Comparative Analysis of Stock Broking Firms in India with special reference to BSE & NSE

Dr. Manishkumar N. Varma
Assistant Professor
Department of Management Sciences
Savitribai Phule Pune University

Abstract
A strong financial market with broad participation is essential for a developed economy. With India's growth story unfolding, there is a need to raise resources for companies to fuel the capital needs of the economy and also ensure that the benefits of growth percolate to bottom of the socio-economic pyramid. India's household savings, one of the highest in the world at 30%, can be channelized through equities, bonds and other instruments to achieve greater financial inclusion and improve the financial markets in India. Since the entire structure has a speculative culture, it exposes investors to greater risks and restricts real capital formation. Investors pay a very high cost of transaction, which can definitely a factor for low participation. The equity segment currently accounts for more than 75% of market activity in India. In developed countries, the trend is the reverse, with bonds accounting for more than 80% of trading in some markets. There’s clearly a lack of broad participation. Of a population of over one billion, barely 18 million invest in equity markets. According to Sebi data, 10 cities contributed over 80% of trading volume in 2010. According to 2011 figures only 1.2% of savings was directly invested in stock markets which are very less.

Introduction
A strong financial market with broad participation is essential for a developed economy. With India's growth story unfolding, there is a need to raise resources for companies to fuel the capital needs of the economy and also ensure that the benefits of growth percolate to bottom of the socio-economic pyramid. India's household savings, one of the highest in the world at 30%, can be channelized through equities, bonds and other instruments to achieve greater financial inclusion and improve the financial markets in India. Since the entire structure has a speculative culture, it exposes investors to greater risks and restricts real capital formation. Investors pay a very high cost of transaction, which can definitely a factor for low participation. The equity segment currently accounts for more than 75% of market activity in India. In developed countries, the trend is the reverse, with bonds accounting for more than 80% of trading in some markets. There’s clearly a lack of broad participation. Of a population of over one billion, barely 18 million invest in equity markets. According to Sebi data, 10 cities contributed over 80% of trading volume in 2010. According to 2011 figures only 1.2% of savings was directly invested in stock markets which are very less. In the last 15 years the Indian capital markets have been a huge success story, expanding very rapidly and becoming an engine of economic growth there has been considerable increase in participation in investment options other than savings. Since equity being major part of investments there has been large increase. The increase has happened due to various factors like financial literacy plans by exchanges and major reasons for increase has been the confidence in new government and the economic indicators showing growth ahead.

Objectives
1. To prepare a report that will help investors in making the decision making process easy while opening De-mat Account.
2. To Understand the Need of De-mat Account and Stock Brokers Analysis
3. To Make Comparative Analysis of Stock Brokers in Pune by comparing them on factors like Account Opening Charges, Brokerage charges and Annual Maintenance Charge.

Investment in stock market starts with opening a demat account. There has been large increase in openings of Demat account over last 3 years and as the participation is expected to grow the numbers will rise. The companies (Brokers) which offer demats accounts are also trying to gain customers which all evident from the flooded mails and advertisements of FREE Demat account opening or no maintenance charges. In this scenario where the participation is set to increase it is very complicated for an investor to decide the stock broker for opening an account as almost all brokers offer good deals like low brokerage, low annual maintenance fees, free account opening. The participation has to increase and it will increase if the brokers offer quality services in clients interest. Indian investors are very risk and many people don’t invest later, if they face issues with their stock brokers where the stock brokers cheat the investors and people lose confidence and go away from stock markets naming stock markets as Gamble. Everyday many complaints are registered related to fraud by stock brokers. The common complaints received are as follows:

1. Trading without permission
2. Guaranteed sure winner
3. Excessive trading
4. Insider information
5. Ineptitude or malpractice?
6. Risky investments and misrepresentations
7. Sold too soon
8. Margin problems

However every financial market, no matter how successful, requires an effective regulator to prevent financial mal-practice and maintain investor confidence. In India this role is played by SEBI or the Securities and Exchange Board of India which was established in 1992. SEBI’s core goals are to protect the interests of investors and to promote the development of securities markets through appropriate regulation. One of SEBI’s most important functions is to deal with investor complaints against listed companies and intermediaries like brokers and mutual funds.

