

A Study on Role of Depository Participants in Capital Market

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ABSTRACT:

A Depository is an organization where the securities of shareholders are held in an electronic form at the request of shareholder. It is an electronic solution to problems of dealing in physical form and conducting transactions in capital market in a more efficient and effective manner. The Depository holds securities in an account, transfer securities between accountholders, facilitates safekeeping of securities and facilitates transfer of ownership without transfer of securities. Depository system is long prevalent in the advanced countries and has been playing a significant role in the stock market around the world. The system is time tested and reliable. In this research paper attempt to be made objectives (i) To study residential status of the depository participants influence in capital market.(ii) To study market segment dealing of select depository participants. This paper reveals chi-square calculated value of 54.12 for 4 degrees of freedom is more than the chi-square table value of 11.34 at 0.01 level of significance. Therefore it is concluded that the area status of the depository participants has influence on their capital market segment dealings. the F calculated value = 97.22

which is more than F- table value (4.98) for $v_1 = 2$ and $v_2 = 47$ at 0.01 level of significance .There is significance difference in the capital market segment dealings of depository participants.

Key Words:

Investor; Depository; Depository Participants; Capital Market

INTRODUCTION

A Depository is an organization where the securities of share holders are held in the electronic format the request of the share holder through the medium of a depository participant. In September, 1995 the Government have accepted in principle the proposed law for settling up of depositories and of a central depository for immobilization of physical certificates. The central depository is to be set up as trust to hold the physical custody of shared and effect transfers by book entries without the need to deal and transfer the physical certificates between parties. This is to be sponsored by public financial institutions and banks and will have a minimum net worth of Rs. 50-100 Crores as proposed by the SEBI. A national securities depository

corporation was set up in November, 1996. In the Depository system, the Depository extends its services to investors through intermediaries called depository participants (DP) who as per SEBI regulations could be organizations involved in the business of providing financial services like banks, broker, custodians and financial institutions. The admission of the DPs involve an evaluation by Depository of their capability to meet with the strict services standards of Depository and a further evaluation and approval by SEBI. Towards, the end of the twentieth century there was two interesting prognostications about India's potential. The first was by a professor of business management in the United States (Rosenweig, 1998). He estimated that by 2025, India would be the third largest economy in the world (After the US and China). The second projection was by a well-known Indian Economist (Parikh, 1999). It was projected that India would reach a per capita income of U.S. \$ 30,000 or higher by 2047, making it one of the fastest growing countries in the world. Indian capital market has been linked to the International Financial Market, and the standard has been increased in terms of efficiency and transparency through Dematerialization of the Indian Capital Market. In this context dematerialization is one of the right steps taken by the Government to make the share transfer process easier and on other hand the earlier demerits of the paper transfer process can be rectified. Dematerialization is a process in which the company takes the physical certificates of an investor back and equivalent number of shares is credited in the electronic holdings of the investor.

REVIEW OF LITERATURE

This section covers the review of literature of some of the important studies,

research papers and articles on the various aspects of depository system.

Shah (1996)¹ highlighted that resolution of the single vs. multiple depositories, immobilization vs. dematerialization and role of capital adequacy norms for the custodians which is helpful in quick implementation of depository system in India.

Aggarwal and Dixit (1996)² expressed their views about the legal framework for depository system in India. They also explained the benefits of the paperless trading, responsibilities of depository or participants and eligibility criteria, etc.

Sarkar (1996)³ analyzed the implications of the scrip less trading and share transfer based on book entry merely due to the existence of the depository ordinance 1995.

George (1996)⁴ explained the role of the NSDL in revolutionizing the paperless stock settlement system of the country. He also examined the steps taken by the depository to ensure that the scrip less trading system is a success and stressed on the importance of the role of the regulator in making the depository system successful.

Gurusamy (1996)⁵ explained that the introduction of depository system would help in transfer of securities in the capital market by a mere book entry. He also pointed out the advantages of depository system such as delay in transfer, registration, fake certificates, soaring cost of transactions, more paper work, non availability of depositories in when the transfer of securities take place by physical delivery.

Hurkat and Ved (1999)⁶ discussed the role of depository system in many advanced countries in the stock and capital markets the world over. They also analyzed the services offered by NSDL, dematerialization, re-materialization, trading and fee or charges, comparison of a bank

and a depository for the benefits of the depository.

Ravi Shah (2002)⁷ highlighted that NSDL and CDSL have changed the face of the Indian capital market. The move from an account period settlement in paper form only to a T+3 settlement in pure electronic form has been achieved in a record span of few years, whereas it took anywhere between 10-20 years in most of the developed countries.

Schmiedel et. al. (2006)⁸ analyzed the existence and extent of economies of scale in depository and settlement systems. The study indicated the existence of significant economies of scale but degree of such economies differs by settlement, institution and region.

