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A LITERATURE REVIEW ON EFFICIENCY OF INDIAN CAPITAL MARKET

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ABSTRACT
In India, the history of capital markets dates back to the 18th century when East India Company securities traded the country. The present study is largely based on the available secondary data. The capital market in India is a market for securities, where companies and governments can raise long term funds. It is a market designed for the selling and buying of stocks and bonds. Stocks and bonds are the two major ways to generate capital and long term funds. The capital market is a vital of the financial system. Capital market provides the support of capitalism to the country. The wave of economic reforms initiated by the government has influenced the functioning and governance of the capital market. The important divisions of the capital market are stock market, bond market and primary, secondary markets. Primary markets deal with the trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities.

KEYWORDS
capital markets, long-term securities, stock exchange.

INTRODUCTION
History of the capital market in India dates back to the 18 century when east India co. Securities was traded in country. Until the end of the 19th century securities trading was unorganized and the main trading centers were Bombay and Calcutta. Indian capital markets are one of the oldest markets in Asia as well as in the world. There are 22 stock exchanges in India, the first being the Bombay Stock Exchange (BSE), which began formal trading in 1875, making it one of the oldest in Asia. It was an unincorporated body of stockbrokers, which started doing business in the city under a banyan tree, in front of the town hall in Bombay. The stock exchanges in Calcutta and Ahmadabad also industrial and trading centers came up later. There has been much fluctuation in the stock market on account of the American war and the battles in Europe.

The stock markets have had many turbulent times in the last 140 years of their existence. The imposition of wealth and expenditure tax in 1957 by Mr. T. T. Krishnamachari, the then finance minister, led to a huge fall in the markets. The dividend freeze and tax on bonus issues in 1958-59 also had a negative impact. War with China in 1962 was another memorably bad year, with the resultant shortages increasing prices all round. This led to a ban on forward trading in commodity markets in 1966, which was again a very bad period, together with the introduction of the Gold Control Act in 1963.

A primary auction market for Government securities has been created and a primary dealer system was introduced in 1995. There are six authorized primary dealers. Currently, there are 31 mutual funds, out of which 21 are in the private sector. Mutual funds were opened to the private sector in 1992. Earlier, in 1987, banks were allowed to enter this business, breaking the monopoly of the Unit Trust of India (UTI), which maintains a dominant position.

MEMBERS OF THE INDIAN CAPITAL MARKETS
In order function properly the Indian capital markets operate through the following entities:
(a) India Capital Markets Pvt. Ltd.- Members NSE, BSE and NSDL, ICM Commodities Pvt Ltd. – Members MCX, NCDEX.
(b) SEBI Registered PMS.

THE FUNCTIONS AND MAIN INSTITUTIONS OF THE INDIAN CAPITAL MARKET
(1) THE FUNCTIONS OF THE INDIAN CAPITAL MARKET ARE AS FOLLOWS
(i) Disseminate information efficiently for enabling participants to develop an informed opinion about investment, disinvestments, reinvestment, or holding a particular financial asset.
(ii) Enabling quick valuation of financial instruments-both equity and debt.
(iii) Providing insurance against market risk or price risk through derivative trading and default risk through investment protection fund.
(iv) Enable wider participation by enhancing the width of the market by encouraging participation through networking institutions and associating individuals.
(v) Provide operational efficiency through:
(a) simplified transaction procedure,
(b) lowering settlement timings, and
(c) lowering transaction costs.
(vi) Develop integration among:
(a) Real sector and financial sector,
(b) Equity and debt instruments,
(c) Long-term and short-term funds,
(d) Long-term and short-term interest costs,
(e) Private sector and government sector,
(f) Domestic funds and external funds.
(vii) Direct the flow of funds into efficient channels through investment, disinvestments, and reinvestment.

(2) THE MAIN MEMBERS OF THE INDIAN CAPITAL MARKET
The capital market aids economic growth by mobilizing the savings o the economic sectors and directing the same towards channels of productive uses. This is facilitated through the following: The Industrial Financial Corporation of India (IFC).
a) The Industrial Credit and Investment Corporation of India (ICICI).
b) The Refinance Corporation of India (RFC).
c) The State Financial Development Corporations (SFCs).
d) National Industrial Development Corporation (NIDC).
e) Industrial Development Bank of India (IDBI).
f) The Credit Guarantee Corporation of India (CGC).
g) Life Insurance Corporation of India (LIC).
h) National Industrial Reconstruction Corporation of India (NIRC).
i) Merchant Banking Institutions (MBIs).
j) Unit Trust of India (UTI).

