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INDIAN CAPITAL MARKET: THE SOCIOLOGICAL PROGRESS AND CHALLENGES

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Abstract

Capital markets help to channelize surplus funds into productive use. Generally, this market trades mostly in long term securities. The important divisions of the capital market are stock market, bond market and primary, secondary markets. Primary markets deal with the trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. The present study tries to study the trends in capital market in India. The capital market in emerging economies like India has exhibited a strong growth momentum, driven by a robust economic demand, consumption and savings rate. This research article to be critically analyzed about the opportunities and Development of growth of Indian Capital Market

Keywords: Corporate Capital market, National Stock Exchange, Classified Capital, Private Participation, Market Support Services, Capital Market Opportunities.

India has a fair share of the world economy and hence the capital markets or the share markets of India form a considerable portion of the world economy. The capital market is vital to the financial system. The capital Markets are of two main types. The Primary markets and the secondary markets. In a primary market, companies, governments or public sector institutions can raise funds through bond issues. Corporations can sell new stock through an initial public offering (IPO) and raise money through that. Thus in the primary market, the party directly buys shares of a company. The process of selling new shares to investors is called underwriting In the Secondary Markets, the stocks, shares, and bonds etc. are bought and sold by the customers. Examples of the secondary capital markets include the stock exchanges like NSE, BSE etc. In these markets, using the technology of the current time, the shares, and bonds etc. are sold and purchased by parties or people

Indian Capital Market plays a crucial and effective role in the economic development of a nation. It provides the financial resources needed for the long term and sustainable development of the different sectors of the economy. The Zone of the activities in the capital market is dependent partly on the savings and investment in the economy and partly on the performance of the industry and the economic in general. During pre-seventies the average Indian investor used to put all his/her savings in bank and unit Trust of India only the rich and the daring invested in the market. Capital market were quite inactive in sixties and seventies and the private corporate



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sector dependent on their retained earnings and loan funds from the government owned financial and investment institutions for their expansion and growth. In the early independent era, the capital market virtually remained passive players in the process of economic development and was unable to mobilize the financial resources of the nation in required volume. It was in the late 1970s that the average Indian thought of risking his money in the stock market. The recent years witnessed significant reforms in the capital market. it is well known that trading platform has become automatic, electronic, anonymous, order driven, nation widened screen based. Uniform settlement cycle of Monday to Friday are on all stock exchanges which was recommended by the SEBI and also inform listing procedures were adopted and coordinated by an all Indian Listing Authority since 2004.

What is Capital Market?

The Indian securities market consists of primary (new issues) as well as secondary (stock) market in both equity and debt. The primary market provides the channel for sale of new securities, while the secondary market deals in trading of securities previously issued. Usually, the issuers of securities will issue (create and sell) new securities in the primary market to raise funds for investment. They do so either through public issues or private placement. There are two major types of issuers who issue securities. The corporate entities issue mainly debt and equity instruments (shares, debentures, etc.), while the governments (central and state governments) issue debt securities (dated securities, treasury bills). The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risk and return. A variant of secondary market is the forward market, where securities are traded for future delivery and payment in the form of futures and options. The futures and options can be on individual stocks or basket of stocks like index. Two exchanges, namely National Stock Exchange (NSE) and the Stock Exchange, Mumbai (BSE) provide trading of derivatives in single stock futures, index futures, single stock options and index options. Derivatives trading commenced in India in June 2000 A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt). Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere. The capital market has two interdependent and inseparable segments the new issue market (primary market) and the stock market (secondary market). The primary markets provide the channel for creation and sale of new securities while the secondary market deals in securities previously issued.

Developments in the Capital Markets

In India, although the Stock Exchanges have been in existence for over 100 years, their role acquired significance in mobilisation of savings and channelisation into productive investment, only in the 70s and the 80s, though the market was subject to Government control and regulations. In nineties, the capital markets, however, have emerged as an important source of capital mobilisation and witnessed considerable growth, following comprehensive set of reforms introduced in this areas as a part of financial sector reforms.



