

A Comparative Study of BSE and NSE

Dr. Girbal Singh Lodhi¹, Dr. Kaustubh Jain²

^{1,2} Dept. of Commerce, AISECT University, Bhopal (M.P.) India.

ABSTRACT

This research paper is a comparative study of Bombay Stock Exchange and National Stock Exchange during 2001-2013. A ready market for investments was need of the hour and this was how the Stock Exchange came into being. The health of the economy is reflected by the growth of stock market. Over the years, the Indian stock markets have become stronger. Presently, the Bombay Stock Exchange Limited and National Stock Exchange of India Limited put together account for 80% of the total turnover as compared to 10% by the other stock exchanges. So the researcher decided to compare these two most prominent stock exchanges of India.

Keywords: Stock Market, BSE, NSE, Liquidity and Volumes etc.

I INTRODUCTION

Financial markets played a vital role in raising funds from public for the companies and it helped the investors to get profits from the trading on the shares and other financial assets of these companies. For this purpose there, a special part of the financial market called 'Stock Exchange' was evolved. The comparison between two most prominent Stock Exchanges of India on the basis of financial performances is presented in the present paper. Financial statement analysis is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

II RESEARCH METHODOLOGY & OBJECTIVES

The research methodology of the selected topic follows in these dimensions: articles, reports and surveys published on Capital Markets, BSE and NSE etc.

The broader objectives of the study are:

(a) To make comparative analysis of financial performances of Bombay Stock Exchange and National Stock Exchange over the period of time.

(b) To make comparative analysis of profitability of Bombay Stock Exchange and National Stock Exchange over the period of time.

III SCOPE OF THE STUDY AND ANALYSIS

This study is based on census of all stock exchanges of India for the period of ten years from 2000-2001 to 2012-2013. It covers the evaluation and comparison of financial performance (profitability) of NSE and BSE for ten years. The tool for appraisal of financial performance is mean, standard deviation, co-efficient of variance and trend analysis.

For the comparison between the two major stock exchanges the researcher has used some statistical tests according to the nature and objectives of the study. The collected information is suitably classified, tabulated and analyzed with the help of statistical tools like Mean, Standard Deviation, Co-efficient of variance, trends analysis, t-test. The hypothesis has been analyzed by t-test and the conclusions have been drawn on the basis of 5% level of significance.

The market internals indicate a higher turnover due to the buying conviction. The number of trades was higher and the average ticket size per trade was higher, which indicates a retail buying bias. The capitalization of the market was higher in line with a bullish session. The put call ratios indicate the bears adding on to their shorts on advances.

Table No. 1
Growth of Sectors Comparison of BSE and NSE

NSE cash figures	Jun 23, 2013	Jun 24, 2013	Change
Turnover Rs Crs	8,998.44	12,392.50	3,394.06
Number of trades	54,23,186	59,77,228	5,54,042
Capitalization Rs Crs	62, 54,649	64, 11,484	1,56,835
Average value per trade - Rs	16,593	20,733	4,140

Table No.2

F&o Cues	Jun 23, 2013	Jun 24, 2013	Change
Nifty PCR	1.07	1.28	0.21
Bank Nifty PCR	0.79	0.89	0.10
Stock PCR	0.26	0.28	0.02
Marketwide PCR	0.42	0.46	0.04

The year 2012-13 was marked by a smart recovery and strong spurt in equity prices. During the larger part of the year, the equity market registered upward movement. The BSE Sensex on point to point basis recorded a growth of 34 per cent from 3739 as on March 31, 2012 to 5001 as on March 31, 2013. The BSE-100 (Natex) also shot up by 76 per cent from 1651 to 2902 during the same period. On the other hand, S&PCNX Nifty increased by 42 per cent. During 2011-12 and 2012-13 BSE Sensex, BSE 100 and NSE 50 all had shown downward trend for most of the part of these two years. The rise in the equity prices did not confine only to blue chip companies but the scrips in Group B also participated in the rally on number of occasions. The industries, which were the top performer included information technology and pharmaceuticals.

The performance of stocks prices was not linear during the year as shown by the movement of daily indices. In the beginning of year under review, the BSE Sensex was in the grip of bearish phase following the presentation of the Union Budget 2012-2013 presented at the end of February 2013. The BSE Sensex which stood at 3686 as on April 1, 2013 gradually dipped to 3272 by April 28, 2013 on account of massive selling pressure by the market operators due to the neutrality of Union Budget to stock market, followed by a pickup which continued till May 2013 and closed at 4123 on May 19, 2013. The market came under pressure, which was reflected in deceleration of the share prices and somewhat erratic movement. It was only from the middle of June 2013 the stocks market regained appreciation. The BSE Sensex moved northward from 4125 as on June 17, 2013 to 4728 on July 22, 2013 possibly due to increase in net investment by FIIs. The stock prices though reflected firming up trends thereafter but were in the high phase of bullishness only from January 2013 when the BSE Sensex touched 5375 as on January 3, 2013. The Sensex continued to push upwards and touched the highest level of the year at 5933 as on February 11, 2013 and thereafter it started sliding down slowly and reached 5000 as on March 31, 2013. The spurt in stock prices was to some extent assisted by massive inflow of funds by FIIs and mutual funds.

