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Current Issues In Indian Capital Market

* Bhavin S. Shah

ABSTRACT

The capital market is the market for securities, where companies and governments can raise long-term funds. Selling stock and selling bonds are two ways to generate capital and long term funds. Thus bond markets and stock markets are considered capital markets. The capital markets consist of the primary market, where new issues are distributed to investors, and the secondary market, where existing securities are traded. The Indian Equity Markets and the Indian Debt markets together form the Indian Capital markets. The Indian Equity Market depends mainly on monsoons, global funds flowing into equities and the performance of various companies. The Indian Equity Market is almost wholly dominated by two major stock exchanges - National Stock Exchange of India Ltd. (NSE) and The Bombay Stock Exchange (BSE). The benchmark indices of the two exchanges - Nifty of NSE and Sensex of BSE are closely followed. The two exchanges also have an F&O (Futures and options) segment for trading in equity derivatives including the indices. The major players in the Indian Equity Market are Mutual Funds, Financial Institutions and FIIs representing mainly Venture Capital Funds and Private Equity Funds.

INTRODUCTION: Post-independence Scenario, Structure Of Indian Capital Market

In India the capital market consists of
1. Stock market
2. Bonds, convertible debentures and debt market
3. New issue market and merchant banking

LEADING CITIES IN STOCK MARKET OPERATIONS

Ahmedabad gained importance next to Bombay with respect to cotton textile industry. After 1880, many mills originated from Ahmedabad and rapidly forged ahead. As new mills were floated, the need for a Stock Exchange at Ahmedabad was realized and in 1894 the brokers formed “The Ahmedabad Share and Stock Brokers’ Association”. What the cotton textile industry was to Bombay and Ahmedabad, the jute industry was to Calcutta. Also tea and coal industries were the other major industrial groups in Calcutta. After the Share Mania in 1861-65, in the 1870’s there was a sharp boom in jute shares, which was followed by a boom in tea shares in the 1880’s and 1890’s; and a coal boom between 1904 and 1908. On June 1908, some leading brokers formed “The Calcutta Stock Exchange Association”.

In the beginning of the twentieth century, the industrial revolution was on the way in India with the Swadeshi Movement; and with the inauguration of the Tata Iron and Steel Company Limited in 1907, an important stage in industrial advancement under Indian enterprise was reached. Indian cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity, due to the First World War.

INDIAN STOCK EXCHANGES - AN UMBRELLA GROWTH

The Second World War broke out in 1939. It gave a sharp boom which was followed by a slump. But, in 1943, the situation changed radically, when India was fully mobilized as a supply base. On account of the restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market as the only outlet for their activities.

They were anxious to join the trade and their number was swelled by numerous others. Many new associations were constituted for the purpose and Stock Exchanges in all parts of the country were floated. The Uttar Pradesh Stock
Exchange Limited (1940), Nagpur Stock Exchange Limited (1940) and Hyderabad Stock Exchange Limited (1944) were incorporated. In Delhi two stock exchanges - Delhi Stock and Share Brokers’ Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and later in June 1947, amalgamated into the Delhi Stock Exchange Association Limited.

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, Ahmedabad, 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, 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 policies towards security market industry.

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Trading Pattern of the Indian Stock Market

Trading in Indian stock exchanges are limited to listed securities of public limited companies. They are broadly divided into two categories, namely, specified securities (forward list) and non-specified securities (cash list). Equity shares of dividend paying, growth-oriented companies with a paid-up capital of at least Rs.50 million and a market capitalization of at least Rs.100 million and having more than 20,000 shareholders are, normally, put in the specified group and the balance in non-specified group.

Two types of transactions can be carried out on the Indian stock exchanges:

(a) spot delivery transactions “for delivery and payment within the time or on the date stipulated when entering into the contract which shall not be more than 14 days following the date of the contract”.

(b) forward transactions “delivery and payment can be extended by further period of 14 days each so that the overall period does not exceed 90 days from the date of the contract”.

The latter is permitted only in the case of specified shares. The brokers who carry over the outstanding pay carry over charges (cantoango or backwardation) which are usually determined by the rates of interest prevailing.

Over The Counter Exchange of India (OTCEI)

The traditional trading mechanism prevailed in the Indian stock markets gave way to many functional inefficiencies, such as, absence of liquidity, lack of transparency, unduly long settlement periods and benami transactions, which affected the small investors to a great extent. To provide improved services to investors, the country’s first ringless, scripless, electronic stock exchange - OTCEI - was created in 1992 by the country’s premier financial institutions - Unit Trust of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India, General Insurance Corporation and its subsidiaries and CanBank Financial Services. Trading at OTCEI is done over the centres spread across the country. Securities traded on the OTCEI are classified into:

1. Listed Securities - The shares and debentures of the companies listed on the OTC can be bought or sold at any OTC counter all over the country and they should not be listed anywhere else

2. Permitted Securities - Certain shares and debentures listed on other exchanges and units of mutual funds are allowed to be traded

3. Initiated debentures - Any equity holding at least one lakh debentures of particular scrip can offer them for trading on the OTC.

OTC has a unique feature of trading compared to other traditional exchanges. That is, certificates of listed securities and initiated debentures are not traded at OTC. The original certificate will be safely with the custodian. But, a counter receipt is generated out at the counter which substitutes the share certificate and is used for all transactions.

In the case of permitted securities, the system is similar to a traditional stock exchange. The difference is that the delivery and payment procedure will be completed within 14 days. Compared to the traditional Exchanges, OTC Exchange network has the following advantages:

1. OTCEI has widely dispersed trading mechanism across the country which provides greater liquidity and lesser risk of intermediary charges.
2. Greater transparency and accuracy of prices is obtained due to the screen-based scrip less trading.
3. Since the exact price of the transaction is shown on the computer screen, the investor gets to know the exact price at which s/he is trading.
4. Faster settlement and transfer process compared to other exchanges.
5. In the case of an OTC issue (new issue), the allotment procedure is completed in a month and trading commences after a month of the issue closure, whereas it takes a longer period for the same with respect to other exchanges.

Thus, with the superior trading mechanism coupled with information transparency investors are gradually becoming aware of the manifold advantages of the OTCEI.

**Conclusion**
Capital market is one of the most important segments of the Indian financial system. It is the market available to the companies for meeting their requirements of the long-term funds. It refers to all the facilities and the institutional arrangements for borrowing and lending funds. In other words, it is concerned with the raising of money capital for purposes of making long-term investments. The market consists of a number of individuals and institutions (including the Government) that canalize the supply and demand for long-term capital and claims on it. The demand for long term capital comes predominantly from private sector manufacturing industries, agriculture sector, trade and the Government agencies. While, the supply of funds for the capital market comes largely from individual and corporate savings, banks, insurance companies, specialized financing agencies and the surplus of Governments.