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CAPITAL MARKET STRENGTHS IN INDIA

Dr. Lovenish Budhiraja*

Abstract: *A market for long term funds is known as capital market. It consists of number of individuals and institutions that canalize the supply and demand for long term capital and claims on capital. During last three decades, there was a sharp increase in volumes of capital market transactions. After independence, the Indian capital market started to enlarge its base with increase in savings and investments. This study investigates empirically into the acclaimed positive role played by stock markets in driving growth, efficiency, safety, integrity and transparency of the market. The impact of various reform measures could be seen in the primary market as well as secondary segments of the capital market. In this paper we present a review of research done in the field of Indian capital markets during the fifteen years. Considering the size, vintage and development of the Indian capital market, the total volume of research on it appears to be woefully modest - about 0.1 unit of work per institution per year! Moreover, a large number of works are merely descriptive or prescriptive without rigorous analysis. Certain areas such as arbitrage pricing theory, option pricing theory, agency theory, and signaling theory are virtually un researched in the Indian context. Besides, very little theoretical work has been done by researchers in India. However, with improved availability of databases and computing resources, and with increasing global interest in Indian markets, we expect an explosion of work in the near future.*

***Assistant Professor in Commerce, DAV P.G. College, Karnal**

INTRODUCTION

Capital markets are financial markets for the buying and selling of long-term debt- or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.[1]Financial regulators, such as the UK's Bank of England (BoE) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties. Modern capital markets are almost invariably hosted on computer-based trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public.[2] There are many thousands of such systems, most only serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. Second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies

OBJECTIVES OF CAPITAL MARKET

- To organize stocks and securities in a fair, transparent and competitive way.
- To keep the public aware of stock activity, the dangers, the benefits and the responsibilities associated with investing in securities and encouraging growth.
- To provide protection to those partaking in the activity of securities and stocks.
- To implement policies regarding full disclosure and transparency in order to prevent conflict of interest and the exploitation of insider information.
- To ensure the compliance with the laws and regulations related to the activities of securities.
- The full force of the law requires the Kuwait Clearing Company (KCC) to begin with implementation of the implementation of the following commitments, contained in the interim period from the year of the publication of the law in the official gazette:
- Increase capital to 20 million Kuwaiti dinars.

- To provide a bank guarantee to the CMA no less than eight million Kuwait dinars.
- The introduction of a strategic partner is only allowed with the approval of the authority.

ROLE OF CAPITAL MARKET IN INDUSTRIAL GROWTH

- Promotion of industrial growth-The capital market transfer the resources to the industrial sector of the economy which results in stimulating industrial growth.
- Mobilization of saving and acceleration of capital formation-Capital market helps in mobilization of small savings from the various sections of the society.
- Raising long term capital-The existence of secondary market enables the companies to raise long term capital by issuing shares and debentures.
- For financing five year plans-The government has to depend on the sale of securities to raise resources for financing public sector projects.
- Ready and continuous market- The stock exchanges provides a place where the buyers and sellers can sell and purchase their securities easily and conveniently.

FACTORS CONTRIBUTING TO THE GROWTH OF CAPITAL MARKET

1. Establishing of development banks and industrial financing institutions.
2. Legislative measures.
3. Growth of underwriting business.
4. Setting up of SEBI
5. Growing public confidence.
6. Credit rating agencies.
7. Increasing awareness of investment opportunities.

RESEARCH METHODOLOGY

Research is common refer to search of knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. Infact, research is an art of scientific investigation.

RESEARCH DESIGN

Research design is a framework of the blue print for conducting the research project .Research design is a arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the search purpose with economy in procedure.

Sources of data-

Primary data-The primary data are those data which are collected a fresh and for the first time.

Secondary data- Secondary data are those data which have already been collected from someone else and which have already been passed through statistical process.

In this project, I have used secondary data which have been collected from following sources-

- Books
- Internet
- Other material.

STRENGTHS OF CAPITAL MARKET

1. Capital market provide both new and existing businesses with access to cash or capital.
2. It creates job creation for individuals.
3. It helps in economic growth and technological innovation.
4. It provides a venture where those seeking finance can be connected to prospective lenders and investors.
5. Investors receive dividend disbursements from the capital market.

SCOPE OF CAPITAL MARKET

1. **PRIMARY MARKET**- It is the market which deals in new securities which are acquired for first time. The issuer may be a new company or an existing.

The various methods of new issues are-

- Public issue through prospectus- This is the common and popular method of raising capital from the general public. The company gives the direct offer to the investing subscribe to the securities of the company at a given price.
- Offer for sale-Under this method, the company issues its shares through intermediaries, such as issuing houses, stock brokers etc. The issue may be also be underwritten.
- Private placement-It means direct sale of securities by a company to institutional investors or the issuing houses directly acquire the securities from the issuing

company at an agreed price and then they place the securities with their investor clients.

- Initial public offer-Under the system, brokers are advised to ask to successful allot tees to submit the application form after the basis of allocation is finalized.
- Book Building-It is the method of issue of shares based on floor price which is indicated before the opening of bidding process. The issue price is fixed after the bid closing date.

