

Progress of Dematerialization of Securites in Depository System

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Abstract - Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited in the investor's account with his DP. Dematerialization is the foundation of concurrent changes in the capital market in India. The new face of emerging world economy has made it mandatory for each and every national economy to make it updated in terms of capital market. This study covers the contribution of the depository mode in the promotion of scrip less trading in securities through dematerialization of securities in India and the contribution the depository system has made in helping to remove the inherent weaknesses in the traditional system like loss/theft of certificates, forged/fake certificates, cumbersome and time consuming procedure for transfer of shares, etc. The study is to analyze the performance of NSDL and CDSL for the period of 20 years since March 1997 – March 2016. On the basis of results, it is concluded that number of beneficiary accounts, number of companies available for demat, depository participants growth, number of depository participants service centers, quantity of demat shares/securities and demat value of securities.

Keywords - National Securities Depository Limited (NSDL), Central Depository Services Limited (CDSL), Dematerialization, Depository, Depository Participants (DPs), Beneficiary Investor Accounts, Demat Value.

I. INTRODUCTION

Dematerialisation is the process by which the certificates of an investor available in physical form are converted to an equivalent number of securities in electronic form and credited in the investor's account with his DP. The securities are held by the depository in a physical form in its own vaults, but the transfer of securities takes place; through book entries. Depository system is concerned with conversion of securities, from physical to electronic form, settlements of trades in electronic segment transfer of ownership of shares and electronic custody of securities. All securities to the depositories are identical in all respects and one thus fungible. A depository interfaces with its investors through its agents called Depository Participants (DPs).

Depository in India is a relatively new concept as it was introduced in 1996 with the enactment of Depositories Act, 1996. The term depository means a place where something is deposited for safe keeping; a bank in which funds or securities are deposited by others, usually under the terms of specific depository agreement. Depository means one who receives a deposit of money, securities, instruments, or other property, a person to whom something is entrusted, a trustee, a person or group entrusted, with the preservation of safe keeping of something. The depository is an organization where the securities of a shareholder are held in the form of electronic

accounts, in the same way as a bank holds money. The depository holds electronic custody of securities and also arranges for transfer of ownership of securities on the settlement dates. A depository transfers securities without physically handling securities, the way a bank transfers funds without actually handling money. This system is known as 'scripless trading system'. The Depositories Act, 1996 defines a depository to mean "A Company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-section (1A) of section 12 of the Securities and Exchanges Board of India Act, 1992".

Global economic outlook remains uncertain due to lack of growth impulses in major advanced economies, especially in the USA. While USA, Europe and Japan are undergoing a period of difficulty, emerging markets like China, India, Brazil and Korea, have shown faster and stronger recoveries as compared to global trends. India's external position remains strong with rising foreign exchange reserves. The current account surplus reflects both strength in goods and services exports and buoyant net transfers, providing an opportunity towards further relaxation of capital controls.

The macroeconomic environment improved during the year 2015-16 with a positive outlook on both, domestic and external fronts. Emerging markets in Asia are staging a recovery. Both India and China are expected to record large expansion in output. While uncertainties in the world economy

have persisted for some time now, the Indian economy in the recent times has not only showed considerable resilience to shocks but also demonstrated good economic performance on the domestic and external fronts.

Securities Market : In the equity market, major structural reforms included introduction of rolling settlements on a T + 2 basis w.e.f. April 1, 2003, initiative towards Straight Through Processing (STP) and introduction of equity derivatives. On the bond market, recent reforms were settlement of corporate bonds in demat form, controlling of settlement risk, in the telephone market by setting up Clearing Corporation of India Ltd. (CCIL) and initiating a new transparent screen based market for trading in Government of India bonds from January 16, 2003.

Analysis of the working of the Depositories: It is indispensable for an institution to fulfill the objectives for which it is born. NSDL and CDSL have made huge progress in making available demat facility in almost every corner of the country through their depository participants spread all over the country and have made scripless trading possible. Over the years, NSDL and CDSL have widened their perspectives seeing opportunities to improve their competencies in the changed scenario and helped the stock market immensely. This is the operational aspect.

