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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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APPENDIX/ANNEXURE

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CHANGING LANDSCAPE OF FINANCE IN INDIA DURING THE PAST DECADE

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ABSTRACT
Share market or exchange is a place where stocks and shares and other long term investments are bought and sold. It is a market where savers can buy and dispose of securities as and when they like. In capitalist economics joint stock companies issue stocks and bonds to raise capital. India…..in 2013 It is hard to imagine that India, a country which was in a fiscal debt of 7% of the GDP would be amongst the top ten countries in the world in terms of nominal GDP, when countries with fiscal deficit as low as 5% (like Argentina) had gone bankrupt. Indeed, India has come a long way-the growth rate of India is predicted to be 6.4% in 2013, as predicted by the United Nations (the highest amongst the Asia-Pacific nation) despite the current economic slowdowns that the world has been repeatedly suffering. The more or less escalating growth rate has brought in ample of investment. The first organized stock exchange in India started in Bombay towards the latter part of the 19th century. With both B.S.E and N.S.E., Mumbai leads the stock market operations in the country. The derivative market has become multi-trillion dollar markets over the years. Derivatives are financial commitments indexed or linked in some capacity to changes in the value of underlying assets. A very small volume of derivatives, compared to the total, is indexed to traditional commodities. Small by comparison to other derivatives markets, these commodities-indexed derivatives markets are large compared to the underlying physical commodity markets By their very nature, the financial markets are marked by a very high degree of volatility. The development of the industries consequently led to the development of financial market in India. New vistas in the financial markets opened leading to the greater turnover. On the whole, the scenario has been positive and the development cumulative. In this paper we are presenting the recent trends in the capital market, money market and derivatives in India.

KEYWORDS
Share market, Derivative market, Derivatives, Capital market.

INTRODUCTION
India…..in 2013 It is hard to imagine that India, a country which was in a fiscal debt of 7% of the GDP would be amongst the top ten countries in the world in terms of nominal GDP, when countries with fiscal deficit as low as 5% (like Argentina) had gone bankrupt. Indeed, India has come a long way-the growth rate of India is predicted to be 6.4% in 2013, as predicted by the United Nations (the highest amongst the Asia-Pacific nation) despite the current economic slowdowns that the world has been repeatedly suffering. the more or less escalating growth rate has brought in ample of investment. With the recent advent of FDI in retail and aviation, and private sector openings in sectors like infrastructure and transportation, the trends in finance have greatly transformed in recent years. The development of the industries consequently led to the development of financial market in India. New vistas in the financial markets opened leading to the greater turnover. On the whole, the scenario has been positive and the development cumulative. Before we look into the trends in the different segments of the financial markets of the nation, lets us study briefly about the financial market. In simple words, financial markets are the markets where financial instruments are traded or exchanged. This helps in determining the prices of the assets that are traded in and is also called the price discovery process. GDP Growth Rate, 6.3 0 2 4 6 8 10 12 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 AxisTitle GDP Growth Rate

INDIAN FINANCIAL MARKETS COMPRISES OF THE FOLLOWING
1. Capital Market/ Securities Market: Capital market is a market for long-term debt and equity shares. a. Primary Market b. Secondary Market
2. Money Market: Money market is a market for debt securities that pay off in the short term (usually less than one year).
3. Debt Market the instruments of Capital Markets include [1]:

a. Equity
b. Preference Shares
c. Debentures/Bonds
d. Derivatives

Further, we will discuss the trends that have been seen over the past decade in each of the above listed categories. According to RBI, money market is defined as, "Money market is centre for dealings, mainly of a short-term character, in monetary assets, and it meets the short – term requirements of the borrowers and provides liquidity or cash to lenders. It is the place where short term surplus investible funds at the disposal of the financial and other institutions and individuals are bid by borrowers, again comprising institutions and individuals and also by the govt."