RECENT TRENDS IN PRIMARY MARKET

- ❖ With the repeal of the capital issue Control Act ,1947,companies were given freedom to price their issue.
- ❖ The book building process in the new issue of capital was introduced with a view to strength the process.
- ❖ FIIs were allowed to participate in the capital market.
- ❖ An ordinance was promulgated which seeks to strength SEBI and bettor empower it.

2. **SECONDARY MARKET-**The market where the outstanding securities are traded is known as secondary market. This market is popularly known as stock market or stock exchange.

Functions of stock exchange-

- Maintain active trading
- Fixation of prices
- Ensure safe and fair dealing
- Provides adequate liquidity.
- Dissemination of information.
- Performance inducer.

VALUATION OF STOCKS AND FUNCTIONING OF INDIAN STOCK MARKET

The work in this area can be classified into three broad strands: a) those dealing with functioning of securities markets and financial institutions operating in these markets, b) those pertaining to the investment decision making process of individuals, and c) empirical work on Indian stock markets.

One of the early works on functioning of stock markets and financial institutions was by Simha, Hemalata and Balakrishnan (1979). Bhole (1982) wrote a comprehensive book on the growth and changes in the structure of Indian capital markets and financial institutions. The book was subsequently updated and revised in1992. Several books have been written on security analysis and investment in Indian stock markets: Bhalla (1983); Jain (1983), Sahni (1986), Singh (1986); Chandra (1990a), Raghunathan (1991), Avadhani (1992); Yasaswy (1985, 91, 92a, 92b) and Barua *et al* (1992). These books are primarily written for initiating lay investors to techniques for security analysis and management of investment portfolios. Basu & Dalal (1993), Barua & Varma (1993a) and Ramachandran (1993) have critically examined various facets of the great securities scam of 1992.

Several studies, for example, Sahni (1985), Kothari (1986), Raju (1988), Lal (1990), Chandra (1990b), Francis (1991a), Ramesh Gupta (1991a,c, 1992a),Raghunathan (1991), Varma (1992a), L.C. Gupta (1992) and Sinha (1993) comment upon the Indian capital market in general and trading systems in the stock exchanges in particular and suggest that the systems therein are rather antiquated and inefficient, and suffer from major weaknesses and malpractices. According to most of these studies, significant reforms are required if the stock exchanges are to be geared up to the envisaged growth in the Indian capital market.

PERFORMANCE AND REGULATION OF MUTUAL FUNDS

The first close ended mutual fund was floated in the Indian capital market just over seven years ago in September 1986. Today, there are more than 130 schemes in the market and the last few months have witnessed the entry of private sector in this fledgling industry. Given the brief history, it is hardly surprising that there is paucity of research on Mutual Funds. One of the earliest empirical research in the area was done by Barua and Varma (1990). They examined the performance of Mastershares, the first close end Mutual Fund, both in terms of NAV and market prices. They found that though in terms of NAV the risk adjusted performance of Mastershares was superior to the market, in terms of market prices the performance was inferior to the market. The initial work was refined in the subsequent paper by the same authors (1991b) which concluded that the performance of Mastershares from the point of view of a small investor (whose equity investment would primarily be in terms of holding of Mastershares) was poor while from the point of view of a large investor (for whom Mastershares would be one of the securities in the portfolio) the performance was excellent. The research raised an interesting issue about the purpose of mutual funds: if they are meant primarily for small investors, then Mastershares have failed to serve the purpose. In another paper Barua and Varma (1993b) have examined the relationship between the NAV and the market price on Mastershares. They conclude that market prices are far more volatile than what can be justified by volatility of NAV.

The earliest work on evolving a regulatory framework for the fledgling industry was done by Barua, Varma and Venkiteswaran (1991). Drawing heavily on the regulatory framework foroperation of mutual funds in the U.S.A. (Investment Company Act of 1940), the authors proposed detailed guidelines that could be adopted for mutual funds operating in the Indian capital markets.

The other papers on mutual funds are descriptive in nature and conjecture about the future scenario in the Indian capital market. Vidhyashankar (1990) concludes that mutual funds would emerge as the predominant instrument for savings by the household sector by the turn of this century. Mahendra (1991) reaches a similar conclusion when he states that mutual funds would dominate the Indian capital markets. Bal and Mishra (1990) conjecture that mutual funds would play an important role in developing the Indian capital market.

REFORMS IN CAPITAL MARKET

- Stock exchanges asked to modify the listing agreement to provide for payment of interest by companies to investors.
- The promoter’s contribution for public issues has been uniform at 20 percent irrespective of the issue size.
- Only the body corporate are allowed to act as merchant bankers.
- Companies are allowed to buy back the shares.
- Trading of specified shares in dematerialized form was started.
- Derivatives trading was extended to trading in equity to index options, stock options, and stock futures.

CONCLUSION

Thus we can conclude by saying that the capital market in India is expanding and business on bourses is gradually increasing. Demutualising and corporatization of the Indian exchanges would further help in eliminating the conflict of interests, which now prevails at stock exchanges. Indian capital market have been receiving global attention especially from sound investors, due to improving macroeconomic fundamentals. These macroeconomic fundamentals which are continuously strengthening Indian capital market.

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