To make a gap between its income and expenditure is an important feature for the survival of an organization, which results in self generation of funds as a result of operation its is engaged in. To carry on the main activity, an organization needs funds. How the funds are mobilized and how they are applied is the main concern of an organization. The proper mix of the funds results in better profitability. Profitability is though one of the main concerns of a company, it is not the only concern. The more important is the safety of funds mobilized from various sources. This is the investment pattern aspect, the object of which is to analyse the balance between mobilization and application of funds resulting in desired profitability with desired element of risk.

Scope, Relevance and Period of the Study:

Dematerialization is the foundation of concurrent changes in the capital market in India. The new face of emerging world economy has made it mandatory for each and every national economy to make it updated in terms of capital market. Therefore, Dematerialization is not a matter of choice but a matter of compulsion. This study covers the contribution of the depository mode in the promotion of scrip less trading in securities through dematerialization of securities in India and the contribution the depository system has made in helping to remove the inherent weaknesses in the traditional system like loss/theft of certificates, forged/fake certificates, cumbersome and time consuming procedure for transfer of shares, etc. The

study has covered the period of 20 years since March 1997 – March 2016.

Objectives of the Study:

- to evaluate the performance of depositories in India;
- to observe the working of depositories in India;
- to know the Progress of dematerialization of securities in depository system

II. Research Design and Methodology

(i) Research Design:

Research design of the study is analytical.

(ii) Methodology:

The basis of present analysis is the comparison of data on yearly (financial Year) basis.

Data Collection and Analysis: The study is based upon secondary data collected from various websites i.e. NSDL, CDSL, SEBI and Official publications, annual reports of NSDL and CDSL, brochures of depository participants and research papers/articles published in journals/magazines/newspapers for a period of 20 years i.e. from March 1997- March 2016.

Depository System in India: India has adopted the Depository System for securities trading in which book entry is done electronically and no paper is involved. The physical form of securities is extinguished and shares or securities are held in an electronic form. Before the introduction of the depository system through the Depository Act, 1996, the process of sale, purchase and transfer of securities was a huge problem, and there was no safety at all. There are two depositories in India, namely: National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

The table given below depicts the number of DPs and their locations form 1996-97 to 2015-16:

Table – 1 Table showing No. of DPs of NSDL and Locations at the end of the years from 1996-97 to 2015-16

Year	No. of Depository Participants (DPs)	No. of Locations of DPs
1996-97	24	24
1997-98	49	200
1998-99	84	750
1999-00	124	1425
2000-01	186	1896
2001-02	212	1648
2002-03	213	1718
2003-04	214	1719
2004-05	216	2819
2005-06	223	3017
2006-07	240	5599
2007-08	251	7204
2008-09	275	8777
2009-10	286	11170
2010-11	293	12767

2011-12	283	14033
2012-13	282	14641
2013-14	278	14444
2014-15	273	15960
2015-16	272	26765

Source: Annual Reports of NSDL and NEST Update published monthly by NSDL.

It is seen that the number of depository participants of NSDL has gone up from 24 in 1996-97 to 293 in 2010-11 and 272 in 2015-16 and number of depository service center (locations covered) from 24 to 26765 during the same period. The main objective of a depository is to popularise the demat system and provide the facility at each and every corner of the country. At the end of the period there are 272 depository participants with locations covered numbering 26765. It is well know that the DP has its own branches spread over the country. It means that towards the end of the period of study i.e. during 2015-16 one DP had on an average 99 branches in its fold. Now almost all the important towns and cities have a branch of at least one DP covering about two third area having pin codes. Thus it is inferred that during the period of twenty years of its functioning, NSDL has been successful in extending and expending its dematerialisation facility in the widest possible area of the country.