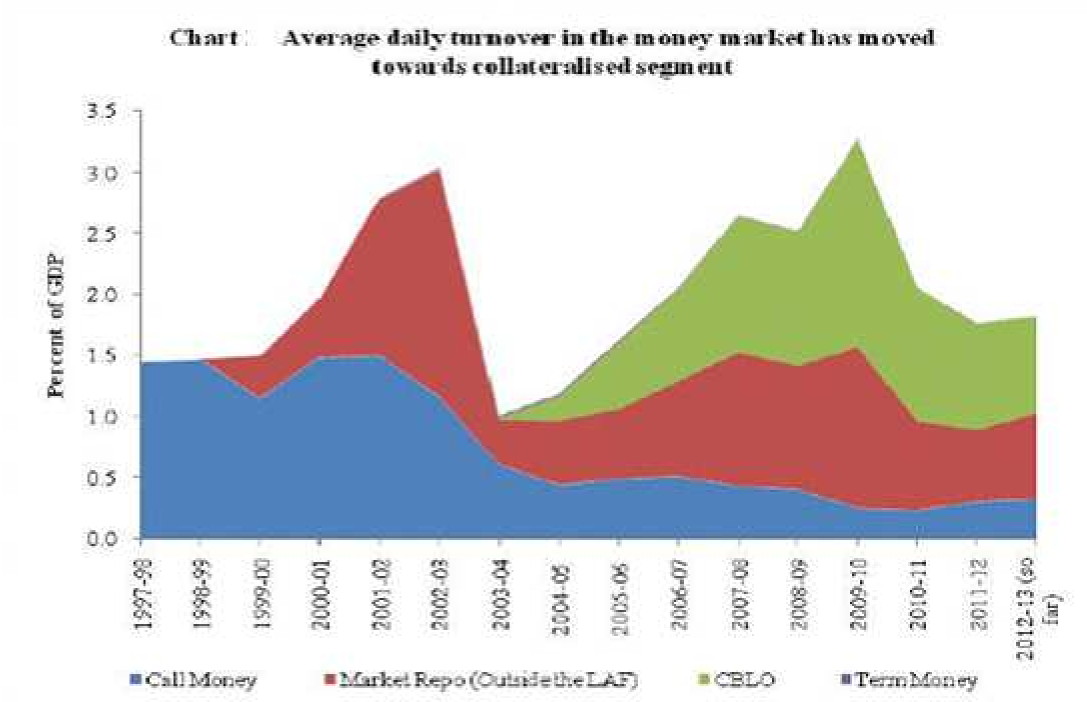
MONEY MARKET IN INDIA
Money markets play a crucial role in managing the liquidity of the banks and the transmission of monetary policy. A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, consequently transmitting its effectiveness into the economy. Thus, the development of the money market smoothens the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare.

Money Market only came in its full form after the financial reforms in 1991, before which the money market constituted only of limited instruments. In 2000, RBI introduced a full-fledged liquid adjustment facility (LAF) which was operated by varying the fixed repo rate and the reverse repo rate, November 2004 onwards. The major transformation that came through this reform was that the interest rate was now an integral part of money transmission system. Efforts were also disbursed in transforming the call market into primarily an inter-bank market, whereas schemes were made to attract the other participants to the collaterized segments of the market. This helped in diversification and thus achieving overall market stability. So that the corporate banks and the non-banks did not suffer due to phasing out.

