like repeal of CCI and establishment of SEBI contributed the most to the growth of the market, SEBI has better control on intermediaries, Dematerialization and depositories solved many problems of investors and The measures undertaken by the authorities are providing adequate protection.

Table 6: DP's Opinion on Efficiency of Capital Market

No	Statement (Five point scale of Strongly Agree, Agree, Can't say disagree and Strongly disagree)	F -Cal Value	Degrees of Freedom	F- table value	Decision
1	Repeal of CCI and establishment of SEBI contributed the most for growth of the market.	18.05	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
2	Dematerialization and depositories solved many problems of investors.	38.97	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₂ is accepted
3	Introduction of derivatives increased for better profits with lower risks.	183.76	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₃ is accepted
4	Corporatization of stock exchanges for better performance and accountability	56.47	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
5	Free pricing of issues and book building have provided for price discovery	69.56	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₂ is accepted
6	Segregation of clients accounts led to transparency and minimized misuse of clients funds	21.31	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₃ is accepted
7	Revised carry forward system controlled speculation to a great extent	63.76	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
8	Establishment of central listing authority has made listing easier & provided for better control.	36.87	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
9	Rules and Regulations of SEBI are comprehensive and effective.	74.11	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
10	SEBI has better control on Intermediaries.	56.06	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
11	SEBI could minimize frauds in the market to a large extent.	35.03	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
12	SEBI has been an effective regulator of the market	34.27	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
13	SEBI is effective in controlling various anomalies viz., price rigging, Insider trading etc.	57.32	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
14	Screen base trading minimized exploitation of investors.	55.08	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
15	Provision of companies act, Clauses of listing agreement, SEBI guidelines etc. enhanced investors confidence in the system.	48.32	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
16	Disclosure norms and redressal forums are providing better investor protection	58.10	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
17	Establishment of investor education and protection fund boosted the efforts of investor protection	33.93	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted
18	The measures undertaken by the authorities are providing adequate protection.	61.67	$v_1=2$ $v_2=47$	4.98	*Significant. H1 ₁ is accepted

Source: Primary data & SPSS and * Significant at 0.01 level of significance.

H1₂. There is a significant difference among the urban, semi-urban and rural depository participant's opinion towards dematerialization and depositories that solved many problems of investors

It can be seen from the above table 6 that all alternative hypotheses are accepted. It shows that all the statements enquired from the depository participants have a significant difference in the opinion of urban, semi-urban and rural depository participants towards efficiency of depository and the capital market regulator.

Table 7: Depository Participants Opinion on Attributes of Market

S. No	Statement(Five point Scale of Very high, High, Average, Low & Very low)	F-Calculated Value	Degrees of Freedom	F-table value	Decision
1	Transparency	44.78	$v_1=2$ $v_2=47$	4.98	*Significant. H_{1_1} is accepted
2	Depth and Liquidity of the Market	51.79	$v_1=2$ $v_2=47$	4.98	*Significant. H_{1_2} is accepted
3	Penetration in to remote markets and breadth	66.99	$v_1=2$ $v_2=47$	4.98	*Significant. H_{1_3} is accepted
4	Accountability of the parties involved	59.66	$v_1=2$ $v_2=47$	4.98	*Significant. H_{1_4} is accepted
5	Controllability	56.60	$v_1=2$ $v_2=47$	4.98	*Significant. H_{1_5} is accepted

\bar{N} H_{1_2} : There is a significant difference in the depository participant's opinion of different areas with regard to the depth and liquidity of capital markets.

\bar{N} H_{1_3} : There is a significant difference in the depository participant's opinion of different areas with regard to penetration into markets and breadth.

\bar{N} H_{1_4} : There is a significant difference in the depository participant's of different areas with regard to the accountabilities of parties involved in the market.

\bar{N} H_{1_5} : There is a significant difference in the depository participant's opinion of different areas with regard to the controllability of the capital market.

It can see from the table 7 that all five alternative hypotheses are accepted. It shows that all the statements enquired from the investors have a significant difference in the opinion of urban, semi-urban and rural investors. Therefore, there is no uniform opinion in the depository participants of urban, semi-urban and rural areas towards transparency, depth and liquidity, penetration into remote markets and breadth, accountabilities of parties involved and controllability in the market.

CONCLUSIONS AND SUGGESTIONS

The collected and analyzed data reveal that the benefit of the depository system is significant. Introduction of depositories has improved the market efficiency by adopting criteria for describing scripts depositories' eligibility. The proper management is substantially reduced. This helps in saving the time in allotment and transfers of scripts. This improves internal system effectiveness. The relationship

between Depository Participant and the Depository is governed by an agreement made between the two under the DP Act. A Depository Participant can offer depository activities only after obtaining a certificate of registration from SEBI. If a stockbroker seeks to act as a Depository Participant in more than one depository he should comply with specified net worth criteria separately for each such depository.

The depositories, SEBI, RBI, Ministry of Finance and other agencies which are connected to the capital market depositories have to follow liberal licensing norms to enhance the depository membership. The depository participants have to select their intermediaries/depository participants based on their experience in business. It helps to the intermediaries / depository participants to render the quality of services to the investors so that to enhance the Broker loyalty in the future. The SEBI should have an effective control mechanism that takes all steps to have control of the intermediaries' / depository participants operations or functions.

The depository participants that they should take all possible measures for providing the same kind of dematerialization benefits for their investors. It is concluded that there is no unanimity among the depository participants with regard to minimizing of frauds by SEBI. It is suggested to the SEBI that it should take steps to minimize frauds of Capital market intermediaries by stringent regulations and supervisory norms in addition to the effective auditing of their accounts so that it will boost the confidence of investors and promotes the growth of the capital market.

There was a significant difference in the opinion of urban, semi-urban and rural depository participants towards the

efficiency of the depository and the capital market of India. Moreover, there is no uniform opinion in the depository participants of urban, semi-urban and rural areas towards transparency, depth and liquidity, penetration into remote markets and breadth, accountabilities of parties involved and controllability in the market. It is suggested that depositories, SEBI, RBI, Stock Exchanges and other government agencies which are connected to the capital market should take appropriate measures to provide uniform transparency, enhancing the depth and liquidity, penetration into markets and breadth, accountabilities of parties involved and controllability in the market of different areas that promotes efficiency of depository and the capital market of India. So that investors will have confidence in the market that leads to capital market growth and development.

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