The following table postulates number of investor accounts with NSDL at the end of the years 1996-97 to 2015-16:

Table – 2 Table showing Number of Investor Accounts with yearly Increase from 1996-97 to 2015-16

Year	No. of Client Accounts (in lacs)	Yearly Increase (in lacs)	Percentage Increase
1996-97	0.019	-	-
1997-98	0.11	0.091	478.95
1998-99	4.35	4.24	3854.55
1999-00	23.22	18.87	433.79
2000-01	34.21	10.99	47.33
2001-02	37.18	2.97	8.68
2002-03	37.95	0.77	2.07
2003-04	52.03	14.08	37.10
2004-05	63.01	10.98	21.10
2005-06	75.60	12.59	19.98
2006-07	79.03	3.43	4.54
2007-08	93.72	14.69	18.59
2008-09	96.86	3.14	3.35
2009-10	105.85	8.99	9.28
2010-11	115.44	9.59	9.06
2011-12	120.48	5.04	4.37
2012-13	126.88	6.40	5.31
2013-14	130.57	3.69	2.91
2014-15	137.08	6.51	4.99
2015-16	145.66	8.58	6.26

Source: Annual Reports and Monthly Nest Update of NSDL.

Number of clients availing demat facility has inflated tremendously from negligible figure of 1900 in 1996-97 to

145.66 lac in 2015-16. During the years 2001-02 and 2002-03 the number of clients remained almost stagnant. But during 2003-04 the number of client accounts recorded a sudden jump in the opening of accounts due to substantial rise in the prices of shares, as a result of which the number of clients increased by 14.08 lac from 37.95 lac in 2002-03 to 52.03 lac in 2003-04 and by 10.98 lac to 63.01 lac in 2004-05, by 12.59 lac to 75.60 lac in 2005-06, by 14.69 lac to 93.72 lac in 2007-08, by 9.59 lac to 115.44 lac in 2010-11, by 6.40 lac to 126.88 lac in 2012-13 and by 8.58 lac to 145.66 lac in 2015-16. In absolute terms the highest increase of 18.87 lac was achieved in 1999-00, followed by 2007-08 with 14.69 lac, 2003-04 with 14.08 lac, 2005-06 with 12.59 lac, 2000-01 with 10.99 lac, 2004-05 with 10.98 lac, 2010-11 with 9.59 lac, 2009-10 with 8.99 lac, 2015-16 with 8.58 lac and so on. Thus it may be concluded that with the familiarisation and compulsorisation of the demat system; the number of clients has recorded tremendous increase over the entire period of study.

The forthcoming table throws light on the number of companies, demat quantity and its value from 1996-97 to 2015-16:

Table – 3 Table showing No. of Companies Operational, Demat Quantity and Demat Value through NSDL from 1996-97 to 2015-16

Year	No. of Companies Operational	Demat Quantity (in crores)	Demat Value (in crores)
1996-97	23	22	501
1997-98	171	176	22668
1998-99	365	711	114300
1999-00	821	1550	461385
2000-01	2786	3721	326184
2001-02	4172	5167	442580
2002-03	4761	6876	551304
2003-04	5212	8369	966153
2004-05	5536	12866	1447663
2005-06	6022	17472	2478941
2006-07	6483	20270	3142645
2007-08	7354	23690	4376953
2008-09	7801	28287	3106624
2009-10	8124	35114	5617842
2010-11	8842	47130	6607869
2011-12	9741	57980	7132300
2012-13	10843	68648	7679027
2013-14	12210	79550	8939876
2014-15	13992	92736	11748315
2015-16	15605	110020	11715667

Source: Annual Reports and Nest Update monthly of NSDL.

It is observed from the above figures that 15605 (2015-16) companies were availing the demat facility through NSDL. In the beginning only 23 companies were on the list of NSDL.

