Recent Trends in Indian Capital Markets

A. Krishna Srujana
Assistant Professor, MBA, Department of Management Studies, Vidyajyothi Institute of Technology, Aziz Nagar, C.B. Post, INDIA

ABSTRACT

A capital market is a financial market in which long-term debt or equity-backed securities are bought and sold. Capital markets are defined as markets in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put it to long-term productive use such as companies/governments making long-term investments. It refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the stock exchange. The stock exchanges along with a host of other intermediaries provide the necessary platform for trading in secondary market and also for clearing and settlement. This paper focuses on reforms of capital market in India and what is recent development in capital market

Keywords- Financial Market, Long-term debt, trading, securities, savers.

I. INTRODUCTION

A capital market is a financial market in which long-term debt or equity-backed securities are bought and sold. Capital markets are defined as markets in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies/governments making long-term investments. 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.

A capital market can be either a primary market or a secondary market. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf.

In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors). The Indian capital market has witnessed major reforms in the decade of 1990s and thereafter. It is on the verge of the growth.

Thus, the Government of India and SEBI has taken a number of measures in order to improve the working of the Indian stock exchanges and to make it more progressive and vibrant.

II. OBJECTIVES OF THE PAPER

A. To know the recent trends in capital markets
B. To make appropriate suggestions for strengthen of capital market in Indian Financial system

III. TRENDS IN CAPITAL MARKET IN INDIA
A. Performance of Primary Market

Primary market facilitates government as well corporate in raising capital to meet their requirements of capital expenditure and/or discharge of other obligation such as exit opportunity for venture capitalist/Private Equity firm. The most common primary mechanism for raising capital is an Initial Public Offer (IPO), under which shares are offered to common public as a precursor to the trading in secondary market of an exchange. When securities are exclusively offered to the existing shareholders of company, as opposed to the general public it is called Rights Issue. Another mechanism whereby a listed company can issue equity shares, fully and partly convertible debentures which can be converted into equity shares later on, to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement.

A growing number of companies have been accessing the Capital Market rather than depending on loans from financial institutions. Tremendous developments have taken place in the primary market where the corporates issue fresh securities through public issues as well as private placements. Huge amount of resources have been mobilised by the corporates from the primary market.

Resource mobilization through primary market(Rs crore)

<table>
<thead>
<tr>
<th>Source</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>1504.2</td>
<td>6912</td>
<td>4232</td>
<td>23,893</td>
</tr>
<tr>
<td>Equity</td>
<td>3,313</td>
<td>3,872</td>
<td>18,260</td>
<td>24,432</td>
</tr>
<tr>
<td>Private placement</td>
<td>1,775</td>
<td>2,213</td>
<td>3,888</td>
<td>4,193</td>
</tr>
</tbody>
</table>

Source: SEBI

The above shows the statistics on the resources mobilized through primary market. It can be noted from the table that, total resources mobilized through issuance of debt in 2016–17 increased to Rs 23,893 crore from Rs 4232 crore. Total resources mobilized through issuance of equity slowly rising from 2013–14 and after that a huge rise is noted. Whereas total resources mobilized through issuance of private placement continuously increased from 2013 onwards.

B. Performance of Mutual Fund Industry

Mutual Funds play an important role in financial services by offering diversification, liquidity and professional management at an affordable price. The Indian Mutual Fund industry consists of 44 players. In addition to advance tax commitments adverse interest rate scenario, slowing growth in India and concerns of global recession were other important reasons that led to the downfall.

Resource Mobilization by Mutual fund industry(rs in crore)

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Inflow/ Outflow</th>
<th>Assets at the End of Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>1,50,675</td>
<td>8,89,952</td>
</tr>
<tr>
<td>2014-15</td>
<td>1,29,330</td>
<td>10,90,309</td>
</tr>
<tr>
<td>2015-16</td>
<td>1,84,263</td>
<td>12,95,131</td>
</tr>
<tr>
<td>2016-17</td>
<td>3,02,918</td>
<td>16,50,011</td>
</tr>
</tbody>
</table>

Source: SEBI

During the financial year 2013-14, so far, mutual funds mobilized Rs 1,50,675 crore. The market value of assets under management stood at Rs 8,89,952 crore and increases throughout the year. The cumulative net assets under management by all mutual funds increased by 27 per cent to Rs 16,50,011 crore in 2016 from Rs 12,95,131 crore in 2015.

C. Performance of FIIs

 FIIs investment to equity was highest Rs 111332.59 Crore during 2014-15. FIIs have withdrawn equity Rs 14171.57 crore during 2015-16. Whereas debt market outflow was more during 2013-14 and 2016-17 i.e. Rs 28059.89 crore and Rs 32436.51 crore respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>79708.68</td>
<td>-28059.89</td>
</tr>
<tr>
<td>2014-15</td>
<td>111332.59</td>
<td>-166127.09</td>
</tr>
<tr>
<td>2015-16</td>
<td>-14171.57</td>
<td>-4003.76</td>
</tr>
<tr>
<td>2016-17</td>
<td>28026.57</td>
<td>-32436.51</td>
</tr>
</tbody>
</table>

Source: CDSL and SEBI

The above figure shows the FII investment between years 2013-2017. It can be clearly concluded that there is very high rate of fluctuation in FII between these periods. Highest negative percentage was observed in financial year 2016-17 for FII investment in the debt market.

