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UNDERSTANDING SENSEX DYNAMICS IN THE INDIAN STOCK MARKET

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ABSTRACT

The stock market or exchange is a vital platform where buyers and sellers come together to trade securities. Transactions in the stock market are guided by an index which reflects the price movements of selected securities and serves as a key market indicator. In India, the stock market has become a significant focus of the government's economic strategy. Only listed securities are traded on stock exchanges and companies must meet specific regulatory requirements to list their securities. At the Bombay Stock Exchange (BSE), the primary index used to measure fluctuations in security prices is the Sensex. The Sensex serves as the benchmark for trading and reflects the overall performance of the market. It is composed of companies selected based on criteria such as liquidity, trading volume and industry representation. As such, the Sensex provides investors with a reliable guide for making informed investment decisions.

Keywords: SENSEX, Stock Exchange, SEBI, Broker, Settlement of Transactions

1. INTRODUCTION

The stock exchange is an indispensable component of the securities market and plays a crucial role in India's economic development. It facilitates the trading of securities by providing a structured platform where buyers and sellers come together to execute transactions. The stock exchange enables smooth and transparent dealings among market participants, ensuring liquidity and price discovery. Transactions in the stock market are largely influenced by a market index, which reflects the price movements of selected securities. This index serves as a key indicator by offering valuable information about overall market trends and the performance of listed securities.

"Stock exchange is an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities."

----- The Securities Contracts (Regulation) Act, 1956

2. OBJECTIVES OF THE STUDY

This paper follows an expressive pattern. It begins with an overview of the stock exchange, followed by an analysis of the current state of these organizations in the country. The concluding section presents the author's final observations on the functioning and role of these organizations within the context of the SENSEX and its impact on the economy.

3. ROLE OF STOCK EXCHANGES

The Indian stock market is today the apple of the eye of the Government in the economic sphere. In stock exchange, only listed securities are traded. A company can lists its securities on the stock exchange after fulfilling some mandatory requirements. For listing the securities, the company has to apply before the management committee for its permission. After considering the application of the company, if the management is satisfied, then the securities can be listed on the stock exchange. It is the well-organised market for the trading of securities. It works under a management committee, which control the activities of it. The management committee issues various guidelines from time to time for trading the securities on it.

The mechanism of stock exchange works through its authorised members. The securities are traded by the investors only through these members. Only the authorised members are authorised to visit the stock exchange. It works as per the set of rules that cannot be violated at any cost. These rules determine the overall working of the trading of securities.

Currently the stock exchanges are working in India. The details of permanently recognised stock exchanges have been furnished in the following table:

Sr. No.	Name of the Stock Exchange
	(Permanently Recognised)
1	Bombay Stock Exchange (BSE)
2	National Stock Exchange of India Ltd. (NSE)
3	Calcutta Stock Exchange Ltd.
4	Indian Commodity Exchange Limited (ICEX)
5	Metropolitan Stock Exchange of India Ltd.
6	Multi Commodity Exchange of India Ltd. (MCX)
7	National Commodity and Derivatives Exchange Ltd.

Source: SEBI

The Trading procedure on a stock exchange has been explained as follows:

1) **Broker:** A broker in the stock exchange is a licensed individual or firm that acts as an intermediary between investors and the stock market. Brokers facilitate the buying and selling of securities such as stocks, bonds and derivatives on behalf of clients in exchange for a commission or fee. They play a crucial role in ensuring the smooth functioning of capital markets by connecting buyers and sellers, executing orders efficiently and providing liquidity to the market.

To operate legally, brokers must be registered with regulatory bodies such as the Securities and Exchange Board of India (SEBI) and must also be a member of a recognized stock exchange like BSE or NSE. There are different types of brokers including full-service brokers who offer investment advice and research and discount brokers who provide low-cost trading platforms without advisory services.

In addition to executing trades, brokers often provide valuable services such as portfolio management, margin trading facilities and market analysis. They also ensure compliance with trading regulations and maintain records of all transactions for client reference. In today's digital era, many brokers operate through online platforms by offering real-time market access, transparency and convenience to investors. Overall, brokers are vital for retail and institutional participation in the stock market.

2) **Demat Account:** A dematerialized account which is commonly known as a demat account is an essential financial account opened by an Indian citizen through a depository participant. A depository participant is an intermediary, usually a bank or a stockbroker which is authorized to facilitate the trading and holding of securities in electronic form. The purpose of a demat account is to hold shares and securities electronically, thereby eliminating the need for physical certificates, which can be lost, damaged or forged. This transition from physical to electronic form has made trading safer, faster and more efficient.

In the Indian securities market, there are two major depository institutions responsible for managing and safeguarding demat accounts:

- National Securities Depository Limited (NSDL) and
- Central Depository Services Limited (CDSL).

These depositories maintain a secure electronic database of investors' holdings by ensuring accurate and up-to-date records. When an investor opens a demat account, it is actually maintained by one of these depositories but accessed through the depository participant. The depository participant acts as a bridge between the investor and the depository. They handle account opening, transactions and communication, while complying with the guidelines and regulations set by the Securities and Exchange Board of India (SEBI), the regulatory authority overseeing the securities market.

Investors do not interact directly with the depository; instead, all communication and transaction-related activities are conducted through the depository participant. This participant also provides regular statements to the investor by showing the current status and details of their holdings including any purchases, sales or transfers of securities. Overall, the demat account system has revolutionized the way securities are traded and held in India by offering a secure, transparent and efficient platform for investors to manage their portfolios electronically.

