

# SMART

## JOURNAL OF BUSINESS MANAGEMENT STUDIES

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Vol.3

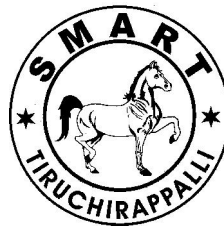
No. 1

January - June 2007

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ISSN 0973 - 1598

**Chief Editor**  
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SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST  
(SMART)

***TIRUCHIRAPPALLI (INDIA)***

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# DEPOSITORY SERVICES BY STOCK HOLDING CORPORATION OF INDIA LIMITED (SHCIL), ERODE BRANCH – A STUDY WITH REFERENCE TO INVESTORS IN ERODE TOWN

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## **Abstract**

*Compulsory trading of shares in dematerialised form in specified scrips by institutional investors was introduced by SEBI with effect from 15th January 1998. The concept of depository services was brought out with the aim to reducing the cost and risks involved in paper based trading. These capital market reforms also paved the way for a new employment opportunity ie, setting up of depository participants. But these improvements in capital market created mixed feelings of joy and fear in the minds of investors. The present article is designed to elicit the opinion of respondents in Erode Town about their awareness of the depository services and their preference for the demat system with reference to Stock Holding Corporation of India Limited.*

## **Introduction**

The depository system provides a wide range of services such as primary market services, secondary market services and ancillary services. In the case of primary market services, the depository, through its participants, works as a link between issuers and prospective shareholders. In the secondary market, the depository, through participants, acts as a link between the investor and dealing house of the exchange to facilitate settlement of security transactions through book entries.

## **Significance of Depository System**

A survey of existing research in this subject indicates that there is a definite paucity of research in this field. The capital market in our Indian economy is undergoing a process of structural transformation. The capital market reforms, encompassing primary and secondary markets, equity, debt and Foreign Institutional Investors (FIIs), have brought about unprecedented changes in the Corporate Sector. The Government of India promulgated the Depositories Ordinance in September 1995, thereby paving the way for setting up of depositories in India. In August 1996, the Depositories Act was passed by the Parliament

and this Act provides that depository shall carry out dematerialization of securities and transfer of beneficial ownership through electronic book entry.

SEBI introduced compulsory trading of shares in dematerialised form in specified scrips by institutional investors with effect from 15th January 1998. The concept of depository services was brought out with the aim to reducing the cost and risks involved in paper based trading. These capital market reforms also paved the way for new employment opportunity ie, setting up of depository participants. But these improvements in capital market created mixed feelings of joy and fear in the minds of investors. Hence the present study has been initiated to analyse this ongoing process in the Indian capital market with special reference to dematerialization of shares and study the attitude of investors and depository participants with regard to these reforms.

## **Statement of the Problem**

The capital market condition is an important factor for the determination of economic position of a country. The stock market operations in the capital market have seen several developments over the years. There are

some drawbacks in trading. They are involvement of large volume of paperwork, higher cost of transactions, stamp duty, more time for allotment of shares, loss of share certificates, mutilation of share certificates and delay in transfer and transmission of shares. These limitations have been overcome with the introduction of DEMAT trading. To what extent does it save the stamp duty at the time of delivery? Does it provide rapid transfer of securities? Does it eliminate paper work compared to traditional system? Do the shares holders prefer DEMAT and also REMAT trading? Does it provide effective transmission of securities? Does it reduce the cost of transaction to the investors? Does it provide safety of securities compared to traditional system? The present study has been undertaken to elicit the opinion of 75 respondents in Erode Town about their awareness of the depository services and their preference for the DEMAT system.

### **Objectives of the Study**

- è To examine the legal framework of Depositories Act
- è To study the functions of Stock Holding Corporation of India Limited
- è To analyse the services rendered by SHCIL to the investing community
- è To identify the problems faced by SHCIL and investors under depository mode.

