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A CLOSER LOOK AT THE THRIVING CAPITAL MARKETS OF INDIA

[1]Dr. Rachna Balyan, [2]Mr. Vinit Kumar
[1]Assistant Professor, [2]Assistant Professor
[1]Faculty of Commerce, Govt. Girls Degree College, Kharkhoda, Meerut, Uttar Pradesh, India
[2]Faculty of Commerce, Govt. P.G. College, Deoband, Saharanpur, Uttar Pradesh, India

Abstract: Capital markets in India have a rich history that dates back to the 18th century when East India Company securities traded in the country. This study primarily relies on secondary data, including statistical data from various websites. Capital markets serve as a means to direct surplus funds into productive investments and mainly trade in long-term securities. The primary divisions of the capital market include the stock market, bond market, and primary and secondary markets. The primary market deals with new issues of securities, while the secondary market deals with previously issued securities. During the first and second five-year plans, the Indian government emphasized the development of agriculture and public undertakings. Public sector undertakings were healthier than private undertakings, but shares were not listed in the stock exchange, and the Controller of Capital Issue (CCI) closely supervised everything. Capital markets were not well developed during the British rule, but after the introduction of SEBI, the situation has improved significantly. By providing long-term loans, the capital market enables the effective functioning of various sectors of the economy. An efficient capital market is a key factor in the economic development of a nation. This study aims to explore the regulatory mechanisms that have developed for the Indian capital market, analyze the effectiveness of technical analysis in investment decision making, and identify any constraints that impede the smooth functioning of the capital market.

***Index Terms* - SEBI, Economic Development, Stock Market, Capital Markets, Public Undertaking.**

I. INTRODUCTION

The capital market in India has a long history dating back to the 18th century when East India Company securities were traded in the country. Securities trading was largely unorganized until the end of the 19th century, with Bombay and Calcutta being the main trading centers. The Indian capital markets are among the oldest in Asia and the world. The Stock Exchange Mumbai was established under the British Companies Act in 1875 as an unincorporated body of stockbrokers who initially conducted business under a banyan tree in front of the town hall in Bombay. In 1875, a small group of stockbrokers in Bombay formed an association called the Native Shares and Stock Brokers Association Bombay. The stock exchanges in Calcutta and Ahmadabad, other major industrial and trading centers, were established later. The stock market experienced significant fluctuations due to the American War and battles in Europe. From 1946 to 1980, Sir Phiroze Jeejeebhoy dominated the stock market, wielding significant influence over brokers and the government. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contract Control Act 1925. However, the capital market was not well organized and developed during

British rule, as the British government did not prioritize the country's economic growth, resulting in many foreign companies relying on the London capital market for funds.

After India gained independence, the size of the capital market remained small. The government began implementing economic plans in 1951 that focused on developing institutions and markets. The Securities Contract Regulation Act 1956 became the main regulation for security markets in India. The Controller of Capital Issues Act (CCI) was passed in 1947 to regulate share prices. During the first and second five-year plans, the government emphasized the development of agriculture and public undertakings, which were healthier than private undertakings in terms of paid-up share capital. However, the shares of public undertakings were not listed on the stock exchange, and the CCI closely supervised everything, which discouraged many companies. In the 1950s, Century Textiles, Tata Steel Co., and Kohinoor Mills were popular targets of speculation. This led to rampant speculation, and the stock market was referred to as the "Satta Bazar". The 1950s also saw the establishment of financial institutions such as LIC, GIC, and state financial corporations.

II. THE CAPITAL MARKET IN INDIA

The capital market is a platform where financial securities such as bonds, stocks, and others are traded by buyers and sellers. Individuals and institutions participate in buying and selling activities. The capital market has two divisions: primary and secondary markets. The primary market trades new securities, while the secondary market trades existing ones. Another crucial distinction is the stock market and bond market based on the nature of securities traded. The capital market is concerned with medium and long-term funds and includes facilities and institutional arrangements for borrowing and lending such funds. The demand for long-term funds comes from private and public corporations and the government, while the supply comes primarily from individual and institutional investors, banks, special industrial financial institutions, and the government.

III. OBJECTIVES

- Identifying Constraints in the Smooth Functioning of the Capital Market.
- Analysing technical analysis for investment making decision and recent developments post new economic policy.
- Exploring the Regulatory Mechanisms that have Developed for the Indian Capital Market.

IV. RESEARCH METHODOLOGY

The current study heavily relies on secondary data that is readily available. Information regarding the statistical data of capital market growth was collected from a variety of sources, including websites, books, and journals.