These members are mainly financial institutions which provide the liquidity that is needed to propel the machinery of the Capital Market. The financial power of the Capital Market is in their hands. SEBI has the responsibility to oversee their proper functioning as well as the other members.

(3) PRODUCTS AND SERVICES OF THE INDIAN CAPITAL MARKET

(a) Equity Broking - BSE and NSE
(b) Derivatives Futures and Options
(c) Internet Broking- Online Trading
(d) Commodities Trading - NCDEX and MCX
(e) Mutual Fund Investment
(f) Initial Public Offerings (IPO)
(g) Institutional Broking
(h) Depository Services - NSDL and CDSL
(i) Portfolio Management Services
(j) NRI Investments
(k) Arbitrage

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 needs to be paved by the strong linkage between development of economy and the financial system. A greater measure of transparency is also required to build 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

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.

REGULATIONS OF THE INDIAN CAPITAL MARKET

Securities and Exchange Board of India (SEBI) was set up as an administrative arrangement in 1988. In 1992, the SEBI Act was enacted, which gave statutory status to SEBI. It mandates SEBI to perform a dual function: investor protection through regulation of the securities market and fostering the development of this market. SEBI has been vested most of the functions and powers under the Securities Contract Regulation (SCR) Act, which brought stock exchanges, their members, as well as contracts in securities which could be traded under the regulations of the Ministry of Finance. It has also been delegated certain powers under the Companies Act. In addition to registering and regulating intermediaries, service providers, mutual funds, collective investment schemes, venture capital funds and takeovers, SEBI is also vested with the power to issue directives to any person(s) related to the securities market or to companies in areas of issue of capital, transfer of securities and disclosures. It also has powers to inspect books and records, suspend registered entities and cancel registration.

The securities market is regulated by various agencies such as the Department of Economic Affairs (DEA), The Department of company affairs (DCA), the Reserve Bank of India and the SEBI. The activities of these agencies are coordinated by a high level committee on capital and financial markets.

The capital market for equity and debt securities is regulated by the Securities and Exchange Board of India. The SEBI has full autonomy and authority to regulate and develop the capital market. The government has framed rules under the Securities Contracts Act (SCRA), the SEBI Act and the Depositories Act. The power in respect of the contracts for sales and purchase of government securities, money market securities and ready forward contracts in debt securities are exercised concurrently by the RBI.

The four main legislations governing the capital market are as follows:

1. The SEBI Act, 1992 which establishes the SEBI with four fold objectives of protection of the interests of investors in securities, development of the securities market, regulation of the securities market and matter connected therewith and incidental thereto.
2. The Companies Act, 1956 which deals with issue, allotment and transfer of transfer of securities, disclosures to be made in public issues, underwriting, rights and bonus issues and payment of interest and dividends.
3. The Securities Contracts Regulation Act, 1956 which provides for regulations of securities trading and the management of stock exchanges.
4. The Depositories Act, 1996 which provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities.

DEPOSITORY SYSTEM OF INDIA

A Depository Participant (DP) is described as an agent of the depository. They are the intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act, 1996. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the provisions of the SEBI Act. As per the provisions of this Act, a DP can offer depository related services only after obtaining a certificate of registration from SEBI.

A depository is an organization which assists in the allotment and transfer of securities and securities lending by using electronic form through a registered depository participant. The shares in a depository are held in the form and the depository system revolves around the concept of paper less or scrip less trading i.e. electronic. An effective and fully developed securities depository system is essential for maintaining and enhancing the market efficiency which is one of the core characteristics of a mature capital market. In march-1989, the group thirty had emphasised the importance of a central depository by highlighting the adverse effect on global investment brought about by the in efficiencies of international settlement and clearing facilities in their report on "clearance and settlement systems in the world's securities markets". The depository and custodial service is one of the developing countries. The depository system provides a wide range of service, as primary market services, secondary market services and ancillary services. A depository can be compared to a bank. A depository holds securities of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities.

The new system thus eliminates paper work, facilitates automatic and transparent trading in scripts, shortens the settlement period and ultimately contributes to the liquidity of investment in securities. This system is also known as 'Scriples trading system'.