This number has consistently increased year after year throughout the period. A smart jump was recorded in the number of companies which increased to 2786 in 2000-01 from 821 in 1999-2000 because of a number of companies were brought under compulsory dematerialization. At the end of the period it has gone up to 15605 (2015-16). Demat quantity of securities went up from Rs.22 crore in 1996-97 to Rs.110020 crore in 2015-16, registering an impressive increase of about 5001 times over the period. The same is the case with the value of dematerialised securities which has increased from Rs.501 crore in 1996-97 to Rs.11715667 crore in 2015-16, registering a robust growth of about 23385 times over the period. Upto March 31, 2016 almost all the companies have come up under compulsory demat category. Thus it is concluded the remarkable progress has been achieved by NSDL in respect of No. of Companies, Demat Quantity and Demat Value during the period from 1996-97 to 2015-16.

The table given below shows the number of DPs of CDSL and their locations from 1999-2000 to 2015-2016:

Table – 4 Table Showing No. of DPs of CDSL and Locations at the end of the years from 1999-2000 to 2015-16

Year	No. of Depository Participants (DPs)	No. of Locations of DPs
1999-00	61	15
2000-01	144	132
2001-02	161	181
2002-03	191	212
2003-04	211	219
2004-05	271	1530
2005-06	315	2577
2006-07	365	4178
2007-08	420	6372
2008-09	468	6934
2009-10	497	8590
2010-11	544	10052
2011-12	567	13516
2012-13	577	12601
2013-14	578	11381
2014-15	574	11877
2015-16	583	16764

Source: Annual Reports of CDSL

It is seen that the number of depository participants of CDSL has gone up from 61 in 1999-2000 to 583 in 2015-16 and number of locations covered (depository service center) from 15 in 1999-2000 to 16764 in 2015-16. At the end of the period there are 583 depository participants with locations covered numbering 16764. It is well known that the DP has its own branches spread over the country. This is as a result of the

direction of the SEBI that DPs must electronically connect their centers/branches and as such facility of branch connectivity is of immense utility and convenience to both the investors and DPs in meeting the guidelines prescribed for faster settlements. Almost all the important towns and cities are covered by CDSL.

Number of client accounts opened with CDSL with yearly increase from 1999-2000 to 2015-16 are encapsulated below:

Table – 5 Table Showing Number of Investor Accounts with yearly Increase from 1999-2000 to 2015-16

Year	No. of Client Accounts	Yearly Increase	Percentage Increase
1999-00	28821	-	-
2000-01	80646	51825	179.82
2001-02	128252	47606	59.03
2002-03	247369	119117	92.88
2003-04	634784	387415	156.61
2004-05	1011397	376613	59.33
2005-06	1861288	849891	84.03
2006-07	2873508	1012220	54.38
2007-08	5480245	2606737	90.72
2008-09	6754840	1274595	23.26
2009-10	8129577	1374737	20.35
2010-11	9444953	1315376	16.18
2011-12	10214904	769951	8.15
2012-13	10967176	752272	7.36
2013-14	11829968	862792	7.87
2014-15	13687397	1857429	15.70
2015-16	14510902	823505	6.02

Source: Annual Reports of CDSL.

The above table shows that the number of client accounts has risen from 28821 at the end of 1999-2000 to 14510902 at the end of 2015-16, showing an increase of over 504 times over the period. The highest absolute yearly increase in the number of clients has been registered in 2007-08, followed by 2014-15, 2009-10, 2010-11, 2008-09, 2006-07, 2013-14, 2005-06, 2015-16, 2011-12, 2012-13, 2003-04, 2004-05, 2002-03, 2000-01, 2001-02 and so on. So far percentage increase is concerned it was highest in 2000-01, followed by 2003-04, 2002-03, 2007-08, 2005-06, 2004-05, 2001-02, 2006-07, 2008-09, 2009-10, 2010-11, 2014-15 and so on. Thus as a result of compulsory dematerialisation the number of clients has recorded tremendous increase over the period.

