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Analytical study on Indian Capital Market: For Growth, Challenges, Opportunities and Future perspective

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Abstract

The capital market in emerging economies like India has exhibited a strong growth momentum, driven by a robust economic demand, consumption and savings rate. The history of Indian capital market dates back to the eighteenth century with East India Company. In early 1990's, India figured low in global ranking of the state of capital markets. The reforms, adoption of sophisticated IT tools in trading and settlement mechanism has placed India in lead. The National Stock Exchange has played an important role in this transformation. The establishment of screen based trading; shorter settlement periods, dematerialization and derivatives have been other major developments. The National Stock Exchange has overseen enormous growth in derivatives trading. But with the global integration the widening and intensifying of links between high incomes developing countries, which have accelerated over years. The capital market also poses major challenges as of taming derivatives, regulatory overhang, the demise of proprietary trading, sustained volatility and increased concentration etc. So there is a requirement for further development in Capital Market and present work carried out with that prospective to find out growth, challenges, opportunities and future of Indian Capital Market with the reference of Preforms and Reforms of it with effect of Liberalization, Globalization and Privatization.

Keywords

Capital Market, NSE, Preforms, Reforms, Derivatives, SEBI, Globalization, Privatization, Liberalization.

Introduction

Capital Market is a market for long-term funds. Capital market focuses on financing of fixed investment. Capital market channelizes household savings to the corporate sector and allocates funds to firms. Capital market enables the valuation of firms on an almost continuous basis and plays an important role in the governance of the corporate sector. An efficient capital market is an important constituent of a sound financial system. In India efforts have been made in recent years to set up an effective regulatory framework covering major participants in the capital market. A stock market deals mainly in corporate securities. The securities are chiefly in form of equity shares and debentures. The purpose of these securities is to raise long term funds for companies engaged in production. The function of the stock market is twofold: (a) to arrange for rising of new capital and (b) to provide liquidity to existing securities. The securities

market has two interdependent and inseparable segments, namely, the new issues (primary) market and the stock (secondary) market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals in the securities that were issued previously. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilized either through a public issue or through a private placement route. If anybody can subscribe for the issue, it is a public issue; if the issue is made available only to a select group of people, it is known as private placement. There are two major types of issuers of securities—corporate entities, who issue mainly debt and equity instruments, and the government (central as well as state), which issues debt securities (dated securities and treasury bills). The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the stock (secondary) market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are informal markets where trades are negotiated. Most of the trades in government securities take place in the OTC market. All the spot trades where securities are traded for immediate delivery and payment occur in the OTC market. The other option is to trade using the infrastructure provided by the stock exchanges. The exchanges in India follow a systematic settlement period.

History of Indian Capital Market:

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading Centre's were Bombay (now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading Centre wherein bank shares were the major trading stock. During the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for a half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was tremendous slump in share price. In the post-independence period also, the size of the capital market remained small. During the first and second five-year plans, the government's emphasis was on the development of the agricultural sector and public sector undertakings. The public sector undertakings were healthier than the private undertakings in terms of paid-up capital but their shares were not listed on the stock exchanges. Moreover, the Controller of Capital Issues (CCI) closely supervised and controlled the timing composition, interest rates, pricing, allotment, and floatation costs of new issues. These strict regulations demotivated many companies from going public for almost four and a half decades. In the 1950s, Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills were the favorite scrip's of speculators. As speculation became rampant, the stock market came to be known as Satta Bazaar. Despite speculation, non-payment or defaults were not very frequent. The government enacted the Securities Contracts (Regulation) Act in 1956s was also characterized by the establishment of a network for the development of financial institutions and state financial corporations. When In the 1970s, badla trading was resumed under the disguised form of hand-delivery contracts A group. This revived the market. However, the capital market received another severe setback on July 6, 1974, when the government promulgated the Dividend Restriction Ordinance, restricting the payment of dividend by companies to 12 per cent of the face value or one- third of the profits of the companies that can be distributed as computed under section 369 of the Companies Act, whichever was lower.

Capital Market in Pre-Reforms (Pre-1991) period

Prior to the onset of financial sector reforms in 1991, the capital market structure in India was subject to several controls and opaque procedures. The trading and settlement system was outdated and not in tune with international practices. Raising of capital from the market was regulated by the capital issues act, 1947 which was administered by the controller of capital issues in the ministry of finance, government of India. Similarly the securities contract act was administered by the directorate of stock exchanges also in the ministry of finance. It empowered the government to recognize/derecognize stock exchanges, stipulate rules and bye-laws for their functioning, compel listing of securities by public companies etc. Such a system of regulation was fragmented and inadequate in context of liberalization wave sweeping across the world. Prior to reforms, the Bombay Stock Exchange (BSE) was a monopoly. It was an association of brokers and imposed entry barriers, which lead to increased costs of intermediation. Trading took place by 'open outcry' on the trading floor, which was inaccessible to users. It was usual for brokers to charge the investors a much higher price from that actually traded at. As with all trading floors there was no price time priority so the users of the market were not assured that a trade was executed at the best possible price.

Reforms in capital market:

With the objective of improving market efficiency, increasing transparency, integration of national markets and prevention of unfair practices regarding trading, a package of measures has been introduced to liberalize, regulate and develop capital markets in India. Since 1992, reforms measures have mainly being focused on regulatory effectiveness, boosting competitive conditions, reducing information asymmetries, instigating transaction costs and controlling of speculation in securities market

An Analytical Study

For much of the recent literature on financial markets, Mackinnon (1973) and Shaw (1973) form the points of departure. These studies argue that state intervention in setting interest rates and quantitative measures of resources allocation - defined as financial repression - adversely affect not only allocative efficiency but also depress the aggregate saving rate (hence investment) in less developed economies (LDCs). Therefore, they advocate liberalization of financial markets. However, their arguments are mostly elated o interventions in banking, like interest rates ceiling, statutory reserve requirements and directed lending programmes at concessional interest rates. SUBSCRIBTION TO EQUITY CAPITAL RAISED and CHANGING COMPOSITION OF NET FINANCIAL SAVING, 1960-61T O 1993-94 as given in below tables facts and figures.

SUBSCRIBTION TO EQUITY CAPITAL RAISED

Year	Per Cent
1970-71	20.7
1975-76	9.0
1980-81	22.5
1986-87	24.0
1987-88	38.3
1988-89	28.5
1989-90	56.9
1990-91	45.0

CHANGING COMPOSITION OF NET FINANCIAL SAVING, 1960-61T O 1993-94

Year	Bank Deposits	Shares and Debentures	Government
1960-61/64-65	23.4	14.3	57.1
1965-66/69-70	29.9	11.2	55.0
1970-71/74-75	42.8	3.8	52.5
1975-76/9-80	44.9	3.3	51.2
1980-81/84-85	38.8	6.0	54.1
1985-86/90-91	26.9	11.8	59.1
1991-92/93-94	29.6	22.6	44.3

Conclusion

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, the financial markets have become increasingly global. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs). Following the

implementation of reforms in the securities industry in the past few years, Indian stock markets have stood out in the world ranking. As per Standard and Poor's Fact Book 2012, India ranked 11th in terms of market capitalization, 17th in terms of total value traded in stock exchanges, and 30th in terms of turnover ratio, as of December 2011.but there is still a need for further development and reforms.

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