Volume : 1 | Issue : 3 | March 2012 ISSN - 2250-1991

Research Paper Commerce

Indian Capital Market – A Review

* Dr. Bheemanagouda

* Reader, Department of Post Graduate Studies and Research in Commerce, Kuvempu University, Shankaraghatta, Shivamogga Dis., Karnataka State

ABSTRACT

A vibrant capital market is necessary for the development of the economy. Indian capital market has made substantial progress over the years. However, the debt market in India has not achieved as much success as equity market did. Development of the debt market is the need of the hour. Creating a platform for active participation of retail investors in debt market provides an impetus for the economic growth. In the backdrop of necessity of development of vibrant capital market, this paper has made an effort to review the progress of the Indian capital market

Keywords : Capital market, Primary market, Secondary market, Sensex

Introduction

Investment is an important and inevitable necessity for the development of any nation and its economic growth. Capital formation depends upon the channelisation of the individual and institutional savings to the productive sectors. In this context, it can be noted that the savings of Indian households are not properly channelised to meet the requirements of the industry. Because, savings of Indian households are traditionally parked into unproductive things like gold, silver, real estate, etc. Further, Indian investors are basically risk averse and they focus more on safety of their funds rather than return on their investment and liquidity. However, Indian Capital Market has been developed gradually to attract the individual and institutional savings.

Equity Market

In the light of avalanche of changes that are taking place in the market (due to New Economic Policy), Indian business community (which plays a catalystic role in the development) has also adapted to the vagaries of new economic environment. A number of companies started rushing to capital market for financing their existing operations as well as new projects - in the form of raising funds directly from potential investors rather than depending upon conventional method of funding through financial institutions. Simultaneously, investors responded well to the changes in the market. A few statistics presented below substantiate the continuous and remarkable growth in the amount of funds mobilized by the corporate enterprises from the market.

Table - 1: Capital Mobilized from Primary Market through Public and Right Issues

Financial Year	Number of Issues	Amount Mobilized (Rs. crore)	Amount Mobilized per Issue (Rs. crore)
1995-96	1,719	18,342	10.67
1996-97	884	14,411	16.30
1997-98	111	4,764	42.92
1998-99	58	8,478	146.17
1999-00	93	7,817	84.05
2000-01	151	6,108	40.45
2001-02	35	7,543	215.51
2002-03	26	4,070	156.54
2003-04	57	23,272	408.28
2004-05	60	28,256	470.93
2005-06	139	27,382	196.99
2006-07	124	33,508	270.23
2007-08	124	87,029	701.85
Total	3,581	2,70,980	75.67*

Note: *Amount mobilized (Rs. in crore) per issue, 1995-96 to 2007-08

Source: 01. The Prime Directory, 2006

02. SEBI Bulletin, May 2008

It is obvious from the above that both the number of issues and the amount of funds mobilized (both total and per year) have registered both upward and downward movements during this 13-year period. However, the amount fund mobilized per issue has registered upward changes for majority of the years and the increase is substantial. The New Economic Policy adopted in 1991 is welcomed by the Indian Capital Market. Between 1992-93 (following year of the year of adopting New Economic Policy) and 1996-97, Indian primary market witnessed enormous growth. However, the market reached a downfall during 1997-98 due to several irregularities in the market. The following two years 1998-99 and 1999-2000 showed a little recovery mainly on account of boom in Information Technology (IT) sector. Again, due to a large number of irregularities in the secondary market, market saw a downfall between 2000-01 and 2002-03. The problem was aggravated by a melt-down in IT sector. Since 2003-04, the market has been witnessing a substantial growth in both primary and secondary markets.

2007-08 was proved to be a boom period enabling the companies to raise larger amount of fund from primary market. The big issues like ICICI Bank, DLF, PFC, Reliance Power (biggest ever in Indian market), etc have added the much needed spice to the market. Owing to bullish sentiments and some high quality issues, the response from the public to the issues of the year was excellent. A number of Initial Public Offers (IPOs) received over-subscription by more than 10 times - the highest being the Religare Enterprises at 159 times followed by Reliance Power Limited at 73 times. The good response from the investors, both institutional [Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs)] and individual was attributed to the returns offered by the market. Sensex and Nifty registered returns at 46.6 per cent and 53.3 per cent respectively during 2007. This assumes importance as sensex is treated as the barometre of Indian Capital Market. The following table provides a glimpse of sensex performance.

