International Journal of Technology, Management & Humanities (IJTMH)

www.ijtmh.com
ISSN (e) : 2454—566X

Volume - 2, Issue - 2
September - 2016

International Journal of Technology, Management and Humanities (IJTMH) refereed e-journal form in English.
International Journal of Technology, Management and Humanity is published on Quarterly basis with the aim to provide an appropriate platform presenting well considered, meaningful, constructively thought provoking and non-controversial but critically analyzing and synthesizing present and future aspects of Technical & scientific Education System with particular reference to the world.
The following types of article will be considered types of article will be considered

1. Research Articles: Original research in different fields of Science, Engineering and Management, Humanities will be evaluated as research articles.
2. Research Notes: These include articles such as manuscripts.
3. Reviews: Reviews of recent improvements, discoveries, developments, and thoughts in various fields of Science, management, and Engineering will be considered.
4. Frequency: FOUR issues in a year.

Indexing

JadounScience http://www.jadounscience.com

International Society of Universal Research in Sciences
INDEX COPERNICUS INTERNATIONAL
DOAJ DIRECTORY OF OPEN ACCESS JOURNALS
Google Scholar
CABELL PUBLISHING, INC. Directories of Academic Journals
EBSCO HOST
Electronic Journals Service

IJTMH

Contact Us
E-mail
submission@ijtmh.co
submissionijtmh@gmail.com
editor@ijtmh.com
editorijtmh@gmail.com

International Journal of Technology, Management & Humanities (IJTMH)

e-ISSN : 2454-566X
Volume 2, Issue – 1
June 2016

International Journal of Technology Management & Humanities (IJTMH)
e-ISSN: 2454 – 566X, Volume 2, Issue 2, (September 2016), www.ijtmh.com

Indian Capital Market
&
It's Development in Financial Market Reforms

Author

Ashish Kumar[1], Sabahat Fatima[2]

[1,2]*(Research Scholar/ Department of Management/NIILM University, Hariyana)*

Abstract

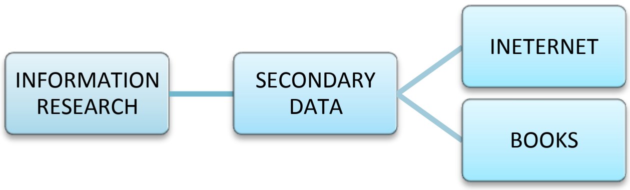
The purpose of this paper is to provide depth information on the Indian Capital Market. Various factors contributing to the growth of the capital market in India and the various products available in the market to the market participants including the FII'S and providing knowledge of the functioning of the capital market. The objective of this study is to show the present status of Indian Capital Market and how it is gaining world wide acceptance. In the age of stiff competition gaining its momentum to the world financial markets in the race of highly regulated markets around the globe.
In last decade or so, it has been observed that there has been a paradigm shift in Indian capital market. The applications of technology in the payment and settlement systems have made the Indian capital market comparable with the international capital markets. Now, the market features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization, market liquidity, and mobilisation of resources.
However, the market has witnessed its worst time with the recent global financial crisis that originated from the US sub-prime mortgage market and spread over to the entire world as a contagion. The capital market of India delivered a sluggish performance. In this context, it is imperative to conduct empirical analysis to study the performance of Indian capital market. It is with this backdrop, this paper is an attempt to analyze the key market parameters such as market size, market liquidity, market turnover ratio, market volatility, and market efficiency of Indian capital market

Key Words : *Capital, SEBI, Capital Market, Market Reform*

1. Introduction

Capital Market is generally understood as the market for long term funds. It provides long term debt and equity finance for the government and the corporate sector. It is a best performing markets in the world since last few years. It facilitates the transfer of capital i.e. financial assets from one owner to another.
Capital Markets are mainly leaded by two major Indian exchanges BSE and NSE which 16th & 17th rank among all the exchanges around the world in terms of market capitalization. In terms of risk and returns the Indian those in industrialized nations. Due to such strong stock exchanges there is a strong economic growth and a large inflow of foreign institutional investors (FIIs) was developed truly great explosive growth rising over 3 times during last 5 years.

