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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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INDIAN CAPITAL MARKET: AN OVERVIEW

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ABSTRACT
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 market in any country plays a pivotal role in the growth of economy and meeting country's socio economic goals. They are an important constituent of the financial system, given their role in the financial intermediation process and capital formation of the country. The importance of the capital market cannot be underemphasized for developing economy like India which needs significant amount of capital for the development of strong infrastructure. The entire paper is divided into three parts. 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
Financial system, Capital Market, Primary market, Securities, Challenges.

INTRODUCTION
Capital is considered as a nerve of any economy .In case of developing country like India Domestic capital is not sufficient to fulfill the requirement of economy.

Capital market is the backbone of any country's economy. It is an engine for economic growth, providing an efficient means of resource mobilisation and allocation. The literature is full of theoretical and empirical evidence that have established robust, statistically significant two-way relationship between the developments in the securities market and economic growth. Levine and Zervos (1998) argue that well developed stock markets may be able to offer financial services of different kind that may provide a different kind of impetus to the economic development. In India, Agarwall's (1999), study clearly supports the Levine and Zervos's argument and proves that the two main parameters of capital market development namely, size and liquidity, are found statistically significant to explain the economic activity

The Indian capital market is one of the oldest capital markets in the world. It dates back to the 18th century when the securities of the East India Company were traded in Mumbai and Kolkata. However, the orderly growth of the capital market began with the setting up of The Stock Exchange of Bombay in July 1875 and Ahmedabad Stock Exchange in 1984. Eventually 19 other Stock Exchanges sprang up in various parts of the country. In this chapter an attempt has been made by the

DEFINITION

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 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.

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago.

The Bombay Stock Exchange was inaugurated in 1899 when the brokers formally established a stock market in India. Thus, the Stock Exchange at Bombay was consolidated. After that more & more stock exchanges have emerged in India & this forms a huge capital market in India.

TWO TYPES OF MARKETS

Capital market is the financial market for the buying and selling of the long term debt or equity backed securities . The market channels the wealth of savers to those who can put it to long term productive use. Modern capital markets are hosted on computer based electronic trading system which can be accessed by entities within the financial sector. markets may be classified as primary markets and secondary markets :

1) Primary Market: It deals with issue of new securities .Companies, government, and public sector institutions can obtain funds through sale of new stock or bonds issue.

2) Secondary Market: It is also called liquid market. In this market the securities are sold by or transferred from one investor to another. Thus, this market gives liquidity to the long term securities.

Capital market The year 2013-14 reaped accomplishments for Indian securities markets with benchmark indices, BSE Sensex and NSE Nifty registering all-time highs in the wake of high volatility observed throughout the year due to global headwinds. Indian stock markets extended their record breaking spree with the Sensex hitting a new peak and closing 22,386 on March 31, 2014, breaching the 20,000 mark touched during 2012-13. Nifty, too, crossed the 6,000 mark of 2012-13 and logged to a new lifetime high by closing at 6,704 on March 31, 2014. While Sensex observed a growth of 18.8 percent, Nifty recorded a growth of 18.0 percent.

The market capitalisation of BSE stood at ₹74,15,296 crore as on last trading day of March 2014 as against ₹63,87,887 crore at end March 2013 while its ratio to GDP stood at 65.3 percent for 2013-14. The market capitalisation of NSE was ₹72,77,720 crore at end-March 2014 compared to ₹62,39,035 crore as of end March 2013 while its ratio to GDP stood at 64.1 percent for 2013-14. The third national level stock exchange, MCX-SX, recorded a market captilisation of ₹72,39,670 crore in 2013-14 and its ratio to GDP at 64.0 percent. The demat statistics at depositories, NSDL and CDSL exhibited an accelerating trend in terms of number of demat accounts and demat quantity. The number of demat accounts at CDSL and NSDL witnessed a growth of 5.4 percent and 2.9 percent respectively over the previous year. Moreover, the number of listed companies at NSE and BSE continued to rise. (Table 1 and 2)

TABLE NO. 1: DEMAT STATISTICS

Year	NSDL	CDSL	NSDL	CDSL
	Quantity (million shares)	Quantity (million shares)	Demat Accounts (in lakh)	Demat Accounts (in lakh)
2011-12	579801	133570	120.5	79
2012-13	686476	151792	126.9	83.3
2013-14	795503	177311	130.6	87.8