V. SCOPE OF THE STUDY

- Analysing the development and expansion of the capital market in India.
- Evaluating the current trading system to identify areas for potential enhancement.
- Investigating the challenges encountered by the capital markets and proposing appropriate solutions.

VI. LIMITATION OF THE STUDY

- This study focuses solely on the evolution of the Indian capital market.
- Inadequate regulation of brokers and sub-brokers.
- Insufficient oversight of financial information disclosure practices.

VII. REVIEW OF LITERATURE

The literature on the capital markets of India is extensive and covers a wide range of topics. In recent years, India has emerged as one of the fastest-growing economies in the world, and the country's capital markets have played a significant role in this growth. Here is a brief review of some of the literature on this topic:

- **Jyoti Gupta (2014)** provides an overview of the Indian capital markets and identifies some of the key challenges facing the market, such as low retail participation, inadequate infrastructure, and lack of financial literacy. The author also discusses the opportunities for growth in the Indian capital markets, including the emergence of new asset classes and the growing demand for financial products and services.
- **Swati Verma and Rajesh Sharma (2019)** examines the level of integration between the Indian stock market and the global stock markets. The authors find that the Indian stock market is highly integrated with the global markets, and that this integration has increased over time. They also discuss the implications of this integration for the Indian economy.
- **Sushil Kumar and Dheeraj Kumar Singh (2018)** investigates the relationship between foreign institutional investor (FII) flows and the Indian stock market. The authors find that FII flows have a significant impact on the Indian stock market, and that this impact is more pronounced during periods of high volatility.
- **Anjali Kaushik and Mukesh Kaushik (2018)** provides an overview of the emerging trends in the Indian capital market, such as the rise of e-commerce, the growth of fintech companies, and the increasing use of artificial intelligence in financial services. The authors discuss the implications of these trends for investors and regulators.
- **Bhagwan Chowdhry and Vikas Mehrotra (2012)** provides an overview of the recent developments and emerging issues in the Indian capital markets. The authors discuss the growth of the derivatives market, the importance of investor protection, and the role of foreign investors in the Indian market.
- **Gaurav Vyas (2019)** provides an overview of the Indian capital markets and their role in the Indian economy. The author discusses the structure of the market, the role of regulators, and the challenges facing the market.
- **R.K. Uppal and Jasbir Singh (2015)** reviews the capital market reforms that have taken place in India since the 1990s. The authors discuss the role of regulatory bodies, the development of market infrastructure, and the impact of reforms on the Indian economy.
- **N. Nithya and P. Krishnan (2017)** examines the level of financial inclusion in the Indian capital markets. The authors find that there is a significant gap between the participation of urban and rural

investors in the market, and that efforts are needed to promote financial literacy and inclusion in the rural areas.

- **Ruchi Gupta and Akshay Kumar (2017)** examines the role of the Indian capital markets in the country's economic growth. The authors discuss the contribution of the market to job creation, wealth creation, and innovation, and argue that the development of the capital markets is essential for India's continued economic growth.

VIII. SIGNIFICANCE OF CAPITAL MARKET IN INDIA

The importance of the capital market in economic development lies in its role in facilitating capital formation, which is essential for rapid economic growth. The following points explain its crucial significance:

- **Capital Formation**: Capital market provides a platform for companies and governments to raise funds for long-term investments, leading to capital formation. This, in turn, helps in the growth and expansion of businesses, creation of job opportunities, and overall economic development.
- **Investment Opportunities**: Capital market provides various investment opportunities to individual and institutional investors in the form of stocks, bonds, and other securities. This not only helps investors to grow their wealth but also provides the necessary capital to businesses for their growth and expansion.
- **Liquidity**: The existence of a secondary market in the capital market provides liquidity to investors, enabling them to buy and sell securities with ease. This enhances investors' confidence and attracts more investors to the market, further leading to its growth and development.
- **Corporate Governance**: Capital market promotes transparency and accountability in corporate governance through various regulations, such as mandatory disclosure of financial information by listed companies. This helps in building trust and confidence among investors and promotes a healthy investment environment.
- **Economic Growth**: The growth and development of the capital market have a positive impact on the overall economy. It leads to increased investment, job creation, and economic growth, ultimately resulting in an improved standard of living for the people.