2. Research Methodology



3. What is Capital Market?

Capital markets are like any other markets, but differ in terms of the products traded and their organization. Capital markets deal with the trading of securities. Capital markets provide avenue where companies can raise funds to expand on their businesses or establish new ones by issuing securities owned by the companies. Like businesses in the private sector, Government issue its securities to raise funds in capital markets to build electricity damn, construct new roads, bridges by issues.

It is an organized market mechanism for effective and efficient transfer of money capital or financial resources from the investing class i.e. from (individual or institutional savers) to the entrepreneur class (individual engaged in business or services) in the private or public sectors of the economy.

In a broader sense, According to ***Goldsmith*** "The capital market of a modern economy has two basic functions first the allocation of savings among users and investment; second the facilitation of the transfer of existing assets, tangible and intangible among individual economic units".

Capital Market is generally understood as the market for long term funds. It provides long term debt and equity finance for the government and the corporate sector. It is a best performing markets in the world since last few years. It facilitates the transfer of capital i.e. financial assets from one owner to another.

Capital Markets are mainly leaded by two major Indian exchanges BSE and NSE which 16th & 17th rank among all the exchanges around the world in terms of market capitalization. In terms of risk and returns the Indian those in industrialized nations. Due to such strong stock exchanges there is a strong economic growth and a large inflow of foreign institutional investors (FIIs) was developed truly great explosive growth rising over 3 times during last 5 years.

4. Post-independence Scenario

Most of the exchanges suffered almost a total eclipse during depression. Lahore Exchange was closed during partition of the country and later migrated to Delhi and merged with Delhi Stock Exchange.

Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963. Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only Bombay, Calcutta, Madras, Ahmadabad, Delhi, Hyderabad and Indore, the well established exchanges, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo stock exchanges were refused recognition by the Government of India and they thereupon ceased to function.

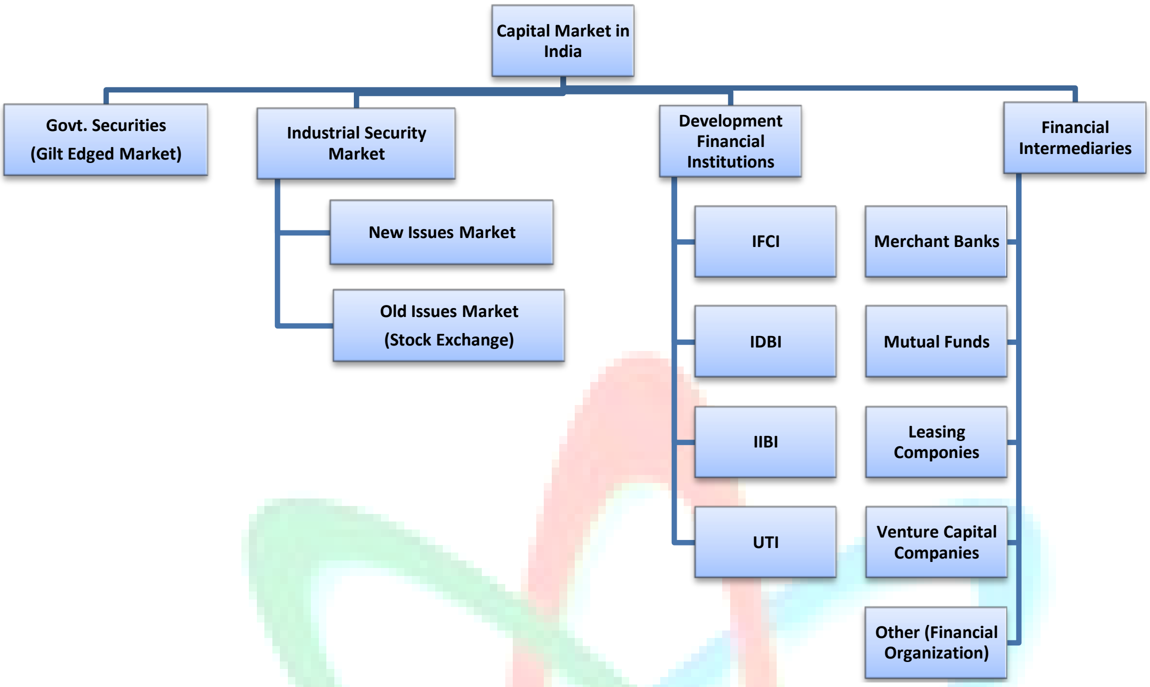
Thus, during early sixties there were eight recognized stock exchanges in India (mentioned above). The number virtually remained unchanged, for nearly two decades. During eighties, however, many stock exchanges were established: Cochin Stock Exchange (1980), Uttar