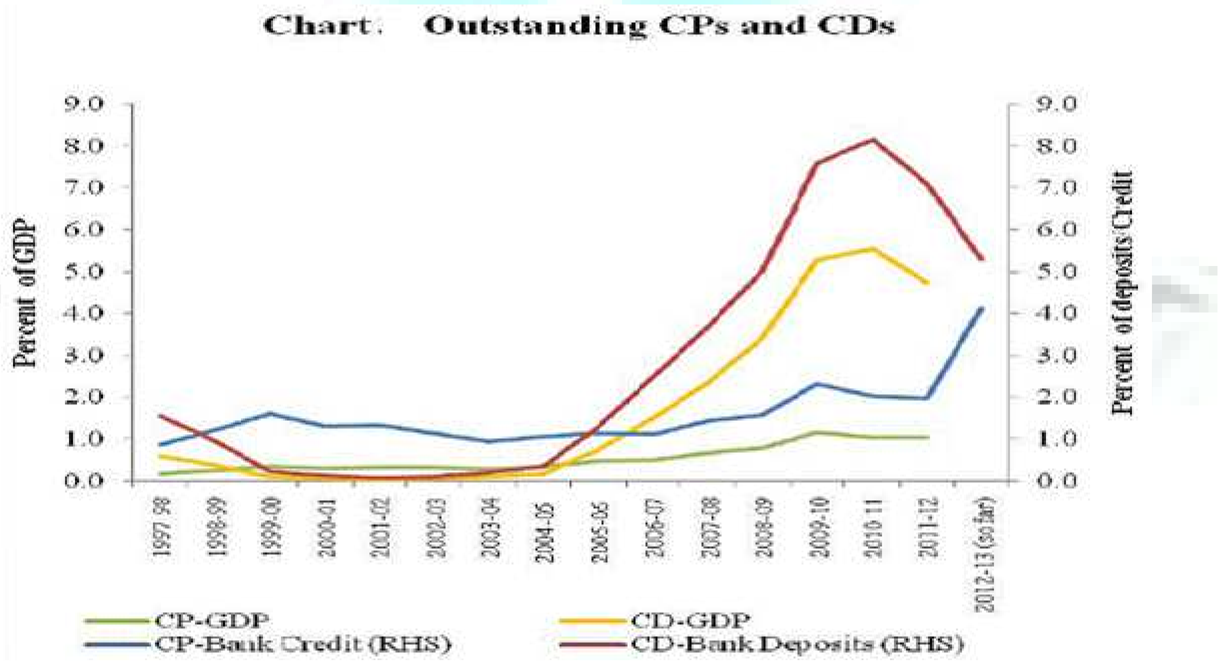
MAJOR DEVELOPMENTS IN MONEY MARKET SINCE THE 1990s
1. Abolition of ad hoc treasury bills in April 1997
2. Full fledged LAF in June 2000.
3. CBLO for corporate and non-bank participants introduced in 2003
4. Minimum maturity of CPs shortened by October 2004
5. Prudential limits on exposure of banks and PDs to call/notice market in April 2005
6. Maturity of CDs gradually shortened by April 2005
7. Transformation of call money market into a pure inter-bank market by August 2005
8. Widening of collateral base by making state government securities (SDLs) eligible for LAF operations since April 2007

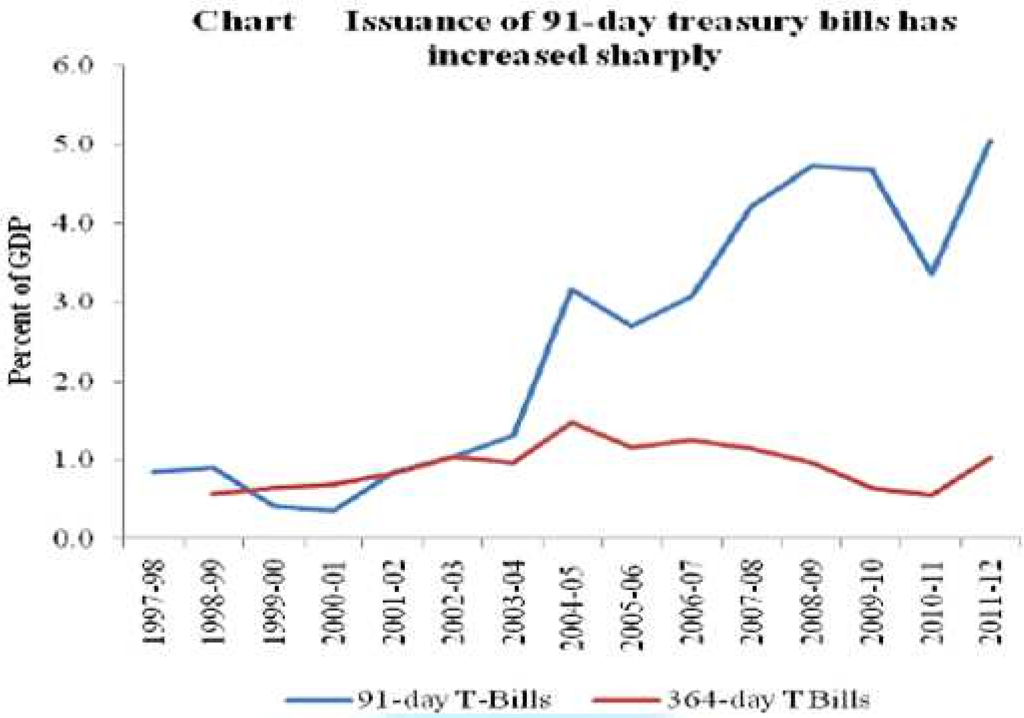
9. Operationalization of a screen-based negotiated system (NDS-CALL) for all dealings in the call/notice and the term money markets in September 2006. The reporting of all such transactions made compulsory through NDS-CALL in November 2012.
10. Repo in corporate bonds allowed in March 2010.
11. Operationalization of a reporting platform for secondary market transactions in CPs and CDs in July 2010.

