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Management

CHANGING PARADIGM IN INDIAN CAPITAL MARKET

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ABSTRACT Capital market deals with medium term and long term funds. It refers to all facilities and the institutional arrangements for borrowing and lending term funds (medium term and long term). Capital market focuses on financing of fixed investment. Capital market channelizes household savings to the corporate sector and allocates funds to firms. The primal role of this market is to make investment from investors who have surplus funds to the ones who are running a deficit. An efficient capital market is essential for raising capital by the corporate sector of the economy and for the protection of the interest of investors in corporate securities. There arises a need to strike a balance between raising of capital for economic development on one side and protection of investors on the other. Unless the interests of investors are protected, raising of capital, by corporates is not possible. An efficient capital market can provide a mechanism for raising capital and also by protecting investors in corporate securities.

In the first part we have discussed the conceptual framework of the capital market and in the next section, we have focused on the trends in the capital market in India. In the third section, we have discussed various issues and challenges of the capital market in India

KEYWORDS : Capital Market, Corporate Securities, Investors, Economic Development, Long Term Debt.

INTRODUCTION:

A capital market is a market for the buying and selling of long term debt or equity-backed securities. In other words, it is defined as a market in which money is provided for a period of more than a year. Capital 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. The capital market includes the stock market where the equity securities are traded and the bond market where the debt securities are traded. Financial regulators, such as the India's Securities and Exchange Board of India (SEBI) or the U.S. Securities and Exchange Commission (SEC), administer the capital markets in their designated jurisdictions to ensure that investors are protected against fraud, among other duties. Certain rules and regulations are formulated by them which must be stick on to so as to safeguard the interest of the investors.

The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called "Surplus units" and the borrowers are known as "deficit units". The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus units lend their surplus funds to deficit units.

OBJECTIVES OF THE STUDY:

- To know the conceptual framework of the capital market.
- To study the different segments of capital market.
- To focus on the trends in the capital market
- To know the major crash in Indian capital market in the past.
- To identify the various issues and challenges of the capital market in India.

REVIEW OF LITERATURE:

RichaGupta, DeeptiGoel(2014),in their article says that India being an emerging economy needs innovations and reforms in the financial market. Innovation and reforms not only add value in the existing technology and system but also lead to decrease in the cost of capital and mitigate the risk exposure of the capital market instruments. No doubt that there is a positive correlation between the finance and the economic growth of the country. Economic growth needs sound financial system which further requires the well developed financial market. So, if country wants constant economic growth it has to develop its financial market. Emerging economies like India depends heavily on the banking system for financing its capital needs. But banks which are highly protected in India hardly fulfill its funding requirements. Thus, there is the need to develop its capital market especially its bond market which is underdeveloped because of policies constraint. Also, India has a huge market for the infrastructure which requires huge funds. The creation of deep and innovative bond market can fill this gap.

N.K.Pradeepkumar, S. Shobha ,Dr. P. Mohanreddy(2015), in their article deal with India needs to follow through with deeper and more wide ranging reforms which will bring the regulatory environment and the framework of the economy to a level which can cope with the challenges of growth. Emerging economies like India have an advantage of learning from the mistakes of others. Policy makers must ensure broad and deep financial market. A practical approach is required by both regulator and service provider. Regulation must not create hurdle for financial engineering and innovation and service providers must not create a situation of moral hazard by insensitive approach. Innovate for inclusive growth rather growth of balance sheet figure.

Gunjan Malhotra(2015), in their article deals with 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.