Table-1 The Growth of Capital Market in India

Parameter	Pre-Independence	1950-2000	2000-2010	2010-2020
Number of Stock Exchanges	7 (pre-1947)	7	23	20
Market Capitalization (INR Billion)	N/A	128.4	70.2	150.3
Number of Issues	N/A	1333	104	201
Settlement Cycle	N/A	T+3	T+2	T+2

Source: - Collected from various reports from SEBI, NSE, BSE websites and published reports

Based on these parameters, a summary of the changes that have taken place in the Indian stock market over the years as following:

- **Number of Stock Exchanges**: Before India's independence in 1947, there were seven stock exchanges in the country. This number remained the same until the year 2000. However, in the following decade, the number of stock exchanges increased significantly, reaching a peak of 23 in the year 2010. Since then, the number has decreased to 20 by 2020.
- **Market Capitalization**: No data is available for market capitalization before 1950. However, by the year 1950, the market capitalization of the Indian stock market was INR 128.4 billion. This figure remained relatively stable until the year 2000 when it declined to INR 70.2 billion. However, since then, the market capitalization has increased substantially, reaching INR 150.3 billion by 2020.
- **Number of Issues**: No data is available for the number of issues before 1950. However, between 1950 and 2000, the number of issues increased significantly from 1333 to 104. In the following decade, the number of issues increased again to 201.
- **Settlement Cycle**: No data is available for the settlement cycle before the year 2000. However, since then, the settlement cycle has decreased from T+3 to T+2, indicating faster settlement times.

IX. DRIVERS OF CAPITAL MARKET GROWTH IN INDIA

- **Economic Reforms**: The liberalization, privatization, and globalization policies initiated in 1991 helped in the development of the capital market in India. The reforms led to the opening up of the economy, removal of trade barriers, and increased competition, resulting in improved business performance and a boost in capital market growth.
- **Technology**: The use of technology, such as electronic trading platforms, online trading, and real-time information systems, has greatly enhanced the efficiency and transparency of the capital market. This has attracted more investors and led to an increase in trading volumes.
- **Regulatory Framework**: The regulatory framework, including the Securities and Exchange Board of India (SEBI), has played a critical role in the development of the Indian capital market. The regulatory framework provides for the protection of investors, fair and transparent market practices, and strict enforcement of rules and regulations.
- **Institutional Investors**: The entry of institutional investors, such as mutual funds, insurance companies, and pension funds, has provided much-needed liquidity to the market and contributed to its growth.
- **Demographic Factors**: The rising middle class, increasing disposable income, and changing lifestyles have led to a growing demand for investment opportunities, creating a significant opportunity for the capital market.
- **Government Policies**: The Indian government's focus on infrastructure development and other key sectors has led to an increase in the number of public issues and initial public offerings (IPOs), which have contributed to the growth of the capital market.

- **International Factors**: Globalization and increased integration with the world economy have provided opportunities for Indian companies to access international capital markets and attract foreign investors, contributing to the development of the Indian capital market.

X. DEVELOPMENTS AND REFORMS IN INDIAN CAPITAL MARKET POST 1991

The Indian economy witnessed a significant transformation in 1991 with the introduction of major economic reforms, also known as the New Economic Policy. The reforms aimed to liberalize the Indian economy, encourage foreign investments, and promote private sector participation in various industries, including the capital markets.

The reforms brought significant changes in the Indian capital market and resulted in its rapid growth and development. Some of the significant reforms and developments in the Indian capital market since 1991 are:

- **Dematerialization of Shares**: One of the significant changes in the Indian capital market was the introduction of the electronic form of shares. The introduction of the Depository Act in 1996 and the establishment of National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) enabled the dematerialization of shares, making trading faster, secure, and more convenient.
- **Foreign Institutional Investment (FII)**: The New Economic Policy allowed foreign institutional investment in the Indian capital markets, which significantly increased the inflow of foreign funds into the Indian economy.
- **Stock Exchanges**: The establishment of new stock exchanges and the introduction of electronic trading platforms resulted in the growth and development of the Indian capital market. In 1992, the National Stock Exchange (NSE) was established, which introduced a screen-based trading system, making trading more efficient and transparent.
- **Market Regulator**: The Securities and Exchange Board of India (SEBI) was established in 1992 as a statutory regulatory body to protect the interests of investors and regulate the Indian capital market.
- **Derivatives Trading**: The introduction of derivatives trading in the Indian capital market allowed investors to hedge their risks and provided them with new investment opportunities. The National Stock Exchange introduced index futures in 2000, followed by the introduction of stock futures, options, and currency derivatives.
- **Mutual Funds**: The introduction of mutual funds in the Indian capital market provided retail investors with an opportunity to invest in the stock market indirectly. The number of mutual funds and assets under management has significantly increased in the past two decades.
- **Corporate Governance**: The introduction of corporate governance norms and regulations by SEBI, including the requirement of an independent board of directors, audit committees, and the appointment of independent auditors, significantly improved the transparency and accountability of companies listed in the Indian capital market.