From the call-market, other instruments such as market repos and CBLOs (Collateral Borrowing and Lending Obligations) were introduced. Further, the aim was to move towards a transparent and efficient system, therefore it was made mandatory that all the call money dealings are to be reported within fifteen minutes of the conclusion of the transaction through negotiated dealings systems (NDS). Furthermore, a screen-based negotiated quote-driven system for all dealings in the call/notice and the term money markets (NDS-CALL), developed by the Clearing Corporation of India Limited (CCIL), was operationalise in September 2006 to ensure better price discovery. While various instruments of dealings in the money market were introduced, the general trend that was observed was the growth of the collaterised market in comparison to the uncollaterised market. In the past decade, the daily turnover has decreased or has become stagnant whereas the turnover of market repos and CBLOs have increased manifold. After 2008, CP and CD have both shown a magnanimous increase. The following charts shed light on the shift towards the collaterised money market:



Average daily turnover in the money market has shifted towards the collaterised segment (Source: RBI) these charts show the increasing trends in both CPs and CDs and the T-Bills: Chart3: Growth in collateralized segments to sum it up, the following table shows the reforms money market underwent, beginning liberalization [3], [4]:





Recent Reforms in Money Market in India Some reforms that have not been mentioned above include the establishment of DFI, the Discount and Finance House of India which plays a major role in stabilizing the money market by imparting liquidity to it. Money Market Mutual Funds were also introduced in April 1992-this was another mode of generating short term revenue. Also the transactions are now more or less electronic, which lends more transparency to the system. Money Market has definitely shown a good growth in the past decade, however, experts think that there is a lot that can be done in this field, as the number of instruments are still less and the reach of the market is not much. Moreover, the absence of integration and the lack of organized banking system could also be worked upon.

After Independence capital market has shown a remarkable progress. The first organised stock exchange was established in India at Bombay in 1887. When the Securities Contracts (Regulation) Act 1956 was passed, only 7 Stock exchanges Viz. Mumbai, Ahmedabad, Kolkata, Chennai, Delhi, Hyderabad and Indore, received recognition. By end of March 2004, the number of stock exchanges increased to 23.

1) PRIMARY MARKET

After liberalization policy of 1991 and the abolition of capital issues control with effect from May 29, 1992, the primary market got a tremendous, boost. This can be seen from following points:

a) **New Capital Issues by Private Sector: -** The number of new capital issues by private sector was only 364 in 1990-91 and the amount raised by them was Rs.4,312 crore. The number of new capital issues rose to 1,678 in 1994- 95 and the amount raised by them was Rs. 26,418 crore. Since 1995 the capital market was sluggish and the resources raised fell to Rs.. 10,409 crores in 1996-97. In 2003-04, the amount raised from new capital issues was only Rs.3, 210 crores. In 2004 it increased again toRs.33,475 crore and in 2005 Rs.30,325 crore of resources were raised on this market. The primary issues of debt securities felt a low of around Rs. 66 crore in 2005.