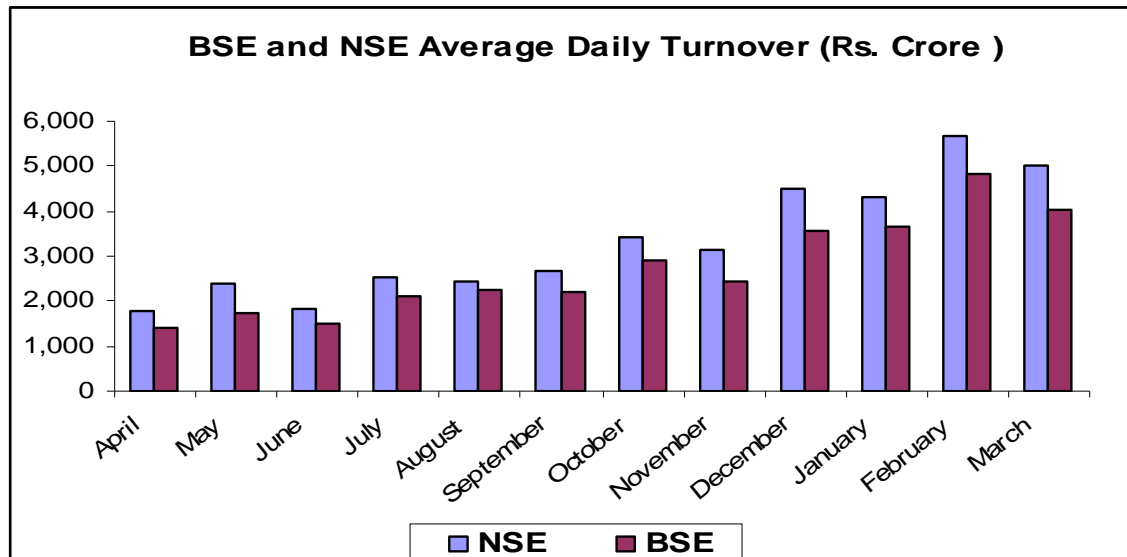


Fig 1

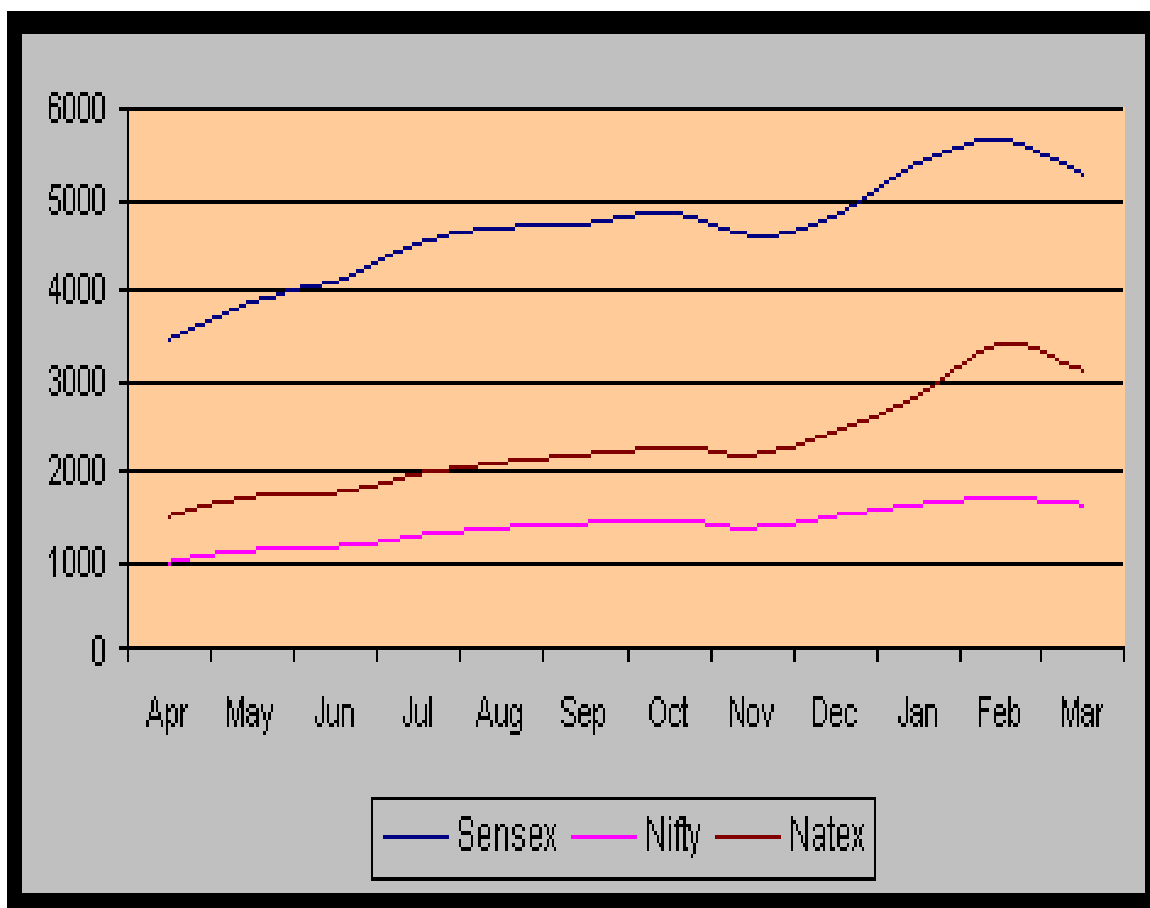


Fig 1: Monthly Averages of Closing Indices

**Table No. 3
Distribution of Trading Days During 2012-2013**

% change	Sensex		Nifty	
	Increase	Decrease	Increase	Decrease
BSE	110	95	112	100
NSE	16	16	20	16
	6	2	2	2
			1	00
Total	132	113	135	118

Source: SEBI

The Table below sums up the daily movement of indices for BSE Sensex and Nifty in 2012-2013. During 245 trading days for BSE Sensex it recorded increase for 132 days and decrease for 113 days. Similarly; Nifty reported increase for 135 days and decrease for 118 days out of 253 days. Thus stock price in India demonstrated resistance during 2012-2013. A number of factors have influenced the stock prices. The robust trend in stock prices during 2012-13 interalia includes various incentives given in the Union Budget 2012-13, large investment by FIIs of the order of US\$ 2.34 billion and heavy net purchases by mutual funds following their massive resource mobilization.

