

## A Study on Performance of Capital Market in India

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### Abstract

Capital markets are financial markets that bring buyers and sellers together to trade stock, bonds, currencies, and financial assets. Capital market consists of primary market and secondary market. Despite of the economic growth, India still faces massive income inequalities, high unemployment, illiteracy and poverty. So there is need to initiate some reforms for strengthening capital market. This paper aims to focusing the role and challenges and trends of Indian capital market in current scenario.

**Key Word: Secondary market, Primary market, financial institutions.**

### Introduction:

Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital markets helps to channelize 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 Market:** The primary market is also known as the new issues market. It deals with new securities being issued for the first time. The functions of Primary market is to facilitate the transfer of investible funds savers to entrepreneurs seeking to establish new enterprise or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. Methods of floatation new issue in the primary market are offer through Prospectus, Offer for Sale, Private Placement, Right issue etc.

**Secondary Market:** The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing 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.

- (i) Bond Market - The bond market which is also known as the credit, or fixed income market is that part of capital market where participants buy and sell debt securities which are usually in the form of bonds.
- (ii) Stock Market - A stock market or equity market is a public entity for the trading of company stock i.e., shares and derivatives at an agreed price. For Example: Bombay Stock Exchange or BSE is one of the oldest stock exchanges and also enjoys its stature of being the fourth largest stock exchange in Asia, deals with the trading of securities where about 5,085 Indian companies are listed.

### Functions of stock market or stock exchange are as follows:

Providing liquidity and marketability to existing securities

- Pricing of securities
- Safety of transaction
- Contribution to economic growth
- Providing scope for speculation

### Role of capital market in India:

The primary role of the capital market is to raise long-term funds for Governments, banks, and corporations while providing a platform for the trading of securities. The member organizations of the capital market may issue stocks and bonds in order to raise funds. Investor can then invest in the capital market by purchasing those stocks and bonds. Capital market has a greater

significance in capital formation. For a speedy economic development adequate capital formation is necessary. The importance of capital market in economic development is explained below:-

1. **Capital Formation and Saving Mobilization:** - In developing countries like India the importance of capital market is self-evident. In this market, various types of securities help to mobilize savings from various sectors of population. The twin features of reasonable return and liquidity in stock exchange are definite incentives to the people to invest in securities. This accelerates the capital formation in the country.
2. **Raising Long - Term Capital:**-The existence of a stock exchange enables companies to raise permanent capital. The investors cannot commit their funds for a permanent period but companies require funds permanently. The stock exchange resolves this dash of interests by offering an opportunity to investors to buy or sell their securities, while permanent capital with the company remains unaffected.
3. **Promotion of Industrial Growth:**-The stock exchange is a central market through which resources are transferred to the industrial sector of the economy. The existence of such an institution encourages people to invest in productive channels. Thus it stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.
4. **Ready And Continuous Market:** - The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities. Easy marketability makes investment in securities more liquid as compared to other assets.
5. **Technical Assistance:**-An important shortage faced by entrepreneurs in developing countries is technical assistance. By offering advisory services relating to preparation of feasibility reports, identifying growth potential and training entrepreneurs in project management, the financial intermediaries in capital market play an important role.
6. **Proper Channelization of Funds:** - The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company. This ensures effective utilization of funds in the public interest.
7. **Source of Acquiring Foreign Capital:** - Capital markets makes possible to generate foreign capital. Indian firms are able to generate capital funds from overseas markets by way of bonds and other securities. Government has liberalized Foreign Direct Investment (FDI) in the country. This not only brings in foreign capital but also foreign technology which is important for economic development of the country.
8. **Easy Liquidity:** - With the help of secondary market investors can sell off their holdings and convert them into liquid cash. Commercial banks also allow investors to withdraw their deposits, as and when they are in need of funds.

#### CHALLENGES OF THE INDIAN CAPITAL MARKET:

**Inflation** – Inflation is the rate at which the prices for goods and services are rising and subsequently, purchasing power is falling. The inflation situation in the economy continues to be a cause of concern. Despite tightening of the monetary policy by the apex of India, RBI and other steps taken by the government, inflation continues to remain close to the double digit mark. High international oil prices, high global food prices are some of the causes of high inflation. Investors can predict expected inflation by analyze the commodity markets, although the tendency is to think that if commodity prices are rising, stocks should rise, since companies “produce” commodities. However, often, high commodity prices squeeze profits, which in turn reduce stock returns.

