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Emerging Trends in Indian Capital Market

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KEYWORDS

INTRODUCTION

Marketing is the study and management of exchange relationships. The American Marketing Association has defined marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." The techniques used in marketing include choosing target markets through market analysis and market segmentation, as well as understanding methods of influence on the consumer behaviour.

CAPITAL MARKET

Capital markets help chanalize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities. Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, i.e. stock market and bond market.

PRIMARY MARKET

The primary market is that part of the capital markets that deals with the issuance of new securities. Companies' governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering; through it can be found in the prospectus. In simple word The Primary Market is where financial instruments are sold from the issuer to investors

SECONDARY MARKET

The secondary market is the financial market for trading of securities that have already been issued in an initial private or public offering. Alternatively secondary market can refer to the market for any kind of used goods. The market that exists in a new security just after the new issue is often referred to as the aftermarket. Once a newly issued stock is listed on a stock exchange, investors and speculators can easily trade on the exchange, as market markers provide bids and offers in the new stock. In short The Secondary Market is where financial instruments are sold from investor to investor.

INDIAN CAPITAL MARKET

The Indian capital market is the market for long term loanable funds as distinct from money market which deals in short-term funds.It refers to the facilities and institutional arrangements for borrowing and lending 'term funds', medium term and long term funds. In principal capital market loans are used by industries mainly for fixed investment. It does not deal in capital goods, but is concerned with raising money capital or purpose of investment.

INSTRUMENTS OF CAPITAL MARKET

The financial instruments used in capital markets include **stocks** and bonds, but the instruments used in the money markets include deposits, collateral loans, acceptances and bills of exchange. Institutions operating in money markets are central banks, commercial banks and acceptance houses, among

There are a number of capital market instruments used for market trade, including

- Stocks
- Bonds
- Debentures
- Treasury-bills
- Foreign Exchange
- Fixed deposits, and others

FUNCTIONS OF CAPITAL MARKET

Link between Savers and Investors

The capital market functions as a link between savers and investors. It plays an important role in mobilising the savings and diverting them in productive investment. In this way, capital market plays a vital role in transferring the financial resources from surplus and wasteful areas to deficit and productive areas, thus increasing the productivity and prosperity of the country.

2. Encouragement to Saving

With the development of capital, market, the banking and non-banking institutions provide facilities, which encourage people to save more. In the less- developed countries, in the absence of a capital market, there are very little savings and those who save often invest their savings in unproductive and wasteful directions, i.e., in real estate (like land, gold, and jewellery) and conspicuous consumption.

3. Encouragement to Investment

The capital market facilitates lending to the businessmen and the government and thus encourages investment. It provides facilities through banks and nonbank financial institutions. Various financial assets, *e.g.,* shares, securities, bonds, etc., induce savers to lend to the government or invest in industry. With the development of financial institutions, capital becomes more mobile, interest rate falls and investment increases.

4. Promotes Economic Growth

The capital market not only reflects the general condition of the economy, but also smoothens and accelerates the process of economic growth. Various institutions of the capital market, like nonbank financial intermediaries, allocate the resources rationally in accordance with the development needs of the country. The proper allocation of resources results in the expansion of trade and industry in both public and private sectors, thus promoting balanced economic growth in the country.

5. Stability in Security Prices

The capital market tends to stabilise the values of stocks and securities and reduce the fluctuations in the prices to the minimum. The process of stabilisation is facilitated by providing capital to the borrowers at a lower interest rate and reducing the speculative and unproductive activities.

RECENT CHANGES IN INDIAN CAPITAL MARKET

1. Economic Liberalization due to Indian Capital Market:
2. Promoting more private sector banks:
3. Promotion of Mutual Funds:
4. Regulation of NRI Investments:
5. Direct Foreign Investment:
6. FERA Companies:
7. Online Trading in Indian Capital Market:
8. Transparency through Online trading:
9. National Stock Exchange:
10. Sensitivity Index in Indian Capital Market:
11. Circuit-Breaker in Indian Capital Market:
12. Demating of shares in Indian Capital Market:
13. Market Makers in Indian Capital Market:
14. Securities and Exchange Board of India:
15. Renewal of Registration:
16. Over The Counter Exchange of India (OTCEI):
20. Badla transactions in Indian Capital Market:

RECENT DEVELOPMENTS IN THE CAPITAL MARKETS DIVISION:

The Indian regulatory and supervisory framework of securities market in India has been adequately strengthened through the legislative and administrative measures in the recent past. The regulatory framework for securities market is consistent with the best international benchmarks, such as, standards prescribed by International Organisation of Securities Commissions (IOSCO). Recent capital market reforms and an agenda for reforms are given below.