b) **Public Sector Bonds: -** The resources raised by issuing bonds by Public Sector undertakings rose from Rs.354 crores in 1985-86 to 7,491 crore in 2004-05.

c) **Mutual Funds**: - In 1997-98, the total number of mutual funds in the country was 34. In 1997-98, the mutual funds were able to mobilize Rs.4, 064 crore. In 1999-2000 mutual funds mobilized a record of Rs.22, 117 crore. There was a massive resource mobilization of Rs.41,570 crore by private sector mutual funds in 2003-04, pushing up the total resource mobilization by all mutual funds to as high as Rs.47,873 crore. In 2004-05, resource mobilization once again declined to Rs.3, 015 crore.

2) SECONDARY MARKET

a) **Industrial Securities Market**: - In 1991-92, there was a huge rise in the share prices. The RBI All India Index Number of Ordinary Share Prices rose to 1,485.4 in 1991-92 (base year 1980-81), showing a gain of 181.4%. In 1992-93 due to irregularities the Stock Market declined. The years 1993 and 1994 saw increased activity in stock market due to Better performance of companies, improvement in Balance of Payment position, increasing investment by Foreign Institutional investors etc. India enjoys 2nd.largest investor population in the world next to U.S.A.

b) **Bombay Stock Exchange (BSE):-** The scrip movements In Bombay Stock Exchange reflected the same trend as the RBI index (BSE sensitive index with base 1978-79 = 100). Market capitalization of Bombay Stock Exchange was Rs.12, 01,207 crore in 2003-04. It rose to Rs.30, 66,076 crore in 2008-09.

c) **National Stock Exchange (NSE):-** The NSE of India was set up in 1992 and started its operations in 1994. It provides facility for trading of equity investments, warrants, debentures, preference shares etc. The market capitalization of NSE reached to Rs.28, 96,194 crore in 2008-09.

d) **Over The Counter Of Exchange Of India: -** It was set in August 1989 and started .operating since 1992.

e) **Financial Intermediaries: -** Financial Intermediaries are the latest trend in Indian Capital Market. They have to play an important role in field of venture capital, credit rating etc. As we can conclude from the changes above, the Indian capital market today is at par with the other capital markets in the world. There are many new markets, players and instruments that have come into existence. The Indian securities market has developed and grown voluminously on several counts such as number of stock exchanges, intermediaries and institutional investors, the number of listed stocks, market capitalization, trading volumes and turnovers. All of this is presented in the chart given below:

Chart Monetary Transmission improves under liquidity deficit

THE MAJOR REFORM UNDERTAKEN IN CAPITAL MARKET OF INDIA INCLUDES

1. **Establishment of SEBI:** The Securities and Exchange Board of India (SEBI) was established in 1988. It got a legal status in 1992. SEBI was primarily set up to regulate the activities of the merchant banks, to control the operations of mutual funds, to work as a promoter of the stock exchange activities and to act as a regulatory authority of new issue activities of companies.
2. **Establishment of Creditors Rating Agencies:** Three creditors rating agencies viz. The Credit Rating Information Services of India Limited (CRISIL - 1988), the Investment Information and Credit Rating Agency of India Limited (ICRA - 1991) and Credit Analysis and Research Limited (CARE) were set up in order to assess the financial health of different financial institutions and agencies related to the stock market activities. It is a guide for the investors also in evaluating the risk of their investments.
3. **Increasing of Merchant Banking Activities:** Many Indian and foreign commercial banks have set up their merchant banking divisions in the last few years. These divisions provide financial services such as underwriting facilities, issue organizing, consultancy services, etc.
4. **Rising Electronic Transactions:** Due to technological development in the last few years. The physical transaction with more paper work is reduced. It saves money, time and energy of investors. Thus it has made investing safer and hassle free encouraging more people to join the capital market.
5. **Growing Mutual Fund Industry:** The growing of mutual funds in India has certainly helped the capital market to grow. Public sector banks, foreign banks, financial institutions and joint mutual funds between the Indian and foreign firms have launched many new funds. A big diversification in terms of schemes, maturity, etc. has taken place in mutual funds in India. It has given a wide choice for the common investors to enter the capital market.
6. **Growing Stock Exchanges:** The numbers of various Stock Exchanges in India are increasing. Initially the BSE was the main exchange, but now after the setting up of the NSE and the OTCEI, stock exchanges have spread across the country. Recently a new Inter-connected Stock Exchange of India has joined the existing stock exchanges.
7. **Investor's Protection:** Under the purview of the SEBI the Central Government of India has set up the Investors Education and Protection Fund (IEPF) in 2001. It works in educating and guiding investors. It tries to protect the interest of the small investors from frauds and malpractices in the capital market.
8. **Growth of Derivative Transactions:** Since June 2000, the NSE has introduced the derivatives trading in the equities. In November 2001 it also introduced the future and options transactions. These innovative products have given variety for the investment leading to the expansion of the capital market.
9. **Commodity Trading:** Along with the trading of ordinary securities, the trading in commodities is also recently encouraged. The Multi Commodity Exchange (MCX) is set up. The volume of such transactions is growing at a splendid rate. These reforms have resulted into the tremendous growth of Indian capital market.

TRENDS IN THE STOCK MARKET

Indian financial market has seen an extraordinary volatility in the last few years. Since year 2002, Indian market has grown from a much volatile conditions to growth phenomena, from a SENSEX point of 5500 in December 2003 to 13,787 in December 2006 and crossed the mark of 20,000 in the year 2007. Due to various reasons the stock market has also experienced drastic decline to even less than 8,000 points in 2008. It is not because of only the domestic market but also the international investors. There are many other variables which contribute to the positive growth of the stock market. FIIs investment is considered to be one of the biggest push after the economic fundamentals. There is no doubt that the liberalisation of the FII flows into the Indian Capital Market since 1993 has had a considerable impact on Indian stock market.

RECENT TRENDS IN STOCK MARKET

1) Listing of securities in foreign markets allowed.
2) Online trading system is established.
3) Trading system is changed from outcry system to onscreen based system.
4) Derivative trading started.
5) Dematerialization of shares allowed. Depositories Limited started.
6) Foreign institutional investment in securities permitted.
7) Companies are allowed to buy back their shares.
8) Emergence of Credit Rating Agencies.

The capital market edifice, covering both primary and secondary segments is today vastly superior to the one that obtained till early 1990's. Yet the progress has been uneven. The secondary market has shown greater resilience and absorbed technology to the extent that it can now be compared to the best stock exchange systems in the world. The new issues market or the primary market on the other hand has languished. Far-reaching changes in the primary market procedures are likely if the first report of the Securities Market Infrastructure Leveraging Expert Task Force (SMILE, Sept. 2004) is implemented.

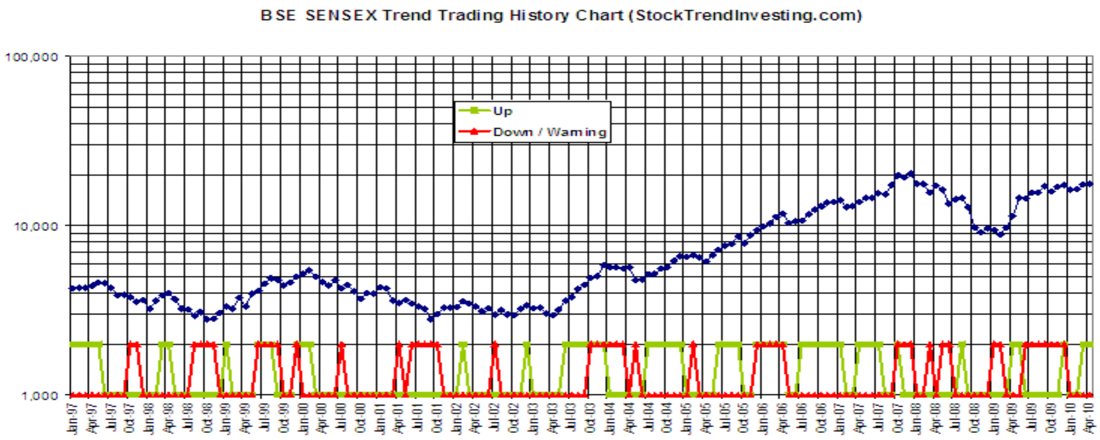
9) Indian companies are allowed to raise capital from abroad.
10) Foreign companies are allowed to raise capital from Indian market.