Source: NSDL and CDSL

TABLE NO. 2: NO. OF LISTED COMPANIES

Year	NSE	BSE	MCX-SX
	No. of Companies Listed	No. of Companies Listed	No. of Companies Listed
2011-12	1646	5133	Na
2012-13	1666	5211	0
2013-14	1688	5336	12

Source: NSE, BSE and MCX-SX

The trading activity rebounded slightly in the global listed derivatives markets in 2013, after suffering the largest decline in volumes in more than a decade. As per the Futures Industry Association (FIA) Annual Survey 2013, the total number of futures and options traded on exchanges worldwide reached to a level of 21.6 billion contracts, up by 2.1 percent compared to the previous year but still well below the levels seen in 2011 and 2010. Nonetheless, NSE's CNX Nifty Index options were the world's most traded options while, U.S. Dollar/Indian Rupee Futures at NSE and MCX-SX were ranked first and second respectively in terms of foreign exchange futures and options contracts traded in 2013.

The turnover in the Equity derivative segment exhibited an increase of 22.9 percent and stood at ₹4,75,75,571 crore in 2013-14. Amidst the volatile rupee during the year, the currency derivative segment turnover registered a decline of 23.9 percent to reach ₹69,80,855 crore in 2013-14. The oldest Stock Exchange, BSE, commenced its operations in currency derivative segment in November 2013 and recorded ₹2,44,312 crore turnover during November 2013 - March 2014. (Table 3)

TABLE NO. 3: DEMAT STATISTICS

Year	Turnover (Rs crore)			
	Cash Segment	Equity Derivatives	Currency Derivatives	Interest Rate Derivatives
2011-12	3478391	32158208	9896413	0
2012-13	3257087	38704572	8710504	0
2013-14	3341338	47575571	6980855	39944

Note: Cash segment of MCX-SX commenced its operations from February 11, 2013

Source: BSE, NSE, MCX-SX and USE

The introduction of cash settled Interest rate futures on 10-year GoI security in January 2014 heralds the beginning of a new era in the fixed income derivatives market. This step towards integration of the Indian Securities Market with the rest of the world may be seen as a path breaking initiative as it is expected to pave the way for various innovations at the derivative front in the time to come. Interest Rate Derivative segment at NSE also picked up the momentum in 2013-14 and the combined turnover of NSE, BSE and MCX-SX stood at ₹39,944 crore.

The foreign investments in India contributed by the FIIs/SAs stood at ₹15,93,869 crore in 2013-14, an increase of 19.3 percent over the previous year. On the same lines, FDI investments also witnessed a rise of 22.5 percent and assets under custody valued at ₹2,94,945 crore in 2013-14. (Table 4)

TABLE NO. 4: VALUE OF ASSETS OF FOREIGN INVESTORS REPORTED BY CUSTODIANS

Year	FIIs/As	Foreign Depositories	FDI Investments	Foreign Venture Capital Investment
	Amount (Rs crore)	Amount (Rs crore)	Amount (Rs crore)	Amount (Rs crore)
2011-12	1107399	143370	231841	35041
2012-13	1336557	157159	240731	54144
2013-14	1593869	190529	294945	48854

Source: SEBI

SEBI also succeeded in promoting and sustaining an efficient and robust global financial infrastructure with a view to streamline investor protection and to make investors confident and aware while investing in securities market. Various policy reforms in the area of Investor GrievanceRedressal Mechanism have been embarked during the financial year. Foreign Portfolio Investors Regulations were notified in order to harmonize the different routes for foreign portfolio investments along with introduction of Institutional Trading Platform (ITP) for SME including startups, adoption of new CPSS-IOSCO standards of PFMIs, launch of cash settled Interest Rate Futures, dedicated debt segment and many such reforms, elaborated in upcoming sections.