**Lack of uniformity of Tax Reforms** - With the non-uniformity in the tax system across the states it is a difficult task to carry out the businesses which resulted in undergrowth of the to carry out the business smoothly and also it accounts for a reason of increasing prices of same. The different tax rates implemented in some states across pan India is a major challenge

goods and services.

**Population** – The current population of India is over 1.25 billion, making it the second most populous country in the world after China, with over 1.35 billion people. India represents almost 17.99% of the world's population which is a serious concern. Due to increasing in the population, the rate of unemployment also rises. So most of the people do not invest in the stock market.

**Steady Growth of Industrial Production** –Steady growth in industrial production trend continues to be a point of concern for the economy. The recent IIP numbers were registered below expectation. Weakness was seen with growth in the capital goods segment, intermediate goods segment and consumer goods segment which slowed down drastically during these months.

**Poverty** – About 37 % of Indian population lies below poverty line which is a very alarming situation for a growing economy like India. The main reason for such diversity is the uneven distribution of wealth in the economy where a handful of people are the owner of maximum revenue and the majority of the population is too poor to even arrange for their daily bread. The poor people are high in number, while the high net worth people is very few in numbers.

#### **Objective of the Study:-**

- To highlight the role and importance of capital market in India.
- To know the process of reforms in Indian capital market.
- To know the factors responsible for growth and development of capital market in India.

#### **Literature Review:-**

Kannadhasan, (2015), has conducted a study on 778 respondents in Raipur, Chhattisgarh, India on January and February 2013 and revealed that the function of demographic factors to differentiate retail investors into Financial Risk Tolerance (FRT) and Financial Risk Behaviour (FRB). He used Using 6 independent variables gender, age, marital status, education, occupation, income and 2 dependent variables Financial Risk Tolerance, Financial Risk Behaviour, the outcome shows some demographic element that significantly maneuver a role in deciding FRT and FRB levels are gender, age, education, and occupation, whereas the marital status of the investor and incomes do not alter the FRT and FRB levels.

Sindhu and Kumar, (2014) According to the study conducted by Sindhu and Kumar Indian households dominate over public and private sectors in saving. Indians are the largest population saving their incomes. So, the study sidesteps that these savings need to be channelized increasing the returns in different investment instruments.

Nagarajan. R, (2006), in his article, "Green shoe option in IPO", the study states that to stabilize the share price after the listing, the company can hold Green Shoe Option after the book building mechanism. Green shoe an option allows underwriter of an Initial Public Offering to sell additional shares to the public. But the regulator has to be vigilant to keep away the fraudulent activity and the investor should study the investment opportunities before investing. Subha. M.V, (2008), in her article entitled, "Indian Capital Markets Road Ahead", focused on the current issues of lack of individual investor participation and policies and ways to restore the investor confidence in the Indian capital market. This lies with the regulators. The regulator should take up the responsibility of making the investor aware, build trust and confidence the regulators, stock exchanges and companies. Should act in a responsible way and provide a healthy atmosphere for the functioning of an efficient capital market.

Deene, Madari and Gangashetty, (2009), in their paper, "Capital market Reforms: some issues", capital market is Backbone of the economy. A fundamentally strong and vibrant securities market assists corporate world initiatives, finance and exploration of new processes and instruments facilitates management of financial risk. In India the capital market is ruled By FIIs, FDIs, banks, insurance companies and pension funds. Retail investor though the backbone of the capital market. But the retail investor is deterred due to scams and scandals



and that results into dilution of their faith market, attempting to make the retail investor confident and protect his interest the government formulated different policies and various reforms. It also educates the retail investor regarding their rights and duties.