This report is aimed at providing investors a comparative analysis of stock brokers which is will contribute towards making the decision making process easy. The report compares 10 major stock brokers in India. The research on the brokers was carried out in Pune, considering the following factors:

1. Demat Account Opening Charges
2. Brokerage Charges
3. Annual Maintenance Charges
4. Type of Broker
5. No. of Branches in India
6. Professionalism
7. Feedback as evident from the visit to their office

A questionnaire survey made to know the current and potential investors preference regarding stock brokers, investment option preference, factors which play important role while selecting the stock broker. The findings are included in the report. We hope this report which is prepared considering investors interest will help them in decision making.

The Bombay Stock Exchange (BSE) and the National Stock Exchange of India Limited (NSE) are the two primary exchanges in India’s and NSE have established themselves as the two leading exchanges and account for about 80% of the equity volume traded in India.
Bombay Stock Exchange (BSE) - Established in 1875, BSE (formerly known as Bombay Stock Exchange Ltd.), is Asia's first & fastest Stock Exchange with the speed of 200 micro seconds and one of India's leading exchange groups. Bombay Stock Exchange is the world's 10th largest stock market by market capitalization at $1.7 trillion as of 23 January 2015 over the past 140 years; BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875. BSE is a corporatized and demutualized entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME).

More than 5500 companies are listed on BSE making it world's No. 1 exchange in terms of listed members. The companies listed on BSE command a total market capitalization of USD 1.68 Trillion as of March 2015. It is also one of the world's leading exchanges (5th largest in March 2015) for Index options trading (Source: World Federation of Exchanges).

National Stock Exchange of India Limited (NSE)
The National Stock Exchange of India Limited (NSE) is the leading stock exchange of India, located in Mumbai. NSE was established in 1992 as the first demutualized electronic exchange in the country. NSE was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered easy trading facility to the investors spread across the length and breadth of the country.

NSE has a market capitalization of more than US$1.65 trillion, making it the world’s 12th-largest stock exchange as of 23 January 2015.\[1\] NSE's flagship index, the Nifty, the 50 stock index, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

NSE was set up by a group of leading Indian financial institutions at the behest of the government of India to bring transparency to the Indian capital market. Based on the recommendations laid out by the government committee, NSE has been established with a diversified shareholding comprising domestic and global investors. The key domestic investors include Life Insurance Corporation of India, State Bank of India, IFCI Limited IDFC Limited and Stock Holding Corporation of India Limited. And the key global investors are Gagil FDI Limited, GS Strategic Investments Limited, SAIF II SE Investments Mauritius Limited, Aranda Investments (Mauritius) Pte Limited and PI Opportunities Fund I.\[2\]

It is the first exchange in India to introduce electronic trading facility thus connecting together the investor base of the entire country. NSE has 2500 VSATs and 3000 leased lines spread over more than 2000 cities across India.

The exchange was incorporated in 1992 as a tax-paying company and was recognized as a stock exchange in 1993 under the Securities, when P. V. NarasimhaRao was the Prime Minister of India and ManmohanSingh was the Finance Minister. The capital market (equities) segment of the NSE commenced operations in November 1994, while operations in the derivatives segment commenced in June 2000.

**BSE Operating Hours**

<table>
<thead>
<tr>
<th>Time Session</th>
<th>Time Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-open Trading Session</td>
<td>09:00 - 09:15</td>
</tr>
<tr>
<td>Trading Session</td>
<td>09:30 - 15:30</td>
</tr>
<tr>
<td>Position Transfer Session</td>
<td>17:05 - 17:15</td>
</tr>
<tr>
<td>Closing Session</td>
<td>17:05 - 17:55</td>
</tr>
<tr>
<td>Option Exercise Session</td>
<td>17:07</td>
</tr>
</tbody>
</table>
NSE normal operating hours are 09:30am and closing hours are 03:30pm. Both exchanges are closed on Saturdays and Sundays and specified holidays. Both the exchanges have switched over from the open outcry trading system to a fully automated computerized mode of trading known as BOLT (BSE On Line Trading) and NEAT (National Exchange Automated Trading) system. The key regulator governing Stock Exchanges, Brokers, Depositories, Depository participants, Mutual Funds, FIIIs and other participants in Indian secondary and primary market is the Securities and Exchange Board of India (SEBI) Limited.

**Securities market**
Securities market is a component of the wider financial market where securities can be bought and sold between subjects of the economy, on the basis of demand and supply. Securities markets encompasses equity markets, bond markets and derivatives markets where prices can be determined and participants both professional and non-professionals can meet. Securities market can be split into two levels:
1. Primary Markets
2. Secondary Market

**Primary Market**
Securities generally have two stages in their lifespan. The first stage is when the company initially issues the security directly from its treasury at a predetermined offering price. This is a primary market offering. It is referred to as the Initial Public Offering (IPO). In Primary market, securities are offered to public for subscription for the purpose of raising capital or fund.