The following graph sheds some light on the SENSEX performance in the last decade: Graph: Trend of SENSEX from 2000-2013.

Source: Yahoo Finance

From the above graph, we can decipher four basic features of "market performance" since liberalization. The first is that, liberalisation, which changed the rules of the game in stock markets, replaced the Controller of Capital Issues with the Securities and Exchange Board of India, and allowed Foreign Institutional Investors (FIIs) to invest in India's equity markets, did substantially increase market activity. The Sensex, which was well below the 1000 mark in 1990, moved up to 4000 by the first quarter of 1992 and remained (despite fluctuations) in the 3000 to 4000 range through most of the period till 2003. This was the decade when the Indian stock market had reportedly "arrived". The second feature is that a remarkable boom began in 2003, which took the Sensex from 3100 in March 2003 to a closing peak of close to 20700 at the beginning of April 2008. That remarkable run was cut off and reversed only by the onset of the global financial crisis, which

Saw the Sensex slump to around 8200 by early March 2009. Third, we observe a smart recovery after March 2009 with the Sensex crossing the 15000 mark in June 2009. After that, the Sensex almost never fell significantly and in fact climbed to a new peak of close to 20900 in November 2010. Finally, after this recovery and despite the recent difficulties in the global economy and India, the Sensex has never fallen below 15000, let alone even approach its post crisis trough of 8000-plus. In sum, notwithstanding the poor real economy trends, the Sensex has fluctuated in the 15000-20000 bands since June 2009, as brought out more clearly by Graph 2. Graph 2: Recent Trends in the SENSEX (Source: BSE)



Overall, as we can ourselves infer from the graph, the SENSEX have come a long way. With lot many investors, companies listed on the stock exchange and of course the growing economy, Indian stock market has become one of the most new exciting place to invest in.

TRENDS IN THE DERIVATIVE MARKET

The term derivatives refer to a broad class of financial instruments which mainly include options and futures. The value of derivatives depends on the underlying asset; they have no independent value of their own. Section 2(ac) of Securities Contract Regulation Act (SCRA) 1956 defines Derivative as: a) "a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security; b) "a contract which derives its value from the prices, or index of prices, of underlying securities". Derivatives trading are comparatively new to the Indian financial market, having had its debut in June 2000 after the Securities and Exchange Board of India (SEBI) granted the final approval in May 2001. Since then, equity derivatives market in India has registered an explosive growth-both in terms of volume and traded contracts. The turnover of derivatives on NSE (which accounts for 99% of trading in the derivatives market) has shown a magnanimous increase- from Rs. 23,654 million in 2000-01 to Rs.157, 585,925 million in the first half of 2011-12. A comparison of the derivatives market over the last few years, among various countries gives rise to an interesting pattern. The exchange of the developed economies have shown robust growth, at the same time Indian market have emerged as the forth strongly along with the markets in US, Japan and Korea. Total Derivative Turnover since Inception.