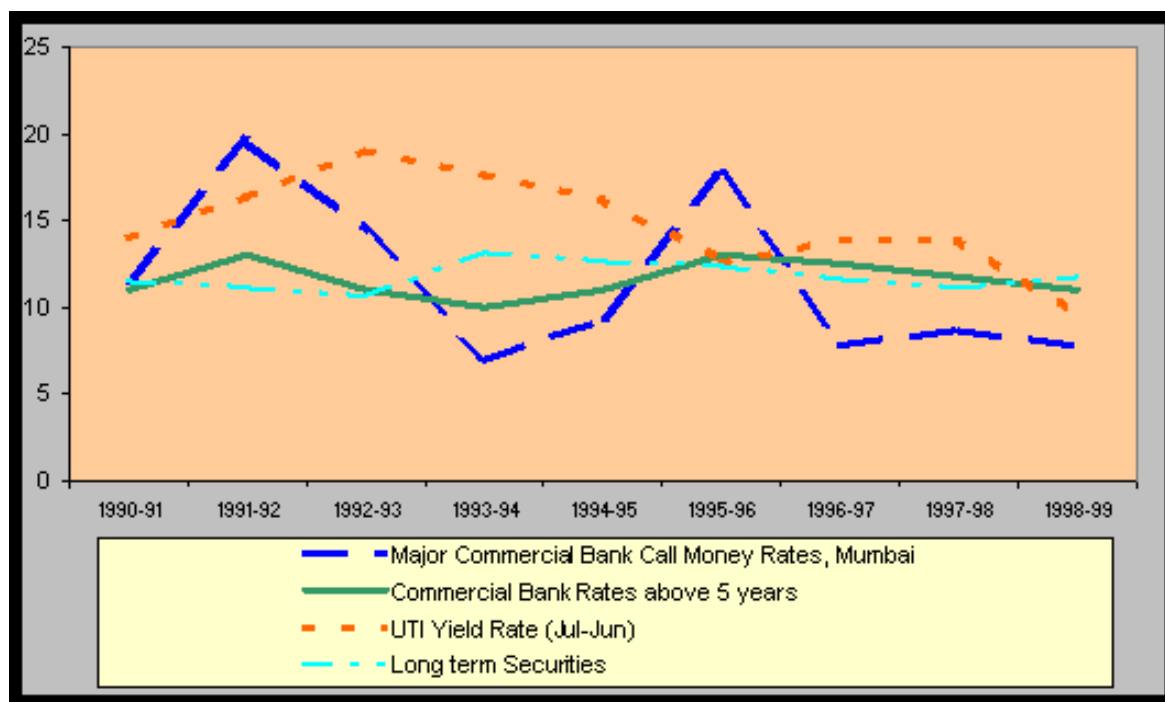


Fig 3: Movement in Interest Rates on Savings

The downward movement of interest rate structure on bank deposits and low returns on short-term government securities also shifted investment resources towards equity market. In other countries also fall in deposit rates has diverted funds towards equity investment. As a result, the proportion of household savings invested in equities particularly has risen to around 2.4 percent in 2011-12 from 2.0 percent in 2012-13. The sentiments of the investors and traders were also boosted by information technology industry. The boom on NASDAQ also, has been on a number of occasion instrumental through the Indian companies listed on it, to boost the sentiments of Indian domestic players in the market. As regards macroeconomic fundamentals, exchange rate stability, high level of foreign exchange reserves and increase in growth of exports has strengthened the confidence of FIIs in the Indian domestic market. On top of all factors, increased in liquidity (M3 or Broad Money Supply) in 1998-99 might have also contributed to overall firming up trend in stocks prices through time lag. It has been established in various studies that broad money (M3) has impact on economic variables up-to 1 year.

Table No. : 4
Listed Companies Traded/ Not traded at
Mumbai
Stock Exchange (April 2012 to March 2013)

Month & Year	Listed	Traded	Not-Traded	Percent of Traded to Listed Cos.
Apr	7,383	2,719	4,664	36.83
May	7,438	2,631	4,807	35.37
Jun	7,472	2,642	4,830	35.36
Jul	7,506	2,855	4,651	38.04
Aug	7,549	2,964	4,585	39.26
Sep	7,584	2,992	4,592	39.45
Oct	7,650	3,171	4,479	41.45
Nov	7,725	3,030	4,695	39.22
Dec	7,845	3,347	4,498	42.66
Jan	7,845	3,376	4,469	43.03
Feb	7,966	3,285	4,681	41.24
Mar	8,027	3,318	4709	41.34

Source: BSE,

IV TRENDS IN TURNOVER AND MARKET CAPITALIZATION

Equity market turnover which includes not only price variation but also the volume traded, is an important component in the measurement of the stock market size and liquidity. The liquidity allows investors to alter their portfolios quickly and cheaply and make investment less risky. The secondary market continued to grow vigorously as the average daily turnover at BSE and NSE rose from Rs.2,071 crore and Rs.2,606 crore in March 