3) **Order Placement:** Once the demat account is opened, the investor can place the order for buying the securities. The investor may give the order to broker either personally or through the phone or e-mail. The investor should give the order for buying the securities very clearly by specifying the number of securities with their price.
4) **Executing the Order:** After receiving the order form the investor, the broker buys the securities as per the specifications. A contract note is prepared by the broker for the order that is signed by the broker. This note contains the name and price of the securities, the amount of brokerage and the names of the parties. This contract note serves the purpose of a proof of the investment for the investor.
5) **Settlement of Transactions:** This process includes the transfer of the securities from the demat account of the seller to the demat account of the buyer. This settlement can be done in the following two ways:
   1) **On the Spot Settlement:** In this settlement, the transaction is completed immediately after the selling or buying process. It is called the 'T+2 Rolling Settlement.' Under this settlement, the transaction taking place on Monday will be settled by Wednesday**.**
   2) **Forward Settlement:** Under this process, the settlement is done on some future date. This settlement can be T+5 or T+7, etc. The time for making all types of trading has been fixed between 9.15 a.m. to 3.30 p.m. The stock exchange is opened form Monday to Friday.

The following role is played by the stock exchange for the corporate business:

- **Investors' Liquidity:** The stock exchange provides the cash to the investors, which is required by them for day-to-day operations. The investor can convert his securities into cash at the stock exchange whenever he requires.
- **Marketing Process:** The stock exchange provides a well-defined market place for trading the securities to the investors. They can buy and sell their every type of securities at the stock exchange without wasting their time and money.
- **Price Determination:** A number of buyers and sellers of the securities meet each other at stock exchange, which increases the competition in the market. This competition helps in the determination of the prices of the securities.
- **Security of Transactions:** All the transactions at the stock exchange are performed through the authorized members. These members have to follow the rules and regulations strictly, otherwise they may face strict penalty. These members act as per the guidelines of SEBI. Along with this all the transactions are done through the demat accounts which are certified accounts of the depositories. Hence, the transactions, which take place at the stock exchange, are secure and safe.
- **Supply of Information:** Stock exchange provides the every information about the securities of the companies. This information is published for the free access of the investors. The investor can avail every type of information form the stock exchange regarding the securities for the investment purpose.

- **Dealing with Speculation:** The speculation refers to the purchasing of securities for getting the profit. The stock exchange allows the speculation to the investors as per the provisions.
- **Helpful in Economic Development:** The securities trading increase the investment in the market. The market promotes the mobility of savings in the form of this investment. The money invested in the securities goes to the corporate sector that again invests this money into industrial sector. The industrial growth is directly related to the economic development.

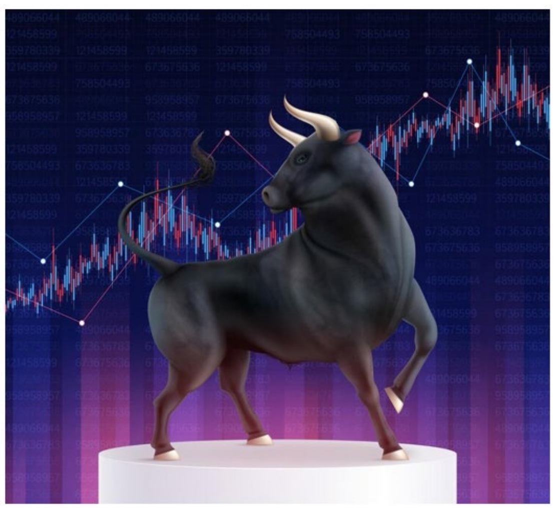
4. OVERVIEW OF THE FUNCTIONING OF SENSEX

The index for measuring the rise and fall in the prices of the securities at the Bombay Stock Exchange (BSE) is called the **Sensex.** The Sensex is used as the base for the trading of the securities at BSE. The rise in the Sensex is the indication of the rise in the market value of the securities, which is directly linked with the wealth of the company. Following is the index of SENSEX which is operated by S&P and the five most traded scrips namely HDFC Bank, Reliance, ICICI, Infosys and ITC:

Year	Points	Year	Points
2002	3,262	January 1, 2021	47,980.36
2004	5,839	November 22, 2023	66,023.24
2014	21,171	December 22, 2023	71,106.96

Source: The Sunday Tribune, Spectrum: Making Sense of SENSEX, Page-6, Dated: 24/12/2023, Chandigarh.

SENSEX is the main stock market index in India. It is also known as the “BSE30” which is a major stock market index which tracks the performance of 30 major companies listed on the Bombay Stock Exchange. The companies are chosen based on the liquidity, trading volume and industry representation. The SENSEX, is a free-float market capitalization-weighted index. The Index has a base value of 100 as of 1978-79.



Sensex is tracked by the “Trading on a Contract for Difference (CFD)”. According to this organization, this index has decreased 817 points or 1.13% since the beginning of 2024. Historically, the SENSEX Stock Market Index reached an all-time high of 73427.59 in January of 2024.

5. CONCLUSION

Stock exchanges play a vital role in India’s securities market. Investors cannot envision trading securities without these institutions as they provide the essential platform for facilitating transactions. Today, the stock market primarily attracts younger generations particularly those with disposable incomes and a higher risk appetite. However, the average Indian is facing a 6% inflation rate and rising costs in healthcare, education and transportation which often has limited savings to invest. Despite this, India's stock market has shown remarkable resilience and growth. It has become the fourth-largest in the world after the U.S., China and Japan as both domestic and foreign investors have placed their bets on India's strong economic potential. The Sensex being the country's benchmark index plays a significant role in reflecting the market's performance. While inherently sensitive to economic and political factors its consistent upward trend signals confidence in India's economic stability. Based on key factors like liquidity, trading volume and industry representation the Sensex provides investors with a reliable path for making informed and valuable investment decisions.

CONFLICT OF INTERESTS

None.

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