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AN OVERVIEW ON INDIAN CAPITAL MARKET

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ABSTRACT

The history witnessed that after the invention of money, people started their business not only by their own money but also by the borrowed money. So the financial markets having segments like capital market, money markets came into existence. Financial markets played a vital role in raising funds from public for the companies and it helped the investors to get profits from the trading on the shares and other financial assets of these companies. For this purpose, a special part of the financial market 'Stock Exchange' evolved. Indian Financial market comprises of money market and capital market. Further capital market comprises: the primary market, secondary market (stock market), FDIs, alternative investment options, banking and insurance and the pension sectors, asset management segment as well. With all these elements in the Indian Financial market, it happens to be one of the oldest across the globe and is definitely the fastest growing and best among all the financial markets of the emerging economies. The history of Indian capital markets spans back 200 years, around the end of the 18th century. It was at this time that India was under the rule of the East India Company. The capital market of India initially developed around Mumbai; with around 200 to 250 securities brokers participating in active trade during the second half of the 19th century. On the basis of this, in this paper an attempt has been made to bring an overview on Indian Capital Market.

Key Words : Stock market, Securities, Bond, BSE, NSE.

INTRODUCTION

The capital market is a place where people buy and sell securities. Securities in this sense is simply a bundle of rights sold to the public by companies, authorities or institutions on which people then trade in the capital market. There are different types of securities or bundles of rights. These include shares, debentures, bonds, etc. There are two levels of the market. The primary market deals with the trading of new securities. when a company issues securities for the first time i.e. IPO, they are traded in the primary market through the help of issuing houses, Dealing firms, Investment bankers & underwriters. The secondary market is where those who bought the securities in the Initial Public Offer (IPO) can sell them any time they wish.

Capital market is defined as **"**The market for relatively long-term financial instruments". It consists of gilt edged market and the industrial securities market. The gilt edged market refers to the market for government and semi-government securities backed by the RBI. The securities traded in this market are stable in value and are much sought after by banks and other institutions. People buy securities from the primary market, because they have the assurance that there is a secondary market where they can sell those shares possibly at a profit. The capital market is an important part of financial system. Capital market can be defined as "A market for long term funds both equity and debt and funds raised within and outside the country." In other words capital market is a wide term used to comprise all operations in the new issues and stock market. New issues made by companies constitute the primary market, while trading in existing securities comprise secondary market. In simple words capital market encompasses all the activities of F.I.s, Banks, NBFCs, etc, at a long term perspective or for a period more than one year. The capital market aids economic growth by mobilizing savings of the economic sectors and directing the same towards channels of productive use. The purpose of an efficient capital market is to mobilize funds from those who have it and route each them to those who can utilize it in the best possible way. India's financial market is multi-facet but not balanced. It has state of art equity market but relatively less developed and immature corporate bond market. The Indian capital market in the recent year has undergone a lot of innovation in terms of regulation and mode of operation. A well developed corporate bond market is also essential for financial system stability, efficiency and overall economic growth. However, If we look at the scenario of capital market in India we find that Indian households have traditionally preferred parking their surpluses in bank deposits, government savings schemes and less than 10% of their investments in financial assets in shares, debentures and mutual funds. The Indian capital market has seen the worst in past years and moved towards strong growth. To know about the performance of Indian capital market, the most significant elements are :

- Issue of 'primary securities' in the 'primary market', i.e, directing cash flow from the surplus sector to the deficit sectors such as the government and the corporate sector.
- Issue of 'secondary securities' in the 'primary market' i.e, directing cash flow from the surplus sector to financial intermediaries such as banking as non-banking financial institutions.
- Secondary market transactions in outstanding securities which facilitated liquidity.
- The Liquidity of the stock market is an important factor affecting growth. Many profitable projects require long term financial investment which was locking up funds for a long period. Investors do not like to relinquish control over their savings for such a long time.

It is the presence of the liquid secondary market that attracts investors. It ensures a quick exit without heavy losses or costs. The Darwinian theory of evolution states, "Survival for the fittest"; acknowledges the fact that mantra for growth has been "adapt and innovate or die". India has been embarking for robust growth and be one of the leading economies of the world. Thus, Nehruvian-Mahanobis Model of economic growth was discarded and LPG

Model was adopted in 1991 which paved the way for financial sector reforms in 1992 and 1997. Since then Indian economy has been growing at a pace of about 7–8 per cent. During some last years Indian financial market recorded a phenomenal growth. Though now a days so many problems with Indian Capital Market due to pandemic. India's financial market is multi-facet but not balanced. It has state of art equity market but relatively less developed and immature corporate bond market. Corporate bond market is less than 10 per cent of the total bond market. A study of the World Bank Financial Structure database (May 2009) revealed that private bond capitalization in India was only 2.67% of GDP in 2007, whereas it was 58.81% in South Korea, 38.79% in Japan and 24.46% in China. India has a narrow corporate bond due to low yield and absence of hedging opportunities. However, government bonds are highly marketable and traded freely. The important characteristics of Indian financial markets are