Pradesh Stock Exchange Association Limited (at Kanpur, 1982), and Pune Stock Exchange Limited (1982), Ludhiana Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadha Stock Exchange Association (at Patna, 1986), Jaipur Stock Exchange Limited (1989), Bhubaneswar Stock Exchange Association Limited (1989), Saurashtra Kutch Stock Exchange Limited (at Rajkot, 1989), Vadodara Stock Exchange Limited (at Baroda, 1990) and recently established exchanges - Coimbatore and Meerut. Thus, at present, there are totally twenty one recognized stock exchanges in India excluding the Over the Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL). The Table given below portrays the overall growth pattern of Indian stock markets since independence. It is quite evident from the Table that Indian stock markets have not only grown just in number of exchanges, but also in number of listed companies and in capital of listed companies. The remarkable growth after 1985 can be clearly seen from the Table, and this was due to the favouring government.

Sr. No.	As on 31st December	1946	1961	1971	1975	1980	1985	1991	1995
1	No. of Stock Exchanges	7	7	8	8	9	14	20	22
2	No. of Listed Cos.	1125	1203	1599	1552	2265	4344	6229	8593
3	No. of Stock Issues of Listed Cos.	1506	2111	2838	3230	3697	6174	8967	11784
4	Capital of Listed Cos. (Cr. Rs.)	270	753	1812	2614	3973	9723	32041	59583
5	Market value of Capital of Listed Cos. (Cr. Rs.)	971	1292	2675	3273	6750	25302	110279	478121
6	Capital per Listed Cos. (4/2) (Lakh Rs.)	24	63	113	168	175	224	514	693
7	Market Value of Capital per Listed Cos. (Lakh Rs.) (5/2)	86	107	167	211	298	582	1770	5564
8	Appreciated value of Capital per Listed Cos. (Lak Rs.)	358	170	148	126	170	260	344	803

5. Structure of Indian Capital Market

Broadly speaking the capital market is classified in to two categories. They are the Primary market (New Issues Market) and the Secondary market (Old (Existing) Issues Market). This classification is done on the basis of the nature of the instrument brought in the market. However on the basis of the types of institutions involved in capital market, it can be classified into various categories such as the Government Securities market or Gilt-edged market, Industrial Securities market, Development Financial Institutions (DFIs) and financial intermediaries. All of these components have specific features to mention. The structure of the Indian capital market has its distinct features. These different segments of the capital market help to develop the institution of capital market in many dimensions.
The primary market helps to raise fresh capital in the market. In the secondary market, the buying and selling (trading) of capital market instruments takes place. The following chart will help us in understanding the organizational structure of the Indian Capital market.



5.1. Government Securities Market

This is also known as the Gilt-edged market. This refers to the market for government and semi-government securities backed by the Reserve Bank of India (RBI). There is no speculation in securities. Huge volume of transaction can take place as because it is obligated under Banking Regulation Act 1949.

5.2. Industrial Securities Market

This is a market for industrial securities i.e. market for shares and debentures of the existing and new corporate firms. Buying and selling of such instruments take place in this market. This market is further classified into two types such as the New Issues Market (Primary) and the Old (Existing) Issues Market (secondary).

In primary market fresh capital is raised by companies by issuing new shares, bonds, units of mutual funds and debentures. However in the secondary market already existing that is old shares and debentures are traded.

This trading takes place through the registered stock exchanges. In India we have three prominent stock exchanges. They are the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and Over the Counter Exchange of India (OTCEI).

5.2.1. Primary market

Primary market provides an opportunity to the issuers of securities, both Government and corporations, to raise funds through issue of securities. The securities may be issued in the domestic or international markets, at face value, or at a discount (i.e. below their face value) or at a premium (i.e. above their face value).