### Data and Methodology:-

Indian capital market is truly an emerging market as it is significance in term of the degree of development, volumes of trading and in terms of its tremendous growth potential. Thus, this study uses the parameters like market size, market liquidity, and market turnover and market volatility to gauge the performance of Indian capital market. This paper assumes the two leading stockmarkets of India, namely, BSE and NSE. All the pertinent data have been gathered from the publications of SEBI bulletin. The sample period of the study one year from 2021 to 2022.

### Analysis:-

The month of September 2022 was marked by mixed trend in Indian stock markets. The benchmark indices continued upward trend in the first half of the month, but witnessed sharp corrections in the second half. Resumption in FPI selling, US federal reserve statements on rising interest rate scenario, volatility, in rupee, inflation concerns, rise in US treasury yields etc. prevailed over the market during the month. During September 2022, Nifty and Sensex declined by 3.7 percent and 3.5 percent respectively over August 2022. Reflecting the downtrend, market capitalization at BSE and NSE recorded fall of 3.0 percent over end of August 2022. Despite the bearish trend the cash and derivative segments at exchanges witnessed buoyant trading activity during the month.

Description	Aug-22	Sep-22	M-o-M variation (percent)
<b>Equity Market indices</b>			
Nifty 50	17,759	17,094	-3.7
Sensex	59,537	57,427	-3.5
Nifty Midcap 50	8,556	8,333	-2.6
Nifty Smallcap 100	9,622	9,442	-1.9
BSE Midcap	25,408	24,854	-2.2
BSE Smallcap	28,651	28,453	-0.7
<b>Market Capitalisation (Rupees in crore)</b>			
BSE	2,80,24,622	2,71,84,602	-3.0
NSE	2,78,17,242	2,69,77,153	-3.0
<b>P/E Ratio</b>			
Sensex	22.9	22.8	-0.4
Nifty 50	21.2	20.6	-2.8
<b>No of Listed Companies</b>			
BSE	5,361	5383	0.4
NSE	2,111	2126	0.7
<b>Gross Turnover in Equity Cash Segment (Rupees in crore)</b>			
BSE	1,12,791	1,18,133	4.7
NSE	11,59,065	13,53,967	16.8
<b>Gross Turnover in Equity Derivatives Segment ((Rupees in crore)</b>			
BSE	45,18,990	47,32,257	4.7
NSE	26,88,41,242	33,29,80,961	23.9
<b>Gross Turnover in Currency Derivatives Segment ((Rupees in crore)</b>			
BSE	6,31,435	8,11,822	28.6
NSE	28,05,471	36,77,986	31.1
MSEI	7,048	21,844	209.9
<b>Gross Turnover in Interest Rate Derivatives Segment ((Rupees in crore)</b>			
BSE	1,205	3,895	223.3
NSE	1,151	3,244	181.7

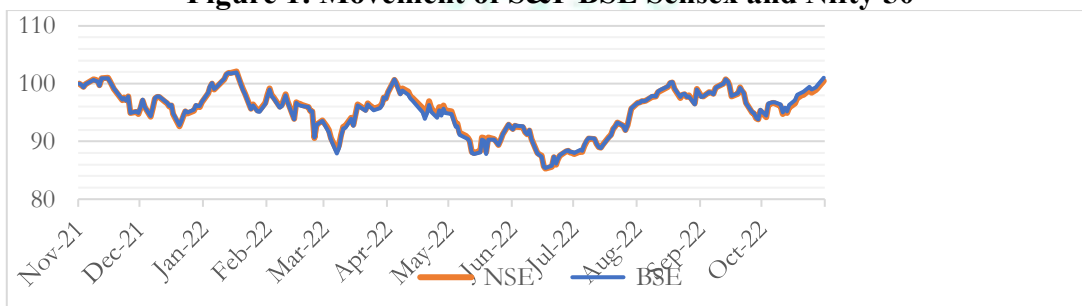
Sources : ( SEBI bulletin)

- Indian equity markets witnessed upward trend in line with global markets during October 2022. Sustained buying by DIIs, resumption of FPI interest in Indian equities and robust corporate results supported the rise, wherein large cap outperformed mid and small cap stocks. During October 2022, Nifty and Sensex rose by 5.4 per cent and 5.8 per cent respectively over previous month. Reflecting the uptrend, market capitalization at BSE and NSE recorded a rise of 3.0 per cent over end of September 2022. The P/E ratios of S&P BSE Sensex and Nifty 50 were 22.4 and 20.9 respectively, at the end of October 2022.

