

A STUDY ON THE ROLE AND GROWTH OF THE DEPOSITORY AND ITS SERVICES IN THE CAPITAL MARKET WITH SPECIAL REFERENCE TO THE NATIONAL SECURITIES DEPOSITORY LIMITED

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Abstract

A depository is an institution that holds securities in electronic format. Depositories are the intermediaries in the capital market. These intermediaries are known as depository participants (DPs). DP's are the facilitator for holding securities electronically and issuing physical certificates in rematerialized form. It ensures convenient, user-friendly, and secured depository services to investors in the capital market. Depositories act as a nominee on behalf of the investors. They undertake the custodian role of securities. There are two depositories in India NSDL and CDSL. The National Securities Depository Limited (NSDL) was the first depository in India, established in 1996. NSDL provides various services to investors. This paper seeks to know about the role and usefulness of depositories with special reference to NSDL.

Key words:- Depository, Depository participants, Capital market, NSDL, CDSL.

India has a very solid and efficient capital market, showing a healthy financial system. A developed financial system points out the country's economic growth and development. An efficient financial system functioning indicates the smooth flow of funds to productive sectors and

can promote investment opportunities. Therefore, a financial system is an intermediary between savers and investors. It promotes the faster economic growth of a nation. The Financial system consists of four subsystems—financial markets, financial institutions, financial instruments, and financial services. All

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subsystems are integrated, organized, and regulated to meet the short-term and long-term financial needs of various sectors.

Financial markets and financial institutions play a significant role in the financial system. The financial market is a market for the sale and purchase of financial instruments or financial assets. It can be divided into two crucial markets—capital market and money market. The capital market is again divided into two segments, namely, primary and secondary markets. The Capital market deals with long-term investment, but the money market deals with short-term investment only. The primary market is the market for the issuing and selling of new securities to investors. It is otherwise called New Issue Market. In contrast, the secondary market offers the sale of securities that have been issued already. In the secondary market sale and settlement of instruments are made through stock exchanges. So, the capital market has a very vital part of the economic development of a country. It helps to create capital formation and various investment opportunities.

The introduction of the depository system in the Indian share markets has seen numerous changes. The practice of physical trading of shares was stopped. In physical trading, the share certificates are available in paper form. There were many problems that arose with handling this document, like fake signatures, signature mismatches, counterfeit and damaged share certificates, duplication of share certificates, etc. So, the stock exchanges and authorities thought about another system and decided to set up a

highly technological-based and fully automated system namely depositories. Therefore, the Government of India passed the Depositories Act in 1996. This is the introduction of the depository system in the Indian capital market.

A depository is an institution that is held securities of investors in electronic form. So, the transfer of a share certificate into electronic form is called dematerialization. Dematerialization of securities helps to avoid the problems related to the transaction of securities. The shares are converted into electronic format, and then they can store in the depository. These dematerialized securities and investor's securities accounts are maintained by Depository Participants (DP's). A Depository participant is an agent or representative of the depository. A depository is a place where deposits of money, property, securities, etc. are deposited for safe custody. In this system, the investor can keep their financial assets like shares, mutual funds, bonds, etc. The investors can avail of these services from a registered agent called depository participants. There are two depositories in India. They are NSDL and CDSL. The main aim behind this system is to reduce settlement risks by avoiding the paperwork. This study focuses on knowing about the depository system in India and its importance.

Scope of the Study

The study is mainly focused on the depository and its role in the Indian capital market. The study can be a stimulator to analyze various services offered by depository in India. The study focuses on the growth of investors and depository

participants in NSDL during the pandemic season.

Objectives of the Study

1. To study the depository system in the capital market.
2. To identify the role of NSDL in the Indian capital market.
3. To examine the growth of investors and depository participants in NSDL during the pandemic season.

Research Methodology

The present study is descriptive and analytical, using secondary data collected from online sources. In addition to this, various research papers, articles, publications, and articles from newspapers have been reviewed to acquire the secondary data.

Review of Literature

Rao (1995) in his paper “Depository system: A boon for Indian Capital Markets” holds the view that the introduction of depositories would improve market efficiency. It is also expected to arrest the prolonged depression in the stock market. The analysis shows that the depository would help to revive the stock market and is hopeful that the depository system will bring a sea change in corporate democracy, particularly in corporate management, price discovery in the market place, proxy exercise, etc.

Dr.R.Ganapathi (2010) conducted a study on “Awareness level of services offered by Depository Participants in Coimbatore, Tamil Nadu”. The results of this study will be a sort of feedback for

the investors, brokers, and regulatory bodies as to what extent the investor’s education program has reached the investors. It is, therefore, a matter of paramount importance that the investors are empowered through education on the functioning of the market, and the obligation of the intermediaries like investors is empowered through education on the functioning of the market. Obligation of the intermediaries like depository participants, the operational intricacies, and the risks and pitfalls in securities trading is also addressed.

Bharathi V Pathak (2014) said that, twelve years back, all these were issued as physical testaments that the financial specialist needed to be careful of and after that forward to the purchaser once sold.

ShacheendranV said that the dematerialization of securities in the Indian capital market is evaluating the progress of dematerialization in India, with a particular focus on the paradigm shift.