- Access of credit and financial services for SMEs, agriculture and rural household are limited with imbalanced geographical outreach and sectoral distribution.
- There are very few financial institutions like India Infrastructure Corporation Ltd. (IIFCL) to fund infrastructure project by issue of local currency bond.
- Repos for corporate bond, interest rate and currency future are a missing link in the process of maturing financial market.
- The absence of wide range of institutional investors like underwriting companies, endowment funds, pension funds, municipals, hedge funds and private equity funds in India creates a natural demand for more sophisticated financial instruments in the Over-the-Counter (OTC) market.
- India has large pool of saving into investable funds for long term financing. This calls for innovation by our regulatory agencies and service providers to channelize funds for productive economic activity.

OBJECTIVES:

1) To know about the various aspects of the Capital Market in India .
2) To go through the History of Indian Capital Market.

NATURE AND PARTICIPANTS

The nature of the capital market is wider. The capital market consists of a number of individuals and institutions. The government is also an important player in the capital market. The players in the capital market channelize the supply and demand for long-term capital. The constituents of exchange, commercial banks, co-operative banks, savings banks, development banks, insurance companies, investment trust and companies have also an important role as participants in this market. The supply to this market comes from savings from different sectors of the economy. These savings accrue from Individuals, Corporate, Governments, Foreign countries, Banks, Provident Funds &. Financial Institutions.

CAPITAL MARKET INSTRUMENTS

Financial instruments that are used for raising capital resources in the capital market are known as Capital Market Instruments. The changes that are sweeping across the Indian capital market especially in the recent past are something phenomenal. It has been experiencing metamorphic in the last decade, thanks to a host of measures of liberalization, globalization, and privatization that have been initiated by the Government. Changes have occurred in the Industrial policy, Licensing policy, Financial services industry, interest rates, etc. The competition has become very intense and real in both industrial sector and financial services industry. As a result of these changes, the financial services industry has come to introduce a number of instruments with a view to facilitate borrowing and lending of money in the capital market by the participants. The various capital market instruments used by corporate entities for raising resources are

1. Preference shares
2. Equity shares
3. Non-voting equity shares
4. Cumulative convertible preference shares
5. Company fixed deposits
6. Warrants
7. Debentures
8. Bonds
9. Mutual fund
10. Derivatives
11. Currency exchange

HISTORY OF INDIAN CAPITAL MARKET

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century. The history of the Indian capital markets and the stock market, in particular can be traced back to 1861 when the American Civil War began. The opening of the Suez Canal during the 1860s led to a tremendous increase in Exports to the United Kingdom and United States, Several companies were formed during this period and many banks came to the fore to handle the finances relating to these trades. With many of these registered under the British Companies Act, the Stock Exchange, Mumbai, came into existence in 1875. It was an unincorporated body of stockbrokers, which started doing business in the city under a banyan tree. Business was essentially confined to company owners and brokers, with very little interest evinced by the general public. There had been much fluctuation in the stock market on account of the American war and the battles in Europe. Sir Premchand Roychand remained a kingpin for many years. .

INDIAN CAPITAL MARKET BEFORE AND AFTER INDEPENDENCE

The Indian capital market was not properly developed before Independence. The growth of the industrial securities market was very much hampered since there were very few companies and the number of securities traded in the stock exchanges was still smaller. Most of the British enterprises in India looked to the London capital market for funds than to the Indian capital market. A large part of the capital market consisted of the gilt-edged marker for government and semi-government securities.

Since Independence and particularly after 1951, the Indian capital market has been broadening significantly and the volume of saving and investment has shown steady improvement. All types of encouragement and tax relief exist in the country to promote savings. Besides, many steps have been taken to protect the interests of investors. A very important indicator of the growth of the capital market is the growth of joint stock companies or corporate enterprises. In 1951 there were about 28,500 companies both public limited and private limited companies with a paid-up capital of Rs. 775 crores. In the 1950s, Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills were the favorite scrips of speculators. As speculation became rampant, the stock market came to know as the satta bazaar. The planning process started in India in 1951, with importance being given to the formation of institutions and markets. The Securities Contract Regulation Act 1956 became the parent regulation after the Indian Contract Act 1872, a basic law to be followed by security markets in India. To regulate the issue of share prices, Controller of Capital Issues Act (CCI) was passed in 1947.