Extensive Capital Market Reforms were undertaken during the 1990s encompassing legislative regulatory and institutional reforms. Statutory market regulator, which was created in 1992, was suitably empowered to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Further, the organization strengthening of SEBI and suitable empowerment through compliance and enforcement powers including search and seizure powers were given through an amendment in SEBI Act in 2002. Although dematerialisation started in 1997 after the legal foundations for electronic book keeping were provided and depositories created the regulator mandated gradually that trading in most of the stocks take place only in dematerialised form.

Till 2001 India was the only sophisticated market having account period settlement alongside the derivatives products. From middle of 2001 uniform rolling settlement and same settlement cycles were prescribed creating a true spot market.

After the legal framework for derivatives trading was provided by the amendment of SCRA in 1999 derivatives trading started in a gradual manner with stock index futures in June 2000. Later on options and single stock futures were introduced in 2000-2001 and now India s derivatives market turnover is more than the cash market and India is one of the largest single stock futures markets in the world.

India's risk management systems have always been very modern and effective. The VaR based margining system was introduced in mid 2001 and the risk management systems have withstood huge volatility experienced in May 2003 and May 2004. This included real time exposure monitoring, disablement of broker terminals, VaR based margining etc.

India is one of the few countries to have started the screen based trading of government securities in January 2003.

In June 2003 the interest rate futures contracts on the screen based trading platform were introduced.

India is one of the few countries to have started the Straight Through Processing (STP), which will completely automate the process of order flow and clearing and settlement on the stock exchanges.

RBI has introduced the Real Time Gross Settlement system (RTGS) in 2004 on experimental basis. RTGS will allow real delivery v/s. payment which is the international norm recognized by BIS and IOSCO.

To improve the governance mechanism of stock exchanges by mandating demutualisation and corporatisation of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has since been replaced by a Bill.

CONCLUSION

Investment Trusts play a vital role in helping well-managed businesses to secure finance. At the same time they provide attractive opportunities to many investors - from young adults saving for their future, to parents saving for their child's education or to provide an income for those already in retirement. They also provide a service to large financial institutions that are responsible for providing income and growth for pension funds and other investments.. Capital markets play an important role in the economy. Through primary capital markets, businesses and entrepreneurs can issue stocks and bonds to raise financial capital to start or expand business.

Table 40.2. Resource mobilization through primary market

(₹ crore)

	Mode	2007-08	2008-09	2009-10	2010-11*	2011-12	2012-13*
1.	Debt	0	1,500	2,500	9,451	35,611	4,974
2.	Equity	54,511	2,082	46,736	48,654	12,857	13,050
	of which, IPOs	42,595	2,082	24,696	35,569	5,904	6,043
	Number of IPOs	85	21	39	55	34	20
	Mean IPO size	501	99	633	671	174	302
3.	Private placement	1,18,485	1,73,281	2,12,635	2,18,785	2,61,282	2,63,644
4.	Euro issues (ADR/GDR)	NA	NA	NA	NA	NA	NA
	Total (1 + 2 + 3 +4)	2,16,176	1,79,066	2,81,871	2,76,890	3,09,750	

Table 40.3. Primary Market Trends

	Category	2012-13 (Apr-Mar)	2012-13 (Apr-June)	2013-14 (Apr-June)
1		2	3	4
a.	Public Issue (i) + (ii)	219	4*	11*
	(i) Public Issue (Equity)	65	4*	9*
	of which : IPOs	65	4*	9*
	FPOs	0	0*	0*
	(ii) Public Issue (Debt)	154	0*	1*
b.	Rights Issue	89	1*	0*
	Total Equity Issues (i + b)	155	4*	9*
c.	Euro Issues (ADR/GDR)	10	2	1
d.	Mutual Fund Mobilisation (net)	765	-4995	956
	(i) Private Sector	638	-3985	774
	(ii) Public Sector	127	-1010	182
e.	Private Placement in Corporate Debt market	3615	475*	756*
f.	QIP	160	0.3*	32*

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