### **Scope of the Study**

This study has been designed to analyse the views of investors with reference to dematerialization of shares and assess whether this new system has fetched desirable developments in the Indian capital market. This study will be very useful to shareholders dealing in electronic media. It will also help the depository participants to understand the needs of investors and make necessary modifications to ensure investors' satisfaction. It will also help the various players in the depository system to understand the paperless dealings and to make them effective.

### **Methodology of the Study**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It constitutes the blue print for the collection, measurement and analysis of data. The present study is survey oriented and pertains to the descriptive type. The researcher considered 75 respondents for the purpose of study.

### **Data Collection**

Both primary and secondary data have been used in this research. The primary data have been collected from the investors using an Interview Schedule Secondary Data relating to the volume of trading in DEMAT shares. Functioning of the depositories have been collected from investment related books and journals as well as websites of NSDL and SHCIL.

### **Sampling Design**

As the number of shareholders in Erode Town exceeded 5000, the size of the sample used for the collection of primary data was 75 investors. Convenience Sampling Method has been followed in this study.

### **Limitations of the Study**

- è The investors below the age of 20 years were not considered due to the fact that they had not actively participated in the investment.
- è The sample size of opinion survey was limited to 75 investors.
- è The study was confined to Erode Town alone and other places were not considered for the research.
- è The respondents were not ready to give responses immediately and the researcher had to take much time to gain their confidence.

However, care has been taken to check that these limitations did not influence the main findings of the study.

## Findings of the Study

The important findings of the study are enumerated below :

1. Of the 75 respondents considered for the study, respondents constituting 34.67 percentage belonged to salaried class while respondents constituting 32 percentage were business men. Again, while respondents constituting 17.33 percentage were agriculturists, the remaining respondents constituting 16 percentage were professionals. (Table -1)
2. The survey disclosed that 60% of the respondents read Business Line, 13.33% of the respondents read Economic Times, 12% of the respondents read Financial Express, 6.67% of the respondents read both Business Line and Economic Times and the rest of them (8%) read both Business Line and Financial Express.
3. The survey has established that 1.33% of the respondents have preferred to retain certificates in paper form (i.e. physical form), 80% of the respondents have preferred to retain certificate in demat form and 18.67% of them have preferred to retain certificates both in physical and demat form.
4. The survey revealed that respondents constituting 34.67% opined that they have held shares in electronic form within the range of six months to one year, and 32% of respondents held shares for the past six months.
5. The study has brought to light that while 6.67% of the respondents favoured physical form, a good majority of 90.66% of respondents favoured electronic form and 2.67% of them have not given any comment.
6. The survey disclosed that 24% of respondents have consulted their stockbrokers, 26.67% of respondents consulted investment consultants and remaining 49.33% of the respondents have consulted their friends and relatives before they made investment in securities.
7. The survey indicated that 60% of respondents made investment out of savings, 17.33% of respondents made investment out of business income, 14.67% of respondents made investment out of capital gains and 5.33% of them depended both on savings and business income for making investment in securities. (Table -2)
8. The survey revealed that 98.67% of them felt that DEMAT trading provides better trading at a maximum level and 1.33% of the respondents felt that DEMAT trading provides better trading to a certain extent.
9. The study disclosed that 32% of the respondents have invested in primary market, 54.67% of them have invested in secondary market and the remaining 10% of them have invested in both primary and secondary market.
10. The survey has brought to light that while 69.33% of the respondents depended on only one depository participant, 29.33% of them depended on more than one depository participant and 1.34% of them did not give any opinion.
11. The study recorded that while respondents constituting 54% of the total sample survey opined that demat trading eliminates paperwork to a higher level, 33% of them felt that paper work is eliminated to a certain extent and 13% of them felt that paperwork is not at all eliminated because of the demat trading system.
12. The survey revealed that 24% of respondents felt that DEMAT trading provides scope for fraud in e-bank account, 73.33% of them felt that DEMAT trading does not provide any scope for any fraud in its transaction and the remaining 2.67% of them did not comment at all.
13. The survey observed that 58.67% of the respondents rated depository participant based on their services, 8% of them have rated them based on their proximity, 16% of them have rated them based on their relationship, 8% of them rated them on both and the remaining 9.34% of them did not give any opinion. (Table - 3)