RESEARCH METHODOLOGY:

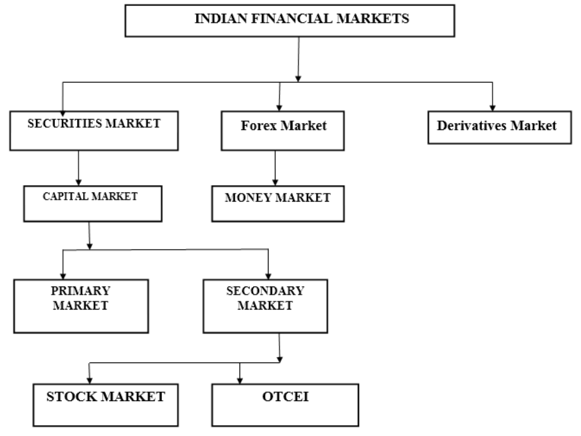
It is an exploratory study. The study is based on the secondary data. The data were collected from the sources like various reports published by SEBI (Security Exchange Board of India), Metropolitan stock exchange of India Ltd(MSEI), NSE(National Stock Exchange), BSE(Bombay Stock Exchange) and other institutions and agencies etc.

Why to invest in Indian capital market ?

The reason is India's accounting standards are closer to international standards.

SEBI has made corporate governance guidelines mandatory for listed companies. Mutual funds are permitted to invest overseas up to $3billion. Almost 100% percent risk free electronic settlement through depository system. In India the transactions are totally electronic on a real time basis. Business week says that of 100 emerging market firms which are rapidly globalizing 21 are Indian firms.

INDIAN CAPITAL MARKET SCENARIO:



Source: Security Exchange Board of India (SEBI)

TRENDS IN CAPITAL MARKET IN INDIA:

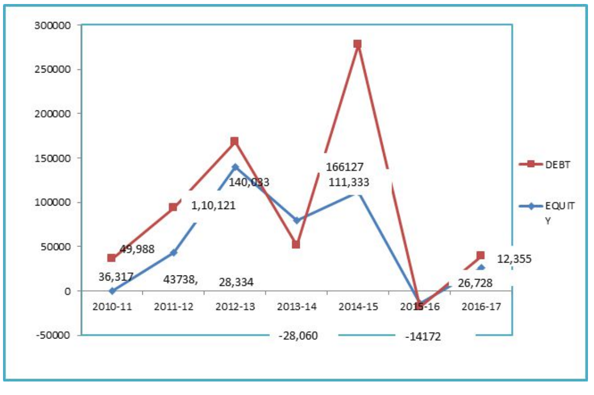
- **Performance of FIIs**

TABLE.1 TREND OF FIIS INVESTMENT IN DEBT AND EQUITY MARKET FROM 2010-2016

YEAR	EQUITY	DEBT	TOTAL
2010-11	1,10,121	36,317	146,438
2011-12	43,738	49,988	93,726
2012-13	140,033	28,334	168,367
2013-14	79,709	-28,060	51,649
2014-15	111,333	16,6127	27,7461
2015-16	-14172	-4,004	-18,176
2016-17	26,728	12,355	14,373

SOURCE: NSDL

FIGURE.1 TREND OF FIIS INVESTMENT IN DEBT AND EQUITY MARKET FROM 2010-2016



The foreign institutional investors have always favoured investment in equity market over the debt market but whenever there is crisis in the economy then they tend to prefer debt market over the equity market. As we can see in the above figure that in 2016, investment in the equity market was negative where as in case of bond it was low but positive but as the economy started recovering, the investment in equity market tend to higher than the investment in the debt market.

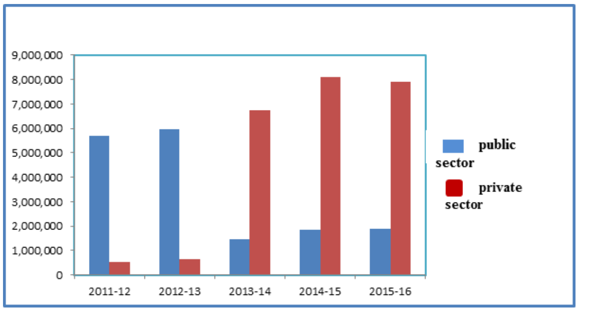
- **Performance of Mutual funds**

TABLE .2 GROSS RESOURCES MOBILIZED BY MUTUAL FUNDS (In Rs. Crore)