Description	Sep-22	Oct-22	M-o-M variation (%)
<b>Equity Market indices</b>			
Nifty 50	17,094	18,012	5.4
Sensex	57,427	60,747	5.8
Nifty Midcap 50	8,333	8,690	4.3
Nifty Smallcap 100	9,442	9,686	2.6
BSE Midcap	24,854	25,359	2.0
BSE Smallcap	28,453	28,818	1.3
<b>Market Capitalisation (Rupees in crore)</b>			
BSE	2,71,84,602	2,79,91,937	3.0
NSE	2,69,77,153	2,77,77,180	3.0
<b>P/E Ratio (monthly average)</b>			
Sensex	22.8	22.4	-1.4
Nifty 50	21.0	20.9	-0.3
<b>No of Listed Companies</b>			
BSE	5383	5408	0.5
NSE	2126	2137	0.5
<b>Gross Turnover in Equity Segment (Rupees in crore)</b>			
BSE	1,18,133	84,061	-28.8
NSE	13,53,967	9,12,411	-32.6
<b>Gross Turnover in Equity Derivatives Segment (Rupees in crore)</b>			
BSE	47,32,257	37,54,350	-20.7
NSE	33,29,80,961	27,14,68,189	-18.5
<b>Gross Turnover in Currency Derivatives Segment (Rupees in crore)</b>			
BSE	8,11,822	5,65,491	-30.3
NSE	36,77,986	33,17,577	-9.8
MSEI	21,844	23,657	8.3
<b>Gross Turnover in Interest Rate Derivatives Segment (Rupees in crore)</b>			
BSE	3,895	2,233	-42.7
NSE	3,244	2,209	-31.9

Sources :( SEBI bulletin)

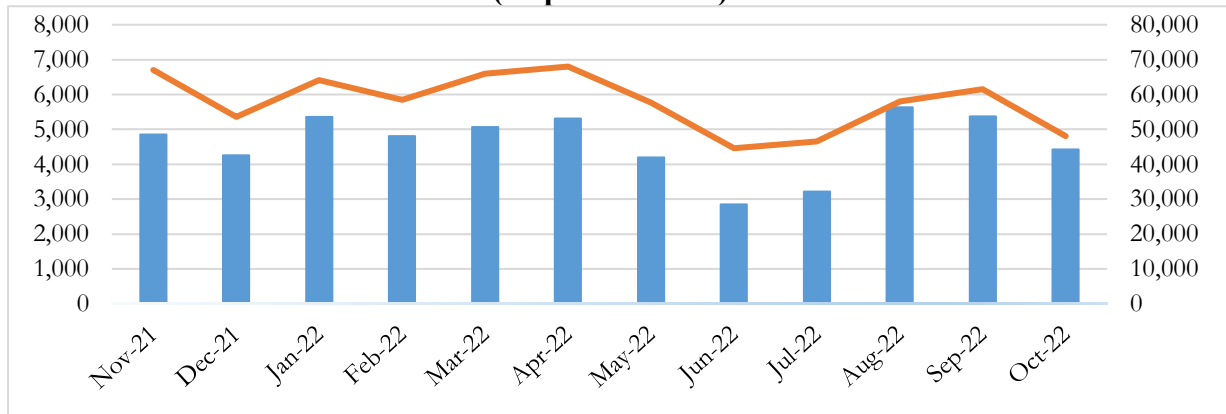
**Figure 1: Movement of S&P BSE Sensex and Nifty 50**



Sources :( SEBI bulletin)

turnover at equity cash segment declining by 22 per cent in October 2022 over the previous month. Gross turnover in the cash segment at exchanges declined notably by 32.3 per cent in October 2022.