5.2.2. Secondary market

Secondary market refers to a market, where securities that are already issued by the Government or corporations, are traded between buyers and sellers of those securities. The securities traded in the secondary market could be in the nature of equity, debt, derivatives etc.

6. Significance, Role or Function of Capital Market

Capital Market plays a significant role in the national economy. A developed, dynamic and vibrant capital market can immensely contribute for speedy economic growth and development. Let us get acquainted with the important functions and role of the capital market:

6.1. Provide Liquidity for Financial Instrument

Capital markets provide liquidity to the Financial Instruments which are traded in the Secondary Market. It depends on the Mobilization of savings.Capital market is an important source for mobilizing savings from the economy. It mobilizes funds people for further investments in the productive channels of an economy. In that sense it activates the ideal monetary resources and puts them in proper investments.

6.2. Provision of Investment Avenue

Capital market raises resources for longer periods of time. Thus it provides an investment avenue for people who wish to invest resources for long period of time. It provides suitable interest rate return also to investors. Instrument such as bonds, mutual Funds, insurance policies definitely provide a diverse investment avenue for the public.

6.3. Proper regulation of Funds

Capital market not only helps in fund mobilization, but it also help in proper allocation of their resources. It can have regulation over the resources so that it can direct funds in a qualitative manner.

6.4. Continuous availability of Funds

Capital market is the place where the investment avenue is continuously available for long term investment. This is a liquid market as it makes fund available on continues basis. Both buyers and sellers can easily buy and sell securities as they are continuously available.

6.5. Raise capital for Industry

Capital market helps to raise capital for the industrial sector by investing in various securities such as shares, debentures which can easily provide finance to industries.

6.6. Capital Formation

Capital market helps in capital formation. Capital formation is net addition to the existing stock of capital in the economy. Through mobilization of savings it would generate investment in various segments such as agriculture, industry etc. this helps in capital Formation.

6.7. Speed up Economic growth and Development

Capital market provides products and productivity in the national economy. As it makes funds available for a long period of time, the financial requirements of business houses are met by the capital market. Thus increase in production and productivity generates employment and development in infrastructure.

7. Role of Capital Market in India's Industrial Growth

7.1. Mobilization of Savings and Acceleration of Capital Formation

In developing countries like India plagued by paucity of resources and increasing demand for investments by industrial organizations and governments, the importance of the capital market is self evident.

7.2. Promotion of Industrial Growth.

The capital market is a central market through which resources are transferred to the industrial sector of the economy. The existence of such an institution encourages people to invest in productive channels rather than in the unproductive sectors like real estate, bullion etc. Thus it stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.

7.3. Raising Long-Term Capital.

The existence of a stock exchange enables companies to raise permanent capital. The investors cannot commit their funds for a permanent period but companies require funds permanently. The stock exchange resolves this clash of interests by offering an opportunity to investors to buy or sell their securities while permanent capital with the company remains unaffected.

7.4. Ready and Continuous Market.

The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities. The element of easy marketability makes investment in securities more liquid as compared to other assets.

7.5. Proper Channelization of Funds.

An efficient capital market not only creates liquidity through its pricing mechanism but also functions to allocate resources to the most efficient industries. The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company. This ensures effective utilization of funds in the public interest.

7.6. Provision of a Variety of Services

The financial institutions functioning in the capital market provide a variety of services, the more important ones being the following:

7.6.1. Grant of long-term and medium-term loans to entrepreneurs to enable them to establish, expand or modernize business units
7.6.2. Provision of underwriting facilities;
7.6.3. Assistance in the promotion of companies (this function is done by the development banks like the IDBI);
7.6.4. Participation in equity capital;
7.6.5. Expert advice on management of investment in industrial securities.