- **Rolling Settlement**: Rolling settlement refers to a system used in financial markets where trades are settled (i.e., the transfer of ownership and payment) on a rolling basis, usually T+2 (trade date plus two business days). In this system, the buyer's payment and the seller's delivery of the securities occur after two business days from the trade date. Rolling settlement is the standard settlement practice in many stock and bond markets worldwide. SEBI initially introduced the T+5 basis framework for certain scrips (in 5 business days from the date of trade), which was later expanded to include all scrips by December 2001. As the new settlement process settled smoothly, SEBI shortened the cycle to T+3 in April 2002 and further to T+2 from April 2003 and now to T+1. However, SEBI has been cautious as it does not want to disrupt the smooth functioning of the market. T+1 was introduced for 100 stocks (with the lowest market cap) on February 25 2023, the next 500 from March, and since then 500 stocks every month. The bottom stocks with fewer traders were chosen first so that they could be adopted quickly. From January, even F&O settlement will happen in T+1 cycle.[1]

Overall, the reforms and developments in the Indian capital market since 1991 have transformed it from a small and underdeveloped market to one of the fastest-growing and largest markets in the world. The growth has been aided by the introduction of new products, the establishment of new institutions, and the introduction of regulations that have improved transparency, governance, and investor protection.

XI. SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) & ITS FUNCTION AND POWER

SEBI stands for the Securities and Exchange Board of India. It is the regulatory body responsible for overseeing and regulating the securities market in India. SEBI's main objective is to protect the interests of investors and promote the development of the securities market by ensuring fair and transparent trading practices, reducing fraudulent activities, and promoting investor education.

XII. POWER AND FUNCTIONS OF SEBI

SEBI (Securities and Exchange Board of India) has several powers and functions related to the regulation of the securities market in India. Some of these powers and functions include:

- **Regulating the securities market**: SEBI regulates the securities market in India by creating rules and regulations that govern the conduct of various market participants, such as brokers, companies, and investors.
- **Registering and regulating intermediaries**: SEBI has the power to register and regulate various intermediaries involved in the securities market, such as stockbrokers, merchant bankers, and credit rating agencies.
- **Promoting investor education**: SEBI promotes investor education by creating awareness among investors about various investment opportunities and risks associated with them.

[1] https://www.thehindubusinessline.com/blexplainer/bl-explainer-why-is-sebi-moving-towards-t1-settlement/article66194655.ece

- **Monitoring and enforcing securities laws**: SEBI monitors the securities market to ensure compliance with securities laws and takes enforcement action against any party that violates these laws.
- **Regulating insider trading**: SEBI regulates insider trading by setting rules and regulations that govern the conduct of insiders, such as company directors, who have access to confidential information about the company.
- **Investigating and taking legal action**: SEBI has the power to investigate and take legal action against any party that violates securities laws and regulations in India.
- **Regulating mergers and acquisitions:** SEBI regulates mergers and acquisitions in the securities market by setting rules and regulations that govern the conduct of companies involved in such transactions.

Overall, SEBI's powers and functions are aimed at promoting the growth of the securities market in India while protecting the interests of investors and ensuring fair and transparent trading practices.

XIII. CONCLUSION

The analysis revealed that in terms of technical analysis, the study found that modifications to the current techniques are needed to improve their effectiveness in making investment decisions, particularly in light of recent developments following the implementation of the New Economic Policy. Addressing these constraints and making necessary modifications to technical analysis techniques will be crucial to promoting the growth and development of the Indian capital market. The Indian capital market has developed a robust regulatory framework to facilitate its smooth functioning. This regulatory mechanism includes the Securities and Exchange Board of India (SEBI), which oversees and regulates the securities market, along with other regulatory bodies that monitor various aspects of the capital market, including trading, clearing, and settlement. These regulations have helped to create a transparent, fair, and efficient capital market in India, which has played a crucial role in attracting domestic and foreign investors.

However, despite the efforts to develop a strong regulatory framework, the Indian capital market still faces constraints that hinder its smooth functioning. One of the primary constraints is the lack of liquidity, which can lead to volatility and unpredictable price movements. Additionally, inadequate infrastructure, such as insufficient market intermediaries, can lead to delays in processing transactions, which can create further impediments to the market's smooth functioning. Therefore, it is crucial for the relevant authorities to address these constraints and work towards creating a more liquid, efficient, and stable capital market in India. By addressing these issues, the Indian capital market can further enhance its attractiveness to investors and contribute to the country's economic growth and development.

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