The following table depicts number of securities admitted, demat quantity and its value through CDSL from 1999-2000 to 2015-2016:

Table – 6 Table Showing Number of Securities Admitted, Demat Quantity and Demat Value through CDSL from 1999-2000 to 2015-16

Year	No.of Securities Admitted	Yearly Absolute Increase (in crores)	Percentage Increase over Previous Year	Demat Quantity (in crores)	Yearly Absolute Increase (in crores)	Percentage Increase over Previous Year	Demat Value (in crores)	Yearly Absolute Increase (in crores)	Percentage Increase over Previous Year
1999-00	828	-	-	56.68	-	-	8188.00	-	-
2000-01	3248	2420	292.27	192.00	135.32	238.74	10905.52	2717.52	33.19
2001-02	5607	2359	72.63	482.00	290.00	151.04	24319.31	13413.79	123.00
2002-03	7283	1676	29.89	821.00	339.00	70.33	36164.00	11844.69	48.70
2003-04	8837	1554	21.34	1401.00	580.00	70.65	106443.00	70279.00	194.33
2004-05	9326	489	5.53	1908.00	507.00	36.19	114775.00	8332.00	7.83
2005-06	10168	842	9.03	2722.00	814.00	42.66	218242.00	103467.00	90.15
2006-07	10454	286	2.81	3125.00	403.00	14.81	293865.00	75623.00	34.65
2007-08	10763	309	2.96	4982.00	1857.00	59.42	596607.00	302742.00	103.02
2008-09	11361	598	5.56	7081.00	2099.00	42.13	459448.00	(137159.00)	(22.99)
2009-10	13444	2083	18.33	7795.00	714.00	10.08	838928.00	379480.00	82.59
2010-11	26961	13517	100.54	10531.00	2736.00	35.10	1081417.00	242489.00	28.90
2011-12	32685	5724	21.23	13357.00	2826.00	26.84	1020569.00	(60848.00)	(5.63)
2012-13	32028	(657)	(2.01)	15179.30	1822.3	13.64	985037.80	(35531.20)	(3.48)
2013-14	32800	772	2.41	17731.10	2551.8	16.81	1087603.20	102565.40	10.41
2014-15	37083	4283	13.06	20601.20	2870.1	16.19	1394263.80	306660.60	28.20
2015-16	39674	2591	6.99	22754.90	2153.7	10.45	1326796.60	(67467.20)	(4.84)

Source: Annual Reports of CDSL.

It is observed from the table that the number of securities admitted with CDSL for dematerialisation has shot up from 828 in 1999-2000 to 39674 in 2015-16 and the demat quantity from 56.68 crore to 22754.90 crore during the same period. On the other hand, the value of demat securities has soared from Rs.8188 crore in 1999-2000 to Rs.1326796.60 crore in 2015-16. In the period of 2008-09, the demat value was gone down Rs.137159.00 crore comparison to Rs.596607.00 crore in 2007-08 and respectively Rs.67467.20 crore in 2015-16 comparison to Rs.1394263.80 crore in 2014-15, Rs.60848.00 crore in 2011-12 comparison to Rs.1081417.00 crore in 2010-11 and Rs.35531.20 crore in 2012-13 comparison to Rs.1020569.00 crore in 2011-12. The tremendous increase in the number of securities, demat quantity and its value (except 2008-09, 2015-16, 2011-12 and 2012-13) has taken place due to the fact that the dematerialisation of securities, specially of the new public issues has been made mandatory by SEBI.

III. CONCLUSION

To sum up, there is a sizable increase in terms of number of depository participants, number of depository participants service centers, number of beneficiary accounts, number of companies available for dematerialization, Quantity of Demat Shares/Securities and Demat Value of Securities. Introduction of depositories had improved the market efficiency through adopting criterion for describing scripts depositories' eligibility. The paper management substantially reduced. This helps in saving in time for allotment and transfers of scripts. This improves internal system effectively. After Dematerialization investors has been increased manifold. Demat trading has brought in transparency in the Indian Capital Market. Depository System ensure quick execution of

transaction and it has almost completely eliminated the problems of traditional script based system in Indian Capital Market, especially bad delivery, delayed transfer of securities, fake signature and Stolen of share certificate. The benefit of the depository system is significant.

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