2012 to Rs.4,050 crore and Rs.5,028 crore in March 2013. In terms of percentage, the rise was 195 per cent and 193 per cent, respectively. On the BSE percentage of turnover to market capitalization was 7.2 per cent at end-March 2012 which, increased to 9.3 per cent at end-March 2013. However, the turnover as a percentage of market capitalization at NSE declined from 11.7 per cent at end-March 2012 to 10.3 per cent at end-March 2013.

V FINDINGS AND SUGGESTIONS

In table 1 and 2, we show paired comparisons of the mean and standard deviation values of liquidity measures and firm characteristics of our sample. Our results indicate that stock market is consistently higher on the NSE as compared to BSE. In a frictionless stock market would equal unity. We interpret our results to mean that trading frictions on NSE is less as compared to BSE. The other 1 important measure, execution cost, C, measured both in percent and in the Indian currency – Rupees, is significantly lower in NSE as compared to BSE. The average execution cost in NSE is less than half the average value of the cost in BSE. We note that trading frequency is higher on the NSE as compared to BSE, while the average size per trade is higher on the BSE. It would be interesting to examine if these differences in trading characteristics on the two exchanges have an effect on stock market.

VI CONCLUSION

It has been mentioned that fairness in a marketplace has substantial effects on its liquidity. NSE is superior in this department on many counts. To begin with, the impetus for founding NSE had been to buck the trend of slack regulations and to challenge BSE's near monopolistic hold on Indian's capital market scene. The separation of management from membership in NSE ensures that

a trading member's interests shall not override the interests of the exchange as a whole. Such protection¹⁹ is not assured in BSE, where membership is an automatic privilege of ownership and management. Another count on fairness from NSE lies in its rules for order matching priority. In NSE, strict price priority followed by time priority is observed. In the BSE however, a jobber with a history of large number of transactions can influence the priority of order matching.

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