According to **Balavindara Sinha (2005)**, the financial specialist needs to open a demat account through any Depository participant for the dematerialization of his property and exchanging securities.

Eswar Prasad and Masahiro Kawai (2011) think that dematerialization is one of the essential elements of the depository to take out or limit the development of physical securities in the market. This is accomplished through the dematerialization of securities.

George (1996) in his writing “Towards a paperless settlement system”,

explains the role of the NSDL in revolutionizing the paperless stock settlement system in the country. He has evaluated the steps taken by the depository to ensure that the scrip less trading system is a success. He has also mentioned the importance of the regulatory body in making the depository system successful.

Aggarwal and Sanjiv (1996) in their paper entitled “Central Depository System” states that more and more international investors are looking to India for investment opportunities through mutual funds or direct portfolio investment. This study pointed out that the depository system in India will eliminate various problems like post-issue work, settlement, and registration work, back-officework, etc.

Depository System in India

The origin of the depository system in India has introduced a few years back. Traditional offline settlement and clearing system shows the inefficiency of work. To avoid this stockmarket in efficiencies, Stock Holding Corporation of India Limited (SHCIL) created a new alternative settlement system in July 1992. The SHCIL prepared a paper on the “National Clearance and Depository System” and the US agency sponsored it for international development. The Government of India developed a technical group headed by Mr.R Chandrasekharan, Managing Director of SHCIL, who submitted a report based on the National Clearance Depository System on December 1993. After that, the apex body, the Securities Exchange Board of India (SEBI), constituted a seven-member action squad frequently to

discuss various parameters of the depository system and considered multiple problems related to depositories. In September 1995, the government of India introduced a Depository Ordinance. It was the right way to set up the depository system in our country.

Then parliament passed the Depository Act in August 1996. This Act gives the complete definition of the depository system in India. Dematerialization of securities and transfer of beneficiaries’ accounts shall carry out by the depository. The investors can dematerialize and rematerialize their securities if they are needed. Rematerialization is the process of converting the electronic certificate into a physical form. NSDL is the first depository of India after the enactment of the Depositories Act 1996. The operations of NSDL came into existence in 1996. The CDSL is the second depository in India that came in to operation in 1999.

The NSDL and CDSL are the two depositories that hold securities and trading of securities such as shares, debentures, derivatives, mutual funds, and commodities. Before the introduction of depositories, the Indian capital market had witnessed various problems related to the traditional system such as stolen certificates, delays in transfers, forged certificates, loss in transit, long-term settlement period, mutilation of certificates, high levels of failed trade, and bad deliveries. To overcome these trading system problems, a new trading system was developed viz, Depository System. The new system helps to hold securities in electronic form and avoid the issues of the traditional trading system.

Role of NSDL in the Capital Market

NSDL is the first depository in the Indian capital market. The SEBI registered it on August 1996. The NSDL is promoted by the largest institutional players such as IDBI, UTI, and NSE. The NSDL facilitates the trading and settlement of securities in electronic form. From that moment onwards Indian capital market starts to undergo a vibrant change. The paper-based settlement of securities was over from that moment. The enactment of the Depositories Act in 1996 paved a significant change in the Indian capital market.

NSDL provides its activities through depository participants. A depository participant can be a specialist or caretaker NSDL and the depository participant work to support the investors in the capital market. The depository system is similar to bank accounts. They can hold securities in depository accounts, similar to holding money in bank accounts. The NSDL uses innovative and technological systems to support the investors and brokers, and in the same way, NSDL provides the safety of settlements of securities at minimum risk and lower cost. NSDL offers simple transfer procedures of ownership of securities done through simple account transfers.

NSDL offers various services to investors, custodians, stock brokers and agents, issuer companies, stock exchanges, etc. All these services are offered through its depository participants or business partners. Technology, trust, and reach are the tagline of NSDL that upgrade its position of it in the mind of every investor.

- Eliminate bad deliveries in the transaction of securities.
- Easily handling dematerialization and rematerialization of securities.
- Easy and faster settlement cycle.
- It enables speedy and accurate transactions.
- Depository system reduces the risk associated with the physical transfer of securities.
- Provides periodic reports.
- Enhances paperless transactions in the share trading.
- Elimination of issues related to the transfer of demats shares, selling of shares, changing of the address of investors, etc.

Table 1 and 2 shows the growth rate of investors and depository participants

Table 1
Detail of Investors

Month-Year	Client accounts (Number of accounts in lakhs)
November-2020	207.23
November-2021	245.96
November-2022	299.28

Source: NSDL Performance summary report

Table 2
Detail of Participants

Month- Year	Number of participants	Service centers	Cities/ Towns
November-2020	278	31,268	1,956
November-2021	278	36,123	1,977
November-2022	282	58,553	2,035

Source: NSDL Performance summary report

in NSDL. From the performance summary report, the client accounts during the pandemic period, the growth of the graph never declined. This shows that investors are keenly observing and investing in the capital market. Table 2 depicts an increase in the number of depository participants and there has been a drastic increase in service centers being opened in different cities or towns.

Conclusion

Dematerialization is a public utility service provided by depositories. From this study, there is an enormous increase in terms of demat account holders, number of DPs, service centers, number of dematerialized securities, and demat custody in NSDL. It shows a positive annual growth rate in the Indian capital market.

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