8. Factors Contributing to the Growth of Capital Market in India

8.1. Establishment of Development Banks and Industrial Financing Institutions

With a view to providing long-term funds to industry, the government set up the Industrial Finance Corporation of India (IFCI) in 1948, i.e., soon after Independence. This was followed by the setting up of a number of other development banks and financial institutions like the Industrial Credit and Investment Corporation of India (ICICI) in 1955, Industrial Development Bank of India (lOBI) in 1964, Industrial Reconstruction Corporation of India (IRCI) in 1971, various State Financial Corporation's (SFCs) at the State level, Unit Trust of India (UTI) in 1964, State Industrial Development Corporations, Life Insurance Corporations of India etc. In addition, 14 major commercial banks were nationalized in 1969.

8.2. Growing Public Confidence

The early post-Liberalizations' phase witnessed increasing interest in the stock markets. The small investor who earlier shied away from the securities market and trusted the traditional modes of investment (deposits in commercial banks and post offices) showed marked preference in favour of shares and debentures. As a result, public issues of most of the good companies were over-subscribed many times.

8.3. Increasing Awareness of Investment Opportunities

The last few years have witnessed increasing awareness of investment opportunities among the general public. Business newspapers and financial journals, (The Economic Times, The Financial Express, Business Line, Business Standard, Business India, Business Today, Business World, Money Outlook etc.) have made the people increasingly aware of new long-term investment opportunities in the securities market.

8.4. Setting Up of SEBI

The Securities and Exchange Board of India (SEBI) was set up in 1988 and was given statutory recognition in 1992. Among other things, the Board has been mandated to create an environment which would facilitate mobilization of adequate resources through the securities market and its efficient allocation.

8.5. Credit Rating Agencies

There are three credit rating agencies operating in India at present CRISIL, ICRA and CARE. CRISIL (the Credit Rating Information Services of India Limited) was set up in 1988, ICRA Ltd. (the Investment Information and Credit Rating Agency of India Limited) was set up in 1991 and CARE (Credit Analysis and Research Limited) was set up in 1993.

9. Conclusion

9.1. The Securities and Exchange Board of India (SEBI) was set up in 1988 and was given statutory recognition in 1992

9.2. The financial institutions functioning in the capital market provide a variety of services.

9.3. Capital Market is generally understood as the market for long term funds. It provides long term debt and equity finance for the government and the corporate sector.

9.4. Capital Markets are mainly leaded by two major Indian exchanges BSE and NSE which 16th & 17th rank among all the exchanges around the world in terms of market capitalization.

9.5. Capital Market is generally understood as the market for long term funds. It provides long term debt and equity finance for the government and the corporate sector.

9.6. Capital Market plays a significant role in the national economy. A developed, dynamic and vibrant capital market can immensely contribute for speedy economic growth and development.

Reference

[1]. Steven M. Sheffrin (2003). Economics: Principles in action. Upper Saddle River,: Pearson Prentice Hall. p. 283. ISBN 0-13-063085-3.

[2]. Privatization and Capital Market Development: Strategies to Promote Economic Growth, Michael McLindon (1996)

[3]. Lena Komileva (2009-09-16). "Market Insight: Can the rally end the crisis?". The Financial Times. Retrieved 2012-09-06. (registration required (help)).

[4]. An Introduction to International Capital Markets: Products, Strategies, Participants , Andrew M. Chisholm, (2009), Wiley, see esp Chapters 1, 4 & 8

[5]. "U.S. National Debt Clock : Real Time". usdebtclock.org.

[6]. William C. Spaulding (2011). "The Primary Bond Market". thisMatter.com. Retrieved 2012-09-06.

[7]. William C. Spaulding (2011). Investment Banking—Issuing and Selling New Securities. thisMatter.com. Retrieved 2012-09-06.

[8]. Gillian Tett (September 28, 2014). "After a life of trend spotting, Bill Gross missed the big shift". The Financial Times. Retrieved October 14, 2014. (registration required (help)).

[9]. Jonathan Ford (2012-08-24). "The hedge funds are playing a loser's game". The Financial Times. Retrieved 2012-09-06. (registration required (help)).

[10]. IMF Global Financial Stability Report Oct 2014

[11]. Clive Cookson (2016-09-19). "Man v machine: 'Gut feelings' key to financial trading success" ((registration required)). Financial Times. Retrieved 2016-09-19.

[12]. Paul Wilmott (2007). Paul Wilmott Introduces Quantitative Finance. Wiley. ISBN 0470319585.