Table - 2: Sensex Performance

Year	Year-end Sensex	Rate of Return (%)	Year	Year-end Sensex	Rate of Return (%)
1992	2,615	37.1	2000	3,972	-20.6
1993	3,346	27.9	2001	3,262	-17.9
1994	3,927	17.4	2002	3,377	3.5
1995	3,110	-20.8	2003	5,839	72.9
1996	3,085	-0.8	2004	6,603	13.1
1997	3,659	18.6	2005	9,398	42.3
1998	3,055	-16.5	2006	13,787	46.7
1999	5,006	63.8	2007	20,207	46.6

Source: The Hindu Business Line, January 1, 2008

Though ups and downs can be found in the sensex returns during the last 16 years, for majority of the years, it is positive. Further, there is a continuous fluctuation which is, of course, a common phenomenon. More important is the fact that the last five years have ensured good (rate of) returns (RoR) to the investors (with an exception of substantial decline in the RoR during 2004). During the calendar year 2003, sensex registered 72.9 per cent return, the highest ever in the history of Indian Capital Market. During 2007-08, Sensex even touched 21,000 mark. However, due to a number of reasons including inflationary pressure, hike in crude oil price, instability of the government at the Centre (somehow, instability has been overcome), increased terrorist and extremist elements/activities, depreciation of Indian rupee against USD, increased withdrawal of investment by FIIs, and recent sharp global recession, etc, the market has tumbled down. Domestic indices fell to their lowest levels in nearly three years on Black Friday on October 24, 2008 as the benchmark BSE 30-Share Sensex closed at 8,701.07 and NSE 50-Share Nifty (S&P CNX Nifty Index) closed at 2,584. Unfortunately, eight of the ten biggest falls in sensex registered in the year 2008 (up to October 24, 2008). This shows a number of things about capital market including uncertainty, wide and continuous fluctuations, etc. A few sensex figures presented below substantiate this point.

Table - 3: Ten Biggest Falls in the Sensex

Sl. No	Trading Day	(Fall of) Sensex
01	May 18, 2006	826
02	December 17, 2007	769
03	January 21, 2008	1,408
04	January 22, 2008	857
05	February 11, 2008	834
06	March 03, 2008	901
07	March 13, 2008	771
08	March 17, 2008	951
09	October 10, 2008	801
10	October 24, 2008	1,071

Source: The Hindu, October 25, 2008, p. 1

From the above, two things become very clear - one, wide fluctuations in the capital market and two, uncertainty. For instance, the sensex fell by 1,408 points on January 21, 2008 and by 857 the next day (i.e., on January 22, 2008). Fall in the sensex during 2008 is an indication of global economic slowdown.

Debt Market

Though there has been an enormous growth in both the primary and the secondary markets for equity, the position of debt market in India is not satisfactory. It is suffering from a number of inherent weaknesses. Debt market, a part of capital market, deals with the long-term debt instruments. Money market, the other part of capital market, is a short-term securities market. The Government Securities (G-Secs) Market and the Corporate Debt Market are the sub-markets of debt market. G-Secs Market is a dominant of these two markets. Financial institutions, banks, Public Sector Undertakings and other corporate bodies can issue bonds, debentures and other forms of long-term debt instruments.

The Debt Market in India is under-developed when compared to that of developed and new emerging economies. Indian market regulators [Government of India (GoI), Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI)] are working in the direction of developing the market. Discount and Finance House of India (DFHI) was set up in 1988 to facilitate the growth of secondary market for the instruments. Securities Trading Corporation of India (STCI) was established in 1994 to act as Primary Dealer (PD) and Market Maker in G-Secs. In spite of these efforts, the debt market did not show a satisfactory progress.

Indian financial system has undergone many a number of changes from the time the country began its journey from regulated economy to free market economy. As a measure of fiscal discipline, automatic monetization (i.e., RBI takes all debts of GoI and prints the currency in exchange for it) was done away from April 1, 1997. The Union Budget, 1997 introduced a new measure called, Ways and Means Advances (WMA). WMA is a short-term credit from RBI to GoI to meet its immediate requirements. This WMA system is, for all practical purposes, similar to overdraft facility. If the government needs more than the permissible limit, it can borrow from the market by issuing bonds. The government started borrowing money from the market at the market-driven rates. Earlier, the government used to borrow money from the market at the predetermined rates. At present, RBI (on behalf of government) auctions the securities in the market. This paved the way for the development of the market.

The corporate debt market, though not dominant one as G-secs market, has enabled the mobilization of huge amount of funds (from the market). The following table presents the data on funds mobilized from Public Issues and Private Placements.