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The extent of growth in capital markets in India can be measured by the fact that as against an amount of about \$ 6 billion equivalent mobilized during the 10 year period up to 1990-91, the amount mobilised during six years between 1991-92 to 1997-98 increased over eleven-fold to around \$ 68 billion. In 2010 the pre-reform period, 75% of incremental financial savings went to banks and approx. 25% to the capital markets. In 2016 the banking sector received 47% of the household savings and the equity market 53%. Thus there has been a marked shift towards capital markets from the traditional banking system.

The secondary market too has grown significantly, and market capitalization on National Stock Exchange (NSE) has increased from \$ 94 billion in November 1994 to \$ 132 billion in April 1998. Net cumulative portfolio investments by FIIs have crossed \$ 9 billion mark. The substantial flow of foreign portfolio investments has made the trade volume on stock exchanges increase considerably. The capital markets have reached these levels thanks to a series of comprehensive reforms measures introduced by the Government since 1991-92. Among the various measures introduced the abolition of office of Controller of Capital Issues together with free pricing of issues by corporates constitute perhaps the most important developments in the capital market in the post-reform era. Another landmark was the establishment of Securities and Exchange Board of India (SEBI) with statutory functions and powers to bring about a healthy and orderly growth of the capital market. SEBI has truly transformed the capital markets through a series of well designed and well sequenced reforms measures introduced over the last few years covering both the primary and secondary markets.

Development of Debt Market

Let us now look at the developments in debt markets in India. In the pre-reform period the Government securities market remained almost dormant with borrowing at pre announced rates, targeting a captive group of investors. This, coupled with automatic monetisation of budget deficit prevented a deep and vibrant Government securities market from emerging. Since 1992, Central Government borrowings have been undertaken at market related rates, primarily through auctions of Government securities of different maturities. RBI introduced innovative instruments like, conversion of Treasury Bills into term security and zero Coupon Bonds. RBI has also announced a Capital Indexed Bond as a hedge against inflation. A 14 day Intermediate Treasury Bills was introduced to enable State Governments, foreign central banks and other specified bodies to invest their temporary surplus funds.

The other segments of the primary debt market is PSU debt market and corporate debt comprising industry, financial institutions, banks and finance companies. In the post-reform era, the primary debt market is dominated by FIs & PSUs. The corporate sector has accessed it only to a limited extent. This segment has considerable prospects for growth.

In order to deepen the secondary debt market in Government securities, the system of primary dealers (PDs) was introduced, and later, with a view to broadening the market with a second tier of dealer system, guidelines for Satellite Dealers (SDs) were issued. To further deepen the Government Securities market, a scheme of liquidity support to mutual funds dedicated exclusively to investments in Government securities was evolved. This has led to substantial growth in secondary market trading in Government securities. However, secondary market for non-Government segments have yet to develop.



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Challenges Facing the Capital Market

At the present market stage system to deal with some of the challenges facing the capital markets in India which need to be adequately addressed to realise the vision of an efficient market system. In the primary equity market, a major challenge currently is the revival of the depressed conditions of the market. The sluggishness of the primary equity market which is continuing for over two years is attributed to various factors including investors apathy which is mainly due to poor performance of a large number of scripts floated with a high premium during 1993-95 following freeing of the pricing. The matter was compounded by irregularities noticed in the pricing of some of the issues which imparted considerable negative influence in the minds of investors. Further, there was a liquidity constraint in the financial system during 2005-2006 and large part of 2006-2007 which led to a spurt in interest rates diverting investors' preference from equity to debt issues in the primary market.

The continued subdued nature of the primary equity market has become an area of major concern today as it is hampering implementation of many industrial projects causing time and cost overruns and thereby affecting the industrial growth of the country.

In the primary equity market a happy development has been the successful issues of several banking industry shares which have received good investor response despite most of the issues being premium issues. This underscores the need for the introducing quality issues by the corporate sector. FIIs like ours are ready to provide underwriting support. What is lacking is the confidence on the part of good corporate entities to test the markets.

I am sure, investors response will be good in case appropriately priced quality corporate issues are launched. The secondary equity market has also remained subdued over the past two years, although it has shown some revival trends, confined to a few select scrips. In a way revival of primary equity market depends crucially on the health of the secondary market. Policy reforms in the secondary market have been quite comprehensive so far as creation of efficient and transparent infrastructure is concerned. As stated earlier, India today has NSE which provides screen based automated and transparent trading. It has set up a clearing corporation to guarantee trades done on NSE.