There is a two Depository system in India as follow:

(1) **NATIONAL SECURITIES DEPOSITORY LTD. (NSDL)**

The NSDL, the first depository in India which has been promoted by three premier institutions in India, i.e. Industrial Development Bank of India, UTI and NSE. The NSDL started from November 8 1996. The NSDL is a public limited company framed under the companies Act 1956 with a paid up capital of Rs. 105 crore, The NSDL carries out its operations through participants and the clearing corporation of the stock exchange, with participants acting as market intermediaries through whom NSDL interacts with the investors and clearing members.

NSDL performs the following functions through depository participants:

1. Enables the surrender and withdrawal of securities to and from the depository (dematerialisation and rematerialisation).
2. Maintains investor holdings in the electronic form.
3. Effects settlement of securities traded on the exchanges.
4. Carries out settlement of trades not done on the stock exchange (off-market trades).
5. Transfer of securities.
6. Pledging/hypothecation of dematerialised securities.
7. Electronic credit in public offerings of companies or corporate actions.
8. Receipt of non-cash corporate benefits like bonus rights, etc. in electronic form.
9. Stock Lending and Borrowing.

(2) **CENTRAL DEPOSITORY SERVICES LTD (CDSL)**

CDSL was promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank. CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. It commenced its operation in march 22 1999.

BSE has 45% stake in CDSL while the bank has a 55% stake. CDSL has been preferred platform by the government of India for carrying out actual share transactions PSUs disinvestment have been done through CDSL system. Every transaction at CDSL is doing at one e-space. The centralized system of CDSL keeps a watch on every transaction. All leading stock exchanges have established connectivity with the CDSL.

CDSL’s demat services are extended through its agents called Depository Participants (DP). The DP is the link between the investor and CDSL. An investor who opens a demat account with a DP can utilise the services offered by CDSL. While the DP processes the instructions of the investor, the account and records thereof is maintained with CDSL. A DP is thus a "service centre" for the investor.

CDSL's system is based on centralised database architecture with on-line connectivity with DPs. Because of this centralised architecture, the cost for setting up a DP outfit under CDSL system is significantly lower. Similarly, the recurring costs to be incurred by a CDSL-DP in terms of maintaining back-ups and the related data storage are minimal.

This enables a CDSL-DP to offer depository services to investors at an attractive price and at the same time achieve break-even faster at much lower volumes. The centralized architecture also allows CDSL-DP to make available to the investors a to-the-minute status of their account and transactions. CDSL-DPs can also set up branches with direct electronic connectivity with CDSL.

CDSL perform a wide range of securities related functions through DPS. The services of Depository participants are as follow:

1. To record and maintenance of individual investors beneficial holding in an electronic form.
2. Dematerialisations of physical securities and Rematerialisations of securities.
3. To give facility for locking of investor accounts.
4. To give facility for pledge and hypothecation of securities.
5. To make settlement of trades in electronic shares.
6. To issue a form for public offerings.

THE BULLS AND THE BEARS

THE BULLS

A bull market is when everything in the economy is large, people are finding jobs, GDP is rising, and stocks are rising. Possessions are just plain rosy! Picking stocks during a bull market is easier because everything is going up. Bull markets cannot last forever though, and sometimes they can lead to dangerous situations if stocks become overvalued. If a person is an optimist, believing that stocks will go up, he is called a bull and said to have a bullish outlook.

THE BEARS

A bear market is when the economy is bad, recession is looming, and stock prices are falling. Bear markets make it tough for investors to pick profitable stocks. One solution to this is to make money when stocks are falling using a technique called short selling. Another strategy is to wait on the sidelines until you feel that the bear market is nearing its end and only then start buying in anticipation of a bull market. If a person is a pessimist, believing that stocks are going to drop, he is called a bear and said to have a bearish outlook.

CONCLUSION

Indian Capital Market is already in the growth face. A clear policy decision from government, vigilant eye from the regulators, transparency from the stock exchanges and prudent action by the brokers and financiers is the requirement of the day to maintain the growth rate on the Securities Market. A strong capital market provides the foundation for a developed economy.

Any issues related to the corporate governance, investors simply dump those stocks and such stocks may see insane share prices. After all the governance makes or breaks a corporate and investors trust is bound to lose. In the long term future of Indian stock exchange is undoubtedly very bright and rising but at the same time Chinese stock exchange is also soaring high and unarguably US market is on the top and India can reach these heights only when the above mentioned problems is solved.

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