14. The survey disclosed that 85.33% of them are satisfied with the services rendered by depository participant, 10.67% of the respondents are not satisfied at all and remaining 4% of them did not give any response in respect of services rendered by depository participant.
15. The study revealed that while 23 respondents felt that collection of service charges is high, 40 respondents felt that service charges is moderate and the remaining 10 respondents pointed out that service charges levied by the depository participant is low.
16. An important finding of this study is that 56% of the respondents observed that there is a reduction of cost in DEMAT trading, 40% of them felt that there is no reduction of cost, 4% of them have not given any answer to the question.
17. The survey portrayed that 54.67% of the respondents felt that compulsory demat system to trade in all companies is a must, 41.33% of them felt that compulsory demat is not necessary and 4% of them did not give any opinion.
18. The survey revealed that a significant majority of respondents constituting 93.33% invested their money in equity share, 1.33% of them invested their money in preference share, 2.67% of the respondents invested in debenture and remaining 2.67% of the respondents invested their money in all the securities.
19. The study has clearly brought out the fact that 85.33% of them are of the view that transfer and registration take place quickly, 13.33% of them are of the view that the transfer and registration are not made quickly under depository mode and rest of them (1.34%) have not given any opinion in this regard.
20. A notable finding of this study is that 38.67% of the respondents have pledged their securities, 58.67% of the respondents have not pledged their securities and remaining 2.66% of them did not give any opinion in this regard.

### Suggestions of the Study

The findings of the study have compelled the researcher to offer the following suggestions.

- è Depository Participants should send pamphlets and magazines containing information about the latest changes in demat segment to their clients.
- è Depository Participants are advised to conduct a number of Investor Awareness Programmes and advertise their offer of services in various newspapers and popular magazines.
- è By reducing their service charges, the depository participant can attract more investors.
- è The corporate image of Depository Participants can be improved by sending the statement of accounts to the investors as soon as the transaction takes place.
- è Depository Participants can make it a regular practice to organise frequent meetings for their clients so as to strengthen their relationship with the existing investors as well as to induct prospective investors. This would definitely give an opportunity for the depository participants to take note of grievances, if any and offer prompt settlement of issues.

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8. www.SHCIL.com
9. www.NSDL.com

**Table - 1**  
**Occupation of Respondents**

S. No.	Occupation	No. of Respondents	Percentage to Total
1.	Salaried class	26	34.67
2.	Business Men	24	32
3.	Professionals	12	16
4.	Agriculturists	13	17.33
	<b>Total</b>	<b>75</b>	<b>100</b>

Source : Primary data

**Table - 2**  
**Sources of Investment of Respondents**

S. No.	Sources of Investment	No. of Respondents	Percentage to Total
1.	Savings	45	60
2.	Business Income	13	17.33
3.	Capital gain	11	14.67
4.	Savings & Business Income	4	5.33
5.	Savings & Capital gain	2	2.67
	<b>Total</b>	<b>75</b>	<b>100</b>

Source : Primary data

**Table – 3**  
**Respondents' Opinion on Rating Criteria of Depository Participants**

S. No.	DP Rating	No. of Respondents	Percentage to Total
1.	Based on their services	40	58.67
2.	Based on their proximity	6	8
3.	Based on their relationship	12	16
4.	Based on their services and proximity	1	1.33
5.	Based on their proximity and relationship	4	5.33
6.	Based on their services, proximity and relationship	1	1.33
7.	No comment	7	9.34
	<b>Total</b>	<b>75</b>	<b>100</b>

Source : Primary Data