Post trading facilities have improved considerably with the setting up of National Securities Depository Ltd. Other exchanges have also now computerized their operations, settlement cycles are being rigidly followed. There is also a gradual shift towards demat form of trading. However, Secondary markets have come to be dominated by the FIIs. The recent events in South-East Asia has to some extent affected their sentiments. Though it could be said that barring for a few months, there was always net inflow of FII's investment. What is required is to make the Indian FIIs participate to a much larger extent than they are doing today. UTI and other mutual funds as well as LIC have to be much more active on the secondary markets.

Another major challenge facing Indian capital market is creation of secondary market in debt instruments particularly in corporate debt. The growth of long term corporate debt market is an essential requirement as private corporate sector in India has been assigned a prime role in development of infrastructure and other projects. In India, corporate sector accesses debt mainly by way of term loans from financial institutions. However, with the reforms in capital market, role of securitised assets is likely to acquire considerable importance in future. There is a large agenda for development of corporate debt market in India comparable to international standards.



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There are several issues which merit attention for development of a vibrant debt market. I strongly feel that to activate the long term corporate debt market in India, there is a need for further liberalisation in use of contractual savings like pension, provident fund and insurance, which provide large source of long term funds in the economy. Also, there is an urgent need for market making in corporate debt on the lines of Government securities. A distributive network of brokers and sub-brokers does not exist for debt instruments as it does in the equity segment. As a result, although a part of household savings is channelised into long term debt, it is largely in non-marketable forms. Debt securitisation has also to develop for which changes in the Stamp Act and Contracts Act need to be made.

Another important challenge before Indian capital market is the development of market for derivative products. Developed capital markets have all introduced derivative products in financial markets. In India, this is a new and evolving concept. NSE has taken the lead in spearheading the demand for introduction of futures and options markets. SEBI had set up an Expert Committee on Derivatives under the Chairmanship of Prof.L.C.Gupta which has recommended the introduction of derivatives trading in India. This has been accepted by the SEBI Board a couple of weeks back. The matter is awaiting Government of India's approval for amendment of the Securities Contract Act. NSE has already made the preparatory arrangements for commencing the trading as soon as the approval comes. There is thus every likelihood of derivatives trading starting sooner than later.

The introduction of financial derivatives in the form of traded futures, including equity futures, currency futures and interest rate futures, would be a giant step towards the further development of the Indian financial markets.

What Need to be Done?

Prior to globalisation of Indian economy, the stock markets were somewhat insulated from international influence. This is not the case any more. The recent S.E. Asian crisis has shown that due to high degree of integration or linkage among financial markets, the crisis can be quickly transmitted to other financial markets. India came out rather unscathed and did not experience the trauma faced by other countries. Partly it was due to the fact that full CAC has not been adopted and partly Indian Regulatory mechanism turned out to be far more effective than in other countries. In an integrated global economy, It is need to be imperative to take steps to regulate the markets effectively so as to retain investor confidence in a country's economy and particularly the stock market.

The capital markets here have come to play a crucial role in the financial intermediation process and have rightly been regarded as an important barometer of the impact of the reform process. Any discussion on the process of integration of the Indian economy with the world economy must perforce assess the role and ability of the capital markets in encouraging this process.

Conclusions:

The reforms in the economic system has imparted a new dimension to capital markets in India. While liberalisation in capital market has resulted in many improvements in functioning of the stock markets, there are several aspects which still merit attention so that capital market can play a meaningful role in industrial &



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economic development. The sluggish trends in primary equity market needs to be reversed by restoring investors' confidence in the market. Secondary market trading needs to be broad based and various intermediaries, both in primary and secondary market should be strengthened to conform to international standards. Development of long term debt market, particularly, corporate debt market is an essential pre-requisite particularly for financing of infrastructure and other industrial projects. Regulatory and other aspects need to be looked into. Also, Indian capital market should mature to introduce derivative products for risk management in capital market. The recent South East Asian crisis needs to be carefully studied. A market oriented system with appropriate regulation leads to growth with stability, otherwise there may be shocks both external and internal which might destabilise the economy.

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