In the 1960-70s it was characterized by droughts in the country with led to bearish trends. These trends were aggravated on forward trading known as badla, technically called 'contracts for clearing'. Financial institutions such as LIC and GIC helped revive the sentiment by emerging as the most important group of investors. The markets have witnessed several golden times too. Retail investors began participating in the stock markets in a small way with the dilution of the FERA in 1978. Multinational companies, with operations in India, were forced to reduce foreign share holding to below a certain percentage, which led to a compulsory sale of shares or issuance of fresh stock. Indian investors, who applied for these shares, encountered a real lottery because those were the days when the CCI decided the price at which the shares could be issued. There was no free pricing and their formula was very conservative. In the 1980s emerged an explosive growth of the securities market in India, with millions of investor suddenly discovering lucrative opportunities. Many investors come in to the stock market. The next big boom and mass participation by retail investors happened in 1980, with the entry of Mr. Dhirubhai Ambani. Dhirubhai can be said to be the father of modern capital markets. The Reliance public issue and subsequent issues on various Reliance companies generated huge interest. The general public was so unfamiliar with share certificates that Dhirubhai is rumoured to have distributed them to educate people.

Mr. V.P. Singh's fiscal budget in 1984 was path breaking. It started the era of liberalization. The removal of estate duty and reduction of taxes led to a swell in the new issue market and there was a deluge of companies in 1985. Mr. Manmohan Singh as Finance Minister came with a reform agenda in 1991. Liberalization and Globalization were the new terms coined and marketed during this decade. The mid-1990s saw a rise in leasing company shares, and hundreds of companies, mainly listed in Gujarat, and got listed in the BSE. The 1991-92 securities scam revealed the inadequacies of and inefficiencies in the financial system. It was the scam which prompted a reform of the equity market. The Indian stock market has changed in terms of technology and market price. In the 2000s saw the emergence of Ketan Parekh and the information; communication and entertainment companies came into the limelight. This period also coincided with the dotcom bubble in the US, with software companies being the most favored stocks. There was a meltdown in software stock in early 2000. Mr. P Chidambaram continued the liberalization and reform process, opening up of the companies, lifting taxes on long-term gains and introducing short-term turnover tax. The markets have recovered since then and we have witnessed a sustained rally that has taken the index over 21000 during the year 2008. This history shows us that retail investors are yet to play a substantial role in the market as long-term investors. Retail participation in India is very limited considering the overall savings of households. Investors who hold shares in limited companies and mutual fund units are about 20-30 million. Those who participated in secondary markets are 2-3 million. Capital markets will change completely if they grow beyond the cities and stock exchange centers reach the Indian villages. Both SEBI and retail participants should be active in spreading market wisdom and empowering investors in planning their finances and understanding the markets. It has been a drastic long journey for the Indian capital market. Recent time's capital market is performed very well, fairly integrated, mature, more globally. The Indian capital market is one of the best in the world in terms of technology. There are many business news channels, news paper, magazines, are issued in India. Online trading is become a global phenomenon. Indian capital market would be an integrated with international market.

The depression witnessed after the Independence led to closure of a lot of exchanges in the country. Lahore Stock Exchange was closed down after the partition of India, and later on merged with the Delhi Stock Exchange. Bangalore Stock Exchange Limited was registered in 1957 and got recognition only by 1963. Most of the other Exchanges were in a miserable state till 1957 when they applied for recognition under Securities Contracts (Regulations) Act, 1956. The Exchanges that were recognized under the Act are: Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad, Bangalore, and Indore. Many more stock exchanges are established during 1980's, namely: Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982), Pune Stock Exchange Limited (1982), Ludhiana Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadh 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), Coimbatore Stock Exchange, and Meerut Stock Exchange, and National Stock Exchange (at Mumbai,1994). Indian stock market and capital market circumstance at time of global crisis. The issues of instability of Indian stock market have become gradually more vital matter. India is fast becoming engines for future growth. India having a most excellent economy in the world in spite of that market performance always highly volatile, so, India is facing problems of its own like the 2G spectrum scam, ISRO Scam, Financial scams, Fiscal Deficits, rising commodity prices etc. Another problem is the confidence of serious investors which has weakened because of issues like Corporate Governance and such investors are not easy to convince. There are many factors influenced on Indian capital market like as macro economic factors, global stock market performance, foreign investments, government and politic interferences, behavior of investors etc.

CONCLUSION

Thus Indian capital market is related with the various aspects which include concept, meaning, nature, and scope of the capital market and origin, history, development. Moreover, it also defines trend of Indian stock market and capital market circumstance at time of global crisis. There are Different stock exchanges exist due to which the finance market work is going on smoothly.The issues of instability of Indian stock market have become gradually more vital matter. India is fast becoming engines for future growth. India having a most excellent economy in the world in spite of that market performance always highly volatile. India is facing problems of its own like the 2G spectrum scam, ISRO Scam, Financial scams, Fiscal Deficits, rising commodity prices etc. Another problem is the confidence of serious investors which has weakened because of issues like Corporate Governance and such investors are not easy to convince. There are many factors influenced on Indian capital market like as macro economic factors, global stock market performance, foreign investments, government and politic interferences, behavior of investors etc. The performance of the Indian Capital Market can properly be assessed after comparing the growth and development of the Capital Market with the Capital Markets of some of the emerging economies.

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