**Secondary Market**
Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

Investing Options Available on Stock Exchanges in India
1. Equities
   - IPO’s
   - Equities
   - Indices
   - Mutual funds
   - Exchange traded funds
   - Security lending and borrowing scheme

2. Derivatives
   - Futures
   - Options
   - Swaps

3. Debt
   - Retail Debt Market
   - Wholesale Debt Market
   - Corporate Debt Market

4. Commodities

Why do you need a broker?
When you decide to invest in any of the following products you have to invest through an intermediary. Many investment options require that you negotiate your trades or buy and sell through a broker. A broker is essentially an intermediary between you and the investing world. Brokers can be organizations and individuals.
Although the primary task of brokers is to act as the intermediary, they can perform other tasks as well, such as:

- **Providing advisory services**: Investors pay brokers a fee for investment advice.
- **Offering limited banking services**: Brokers can offer features such as interest-bearing accounts and check writing.

Brokers make their money through various fees, including the following:

- **Brokerage commissions**: This is a fee for buying and/or selling stocks and other securities.
- **Margin interest charges**: This is interest charged to investors for borrowing against their brokerage account for investment purposes.

## DE-MAT ACCOUNT

**Definition:**
De-mat account is a safe and convenient means of holding securities just like a bank account is for funds. Today, practically 99.9% settlement (of shares) takes place on De-mat mode only. Thus, it is advisable to have a Beneficiary Owner (BO) account to trade at the exchanges.

**Benefits Of De-mat Account:**

1. A safe and convenient way of holding securities. (Equity and debt instruments both).
2. Transactions involving physical securities are costlier than those involving dematerialized securities (just like the transactions through a bank teller are costlier than ATM transactions). Therefore, charges applicable to an investor are lesser for each transaction.
3. Securities can be transferred at an instruction immediately.
4. Increased liquidity, as securities can be sold at any time during the trading hours (between 9:00 AM to 3:30 PM on all working days), and payment can be received in a very short period of time.
5. No stamp duty charges.
6. Risks like forgery, thefts, bad delivery, delays in transfer etc., associated with physical certificates, are eliminated.
7. Pledging of securities in a short period of time.
8. Reduced paper work and transaction cost.
9. Odd-lot shares can also be traded (can be even 1 share).
10. Nomination facility available.
11. Any change in address or bank account details can be electronically intimated to all companies in which investor holds any securities, without having to inform each of them separately.
12. Securities are transferred by the DP itself, so no need to correspond with the companies.
13. Shares arising out of bonus, split, consolidation, merger etc. are automatically credited into the De-mat account of the investor.
14. Shares allotted in public issues are directly credited into De-mat account of the applicants in quick time.

**Need of Demat and trading account**

Now days, practically all trades have to be settled in dematerialized form. Although the market regulator, the Securities and Exchange Board of India (SEBI), has allowed trades of up to 500 shares to be settled in physical form, nobody wants physical shares any more. So account are linked our banks savings account.

**Major Players in Stock Broking Industry**

Sharekhan, ICCI, sbicap securities, Angel broking, religare, Geojit BNP Paribas, HDFC securities, Kotak securities, Karvy, Motilal Oswal, Edeweiss and Anand Rathi

**Opening an account**
If we plan to invest in stocks directly we need to open a Demat account to hold shares in dematerialized form. To open the account, we need to approach a depository participant (DP). The two biggest depositories in India, National Securities Depository Ltd (NSDL) and Central Depository Services Ltd (CDSL) have authorized several DPs to open Demat accounts. According to NSDL website, it has 12.7 million investor accounts.

DPs can either be banks, stock brokers, discounted brokers or online investment platforms. To open a Demat account through any of these channels, you will have to fill an account opening form and a client relationship form. We will have to paste a photograph on the form and sign across it. We may be asked to fill a nomination form. This is optional and is applicable only for individual accounts. For know-your-customer requirements we will have to provide an identity proof which can be our Permanent Account Number (PAN) card, valid passport, voter identity card, driving license, and photo debit/credit card issued by banks, college identity card which will be valid till the applicant is a student, identity card or document issued by a recognized body. For address proof, we can provide voter identity card, utility bills, passport or driving license.