Table-4: Debt Funds Mobilized by the Corporate Sector

Year	Public Issue of Debt		Private Placement of Debt		Total Amount (Rs. crore) (3+4)	%age of Private Placement in…		%age of Debt in Total Resource Mobilized
	Number of Issues	Amount (Rs. crore)	Number of Issues	Amount (Rs. crore)		Total Debt (5÷6)	Total Resource Mobilized including Equity	
1	2	3	4	5	6	7	8	9
1999-00	12	3,251	NA	61,259	64,510	94.96	88.7	93.4
2000-01	11	2,740	NA	67,836	70,576	96.12	91.7	95.4

2001-02	20	6,271	NA	64,876	71,147	91.19	89.6	98.2
2002-03	10	2,613	NA	66,948	69,561	96.24	94.5	98.2
2003-04	06	4,324	NA	63,901	68,224	93.66	73.3	78.3
2004-05	05	3,867	NA	83,405	87,272	95.57	74.7	78.2
2005-06	-	-	NA	96,368	96,368	100.00	77.9	77.9
2006-07	03	605	652	1,10,390	1,10,995	99.45	76.7	77.1
2007-08	02	1,603	921	1,29,144	1,30,747	98.77	61.4	62.1

Note: NA = Relevant data/statistics are not available
Source: RBI and SEBI Bulletins

It is evident from the above that the retail market for corporate bonds has not gained momentum. On an average, about 95% of corporate debt is raised through private placement. This may be because of absence of well developed retail bond market and/ or low cost of issue through private placement. Percentage share of debt in total resource mobilized is very high up to the end of 2002-03. Thereafter, the share has been reducing on a continuous basis and it declined to 62.1 per cent by March 31, 2008. This reduction may be attributed to the active equity market. The substantial reduction in the share of debt capital in the total resources mobilized during 2007-08 is also due to the boom in the equity market.

Until recently, the new issues invariably meant equity issues. Now, they cover corporate bond issue as well. On December 3, 2007, SEBI announced a significant relaxation in its rules and procedure governing new corporate bond issues. Further, SEBI now permits the issuers to issue corporate bonds with a Rating from only one Rating Agency. Previously, issuers had to get Rating from two Rating Agencies. This new measure certainly reduces the costs relating to issues.

Secondary Debt Market

Secondary market still looks gloomier. The secondary debt market is aimed at marketability and liquidity of debt instruments. The secondary market for debt in India is in infancy phase. Lot of work is to be done by government, RBI, SEBI, BSE (Bombay Stock Exchange), NSE (National Stock Exchange), FIMMDA (Fixed Income Money Market and Derivatives Association of India), Market intermediaries to nurture this market. Prior to the commencement of trading in Wholesale Debt Market (WDM) segment of NSE, the trading was done through the telephonic market. NSE has provided on-line automated trading facility. The National Exchange for Automated Trading (NEAT) system enables the members, across the country, to trade in debt market. WDM segment provides varieties of debt instruments. Initially, government securities, treasury bills and bonds issued by public sector undertakings were allowed to be traded. At present, a wide variety of instruments like, Floating Rate Bonds, Zero Coupon Bonds, Index Bonds, Commercial Papers, Certificates of Deposit, Corporate Debentures, State Government Loan Papers, Bonds issued by banks and financial institutions, and the units of Mutual Funds and Securitized Debt are traded.

A High Level Experts' Committee on Corporate Bonds and Securitization was constituted by the government under the chairmanship of Sri. R.H. Patil to look into the legal, tax and market design issues in the development of corporate bond market and securitization market. The Committee submitted its report in December 2005. It recommended various measures to strengthen both the primary and secondary segments of the bond market. The government accepted (Budget speech of 2006-07) the recommendations of the Committee. The government proposed to create a single, unified exchange trade market for corporate bonds. The Internal Committee constituted by SEBI which submitted its report in May 2006 suggested a broad plan for the implementation of budget proposal on the development of bond market. Beginning has been made to provide proper platform for secondary debt market. BSE, NSE, and FIMMDA with the permission from, and support of, SEBI, have set up Trading and Reporting Platforms in January, March and September 2007 respectively.

Conclusion

Equity and debt markets are important for channelization of funds from surplus sector to deficit sector. Indian capital market, particularly with respect to equity segment, has made remarkable progress over the years. There is a lot to be done in the area of debt market. The progress has been hampered due to inactive participation of retail investors in the debt market. Every country should have both the wings (i.e., Equity and Debt Markets) of market very strong to leverage the economy. Hence, the government and the regulators must be proactive to lead the economy on right track.

REFERENCES

01. The Prime Directory, 2006 | 02. RBI Bulletins | 03. The Hindu Business Line, January 1, 2008 | 04. SEBI Bulletin, May 2008 | 05. The Hindu, October 25, 2008, p. 1