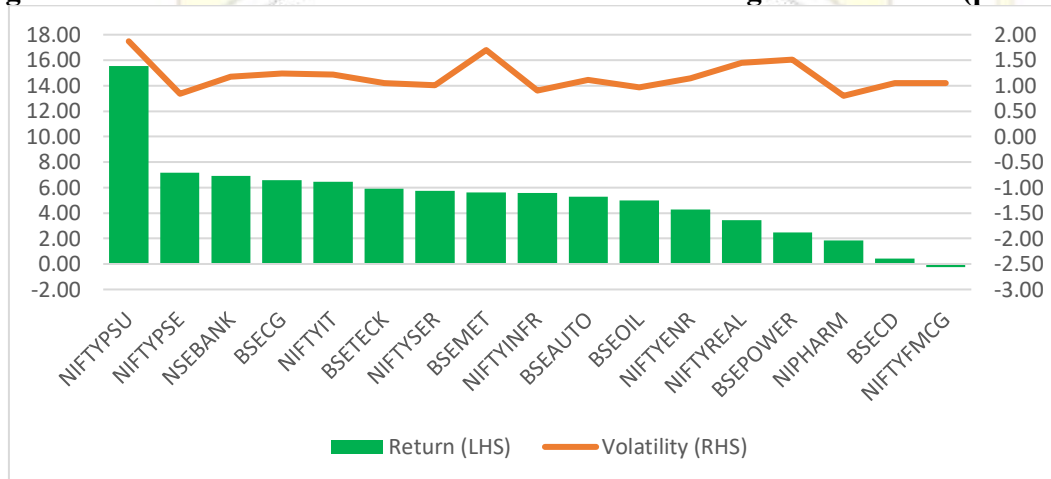
**Figure 2: Trends in Average Daily Turnover at Equity Cash Segment of Exchanges (Rupees in crore)**



Sources : ( SEBI bulletin)

- During October all the selected sectorial indices saw positive returns, except Nifty FMCG (at -0.25 per cent). Nifty PSU Bank index witnessed highest returns at 15.6 per cent followed by Nifty PSE at 7.17, Nifty Bank at 6.9 and BSE Capital Goods at 6.6 per cent. The average daily volatility and monthly returns of these select indices for October 2022.

**Figure 3: Trends of BSE and NSE Sectoral Indices during October 2022 (per cent)**



Sources : ( SEBI bulletin)

### Suggestions for growth:

To enlarge the capital base the following suggestions will be incorporated

1. To expand the retail investor base for a developed Capital market, and also enhance the investor morale and domestic allocation. Investors' confidence need to be rebuilt through, enhanced investor protection, better transparency, market integrity, market efficiency and enhanced quality of supervision over market intermediaries.
2. To minimize the regulatory procedure and restriction for free and open trade. Regulatory authorities also confused about their area of working in sometime. The most recent conflict between IRDA and SEBI over Unit Linked Insurance Plans (ULIP).
3. To cover the investors residing in small cities also because they have also potential for invest. But lack of guidance enables them to do so. This can be achieved by organizing investor awareness programmes and also few special incentive schemes may be launched for these regions.
4. An initiative has to be taken for the increasing amounts of domestic savings and global

investment into the infrastructure sector and other productive sectors.

5. To focus on other instruments like Mutual Funds other than the equities where the funds are managed by big firms and portfolio managers.
6. Interest-rate derivatives are needed to hedge rate risks, the largest macro-economic risk. Globally, interest rate derivatives constitute the largest part of derivatives turnover on both exchange traded as well as OTC products. In India, interest-rate derivative account for less than 1 per cent of turnover.
7. Allow pension funds to invest in investment-grade corporate bonds, credit hedging instruments such as Credit Default Swaps and insurance companies to invest in all investment-grade corporate bonds, creating a liquid benchmark index that can be used for pricing.

### **Conclusion:**

After the 1991 economic reforms, the growth of Indian economy showing increasing trends. Capital markets are also changing rapidly. But due to increasing level of competition, 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. A practical approach is required by both regulator and service provider. Regulation must not create hurdle for financial engineering and innovation and service providers. As India is poised to develop as a super economic power it must address various challenges associated with the development of capital on priority. It has scope of development in sectors like Pharmaceuticals, Retail industry, Automobiles, Education, etc. FDI should be allowed in various sectors to attract the foreign investors so that growth of economy will be done.

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