YEAR	PUBLIC SECTOR	PRIVATE SECTOR	TOTAL
2010-11	6,922,924	7,83,858	7,706,782
2011-12	5,683,744	522,453	6,206,197
2012-13	5,987,889	633,350	6,621,239
2013-14	1,455,939	6,738,947	8,194,886
2014-15	1,835,437	8,119,698	9,955,135
2015-16	1,895,060	7,927,617	9,822,677

SOURCE: SEBI

FIGURE .2 GROSS RESOURCES MOBILIZED BY MUTUAL FUNDS



The main objective of mutual fund is to pool the small domestic savings and collectively generate large corpus to invest in capital market. The growth in capital market is attributed to resources mobilized by mutual fund is invested in capital market. The resource mobilized by mutual fund is shown in table 1.2. In 2010-11, Rs.6,922,924 crore was mobilized by public sector funds and Rs. 7,83,858 crore was mobilized by private sector mutual funds. The fund mobilization is reached to a high of Rs. 7,927,617 crore in 2015-16 of which private sector has mobilized and public sector has mobilized Rs. 1,895,060 crore. The table 1.3 shows that the share of public sector mutual fund is around 80 percent of the total fund mobilized. The growth in fund mobilized in private sector is high compared to public sector.

- **Trends of Market capitalization:**

TABLE.3 MARKET CAPITALISATION OF BSE & NSE FROM 2010-2016

YEAR	BSE	NSE
2010-11	68,39.084	67,02,616
2011-12	62,14,941	60,96,518
2012-13	53,48,645	52,32,273
2013-14	74,15,296	72,77,720
2014-15	1,01,49,290	99,30,122
2015-16	98,36,377	96,00,459

SOURCE: BSE,NSE

The BSE shows increasing trend of quantity of shares delivered where as NSE shows fluctuating trend through out the period of 2010 to 2016.

CHALLENGES OF INDIAN CAPITAL MARKETSR

Lack of product innovation

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Risk Management

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High trading cost

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Limited awareness about financial instruments

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Deepening of Capital Market

Deepening of Capital Market:

Increased penetration of capital markets is imperative for growth in the long run. With increasing needs of infrastructure funding, there is a need to focus on the development of the bond market, seeking more participation from both retail and institutional investors. Further, most of the trading volume is dominated by the metro cities; 10 cities contributed over 80% of the trading volume in 2010, as per SEBI.

Risk Management:
The changing environment has created the need to scrutinise the existing models and methods of risk management to ensure stability and resilience. Moreover, integration with global markets signifies increased emphasis on international standards of compliance and risk management.

High trading cost:
Cost of trading is high in India and compared to other countries investors pay a high transaction cost. It is in this instance when technology needs to evolve and play a critical role in reducing costs

Limited awareness about financial instruments:
One of the typical challenges that the Indian markets are faced with is that of channelising the savings into the appropriate investment avenues. Investors possess limited knowledge and information on products, their benefits and risk attached, which acts as a deterrent to investment. Financial literacy and easy availability and accessibility of information need to be streamlined.

Lack of product innovation:
The challenge in this field is to balance viability with innovation in the financial services sector. The right blend of technology needs to be used to ensure the product delivers to its optimum. Innovative offerings will also provide the opportunity to tap a larger pool of savings.

CONCLUSION:
Stock market is considered as most suitable investment for the common people as they can invest their money into the diversified managed portfolio at relatively low cost. India needs to follow through with deeper and more wide ranging reforms which will bring the regulatory environment and the framework of the economy to a level which can cope with the challenges of growth. Emerging economies like India have an advantage of learning from the mistakes of others. Policy makers must ensure broad and deep financial market. A practical approach is required by both regulator and service provider . It may be concluded that due to number of reforms, the capital market of India has developed a lot, it has made it possible to compare Indian capital market with the international capital market. SEBI is contributing a lot for the development of capital market in India .The changing paradigm in Indian capital market is good for its economic development.

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