Usually a representative from a DP’s office comes to collect documents. Once we provide the relevant documents and the filled forms, our account gets activated. “If we have provided complete details and documents as required by NSDL, our account will be opened within 3-7 working days. The time taken varies across channels.

Costs Associated with De-mat Account
1. Account Opening Charges
2. Brokerage Charges
3. Annual Maintenance charge (AMC)

Activation and other Charges of firms
Ranking
The ranking scheme adopted here is as follows:
Rank 1 for the Firm offering Lowest Rates(Highest Ranking)
Rank 13 for the firm highest Rates(Lowest Ranking)
These ranking just display comparative analysis of various charges which investors consider important before investing and not doesn’t display that the firms offering low rates are better than those offering high rates. We also assessed firms on Professionalism factor which we believe is most important factor that decides the quality of a firm. We assessed firms on followed Factors:
1. Charges
2. Quality (Professionalism): Customer Service, Politness of the Representative, Awareness of Reprenstative regarding the Investment options, Enthusiasm to gain customers, Follow up.

<table>
<thead>
<tr>
<th>Broker</th>
<th>Account opening charges</th>
<th>AMC</th>
<th>Brokerage (delivery)</th>
<th>Brokerage Intraday</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel broking</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Geojit</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>RKSV</td>
<td>5</td>
<td>4</td>
<td>8</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>SBI securities</td>
<td>6</td>
<td>4</td>
<td>8</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Sharekhan</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>IIFL</td>
<td>12</td>
<td>3</td>
<td>1</td>
<td>6</td>
<td>22</td>
</tr>
<tr>
<td>Edelweiss</td>
<td>13</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>22</td>
</tr>
</tbody>
</table>
Reliance securities  | 9 | 2 | 8 | 6 | 25
Karvy            | 1 | 10 | 8 | 6 | 25
Kotak securities | 8 | 12 | 5 | 3 | 28
Motilal Oswal   | 7 | 9 | 8 | 6 | 30
HDFC securities | 11 | 13 | 8 | 13 | 45
ICICI direct.com | 10 | 11 | 13 | 12 | 46

Professionalism:

<table>
<thead>
<tr>
<th>Broker</th>
<th>Ratings (Out of 5)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel broking</td>
<td>2</td>
<td>Low Brokerage. It was head office of pune that we visited, Low on professionalism, there representative had to ask other person about the account opening information.</td>
</tr>
<tr>
<td>Geojit BNP Paribas</td>
<td>4</td>
<td>Very reputed Firm and very high in professionalism, the representative was polite and kept follow up by calling</td>
</tr>
<tr>
<td>RKSV</td>
<td>3</td>
<td>Professional, good customer service, but they have no office except in Mumbai</td>
</tr>
<tr>
<td>SBI securities</td>
<td>3</td>
<td>Good Customer Service but no follow up</td>
</tr>
<tr>
<td>Sharekhan</td>
<td>4</td>
<td>Polite and Professional Representative gave all the information Invited for Workshop for clients regarding various investment options.</td>
</tr>
<tr>
<td>Edelweiss</td>
<td>4</td>
<td>Polite and Courteous, Best part is there is no AMC.Rs 1900 including maintenance lifetime.</td>
</tr>
<tr>
<td>Reliance securities</td>
<td>3</td>
<td>Professional and Branches are available in all major cities</td>
</tr>
<tr>
<td>Karvy</td>
<td>2</td>
<td>Representative not enthusiastic for customers, just gave information and went, dint even ask for contact number</td>
</tr>
<tr>
<td>Kotak securities</td>
<td>2</td>
<td>No Reception, Representative took 8 minutes to attend kept waiting while attending the call, did not even took the number, in 25000 INITIAL INVESTMENT</td>
</tr>
<tr>
<td>Motilal Oswal</td>
<td>4</td>
<td>Professional, Informative representative, informed about investment options and current market scenario</td>
</tr>
<tr>
<td>ICICI direct.com</td>
<td>4</td>
<td>Representative was Polite and informed about investment options and kept regular follow up.</td>
</tr>
</tbody>
</table>

Observation:
Angel Broking offers lowest rates, whereas ICICI direct offers highest rates but the rates are not the only thing that affects decision making. We believe quality customer service and professionalism and the firm that keeps clients interests above personal interests are the one investors will prefer. In Professionalism factor we found out Sharekhan, Motilal Oswal, ICICI Direct and Geojit BNP Paribas are the firms that are rated high on professionalism. In the Further part of this report we have tried to understand investor’s preference about the stock brokers by considering factors and find relation between our findings and investor’s preference.
Data Analysis