ISSUES AND CHALLENGES OF INDIAN CAPITAL MARKET

Opening of the financial markets will result in competition and greater efficiency .However, foreign participation will bring increased risk and exposure . Stability is thus need for financial markets for which safeguarding mechanism need to be established. 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. The road ahead for deepening the capital market need to be paved by the strong linkage between development of economy and the financial system. A greater measure of transparency is also required to built regulating procedures , to bring in a new dimension to financial market and take it to the next level. 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:

WAY FORWARD TO CAPITAL MARKET

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

ROLE OF CAPITAL MARKETS IN AN ECONOMY

Provides an important alternative source of long-term finance for long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital. Provides equity capital and infrastructure development capital that has strong socio-economic benefits - roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities. Provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. Encourages broader ownership of productive assets by small savers to enable them benefit from India's economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction. Promotes public-private sector partnerships to encourage participation of private sector in productive investments. Pursuit of economic efficiency shifting driving force of economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish. Assists the Government to close resource gap, and complement its effort in financing essential socioeconomic development, through raising long-term project based capital. Improves the efficiency of capital allocation through competitive pricing mechanism for better utilization of scarce resources for increased economic growth. Provides a gateway to India for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio

WHY INDIAN STOCK MARKET IS BOOMING OR POTENTIAL IN INDIAN STOCK MARKET

India Financial Market helps in promoting the savings of the economy - helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply.

The various other types of Indian markets help in the functioning of the wide India financial sector. Having fallen along with other world markets during last year's crash, it actually bucked the global trend and was nowhere near testing its multi-year lows. And on Monday, Indian shares hit a 25-month high. India's stock market returns over the past couple of years have actually beaten most other global markets. And with good reason… While it's still classed as an emerging market, India's strength comes from the fact that its internal market is not only huge, but also better insulated than China, Brazil, Russia and South Korea. It operates at its own pace, seemingly oblivious to what happens around it. With a population of over one billion, India has a huge edge over smaller emerging markets because it has the critical mass to withstand minor shocks to the system. India isn't reliant on a huge export market for the bulk of its growth. It has a huge, educated middle class. In fact, India's middle class population is larger than that of the entire United States. Of course, this middle class earns less on average than poverty line families in America, but it has the capacity to spend enough money to buy products that were once considered luxuries (washers/dryers, TVs, cars, etc). This generates tremendous economic activity without the issues of trade balance. Because of India's protectionist business nature, companies tend to thrive without the threat of multinational competition.

LOOPHOLES IN INDIAN STOCK MARKET

Almost every successful stock trader has learned ethical ways of how to hack the stock market. Not hack the stock market in illegal terms, but finding ethical ways to take advantage of certain stock loopholes. Taking advantage of market loopholes is one of the most common traits among the high achievers in trading stock. However, if you don't do it properly you may find yourself frustrated with your lack of results. In this article, I will discuss with you the most common mistakes stock traders make when learning how to use market loopholes to their advantage.

1. THEY DON'T PROPERLY PRIME THEMSELVES ON THE TRADING MARKET

There is a wide range of stock traders, ranging from novice to intermediate, to advance. Learning how to hack the stock market, novices must learn the real truth of the market rather than academic fluff. The real truth as in other forces that influence the price of a stock. While advanced traders may need to rethink what they think they know.

2. THEY DON'T LOOK FOR LOOPHOLES

Think of loopholes as a flaw in the system that is not caused by natural market forces that very occasionally pushed the price of a specific stock lower or higher. For example, it could be a group of traders acting from emotions or certain news that came out in the media, etc.

3. THEY DON'T CALCULATE A FAIR PRICE PER SHARE

It is critical to know how to value any share of stock. Most investors are very bad in valuing stocks and tend to buy stocks overpriced. To get the most return on investment when learning how to hack the stock market you must learn to buy stocks at a bargain. Most importantly, learning the criteria of picking a bargain stock

4. THEY DON'T FOLLOW A PROVEN SYSTEM FOR PLAN

When you know how to hack the stock market, you will not achieve maximum success until you formulate a system or plan that put it all together. A plan that includes, But not limited to, when to sale, when to buy, stop loss positions, triggers and most importantly what to buy. A trader can run into many mistakes that cause him/her to lose money if they do not know properly learn about the stock market and take advantage of market loopholes. If you do not want to find yourself frustrated with your lack of results, learn from the four common mistakes mentioned above

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. 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. Steps have been taken up to develop the equity market but there is lots to be done in case of the bond market development. Reforms need to be initiated, bottlenecks need to be removed, policies need to be changed to deepen the bond market in India and to make it as competitive as the world best bond markets.

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