Kanan (2008)⁹ highlighted that dematerialization has certainly brought about lot of improvement in the investment habits in our country and is bane for the companies and has created havoc in maintaining the members register and in conducting the members meeting.

Sultan Sing (2011)¹⁰ tried to study the factors affecting the decision making of the investors in depository system. Most of the investors are of the view that shorter settlement period, safety of securities with the depositories, attitude of the staff available with the DPs, timely services provided by the DPs to the investors, reduction in transaction cost, repatriation of sales proceeds of shares/debentures by NRIs are some of the factors which affects the decision making of the investors in depository system.

Dr.Dhiraj jain,P.Mehta (2012)¹¹ The investors level of awareness about services offered by depository participants and about closing and termination of demat account is moderate through the vary in their education qualification will be a sort of feedback for the investor, brokers and regulatory bodies

as to what extent have the investors educate programme reached.

The earlier studies covered the depository system and environment, which mainly pertain to depository legislation, how a viable alternative of depository, implications of depositories ordinance, internal audit of depository participants, an overview of the Depositories Act, responsibilities of auditing profession, role of depository in stock and capital market, SEBI guidelines in the depository system, services provided by different depositories or accessibility of depositories to retail investors. But it is very important to study the Role and performance of depositories itself. Therefore, the present study is an attempt to fill this gap.

NEED FOR THE STUDY

Indian stock exchanges nowadays are following screen based trading and electronic settlement system. The market width are also enlarged, quantity of investors spread to various distance places from trading and settlement place. There are some problems arising in the settlement and transfer system, in stock and share trading. In this circumstance there are a limited number of studies in this area. Hence there is a need for evaluation of depository system with in the area of investor's perspective. The present study is in this direction of research analysis covering role and performance of depository participants and the factors affecting the decision making of investor towards depository participant.

SCOPE OF THE STUDY

The present study covers the role and performance of the DP's and investor's Factors, attitudes towards depository participants and the four listed depository participants with special reference to a Rayalaseema region of Andhra Pradesh.

The scope of the study is very wide and deep of a role of depository participants and

investors factors affecting and comparative analysis among listed four depository participants, impacts of concept as far as Indian Capital market is concerned. Further, globalization has given a new fillip into financial markets and varied financial competitive Environment.

STATEMENT OF THE PROBLEM

The studies have explored the various aspects in the depository system like cost aspects. Difficulties faced by the investor and others of the benefits available to the investor. The Indian capital market has witnessed numerous changes in the recent past as seen earlier. Traditionally stock market booms and decline have resulted in a number of problems for the lay investor. A close introspection of these problems will reveal that most of them are due to intrinsic nature of the paper based trading and settlement system. The capital market exposed the limitation of handling and dealing in securities in physical/paper mode. The short learning's of the market became manifest in terms of bad deliveries, delays in transfer and irregular settlement. The remedial measure for this may be the system of dematerialization (also called demat) under depository system. Hence it is an attempt to study about The Role of Depository Participants and Present scenario Working Frame work of NSDL(national securities depository limited)and CDSL(central depository system limited), factors affecting to investors perception towards depository participants, performance, comparative analysis among listed depository participants in Rayalaseema Region.

The Objectives of the Study Are

- To study residential status of the depository participants influence in capital market.
- To study market segment dealing of select depository participants.

Research Hypotheses

The main hypotheses formulated for the study are as given below.

H₀ : The residential status of the depository participants has no influence on their capital market segment dealings.

H₁ : The residential status of the depository participants has influence on their capital market segment dealings.

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.

Research Methodology

In order to achieve the objectives stated above data and information have been collected from both the primary and secondary sources. The primary data have been collected through two structured questionnaires to investors (Annexure-I) and intermediaries (Annexure-II). Apart from the questionnaires, discussions have been undertaken with the stock market specialists to elicit their opinion on various matters relating to depository system and investment decisions. Secondary data have been collected from reports, bulletins of RBI, bulletins of SEBI, books, journals, magazines, conference papers etc.

Sampling

Four listed depository participant companies are selected purposively for the study via. **1. Karvy Securities Ltd. 2. India Infoline Finance Ltd. 3. PCS Securities Ltd. 4. Net Worth Securities Ltd.** Rayalaseema region is taken for the study. All the four

districts via. Anantapuramu, Kurnool, Kadapa and Chittoore districts are covered for the study. In order to understand the attitude of the investors towards depository system, depository participants and investment, a sample of 300 investors are taken for the study on the basis of simple random sampling method covering 160 investors in four urban areas, 100 investors in four semi urban areas and 40 investors in four rural areas in all the four districts of rayalaseema region. The places covered are Anantapuram, Dharmavaram, Kalyandurgam, Kurnool, Nandyal, Arlagadha, Kadapa, Prodhuturu, Mydhukuru, Tirupathi, Chittoore, and Madanapalli.