Top 5 Exchanges (by no. of Stock Index Options Contract traded)			
EXCHANGE	No. of contracts traded in 2008	No. of contracts traded in 2003	% Change
Korea Exchange	2,011,059,741	3	-
Chicago Board Option Exchange	435,860,762	110822096	293.30

The following table gives a brief upon the total derivative contracts and turnover since the inception of the derivative market. Table 4.2.1: Turnover of Derivatives since 2000

Period	NSE(Rs. In crores)
2001-02	101,925
2002-03	439,865
2003-04	2,130,447
2004-05	2,547,053
2005-06	4,824,245
2006-07	7,356,271
2007-08	13,090,478
2008-09	13,120,567
2009-10	23,092,197
2010-11	29,305,421
2011-12	31,356,878

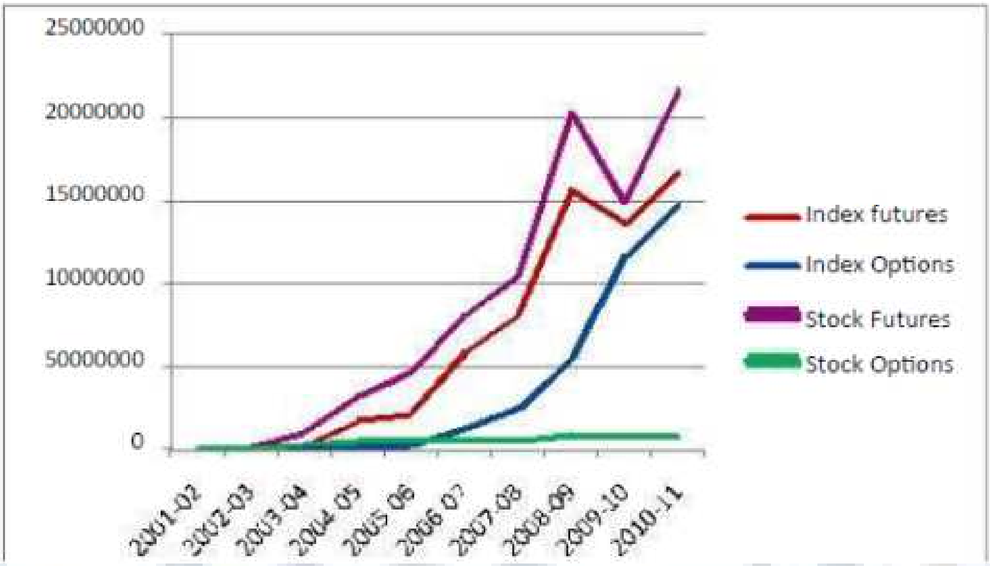
Generally, worldwide, options have been the preferred mode of trading in derivatives. However in India, futures were the preferred mode. The growth of index options at NSE in terms of turnover has been from Rs.37.65 billion in 2000-01 to Rs. 80, 279.64 billion in 2009-10. As of March 2010, there were 190 stocks options available for trading at NSE.

The table below shows the volume of contracts of F&O traded in the NSE during the period 2001-2011.

Period	Index futures	Index Options	Stock Futures	Stock Options
2001-02	90580	0	0	0
2002-03	1025588	175900	1957856	1037529
2003-04	2126763	442241	10676843	3523062
2004-05	17191668	1732414	32368892	5583071
2005-06	21635449	3293558	47043062	5045112
2006-07	58537886	12935116	80905493	5243801
2007-08	81482474	25157438	104955401	5845391
2008-09	156598579	55366038	203587952	9478653
2009-10	136476747	116790708	149159997	7826231
2010-11	167560480	147156292	217839109	8374067

Source: NSE

Graph showing the volume of contracts of F&O traded in NSE during the period 2001-2011.



CONCLUSION

1. Investors are gradually becoming more market-savvy. They are now more in touch with the market and its trends.
2. Information and Communication Technology has revolutionized the derivative market.
3. Electronic Trading is replacing the pit-trading all over the world at an increasing rate.
4. The need for better cooperation/coordination among regulators is increasing to understand the cross border movements of funds of ambiguous origin and purpose.
5. Emergence of MNC/supranational financial institutions has brought about financial integration. From above, we can therefore conclude that India is one of the most successful developing countries in terms of a vibrant market for exchange-traded derivatives. This reiterates the strengths of the modern development in India’s securities markets, which are based on nationwide market access, anonymous electronic trading, and a predominant retail market. There is an increasing sense that the equity derivatives market plays a major role in shaping price discovery.

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