Primary Data collection
- Structured questionnaire for Current and Potential Investors.
- Visit to Stock Brokers office in Pune

Secondary Data Collection
- Websites
- News papers

Techniques used in Research Approach
- Questionnaire Survey
  The following questionnaire was prepared and shared in Google forms and is available at [https://docs.google.com/forms/d/1xrryWu9f-ps5PSRvoN2H7TtNGwZ9MICBS-IUPERfv48/viewanalytics?usp=form_confirm](https://docs.google.com/forms/d/1xrryWu9f-ps5PSRvoN2H7TtNGwZ9MICBS-IUPERfv48/viewanalytics?usp=form_confirm)

- The purpose of questionnaire was to know the preference of current and potential investors regarding Mode of Trading, Products, Stock Brokers and importance of factors that investors consider before opening a Demat account.

Data Findings:

Total Sample Size: 103

**Do you invest in stock markets?**

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>37</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>35.9%</td>
<td>64.1%</td>
</tr>
</tbody>
</table>

**If No, would you invest in stock markets?**

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>76.9%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>
Which mode of trading would you prefer?

- Online [88] (94.6%)
- Offline [5] (5.4%)

Which type of product do you invest in?

- Mutual fund [50] (54.3%)
- Equity [44] (47.8%)
- Commodity [11] (12%)
- Insurance [8] (8.7%)
- Other [1] (1.1%)

Which of the following factors do you consider before buying/selling a stock?

- Broker's analysis [32] (34.8%)
- Business news channels [33] (35.9%)
- Business newspapers [21] (22.6%)
- Self Analysis [53] (57.6%)
- Speculations [15] (16.3%)
- Stocks suggested by experts [51] (55.4%)

If you trade or would trade in future, which broking firm you would prefer?

- ICICI Direct [19] (20.4%)
- Angel Broking [10] (10.8%)
- Share Khan [17] (18.3%)
- Religare [4] (4.3%)
- Motilal Oswal [19] (20.4%)
- Geojit BNP Paribas [8] (8.6%)
- Kotak Securities [12] (12.9%)
- Other [4] (4.3%)
Factors influencing in choosing a broking firm

Low brokerage: [How important do you think these factors influence in choosing a broking firm?]

1. Not very important: 11 (13.6%)
2. Important: 32 (39.5%)
3. Extremely important: 38 (46.9%)

Better customer service: [How important do you think these factors influence in choosing a broking firm?]

1. Not very important: 8 (9.3%)
2. Important: 35 (40.7%)
3. Extremely important: 43 (50.0%)

Brand loyalty: [How important do you think these factors influence in choosing a broking firm?]

1. Not very important: 22 (26.8%)
2. Important: 44 (53.7%)
3. Extremely important: 16 (19.5%)

Margin Money: [How important do you think these factors influence in choosing a broking firm?]

1. Not very important: 7 (8.5%)
2. Important: 49 (59.8%)
3. Extremely important: 26 (31.7%)
Findings

- According to the data that have been collected only 36% people invested in stock market and from those not investing 77% people were interested in investing.
- Survey shows that the nearly 95% people prefer the online trading rather than that of offline trading through broker.
- Equities and Mutual funds continue to be the most preferred products of investment but mutual funds were most prefer amongst the two products which is accordance to current trends with mutual funds offering returns at low risk.
- Most people preferred self-analysis of the stock before investing rather than following speculation and many people also considered stocks suggested by experts.
- ICICI Direct, Motilal Oswal and Sharekhan are amongst top 3 preference for stock brokers.
- Friends and Internet are the most preferred mode for awareness of the broking firms and share trading.
- Better customer service and Good Trading tips were extremely important factors.
- Low brokerage, Timely Research Report, Margin Money were Important Factors and Friends Recommendations was least important factor.

The findings in the report shows that better customer care and good trading tips are the factors that people consider extremely important before investing. The investors' preference in survey matches the ranking of stock brokers in pune which we visited in pune. We suggest Investors to consider following Stock Brokers as compared to other brokers: Sharekhan, Motilal Oswal and ICICI Direct and Geojit BNP Paribas as it is evident these brokers stand for good quality. We hope the following reports will be helpful to investors while choosing the Stock Brokers.

References

1. Internet Referrals:
2. www.nse-india.com/
3. www.sharekhan.com
4. www.icicidirect.com
   http://www.indiansharebroker.com/