D. Performance of Secondary Market

Sensex and Nifty are the barometer of India’s feel-good factor was at 21,000 marks prior to Global Financial Crisis followed Great recession worldwide. However, in recent years both the index witnessed volatile trends due to global and domestic factors.
Trend of Market Capitalization, P/E Ratio in BSE and NSE FOR 2013-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>BSE</th>
<th>NSE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Capitalization (Rs crore)</td>
<td>P/E Ratio</td>
</tr>
<tr>
<td>2013-14</td>
<td>74,15,296</td>
<td>18.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>1,01,49,290</td>
<td>19.5</td>
</tr>
<tr>
<td>2015-16</td>
<td>94,75,328</td>
<td>19.3</td>
</tr>
<tr>
<td>2016-17</td>
<td>1,07,88,709</td>
<td>20.6</td>
</tr>
</tbody>
</table>

Source: SEBI

The market capitalization of BSE is increasing throughout the period of 2011-15 but market capitalization of BSE decreased by 7.11 per cent to Rs 94, 75,328 crore during 2015-16. And thereafter it increased to Rs 1, 07, 88,709 crore during 2016-17. The NSE shows increasing trend of market capitalization except the year 2015-16. P/E ratio is the valuation ratio of a company’s current share price compared to it’s per share earnings. The P/E ratio of S&P BSE Sensex and NSE Nifty shows fluctuating trend throughout the period of 2013-14 to 2016-17.

Trading Statistic of BSE and NSE from 2013 to 2016:

<table>
<thead>
<tr>
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<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSE</td>
<td>5,21,664</td>
<td>8,54,845</td>
<td>7,40,089</td>
<td>3,81,729</td>
</tr>
<tr>
<td>NSE</td>
<td>28,08,489</td>
<td>43,29,65</td>
<td>42,36,98</td>
<td>24,31,42</td>
</tr>
</tbody>
</table>

Source: SEBI

Both BSE and NSE shows fluctuating trend of quantity of shares delivered throughout the period of 2013-14 to 2016-17.

E. Performance of Derivative Market

A derivative is a security whose price is dependent upon or derived from one or more underlying assets. Its value is determined by fluctuations in underlying asset. Investors can use equity derivatives to hedge the risk associated with taking a position in stock by setting limits to the losses incurred by either a short or long position in a company’s share.

Equity Derivative Segment of BSE and NSE from 2011 to 2016

<table>
<thead>
<tr>
<th></th>
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<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSE</td>
<td>92,19,434.3</td>
<td>2,03,62,74</td>
<td>44,75,008.</td>
<td>6,708.4</td>
</tr>
</tbody>
</table>

Source: BSE and NSE

BSE and NSE shows increasing trend in trading of equity derivatives throughout the period from 2013-14 to 2016-17.

IV. ISSUES AND CHALLENGES OF INDIAN CAPITAL MARKET

The financial markets in emerging economies like India have exhibited a strong growth momentum, driven by a robust economic demand, consumption and savings rate. Although growth of the Indian economy suffered some disruption due to the economic downturn, the financial system proved its resilience with time. The Indian markets have shown quick signs of recovery, positively impacting the general global economic front. The financial markets will result in competition and greater efficiency. However, foreign participation will bring increased risk and exposure.

The equity market in India is extremely vibrant but equity based funding solely, cannot lead the economy to growth. The debt market remains underdeveloped with a huge potential for increased activity. A strong hand is required to drive the long term financing of infrastructure, housing and private sector development.

One of the challenges before the Indian capital market is expanding the investor base and provide them access to high quality financial service. With a population of more than a billion, a mere 1% of population participates in capital market and of that only a fraction is active. Investor participation is very shallow considering the size of Indian economy Trading volume in Indian capital market are lower as compared to other markets such as US, China, UK, Germany etc. Another Challenge faced by the investor is the cost involved in trading, which are comparatively higher in India, than in developed markets.

Breakthrough to Capital Markets:
1. Investor education and regulation of mutual fund distributors
2. Allowing AMCs to the flexibility to charge fees
3. Innovative products across different asset classes
4. Amending tax regime to encourage domestic AMCs to manage foreign funds from India
5. Although higher investment by domestic institutional investors such as insurance companies, pension funds to make investment in capital markets
6. Make implementation of proposal of SME stock exchange effective
7. Allowing institutional investors to participate in commodity markets
8. Reduction in current withholding tax of 20% on income from debt securities to encourage investment in debt market.

**Rebound in Indian Capital Market**
- Strong macro-economic aggregates.
- Active participation of retail investors with renewed vigor.
- Active FII buying. Active III (Indian Institutional Investor) buying.
- Favorable sovereign rating by leading credit rating agencies like S&P, Moody’s, etc.
- Strong foreign exchange reserve position.
- Strong fundamentals of basic and other industrial segments such as steel, FMCGs etc.
- Favorable political conditions.
- Forecasts of better prospects in future.

V. **CONCLUSION**

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. 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. The goal of SEBI is to make the Indian Capital Market truly world class, competitive, transparent and efficient. A 96 perception is steadily growing about the Indian Capital Market, as a dynamic market, among the international community. Let us dream to make our Indian Capital Market a benchmark for the rest of the world.

**REFERENCES**