A sample of 50 branches and franchises of the select four depository participants in urban, semi-urban and rural areas are taken for the study to understand the attitude of DPs on depository system.

The data and information collected through questionnaire and from all the available sources are properly analyzed and inferred to identify the problems in depository system to the investors and stock brokers by using the following statistical tools.

Statistical Tools Used

The data is analyzed based on the following statistical Tools

- ANOVA, SD, Ratio, Covariance.

Limitations of the Study

Any research by its inherent nature is bound to have some

limitations and this study is not an exception to that rule. The major limitation of the study is that it is restricted to the Rayalaseema Region only and the size of the sample is also limited. However an effort is being made to minimize the impact of this limitation by selecting investors from different areas of all the districts of rayalaseema region. As this study is based on the responses of the investors and intermediaries there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the role of depository participants, depository services as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Where as in this study only a limited number of factors are considered. With all these limitations all the efforts are made to evaluate the situation as accurately and objectively as possible.

Data Analysis:

It is an organized market mechanism for effective and efficient transfer of money capital or financial resources from the investing class (a body of individual or institutional savers) to the entrepreneur class (individual or institutions engaged in industry business or services) in the private and public sector of the economy.

Table 1.1: Market Segments Dealt by Depository Participants – Area Wise

Segments	Area wise Status			Total	
	Urban	Semi Urban	Rural		
Equity	Count	26	0	0	26
	% within Segments Deals with	100.0%	.0%	.0%	100.0%
	% within Area wise status	100.0%	.0%	.0%	52.0%
	% of Total	52.0%	.0%	.0%	52.0%
Commodity	Count	0	4	0	4
	% within Segments Deals with	.0%	100.0%	.0%	100.0%
	% within Area wise status	.0%	23.5%	.0%	8.0%
	% of Total	.0%	8.0%	.0%	8.0%
ALL	Count	0	13	7	20
	% within Segments Deals with	.0%	65.0%	35.0%	100.0%
	% within Area wise status	.0%	76.5%	100.0%	40.0%
	% of Total	.0%	26.0%	14.0%	40.0%
Total	Count	26	17	7	50
	% within Segments Deals with	52.0%	34.0%	14.0%	100.0%
	% within Area wise status	100.0%	100.0%	100.0%	100.0%
	% of Total	52.0%	34.0%	14.0%	100.0%

Source: Primary data and SPSS

The table 1.1 indicates that all urban depository participants constitute 52 % of total depository participants who invested in equity segment only but invested in commodity and other market segments. All semi-urban depository participants constitute 34 % of total

depository participants out of them 26 % depository participants invested in all capital market segments where as eight percent of depository participants invested in commodities only. All rural depository participants constitute 14 % of total depository participants

and they invested in all capital market segments. Therefore, it is observed that majority of the depository participants were from urban area followed by semi-urban and rural area. Moreover, majority (52 % of total) of the depository participants who comes under urban are invested in equity segment only followed by semi urban and rural area (40% of total) who invested in all capital market segments and 8 %

of total depository participants who comes under semi-rural area invested in commodities only.

H_0 : The residential status of the depository participants has no influence on their capital market segment dealings.

H_1 : The residential status of the depository participants has influence on their capital market segment dealings.

Table 1.2 Chi-Square Test for testing the above Hypothesis

	Value	df	Asymp.Sig. (2-sided)	Chi-Square table value	Decision
Pearson Chi-Square	54.118 ^a	4	.000	11.34	H ₀ is Rejected and H ₁ is Accepted
Likelihood Ratio	72.311	4	.000		
Linear-by-Linear Association	37.316	1			
N of Valid cases	50				

a. 5 cells (56.6%) have expected count less than 5. The minimum expected count is 56.

The chi-square calculated value of 54.12 for 4 degrees of freedom is more than the chi-square table value of 11.34 at 0.01 level of significance. H_0 is rejected and H_1 is accepted. Therefore it is concluded that the area status of the depository participants has influence on their capital market segment dealings.

Hence It is suggest to depository participants, SEBI , mutual funds, investment advisor and other intermediaries of capital

market should take necessary measures for enhancing capital market dealings of depository participants by considering their residential status and other many factors like risk bearing capacity, education, experience in the business, income level, expected returns , capita requirements,etc. which promotes capital market growth in addition to the increase in profits and turnover of the depository participants.

Table 1.3 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
Within	11.462	47	.244			

Groups						and H ₁ is
Total	58.880	49				Accepted

Source: Primary data & SPSS

* 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 1.3 indicates that the F calculated value = 97.22 which is more than F- table value (4.98) for $v_1 = 2$ and $v_2 = 47$ at 0.01 level of significance. H_0 is rejected and H_1 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.

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